

## CORPORATE GOVERNANCE

Our professional reputation and the trust of our clients and shareholders are our most precious assets. We continuously review our business practices to ensure that they adhere to the highest standards of corporate governance. The foundation of the Group's corporate governance framework includes a majority of independent board members who have the requisite expertise and experience to provide guidance and counsel to the Group. The Group also has in place internal controls and risk management systems as well as professional and capable senior management for the day to day running of the Group's lines of businesses.

## PROSPECTS FOR THE FINANCIAL YEAR 2005

It is heartening to note that in the first half of 2004, the economy is firmly back on growth track despite the higher level of global uncertainties. Robust economic growth and strong external demand for manufactured goods appear to be able to overcome the uncertainties in the capital markets created by high energy prices and persistent terrorist activities. The Asian Development Bank has very recently raised its 2004 economic forecasts for the region, citing faster first half export growth and revival of private investment.

In view of the more positive economic prospects, we are confident that if we remain focused in each of our core competencies based on three key overall strategies: building deeper and more profitable client relationships, optimising the use of both shareholder and human capital, and building on our core strengths, we can achieve much more and further strengthen our investment banking franchise.

## A WORD OF APPRECIATION

Despite these challenges, we believe that the Group is well equipped to consolidate our position of strength and take advantage of the new opportunities and to scale greater heights. We thank our customers, business associates, bankers, Bank Negara Malaysia, the Securities Commission, Bursa Malaysia and the Government of Malaysia for their continued guidance and support.

I would also like to take the opportunity to extend my sincere thanks to the Board of Directors, in particular Dato' Azlan Hashim, Dato' Mohd Tahir Haji Abdul Rahim and Dato' Malek Merican who retired this year after long service to the Board. I am immensely grateful for their contributions and at the same time would also like to welcome three new Board members: Tan Sri Datuk Dr Aris Othman, Tan Sri Datuk Clifford Francis Herbert and Dato' Izham Mahmud. I am confident that they will provide valuable guidance to the management of the investment banking group due to their vast experience, market knowledge, and expertise.

Our progress and many achievements in the capital markets are a result of the concerted and continued efforts and contributions by the Board, the management team and staff. I am grateful for their tireless commitment and contributions.



**Tan Sri Dato' Azman Hashim**

Chairman

Kuala Lumpur

18 November 2004

August 3	
OPEN	828.63
CLOSE	825.53
HIGH	831.15
LOW	824.37



# Corporate Governance

**The Board is fully committed in ensuring that the principles and best practices in corporate governance are applied consistently in the Company and across the Group. The Company has complied with the Best Practices in Corporate Governance as set out in Part 2 of the Malaysian Code on Corporate Governance.**



## BOARD OF DIRECTORS

The Board of Directors supervises the management of the AmMerchant Bank Berhad Group's (the Group) businesses and affairs with the goal of enhancing shareholders' value. In addition to determining the overall strategy of the Group and the supervision of Senior Management of the Group, the Board meets regularly to address key matters in the area of strategy, finance, structure and organisation, and business development (subject to the matters reserved for shareholders' meetings by law). The Board approves the group strategic plan and the annual financial plans developed by management of the Group and reviews the performance and effectiveness of the business units in the Group. It establishes guidelines for overall business, risk and control policies, capital allocation and approves major changes in the Group's business activities, including major lending and borrowing transactions, and major business developments such as acquisitions and disposals of business or assets, investments or new businesses, mergers, joint-ventures and alliances and also consider other matters of strategic importance to the Group.

### **a** Composition of Board

The Board currently comprises seven (7) directors with wide skills and experience of which four (4) are Independent Non-Executive Directors. There is thus a healthy Board balance, with more than 50.0% of the Board members being Independent Non-Executive Directors. The Independent Non-Executive Directors are from varied business backgrounds, and their experiences enable them to exercise independent judgment and objective participation in the proceedings and decision making process of the Board.

