

STATEMENT *on Internal Control*

INTRODUCTION

Pursuant to Paragraph 15.27(b) of the Kuala Lumpur Stock Exchange ('KLSE') Listing Requirements, the Board of Directors is required to include in its Annual Report, a statement about the state of internal control of the LLCB Group. In making this Statement on Internal Control, it is essential to address the Principles and Best Practices in the Malaysian Code on Corporate Governance which relate to internal control. It should be noted that the Board's Internal Control Statement does not deal with associated companies.

BOARD RESPONSIBILITY

The Board of Directors is responsible for the LLCB Group's system of internal control and for reviewing its adequacy and integrity to safeguard shareholders' investment and LLCB Group's assets. The system of internal control is designed to manage risks in order to achieve business objectives. However, as with any internal control system, control can only provide reasonable and not absolute assurance against material misstatement or loss.

KEY PROCESSES

The Board of Directors confirms that there is a continuous process for identifying, evaluating and managing the significant risks faced by the LLCB Group for the financial year under review and up to the date of approval of the annual report and financial statements.

The majority of key processes established by the Directors in reviewing the adequacy and integrity of the system of internal control were in place throughout the financial year while certain aspects of the internal control system were progressively developed during the financial year but were effective as at the financial year end.

The key processes that the Directors have established in reviewing the adequacy and integrity of the system of internal control are as follows:-

1. Risk Assessment
 - The Group has a clear objective and direction in managing its business risks and has established an acceptable level of risk
 - There is a process to identify and evaluate the principal risks on a timely basis
2. Embedded
 - The Group has management reporting procedures which enable significant business issues to be identified and addressed to Management and the Board

- Organisational structure with well defined lines of responsibility, delegation of authority, segregation of duties and information flow
- A budgeting process for projects with regular monitoring of performance and status
- Process and procedures in accordance with the requirements of ISO 9002

3. Assurance Function

- The Board receives timely reports on internal control from the Management and Internal Audit
- The Management receives assurance on internal control through committee meetings such as Project Management, Tender Committee, ISO Committee.
- An in-house Internal Audit function supports the Audit Committee which reports to the Board, by providing reasonable independent review on the effectiveness of the Group's system of internal control

4. Board Review

- The Board through the Audit Committee conducts regular reviews of the system of internal control of the LLCB Group. The Audit Committee reviews the report from the Internal Audit and reports to the Board key findings, audit recommendations and status of corrective action taken.

RISK MANAGEMENT FRAMEWORK

During the current financial year, the Management conducted a specific effectiveness review of the LLCB Group's system of internal control with the assistance of external consultants. Based on the findings and recommendation of the external consultants, the LLCB Group has adopted the following :-

- The establishment of a Risk Management Policy
- The establishment of a Risk Management Committee (RMC)

The objective of the RMC is threefold:-

- To be at the forefront of the Group Wide Risk Programme and ensure that a risk management structure is embedded throughout the LLCB Group
- To ensure that the risk management structure is consistently adopted throughout the LLCB Group and is within the parameters established by the Board
- To ensure compliance with external requirements such as the KLSE's Statement on Internal Control – Guidance for Directors

The implementation of the LLCB Group Wide Risk Programme will ensure a more coordinated and consistent approach in managing the LLCB Group's significant risk exposures.