

statement on INTERNAL control

INTRODUCTION

THE BOARD OF DIRECTORS SUBSCRIBES TO THE MALAYSIAN CODE ON CORPORATE GOVERNANCE TO MAINTAIN A SOUND SYSTEM OF INTERNAL CONTROL IN THE GROUP TO SAFEGUARD SHAREHOLDERS' INVESTMENT AND THE GROUP'S ASSETS.

RESPONSIBILITY FOR RISK MANAGEMENT AND INTERNAL CONTROL

The Board of Directors and senior management recognise the importance of having a sound system of internal control and effective risk management practices in place in the Group. The Board is aware that ultimately the responsibility for the Group's system of internal control, which includes the establishment of an appropriate control environment and framework as well as reviewing its adequacy and integrity, rests with the Board. As there are limitations that are inherent in any system of internal control, the system is therefore designed to manage, rather than eliminate, the risk of failure to achieve the Group's corporate objectives. Thus, it can only provide reasonable but not absolute assurance against material misstatement or loss. The system of internal control includes financial, operational and compliance controls and risk management procedures.

RISK MANAGEMENT FRAMEWORK

As an integral part of the system of internal control, the Board has maintained an on-going process for identifying, evaluating and managing the significant risks faced by the Group. For this purpose, the Risk Management Committee, headed by an Executive Director has been continuously enforcing the risk management practices over 2005. The Risk Management Committee will, inter alia;



- co-ordinate with heads of relevant departments to identify and review key risk exposures.
- perform risk oversight and compile risk profiles, review their impact and ensure that risk control system and management action plans are in place to manage the risks.
- prepare risk management reports with recommendations to improve the existing risk control system to further strengthen the integrity of the control mechanism.

During the financial year, the Risk Management Committee convened four (4) meetings and the Chairman of the Audit Committee attended all the meetings upon invitation. In each meeting, the head of each department, who had been delegated the task to implement and enforce risk management and internal control procedures in his or her department, presented an updated risk management report to the Committee. Any new risk or weakness in internal control brought up in the report was promptly addressed by the Committee and suggestion given to respond to the risk or weakness. The quarterly report and its review and evaluation provided some form of assurance on the effectiveness of the internal control system. The salient aspects of the Committee's findings were reported to the Board through the Audit Committee.

The Board considers that the enterprise risk management framework enables the Group to properly manage the Group's risks. The framework will be subjected to continuous improvement, taking into consideration new and better practices which may come on stream and the changing business environment.

INTERNAL AUDIT FUNCTION

The internal audit function provides the Board with assurance in respect of the adequacy and effectiveness of risk management, internal control and governance system. During the financial year, various internal audit findings were highlighted to the Audit Committee Chairman.

The Audit Committee Chairman reviews the risk monitoring and compliance procedures, ensuring that an appropriate mix of techniques is used and presents his findings to the Board as appropriate.

In addition to the risk management processes overseen by the Risk Management Committee and the internal controls review undertaken by the internal audit function, the Ministry of Health ("MOH") has conducted a review and evaluation of the operations and manufacturing processes and procedures in the production of medicinal products in the manufacturing plants, to ascertain that they are in accordance with the requirements of the Pharmaceutical Inspection Co-operation Scheme (PIC's) guidelines and the

regulatory requirements of the MOH. In October 2005, an audit on the manufacturing sites of sterile injectables, eye drop, dental cartridges and oral solid dosage was performed. The audit by the MOH confirmed the Group's compliance with the PIC's guidelines on Good Manufacturing Practices for Medicinal Products PE009-2: July 2004, PIC/S Geneva as well as Guidelines on Good Storage Practice: 2nd Edition: Malaysia 2004.

OTHER RISK AND CONTROL PROCESSES

Apart from risk management, internal audit and the MOH's check and evaluation, the Board has put in place an organisational structure with clearly defined lines of responsibility and delegation. A process of hierarchical reporting has been established which provides for a documented and auditable trail of accountability. The procedures include the establishment of limits of authority and the issuance of guidelines or directives highlighting policies on health and safety, training and development, equality of opportunity, staff performance and serious misconduct. Management reports and annual budget are prepared for monitoring the Group's business and performance.

The Board of Directors was briefed on significant changes in the business and the external environment. The Finance Manager provides the Board with quarterly financial information. This includes, inter alia, the monitoring of results, with variances being analysed and actions taken by management where necessary. The Board is also receptive to any suggestion or recommendation for any areas of improvement made by the Audit Committee, the Risk Management Committee and management.

There were no material losses incurred during the current financial year as a result of any weaknesses in internal control. The Board and management will continue to take measures to strengthen the control environment and framework.