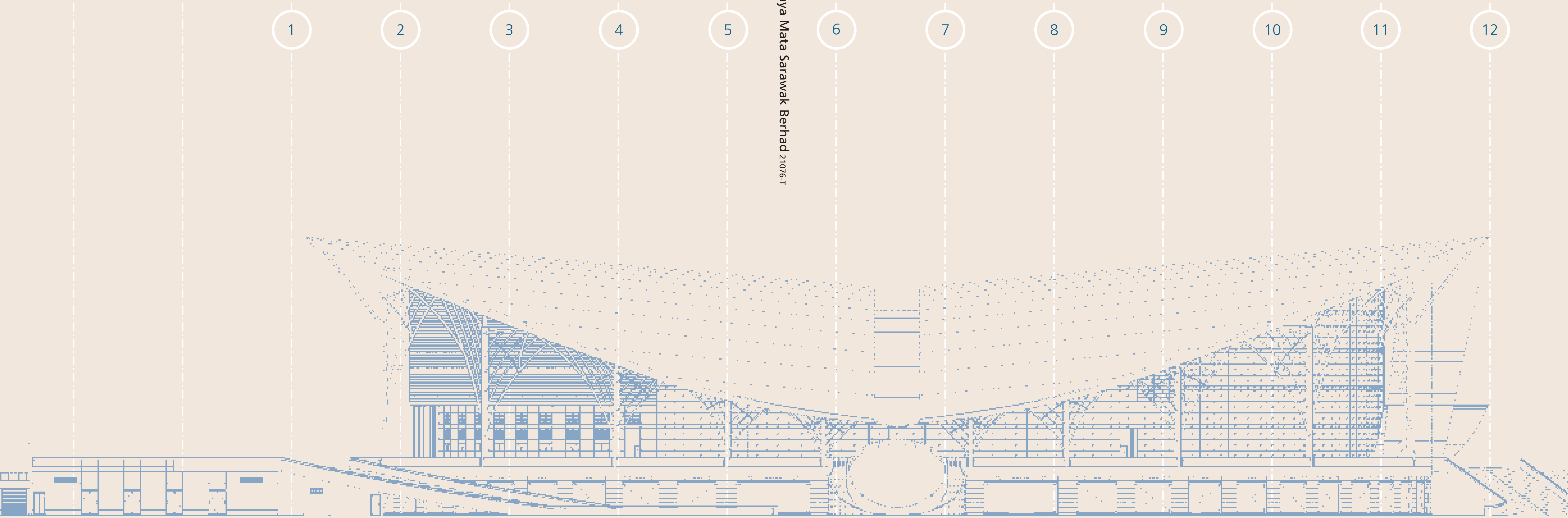
Cahya Mata Sarawak Berhad 21076-T



The Sarawak Convention
and Exhibition Centre

1 ELEVATION 1
SCALE 1:1000

CAHYA MATA SARAWAK

THIRTY-SECOND ANNUAL GENERAL MEETING
THURSDAY, 24 MAY 2007

2006
ANNUAL REPORT

Annual Report 2006

www.cmsb.com.my

CAHYA MATA SARAWAK BERHAD 21076-T

Level 6, Wisma Mahmud, Jalan Sungai Sarawak
93100 Kuching, Sarawak, Malaysia
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F +6082 333 828

Our Mission

To Be the Pride of Sarawak

- Through our corporate performance
- Respected for our integrity & smart hard work
- The community's pride

Our Core Values

- Driven by profit
- Proactive & synergised in business
- On spec & on time
- Integrity & respect

Our Stakeholders

- Shareholders
- Employees
- Customers
- The Community

On The Cover

The Sarawak Convention and Exhibition Centre is one of Cahya Mata Sarawak's newest projects.

Construction of the purpose-built Sarawak Convention and Exhibition Centre, with a total floor area of 36,500 square metres, is being undertaken by PPES Works (Sarawak) Sdn Bhd. Completion is targeted for 2009. Designed for flexibility, the centre's functional spaces will be easily sub-divided into a variety of sizes and configurations for concurrent use as plenary sessions, exhibitions and banquets. The largest venue, the Great Hall, will be able to accommodate up to 5,000 delegates at one time, or arranged as a banquet setting for 200 tables, or an exhibition venue for 200 booths.

The Sarawak Convention and Exhibition Centre is located on The Isthmus in Kuching.

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CMS GROUP

PERFORMANCE 2006

GROUP INTEGRITY

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CORPORATE INFORMATION

DIRECTORS

Y A M Tan Sri Dato' Seri Syed Anwar Jamalullail

Tuan Haji Mahmud Abu Bekir Taib

Y Bhg Dato Sri Sulaiman Abdul Rahman Taib

Y Bhg Dato Sri Liang Kim Bang

Y Bhg General (Retired) Tan Sri Dato' Seri
Mohd Zahidi bin Haji Zainuddin

YB Datuk Haji Talib bin Zulpilip

Y Bhg Datuk Wan Ali Tuanku Yubi

Y Bhg Datu Michael Ting Kuok Ngie @ Ting Kok Ngie

Mr Kevin How Kow

Y Bhg Dato' Richard Alexander John Curtis

Tuan Syed Ahmad Alwee Alsree

SECRETARIES

Isaac Lugun

Denise Koo Swee Pheng

AUDITORS

Ernst & Young

HEAD OFFICE & REGISTERED OFFICE

Level 6, Wisma Mahmud
Jalan Sungai Sarawak
93100 Kuching
Sarawak, Malaysia
T 6082 238 888
F 6082 333 828

WEBSITE

www.cmsb.com.my

REGISTRAR

Symphony Share Registrars Sdn Bhd
Level 26, Menara Multi Purpose
Capital Square
No 8 Jalan Munshi Abdullah
50100 Kuala Lumpur
Malaysia
T 603 2721 2222
F 603 2721 2530

PRINCIPAL BANKERS

RHB Bank Berhad
CIMB Bank Berhad
EON Bank Berhad
Citibank Berhad
Bank Muamalat Malaysia Berhad
Public Bank Berhad
OCBC Bank (Malaysia) Berhad

STOCK EXCHANGE LISTING

Main Board, Bursa Malaysia Securities Berhad
Stock code : CMSB
Stock number : 2852

The origins of the Group date back to 1974 as a single product manufacturer of Ordinary Portland cement. Today, CMS is a diversified group of companies mainly involved in Malaysia's infrastructure development and financial services sectors.

CAHYA MATA SARAWAK

Cahya Mata Sarawak Berhad*

Cement & Construction Materials

- CMS Cement Sdn Bhd 100%
  - CMS Concrete Products Sdn Bhd 100%
- CMS Steel Bhd 80%
  - CMS Wires Sdn Bhd 69%
- CMS Modular Housing Sdn Bhd 100%
- CMS Resources Sdn Bhd 51%
  - CMS Quarries Sdn Bhd 100%
  - CMS Premix Sdn Bhd 60%
  - CMS Penkuari Sdn Bhd 60% 40%
  - CMS Premix (Miri) Sdn Bhd 60%
  - PPES Concrete Product Sdn Bhd 100%

Services

- CMS Education Sdn Bhd 93%
- CMS River Bus Sdn Bhd 100%
- CMS Infra Trading Sdn Bhd 51%
- CMS Energy Sdn Bhd 100%
- CMS Digital Sdn Bhd 100%
- CMS I-Systems Berhad 51%
  - I-Systems Network Sdn Bhd 90%
  - I-Systems (Guangzhou) Co Ltd 100%
  - Interventure Capital Sdn Bhd 100%
- CMS Global (BVI) Ltd 100%

Construction & Road Maintenance

- CMS Works Sdn Bhd 100%
  - CMS Works International (China) Ltd 100%
  - PPES Works (Sarawak) Sdn Bhd 51%
    - CMS Roads Sdn Bhd 81%
    - CMS Pavement Tech Sdn Bhd 100%

Property Development

- Projek Bandar Samariang Sdn Bhd 60%
- CMS Property Development Sdn Bhd 100%
  - CMS Property Management Sdn Bhd 51%
  - CMS Land Sdn Bhd 51%
  - CMS Hotels Sdn Bhd 100%

Financial Services

- Concordance Holdings Sdn Bhd 100%
  - Utama Banking Group Berhad* 52%
    - UBG Enterprise Berhad 100%
    - Rashid Hussain Berhad* 32.5%
- CMS Capital Sdn Bhd 94%
  - K&N Kenanga Holdings Berhad* 25%
  - CMS Dresdner Asset Management Sdn Bhd 51%
  - CMS Trust Management Berhad 51%
  - CMS Mezzanine Sdn Bhd 100%
  - CMS Opus Private Equity Sdn Bhd 51%

* Listed on the Main Board of Bursa Malaysia

BOARD OF DIRECTORS' PROFILES

1

2

3

1 Y A M TAN SRI DATO' SERI SYED ANWAR JAMALULLAIL

Group Chairman / Independent Non-Executive Director
Malaysian, Age 55

Y A M Tan Sri Dato' Seri Syed Anwar Jamalullail is the Group Chairman of CMS, having been appointed to the Board on 10 May 2006. He holds a Bachelor of Arts (Accounting) degree from Macquarie University, Australia and is a Chartered Accountant and Certified Practising Accountant of Australia. He began his career as a financial accountant with Malaysia Airlines System Berhad in 1975 and has worked for Price Waterhouse (Australia), D&C Nomura Merchant Bank Berhad, Amanah Merchant Bank Berhad and Amanah Capital Partners Berhad. He pursued his own businesses from 1989 until 1998. Tan Sri Syed Anwar has also served as Chairman of Malaysian Resources Corporation Berhad and Media Prima Berhad. Apart from CMSB, Tan Sri Syed Anwar is currently Chairman of DRB-HICOM Berhad, HICOM Holdings Berhad, HICOM Berhad, Uni.Asia Life Assurance Berhad, Uni.Asia General Insurance Berhad and EON Capital Berhad. He is a director of Nestle (M) Berhad, Maxis Communications Berhad and several private companies. He is also Chairman of the Investment Panel of Lembaga Urusan Tabung Haji. Tan Sri Syed Anwar has no family relationship with any director and/or major shareholder of the Company.

2 TUAN HAJI MAHMUD ABU BEKIR TAIB

Deputy Group Chairman / Non-Executive Director
Malaysian, Age 43

Tuan Haji Mahmud is the Deputy Group Chairman of CMS and was appointed to the Board as Group Executive Director on 23 January 1995. Having pursued his tertiary education in USA and Canada, Tuan Haji Mahmud has extensive experience in the stockbroking and corporate sectors. He was a founding member of Sarawak Securities Sdn Bhd, Sarawak's first stockbroking company which is now merged with K&N Kenanga Holdings Berhad. Tuan Haji Mahmud is currently a director of Utama Banking Group Berhad, numerous CMS subsidiaries involved in financial services, cement, construction materials, property development and technology, as well as, several private limited companies. Tuan Haji Mahmud is the brother of Dato Sri Sulaiman Abdul Rahman Taib (a director and major shareholder of CMSB), and Hanifah Hajar Taib and Jamilah Hamidah Taib (major shareholders of CMSB). He is also a son of Lejla Taib (major shareholder of CMSB) and brother- in-law of Tuan Syed Ahmad Alwee Alsree (Deputy Group Managing Director of CMSB). Tuan Haji Mahmud is a director and former major shareholder of Majaharta Sdn Bhd (major shareholder of CMSB). Tuan Haji Mahmud is deemed interested in recurrent related party transactions announced to Bursa Malaysia Securities Berhad on 18 April 2007.

3 Y BHG DATO SRI SULAIMAN ABDUL RAHMAN TAIB

Non-Executive Director
Malaysian, Age 38

Dato Sri Sulaiman was the former Group Chairman of CMS, having held the position from May 2002 until end of June 2006. Prior to this, he had been appointed as Deputy Group Chairman in January 2002, and had been Acting Group Chief Executive Officer during 2001. He joined the Board as Group Executive Director on 23 January 1995. Dato Sri Sulaiman holds a Bachelor of Science degree in Business Administration from the University of San Francisco, USA. Dato Sri Sulaiman is the brother of Tuan Haji Mahmud Abu Bekir Taib (a director and major shareholder of CMSB), and Hanifah Hajar Taib and Jamilah Hamidah Taib (major shareholders of CMSB). Dato Sri Sulaiman is also a son of Lejla Taib (major shareholder of CMSB) and brother-in-law of Tuan Syed Ahmad Alwee Alsree (Deputy Group Managing Director of CMSB). He is a director and former major shareholder of Majaharta Sdn Bhd (major shareholder of CMSB). Dato Sri Sulaiman is deemed interested in recurrent related party transactions announced to Bursa Malaysia Securities Berhad on 18 April 2007.



4 Y BHG DATO SRI LIANG KIM BANG

Senior Independent Non-Executive Director
Malaysian, Age 70

Dato Sri Liang Kim Bang was appointed to the Board of CMSB on 26 June 1986. He is currently Chairman of CMS Cement Sdn Bhd, CMS Infra Trading Sdn Bhd and CMS Wires Sdn Bhd. He is also a director of MISC Berhad, PPB Group Berhad, PPB Oil Palms Berhad, Utama Banking Group Berhad, Rashid Hussain Berhad and CMS Trust Management Berhad. Dato Sri Liang holds BA and BA (Hons) degrees from University of Malaya, Singapore and graduated in Public Administration from the University of Cambridge (Trinity College), UK. He served in the Sarawak Civil Service from 1971 until his retirement in 1994. He was Sarawak's State Financial Secretary from 1984 to 1994. Dato Sri Liang has no family relationship with any director and/or major shareholder of the Company.

5 Y BHG GENERAL (RETIRED) TAN SRI DATO' SERI MOHD ZAHIDI BIN HJ ZAINUDDIN

Independent Non-Executive Director
Malaysian, Age 59

General (R) Tan Sri Dato' Seri Mohd Zahidi was appointed to the Board of CMSB on 8 July 2005. He has 39 years experience as a professional military officer, with his last appointment as Chief of Defence Forces Malaysia from January 1999 until his retirement at the end of April 2005. General (R) Tan Sri Zahidi is currently Chairman of Affin Holdings Berhad and CMS I-Systems Berhad. Other directorships include Asiatic Development Berhad, Bandar Raya Development Berhad, Bintulu Port Holdings Berhad, Resorts World Berhad, Wah Seong Corporation Berhad and Defence Technologies Sdn Bhd. General (R) Tan Sri Zahidi was elected by DYMM Paduka Seri Sultan Perak in November 2006 to be a Member of Dewan Negara Perak. He is also a director of Yayasan Sultan Azlan Shah. General (R) Tan Sri Zahidi holds a Master of Science degree (Defence and Strategic Studies) from Quaid-I-Azam University of Islamabad, Pakistan. He has attended the Senior Executive Programme in National and International Security at Harvard University, USA and courses at the Command and General Staff College in the Philippines, Joint Warfare Centre in Australia, Joint Services Staff College in Australia and the National Defence College in Pakistan. General (R) Tan Sri Zahidi has no family relationship with any director and/or major shareholder of the Company.

6 YB DATUK HAJI TALIB BIN ZULPILIP

Non-Executive Director
Malaysian, Age 55

YB Datuk Haji Talib was appointed to the Board of CMSB on 13 February 1995. He is currently Chairman of the Sarawak Economic Development Corporation as well as an elected Member of the Sarawak State Legislative Assembly since September 1996. YB Datuk Haji Talib has held senior positions in both public service (as Permanent Secretary in the Ministry of Industrial Development and Ministry of Infrastructure Development, Sarawak) and the private sector (at Petronas and several other organisations). He holds a Master of Commerce and Administration degree from Victoria University, New Zealand (1976). Apart from CMSB, YB Datuk Haji Talib is a director of Sarawak Concrete Industries Berhad and a number of private limited companies. YB Datuk Haji Talib has no family relationship with any director and/or major shareholder of the Company.



7 Y BHG DATUK WAN ALI TUANKU YUBI

Independent Non-Executive Director
Malaysian, Age 57

Datuk Wan Ali was appointed to the Board of CMSB on 23 June 1995. A former Sarawak State Financial Secretary (1995-2000) and Director/Chief Executive Officer of Sarawak Enterprise Corporation Berhad, Datuk Wan Ali had a long career in public service. He had also served as Permanent Secretary in the Ministry of Land Development and as General Manager of Sarawak's Land Custody and Development Authority. He holds a Bachelor of Economics degree and Graduate Diploma in Education from University of Malaya. He also holds a Master of Education degree from Birmingham University, UK. Apart from CMSB, Datuk Wan Ali is a director of financial services group, Rashid Hussain Berhad. Datuk Wan Ali has no family relationship with any director and/or major shareholder of the Company.

8 Y BHG DATU MICHAEL TING KUOK NGIE

Independent Non-Executive Director
Malaysian, Age 66

Datu Michael Ting was appointed to the Board of CMSB on 24 March 1999. A civil engineer by profession, Datu Michael served in the Public Works Department (PWD) for 32 years. His last appointment was as Director of PWD prior to retiring in 1998. Datu Michael continued to serve as Technical Advisor to Sarawak's State Planning Unit for a further 2 years. Datu Michael holds Bachelor and Master degrees in Civil Engineering, both from the Technical University of Nova Scotia, Canada. Datu Michael is a director of CMS Trust Management Berhad and several CMS subsidiaries involved in construction materials, infrastructure development and financial services. Datu Michael has no family relationship with any director and/or major shareholder of the Company. He is deemed interested in recurrent related party transactions announced to Bursa Malaysia Securities Berhad on 18 April 2007.

9 KEVIN HOW KOW

Independent Non-Executive Director
Malaysian, Age 58

Kevin How Kow was appointed to the Board of CMSB on 12 March 2004. Kevin How is a Fellow of the Institute of Chartered Accountants in England & Wales and the Institute of Certified Public Accountants of Singapore. He is a member of the Malaysian Institute of Accountants and the Malaysian Institute of Certified Public Accountants. He was a partner of Ernst & Young, Malaysia from 1984 and served as partner-in-charge of its offices in Sabah and Sarawak. From 1996 onwards, Kevin How was partner-in-charge of the firm's practice in Sabah and Labuan until his retirement at the end of 2003. Kevin How's current directorships include Utama Banking Group Berhad, K&N Kenanga Holdings Berhad, CMS I-Systems Berhad, Kenanga Investment Bank Berhad, Sabah Development Bank Berhad and Saham Sabah Berhad. Kevin How has no family relationship with any director and/or major shareholder of the Company.

10 Y BHG DATO' RICHARD ALEXANDER JOHN CURTIS

Group Managing Director / Executive Director
British, Age 55

Dato' Richard Curtis is the Group Managing Director of CMS, having been appointed to the Board of CMSB on 4 September 2006. Dato' Richard graduated with a Bachelor of Law (LL.B.) (Honours) degree from University of Bristol, UK and is a Sloan Fellow of the London Business School. He was admitted as a solicitor, working initially with top international law firm, Norton Rose, in London and latterly in-house with Jardine Matheson & Co. in Hong Kong. He was then attached to the Jardine Offshore Group in postings to Singapore and Indonesia to oversee the group's offshore oil operations. Dato' Richard has also operated his own businesses in retail, consultancy and construction. More recently, he held the position of Chief Executive Officer of The Melium Group, a leading Malaysian retail company and F&B chain operator. Dato' Richard currently sits on the Boards of Utama Banking Group Berhad, K&N Kenanga Holdings Berhad, CMS Trust Management Berhad and several private limited companies. He is also a Trustee of Yayasan Raja Muda Selangor. Dato' Richard has no family relationship with any director and/or major shareholder of the Company.

11 TUAN SYED AHMAD ALWEE ALSREE

Deputy Group Managing Director / Executive Director
Singaporean, Age 41

Tuan Syed Ahmad Alwee Alsree is the Deputy Group Managing Director of CMS following his appointment to the Board of CMSB on 4 September 2006. He had earlier joined CMS in February 2004 as Group General Manager – Human Resources where he was responsible for the smooth operations and integration of the various human resource departments within CMS Group. Tuan Syed Ahmad graduated with a Bachelor of Law (LL.B.) from the National University of Singapore, and practised law in Singapore for over 10 years prior to joining CMS Group. Tuan Syed Ahmad is currently a director of financial services group, Rashid Hussain Berhad, CMS Trust Management Berhad and several CMS subsidiaries involved in financial services, construction, property development, technology and education. Tuan Syed Ahmad is a brother-in-law of Jamilah Hamidah Taib (a major shareholder of CMSB), Dato Sri Sulaiman Abdul Rahman Taib and Tuan Haji Mahmud Abu Bekir Taib (directors and major shareholders of CMSB). He is also a son-in-law of Lejla Taib (major shareholder of CMSB) and the spouse of Hanifah Hajar Taib, a major shareholder of CMSB.

SENIOR MANAGEMENT

IAN G SADLER
Group Chief Financial Officer

ISAAC LUGUN
Group General Manager – Corporate Services/ Group Secretary

ABDUL RASHID DALJIT ABDULLAH
Head – Group Technology

WOO YOKE MENG
Group Internal Auditor

TUAN HAJI OTHMAN ABDUL RANI
Head – Cement & Construction Materials SBU

ROBERT E GARDNER
Head – Construction & Road Maintenance SBU

Y BHG DATUK DR CHEW HAN CHING
Head – Property Development SBU

Save as disclosed, none of the Directors have:

- *Any conflict of interest with CMSB.*
- *Any conviction for offences within the past 10 years other than traffic offences.*

Performance 2006

At A Glance

Revenue
RM6.2 billion

Profit Before Tax
RM519.0

Profit After Tax Attributed to Equity-holders of the Company
RM6.9 million

Earnings Per Share
2.08 sen

Revenue by Segment

Manufacturing
RM308 million

Construction
RM319 million

Construction Materials
RM60 million

Banking
RM5.2 billion

Stockbroking & Other Financial Services
RM126 million

Property Development
RM21 million

Insurance
RM57 million

Others
RM44 million

2006 was about SHARPENING OUR FOCUS

– to attain long-term growth and sustainability, to build and unlock greater value for our Group, and to provide returns to our stakeholders

DEAR SHAREHOLDERS,

It gives me great pleasure to address you for the first time since my appointment as Group Chairman of CMS on 1 July 2006, and to present to you, on behalf of the Board of Directors, the Annual Report and audited financial statements of Cahya Mata Sarawak Berhad for the 2006 financial year.

Group revenue for the 12 months ended 31 December 2006 was RM6.2 billion, up from RM5.2 billion in 2005. CMS Group's Profit Before Tax was higher by 10% to RM519.0 million excluding the discontinued steel operations, and Net Profit was RM6.9 million as compared to the preceding year's loss of RM118.0 million. Earnings per share also improved to 2.08 sen from a basic loss per share of 35.81 sen following provisions for the loss-making steel business.

OVERVIEW

The improved financial performance of 2006 is clearly the result of having taken strong measures to reassess our operations and implement change to better position our Group to succeed in the increasingly competitive market place. For our team, 2006 was about **sharpening our focus** – to attain long-term growth and sustainability, to build and unlock greater value for CMS Group, and to provide returns to our stakeholders.

The past year was characterised by higher oil and commodity prices, increased competition and marginally slower growth in Sarawak. Still, both banking and non-banking operations reported higher pre-tax profits in 2006. Better share of profit from our associate company in stockbroking also helped our Group's bottom-line during the year. Details of the Group's performance in 2006 are contained in the Group Managing Director's Review of Operations section of this Annual Report.

Apart from business achievements and challenges, last year saw Cahya Mata Sarawak Berhad (CMSB), once again, win the State's top honours for a public-listed entity. Having won three times previously, CMSB's 2005 Annual Report was named winner of the Overall Excellence Award by the Sarawak Chamber of Commerce & Industry for being the leader and role model in maintaining the highest standards of corporate governance.

We are also pleased with the recent 20% increase in student enrolment at Tunku Putra International School which demonstrates that our efforts are bearing fruit. Ten years ago, CMS set up the School to enhance the range of educational opportunities available to local and expatriate children. By providing such a facility, we hoped to encourage families, once deterred by the limited choice of private national and international curriculum schools, to opt to live in Kuching. The now much larger Tunku Putra recently moved to its new purpose-built campus, also developed by CMS as part of our Corporate Social Responsibility (CSR) for Sarawak.

SHARPENING OUR FOCUS

My predecessor, Dato Sri Sulaiman Abdul Rahman Taib, mentioned the start of a number of Group-wide internal measures in 2005 to create a leaner, more focused and efficient organisation. We continued on this journey in 2006.

In January, we ceased operations of our steel rolling mill in Kuching. Negotiations for the sale of its property, plant and equipment are in progress.

After carefully assessing several overseas business proposals, decisions were made not to pursue the majority of these. In October 2006, we disposed of CMS Works International Ltd, the Group's investment vehicle for its overseas ventures. Today, we are focused on evaluating the viability of only one overseas toll road project.

We spent a fair amount of time and resources last year re-organising our operations against the continued environment of fewer big-ticket projects and lower profit margins. A priority was to fill the vacant position of Group Managing Director. In September, we appointed Dato' Richard Curtis as CMS' new Group Managing Director and concurrently created the position of Deputy Group Managing Director which was filled by Tuan Syed Ahmad Alwee Alsree, already a member of CMS Group. Together, Dato' Richard and Tuan Syed Ahmad make a strong and effective team, tasked to drive implementation of operational improvement plans whilst seeking new avenues for growth.

Dato' Richard spared no effort to gain a solid understanding of the Group's diverse operations within the quickest time possible. Having taken the pulse of CMS, Dato' Richard and Tuan Syed Ahmad went on to present the ROAR strategy for the Group to go forward.

A new corporate mission was also crafted – 'To be the Pride of Sarawak' – after taking a leaf from the Malay language meaning of our Group's name.

ROARING INTO 2007

CMS is today ROARing into a new year. The first part of the 4-step ROAR strategy, 'Restructure', was completed at the end of December 2006 resulting in an overall wave of change for the better. The next steps, 'Organise' and 'Advance', will take us until the end of 2007 whilst 2008 will be the year when the fourth ROAR strategy, namely to 'ROAR Ahead', is executed.

ROAR has set off a new momentum. Prudent spending and cost control are being practised across the Group. Organisation structures have been reviewed for better effectiveness. Project deadlines, quality, work output, risk management, and even time management of meetings have been scrutinised by the Group's new leadership. The development of a performance-based culture in CMS through the implementation of Key Performance Indicators (KPI) for management staff is another corporate initiative introduced in 2006. And whilst we still have some way to go towards transforming CMS to be more agile to adapt quicker to change, we are already seeing early benefits of this new working style.

OUTLOOK & PROSPECTS

As with all of corporate Malaysia, CMS looks forward to participating in the current robust national economic growth. The much awaited 9th Malaysia Plan (9MP) was unveiled by the Prime Minister in March 2006. We anticipate the full impact of the 9MP will only be felt in 2007 and beyond. Overall, the Malaysian economy experienced GDP growth of 5.9% in 2006, with expectations of similar performance in 2007.

Locally, Sarawak's GDP is anticipated to expand by 5.8% in 2007, up from 5.5% in 2006. The State's Budget 2007 has been described as development-based. This includes investment to develop an energy-intensive industrial corridor in Sarawak's central region which will capitalise on the vast energy resources of the area. CMS is already playing a part in construction of the Mukah coal fired power plant, and is evaluating plans to develop an aluminium smelter and other downstream activities in this region.