The Directors participate fully in decision-making on key issues regarding the Company and its subsidiaries. The view of the Independent Non-Executive Directors carry substantial weight in Board decisions and they fulfill their roles in ensuring that strategies proposed by the management are fully discussed and examined, as well as ensuring the interest of shareholders and stakeholders of the Company are properly safeguarded.

### **b** Board Meetings

Board Meetings are scheduled every month, with additional or special Board meetings convened as and when required. All directors review monthly board reports circulated prior to the Board meeting, to enable the directors to obtain further explanations where necessary. In order to be briefed adequately, the senior management team is invited to attend Board meetings to provide the Board with presentations, detailed explanations and clarification on matters that are tabled.

As a full board or in their individual capacity, the directors have access to all information within the Group and the advice and services of the Group Company Secretary. Independent professional advice is also available to the Directors, if necessary, at the Group's expense.

During the year, 11 board meetings were held. The attendance of directors during their tenure during the said period is as follows:

Directors	No. of Meetings Attended/ Held in FY2004
Y Bhg Tan Sri Dato' Azman Hashim <i>Non-Executive Non-Independent Chairman</i>	11/11
Y Bhg Dato' Azlan Hashim <i>Non-Executive Non-Independent Deputy-Chairman (resigned on 19 December 2003)</i>	8/8
Y Bhg Prof Tan Sri Dato' Dr Mohd Rashdan Haji Baba <i>Non-Executive Independent Director</i>	11/11
Y Bhg Tan Sri Datuk Dr Aris Othman <i>Non-Executive Independent Director (appointed on 1 April 2004)</i>	n.a.
Y Bhg Tan Sri Datuk Clifford Francis Herbert <i>Non-Executive Independent Director (appointed on 16 April 2004)</i>	n.a.
Y Bhg Dato' Izham bin Mahmud <i>Non-Executive Independent Director (appointed on 16 October 2003)</i>	5/5
Y Bhg Dato' Mohd Tahir Haji Abdul Rahim <i>Non-Executive Independent Director (resigned on 19 December 2003)</i>	8/8
Y Bhg Datuk Malek Merican <i>Non-Executive Independent Director (resigned on 6 May 2004)</i>	9/11
Mr Cheah Tek Kuang <i>Group Managing Director</i>	11/11
Mr Kok Tuck Cheong <i>Executive Director</i>	11/11

*n.a. - not applicable as appointed after 31 March 2004*

### **c** Re-election

In accordance with the Company's Articles of Association, all directors who are appointed by the Board are subject to election by shareholders at the following general meeting after their appointment. The Articles also provide that the Directors are subject to re-election by rotation at each Annual General Meeting at least once every three years.

### **d** Directors' Training

As an integral process of appointing new directors, there is an in-house orientation programme for the new Board members to familiarise and provide them with an overview of the Group's businesses, the markets in which it operates; responsibilities and duties of the Board as a whole, its corporate and risk management strategies, regulatory constraints and compliance.

Members of the Board attend seminars, Bursa Malaysia Securities Berhad (BMSB) Continuing Education Programmes, conferences and various other training programmes to keep abreast with developments in the financial services industry and arrangements are made for them to attend the programmes by the Group Organisational Development Department.

## BOARD COMMITTEES

The Board delegates certain responsibilities to Board Committees. These committees, which were created to assist the Board in certain areas of deliberation are:

1. Nomination Committee
2. Remuneration Committee
3. Audit & Examination Committee
4. Risk Management Committee

### **a** The Nomination Committee

This Committee comprises at least five (5) members, of which at least four (4) members shall be non-executive directors and the Chairman of this committee shall be an independent non-executive director. It is responsible for regularly reviewing the Board structure, size and composition, as well as making recommendations to the Board with regard to any changes that are deemed necessary. It also recommends the appointment of Directors to Committees of the Board as well as annually reviews the mix of skills and experience and other qualities and competencies that Non-executive Directors should bring to the Board. The Committee recommended Y Bhg Tan Sri Datuk Aris Othman, Y Bhg Tan Sri Datuk Clifford Francis Herbert and Y Bhg Dato' Izham Mahmud and they have been appointed to the Board in the current financial year. Three of the long-serving non-executive directors have also retired from the Board in line with good corporate governance practice.

