

# STATEMENT ON CORPORATE GOVERNANCE

Amway (Malaysia) Holdings Berhad ("AMHB") fully subscribe to the recommendations of the Malaysian Code on Corporate Governance ("Code") and is committed to ensure good governance is practised to maximise shareholders value.

In view of this, AMHB has taken steps to ensure compliance with the Code as follows :

## BOARD OF DIRECTORS

### The Board

The Directors recognise the key role they play in charting the strategic direction, development and control of the Group and have adopted the six specific responsibilities as listed in the Code.

### Board balance

The Board currently has six members, comprising five Non-Executive Directors, including the Chairman, and one Executive Director. Of the five Non-Executive Directors, three are independent, satisfying the requirement of the Code for Independent Non-Executive Directors to make up at least one third of the Board membership.

There is clear division of responsibility between the Chairman and the Managing Director to ensure that there is a balance of power and authority. The Managing Director implements the policies and decisions of the Board, overseeing the operations and business development. He also has the responsibility of reporting, clarifying and communicating matters to the Board.

The Independent Directors bring to bear objective and independent judgement on various issues dealt with at the Board and Board Committees, with Tan Sri Datuk Ahmad Farouk as the Chairman and Senior Independent Director to whom concerns may be conveyed. They play a strong and vital role in entrenching good governance practices in the affairs of the Group and through their participation in the Audit, Remuneration and Nomination Committees.

Independent Directors together with the other Non-Executive Directors also contribute significantly in the areas of policy, performance monitoring and allocation of resources and enhancement of controls and governance.

### Supply of information

The Directors are supplied with relevant information and reports on financial, operational, corporate, regulatory, business development and audit matters, by way of Board reports or upon specific requests, for informed decision making and effective discharge of their responsibilities.

Procedures have been established for timely dissemination of such information and reports for the Board or Board Committee meetings, to give effect to Board decisions and to deal with matters arising from such meetings. Directors may obtain independent professional advice in accordance with established procedure which has been communicated to them in furtherance of their duties.

The Directors have access to the advice and services of both Company Secretaries.

### Appointments to the Board

A selection process for new appointees to the Board as recommended by the Nomination Committee has been adopted by the Board. The Nomination Committee comprises wholly Non-Executive Directors, a majority of whom are independent. They are Tan Sri Datuk Ahmad Farouk (Chairman), Choong Lai Huat and James Bradley Payne. The Committee is responsible for making recommendation to the Board on the optimum size of the Board, formalising a transparent procedure for proposing new nominees to the Board and Board Committees and ensuring that the investment of the minority shareholders are fairly reflected on the Board. The Committee will also assist the Board in reviewing, on an annual basis, the required mix of skills and experience of the Non-Executive Directors. A Nomination Committee meeting was held on 31 October 2002 and attended by all members.

The Board recognises that fundamental to the effective discharge of their responsibilities and obligations is awareness and knowledge of the Group. All Directors have attended the Mandatory Accreditation Programme (MAP) organised by KLSE. The Board members will continue to undergo Continuing Education Programme (CEP) to keep abreast with the new regulatory development and the KLSE's Listing Requirements.

# STATEMENT ON CORPORATE GOVERNANCE

## Re-election

All Directors shall submit themselves for re-election at regular intervals in accordance with the Company's Articles of Association and regulatory requirements.

## Board meetings

The Board meets at least quarterly to review and approve the quarterly results for announcement. Due notice is given of scheduled meetings and matters to be dealt with. Additional meetings are convened when urgent and important decision need to be taken between scheduled meetings.

The Board has in place a formal schedule of matters reserved to it to ensure direction and control of the Group are firmly in its hand. To promote business and corporate efficacy and efficiency, specific responsibilities or authorities are also delegated to its Board Committees and Management where appropriate. Key matters reserved for the Board include approving strategic plans, annual operating and capital budgets, quarterly and annual financial statements and monitoring of financial and operating performance.

