

Annual Report 2000





## C O V E R R A T I O N A L E

Pengurusan Danaharta Nasional Berhad was set up in June 1998 to take over non-performing loans (NPLs) from financial institutions in Malaysia and resolve them whilst seeking maximum recovery value.

Whilst the diamond may not necessarily reflect the quality of Danaharta's assets (NPLs), certain characteristics can be used to depict various aspects of Danaharta's operations.

From humble beginnings as a piece of carbon, diamonds withstand tremendous pressure to emerge the hardest stone known to Man, often being used as an industrial cutting tool. In a similar fashion, Danaharta has had to withstand tremendous pressure to set up operations and carve out NPLs, from beleaguered financial institutions, that are then expeditiously resolved.

The diamond's most famous quality, its translucence, is representative of Danaharta's efforts to be open, transparent and professional in its policies and operations.

Finally, diamonds are valuable. In the same manner, Danaharta regards its employees as precious to the agency's cause and whose collective efforts determine its eventual success.

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**NOTICE IS HEREBY GIVEN** that the Third Annual General Meeting of **PENGURUSAN DANA HAR TA NASIONAL BERHAD** will be held by way of Shareholder's Circular Resolution pursuant to Article 72 of the Company's Articles of Association to transact the following businesses:

**AS ORDINARY BUSINESS**

*Ordinary Resolutions*

1. To receive the Audited Accounts for the financial year ended 31 December 2000 including the Directors' Report and the Auditors' Report.  
**(Resolution 1)**
2. To re-appoint PricewaterhouseCoopers as the Company's auditors and to authorise the directors to fix the auditors' remuneration.  
**(Resolution 2)**

**AS SPECIAL BUSINESS**

*Ordinary Resolutions*

To consider and, if thought fit, pass the following Ordinary Resolutions:

3. "That the directors' remuneration of RM310,612.02 for the financial year ended 31 December 2000 be approved."  
**(Resolution 3)**
4. "That Raja Tun Mohar bin Raja Badiozaman be re-appointed as a director in accordance with Section 129(6) of the Companies Act, 1965."  
**(Resolution 4)**
5. "That Dato' Ho Ung Hun be re-appointed as a director in accordance with Section 129(6) of the Companies Act, 1965."  
**(Resolution 5)**

By Order of the Board

**PHANG TUCK KEONG**  
**KAMARULZAMAN MOHD ARIFF**  
Joint Company Secretaries

Kuala Lumpur  
10 April 2001



# Corporate Information

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#### BOARD OF DIRECTORS

Raja Tun Mohar Raja Badiozaman – *Chairman*  
Dato' Mohamed Azman Yahya – *Managing Director*  
Puan Husniarti Tamin  
Dato' Salleh Harun  
Dato' N. Sadasivan  
Dato' Richard Ho Ung Hun  
Dato' Mohamed Md Said  
Mr. Eoghan M. McMillan  
Mr. Alister T. L. Maitland

#### JOINT COMPANY SECRETARIES

Mr. Andrew Phang Tuck Keong  
Encik Kamarulzaman Mohd Ariff

#### BOARD COMMITTEES

##### *Executive Committee*

Raja Tun Mohar Raja Badiozaman – *Chairman*  
Dato' Mohamed Azman Yahya  
Puan Husniarti Tamin  
Dato' N. Sadasivan

##### *Audit Committee*

Dato' Richard Ho Ung Hun – *Chairman*  
Dato' Mohd Salleh Harun  
Mr. Alister T. L. Maitland

##### *Remuneration Committee*

Raja Tun Mohar Raja Badiozaman – *Chairman*  
Mr. Eoghan M. McMillan  
Dato' N. Sadasivan  
Dato' Mohamed Md Said

#### NON-BOARD COMMITTEES

##### *Oversight Committee*

Puan Siti Maslamah Osman  
Encik Ali Tan Sri Abdul Kadir  
Datuk Dr. Awang Adek Hussin

##### *Tender Board*

Dato' Mohamed Azman Yahya  
Mr. Ee Kok Sin  
Encik Ahmad Zaini Muhamad  
Encik Abdul Jabbar Majid  
Encik Abdul Halim Othman

#### REGISTERED OFFICE

Tingkat 10, Bangunan Setia 1  
15 Lorong Dungun  
Bukit Damansara  
50490 Kuala Lumpur  
Malaysia  
Tel: 603-253 1122 Fax: 603-253 4360

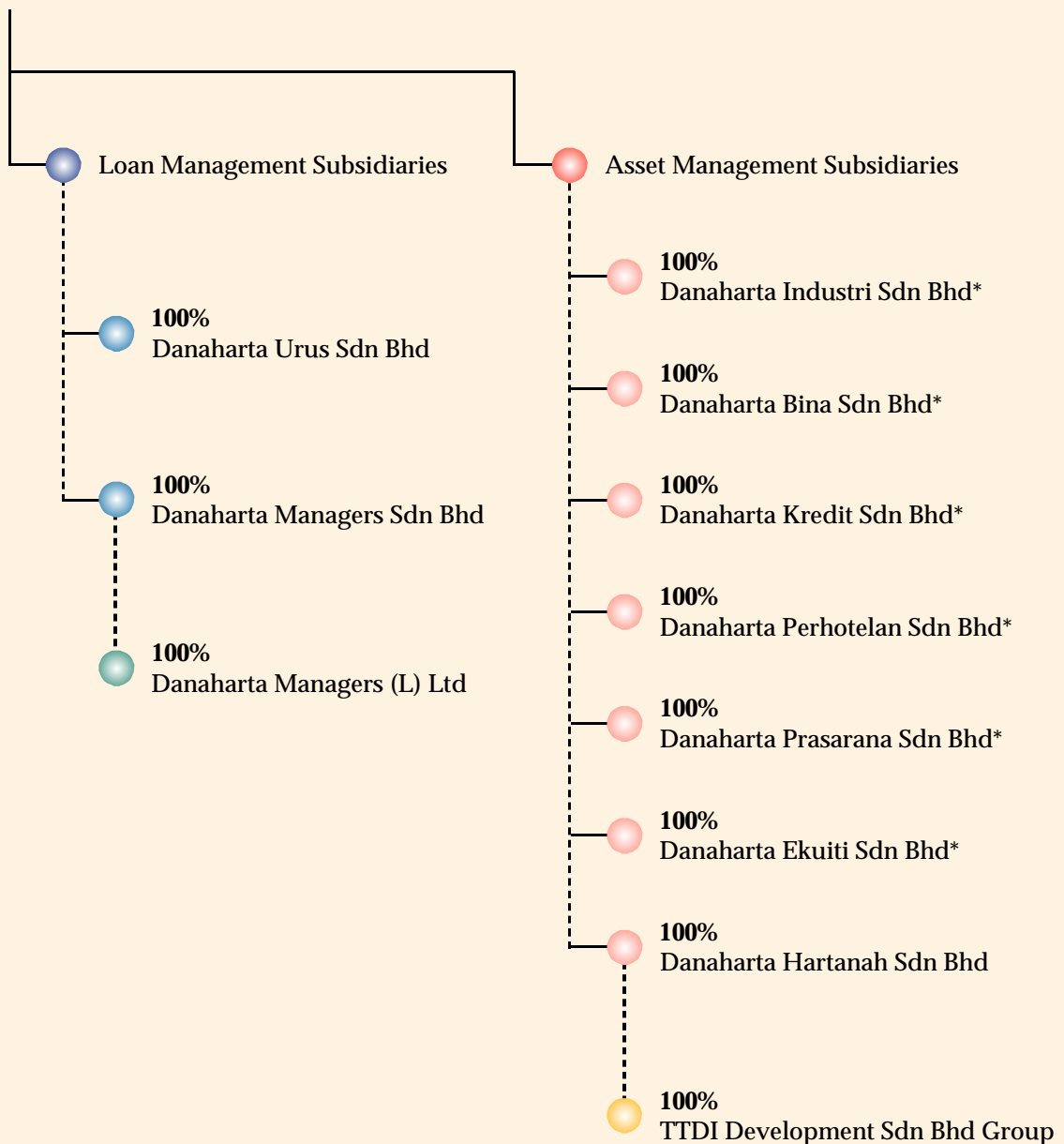
#### AUDITORS

PricewaterhouseCoopers  
11th Floor, Wisma Sime Darby  
Jalan Raja Laut  
P.O. Box 10192  
50706 Kuala Lumpur  
Malaysia

Group Structure

Danaharta Group of Companies as at 31 December 2000

**DANAHARTA**  
Pengurusan Danaharta Nasional Berhad



\* Dormant as at 31 December 2000

## Key Management Personnel

### PENGURUSAN DANA HAR TA NASIONAL BERHAD

- Dato' Mohamed Azman Yahya – *Managing Director*
- Encik Abdul Hamidy Hafiz – *Director, Operations*
- Encik Mohd Bakke Salleh – *Director, Property*
- Encik Zukri Samat – *General Manager, Operations*
- Encik Johan Ariffin – *General Manager, Property*
- Mr. Ravindran Navaratnam – *General Manager, Corporate Services*
- Mr. Ramesh Pillai – *General Manager, Risk Management*
- Mr. Andrew Phang Tuck Keong – *General Manager, Legal Affairs and Joint Company Secretary*
- Mr. Ee Kok Sin – *General Manager, Finance and Services*
- Encik Shariffuddin Khalid – *General Manager, Communications and Human Resource*
- Puan Fatimah Abu Bakar – *General Manager, Internal Audit and Compliance*

### DANAHARTA MANAGERS SDN BHD

Mr. Derrick Fernandez  
*General Manager*

### DANAHARTA URUS SDN BHD

Encik Fazlur Rahman Ebrahim  
*General Manager*

### TTDI DEVELOPMENT SDN BHD GROUP

Tuan Syed Hamid Hussain Al-Habshee  
*Group Chief Executive Officer*





# Corporate Governance

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## APPLICATION OF THE MALAYSIAN CODE ON CORPORATE GOVERNANCE

### INTRODUCTION

The financial crisis that affected Malaysia in 1997 and 1998 brought on, among other things, an increased awareness of the need for corporate governance. To this end, a private-sector-led Working Group on Best Practices in Corporate Governance (“Working Group”) undertook to initiate and lead a review and to establish reforms of standards of corporate governance at a micro level. The result, the Malaysian Code on Corporate Governance, was issued in March 2000.

The Working Group comprised members of the financial and legal fraternities as well as representatives from Bank Negara Malaysia (“BNM”), Kuala Lumpur Stock Exchange (“KLSE”), Securities Commission and non-governmental organisations, and was chaired by the Chairman of the Federation of Public Listed Companies.

Danaharta’s modus operandi and its use of public money require it to exercise a high level of transparency and objectivity. Although the application of the Code is voluntary, it has already been adopted by the KLSE in its new listing requirements, which require public listed companies to state in their annual report how they apply the principles in the Code and adopt the best practices. Although Danaharta is not a public listed company, it has taken the step to apply the Code to its operations to further enhance its standards of corporate governance.

### A. DIRECTORS

#### I. THE BOARD

Danaharta is led by a strong and experienced Board, befitting the national asset management company’s role as a major government agency set up to restructure the banking sector. The Board consists of representatives from the Government (Ministry of Finance and BNM), private sector and international community, who are drawn from the banking and property industries and also from public accounting, legal and public service backgrounds. This brings depth and diversity in expertise and perspective to the leadership of Danaharta.

The Board is responsible for the policies and general affairs of Danaharta and retains full and effective control of the company. This includes responsibility for: determining Danaharta’s general policies and strategies for the short,

medium and long term; approving business plans, including targets and budgets; and making all major strategic decisions.

As appropriate, the Board has delegated certain responsibilities to the Board Committees, which include an Executive Committee (“EXCO”), an Audit Committee and a Remuneration Committee. The latter two Board Committees consist entirely of non-executive directors. The Board Committees operate with clearly defined terms of reference.

#### II. BOARD BALANCE

With the exception of the Managing Director who does not have any voting rights, the other eight Board members are non-executive Directors. The Chairman is one of the non-executive Directors, and there is a clear division of responsibility between the Chairman and the Managing Director.

### III. SUPPLY OF INFORMATION

The Board has four scheduled meetings every year. Additional meetings for particular matters such as major acquisitions, restructuring and asset disposals are held as necessary. At each regularly scheduled meeting, there is a full financial and business review and discussion, including a comparison of the performance to date against the annual budget and financial plan previously approved by the Board.

Each Board member receives a comprehensive review and analysis of Danaharta's business performance on a monthly basis. Directors are sent an agenda and a full set of the Board papers for each agenda item to be discussed, before the Board meeting. Additional information is provided as appropriate.

### IV. APPOINTMENTS TO THE BOARD

All nine Board members were appointed to the Board by the Minister of Finance as per Section 5 of the *Pengurusan Danaharta Nasional Berhad Act 1998* ("Danaharta Act"). The Minister appoints such persons as he thinks fit and proper to act and assist Danaharta in achieving its objectives.

### V. RE-ELECTION

Since the establishment of Danaharta in 1998, there have been changes in the Board membership among the government representatives (arising from retirement or transfer to another job) as well as the private sector representatives (due to a job assignment overseas). A Director of the Board is appointed to hold office for up to three years and is eligible for re-appointment, subject to the agreement and approval of the Minister of Finance.

## B. DIRECTORS' REMUNERATION

### I. LEVEL AND MAKE-UP OF REMUNERATION

Given that Danaharta is wholly-owned by the government, its non-executive Directors' remuneration conform to government guidelines. All non-executive Directors are regarded as assisting the government and as such, their remuneration package is standard, consisting of two components - an annual flat fee as a Board member and an allowance for attendance of meetings at a standard rate. The fees and allowances for the Directors are recommended by the Board of Directors and approved by the sole shareholder (Minister of Finance, Incorporated) at the Annual General Meeting ("AGM").

The Remuneration Committee, which consists exclusively of non-executive Directors, is responsible for making recommendations on the Company's framework of executive remuneration and for determining specific remuneration packages for the Managing Director and the General Manager, Internal Audit & Compliance. The Committee obtains advice from experts in compensation and benefits, both internally and externally.

### II. PROCEDURE

Danaharta's employee remuneration policy and procedures are set out in the Scheme of Service document and the Human Resource Practice Manual. Both documents have been established by the Remuneration Committee and approved by the EXCO.

### III. DISCLOSURE

Danaharta's Directors' (executive and non-executive) remuneration is shown in aggregate, in accordance with government guidelines.

## C. RELATIONSHIP WITH SHAREHOLDER

### I. DIALOGUE BETWEEN COMPANIES AND INVESTORS

Danaharta recognises its responsibilities to its stakeholders (regulators, banking sector, borrowers, service providers, public, etc). Its modus operandi and use of public money require that Danaharta exercises a high level of transparency and objectivity.

Danaharta communicates with its stakeholders through a comprehensive communications programme. This consists of regular press announcements and press conferences, briefings to analysts and fund managers and published reports such as the half-yearly Operations Report and the Annual Report. All published information on Danaharta is also available on the company's website ([www.danaharta.com.my](http://www.danaharta.com.my)).

### II. ANNUAL GENERAL MEETING ("AGM")

It is neither relevant nor applicable for Danaharta to use the AGM to communicate with private investors and encourage their participation since Danaharta has only one shareholder – the Minister of Finance, Incorporated.

## D. ACCOUNTABILITY AND AUDIT

### I. FINANCIAL REPORTING

The Board presents a balanced, clear and meaningful assessment of Danaharta's and the Danaharta Group's financial positions and prospects in their reports to the shareholder, investors and regulatory authorities. This assessment is primarily provided in the Annual Report through the Chairman's Statement and the Review of Operations. The half-yearly Operations Report and quarterly announcements also reflect the Board's commitment to give updated assessments on Danaharta's performance.

## II. INTERNAL CONTROL

The Board is responsible for maintaining a sound system of internal control and for seeking regular assurance of its effectiveness. The Board and Management have effected a system of internal control designed to manage, rather than eliminate, the risk of failure to achieve the business objectives ("remove NPL distraction" and "maximise recovery value") and which can only provide reasonable assurance against material misstatement or loss. There is an ongoing process for identifying, evaluating and managing significant risks faced by Danaharta - a risk management policy was formally endorsed by the Board in 2000. This process was in place during 2000 and up to the date of the approval of the 2000 Annual Report and Financial Statements. The process is regularly reviewed by the Board and is in line with the Malaysian Code of Corporate Governance and "Statement of Internal Control" – Guidance for Directors of Public Listed Companies. In particular, the Company has identified the following areas of risk, which are subject to regular reporting to and review by the Audit Committee and the Board.

The Board seeks regular assurance on the effectiveness of the internal control system through independent appraisals by the internal and external auditors. In addition, the Board has also endorsed the implementation of Control Self-Assessment ("CSA") in 2001. This will require Heads of Divisions to conduct self-assessment on the effectiveness of the internal controls for his/her area of responsibility and sign a memorandum of representation on an annual basis. In this respect, the Company has completed conducting business control awareness & CSA training for all executives throughout the whole of the year.

## Operational

### ***Credit Risk***

The objective is to minimise defaults and maximise recovery to the shareholder. There is a structured and well-defined line of approving authorities for all loan workout proposals, which are carried out in accordance with the Company's loan restructuring guidelines and are subject to independent Risk Management review.

### ***Destruction of property***

To mitigate the risk of erosion of investment and loss of capital, a property protection policy was put in place and comprises adequate insurance coverage, security guards to provide physical security and the appointment of agents provided under legislation e.g. Special Administrators and Receivers & Managers.

### ***Realisation of Proprietary Assets***

The risk of non-maximisation of realisation proceeds is managed through a valuation review of loan assets. Decisions in respect of the realisation of proprietary assets are reviewed and approved by the appropriate authorities.

### ***Loan Restructuring Failures***

There is a post-approval implementation system to monitor and report on the progress of loan recovery and defaults. This is to ensure that agreed loan workouts are implemented promptly and defaults detected early for appropriate actions to be taken. The Management Credit Committee ("MCC") conducts regular reviews of default accounts.

### ***Performance of Service Providers***

The risk of poor performance by service providers is mitigated by pre-qualifying them onto Danaharta's panel and monitoring their progress and quality of service.

## Financial

### ***Financial Reporting***

There is a comprehensive budgeting system with an annual plan approved by the Board. Business results are reported monthly and compared to the plan, while forecasts are prepared annually and reviewed regularly throughout the year. Danaharta announces its business results through its published half-yearly Operations Report and Annual Report.

### ***Treasury Operations & Investments***

Funding mismatch, funds not invested optimally and quoted/unquoted investments not properly managed are significant risks faced by Danaharta. All operations are carried out in accordance with approved funding and investment policies and procedures. There are requirements for an independent Risk Management review of investments; approval of investment and divestment decisions by the Assets and Liabilities Committee ("ALCO"); and daily monitoring by Treasury. All operations are monitored regularly by the ALCO and are subject to internal and external audits.

Market risks to mitigate the diminution in value of proprietary securities held are addressed by the setting-up of an Investment Unit. This Unit monitors and manages positions with the involvement of Risk Management.

## Legal Matters

Vesting, litigation and other legal matters are co-ordinated and controlled by the Legal Affairs Division.

## External Communication

Any incorrect perception of Danaharta that may affect its reputation or image is addressed through the Communications Unit which works with clearly defined and approved communications policies and procedures.

## **Business Conduct and Compliance**

### ***Quality and Integrity of Personnel***

One of Danaharta's values is integrity. Danaharta emphasises the development of and adherence to high ethical business practices by ensuring that business is conducted in a transparent and professional manner and in line with international best practices. Danaharta's standards on business conduct and the code of behaviour expected of its employees are embedded in the Standards Business Conduct ("SBC") document. This is supplemented by the Guidelines on Handling of Frauds, Defalcations, Breaches of the SBC and Misdemeanours. In addition to the SBC, all directors are required to adhere to the Directors' Code of Ethics.

### ***Conflict of Interest, Frauds & Defalcations***

These are significant risks to Danaharta. The SBC requires employees to make appropriate disclosures and declare their independence by signing a "Declaration of Independence" upon joining Danaharta and thereafter renew their declaration and disclosures annually. The Guidelines on Handling of Frauds, Defalcations, Breaches of the SBC and Misdemeanours spell out the step by step procedures to manage any allegation – from notification through to investigation and decision on the disciplinary action. In addition, senior managers are required to submit their annual declaration of assets to the Managing Director.

### ***Confidentiality***

Breach of confidentiality is a criminal offence under the Danaharta Act and the Official Secrets Act 1972. Every employee and director is required to sign a Confidentiality Agreement. Employees are also reminded periodically of their confidentiality obligations.

### ***Compliance & Consistency***

Approved policies and procedures for key processes and activities are documented and disseminated for implementation. All employees are responsible for ensuring that they conduct their work in accordance with the Danaharta Act, other relevant laws and regulations as well as company policies and guidelines, in particular the loan restructuring guidelines. Compliance issues are subject to independent review by the Risk Management and Internal Audit Divisions.

The Ethics and Conduct Committee, set up in 1999, is responsible for reviewing any allegations on breaches of the SBC, defalcation, frauds and misdemeanours.

### ***Staffing***

The need to attract and retain high-calibre and experienced candidates is critical to the achievement of Danaharta's objectives. Danaharta adopts a strategy of continuous recruitment, outsourcing of certain activities and succession planning for key senior positions. Danaharta has a Human Resource Unit that is responsible for ensuring a conducive work environment and conducting regular reviews to maintain competitive remuneration packages for the employees.

## **Risk Management**

The Risk Management Division has been set up to co-ordinate Danaharta's risk response and be the guardian of Danaharta's Risk Management Policy. In 2000, the Board endorsed a Risk Management Policy which clearly defines Danaharta's overall policy in handling the significant risks identified and the strategies to manage these risks. Independent risk review of the loan management papers, asset management papers and investment proposal papers forms part of the ongoing process of managing business risks (recovery risk, credit risk, interest risk and valuation risk).

### III. RELATIONSHIP WITH THE AUDITORS

The Board Audit Committee (“Committee”) comprises three non-executive Directors of the Board. The composition and terms of reference of the Committee are also provided in this Annual Report. The Committee is required to meet at least twice a year, but in practice, the meetings are held quarterly. During the year ended 31 December 2000, the Committee met five times.

The Committee usually holds its meeting before the Board meeting for the quarter. This is to draw the Board’s attention to any critical issues discussed at the Committee meeting. The Heads of Divisions for Operations, Property, Risk Management and Finance are invited to attend Committee meetings. Others are invited by the Committee, where necessary, to brief the Committee on the activities involving their areas of responsibilities.

In addition to its review of the scope and results of the audit and activities of the external and internal auditors, the Audit Committee’s terms of reference include responsibility for overseeing internal controls, including operational and financial controls, business ethics, risk management and compliance.

The Committee meets with the external auditors annually to discuss the annual financial statements and their audit findings. Once a year, the Committee meets with the external auditors without the presence of the Board Executive Director (Managing Director).

The General Manager, Internal Audit and Compliance, who acts as Secretary to the Audit Committee, communicates regularly with the Chairman of the

Audit Committee. The external auditors attend three of the five Audit Committee meetings, one of which is a meeting without the presence of the Managing Director. Both the external and internal auditors meet the Board at least once a year when the annual audited accounts and report are presented to the Directors.

The minutes of the Audit Committee meetings are formally tabled to the Board for notation and action (where applicable).

#### Internal Audit

Danaharta has an established Internal Audit Division, which assists the Audit Committee in the discharge of its duties and responsibilities. Its principal role is to provide assurance, through conducting independent appraisals, that:

- There is a sound internal controls system to achieve Danaharta’s objectives and to safeguard the shareholder’s investment and Danaharta’s assets; and
- The system is functioning adequately and its integrity is maintained.

A review of the Internal Audit Division’s operations is also provided in this Annual Report.

Internal audits include evaluation of processes through which significant risks are identified, assessed and managed. Such audits also ensure that instituted controls are appropriate and effectively applied and will achieve acceptable risk exposures consistent with Danaharta’s risk management policy.

Board Of Directors

- 1 Raja Tun Mohar Raja Badiozaman
- 2 Dato' Mohamed Azman Yahya
- 3 Puan Husniarti Tamin
- 4 Dato' Salleh Harun
- 5 Dato' N. Sadasivan
- 6 Mr. Eoghan M. McMillan
- 7 Dato' Mohamed Md Said
- 8 Dato' Richard Ho Ung Hun
- 9 Mr. Alister T.L. Maitland

**Raja Tun Mohar Raja Badiozaman**

Raja Tun Mohar has had a distinguished career in Government, having served as Special Economic Adviser to three Malaysian Prime Ministers: the late Tun Abdul Razak (1972 - 1975); the late Tun Hussein Onn (1975 - 1981); and Dato' Seri Dr. Mahathir Mohamad (1981 - 1988). Other Government positions held by Raja Tun Mohar include Secretary-General to Treasury, Ministry of Finance (1971); Secretary-General (1960 - 1970) and Controller, Trade Division (1957 - 1960) at the Ministry of Commerce and Industry.

He was Chairman of Petronas Berhad, the national oil corporation (1984-1988), Malaysia Airline System Berhad, the national carrier (1973-1991) and Bank Islam Malaysia Berhad (1983-1992).

Raja Tun Mohar is currently Chairman of Socfin Company Berhad, Ancom Berhad and Perusahaan Otomobil Kedua Berhad (PERODUA). He is also a Director of Johan Holdings Berhad and YTL Power International Berhad, and an adviser to YTL Corporation Berhad.

**Dato' Mohamed Azman Yahya**

Dato' Azman started his career with KPMG in London, United Kingdom and subsequently joined Island & Peninsular Berhad, a reputable local property developer, where he was the Assistant General Manager in charge of the finance department. Dato' Azman's career in investment banking began when he joined Bumiputra Merchant Bankers Berhad in 1990 and later headed the corporate finance department. He joined Amanah Merchant Bank Berhad in December 1994 as Chief Executive and later assumed the position of Group Executive Director of Amanah Capital Group, a financial services and property group.

Dato' Azman was named the Managing Director of Danaharta in May 1998. He was named amongst Asia's most influential bankers by *Institutional Investor* in 1999 and "The Restructuring Agency Chief of the Year" by *Asiamoney* in 2000. As the Managing Director of Danaharta, Dato' Azman serves as a member of the Malaysian Steering Committee on Bank Restructuring and of the advisory panel for the Malaysian Banking Masterplan. He is also a Director of Sime Darby Berhad.

Dato' Azman is a member of the Institute of Chartered Accountants (England and Wales) and of the Malaysian Institute of Accountants.





