

# Statement on Internal Control

Pursuant to Paragraph 15.27 (b) of the Bursa Malaysia Listing Requirements, 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 acknowledges its overall responsibility for maintaining a sound system of internal control for the Group to safeguard the Group's assets and shareholders' investments and for reviewing the effectiveness, adequacy and integrity of the system. Due to the limitations that are inherent in any system of internal control, the system is designed to manage rather than eliminate the risk of failure to achieve business and corporate objectives. Accordingly, it can only provide reasonable but not absolute assurance against material misstatement or loss.

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.

## 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. This constitutes an on-going process for identifying, evaluating and managing the significant risks faced by the Group.

In addition, initiatives have been made during the year to enhance the risk management practices of the Group by pursuing and developing a portfolio view or an enterprise-wide approach towards risk management. New policies and procedures on the new Enterprise Risk Management (ERM) Framework have been drafted which reflect the Group's risk aspiration, profile, philosophy and strategy. The risk management enhancements were ready for implementation in early 2006.

## Internal Audit

The Group has an internal audit department which reports to the Audit Committee of the Board. Its role is to provide the Audit Committee and the Board with assurance on the adequacy and integrity of the Group's internal control system through regular monitoring and reviews. The annual audit plan is presented and approved by the Audit Committee.

The Internal audit department has conducted various audit assignments and made recommendations for improvements to the system of internal controls. The Audit Committee reviews the internal audit reports and keeps the Board informed of key audit findings. Those control weaknesses identified during the year under review have been or are being addressed by the management and none of them have resulted in any material losses, contingencies or uncertainties that would require disclosure in the Annual Report.

## Other Key Elements of Internal Control

The other 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 Report 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.

#### Clearly Defined Organisation Structure

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.

#### Effective Board Processes

The full Board meets at least four times a year and additional meetings are called as and when necessary 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 Managing Director & Chief Executive Officer 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.

The statement is made in accordance with a resolution of the Board dated 25 April 2006.