

# ADDITIONAL COMPLIANCE INFORMATION

## 1. UTILISATION OF PROCEEDS FROM CORPORATE PROPOSALS

- a. On 22 September 2016, the Company issued 36,666,600 new ordinary shares by way of private placement at an issue price of RM 1.35 per placement share which raised a total gross proceeds of RM49,500,000.

As at the date of this Annual Report, the details of the proceeds raised and the status of utilisation are as follows:-

Purpose	Proposed utilisation (RM'000)	Actual utilisation (RM'000)	Amount (RM'000)
Expansion of the Company and its subsidiaries' property	30,000	30,000	-
Working Capital	19,240	19,240	-
Estimated expenses in relation to the private placement	260	260	-
<b>Total</b>	<b>49,500</b>	<b>49,500</b>	<b>-</b>

- b. On 4 October 2017, the Company completed the rights issue of 614,999,899 new irredeemable convertible preference shares ("ICPS") at an issue price of RM0.165 per ICPS which raised a total gross proceeds of RM101,474,983.

As at to date of this Annual Report, the gross proceeds raised from the rights issue of ICPS have not been utilised.

## 2. AUDIT AND NON-AUDIT FEES

The amount of audit and non-audit fees paid and payable to the external auditors and their affiliates by the Company and its subsidiaries for the financial year ended 30 June 2017 are as below:

	Group (RM)	Company (RM)
<b>Audit services rendered</b>	286,500	72,000
<b>Non-audit services rendered</b>		
Review of the Statement of Risk Management and Internal Control	6,000	6,000
Review of Statement of Realised and Unrealise Profits or Losses	5,000	5,000
Internal Audit Advisory	70,000	70,000
Advisory Fee on Goods and Services Tax	33,600	33,600

## ADDITIONAL COMPLIANCE INFORMATION

(continued)

### 3. MATERIAL CONTRACTS

Save as disclosed below, the Company and its subsidiaries have not entered into any material contracts subsisting at the end of the financial year or entered into since the end of the previous financial year, which involved the interest of the Directors and major shareholders other than contracts entered into in the ordinary course of business:-

- (i) City Meridian Development Sdn. Bhd. ("**CMD**"), a wholly owned subsidiary of the Company, had on 21 May 2014, entered into a sale and purchase agreement ("**SPA**") with Titijaya Group Sdn. Bhd. ("**TGSB**") to purchase a parcel of leasehold land held under PN4022, Lot No. 12174, Mukim 12, Daerah Barat Daya, Pulau Pinang for cash consideration at RM126,000,000 ("**Acquisition of Land**").

On 19 January 2015, CMD had entered into the supplemental agreement with TGSB to vary, amend, modify or alter certain provisions, terms and conditions of the SPA and to extend the period for the fulfilment of the conditions precedent for 1 year from 21 September 2014 or any other period as mutually agreed between the parties.

The Company had on 27 May 2015 obtained the approval from its shareholders in relation to the Acquisition of Land.

Subsequently, pursuant to the letters between CMD and TGSB dated 21 September 2015, 10 November 2015, 15 February 2016 and 26 May 2016, the parties had mutually agreed to further extend the date for fulfilment of the conditions precedent of the SPAs to 31 December 2015, 10 February 2016, 10 May 2016 and 10 December 2016, respectively. On 22 September 2016, the conditions precedent had been fulfilled by the respective parties.

As at the date of this Annual Report, TGSB, on behalf of CMD as stipulated in the SPAs, is in the midst of preparing its submission application to the Town and Country Planning Department of Penang and State Planning Committee of Penang for approval in varying the zoning of the land use to mixed development and approval in undertaking the development ratio of the Land with plot ratio of 1:4.

### 4. RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE

At the Fourth Annual General Meeting of the Company held on 23 November 2016, the Company had obtained a general mandate from its shareholders ("**Shareholders' Mandate**") for a recurrent related party transaction of revenue and trading nature ("**RRPTs**").

There were no RRPTs conducted pursuant to the Shareholders' Mandate during the financial year ended 30 June 2017.

# STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

## INTRODUCTION

This Statement on Risk Management and Internal Control by the Board of Directors (“Board”) on the Group is made pursuant to paragraph 15.26(b) of the Listing Requirements of Bursa Malaysia Securities Berhad and in accordance with the Principles and Best Practices provisions relating to risk management and internal controls provided in the Malaysian Code on Corporate Governance (“Code”).

This Statement outlines the nature and scope of risk management and internal control of the Group during the financial year ended 30 June 2017 and covers all Group’s operations except for associate companies as guided by the Statement on Risk Management & Internal Control: Guidelines for Directors of Listed Issuers (“Guidelines”).

## BOARD’S RESPONSIBILITIES

The Board recognises and affirms its overall responsibility for the Group’s system of internal controls, which includes the establishment of an appropriate risk and control framework as well as the review of its effectiveness, adequacy and integrity. It should be noted, however, that such systems are designed to manage rather than to eliminate the risk of failure to achieve business objectives. In addition, it should be noted that these systems can only provide reasonable but not absolute assurance against material misstatement or loss.