The opportunities for growth are out there. Our Group's dominant position in Sarawak's construction sector, both as a builder and supplier of construction materials, puts CMS in a strong position to bid for part of the RM15.1 billion allocated to Sarawak under the 9MP. Aside from new businesses that will best utilise our capabilities and resources, we will focus on growing our cement, construction and property development businesses.

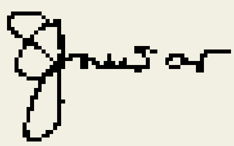
We are also looking forward to realising the value of CMS' investment in Malaysia's financial services sector. After careful evaluation of the options and bids presented by several parties, on 8 March 2007, the Board of Utama Banking Group Berhad (UBG) announced its acceptance of a revised proposed offer from the Employees' Provident Fund (EPF) to acquire UBG's 32.5% shareholding in Rashid Hussain Berhad (RHB) for RM2.25 billion. Acceptance of the EPF offer is subject to UBG shareholders' and regulatory approvals, however, we are optimistic that the sale will proceed.

APPRECIATION

Ladies and Gentlemen, the Group successfully endured a challenging past year with the strong support from various internal and external parties. For this, we thank the Government departments and agencies, our suppliers and business partners, our employees, Management teams and all Directors, both at the Group and subsidiary companies' level.

Our appreciation also goes to Dato Sri Sulaiman Abdul Rahman Taib who was Group Chairman for 4 years (2002 – 2006). Among Dato Sri Sulaiman's many achievements are diversifying the Group into new growth areas, seeking to expand the Group beyond Sarawak shores, stressing on the importance of corporate governance and building group synergy. Dato Sri Sulaiman remains an active member of our Board and we look forward to his continued valuable contribution.

And we say Thank You to you, our shareholders, for your confidence in our sharpened focus to succeed. I look forward to meeting you at the upcoming Annual General Meeting in Kuching in several weeks' time. Tell me your thoughts about how our team can do more to make Cahya Mata Sarawak, your company, the true Pride of Sarawak.



Y A M TAN SRI SYED ANWAR JAMALULLAIL
Group Chairman
on behalf of the Board of Directors
18 April 2007

GROUP MANAGING DIRECTOR'S REVIEW OF OPERATIONS

A new energy swept across CMS Group in 2006 following a challenging previous year in which the Group registered a large loss. In 2006, our Cahya Mata Sarawak team was more determined to sharpen our focus to position the Group for long-term sustainable growth by building on the success of our core businesses and increasing their profitability. Looking back, it was – how I like to describe it – the start of making CMS Group ROAR into a profitable future.

As the new CMS Group Managing Director, I am pleased to present a review of the Group's operations for the financial year ended 31 December 2006.

CEMENT

CMS Cement Sdn Bhd continued to be the highest profit contributor amongst the Group's non-banking operations. In 2006, CMS Cement, the State's sole manufacturer of Ordinary Portland cement, generated a higher production volume of 1.3 million metric tonnes (MT) from its plants in Kuching and Bintulu. Major customers were in Kuching, Sibu, Miri and to the Bakun hydro-electric dam project.

Sustaining efficiency in plant output and logistics remain top priorities for the cement operations which meet demand for the entire Sarawak market. During the year, it experienced higher raw material costs and increased repair and maintenance expenses. Despite these challenges, CMS Cement attained improved production efficiency which resulted in substantial savings of RM2 million for the year.

Following numerous requests by industry players to raise the selling price of cement to reflect the higher production and transportation costs, in December 2006 the Ministry of Domestic Trade and Consumer Affairs announced a price revision, the first in 11 years. The average price of delivered cement was increased 10% in line with the Ministry's directive.

CONSTRUCTION MATERIALS

CMS Group's quarrying, premix, concrete products and wires manufacturing operations reported a combined pre-tax profit of RM11.7 million in 2006.

CMS Quarries Sdn Bhd and **CMS Penkuari Sdn Bhd** produce granite, microtonalite and limestone aggregates. Existing reserves of 25.2 million MT at 4 operating quarries with a combined annual rated capacity of 2.1 million MT make CMS quarrying operations the largest in Sarawak. For 2006, although the quarries were able to market aggregates at a higher average selling price, profits were affected by slightly weaker demand and increased production costs.

CMS Premix Sdn Bhd and **CMS Premix (Miri) Sdn Bhd** produce high quality asphaltic concrete and bitumen emulsion used in the construction of roads, flyovers and airport runways. Combined, the operations' fixed and mobile premix plants command 55% of the local market. The companies reported much improved performances in 2006, attributed to higher sales volume, increased selling prices and the successful claim for previous price fluctuations with a major client.

The Group's concrete manufacturing subsidiaries specialise in pre-formed concrete products such as RC square piles, bridge beams, ready mixed concrete, culvert & kerbs and cement sand bricks. For 2006, **CMS Concrete Products Sdn Bhd** reported a higher pre-tax profit attributed to better sales to key projects such as the BDC flyover in Kuching, Labuan Airport, the BDA bridge in Bintulu and several CMS Group projects.

CMS Wires Sdn Bhd manufactures drawn steel wires, steel wire mesh and cold roll cut-to-length steel bars. The company reported a 47% increase in pre-tax profit for 2006 having gained on raw materials purchased before costs increased during the second quarter of the year. Overall, CMS Wires recorded marginally lower sales amidst a highly competitive local industry.

CONSTRUCTION & ROAD MAINTENANCE

For the year under review, the Construction and Road Maintenance Strategic Business Unit (SBU) registered a 30.2% higher profit before tax of RM31.8 million on the back of higher revenue of RM336.6 million. The SBU's total order book value remained strong at RM1.75 billion as at the end of December 2006.

CMS Group's main construction arm is **PPES Works (Sarawak) Sdn Bhd,** a leading construction company in Sarawak which has built a strong reputation for project quality and delivery. PPES Works is 51% owned by CMS and 49% owned by the Sarawak Economic Development Corporation (SEDC).

Projects completed by PPES Works in 2006 include Tunku Putra International School campus in Kuching, the Bulk Depot and Liquified Petroleum Gas (LPG) Bottling Facilities at the Independent Oil Terminal at Senari in Kuching, the Ng. Bangkit/Muara Lebaan road in Sarikei Division and a telecommunications tower.

Major on-going projects include Mulukun/Ng. Gaat road in Kapit Division, Sarikei Regional Water Supply and Tanjung Manis-Pulau Bruit Rural Water Supply projects, all of which were beyond the 65% completion stage at the end of 2006. Satisfactory construction progress was also made at the Sarawak Dewan Undangan Negeri (DUN) complex, at Gerugu Dam in Sarikei, at rehabilitation works of the Kuching International Airport runway and at Swinburne University campus extension in Kuching.

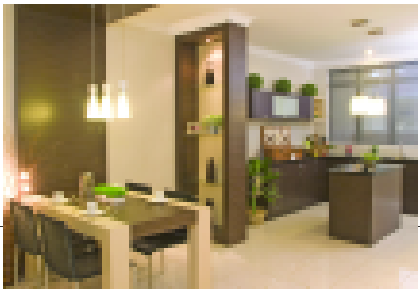
PPES Works secured two major new projects in 2006, namely construction of the Sarawak Convention and Exhibition Centre (Contract value: RM195 million) and plant and non-plant works at the 2 X 135 MW Mukah Coal Fired Power Plant (Combined contract value: RM165 million). These projects are expected to be major contributors of revenue in 2007.

A key initiative of PPES Works during the year was to reduce operational costs. Management successfully lowered office overheads by 22% in 2006 compared to the previous year, as well as increased profitability of existing and future contracts by introducing improved procurement procedures, value engineering and adopting a more profit-focused culture.

CMS Roads Sdn Bhd maintained 45,906 km (equivalent to an average of 3,825 km per month) of State roads throughout Sarawak in 2006 as part of its long-term road maintenance contract with the State Government. Despite being equipped with sufficient capacity, the company was allocated a shorter road length for routine maintenance works during the year, on top of fewer instructed works.

Operational efficiency and effectiveness of service for the client and public remain top priorities for CMS Roads. Two regional offices and 16 local road maintenance units provide services throughout Sarawak. During the year, CMS Roads successfully attained the Integrated Management System (IMS) accreditation which combines the management systems of quality, environmental and occupational health & safety into a single documentation process. CMS Roads also has separate accreditations for ISO 9001:2000 (Quality Management System), ISO 14001:2004 (Environmental Management System) and OHSAS 18001:1999 (Occupational Health & Safety Management Systems).

CMS Pavement Tech Sdn Bhd, which undertakes pavement reconstruction and rehabilitation, reported a lower profit in 2006 due to fewer instructed works from major clients. The performance was, however, successfully offset by effective cost control through value engineering, creativity of site crew and good weather. Office overheads were also much reduced following controlled and prudent spending.



PROPERTY DEVELOPMENT

CMS Group owns a large land bank; the biggest being 5,200 acres located north of Kuching city. The area is today the site of a comprehensive new township development called Bandar Baru Samariang.

Projek Bandar Samariang Sdn Bhd, a joint-venture company between CMS and the Employees' Provident Fund Board, completed construction of and handed-over 131 units of single storey terraced and semi-detached houses and 56 units of 3-storey shophouses in 2006.

Similar to Peninsula Malaysia, the Sarawak property market experienced soft conditions in 2006 especially during the second half of the year. With this environment, Projek Bandar Samariang delayed the launch of new packages, preferring instead to focus on marketing efforts to secure sales of completed properties and to re-look at strategies to cope with the challenging market.

During the year, we also saw the start of developments to open up more areas of Bandar Baru Samariang. Work on the new Samariang Riverine Loop Road began and land is being cleared to make way for a major road from the future Federal administrative centre at Rambungan (in Matang) to go through Bandar Baru Samariang and on to Kuching city centre. The overall attractiveness of Bandar Baru Samariang's border neighbouring Rampangi was also enhanced with completion of a bund featuring a lake, landscaping and cycle-way.

Apart from project management and marketing fees from Bandar Baru Samariang, **CMS Property Development Sdn Bhd** gained during the year from the disposal of a parcel of land in Sibu.

Exciting developments are taking place on The Isthmus, a 240 acre land bank in Kuching owned by **CMS Land Sdn Bhd.** A comprehensive masterplan is being developed to create a new city centre. Included is the 5,000 delegate capacity Sarawak Convention and Exhibition Centre and a 39 storey 5-star hotel; both of which are currently under construction. A marina able to berth even mega yachts is to be built. Other planned facilities and amenities on The Isthmus include commercial and residential units, retail and leisure facilities, hotels, pedestrian-friendly parks and improved road and river transportation links to Kuching International Airport and Kuching city centre.

FINANCIAL SERVICES

Utama Banking Group Berhad's (UBG) main investment is a 32.5% shareholding in Rashid Hussain Berhad (RHB). As Malaysia's fourth largest banking group, RHB's range of businesses cover wholesale and retail banking, treasury and money market operations, Islamic banking, financial advisory and underwriting, stockbroking and other securities-related businesses, insurance and properties.

For the financial year ended 31 December 2006, UBG reported a consolidated profit after Irredeemable Non-cumulative Convertible Preference Share (INCPS) dividends before taxation and zakat of RM 466.95 million compared to RM445.08 million reported in the 2005. The improved performance is attributed to higher improved net interest income and income from RHB's Islamic banking business partially offset by higher operating expenses, allowances for losses on loans and financing as well as impairment loss.

On the sale of UBG's shareholding in RHB, after carefully considering the various options presented, the Board of UBG, with the support of the Board of CMS, unanimously voted to accept the offer from the Employees' Provident Fund (EPF) to acquire all of UBG's shareholding in RHB for RM2.25 billion, subject to UBG shareholders' and regulatory approvals. We are confident that this sale will proceed. This will enable CMS to realise the value of its investment and utilise the proceeds towards reducing CMS' external indebtedness and investing in its businesses for future growth.

K&N Kenanga Holdings Berhad, a stockbroking-based financial services provider, recorded a 203% increase in pre-tax profit to RM40.09 million for the 12 months ended 2006 compared to a loss in the previous year. Group revenue also increased, aided by its subsidiary, Kenanga Investment Bank Berhad (formerly known as K&N Kenanga Bhd) which recorded higher volume traded on Bursa Malaysia, along with positive performance by the Group's other subsidiaries.

K&N Kenanga Holdings Berhad is actively pursuing regional investment opportunities in line with its vision to be an international investment bank. These include developing joint-ventures for securities and investment banking-related activities to tap into the South Asian markets of Sri Lanka and India, and the tremendous growth opportunities of the Middle Eastern economies, particularly Saudi Arabia and Dubai in the United Arab Emirates.

CMS Trust Management Berhad reported an improved profit before tax in 2006, attributed to higher service fee income. Overall, equity fund sales increased 122% from the previous year. In August, CMS Trust launched its first fully dedicated foreign fund, the CMS Asia Pacific Oriental Fund (CAPOF), which gives investors the option to diversify their investment to other markets and reduce the risks and volatility of single market investments.

On the awards front, CMS Premier Fund's return of 182.93% in 10 years led it to be named 'Best Equity Malaysia Fund' in the 10 year category for the period ended 31 December 2006 at The Edge-Lipper Malaysia Fund Awards 2007 and 'Winner of Equity Malaysia (10 Year) Category' at the Standard & Poor's/The Star 2007 Malaysia Fund Awards. Another fund, CMS Islamic Fund, received the 'Winner of the Sector – Islamic Syariah (1 Year) Category' award by Standard & Poor's after registering an impressive return of 53.77% over the 12 months ended 31 December 2006.

CMS Dresdner Asset Management Sdn Bhd saw total assets under management grow 42% to RM1.4 billion in 2006 following two new fund launches, new institutional mandates and fresh capital injection from existing clients. Continuing efforts to keep costs under control resulted in the company's cost/income ratio remaining low at 55%, an improvement of 6% from the previous year. Pre-tax profit also increased 10% from the year before.

A milestone achievement for 2006 was having its client's fund diversify beyond the local market through the introduction of innovative products and providing global expertise by leveraging on its joint-venture partner, Allianz Global Investors. This enabled CMS Dresdner's foreign investment portion to grow substantially to 21% of its total assets under management. As fund manager of the CMS Premier and CMS Islamic funds, CMS Dresdner was equally proud of the three best performing sector fund awards received from The Edge-Lipper and Standard & Poor's for performance in 2006.

Sarawak's first private equity initiative, **CMS Opus Private Equity Sdn Bhd** (COPE), got off to a strong start by successfully raising a Ringgit-based private equity fund solely from the private sector. In its first undertaking, COPE was able to raise private equity funds with a capital commitment of RM75 million in June.

COPE reported a pre-tax profit for 2006 although in operation for only seven months of the year. This was made possible with prudent management of operating expenses. In 2006, COPE evaluated a number of company deal-flows and is projected to close a transaction in an oil & gas-related company this year. Going forward, private investment is expected to expand further amid Malaysia's continued sound macroeconomic policies and efforts to strengthen the public delivery system.

TRADING AND SERVICES

CMS Infra Trading Sdn Bhd reported a 55% improvement in pre-tax profit during the year, attributed to increased sales of D.I. pipes & fittings and water treatment chemicals. Road works related revenue increased 121% when CMS Infra Trading secured contract extensions for road line painting on State roads, rectification of road kerbs and installation of guard rails. Sale of steel bars also increased.

CMS I-Systems Berhad is recognised for its in-house research and development (R&D) and implementation of enterprise-level software applications for the insurance, banking and healthcare sectors. The year 2006 was a challenging one for CMS I-Systems which had to address increased competition and higher operational expenses. Going forward, the company will focus on raising sales to the insurance sector in more highly populated markets around the Asia Pacific region. Apart from serving a key client in China, CMS I-Systems recently added an Indonesian insurance firm to its client list and hopes to sign with a major insurance operator in India in 2007, both of which are expected to lead to further sales into these markets.

Highlights of 2006 for **Tunku Putra International School** include the introduction of the national curriculum secondary-level Tingkatan 1 class, excellent student achievements in both national and international examinations, and the appointment of a highly experienced education professional as the School's new Principal. Construction of Tunku Putra's 22-acre purpose built campus at Petra Jaya, Kuching was completed at the end of 2006 enabling the School to move to its new premises in March 2007. With the new campus and vastly improved teaching capabilities, student numbers are rising steadily. This will, in time, bring the School's operations into profitability.

Since joining CMS as Group Managing Director in September 2006, Management has taken positive steps to align our businesses, strategies, structures, systems, skills and values to establish a clear direction forward for CMS for the next 5 years.

This has been contained in the ROAR strategy. The first phase 'Restructure' was completed at the end of 2006. The next three phases, 'Organise', 'Advance' and 'ROAR Ahead', will progressively be implemented during 2007 and 2008.

Sarawak is poised to enter into a period of substantial economic growth driven by its access to affordable hydro and carbon fuel-based power. This presents CMS with considerable opportunities to expand its businesses so that within the next 5 years, CMS becomes not just a leading Sarawak stock, but a Malaysian stock whose performance transcends its constituency and is on par with other comparable listed companies.

DATO' RICHARD CURTIS
Group Managing Director
18 April 2007

EMPLOYEE EVENTS

RUNNING FOR CHARITY

It was a sea of Cahya Mata Sarawak colours of yellow, red and black at the Start Line of the Saberkas RH Marathon 2006 charity run held in Kuching in March 2006. CMS Group's 450-strong contingent went on to win the largest team award in the Corporate Charity Challenge category.

WORLD CUP FEVER HITS CMS

World Cup fever came early to CMS Group with Cahya Football 2006 kick-off in February. Eight 'countries' played 28 league matches over seven weekends.

GROUP MANAGING DIRECTOR'S ADDRESS 2006 ROAD-SHOW

Dato' Richard Curtis presented the Group's new strategies in a series of annual Group Managing Director's Address sessions held in Kuching, Sibu, Bintulu and Miri. Over 1,000 employees of all levels attended the sessions titled 'Our Cahya Mata Sarawak – ROARing into a Profitable Future'.

CMS GROUP HARI RAYA OPEN HOUSE 2006

Thousands of employees, guests and members of the public attended the Group's annual Hari Raya Open House. Sarawak Chief Minister and wife were guests-of-honour.

For CMS, Corporate Social Responsibility (CSR) is simply 'Doing Good' for our stakeholders – be they our shareholders, employees, customers or the community around us. In 2006, CMS Group's CSR efforts included:

DOING GOOD FOR THE ENVIRONMENT

1 Turning Green into Gold : PPES Works has successfully demonstrated that being environmentally conscious can lead to a win-win situation for all parties. Following an in-house environmental campaign, the company decided to invest in technology to tackle the mounting green waste accumulated from the clearing of project sites. This, in turn, led to the introduction of new organic products for the market.

Launched in September 2006, Eco Gold compost and fertilizer are by-products of re-cycling green and wood waste from PPES Works' project sites in the Kuching and Samarahan areas. Such green waste would have otherwise been disposed off through open burning or thrown into drains, rivers and valleys, leading to haze, clogged water systems and health implications.

Eco Gold organic compost and fertilizer are produced by a joint-venture between PPES Works and a team of young entrepreneurs who saw the potential of combining their landscaping and fertilizer business expertise with the green waste accumulated by PPES Works.

DOING GOOD FOR THE COMMUNITY

2 CMS Adopt-A-Mosque Programme : This community programme continued into its fourth year. There are currently a total of 66 mosques and surau throughout Sarawak in this programme which undertakes payment of monthly utility expenses. In 2006, the Group added 11 surau in the Sibu and Sarikei divisions to the community programme.

3 Running for charity : More than 450 CMS Group employees ran the 5km course to win the top award in the Corporate Charity Challenge category of the Saberkas RH Marathon 2006 held in Kuching in March. CMS also gave a RM15,000 donation which was channelled fully to the Sarawak Special Olympics Fund and the Sarawak Children's Cancer Society fund.

4 Lending a hand to the local community : Our ground teams are very often approached by the local community to help with small jobs, such as leveling of earth around their village or longhouse, doing minor road repairs or widening of village roads to provide for better linkage and safer travel. At times, it means just spending an extra 30 minutes to help to patch up a pot-hole ridden road or using our compacting machines to earth-fill a road leading to the local church or school. In all cases, the effort on the part of CMS is small (in terms of Ringgit value) and brief (in time spent). However, the impact and appreciation from the local communities is immeasurable. In 2006, PPES Works and CMS Roads helped communities in Matang (Kuching), Sri Aman, Serian, Lundu, Betong, Saratok, Sarikei, Sibu and Limbang.

5 Fire rescue assistance : When a bush fire occurred near the project site of the Mukah coal fired power plant in August 2006, the PPES Works ground team was quick to help rescue operations by mobilising vehicles to move women and children to safety. The project's water pump was also used to put out the raging fire.

6 Donations of cement : In 2006, CMS Cement approved requests for donation of cement for the construction of 4 micro-hydro dams in the Limbang/ Lawas area of northern Sarawak; for the Army; and for construction of a church in Ulu Baram.

7 'Love in a box' for the children : Employees of Construction & Road Maintenance SBU collected 354 gifts for underprivileged children at Christmas. CMS Infra Trading also participated in the gifts collection drive.

8 Donations of cash : These were presented to the local community at Mulu, to widows and less fortunate children at festive time, and to fire victims near CMS Cement's Kuching Plant.

9 Blood donation : Regular contributions to the local blood bank are given by our employees of CMS Cement and Construction & Road Maintenance SBU.

10 Helping future careers : In 2006, 30 students from local universities and polytechnics underwent industrial training at CMS Cement. CMS Premix hosted UNIMAS students on an educational tour, as well as, assisted a local student with his final year project for a Bachelor of Engineering degree.

11 Investing in future generations : Subsidising Tunku Putra International School's annual expenses must certainly be CMS Group's largest CSR effort. CMS also recently invested in the construction of a purpose-built campus in Petra Jaya, Kuching. Set on 22 acres, Tunku Putra's new campus comprises separate clusters for kindergarten, primary and secondary classes, specialised laboratories, a workshop, a multi-purpose hall, a large playing field and generous spaces for study and play.

DOING GOOD FOR THE MARKETPLACE

12 Responsibility to shareholders : As a public-listed entity with over 6,600 shareholders, maintaining the highest corporate governance standards is a must for CMS. This commitment to transparency and corporate accountability was reaffirmed when CMSB's 2005 Annual Report was announced winner of the Overall Excellence Award by the Sarawak Chamber of Commerce & Industry (SCCI). It was the fourth time that CMSB had won Sarawak's top award for corporate reporting, having received the honour in 1999, 2000 and 2001.

13 Fair procurement practices for vendors and suppliers : With the centralisation of Group procurement, it is important for vendors and suppliers to know that they will be treated fairly when putting in bids to supply products and services. Based on vendor and user feedback, CMS Group's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procurement policies and procedures were further improved in 2006 for greater ease and simplicity. This includes a Code of Ethics and Business Conduct for Contractors and Suppliers which are carried on the corporate web-site.

DOING GOOD AT THE WORKPLACE

14 **Occupational health and safety at the workplace :** Whilst many of CMS operations already adhere to stringent occupational health and safety practices, the efforts of CMS Cement Kuching Plant are now recognised to be of national-standard. It won 2 prestigious national awards in 2006. In September, for the second time, CMS Cement won the Malaysian Society of Occupational Safety & Health (MSOSH) Gold Award. It then went on to win the Occupational Health and Safety (OHS) Excellence Award from the National Council for OHS under the Human Resources Ministry.

15 **Occupational health and safety at the worksite :** With over 600 workers and supervisors on site at the iconic Sarawak Dewan Undangan Negeri (DUN) complex, safety standards cannot be compromised. Tool-Box meetings on safety are held every Wednesday morning. Holding these weekly meetings is particularly important for construction sites which see frequent changes in work-force and new safety challenges each day with the progress of construction. Emergency drills are also held regularly to rehearse evacuation plans. These include simulations to bring an injured worker from the top level down to safety with the help of the construction site's crane.

16 **Looking after our employees :** We try our utmost best to look after our 1,700 employees whilst they are in our employment and if possible, lend support to their families if the unfortunate should happen. In 2006, the Group managed to successfully claim approximately RM295,000 from insurance for beneficiaries of deceased employees.

In another case, we were able to help Duhim anak Suot, a former production technician at CMS Steel who suffers from chronic myeloid leukaemia (CML), a type of blood cancer. Treatment is very expensive. As the sole breadwinner and father of six children including a 'special needs child', Duhim turned to his company as his last hope for help. Despite CMS Steel being in a difficult financial situation itself, the company bore the cost of Duhim's medical treatment up to the amount of RM120,000.

STATEMENT OF CORPORATE GOVERNANCE

The Sarawak Chamber of Commerce & Industry's Overall Excellence Award 2006 was presented to CMSB for transparency in corporate reporting.

Cahya Mata Sarawak Berhad's ("CMSB") approach to corporate governance is designed to ensure that its business and affairs are effectively managed in order to deliver value to the shareholders. It is a system that the Board has put in place to enhance transparency and accountability, to provide checks and balances throughout the organisational structure, whilst emphasizing increased business efficiency of the Group.

Once again, the Board would like to assure shareholders of its commitment in maintaining the highest standards of corporate governance and the effective application of principles and best practices throughout the Group, as set out in the Malaysian Code of Corporate Governance ("the Code"). These principles include accurate financial disclosure, an open dialogue between the Board of Directors and Management, accountability to our shareholders, and utmost integrity in all our actions.

CORPORATE GOVERNANCE PRINCIPLES

This report, which has been considered and adopted by the Board, sets out the manner in which the Company has implemented and applied the Code and its principles and best practices. For the year ended 31 December 2006, the Company complied with the Code, except for details pertaining to the Directors' remuneration which have been disclosed in bands of RM50,000. This complies with the disclosure requirements under the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities"). The Board is of the view that transparency and accountability with regard to Directors' remuneration have been met by this disclosure method.

BOARD OF DIRECTORS

The Board of Directors is accountable to shareholders for the performance of CMSB. Without intending to limit this general role and its statutory duties, the Board's principal functions and responsibilities include the following:

- Setting the Group's overall strategic direction and monitoring progress of these strategies.
- Authorising and monitoring investments and strategic commitments.
- Approving the business plans and budgets.
- Overseeing the conduct of the Company's business.
- Identifying principal risks and ensuring systems are in place to manage these risks.
- Reviewing the adequacy of the Company's system of internal controls.
- Succession planning.
- Developing investor relations.
- Scrutinising and reporting to shareholders on, but not limited to, the financial statements of the Company.

BOARD BALANCE

The Board currently has eleven (11) members, of which nine (9) are non-executive Directors, including the Chairman. Six (6) of the eleven (11) Directors are independent Directors, which exceeds the one-third requirement. Together, the Directors have a wide range of business, financial, technical and public service experience. This enables the Board to provide effective leadership to the Group's strategy and performance. A brief profile of each Director is presented on pages 4 to 7 of this Annual Report.

The independent Directors, based on their breadth of knowledge and experience, provide unbiased and independent views, advice and judgement to take account of the interests of all stakeholders, including shareholders, employees, customers, suppliers and the communities in which the Group conducts its business.

Dato Sri Liang Kim Bang acts as the Senior Independent Non-Executive Director. Any concerns relating to the Group may be conveyed to him.

The role of the Chairman and Group Managing Director are separated and clearly defined to ensure a balance of power and authority. The Chairman is responsible for ensuring the Board's effectiveness and conduct, whilst the Group Managing Director has overall responsibility for the operating units, organisational effectiveness and implementation of the Board's policies and decisions.

APPOINTMENTS TO THE BOARD

The Nomination Committee recommends the appointment of new Directors to the Board. Upon appointment, new Directors undergo a familiarisation programme. This includes a detailed information package comprising corporate and company organisation structures, terms of reference of the various Board Committees, profiles of key personnel and an overview of the Group's operations. Visits to the businesses and meetings with senior management are arranged as appropriate to facilitate a quick and comprehensive understanding of the Group.

