

**PURSUANT TO PARAGRAPH 15.26(b) AND THE PRACTICE NOTE NO. 9 OF BURSA MALAYSIA SECURITIES BERHAD LISTING REQUIREMENTS AND AS GUIDED BY THE STATEMENT ON INTERNAL CONTROL: GUIDANCE FOR DIRECTORS OF PUBLIC LISTED COMPANIES, THE BOARD OF DIRECTORS (“BOARD”) IS COMMITTED TO MAINTAIN A SOUND SYSTEM OF INTERNAL CONTROL TO SAFEGUARD SHAREHOLDERS’ INVESTMENT AND THE COMPANY’S ASSETS. THE BOARD OF LBS BINA GROUP BERHAD (“LBGB” OR “GROUP” OR “COMPANY”) IS PLEASED TO PRESENT THE BELOW MENTIONED STATEMENT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011.**

### **Board Responsibility**

The Board assumes overall responsibility for the Group’s system of internal control and for reviewing its adequacy and integrity. The Group’s internal control system and management information systems includes compliance with existing laws, regulations, rules, directives and guidelines. The Board ensures that appropriate policies on internal control are set and seeks regular assurance that the system is functioning adequately and that integrity is maintained.

The Board recognises that such a system of internal controls has its inherent limitations as it is designed to manage, rather than to eliminate risks that may hinder the achievement of the Group’s business objectives. Accordingly, the system can only provide reasonable assurance, and not absolute assurance against material misstatement or loss.

### **Internal Audit Function**

The Internal Auditors conducts regular reviews and appraisals of the effectiveness of the system of internal controls of the Company impartially, proficiently, and with due professional care. Reports will be presented to the Audit Committee on a quarterly basis or more frequently, if required.

### **Risk Management**

The Risk Management Committee (“RMC”) of the Company assists the Board in undergoing the process for identifying, evaluating, monitoring and managing the significant risks across all the functions of the Group. In 2011, the Board has entrusted the RMC to review the implementation status of Management Action Plan of each department’s risk profiles. The results of the discussions and findings are recorded in the Risk Register and the same was tabled at the Audit Committee Meeting and Board Meeting for deliberation and adoption. In additions, the RMC had carried out risk assessment on business investments, divestments and joint venture projects of the Group. During the year, RMC had carried out a few exercises of evaluation, and subsequently recommending the buy-back of shares from some of the minority shareholders of certain subsidiaries in order to enhance the results of the Group.

## Other Key Elements and Processes of Internal Controls

Other key elements and processes of the Group's system of internal control are:

- The Group's Internal Audit Department, which reports to the Audit Committee, performed regular reviews of business processes to assess the effectiveness of internal controls. Internal audits were carried out to review the adequacy of the internal control systems, compliance with policies and procedures. The work of the internal auditors is in accordance with audit plans approved by the Audit Committee and revised as and when deemed appropriate;
- Operational structure with defined lines of responsibilities and delegation of authority. A process of hierarchical reporting has been established that is documented and provides auditable trails to ensure accountability;
- The operational policies and procedures are periodically reviewed and updated to ensure effective management of the Group's operations. During the year, a few rewritten and formally approved "Standard Operating Procedures" were implemented for a few of the functions within the Group to strengthen the controls of the Group;
- The Audit Committee holds regular meetings to deliberate on findings and recommendations for improvement by the internal auditors on the state of the internal control system, and reports to the Board;
- The Audit Committee and the Board monitor and review the Group performance and financial results at their quarterly meetings; and
- Monthly Senior Management Meetings and other relevant meetings are held periodically to deliberate and discuss on operational issues that are in-progress or outstanding.

The above control elements provide reasonable assurance to the Board that the structure of controls is appropriate to the Group's operations and that risks are at an acceptable level throughout the Group's business. The Board however recognises the ever changing dynamic business environment, and hence will endeavor to continue improving, and enhancing the existing system of internal controls to ensure their continued relevance.

