

statement of corporate governance

(Pursuant to Paragraph 15.26 of the Listing Requirements of Malaysia Securities Exchange Berhad)

INTRODUCTION

The Board of Directors of Commerce Asset-Holding Berhad (CAHB) is committed to ensure the adoption of the principles and best practices as enshrined in the Malaysian Code of Corporate Governance throughout the Group. The adoption of the highest standards of governance is essential to preserve and enhance stakeholders value. There has been some recognition by external parties as to the standard of corporate governance applied by the CAHB Group. CAHB received the merit award within the Finance and Closed End category for two consecutive years in the MSEB Corporate Awards 2002 and 2003.

The process of ensuring that appropriate standards have been implemented for overall proper conduct is an on going exercise. The Board is pleased to present the following report on the application of principles and compliance with best practices as set out in the Malaysian Code of Corporate Governance.

1. BOARD OF DIRECTORS

The Board leads and controls the Group. It is the ultimate decision making entity. The Board is principally responsible for among other things, the review and adoption of the strategic plan for the Group, regular oversight of the business performance, ensuring the existence of proper internal controls and ensuring the adoption of appropriate risk management systems.

The Board of Directors meet on a scheduled basis once every quarter, therefore at least four times a year, when the need arises, Special Board Meetings are also convened. The quarterly Board Meetings are scheduled in advance prior to the start of the financial year. The Board will mainly deliberate on the financial statements and results of the Group and its companies, strategic and corporate direction and matters reserved specifically for the Board's decision. Reports by Board Committees are also presented and discussed. Senior management of the Group and external advisors as well as professionals appointed to advise on corporate proposal may be invited to attend the meetings on specific items on the agenda which requires clarification.

In 2003, there were 4 Board Meetings, 1 Joint Special Board Meeting and 5 Special Board Meetings. The following are the details of attendance of each individual director in respect of meetings held. The attendance of all the Directors at Board Meetings held during the financial year surpassed the minimum requirements set by Bank Negara Malaysia and Malaysia Securities Exchange Berhad. The dates, time and venues of the Board Meetings can be found in the Statement accompanying Notice of Annual General Meeting on Page 4 of this Annual Report.

| Directors | No. of Meetings Attended | Percentage |
|---|--------------------------|------------|
| Dato' Mohd Desa Pachi | 10/10 | 100% |
| Dr Rozali Mohamed Ali | 8/10 | 80% |
| Dato' Anwar Aji | 9/10 | 90% |
| En Mohd Salleh Mahmud | 8/10 | 80% |
| Tan Sri Datuk Asmat Kamaludin | 8/10 | 80% |
| Mr Masayuki Kunishige | 8/10 | 80% |
| En. Azizan Mohd Noor (Resigned on 6 September, 2003) | 7/7 | 100% |
| Dr Roslan A Ghaffar (Appointed on 3 November, 2003) | 1/1 | 100% |

BOARD BALANCE

The Board of CAHB as at the date of this statement consists of seven (7) members with two (2) independent directors, three (3) representing shareholders (namely the Employees Provident Fund (EPF), Khazanah Nasional Berhad and UFJ Bank Limited) one representing Minister of Finance (Incorporation) and one from management. There is compliance with the independent directors criteria of the MSEB Listing Requirements.

The current set of directors bring collectively a diverse range of skill, expertise and experience. Dato' Mohd Desa Pachi who is the Chairman has been identified as the Senior Independent Non-Executive Director to whom concerns may be conveyed.

There is a clear demarcation of responsibilities between the Board and management. The presence of independent non-executive directors provides an additional element of balance to the Board.

SUPPLY OF INFORMATION

Prior to the Board meetings all Directors will receive the agenda and set of Board papers containing information relevant to the matters to be deliberated at the meetings. Management is responsible to provide the Board with all information of which it is aware. The Chairman of the Board shall undertake primary responsibility for organising information for the agenda of the Board.

Directors have access to all information within the company and the Group whether as a full Board or in their individual capacity, in the furtherance of other duties. There is already a procedure in place for Directors whether acting as a full board or in their individual capacity to seek independent advice at the Company's expense. Directors should appoint as Company Secretary someone who is capable of carrying out the duties to which the post entails. The Board recognises that the Chairman is entitled to the full support of the Company Secretary.

All the Directors have direct access to the advice and services of the Company Secretary.

APPOINTMENTS TO THE BOARD

Any new appointments to the Board are recommended from candidates put forward by the Nomination and Remuneration Committee. The Board makes the final decision on appointments. As a financial holding company, after approval from the Board, approval from Bank Negara Malaysia is sought. A separate section in this report entitled "Board Committees" will elaborate further on the duties and terms of reference of the Nomination and Remuneration Committee.

Through the Nomination and Remuneration Committee, a periodic review is undertaken to determine the relevant mix of skills and experiences inherent in the Board. With regards to performance assessment of the Board, its committees and individual directors, some proposals are currently being assessed and evaluated before a final framework is approved for early implementation.