Directors of the Company are also provided with corporate governance guidelines which have been approved by the Board. The guidelines set out specific roles, duties, responsibilities and rights of the Directors.

During the year, the Board welcomed the appointments of three new Directors. YAM Tan Sri Syed Anwar Jamalullail was appointed to the Board on 10 May 2006 as an Independent and Non-executive Director and then as Chairman of the Board of 1 July 2006. On 4 September 2006, the Board welcomed the appointments of Dato' Richard Curtis and Tuan Syed Ahmad Alwee Alsree as Non-independent Directors and concurrently as Group Managing Director and Deputy Group Managing Director respectively. All three new members bring with them a wealth of experience and knowledge from various industries, both here in Malaysia and overseas, which will further strengthen the effectiveness of the Board.

RE-ELECTION OF DIRECTORS

In accordance with the Company's Articles of Association, all Directors appointed by the Board are subject to election by shareholders at the first Annual General Meeting after their appointment. One-third of the remaining Directors are required to submit themselves for re-election by rotation at each Annual General Meeting. All Directors must submit themselves for re-election at least once in every three years. Directors over seventy years of age are required to submit themselves for reappointment annually in accordance with Section 129(6) of the Companies Act, 1965.

DIRECTORS' REMUNERATION

The Company has adopted the objective recommended by the Code to determine remuneration for a Director to ensure that the Company attracts and retains Directors of high calibre and integrity coupled with the appropriate qualifications, skills and experience needed to run the Group successfully.

For non-executive Directors, the level of remuneration reflects the experience, special responsibilities undertaken by the non-executive Directors concerned, and in particular, membership of Board Committees and directorships at subsidiary companies. Fees payable to Directors are subject to annual approval by shareholders at the Annual General Meeting.

Remuneration paid to Directors of the Company during 2006, analysed into bands of RM50,000, is set out in Note 8 to the Financial Statements. This complies with the disclosure requirements under Bursa Securities Listing Requirements. The Board is of the view that transparency and accountability with regard to Directors' remuneration is met by this disclosure method.

DIRECTORS' TRAINING

All Directors have attended the required Mandatory Accreditation Programme ("MAP") within the stipulated timeframe. The Directors also attended training programmes and seminars to keep abreast with relevant developments in the business environment as well as new regulatory requirements on a continuous basis in compliance with Paragraph 15.09 of the Listing Requirements of Bursa Securities. Topics presented at training programmes were wide-ranging and provided the Directors with updates on various business trends, management and legal issues, appropriate to further enhance their knowledge and skills.

BOARD MEETINGS AND SUPPLY OF INFORMATION TO THE BOARD

During the year, six (6) Board Meetings including two (2) Special Meetings were held. Attendance of Directors at the Board Meetings in 2006 was as follows:

Name of Director	Total Meetings Attended	% of Attendance
Y A M Tan Sri Syed Anwar Jamalullail *(appointed on 10 May 2006)*	5/5	100
Tuan Haji Mahmud Abu Bekir Taib	3/6	50
Dato Sri Sulaiman Abdul Rahman Taib	3/6	50
Dato Sri Liang Kim Bang	5/6	83.3
General (Retired) Tan Sri Dato' Seri Mohd Zahidi Zainuddin	5/6	83.3
YB Datuk Haji Talib Zulpilip	5/6	83.3
Datuk Wan Ali Tuanku Yubi	5/6	83.3
Datu Michael Ting Kuok Ngie	6/6	100
Kevin How Kow	6/6	100
Dato' Richard Curtis *(appointed on 4 September 2006)*	2/2	100
Tuan Syed Ahmad Alwee Alsree *(appointed on 4 September 2006)*	2/2	100

Directors are provided with an agenda and a set of Board papers prior to each Board meeting. These are issued in sufficient time to enable the Directors to obtain further explanation, where necessary, in order to be properly briefed before the meeting.

Senior Management staff, as well as, advisers and professionals appointed to advise on corporate proposals may be invited to attend Board meetings. Their role is to provide the Board with views and explanations on certain agenda items tabled to the Board, and to furnish clarification on issues that may be raised by the Directors.

There is a schedule of matters reserved specifically for the Board's decision, including approval of corporate plans and budgets, acquisition and disposal of undertakings and properties of a substantial value, major investment and financial decisions, as well as significant changes to the management and control structure within the Group, including key policies, procedures and delegated authority limits.

Board members have access to the Group Secretaries for any further information required. Independent professional advice is available to Directors, as and when required, at the Company's expense.

BOARD COMMITTEES

The following Committees have been established to assist the Board in the execution of its responsibilities. The Committees have written terms of reference which have been approved by the Board and set out their authority and duties.

Directors' Membership on Board Committees

Name of Director	Audit	Remuneration	Nomination
Y A M Tan Sri Syed Anwar Jamalullail *(Non-Executive)*	–	Yes *(Chairman)*	Yes
Tuan Haji Mahmud Abu Bekir Taib *(Non-Executive)*	–	Yes	Yes
Dato Sri Sulaiman Abdul Rahman Taib *(Non-Executive)*	–	–	–
Dato Sri Liang Kim Bang *(Non-Executive)*	Yes *(Chairman)*	–	–
General (Retired) Tan Sri Dato' Seri Mohd Zahidi Zainuddin *(Non-Executive)*	–	–	Yes *(Chairman)*
YB Datuk Haji Talib Zulpilip *(Non-Executive)*	Yes	–	–
Datuk Wan Ali Tuanku Yubi *(Non-Executive)*	–	Yes	Yes
Datu Michael Ting Kuok Ngie *(Non-Executive)*	Yes	Yes	Yes
Kevin How Kow *(Non-Executive)*	Yes	–	–
Dato' Richard Curtis *(Executive)*	–	–	–
Tuan Syed Ahmad Alwee Alsree *(Executive)*	–	–	–

a. Audit Committee

The Board's Audit Committee has continued to play an important role in reviewing the Group's financial management and reporting, and to assess the integrity of the Group's accounting procedures and financial control. The Committee is also the focal point to oversee risk management processes, reporting and monitoring mechanisms adopted throughout the Group.

The Audit Committee is responsible for the review of accounting policy and presentation of external financial reporting including the Group's interim results and its disclosures, monitoring the work of the internal audit function and ensuring an objective and professional relationship is maintained with the external auditors, and that conflicts of interest, if any, are avoided. The Committee has full access to both internal and external auditors, who in turn, have access at all times, to the Chairman of the Audit Committee.

The Audit Committee is also responsible for approving and reviewing the appointment of external auditors as well as overseeing their relationship with the Group. This includes an annual review of the independence and effectiveness of the external auditors and the recommendation to the Board as to the level of fees to be paid to the external auditors.

The Audit Committee strives to ensure that it keeps abreast of all material developments in regulations and best practices in its area of responsibility.

The members of the Audit Committee, together with their attendance at Committee Meetings, are set out below:

Name of Audit Committee Member	Total Meetings Attended	% of Attendance
Dato Sri Liang Kim Bang *(Chairman)*	4/4	100
YB Datuk Haji Talib Zulpilip	4/4	100
Datu Michael Ting Kuok Ngie	4/4	100
Kevin How Kow	4/4	100

The report of the Audit Committee, including its role in relation to the external auditors, may be found on pages 32 to 34 of this Annual Report.

b. Remuneration Committee

The Remuneration Committee is responsible for developing the Group's remuneration policy in general, and determining the remuneration packages of executive Directors of CMSB. The Remuneration Committee proposes, subject to the approval of the respective Boards, the remuneration to be paid to each Director for his services as a member of the Board as well as committees of the Board in respect of the Group.

The Committee meets at least once a year to consider matters relating to Directors' remuneration.

The members of the Remuneration Committee together with their attendance at Committee Meetings are set out below:

Name of Remuneration Committee Member	Total Meetings Attended	% of Attendance
Y A M Tan Sri Syed Anwar Jamalullail *(Chairman)*	1/1	100
Tuan Haji Mahmud Abu Bekir Taib	1/1	100
Datuk Wan Ali Tuanku Yubi	1/1	100
Datu Michael Ting Kuok Ngie	1/1	100

c. Nomination Committee

The Nomination Committee meets at least once a year to consider and make recommendations to the Board on the composition of the Board, potential candidates for appointment to the Board and committees of the Board of the CMS Group.

With regard to appointments to companies within the Group, all decisions on such appointments rest with the respective Boards after considering the recommendations of the Nomination Committee. The Nomination Committee will review the required mix of skills, experience and other qualities including core competencies, which non-executive Directors should bring to the Board.

The members of the Nomination Committee together with their record of attendance at Committee Meetings are set out below:

Name of Nomination Committee Member	Total Meetings Attended	% of Attendance
General (Retired) Tan Sri Dato' Seri Mohd Zahidi Zainuddin *(Chairman)*	2/2	100
Y A M Tan Sri Syed Anwar Jamalullail	2/2	100
Tuan Haji Mahmud Abu Bekir Taib	2/2	100
Datuk Wan Ali Tuanku Yubi	1/2	50
Datu Michael Ting Kuok Ngie	2/2	100

As required under Item X of the Best Practices in Corporate Governance set out in Part 2 of the Malaysian Code of Corporate Governance (MCCG), the Board carried out an assessment of the effectiveness of the Board and the Board Committees. The assessment has highlighted areas requiring improvements, which are being addressed by the Board and Management.

Executive Committee

In addition to the above Board committees, an Executive Committee (EXCO) comprising the Chairman, Deputy Chairman and senior Management members was formed in July 2006. The EXCO has clear objectives and terms of reference and met regularly during the second half of 2006. The Group Managing Director was appointed on 4 September 2006 and was included as a member of the EXCO. The Board has decided that the EXCO shall continue to function until such time that the Group is stabilised and the various turn-around initiatives have come to fruition.

INVESTOR RELATIONS AND SHAREHOLDER COMMUNICATIONS

The Company seeks to develop and maintain regular informative communications with its shareholders totalling over 6,600. In addition to the various public announcements made during the year, the timely release of financial results on a quarterly basis provides shareholders with an overview of the Group's performance and operations.

The Annual General Meeting of the Company remains the principal forum for dialogue with shareholders. Shareholders who are unable to attend are allowed to appoint proxies to attend and vote on their behalf. Members of the Board, as well as, external auditors of the Company are present to answer questions raised at the Meeting.

A full copy of the Annual Report and Accounts are sent to all shareholders each year. In addition, shareholders can obtain up-to-date information on the Group's various activities by accessing its website at www.cmsb.com.my. Press releases and all announcements to Bursa Securities, including the consolidated financial results of the Group, are posted on this site.

Any queries or concerns regarding CMS Group may be conveyed to:

i) **Dato Sri Liang Kim Bang**
Senior Independent Non-Executive Director
T +6 082 332 111 **F** +6 082 484 057

ii) **Isaac Lugun**
Group General Manager – Corporate Services/ Group Secretary
T +6 082 238 888 **F** +6 082 338 611

ACCOUNTABILITY AND AUDIT

Financial Reporting

In presenting the annual financial statements and announcement of results to shareholders, the Directors aim to present a balanced and understandable assessment of the Group's position and prospects.

The Directors consider that, in preparing the financial statements, the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgement and estimates. All accounting standards which the Board considers applicable have been followed. Additional notes and data which go beyond minimum requirements are published whenever the Board considers amplification is required to give shareholders a proper understanding of the Group and its activities.

Internal Controls

The Group's Statement on Internal Controls is set out on pages 30 to 31 of this Annual Report.

STATEMENT ON INTERNAL CONTROLS

INTRODUCTION

The Malaysian Code on Corporate Governance requires listed companies to maintain a sound system of internal controls to safeguard shareholders' investments and the Company's assets. Under Bursa Malaysia Securities Berhad ("Bursa Securities") Listing Requirements, Directors of listed companies must include a statement in their annual report on the state of the Company's internal controls.

RESPONSIBILITY

The Board of Directors recognises its responsibilities and the importance of sound internal controls and risk management practices, and for reviewing the adequacy and integrity of those systems. It should be noted, however, that such systems are designed to manage rather than eliminate risk. In addition, any system can only provide reasonable, and not absolute, assurance against material misstatement or loss.

The Board does not regularly review the risk management and internal control systems of the publicly listed subsidiary, Utama Banking Group Berhad, or those of its associated companies. The Group's interests are served through representation on the Boards of those respective companies and the receipt and review of management reports thereon.

The Board has established procedures to implement the recommendations of Bursa Securities Listing Requirements' 'Statement on Internal Control: Guidance for Directors of Public Listed Companies'. These procedures, which are subject to regular review, are intended to provide an ongoing process for identifying, evaluating and managing the significant risks faced by the Group.

RISK MANAGEMENT

Risk Policy

In October 2006, a Group risk policy was established to formalise the risk management framework, responsibilities and reporting requirements.

Risk management is regarded by the Board of Directors as an integral part of the business operations. Management at all levels have a collective responsibility for creating a risk aware culture and ensuring that business risk assessment becomes an explicit part of both Management and the SBU/CMSB Board level decision making process. Management also have responsibility for managing risks and ensuring appropriate control measures are in place or being developed to mitigate significant risks identified and ensuring compliance with applicable laws and regulations.

The main underlying principles of the Group risk policy are:

- Informed risk management is an essential element of the CMS/SBU/subsidiary strategy.
- Effective risk management provides greater assurance that business objectives will be achieved without major surprises.
- Each SBU (and business unit therein) and subsidiary company are responsible for managing risks that can impact the achievement of their business objectives.
- All significant risks are to be identified, analysed, prioritised, monitored and reported.

Risk Reporting

The Group's risk management process provides for regular review, reporting and monitoring. In addition to the monthly operating performance reviews focused on monitoring the achievement of financial objectives and other key performance indicators, the main elements of the risk reporting process are:

- Presentation of a summary of the significant risks to the Board of Directors through the Audit Committee on a quarterly basis.
- Reporting of significant risks by SBU/subsidiaries in their annual management plans.

- Reporting of significant risks by SBU and subsidiaries on a quarterly basis to the holding Company.

- Review and monitoring of key risks during the management meetings of the business units.

Risk coordinators have been appointed in each significant SBU or subsidiary unit to update the quarterly risk reports. The major risks are consolidated and reviewed by the Group Risk Coordinator prior to submission to the Executive Committee and the Group Audit Committee. Major operating units are also required to present quarterly risk reports to their respective Boards to assist them to discharge their governance and fiduciary duties.

KEY ELEMENTS OF THE INTERNAL CONTROL SYSTEM

The key elements of the Group's internal control system are described below:

- Clearly defined delegation of responsibilities to Committees of the Board and the Management, including authorisation levels for all aspects of the businesses. Such delegation is subject to periodic review throughout the year as to their implementation and for their continuing suitability. To define more clearly the limits of authority, a Limits of Authority Manual is being developed and will be implemented across the Group in 2007.

- Clearly documented internal procedures set out in the Group Financial Policies and Procedures Manual.

- A detailed Group Procurement Policies and Procedures Manual to regulate procurement of goods and services in the Group. This includes the centralisation of competitive sourcing and evaluation of major purchases to leverage on Group buying power and the establishment of a Central Tender Committee which has responsibility to review and endorse all high value purchases in the Group.

- A detailed strategic planning and budgeting process where operating units prepare business plans and detailed capital and operating budgets for the coming year. These plans are approved by the Board.

- All major business commitments or investments will be subject to review by either the EXCO or by the planned Business Evaluation Committee so as to ensure that all such investments meet the risk appetite and investment criteria determined by the Board and the SBU's operating budget.

- Regular and comprehensive information provided to Management, covering financial performance and key business indicators which are reviewed by the Group Managing Director and other members of the senior Management team during monthly operational review meetings.

- A new performance management system has been implemented in 2007 wherein individual performance will be monitored against agreed targets (Key Performance Indicators) to strengthen accountability controls and to instill a stronger performance culture.

- Monitoring of monthly results against budget, with major variances being followed up and management action taken, where necessary.

- An independent Audit Committee comprising non-executive members of the Board, the majority being independent directors.

- Regular internal audit activities to assess the adequacy of internal controls, monitor compliance with procedures and assess the integrity of financial information provided.

- An emphasis on the quality and ability of employees with continuing education, training and development being actively encouraged through a wide variety of programmes.

- All significant contracts and legally enforceable agreements are vetted by the Group's Legal Department.

The above control arrangements in place provide reasonable assurance to the Board that the structure of controls are appropriate to the Group's operations and that risks are managed to an acceptable level throughout the Group's diverse businesses. Such arrangements, however, do not eliminate the possibility of human error or deliberate circumvention of control procedures by employees or others.

GROUP AUDIT COMMITTEE REPORT

This report provides details of the composition of the Group Audit Committee ("the Committee"), its terms of reference and a summary of activities of the Committee and the Internal Audit function during the year ended 31 December 2006.

The Group Audit Committee comprises the following Board members:

Dato Sri Liang Kim Bang *(Chairman)* *Senior Independent Non-Executive Director*	**YB Datuk Haji Talib bin Zulpilip** *Non-Executive Director*	**Datu Michael Ting Kuok Ngie** *Independent Non-Executive Director*	**Kevin How Kow** *Independent Non-Executive Director*

a. Constitution

i) The Group Audit Committee ("the Committee") was established by a resolution of the Board on 27 March 1995.

ii) The functions of the Committee shall extend to CMS Group of Companies collectively referred to as the "Group".

iii) The Board shall ensure that the composition and functions of the Committee comply as far as possible with both Bursa Malaysia Securities Berhad ("Bursa Securities") Listing Requirements as well as other regulatory requirements.

b. Membership

i) The members of the Committee shall be appointed by the Board from among their number. They shall consist of not more than five members and not fewer than three members, of whom a majority shall be independent non-executive Directors.

ii) In the event of any vacancy resulting in the non-compliance of para b(i) above, the Board shall, within three months of that event, appoint such number of new members required to fulfill the minimum requirement.

iii) The Chairman of the Committee shall be an independent director appointed by the Board.

iv) All members of the Committee, including the Chairman, shall hold office only so long as they serve as Directors of the Group.

c. Objectives

i) To assist the Board in fulfilling its fiduciary responsibilities relating to corporate accounting and reporting practices for the Group.

ii) To maintain, through regularly scheduled meetings, a direct line of communication between the Board and the external auditors as well as the internal auditors.

iii) To avail to the external and internal auditors a private and confidential audience at any time they desire and to request such audience through the Chairman of the Committee, with or without the prior knowledge of Management.

iv) To act upon the Board of Directors' request to investigate and report on any issue or concern with regard to the management of the Group.

d. Duties

i) To review with the external auditors the audit plan and their evaluation of the system of internal controls.

ii) To consider and recommend for the approval of the Board the appointment or dismissal of the external auditors and the audit fees.

iii) To review the assistance given by the Company's and the Group's officers to the auditors.

iv) To approve the appointment or termination of the Group Internal Auditor and ensure that the Group Internal Audit Division is adequately resourced and has an independent status within the Group.

v) To review any appraisal or assessment of the performance of staff of the internal audit function.

vi) To review the adequacy of the internal audit plans, scope of examination of the internal auditors and ensure that appropriate action is taken by Management in respect of the audit observations and the Committee's recommendations.

vii) To review the quarterly financial statements to Bursa Malaysia and the annual audited accounts before submission to the Board. The review should focus primarily on compliance with accounting standards as well as other regulatory requirements and the adequacy of information disclosure for a fair and full presentation of the financial affairs of the Group.

viii) To review any related party transaction and conflict of interest situation that may arise within the Company and the Group including any transaction, procedure or conduct that raises questions of management integrity.

ix) To direct any special investigations on the Group's operations to be carried out by the Group's Internal Audit Division or any other appropriate agencies.

x) To discuss problems and reservations arising out of external or internal audits and any matters which the auditors wish to bring up in the absence of Management or the Executive Directors of the Group where necessary.

xi) To perform other related duties as may be agreed by the Committee and the Board.

e. Authority

i) The Committee is authorised to investigate any matter within its terms of reference and shall have unrestricted access to obtain any information it requires from any employee of the Group.

ii) The Committee is authorised to direct any employee of the Group to appear before it to give information or clarification as required.

iii) The Committee is also authorised by the Board to obtain outside legal or any other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise.

iv) Where the Committee is of the view that a matter reported by it to the Board has not been satisfactorily resolved resulting in a breach of Bursa Securities Listing Requirements, the Committee is also required to promptly report such matter to the Exchange.

f. Meetings and Minutes

i) The Committee shall meet not less than three times a year although additional meetings may be called at any time at the Chairman's discretion. The quorum of each meeting shall be a majority of independent non-executive Directors.

ii) In addition to the Committee members, the meeting will normally be attended by representatives of the external auditors, the Group Chief Financial Officer, the Group Internal Auditor and any appropriate persons as determined by the Chairman.

iii) The Company Secretary shall be the Secretary to the Committee. Prior to the meeting, he shall send an agenda to all members of the Committee. Minutes of each meeting shall be kept and distributed to each member of the Committee and the Board.

MEETINGS IN 2006

During the year ended 31 December 2006, the Group Audit Committee held four meetings which were attended by the members as follows:

Name of Group Audit Committee Member	Total Meetings Attended
Dato Sri Liang Kim Bang *(Chairman)*	4/4
YB Datuk Haji Talib bin Zulpilip	4/4
Datu Michael Ting Kuok Ngie	4/4
Kevin How Kow	4/4

ACTIVITIES OF THE GROUP AUDIT COMMITTEE IN THE YEAR 2006

- Reviewed the audit plan with the external auditors and their evaluation of the system of internal control;

- Reviewed the assistance given by the Company's and Group's officers to the external auditors;

- Reviewed accounting/audit issues, findings and other reservations arising from the external audit and ensured that appropriate action is taken;

- Reviewed the adequacy of the internal audit plans, scope of examination and internal audit reports and ensure that appropriate action was taken by Management in respect of the audit findings and the Committee's recommendations;

- Reviewed the quarterly financial statements of the Company and the Group to Bursa Malaysia and the annual audited Group accounts prior to submission to the Board for consideration and approval;

- Reviewed the adequacy of disclosure of related party transactions entered into by the Company and the Group and also the adequacy of policies and procedures in respect of related party transactions in ensuring that these transactions are in the best interest of the Company;

- Considered and recommended to the Board the reappointment of the external auditors of the Group and the audit fees; and

- Reviewed the appraisal of the performance of the internal audit staff.

INTERNAL AUDIT FUNCTION

The Company has an Internal Audit Division whose primary responsibility is to conduct regular and systematic audits of the significant operations of the Group based on assessed risks so as to provide reasonable assurance to the Committee of the adequacy of the systems of internal control within the Group.

The annual group internal audit plan is approved by the Committee each year. The Internal Audit function, which is independent of the activities they audit, has carried out planned audits and special ad-hoc reviews or investigations during the year. It has provided regular reports on the adequacy of controls and extent of compliance with internal financial policies and operational procedures in respect of the areas audited. Recommendations to improve the existing systems of internal control and operational effectiveness have also been communicated to both the operations' Management and the Group Audit Committee.

The following information is presented in compliance with the Listing Requirements of Bursa Malaysia Securities Berhad:

UTILISATION OF PROCEEDS

The status of utilisation of proceeds from the CMS Income Securities as at 31 December 2006 was as follows:

Description	Actual Utilised RM'000
Repayment of borrowings	264,756
Expenses of issuance of CMS Income Securities	1,858
Working capital	85,076
Total	351,690

SHARE BUY-BACKS

CMSB did not enter into any share buy-back transactions during the financial year ended 31 December 2006.

OPTIONS, WARRANTS OR CONVERTIBLE SECURITIES

CMSB did not issue any options, warrants or convertible securities during the financial year ended 31 December 2006.

AMERICAN DEPOSITORY RECEIPT (ADR)/GLOBAL DEPOSITORY RECEIPT (GDR)

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

SANCTIONS AND/OR PENALTIES

There were no sanctions or penalties imposed on CMSB and its subsidiary companies, directors, or management by the relevant regulatory bodies during the financial year.

NON-AUDIT FEES

Non-audit fees of RM765,000 were paid to the External Auditors for the financial year ended 31 December 2006.

VARIATION IN RESULTS

There were no variances of more than 10% for the audited results of the Group from the unaudited results as announced on 28 February 2007.

PROFIT GUARANTEE

There was no profit guarantee by CMSB and its subsidiary companies during the financial year under review.

MATERIAL CONTRACTS

There were no material contracts entered during the financial year ended 31 December 2006 by CMSB and its subsidiary companies involving Directors and major shareholders.

REVALUATION POLICY

The Group does not adopt a policy of regular revaluation on landed properties.

RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE NATURE

On 18 April 2007, CMSB announced the recurrent related party transactions of a revenue or trading nature which it expected to enter into with persons who are considered to be "Related Party" as defined in Chapter 10 of the Listing Requirements of Bursa Malaysia Securities Berhad. A breakdown of the aggregate value of transactions conducted during the financial year under review is set out below:

	RM'000	Relationship
Telecommunication equipment and services paid to: – Achi Jaya Communications Sdn Bhd	24	A company controlled by Tuan Haji Mahmud Abu Bekir Taib (a major shareholder of CMSB)
Office rental paid to: – Satria Realty Sdn Bhd	952	A company controlled by Majaharta Sdn Bhd (a major shareholder of CMSB), which in turn is controlled by Hanifah Hajar Taib and Jamilah Hamidah Taib (major shareholders of CMSB and persons connected to Lejla Taib, Dato Sri Sulaiman Abdul Rahman Taib, Tuan Haji Mahmud Abu Bekir Taib and Tuan Syed Ahmad Alwee Alsree)
Office upkeep paid to: – Centigrade Resources Sdn Bhd	487	Subsidiary company of Satria Realty Sdn Bhd
Professional fees paid to: – KTA (Sarawak) Sdn Bhd	951	A person connected to Datu Michael Ting has direct interest of 20%
Management fees received from: – COPE-KPF Opportunities 1 Sdn Bhd	875	A company controlled by CMS Opus Private Equity Sdn Bhd ("COPE"), which in turn is controlled by Azam Azman [a director of COPE and COPE-KPF Opportunities 1 Sdn Bhd ("COPE-KPF")] by virtue of his direct interest of 39.9% in Opus Resolute Sdn Bhd which holds 100% interest in Opus Capital Sdn Bhd which in turn holds 49% interest in COPE which in turn holds 49.9% interest in COPE-KPF

The Directors are required by the Companies Act, 1965 ("the Act") to prepare financial statements for each financial year which gives a true and fair view of the state of affairs of the Group and the Company at the end of the financial year and the results and cash flows of the Group and the Company for the financial year. As required by the Act and the Listing Requirements of Bursa Malaysia Securities Berhad, the financial statements have been prepared in accordance with the applicable Malaysian Accounting Standards Board approved accounting standards in Malaysia for Entities Other Than Private Entities, the provisions of the Act and the Bursa Malaysia Securities Listing Requirements.

The Directors consider that in preparing the financial statements for the year ended 31 December 2006 set out on page 45 to 162, the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgement and estimates. The Directors have responsibility for ensuring that the Group and the Company keep accounting records which disclose with reasonable accuracy the financial position of the Group and the Company which enable them to ensure that the financial statements comply with the Act. The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

2006

28 FEB 06

The Group reported a loss before tax of RM35.02 million for the financial year ended 31 December 2005.