For the financial year ended 31 August 2003, the Board met five times with details of the meetings and attendance as follows :

No.	Date and Time	Total Board Members	Attendance by Board Members		Percentage of Attendance		
			Independent	Non-Independent	Independent	Non-Independent	Overall
1	31/10/02 9.30am	6	2	3	100%	75%	83%
2	25/11/02 10.30am	5	1	3	100%	75%	80%
3	23/01/03 2.30pm	6	2	3	100%	75%	83%
4	21/04/03 2.00pm	6	2	4	100%	100%	100%
5	28/07/03 2.00pm	6	2	4	100%	100%	100%

# STATEMENT ON CORPORATE GOVERNANCE

## DIRECTORS' REMUNERATION

### Level and make up of remuneration

The Group has adopted the objective as recommended by the Code to determine the remuneration of the Directors so as to ensure that the Group attracts and retains the Directors needed to run the Group successfully. The component parts of their remuneration are structured so as to link rewards to corporate and individual performance in the case of Executive Directors. In the case of Non-Executive Directors, the level of remuneration reflects the experience and level of responsibilities undertaken by the individual Non-Executive Director concerned.

### Procedures

The Remuneration Committee comprises wholly Non-Executive Directors. They are James Bradley Payne (Chairman), Craig Neil Meurlin (Alternate to James Bradley Payne), Tan Sri Datuk Ahmad Farouk and Choong Lai Huat. The Committee is responsible for recommending to the Board, the remuneration of Executive Directors. Executive Directors concerned play no part in the decision of their own remuneration but may attend the committee meetings on the invitation of the Chairman of the Committee if their presence is required. The determination of remuneration of Non-Executive Directors, including Non-Executive Chairman is a matter for the Board as a whole, with individual Director abstaining from discussion of their own remuneration. The Company's Articles of Association provides that any increase in Directors' fees should be approved at a general meeting.

A Remuneration Committee meeting was held on 30 October 2002 and attended by Craig Neil Meurlin (Alternate to James Bradley Payne), Tan Sri Datuk Ahmad Farouk and Choong Lai Huat.

### Disclosure

The details of Directors' remuneration for the financial year ended 31 August 2003 are as follows:

	GROUP		COMPANY	
	Executive 1.9.2002 to 31.8.2003 RM'000	Non-Executive 1.9.2002 to 31.8.2003 RM'000	Executive 1.9.2002 to 31.8.2003 RM'000	Non-Executive 1.9.2002 to 31.8.2003 RM'000
Directors' fees	-	172	-	161
Salaries	761	-	-	-
Bonuses	217	-	-	-
EPF (Employer)	164	-	-	-
Allowances	49	17	-	17
Benefits-in-kind	37	-	-	-
<b>Total</b>	<b>1,228</b>	<b>189</b>	<b>-</b>	<b>178</b>

The number of directors in each remuneration band are as follows :

	GROUP		COMPANY	
	Executive 1.9.2002 to 31.8.2003	Non-Executive 1.9.2002 to 31.8.2003	Executive 1.9.2002 to 31.8.2003	Non-Executive 1.9.2002 to 31.8.2003
RM0 - RM50,000	-	7	-	6
RM300,000 - RM350,000	1	-	-	-
RM850,000 - RM900,000	1	-	-	-
<b>Total</b>	<b>2</b>	<b>7</b>	<b>-</b>	<b>6</b>

# STATEMENT ON CORPORATE GOVERNANCE

## SHAREHOLDERS

### Dialogue between the Company and Investors

The Company recognises the importance of being accountable to its investors and as such has maintained an active and constructive communication policy that enables the Board and management to communicate effectively with its investors, stakeholders and the public generally.

The Managing Director and Financial Controller hold discussions with analysts and shareholders after each quarter's announcement of results to the KLSE. However, any information that may be regarded as undisclosed material information about the Group will not be given to any single shareholder or shareholder group.

### Annual General Meeting (AGM)

The AGM is the principal forum for dialogue with public shareholders. There is an open question and answer session in which shareholders may ask both about the resolutions being proposed at the meeting and the financial performance and business operations in general. Notice of the AGM is circulated at least 21 days prior to meeting.

## ACCOUNTABILITY AND AUDIT

### Audit Committee

The Audit Committee comprises wholly of Non-Executive Directors with Dato' Ab. Halim bin Mohyiddin as Chairman. The composition of the Audit Committee is set out on page 24 of the annual report. The Audit Committee met 4 times during the financial year.

### Financial Reporting

In presenting the annual audited financial statements and quarterly announcements to shareholders, the Board aims to present a clear, balanced and understandable assessment of the Group's position and prospects. The Statement of Directors pursuant to Section 169 of the Companies Act, 1965 is set out on page 31 of the Financial Statements.