## Board Of Directors

**Puan Husniarti Tamin**

Puan Husniarti was appointed to Danaharta's Board of Directors and Executive Committee in August 2000 to replace Dato' Dr. Abdul Aziz Mohd Yaacob. She is currently the Deputy Secretary-General (Systems and Control) of Treasury, Ministry of Finance.

Prior to this, she was the Deputy Secretary-General II at the Ministry of Energy, Communications and Multimedia (1996-2000). Puan Husniarti has been in Government service since 1972 when she joined the Economic Planning Unit (Human Resources Section), Prime Minister's Department, as Assistant Secretary.

Puan Husniarti holds a Masters in Business Administration from University of Oregon, USA and a Bachelor's degree in Economics (Hons) from University of Malaya.

**Dato' Salleh Harun**

Dato' Salleh was appointed to Danaharta's Board of Directors in September 2000 to replace Dato' Dr. Zeti Akhtar Aziz, the Governor of Bank Negara Malaysia. Dato' Salleh became a Deputy Governor of Bank Negara Malaysia in May 2000.

Dato' Salleh started his career in Government in 1971. He left the service in 1974 to join Aseambankers Malaysia Berhad, a merchant bank within the Malayan Banking Group. He served the merchant bank for 14 years before leaving to take a senior management position in Maybank, the commercial banking arm of the Group, in August 1988. In June 1994, Dato' Salleh was appointed as Executive Director of Maybank. He had also served on the Boards of Aseambankers, Mayban Securities Sdn Bhd, Mayban Assurance Sdn Bhd as well as several other companies within the Malayan Banking Group.

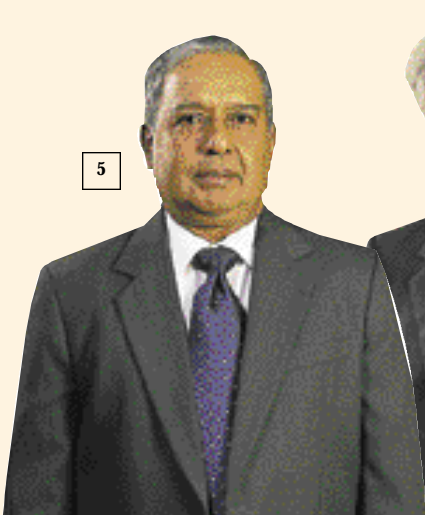
He is a member of the Institute of Chartered Accountants (England and Wales) and of the Malaysian Association of Certified Public Accountants.

**Dato'N. Sadasivan**

Dato' Sadasivan was with the Malaysian Industrial Development Authority ("MIDA") for 27 years where he last served as its Director-General from 1984 to 1995. He held several positions during his tenure at MIDA, namely Deputy Director-General (1976 - 1984); Director of MIDA's Investment Promotion Office in Dusseldorf, Germany (1972 - 1976); Head of the Investment Promotion and Public Relations Division (1970 - 1972); and Head of Industrial Development in the States Division (1968 - 1970). Prior to joining MIDA, he was an Economist/Head of Division with the Economic Development Board (EDB) of Singapore (1963 - 1969).

Dato' Sadasivan also sits on the boards of Chemical Company of Malaysia Berhad, Leader Universal Holdings Berhad, Petronas Gas Berhad, Amanah Capital Partners Berhad, APM Automotive Holdings Berhad and Multi Vest Resources Berhad. He is also a director of Bank Negara Malaysia.

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## Board Of Directors

### Dato' Richard Ho Ung Hun

Dato' Richard Ho was a Member of Parliament between 1969 and 1982, having served as Deputy Minister of Road Transport, Deputy Minister of Finance, Minister without Portfolio in the Prime Minister's Department and Minister of Labour and Manpower. He retired from Government in 1982 and became the Vice-Chairman (non-executive) of Malayan Banking Berhad in 1983.

Dato' Richard Ho also sits on the boards of Mayban Finance Berhad, Aseambankers Malaysia Berhad, Mayban Assurance Berhad, Aseamlease Berhad, Aseam Credit Sdn Bhd, Mayban Trustees Berhad, Mayban International (L) Limited, Mayban International Trust (Labuan) Berhad, Mayban Offshore Corporate Services (Labuan) Sdn Bhd, Mayban Management Berhad and DMIB Berhad.

### Dato' Mohamed Md Said

Dato' Mohamed has been the Managing Director of Sime UEP Properties Berhad since July 1990. He joined Sime Darby Berhad in 1981 as Group Legal Adviser and later served as Group Secretary of the company.

Prior to this, Dato' Mohamed served as Group Manager, Corporate Affairs at Kumpulan Fima Berhad (1979 – 1981); Senior Legal Adviser at Petronas Berhad (1975 – 1979); and Deputy Public Prosecutor/Federal Counsel at the Attorney General's Chambers (1970 – 1974).

### Mr. Eoghan McMillan

Mr. McMillan is Chairman and Chief Executive Officer of Rodamco Asia N.V., a real estate investment company listed on the Amsterdam Stock Exchange. He was with Arthur Andersen & Co. from 1959 until 1993 and served as Country Managing Partner for its practices in Hong Kong and the People's Republic of China from 1979 until 1993.

During his years at Arthur Andersen & Co., Mr. McMillan also served as a Member of the Professional Standards Committee and the International Board of Directors, as well as Chairman of the Finance Committee and Regional Managing Partner for operations in South-east Asia.

In 1989, while still with Arthur Andersen & Co., Mr. McMillan was appointed by the Hong Kong Government to serve as an independent Director of the Hong Kong Futures Exchange in connection with the Exchange's restructuring programme. From then until 1992, he served as Chairman of the Hong Kong Futures Exchange and a Director of its wholly-owned subsidiary, HKFE Clearing Corporation Limited.

Mr. McMillan is a Director on appointment by the Hong Kong Government of Land Development Corporation and a director, or an independent director, of a number of other companies. He is also an advisor to the International Business Leaders' Advisory Council to the Mayor of Shanghai, China. In 1997, he was made an Honorary Citizen of Shanghai by the Shanghai Municipal Government.

### Mr. Alister Maitland

Mr. Maitland spent over 35 years with the ANZ Banking Group Ltd (ANZ), retiring in June 1997. He served in New Zealand, United Kingdom and Australia. Amongst other positions, he was Chief Economist and then held General Management positions in Global Treasury, Retail Banking, Management Services and was Managing Director of ANZ in New Zealand. In his last six years, he was on the main board of the bank being Executive Director International. In this position, he was directly responsible for the Group's operations in forty-two countries.

Today, he is a consultant to corporations and Governments and a professional company director. He is Chairman of the Education Trust Victoria Ltd, Eastern Health Network Victoria, ComLand Ltd, Folkestone Limited, Mawson Capital Pty Ltd, Bevington Consulting Ltd, Centre for Practice of International Trade, Melbourne Business School and Australian Centre for International Business, University of Melbourne.

## MEMBERSHIP

- Raja Tun Mohar Raja Badiozaman – *Chairman*
- Dato' Mohamed Azman Yahya
- Puan Husniarti Tamin
- Dato' N. Sadasivan

## FUNCTIONS

The Executive Committee's ("EXCO") main function is to assist the Board of Directors in overseeing the operations of the Danaharta Group. Included in the EXCO's functions to assist the Board of Directors are the following:

- Formulate the Danaharta Group's general policies and strategies which set out the direction of the Group for the short, medium and long term.
- Appoint the Danaharta Group's key management team which will translate the Board's general policies and strategies into detailed business plans.
- Review and assess the Danaharta Group's financial and operational performances through periodic feedback and reports from the Audit Committee and the management team.
- Review and assess the Danaharta Group's loan and asset portfolio management and ensure its consistency with the Danaharta Group's business policies and strategies.
- Approve major acquisitions and disposals within authority limits as set out in the Authority Manual.

The EXCO met 17 times in the year ended 31 December 2000.

## Audit Committee

### MEMBERSHIP

- Dato' Richard Ho Ung Hun – *Chairman*
- Dato' Salleh Harun
- Mr. Alister T. Maitland

Danaharta's General Manager, Internal Audit and Compliance ("IAC") acts as Secretary to the Audit Committee.

### FUNCTIONS

The Audit Committee ("AC") is a key component in Danaharta's corporate governance structure. Its functions include the following:

- Review the external auditors' work plan to satisfy itself that the audit will meet the needs of Danaharta's Board of Directors and stakeholders.
- Review the external auditors' report and the annual financial statements and recommend them for acceptance by the Board of Directors.
- Review the external auditors' evaluation of the internal control systems and subsequently the implementation of the agreed improvements or rectification of the weaknesses highlighted.
- Consider the nomination of the external auditors' and their remuneration.
- Review and approve Danaharta's internal audit plans.
- Review the audit reports and internal audit work through the quarterly performance reporting by IAC on the implementation and execution of the approved internal audit plans, follow-up of the agreed actions and the performance of IAC.
- Review the compliance report in areas relating to the monitoring and review of control procedures.

The Audit Committee met 5 times in the year ended 31 December 2000, one of which was a meeting without the presence of the Managing Director.

## MEMBERSHIP

- Raja Tun Mohar Raja Badiozaman – *Chairman*
- Dato' N. Sadasivan
- Dato' Mohamed Md Said
- Mr. Eoghan M. McMillan

## FUNCTIONS

The main functions of the Remuneration Committee include:

- Provide an independent and unbiased review, assessment and determination of the Danaharta Group's remuneration structure and policy. This review encompasses all levels of employees, from the Managing Director to executive and clerical levels.
- Evaluate the Danaharta Group's annual remuneration revision and bonus.
- Review the Scheme of Service of the Danaharta Group as and when required and approve revisions to the Scheme, where necessary.
- Recommend fees and/or allowances for the non-executive members of the Board of Directors with appropriate consultation with any independent advisers (if required) and to be approved by the shareholder at the Annual General Meeting.
- Review, assess and determine the remuneration of the Managing Director and General Manager, Internal Audit and Compliance.

The Remuneration Committee met 3 times in the year ended 31 December 2000.

## Oversight Committee

As provided for by Section 22 of the Pengurusan Danaharta Nasional Berhad Act 1998, an Oversight Committee was established in November 1998 to perform the following tasks:

- Approve appointments of Special Administrators and Independent Advisors as requested by Danaharta.
- Approve any extension of moratorium periods given to companies under Special Administrators.
- Approve the termination of the services of Special Administrators.

The Oversight Committee comprises three members, appointed by the Minister of Finance, one each from the Ministry of Finance, Securities Commission and Bank Negara Malaysia.

### **Puan Siti Maslamah Osman**

Puan Siti is the Accountant-General at the Ministry of Finance. She has also served as Deputy Accountant-General (Management and Operation); senior accountant in various divisions of the Accountant-General's Department including Consultancy Services Division; Modernisation Accounting Unit and Information Technology Services Division; and finance manager at Bank Simpanan Nasional Berhad.

Puan Siti sits on the board of several non-governmental bodies including Universiti Kebangsaan Malaysia, Kumpulan Wang Simpanan Guru, Yayasan Laporan Kewangan, Lembaga Piawai Perakaunan Malaysia and Institut Akauntan Malaysia. In addition, she is the Honourable Treasurer of Persatuan Suri dan Anggota Wanita Perkhidmatan Awam Malaysia (PUSPANITA) and a council member of the Chartered Institute of Management Accountants ("CIMA") Malaysia Division.

Puan Siti is also a Fellow of CIMA, United Kingdom.

### **Encik Ali Tan Sri Abdul Kadir**

Encik Ali is Chairman of the Securities Commission ("SC"), a post he assumed on 1 March 1999. He is Chairman of the Capital Market Strategic Committee and a member of the Foreign Investment Committee, Financial Reporting Foundation and the National Economic Consultative Council II ("MAPEN II") Working Groups on Islamic Banking & Financial System, and Economics and Competitiveness. Encik Ali also sits on the Finance Committee on Corporate Governance and was recently appointed as a member on the Labuan Offshore Financial Services Authority.

Encik Ali is Chairman of the Asia-Pacific Regional Committee of the International Organisation of Securities Commissions ("IOSCO") and an ex-officio member of the IOSCO Executive Committee.

Before assuming his present position, Encik Ali was the Executive Chairman and a Partner of Ernst & Young and its related firms. He started his career in accounting in 1969 and qualified as a member of the Institute of Chartered Accountants in England & Wales ("ICAEW") in 1974. Encik Ali was also the President of the Malaysian Association of Certified Public Accountants ("MACPA"), before his appointment as Chairman of the SC.

### **Datuk Dr. Awang Adek Hussin**

Datuk Dr. Awang has been an Assistant Governor at Bank Negara Malaysia since 1996. He is currently in charge of Bank Regulation, Insurance Regulation and Exchange Control. Datuk Dr. Awang has held various positions in the Central Bank including the Director of Economics Department and Director of Bank Regulation Department prior to being promoted to the post of Assistant Governor. He was seconded to Labuan Offshore Financial Services Authority ("LOFSA") to become its first Director-General and returned to Bank Negara Malaysia in 1998. Datuk Dr. Awang obtained his Ph.D. degree in economics from the University of Pennsylvania, Philadelphia, U.S.A. in 1984.

Datuk Dr. Awang is a member of the Securities Commission. He also serves as a board member at the Malaysian Institute of Insurance as well as Amanah Saham Nasional Management Board and its Investment Committee.



## Chairman's Statement

On behalf of the Board of Directors, I am pleased to present the annual accounts and report for Pengurusan Danaharta Nasional Berhad for the financial year ended 31 December 2000.

### ACQUISITIONS

Danaharta had progressed swiftly through its establishment and acquisition phases, having completed its primary carve-out of non-performing loans ("NPLs") by end-June 1999. During the year, on 31 March 2000, Danaharta completed a secondary carve-out exercise. No further acquisition exercise is being contemplated and Danaharta will concentrate on managing and resolving the NPLs in its portfolio.

As at 31 December 2000, Danaharta had approximately RM47.49 billion (gross value) of NPLs in its portfolio comprising RM20.39 billion acquired from financial institutions ("FIs") and RM27.10 billion from the Sime Bank Group and Bank Bumiputra Group being managed on behalf of the government.

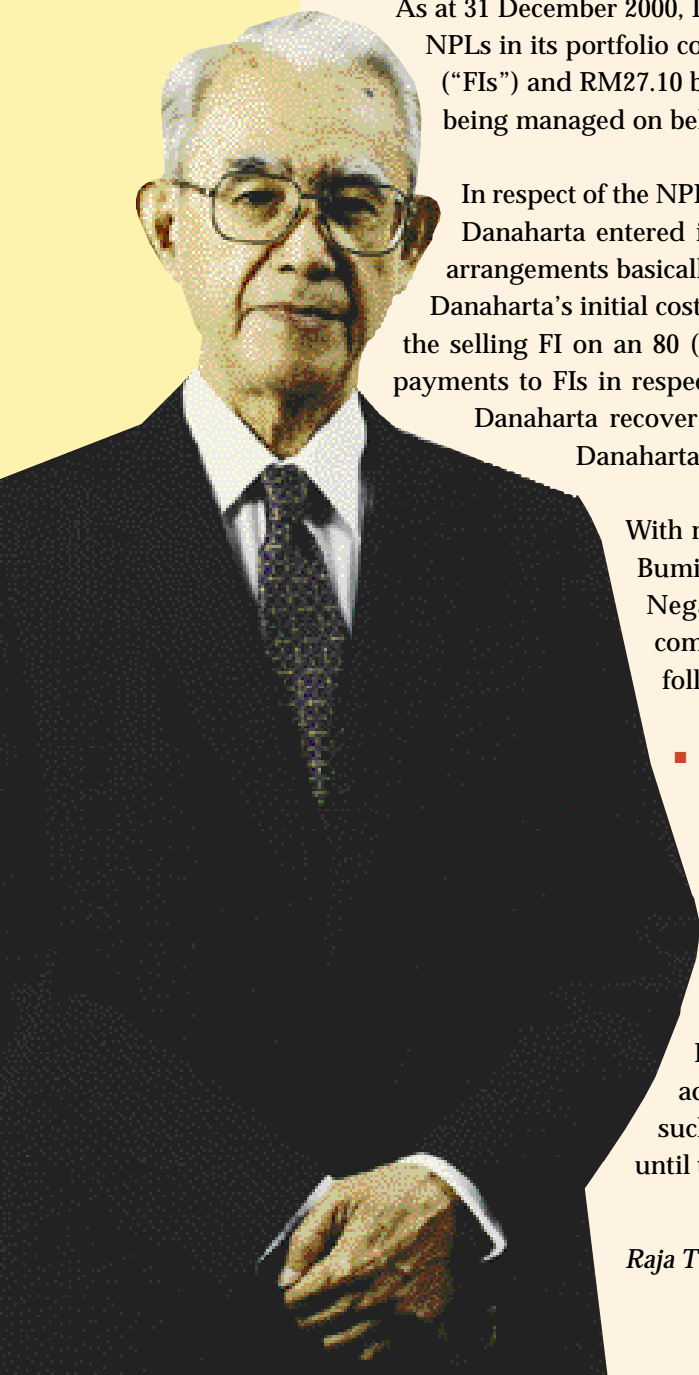
In respect of the NPLs acquired from FIs and as part of the acquisition agreements, Danaharta entered into profit-sharing arrangements with these institutions. The arrangements basically stipulate that any excess in recovery values over and above Danaharta's initial cost of acquisition plus directly attributable costs, are shared with the selling FI on an 80 (FI):20 (Danaharta) basis. Danaharta has commenced making payments to FIs in respect of such realised surpluses. It should be noted that should Danaharta recover less than its cost of acquisition, the loss is borne solely by Danaharta.

With regard to NPLs pertaining to the Sime Bank Group and Bank Bumiputra Group, all recoveries are for the accounts of Bank Negara Malaysia and the government respectively less any commission due to Danaharta. Danaharta receives commission as follows:

- If net recovery value is less than or equals the net book value, Danaharta receives 2% of the net recovery value
- If net recovery exceeds net book value, Danaharta receives 2% of the net book value and 20% of the excess.

With regard to NPLs belonging to Bank Bumiputra Group, a put option had been given to Bumiputra Commerce Bank Berhad to transfer to Danaharta further NPLs from the acquired assets of Bank Bumiputra Group until August 2001. As such, the amount of NPLs to be managed may increase slightly until the put option expires.

*Raja Tun Mohar Raja Badiozaman*





## MANAGEMENT AND DISPOSAL OF THE NPLS

As set out in last year's Annual Report, Danaharta processes NPLs by earmarking viable NPLs for loan restructuring (i.e. the restructuring will require them to be performing again – capable of repaying principal and servicing interest) and non-viable NPLs for asset restructuring, which entails the sale of business or collateral. Those initially earmarked as viable will also undergo asset restructuring if they default on their restructuring schemes.

Danaharta's loan restructuring guidelines are now quite well known (for easy reference, it has been included in this year's Annual Report). The guidelines provide a detailed framework to be followed in restructuring loans as well as covenants for monitoring the performance of restructured loans. Restructuring loans give Danaharta a better recovery rate which is why it is favoured as an initial approach leaving the sale of collateral or business as a last resort.

Danaharta is now well into its management phase. Approximately 74% of its portfolio (by value) have already been either restructured or approved for restructuring with an expected recovery rate of 66%. This average recovery rate is calculated by projecting the recovery proceeds from a resolution exercise (e.g. a restructuring scheme or sale of collateral) over the outstanding loan amount. Looking at the regional experience, Thailand and Korea have reported recovery rates of around 35% and 52% respectively. However, whilst this may give the impression that Danaharta is ahead of the game, it is worth noting that the entire portfolio has not been completely dealt with yet and the remainder NPLs are expected to be hard-core, yielding lower recovery rates. Therefore, it is expected that the average recovery rates will drop over time, the extent of which will be determined when all the NPLs accounts have been resolved. In any case, Danaharta will be disclosing this information via its quarterly operations update.

During the year, it was publicly announced that Danaharta has set itself a deadline of closing down by 2005. As such, all our operational strategies will aim at achieving such a scenario.

## TRANSPARENCY

Within Danaharta, there is a strong commitment to transparency in its operations. It continues to hold public briefings and industry dialogues, issue a range of publications, reply to Parliament and make frequent public announcements for the benefit of everyone who is interested in Danaharta's activities.

This year, Danaharta has added, to the above list, quarterly announcements that contain updates on Danaharta's progress.

## DANAHARTA AS A REFERENCE CASE

As mentioned in my statement last year, Danaharta has increasingly been made the subject of study by researchers and economic planners all over the world. During the year, Danaharta hosted official visits from no less than 20 different organisations from 9 countries.



Many were NPL resolution agencies or foreign government officials seeking to study and learn from our approaches and methods. Others were from multilateral agencies like the World Bank seeking to affirm their understanding of Danaharta's modus operandi. On one occasion, Danaharta hosted a delegation of 40 Members of Parliament from Indonesia who were interested to learn more about Danaharta. Another notable visit was from the United States Department of Treasury.

During the year, I am proud to note that *Asiamoney*, a respected financial magazine, bestowed its Restructuring Agency Chief of the Year award to Dato' Azman Yahya, Danaharta's Managing Director. This international recognition is testament to the level of professionalism and commitment found in Danaharta.

Danaharta has been happy to share whatever it can with all its visitors. It has always maintained that NPL resolution agencies need to be designed to suit specific national situations. In its case, the Danaharta management team had to study several examples around the world before formulating the Malaysian approach albeit under severe time constraints. Designers of NPL agencies should not adopt wholesale another agency's modus operandi without understanding the rationale and implications of such an approach.

## FINANCIAL RESULTS

For the period ended 31 December 2000, the Danaharta Group made a consolidated loss before tax of RM294.66 million mainly attributable to financing costs. No dividends were declared. Operating expenditure was kept low at RM44.29 million. Danaharta's operating costs are low due to the leanness of the organisation and a conscious spirit to economise and get the best value for money.

It must be understood that NPL resolution agencies all over the world make losses and this is why Danaharta constantly strives to maximise recovery value so as to minimise the eventual cost to be borne by the government.

## ORGANISATION

Danaharta has 262 staff members. This is considered small when compared to the staff strength of other NPL agencies in the region. From the start, Danaharta was designed to be a lean organisation with a reliance on outsourcing work to the professional community e.g. licensed valuers, lawyers and accountants. This is done deliberately given the finite-life nature of Danaharta.

## STANDARDS OF BUSINESS CONDUCT

As a national agency entrusted with public money, Danaharta has gone to great lengths to uphold a reputation for professional behaviour, good corporate governance, impartiality and integrity.

Detailed internal regulations define high standards of business conduct that all staff members must comply with. Key sections of the regulations deal with conflicts of interest situations and the need for appropriate and timely disclosures, and for confidentiality to be maintained.

For example, to avoid conflicts of interest, all staff members are prohibited from participating in disposal exercises (e.g. sale of property collateral) conducted by Danaharta. Employees are neither allowed to solicit or accept gifts or favours from third parties that may prejudice their independent judgement nor conduct business activities outside Danaharta. Directors and employees need to file an annual declaration of independence which includes disclosure of financial interests. Furthermore, any employee wishing to trade securities is required to obtain pre-clearance from the Internal Audit and Compliance Division. All Danaharta personnel are prohibited from using inside information in line with insider trading laws.

### CORPORATE DEVELOPMENTS

The Minister of Finance, Incorporated, Danaharta's sole shareholder, increased the equity capital of Danaharta by injecting RM750 million on 10 April 2000 and a further RM750 million on 17 May 2000. The resultant paid-up capital of Danaharta as at 31 December 2000 stood at RM3 billion.

During the year, Danaharta acquired the entire issued and paid-up capital of TTDI Development Sdn Bhd – a reputable property development and management company owned by Permodalan Nasional Berhad, another government agency. The rationale for the acquisition is to support and complement Danaharta's Property Division in their efforts to manage and deal with property collateral that may not be sold through regular tenders of foreclosed properties. It should be noted that, whilst Danaharta is a self-liquidating organisation, TTDI will remain a going-concern and quite possibly be returned to quasi-government ownership once Danaharta has achieved its mission.

### ACKNOWLEDGEMENTS

The Board is appreciative of the guidance and co-operation extended by the following:

The National Economic Action Council;  
Ministry of Finance;  
Ministry of Land and Cooperative Development and Land Registries and Offices nationwide;  
Bank Negara Malaysia;  
Securities Commission;  
Kuala Lumpur Stock Exchange;  
Foreign Investment Committee; and  
government ministries and departments and regulators at both federal and state levels.

The Board is grateful for the close collaboration with Danamodal Nasional Berhad and the Corporate Debt Restructuring Committee in dealing with common issues arising from each respective sphere of activities. The Board also acknowledges the co-operation of the financial community when interacting with Danaharta.

The Board wishes to thank our consultants, advisers and business associates for the support and services provided to Danaharta.

The Board expresses its gratitude to the members of the Tender Board and Oversight Committee for their work involving Danaharta.

During the year, Dato' Mohamed Adnan Ali (Oversight Committee member) retired from government service. Puan Siti Maslamah Osman succeeded him as Accountant-General and consequently replaced him on the Oversight Committee with effect from 27 October 2000. We wish him a happy retirement and welcome Puan Siti Maslamah.



With regard to the Board, there have also been changes in membership during the year:

- Dato' Dr. Abdul Aziz Yaacob, formerly the Deputy Secretary-General (Policy) of the Ministry of Finance, left the Board after being posted to the Public Services Department and was replaced by Puan Husniarti Tamin, Deputy Secretary-General (Systems and Security) of the Ministry of Finance, with effect from 11 August 2000; and
- Dato' Dr. Zeti Akhtar Aziz, Governor of Bank Negara Malaysia, was succeeded on the Board by Dato' Salleh Harun, Deputy Governor of Bank Negara Malaysia, with effect from 22 September 2000.

I wish to record my sincere thanks to both Dato' Dr. Aziz and Dato' Dr. Zeti for their invaluable contribution during their tenure of duty. At the same time, we warmly welcome their respective replacements to the Board.

As Chairman, I am most grateful to all the Board members for their conscientious attendance and active participation during Board meetings and the various Board committees required by Danaharta's corporate governance policies.

On behalf of the Board, I thank the management and staff of Danaharta for their sterling efforts in coping with the various challenges posed to date. It is hoped that the team spirit and commitment that have taken us this far can be maintained to ensure Danaharta's eventual success.

Finally, we record our appreciation to the NPL borrowers who have co-operated with us and we acknowledge the forbearance shown by borrowers in waiting to be dealt with by our resolution teams who are faced with a mountain of work.