29 APR 06

The Group announced a deviation in the loss before tax for the 2005 Financial Year due to impairment of goodwill arising on consolidation of CMS Steel Berhad. As a result, the audited Group consolidated loss before tax for the 12 months ended 31 December 2005 was restated as RM49.50 million.

29 MAY 06

The Group declared a first and final dividend of 5 sen per share less 28% income tax for the financial year ended 31 December 2005.

Notice of the 31st Annual General Meeting was announced.

The Group reported a profit before tax of RM181.6 million for the first quarter ended 31 March 2006.

22 JUNE 06

CMSB's 31st Annual General Meeting took place.

30 AUG 06

The Group reported a profit before tax of RM106.5 million for the second quarter ended 30 June 2006.

15 SEPT 06

The Group paid a first and final dividend of 5 sen per share less 28% income tax for the financial year ended 31 December 2005 amounting to RM11.86 million.

30 NOV 06

The Group reported a profit before tax of RM115.0 million for the third quarter ended 30 September 2006.

2007

28 FEB 07

The Group announced a profit before tax of RM115.9 million for the fourth quarter and profit before tax of RM519.0 million for the 12 months ended 31 December 2006.

FIVE-YEAR FINANCIAL HIGHLIGHTS

	2002	2003	2004	Restated 2005 *	2006 *
Revenue (RM'000)	1,378,990	1,082,662	1,020,344	5,196,614	6,168,891
Profit before taxation (RM'000)	168,057	82,310	130,955	469,853	518,709
Profit/(loss) after tax and MI (RM'000)	48,412	23,670	28,749	(117,987)	6,865
Basic earnings/(loss) per share (sen)	14.77	7.21	8.73	(35.81)	2.08
Gross dividends per share (sen)	5	5	5	5	5
Total shareholders' funds (RM'000)	961,092	973,698	991,970	853,451	851,478
Total assets (RM'000)	3,535,466	3,449,086	2,710,384	90,197,381	103,410,293
Net tangible assets per share (RM)	2.24	2.33	2.42	(0.63)	(0.59)
Net assets per share (RM)	2.93	2.96	3.01	2.59	2.58
Return on equity (after tax) (%)	4.97	2.45	2.93	(13.85)	0.81
Return on total assets (after tax) (%)	1.37	0.69	1.06	(0.13)	0.01
Current ratio (times)	1.18	0.98	0.97	0.84	0.83
CMSB Share Price Information (RM)					
High	1.71	1.53	1.44	0.88	1.58
Low	2.96	2.36	2.38	1.63	0.88
Closing	1.74	1.99	1.50	0.93	1.46

* *RHB is deemed a subsidiary of UBG following the adoption of FRS 127 with effect from 1 January 2006 after taking into consideration the potential voting rights arising from the RHB ICULS that UBG holds. The comparative figures for 2005 have also been restated accordingly.*

The Directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The Company is principally an investment holding company. It also provides centralised treasury and administrative services to the Group.

The Group is principally engaged in cement manufacturing, construction and quarry operations, road maintenance, banking, stockbroking and related financial services, property development, trading and services.

The principal activities of the subsidiaries are more particularly set out in Note 19 to the financial statements.

There have been no significant changes in the nature of the principal activities during the financial year except for the discontinuance of CMS Steel Berhad ("CMS Steel") as disclosed in Note 11 to the financial statements.

RESULTS

	Group RM'000	Company RM'000
Profit/(loss) after tax from continuing operations	256,417	(1,081)
Loss for the year from discontinued operation	(902)	–
Profit/(loss) for the year	255,515	(1,081)
Attributable to:		
Equity holders of the Company	6,865	(1,081)
Minority interests	248,650	–
	255,515	(1,081)

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in the financial statements.

In the opinion of the Directors, the results of the operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature other than:

a. the effects arising from the changes in accounting policies due to the adoption of the new and revised FRSs which has resulted in an increase in the Group's profit for the year by RM11,948,000 due to the Group's cessation of amortisation of goodwill on consolidation as disclosed in Note 2.3(a)(i) and 2.3(f)(ii) to the financial statements.

b. the effects arising from changes in estimates where the residual values and the estimated useful lives of certain plant and machinery were revised resulting in an increase in the Group's and the Company's profit for the year by RM8,460,000 and RM427,000 respectively as disclosed in Note 2.4 to the financial statements.

c. the adoption of the revised FRS 127 has resulted in the lineby-line consolidation of the consolidated financial statements of Rashid Hussain Berhad into the Group's financial statements for the current financial year, with comparatives restated, as disclosed in Note 2.3(d), 2.3(f) and 2.3(g) of the financial statements.

DIVIDENDS

The amount of dividends paid by the Company since 31 December 2005 was as follows:

In respect of the financial year ended 31 December 2005 as reported in the directors' report of that year:

	RM'000
First and final dividend of 5% less 28% taxation, on 329,445,840 ordinary shares, declared on 22 June 2006 and paid on 15 September 2006	11,860

At the forthcoming Annual General Meeting, a first and final dividend in respect of the financial year ended 31 December 2006, of 5% less 27% taxation on 329,445,840 ordinary shares, amounting to a dividend payable of RM12,025,000 (3.65 sen net per ordinary share) will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained earnings in the financial year ending 31 December 2007.

DIRECTORS

The names of the Directors of the Company in office since the date of the last report and at the date of this report are:

YAM Tan Sri Dato' Seri Syed Anwar Jamalullail	*(Appointed on 10 May 2006 and redesignated Group Chairman on 1 July 2006)*
Tuan Haji Mahmud Abu Bekir Taib	*Group Deputy Chairman*
Dato Sri Sulaiman Abdul Rahman Taib	
Dato Sri Liang Kim Bang	
General (R) Tan Sri Dato' Seri Mohd Zahidi Bin Zainuddin	
YB Datuk Haji Talib Bin Zulpilip	
Datuk Wan Ali Tuanku Yubi	
Datu Michael Ting Kuok Ngie @ Ting Kok Ngie	
Kevin How Kow	
Dato' Richard Alexander John Curtis	*(Appointed as Group Managing Director on 4 September 2006)*
Tuan Syed Ahmad Alwee Alsree	*(Appointed as Deputy Group Managing Director on 4 September 2006)*

Dato Sri Liang Kim Bang retires pursuant to Section 129 of the Companies Act, 1965 and a resolution is being proposed for his re-appointment as director under the provisions of Section 129(6) of the said Act to hold office until the next Annual General Meeting of the Company.

In accordance with Article 110 of the Company's Articles of Association, Datuk Wan Ali Tuanku Yubi, Datu Michael Ting Kuok Ngie @ Ting Kok Ngie and Kevin How Kow retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Article 112 of the Company's Articles of Association, Dato' Richard Alexander John Curtis and Tuan Syed Ahmad Alwee Alsree retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for election.

DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company was a party, whereby the Directors might acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the Directors or the fixed salary of a full-time employee of the Company as shown in Note 9 to the financial statements) by reason of a contract made by the Company or a related corporation with any director or with a firm of which he is a member, or with a company in which he has a substantial financial interest, except as disclosed in Note 53 to the financial statements.

DIRECTORS' INTERESTS

According to the register of Directors' shareholdings, the interests of Directors in office at the end of the financial year in shares of the Company and a related company during the financial year were as follows:

	Number of Ordinary Shares of RM1 Each		
	At 1 Jan 2006	Transfer	At 31 Dec 2006
Cahya Mata Sarawak Berhad			
Direct interest in shares:			
Tuan Haji Mahmud Abu Bekir Taib	29,400,085	–	29,400,085
Dato Sri Sulaiman Abdul Rahman Taib	29,465,085	–	29,465,085
Indirect interest in shares:			
Tuan Haji Mahmud Abu Bekir Taib	44,925,102	(44,925,102)	–
Dato Sri Sulaiman Abdul Rahman Taib	44,925,102	(44,925,102)	–

	Number of Ordinary Shares of RM1 Each At 1 Jan 2006 and 31 Dec 2006
Utama Banking Group Berhad	
Direct interest in shares:	
Dato Sri Liang Kim Bang	504,000
YB Datuk Haji Talib Bin Zulpilip	13,333

DIRECTORS INTERESTS (CONTD)

There were no other movements in shares of the Company during the financial year other than as disclosed.

None of the other Directors in office at the end of the financial year had any interest in shares in the Company or its related corporations during the financial year.

OTHER STATUTORY INFORMATION

a. Before the income statements and balance sheets of the Group and of the Company were made out, the Directors took reasonable steps:

   i. to ascertain that proper action had been taken in relation to the writing-off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written-off and that adequate provision had been made for doubtful debts; and

   ii. to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

b. At the date of this report, the Directors are not aware of any circumstances which would render:

   i. the amount written-off for bad debts or the amount of the provision for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; and

   ii. the values attributed to the current assets in the financial statements of the Group and of the Company misleading.

c. At the date of this report, the Directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.

d. At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.

e. As at the date of this report, there does not exist:

   i. any charge on the assets of the Group or of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or

   ii. any contingent liability of the Group or of the Company which has arisen since the end of the financial year.

f. In the opinion of the Directors:

   i. no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group or of the Company to meet their obligations as and when they fall due; and

   ii. no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group or of the Company for the financial year in which this report is made.

SIGNIFICANT EVENTS

Details of significant events are disclosed in Note 56 to the financial statements.

SUBSEQUENT EVENTS

Details of subsequent events are disclosed in Note 57 to the financial statements.

AUDITORS

The auditors, Ernst & Young, have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 18 April 2007.

YAM Tan Sri Dato' Seri Syed Anwar Jamalullail

Dato' Richard Alexander John Curtis

STATEMENT BY DIRECTORS
pursuant to Section 169(15) of the Companies Act, 1965

We, **YAM Tan Sri Dato' Seri Syed Anwar Jamalullail** and **Dato' Richard Alexander John Curtis**, being two of the Directors of **Cahya Mata Sarawak Berhad**, do hereby state that in the opinion of the Directors, the accompanying financial statements set out on pages 45 to 162 are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities and so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2006 and of the results and the cash flows of the Group and of the Company for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 18 April 2007.

YAM Tan Sri Dato' Seri Syed Anwar Jamalullail

Dato' Richard Alexander John Curtis

STATUTORY DECLARATION
pursuant to Section 169(16) of the Companies Act, 1965

I, **Ian Graham Sadler**, being the officer primarily responsible for the financial management of **Cahya Mata Sarawak Berhad**, do solemnly and sincerely declare that the accompanying financial statements set out on pages 45 to 162 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Ian Graham Sadler
Chief Financial Officer

Subscribed and solemnly declared by the
abovenamed **Ian Graham Sadler**
at Kuching in the State of Sarawak
on 18 April 2007

Before me,

LEE HENG CHEONG
Commissioner For Oaths
10H, (2nd Floor), Lorong 4,
Jalan Nanas, 93400 Kuching
Sarawak

PESURUHJAYA SUMPAH
NO: Q 038
LEE HENG CHEONG
MALAYSIA

REPORT OF THE AUDITORS

to the Members of Cahya Mata Sarawak Berhad (Incorporated in Malaysia)

We have audited the financial statements set out on pages 45 to 162. These financial statements are the responsibility of the Company's Directors.

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We have conducted our audit in accordance with applicable Approved Standards on Auditing in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

a. the financial statements have been properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities so as to give a true and fair view of:

   i. the financial position of the Group and of the Company as at 31 December 2006 and of the results and the cash flows of the Group and of the Company for the year then ended; and

   ii. the matters required by Section 169 of the Companies Act, 1965, to be dealt with in the financial statements; and

b. the accounting and other records and the registers required by the Act to be kept by the Company and by its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

We have considered the financial statements and the auditors' reports thereon of the subsidiaries of which we have not acted as auditors, as indicated in Note 19 to the financial statements, being financial statements which have been included in the consolidated financial statements.

We are satisfied that the financial statements of the subsidiaries that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The auditors' reports on the financial statements of the subsidiaries were not subject to any qualification material to the consolidated financial statements and did not include any comment required to be made under Section 174(3) of the Act.

ERNST & YOUNG
[illegible]
Chartered Accountants

YONG VOON KAR
[illegible]
Partner

Kuching, Malaysia
Date: 18 April 2007

	Note	Group 2006 RM'000	Group 2005 RM'000 (Restated)	Company 2006 RM'000	Company 2005 RM'000
CONTINUING OPERATIONS					
Revenue	3	6,168,891	5,196,614	63,763	65,355
Cost of sales	4	(3,600,157)	(2,953,275)	(13,276)	(12,466)
Gross profit		2,568,734	2,243,339	50,487	52,889
Other income		6,429	8,918	1,092	490
Administrative expenses		(210,728)	(189,448)	(18,002)	(16,845)
Selling and marketing expenses		(165,389)	(175,082)	–	–
Other expenses		(321,245)	(314,520)	–	–
Allowances for losses on loans and financing		(709,398)	(537,093)	–	–
Impairment (losses)/gains	5	(70,415)	10,186	–	(102,520)
Operating profit/(loss)		1,097,988	1,046,300	33,577	(65,986)
Finance costs	6	(590,017)	(569,864)	(24,728)	(14,213)
Share of profit/(loss) of associates		6,330	(10,181)	–	–
Share of profit of jointly controlled entities		4,408	3,598	–	–
Profit/(loss) before tax	7	518,709	469,853	8,849	(80,199)
Income tax expense	10	(262,292)	(156,962)	(9,930)	(11,199)
Profit/(loss) after tax from continuing operations		256,417	312,891	(1,081)	(91,398)
Discontinued Operation					
Loss for the year from discontinued operation	11	(902)	(130,181)	–	–
Profit/(loss) for the year		255,515	182,710	(1,081)	(91,398)
Attributable to:					
Equity holders of the Company		6,865	(117,987)	(1,081)	(91,398)
Minority interests		248,650	300,697	–	–
		255,515	182,710	(1,081)	(91,398)
Earnings per share attributable to equity holders of the Company (sen):					
For profit from continuing operations	12	2.35	3.70		
For loss from discontinuing operation	12	(0.27)	(39.51)		
For profit/(loss) for the year		2.08	(35.81)		

The accompanying notes form an integral part of the financial statements.

BALANCE SHEETS
as at 31 December 2006

	Note	Group 2006 RM'000	Group 2005 RM'000 (Restated)	Company 2006 RM'000	Company 2005 RM'000
ASSETS					
Non-current assets					
Property, plant and equipment	14	1,012,911	1,091,098	18,664	4,043
Land held for property development	15(a)	39,862	39,269	–	–
Investment properties	16	2,011	2,641	–	–
Intangible assets	17	10,307	8,366	–	–
Goodwill on consolidation	18	1,037,145	1,051,027	–	–
Investments in subsidiaries	19	–	–	1,056,898	1,054,898
Investments in associates	20	291,783	283,089	–	–
Investments in jointly controlled entities	21	8,868	5,583	–	–
Securities available-for-sale	22	6,269,840	2,161,637	–	–
Securities held-to-maturity	23	13,022,152	13,827,110	–	–
Deferred tax assets	24	254,801	247,658	–	–
		21,949,680	18,717,478	1,075,562	1,058,941
Current assets					
Property development costs	15(b)	145,825	146,537	–	–
Real property assets	25	392,000	421,787	–	–
Inventories	26	41,231	90,078	–	–
Amount due from customers on contracts	27	12,585	16,920	–	–
Statutory deposits	28	1,905,043	1,695,831	–	–
Securities held-for-trading	29	5,160,642	3,368,967	–	–
Short term investments	30	763	343	–	–
Amount due from subsidiaries	31	–	–	490,675	441,365
Trade and other receivables	32	1,007,574	857,760	72,919	18,477
Derivative assets	33	169,619	48,234	–	–
Clients' and brokers' balances	34	177,027	162,220	–	–
Loans, advances and financing	35	53,392,886	48,348,756	–	–
Deposits and placements with banks and other financial institutions	36	5,596,849	2,620,331	–	–
Securities purchased under resale agreements		2,691,541	2,219,491	–	–
Cash and bank balances	37	10,708,210	11,482,648	88,606	142,086
		81,401,795	71,479,903	652,200	601,928
Assets classified as held for sale	11	58,818	–	–	–
		81,460,613	71,479,903	652,200	601,928
TOTAL ASSETS		103,410,293	90,197,381	1,727,762	1,660,869

The accompanying notes form an integral part of the financial statements.

	Note	Group 2006 RM'000	Group 2005 RM'000 (Restated)	Company 2006 RM'000	Company 2005 RM'000
EQUITY AND LIABILITIES					
Equity attributable to equity holders of the Company					
Share capital	38	329,446	329,446	329,446	329,446
Share premium	38	427,513	427,513	427,513	427,513
Other reserves	39	122,377	100,743	181,037	181,037
(Accumulated losses)/retained earnings	40	(27,858)	(4,251)	64,377	77,318
		851,478	853,451	1,002,373	1,015,314
Minority interests		1,810,233	1,599,053	–	–
Total equity		2,661,711	2,452,504	1,002,373	1,015,314
Non-current liabilities					
Borrowings	41	2,659,148	3,057,567	365,909	257,128
Deferred tax liabilities	24	39,692	25,987	200	–
		2,698,840	3,083,554	366,109	257,128
Current liabilities					
Deposits from customers	44	57,334,363	49,721,544	–	–
Deposits and placements of banks and financial institutions	45	11,577,118	11,028,831	–	–
Obligations on securities sold under repurchase agreements		14,975,669	10,942,799	–	–
Bills and acceptances payables		3,778,758	3,313,060	–	–
Clients' and brokers' balances	46	251,372	198,490	–	–
Trade and other payables	47	2,107,171	1,894,919	1,417	2,584
Amount due to customers on contracts	27	10,038	10,775	–	–
Amount due to subsidiaries	31	–	–	275,762	308,267
Derivative liabilities	33	310,737	121,326	–	–
Recourse obligation on loans sold to Cagamas Berhad		2,879,284	3,356,992	–	–
Borrowings	41	1,915,571	1,202,670	82,101	77,576
Subordinated obligations	48	1,493,158	1,530,252	–	–
Irredeemable Convertible Unsecured Loan Stocks	49	197,844	204,363	–	–
Irredeemable Non-Cumulative Convertible Preference Shares	50	1,104,469	1,104,469	–	–
Current tax payable		100,190	30,833	–	–
		98,035,742	84,661,323	359,280	388,427
Liabilities directly associated with assets classified as held for sale	11	14,000	–	–	–
		98,049,742	84,661,323	359,280	388,427
Total liabilities		100,748,582	87,744,877	725,389	645,555
TOTAL EQUITY AND LIABILITIES		103,410,293	90,197,381	1,727,762	1,660,869

The accompanying notes form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2006

		< ------------- Attributable to equity holders of the Company ------------ >					Minority interests	Total equity
		Non-Distributable						
	Note	Share capital (Note 38) RM'000	Share premium (Note 38) RM'000	Other reserves (Note 39) RM'000	Accumulated losses RM'000	Total RM'000	RM'000	RM'000
At 1 January 2006								
As previously stated		329,446	427,513	99,495	(6,719)	849,735	666,693	1,516,428
Effects of adopting FRS 127	2.3(d)	–	–	1,248	2,468	3,716	932,360	936,076
At 1 January 2006 (restated)		329,446	427,513	100,743	(4,251)	853,451	1,599,053	2,452,504
Effects of adopting FRS 3	2.3(a)(ii)	–	–	(53)	53	–	–	–
		329,446	427,513	100,690	(4,198)	853,451	1,599,053	2,452,504
(Loss)/gain from conversion of RHB ICULS by minority interests		–	–	(1,113)	1,702	589	(1,584)	(995)
Currency translation differences		–	–	(1,167)	31	(1,136)	(14,379)	(15,515)
Exercise of call warrants 2003/2007		–	–	(276)	123	(153)	3,994	3,841
Unrealised net gain on revaluation of securities AFS		–	–	6,771	–	6,771	47,470	54,241
Net transfer to income statement on disposal or impairment		–	–	(1,676)	–	(1,676)	(9,816)	(11,492)
Increase in investment in an associate		–	–	–	–	–	(10)	(10)
Transfer in respect of liquidation of subsidiary		–	–	–	–	–	(257)	(257)
Deferred tax		–	–	(1,373)	–	(1,373)	(9,906)	(11,279)
Transfer in respect of disposal of land		–	–	(217)	217	–	–	–
Net income/(expense) recognised directly in equity		329,446	427,513	101,639	(2,125)	856,473	1,614,565	2,471,038
Profit for the year		–	–	–	6,865	6,865	248,650	255,515
Total recognised income and expense for the year		329,446	427,513	101,639	4,740	863,338	1,863,215	2,726,553
Transfer in respect of statutory requirements		–	–	20,738	(20,738)	–	–	–
Dividends	13	–	–	–	(11,860)	(11,860)	–	(11,860)
Dividends of minority interests		–	–	–	–	–	(52,931)	(52,931)
Additional investment in a subsidiary		–	–	–	–	–	(100)	(100)
Issue of shares		–	–	–	–	–	49	49
At 31 December 2006		329,446	427,513	122,377	(27,858)	851,478	1,810,233	2,661,711

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2006

	Note	< -------------- Attributable to equity holders of the Company				------------ >	Minority interests	Total equity
		Non-Distributable						
		Share capital (Note 38)	Share premium (Note 38)	Other reserves (Note 39)	Accumulated losses	Total		
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2005								
As previously stated		329,446	427,513	59,628	137,556	954,143	676,746	1,630,889
Effects of adopting FRS 127	2.3(d)	–	–	28,355	1,325	29,680	683,967	713,647
At 1 January 2005 (restated)		329,446	427,513	87,983	138,881	983,823	1,360,713	2,344,536
Currency translation differences		–	–	(1,143)	–	(1,143)	(13,757)	(14,900)
Unrealised net gain on revaluation of securities AFS		–	–	(2,240)	–	(2,240)	(25,235)	(27,475)
Net transfer to income statement on disposal or impairment		–	–	3,206	–	3,206	44,462	47,668
Transfer in respect of liquidation of an associate		–	–	–	–	–	5,313	5,313
Changes in equity interest in subsidiaries		–	–	–	–	–	3,566	3,566
Deferred tax		–	–	(348)	–	(348)	(6,311)	(6,659)
Fair value adjustment on assets acquired in previous financial year		–	–	–	–	–	511	511
Net income recognised directly in equity		329,446	427,513	87,458	138,881	983,298	1,369,262	2,352,560
(Loss)/profit for the year		–	–	–	(117,987)	(117,987)	300,697	182,710
Total recognised income and expense for the year		329,446	427,513	87,458	20,894	865,311	1,669,959	2,535,270
Transfer in respect of statutory requirements		–	–	13,285	(13,285)	–	–	–
Dividends	13	–	–	–	(11,860)	(11,860)	–	(11,860)
Dividends of subsidiaries		–	–	–	–	–	(70,955)	(70,955)
Issue of shares		–	–	–	–	–	49	49
At 31 December 2005		329,446	427,513	100,743	(4,251)	853,451	1,599,053	2,452,504

COMPANY STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2006

	Note	< ----------- Non-Distributable			------------- >	Distributable	
		Share capital (Note 38) RM'000	Share premium (Note 38) RM'000	Capital reserve (Note 39) RM'000	Merger reserve RM'000	Retained earnings (Note 40) RM'000	Total equity RM'000
At 1 January 2006		329,446	427,513	13,037	168,000	77,318	1,015,314
Loss for the year, representing total recognised income and expense for the year		–	–	–	–	(1,081)	(1,081)
Dividends	13	–	–	–	–	(11,860)	(11,860)
At 31 December 2006		329,446	427,513	13,037	168,000	64,377	1,002,373
At 1 January 2005		329,446	427,513	13,037	168,000	180,576	1,118,572
Loss for the year, representing total recognised income and expense for the year		–	–	–	–	(91,398)	(91,398)
Dividends	13	–	–	–	–	(11,860)	(11,860)
At 31 December 2005		329,446	427,513	13,037	168,000	77,318	1,015,314

The accompanying notes form an integral part of the financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2006

	Note	2006 RM'000	2005 RM'000
Cash flows from operating activities			
Profit/(loss) before tax			
Continuing operations		518,709	469,853
Discontinued operation		(902)	(130,309)
Adjustments for:			
Accretion of discount for borrowings and subordinated obligations		1,998	1,505
Allowances for losses on loans and financing		787,049	679,615
Amortisation of goodwill	7, 11	–	12,570
Amortisation of government grants	7	(223)	–
Amortisation of premium less accretion of discount		(15,572)	(12,448)
Amortisation of transaction costs	7	266	–
Bad debts written off net of recoveries	7	20	868
Depreciation of investment properties	7	41	50
Depreciation of property, plant and equipment	7, 11	117,281	140,974
Discount on acquisition of additional equity in subsidiary		(52)	–
Dividend income		(9,225)	(6,439)
Gain arising from sale/redemption of securities		(83,209)	(164,036)
Gain on disposal of investment properties	7	(500)	–
Gain on disposal of property, plant and equipment	7, 11	(4,422)	(5,155)
Gain on disposal of real property assets	7	–	(4,601)
Impairment/(reversal) of real property assets	5	29,804	(95,998)
Impairment loss on securities	5	36,123	84,447
Impairment of assets	5, 11	477	101,365
Impairment of goodwill	5, 11	4,011	14,753
Interest expense	7, 11	2,692,353	2,096,187
Interest income	7, 11	(4,323,877)	(3,430,560)
Interest suspended		107,850	77,756
Loss on liquidation of associate	7	–	7,440
Property, plant and equipment written off	7	215	396
Provision for bad and doubtful debts	7, 11	2,587	278
Provision for diminution in value of investment		–	78
(Reversal)/amortisation of intangible assets	7	(639)	701
(Reversal)/provision for termination benefits	11	(912)	3,000
Share of (profit)/loss of associates		(6,330)	10,181
Share of profit of jointly controlled entities		(4,408)	(3,598)
Unrealised foreign exchange (gain)/loss		(91,100)	11,818
Unrealised loss on revaluation of securities available-for-trading		63,390	20,963
Operating loss before working capital changes		(179,197)	(118,346)
(Increase)/decrease in operating assets:			
Property development costs		712	(5,224)
Inventories		43,595	(18,018)
Amount due from customers on contracts		4,551	(4,538)
Investment		(420)	1,030
Statutory deposits		(209,212)	(271,450)
Receivables		50,455	(3,562)
Clients' and brokers' balances		(14,807)	40,513
Loans, advances and financing		(5,868,021)	(5,153,807)
Securities held-for-trading		(1,699,225)	(1,597,344)
Deposits and placements with banks and other financial institutions		(2,976,518)	(2,071,164)
Securities purchased under resale agreement		(472,050)	(2,179,033)
(Decrease)/increase in operating liabilities:			
Deposits from customers		7,612,806	(433,685)
Deposits and placement of banks and financial institutions		548,287	3,904,889
Obligations on securities sold under repurchase agreements		4,032,870	2,998,158
Payables		800,844	959,410
Clients' and brokers' balances		52,882	(99,044)
Recourse obligation on loans sold to Cagamas Berhad		(477,708)	(9,859)
Cash generated from/(used in) operations		1,249,844	(4,061,074)

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2006

	Note	2006 RM'000	2005 RM'000
Cash flows from operating activities (contd)			
Interest received		3,976,420	3,240,636
Interest paid		(2,692,353)	(2,096,187)
Taxes paid net of refund		(140,759)	(146,632)
Net cash generated from/(used in) operating activities		2,393,152	(3,063,257)
Cash flows from investing activities			
Net (purchase)/sale of securities		(3,322,039)	1,690,257
Net proceeds from disposal of real property assets		–	102,594
Dividends from investments		6,647	4,637
Purchase of property, plant and equipment		(104,056)	(94,247)
Proceeds from disposal of investment properties		1,094	–
Purchase of investment properties		(5)	–
Proceeds from disposal of property, plant and equipment		17,153	11,511
Net cash outflow arising from acquisition of subsidiary		(49)	(35,716)
Capital repayment upon liquidation of an associate		–	4,025
Capital repayment upon liquidation of securities AFS		–	12
Expenses incurred on intangible assets		(1,301)	(946)
Investment in associates		(4,030)	(20)
Dividend received from associates		1,656	4,029
Expenditure incurred on land held for development		(593)	(189)
Investment in jointly controlled entities		–	(2,455)
Distribution of profit from jointly controlled entities		1,123	1,280
Net cash (used in)/generated from investing activities		(3,404,400)	1,684,772
Cash flows from financing activities			
Net proceeds from/(repayments of) borrowings		209,050	(430,064)
Proceeds from bonds		340,900	592,275
Redemption of bonds		(375,000)	(325,000)
Proceeds from issuance of CMS Income Securities		131,330	167,128
Dividends paid to shareholders of the Company		(11,860)	(11,860)
Dividends paid to minority interests in subsidiary companies		(52,931)	(70,953)
Proceeds from exercise of call warrants		5,920	–
Proceeds from issuance of shares to minority interests		49	49
Net cash generated from/(used in) financing activities		247,458	(78,425)
Net decrease in cash and cash equivalents		(763,790)	(1,456,910)
Cash and cash equivalents at the beginning of the year		11,471,841	12,928,751
Cash and cash equivalents at the end of the year	37	10,708,051	11,471,841
The following cash and cash equivalents are not readily available for use by the Group:			
Cash and short term funds of banking subsidiaries for utilisation in the ordinary course of banking business		10,521,105	11,265,806
Accounts held in trust for clients and remisiers		98,602	57,079
Sinking fund accounts		51,454	31,722
Deposits pledged to licensed banks		16,802	35,597
		10,687,963	11,390,204

The accompanying notes form an integral part of the financial statements.

