

# Statement on Internal Control

pursuant to paragraph 15.27(b) of the Listing Requirements of Bursa Malaysia Securities Berhad (BMSB).

Paragraph 15.27 (b) of the Listing Requirements of BMSB 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 Universal Holdings Berhad's (LEADER) Group of Companies.

## 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 governance processes within the organisation.

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 within the Group and to review the adequacy and integrity of the system of internal control.

In view of the limitations that are inherent in any system, these controls can only provide reasonable but not absolute assurance against material misstatement, defalcations, loss or fraud or other irregularities which would not reasonably be detected in the normal course of the internal audit.

## Risk Management

The Group Policy and Guidelines on risk management adopted by LEADER and its local wholly-owned subsidiaries were implemented in February 2003. For overseas subsidiaries, the Group Policies and Guidelines on risk management are adopted with such modifications as may be deemed appropriate by the respective management to suit their operation. All local joint venture subsidiaries have their own risk management structure.

## System of Internal Control

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, when and where necessary, to further enhance the Group's 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 in its Group Policies and Guidelines Manual sets out the policies, procedures and practices to be fully adopted and strictly adhered to by LEADER and its local wholly-owned subsidiaries. For local joint venture subsidiaries and overseas subsidiaries, the Group Policies and Guidelines Manual was adopted with such modifications as may be deemed appropriate by the respective management to suit their operations. The representatives from LEADER based at the local and overseas subsidiaries provide feedback to the management at the Head Office on the subsidiaries' operations on a regular basis. 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 Management Review Meeting. Operational and Financial Reports are also prepared and presented monthly at the Executive Committee Meeting and quarterly at the Board meeting for review and update.

### Authority Table

There is a clearly defined delegation of authorities and responsibilities to the management personnel including financial limit and authority limit within LEADER and its local wholly-owned subsidiaries to ensure that transactions are in line with the Group's policies and guidelines. All local joint venture subsidiaries and overseas subsidiaries having their own management and internal control structures are governed by their own structure of Authority Table to ensure all transactions are in line with their own structure of Policies and Guidelines.

#### 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, risk control management 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 respective head of business units/departments for necessary action and subsequent follow-up by the Internal Audit Department. The internal audit also identifies and recommends further measures on areas where stricter control are required or could be further enhanced. 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 continually being reviewed, updated and approved by the Executive Committee and Board where applicable.

The full Board meets quarterly and has set a schedule of matters which is required to be brought to the Board for discussion, thus ensuring that it maintains full and effective supervision over appropriate controls. The Chief Executive Officer & Managing Director leads the presentation of the board papers and provides comprehensive explanation of pertinent issues. Significant issues are presented by the Board Committee quarterly to the Board for attention. 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.

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 18 April 2005.

