

Statement on Internal Control

INTRODUCTION

The Malaysian Code on Corporate Governance stipulates that the Board of Directors of public listed companies should maintain a sound system of internal control to safeguard shareholders' investment and Group assets. Set out below is the Board of Directors ("the Board") of SunInc's Statement on Internal Control ("the Statement") as a Group, made in compliance with Paragraph 15.27 of the Listing Requirements of Bursa Malaysia Securities Berhad and the Statement on Internal Control: Guidance for Directors of Public Listed Companies.

THE BOARD'S RESPONSIBILITY

The Board places importance on, and is committed to maintaining a sound system of internal control and effective risk management practices in the Group to ensure good corporate governance. The Board affirms its responsibility for reviewing the adequacy and integrity of the Group's system of internal control and management information systems, including systems for compliance with applicable laws, rules, directives, guidelines and risk management practices.

Notwithstanding, as with any internal control system, the Group's system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives. It follows, therefore, that the system of internal control can only provide reasonable but not absolute assurance against material misstatement or loss.

The Group has in place an on-going process of identifying, evaluating, monitoring and managing the key risks affecting the achievement of its business objectives throughout the period. The Board reviews this process on a quarterly basis.

In the case of associated companies, the management of those companies manages the systems of internal controls. The Statement therefore does not cover these associated companies.

THE GROUP'S SYSTEM OF INTERNAL CONTROL

Monitoring Mechanisms and Management Style

Scheduled quarterly meetings of the Board, Board Committees and management represent the main platform by which the Group's performance and conduct are monitored. The daily running of the business is entrusted to the President, Managing Director ("MD") and their management team. Under the purview of the President and MD, the respective heads of each operating subsidiary and department of the Group are empowered with the responsibility of managing their respective operations.

The Board is responsible for setting the business direction and for overseeing the conduct of the Group's operations through its various Board Committees and management reporting mechanisms. Through these mechanisms, the Board is informed of all major control issues pertaining to internal controls, regulatory compliance and risk taking.

Enterprise Risk Management Framework

In dealing with its stewardship responsibilities, the Board recognises that effective risk management is part of good business management practice. The Board acknowledges that all areas of the Group's activities involve some degree of risk and is committed to ensuring that the Group has an effective risk management framework which will allow the Group to be able to identify, evaluate and manage risks that affect the achievement of the Group's business objectives within defined risk parameters in a timely and effective manner.

The details on Enterprise Risk Management Framework are set out on pages 62 and 63 of the Annual Report.

Key Elements of the Group's System of Internal Control

The current system of internal control in the Group has within it, the following key elements:-

- Clear Group vision, mission, corporate philosophy and strategic direction which are communicated to employees at all levels.
- An effective Board which retains control over the Group with appropriate management reporting mechanisms which enable the Board to review the Group's progress.
- Board approved annual budgets and management plans prepared by each subsidiary during the Business Plan exercise to consider the relevant strengths, weaknesses, opportunities and threats including competitor, market and broader environmental analysis.
- Relevant Board Committees with formal terms of references clearly outlining their functions and duties delegated by the Board.
- Management meetings involving discussion on operational issues at the respective subsidiary levels.
- Comprehensive policies and procedures manuals that provide guidelines on, and authority limits over various operating, financial and human resources matters.
- A systematic performance appraisal system.
- Relevant training provided to personnel across all functions to maintain a high level of competency and capability.
- Continuous quality improvement initiatives to obtain accreditation for all operating subsidiaries such as ISO and OHSAS certification.
- An internal audit function which carries out internal audits based on an annual risk-based audit plan approved by the Audit Committee ("AC") [see also Assurance Mechanisms below].

Statement on Internal Control (Cont'd)

Assurance Mechanisms

The AC is tasked by the Board with the duty of reviewing and monitoring the effectiveness of the Group's system of internal control. In carrying out its responsibilities, the AC relies significantly on the support of the Group Internal Audit Division ("GIAD") which carries out internal audits on various operating units within the Group based on a risk-based audit plan approved annually by the AC. Based on these audits, the GIAD provides the AC with periodic reports highlighting observations, recommendations and management action plans to improve the system of internal control. In addition, the AC also reviews and deliberates on any matters relating to internal control highlighted by the external auditors in the course of their statutory audit of the financial statements of the Group. There were no major internal control weaknesses identified during the financial period.

Additionally for subsidiaries which are accredited with ISO or OHSAS certification, scheduled audits are conducted internally as well as by SIRIM auditors. Results of the audits are reported to the Quality Management Committee and Occupational Safety and Health Committee respectively.

The AC Report is set out on pages 55 to 59 of the Annual Report.

THE BOARD'S COMMITMENT

The Board recognises that the Group operates in a dynamic business environment in which the internal control system must be responsive in order to be able to support its business objectives. To this end, the Board remains committed towards maintaining a sound system of internal control and believes that a balanced achievement of its business objectives and operational efficiency can be attained.

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

As required under Paragraph 15.24 of the Listing Requirements of Bursa Malaysia Securities Berhad, the external auditors have reviewed the Statement. Their review was performed in accordance with Recommended Practice Guide ("RPG") 5 issued by the Malaysian Institute of Accountants. Based on their review, the external auditors have 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 the Board has adopted in the review of the adequacy and integrity of internal control of the Group. RPG 5 does not require the external auditors to and they did not consider whether the Statement covers all risks and controls, or to form an opinion on the effectiveness of the Group's risk and control procedures.

This Statement on Internal Control was approved by the Board of Directors on 24 August 2006.



Tan Sri Dato' Seri (Dr) Cheah Fook Ling
Executive Chairman