There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group in its achievement of objectives and strategies. The process has been in place during the year up to the date of approval of the annual report and is subject to review by the Board.

The Board is assisted by Senior Management in implementing the Board approved policies and procedures on risk and control by identifying and analysing risk information; designing, operating suitable internal controls to manage and control these risks; and monitoring effectiveness of risk management and control activities.

The key features of the risk management and internal control systems are described below.

## RISK MANAGEMENT AND INTERNAL CONTROL

### RISK MANAGEMENT

The Group has in place a database of risks and controls information captured in the format of risk registers. Key

risks of major business units are identified, assessed and categorised to highlight the source of risk, their impacts and the likelihood of occurrence. Risk profiles for the major operating business units are presented to the Audit Committee and Board for deliberation and approval for adoption. Action plans to address key risks were developed and their status of implementation was reported to the Audit Committee and Board of Directors.

The risk profile of the major operating business units of the Group are being monitored by its respective operating department. The risks identified for the Group were considered in formulating the strategies and plans that were approved and adopted by the Board.

### RISK MANAGEMENT FRAMEWORK

The Board has formalised an Enterprise Risk Management (“ERM”) framework for the Group, which comprises the following:

- Identification of risks or particular circumstances that could affect the achievement of organisation’s objectives;
- assessment and analysis of the cause, likelihood, impact and consequence of the risks;
- evaluation of the adequacy and effectiveness of existing controls;
- determining appropriate response strategy or additional control; and
- reporting and monitoring of risks across the Group.

As part of the framework, a management-level Risk Management Committee (“RMC”), chaired by the Deputy Group Managing Director, has been established to oversee the following:

- Identifying and communicating to the Board, critical risks the Group faces, their changes and Management’s action plans to manage the risks.
- Performing risk oversight activities and reviewing the risk profile of the Group as well as organisational performance.
- Aggregating the Group’s risk position and half-yearly reporting to the Audit Committee and ultimately to the Board on risk situation and status.

The RMC meets periodically to assess and evaluates risks that may impede the Group from achieving its strategic and operational objectives, as well as develop action plans to mitigate such risks.

## STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

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During the financial year under review, the result of the risk updates was deliberated at the RMC meetings, and the updated risk profile was used as one of the basis to develop a risk-based internal audit plan for the financial year ended 30 June 2017, which was approved by the Audit Committee.

The Audit Committee has undertaken a half-yearly review on the results of risk updates presented by the RMC, with deliberation on causes, existing controls, impact, and actions planned to address the top risks of the organisation. Result of the risk review was then reported to the Board for endorsement and approval.

Key risks of the group were assessed and recorded in the risk profile for continuous monitoring (see table below). Being in the property and project development businesses, it is inherent that the group is facing with the key risks such as project progress challenges, product quality expectation and customer relationship; and etc.

The Board and management have formulated strategy and plans to address the following key risks, among others are:

Risk	Specific Risk	Management Strategy
R1	Project Progress Challenges	Close monitoring on progress report and contractor performance
R2	Product Quality Expectation	Enhancement on checklist for quality assurance
R3	Customer Relationship	Dedicated team is assigned to manage customer expectation

### INTERNAL CONTROL

The Board receives and reviews regular reports from the Management on key financial data, performance indicators and regulatory matters. This is to ensure that matters that require the Board and Senior Management's attention are highlighted for review, deliberation and decision on a timely basis. The Board approves appropriate responses or amendments to the Group's policy. Besides, the results of the Group are reported quarterly and any significant fluctuations are analysed and acted on in a timely manner.

There is a comprehensive budgeting system that requires preparation of the annual budget by all departments. The annual budget which contains financial, operating targets and performance indicators are reviewed and approved by the Deputy Managing Director together with the Senior Management before being presented to the Board.

Issues relating to the business operations are highlighted to the Board's attention during Board meetings. Further independent assurance is provided by the Group internal audit function and the Audit Committee. The Audit Committee reviews internal control matters and update the Board on significant control gaps for the Board's attention and action.

The other salient features of the Group's systems of internal controls are as follows:-

- Quarterly review of the financial performance of the Group by the Board and the Audit Committee;
- Defined organisation structure and delegation of responsibilities;
- Limit of Authority (LOA) matrix that clearly outlines Senior Management limits and approval authority across various key processes;
- Operations review meetings and annual budgeting processes are held by the respective departments to monitor the progress of business operations, deliberate significant issues and formulate corrective measures;
- Adoption of whistle blowing policies;
- Code of conduct was communicated to all employees of the Group; and
- Formation of management tender committee and safety committee.