	Note	2006 RM'000	2005 RM'000
Cash flows from operating activities			
Profit/(loss) before tax		8,849	(80,199)
Adjustments for:			
Amortisation of transaction costs	6	266	–
Depreciation of property, plant and equipment	7	729	1,272
Gross dividend income	7	(56,371)	(61,914)
Gain on disposal of property, plant and equipment	7	(28)	(50)
Impairment in value of investment in a subsidiary	7	–	102,520
Interest expense	7	37,420	25,967
Interest income	7	(7,325)	(3,431)
Property, plant and equipment written off	7	3	–
Operating loss before working capital changes		(16,457)	(15,835)
(Increase)/decrease in receivables		(2,689)	398
Decrease in payables		(1,166)	(1,091)
Increase in amount due from subsidiaries		(81,815)	(32,332)
Cash used in operations		(102,127)	(48,860)
Interest received		7,325	3,431
Interest paid		(49,513)	(25,967)
Taxes refunded		5,675	8,322
Net cash used in operating activities		(138,640)	(63,074)
Cash flows from investing activities			
Dividends received		40,588	44,614
Purchase of property, plant and equipment		(15,355)	(1,043)
Proceeds from disposal of property, plant and equipment		30	55
Investment in subsidiaries		(2,000)	(23,776)
Net cash generated from investing activities		23,263	19,850
Cash flows from financing activities			
Proceeds from issuance of CMS Income Securities		131,330	167,128
Proceeds from term loan and revolving credits		–	35,269
Repayment of term loans		(55,000)	(20,000)
Dividends paid to shareholders of the Company		(11,860)	(11,860)
Net cash generated from financing activities		64,470	170,537
Net (decrease)/increase in cash and cash equivalents		(50,907)	127,313
Cash and cash equivalents at the beginning of the year		139,510	12,197
Cash and cash equivalents at the end of the year	37	88,603	139,510

The accompanying notes form an integral part of the financial statements.

1. CORPORATE INFORMATION

The Company is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Main Board of Bursa Malaysia Securities. The registered office is located at Level 6, Wisma Mahmud, Jalan Sungai Sarawak, 93100 Kuching, Sarawak.

The Company is principally an investment holding company. It also provides centralised treasury and administrative services to the Group. The principal activities of the subsidiaries are set out in Note 19 of the financial statements. There have been no significant changes in the nature of the principal activities during the financial year except for the discontinuance of CMS Steel Berhad ("CMS Steel") as disclosed in Note 11 to the financial statements.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 18 April 2007.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements comply with the provisions of the Companies Act, 1965, and applicable MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities together with directives and guidelines issued by Bank Negara Malaysia ("BNM"). At the beginning of the current financial year, the Group and the Company had adopted new and revised FRSs which are mandatory for financial periods beginning on or after 1 January 2006 as described fully in Note 2.3.

The financial statements of the Group and of the Company have also been prepared on a historical cost basis except as disclosed in the significant accounting policies.

The financial statements of the Group incorporate all activities relating to the Islamic Banking business undertaken by the banking subsidiaries in compliance with Shariah principles.

The preparation of financial statements in conformity with the provisions of the Companies Act, 1965, FRSs, applicable MASB approved accounting standards in Malaysia for Entities Other Than Private Entities and BNM's guidelines require the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements, and the reported amounts of revenues and expenses during the reported year. It also requires Directors to exercise their judgement in the process of applying the Company's accounting policies. Although these estimates are based on the Directors' best knowledge of current events and actions, actual results may differ from estimates.

Critical accounting estimates and assumptions used that are significant to the financial statements, and areas involving a higher degree of judgement and complexity are disclosed in Note 2.5 to the financial statements.

The financial statements are presented in Ringgit Malaysia ("RM") and all values are rounded to the nearest thousand (RM'000) except when otherwise indicated.

2.2 Summary of significant accounting policies

a. Subsidiaries and basis of consolidation

i. Subsidiaries

Subsidiaries are entities over which the Group has ability to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has such power over another entity.

In the Company's separate financial statements, investments in subsidiaries are stated at cost less impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

ii. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the balance sheet date. The financial statements of the subsidiaries are prepared for the same reporting date as the Company.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. In preparing the consolidated financial statements, intragroup balances, transactions and unrealised gains or losses are eliminated in full. Uniform accounting policies are adopted in the consolidated financial statements for like transactions and events in similar circumstances.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD)

2.2 Summary of significant accounting policies (contd)

a. Subsidiaries and basis of consolidation (contd)

ii. Basis of consolidation (contd)

Acquisitions of subsidiaries are accounted for using the purchase method. The purchase method of accounting involves allocating the cost of the acquisition to the fair value of the assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The cost of an acquisition is measured as the aggregate of the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued, plus any costs directly attributable to the acquisition.

Acquisitions of subsidiaries which meet the criteria for merger are accounted for using merger accounting principles. When the merger method is used, the cost of investment in the Company's books is recorded at cost which is the fair value of shares at the date of the change and the difference between the carrying value of the investment and the fair value of shares acquired is treated as merger reserve or merger deficit. The results of the companies being merged are included as if the merger had been effected throughout the current and previous financial years.

Any excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities represents goodwill. Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in profit or loss.

Minority interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group. It is measured at the minorities' share of the fair value of the subsidiaries' identifiable assets and liabilities at the acquisition date and the minorities' share of changes in the subsidiaries' equity since then.

b. Associates

Associates are entities in which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not in control or joint control over those policies.

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting. Under the equity method, the investment in associate is carried in the consolidated balance sheet at cost adjusted for post-acquisition changes in the Group's share of net assets of the associate. The Group's share of the net profit or loss of the associate is recognised in the consolidated profit or loss. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of such changes. In applying the equity method, unrealised gains and losses on transactions between the Group and the associate are eliminated to the extent of the Group's interest in the associate. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate. The associate is equity accounted for from the date the Group obtains significant influence until the date the Group ceases to have significant influence over the associate.

Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. Any excess of the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the Group's share of the associate's profit or loss in the period in which the investment is acquired.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any long-term interests that, in substance, form part of the Group's net investment in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The most recent available financial statements of the associates are used by the Group in applying the equity method. Where the dates of the audited financial statements used are not coterminous with those of the Group, the share of results is arrived at from the last audited financial statements available and management financial statements to the end of the accounting period. Uniform accounting policies are adopted for like transactions and events in similar circumstances.

In the Company's separate financial statements, investments in associates are stated at cost less impairment losses.

On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

Unrealised gains on transactions between the Group and the associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are eliminated unless costs cannot be recovered.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD)

2.2 Summary of significant accounting policies (contd)

c. Jointly controlled entities

The Group has an interest in a joint venture which is a jointly controlled entity. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest.

Investments in jointly controlled entities are accounted for in the consolidated financial statements using the equity method of accounting as described in Note 2.2(b).

In the Company's separate financial statements, investments in jointly controlled entities are stated at cost less impairment losses.

On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

d. Intangible assets

i. Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following the initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but instead, it is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

ii. Research and development costs

All research costs are recognised in the profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditures which do not meet these criteria are expensed when incurred.

Development costs, considered to have finite useful lives, are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding ten years. Impairment is assessed whenever there is an indication of impairment and the amortisation period and method are also reviewed at least at each balance sheet date.

iii. Computer software

Computer software acquired separately is measured on initial recognition at cost. Following initial recognition, the computer software is carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful life of the computer software is amortised on a straight-line basis over the estimated economic useful life of three to ten years and assessed for impairment whenever there is an indication that the computer software may be impaired. The amortisation period and the amortsation method for the computer software are reviewed at least at each balance sheet date.

e. Property, plant and equipment and depreciation

All items of property, plant and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Subsequent to recognition, property, plant and equipment except for freehold land are stated at cost less accumulated depreciation and any accumulated impairment losses.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD)

2.2 Summary of significant accounting policies (contd)

e. Property, plant and equipment and depreciation (contd)

Leasehold land and buildings are stated at revalued amount, which is the fair value at the date of the revaluation less any accumulated impairment losses. Fair value is determined from market-based evidence by appraisal that is undertaken by professionally qualified valuers. Freehold, leasehold land and buildings of the Group have not been revalued since they were revalued in 1996. The Directors have not adopted a policy of regular revaluations of such assets and no later valuation has been recorded. As permitted under the transitional provisions of IAS 16 (Revised): Property, Plant and Equipment, these assets continue to be stated at their 1996 valuation less accumulated depreciation. The above transitional provisions are available only on the first application of the MASB Approved Accounting Standard IAS 16 (Revised): Property, Plant and Equipment which is effective for periods ending on or after 1 September 1998. By virtue of this transitional provision, an entity that had recorded its property, plant and equipment at revalued amounts but had not adopted a policy of revaluation has been allowed to continue carrying those assets on the basis of their previous revaluations subject to continuity in its depreciation policy and the requirement to write down the assets to their recoverable amounts for impairment adjustments. The transitional provisions will remain in force until and unless the entity chooses to adopt a revaluation policy in place of a cost policy. When that happens, FRS 116 (which supersedes IAS 16) would require revaluations to be carried out at regular intervals. Any revaluation surplus is credited to the revaluation reserve included within equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss to the extent of the decrease previously recognised. A revaluation deficit is first offset against unutilised previously recognised revaluation surplus in respect of the same asset and the balance is thereafter recognised in profit or loss. Upon disposal or retirement of an asset, any revaluation reserve relating to the particular asset is transferred directly to retained earnings.

Freehold land has an unlimited useful life and therefore is not depreciated. Leasehold land is depreciated over the period of the respective leases which range from 60 years to 999 years. Buildings-in-progress are also not depreciated as these assets are not available for use. Depreciation of other property, plant and equipment is provided for on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life, at the following annual rates:

Buildings, jetty, roads and drainage	2% or over the period of lease whichever is shorter
Plant and machinery	1% to 25%
Office equipment and motor vehicles	5% to 33 1/3%

The residual values, useful life and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any and the net carrying amount is recognised in profit or loss and the unutilised portion of the revaluation surplus on that item is taken directly to retained earnings.

f. Investment properties

Investment properties are properties which are held either to earn rental income or for capital appreciation or both. These include land held for a currently undetermined future use. Properties that are occupied by the companies in the Group are accounted for as owner-occupied rather than as investment properties. Investment properties are stated at cost less accumulated depreciation and impairment losses consistent with the accounting policies for property, plant and equipment as stated in Note 2.2(e).

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year in which they arise.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD)

2.2 Summary of significant accounting policies (contd)

g. Land held for property development and property development costs

i. Land held for property development

Land held for property development consists of land where no development activities have been carried out or where development activities are not expected to be completed within the normal operating cycle. Such land is classified within non-current assets and is stated at cost less any accumulated impairment losses.

Land held for property development is reclassified as property development costs at the point when development activities have commenced and where it can be demonstrated that the development activities can be completed within the normal operating cycle.

ii. Property development costs

Property development costs comprise all costs that are directly attributable to development activities or that can be allocated on a reasonable basis to such activities.

When the financial outcome of a development activity can be reliably estimated, property development revenue and expenses are recognised in the income statement by using the stage of completion method. The stage of completion is determined by the proportion that property development costs incurred for work performed to date bear to the estimated total property development costs.

Where the financial outcome of a development activity cannot be reliably estimated, property development revenue is recognised only to the extent of property development costs incurred that is probable will be recoverable, and property development costs on properties sold are recognised as an expense in the period in which they are incurred.

Any expected loss on a development project, including costs to be incurred over the defects liability period, is recognised as an expense immediately.

Property development costs not recognised as an expense are recognised as an asset, which is measured at the lower of cost and net realisable value.

The excess of revenue recognised in the income statement over billings to purchasers is classified as accrued billings within trade receivables and the excess of billings to purchasers over revenue recognised in the income statement is classified as progress billings within trade payables.

h. Construction and service contracts

Where the outcome of a construction or service contract can be estimated reliably, contract revenue and contract costs are recognised as revenue and expenses respectively by using the stage of completion method. The stage of completion is measured by reference to the proportion of contract costs incurred for work performed to date to the estimated total contract costs.

Where the outcome of a construction or service contract cannot be reliably estimated, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When the total of costs incurred on construction or service contracts plus, recognised profits (less recognised losses), exceed progress billings, the balance is classified as amount due from customers on contracts. When progress billings exceed costs incurred plus, recognised profits (less recognised losses), the balance is classified as amount due to customers on contracts.

i. Impairment of non-financial assets

The carrying amounts of assets, other than investment properties, construction contract assets, property development costs, inventories, deferred tax assets and non-current assets held for sale, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss.

For goodwill, intangible assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date or more frequently when indicators of impairment are identified.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD)

2.2 Summary of significant accounting policies (contd)

i. Impairment of non-financial assets (contd)

For the purpose of impairment testing of these assets, recoverable amount is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs to. Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGUs, or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

An impairment loss is recognised in profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for as a revaluation decrease to the extent that the impairment loss does not exceed the amount held in the asset revaluation reserve for the same asset.

Impairment loss on goodwill is not reversed in a subsequent period. An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset other than goodwill is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset other than goodwill is recognised in profit or loss, unless the asset is carried at revalued amount, in which case, such reversal is treated as a revaluation increase.

j. Inventories

Inventories are stated at lower of cost and net realisable value.

Cost is determined using the weighted average and first in, first out method. The cost of raw materials comprises costs of purchase. The costs of finished goods and work-in-progress comprise costs of raw materials, direct labour, other direct costs and appropriate proportions of manufacturing overheads based on normal operating capacity. The cost of unsold properties comprises cost associated with the acquisition of land, direct costs and appropriate proportions of common costs.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

k. Financial instruments

Financial instruments are recognised in the balance sheet when the Group has become a party to the contractual provisions of the instrument.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends and gains and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are recognised directly in equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

i. Cash and cash equivalents

For the purposes of the cash flow statements, cash include cash on hand and at bank, deposit at call and short term highly liquid investments which have an insignificant risk of changes in value, net of outstanding basis overdrafts.

ii. Other non-current investments

Non-current investments other than investments in subsidiaries, associates, jointly controlled entities and investment properties are stated at cost less impairment losses. On disposal of an investment, the difference between net disposal proceeds and its carrying amount is recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD)

2.2 Summary of significant accounting policies (contd)

k. Financial instruments (contd)

iii. Marketable securities

Marketable securities are carried at the lower of cost and market value, determined on an aggregate basis. Cost is determined on the weighted average basis while market value is determined based on quoted market values. Increases or decreases in the carrying amount of marketable securities are recognised in profit or loss. On disposal of marketable securities, the difference between net disposal proceeds and the carrying amount is recognised in profit or loss.

iv. Trade receivables

Trade receivables are carried at anticipated realisable values. Bad debts are written-off when identified. An estimate is made for doubtful debts based on a review of all outstanding amounts as at the balance sheet date.

v. Trade payables

Trade payables are stated at the fair value of the consideration to be paid in the future for goods and services received.

vi. Interest bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

vii. Income securities

The Income Securities, which are recognised as financial liabilities are measured initially at its fair value, which is the amount of proceeds received.

In subsequent periods, the Income Securities are measured at amortised cost using the effective interest method.

The amortised cost of the Income Securities is the amount at which the Income Securities are measured at the initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount.

The effective interest method is the rate that exactly discounts estimated future cash payments through the expected life of the Income Securities. When calculating the effective interest method, the Group has estimated cash flows considering all contractual terms of the Income Securities.

The amortised expense of the Income Securities, applying the effective interest method, is recognised in the income statement as finance costs in the period in which they are incurred.

viii. Equity instruments

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

l. Leases

i. Classification

A lease is recognised as a finance lease if it transfers substantially to the Group all the risks and rewards incidental to ownership.

ii. Finance leases – the Group as lessee

Assets acquired by way of hire purchase or finance leases are stated at an amount equal to the lower of their fair values and the present value of the minimum lease payments at the inception of the leases, less accumulated depreciation and impairment losses. The corresponding liability is included in the balance sheet as borrowings. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Company's incremental borrowing rate is used. Any initial direct costs are also added to the carrying amount of such assets.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD)

2.2 Summary of significant accounting policies (contd)

l. Leases (contd)

ii. Finance leases – the Group as lessee (contd)

Lease payments are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are recognised in the profit or loss over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

The depreciation policy for leased assets is in accordance with that for depreciable property, plant and equipment as described in Note 2.2(e).

iii. Operating leases – the Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

m. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

n. Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred tax is provided for, using the liability method. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised as income or an expense and included in the profit or loss for the period, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also recognised directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or the amount of any excess of the acquirer's interest is the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the combination.

o. Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Provision for restructuring costs is recognised when a detailed and formal restructuring plan has been approved, and the restructuring has either commenced or has been announced publicly. Costs relating to ongoing activities are not provided for.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD)

2.2 Summary of significant accounting policies (contd)

p. Employee benefits

i. Short term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees.

ii. Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities or funds and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years. Such contributions are recognised as an expense in the profit or loss as incurred. As required by law, companies in Malaysia make such contributions to the Employees Provident Fund ("EPF"). Some of the Group's foreign subsidiaries also make contributions to their respective countries' statutory pension schemes.

iii. Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits as a liability and an expense when it is demonstrably committed to either terminate the employment of current employees according to a detailed plan without possibility of withdrawal.

q. Foreign currencies

i. Functional and presentation currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Ringgit Malaysia (RM), which is also the Company's functional currency.

ii. Foreign currency transactions

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded in the functional currencies using the exchange rates prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in profit or loss for the period except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operation. Exchange differences arising on monetary items that form part of the Group's net investment in foreign operation, where that monetary item is denominated in either the functional currency of the reporting entity or the foreign operation, are initially taken directly to the foreign currency translation reserve within equity until the disposal of the foreign operations, at which time they are recognised in profit or loss. Exchange differences arising on monetary items that form part of the Group's net investment in foreign operation, where that monetary item is denominated in a currency other than the functional currency of either the reporting entity or the foreign operation, are recognised in profit or loss for the period. Exchange differences arising on monetary items that form part of the Company's net investment in foreign operation, regardless of the currency of the monetary item, are recognised in profit or loss in the Company's financial statements or the individual financial statements of the foreign operation, as appropriate.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the period except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in equity. Exchange differences arising from such non-monetary items are also recognised directly in equity.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD)

2.2 Summary of significant accounting policies (contd)

q. Foreign currencies (contd)

iii. Foreign operations

The results and financial position of foreign operations that have a functional currency different from the presentation currency (RM) of the consolidated financial statements are translated into RM as follows:

– Assets and liabilities for each balance sheet presented are translated at the closing rate prevailing at the balance sheet date;

– Income and expenses for each income statement are translated at average exchange rates for the year, which approximates the exchange rates at the dates of the transactions; and

– All resulting exchange differences are taken to the foreign currency translation reserve within equity.

Goodwill and fair value adjustments arising on the acquisition of foreign operations on or after 1 January 2006 are treated as assets and liabilities of the foreign operations and are recorded in the functional currency of the foreign operations and translated at the closing rate at the balance sheet date. Goodwill and fair value adjustments which arose on the acquisition of foreign subsidiaries before 1 January 2006 are deemed to be assets and liabilities of the parent company and are recorded in RM at the rates prevailing at the date of acquisition.

r. Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured the following specific recognition criteria must also be met before revenue is recognised:

i. Sale of properties

Revenue from sale of properties is accounted for by the stage of completion method as described in Note 2.2(g)(ii).

ii. Construction and service contracts

Revenue from construction and service contracts is accounted for by the stage of completion method as described in Note 2.2(h).

iii. Road maintenance contract

Revenue from routine maintenance work is based on fixed rates and recognised upon performance of work in accordance with the terms as stipulated in the Road Maintenance Agreement. Revenue from work orders is based on the schedule of rates approved by client.

iv. Sale of goods and services

Revenue is recognised upon transfer of significant risks and rewards of ownership to the buyer. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of consideration due, associated costs or the possible return of goods.

v. Dividend income

Dividend income is recognised when the right to receive payment is established.

vi. Interest income

Interest is recognised on a time proportion basis.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD)

2.2 Summary of significant accounting policies (contd)

s. Non-current assets (or disposal groups) held for sale and discontinued operation

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary.

Immediately before classification as held for sale, the measurement of the non-current assets (or all the assets and liabilities in a disposal group) is brought up-to-date in accordance with applicable FRSs. Then, on initial classification as held for sale, non-current assets or disposal groups (other than investment properties, deferred tax assets, employee benefits assets, financial assets and inventories) are measured in accordance with FRS 5 that is at the lower of carrying amount and fair value less costs to sell. Any differences are included in profit or loss.

A component of the Group is classified as a discontinued operation when the criteria to be classified as held for sale have been met or it has been disposed of and such a component represents a separate major line of business or geographical area of operations, is part of a single co-ordinated major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

t. Government grants

Government grants are recognised initially at their fair value in the balance sheet as deferred income where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Grants that compensate the Group for expenses incurred are recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Grants that compensate the Group for the cost of an assets are recognised as income on a systematic basis over the useful life of the assets.

u. Additional accounting policies relating to the banking subsidiaries

i. Securities

The Group classifies its securities portfolio into securities held-for-trading, securities held-to-maturity or securities available-for-sale ("AFS"). Classification of the securities is determined at initial recognition.

a. Securities held-for-trading

Securities held-for-trading are securities acquired or incurred principally for the purpose of selling or repurchasing in the near term or is part of a portfolio of identified securities that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Securities held-for-trading are stated at fair value at initial recognition. Any gain or loss arising from a change in the fair value or arising from derecognition of such securities is recognised in the income statement.

Interest calculated using the effective interest method is recognised in the income statement.

b. Securities held-to-maturity

Securities held-to-maturity are securities with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. Securities held-to-maturity are measured at fair value at initial recognition and subsequently at amortised cost using the effective interest method. Any gain or loss is recognised in the income statement when the securities are derecognised or impaired and through the amortisation process.

c. Securities AFS

Securities AFS are securities that are not classified as held-for-trading or held-to-maturity. Securities AFS are measured at fair value at initial recognition. Equity instruments that do not have a quoted market price in an active market and where the fair values cannot be reliably measured are stated at cost. Any gain or loss arising from a change in fair value is recognised directly in equity through the statement of changes in equity, except for impairment loss and foreign exchange gain and loss. In the event that the financial assets are derecognised, the cumulative gain or loss previously recognised in equity shall be transferred to the income statement.

Interest calculated using the effective interest method is recognised in the income statement.

Dividends on AFS equity instruments are recognised in the income statement when the right to receive payment has been established.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD)

2.2 Summary of significant accounting policies (contd)

u. Additional accounting policies relating to the banking subsidiaries (contd)

i. Securities (contd)

c. Securities AFS (contd)

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair values using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

For loans converted into debt or equity instruments/impaired securities, the Group shall assess whether there is any objective evidence that the securities or group of securities arising from conversion scheme/other securities are impaired, and the impairment rules shall apply. Refer to accounting policy Note 2.2(u)(xv) on impairment of securities.

ii. Repurchase agreements

Securities purchased under resale agreements are securities which the banking subsidiaries have purchased with a commitment to resell at future dates. The commitment to resell the securities is reflected as an asset on the balance sheet.

Conversely, obligations on securities sold under repurchase agreements are securities which the banking subsidiaries have sold from its portfolio, with a commitment to repurchase at future dates. Such financing and the obligation to repurchase the securities is reflected as a liability on the balance sheet.

iii. Foreclosed properties

Foreclosed properties are stated at cost. Where an indication of impairment exists, the carrying amount of the foreclosed properties is assessed and written down immediately to its recoverable amount.

iv. Real property assets

Real property assets comprise land and the related development expenditure. Real property assets are stated at cost less impairment loss, if any. Where the carrying amount of the asset is greater than its estimated recoverable amount, it is written down to its recoverable amount.

v. Derivative financial instruments and hedge accounting

Derivative financial instruments are initially recognised at fair values on the date on which derivative contracts are entered into and are subsequently remeasured at their fair values. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair values are positive and as liabilities when fair values are negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique which variables include only data from observable markets. When such evidence exists, the Group recognises profits upfront.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge); or (2) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD)

2.2 Summary of significant accounting policies (contd)

u. Additional accounting policies relating to the banking subsidiaries (contd)

v. Derivative financial instruments and hedge accounting (contd)

a. Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains in retained earnings until the disposal of the equity security.

b. Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain and loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect profit or loss (for example, when the forecast sale that is hedged takes place).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

c. Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

vi. Bills and acceptances payable

Bills and acceptances payable represent the banking subsidiaries' own bills and acceptances rediscounted and outstanding in the market.

vii. Recourse obligation on loans sold to Cagamas Berhad ("Cagamas")

In the normal course of commercial banking operations, the commercial banking subsidiaries sell loans to Cagamas but undertake to administer the loans on behalf of Cagamas and to buy back any loans which are regarded as defective based on prudence. Such financing transactions and the obligation to buy back the loans are reflected as a liability on the balance sheet.