The Company Secretary will ensure that all appointments to the Board are properly made, that all necessary information is obtained from directors, both for the company's own record and for the purposes of meeting statutory obligations as well as obligations arising from the Listing Rules or other regulatory requirements. The Directors are updated by the Company Secretary on matters pertaining to statutory and regulatory requirements as well as duties and responsibilities of the Board. The Board will continuously determine whether its present size is effective in the furtherance of its duties.

All directors have attended the Mandatory Accreditation Programme (MAP) conducted by the Research Institute of Investment Analyst Malaysia (RIIAM). The Company as part of an on going education programme identifies and tracks conferences and seminars both locally and regionally relevant to the financial services sector and those which will assist directors in fulfilling their duties. These relevant conferences are brought to the attention of the directors and those who are keen to attend will do so at the company's expense. Subsequent to the issue of Practice Note 15 by MSEB, all directors are now attending various courses linked to the Continuing Education Programme (CEP). All directors are required to submit themselves for re-election at regular intervals and at least once every three years.

2. BOARD COMMITTEES

The board has set up various committees to assist in the discharge of its duties. These Committees operate within clearly defined terms of reference.

a) Audit Committee

During the course of 2003, the members of the Audit Committee were as follows:-

Tan Sri Datuk Asmat Kamaludin (Chairman)
Independent Non-Executive Director

En Mohd Salleh Mahmud

Non Independent Non-Executive Director

En Azizan Mohd Noor

Independent Non-Executive Director

(Resigned from the Board on 6 September, 2003)

The Audit Committee met seven (7) times during the year. The Audit Committee Report is presented on page 72 and 73 of the Annual Report. Its principal function is to assist and support the Board in maintaining a sound system of internal control.

b) Building Committee

This Committee was set up in October 2003 with the principal role of identifying the location of the Group's new corporate headquarters, evaluating proposals and overseeing the relevant process relating to its development on behalf of the Board.

The members of the Building Committee are:

En. Mohd Salleh Mahmud (Chairman)

Non Independent Non-Executive Director

Dr Rozali Mohamed Ali

Non Independent Non-Executive Director

Datuk Hamzah Bakar

Independent Non-Executive Director of CIMB

c) Group Risk Management Committee

This Committee was established on 30 July, 2003 with the principal responsibility to ensure the effective functioning of the integrated risk management function within the organisation.

The terms of reference of the Committee are as follows:-

- Formulating and reviewing the risk strategy of the organisation.
- Approving and periodically reviewing the organisation's risk management policies in line with the risk strategy.
- Defining the risk management objectives across risk categories and business lines.
- Setting the risk appetite (namely the confidence level to be used for quantifiable risks, maximum size and frequency of losses for risk, etc) of the organisation along specific business lines.
- Reviewing the risk based economic capital of the organisation
- Reviewing the overall risk profile of the organisation and specific market risk and credit risk portfolio profile on a periodic basis.
- Approving the methodologies to be followed for risk based economic capital computation.
- Approving the contingency plan for dealing with various internal/external events and disasters.

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- Ensuring a “risk aware” culture in the organisation.
- Any other related issues.

The members of the committee are as follows:-

Tan Sri Datuk Asmat Kamaludin Chairman

En Mohd Salleh Mahmud Member

Dr Rozali Mohamed Ali Member

d) Nomination and Remuneration Committee

This committee was formed on 31 October, 2001. In 2003, there were five meetings held by this committee with full attendance by the members. The Committee is made up entirely of non executive directors. The members of the committee are as follows:-

Dato’ Mohd Desa Pachi Chairman

Independent Non-Executive Director

Dato’ Anwar Aji

Non Independent Non-Executive Director

Tan Sri Datuk Asmat Kamaludin

Independent Non-Executive Director

The terms of reference with regards to the nomination role is as follows:-

- To review regularly the Board structure, size and composition and make recommendations to the Board with regard to any adjustments that are deemed necessary within the Group and to recommend Directors to the Committees of the Board.
- To be responsible for identifying and nominating candidates for the approval of the Board to fill Board vacancies within the Group as and when they arise as well as to put in place plans of succession in particular of the Chairman and the Managing Director/Executive Director/Chief Executive. The responsibility of the Committee shall be extended to all subsidiary companies of CAHB. All subsidiary companies shall submit the names of new directors proposed for the respective Boards to the committee for recommendation.
- To review the required mix skills and experience and other qualities and competencies which Non-Executive Directors shall bring to the Board, and to assess the effectiveness of the Board committees of the Board and contributions of Directors of the Board within the Group.
- To recommend to the Board for the appointment and continued tenure of service of managing Director/ Executive Director/Chief Executive for the Company and subsidiaries.
- To recommend to the Board for the the appointment and continuation (or otherwise) in service of any Director who has reached the age of 70.

- To recommend directors who are retiring by rotation for re-election.
- To seek the services of such advisers or consultants as it deems necessary to fulfil its responsibilities.