### Internal Control

The Board acknowledges its overall responsibility for maintaining a sound system of internal control to safeguard shareholders' investment and the Group's assets by identifying principal risks and ensuring the implementation of appropriate systems to manage these risks, and reviewing the adequacy and integrity of the system of internal control. A Statement of Internal Control is set out on page 27.

### Relationship with the Auditors

The role of the Audit Committee in relation to the external auditors is stated on pages 24 to 26 of the annual report.

# STATEMENT ON CORPORATE GOVERNANCE

## COMPLIANCE WITH THE CODE

The Group has complied with the Code throughout the financial year ended 31 August 2003.

### Statement of Directors' Responsibility for Preparing the Financial Statements

The Directors are required by the Companies Act, 1965 to prepare financial statements which are in accordance with applicable approved accounting standards and give a true and fair view of the state of affairs of the Group and the Company at the end of the financial year and of the results and cash flows of the Group and the Company for the financial year.

In preparing the financial statements, the Directors have :

- adopted suitable accounting policies and applied them consistently
- made judgements and estimates that are prudent and reasonable
- ensured that applicable accounting standards have been followed
- prepared the financial statements on the going concern basis

The Directors have prepared the annual financial statements in compliance with the Companies Act, 1965.

## OTHER INFORMATION

### Share Buybacks

There were no share buyback effected during the financial year.

### Options, Warrants or Convertible Securities

There were no options, warrants or convertible securities issued by the Company in respect of the financial year.

### American Depositary Receipt (ADR) or Global Depositary Receipt (GDR) Programme

During the financial year, the Company did not sponsor any ADR or GDR programme.

### Imposition of Sanctions / Penalties

There were no sanctions and/or penalties imposed on the Company and its subsidiaries, directors or management by the relevant authorities.

### Non-audit Fees

The amount of non-audit fees paid to the external auditors by the Group for the financial year amounted to RM26,000.

### Profit Guarantees

During the year, there were no profit guarantees given by the Company.

### Material Contracts

During the year, there were no material contracts entered into by the Company and its subsidiaries involving Directors and substantial shareholders, except for recurrent related party transactions as laid out in the Circular dated 24 December 2003 which is enclosed together with the annual report.

### Contracts Relating to Loans

There were no contracts relating to loans by the Company.

### Revaluation of Landed Properties

The Group does not have the revaluation policy on landed properties.

# AUDIT COMMITTEE REPORT

## MEMBERSHIP

The composition of the Company's Audit Committee, appointed by the Board from amongst its members, comprises of three members of whom two are Independent Non-Executive Directors.

## COMPOSITION

### Chairman of Audit Committee

Dato' Ab. Halim bin Mohyiddin (Independent Non-Executive Director)

- appointed on 25 November 2002

Tengku Yunus Kamaruddin (Independent Non-Executive Director)

- resigned on 4 November 2002

### Members of the Audit Committee

(i) Tan Sri Datuk Ahmad Farouk (Independent Non-Executive) – appointed on 12 July 1996

(ii) James Bradley Payne (Non-Independent Non-Executive)

- appointed on 15 January 2001

(iii) Craig Neil Meurlin (Non-Independent Non-Executive)  
- Alternate to James Bradley Payne – appointed on 9 July 2001

## TERMS OF REFERENCE

### 1. OBJECTIVES

The objective of the Audit Committee is to assist the Board of Directors in meeting its responsibilities relating to accounting and reporting practices of the Company and its subsidiary companies.

In addition, the Audit Committee shall:

- a) oversee and appraise the quality of the audits conducted both by the Company's internal and external auditors;
- b) maintain open lines of communication between the Board of Directors, the internal auditors and the external auditors for the exchange of views and information, as well as to confirm their respective authority and responsibilities; and
- c) determine the adequacy of the Group's administrative, operating and accounting controls.

### 2. COMPOSITION

The Audit Committee shall be appointed by the Directors from among their number (pursuant to a resolution of the Board of Directors) which fulfils the following requirements:

- a) the Audit Committee must be composed of no fewer than 3 members;
- b) a majority of the Audit Committee must be independent directors; and
- c) at least one member of the Audit Committee:
  - i) must be a member of the Malaysian Institute of Accountants; or
  - ii) if he is not a member of the Malaysian Institute of Accountants, he must have at least 3 years' working experience and:
    - he must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act, 1967; or
    - he must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act, 1967.