For Islamic Banking, the sale of Islamic debt to Cagamas is deemed as a sale and purchase transaction from Shariah point of view. Such financing transactions are netted off with the assets sold on the balance sheet and the obligations to buy back the loans are reflected as assets sold with recourse as commitments and contingencies.

viii. Assets sold under lease

a. Operating lease

When assets are leased under an operating lease, the asset is included in the balance sheet based on the nature of the asset. Lease income is recognised on the term of the lease on a straight-line basis.

b. Finance lease

When assets are leased out under a finance lease, the present value of the lease payment is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the 'sum-of-digits' method so as to reflect a constant periodic rate of return on the balance outstanding.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD)

2.2 Summary of significant accounting policies (contd)

u. Additional accounting policies relating to the banking subsidiaries (contd)

ix. Other provisions

Provisions other than for non-performing debts are recognised when the Group has a present legal or constructive obligation, as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

x. Borrowings

Preference shares which carry a mandatory coupon, or are redeemable on a specific date or at the option of the shareholder, are classified as financial liabilities and are presented in other borrowed funds. The dividends on these preference shares are recognised in the income statement on an amortised cost basis using the effective interest method.

xi. Profit Equalisation Reserve ("PER") on Islamic Banking business

PER on Islamic Banking business refers to the amount appropriated out of the total gross income to mitigate the undesirable fluctuation of income and to maintain a certain level of return to depositors. The amount is provided based on BNM's circular on 'The Framework of The Rate of Return’. PER is shared by both the depositors and the banking subsidiaries and hence can be appropriated from and written back to total gross income in deriving the distributable income. PER is reflected under other liabilities in the balance sheet.

xii. Income recognition

a. Interest income is recognised on accruals basis. Income earned on hire-purchase, block discounting and leasing business is recognised on the 'sum-of-digits' method.

   Where a loan becomes non-performing, interest accrued and recognised as income prior to the date the loans are classified as non-performing are reversed out of the income statement and set off against the accrued interest receivable account in the balance sheet. Subsequently, the interest earned on the non-performing loans shall be recognised as income on a cash basis.

b. Loan arrangement fees, commissions and placement fees are recognised as income when all conditions precedent are fulfilled.

c. Guarantee fees are recognised as income upon issuance of guarantees.

d. Commitment fees are recognised as income based on time apportionment.

e. Income from Islamic Banking business is recognised on accruals basis in accordance with the principles of Shariah.

f. Brokerage commission is recognised when contracts are executed. Interest income from margin financing, clients' overdue outstanding purchases and contra losses are recognised on accruals basis. When an account is classified as non-performing, recognition of interest income is suspended until it is realised on a cash basis.

g. Premium income from general insurance business (net of all reinsurance) is recognised on the date of assumption of risks. Premium in respect of risks incepted, for which policies have not been raised as at the balance sheet date, are accrued at that date.

h. Corporate advisory fees are recognised as income on completion of each stage of the engagement and issuance of invoice.

i Management fees of the unit trust management company are recognised on accruals basis. Sales value of trust units is recognised on the approval of a unitholder's application. Value from the cancellation of trust units is recognised upon approval of the trustee.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD)

2.2 Summary of significant accounting policies (contd)

u. Additional accounting policies relating to the banking subsidiaries (contd)

xiii. Allowance for non-performing debts and financing

Specific allowances are made for non-performing debts and financing which have been individually reviewed and specifically identified as bad, doubtful or substandard.

A general allowance for banking operations based on a percentage of the loan portfolio is also made to cover possible losses which are not specifically identified. A general allowance for securities operations is made based on a percentage of the total amounts due from clients after deducting the amount of interest-in-suspense and specific allowance for bad and doubtful debts. These percentages are reviewed annually in the light of past experience and prevailing circumstances and an adjustment is made on the overall general allowance, if necessary.

An uncollectible loan or portion of a loan classified as bad is written off after taking into consideration the realisable value of collateral, if any, when in the judgement of the management, there is no prospect of recovery.

The basis for classification of non-performing debts and financing follows the period of default for non-performing loans of 3 months. In line with the classification of non-performing debts and financing, during the year, the Group's basis for specific allowance has changed from default period of 6 months to 3 months.

The Group's allowance for non-performing debts and financing is in conformity with the minimum requirements of BNM's guidelines on the Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts ("BNM/GP3"), which is deemed as in conformity with the requirement on the allowance for loan impairment under the BNM.

The stockbroking policy of classifying an account as a non-performing debt is in conformity with the requirements of Chapter 11, Schedule 7, Rule 1104.1 of Rules of the Bursa Securities.

xiv. General insurance

General insurance underwriting surplus before management expenses are determined after accounting for net premium, unearned premium reserves, net claims incurred and net commissions.

Allowances or reserves for unearned premiums are calculated in accordance with the fixed percentage method or time apportionment method, where applicable. Allowance is made for outstanding claims based on the estimated cost of claims, less reinsurance recoveries in respect of claims notified and include claims incurred but not reported at the balance sheet date ("IBNR"). Allowance for IBNR is computed using a mathematical method of estimation and is based on an actuarial valuation carried out by an independent actuarial firm.

xv. Impairment of securities

The Group assesses at each balance sheet date whether there is objective evidence that a security is impaired. A security is impaired and impairment loss are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the securities that can be reliably estimated.

a. Securities carried at amortised cost

If there is objective evidence that an impairment loss on securities held-to-maturity carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a security held-to-maturity has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD)

2.2 Summary of significant accounting policies (contd)

u. Additional accounting policies relating to the banking subsidiaries (contd)

xv. Impairment of securities (contd)

b. Securities carried at fair value

In the case of securities classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised, is removed from equity and recognised in the income statement. Impairment loss recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as securities AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

xvi. Currency translation – transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Changes in the fair value of monetary securities denominated in foreign currency classified as AFS are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as AFS are included in AFS reserve in equity.

2.3 Changes in accounting policies and effects arising from adoption of new and revised FRSs

On 1 January 2006, the Group and the Company adopted the following FRSs mandatory for financial periods beginning on or after 1 January 2006:

FRS 2	Share-based Payment
FRS 3	Business Combinations
FRS 5	Non-current Assets Held for Sale and Discontinued Operations
FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 108	Accounting Policies, Changes in Accounting Estimates and Errors
FRS 110	Events after the Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 128	Investments in Associates
FRS 131	Interests in Joint Ventures
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 133	Earnings Per Share
FRS 136	Impairment of Assets
FRS 138	Intangible Assets
FRS 140	Investment Property

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD)

2.3 Changes in accounting policies and effects arising from adoption of new and revised FRSs (contd)

At the date of authorisation of these financial statements the Group and the Company have not adopted the following FRSs, amendments to FRSs and Interpretations which have effective dates as follows:

FRSs, Amendments to FRSs and Interpretations	Effective for financial periods beginning on or after
FRS 117: Leases	1 October 2006
FRS 124: Related Party Disclosures	1 October 2006
FRS 6: Exploration for and Evaluation of Mineral Resources	1 January 2007
Amendment to FRS 119_{2004} : Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures	1 January 2007
Amendment to FRS 121: The Effects of Changes in Foreign Exchange Rates – Net investments in a Foreign Operation	1 July 2007
IC Interpretation 1: Changes in Existing Decommissioning, Restoration and Similar Liabilities	1 July 2007
IC Interpretation 2: Members' Shares in Co-operative Entities and Similar Instruments	1 July 2007
IC Interpretation 5: Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1 July 2007
IC Interpretation 6: Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment	1 July 2007
IC Interpretation 7: Applying the Restatement Approach under FRS 129_{2004} Financial Reporting in Hyperinflationary Economies	1 July 2007
IC Interpretation 8: Scope of FRS 2	1 July 2007
FRS 139: Financial Instruments – Recognition and Measurement	Effective date deferred

The adoption of Amendment to FRS 119_{2004}, Amendment to FRS 121, IC Interpretations 1, 2, 5, 6, 7 and 8 is not expected to have any significant effects on the financial statements of the Group and of the Company for the years ending 31 December 2007 and 2008. Nevertheless, the accounting policies of the banking subsidiaries incorporate requirements of the revised BNM GP8 which includes selected principles of FRS 139.

The effect of FRS 6 on the financial statements of the Group is as follows:

FRS 6: Exploration for and Evaluation of Mineral Resources
This FRS requires exploration and evaluation assets to be initially measured at cost. Subsequent to initial recognition, the Group could choose to apply either the cost model or the revaluation model and will have to assess for impairment in accordance with FRS 136. The adoption of this FRS will impact the format and extent of disclosures presented in the financial statements. The Group will apply this FRS from financial periods beginning 1 January 2007.

The adoption of revised FRS 2, 102, 108, 110, 121, 128, 131, 132 and 133 does not result in significant changes in accounting policies of the Group. The principal changes in accounting policies and their effects resulting from the adoption of the other new and revised FRSs are discussed below:

a. **FRS 3: Business Combinations, FRS 136: Impairment of Assets and FRS 138: Intangible Assets**
The new FRS 3 has resulted in consequential amendments to two other accounting standards, FRS 136 and FRS 138. In accordance with the transitional provisions, FRS 3 has been applied for business combinations for which the agreement date is on or after 1 January 2006.

   i. **Goodwill**
   Prior to 1 January 2006, goodwill was amortised on a straight-line basis over its estimated useful life of 25 years and at each balance sheet date, the Group assessed if there was any indication of impairment of the cash-generating unit in which the goodwill is attached to. The adoption of FRS 3 and the revised FRS 136 has resulted in the Group ceasing annual goodwill amortisation. Goodwill is now carried at cost less accumulated impairment losses and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD)

2.3 Changes in accounting policies and effects arising from adoption of new and revised FRSs (contd)

a. FRS 3: Business Combinations, FRS 136: Impairment of Assets and FRS 138: Intangible Assets (contd)

i. Goodwill (contd)

In accordance with the transitional provisions of FRS 3, the Group has applied the revised accounting policy for goodwill prospectively from 1 January 2006. The transitional provisions of FRS 3 also required the Group to eliminate the carrying amount of the accumulated amortisation at 1 January 2006 amounting to RM117,254,000 against the carrying amount of goodwill. The net carrying amount of goodwill as at 1 January 2006 of RM193,313,000 ceased to be amortised thereafter.

Because the revised accounting policy has been applied prospectively, the change has had no impact on amounts reported for 2005 or prior periods. The effects on the consolidated balance sheet as at 31 December 2006 and consolidated income statement for the year ended 31 December 2006 are set out in Note 2.3(f)(i) and Note 2.3(f)(ii) respectively. This change has no impact on the Company's financial statements.

ii. Excess of Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as negative goodwill)

Under FRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost of acquisitions, after reassessment, is now recognised immediately in profit or loss. In accordance with the transitional provisions of FRS 3, the negative goodwill as at 1 January 2006 of RM53,000 was derecognised with a corresponding increase in retained earnings.

Because the revised accounting policy has been applied prospectively, the change has had no impact on amounts reported for 2005 or prior periods. The effects on the consolidated balance sheet as at 31 December 2006 and consolidated income statement for the year ended 31 December 2006 are set out in Note 2.3(f)(i) and Note 2.3(f)(ii) respectively. This change has no impact on the Company's financial statements.

iii. Computer software

With the adoption of FRS 138 on 1 January 2006, the Group reclassified computer software, previously classified under property, plant and equipment that meet the identifiability criterion of an intangible asset as part of intangible assets.

The change in presentation has been applied retrospectively and as disclosed in Note 2.3(g), certain comparatives have been restated. The effect on the consolidated balance sheet as at 31 December 2006 are set out in Note 2.3(f)(i). There were no effects on the consolidated income statement for the years ended 31 December 2005 and 2006 and the Company's financial statements.

b. FRS 5: Non-current Assets Held for Sale and Discontinued Operations

Prior to 1 January 2006, non-current assets (or disposal groups) held for sale were neither classified nor presented as current assets or liabilities. There were no differences in the measurement of non-current assets (or disposal groups) held for sale and those for continuing use. Upon the adoption of FRS 5, non-current assets (or disposal groups) held for sale are classified as current assets (and current liabilities, in the case of non-current liabilities included within disposal groups) and are stated at the lower of carrying amount and fair value less costs to sell.

Prior to 1 January 2006, the Group would have recognised a discontinued operation at the earlier of the date the Group enters into a binding sale agreement and the date the Board of Directors approved and announced a formal disposal plan. FRS 5 requires a component of an entity to be classified as a discontinued operation when the criteria to be classified as held for sale have been met or it has been disposed of and such a component represents a separate major line of business or geographical area of operations, is part of a single co-ordinated major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale. The principal impact of this change in accounting policy is that a discontinued operation is recognised by the Group at a later point than it would be under the previous accounting policy due to the stricter criteria in FRS 5.

The Group has applied FRS 5 prospectively in accordance with the transitional provisions. However, as required by FRS 5, certain comparatives of the Group have been re-presented due to the current financial year's discontinued operation in Note 2.3(g). The effects on the consolidated balance sheet as at 31 December 2006 and consolidated income statement for the year ended 31 December 2006 are set out in Note 2.3(f)(i) and Note 2.3(f)(ii) respectively. This change has no impact on the Company's financial statements for the year ended 31 December 2006.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD)

2.3 Changes in accounting policies and effects arising from adoption of new and revised FRSs (contd)

c. FRS 101: Presentation of Financial Statements

Prior to 1 January 2006, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and equity. Upon the adoption of the revised FRS 101, minority interests are now presented within total equity. In the consolidated income statement, minority interests are presented as an allocation of the total profit or loss for the year. A similar requirement is also applicable to the statement of changes in equity. The revised FRS 101 also requires disclosure, on the face of the statement of changes in equity, total recognised income and expenses for the year, showing separately the amounts attributable to equity holders of the Company and to minority interests.

Prior to 1 January 2006, the Group's share of taxation of associates and jointly controlled entities accounted for using the equity method was included as part of the Group's income tax expense in the consolidated income statement. Upon the adoption of the revised FRS 101, the share of taxation of associates and jointly controlled entities accounted for using the equity method are now included in the respective shares of profit or loss reported in the consolidated income statement before arriving at the Group's profit or loss before tax.

These changes in presentation have been applied retrospectively and as disclosed in Note 2.3(g), certain comparatives have been restated. The effects on the consolidated balance sheet as at 31 December 2006 and consolidated income statement for the year ended 31 December 2006 are set out in Note 2.3(f)(i) and Note 2.3(f)(ii) respectively. These changes in presentation have no impact on the Company's financial statements.

d. FRS 127: Consolidated and Separate Financial Statements

The adoption of the revised FRS 127 requires an entity to consider the existence and effect of potential voting rights currently exercisable or convertible when assessing whether it has the power to govern the financial and operating policies of another entity. The intention of management and the financial ability to convert or exercise is excluded, in considering the potential voting power.

As at 31 December 2006, the Group through its subsidiary, Utama Banking Group Berhad owns 238,127,000 ordinary shares of Rashid Hussain Berhad ("RHB"), 449,206,479 units of RHB ICULS-A, 403,471,898 units of RHB ICULS-B and 8,000,000 units of RHB warrants 2001/2007. The Group's shareholding in RHB will increase to 61% if all the RHB ICULS and RHB warrants that it holds are taken into consideration. In view of the above, the Group's financial statements have been prepared based on the line-by-line consolidation of the consolidated financial statements of RHB after taking into consideration the potential voting rights arising from RHB ICULS for the financial year ended 31 December 2006 and restated the comparative figures accordingly.

The comparative figures of the Group have been restated to be in line with the abovementioned FRS as set out in Note 2.3(g).

e. FRS 140: Investment Property

In accordance with FRS 140, investment properties can be valued either using cost or fair value method. The Group has recognised investment properties using the cost method. In prior years, investment properties were included in property, plant and equipment.

Following the adoption of FRS 140, investment properties are now classified separately. The changes in presentation have been restated retrospectively as set out in Note 2.3(g).

The effects on the consolidated balance sheet as at 31 December 2006 are set out in Note 2.3(f)(i). There were no effects on the consolidated income statement for the year ended 31 December 2006 and the Company's financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD)

2.3 Changes in accounting policies and effects arising from adoption of new and revised FRSs (contd)

f. Summary of effects of adopting new and revised FRSs on the current year's financial statements

The following tables provide estimates of the extent to which each of the line items in the balance sheets and income statements for the year ended 31 December 2006 is higher or lower than it would have been had the previous policies been applied in the current year.

i. Effects on balance sheet as at 31 December 2006

Description of changes	FRS 3 Note 2.3 (a)(i) RM'000	FRS 3 Note 2.3 (a)(ii) RM'000	FRS 5 Note 2.3(b) RM'000	FRS 101 Note 2.3(c) RM'000	FRS 127 Note 2.3(d) RM'000	FRS 138 Note 2.3 (a)(iii) RM'000	FRS 140 Note 2.3(e) RM'000	Total RM'000
	< ---------- Increase/(decrease) ---------- >							
Group								
Property, plant and equipment	–	–	(53,566)	–	805,009	(254)	(2,011)	749,178
Investment properties	–	–	–	–	–	–	2,011	2,011
Intangible assets	–	–	–	–	–	254	–	254
Goodwill on consolidation	11,948	–	–	–	847,843	–	–	859,791
Investment in associates	–	–	–	–	(441,080)	–	–	(441,080)
Securities available-for-sale	–	–	–	–	5,088,570	–	–	5,088,570
Securities held-to-maturity	–	–	–	–	13,022,152	–	–	13,022,152
Deferred tax assets	–	–	–	–	254,801	–	–	254,801
Real property assets	–	–	–	–	392,000	–	–	392,000
Inventories	–	–	(5,253)	–	–	–	–	(5,253)
Statutory deposits	–	–	–	–	1,905,043	–	–	1,905,043
Other receivables	–	–	–	–	593,716	–	–	593,716
Tax recoverable	–	–	–	–	104,855	–	–	104,855
Derivative assets	–	–	–	–	169,619	–	–	169,619
Clients' and brokers' balances	–	–	–	–	177,027	–	–	177,027
Loans, advances and financing	–	–	–	–	53,392,886	–	–	53,392,886
Securities held-for-trading	–	–	–	–	5,102,516	–	–	5,102,516
Deposits and placement with banks and other financial institutions	–	–	–	–	5,596,849	–	–	5,596,849
Securities purchased under resale agreements	–	–	–	–	2,691,541	–	–	2,691,541
Cash and bank balances	–	–	–	–	10,542,736	–	–	10,542,736
Assets classified as held for sale	–	–	58,818	–	–	–	–	58,818
Minority interests	–	–	–	–	1,128,333	–	–	1,128,333
Borrowings (non-current liabilities)	–	–	(4,800)	–	2,281,612	–	–	2,276,812
Deferred tax liabilities	–	–	–	–	16,526	–	–	16,526
Deposits from customers	–	–	–	–	57,334,363	–	–	57,334,363

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD)

2.3 Changes in accounting policies and effects arising from adoption of new and revised FRSs (contd)

f. Summary of effects of adopting new and revised FRSs on the current year's financial statements (contd)

i. Effects on balance sheet as at 31 December 2006 (contd)

	< ------	------	------	Increase/(decrease)	------	------	------	------ >
Description of changes	FRS 3 Note 2.3 (a)(i) RM'000	FRS 3 Note 2.3 (a)(ii) RM'000	FRS 5 Note 2.3(b) RM'000	FRS 101 Note 2.3(c) RM'000	FRS 127 Note 2.3(d) RM'000	FRS 138 Note 2.3 (a)(iii) RM'000	FRS 140 Note 2.3(e) RM'000	Total RM'000
Group								
Deposits and placements of banks and financial institutions	–	–	–	–	11,577,118	–	–	11,577,118
Obligation on securities sold under repurchase agreements	–	–	–	–	14,975,669	–	–	14,975,669
Bills and acceptances payables	–	–	–	–	3,778,758	–	–	3,778,758
Clients' and brokers' balances	–	–	–	–	251,372	–	–	251,372
Other payables	–	–	–	–	1,873,340	–	–	1,873,340
Derivative liabilities	–	–	–	–	310,737	–	–	310,737
Recourse obligation on loans sold to Cagamas Berhad	–	–	–	–	2,879,284	–	–	2,879,284
Current tax payable	–	–	–	–	92,105	–	–	92,105
Borrowings (current liabilities)	–	–	(9,200)	–	1,539,993	–	–	1,530,793
Subordinated obligations	–	–	–	–	1,493,158	–	–	1,493,158
Irredeemable Convertible Unsecured Loan Stocks	–	–	–	–	197,844	–	–	197,844
Irredeemable Non-Cumulative Convertible Preference Shares	–	–	–	–	1,104,469	–	–	1,104,469
Liabilities directly associated with assets classified as held for sale	–	–	14,000	–	–	–	–	14,000
Other reserves	–	(53)	–	–	(304,778)	–	–	(304,831)
Retained earnings	–	53	–	–	–	–	–	53
Total equity	–	–	–	1,810,232	–	–	–	1,810,232

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD)

2.3 Changes in accounting policies and effects arising from adoption of new and revised FRSs (contd)

f. Summary of effects of adopting new and revised FRSs on the current year's financial statements (contd)

ii. Effects on income statement for the year ended 31 December 2006

	< ---------- Increase/(decrease)			---------- >	
Description of changes	FRS 3 Note 2.3 (a)(i) RM'000	FRS 5 Note 2.3(b) RM'000	FRS 101 Note 2.3(c) RM'000	FRS 127 Note 2.3(d) RM'000	Total RM'000
Group					
Revenue	–	(40,453)	–	5,360,723	5,320,270
Cost of sales	–	(39,862)	–	2,944,568	2,904,706
Gross profit	–	(591)	–	2,416,155	2,415,564
Other income	–	(1,385)	–	–	(1,385)
Administrative expenses	–	(936)	–	151,987	151,051
Selling and marketing expenses	–	(699)	–	160,009	159,310
Other expenses	(11,948)	(70)	–	1,127,044	1,115,026
Provision for termination benefits	–	(912)	–	–	(912)
Operating profit	11,948	(1,183)	–	977,115	987,880
Finance costs	–	(2,085)	–	544,440	542,355
Share of profit of associates	–	–	(78,540)	(39,878)	(118,418)
Share of profit of jointly controlled entities	–	–	(896)	–	(896)
Profit before tax	11,948	(902)	(79,436)	392,797	324,407
Income tax expense	–	–	(79,436)	156,651	77,215
Profit after tax from discontinuing operations	11,948	(902)	–	236,146	247,192
Loss for the year from discontinued operation	–	902	–	–	902
Profit for the year	11,948	–	–	236,146	248,094
Attributable to:					
– Equity holders of the Company	11,948	–	–	–	11,948
– Minority interests	–	–	–	236,146	236,146
	11,948	–	–	236,146	248,094
Earnings per share:					
Basic, for profit for the year (sen)	3.6	–	–	–	3.6

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD)

2.3 Changes in accounting policies and effects arising from adoption of new and revised FRSs (contd)

g. Restatement of comparatives

The following comparative amounts have been restated as a result of adopting the new and revised FRSs:

Description of changes	Previously stated RM'000	< ---- Increase/(decrease) ---- > FRS 101 Note 2.3(c) RM'000	FRS 127 Note 2.3(d) RM'000	FRS 138 Note 2.3(a)(iii) RM'000	FRS 140 Note 2.3(e) RM'000	Restated RM'000
At 31 December 2005						
Property, plant and equipment	249,206	–	844,864	(332)	(2,641)	1,091,098
Investment properties	–	–	–	–	2,641	2,641
Intangible assets	8,034	–	–	332	–	8,366
Goodwill on consolidation	193,313	–	857,714	–	–	1,051,027
Investment in associates	754,122	–	(471,033)	–	–	283,089
Securities available-for-sale	585,081	–	1,576,556	–	–	2,161,637
Securities held-to-maturity	–	–	13,827,110	–	–	13,827,110
Deferred tax assets	–	–	247,658	–	–	247,658
Real property assets	–	–	421,787	–	–	421,787
Statutory deposits	–	–	1,695,831	–	–	1,695,831
Other receivables	34,400	–	441,614	–	–	476,014
Tax recoverable	26,572	–	108,889	–	–	135,461
Derivative assets	–	–	48,234	–	–	48,234
Clients' and brokers' balances	–	–	162,220	–	–	162,220
Loans, advances and financing	–	–	48,348,756	–	–	48,348,756
Securities held-for-trading	20,097	–	3,348,870	–	–	3,368,967
Deposits and placement with banks and other financial institutions	–	–	2,620,331	–	–	2,620,331

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD)

2.3 Changes in accounting policies and effects arising from adoption of new and revised FRSs (contd)

g. Restatement of comparatives (contd)

Description of changes	Previously stated RM'000	FRS 101 Note 2.3(c) RM'000	FRS 127 Note 2.3(d) RM'000	FRS 138 Note 2.3(a)(iii) RM'000	FRS 140 Note 2.3(e) RM'000	Restated RM'000
		< -------------Increase/(decrease)		------------------ >		
At 31 December 2005						
Securities purchased under resale agreements	–	–	2,219,491	–	–	2,219,491
Cash and bank balances	237,317	–	11,245,331	–	–	11,482,648
Minority interests	666,693	–	932,360	–	–	1,599,053
Borrowings (long term liabilities)	285,003	–	2,772,564	–	–	3,057,567
Deferred tax liabilities	23,083	–	2,904	–	–	25,987
Deposits from customers	–	–	49,721,544	–	–	49,721,544
Deposits and placement of banks and financial institutions	–	–	11,028,831	–	–	11,028,831
Obligation on securities sold under repurchase agreements	–	–	10,942,799	–	–	10,942,799
Bills and acceptances payables	–	–	3,313,060	–	–	3,313,060
Clients' and brokers' balances	–	–	198,490	–	–	198,490
Other payables	77,608	–	1,651,887	–	–	1,729,495
Derivative liabilities	–	–	121,326	–	–	121,326
Recourse obligation on loans sold to Cagamas Berhad	–	–	3,356,992	–	–	3,356,992
Current tax payable	2,272	–	28,561	–	–	30,833
Borrowings (current liabilities)	572,420	–	630,250	–	–	1,202,670
Subordinated obligations	–	–	1,530,252	–	–	1,530,252
Irredeemable Convertible Unsecured Loan Stocks	–	–	204,363	–	–	204,363
Irredeemable Non-Cumulative Convertible Preference Shares	–	–	1,104,469	–	–	1,104,469
Other reserves	99,495	–	1,248	–	–	100,743
Total equity	849,735	1,599,053	3,716	–	–	2,452,504

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD)

2.3 Changes in accounting policies and effects arising from adoption of new and revised FRSs (contd)

g. Restatement of comparatives (contd)

	Previously stated RM'000	< ------------Increase/(decrease) FRS 5 Note 2.3(b) RM'000	FRS 101 Note 2.3(c) RM'000	FRS 127 Note 2.3(d) RM'000 ---------------- >	Restated RM'000
For the year ended 31 December 2005					
Group					
Revenue	880,970	(86,987)	–	4,402,631	5,196,614
Cost of sales	(747,004)	92,369	–	(2,298,640)	(2,953,275)
Gross profit	133,966	5,382	–	2,103,991	2,243,339
Other income	10,131	(1,028)	–	(185)	8,918
Administrative expenses	(51,504)	1,490	–	(139,434)	(189,448)
Selling and marketing expenses	(7,855)	1,620	–	(168,847)	(175,082)
Other expenses	(36,563)	1,189	–	(279,146)	(314,520)
Impairment loss	(114,753)	114,753	–	10,186	10,186
Allowance for losses on loans and financing	–	–	–	(537,093)	(537,093)
Provision for termination benefits	(3,000)	3,000	–	–	–
Operating (loss)/profit	(69,578)	126,406	–	989,472	1,046,300
Finance costs	(37,451)	3,903	–	(536,316)	(569,864)
Share of profit of associates	53,125	–	(785)	(62,521)	(10,181)
Share of profit of jointly controlled entities	4,408	–	(810)	–	3,598
(Loss)/profit before tax	(49,496)	130,309	(1,595)	390,635	469,853
Income tax expense	(67,962)	(128)	1,595	(90,467)	(156,962)
(Loss)/profit after tax from continuing operations	(117,458)	130,181	–	300,168	312,891
Loss for the year from discontinued operation	–	(130,181)	–	–	(130,181)
Net (loss)/profit for the year	(117,458)	–	–	300,168	182,710
Attributable to:					
– Equity holders of the Company	(117,987)	–	–	–	(117,987)
– Minority interests	529	–	–	300,168	300,697
	(117,458)	–	–	300,168	182,710
Earnings per share:					
Basic, for loss for the year (sen)	(35.8)	–	–	–	(35.8)

2. SIGNIFICANT ACCOUNTING POLICIES (contd)

2.4 Changes in Estimates

The revised FRS 116: Property, Plant and Equipment requires the review of the residual value and remaining useful life of an item of property, plant and equipment at least at each financial year end. The Group revised the estimated useful lives of certain plant and machinery and transportation equipment from a range of 5 to 20 years to 10 to 50 years with effect from 1 January 2006. The revisions were accounted for prospectively as a change in accounting estimate and as a result, the depreciation charges of the Group and of the Company for the current financial year have been reduced by RM8,460,000 and RM427,000, respectively.