In closing this year's statement, I see sustaining our country's economic recovery as a priority for all and Danaharta will continue to do its part by striving to resolve its NPLs as quickly as possible.

**Raja Tun Mohar Raja Badiozaman**  
Chairman



# Review of Operations

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## DANAHARTA ORGANISATION STRUCTURE AS AT 31 DECEMBER 2000

### BOARD OF DIRECTORS



### LINE DIVISIONS

The Operations and Property Divisions constitute the Line Divisions within Danaharta. A summary of their functions is as follows:

#### Operations:

- Responsible for loan acquisition and loan restructuring.
- Also houses a Credit Administration Unit to handle the administrative aspects of loan management.

#### Property:

- Provides advisory services to loan management divisions on property-related issues e.g., feasibility of projects and valuation of property collateral.
- Manages property collateral under Danaharta's portfolio.
- Facilitates foreclosure of property collateral and manages the disposal and transfer process.
- Manages properties that cannot be cleared through loan restructuring or foreclosure in order to enhance the value of the properties and re-offer them to the market.

The activities of the Line Divisions are summarised in the rest of this section.

## INTRODUCTION

Since its establishment 2½ years ago, Danaharta has acquired a portfolio totalling RM47.49 billion of non-performing loans (“NPLs”). Of these, RM35.83 billion (approximately 74%) has been either restructured or approved for restructuring, with expected recoveries of RM23.8 billion (expected recovery rate of 66%). As at 31 December 2000, the default rate stood at a tolerable 6%.

Danaharta expects to restructure the remaining unresolved NPLs of RM12.4 billion (in gross value terms) by the end of 2001.

In the course of its recovery operations, Danaharta has accumulated assets in four broad groups, which it needs to manage, namely cash, performing loans, securities and properties. Out of the RM23.80 billion expected recoveries from NPLs that have been restructured or approved for restructuring, RM12.03 billion has been received as follows, as at 31 December 2000:

	RM billion
Cash (note 1)	6.40
Performing loans (note 2)	5.45
Securities (note 3)	0.62
Properties (note 4)	0.33
	12.80
Less:	
Adjustments	
e.g. interest received on performing loans	(0.77)
	12.03

The balance of expected recoveries amounting to RM11.8 billion is at various stages of the recovery process. Ultimately, it is intended to convert all non-cash asset groups to cash.

### Notes:

- Cash.** Cash is generated from the sale of collateral/foreign loan assets, collections from restructured NPLs and cash settlements.
- Performing loans.** These are restructured/rehabilitated NPLs that have turned performing.
- Securities.** This asset group comprises all kinds of securities e.g. shares, loan stocks that have been issued to Danaharta as part of settlement schemes (note: this does not refer to share collateral);
- Properties.** This asset group comprises properties that remain unsold from property tenders that are transferred to Danaharta Hartanah Sdn Bhd, a wholly-owned subsidiary of Danaharta, and properties that are offered and accepted as full or partial settlement for NPLs i.e. set-offs (no set-off properties received as at 31 December 2000). This does not refer to property collateral that has not been foreclosed.

## ACQUISITION

As at 31 December 2000, Danaharta had carved out a total of RM47.49 billion in gross value of NPLs - RM39.30 billion from the banking system and RM8.19 billion from non-banking and offshore institutions. Of this total, Danaharta is managing RM27.10 billion of NPLs in respect of the Sime Bank Group and Bank Bumiputra Malaysia Berhad ("BBMB") Group. Offers made by Danaharta for RM8.03 billion in gross value of NPLs were rejected by financial institutions ("FIs").

## PAYMENT FOR NPLS

In return for the NPLs acquired up to 31 March 2000, Danaharta issued RM11.14 billion in face value of government-guaranteed bonds with a present value of RM8.22 billion and paid RM0.8 billion in cash to the selling FIs, making a total fair purchase price of RM9.02 billion. Cash payments were made mainly for acquisitions of NPLs from development finance institutions, loans extended under the Islamic concept and unsecured loans. No further bonds have been issued since 31 March 2000.

A summary of the bond issues up to 31 March 2000 is as follows:

### *Bond issues up to 31 March 2000*

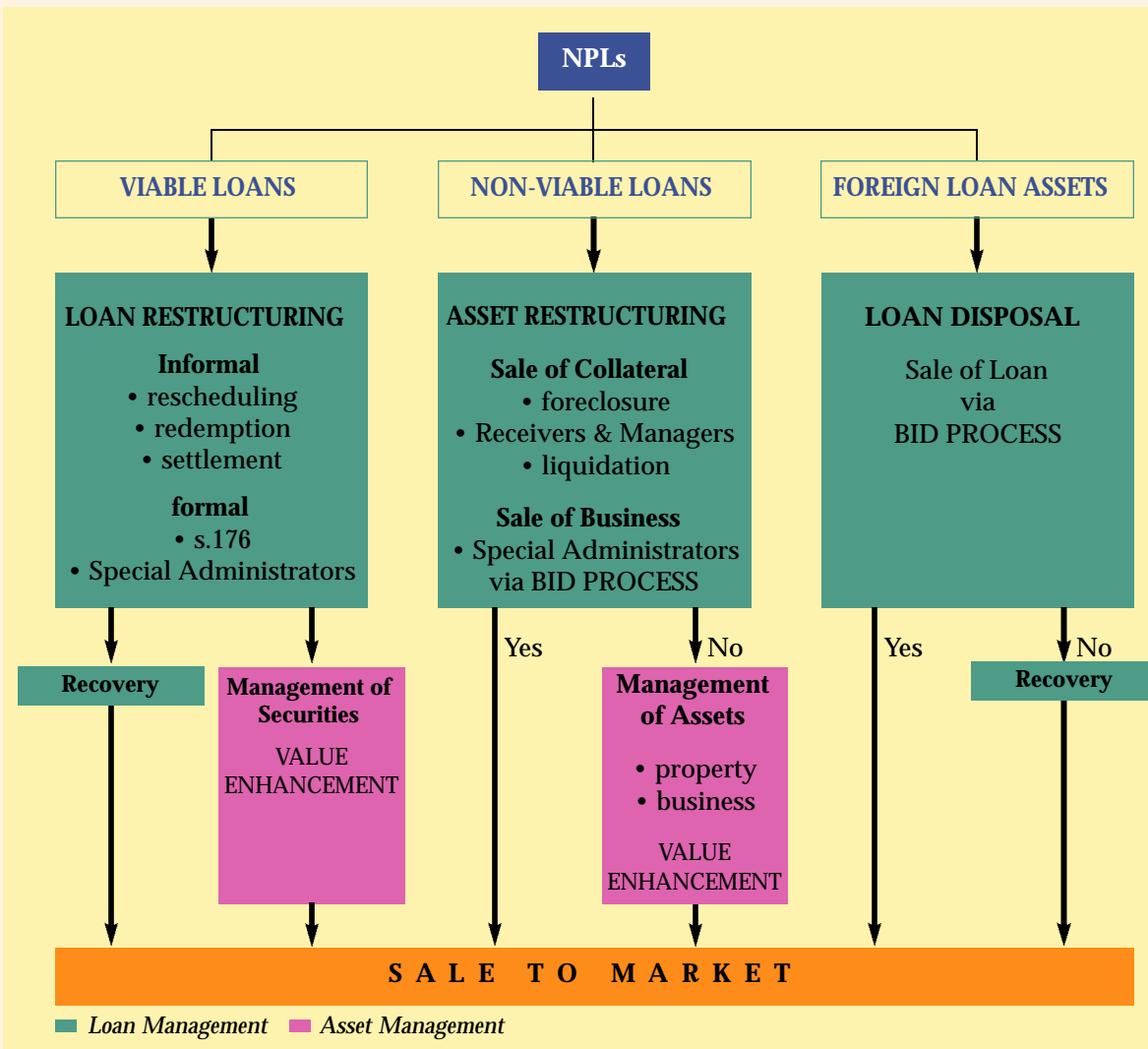
<b>Date of issue</b>	<b>Face value RM billion</b>	<b>Price for every RM100.00 in face value</b>	<b>Yield</b>	<b>Present value RM billion</b>	<b>Date of Maturity</b>
20 November 1998	1.022	69.832	7.150%	0.713	31 December 2003
30 December 1998	1.580	72.012	6.672%	1.138	31 December 2003
29 January 1999	1.105	71.301	6.654%	0.788	31 March 2004
26 February 1999	1.242	72.296	6.475%	0.898	31 March 2004
26 March 1999	1.393	72.758	6.445%	1.013	31 March 2004
29 April 1999	1.050	75.584	5.487%	0.793	30 June 2004
27 May 1999	0.511	76.229	5.400%	0.389	30 June 2004
29 June 1999	0.744	76.862	5.330%	0.572	30 June 2004
29 July 1999	0.527	76.223	5.319%	0.402	30 September 2004
26 August 1999	0.204	73.585	6.111%	0.150	30 September 2004
29 October 1999	0.575	76.365	5.283%	0.439	31 December 2004
29 December 1999	0.392	77.363	5.194%	0.303	31 December 2004
31 January 2000	0.162	77.244	5.063%	0.125	31 March 2005
29 February 2000	0.305	77.697	5.025%	0.237	31 March 2005
31 March 2000	0.328	77.494	5.165%	0.255	31 March 2005
<b>Total</b>	<b>11.140</b>			<b>8.215</b>	

*No bonds were issued in September and November 1999.*



**MANAGEMENT AND DISPOSITION**

Danaharta’s approach in management and disposition of assets is summarised in the diagram below



*Asset Management and Disposition*

**LOAN MANAGEMENT**

As at 31 December 2000, Danaharta had within its portfolio 2,835 accounts relating to 2,507 borrowers, with a total gross value of RM47.49 billion. Danaharta has restructured or approved for restructuring NPLs with a total gross value of RM35.83 billion (see table on page 32). At the same time, Danaharta has initiated recovery measures with 98% of the borrowers in terms of value and 91% in number. Statistics on the various stages of the loan management process are presented on page 35.

## NPLs restructured or approved for restructuring

Recovery Method	*Loan outstanding RM billion	Expected recovery RM billion	Expected recovery %
Performing loans	2.57	2.57	100%
Plain loan restructuring	7.06	6.54	93%
Settlement	6.34	4.86	77%
Scheme of arrangement	6.08	5.07	83%
SA- scheme approved	2.50	1.54	62%
Foreclosure	7.63	2.12	28%
Others	2.02	1.10	55%
Legal action	1.63	-	-
	<b>35.83</b>	<b>23.80</b>	<b>66%</b>

\* Including accrued interest of RM0.789 billion

### LOAN RESTRUCTURING

Danaharta uses the following methods to restructure loans:

- (a) plain loan restructuring, where recovery is by way of rehabilitating an NPL to become a performing loan (this may involve loan rescheduling) (93% expected recovery rate as at 31 December 2000);
- (b) settlement of loans, where loans are disposed outright e.g. foreign loan assets, or where a settlement scheme has been agreed upon (77% expected recovery rate as at 31 December 2000); and
- (c) scheme of arrangement, which may be a scheme under section 176 of the Companies Act, 1965, a voluntary scheme of arrangement or a scheme under the Corporate Debt Restructuring Committee ("CDRC") (83% expected recovery rate as at 31 December 2000).

Loans that are clearly non-viable from the outset are placed under asset restructuring (see below). Borrowers who fail to comply with the loan restructuring guidelines (at proposal stage or post-approval stage) are also transferred to asset restructuring.

### ASSET RESTRUCTURING

Non-viable loans and loans that fail to comply with the loan restructuring guidelines are placed under asset restructuring. Asset restructuring involves the sale of a borrower's business or the underlying collateral of an NPL (which may comprise property and/or shares).

#### Sale of foreclosed properties

Danaharta may foreclose on property collateral, or shares pledged as security for loans. As at 31 December 2000, the expected recovery from foreclosure exercises showed a decrease from 48% (as at 30 June 2000) to 28%. This is mainly due to the shortfall recorded upon foreclosure on the share collateral of one large loan.

As at 31 December 2000, Danaharta has conducted four property tenders, offering to the market 449 properties (excluding hotel and leisure properties) with a total indicative value of RM985.93 million.

Danaharta has sold 72% of the properties that have been offered in its tenders since the first tender was launched in November 1999. Of the total of 325 properties sold, 253 properties were sold in the primary sales (sold first time offered in tender) and 72 in the secondary sales, (sold by Danaharta Hartanah) altogether for a total consideration of RM535.02 million (RM 410.25 million from the primary sales and RM 124.77 million from the secondary sales).

Status of properties under primary sales	Number of properties	Indicative value (IV) (RM million)	Consideration received (C) (RM million)	C/IV %
Sold to successful bidders in tenders	253 <sup>a</sup>	405.18	410.25	101%
Unsold in tenders, transferred to Danaharta Hartanah Sdn Bhd for secondary sales	193	577.01	n/a	n/a
Unsold in tenders, belonging to Jalur Realty Sdn Bhd	3	3.74	n/a	n/a
<b>Total offered to the market as at 31 December 2000</b>	<b>449</b>	<b>985.93</b>		

<sup>a</sup> Including 12 properties belonging to Jalur Realty Sdn Bhd, a property management company which was previously part of the Sime Bank Group. The 12 properties have a total indicative value of RM14.64 million and were sold for a total consideration of RM15.51 million. The sale of Jalur Realty properties formed part of the resolution of the Sime Bank Group.

For properties sold via tenders, Danaharta has achieved more than their indicative values. This shows that Danaharta's indicative values are realistic and market-based.

Spearheading the property tender marketing efforts are 189 real estate agents ("REAs") on Danaharta's panel with offices at 252 locations throughout Malaysia. These REAs actively market the properties and provide advice, at no cost to the bidders, on their tenders. This marketing strategy has proven effective and the performance of the REAs has been impressive, given that successful sales via REAs accounted for 42%, 83% and 93% and 95% of total sales in the four tenders to date respectively.

#### **Project Management and Marketing**

In July 2000, as part of the third property tender, Danaharta carried out project marketing for 85 units of the Villa Duta Condominium, at Bukit Antarabangsa, Selangor, which had been foreclosed under section 57 of the Danaharta Act. A total of 78 units have been sold (54 units via tenders and 24 units via private contract) for a total consideration of RM10.84 million. Ninety percent of the units were sold above indicative value.

In addition, Danaharta successfully co-ordinated the sale by the Receivers & Managers, PricewaterhouseCoopers, of 110 units of the Waikiki Condominium in Tanjung Aru, Kota Kinabalu, Sabah (see case study on page 46).

#### **Sale of Hotel and Leisure Properties ("HLP")**

In October 2000, Danaharta and the Special Administrators of seven companies launched a joint tender, offering 11 hotels for sale. Danaharta had foreclosed on three of the hotels. At the close of the tender in November 2000, 15 bids were received, of which three were accepted. Another two hotels were sold after the tender closed. See case study on pages 44 and 45.

#### **Special Administrators**

NPL resolution of companies under Special Administration (SA- Scheme approved) showed a recovery rate of 62% as at 31 December 2000. Further details on companies under Special Administration can be found on pages 75 to 86.

**LOAN DISPOSAL**

As at 31 December 2000, Danaharta had completed three restricted tender exercises (“RTEs”) to dispose foreign loan assets i.e. non-Ringggit loans and marketable securities extended to or issued by foreign borrowers.

A summary of the three restricted tenders is as follows:

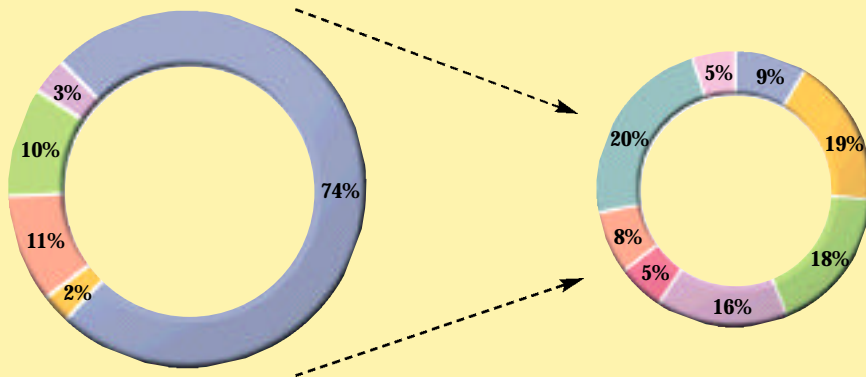
<b>Restricted tender</b>	<b>1st July to Aug. 1999</b>	<b>2nd Dec. 1999 to Feb. 2000</b>	<b>3rd Aug. to Sept. 2000</b>
No. of accounts offered	15	28	45
Total principal value USD million	142.5	251.8	168.8
No. of accounts sold or settled by borrowers	13	25	29
Principal value of accounts sold or settled by borrowers (A) USD million	95.0	244.8	102.1
Consideration received (B) USD million	52.4m <i>(cash of USD36.5m and instruments worth USD15.9m)</i>	173.2 <i>(cash of USD169.3m and instruments worth USD3.9m)</i>	66.3 <i>(cash of USD64.2m and instruments worth USD2.1m)</i>
Average recovery rate (B/A)%	55%	71%	65%

For accounts disposed under the three RTEs, the average loan recovery rate is approximately 65%. No future disposal exercises are planned for foreign loan assets.

**LOAN MANAGEMENT STATISTICS**

As at 31 December 2000, Danaharta had within its portfolio 2,835 accounts relating to 2,507 borrowers, with a total gross value of RM47.49 billion. Danaharta has initiated recovery measures with 98% of the borrowers in terms of value and 91% in number. Details of the progress made by Danaharta in initiating recovery measures as at 31 December 2000 are presented on the following page.

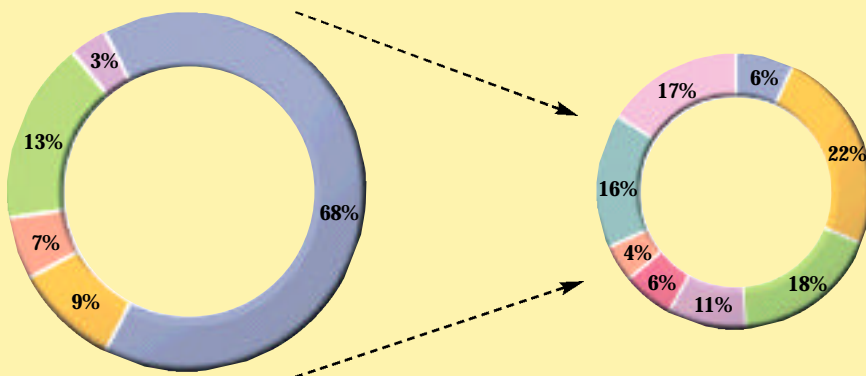
**Loan Management Progress as at 31 December 2000**



- 74% Restructured/approved for restructuring
- 3% Proposal evaluated pending finalisation
- 10% Proposal submitted pending evaluation
- 11% Recovery initiated pending submission of proposal
- 2% Recovery to be initiated

- 9% Performing
- 19% Plain loan restructuring
- 18% Settlement
- 16% Scheme of arrangement
- 5% Others
- 8% Special Administrators
- 20% Foreclosure
- 5% Legal action

**RM47.49 billion**



- 68% Restructured/approved for restructuring
- 3% Proposal evaluated pending finalisation
- 13% Proposal submitted pending evaluation
- 7% Recovery initiated pending submission of proposal
- 9% Recovery to be initiated

- 6% Performing
- 22% Plain loan restructuring
- 18% Settlement
- 11% Scheme of arrangement
- 6% Others
- 4% Special Administrators
- 16% Foreclosure
- 17% Legal action

**2,507 borrowers**

## ASSET MANAGEMENT

## MANAGEMENT OF SECURITIES

As at 31 December 2000, in the course of its recovery operations, Danaharta had in its portfolio, securities with a market value of RM620 million. These comprise shares, as well as redeemable, irredeemable and convertible securities, and will be realised into cash based on Danaharta's stated approach governing management of securities.

## MANAGEMENT OF PROPERTIES

Properties that do not attract bids above the minimum price set by Danaharta in each property tender are transferred to Danaharta Hartanah Sdn Bhd (a wholly-owned subsidiary of Danaharta) via an automatic bid mechanism. These unsold properties are subsequently re-offered to the market. These 'secondary sales' can be conducted in a variety of ways, including sale by private contract (direct negotiation between Danaharta Hartanah and a prospective buyer) or by offering the properties in the next open tender, together with other newly foreclosed properties.

As at 31 December 2000, 193 unsold properties from the primary sales have been transferred to Danaharta Hartanah. Of this, a total of 72 properties have been sold via private contract sale or through Danaharta's subsequent property tenders. Details of the secondary sales are as follows:

Status of properties under secondary sales	Number of properties	Indicative value (IV) (RM million)	Consideration received (C) (RM million)	C/IV %
Re-offered and sold via private contract	41	43.96	35.55	81%
Re-offered and sold in subsequent Danaharta property tenders	31	113.07	89.22	79%
<b>Sub-total of properties sold</b>	<b>72</b>	<b>157.03</b>	<b>124.77</b>	<b>79%</b>
Withdrawn from sale	2	2.66	n/a	n/a
Available for sale as at 31 December 2000	119	417.32	n/a	n/a
<b>Total re-offered to the market</b>	<b>193</b>	<b>577.01</b>		

## Value enhancement by Danaharta Hartanah

One of the objectives of conducting the property tenders is to reduce the number of properties that will eventually be managed by Danaharta. The tender process represents an initial attempt to sell foreclosed property collateral for loans that cannot be restructured. During the tender, Danaharta Hartanah submits a bid for each property at the minimum price. Should the property remain unsold, it is transferred to Danaharta (at the minimum price) and subsequently re-offered to the market.

Where necessary, Danaharta Hartanah will conduct value enhancement work on an unsold property before re-offering it to the market. A recent example would be the refurbishment work carried out on an industrial factory located in the Prai Industrial Estate, Penang (see the case study on page 47).

**DISTRIBUTION OF RECOVERY PROCEEDS**

As at 31 December 2000, Danaharta has distributed a total of RM4.62 billion of recovery proceeds as follows:

<b>Distribution of recovery</b>		
<b>1. Recovery proceeds for loans under management</b>		<b>Cash (RM)</b>
NPLs of the BBMB Group and the Sime Bank Berhad Group		4,419,542,841.84
<b>Sub-total</b>		<b>4,419,542,841.84</b>
<b>2. Recipient of surplus recovery for acquired loans</b>	<b>No. of accounts</b>	<b>Cash (RM)</b>
(a) The Pacific Bank Berhad	1	12,568,675.33
(b) Malayan Banking Berhad	2	30,135,709.35
(c) OCBC Bank Malaysia Berhad	1	148,898.61
(d) MBf Finance Berhad	1	136,000.00
(e) Bank Industri Malaysia Berhad	1	480,082.15
(f) Southern Bank Berhad	1	440,800.00
(g) Sabah Development Bank Berhad	1	3,828,714.24
(h) RHB Bank Berhad	2	57,070,851.84
(i) Bank of Commerce Malaysia Berhad	2	50,498,738.94
(j) Arab-Malaysia Finance Berhad	1	1,575,687.64
(k) RHB Sakura Merchant Bankers Berhad	1	10,622,769.81
(f) Bank Bumiputra Malaysia Berhad#	4	32,752,093.65
<b>Sub-total</b>	<b>18</b>	<b>200,259,021.56</b>
<b>TOTAL DISTRIBUTED</b>		<b>4,619,801,863.40</b>

# *Relating to loans acquired at discounted prices by Pengurusan Danaharta Nasional Berhad prior to the arrangement for Danaharta to manage the BBMB NPL portfolio. Payment made to Danaharta Urus Sdn Bhd as the manager of BBMB NPLs.*

Danaharta had acquired NPLs with a total gross value of RM20.39 billion at an average discount of 55%, which may have led to shortfalls (difference between the loan outstanding and the acquisition price) being suffered by selling financial institutions ("FIs"). However, where Danaharta recovers more than the acquisition price it paid for a loan in addition to holding and recovery costs incurred, it will share the surplus recovery with the selling FI.

Typically, the sharing is made on an 80(selling FI): 20(Danaharta) basis and the amount receivable by the selling FI is limited to the shortfall value. Once Danaharta has realised its acquisition costs (plus holding costs) in cash, it will distribute the surplus recovery to the FI in the form of cash and securities.

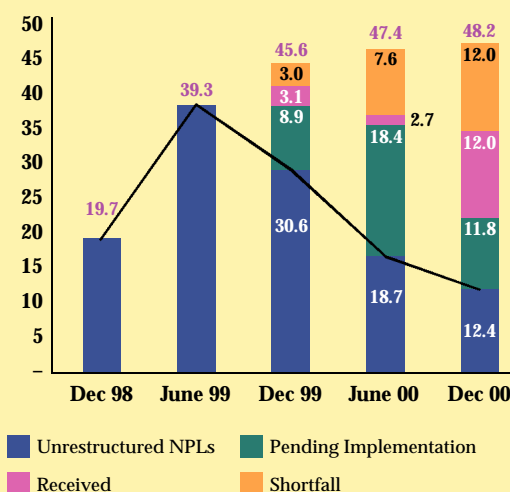
With regard to the NPLs from the BBMB Group and the Sime Bank Group under the management of Danaharta Urus Sdn Bhd and Danaharta Managers Sdn Bhd (both wholly-owned subsidiaries of Danaharta) respectively, fees are levied as follows:

- (a) If net recovery value is less than or equals net book value, Danaharta Urus/Danaharta Managers receives 2% of the net recovery value.
- (b) If net recovery value exceeds net book value, Danaharta Urus/Danaharta Managers receives 2% of the net book value and 20% of the excess.

The amounts shown in the table are net of Danaharta's fees.

#### SUMMARY OF ASSET MOVEMENT

Asset movements at six-month intervals up to 31 December 2000



*Note: Except for unrestructured loans, all figures shown in the chart include accrued interest.*

As with any other asset management company, the composition of Danaharta's assets will change over time from unrestructured NPLs to various asset groups and ultimately into cash.

Overall, there have been significant changes in respect of the composition of Danaharta's portfolio, as depicted in the above chart. As Danaharta moved from its establishment phase to acquisition phase, its portfolio of NPLs (unrestructured at that stage) grew rapidly. In June 1999, its NPL portfolio stood at RM39.3 billion. From 1 July 1999, Danaharta moved into its management phase and actively commenced recovery measures on the unrestructured NPLs in its portfolio. As such, the above bar chart shows the gradual reduction of the unrestructured component, replaced by the growth of other components representing NPLs that have been processed where recovery proceeds have been received or pending implementation. As at December 1999, Danaharta had initiated the recovery (via loan or asset restructuring measures) on approximately RM15.0 billion of the portfolio (in gross value terms). This amount increased to RM35.83 billion as at 31 December 2000 with RM12.4 billion left to be resolved.

