

Risk management and internal control

The key controls that are in place in each subsidiary where HGL's equity interest is 50% or more are as follows:

- Budget preparation including review of the business strategy
- Review of monthly management accounts of the business comparing against last year and budget. This review encompasses the following:
 - Return on capital
 - Stock days
 - Debtor days, including discussion of significant debtors
 - Creditor days
 - Sales gross margin and expenses
 - Expense to sales ratio
 - EBIT to sales ratio
- Central management meet with the management of the business to discuss the management accounts
- Comparison of cash generation with budget and last year
- Review of key dependencies e.g. suppliers, customers and staff
- The external auditors perform work on each business at the year end and at the half year . Central finance staff visit each business at the year end and half year to ensure compliance with reporting requirements and to confirm the operation of the key accounting controls.
- At the year end and half year each business completes an internal control questionnaire; this is signed by the CEO and CFO of the business.
- Insurances managed by Marsh. This involves the completion by Australian business of a comprehensive insurance questionnaire. This assists in matching the risks with the appropriate level of insurance.
- Review of Occupational Health and Safety procedures.
- Foreign currency management is discussed at the regular management meetings .
- Central management assists and overviews the preparation of annual tax returns.
- Any significant system changes are also reviewed, prior to implementation, by central management.
- Central management approve the appointment of a new CFO to any business.

In addition there are a number of operational controls; the principal controls are as follows:

- Bank reconciliation performed and independently reviewed monthly
- All other control account reconciliations performed monthly
- Cheque and electronic payments require two people to authorise
- All stock is counted at least once in the financial year
- Control and risk awareness is regularly discussed.

In addition centrally;

- The exposure to interest rates is monitored and hedging instruments are put in place when appropriate.
- Possible new business acquisitions are reviewed by management and are approved by the Board
- The banking facilities are reviewed and amended when appropriate.