The Board of Directors, on recommendation of the Nomination Committee had also approved the mechanism for the formal assessment on effectiveness of the Board as a whole and the contribution of each Director to the effectiveness of the Board.



In carrying out their functions and duties, the Nomination Committee met five (5) times during the year. The attendance of the members is as follows:

Members	No. of Meetings Attended/ Held in FY2004
Y Bhg Prof Tan Sri Dato' Dr Mohd Rashdan Haji Baba <i>Committee Chairman</i> <i>Independent Non-Executive Director</i>	5/5
Y Bhg Dato' Mohd Tahir Haji Abdul Rahim <i>Independent Non-Executive Director (resigned on 19 December 2003)</i>	4/4
Y Bhg Tan Sri Dato' Azman Hashim <i>Non-Independent Non-Executive Chairman of the Company and former Committee Chairman (resigned on 26 May 2004)</i>	3/5
Y Bhg Dato' Azlan Hashim <i>Non-Independent Non-Executive Director (appointed on 25 June 2003) (resigned on 19 December 2003)</i>	1/2
Y Bhg Tan Sri Datuk Dr Aris Othman <i>Independent Non-Executive Director (appointed on 26 May 2004)</i>	n.a.
Y Bhg Tan Sri Datuk Clifford Francis Herbert <i>Independent Non-Executive Director (appointed on 26 May 2004)</i>	n.a.
Y Bhg Dato' Malek Merican <i>Independent Non-Executive Director (appointed on 19 December 2003) (resigned on 6 May 2004)</i>	1/1
Y Bhg Dato' Izham Mahmud <i>Independent Non-Executive Director (appointed on 19 December 2003)</i>	1/1
Mr Cheah Tek Kuang <i>Managing Director (appointed on 25 June 2003)</i>	2/3

*n.a.* - not applicable as appointed after 31 March 2004

## **b** The Remuneration Committee

The Remuneration Committee comprises three (3) non-executive directors of which the Chairman shall be an independent non-executive director. The Committee is responsible for determining and recommending to the Board the framework or broad policy for the remuneration of the Directors, Chief Executive Officers and other key senior management officers of the Company.

The remuneration of Directors is determined at levels which enable the Group to attract and retain the Directors with the relevant experience and expertise needed to assist in managing the Group effectively.

In carrying out their functions and duties, the Remuneration Committee met five (5) times during the year. The attendance of the members is as follows:

Members	No. of Meetings Attended/ Held in FY2004
Y Bhg Prof Tan Sri Dato' Dr Mohd Rashdan Haji Baba <i>Committee Chairman, Independent Non-Executive Director</i>	5/5
Y Bhg Tan Sri Dato' Azman Hashim <i>Non-Independent Non-Executive Chairman of the Company (appointed on 19 December 2003)</i> <i>(resigned on 26 May 2004) (appointed on 28 September 2004)</i>	0/0*
Y Bhg Dato' Mohd Tahir Haji Abdul Rahim <i>Independent Non-Executive Director (resigned on 19 December 2003)</i>	5/5
Y Bhg Dato' Azlan Hashim <i>Non-Independent Non-Executive Director (resigned on 19 December 2003)</i>	4/5
Y Bhg Tan Sri Datuk Dr Aris Othman <i>Independent Non-Executive Director (appointed on 26 May 2004)</i>	n.a.
Y Bhg Dato' Izham Mahmud <i>Independent Non-Executive Director (appointed on 19 December 2003)</i>	0/0*

\* No meetings were held between 19 December 2003 and 31 March 2004.