2.5 Significant accounting estimates and judgements

a. Critical judgements made in applying accounting policies

The following are the judgements made by management in the process of applying the Group's accounting policies that have the most significant effect on the amounts recognised in the financial statements.

Classification between investment properties and property, plant and equipment

The Group has developed certain criteria based on FRS 140 in making judgement whether a property qualifies as an investment property. Investment property is a property held to earn rentals or for capital appreciation or both.

Some properties comprise a portion that is held to earn rentals and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately, the Group would account for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

b. Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

i. Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value-in-use of the cash-generating units ("CGU") to which the goodwill is allocated. Estimating a value-in-use amount requires management to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as at 31 December 2006 was RM1,037,145,000 (2005: RM1,051,027,000). Further details are disclosed in Note 18.

ii. Provision for doubtful debts

Included in trade receivables is an amount of RM5,466,968 which is in dispute. The matter has been referred to an arbitrator and the arbitration is expected to be concluded by the end of 2007. In the current financial year, the Directors have made a provision of doubtful debts amounting to RM2,500,000 based on the expected recoverable amount from the debtor from the arbitration.

iii. Additional estimation uncertainty relating to the banking subsidiaries

a. Allowance for losses on loans and advances

The Group makes allowance for losses based on assessment of recoverability. Whilst management's judgement is guided by the relevant BNM guidelines, judgement is made about the future and other key factors in respect of the recovery of loans and advances. Among the factors considered are the Group's aggregate exposure to the borrower, the net realisable value of the underlying collateral value, the viability of the customer's business model and the capacity to generate sufficient cash flow to service debt obligations and the aggregate amount and ranking of all other creditor claims.

b. General insurance

The estimation of pipeline premiums, i.e. premiums incepted for which the policies have not been issued is based on the actual pipeline premiums in prior years adjusted for recent trends and events.

IBNR claims are estimated based on the chain ladder method using cumulated incurred claims. The underlying assumption of the method is that the claims reporting patterns and the reserving practices of the subsidiary are stable. The method also implicitly assumes that the past inflation patterns will continue into future projected years. The estimation is performed by an independent external actuary.

3. REVENUE

Revenue of the Group comprises sales of goods and services net of discounts, income from property development and construction contracts and interest and other income from the banking business after eliminating transactions within the Group.

Revenue of the Company comprises dividend income from subsidiaries and interest income from central cash management accounts.

The significant categories of revenue recognised during the year are as follows:

	Group 2006 RM'000	Group 2005 RM'000 (Restated)	Company 2006 RM'000	Company 2005 RM'000
Sales of goods	367,780	391,517	–	–
Contract revenue	318,769	283,843	–	–
Sales of land	(2,859)	13,268	–	–
Stockbroking services	16,156	12,447	–	–
Sales of properties	21,683	24,547	–	–
Trading and services	71,762	52,040	67	10
Dividend income	9,225	6,439	56,371	61,914
Interest income	4,323,012	3,429,730	7,325	3,431
Income from Islamic Banking business	236,099	147,674	–	–
Fee income	462,733	441,505	–	–
Net gain on sale of securities and derivatives	84,701	156,293	–	–
Project management and marketing fee	36	–	–	–
Others	259,794	237,311	–	–
	6,168,891	5,196,614	63,763	65,355

4. COST OF SALES

	Group 2006 RM'000	Group 2005 RM'000 (Restated)	Company 2006 RM'000	Company 2005 RM'000
Interest expense	2,211,256	1,633,682	13,169	12,381
Property development costs (Note 15(b))	19,344	21,787	–	–
Cost of inventories sold	349,819	368,234	–	–
Construction contract costs	282,515	248,983	–	–
Cost of land disposed	(1,869)	10,250	–	–
Cost of services rendered	739,092	670,339	107	85
	3,600,157	2,953,275	13,276	12,466

5. IMPAIRMENT LOSSES/GAINS

	Group 2006 RM'000	Group 2005 RM'000 (Restated)	Company 2006 RM'000	Company 2005 RM'000
Charged for the financial year				
– goodwill	4,011	–	–	–
– securities AFS	46,385	103,963	–	–
– securities held-to-maturity	34,758	13,294	–	–
– property, plant and equipment	2,478	1,365	–	–
– real property assets	29,804	–	–	–
– investment in subsidiaries	–	–	–	102,520
	117,436	118,622	–	102,520

5. IMPAIRMENT LOSSES/GAINS (CONTD)

	Group 2006 RM'000	Group 2005 RM'000 (Restated)	Company 2006 RM'000	Company 2005 RM'000
Reversal for the financial year				
– securities AFS	(35,446)	(7,797)	–	–
– securities held-to-maturity	(9,574)	(25,013)	–	–
– property, plant and equipment	(2,001)	–	–	–
– real property assets	–	(95,998)	–	–
	(47,021)	(128,808)	–	–
Impairment losses/(gains)	70,415	(10,186)	–	102,520

6. FINANCE COSTS

	Group 2006 RM'000	Group 2005 RM'000 (Restated)	Company 2006 RM'000	Company 2005 RM'000
Interest expense on:				
Bank overdrafts	64	80	47	80
Bank borrowings	272,192	271,947	–	–
Bankers' acceptances	674	660	–	–
Central cash management accounts	–	–	10,136	9,253
Hire purchase and finance lease liabilities	45	56	–	–
ICULS	5,988	6,097	–	–
CMS Income Securities (Note 42)	17,360	–	17,360	–
Revolving credits	6,144	5,746	1,105	1,109
Deposits and placements of banks and financial institutions	373,699	192,337	–	–
Deposits from customers	1,487,819	1,178,879	–	–
Obligations on securities sold under repurchase agreements	199,149	105,696	–	–
Recourse obligation on loans sold to Cagamas Berhad	150,589	156,770	–	–
Subordinated obligations	105,345	106,079	–	–
Term loans	9,742	16,069	8,772	15,525
Time loans	77	111	–	–
Others	61,381	51,757	–	–
Total interest expense (Note 7)	2,690,268	2,092,284	37,420	25,967
Add: Other charges				
Bank charges and commitment fee	110	179	107	85
Bank commission	–	59	–	50
Facility fee	211	451	211	451
Stamp duty	–	126	–	126
Amortisation of transaction costs	266	–	266	–
	587	815	584	712
	2,690,855	2,093,099	38,004	26,679
Less: Amounts charged to cost of sales				
Interest expense	2,211,256	1,633,682	13,169	12,381
Other charges	29	–	107	85
	2,211,285	1,633,682	13,276	12,466
	479,570	459,417	24,728	14,213
INCPS dividends paid and payable				
– 10% (2005: 10%) per annum (gross)	110,447	110,447	–	–
	590,017	569,864	24,728	14,213

The INCPS dividends are paid in accordance with the terms of the INCPS (as disclosed in Note 50).

7. PROFIT/(LOSS) BEFORE TAX

	Group 2006 RM'000	Group 2005 RM'000 (Restated)	Company 2006 RM'000	Company 2005 RM'000
The following amounts have been included in arriving at profit/(loss) before tax:				
Employee benefits expense (Note 8)	799,048	733,565	7,654	8,432
Amortisation of goodwill (Note 18)	–	11,497	–	–
Amortisation of government grants	(223)	–	–	–
Amortisation of transaction costs	266	–	–	–
Auditors' remuneration:	3,527	3,512	73	109
Statutory audit				
– current year	2,757	2,866	41	25
– under/(over)provision in prior year	5	(2)	6	–
Other services	765	648	26	11
Bad debts written-off net of recoveries	20	868	–	–
Depreciation on investment properties	41	50	–	–
Depreciation on property, plant and equipment (Note 14)	117,139	132,026	729	1,272
Equipment rental income	(27)	(287)	–	–
Gain on disposal of investment properties	(500)	–	–	–
Gain on disposal of property, plant and equipment	(4,450)	(5,164)	(28)	(50)
Gain on disposal of real property assets	–	(4,601)	–	–
Gross dividend income from				
– subsidiaries	–	–	(56,371)	(61,914)
– investments quoted in Malaysia	(9,225)	(6,439)	–	–
Hire of plant and machinery	15,454	13,525	–	–
Interest expense (Note 6)	2,690,268	2,092,284	37,420	25,967
Interest income	(4,323,697)	(3,430,525)	(7,325)	(3,431)
Loss on liquidation of an associate	–	7,440	–	–
Net realised foreign exchange gain	(147,595)	(150,210)	–	–
Net unrealised foreign exchange (gain)/loss	(91,267)	11,808	–	–
Non-Executive Directors' remuneration (Note 9)	6,706	4,800	1,734	1,945
Operating leases:	38,732	38,528	1,002	877
– minimum lease payments for land and buildings	36,129	35,925	1,002	877
– minimum lease payments for wharf	2,603	2,603	–	–
Property, plant and equipment written-off	215	396	3	–
Provision for bad and doubtful debts net of recoveries	2,608	230	–	–
Rental income	(3,802)	(3,798)	–	–
(Reversal)/amortisation of intangible assets (Note 17)	(639)	701	–	–
Unrealised loss/(gain) on revaluation of securities and derivatives	70,125	(22,915)	–	–
Write-down of inventories	612	340	–	–

8. EMPLOYEE BENEFITS EXPENSE

	Group 2006 RM'000	Group 2005 RM'000 (Restated)	Company 2006 RM'000	Company 2005 RM'000
Salaries, wages and bonus	635,096	592,015	6,823	7,533
Contributions to defined contribution plan	88,642	86,119	797	870
Social security contributions	644	452	34	29
Other benefits	75,836	55,680	–	–
	800,218	734,266	7,654	8,432
Less: Amount capitalised in development expenditure (Note 17(b))	(1,170)	(701)	–	–
Total employee benefits expense	799,048	733,565	7,654	8,432

Included in employee benefits expense of the Group and of the Company are Executive Directors' remuneration amounting to RM2,702,000 (2005: RM4,403,000) and RM509,000 (2005: Nil) respectively, as further disclosed in Note 9.

9. DIRECTORS' REMUNERATION

	Group 2006 RM'000	Group 2005 RM'000 (Restated)	Company 2006 RM'000	Company 2005 RM'000
Executive Directors' remuneration (Note 8):				
Other emoluments	2,702	4,403	509	–
Non-Executive Directors' remuneration (Note 7):				
Fees	3,670	1,944	532	462
Other emoluments	3,036	2,856	1,202	1,483
	6,706	4,800	1,734	1,945
Total Directors' remuneration	9,408	9,203	2,243	1,945
Estimated money value of benefits-in-kind	199	225	98	70
Total Directors' remuneration including benefits-in-kind	9,607	9,428	2,341	2,015

9. DIRECTORS' REMUNERATION (CONTD)

The details of remuneration receivable by Directors of the Company during the financial year are as follows:

	Group 2006 RM'000	Group 2005 RM'000 (Restated)	Company 2006 RM'000	Company 2005 RM'000
Executive:				
Salaries and other emoluments	468	–	454	–
Defined contribution plans	54	–	54	–
Estimated money value of benefits-in-kind	40	–	40	–
	562	–	548	–
Non-Executive:				
Salaries and other emoluments	1,357	1,394	1,087	1,339
Fees	1,029	850	532	462
Defined contribution plans	116	144	116	144
Estimated money value of benefits-in-kind	72	91	58	70
	2,574	2,479	1,793	2,015
	3,136	2,479	2,341	2,015

The number of Directors of the Company whose total remuneration (excluding benefits-in-kind) during the financial year fell within the following bands is analysed below:

	Number of Directors 2006	Number of Directors 2005
Executive Directors:		
RM250,001 to RM300,000	2	–
Non-Executive Directors:		
Below RM50,000	–	1
RM50,001 to RM100,000	2	1
RM100,001 to RM150,000	3	2
RM150,001 to RM200,000	1	1
RM200,001 to RM250,000	–	1
RM250,001 to RM300,000	1	–
RM650,001 to RM700,000	1	1
RM850,001 to RM900,000	1	–
RM900,001 to RM950,000	–	1

10. INCOME TAX EXPENSE

	Group 2006 RM'000	Group 2005 RM'000 (Restated)	Company 2006 RM'000	Company 2005 RM'000
Continuing operations				
Current income tax:				
Malaysian income tax	302,644	250,611	9,500	11,000
Foreign tax	1,451	795	–	–
Tax on NCRPS dividends	(30,925)	(30,925)	–	–
	273,170	220,481	9,500	11,000
(Over)/underprovided in prior years:				
Malaysian income tax	(5,124)	(15,879)	230	199
	268,046	204,602	9,730	11,199

10. INCOME TAX EXPENSE (CONTD)

	Group 2006 RM'000	Group 2005 RM'000 (Restated)	Company 2006 RM'000	Company 2005 RM'000
Deferred tax (Note 24):				
Relating to origination and reversal of temporary differences	(23,995)	(48,163)	220	–
Relating to changes in tax rates	15,290	–	(20)	–
Under/(over)provided in prior years	4,094	(398)	–	–
	(4,611)	(48,561)	200	–
Zakat	(1,166)	921	–	–
Real property gains tax	23	–	–	–
Total income tax expense from continuing operations	262,292	156,962	9,930	11,199
Discontinued operation				
Current income tax: Malaysian income tax	–	(128)	–	–
Total income tax expense	262,292	156,834	9,930	11,199

Domestic income tax is calculated at the Malaysian statutory tax rate of 28% (2005: 28%) of the estimated assessable profit for the year. The domestic statutory tax rate will be reduced to 27% from the current year's rate of 28%, effective year of assessment 2007 and to 26% effective year of assessment 2008. The computation of deferred tax as at 31 December 2006 has reflected these changes.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. During the current financial year, the income tax rate applicable to subsidiaries in China was reduced from 31% in 2005 to 30% in 2006.

A reconciliation of income tax expense applicable to profit/(loss) before tax at the statutory income tax rate to income tax expense at the effective income tax rate of the Group and of the Company is as follows:

	Group 2006 RM'000	Group 2005 RM'000 (Restated)
Profit/(loss) before tax from:		
Continuing operations	518,709	469,853
Discontinued operation (Note 11)	(902)	(130,309)
	517,807	339,544
Taxation at Malaysian statutory tax rate of 28% (2005: 28%)	144,986	95,072
Income subject to tax rate of 20% (2005: 20%)	(350)	(291)
Deferred tax recognised at different tax rates	15,290	–
Different tax rates in Labuan/other countries	(15,409)	(16,913)
Effects of share of results of associates	(1,859)	2,933
Realisation of cost provision	(4,144)	–
Expenses not deductible for tax purposes	148,635	99,789
Income not subject to tax	(18,153)	(30,413)
Utilisation of previously unrecognised tax losses and unabsorbed capital allowances	(6,421)	(9,387)
Utilisation of reinvestment allowance	–	(2,767)
Deferred tax assets not recognised during the year	2,969	34,082

10. INCOME TAX EXPENSE (CONTD)

	Group 2006 RM'000	Group 2005 RM'000 (Restated)
Deferred tax assets recognised on previously unabsorbed capital allowances	(1,079)	(3)
Overprovision of tax expense in prior years	(5,124)	(15,879)
Under/(over)provision of deferred tax in prior years	4,094	(398)
Real property gains tax	23	–
Zakat	(1,166)	921
Others	–	88
Income tax expense for the year	262,292	156,834

	Company 2006 RM'000	Company 2005 RM'000
Profit/(loss) before tax	8,849	(80,199)
Taxation at Malaysian statutory tax rate of 28% (2005: 28%)	2,478	(22,456)
Deferred tax recognised at different tax rates	(20)	–
Expenses not deductible for tax purposes	8,312	33,245
Income not subject to tax	–	(36)
Deferred tax assets recognised on previously unabsorbed capital allowances	(1,070)	–
Deferred tax assets not recognised in respect of current year's unabsorbed capital allowances	–	195
Underprovision of income tax in prior years	230	199
Others	–	52
Income tax expense for the year	9,930	11,199

Tax savings during the financial year arising from:

	Group 2006 RM'000	Group 2005 RM'000 (Restated)	Company 2006 RM'000	Company 2005 RM'000
Utilisation of current year tax losses	59	–	–	6,370
Utilisation of previously unrecognised tax losses	6,421	9,126	–	–

11. DISCONTINUED OPERATION AND DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

On 5 January 2006, the Board of Directors approved and announced the proposed closure of the operation of CMS Steel Berhad ("CMS Steel") due to the continuous losses incurred and given that there was no indication that the steel industry would turn around in the near future. The Group intended to exit from its steel operation from the first quarter of 2006 onwards. This had led to the recognition of RM100 million provision for the impairment of assets and the provision for termination benefits of RM3 million in the financial statements of CMS Steel in 2005. CMS Steel ceased operation on 31 March 2006. The operations relating to CMS Steel are disclosed as discontinued operation.

The disposal of the steel mill and all ancillary facilities is due to be completed by 2007 and negotiations for the sale of the land and buildings are still in progress. As at 31 December 2006, certain assets and liabilities of CMS Steel have been presented on the consolidated balance sheet as assets held for sale and liabilities directly associated with assets classified as held for sale, and results from CMS Steel are presented separately on the income statements as discontinued operation.

11. DISCONTINUED OPERATION AND DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE (CONTD)

An analysis of the results of discontinued operation is as follows:

	Group 2006 RM'000	Group 2005 RM'000
Revenue	40,453	86,987
Other income	1,385	1,028
Expenses	(42,740)	(102,498)
Impairment of assets	–	(100,000)
Impairment of goodwill	–	(14,753)
Amortisation of goodwill	–	(1,073)
Loss before tax of discontinued operation (Note 8)	(902)	(130,309)
Income tax expense (Note 8)	–	128
Loss for the year from discontinued operation	(902)	(130,181)

The following amounts have been included in arriving at loss before tax of discontinued operation:

	Group 2006 RM'000	Group 2005 RM'000
Employee benefits expense	51	7,386
Auditors' remuneration		
– current year	15	15
– underprovision in prior year	1	1
Depreciation of property, plant and equipment	142	8,948
Directors' fees	46	64
Interest expense	2,085	3,903
Loss on disposal of property, plant and equipment	28	9
Rental expense	3	–
(Write-back)/provision for doubtful debts	(21)	48
Provision for termination benefits net of amount no longer required	(912)	3,000
Interest income	(180)	(35)

The cash flows attributable to the discontinued operation are as follows:

	Group 2006 RM'000	Group 2005 RM'000
Operating cash flows	38,312	(23,587)
Investing cash flows	119	(7)
Financing cash flows	(79,256)	(4,164)
Total cash flows	(40,825)	(27,758)

The assets and liabilities of CMS Steel classified as held for sale on the consolidated balance sheet as at 31 December 2006 are as follows:

	Group carrying amounts as at 31 December 2006 RM'000
Assets	
Property, plant and equipment (Note 14)	53,566
Inventories	5,252
Assets classified as held for sale	58,818

11. DISCONTINUED OPERATION AND DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE (CONTD)

	Group carrying amounts as at 31 December 2006
Liabilities	
Term loans (Non-current liabilities)	(4,800)
Term loans (Current liabilities)	(9,200)
Liabilities directly associated with assets classified as held for sale	(14,000)

The term loans are secured by a debenture over fixed and floating assets of the subsidiary.

The weighted average interest rate for borrowings at balance sheet is 7.88% (2005: 7.11%).

12. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the financial year.

	2006 RM'000	2005 RM'000 (Restated)
Profit from continuing operations attributable to ordinary equity holders of the Company	7,767	12,194
Loss from discontinued operation attributable to ordinary equity holders of the Company	(902)	(130,181)
Profit/(loss) attributable to ordinary equity holders of the Company	6,865	(117,987)

	2006 '000	2005 '000
Weighted average number of ordinary shares in issue	329,446	329,446

	2006 Sen	2005 Sen (Restated)
Basic earnings per share for:		
Profit from continuing operations	2.35	3.70
Loss from discontinued operation	(0.27)	(39.51)
Profit/(loss) for the year	2.08	(35.81)

13. DIVIDENDS

	Dividends in respect of year			Net dividends recognised in year	
	2006 RM'000	2005 RM'000	2004 RM'000	2006 RM'000	2005 RM'000
Recognised during the year:					
First and final dividend for 2004: 5% less 28% taxation, on 329,445,840 ordinary shares (3.60 sen per ordinary share)	–	–	11,860	–	11,860
First and final dividend for 2005: 5% less 28% taxation, on 329,445,840 ordinary shares (3.60 sen per ordinary share)	–	11,860	–	11,860	–

13. DIVIDENDS (CONTD)

	Dividends in respect of year			Net dividends recognised in year	
	2006 RM'000	2005 RM'000	2004 RM'000	2006 RM'000	2005 RM'000
Proposed for approval at AGM (not recognised as at 31 December):					
Final dividend for 2006:					
5% less 27% taxation, on 329,445,840 ordinary shares (3.65 sen per ordinary share)	12,025	–	–	–	–
	12,025	11,860	11,860	11,860	11,860

At the forthcoming Annual General Meeting, a first and final dividend in respect of the financial year ended 31 December 2006 of 5% less 27% taxation on 329,445,840 ordinary shares amounting to a dividend payable of RM12,025,000 (3.65 sen net per ordinary share), will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in shareholders' equity as an appropriation of retained earnings in the financial year ending 31 December 2007.

14. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings* RM'000	Plant and Machinery RM'000	Office Equipment and Motor Vehicles RM'000	Capital Work-In-Progress RM'000	Total RM'000
Group					
At 31 December 2006					
Cost or valuation					
At 1 January 2006					
At cost	851,888	416,331	1,155,384	8,525	2,432,128
At valuation	28,073	–	–	–	28,073
As previously stated	879,961	416,331	1,155,384	8,525	2,460,201
Effects of adopting FRS 140	(2,818)	–	–	–	(2,818)
At 1 January 2006 (restated)	877,143	416,331	1,155,384	8,525	2,457,383
Additions	2,753	4,537	73,667	23,099	104,056
Disposals	(14,997)	(1)	(6,822)	–	(21,820)
Written-off	–	(71)	(27,567)	–	(27,638)
Reclassification	(22,013)	15,090	22,963	(16,040)	–
Reclassified as held for sale	(63,087)	(139,114)	(11,989)	–	(214,190)
Exchange difference	1,776	–	2,238	–	4,014
At 31 December 2006	781,575	296,772	1,207,874	15,584	2,301,805
Representating:					
At cost	753,502	296,772	1,207,874	15,584	2,273,732
At valuation	28,073	–	–	–	28,073
At 31 December 2006	781,575	296,772	1,207,874	15,584	2,301,805

14. PROPERTY, PLANT AND EQUIPMENT (CONTD)

	Land and Buildings* RM'000	Plant and Machinery RM'000	Office Equipment and Motor Vehicles RM'000	Capital Work-In-Progress RM'000	Total RM'000
Group					
At 31 December 2006 (contd)					
Accumulated depreciation and impairment					
At 1 January 2006					
As previously stated	169,695	296,193	900,574	–	1,366,462
Effects of adopting FRS 140	(177)	–	–	–	(177)
At 1 January 2006 (restated)	169,518	296,193	900,574	–	1,366,285
Depreciation charge for the year:	14,237	7,696	96,301	–	118,234
Recognised in profit or loss (Note 7)	14,237	7,116	95,928	–	117,281
Capitalised in construction costs (Note 27)	–	580	373	–	953
Disposals	(3,051)	–	(6,343)	–	(9,394)
Written-off	–	(71)	(26,917)	–	(26,988)
Impairment loss recognised in profit or loss	2,478	–	–	–	2,478
Impairment reversed in profit or loss	(2,001)	–	–	–	(2,001)
Reclassification	(88)	(5)	93	–	–
Reclassified as held for sale	(40,113)	(115,248)	(5,264)	–	(160,625)
Exchange difference	354	–	551	–	905
At 31 December 2006	141,334	188,565	958,995	–	1,288,894
Net carrying amount					
At cost	637,582	108,207	248,879	15,584	1,010,252
At valuation	2,659	–	–	–	2,659
At 31 December 2006	640,241	108,207	248,879	15,584	1,012,911

	Land and Buildings* RM'000	Plant and Machinery RM'000	Office Equipment and Motor Vehicles RM'000	Capital Work-In-Progress RM'000	Total RM'000
Group					
At 31 December 2005					
Cost or valuation					
At 1 January 2005					
At cost	857,082	441,847	1,128,929	13,496	2,441,354
At valuation	28,073	–	–	–	28,073
As previously stated	885,155	441,847	1,128,929	13,496	2,469,427
Effects of adopting FRS 140	(2,818)	–	–	–	(2,818)
At 1 January 2005 (restated)	882,337	441,847	1,128,929	13,496	2,466,609
Additions	3,672	6,173	75,895	8,506	94,246
Disposals	(5,427)	(45,015)	(13,745)	–	(64,187)
Written-off	–	–	(36,087)	(139)	(36,226)
Reclassification	12	13,326	–	(13,338)	–
Arising from acquisition of a subsidiary	–	–	1,435	–	1,435
Exchange difference	(3,451)	–	(1,043)	–	(4,494)
At 31 December 2005	877,143	416,331	1,155,384	8,525	2,457,383
Representing:					
At cost	849,070	416,331	1,155,384	8,525	2,429,310
At valuation	28,073	–	–	–	28,073
At 31 December 2005	877,143	416,331	1,155,384	8,525	2,457,383

14. PROPERTY, PLANT AND EQUIPMENT (CONTD)

	Land and Buildings* RM'000	Plant and Machinery RM'000	Office Equipment and Motor Vehicles RM'000	Capital Work-In-Progress RM'000	Total RM'000
Group					
At 31 December 2005 (contd)					
Accumulated depreciation and impairment					
At 1 January 2005					
As previously stated	126,926	247,139	842,781	–	1,216,846
Effects of adopting FRS 140	(127)	–	–	–	(127)
At 1 January 2005 (restated)	126,799	247,139	842,781	–	1,216,719
Depreciation charge for the year:	14,097	24,065	104,535	–	142,697
Recognised in profit or loss (Note 7)	14,097	23,320	103,557	–	140,974
Capitalised in construction costs (Note 27)	–	745	978	–	1,723
Disposals	(656)	(45,011)	(12,329)	–	(57,996)
Written-off	–	–	(35,889)	–	(35,889)
Impairment loss recognised in profit or loss	30,000	70,000	1,365	–	101,365
Arising from acquisition of a subsidiary	–	–	844	–	844
Exchange difference	(722)	–	(733)	–	(1,455)
At 31 December 2005	169,518	296,193	900,574	–	1,366,285
Net carrying amount					
At cost	704,898	120,138	254,810	8,525	1,088,371
At valuation	2,727	–	–	–	2,727
At 31 December 2005	707,625	120,138	254,810	8,525	1,091,098