Based on the current pace and trend of its resolution activities, Danaharta is on track to achieve its targeted closure by 2005.



## SUPPORT DIVISIONS

### CORPORATE SERVICES

The Corporate Services Division comprises three Units, namely Corporate Planning, Corporate Finance and Research.

#### Corporate Planning Unit

During the year, the Corporate Planning Unit completed the 5-year business plan and budget for the Danaharta Group. The Unit implemented an improved reporting and budgetary process with focus on cash flow management and tighter post-implementation monitoring.

The Unit also participated in special projects on the stockbroking, manufacturing, and hotel and leisure portfolios, and helped to improve the custody function for both properties and shares.



#### Corporate Finance Unit

During the year, the Corporate Finance Unit actively supported various key areas of Danaharta's operations and also executed several special projects. For example, the Unit was involved in:

- Evaluating and negotiating workout proposals submitted by corporate borrowers, in particular those submitted by public listed companies and involving the issuance of marketable securities.
- Formulating strategies to manage marketable securities received as settlement of debt via workout proposals or received via foreclosure of loan collateral. In this regard, the Unit conducted valuations of marketable securities for disposal purposes, in conjunction with the Research Unit.
- Disposing the businesses and/or assets of wood-based, stockbroking, and hotel and leisure companies to which Special Administrators had been appointed. Through the appointment of Special Administrators, Danaharta (which had a total exposure of RM300 million to these 11 SBCs) managed to resolve the liabilities of the stockbroking companies ("SBCs") totaling RM2.81 billion. The resolution of these SBCs also attracted investments of RM823.7 million in cash and RM430.4 million worth of instruments.
- Implementing two successful restricted tenders of foreign loan assets within Danaharta's portfolio, in conjunction with Danaharta Managers (L) Ltd.

#### Research Unit

During the year, the Research Unit undertook in-house research projects of special interest to Danaharta. For example, the Unit conducted asset-focused research on property, manufacturing and other sectors to which Danaharta was exposed. In addition, the Unit provided information and analysis on macro-economic drivers that may have a material impact on the management of assets.

## **RISK MANAGEMENT DIVISION**

The Risk Management Division has grown substantially in strength and number, having started its operations with other divisions after the establishment of Danaharta in June 1998.

Danaharta's policy for the control and administration of risk is based on the concept of "Enterprise Risk Management" which advocates centralising the co-ordination of an organisation's strategic response to risk. In Danaharta's case, the centralisation is within the Risk Management Division which comprises the Risk Management Unit and the Systems & Methods Unit.

### **Risk Management Unit**

During the year, Danaharta's Board of Directors formally adopted Danaharta's Risk Management Policy which was formulated in line with Danaharta's internal Standards of Business Conduct and is also complementary to Danaharta's business objectives.

In general, the function of the Risk Management Unit comprises the provision of general risk advisory support services on all aspects of Danaharta's operations from loan acquisition, loan management and other operational functions right through to asset management. Areas of support include, among other things, credit, market, operational and legal risks as well as other non-tangibles such as reputational risk.

One of the main functions of this Unit lies in its independent review of loan management, asset management and other project papers to ensure conformity and consistency in the application of Danaharta's policies and procedures throughout the Danaharta Group, and also to highlight and mitigate pertinent risk issues.

### **Systems & Methods Unit**

The responsibility of the Systems & Methods Unit lies, firstly, in the formulation of effective procedures within the Danaharta Group. When drafting such procedures, particular care is taken to ensure that management control and legal requirements are not compromised and business is conducted in line with the company's policies and objectives and the market's best practices in the most practical and efficient manner.

In order to achieve its objectives, the Unit has to undertake a certain amount of research on what constitutes best practice as well as the compilation of relevant statistics to support its formulation process.

The second function of this Unit is as the custodian for Danaharta's policies and procedures and the control point for their dissemination.

Finally, this Unit is instrumental in the process of rationalisation of existing procedures to ensure that Danaharta's operating procedures remain current, efficient and applicable throughout Danaharta's evolution.

## FINANCE AND SERVICES DIVISION

The Finance and Services Division comprises the following Units:

### Finance and Treasury Unit

The Finance and Treasury Unit is responsible for all aspects of Danaharta's accounting, financial management and treasury work, including management accounting as well as statutory requirements. Monthly management reports are prepared in which the results of loan acquisitions, loan and asset management and asset disposals are reported and compared to forecasts.

The Unit had also been responsible for the issue of around RM11.14 billion in face value of government-guaranteed bonds to financial institutions for NPL acquisitions since the beginning of Danaharta's life.

### Information Technology ("IT") Unit

The IT Unit is responsible for all IT systems development, maintenance and operations. Danaharta relies on IT to help compensate for its relatively small staff strength. IT is an important part of Danaharta's strategy to deal with its NPL portfolio in an efficient and timely manner.

### Administration Unit

This Unit is responsible for office administration matters necessary to support the various Divisions of Danaharta.

## LEGAL AFFAIRS DIVISION

The Legal Affairs Division comprises the following Units:

### Legal Advisory Unit

The Legal Advisory Unit provides legal support services to Danaharta and its group of companies. This includes legal advice on loan acquisitions, loan management (e.g. loan restructurings, workout proposals & foreclosed property sales) and asset management.

During the year, the Unit was involved in preparing the Pengurusan Danaharta Nasional Berhad (Amendment) Act 2000, which was passed by Parliament in July 2000. The amendments are intended to:

- Clarify existing provisions of the Pengurusan Danaharta Nasional Berhad Act 1998 in order to remove any doubts about their intended effect.
- Overcome practical difficulties which have arisen since Danaharta began operations.

Consequential amendments were made to the National Land Code through the National Land Code (Amendment of the Fifteenth Schedule) Order 2000 which was gazetted on 30 November 2000.

The Unit was also involved in a nationwide tour to brief land administrators from the Office of the Director of Land & Mines on Danaharta's vesting procedures and transfer of properties. These presentations will continue into 2001.

### Secretarial Unit

The Secretarial Unit provides company secretarial services. Apart from maintaining the Group's statutory books and records and ensuring compliance with relevant laws, policies and procedures relating to meetings of the Board, Board and management committees, the Unit also acts as the secretariat to the Oversight Committee and the Tender Board.

## COMMUNICATIONS AND HUMAN RESOURCE DIVISION

The Communications and Human Resource Division comprises the following Units:

### Communications Unit

The Unit's activities cover all aspects of public and investor relations, advertising and event management. Given Danaharta's strong commitment to transparency in its operations, the Communications Unit continues its role as a channel via which Danaharta updates all interested parties on its objectives and activities in a timely manner. It is also responsible for responding to queries from the public, Parliament, media and industry analysts.

During the year, in addition to briefings to local and foreign analysts and fund managers, supra-national organisations and various professional and trade associations, the Unit was involved in briefings to local university lecturers and students together with regulators and other government agencies. The Unit is also taking part in a nationwide tour to brief land administrators from the Office of the Director of Land & Mines on Danaharta's vesting procedures and transfer of properties, together with representatives from the Property Division and Legal Affairs Division.

The Communications Unit is responsible for all publications by Danaharta such as the half-yearly Operations Report and Annual Report, and has included quarterly announcements for the first time this year.

Internally, the Unit was also involved in the marketing efforts related to the foreclosed property tenders and the hotel and leisure property tender, among others.

### Human Resource Unit

The Human Resource Unit is responsible for all human resource management needs of Danaharta including recruitment, human resource development and personnel administration. It also organises staff briefings on a regular basis on a variety of human resource issues. Danaharta places great importance on managing its human resources given the size and complexity of its mission.

Danaharta's total employee strength grew from 237 as at the end of 1999 to 262 by the end of 2000.

#### Professional Staff Statistics (as at 31 December 2000)

Qualifications	%	Career Background	%
Master's Degree/ Professional Qualification	34	Local Banks	55
Bachelor's Degree/Diploma	62	Foreign Banks	9
Others	4	MNCs/International firms	13
		Local firms	18
		Others	5
Working Experience	%	Age	%
More than 3 years	100	More than 25 years	100
More than 5 years	78	More than 30 years	71
More than 10 years	42	More than 35 years	38
More than 15 years	23	More than 40 years	19
Gender	%		
Male	62		
Female	38		

### Security Unit

The Security Unit, which comprises a team of 15 members, is responsible for security-related matters including overseeing the security of Danaharta's premises.

## INTERNAL AUDIT AND COMPLIANCE DIVISION

The Internal Audit & Compliance Division plays an important role in contributing to Danaharta's good corporate governance. As part of the assurance process, the Division conducts independent appraisals of the internal control framework covering all of Danaharta's business processes and activities to provide reasonable assurance to management and the Board that the framework is robust, fit for purpose and functioning efficiently and effectively. It maintains its independence and objectivity in reporting, by being responsible functionally to the Audit Committee ("AC").

The Division performs audits in accordance with approved internal audit plans. During the year, a total of 15 audits were carried out covering most of Danaharta's key business operations and support activities, including loan management, property tenders, restricted tenders of foreign loan assets, sales of securities, Special Administrator contracts and treasury. Agreed actions arising from these audits were followed up with the Management Executive Committee and the AC to ensure timely action is taken. The Division also provides advice and support on internal controls in the development or revision of policies and procedures for specific projects.

Danaharta's adoption of Control Self-Assessment ("CSA") by line management will lend a different perspective in the appraisal process to provide assurance on the effectiveness of the internal control framework. During the year, the Division conducted training on CSA for 180 staff members to stimulate risk and control awareness by encouraging them to talk about risks and how those risks are managed and controlled. This is also to prepare the staff and assist them in the development of a risk-based control framework and towards sustaining the framework over time for continuous improvement. CSA will be implemented formally from 2001 onwards.

As part of the formal self-appraisal and assurance process, Danaharta's managers will be required yearly (from 2002 onwards) to sign off and make representations on the performance in important areas including integrity, risk management and internal controls, accuracy of financial reporting and the Standards of Business Conduct ("SBC").

Employees are required to observe and conduct themselves in accordance with the requirements of Danaharta's SBC policy (based on international best practice) when performing their day-to-day activities. The Division assists the Board of Directors and management in ensuring there is compliance with relevant laws and regulations as well as Danaharta's policies (in particular the SBC) that govern Danaharta's activities. This is done through conducting staff briefings and administering the annual declaration of independence and financial disclosures as well as the pre-clearance for the buying & selling of stocks and shares.

## RESTRUCTURING CASE STUDIES

### PERUSAHAAN SADUR TIMAH MALAYSIA BERHAD

Perusahaan Sadur Timah Malaysia Berhad (“Perstima”) is a manufacturer of electrolytic tin plates. The company defaulted on its loan repayments in the second half of 1998 after years of financial difficulties, caused in part by its diversification into areas of business in which it had little expertise e.g. investment in shares. In January 1999, Perstima applied to the Corporate Debt Restructuring Committee (“CDRC”) to consider its case, but was referred to Danaharta in July 1999. This was to enable Danaharta to take the lead in resolving the case given Danaharta’s exposure and the complexities involved.

Danaharta appointed Special Administrators over Perstima in September 1999. Upon appointment, the Special Administrators assumed control of the assets and affairs of Perstima and prepared a workout proposal for the company which addressed Perstima’s total debts of around RM468 million. The workout proposal, in which the lenders and Perstima endured ‘haircuts’ of 30% and 90% respectively, was reviewed by an Independent Advisor and subsequently approved at a secured creditors meeting in February 2000.

The proposal received the approval of the Securities Commission in June 2000 and was successfully implemented by August 2000, at which point the SAs were released from their appointment.

Perstima acknowledges that it has been given a second chance in life. The new owners of Perstima will focus on strengthening the company’s original business of electrolytic tin-plating. Perstima also plans to increase its production output by 15% to 20% to further tap the export market.

### HOTEL AND LEISURE PROPERTIES

Danaharta had earlier identified the hotel sector as one of the sectors that required a more focused and specialised resolution approach. As at 31 December 2000, total loans outstanding relating to hotel and leisure properties (“HLP”) within Danaharta’s portfolio amounted to RM1.58 billion, with assets valued at RM2.2 billion. The portfolio comprised 47 assets - 31 operating hotels, six uncompleted hotels, three hotels which had closed operations, a completed hotel which has remained unopened, two serviced apartments and four golf resorts.

Danaharta has been able to restructure many of the HLP-related NPLs to become performing loans again. For loans where the borrowers were unable to restructure, Danaharta appointed Special Administrators over the relevant companies as provided by the Danaharta Act.

The appointments of Special Administrators are to achieve the following objectives:

- Assume effective control of the business and assets and preserve the hotel business as a going concern. This is because the inherent value of the hotel business (e.g. goodwill, hotel operation, licences, clientele, tax benefits) may be worth more than the value of the assets (i.e. land and building).
- Safeguard assets against theft, willful damage or sabotage.
- Formulate a restructuring scheme for the affected company, which would entail a disposal of either the hotel business or the assets.

In cases where the appointment of Special Administrators was not viable, Danaharta had foreclosed on the underlying collateral.

**HLP tender**

In October 2000, Danaharta and the Special Administrators of seven companies launched a joint tender, offering 11 hotels for sale. Danaharta had foreclosed on three of the hotels. The hotels are located one each in Kota Kinabalu, Sabah; Pulau Langkawi, Kedah; Kota Bharu, Kelantan and Port Dickson, Negeri Sembilan; two each in Melaka and Johor Bahru, Johor; and three in Pulau Pinang.

The HLP tender is in line with Danaharta's approach to allow the market-clearing mechanism to work. The target group for the tender included hotel investors, hotel operators, asset class specialists, turnaround managers and real estate agents who service hotel investors, as well as high net-worth individuals.

No indicative values were provided during the tender. Danaharta had set a new precedent in its disposal strategy by allowing bidders to set their own bid prices without the guidance of an indicative value.

At the close of the tender in November 2000, 15 bids were received, of which three were accepted. The successful bids were for the following properties:



Hotel	Highest offer (cash)
<i>Sale of foreclosed hotel by Danaharta</i>	
A 54-room resort in Port Dickson, Negeri Sembilan	RM5,388,888.88
<i>Sale by Special Administrators</i>	
A 126-room resort property known as Golden Pearl Island Resort, Tanjung Tokong, Pulau Pinang	RM15,000,000.00
A 3-star 200-room beach-front hotel in Tanjung Bungah, Pulau Pinang	RM19,100,000.00

The remaining two unsold foreclosed hotel properties were transferred to Danaharta Perhotelan Sdn Bhd (a subsidiary of Danaharta that manages hotel properties) and later sold through private contract for a combined consideration of RM20.4 million.

The Special Administrators, who currently control six hotels, will explore alternative options to maximise recovery value from the assets and businesses of these hotels. These alternatives may include a restricted tender open to investors who have indicated interest, sale by way of negotiated private treaty, appointment of real estate agents to market specific assets, structured deals, joint ventures, exit via guarantors or liquidation.

### NASLEI ENTERPRISE SDN BHD

Naslei Enterprise Sdn Bhd (“NESB”), a property developer, was granted a term loan in 1981 to develop the Waikiki Condominium project in Tanjung Aru, Kota Kinabalu, Sabah. Sales for the 234 units of condominiums commenced in 1982. However, the project was abandoned in 1985 with only 45%-65% completion achieved. Subsequently, in 1989, Mr Gong Wee Ning and two others of Coopers & Lybrand (now known as PricewaterhouseCoopers) were appointed as Receivers pursuant to a court order. The creditor bank extended further loans to NESB in 1991 and 1995 to help the company complete the project. The project was eventually completed and the Certificate of Fitness was issued in February 1998.

The loan came into Danaharta’s portfolio in May 1999. Up to that point, efforts by the Receivers to sell the remaining 110 unsold units had not progressed smoothly due to various factors. Among these factors were legal impediments such as the Receivers’ power to sell certain units and the Bumiputera quota. The project suffered from many physical ailments such as poor roofing and design. In addition, it bore the stigma of an old abandoned project, having been virtually unoccupied since 1998. Nevertheless, there were a couple of bright spots, namely the project’s premier location in Tanjung Aru, Kota Kinabalu and the fact that it is one of the last few good condominium sites in the area.

*before refurbishment*



Danaharta began meetings and discussions with the Receivers in August 1999 with a view to maximising recovery value and in August 2000, the Receivers finally agreed to Danaharta’s proposed strategy to resolve the loan. Danaharta then put the plan into action and accomplished, among others, the following in August/ September 2000:

- Obtained a waiver from the Local Government and Housing Ministry on the Bumiputera quota.
- Appointed a land surveyor to undertake a survey (for sub-division of master title) for submission to the Land and Survey Department.
- Appointed real estate valuers to provide a valuation for the 110 unsold units - 52 two-bedroom units and 58 three-bedroom units.
- Appointed a quantity surveyor and architect to advise on the necessary refurbishment works, conducted tenders for various refurbishment packages and appointed contractors to commence work.



*after refurbishment*

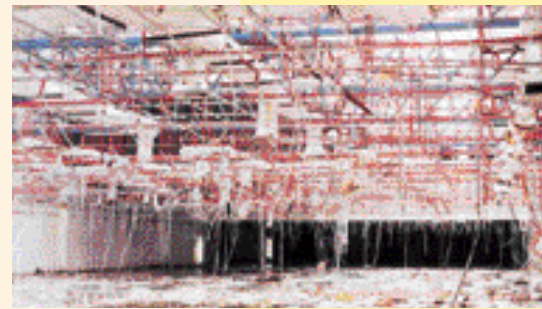
Pre-marketing of the unsold units began in October 2000 and within two weeks, all the units were sold, at valuation, for a total consideration of RM29.9 million, 19 years after the developer received the initial loan for the project. The refurbishment works were completed in November 2000 and a property manager has been in place since January 2001 to manage the day-to-day affairs of the condominium.



## REFURBISHED FACTORY

Danaharta had foreclosed on a factory in Seberang Prai, Pulau Pinang, under section 57 of the Danaharta Act and offered it in the property tenders in November 1999 and March 2000. No acceptable bid was received probably because the building was in a dilapidated state with large sections of the roof missing.

In May 2000, Danaharta decided to refurbish the building (which by now had been transferred to Danaharta Hartanah) in order to enhance its marketability. Danaharta Hartanah re-appointed the original architect and engineers and engaged one of its panel quantity surveyors to undertake the tender exercise and administer the contract. The refurbishment was completed in December 2000, in just 5 months and within budget. Danaharta Hartanah was able to secure a six-year tenancy agreement with a multinational corporation, beginning 1 March 2001. The total refurbishment cost of RM4.5 million is expected to be recouped within 3 years.



*before refurbishment*



*after refurbishment*

## PROPERTY DEVELOPER (“Company”)

The Company is involved in a mixed development project for a new township (“the Project”) in Johor. The Project covers a total area of 1,288 acres, which is divided into five phases to be developed over a period of 10 years. When the recession began in 1997 and continued into 1998, the Company experienced cash flow problems and defaulted on its loan repayments. A financial consultant was appointed by the lending bank to monitor and supervise the Project. Danaharta later acquired the loan in 1998.

At this stage, Phase I of the Project, which was launched towards the end of 1997, was 30% sold and 35% completed. A viability study of the Project showed that the completion of Phase I would greatly increase the attractiveness and saleability of subsequent phases. As purchasers move into their houses and the commercial lots are filled, the area would be re-populated. Increased activities around the area would in turn promote the sale of the unsold units and enhance the value of the remaining phases within the Project.

Therefore, instead of abandoning the Project, it was proposed that Phase I be completed, but with a revised number of units. After establishing the viability of the proposal, Danaharta extended bridging financing, with stringent conditions, to the Company to enable it to proceed with the Project. A quantity surveyor was also appointed to monitor and verify the claims.

Danaharta also resolved a key issue of subdivided land titles for the Project. The Company is now progressing well with the Project, having sold 65% of the units in Phase I. Construction of both building and infrastructure is around 85% completed and the Company expects to obtain the Certificate of Fitness for Occupation by the end of 2001.

The Company has been able to reduce its outstanding loan quite significantly. The success of the loan restructuring is also indicated by the recent launching and good response to low-cost houses (61% sold) under Phase II of the Project.

### GOURMET BAKER Y

This Bakery was first highlighted in a case study in Danaharta's 1998 Annual Report. Ever since the Swiss parent company took over the Bakery in 1999, it has invested around RM25 million in the Bakery's operations. During the year, the Bakery received a further boost from its parent company and settled in full its outstanding loan with Danaharta. This was well ahead of its target in the workout proposal agreed by secured creditors.

One of the Bakery's main problems in the past was that its factory did not operate at an optimal level - it was too large for just the domestic market, but not large enough to cater to the export market in a cost-effective manner. The recent launch of the Bakery's new facilities will finally enable it to tap the export market economically. Given that the Bakery is the production hub for its Asian business, the Bakery is expected to achieve a three-fold jump in turnover and increase its export sales from 60% to 80% of total sales. Its major export markets include Japan, Singapore, Hong Kong, Taiwan, the United States and the Middle East.

### MEKAR IDAMAN SDN BHD

On 30 September 1993, the government of Malaysia awarded the Penang Bridge concession to Mekar Idaman Sdn Bhd ("MISB") in which MISB was granted the right to manage, operate, maintain and collect toll on the Penang Bridge. The consideration of RM550.0 million to the government was financed by a syndicated term loan arranged by RHB Sakura Merchant Bankers Berhad.

MISB subsequently entered into an agreement with Intria Berhad ("Intria") to inject the Penang Bridge concession into Intria. Part of the consideration for this asset injection was satisfied through the issuance of new Intria shares, which were partly pledged by MISB as security for the syndicated term loan. Following the asset injection, the principal source of repayment on the syndicated loan was the dividends to be received on the Intria shares and/or the divestment of the Intria shares held by MISB.

The adverse economic conditions in late 1997 and early 1998 coupled with the high prevailing interest rate caused MISB to default on its loan. In April 1998, the syndicated lenders appointed Messrs. Arthur Andersen as the Receivers & Managers ("R&M") for MISB.

Danaharta acquired the loan from all the syndicated lenders in April 1999. Given that MISB did not submit a plausible workout proposal, the only loan recovery avenue available was to dispose the pledged Intria shares. However, given that the share market was soft at the time, Danaharta recognised that disposing the pledged shares via the open market might not yield the optimum values for the shares. In addition, premiums attached to controlling blocks of shares would also diminish if the sale is conducted through the open market. Given these considerations, Danaharta decided that an "en-bloc" sale of the pledged shares via an open tender exercise would yield better recovery values.

The R&M, in liaison with Danaharta, then invited interested parties to bid for the pledged Intria shares. The closing of the tender exercise was held in February 2000 at the premises of the R&M. To add transparency to the bidding process, all bidders were present to witness the opening of the bids.

United Engineers (M) Berhad successfully tendered for the pledged Intria shares with a bid of RM371.8 million. This translated to RM1.07 per share vis-a-vis the prevailing market price of RM0.99 per share based on the 1-month weighted average share price as at the closing date of the tender exercise. The sale of the shares has now been completed.

By invoking market forces in an open tender process as a means to recovery, Danaharta managed to achieve full recovery of the outstanding loan amount.

## POST BALANCE SHEET REVIEW

### NPLs OF SIME MERCHANT BANKERS BERHAD (“Sime Merchant”)

During the year, 43 accounts with a total gross value of RM299.4 million were transferred from Sime Merchant to Danaharta Managers Sdn Bhd.

### SALE OF HOTEL AND LEISURE PROPERTIES

Danaharta sold two more hotels for a total consideration of RM20.4 million after the hotel and leisure property tender closed in November 2000.

### SUB-UNDERWRITING OF TIME DOTCOM SHARES

Danaharta had taken over NPLs with a gross value of approximately RM355 million, which were extended by various banks to Time Engineering Berhad (“Time Engineering”). These NPLs, which were largely unsecured, were held by Danaharta (RM54 million), and two of its wholly-owned loan management subsidiaries, Danaharta Urus Sdn Bhd (RM169 million) and Danaharta Managers Sdn Bhd (RM132 million).

Similar to other creditors of Time Engineering, Danaharta had concluded that the best way to maximise recovery value was to participate in the Time Engineering restructuring scheme, the success of which is based on the listing of Time dotCom Berhad (“Time dotCom”).

In essence, the terms of the restructuring scheme are as follows:

- Danaharta will convert its NPLs into Time Engineering notes.
- Repayment of the Time Engineering notes would be from the proceeds of the Initial Public Offering (“IPO”) of Time dotCom shares.
- The unsubscribed portion of the shares would be given to Danaharta as full settlement of the Time Engineering notes in the event that the IPO is not fully subscribed.

The IPO was under-subscribed. As such, to date, Danaharta has realised approximately RM91 million in cash from the redemption of Time Engineering notes and holds about 80 million Time dotCom shares representing 3.16% of the issued and paid-up capital of Time dotCom. At the current market value, Danaharta’s expected recovery rate for the Time Engineering NPLs is about 70%. This recovery rate is satisfactory given the unsecured nature of the NPLs.

Danaharta did not inject any cash into Time dotCom in return for the shares; neither did Danaharta buy any Time dotCom shares from the open market. Instead, it was a conversion of debts owed i.e. the NPLs, into equity. This approach is commonly used by Danaharta in respect of unsecured NPLs of listed companies.



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## CRITICAL FACTORS IN DANAHARTA'S PROGRESS

Having been in operation for the last 2½ years, it is timely for Danaharta to step back and examine what it has accomplished in light of its objectives. Danaharta was established by the Malaysian government in June 1998 as part of a three-pronged measure to pre-empt a banking crisis. Danaharta is mandated to achieve two main objectives:

- Effect a system-wide carve-out to remove non-performing loans (“NPLs”).
- Maximise recovery values.

As at 31 December 2000, Danaharta has under its management, NPLs amounting to RM47.49 billion pertaining to 2,507 borrowers. Danaharta had restructured or approved for restructuring 74% of its NPL portfolio, which amounted to RM35.83 billion, while the expected recovery rate was 66%.

Thus far, Danaharta has met all its targets well within the set deadlines:

### ***Establishment Phase***

- Established a fully-functional asset management company (“AMC”) in three months, compared to other AMCs which took between 7 and 15 months.