The members of the Audit Committee shall elect a chairman from among their number who shall be an independent director.

In the event of any vacancy in the Audit Committee resulting in the non-compliance of item 2 (a) to (c) above, the vacancy must be filled within 3 months of that event.

The Board of Directors must review the term of office and performance of the Audit Committee and each of its members at least once every 3 years to determine whether the Audit Committee and members have carried out their duties in accordance with the terms of reference.

# AUDIT COMMITTEE REPORT

## 3. FUNCTIONS

The functions of the Audit Committee are as follows:

- a) review the following and report the same to the Board of Directors:
  - i) with the external auditors, the audit plan;
  - ii) with the external auditors, his evaluation of the system of internal controls;
  - iii) with the external auditor, his audit report;
  - iv) the assistance given by the Company's employees to the external auditors; and
  - v) any related party transaction and conflict of interest situation that may arise within the Company or group including any transaction, procedure or course of conduct that raises questions of management integrity.
- b) to consider the appointment of the external auditor, the audit fee and any questions of resignation or dismissal;
- c) to discuss with the external auditor before the audit commences, the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved;
- d) to review the quarterly and year-end financial statements of the Company, focusing particularly on:
  - i) any changes in accounting policies and practices;
  - ii) significant adjustments arising from the audit;
  - iii) the going concern assumption; and
  - iv) compliance with accounting standards and other legal requirements.
- e) to discuss problems and reservations arising from the interim and final audits, and any matter the auditor may wish to discuss (in the absence of management where necessary);
- f) to review the external auditor's management letter and management's response;
- g) to do the following in respect of the internal audit function:
  - i) review the adequacy of the scope, functions and resources of the internal audit function, and that it has the necessary authority to carry out its work;

- ii) review the internal audit programme and results of the internal audit process and where necessary, ensure that appropriate action is taken on the recommendations of the internal audit function;
- iii) review any appraisal or assessment of the performance of members of the internal audit function;
- iv) approve any appointments or termination of senior staff members of the internal audit function; and
- v) inform itself of resignations of internal audit staff members and provide the resigning staff member an opportunity to submit his reasons for resigning.

- h) to consider the major findings of internal investigations and management's response;
- i) to consider other areas as defined by the Board.

## 4. RIGHTS OF THE AUDIT COMMITTEE

The Audit Committee shall, wherever necessary and reasonable for the Company to perform its duties, in accordance with a procedure to be determined by the Board of Directors and at the cost of the Company:

- a) have authority to investigate any matter within its terms of reference;
- b) have the resources which are required to perform its duties;
- c) have full and unrestricted access to any information pertaining to the Company;
- d) have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity (if any);
- e) be able to obtain independent professional or other advice; and
- f) be able to convene meetings with the external auditors, excluding the attendance of the executive members of the committee, whenever deemed necessary.



# AUDIT COMMITTEE REPORT

## 5. MEETINGS

The Audit Committee shall meet at least 4 times a year and such additional meetings as the Chairman shall decide in order to fulfil its duties. However, at least once a year the Audit Committee shall meet with the external auditors without executive Board members present.

In addition, the Chairman may call a meeting of the Audit Committee if a request is made by any committee member, the Company's Chief Executive, or the internal or external auditors.

The Company Secretary or other appropriate senior official shall act as secretary of the Audit Committee and shall be responsible, in conjunction with the Chairman, for drawing up the agenda and circulating it, supported by explanatory documentation to committee members prior to each meeting.

The Secretary shall also be responsible for keeping the minutes of meetings of the Audit Committee, and circulating them to committee members and to the other members of the Board of Directors.

A quorum shall consist of a majority of independent directors.

By invitation of the Audit Committee, the Company must ensure that other directors and employees attend any particular audit committee meeting specific to the relevant meeting.

During the financial year, the Committee held four (4) meetings:

Dates :  
30 October 2002  
22 January 2003  
21 April 2003  
28 July 2003

Dato' Ab. Halim bin Mohyiddin was appointed Director and Chairman of Audit Committee on 25 November 2002 and thus attended three Audit Committee meetings during the financial year.