The terms of reference with regards to the remuneration role is as follows:-

- To determine and recommend to the Board the company’s or the Group directors fees, allowances and other remuneration.
- To determine and recommend to the Board the framework or broad policy for the remuneration of the company’s or Group Managing Director (MD), Executive Director (ED), Chief Executive Officer (CEO) and senior management reporting directly to the MD/ED/CEO.
- To determine and recommend to the Board of any performance related pay scheme for the Company or Group.
- To determine the policy for the scope of services and terms and conditions of service agreements for the executive and non-executive directors.
- To recommend to the Board the services of such advisers or consultants as it deems necessary to fulfil its responsibilities.

e) Employees Share Option Scheme (ESOS)

The ESOS Committee was established to administer CAHB’s Employees Share Option Scheme. The Committee ensures that the Scheme is administered in accordance with the by-laws approved by the shareholders of the Company. The Company implemented an Employee Share Option Scheme (ESOS 2002/2007) on 20 November, 2002. The ESOS 2002/2007 is governed by the by-laws that were approved by the shareholders on 26 April, 2002.

3. DIRECTORS REMUNERATION

The level of remuneration of the Directors is determined so as to attract and retain the Directors needed to run the Group successfully. The Nomination and Remuneration Committee will among other things, review the remuneration framework of Directors and senior management of the Group. It will also recommend the fee and allowance structure for the Directors.

All Non-Executive Directors of the company receive annual fees of RM60,000 per director which are subject to shareholders approval at the Annual General Meeting. Meeting allowances are also paid for each meeting that the Directors attend which amounts to RM1,000 per meeting per Director for a Board/Special Board Meeting and RM500 per meeting per Director for Board Committee meetings. Directors who hold fulltime executive positions in the relevant operating

subsidiary receive remuneration based on their level of responsibilities, skills, experience and job performance which is governed by the relevant human resource policy of the operating subsidiary. For Non-Executive Directors, the level of remuneration should reflect the experience and level of responsibilities undertaken.

The aggregate remuneration of the Directors of the Company categorised into the appropriate components are as follows:-

Non-Executive Directors

| | Group RM'000 | Company RM'000 |
|--------------------|-----------------|-------------------|
| Fees | 1,062 | 408 |
| Other remuneration | 1,127 | 195 |
| Benefits-in-kind | 69 | - |
| | 2,258 | 603 |

The aggregate remuneration of directors of CAHB for the financial year ended 31 December, 2003 in respective bands of RM50,000 are as follows:

| Range of Remuneration | Non-Executive |
|---------------------------|---------------|
| Below RM50,000 | 1 |
| RM50,000 - RM100,000 | 2 |
| RM100,000 - RM150,000 | 2 |
| RM200,000 - RM250,000 | 1 |
| RM300,000 - RM350,000 | 1 |
| RM1,300,000 - RM1,350,000 | 1 |

4. SHAREHOLDERS

The Annual General Meeting is still the principal avenue for shareholders to communicate and engage in dialogue with the Board and management of CAHB. Shareholders are encouraged to raise questions on the Group. Notices are sent in accordance with the rules and proxies are encouraged to attend.

Another form of communication with shareholders and investors is through the Investor Relations activities undertaken at CAHB. This is described in a separate section of this Annual Report on page 56.

The Group recognises the importance of transparency and accountability to its shareholders and investors. The annual report is a key channel of communication. There is a continuous effort on an annual basis to improve the contents of the annual report in line with best corporate governance practices.

Timely announcements are made through the Malaysia Securities Exchange Berhad of material information, financial results, corporate proposals and other announcements. Our website www.commerz.com.my can be accessed for announcements and other information pertaining to the Group.

On a quarterly basis, CAHB strives to meet the financial results deadline after the approval of the financial results has been received from Bank Negara Malaysia.

5. ACCOUNTABILITY AND AUDIT

Financial Reporting

It is the intention of the Board to present a balanced, clear as well as a meaningful view of the Group's financial performance and its future prospects. This is disseminated through the release of quarterly results announcements, accompanying press releases and statement of responsibility for preparing the financial statements which is published separately on page 79 of this Annual Report. The Board is responsible to ensure that the annual financial statements of the company and the group are drawn up in accordance with the applicable approved accounting standards in Malaysia and the provisions of the Companies Act 1965.

Audit Committee

A report on the Audit Committee and its terms of reference is included on page 72 of this Annual Report. Through the Audit Committee the Board has established a formal and appropriate relationship with the external auditors.

Internal Control

The Board of Directors acknowledges that they are responsible for maintaining a sound system of internal control covering financial controls, operational effectiveness, compliance and risk management. By virtue of the size and complexity of the operations of the Group, there is a need to manage a full spectrum of risks. The inherent system of internal control should provide reasonable assurance but not absolute assurance against the risk of material errors, fraud or losses occurring. The internal audit function of the group rests with the group internal audit divisions (GIAD) which is based at Bumiputra-Commerce Bank Berhad. The internal audit function is described further in the audit committee report on pages 72 to 73 of this annual report.

CONCLUSION

CAHB is in compliance with the Malaysian Code of Corporate Governance during the financial year under review with the exception set out below:-

- During the course of the year, an Independent Non-Executive Director resigned from the Board and the audit committee. The audit committee currently has two members as opposed to the minimum requirement of three members. The necessary process of nominating a candidate to fill this vacancy and subsequent endorsement by the Board has been completed prior to the year end.

This statement is made in accordance with a resolution of the Board of Directors dated 12 March 2004.