*n.a.* - not applicable as appointed after 31 March 2004

## Directors' Remuneration

The remuneration of the Directors is packaged to ensure that the Group attracts and retains the right calibre of Directors with the necessary skills and experience needed to run the Group successfully.

The Remuneration Committee is responsible for recommending a remuneration framework for Directors.

The Board, as a whole, determines the remuneration of Non-Executive Directors and Executive Directors of the Group with the interested Directors abstaining from discussion with respect to their remuneration.

The particulars of each major element of the remuneration of the Directors are disclosed in the Notes to the Financial Statements.

## **C** The Audit & Examination Committee

The Board has established the Audit and Examination Committee (A & E Committee), comprising non-executive directors of which the Committee Chairman shall be an independent non-executive director, to assist in discharging its duties of maintaining a sound system of internal control to safeguard the Group's assets and shareholders' investments.



## Membership & Meetings

The A & E Committee comprises the following members and details of attendance of each member at Committee meetings held during the financial year ended 31 March 2004 are as follows:

Members	No. of Meetings Attended/ Held in FY2004
Y Bhg Prof Tan Sri Dato' Dr Mohd Rashdan Haji Baba <i>Committee Chairman, Independent Non-Executive Director</i>	10/10
Y Bhg Tan Sri Dato' Azman Hashim <i>Non-Independent Non-Executive Chairman of the Company (appointed on 19 December 2003) (resigned on 26 May 2004)</i>	2/2
Y Bhg Dato' Mohd Tahir Haji Abdul Rahim <i>Independent Non-Executive Director (resigned on 19 December 2003)</i>	8/8
Y Bhg Dato' Azlan Hashim <i>Non-Independent Non-Executive Director (resigned on 19 December 2003)</i>	6/8
Y Bhg Tan Sri Datuk Clifford Francis Herbert <i>Independent Non-Executive Director (appointed on 26 May 2004)</i>	n.a.
Y Bhg Dato' Izham Mahmud <i>Independent Non-Executive Director (appointed on 19 December 2003)</i>	2/2

*n.a. - not applicable as appointed after 31 March 2004*

The Group Managing Director and Executive Director of AmMerchant Bank and representatives of the external auditors are invited to attend the respective Committee meetings.

## **d** Risk Management Committee

The Risk Management Committee oversees the overall management of all risks impacting the Group. It comprises non-executive Directors and chaired by an independent non-executive Director to ensure independence from management as it is the Committee that reviews and approves risk management policies and risk tolerance limits.

Members	No. of Meetings Attended/ Held in FY2004
Y Bhg Dato' Izham Mahmud <i>Committee Chairman, Independent Non-Executive Director (appointed on 19 December 2003)</i>	1/1
Y Bhg Prof Tan Sri Dato' Dr Mohd Rashdan Haji Baba <i>Independent Non-Executive Director and former Committee Chairman</i>	4/4
Y Bhg Tan Sri Dato' Azman Hashim <i>Non-Independent Non-Executive Chairman of the Company (appointed on 19 December 2003) (resigned on 26 May 2004)</i>	1/1
Y Bhg Tan Sri Datuk Clifford Francis Herbert <i>Independent Non-Executive Director (appointed on 26 May 2004)</i>	n.a.
Y Bhg Dato' Azlan Hashim <i>Non-Independent Non-Executive Director (resigned on 19 December 2003)</i>	3/3
Y Bhg Dato' Mohd Tahir Haji Abdul Rahim <i>Independent Non-Executive Director (appointed on 25 June 2003) (resigned on 19 December 2003)</i>	2/2

*n.a. - not applicable as appointed after 31 March 2004*





## RESPONSIBILITY STATEMENT

The Board is required by the Companies Act, 1965 to prepare financial statements for each financial year which give a true and fair view of the Group and its state of affairs, results and cash flows at the end of the financial year. Following discussions with the auditors, the Directors consider that the appropriate accounting policies are consistently applied and supported by reasonable as well as prudent judgments and estimates, and that all accounting standards which they consider applicable have been followed during the preparation of the financial statements.