Attendance	Total number of meetings	Meetings attended by directors
Tengku Yunus Kamaruddin (Resigned on 4 November 2002)	4	1
Dato' Ab. Halim bin Mohyiddin (Appointed on 25 November 2002)	4	3
Tan Sri Datuk Ahmad Farouk	4	4
James Bradley Payne	4	2
Craig Neil Meurlin (Alternate to James Bradley Payne)	4	3

## SUMMARY OF ACTIVITIES OF THE AUDIT COMMITTEE

During the financial year 2003, the Audit Committee performed the following duties:

- reviewed the Audit Strategy and Planning Memorandum presented by the external auditors prior to commencement of annual audit
- reviewed with the external auditors the result of the audit, the audit report and the management letter including management's response
- reviewed quarterly unaudited financial results announcements and proposed quarterly interim dividends before recommending for the Board's approval
- reviewed the Company's compliance, in particular the quarterly and year end financial statements, with the Listing Requirements of the KLSE, MASB and other relevant legal and regulatory requirements
- reviewed recurrent related party transactions entered into by the Group

## INTERNAL AUDIT FUNCTION

The Audit Committee is assisted by the Internal Audit team from Alticor Inc. (the parent Company of Amway Corporation) in maintaining a sound system of internal control. This team is staffed by highly competent personnel with wide knowledge of the industry and the ability to assess business and operational risks of AMHB group and benchmark global affiliates efficiencies and controls. Rotational visits are being conducted and guided by the global Internal Audit Programme.

To further complement the above, the Board of Directors has appointed an independent professional services firm to carry out internal audit services for the Group, thereby increasing the frequency of internal audit reviews. Internal audit reports are presented, together with Management's response and proposed action plans, to the Audit Committee for its review.

Both teams of Internal Auditors undertake internal audit functions based on the operational, compliance and risk-based audit plan that is reviewed by the Audit Committee and approved by the Board. The risk-based audit plan covers the review of key operational and financial activities including the efficacy of risk management practices, efficiency and effectiveness of operational controls and compliance with relevant laws and regulations.



# STATEMENT ON INTERNAL CONTROL

The Board of Directors acknowledges its responsibility for maintaining a sound system of internal control to safeguard shareholders' investment and the Group's assets and for reviewing its adequacy and integrity. The system of internal control covers not only financial controls but operational and compliance controls and risk management. It should be noted, however, that such systems are designed to manage rather than eliminate risks that may impede the achievement of the Group's business objectives. The systems can therefore only provide reasonable, and not absolute, assurance against material misstatement or loss.

During the year, the Group carried out an exercise to formalise its enterprise risk management framework, with the assistance of a professional services firm. The Group profiled and compiled a risk register of the principal business risks, including their associated controls and mitigating action plans, that may impede the achievement of the Group's business objectives. The Group has also developed a formal risk management policy, and enhanced its risk management oversight structure, to incorporate a structured process for identifying, evaluating and prioritising risks as well as clearly defining risk responsibilities and escalation process. Formal roles have been clearly established for management and the Board via the Audit Committee.

The key elements of the Group's internal control system include inter alia:

- Clearly defined delegation of responsibilities to the Board Committees and the management including charters, organisation structures and appropriate authority limits
- Clearly defined documented internal policies and procedures are in place and updated to reflect changing risks or resolve operational deficiencies
- Comprehensive information provided to management for monitoring of performance against strategic plan, covering all key financial and operational indicators

- Established strategic planning and budgeting process requiring all functional divisions to prepare annual operating and capital budgets which are discussed and approved by the Board
- A reporting system in place to generate monthly performance and variance reports for review by management and action taken, where necessary
- Established capital expenditure approval process with set authority limits and Board's approval
- Established management information systems with documented processes, including change request to computer programmes and access to data files
- Regular meetings held between management and analysts with formal presentation conducted after the release of financial results upon Board's approval to ensure a transparent relationship and open dialogue with investors and shareholders
- Independent internal audit functions that provide assurance to the Audit Committee through the execution of internal audit visits based on an approved risk-based internal audit plan. Findings arising from these visits are presented, together with Management's response and proposed action plans, to the Audit Committee for its review. Further details of the activities of the internal audit functions are provided in the Audit Committee's Report

The system of internal control is satisfactory and has not resulted in any material losses, contingencies or uncertainties that would require disclosure in the Group's annual report.

The Statement on Internal Control is made in accordance with a resolution by the Board dated 25 October 2003.