

Statement On Internal Control

For The Financial Year Ended 31 December 2002

INTRODUCTION

The Malaysian Code on Corporate Governance stipulates that the Board of Directors of 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 Sunway City Berhad's ("the Group") Statement on Internal Control ("Statement") as a Group, made in compliance with Paragraph 15.27 of the Kuala Lumpur Stock Exchange Listing Requirements 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'S SYSTEM OF INTERNAL CONTROL

Monitoring Mechanisms and Management Style

Scheduled periodic meetings of the Board, Executive Committee ("EXCO"), Board Committees and management represent the main platform by which the Group's performance and conduct is monitored. The daily running of the business is entrusted to the Managing Director ("MD"), Deputy Managing Directors ("DMDs") and their respective management teams. Under the purview of the Chairman, MD and DMDs, the heads of the respective operating subsidiaries and departments of the Group are empowered with the responsibility of managing their respective operations.

The MD and DMDs actively communicate the Board's expectations to management at management meetings as well as through attendance at various project meetings/owners meetings. At these meetings, operational and financial risks are discussed and dealt with.

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 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.

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It is the Board's view that the Group's objectives, its internal organisation and the environment in which it operates continuously evolve; and as a result, the risks that it faces also change. A sound system of internal control therefore depends on a thorough and regular evaluation of the nature and extent of the risks to which the Group is exposed.

Against this backdrop, in December 2002, the Board appointed a professional services firm to assist the Group in establishing a formal Enterprise Risk Management ("ERM") framework. This project, which is currently in progress, includes the development of a risk management policy and framework for the effective identification, evaluation, management and reporting of the Group's risks. The ERM project would also include the establishment of a formal risk management oversight structure to oversee these activities.

Notwithstanding the above, the Group's annual business plans include internal and external analysis which enable the Group to identify and manage any potential hurdles the Group may face in realising its objectives as well as to fully leverage on any profitable ventures in the market place. In addition, Sunway Medical Centre Berhad ("SunMed"), a subsidiary of Sunway City Berhad, had taken proactive steps in the risk management journey and had, in 2001, embarked on various risk management initiatives. These include:

- Classification of risks in the standard operating procedures.
- Evaluation of risks.
- Allocating responsibility for implementation of various action plans for risks identified.

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 is 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 company during the Business Plan exercise 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.
- Comprehensive policies and procedure manuals that provide guidelines on, and authority limits over various operating, financial, human resource and health & safety matters.
- The use of the intranet as an effective means of communication and knowledge sharing.
- Regular divisional management meetings involving the review of the Group's operations, financial performance, human resource matters and business plan.
- Communication of policies and guidelines in relation to human resource matters to all employees through a staff handbook which is also available on the intranet.

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- 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 such as ISO 9001 certification.
- An internal audit function which carries out internal audits based on an annual risk based audit plan approved by the Audit Committee (see also Assurance Mechanisms below).

Assurance Mechanisms

The Audit Committee ("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.

Additionally, as part of the requirements of the ISO 9001 certification accredited to the Group's property development activities, scheduled audits are conducted internally as well as by SIRIM auditors. Results of the audits are reported to management.

The Report of the AC is set out on pages 36 to 41 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.