The Board of Directors is responsible for ensuring that the Group keeps accounting records which are disclosed with reasonable accuracy, and for ensuring that the financial statements comply with the Companies Act, 1965.

The Board and Board Committees have the general responsibility for taking such steps to safeguard the assets of the Group, and to detect and prevent fraud as well as other irregularities.

## RELATIONSHIP WITH AUDITORS

Messrs Deloitte KassimChan (Deloitte) is the Company's external statutory auditor and the auditor of its consolidated accounts. Deloitte assumes all auditing functions, which are required by law. They are elected by the shareholders of the Company on a rotating basis.

In line with good corporate governance practice, the Board, through the Audit & Examination Committee, undertook a review of the external auditors and the external audit function, as Deloitte has been the Company's auditor for more than a decade. Accordingly, the Audit Committee has recommended and that the Board has accepted the recommendation that the external auditors be rotated. Deloitte has accepted the need for rotation and has indicated that they will not be seeking reelection. The Committee has recommended that Messrs Ernst & Young be appointed as the Group's statutory auditor to serve until the conclusion of the next Annual General Meeting. A major shareholder has nominated Messrs Ernst & Young to be appointed the Group statutory auditor.

The role of the Audit and Examination Committee in relation to the external auditors is further described in the section on Audit and Committee.

### **a** Audit Fees

The total of the statutory and non-statutory audit fees (excluding expenses and service tax) charged by Deloitte in the financial year ended 2004 amounted to RM234,000.

### **b** Non-Audit Fees

The total of the non-audit fees (excluding expenses and service taxes) charged by Deloitte for services performed for the Group for the financial year ended 2004 amounted to RM22,000.

## STATEMENT ON INTERNAL CONTROL

The Board of Directors is responsible for the Group's system of internal control, which is designed to ensure effective and efficient operations, internal control, including financial reporting, and compliance with laws and regulations. In establishing and reviewing the system of internal control, the Directors have regarded the materiality of relevant risks, the likelihood of a loss being incurred and the costs of control. Therefore it follows that the system of internal control can only provide reasonable but not absolute assurance against the risk of material loss. The Group has adopted a coordinated and formalised approach to internal control and risk management. A risk-aware and control-conscious environment is fostered across the Group through its subsidiaries' Board Committees, including the Executive Committee of Directors and Risk Management Committees of Directors. These Board Committees are supported by the Risk Management, Legal and Compliance Departments in addition to Group Internal Audit Department.

The Board, through the Audit & Examination Committee, regularly reviews the ongoing process of control and self assessment. To assist the Board in meeting its responsibilities, the Internal Audit Department introduced the Business Risk Scorecard to all business units. The Business Risk Scorecard is a tool to systematically identify and prioritise all risks arising from the activities of a unit, function or department and to identify measures and control to mitigate and manage the risks. The scorecards will then be reviewed regularly and updated whenever there are changes to their risk profiles.

The Internal Audit Department also conducts independent risk-based audits to ensure that the system of internal controls developed to mitigate the risks identified using the Business Risk Scorecard is effective and operating satisfactorily.

The effectiveness of the internal control system is reviewed regularly by the Board and the Audit & Examination Committee, which receives reports of reviews undertaken by the Internal Audit Department.