### ***Acquisition Phase***

- Acquired RM8.1 billion (gross value) of NPLs between September and December 1998 {target: RM8 billion}.
- Completed the primary acquisition exercise by end-June 1999 {target: end-December 1999}.
- Reduced net NPLs in the banking system to single-digit rates {as at end-December 2000, the net NPL ratio on a 6-month basis was 6.3%}.

### ***Management Phase***

- Resolved RM32.15 billion (gross value) of NPLs by end-June 2000 {target: RM30 billion}.

The following factors contributed significantly to Danaharta's ability to achieve the set targets thus far:

## CLEARLY THOUGHT-OUT PROCESS

The decision to establish Danaharta was a pre-emptive measure to avert a systemic banking crisis at all cost. The economy went into recession from a position of strength (the risk-weighted capital ratio of banks stood at 12% while net NPL was 2.2% in June 1997). What Malaysia faced was a distressed banking sector, not a banking crisis. In formulating Danaharta's approach, the thought process involved analysing the national situation to decide which AMC model or approach could be applied and how Danaharta could shape the environment to enable it to operate in an efficient and expeditious manner.

The following initial operating conditions were taken into consideration:

- Is the banking system in a critical condition? (stress-tests were conducted)
- Has the economy grounded to a halt?
- What is the nature and magnitude of the NPL problem?
- Are the bankruptcy laws adequate?
- What are the sources of funding?

The next step was to look at how the environment in which the AMC will be operating could be improved and enhanced. This entailed the following:

- Giving special enforceable powers to the AMC.
- Setting achievable and focused objectives, goals, and targets.
- Developing clear operational guidelines.
- Research into the experiences and methods of other AMCs which could be adopted and adapted.
- Outsourcing or implementing smart partnerships where necessary.

The thought processes that Danaharta went through in formulating its approaches, policies and guidelines invariably involved consultation with regulatory bodies and discussions with bankers, property players, business leaders and analysts. More importantly, these approaches, policies and guidelines have been clearly communicated or made available to all the relevant parties. This has been instrumental in ensuring Danaharta's progress thus far.

#### **INTERNATIONAL PRECEDENCE**

Danaharta does not believe in a "one size fits all" solution to a banking crisis. It has taken cognisance of, adopted and adapted, the experiences of other AMC-type vehicles worldwide to suit its purpose. In formulating its approach, Danaharta referred to and researched on not only the different types of AMC models and approaches, but also the underlying factors which led to the adoption of such models and approaches in the first place. This is because conclusions on the effectiveness of AMCs based on some quantitative measure such as recovery rates is futile as the circumstances faced by each country are different.

Danaharta had extensively consulted with and benefited from the expertise of ex-practitioners from Securum of Sweden and the Resolution Trust Corporation of the United States during its establishment phase. Danaharta has also strengthened and broadened its knowledge through regular dialogues, open exchange of views and ideas as well as close working relationships with other AMCs in the region, namely Indonesian Bank Restructuring Agency (IBRA), Financial Sector Restructuring Agency (FRA) of Thailand and Korean Asset Management Corporation (KAMCO).

#### **CONCENTRATION ON LARGER-SIZED NPLs**

Danaharta modelled itself as a true asset management company i.e. dealing with NPLs on an account-by-account basis and ensuring that in each case, the method of recovery used would reap the best results. Given this philosophy, Danaharta set about designing an acquisition approach that would result in a manageable number of accounts to be dealt with whilst in value terms, be large enough to adequately relieve the pressure on the banking system.

At that juncture, NPLs above RM5 million (USD1.3 million) constituted about 70% of the total NPLs in the system, and in terms of number of accounts, were estimated to be between 2,000 and 3,000 (compared with more than 500,000 and 150,000 accounts which FRA and IBRA have had to contend with respectively). Danaharta was of the view that small consumer NPLs would be best handled by the financial institutions themselves. The sheer number of accounts related to small loans makes it cost and time ineffective to be dealt with by a centralised AMC. Danaharta felt that different types of recovery methods and recovery agents may be needed for different types of borrowers i.e. large business loans need to be treated differently from small consumer loans. Hence, the RM5 million threshold for NPL acquisition had made the number of accounts more manageable given the fact that Danaharta had targeted for its staff strength to be approximately 300.

## NPL RESOLUTION VERSUS NPL DISPOSAL

A rapid disposal agency would be beneficial in a situation where the magnitude of the problem is too large and there is insufficient funding, expertise or special powers which could give the AMC a clear advantage over banks in restructuring the NPLs. If the AMC has the ability to perform over and above the standard of purchasers of distressed loans such as the internationally-renowned foreign investment banks, then they should act as a centralised, restructuring vehicle. Furthermore, initial research indicated that a significant proportion of the larger NPLs in the Malaysian banking system were structural in nature and may require both financial and corporate restructuring.

## PENGURUSAN DANAHARTA NASIONAL BERHAD ACT 1998 (“Danaharta Act”)

The existing legal framework in Malaysia, which is based on British law, is adequate especially with respect to bankruptcy and foreclosure laws. However, in order for an AMC to be able to carry out its functions in an effective and expeditious manner, Danaharta proposed at the onset that it be given special powers over and above those of the banking institutions. The Danaharta Act of Parliament was approved in September 1998 and gave Danaharta special powers including the ability to:

- Acquire NPLs via statutory vesting.
- Manage corporate borrowers through the appointment of Special Administrators (akin to Judicial Managers in the UK).

An amendment to the National Land Code also allowed Danaharta to foreclose on assets by giving 30 days’ notice to the borrower, therefore bypassing the court auction process.

The Danaharta Act was passed in Parliament within three months. It was further amended in September 2000 to clarify existing provisions in the Act and to overcome practical difficulties in enforcing the provisions.

## PRIVATE-SECTOR DRIVEN

Danaharta was established under the Companies Act, 1965, but is 100%-owned by the Minister of Finance, Incorporated. Notwithstanding that, Danaharta is staffed by private-sector professionals and thus, its management style and working environment are very much influenced by private-sector practices. Danaharta has undertaken steps to ensure that proper governance, international commercial best practices and adequate transparency and disclosure practices are followed in its operations.

## GOVERNANCE

Danaharta maintains a high standard of business conduct, based on international best practice. In addition to the governing bodies and internal controls that oversee Danaharta’s operations, Danaharta is committed to transparency in its operations and takes a pro-active approach towards disclosure and communication. Danaharta believes that one of the most effective methods of good governance is transparency. Not only does transparency instill the discipline to adopt best practices and sound governance, but it also inspires market confidence.

## POLITICAL WILL

Finally, without the political will for Danaharta to do its job, Danaharta would not have moved as quickly or effectively as it has done. The smooth passage of the Danaharta Act through Parliament is but an example of the support of the government.

## IMPORTANCE OF RISK MANAGEMENT IN FINANCIAL INSTITUTIONS

The management of risk is fundamental to the business of banking and is an essential element of any bank's strategy. Financial institutions face an array of risks, the most important of them being credit risk, liquidity risk including market risk, and foreign exchange and interest rate risks. The success or otherwise of the bank relies upon its proactive rather than reactive management of risk.

In light of the recent economic crisis, the importance of establishing a comprehensive risk-control framework for the identification, measurement and monitoring of all financial (market, credit and operational) risks can no longer be underestimated. A lesson for the financial institutions to learn from the 1997 crisis is that they should ensure that they have adequate infrastructure to insulate themselves from the risk of unexpected losses. This is particularly important as history has shown that poor risk management practices can lead to significant losses to shareholders as evidenced by a number of prominent organisations suffering significant losses.

It is therefore critical for financial institutions to evaluate their risk management capabilities and strengthen their risk management practices so that they can meet the current challenges, and more importantly, position themselves better to meet future challenges. Risk management aims to provide banks with a better view of the future and the ability to define the business policy accordingly.

### CAUSES OF NPLs

The Asian crisis, which hit the region in 1997, has largely been stated as the cause of NPLs in the financial sector. However, it would be fair to classify the causes of NPLs into three broad categories namely, crisis-related, borrower-related and financial institution-related as follows:

Crisis-related reasons	Borrower-related reasons	FI-related reasons
High interest rates	Inappropriate business practices	Asset-backed lending
Credit crunch - Financial Institutions withdrew credit lines	Non-viable business	Name lending
Foreign loan exposure evaluation	Over-expansion of business	Poor credit or understanding of borrower's business
Poor business conditions	High-risk nature of borrower's business/ environment	Poor monitoring of loans
Change in business conditions	Poor management	Poor structure of loans

Any single loan could have multiple reasons for turning non-performing, but it would not be far wrong to say that the inadequacies of credit management practices within the banking industry had played a role in contributing to the NPL situation in the country.



## RISK MANAGEMENT PRACTICES

Research has shown that risk management in many Asian financial institutions seems, in many instances, more apparent than real. There is a gap between the laudable desire of senior management to implement effective risk management practices and the implementation of such practices throughout the organisation. The inherent weaknesses include basic fundamentals such as:

- Poor understanding of the risks inherent in the organisation;
- Poor liquidity management;
- Lack of proper credit risk evaluation and management;
- Ill-defined and structurally non-cohesive internal processes and accountabilities; and
- Inappropriate risk management systems.

Arising from the above, risk management practices in the financial institutions continue to remain fragile. Risk management has thus far been largely driven by the regulatory authorities and is largely implemented to the extent required by regulation. Up until today, many financial institutions place heavy reliance on the regulatory authorities to define the standards for risk management. It is crucial for financial institutions to recognise that regulators impose minimum control standards and that best risk management practices require the tailoring of risk management practices to the overall vision, business strategies and goals of the individual organisation.

Best practice also advocates that financial institutions strengthen their risk management practices in order to:

- Assist organisations in minimising the likelihood of unexpected damage to earnings, reputation or investors, business associates, customers and staff confidence;
- Contribute to greater operational effectiveness and efficiency, a better understanding of risks and better decision-making processes; and
- Promote a more risk-aware organisation culture.

In developing a risk control framework, the biggest challenge lies with identifying the vast range of risks that a bank is exposed to in its day-to-day activities. Risk identification is key to addressing the enormous task of developing an effective risk management framework. Careful planning and an effective methodology are critical factors for success.

## STRATEGIC RISK MANAGEMENT

In general, a bank's success as a financial intermediary is directly tied to its efficiency of risk management and control. For strategic positioning of the balance sheet, Asset/Liability Management ("ALM") is a critical function in any business, and particularly so for a financial institution. The ALM process is essentially concerned with the risk-return profile of the bank. It is common practice for the Board of Directors to delegate responsibility for ALM to an Asset/Liability Management Committee ("ALCO"). Not only does effective ALM contribute significantly to the profitable growth of the institution, but it can be the key to the institution's very survival. Current cutting edge thinking would appear to recommend that the scope of the ALCO be extended to cover all categories of risk in order to provide a comprehensive measure of the risk-adjusted returns and, in so doing, become the true custodian of the balance sheet.

The role of the ALCO may be further defined as covering the bank's strategic response to risk. Risk in this context would cover Enterprise Wide Risk. With regard to Enterprise Wide Risk, the ALCO's role would be to not only co-ordinate the bank's short-term responses to risk stimuli, but also provide strategic direction on the management of risk in order that the bank's vision may be realised. Ultimately, the decisions of the ALCO will effect changes in the structure of the balance sheet as well as the delivery and support of the business strategy of the financial institution.

## CORPORATE GOVERNANCE

The Malaysian Code of Corporate Governance aims to set out principles and best practices on structures and processes that companies may use in their operations towards achieving the optimal governance framework - which also entails effective risk management practices. These structures and processes exist at a micro level and include issues such as the composition of the board, procedures for recruiting new directors, remuneration of directors, the use of board committees, their mandates and their activities.

In the context of a financial institution, the responsibility for maintenance of the banking system and markets is being redefined as a partnership among a number of key players who manage various dimensions of financial and operational risks.

In a summarised version, the workings of this risk management partnership may be viewed as follows:

Key Players	Responsibilities
Legal and Regulatory Authorities	Set regulatory framework, including certain risk exposure limits and other risk management parameters, which will optimise risk management in the banking sector.
Supervisory Authorities	Monitor financial viability and effectiveness of risk management. Check compliance with regulations.
Shareholders	Appoint "fit and proper" boards, management and auditors.
Board of Directors	<ul style="list-style-type: none"> <li>• Review and adopt strategic plans for the organisation.</li> <li>• Oversee the conduct of the organisation's business.</li> <li>• Identify principal risks and ensure implementation of appropriate systems to manage these risks.</li> <li>• Succession planning.</li> <li>• Developing and implementing an investor relations programme or shareholder communications policy for the organisation.</li> <li>• Review the adequacy and the integrity of the company's internal control systems.</li> </ul>
Executive Management	Create systems to implement board policies, including risk management, in day-to-day operations.
Audit Committee/ Internal Audit	<ul style="list-style-type: none"> <li>• Consider the appointment of external auditor, audit fee, etc.</li> <li>• Discuss with external auditor before the audit commences, the nature and scope of the audit.</li> <li>• Review quarterly and year-end financial statements of the organisation particularly on:               <ol style="list-style-type: none"> <li>1. Any changes in accounting policies and practices.</li> <li>2. Significant adjustments arising from the audit.</li> <li>3. The going concern assumption.</li> <li>4. Compliance with accounting standards and other legal requirements.</li> </ol> </li> </ul>

Key Players and Responsibilities	Accountability (dimension of risk for which responsible)
Audit Committee/ Internal Audit	<ul style="list-style-type: none"> <li>• 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).</li> <li>• Review the external auditor's management letter and management's response.</li> <li>• Do the following where an internal audit function exists:               <ol style="list-style-type: none"> <li>1. 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.</li> <li>2. 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.</li> <li>3. Review any appraisal or assessment of the performance of members of the internal audit function.</li> <li>4. Approve any appointment or termination of senior staff members of the internal audit function.</li> <li>5. Inform itself of resignations of internal audit staff members and provide the resigning staff member an opportunity to submit his reasons for resigning.</li> </ol> </li> </ul>
External Auditors	<ul style="list-style-type: none"> <li>• Express opinion and assess adherence to risk management policies.</li> <li>• Ensure adequate and proper disclosure.</li> </ul>
Investors/Depositors	<ul style="list-style-type: none"> <li>• Understand responsibility and insist on proper and adequate disclosure.</li> <li>• Take responsibility for own decisions.</li> </ul>
Rating Agencies and Media	<ul style="list-style-type: none"> <li>• Carry out detailed analysis on viability of companies.</li> <li>• Assess information provided and prepare independent evaluation and assessment (upside and downside) of the company's strengths.</li> </ul>
Analysts	Emphasise risk issues and provide unbiased advice to clients.

The main objective of the matrix above is to clearly define risk responsibilities and to encourage a better system of identification and recording of these risks as well as more effective and co-ordinated mitigation strategies. As globalisation sets in, the importance of all of the above should not be undervalued. In order to compete effectively and efficiently, the institution must be able to understand and mitigate the risks it faces such that its pricing decisions are realistic and remain competitive.

Finally, as a result of the Asian financial crisis, financial institutions are experiencing an inordinate amount of change. Risk management practices in many of these organisations generally have not kept pace with this change. Risk management should no longer be seen as an option for any financial institution and must be considered not only an essential cost of doing business, but also an essential component in establishing effective corporate governance within the institution.

## SOLVING THE NON-PERFORMING LOAN PROBLEM – ARE ASSET MANAGEMENT COMPANIES THE ONLY OPTION?

### BACKGROUND

In a scenario where individual banks face failure or where the banking sector is distressed or in danger of a systemic failure, the proportion of non-performing loans (“NPLs”) to total loans in the banking sector increases significantly, due to the erosion in value of the collateral assets or a deterioration in the borrowers’ repayment capacity. NPLs are caused by a multitude of factors - economic slowdown, improper or a lack of credit or risk management practices of the banks, loans given out for non-viable businesses or projects or even fraud.



If these NPLs are not dealt with, there would be inherent direct or indirect costs to the economy. The financial institutions may become distracted with the additional efforts required to manage these problem loans. Banks may lose sight of their core activities due to the distraction of having to balance their books in light of the possibility of huge write-offs on loan losses. As a result, banks may not be willing to lend and financial intermediation may not take place, thereby exacerbating the slowdown in the economy as credit is not made available for economic growth.

There are two options available - the first is the traditional option, which is to allow banks to handle the NPLs in their own way. The second option is to take the asset management company (“AMC”) route (Note: AMCs are also known as NPL resolution agencies) which could be in the form of government-owned AMCs; or private sector AMCs where (a) individual banks or groups of banks set up their own AMCs or (b) NPLs are sold to foreign buyers to resolve.

### THE TRADITIONAL OPTION...

The traditional option would consist of either continuing the negotiation with the borrowers to restructure the loans or transferring the loans into a separate unit within the banks, commonly known as the “ICU” where loan recovery is pursued in earnest. In most cases, banks are better placed to resolve NPLs as they have informational advantage through their existing long-standing relationship with their clients. They can work with these borrowers, who have a better understanding of the true value of the assets, to get the best recovery. Leaving the NPLs on the banks’ balance sheets may also incentivise the banks to maximise recovery value and avoid writing off these loans, and to avoid future losses by improving their loan approval and monitoring procedures. The banks also have the advantage of being able to provide further drawdown of existing facilities or to extend new loans in the context of loan restructuring. The traditional option is especially useful in dealing with small businesses or consumer NPLs where the personal touch (i.e. relationship banking) is required. The high volume of these small loans makes the centralised AMC route ineffective in terms of time and cost.

If these small NPLs are carved out and dealt with by AMCs, the recovery rates from these loans would be dependent on the type, methods and objectives of the AMCs. A rapid disposition agency would achieve quick disposal of the loans or assets, but usually at depressed or even “fire-sale” prices. AMCs that are not under time constraints could fall into the trap of being a warehouse agency especially if there is no market for the sale of NPLs or if the market for collateral assets is weak. There is also the problem of perception - AMCs have been perceived as a bailout vehicle, be it for the banks or the corporate borrowers, or subject to political interference and bureaucracy, if they are initiated by the government.

### ...MAY NOT ALWAYS WORK

However, the traditional approach of resolving bad loans does not work in a crisis situation where the flow of information and movement of capital is fast and furious. Where timely and decisive action is required to avert a systemic failure or to help put the banking sector on its feet again, a more holistic and concerted approach is needed. The banking sector landscape has evolved over the years - gone are the days when relationship banking was the order of the day. The “one borrower, one bank” scenario has evolved into that of “one borrower, many banks”. Resolution of bad loans through the traditional option would not be effective as this fragmented approach does not deal with the borrower per se - the crux of the issue - but is more of a resolution of each individual loan.

Financial institutions may face a moral hazard issue when coming to terms with these NPLs - there is an inherent reluctance to accept large write-offs on loan losses. There exists the possibility that banks may want to avoid making such write-offs and the loans may remain uncollected, especially if they were originally given on “dubious” or less than commercial grounds.

The resolution of bad loans through the traditional approach would depend upon the existing legal infrastructure, in particular the bankruptcy and foreclosure laws, and more importantly, its enforceability. More often than not, recovery under existing laws would take time, and in most developing countries, enhancements need to be made to these laws first to enhance the prospect of loan recovery. Financial institutions do not have any special powers which could help expedite the process, and also do not have the ability or luxury of allocating sufficient resources to work on loan recovery, as the recovery process requires time and effort, and a different level of expertise which not everyone is equipped with.

The distraction of managing NPLs, especially during a crisis situation, could result in financial institutions not focussing on their core activities and as such, financial intermediation in the economy could break down, leading to a credit crunch which could cause economic growth to grind to a halt. Hence, the establishment of AMC's may seem to be the only realistic option at a time when economic recovery is the underlying objective.

### THE AMC OPTION

“Asset management companies” is a catch-all phrase that describes agencies established to deal with NPL problems in the banking sector by removing NPLs from the financial institutions with the objective of recovering value from the resolution or disposal of these loans or assets. In many countries which have experienced bank failures or a banking sector crisis where the NPL levels are unsustainably high, it has been the norm rather than the exception that the government of the day establishes an AMC. Examples have been the Resolution Trust Corporation of the United States, Securum of Sweden, FOBAPROA (now known as IPAB) of Mexico, the AMC's in Africa, Eastern and Central Europe; and most recently, the AMC's of the Asian region - Danaharta of Malaysia, IBRA of Indonesia, KAMCO of Korea and FRA of Thailand, to name a few. It has been the experience of these countries that AMC's, together with the establishment of a recapitalisation agency, do contribute towards banking sector restructuring in particular, and economic recovery in general.

There are many advantages of establishing an AMC - first and foremost is that the AMC is able to move in an expeditious manner and remove the distraction of managing NPLs from the banking system. This frees up resources within the financial institutions and allows them to concentrate on their core activities so that financial intermediation is uninterrupted. Direct and indirect effects on the economy are hence minimised, especially during a crisis situation.

The setting-up of a centralised AMC could lead to a more holistic, organised and focused approach towards NPL resolution as the AMC would have a specific objective - to maximise recovery value - and not have to contend with other goals as would be the case for the financial institutions. The AMC would benefit from economies of scale in terms of the deployment of its resources, especially in management of the loans or collateral, and the subsequent disposal of these assets.

Although it can be useful during a country's formative and developing years, the corporate sector link with banks (for example, the link between Korean banks and the conglomerates known as the "chaebol") can be a double-edged sword if loans are given on less than commercial grounds. A proper break of this link may be the key to unlocking difficult restructuring cases.

The moral hazard issue where banks are unwilling to write off large loan losses can also be effectively dealt with by selling NPLs to an AMC. Whilst the valuation of loans and collateral assets undertaken by AMCs, based on fair market value, tend to be lower than net book value, the lower values can be made more palatable to the banks if NPLs are acquired on a willing-buyer, willing-seller basis with a profit-sharing element attached to the purchase consideration. A percentage of the surplus recovery is offered to the selling banks as an incentive to sell the NPLs to the AMC.

Where the AMC is a government-sponsored entity, special powers can be conferred to it to enable the AMC to pursue its objectives in an expeditious and efficient manner. This could include powers to seize, control or foreclose on assets of the borrowers, to seize control of a corporate entity, and to transfer the rights as a chargee from the selling banks through statutory vesting.

### THE AMC OPTION CAN BE SUCCESSFUL IF...

Danaharta believes that AMCs, in whatever form or type that suits the national situation, should and must be used in banking sector restructuring. There are different types of AMCs, ranging from the rapid disposition agencies at one extreme, to the warehouse-type agencies at the other, whilst there are also the true AMCs which focus on NPL resolution. The effectiveness of the type and approach chosen for the AMC would depend on several factors:

- **Nature of the problem**

Structural NPLs or those caused by factors other than an economic slowdown would require not only financial restructuring, but also corporate and operational restructuring. Larger corporate loans would require a different treatment as opposed to small consumer loans which are better handled by the banks themselves.

- **Magnitude of the problem**

The size of the NPL problem in terms of number of accounts would determine whether it is cost and time-effective to pursue an NPL resolution strategy as opposed to outright NPL disposal.

- **Effectiveness of existing debt recovery policies, guidelines and methods**

If the financial institutions have a better degree of success in debt recovery, and existing guidelines and methods of debt recovery are adequate, then private-sector AMCs are better suited to deal with the NPLs.

- **Legal infrastructure**  
Central to recovery efforts is the existing legal framework, particularly the bankruptcy and foreclosure laws. Without adequate legal provisions, any type of AMC would not be able to operate effectively. There is thus a strong case in favour of according special powers to an AMC in order for it to perform better than the banks as an NPL resolution agency.
- **Political will**  
Special powers are not sufficient if they are not enforceable. The political will and support of the government, and a close working relationship between the AMC and other government agencies can greatly contribute to the success of an AMC.
- **Adequacy of funding**  
In a banking crisis, the capital base of banks would be eroded. It is thus important to ensure that banking sector restructuring efforts are adequately funded, especially where banks have to suffer large write-offs on loans taken over by the AMC.
- **Prevailing economic environment**  
Most AMCs are set up in response to a banking crisis where the recovery efforts of the AMC are greatly constrained by the prevailing economic environment. Whether an AMC adopts a rapid disposal approach or becomes a resolution agency would depend on the market conditions, be it the property or stock market, as the recovery and disposal efforts of the AMC could have an impact on the markets.
- **Objectives**  
AMCs should have a clear and focused objective - setting up AMCs with multiple objectives runs contrary to the age-old rule in economics where one must have at least as many instruments as there are objectives.
- **Enhancements to the operating environment**  
Having analysed the national situation, the policy-makers should look at how they can shape the environment or circumstances in which the AMC is operating to enable it to work more expeditiously and effectively. This could include the granting of special powers including immunity to the staff; the policy of outsourcing certain functions of an AMC; formulation of appropriate loan restructuring policies and guidelines; and the acquisition of, or formation of joint-ventures with, entities which would make the AMC's operations more effective.

## CONCLUSION

A 1999 World Bank study indicated that there had been 112 episodes of systemic banking crises which occurred in 93 countries since the late 1970s and that the establishment of AMCs has become an often recommended resolution strategy in banking sector restructuring. The success of Securum of Sweden in dealing with the failure of Nordbanken in the early 1990s, RTC of the United States in resolving the savings & loans institutions crisis in the early 1990s, KAMCO of Korea which has chalked up a recovery rate of above 50% from their aggressive disposals programme, and not forgetting Danaharta's own resolution efforts, are all clear examples of how successful AMCs are in resolving the NPL problem at a time of crisis.

AMCs are a potent force in dealing with NPLs provided they suit the national situation. They must be practical and solution-oriented, and take the appropriate steps to enhance their operating environment. However, AMCs must be made a finite-life organisation and not be allowed to perpetuate itself or be used as a stop-gap measure to avoid moral hazard issues.

## STRATEGIC ISSUES FOR RESTRUCTURING

The term 'restructuring' took centre stage in the business world in the late 90's and more so with the Asian crisis. Companies and businesses restructure for various reasons, driven by their own needs or changes in the business landscape. In Asia, financial distress has been the key driver for restructuring as companies are forced to restructure to resolve debt obligations.

However, restructuring need not be driven by factors relating to financial distress, but can be part of the normal course of corporate and business development. For example, companies involved in merger and acquisition ("M&A") activities are required to restructure to adapt to the enlarged entities. While other companies may choose to restructure when there are changes in the industry landscape, the focus of restructuring may be to respond to increasing competition, use of new technology and changes in regulation, amongst others. Furthermore, new products and services or use of new channels of delivery are other reasons for restructuring. In summary, other than financial distress, restructuring should be part and parcel of business and corporate development to enhance shareholder value. Asian corporations should capitalise on the experience gained in restructuring during the crisis and apply these principles in the future.

