

# Statement of Internal Control

## BOARD RESPONSIBILITY

The Board of Directors recognises the importance of a sound system of internal controls which covers risk management, financial, organisational, operational, and compliance controls. The Board acknowledges its overall responsibility for the Group's system of internal controls which includes the establishment of an appropriate control environment and framework as well as reviewing the effectiveness, adequacy and integrity of this system. Such a system is designed to safeguard shareholders' investments and the Group's assets. It should be noted, however, that such a system is designed to manage rather than eliminate the risk of failure to meet the Group's business objectives. Accordingly, this system can only provide reasonable, and not absolute, assurance against material misstatement or loss.

The Group has in place an on-going process for identifying, evaluating, monitoring and managing the principal risks affecting the achievement of its business objectives throughout the period. This process is embedded in the conduct of the day-to-day business operations and is regularly reviewed by the Board to ensure the adequacy and integrity of the system.

## RISK MANAGEMENT FRAMEWORK

The Board has established an organisational structure with clearly defined lines of accountability and delegated authority as part of its Risk Management Framework. This is achieved through a clearly defined operating structure made up of lines of responsibility and delegated authority. Written policies and procedures have been issued with clearly defined limits of delegated authority and provide a framework for management to deal with areas of significant risk.

The risk profile of the Group is established during risk assessment sessions facilitated by the Risk and Control Workgroup ("RCW"). The risk responses and internal controls that the Management have taken and/or is taking are documented in the minutes of the RCW meetings. For each of the risks identified, a risk owner is assigned to ensure appropriate risk response actions are carried out.

A Risk Management Framework has been implemented to promote effective risk management and enhance the corporate governance assurance process. The framework provides an integrated risk management infrastructure with the establishment of the respective risk workgroups to ensure major areas of risks are controlled and coordinated.

The Internal Audit Department monitors compliance with policies and procedures and the effectiveness of the internal control system and highlight significant findings in respect of any non-compliance. Audits are carried out on all operating units, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report on operational and management activities of these units. The annual audit plan is reviewed and approved by the Audit Committee, control issues arising from the assurance process including internal and external audits are discussed at the Audit Committee meetings.

## CONTROL ASSURANCE AND RISK MANAGEMENT

To enhance the Company's corporate governance, the Group has implemented Control Assurance and Risk Management ("CARM"), a web-based self-assessment program. It involves each business unit to evaluate and ensure that it has appropriate controls in place to manage a broad range of risks arising from day-to-day business activities within the Group. CARM emphasizes on internal controls over financial reporting for the purpose of compliance with the requirements of the US Sarbanes-Oxley Act and focuses on transparency, accountability and safeguarding of assets in its review mechanism.

The results of the CARM assessment and trend analysis are reported to the Audit Committee annually.

**OTHER KEY ELEMENTS OF INTERNAL CONTROL**

The other key elements of the Group's internal control systems are described below:

- Clearly defined delegation of responsibilities to committees of the Board and to Management Executives and business operating units, including authorisation levels for all aspects of the business.
- Clearly documented internal policies and procedures set out in the Group's Standard Policies and Practices Manual. This Manual is subject to regular review and improvement to reflect changing risks or to resolve operational deficiencies. All standards, policies and guidelines are presented to the RCW and Audit Committee for approval and non-compliance cases, if any, are reported to the Audit Committee without exception. Reliance is also placed on the internal audit function as well as the CARM approach mentioned earlier.
- Management Executives meetings are held on a regular basis to identify, discuss and resolve operational, financial and key management issues.
- Quarterly RCW meetings to review the adequacy of systems, policies and procedures and internal control processes to mitigate the internal control business risk and to follow-up on action plans proposed by Management on the recommendations of the Internal Audit Department.
- An Internal quality audit is conducted every year to monitor compliance with the ISO 9001:2000 Quality Management System requirements.
- A half-yearly Hazard Analysis Critical Control Point internal audit to monitor compliance with product safety requirements.
- A detailed budgeting process where operating units prepare budgets before a new financial year commences was reviewed by the Management Executives and approved by the Board.
- Monthly monitoring of results against budget, with major variances being followed up on and management action taken, where necessary. The Board also conducts similar reviews on a quarterly basis.
- Regular visits to business operating units by members of the Board and the Management team.
- A Code of Conduct to support the business objectives.

A number of internal control weaknesses were identified during the financial year, all of which have been, or are being, addressed. None of the weaknesses have resulted in any material losses, contingencies or uncertainties that would require disclosure in the Company's annual report.

**REVIEW BY THE EXTERNAL AUDITORS**

The external auditors, KPMG, have reviewed this Statement of Internal Control of the Company for the financial year ended 30 June 2009 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in reviewing the adequacy and integrity of the system of internal control.