

Paragraph 15.27(b) of the Listing Requirements of the Kuala Lumpur Stock Exchange requires the Board of Directors of public listed companies to make disclosures in its annual report a statement about the state of internal control of the listed company as a group. The Board is pleased to provide the following statement which outlines the nature and scope of internal control of LEADER Group.

### **Board Responsibility**

The Board has the overall responsibility for maintaining a sound system of internal control and is therefore committed in giving its due attention to improving the effectiveness of internal control measures, risk management and control processes within the organisation. In view of the limitations that are inherent in any system of internal control, these controls can only provide reasonable but not absolute assurance against material misstatement, defalcations, loss or fraud.

### **Risk Management**

During the financial year ended 31 December 2002, an ad-hoc Risk Management Committee comprising three (3) members of the Board namely, Mr Patrick Chin Yoke Chung, Dato' Kenneth H'ng Bak Tee and Mr Chew Hock Lin was set up to spearhead the identification and assessment of the key business risks which may affect the Group's operations and businesses.

Major risks groups were identified with various business operating units and departmental heads. The identified risks were evaluated based on its potential impact on the Group as well as the likelihood of the risk occurring. A report identifying the key type of risks, the impact of risk, probability of the risk, treatment, management and mitigation of the risks were compiled and presented to the Board. The outline of the risk management framework was adopted and approved by the Board for implementation. The policies and procedures on risk management have been formalised for implementation by the Group in February 2003.

Having formalised and put in place the risk management framework, the ad-hoc Risk Management Committee was dissolved and the responsibility of the Audit Committee was extended to include the monitoring of risk management of the Group. The Board via the Audit Committee shall continue to evaluate and monitor the risks identified and associated with the Group's operations and businesses.

### **System of Internal Control**

The Audit Committee was established by the Company on 28 March 1994. In January 1998, the internal audit department was set up to strengthen the effectiveness of the operation of system of internal control in the Group and to review the adequacy and integrity of the system of internal control.

Key elements of the Group's system of internal control are as set out below:

#### Group Policies and Guidelines

The Company's Group Policies and Guidelines Manual sets out the policies, procedures and practices to be adopted by all its local wholly-owned subsidiaries in the Group. For local joint venture subsidiaries and overseas subsidiaries, the Group Policies and Guidelines Manual are adopted with such modifications as may be deemed necessary by the respective management to suit their operation. The representatives from LEADER who are based at the local and overseas subsidiaries shall provide feedback to the management at the Head Office. This is to ensure proper documentation, approvals and effective control over such operating units within the Group.

#### Budget and Performance Report

The Board reviews and approves the Group's annual budget. The management monitors the monthly results of the Group against budget. Monthly operational and financial performance reports are submitted by all business units and heads of department at Head Office and it provides management with comprehensive information on performances and key indicators. The findings and variances are discussed at the monthly Divisional Executive Committee meeting. Quarterly Operational and Financial Report are also prepared and presented to the Main Executive Committee and Board for review and update.

## Statement On Internal Control cont'd

pursuant to paragraph 15.27(b) of the Listing Requirements of the Kuala Lumpur Stock Exchange

### **System of Internal Control (cont'd)**

#### Authority Table

The Group has a clearly defined delegation of authorities and responsibilities to the management personnel including financial limit and authority limit within its local wholly-owned subsidiaries to ensure that transactions are in line with the Group's policies. All joint venture subsidiaries have their own management and internal control structures.

#### Internal Audit

Internal audits are undertaken to provide independent assessment on the adequacy, efficiency and effectiveness of the Group's internal control systems. The internal audit function reviews the implementation and compliance of the Group Policies and Guidelines as well as the internal control of the key activities of the Group's businesses and subsidiaries. Annual audit plan is presented to the Audit Committee for approval.

Internal audit report on findings and comments are forwarded to the Audit Committee for attention and to the divisional executive in charge for necessary action and subsequent follow-up by the Internal Audit Department. The internal audit reports are reviewed by the Audit Committee. Major highlights in the internal audit report are deliberated in detail at the Audit Committee Meeting. The management is responsible for ensuring that appropriate action on reported findings are taken. Significant issues are brought to the attention of the Board by the Audit Committee.

#### Other Control Procedures

The Group Organisation Structure with clearly defined levels of responsibility and reporting procedures are continuously being reviewed and where necessary, updated and approved by the management.

The full Board meets quarterly and sets a schedule of matters to be referred to the Board for discussion, thus ensuring that it maintains full and effective supervision over appropriate controls. The Managing Director leads the presentation of the board papers and provides comprehensive explanation of pertinent issues. In arriving at any decision, on recommendation by the Board Committees, a thorough deliberation and discussion by the Board is a prerequisite. In addition, the Board is kept updated on the Group's activities and operations on a regular basis.

The Board remains committed towards operating a sound system of internal control and, therefore, recognises that the system must continuously evolve to support the type of businesses and size of operation of the Group. As such, the Board in striving for continuous improvement will put in place appropriate action plans as and when deemed necessary to further enhance the Group's system of internal control.

The Group's system of internal control does not apply to associated company as the Group has no management control over their operation.

There were no material losses incurred during the financial year under review as a result of weaknesses in internal control.

The statement is made in accordance with a resolution of the Board dated 10 April 2003.