

BOARD RESPONSIBILITY

The Board reaffirms its responsibility for the MBf Group's system of internal control which includes maintaining a reliable control environment and reviewing its adequacy and integrity. The system of internal control provides the means to efficiently and effectively manage risks, operate the MBf Group's businesses, for sound financial reporting and compliances with regulatory and statutory requirements. However the Board recognises that the system of internal control is designed to manage rather than eliminate the risks associated with the MBf Group's business objectives and thus can only provide reasonable assurance against material misstatement, loss or fraud.

RISK MANAGEMENT FRAMEWORK

The MBf Group has clearly defined lines of accountability and proper delegation of authority. The Board recognises that risk management is an integral part of the Group's day-to-day operations and has adopted an Enterprise-Wide Risk Management Framework in each of its major subsidiaries, namely MBF Cards (M'sia) Sdn Bhd, WR Carpenter (PNG) Limited and WR Carpenter (South Pacific) Limited to manage their respective risks and opportunities. The Board has extended the responsibilities of the Audit Committee to include the identification, evaluation, management and continuous monitoring of significant risks of the Group. The Audit Committee is assisted by the Group Internal Audit Department and the Risk Management Committees of the respective subsidiaries in discharging its responsibilities. The respective Risk Management Committees comprised members of the respective boards and key management personnel.

INTERNAL AUDIT FUNCTION

The Board confirms that throughout the year and up to the date of this Annual Report there has been an ongoing process for identifying, evaluating, monitoring and managing the significant risks of the MBf Group. Such processes are applied consistently throughout the MBf Group and regularly reviewed by the Board through an in-house internal audit function via the Group Internal Audit Department. The Group Internal Audit Department conducts audits on all principal areas of operations and continuously offers assurances on the efficiency and adequacy of the system of internal control. The internal audit function is independent of the activities it audits and audits are performed with impartiality, proficiency and with due professional care. The internal audit function reports to the Audit Committee whose members are all independent and non-executive members of the Board. It is the practice of the Board to review the internal audit function's scope of work, authority and resources at least once a year. All reports by the internal audit function are presented to the Audit Committee who shall ensure that all weaknesses identified are rectified and risks satisfactorily dealt with.

KEY INTERNAL CONTROL PROCESSES

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

- 1) The Enterprise-Wide Risk Management Framework is adopted by all the key operating subsidiaries. Risks and opportunities are continuously monitored by the respective management. The risks identified are instantly evaluated and mitigation measures put in place.
- 2) The Board regularly receives and reviews management reports which highlight the key performance indices, legal issues at hand, environmental and key regulatory matters. The Board deliberates on these matters and ensures that actions are taken to resolve issues promptly and satisfactorily.

- 3) There is a structured budgeting and forecasting system in place. Each operating subsidiary submits its business plan and its performance is monitored on a monthly basis. All material variances are accounted for and reported.
- 4) The Group Internal Audit Department performs regular reviews of business processes to assess the effectiveness of the system of internal control and highlight significant risks affecting the Group with recommendations on risk mitigation measures.
- 5) The Audit Committee reviews all internal audit reports and has regular meetings with the Management Team on all major internal control issues highlighted by the Group Internal Audit Department.
- 6) The MBf Group has a stringent staff recruitment process and regular staff performance appraisal exercises. Training programmes are conducted regularly to increase the level of competency and professionalism of the staff.

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The external auditors had reviewed this Statement on Internal Control for inclusion in this Annual Report of MBfH and reported to the Board that they had not noted any:-

- 1) inconsistency with their understanding of the processes adopted by the Board in reviewing the adequacy and integrity of the system of internal controls; and
- 2) significant weaknesses in the internal controls that had resulted in material losses, contingencies or uncertainties requiring disclosure in the Annual Report.

CONCLUSION

The Board is pleased to report that there had been no significant weaknesses in the system of internal control of the Company and subsidiary companies that had resulted in material losses, contingencies or uncertainties requiring disclosure in the Annual Report. The Board is of the opinion that the system of internal control in the MBf Group for the year under review and up to the date of the Annual Report is sound and sufficient to safeguard shareholders' investments and the Group's assets.