### INTERNAL AUDIT FUNCTION

The Board acknowledges the importance of the internal audit function and has outsourced its internal audit function to a professional service firm, as part of its efforts in ensuring that the Group systems of internal controls are adequate and effective. The internal audit activities of the Group is carried out according to an annual audit plan approved by the Audit Committee. The internal audit function adopts a risk-based approach and prepares its audit plans based on risk profile of the group and significant risks identified. The internal audit provides an assessment of the adequacy and integrity of the Group's system of internal controls, and provides recommendations, if any, for the improvement of the control policies and procedures. The results of the internal audit assessments are reported periodically to the Audit Committee.

The internal audit reports are reviewed by the Audit Committee and forwarded to the Senior Management so that any recommended corrective actions could be implemented. The Senior Management is responsible for ensuring that the

## STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

(continued)

necessary corrective actions on reported weaknesses are taken within the required time frame.

A total of RM82,902.70 inclusive Goods and Services Tax and disbursement was spent on internal audit activities for the financial year ended 30 June 2017.

### INTERNAL CONTROL FRAMEWORK

The key elements of the Group's internal control framework are described below:

#### (a) Integrity and ethical values

The Board believes ethical corporate culture begins from the top which the control environment sets the tone for the Group by providing fundamental discipline and structure.

##### • Code of Ethics and Conduct

The Board has set the tone at the top for corporate behavior and corporate governance. All employees of the Group shall adhere to the Code of Ethics and Conduct of the Group which sets out the principles and standard to guide employees in carrying out their duties and responsibilities to the high standards of personal and corporate integrity when dealing within the Group and with external parties.

##### • Whistle Blowing Policy and Procedure

The Board has formalised a set of Whistle Blowing Policy and Procedures to provide an avenue for stakeholders of the Company to raise concerns related to possible breach of business conduct, non-compliance with laws and regulatory requirements as well as other malpractices. The Whistle Blowing Policy and Procedures set out the protection accorded to whistleblowers who disclose such irregularities in good faith.

#### (b) Limits of authority and responsibility

Clearly defined and documented lines and limits of authority, responsibility and accountability have been established through the relevant terms of reference, organizational structures and appropriate authority limits, including matters requiring the Board's approval. The corporate structure further enhances the ability of each subsidiary or division, as the case may be, to focus on its assigned core or support functions within the Group.

#### (c) Planning, monitoring and reporting

The following internal control processes have been deployed by the Group:

##### • Documented Policies and Procedures

Internal policies and procedures, which are set out in a series of clearly documented standard operating manuals covering a majority of areas within the Group, are maintained and subject to review as considered necessary;

##### • Performance Monitoring and Reporting

The Group's management team monitors and review financial and operating results, including monitoring and reporting of performance against the operating plans. The management team formulated and communicates action plans to address areas of concern;

##### • Financial Performance Review

The preparation of periodic and annual results and the state of affairs of the Group are reviewed and approved by the Board before release of the same to the regulators whilst the full year financial statements are audited by the External Auditors before their issuance to the regulators and shareholders;

This internal control framework has been in place for the financial year under review and up to the date of approval of this Statement for inclusion in the Annual Report of the Company.

### REVIEW BY BOARD

The Board considered the adequacy and effectiveness of the risk management and internal control process in the Group during the financial year.

The Board's review of risk management and internal control effectiveness is based on information from:

- Senior Management within the organisation responsible for the development and maintenance of the risk management and internal control framework;
- Self-assessments of each department and functional controls by respective Senior Management to complement the above input in providing a holistic view of the Group risk and control framework effectiveness; and
- The work by the internal audit function which submit reports to the Audit Committee together with recommendations for improvement.

The Audit Committee performs oversight duty on monitoring the implementation of key risk action plans and any internal control weakness and ensure continuous process improvement.

## STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (continued)

The Board also received assurance from Deputy Group Managing Director (DGMD) and Group Chief Financial Officer (GCFO) of the Company that the Group's risk management and internal control system is operating adequately and effectively, in all material aspects, based on the risk management and internal control system of the Company.

The Board considers the system of internal controls described in this statement to be satisfactory and the risks to be at an acceptable level within the context of the Group's business and operating environment. The Board and Management will continue to take measures to strengthen the risk and control environment and monitor the health of the risk and internal controls framework.

For the financial year under review, the Board is satisfied that the system of internal controls was satisfactory and has not resulted in any material loss, contingency or uncertainty.

The above statement is made in accordance with the resolution of the Board dated 12 October 2017.

### **REVIEW OF STATEMENT BY EXTERNAL AUDITORS**

In accordance to Paragraph 15.23 of the Bursa Malaysia Securities Berhad Main Market Listing Requirements, the External Auditors have reviewed this Statement for inclusion in the 2017 Annual Report. The External Auditors reported that nothing has come to their attention that caused them to believe that the Statement intended to be included in the Annual Report of the Company was not prepared, in all material respects, in accordance with the disclosures required by Paragraph 41 and 42 of the Guidelines, nor was it factually inaccurate.