## DEFINING RESTRUCTURING

Restructuring can be categorised into four broad areas that are often interrelated.

### **Financial Restructuring**

It is usually undertaken to restructure cost of capital or provide relief from financial distress. The composition of the balance sheet would be altered by simple debt rescheduling, debt waivers, debt to equity conversions, or securitising cash flows from assets.

### **Operational Restructuring**

Operational restructuring broadly entails changes in operation strategy, core processes and systems. It goes to the essence of the business, that is, it seeks competitive advantage or even short-term survival where there is financial distress. The end results of the restructuring are, amongst others, reduction of overhead costs, integration of businesses, revenue enhancement and better utilisation of excess capacity.

### **Corporate Restructuring**

Corporate restructuring, commonly referred to by the media, involves changes in the group structure that defines the relationships among shareholders, holding companies, subsidiary companies and associate companies. The restructuring takes place when there are changes in ownership, divestments of business, M&A activity or in financial distress situations. In the case of financial distress, non-core subsidiaries are disposed and new businesses are injected into the group.

### **Organisational Restructuring**

Organisational restructuring aims to align the management and business structures of a corporation with the business strategy & process. Normally, it is part of the necessary changes in the course of business, but it may also be an inevitable process in a financial distress situation where the existing management is replaced by new management. The likely outcomes are, amongst others, changes in management positions, introduction of downsizing programme and changes in the roles and responsibilities within the corporation. However, changes in management will not take place even in financial distress situations if both the shareholders and creditors are of the view that the problem was a result of factors beyond the control of management. Shareholders and creditors would then need to be convinced that the company under the current management would be able to meet debt obligations and provide adequate returns in the future.

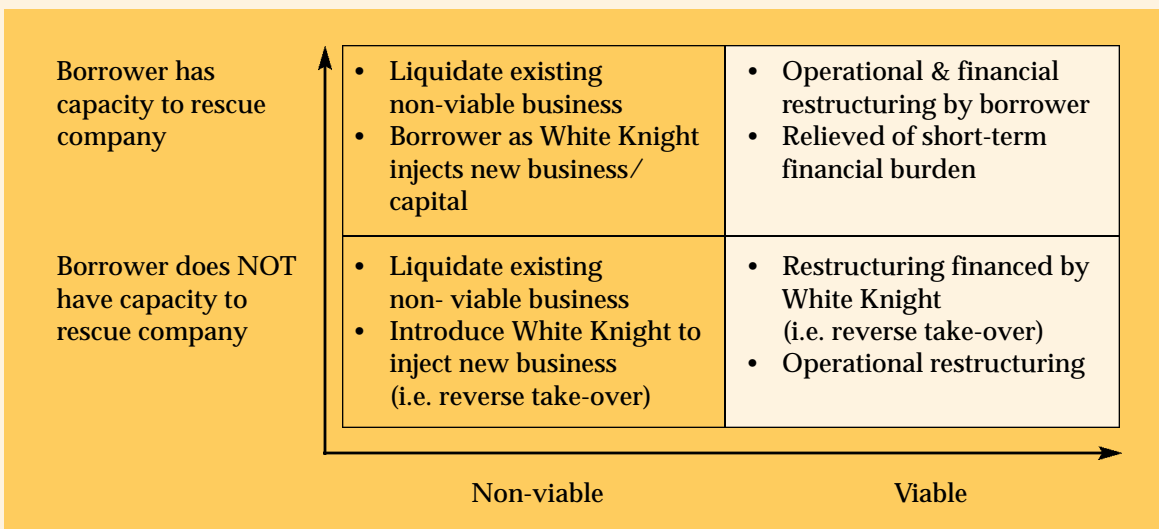


Corporations could undergo any one or a combination of the types of restructuring, either simultaneously or in stages. The type and extent of restructuring would be dependent on the needs of the company and its ability to carry out the restructuring. For example, a company in financial distress would try to complete financial restructuring and come to an agreement with its creditors before carrying out any form of operational restructuring. Otherwise, the company may improve its business performance, but that would be of no use if creditors wound up the company.

The remainder of the article addresses issues on resolving financial distress in which Danaharta has extensive experience.

**SETTING THE ROAD MAP FOR RESTRUCTURING**

The diagram below shows the options in restructuring financially-distressed companies. Once the two parameters (borrower’s capacity and underlying business viability) for determining the restructuring approach are agreed by creditors, borrowers and white knights, they can take the next steps in formulating the solution.



The key tools in determining the parameters and deciding on the restructuring approach include the following:

- Analysis of borrower’s financial statements.
- Analysis of business viability of the borrower.
- Analysis of future cash flows from the borrower’s business.
- Determination of borrower’s other resources e.g., statutory declaration of assets of key individuals, letter of confirmation from underwriters or provision of new collateral as security for the restructuring.
- Assessment of borrower’s credibility, commitment and integrity to restructure. The assessment could be on objective matters such as repayments before restructuring or provision of additional collateral. An alternative would be on subjective matters and is dependent on the knowledge of the borrower and prior experience in dealing with the borrower.

It is worth noting that whoever initiates the restructuring would have a strong influence on the outcome of the restructuring. If a borrower comes forward at an early stage of the financial distress, creditors may be inclined to be more accommodative. The borrower can usually play a role and even take the lead in the restructuring process, thereby addressing issues in their interests. Where the borrower is not forthcoming with a restructuring plan, then the interests of the creditors and the white knight who initiate the restructuring are likely to take greater precedence over the borrower. In this case, the borrower may not have any role in the restructuring process and is less likely to salvage the values of his capital.

## DEALING WITH THE DETAILS

Once there is an agreement, detailed issues of the restructuring are then addressed. If the borrower is a public listed company, or a company that owns regulated entities or strategic national assets, then the concerns of the government, regulators and minority shareholders will also need to be addressed in the detailed proposal.

The restructuring needs to address the conflicting issues and objectives of the parties involved. For example, major shareholders do not want fire sales on their assets and the risk of losing management control, but white knights want to get the best possible prices. In addition, lenders want to maximise their recovery while minority shareholders want their interests protected. Above all, the pace of restructuring has to be quick so that the economic value of the business is not destroyed. Therefore, the essential ingredients for a successful restructuring are decisiveness, fair treatment of the various parties, compromise and good project management.

### Major Shareholders

In Asia, businesses tend to be family-owned and there is some resistance to new and often painful adjustment measures, particularly if they lead to a dilution in ownership interest.

This brings us to the main concern of major shareholders - losing control of their company. They want to maintain management control and avoid fire sales of existing assets or liquidation. These shareholders also want to maximise the return on shareholders' funds in the future and would therefore seek to have the company relieved of as much debt as possible. In addition, they expect indulgence and forbearance on the part of the creditors so that business conditions can improve, thereby allowing them to repay the creditors and avoid liquidation.

### White Knights

White knights expect to acquire assets and businesses at prices relating to the worst of the crisis so that they can enjoy the upside when the economy recovers. Where the restructuring involves a reverse take-over ("RTO"), they may want the injection of own/related assets at a fair value in consideration for shares or other instruments in the public listed company. In listing its business, the white knight will consider an RTO as it may involve less stringent conditions compared to an IPO (Initial Public Offer); however, the white knight will need to pay a listing premium to existing stakeholders i.e. the creditors and shareholders.

### Creditors' Perspective

In general, creditors want to reduce their exposure and recover cash as quickly as possible from the non-performing assets. Furthermore, the creditors' perspective is also based on the size of the exposure as this determines their influence in the negotiation and the capital loss they are likely to suffer if they cannot achieve a satisfactory resolution. Large creditors are likely to be key drivers in the restructuring. They would prefer a restructuring that preserves their capital and can be completed quickly so that their own balance sheets are improved. Smaller creditors, on the other hand, may place less priority on the loan and be willing to hold out for a longer period.

In a restructuring, all creditors expect their rights as creditors to be maintained i.e. secured creditors rank the highest followed by unsecured creditors and then shareholders. Hence, the quantum and timing of repayments and access to the cash flows from the security must follow the ranking.

**Minority Shareholders**

Minority shareholders expect their interests to be protected as they were not directly involved in the management of the company. However, it is important that they also recognise their position as shareholders and expect the corresponding treatment.

There may be some validity in the minority shareholders' request for special treatment given the failure in corporate governance and the weakness in the supervision of the capital markets.

**Government**

Where the company owns a strategic national asset or is a regulated entity, then government policy needs to be addressed. In this case, government policy will influence the choice of a restructuring plan. Therefore, in some instances, the government could lead and assist in the restructuring and would have a say in who can buy the assets. Where strategic assets are concerned, maximisation of value may not be achieved by selling to the highest bidder, but the recovery will still be better than that obtained from a liquidation.

Where the government injects funds or extends other assistance to the shareholder, creditors would normally benefit from repayment of their loans.

**CONCLUSION**

Restructuring is an essential part of the economic recovery in Asia. While the pace of restructuring is important, it is equally important that issues are properly addressed and workout proposals are viable. Looking forward, Asian companies should continue to focus on restructuring in the broader sense as a means to improve their competitive advantage.



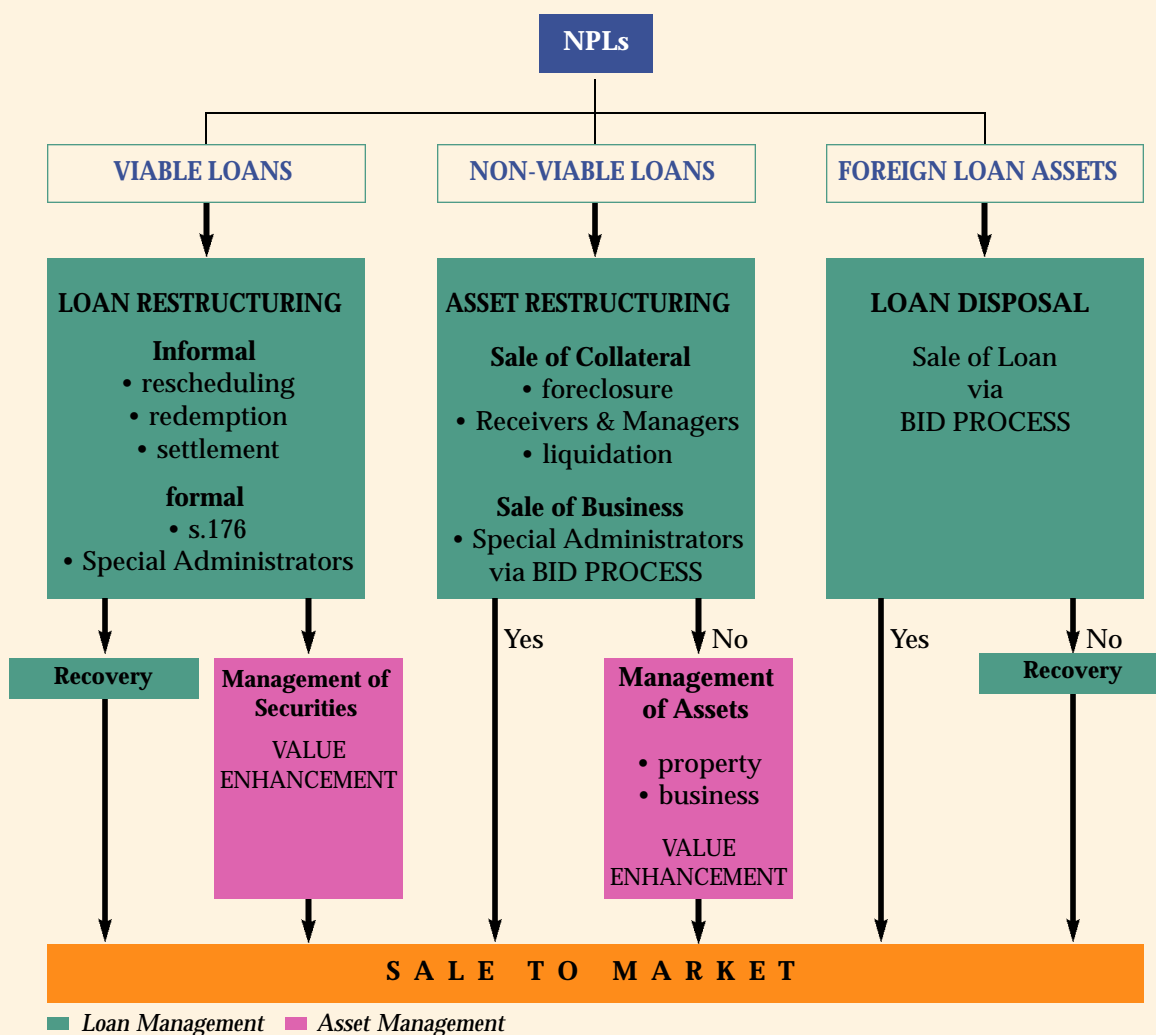
## Reference Materials

- 67** Loan and Asset Management and Disposition
- 75** List of companies under Special Administration
- 87** Amendments to Danaharta Act
- 91** Common misconceptions about Danaharta's activities
- 93** Calendar of Events

## Loan and Asset Management and Disposition

Danaharta's approach in management and disposition of assets is summarised below.

### Management and Disposition



### LOAN MANAGEMENT

#### LOAN RESTRUCTURING

When Danaharta acquires an NPL, Danaharta will first assess the viability of the loan. Every borrower with a viable loan is given an opportunity to restructure the loan using Danaharta's published loan restructuring principles and guidelines.

These principles and guidelines were formulated after considering the following objectives:

- To maximise the overall recovery value and return to Danaharta.
- To minimise the involvement of taxpayers' money.
- To ensure fair treatment of all stakeholders.
- To utilise where appropriate Danaharta's special powers to leverage and benefit the banking system as a whole.

## Loan and Asset Management and Disposition

The purpose of these principles and guidelines is to promote transparency and to provide a basis for borrowers and their advisers to formulate workout proposals. Loan restructuring schemes approved by Danaharta must adhere to these guidelines. Detailed rationale must be given for deviations from these guidelines.

The guidelines are divided into four segments, namely:

- Loan restructuring principles;
- Guidelines for corporate borrowers;
- Guidelines for individual borrowers; and
- Guidelines for guarantors.

### 1. Loan restructuring principles

The following are the loan restructuring principles that must be observed:

#### 1.1 Haircut to the shareholders of the borrower

Under the scheme, the shareholders must take a proportionately bigger haircut i.e. where the scheme requires debt reduction, the share capital reduction ratio must be greater than the debt reduction ratio. In addition, subordination of shareholders' loans (if any) would be made a pre-requisite to the scheme.

#### 1.2 Fair treatment to secured and unsecured creditors

Schemes must reflect a genuine effort by the borrower to settle with the creditors in a fair manner. Settlements to secured creditors must be more favourable than those offered to unsecured creditors.

#### 1.3 No dilution of inadequate security

Schemes should not result in a dilution of the security to the lenders unless the collateral is in excess of the outstanding loans. All forms of cash collateral must only be utilised to retire or settle the outstanding loan amount.

#### 1.4 Only one opportunity given

Danaharta will give the borrower only one opportunity in implementing a scheme. This is to prevent borrowers from making unnecessary revisions once the scheme is implemented.

#### 1.5 Make borrowers work for lenders

Any scheme must allow for the lenders to also benefit from efforts put in by borrowers. While viable borrowers are given the time and opportunity to make good their obligations, they will be closely monitored on performance and efforts to repay lenders.

## Loan and Asset Management and Disposition

### 2. Guidelines for corporate borrowers

The following are the guidelines for corporate borrowers that should be adhered to:

#### 2.1 Terms of settlement offered

No zero coupon structure should be entertained. All financial instruments offered should have a reasonable yield that is commensurate with the cashflow of the borrower.

#### 2.2 Clarity of usage of funds

The usage of funds proposed under a scheme should be clearly identified/defined at the outset and strictly adhered to.

#### 2.3 Equity-kicker elements

The scheme should involve equity-kickers such as warrants, convertible loans, etc.

#### 2.4 Repayment period

The repayment period for restructured loans should not exceed five years.

#### 2.5 Benefits of written down assets

Any subsequent value realised in excess of the book value of assets (written down as part of the scheme) should be subject to a sharing ratio between the borrower and the lender.

#### 2.6 Anti-dilution clause

The scheme should incorporate an anti-dilution clause to ensure that the intrinsic value of the equity or quasi-equity is maintained. This clause will also pre-empt any attempt by the shareholders of the borrower to dilute the eventual shareholdings of creditors through issuance of new shares.

#### 2.7 The scheme should contain covenants for monitoring purposes such as:

- A monitoring mechanism
- Inter-company lending
- Transfer of assets
- Dividend payments
- Future borrowings

## Loan and Asset Management and Disposition

### 3. Guidelines for individual borrowers

The following guidelines apply to individual borrowers and should be adhered to:

#### 3.1 Statutory declaration

All individual borrowers are required to give a statutory declaration on their net worth. This requirement is to increase the borrower's accountability in relation to the scheme.

#### 3.2 Legal proceedings in the event the scheme fails

Legal proceedings are to be taken against the borrower should the scheme fail.

#### 3.3 Annual review of performance

The scheme is to be closely monitored via an annual review of performance.

#### 3.4 Moratorium on the disposal of personal assets

The disposal of personal assets by the borrower should not be allowed during the duration of the scheme unless the proceeds are for the settlement of debts outstanding.

#### 3.5 Consent Judgement

Consent judgement should be obtained from borrowers prior to the commencement of the scheme allowing Danaharta to apply all available avenues for recovery in the event of the scheme failing. This will pre-empt any action by the borrower to delay recovery action.

#### 3.6 Equity-kicker

The scheme should include the provision of an equity-kicker to Danaharta.

#### 3.7 Repayment period

The repayment period for restructured loans should not exceed five years.

#### 3.8 The scheme should contain some covenants for monitoring purposes such as:

- A monitoring mechanism
- Future borrowings

### 4. Guidelines for guarantors

The guidelines apply to guarantors and should be adhered to:

#### 4.1 Substantial and critical guarantors

Where the lending was made based on the standing and/or net worth of corporate or individual guarantors, the recovery measures must recognise the obligation of the guarantors. As such, relevant provisions of the guidelines for corporate and individual borrowers should apply.

#### 4.2 Other guarantors

In respect of other guarantors, no release of guarantees should be considered unless all feasible recovery measures have been pursued.



## Loan and Asset Management and Disposition

### ASSET RESTRUCTURING

Non-viable loans are placed under asset restructuring as are borrowers who fail to produce restructuring proposals acceptable to Danaharta or fail to comply with the loan restructuring guidelines.

Asset restructuring involves the sale of a borrower's business or the collateral of an NPL. In either case, Danaharta will apply the principles of competitive bidding, preservation and enhancement of the value of the business or collateral as well as orderly disposition.

#### Sale of foreclosed properties

Section 57 of the Danaharta Act and the Fifteenth Schedule of the National Land Code 1965 give Danaharta additional rights as a chargee over property collateral. If a borrower does not repay his loan within 30 days from the date of a notice from Danaharta requiring it to do so, Danaharta may sell the underlying property collateral by private treaty.

A 'private treaty' sale by Danaharta may be carried out by way of tender, private contract or auction:

#### Sale by tender

Danaharta prefers the sale of property by way of open tender since it is the most transparent method and allows the best recovery value. Properties are offered for sale at their respective indicative values based on the latest independent valuations of the properties. A member of the public can obtain from Danaharta brochures featuring key information about properties being tendered and purchase a tender package for the property that he is interested in. The tender package includes a copy of the latest valuation report on the property, a copy of the sale & purchase agreement and the terms & conditions for the sale by way of tender. Guided by this information, the prospective buyer may submit a bid for the property.

All submitted bids are collated by a Tender Committee comprising senior Danaharta management officials who are not involved in organising and managing the tender process. This is done in the presence of external auditors. The winning bids are later presented to the Tender Board for its approval and all bidders are notified in writing of the success (or failure) of their bids. The Tender Board is made up of two Danaharta representatives (including the Managing Director), a representative of the Foreign Investment Committee, a valuer and an accountant.

Danaharta plans to conduct a tender exercise periodically, the objectives of which are to:

- Reduce the number of properties that will eventually be managed by Danaharta.
- Establish a clear and transparent process to foreclose on assets at acceptable market-based prices.

The tenders are marketed via a wide range of media, including newspaper advertisements, radio announcements, television and newspaper interviews and through the Danaharta website ([www.danaharta.com.my](http://www.danaharta.com.my)). Other efforts include communication with potential investors as well as establishment of links with and direct marketing to members of trade organisations such as the Federation of Malaysian Manufacturers and various Chambers of Commerce.

Spearheading the marketing efforts are the real estate agents on Danaharta's panel, who actively market the properties and advise bidders on their tenders.

It is important to appreciate that the tender process represents an initial sale of property collateral. Unsold properties are transferred to Danaharta Hartanah and subsequently re-offered to the market.

## Loan and Asset Management and Disposition

### **Sale by private contract**

A private contract is basically a one-to-one negotiation between Danaharta as chargee of the property collateral and a prospective buyer. For some types of property, this method may give the best value. To ensure transparency, Danaharta makes it very clear that negotiations must be guided by the market value, based on the latest independent professional valuation of the property, and a sale will only proceed with the consent of the borrower.

Where the property is owned by Danaharta Hartanah, the borrower's consent is no longer required, but the negotiation is still guided by the market value.

### **Sale by Danaharta auction**

A Danaharta auction will be similar to a property auction under the National Land Code and will be conducted by a professional property auctioneer. This method has yet to be applied.

### **Sale of business via Special Administrators**

The Danaharta Act confers on Danaharta the ability to manage corporate borrowers via the appointment of Special Administrators. With the appointment, the Special Administrators assume control of the assets and affairs of the company. The powers of the management and the Board of the company are effectively suspended and only the Special Administrators can deal with the assets of the company.

In order to preserve those assets until the Special Administrators are able to complete their task, a 12-month moratorium will take effect from the date of appointment. During that period, no creditor may take action against the company.

The Special Administrators will prepare a workout proposal that will be reviewed by an Independent Advisor approved by the Oversight Committee. The Independent Advisor's role is to review the reasonableness of a proposal, taking into consideration the interests of all creditors, whether secured or unsecured, and shareholders.

If Danaharta approves the proposal prepared by the Special Administrators, the latter will call for a meeting of secured creditors to consider and vote on the proposal. A majority in value of secured creditors present and voting at the meeting must approve the proposal before it can be implemented. Relevant regulatory approvals must also be obtained.

The list of companies under Special Administration (including a brief update on each company) as well as those where the services of the Special Administrators have been terminated, are given on pages 75 to 86.

### **Sale of foreign loan assets**

Foreign loan assets comprise non-Ringggit loans and marketable securities extended to or issued by foreign companies. Disposing foreign loan assets for cash, Ringggit Malaysian loan assets and/or non-Ringggit Malaysian loan assets allows Danaharta to:

- Dispose assets whose value is difficult to enhance
- Obtain Malaysian loan assets over which Danaharta can use its comparative strength by exercising its legal powers to resolve the loans.

This method is also operationally more efficient and is consistent with Danaharta's objective of maximising the recovery value of acquired assets.

Principal bidders ("PBs") and marketable account bidders ("MABs") have participated in the restricted tenders of the foreign loan assets within Danaharta's portfolio. PBs can bid for both loan accounts and marketable securities while MABs can bid for only marketable securities.

Danaharta has sought to enhance the transparency of the tender process by ensuring that all available documentation in relation to the loan accounts are provided to the PBs. In addition, Danaharta appointed an external accounting firm to review the process.

## Loan and Asset Management and Disposition

### ASSET MANAGEMENT

#### PROPERTY SALE BY DANAHARTA HARTANAH SDN BHD

Danaharta has always maintained that the focus of its NPL resolution efforts is to restructure the viable loans in accordance with Danaharta's published loan restructuring principles and guidelines (the first sieve). Non-viable loans are transferred to asset restructuring where Danaharta will either appoint SAs to assume control of the business and assets of the borrower, or foreclose on the property collateral. Where foreclosure is necessary, the foreclosed properties are first offered to the market (the second sieve).

Properties that remain unsold after a tender exercise are transferred to Danaharta Hartanah. It is only at this point (the third sieve) that Danaharta takes over the ownership of the properties. Prior to this, Danaharta's position was that of a chargee of the properties.

Danaharta Hartanah will continually and actively market and sell the properties under its ownership by employing methods such as marketing via real estate agents, contacting potential investors who have registered their interest with Danaharta or re-offering the properties in subsequent property tenders. Where necessary, Danaharta Hartanah will conduct value enhancement work on the properties. The number of properties that will eventually be managed by Danaharta is expected to be minimal.

#### MANAGEMENT OF SECURITIES

As a result of loan restructuring exercises where settlements are in the form of securities, Danaharta would own and manage the securities. These securities may include equity shares which are set off as part of a settlement agreement or new securities issued by the borrower.

In general, the securities can be categorised into irredeemable, redeemable and convertible securities:

##### **Irredeemable securities**

The two classes of securities in this category are ordinary shares and irredeemable convertible loan stocks (ICULS). Danaharta will only dispose these securities if the share price exceeds the pre-determined target price based on Danaharta's fundamental analysis of the securities.

##### **Redeemable securities**

This category includes both secured and unsecured loan stocks as well as preference shares. Danaharta will only dispose these securities if the price exceeds the pre-determined target price based on Danaharta's analysis of the credit risks against the yield to maturity of the securities. If the target price is not met, Danaharta will depend on redemption of the securities as a means to exit from these securities.

## Loan and Asset Management and Disposition

### Convertible securities

These are generally redeemable securities such as loan stocks and preference shares which may be converted into equity shares. The management of these securities would be mainly similar to that of redeemable securities, up to the point where the price of the ordinary shares exceeds the redemption sum of the instrument. From that point onwards, any decision to sell would be similar to that for ordinary shares i.e. when the prices exceeds the target price set by Danaharta based on fundamental analysis.

The actual selling of securities that are readily tradable are made through:

- Stockbrokers, in accordance with market rules of the Kuala Lumpur Stock Exchange (“KLSE”) where the securities are listed and normally traded through the KLSE; and
- Financial institutions, where sales would follow normal trade practices for marketable instruments (relating mainly to securities that are not listed or normally traded through the KLSE).

However, where the securities are subject to call and put options, the decision to dispose the securities will be governed by the call and put option agreements. In situations where there is a breach of the agreement, the decision to dispose will be based on the type of security as explained above.

