

## RISK MANAGEMENT SYSTEM

The Overall risk management philosophy of the company is to identify, measure, analyze, monitor and control all forms of risks that would affect the Company. The audit committee periodically reviews the effectiveness of the risk management systems implemented. The directors' criteria for assessing the effectiveness of the risk management system are whether such risk management policies reflect changes in the market conditions and the Company's activities.

The Company's risk management policy sets out and assesses the risk/s covered by the system (ranked according to priority), along with the objective behind the policy for each kind of risk:

Risk Exposure	Risk Management Policy	Objective
<p><u>Credit Risk</u></p> <p>Credit risk represents the loss that the Company will incur if the counterparty failed to perform under its contractual obligations.</p>	<p>LFM has established controls and procedures in its credit policy to determine and monitor the credit worthiness of customers and counter parties. LFM is operating under a sound credit-granting process over its distributors. Credit monitoring involves a weekly check over collections on a benchmark.</p>	<p>LFM's exposure to the impairment arising from said risks should be managed and should not rise to a significant level.</p>
<p><u>Equity Price Risk</u></p> <p>Equity Price Risk is the risk that the value of a financial instrument will fluctuate because of changed in market prices.</p>	<p>LFM's policy is to maintain the risk to an acceptable level. Movement of share price is monitored regularly to determine impact on its financial position.</p>	
<p><u>Interest Rate Risk</u></p> <p>Interest Rate Risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of the</p>	<p>LFM manages its liquidity profile to be able to finance and to meet its obligations and capital expenditures and service its maturing debts. In addition, LFM conducts an evaluation regarding its projected and actual cash flow</p>	

changed in market interest rates.	and makes the necessary assessment of the conditions of the financial markets to take opportunities to pursue fund raising initiatives.	
<u>Liquidity Risk</u>  Liquidity Risk is the risk that the Company will be unable to pay its obligations when they fall due under normal and stress circumstances.	LFM manages its liquidity risk by maintaining a balance between continuity of funding and flexibility. Treasury controls and procedures are in place to ensure that the sufficient cash is maintained to cover daily operational and working capital requirements. Management closely monitors LFM's future and contingent obligations and sets up required cash reserves as necessary in accordance with internal policies.	

**CONTROL SYSTEM SET UP**

<b>Risk Exposure</b>	<b>Risk Assessment (Monitoring and Measurement Process)</b>	<b>Risk Management and Control (Structures, Procedures, Actions Taken)</b>
Credit Risk	The group's trade receivables are concentrated with its three distributors, which account for 99% of the total trade receivable. The group has been transacting business with these distributors for a long time and has not encountered any credit issue with them.	The group is in close coordination with these distributors to bring their accounts to current.
Equity Price Risk	The group is exposed to equity price risk because of investments in equity securities, which are classified in the consolidated balance sheets as financial assets at FVPL and AFS investments.	The group's policy is to maintain the risk at an acceptable level. Movement of share price is monitored regularly to determine impact on its financial position.

Interest Rate Risk	The group's long-term loan is exposed to such risk.	The group's policy is to manage its interest cost using a mix of fixed and variable rate debt. There is no impact on the group's equity other than those already affecting profit and loss.
--------------------	---	---

The Audit Committee is in charge of laying down and supervising these control mechanisms:

Committee/Unit	Control Mechanism	Details of its Functions
Audit Committee	The committee is tasked with the overall effectiveness of risk management risk systems, and both the internal and external audit functions of LFM.	<p>The committee shall have the following functions:</p> <ul style="list-style-type: none"> <li>(k) Assist the Board in the performance of its oversight responsibility for the financial reporting process, system of internal control, audit process, and monitoring compliance with applicable laws, rules and regulations;</li> <li>(l) Provide oversight over Management activities in managing credit, market, liquidity, operational, legal and other risks of the Company. This function shall include regular receipt from Management of Information on risk exposure and risk management activities;</li> <li>(m) Perform oversight functions over the Company's internal and external auditors who are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions;</li> <li>(n) Review the annual audit plan to ensure conformity with the objectives of the Company.</li> </ul>

		<p>The plan shall include the audit scope resources and budget necessary to implement it;</p> <p>(o) Prior to the commencement of the audit, discuss with the external auditor the nature, scope and expenses of the audit, and ensure proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts;</p> <p>(p) Organize an internal audit department, and consider the appointment of an independent internal auditor and the terms and conditions of the engagement and removal;</p> <p>(q) Monitor and evaluate the adequacy and effectiveness of the Company's internal system, including financial reporting, control and information technology security;</p> <p>(r) Review the reports submitted by the internal and external auditors;</p> <p>(s) Review the quarterly, bi-annual and annual financial statements before their submission to the Board, with particular focus on the following matters: any change(s) in accounting policies and practices, major judgmental areas, significant adjustments resulting from the audit, going concern assumptions, compliance with accounting standards, and compliance with tax,</p>
--	--	--

		<p>legal and regulatory requirements;</p> <p>(t) Coordinate, monitor and facilitate compliance with laws, rules and regulations;</p> <p>(u) Evaluate and determine non-audit work, if any, of the external auditor and review periodically the non-audit fees paid to the external auditor and to the Company's overall consultancy expenses. The committee shall disallow any non-audit work that will conflict with his duties as an external auditor or may pose a threat to his independence. The non-audit work, if allowed, should be disclosed in the Company's annual report;</p> <p>(v) Establish and identify the reporting line of the Internal Auditor to enable him to properly fulfill his duties and responsibilities. He shall functionally report directly to the Audit Committee; and</p> <p>The Audit Committee shall ensure that, in the performance of the work of the Internal Auditor, he shall be free from interference by outside parties.</p>
Board of Directors	<p>The board is ultimately responsible for the oversight of the group's risk management processes.</p> <p>The Board is tasked with the establishment and</p>	Final approval and review of reports, findings and recommendations of the audit committee.

	<p>implementation of the risk management system and annually reviews the effectiveness of the system.</p>	
<p>Compliance Officer</p>	<p>The Compliance Officer tasked in complying with the principles of good corporate governance.</p>	<p>The Compliance Officer shall perform the following duties:</p> <ul style="list-style-type: none"> <li>(a) Monitor compliance of LFM with the LFM Code on Corporate Governance, rules and regulations of regulatory agencies and if any violations are found, report the matter to the Board and recommend imposition of appropriate disciplinary action on the responsible parties and the adoption of measures to prevent a repetition of the violations;</li> <li>(b) Appear before the Commission when summoned in relation to compliance with the LFM Code on Corporate Governance; and</li> <li>(c) Issue a certification every 30<sup>th</sup> January of the year on the extent of LFM's compliance with the LFM Code on Corporate Governance for the completed year and if there are any deviations, explain the reason of such deviation.</li> </ul>