# AUDIT AND EXAMINATION COMMITTEE REPORT

## Terms of Reference

The functions of the Committee are as follows:-

- (a) To provide assistance to and to review and report to the Board in relation to:
  - a. fulfilling the statutory and fiduciary responsibilities of the Company/Group; and
  - b. monitoring of the accounting and financial reporting practices of the Company/Group;
- (b) To determine that the Company/Group has adequate established policies, procedures and guidelines, operating and internal controls, and that they are being complied with and are operating effectively in promoting efficiency and proper conduct and protecting the assets of the Company/Group;
- (c) To serve as an independent and objective party in the review of the financial information of the Company/Group that is presented by Management to the Board and Shareholders;
- (d) To review the quarterly results and year-end financial statements of the Company/Group and to ensure compliance with accounting standards and legal requirements;
- (e) To review and approve the scope of audits, audit plans and audit reports of both the external and internal auditors;
- (f) To evaluate the adequacy and effectiveness of the Management control systems of the Company/Group through the review of the reports of both the external and internal auditors that highlight internal accounting, organisational and operating control weaknesses and to determine that appropriate corrective actions are being taken by the Management;
- (g) To ensure the adequacy of the scope, functions and resources of the internal audit functions and that they have the necessary authority to carry out their work;
- (h) To ensure through discussions with the external and internal auditors, that no restrictions are being placed by Management and employees on the scope of their examinations;
- (i) To direct and supervise any special project or investigation considered necessary;
- (j) To prepare when deemed necessary, periodic reports to the Board summarizing the work performed in fulfilling the Committee's primary responsibilities;
- (k) To review any related party transaction and conflict of interest situation that may arise within the Company/Group including any transaction, procedure or course of conduct that raises questions of management integrity; and
- (l) To review the annual appointment of external auditors, or letter of resignation from external auditors, to negotiate and approve the annual audit fees and/or special audit fees, and evaluate basis of billings therewith.



## Activities

The following is a summary of the main activities carried out by the Committee during the year:

- Reviewed and approved the Internal Audit Department's annual audit plan, including its resources and training needs;
- Reviewed the Internal Audit Department's methodology in assessing and rating the risk levels of the various auditable areas and ensured that audit emphasis was given on high and critical risk areas;
- Monitored the progress of the Internal Audit Department in completing its audit plan and assessed the performance of the Department;
- Reviewed the adequacy and effectiveness of the system of controls, reporting and risk management to ensure there is a systematic methodology in identifying, assessing and mitigating/controlling risk areas;
- Reviewed and discussed reports of the Internal Audit Department, including internal investigations, Bank Negara Malaysia, external auditors and other external parties, considered Management's response and accordingly directed Management to take the necessary remedial action. The Committee also followed-up on major issues raised in the reports;
- Reviewed and discussed the financial position of the companies, in particular, capital adequacy, asset quality, management, profitability and liquidity position, every two months;
- Reviewed the adequacy of the Company's procedures in identifying, monitoring, reporting and reviewing related party transactions;
- Reviewed the quarterly results and financial statements of the companies; and
- Reviewed the external auditors' scope of work and their annual audit fees.

## Internal Audit Function

The Internal Audit Department reports to A & E Committee and assists the Board in maintaining a sound system of internal controls. The Audit Charter safeguards the independence of the internal audit function as the Head of Group Audit reports to the A & E Committee.

The A & E Committee approves the work of the internal audit function and monitors and reviews the conclusion of its work. The Internal Audit Department's annual audit plan is approved by A & E Committee. The Internal Audit function covers all units and operations within the finance company, with major emphasis being placed on high risk units. The frequency of audit depends on the risk profile of the business or operations unit and high risk units are audited at least once a year.

This audit function covers all major business groups and consists of five main categories of work:

- (1) Planned audits
- (2) Systems development life cycle review of major IT infrastructure projects
- (3) Special focus reviews
- (4) Mandatory audits
- (5) Ad-hoc reviews and special assignments

The audit plan covers review of adequacy of risk management, operational controls, compliance with law and regulations, quality of assets, management efficiency and level of customer service amongst others. The audit plans are drawn-up based on the inherent business risk and control risks in each operating unit and their financial significance, and these reviews are conducted on a risk-based approach, rather than solely on compliance.

The internal auditing function is conducted to ensure consistency in the control environment and the application of policies and procedures. A systematic and disciplined approach is adopted to provide the required assurance to stakeholders, and also to add value and improve the Company's operations by providing an independent and objective review. The staff size of the internal audit function comprises 80 professionals.