## List of Companies under Special Administration

As at 16 March 2001, Danaharta had appointed Special Administrators over 88 companies (from 56 groups of companies). 74 companies are still under various stages of Special Administration. The services of Special Administrators of 14 companies have been discharged upon successful restructuring of the companies.

### COMPANIES WHERE SPECIAL ADMINISTRATORS HAVE BEEN DISCHARGED UPON SUCCESSFUL RESTRUCTURING OF THE COMPANIES

Company, principal activities & listing status	Special Administrators	Independent Advisors
1. Fima Securities Sdn Bhd <i>(formerly known as Capitalcorp Securities Sdn Bhd)</i> Stockbroking	Mr. Chew Hoy Ping Ms. Chan Yim Fun <i>(PricewaterhouseCoopers)</i> Appointed on 4 January 1999 Discharged on 2 July 1999	RHB Sakura Merchant Bankers Berhad
2. Teramaju Sdn Bhd Manufacturing of plywood and wood-based products	Mr. Patrick Chew Kok Bin Mr. Alvin Tee Guan Pian <i>(Anuarul Azizan Chew &amp; Co)</i> Appointed on 7 April 1999 Discharged on 6 January 2000	Arab-Malaysian Merchant Bank Berhad
3. Premier Capital Securities Sdn Bhd Stockbroking	Mr. Gong Wee Ning Ms. Chan Yim Fun Ms. Yap Wai Fun Mr. Kenneth Teh Ah Kiam <i>(PricewaterhouseCoopers)</i> Appointed on 30 April 1999 Discharged on 27 July 2000	RHB Sakura Merchant Bankers Berhad
4. Innosabah Securities Sdn Bhd Stockbroking	Mr. Gong Wee Ning Ms. Chan Yim Fun Ms. Yap Wai Fun Mr. Kenneth Teh Ah Kiam <i>(PricewaterhouseCoopers)</i> Appointed on 30 April 1999 Discharged on 23 June 2000	Amanah Merchant Bank Berhad
5. Nian Aik Sdn Bhd Manufacturing of wood products	Mr. Narendra Kumar Jasani Ms. Janice Lee Guat Hoe <i>(Shamsir Jasani Grant Thornton)</i> Appointed on 15 December 1999 Discharged on 11 August 2000	O.S.K. Holdings Berhad
6. Alor Setar Securities Sdn Bhd Stockbroking	Mr. Adam Primus Varghese Abdullah Mr. Ooi Teng Chew <i>(Ernst &amp; Young)</i> Appointed on 12 December 1999 Discharged on 17 August 2000	O.S.K. Holdings Berhad
7. Perusahaan Sadur Timah Malaysia Berhad Manufacturing and sale of electrolytic tin plates	Mr. Adam Primus Varghese Abdullah Mr. Foo San Kan Ms. Wong Lai Wah <i>(Ernst &amp; Young)</i> Appointed on 9 September 1999 Discharged on 8 September 2000	Arab-Malaysian Merchant Bank Berhad

## List of Companies under Special Administration

Company, principal activities & listing status	Special Administrators	Independent Advisors
8. WK Securities Sdn Bhd <i>Stockbroking</i>	Encik Nordin bin Baharuddin Mr. Adam Primus Varghese Abdullah <i>(Ernst &amp; Young)</i> <i>Appointed on 12 February 1999</i> <i>Discharged on 29 November 2000</i>	Amanah Merchant Bank Berhad
9. Labuan Securities Sdn Bhd <i>Stockbroking</i>	Mr. Gan Ah Tee Mr. John Ho Shui Fah Mr. Ooi Woon Chee <i>(KPMG)</i> <i>Appointed on 12 February 1999</i> <i>Discharged on 29 November 2000</i>	RHB Sakura Merchant Bankers Berhad
10. MGI Securities Sdn Bhd <i>Stockbroking</i>	Mr. Yeo Eng Seng Mr. Adam Primus Varghese Abdullah <i>(Ernst &amp; Young)</i> <i>Appointed on 30 April 1999</i> <i>Discharged on 29 November 2000</i>	Ferrier Hodgson MH
11. Halim Securities Sdn Bhd <i>Stockbroking</i>	Mr. Gong Wee Ning Ms. Chan Yim Fun <i>(PricewaterhouseCoopers)</i> <i>Appointed on 12 February 1999</i> <i>Discharged on 15 December 2000</i>	RHB Sakura Merchant Bankers Berhad
12. J&C Trading Sdn Bhd <i>Trading</i>	Mr. Mok Yuen Lok Mr. Poon Yew Hoe <i>(Horwath Mok &amp; Poon)</i> <i>Appointed on 30 June 2000</i> <i>Discharged on 20 December 2000</i>	Not required
13. Taiping Securities Sdn Bhd <i>Stockbroking</i>	Mr. Gan Ah Tee Mr. Ooi Woon Chee Mr. Peter Ho Kok Wai <i>(KPMG)</i> <i>Appointed on 12 February 1999</i> <i>Discharged on 29 December 2000</i>	Amanah Merchant Bank Berhad
14. MBf Northern Securities Sdn Bhd <i>Stockbroking</i>	Mr. Gan Ah Tee Mr. Peter Ho Kok Wai Mr. Ooi Woon Chee <i>(KPMG)</i> <i>Appointed on 12 February 1999</i> <i>Discharged on 10 February 2001</i>	Amanah Merchant Bank Berhad

## List of Companies under Special Administration

## COMPANIES CURRENTLY UNDER SPECIAL ADMINISTRATORS

	Company, principal activities & listing status	Special Administrators	Independent Advisors	Update
1.	Malaysia Electric Corporation Berhad <i>Manufacturing and retailing of household and electrical appliances</i>	Mr. Lim Tian Huat Mr. George Koshy <i>(Arthur Andersen &amp; Co.) Appointed on 7 April 1999 Moratorium extended to 6 April 2001</i>	Commerce International Merchant Bankers Berhad	Successful white knight selected. Secured creditors approved workout proposal.
2.	MEC Industrial Park Sdn Bhd <i>Property holding company of the MEC Berhad group</i>	<i>Appointed on 9 September 1999 Moratorium extended to 8 September 2001</i>		Successful white knight selected. Secured creditors approved workout proposal.
3.	Teras Cemerlang Sdn Bhd <i>Investment holding</i>	Mr. Gong Wee Ning Mr. Kenneth Teh Ah Kiam <i>(PricewaterhouseCoopers) Appointed on 8 April 1999 Moratorium extended to 7 April 2001</i>	Aseambankers Malaysia Berhad	SAs preparing workout proposal.
4.	RepcO Holdings Berhad <i>Investment holding and provision of management services to companies within the Repco group. Listed on KLSE Second Board</i>			SAs preparing workout proposal.
5.	RepcO (Malaysia) Sdn Bhd* <i>Trading in automotive parts</i>			SAs preparing workout proposal.
6.	Everise Capital Sdn Bhd* <i>Trading and investment holding</i>			SAs preparing workout proposal.
7.	Even Horizon Sdn Bhd* <i>Investment holding</i>			SAs preparing workout proposal.
8.	RepcO Timber Sdn Bhd* <i>Provision of timber operation management services and the marketing of timber-related products</i>			SAs preparing workout proposal.

## List of Companies under Special Administration

Company, principal activities & listing status	Special Administrators	Independent Advisors	Update
9. Everise Ventures Sdn Bhd* <i>Organising and managing 4-digit forecast pools</i>			SAs preparing workout proposal.
10. Hajat Semarak (M) Sdn Bhd* <i>Trading of timber logs</i>			SAs preparing workout proposal.
11. Teluk Jadi Sdn Bhd* <i>Extraction of timber logs</i>			SAs preparing workout proposal.
<i>* Subsidiaries of Repco Holdings Berhad</i>			
12. Jupiter Securities Sdn Bhd <i>Stockbroking</i>	Mr. Gan Ah Tee Mr. Ooi Woon Chee <i>(KPMG Peat Marwick)</i> <i>Appointed on 30 April 1999</i> <i>Moratorium extended to 29 April 2001</i>	RHB Sakura Merchant Bankers Berhad	Resolution by borrower. Secured creditors approved workout proposal.
13. Manalom Sdn Bhd <i>Housing and property development</i>	Mr. Mak Kum Choon Mr. Chu Siew Koon <i>(Kassim Chan &amp; Co)</i> <i>Appointed on 27 July 1999</i> <i>Moratorium extended to 26 July 2001</i>	Aseambankers Malaysia Berhad	Part of the underlying assets are being sold.
14. Perdana Industri Holdings Berhad <i>Investment holding. Listed on KLSE Main Board</i>	Mr. Gong Wee Ning Mr. Lim San Peen <i>(PricewaterhouseCoopers)</i> <i>Appointed on 28 July 1999</i> <i>Moratorium extended to 29 July 2001</i>	Malaysian International Merchant Bankers Berhad	Proposed restructuring scheme approved by regulatory authorities. Pending implementation of scheme.
15. RNC Corporation Berhad <i>(formerly known as Arensi Holdings (M) Berhad)</i> <i>Manufacturing and trading of PVC pipes and fittings, ready mixed concrete, cement bricks and pre-cast products, as well as the provision of financing services and timber products. Listed on KLSE Main Board</i>	Mr. Robert Teo Keng Tuan Mr. Chew Chong Eu <i>(Hanifah Teo &amp; Associates)</i> <i>Appointed on 28 July 1999</i> <i>Moratorium extended to 27 July 2001</i>	Amanah Merchant Bank Berhad	Proposed restructuring scheme approved by regulatory authorities. Pending implementation of scheme.



## List of Companies under Special Administration

Company, principal activities & listing status	Special Administrators	Independent Advisors	Update
16. Dax Foods Sdn Bhd <i>Manufacturing and marketing of chocolate-based confectionery</i>	Mr. Mok Yuen Lok Mr. Onn Kien Hoe <i>(Horwath Mok &amp; Poon)</i> Appointed on 28 July 1999 Moratorium extended to 27 July 2001	Hew & Tan	Pending implementation of scheme.
17. Sin Heng Chan (Malaya) Berhad <i>Investment holding company. Subsidiaries engaged in broiler breeding, as well as manufacturing and selling formulated animal products. Listed on KLSE Main Board</i>	Mr. Lim Tian Huat Mr. George Koshy <i>(Arthur Andersen &amp; Co.)</i> Appointed on 11 August 1999 Moratorium extended to 10 August 2001	Malaysian International Merchant Bankers Berhad	SC approval obtained. SAs/Borrower seeking underwriting.
18. Advance Synergy Furniture Sdn Bhd <i>Integrated furniture manufacturing</i>	Tuan Syed Amin Aljeffri Encik Mohd Arif Hj Mustapah <i>(Aljeffri &amp; Co)</i> Appointed on 9 September 1999 Moratorium extended to 8 September 2001	O.S.K. Holdings Berhad	Successful white knight selected. Secured creditors approved workout proposal.
19. Austral Amalgamated Berhad <i>Holding company with subsidiaries involved in property development and investment, hotels and resorts, foreign investments, travel and tours, trading, timber extraction and finance. Listed on KLSE Main Board</i>	Mr. Lim Tian Huat Mr. George Koshy <i>(Arthur Andersen &amp; Co.)</i> Appointed on 9 September 1999 Moratorium extended to 8 September 2001	RHB Sakura Merchant Bankers Berhad	Successful white knight selected. Awaiting regulatory approval.
20. Instangreen Corporation Berhad <i>Listed on KLSE Main Board</i>	Mr. Mak Kum Choon Mr. Chu Siew Koon <i>(Kassim Chan &amp; Co)</i> Appointed on 9 September 1999 Moratorium extended to 8 September 2001	Perwira Affin Merchant Bank Berhad	Awaiting regulatory approval.
21. SPJ Construction Sdn Bhd*			Awaiting regulatory approval.

## List of Companies under Special Administration

Company, principal activities & listing status	Special Administrators	Independent Advisors	Update
<p>22. Instangreen (Landscape) Sdn Bhd*</p> <p><i>The Group's principal activities are property and golf resort development, golf course and sports field design and construction, landscaping and general civil engineering works.</i></p> <p><i>* Subsidiaries of Instangreen Corporation Berhad</i></p>			Awaiting regulatory approval.
<p>23. Sportma Corporation Berhad</p> <p><i>Manufacturing and trading of racquets and other sports equipment.</i></p> <p><i>Listed on KLSE Second Board</i></p>	<p>Mr. Robert Teo Keng Tuan</p> <p>Mr. Chew Chong Eu <i>(Hanifah Teo &amp; Associates)</i></p> <p><i>Appointed on 9 September 1999</i></p> <p><i>Moratorium extended to 8 September 2001</i></p>	Ferrier Hodgson MH	SAs preparing workout proposal.
<p>24. Seng Hup Corporation Berhad</p> <p><i>Import, export, wholesale and retail trading of decorative light fittings and equipment and related products and accessories, as well as the provision of management services, property development and property holding</i></p>	<p>Mr. Tan Kim Leong</p> <p>Mr. David Siew Kah Toong <i>(BDO Binder)</i></p> <p><i>Appointed on 9 September 1999</i></p> <p><i>Moratorium extended to 8 September 2001</i></p>	KPMG	SAs preparing workout proposal.
<p>25. Beloga Sdn Bhd</p> <p><i>Manufacturing and recycling of aluminium and copper products and general trading</i></p>	<p>Mr. Heng Ji Keng</p> <p>Mr. Kelvin Edward Flynn <i>(Ferrier Hodgson MH)</i></p> <p><i>Appointed on 12 October 1999</i></p> <p><i>Moratorium extended to 11 October 2001</i></p>	KPMG	Awaiting regulatory approval.
<p>26. Kilang Papan Seribu Daya Berhad</p> <p><i>Production of sawn timber and moulded timber products.</i></p> <p><i>Listed on KLSE Second Board</i></p>	<p>Mr. Adam Primus Varghese Abdullah</p> <p>Ms. Wong Lai Wah</p> <p>Mr. Kevin K. How <i>(Ernst &amp; Young)</i></p> <p><i>Appointed on 14 December 1999</i></p> <p><i>Moratorium extended to 13 December 2001</i></p>	Aseambankers Malaysia Berhad	Resolution by borrower.

## List of Companies under Special Administration

Company, principal activities & listing status	Special Administrators	Independent Advisors	Update
27. Timbermaster Industries Berhad <i>Listed on KLSE Main Board</i>	Mr. Lim San Peen Ms. Yap Wai Fun <i>(PricewaterhouseCoopers)</i> <i>Appointed on 14 December 1999</i>	Aseambankers Malaysia Berhad	Successful white knight selected.
28. Timbermaster Timber Complex (Sabah) Sdn Bhd	<i>Moratorium extended to 13 December 2001</i>		Successful white knight selected.
29. Kompleks Perkayuan Timbermaster Smallholders Sdn Bhd			Successful white knight selected.
30. Timbermaster (Malaysia) Sdn Bhd			Successful white knight selected.
31. Perkayuan T.M. (Malaysia) Sdn Bhd  <i>The Group is involved in manufacturing and trading of wood products, as well as property development &amp; management, and gaming &amp; leisure.</i>	<i>Appointed on 24 January 2000</i>		Successful white knight selected.
32. Lumberise Sdn Bhd <i>Manufacturing of wood products</i>	Ms. Chan Yim Fun Ms. Yap Wai Fun <i>(PricewaterhouseCoopers)</i> <i>Appointed on 15 December 1999</i> <i>Moratorium extended to 14 December 2001</i>	K&N Kenanga Berhad	SAs preparing workout proposal.
33. Sandakan Plywood and Veneer Sdn Bhd <i>Logging and manufacturing of veneer</i>	Ms. Chan Yim Fun Mr. Lim San Peen <i>(PricewaterhouseCoopers)</i> <i>Appointed on 15 December 1999</i>	K&N Kenanga Berhad	SAs preparing workout proposal.
34. Sandakan Blockboard Manufacturing Co. Sdn Bhd <i>Manufacturing of plywood and blockboard</i>	<i>Moratorium extended to 14 December 2001</i>		SAs preparing workout proposal.

## List of Companies under Special Administration

	<b>Company, principal activities &amp; listing status</b>	<b>Special Administrators</b>	<b>Independent Advisors</b>	<b>Update</b>
35.	Winshine Holdings Sdn Bhd <i>Investment holding and provision of management services</i>	Mr. Gan Ah Tee Encik Mohamed Raslan Abdul Rahman (KPMG) <i>Appointed on 15 December 1999</i>	Horwath Mok & Poon	Successful white knight selected. Secured creditors approved workout proposal. Pending approval from regulatory authorities.
36.	Winshine Industries Sdn Bhd <i>Manufacturing of furniture and wood-based products</i>	<i>Moratorium extended to 14 December 2001</i>		
37.	CA Furniture Industries Sdn Bhd <i>Manufacturing of rubber wood furniture</i>	Mr. Ooi Woon Chee Encik Mohamed Raslan Abdul Rahman Mr. Ng Chwe Hwa (KPMG) <i>Appointed on 16 December 1999</i>	Asia Pacific Management Insight Sdn Bhd	Successful white knight selected. Secured creditors approved workout proposal. Pending approval from regulatory authorities.
38.	CA Manufacturing Sdn Bhd <i>Manufacturing of rubber wood furniture</i>	<i>Moratorium extended to 15 December 2001</i>		
39.	Caton Wood Industries Sdn Bhd <i>Manufacturing of veneer, plywood and blockboard</i>	Mr. Adam Primus Varghese Abdullah Ms. Wong Lai Wah Mr. Kevin K. How (Ernst & Young) <i>Appointed on 16 December 1999</i>	Asia Pacific Management Insight Sdn Bhd	Successful white knight selected. Secured creditors approved workout proposal. Pending approval from regulatory authorities.
40.	Mentakab Veneer & Plywood Sdn Bhd <i>Manufacturing of veneer and plywood</i>	Mr. Heng Ji Keng Mr. Kelvin Edward Flynn (Ferrier Hodgson MH) <i>Appointed on 23 February 2000</i>	BDO Binder	Restructuring being implemented.
41.	Woo Hing Brothers (Malaya) Berhad <i>Retailer in watches. Listed on KLSE Second Board</i>	Mr. Heng Ji Keng Mr. Kelvin Edward Flynn (Ferrier Hodgson MH) <i>Appointed on 2 March 2000</i>	Shamsir Jasani Grant Thornton	SAs preparing workout proposal.
		<i>Moratorium extended to 1 March 2002</i>		

## List of Companies under Special Administration

Company, principal activities & listing status	Special Administrators	Independent Advisors	Update
42. Bescorp Industries Berhad <i>Manufacturing &amp; sale of reinforced concrete piles and contracting of piling &amp; substructure works for infrastructure &amp; construction projects. Listed on KLSE Second Board</i>	Mr. Tan Kim Leong Mr. Siew Kah Toong <i>(BDO Binder)</i> <i>Appointed on 2 March 2000</i> <i>Moratorium extended to 1 March 2002</i>	Deloitte Kassim Chan	Secured creditors approved workout proposal. Successful white knight selected.
43. Associated Kaolin Industries Berhad <i>Manufacturing and sale of refined kaolin, logging and downstream timber products</i>	Mr. Gong Wee Ning Mr. Lim San Peen <i>(PricewaterhouseCoopers)</i> <i>Appointed on 3 May 2000</i>	BDO Binder	SAs preparing workout proposal.
44. Mitsuoka Electronics (M) Sdn Bhd <i>Manufacturing and sale of transformers, adaptors and motor coils</i>	Mr. Mak Kum Choon Mr. Chu Siew Koon <i>(Kassim Chan &amp; Co.)</i> <i>Appointed on 24 May 2000</i>	To be appointed	SAs finishing workout proposal.
45. Abrar Corporation Berhad <i>Investment holding company, with subsidiaries involved in property investment, development and construction. Listed on KLSE Main Board</i>	Mr. Lim San Peen Mr. Gong Wee Ning <i>(PricewaterhouseCoopers)</i> <i>Appointed on 27 May 2000</i>	Horwath Mok & Poon	Secured creditors approved workout proposal.
46. Abrar Group International Sdn Bhd <i>Investment holding company with subsidiaries involved in financial services</i>			SAs preparing workout proposal.
47. Utama Impian Sdn Bhd <i>Property development company</i>	En. Razalee Amin Mr. Tam Kok Meng <i>(Razalee &amp; Co.)</i> <i>Appointed on 1 June 2000</i>	To be appointed	SAs preparing workout proposal.

## List of Companies under Special Administration

	<b>Company, principal activities &amp; listing status</b>	<b>Special Administrators</b>	<b>Independent Advisors</b>	<b>Update</b>
48.	Sri Hartamas Berhad <i>Property development company.</i> <i>Listed on KLSE Main Board</i>	Mr. Gan Ah Tee Mr. Ooi Woon Chee Encik Mohamed Raslan Abdul Rahman <i>(KPMG)</i> <i>Appointed on 16 June 2000</i>	To be appointed	Successful white knight selected. SAs preparing workout proposal.
49.	Sri Hartamas Hotels Sdn Bhd* <i>Owner of two hotels in Melaka and Pulau Pinang respectively.</i>	<i>Appointed on 21 August 2000</i>		SAs preparing workout proposal.
50.	Cempaka Mewah Sdn Bhd* <i>Property developer</i>	<i>Appointed on 18 October 2000</i>		SAs preparing workout proposal.
51.	Puncak Permata Sdn Bhd* <i>Property developer</i>			SAs preparing workout proposal.
52.	Mawar Tiara Sdn Bhd* <i>Property developer</i>			SAs preparing workout proposal.
53.	Mewah Rembang Sdn Bhd* <i>Property developer</i>			SAs preparing workout proposal.
	* <i>Subsidiaries of Sri Hartamas Berhad</i>			
54.	Rahman Hydraulic Tin Berhad <i>Tin mining and rubber production.</i> <i>Listed on KLSE Main Board</i>	Mr. Yeo Eng Seng Mr. Adam Primus Varghese Abdullah Ms. Wong Lai Wah <i>(Ernst &amp; Young)</i> <i>Appointed on 16 June 2000</i>	Arab-Malaysian Merchant Bank Berhad	Secured creditors approved workout proposal.
55.	Kuala Lumpur Industries Holdings Berhad <i>Investment holding.</i> <i>Listed on KLSE Main Board</i>	Mr. Mok Yuen Lok Mr. Poon Yew Hoe <i>(Horwath Mok &amp; Poon)</i> <i>Appointed on 30 June 2000</i>	To be appointed	SAs preparing workout proposal.
56.	Bee Hin Holdings Sdn Bhd* <i>Investment holding, rental of properties and provision of corporate and financial support services</i>	<i>Appointed on 27 October 2000</i>		SAs preparing workout proposal.

## List of Companies under Special Administration

Company, principal activities & listing status	Special Administrators	Independent Advisors	Update
57. Emville Sdn Bhd* <i>Property developer</i>			
58. Kuala Lumpur Industries Berhad* <i>Investment and investment property holding company</i>			
59. Sistem Irama Sdn Bhd* <i>Property developer</i>			
<i>* Subsidiaries of Kuala Lumpur Industries Holdings Berhad</i>			
60. Tang Kwor Ham Realty Sdn Bhd <i>Property development</i>	Mr. Gan Ah Tee Mr. Ooi Woon Chee Encik Mohamed Raslan Abdul Rahman <i>(KPMG)</i> <i>Appointed on 30 June 2000</i>	To be appointed	SAs preparing workout proposal.
61. Pakata Sdn Bhd <i>Manufacturing of printed colour boxes and industrial packaging</i>	Mr. Narendra Kumar Jasani Ms. Janise Lee Guat Hoe <i>(Shamsir Jasani Grant Thornton)</i> <i>Appointed on 1 July 2000</i>	To be appointed	SAs finalising workout proposal.
62. Uncang Emas Sdn Bhd <i>Property development and management</i>	Encik Mohd Noor Abu Bakar Encik Suhaimi Badrul Jamil <i>(Mohd Noor &amp; Associates)</i> <i>Appointed on 4 July 2000</i>	To be appointed	SAs preparing workout proposal.
63. Miharja Development Sdn Bhd <i>Property development and investment</i>			SAs preparing workout proposal.
64. Profound View Sdn Bhd <i>Property development</i>	Mr. Lim Tian Huat Mr. George Koshy <i>(Arthur Andersen &amp; Co.)</i> <i>Appointed on 24 July 2000</i>	RHB Sakura Merchant Bankers Berhad	SAs preparing workout proposal.
65. Danau Kota Development Sdn Bhd <i>Property development</i>			SAs preparing workout proposal.
66. Likas View Sdn Bhd <i>Property development</i>			SAs preparing workout proposal.

## List of Companies under Special Administration

Company, principal activities & listing status	Special Administrators	Independent Advisors	Update
67. Alpha Agencies Sdn Bhd <i>Developer of a 14-storey, 291-room hotel in Kota Kinabalu, Sabah</i>	Mr. Lim Tian Huat Mr. Ng Teck Wah <i>(Arthur Andersen &amp; Co.) Appointed on 24 July 2000</i>	To be appointed	SAs preparing workout proposal.
68. Golden Pearl Island Hotel Sdn Bhd <i>Owner of a 12-storey, 126-room hotel in Pulau Pinang</i>	Mr. Mok Yuen Lok Mr. Poon Yew Hoe <i>(Horwath Mok &amp; Poon) Appointed on 24 July 2000</i>	To be appointed	SAs preparing workout proposal.
69. Profil Kemas Sdn Bhd <i>Developer and operator of a 14-storey, 330-room hotel in Kota Bharu, Kelantan</i>	Mr. Kenneth Teh Ah Kiam Ms. Chan Yim Fun <i>(PricewaterhouseCoopers) Appointed on 24 July 2000</i>	To be appointed	SAs preparing workout proposal.
70. Projek Kota Langkawi Sdn Bhd <i>Owner of a 177-room resort hotel in Pulau Langkawi, Kedah</i>	Ms. Chan Yim Fun Mr. Kenneth Teh Ah Kiam <i>(PricewaterhouseCoopers) Appointed on 24 July 2000</i>	To be appointed	SAs preparing workout proposal.
71. Trimula Development Sdn Bhd <i>Property developer and investment holding company</i>	Encik Mohamed Raslan Abdul Rahman Mr. Ooi Woon Chee Mr. Gan Ah Tee <i>(KPMG) Appointed on 22 August 2000</i>	To be appointed	SAs preparing workout proposal.
72. Salanta Development Sdn Bhd <i>Property developer</i>	Encik Abdul Khudus Mohd Naaim Encik Hassan Hussain <i>(KS &amp; Associates) Appointed on 29 August 2000</i>	To be appointed	SAs preparing workout proposal.
73. Techno Asia Holdings Berhad <i>{formerly known as Westmont Land (Asia) Berhad}</i> Investment holding company with subsidiaries involved in property development, investment holding, palm plantations, power generation and hotel operations	Mr. Lim Tian Huat Mr. Chew Cheng Leong <i>(Arthur Andersen &amp; Co.) Appointed on 2 February 2001</i>	To be appointed	SAs preparing workout proposal.
74. Prima Moulds Manufacturing Sdn Bhd <i>{formerly known as Techno Asia Sdn Bhd}</i> Manufacturing of standard and custom mould bases			



## Amendments to Danaharta Act

### SUMMARY OF MAJOR AMENDMENTS TO THE PENGURUSAN DANAHARTA NASIONAL BERHAD ACT 1998

#### OBJECTIVES OF THE AMENDMENTS

The Malaysian Government recently tabled in Parliament the Pengurusan Danaharta Nasional Berhad (Amendment) Bill 2000 (the “Amendment Bill”), which introduces amendments to the Pengurusan Danaharta Nasional Berhad Act 1998 (the “Danaharta Act”).

