RISK MANAGEMENT AND INTERNAL CONTROL MEASURES POLICY

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1. Purpose of the Policy

The purpose of Risk Management policy is to provide guidance regarding the management of risk to support the achievement of corporate objectives, protect staff and business assets and ensure financial sustainability.

2. Defining Risk

Risk is something which hinders the Company from achieving its objectives.

3. Risk Management Process

Risk management is the process of identifying, assessing and controlling threats with the identification of procedures to avoid or minimize their impact.

4. Business Risk

Business risk is the possibility a company will have lower than anticipated profits or experience a loss rather than taking a profit. Business risk is influenced by numerous internal and external factors such as human resource, culture and values, sales volume, per-unit price, competition and government regulations.

Hinopak risk management is bifurcated into five categories to ensure effective controls are in place to minimize such risks and are detailed as below: -

Probable Risks That Can Be Faced By Hinopak	Control Measures Enforced By Hinopak
A. Strategic Risk: Risk that could impede the Hinopak's ability to achieve its strategy and strategic objectives. The internal factors that may influence strategic risk are lack of proper business plans and strategies, ineffective budget allocation and senior management turnover. The external factors that may influence strategic risk are shifts in customer demand, new competitor entering the market, movement in product cost.	• Original and revised business plans are made for each financial year and such plans are also presented to the top management and Board to set an overall direction for the Company. • Quarterly budgets are made and approved by board covering all the major functional areas. • Effective human resource management and retention policies to motivate existing employees. • Marketing department regularly monitors competitors' actions and make appropriate strategies to cater the competition.
B. Compliance Risk It is the risk that the Company fails to comply with all relevant corporate, tax,	• Internal meetings are conducted in which new changes in different laws are discussed

legal laws and regulations. The internal factors that influence compliance risk is lack of appropriate knowledge on new laws and regulations which resulted in the late filing or non-filing of documents required under relevant laws and regulations. The external factors that may influence compliance risk is violation of external regulations.	through presentations etc. and the changes are appropriately communicated to top management. • Where necessary such changes are also communicated to Board. • Labor laws are effectively monitored by HR personnel to ensure compliance with labor laws. • Suitably qualified personnel are appointed at relevant positions to avoid any non-compliance with the applicable laws. • Trainings are provided to employees to keep abreast with the new changes in laws and regulations. • External auditors also check compliance with relevant laws annually.
C. Operational Risk Operational risk refers to an unexpected failure in the company's day-to-day operations. The internal factors that may influence operational risk are technical failure and lack of proper human resource management etc. The external factors that may influence operational risk are technological obsolescence and natural calamities.	• Standard operating procedures (SOPs) are in place and are communicated at all operational levels. • Proper segregation of duties creating check and balance and ensuring implementation of SOPs. • Proper suppliers' backups are maintained by the Supply Chain department to avoid disruptions in operations. • Regular checkups / tests of plant and machinery are performed by the persons in charge to ensure minimal discontinuation of regular operations. • Repair and maintenance activities are regularly performed to ensure proper functioning of machinery. • Effective internal audit department is in place which plans and performs operational audits to identify and communicate operational risks.
D. Financial Risk	• Suitably qualified individuals are

The risk that involves financial loss to the Company and the Company's inability to meet its financial obligation when the Company's cash flows become inadequate.
 	
The internal factors that may influence financial risks are rise in cost and liquidity risk etc.
 	
The external factors that may influence financial risks are customers' inability or delay in payment, interest rates and adverse exchange rate movement.
	appointed to minimize the financial risks to the acceptable level.
	• Proper segregation of duties to create check and balance.
	• Formal authority matrix has been defined to ensure authorization of transactions at all levels.
	• Controls are established for each account balance and class of transaction reflecting in the financial statements such as
	  • Periodic inventory counts.
	  • Regular review of bank position and current liabilities to ensure effective working capital management.
	  • Periodic reporting of ageing of receivables.
	  • Close monitoring of exchange rate and interest rate fluctuations to ensure minimization of its adverse impacts (if any) on financial statements etc.
	• Financial statements are regularly reviewed by the senior management. Such statements are also subject to the limited scope review of external auditors on semi-annual basis and audited by them annually.
	• Quarterly results along with details of all significant events are presented in each quarterly meetings of the audit committee and the board of directors.

E. Reputational Risk The risk of loss resulting from damages to the Company's reputation due to an adverse event even if the Company is not found guilty. The internal factors that may influence reputational risks are poor health and safety environment and fraudulent or illegal activities.	• Ensuring commitment to quality and reliability of the product before delivering it to customer to avoid any event that hampers Hinopak reputation in the market. • Proper health and safety measures are adopted to avoid any accident. • Authorized and effective

The external factors that may influence reputational risks are major lawsuit against the Company and negative publicity about the products or services	communication with external parties. • Positive culture regarding compliance with laws, regulations and internal policies.

5. Role of Internal Audit

In Hinopak, Internal Audit regularly assess the effectiveness of internal controls and the risk management processes.

More specifically, Internal Audit is responsible for:

(a) Developing and implementing an annual audit plan having regard to Hinopak's material risks; and
(b) Notifying new and emerging risks identified in the course of implementing the audit plan and, where necessary, modifying the audit plan to take account of the impact of new risks.

6. Monitor and Review

Considering the risks identified and the controls established by the management at each level as exemplified above, the board of directors performs an annual review of business risks of Hinopak Motors Limited to ensure that sound system of risk identification, risk management and related systemic and internal controls are in place to safeguard assets, resources, reputation and interest of the Company and shareholders.