These amendments are intended:

- (a) to clarify existing provisions of the Danaharta Act in order to remove any doubts about their intended effect; and
- (b) to overcome practical difficulties which have arisen since Danaharta began operations.

The Amendment Bill was passed by the Dewan Rakyat and the Dewan Negara on 17 July 2000 and 31 July 2000 respectively.

This summary sets out the major amendments introduced by the Amendment Bill, in the following five categories:

#### Administrative matters

##### Vesting process

The Danaharta Act, which came into force in September 1998, introduced a statutory vesting process to allow Danaharta to acquire non-performing loans (NPLs) in a speedy and efficient manner. This process has enabled Danaharta to complete its acquisition of NPLs well ahead of schedule.

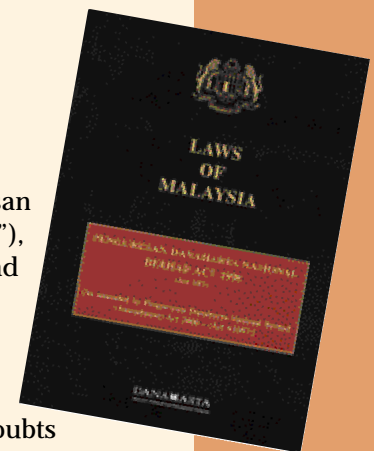
The statutory vesting process involves the issue of a vesting certificate to evidence the acquisition of an NPL by Danaharta. The Danaharta Act does not expressly allow Danaharta to issue replacement vesting certificates, for example, to update information relating to an NPL that has been acquired. The Amendment Bill clarifies that Danaharta may do so: new sections 14A & 19A of the Danaharta Act.

##### Disclosure of information

Danaharta sells assets in a transparent and professional manner and transacts with anyone who gives the best value. In order to maximise recovery values, it is important that Danaharta is able to disclose information about viable businesses and other assets for sale to potential investors or “white-knights”. The Amendment Bill amends section 20 of the Danaharta Act to clarify that Danaharta may do so.

##### Oversight Committee

Under the Danaharta Act, a 12-month moratorium takes effect upon the appointment of Special Administrators who are appointed with the approval of the Oversight Committee established under the Act. The moratorium preserves the assets of the borrower company and gives the Special Administrators the opportunity of preparing a workout (or restructuring) proposal. The Amendment Bill clarifies that the Oversight Committee may approve the termination of the moratorium before expiry of the initial 12-month moratorium period where the Special Administrators have completed their tasks: amended section 22 of the Danaharta Act.



## Amendments to Danaharta Act

### Special Administrators

#### Appointment of Special Administrators

The Amendment Bill expands the list of affected persons over whom Danaharta may appoint Special Administrators: amended section 21(1) of the Danaharta Act. In addition to the borrower company itself, the class of persons over whom Danaharta may apply to appoint Special Administrators includes:

- any subsidiary of the borrower;
- any company who has provided security to Danaharta; and
- any company where at least 2% of its share capital has been charged as security to Danaharta.

Under the Danaharta Act, Danaharta can only appoint a Special Administrator with the approval of the Oversight Committee established under the Act. The Oversight Committee currently comprises the Accountant-General, the Chairman of the Securities Commission and a Deputy Governor of Bank Negara Malaysia.

In order to obtain approval, Danaharta must satisfy the Oversight Committee that the criteria set out in the Danaharta Act have been met. These include the fact that the company cannot pay its debts, that the appointment would ensure its survival as a going concern, that the appointment would result in a more advantageous realisation of assets than on a winding up, or that it would achieve a more expeditious restructuring.

The amendment recognises that companies in a group often operate as a single economic unit. Consistent with the existing provisions under the Danaharta Act, the appointment will allow Danaharta to preserve and protect the value of its security.

The Danaharta Act does not expressly provide for the appointment of additional or replacement Special Administrators. The Amendment Bill clarifies that such appointments are possible: new section 25A(2) of the Danaharta Act.

The Amendment Bill also clarifies that the mere fact of an appointment of a Special Administrator does not trigger a breach of contract or release any existing security: new section 29A of the Danaharta Act.

#### Special Administrators' powers

Amendments have been made to clarify the consequences of an appointment of a Special Administrator. These include making it an offence for a person:

- to perform a function as an officer of the affected company without the prior approval of the Special Administrator: new section 33(4) of the Danaharta Act; and
- to obstruct or hinder the Special Administrator: new section 39A of the Danaharta Act.

In both cases, the penalty for committing such an offence is RM250,000 or jail for up to 3 years or both.

New section 42A of the Danaharta Act allows a Special Administrator to challenge transactions involving assets which were acquired at an overvalue from, or sold at an undervalue to, a director of the affected company or a related party. This is similar to a liquidator's right under section 295 of the Companies Act, 1965.

## Amendments to Danaharta Act

Sometimes, in order to preserve the value of viable businesses, it may be necessary for the affected company to obtain interim funding to ensure that it is able to continue as a going concern while a workout proposal is being prepared. It is unlikely that a lender would agree to provide funding to a company under special administration unless it was assured of receiving priority in repayment. The Amendment Bill introduces amendments to provide creditors who lend to the affected company during the special administration such priority: new section 66A of the Danaharta Act. Likewise, a Special Administrator will be paid approved costs and expenses in priority.

### **Moratorium**

Under the Danaharta Act, a person who wishes to commence legal proceedings against a company under special administration must first seek Danaharta's approval to do so. The Amendment Bill clarifies that Danaharta's decision on this matter is final and binding: new section 41(7) of the Danaharta Act. This is consistent with the underlying purpose of the Act which is to ensure that Danaharta can achieve its mission promptly, efficiently and economically.

The Danaharta Bill makes a breach of the moratorium a specific offence: new section 41(8) of the Danaharta Act. The penalty for this offence is a fine not exceeding RM250,000 or imprisonment for up to 3 years or both.

### **Workout proposals**

The Amendment Bill redefines a secured creditor to be those creditors who hold tangible assets - such as land, shares or fixed deposits - as security: amended section 21(1) of the Danaharta Act. This reflects the more common types of security usually held by financial institutions. This more specific definition will allow a Special Administrator to identify secured creditors with a greater degree of certainty.

Under the Danaharta Act, a Special Administrator is required to submit the workout proposal for approval by Danaharta and, subsequently, by secured creditors. However, in some cases, the affected company may not have any secured creditors. The Amendment Bill clarifies that, in those circumstances, approval by Danaharta is sufficient: amended section 46(4) of the Act. As with workout proposals approved by secured creditors, a proposal approved by Danaharta will also be binding on the affected company, shareholders, creditors and those affected by the proposal.

### **Private treaty sales**

The Danaharta Act allows Danaharta to foreclose on assets charged to it by way of sale by private treaty. The Danaharta Bill clarifies that the modes of sale by private treaty include auction, tender and private contract: amended section 57(2) of the Danaharta Act. Open tenders have been Danaharta's preferred mode of sale.

The amendments also clarify that Danaharta may act as buyer of last resort for foreclosed assets: amended section 57(5) of the Danaharta Act. It is not uncommon for lenders to reserve the right to acquire foreclosed assets to ensure that those assets are sold at fair values. Thus, for example, where Danaharta offers landed properties for sale, it will stand in as a buyer of last resort to ensure that properties are sold at a minimum price, and not at fire sale prices.

## Amendments to Danaharta Act

In addition, the amendments clarify that Danaharta may exercise its rights to foreclose under the Danaharta Act even though the selling bank may have commenced foreclosure proceedings: amended section 57(6) of the Danaharta Act. As the loans acquired by Danaharta are non-performing loans, foreclosure proceedings may already have been commenced by the selling bank by the time it sells the NPL to Danaharta. Thus, for example, the selling bank may have applied and obtained an order to sell the property under the National Land Code. In those circumstances, Danaharta has the option of continuing with the sale under the National Land Code or proceed in accordance with the Danaharta Act.

Finally, the Amendment Bill allows Danaharta to take appropriate steps to preserve the value of properties charged to it and to facilitate the sale of the property: amended section 57(1)(b) of the Danaharta Act. This amendment is intended to overcome the practical problems that Danaharta now faces over acts of vandalism and malicious damage. Thus, for example, the amendment will enable Danaharta to appoint guards to protect the property against such acts of vandalism and malicious damage. In addition, in order to assist in maximising recovery values, the amendment will enable Danaharta to arrange for site inspections.

### General matters

The Danaharta Act imposes an obligation of secrecy on officers, employees and agents of Danaharta. The Amendment Bill extends this obligation to the Oversight Committee and specifies a penalty for breach of this secrecy obligation: new section 65(2) of the Danaharta Act. The penalty for such an offence is RM250,000 or jail for up to 3 years or both.

Where a company commits an offence under the Danaharta Act, officers of the company may also be charged for the same offence: new section 66B of the Danaharta Act.

New section 71 of the Danaharta Act clarifies that an act done in breach of the Danaharta Act is not invalidated provided it was done in good faith. This is to ensure that acts done in good faith are preserved and the interests of third parties who may have acted in reliance of those acts are not affected. The person who committed the breach would of course still be accountable for the breach.

New section 72 of the Danaharta Act prohibits injunctions being issued against Danaharta, the Oversight Committee, Special Administrator or Independent Advisor. This provision is required given Danaharta's function and mission which is to maximise recovery values. Legal proceedings by NPL borrowers are not uncommon even if those proceedings do not have a sound legal basis. The greater the number of suits, the longer Danaharta will take to complete its mission. The delays involved in litigation will reduce the recovery values of NPLs and ultimately increase the cost to the public of resolving the NPL problem. Protection against such time consuming suits will ensure that Danaharta is able to focus its resources on the management and resolution of acquired NPLs in the shortest possible time.

## Common misconceptions about Danaharta's activities

### DISPOSAL OF PROPERTY COLLATERAL

#### **DANAHARTA IS SLOW IN DISPOSING THE PROPERTIES IN ITS PORTFOLIO**

A common and frequent misconception about Danaharta's property sales is the expectation that Danaharta will be foreclosing on and disposing all properties within its portfolio (as at 31 December 2000: 1,536 properties worth RM17 billion). This assumes that Danaharta's only method of recovery is foreclosure and sale of collateral. This is not the case as Danaharta will explore the option of restructuring and rehabilitating viable loans, much like what a bank would do.



Loan restructuring can be formal (e.g. via Special Administrators appointed under the Danaharta Act or section 176 Companies Act restructuring) or informal (e.g. loan rescheduling or debt/equity conversions). Under loan restructuring, Danaharta does not need to foreclose on the property collateral. Ownership of the property remains with the borrower or the third party chargor. Danaharta only forecloses on property collateral if the loan is non-viable or where loan restructuring is unsuccessful. With the considerable success achieved in loan restructuring to date, it is unlikely that much of the underlying property collateral will have to be foreclosed on and sold off.

### RECOVERY

#### **DANAHARTA HAS ALMOST RM50 BILLION OF NPLS, BUT HAS ONLY COLLECTED RM535 MILLION FROM PROPERTY SALES. THERE IS NO REAL RECOVERY FROM THE NPLS**

Recovery proceeds from NPLs and assets in Danaharta's portfolio that have been restructured have quadrupled from RM3.14 billion as at December 1999 to RM12.03 billion as at December 2000. Almost half of the recovery from the restructured assets of RM12.03 billion is in the form of cash (approximately RM6.4 billion), with marketable securities and properties, as well as performing loans, making up the rest.

With restructuring still in progress, more recovery is expected from the unresolved loans and the restructuring schemes pending implementation.

### AMENDMENTS TO THE DANAHARTA ACT

#### **THE DANAHARTA ACT IS NOT EFFECTIVE, THEREFORE IT NEEDS TO BE AMENDED**

The Danaharta Act has been effective. It has facilitated and expedited Danaharta's acquisition of non-performing loans (NPLs) with gross value of almost RM50 billion from financial institutions within 18 months after Danaharta's establishment, and has enabled Danaharta to restructure viable loans, or foreclose on collateral and appoint Special Administrators over corporate borrowers to maximise recovery value.

Many international analysts who have conducted studies of Danaharta and other asset management companies (AMCs) in the region have concluded that effective legislative powers is a main contributing factor towards Danaharta's good recovery rates.

The amendments are to further clarify several provisions in the Danaharta Act and to address practical difficulties that have surfaced during Danaharta's two years in operations.

## Common misconceptions about Danaharta's activities

### **DANAHARTA IS OMNIPOTENT**

In normal circumstances, the powers given to Danaharta might seem to be wide and sweeping, but these are appropriate and necessary for a national asset management company like Danaharta. They reflect the special mission entrusted to Danaharta. As a matter of fact, Danaharta has less sweeping powers compared to other AMCs. For example, Danaharta does not have compulsory acquisition powers and has no power to confiscate borrowers' assets.

### **PREVENTING THE COURT FROM REVIEWING A DECISION MADE BY DANAHARTA AND GRANTING AN INJUNCTION AGAINST DANAHARTA CANNOT BE JUSTIFIED**

In the course of Danaharta's loan management efforts, it was discovered that some borrowers apply for injunctions against Danaharta, the Oversight Committee, Special Administrator or Independent Advisor merely as a delay mechanism, without any strong legal basis. Extra powers and protection are required to prevent such petty actions from hindering Danaharta's efforts in expediting the resolution of the NPL situation, and to ensure that the taxpayers do not have to bear the costs of lengthy and expensive litigation.

Bear in mind that Danaharta has a limited life and these powers and protection will cease once Danaharta has completed its mission and is wound up. Without such protection against unwarranted litigation, such actions will simply delay the completion of its mission.

### **DANAHARTA'S POWERS ARE OPEN TO ABUSE**

Danaharta's corporate governance structure serves as an effective check and balance mechanism, for example:

- An independent nine-member Board of Directors, comprising a non-executive Chairman, a Managing Director, two representatives from the public sector, three representatives from the private sector and two from the international community.
- Appointments of Special Administrators require the approval of an independent Oversight Committee, comprising a representative each from the Ministry of Finance, Bank Negara Malaysia and the Securities Commission.
- Loan workout proposals prepared by Special Administrators are subject to a review by an Independent Advisor and require the approval of secured creditors.
- Our commitment and track record in transparency also serves as another check against abuse - it is difficult to abuse our powers and yet be transparent at the same time. Our efforts in being transparent, especially via timely disclosure of accurate information, have been acknowledged by the international community.

## Calendar of Events

**17 JANUARY 2000**

Danaharta participates in roundtable discussion at the Asset Management Forum organised by World Bank

**20 JANUARY 2000**

Visit by Moody's Investor Services

Visit by World Bank

**12 FEBRUARY 2000**

R&M of Mekar Idaman Sdn Bhd announces that United Engineers (M) Berhad is the successful bidder for shares in Intria Berhad

**14 FEBRUARY 2000**

Danaharta presents paper on the overall Malaysian banking sector restructuring and recovery efforts with a role and progress update on Danaharta, Danamodal and the Corporate Debt Restructuring Committee, at Salomon Smith Barney's Asia Banking Conference in Hong Kong

**16 FEBRUARY 2000**

Visit by International Monetary Fund

**21 FEBRUARY 2000**

Visit by Deposit Insurance Corporation, Japan

**24 FEBRUARY 2000**

Danaharta announces results of the second restricted tender of foreign loan assets

**29 FEBRUARY 2000**

Danaharta briefs media and analysts on its Operations Report for the six months ended 31 December 1999

**2 MARCH 2000**

Danaharta appoints Special Administrators over Woo Hing Brothers (Malaya) Berhad and Bescorp Industries Berhad

**13 MARCH 2000**

Visit by the US Department of Treasury

**22 MARCH 2000**

Danaharta participates in 3rd Annual Asia Pacific Hotel Industry Investment Conference in Singapore

**28 MARCH 2000**

Danaharta announces second sale of foreclosed properties

**14 APRIL 2000**

Visit by Ministry of Finance Thailand/ Krung Thai Bank/Bank of Thailand

**18 APRIL 2000**

Danaharta announces sale of businesses and assets of nine wood-based companies

**21-22 APRIL 2000**

Danaharta presents paper "The Malaysian Capital Markets: Role and Progress of Danaharta" at seminar "Investment 2000: Issues and Strategies" organised by Permodalan Nasional Berhad

**2 MAY 2000**

Visit by Institute of International Finance

**3 MAY 2000**

Danaharta appoints Special Administrators of Associated Kaolin Industries Berhad

**9 MAY 2000**

Danaharta participates in an Economic Forum at Universiti Utara Malaysia (UUM), Kedah



## Calendar of Events

**10 MAY 2000**

Danaharta participates in an Economic Forum at Universiti Sains Malaysia (USM), Penang

**17 MAY 2000**

Visit by Ministry of International Trade & Industry, Japan

**22 MAY 2000**

Meeting with US and European investors, organised by Bank Negara Malaysia

**23 MAY 2000**

Danaharta holds press conference to announce results of the second sale of foreclosed properties

**24 MAY 2000**

Visit by Australian High Commission

**25 MAY 2000**

Danaharta appoints Special Administrators of Mitsuoka Electronics (M) Sdn Bhd

**29 MAY 2000**

Danaharta appoints Special Administrators of Abrar Corporation Berhad and Abrar Group International Sdn Bhd

**31 MAY 2000**

Visit by World Bank

**1 JUNE 2000**

Danaharta appoints Special Administrators of Utama Impian Sdn Bhd

**7 JUNE 2000**

Visit by Japan Centre for International Finance

**13 JUNE 2000**

Visit by Standard & Poor's

**16 JUNE 2000**

Danaharta appoints Special Administrators of Sri Hartamas Berhad and Rahman Hydraulic Tin Berhad

**22 JUNE 2000**

Danaharta announces sale of the businesses of four wood-based companies

**26 JUNE 2000**

Danaharta awards seven real estate agents for outstanding performance in Danaharta's second property tender

**30 JUNE 2000**

Danaharta appoints Special Administrators of J&C Trading Sdn Bhd, Kuala Lumpur Industries Holdings Berhad and Tang Kwor Ham Realty Sdn Bhd

Visit by Korea Tax Institute

Visit by Embassy of Republic of Korea

**3 JULY 2000**

Danaharta appoints Special Administrators of Pakata Sdn Bhd

Danaharta signs agreement with Permodalan Nasional Berhad to acquire TTDI Development Sdn Bhd

**4 JULY 2000**

Special Administrators announce successful tenderers for MBf Northern Securities Sdn Bhd and Taiping Securities Sdn Bhd

Danaharta appoints Special Administrators of Uncang Emas Sdn Bhd and Miharja Development Sdn Bhd



## Calendar of Events

**6 JULY 2000**

Danaharta appoints Special Administrators of Profound View Sdn Bhd, Danau Kota Development Sdn Bhd and Likas View Sdn Bhd

**10 JULY 2000**

Visit by China Huarong Asset Management Corporation

**11 JULY 2000**

Danaharta announces third sale of foreclosed properties

Visit by Korea Asset Management Corporation (KAMCO)

Visit by Korea Securities Research Institute

**12 JULY 2000**

Amendments of Danaharta Act debated at Dewan Rakyat

**18 JULY 2000**

Danaharta participates in an Economic Forum at Universiti Malaysia Sarawak

**19 JULY 2000**

Danaharta participates in an Economic Forum at Universiti Malaysia Sabah

**24 JULY 2000**

Danaharta appoints Special Administrators of Alpha Agencies Sdn Bhd, Golden Pearl Island Hotel Sdn Bhd, Profil Kemas Sdn Bhd and Projek Kota Langkawi Sdn Bhd

**25 JULY 2000**

Roundtable discussion with analysts

**26 JULY 2000**

Visit by Institute of Developing Economies, Japan

Danaharta participates in an Economic Forum at Universiti Malaya

**27 JULY 2000**

Visit by delegation from Indonesian Banking Restructuring Agency ("IBRA")

Amendments to Danaharta Act debated at Dewan Negara

**2 AUGUST 2000**

Danaharta participates in an Economic Forum at Universiti Teknologi Mara

**4 AUGUST 2000**

Danaharta announces third restricted tender of foreign loan assets

**8 AUGUST 2000**

Familiarisation visit by delegation from the Ministry of Finance and Ministry of Planning of Egypt

**16 AUGUST 2000**

Danaharta appoints Puan Husniarti Tamin to replace Dato' Dr. Abdul Aziz Mohd Yaacob on Board of Directors



Visit by Japan External Trade Organization

**18 AUGUST 2000**

Visit by Monetary Authority of Singapore

**19 AUGUST 2000**

Danaharta participates in UUM's "First International Conference on Banking and Finance: Issues and Strategy"

**21 AUGUST 2000**

Danaharta appoints Special Administrators of Sri Hartamas Hotels Sdn Bhd

**22 AUGUST 2000**

Danaharta appoints Special Administrators of Trimula Development Sdn Bhd

## Calendar of Events

**23 AUGUST 2000**

Visit by delegation of Indonesian Members of Parliament and IBRA officials

**24 AUGUST 2000**

Danaharta announces results of the third sale of foreclosed properties

**25 AUGUST 2000**

Danaharta clarifies report on National Steel Corporation of The Philippines

**28 AUGUST 2000**

Danaharta briefs media and analysts on its Operations Report for the six months ended 30 June 2000

**30 AUGUST 2000**

Danaharta appoints Special Administrators of Salanta Development Sdn Bhd

**11 SEPTEMBER 2000**

Danaharta presents paper "A view of the challenges and prospects for the Malaysian economy" at Standard Chartered Bank Investors Group dinner in Kuala Lumpur

**13 SEPTEMBER 2000**

Danaharta announces results of the third restricted tender of foreign loan assets

**15 SEPTEMBER 2000**

Visit by Moody's Investor Services

**21 SEPTEMBER 2000**

Danaharta issues FAQ on the Hottick NPL and National Steel Corporation of The Philippines

**22 SEPTEMBER 2000**

Visit by Government of Singapore Investment Corporation

**25 SEPTEMBER 2000**

Danaharta announces hotel & leisure property tender

**2 OCTOBER 2000**

Danaharta appoints Dato' Salleh Harun to replace Dato' Dr. Zeti Akhtar Aziz on Board of Directors

**4 OCTOBER 2000**

Visit by Standard & Poor's

**4-6 OCTOBER 2000**

Control Self Assessment (CSA) Workshop for Danaharta executives

**16 OCTOBER 2000**

Dialogue with delegation from Russell 2020, organised by Economic Planning Unit (EPU)

**18 OCTOBER 2000**

Danaharta appoints Special Administrators of Cempaka Mewah Sdn Bhd, Puncak Permata Sdn Bhd, Mawar Tiara Sdn Bhd and Mewah Rembang Sdn Bhd

Danaharta presents paper on the overall Malaysian banking sector restructuring and recovery efforts with a role and progress update on Danaharta, Danamodal and the Corporate Debt Restructuring Committee at ING Barings' In-Depth Investment Summit 2000 in Singapore

**19 OCTOBER 2000**

Visit by delegation from the State Bank for Foreign Economic Affairs, Republic of Turkmenistan

**24 OCTOBER 2000**

Visit by KAMCO

**2 NOVEMBER 2000**

Danaharta participates in a conference on "Program, Strategy and Principles in Resolving Corporate Debt Restructuring" in Jakarta, Indonesia



## Calendar of Events

**4 NOVEMBER 2000**

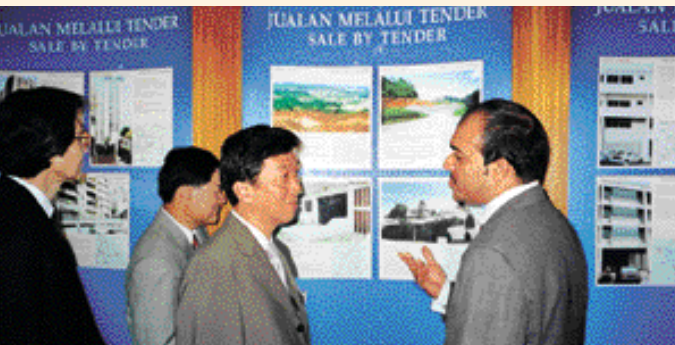
Visit by Radanasin Asset Management of Thailand

**7 NOVEMBER 2000**

Danaharta announces fourth sale of foreclosed properties

**8-12 NOVEMBER 2000**

Danaharta participates in "Malaysian Property Exhibition 2000" organised by REHDA

**9-10 NOVEMBER 2000**

Danaharta participates in the "Non-Performing Loans Forum of Asia Pacific" in Seoul, Korea

**14 NOVEMBER 2000**

Danaharta issues first quarterly report as at 30 September 2000

Visit by delegation from China Great Wall Asset Management Corporation

**22 NOVEMBER 2000**

Visit by Fitch IBCA

**23 NOVEMBER 2000**

Danaharta participates in a National Economic Action Council (NEAC) briefing to delegations from Zimbabwe and Mozambique

Visit by International Monetary Fund

**24 NOVEMBER 2000**

Danaharta invites offers for shares in United Chemical Industries Berhad

**28 NOVEMBER 2000**

Visit by French Embassy

**15 DECEMBER 2000**

Danaharta announces results of hotel & leisure property tender

**18 DECEMBER 2000**

Visit by delegation from People's Bank of China

**20 DECEMBER 2000**

Danaharta announces that KUB Malaysia Berhad is the successful bidder for shares in United Chemical Industries Berhad