* Land and buildings of the Group:

	Freehold Land RM'000	Long-term Leasehold Land RM'000	Short-term Leasehold Land RM'000	Buildings, Jetty, Roads and Drainage RM'000	Total RM'000
Group					
At 31 December 2006					
Cost or valuation					
At 1 January 2006					
At cost	122,824	159,949	2,774	566,341	851,888
At valuation	–	–	14,055	14,018	28,073
As previously stated	122,824	159,949	16,829	580,359	879,961
Effects of adopting FRS 140	–	(2,165)	–	(653)	(2,818)
At 1 January 2006 (restated)	122,824	157,784	16,829	579,706	877,143
Additions	–	–	–	2,753	2,753
Disposals	(602)	(4,995)	–	(9,400)	(14,997)
Reclassification	–	(171)	171	(22,013)	(22,013)
Reclassified as held for sale	–	(6,936)	–	(56,151)	(63,087)
Exchange difference	19	1,203	–	554	1,776
At 31 December 2006	122,241	146,885	17,000	495,449	781,575
Representing:					
At cost	122,241	146,885	2,945	481,431	753,502
At valuation	–	–	14,055	14,018	28,073
	122,241	146,885	17,000	495,449	781,575

14. PROPERTY, PLANT AND EQUIPMENT (CONTD)

* Land and buildings of the Group:

	Freehold Land RM'000	Long-term Leasehold Land RM'000	Short-term Leasehold Land RM'000	Buildings, Jetty, Roads and Drainage RM'000	Total RM'000
Group					
At 31 December 2006 (contd)					
Accumulated depreciation and impairment					
At 1 January 2006					
As previously stated	–	30,482	3,777	135,436	169,695
Effects of adopting FRS 140	–	(123)	–	(54)	(177)
At 1 January 2006 (restated)	–	30,359	3,777	135,382	169,518
Depreciation charge for the year	–	780	523	12,934	14,237
Disposals	–	(378)	–	(2,673)	(3,051)
Impairment loss recognised in profit or loss	1,136	–	–	1,342	2,478
Impairment reversed in profit or loss	–	(1,827)	–	(174)	(2,001)
Reclassification	–	(31)	31	(88)	(88)
Reclassified as held for sale	–	(526)	–	(39,587)	(40,113)
Exchange difference	–	252	–	102	354
At 31 December 2006	1,136	28,629	4,331	107,238	141,334
Net carrying amount					
At cost	121,105	118,256	11,449	386,772	637,582
At valuation	–	–	1,220	1,439	2,659
At 31 December 2006	121,105	118,256	12,669	388,211	640,241
At 31 December 2005					
Cost or valuation					
At cost	122,859	166,366	2,551	565,306	857,082
At valuation	–	–	14,055	14,018	28,073
As previously stated	122,859	166,366	16,606	579,324	885,155
Effects of adopting FRS 140	–	(2,165)	(653)	–	(2,818)
At 1 January 2005 (restated)	122,859	164,201	15,953	579,324	882,337
Additions	–	–	–	3,672	3,672
Disposals	–	(3,299)	–	(2,128)	(5,427)
Reclassification	–	(876)	876	12	12
Exchange difference	(35)	(2,242)	–	(1,174)	(3,451)
At 31 December 2005	122,824	157,784	16,829	579,706	877,143
Representing:					
At cost	122,824	157,784	2,774	565,688	849,070
At valuation	–	–	14,055	14,018	28,073
	122,824	157,784	16,829	579,706	877,143

14. PROPERTY, PLANT AND EQUIPMENT (CONTD)

* Land and buildings of the Group:

	Freehold Land RM'000	Long-term Leasehold Land RM'000	Short-term Leasehold Land RM'000	Buildings, Jetty, Roads and Drainage RM'000	Total RM'000
Group					
At 31 December 2005 (contd)					
Accumulated depreciation and impairment					
At 1 January 2005					
As previously stated	–	30,252	3,312	93,362	126,926
Effects of adopting FRS 140	–	(87)	(40)	–	(127)
At 1 January 2005 (restated)	–	30,165	3,272	93,362	126,799
Depreciation charge for the year	–	984	403	12,710	14,097
Disposals	–	(218)	–	(438)	(656)
Impairment loss recognised in profit or loss	–	–	–	30,000	30,000
Reclassification	–	(102)	102	–	–
Exchange difference	–	(471)	–	(251)	(722)
At 31 December 2005	–	30,358	3,777	135,383	169,518
Net carrying amount					
At cost	122,824	127,426	11,801	442,847	704,898
At valuation	–	–	1,251	1,476	2,727
At 31 December 2005	122,824	127,426	13,052	444,323	707,625

	Motor vehicles RM'000	Office equipment RM'000	Capital work-in-progress RM'000	Total RM'000
Company				
At 31 December 2006				
Cost				
At 1 January 2006	4,879	6,049	–	10,928
Additions	38	551	14,766	15,355
Disposals/written-off	(94)	(64)	–	(158)
At 31 December 2006	4,823	6,536	14,766	26,125
Accumulated depreciation				
At 1 January 2006	2,623	4,262	–	6,885
Depreciation charge for the year (Note 5)	217	512	–	729
Disposals/written-off	(94)	(59)	–	(153)
At 31 December 2006	2,746	4,715	–	7,461
Net carrying amount	2,077	1,821	14,766	18,664
At 31 December 2005				
Cost				
At 1 January 2005	4,145	5,919	–	10,064
Additions	902	141	–	1,043
Disposals/written-off	(168)	(11)	–	(179)
At 31 December 2005	4,879	6,049	–	10,928

14. PROPERTY, PLANT AND EQUIPMENT (CONTD)

	Motor vehicles RM'000	Office equipment RM'000	Capital work-in-progress RM'000	Total RM'000
Company				
At 31 December 2005 (contd)				
Accumulated depreciation				
At 1 January 2005	2,034	3,753	–	5,787
Depreciation charge for the year (Note 5)	757	515	–	1,272
Disposals/written-off	(168)	(6)	–	(174)
At 31 December 2005	2,623	4,262	–	6,885
Net carrying amount	2,256	1,787	–	4,043

i. The Directors' valuation of leasehold land and buildings was based on professional appraisals provided by independent valuers on the open market basis in 1996. The resultant revaluation surplus was credited to the capital reserve.

The net carrying amount of land and buildings of the Group stated at valuation of RM21,887,000 (2005: RM23,273,000) would have been RM6,115,000 (2005: RM6,796,000) had they been stated at cost.

ii. The carrying amount of temporarily idle plant and machinery of the Group amounted to RM1,580,778 (2005: RM2,405,532).

iii. Net carrying amounts of property, plant and equipment held under hire purchase and finance lease arrangements are as follows:

	Group 2006 RM'000	Group 2005 RM'000
Plant and machinery	2,132	–
Office equipment and motor vehicles	2,417	2,819
	4,549	2,819

Details of the terms and conditions of the hire purchase and finance lease arrangements are disclosed in Note 47(vi).

iv. Included in the land and buildings of the Group is property at net carrying amount of RM178,658,000 (2005: RM276,875,000) which has been charged as collateral for the Group's borrowings.

15. LAND HELD FOR PROPERTY DEVELOPMENT AND PROPERTY DEVELOPMENT COSTS

a. Land held for property development

	Leasehold land RM'000	Development expenditure RM'000	Total RM'000
Group			
At 31 December 2006			
Cost			
At 1 January 2006	35,122	4,147	39,269
Additions	157	436	593
Carrying amount at 31 December 2006	35,279	4,583	39,862

15. LAND HELD FOR PROPERTY DEVELOPMENT AND PROPERTY DEVELOPMENT COSTS (CONTD)

a. Land held for property development (contd)

	Leasehold land RM'000	Development expenditure RM'000	Total RM'000
Group			
At 31 December 2005			
Cost			
At 1 January 2005	35,281	3,798	39,079
Additions	–	395	395
Disposal	(159)	(46)	(205)
Carrying amount at 31 December 2005	35,122	4,147	39,269

The landed properties of the Group have been pledged to secure bank overdraft and revolving credit facilities for certain subsidiaries.

b. Property development costs

	Group 2006 RM'000	Group 2005 RM'000
Cumulative property development costs		
Property development costs at 1 January:		
Long-term leasehold land	85,231	85,640
Development costs	193,196	165,776
	278,427	251,416
Costs incurred during the year:		
Development costs	18,632	36,812
Transfer to income statement on disposal	–	(9,801)
At 31 December	297,059	278,427
Cumulative costs recognised in income statement		
At 1 January	(131,890)	(110,103)
Recognised during the year (Note 4)	(19,344)	(21,787)
At 31 December	(151,234)	(131,890)
Property development costs at 31 December	145,825	146,537

The title to certain landed properties of the Group with a cost of RM1,074,000 (2005: RM1,483,000) is registered in the name of a third party in trust for a subsidiary. The subsidiary concerned, however, retains full beneficial interest and in all respects remains as the proprietor of the said property by virtue of a Power of Attorney granted to the subsidiary to, inter alia, develop, manage, sell and dispose of the subject property.

16. INVESTMENT PROPERTIES

	Long-term leasehold land RM'000	Short-term leasehold land RM'000	Total RM'000
Group			
At 31 December 2006			
Cost			
At 1 January 2006			
As previously stated	–	–	–
Effects of adopting FRS 140	2,165	653	2,818
	2,165	653	2,818
Additions	5	–	5
Disposals	–	(653)	(653)
At 31 December 2006	2,170	–	2,170
Accumulated depreciation			
At 1 January 2006			
As previously stated	–	–	–
Effects of adopting FRS 140	123	54	177
	123	54	177
Depreciation charge for the year (Note 7)	36	5	41
Disposals	–	(59)	(59)
At 31 December 2006	159	–	159
Net carrying amount			
At 31 December 2006	2,011	–	2,011
Fair value			
At 31 December 2006	2,500	–	2,500
Group			
At 31 December 2005			
Cost			
At 1 January 2005			
As previously stated	–	–	–
Effects of adopting FRS 140	2,165	653	2,818
At 1 January 2005 (restated) and at 31 December 2005	2,165	653	2,818
Accumulated depreciation			
At 1 January 2005			
As previously stated	–	–	–
Effects of adopting FRS 140	87	40	127
At 1 January 2005 (restated)	87	40	127
Depreciation charge for the year (Note 7)	36	14	50
At 31 December 2005	123	54	177
Net carrying amount			
At 31 December 2005	2,042	599	2,641
Fair value			
At 31 December 2005	2,500	1,094	3,594

17. INTANGIBLE ASSETS

	Computer software RM'000	Development expenditure RM'000	Total RM'000
Group			
At 31 December 2006			
Cost			
At 1 January 2006	1,076	12,593	13,669
Additions	–	1,302	1,302
Written-off	(156)	–	(156)
Reclassification	37	(37)	–
At 31 December 2006	957	13,858	14,815
Accumulated amortisation			
At 1 January 2006	744	4,560	5,304
Amortisation/(reversal) (Note 7)	115	(754)	(639)
Written-off	(157)	–	(157)
At 31 December 2006	702	3,806	4,508
Net carrying amount			
At 31 December 2006	255	10,052	10,307
At 31 December 2005			
Cost			
At 1 January 2005	–	–	–
Arising from acquisition of subsidiary	1,073	11,650	12,723
Additions	3	944	947
At 31 December 2005	1,076	12,594	13,670
Accumulated amortisation			
At 1 January 2005	–	–	–
Arising from acquisition of subsidiary	696	3,907	4,603
Amortisation (Note 7)	48	653	701
At 31 December 2005	744	4,560	5,304
Net carrying amount			
At 31 December 2005	332	8,034	8,366

Development expenditure includes the following charges for the year:

	Group 2006 RM'000	Group 2005 RM'000
Office rental	53	138
Consultancy costs	71	94
Employee benefits expense (Note 8)	1,170	701

18. GOODWILL

	Group 2006 RM'000	Group 2005 RM'000 (Restated)
At 1 January		
As previously stated	193,313	196,243
Effect of adopting FRS127	857,714	861,221
	1,051,027	1,057,464
Amortisation (Note 7)	–	(12,570)
Arising from acquisition of a subsidiary	–	11,963
Arising from additional interest in a subsidiary	–	12,430
Realisation of goodwill upon conversion of RHB ICULS A and B	(9,189)	(2,043)
Goodwill written off/impairment	(4,011)	(16,077)
Fair value adjustment on assets acquired in previous financial year	–	(140)
Realisation of goodwill upon exercise of call warrants 2003/2007	(682)	–
At 31 December	1,037,145	1,051,027

The carrying amounts of goodwill allocated to the Group's cash-generating units ("CGU") are as follows:

	Group 2006 RM'000
Banking	992,643
Construction and road maintenance	14,075
Construction materials	16,788
Services	13,639
	1,037,145

Utama Banking Group Berhad ("UBG") has assessed whether there is any impairment in respect of the goodwill recorded in its books as at 31 December 2006. For the purpose of impairment testing, recoverable amount is based on the fair value less costs to sell ("FVCS"). In assessing the FVCS, management deemed that the various offers by third parties for UBG's interests in RHB at 31 December 2006 to be the best information available to reflect the amount that UBG could obtain, at the balance sheet date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal.

During the financial year, UBG had received an offer from EPF to acquire UBG's interests in RHB (RHB shares and ICULS) and approval from BNM to commence negotiations with Kuwait Finance House (Malaysia) Berhad on behalf of consortium of investors as disclosed in Note 56(viii)(g).

Subsequently, UBG had received a revised offer from EPF to acquire the same for a total cash consideration of RM2.253 billion subject to shareholders and regulatory approvals. The Conditional Sale and Purchase Agreement between UBG and EPF was executed on 3 April 2007. Thus, the recoverable amount of the entire investment would exceed its total carrying amount (including goodwill) of RM1.754 billion less any costs to sell. As such, there is no impairment of goodwill at the balance sheet date (Note 57(a) and (b)).

Management does not believe that any reasonable possible change to the assumptions applied is likely to cause the recoverable amount to be lower than its carrying amount.

19. INVESTMENT IN SUBSIDIARIES

	Company 2006 RM'000	Company 2005 RM'000
Unquoted shares at cost	1,184,418	1,182,418
Less: Accumulated impairment losses	(127,520)	(127,520)
	1,056,898	1,054,898

Details of the subsidiaries are as follows:

Name of subsidiaries	Country of incorporation	Principal activities	Proportion of ownership interest 2006 %	Proportion of ownership interest 2005 %
Direct subsidiaries of the Company				
CMS Capital Sdn Bhd	Malaysia	Investment holding	93.5	93.5
CMS Cement Sdn Bhd	Malaysia	Manufacture and sale of cement	100.0	100.0
CMS Digital Sdn Bhd	Malaysia	Software development, IT solutions and ICT related services	100.0	100.0
CMS Education Sdn Bhd	Malaysia	Education	93.3	80.0
CMS Energy Sdn Bhd	Malaysia	Provision of engineering services to the oil and gas industry	100.0	100.0
CMS Global (BVI) Ltd	British Virgin Islands	Dormant	100.0	100.0
CMS Infra Trading Sdn Bhd	Malaysia	General trading	51.0	51.0
CMS I-Systems Berhad	Malaysia	Software research and development, provision of software related services and trading of computer software	51.0	51.0
CMS Modular Housing Sdn Bhd	Malaysia	Dormant	100.0	100.0
CMS Property Development Sdn Bhd	Malaysia	Property holding, property development and project management	100.0	100.0
CMS Resources Sdn Bhd	Malaysia	Investment and property holding	51.0	51.0
CMS River Bus Sdn Bhd	Malaysia	Dormant	100.0	100.0
CMS Steel Berhad (i)	Malaysia	Manufacture and sale of steel bars and wire rods	80.0	80.0
CMS Works Sdn Bhd	Malaysia	Investment holding	100.0	100.0
Concordance Holdings Sdn Bhd	Malaysia	Investment holding	100.0	100.0
Projek Bandar Samariang Sdn Bhd	Malaysia	Property development and related construction works	60.0	60.0

19. INVESTMENT IN SUBSIDIARIES (CONTD)

Details of the subsidiaries are as follows: (contd)

Name of subsidiaries	Country of incorporation	Principal activities	Proportion of ownership interest 2006 %	2005 %
Subsidiaries of CMS Capital Sdn Bhd				
CMS Dresdner Asset Management Sdn Bhd	Malaysia	Asset management	51.0	51.0
CMS Mezzanine Sdn Bhd	Malaysia	Corporate financing	100.0	100.0
CMS Trust Management Berhad	Malaysia	Management of unit trust funds	51.0	51.0
CMS Opus Private Equity Sdn Bhd	Malaysia	Management of private equity investments	51.0	51.0
Subsidiary of CMS Cement Sdn Bhd				
CMS Concrete Products Sdn Bhd	Malaysia	Manufacture and sale of concrete products	100.0	100.0
Subsidiary of CMS Infra Trading Sdn Bhd				
CMS Sumber Sdn Bhd (ii)	Malaysia	General trading	51.0	51.0
Subsidiaries of CMS I-Systems Berhad				
I-Systems Network Sdn Bhd	Malaysia	Software development and internet related services	90.0	90.0
I-Systems (Guangzhou) Co Ltd *	People's Republic of China	Software development and provision of e-business solutions	100.0	100.0
Interventure Capital Sdn Bhd	Malaysia	Provision of management and consulting services	100.0	100.0
Subsidiaries of CMS Property Development Sdn Bhd				
CMS Property Management Sdn Bhd	Malaysia	Project management and consultancy	51.0	51.0
CMS Land Sdn Bhd	Malaysia	Property holding, property development and construction	51.0	51.0
CMS Hotels Sdn Bhd	Malaysia	Dormant	100.0	100.0
Subsidiaries of CMS Resources Sdn Bhd				
PPES Concrete Product Sdn Bhd	Malaysia	Manufacture and sale of concrete products	100.0	51.0
CMS Penkuari Sdn Bhd (iii)	Malaysia	Quarry operations	60.0	60.0
CMS Premix (Miri) Sdn Bhd	Malaysia	Production and sale of premix	60.0	60.0
CMS Premix Sdn Bhd	Malaysia	Production and sale of premix	60.0	60.0
CMS Quarries Sdn Bhd	Malaysia	Quarry operations	100.0	100.0

19. INVESTMENT IN SUBSIDIARIES (CONTD)

Name of subsidiaries	Country of incorporation	Principal activities	Proportion of ownership interest 2006 %	2005 %
Subsidiary of CMS Steel Berhad				
CMS Wires Sdn Bhd	Malaysia	Manufacture and sale of wire mesh and related products	69.0	69.0
Subsidiaries of CMS Works Sdn Bhd				
PPES Works (Sarawak) Sdn Bhd	Malaysia	Civil engineering contractor	51.0	51.0
CMS Works International Ltd	Malaysia	Investment holding	–	100.0
CMS Works International (China) Ltd	Malaysia	Dormant	100.0	–
Subsidiary of Concordance Holdings Sdn Bhd				
Utama Banking Group Berhad * (iv)	Malaysia	Investment holding	51.8	51.8
Subsidiaries of Utama Banking Group Berhad				
UBG Enterprise Berhad *	Malaysia	Dormant	100.0	100.0
Rashid Hussain Berhad * (v)	Malaysia	Investment holding, banking, property management and financial services business	32.6	32.8
Subsidiaries of PPES Works (Sarawak) Sdn Bhd				
CMS Pavement Tech Sdn Bhd	Malaysia	Road construction and maintenance	100.0	100.0
CMS Roads Sdn Bhd	Malaysia	Road assessment, maintenance and management	81.0	81.0
Subsidiaries of Rashid Hussain Berhad				
RHB Capital Berhad * (vi)	Malaysia	Investment holding	64.8	64.9
RHB Property Management Sdn Bhd *	Malaysia	Property management	100.0	100.0
Vision City (Malaysia) Sdn Bhd (formerly known as RHB-DAEWOO Sdn Bhd) *	Malaysia	Property investment	100.0	80.0
RHB Kawal Sdn Bhd *	Malaysia	Security services	100.0	100.0
RHB Management Company Sdn Bhd *	Malaysia	Management and consultancy services	100.0	100.0
Bandar Wawasan Management Sdn Bhd *	Malaysia	Dormant	100.0	80.0
RHB Health Care Sdn Bhd *	Malaysia	Dormant	100.0	100.0
RHB Modal-Ekuiti Sdn Bhd *	Malaysia	Dormant	100.0	100.0
RHB Noble 1 (L) Ltd *	Malaysia	Dormant	100.0	100.0

19. INVESTMENT IN SUBSIDIARIES (CONTD)

Name of subsidiaries	Country of incorporation	Principal activities	Proportion of ownership interest 2006 %	2005 %
Subsidiaries of RHB Capital Berhad				
RHB Bank Berhad *	Malaysia	Commercial banking	70.0	70.0
RHB Islamic Bank Berhad *	Malaysia	Islamic Banking	70.0	70.0
RHB Bank (L) Ltd *	Malaysia	Offshore banking	70.0	70.0
RHB Capital Nominees (Tempatan) Sdn Bhd *	Malaysia	Nominee services for Malaysian beneficial shareholders	70.0	70.0
RHB Investment Ltd *	Singapore	Property investment and rental	70.0	70.0
Banfora Pte Ltd *	Singapore	Property investment and rental	70.0	70.0
RHB Bank Nominees Pte Ltd *	Singapore	Nominee services	70.0	70.0
RHB Leasing Sdn Bhd *	Malaysia	Leasing and hire-purchase	70.0	70.0
RHB Trade Services Limited *	Hong Kong	Processing of letters of credit reissuance favouring Hong Kong beneficiaries	70.0	70.0
RHB Capital Properties Sdn Bhd *	Malaysia	Property investment	70.0	70.0
RHB Investment Bank Berhad (formerly known as RHB Sakura Merchant Bankers Berhad) *	Malaysia	Investment banking	100.0	100.0
RHB Nominees Sdn Bhd *	Malaysia	Nominee and custodian services	100.0	100.0
RHB Nominees (Asing) Sdn Bhd *	Malaysia	Nominee and custodian services for foreign beneficial shareholders	100.0	100.0
RHB Nominees (Tempatan) Sdn Bhd *	Malaysia	Nominee and custodian services for Malaysian beneficial shareholders	100.0	100.0
RHB Asset Management Sdn Bhd *	Malaysia	Asset management services	100.0	100.0
RHB Research Institute Sdn Bhd *	Malaysia	Research services	100.0	100.0
RHB Management Services (Jersey) Limited * (vii)	Jersey, Channel Islands	Management services	100.0	100.0
RHB Private Equity Holdings Sdn Bhd (formerly known as RHB Holdings Sdn Bhd) *	Malaysia	Private equity business and venture	100.0	100.0
RHB Insurance Berhad *	Malaysia	General insurance	79.5	79.5
RHB International Trust (L) Ltd *	Malaysia	Offshore trust company	100.0	100.0
Straits Asset Holdings Sdn Bhd * (viii)	Malaysia	Investment holding	100.0	100.0

19. INVESTMENT IN SUBSIDIARIES (CONTD)

Name of subsidiaries	Country of incorporation	Principal activities	Proportion of ownership interest 2006 %	2005 %
Subsidiaries of RHB Capital Berhad (contd)				
RHB Hartanah Sdn Bhd *	Malaysia	Property investment	100.0	100.0
RHB Equities Sdn Bhd * (ix)	Malaysia	Equity related services	100.0	100.0
RHB Asia Pte Ltd * (ii)	Singapore	Investment holding	100.0	100.0
RHB Capital (Jersey) Limited *	Jersey, Channel Islands	Investment holding	100.0	100.0
RHB Bena Sdn Bhd *	Malaysia	Dormant	100.0	100.0
RHBF Sdn Bhd *	Malaysia	Dormant	100.0	100.0
Kwong Yik Nominees (Tempatan) Sdn Bhd *	Malaysia	Dormant	100.0	100.0
Kwong Yik Nominees (Asing) Sdn Bhd *	Malaysia	Dormant	100.0	100.0
KYB Trust Management Sdn Bhd *	Malaysia	Dormant	100.0	100.0
RHB Dynamic Technologies Sdn Bhd *	Malaysia	Dormant	100.0	100.0
Subsidiaries of RHB Bank Berhad				
UMBC Sdn Bhd *	Malaysia	Dormant	100.0	100.0
RHB Delta Sdn Bhd (formerly known as RHB Delta Finance Berhad) * (x)	Malaysia	Dormant	100.0	100.0
USB Nominees Sdn Bhd *	Malaysia	Dormant	100.0	100.0
USB Nominees (Tempatan) Sdn Bhd *	Malaysia	Dormant	100.0	100.0
USB Nominees (Asing) Sdn Bhd *	Malaysia	Dormant	100.0	100.0
RHB Delta Nominees (Tempatan) Sdn Bhd *	Malaysia	Dormant	100.0	100.0
INFB Jaya Sdn Bhd *	Malaysia	Dormant	100.0	100.0
Utama Gilang Sdn Bhd *	Malaysia	Dormant	100.0	100.0
U.B. Nominees (Tempatan) Sdn Bhd *	Malaysia	Dormant	100.0	100.0

19. INVESTMENT IN SUBSIDIARIES (CONTD)

Name of subsidiaries	Country of incorporation	Principal activities	Proportion of ownership interest 2006 %	2005 %
Subsidiaries of RHB Investment Bank Berhad				
RHB Venture Capital Sdn Bhd *	Malaysia	Dormant	100.0	100.0
Straits Nominees (Tempatan) Sdn Bhd * (ii)	Malaysia	Dormant	100.0	100.0
Straits Nominees (Asing) Sdn Bhd * (ii)	Malaysia	Dormant	100.0	100.0
RHB Excel Sdn Bhd (formerly known as RHB Securities Sdn Bhd) * (xi)	Malaysia	Dormant	100.0	100.0
RHB Progressive Sdn Bhd (formerly known as RHB Futures Sdn Bhd) * (xii)	Malaysia	Dormant	100.0	100.0
RHB Marketing Services Sdn Bhd *	Malaysia	Dormant	100.0	100.0
Subsidiary of RHB Capital Nominees (Tempatan) Sdn Bhd				
RHB Capital Nominees (Asing) Sdn Bhd *	Malaysia	Nominee services for foreign beneficial shareholders	100.0	100.0
Subsidiary of RHB Capital Properties Sdn Bhd				
Utama Assets Sdn Bhd *	Malaysia	Property investment	100.0	100.0
Subsidiaries of RHB Investment Bank Berhad				
RHB Unit Trust Management Berhad *	Malaysia	Management of unit trust funds	100.0	100.0
RHB Merchant Nominees (Tempatan) Sdn Bhd *	Malaysia	Nominee services for Malaysian beneficial shareholders	100.0	100.0
Subsidiary of RHB Private Equity Holdings Sdn Bhd				
RHB Private Equity Management Ltd * (xiii)	Malaysia	Investment advisor, investment consultant and other ancillary services only for private equity funds	100.0	–
Subsidiary of RHB International Trust (L) Ltd				
RHB Corporate Services Sdn Bhd *	Malaysia	Corporate secretarial services	100.0	100.0

19. INVESTMENT IN SUBSIDIARIES (CONTD)

Name of subsidiaries	Country of incorporation	Principal activities	Proportion of ownership interest 2006 %	2005 %
Subsidiaries of Straits Asset Holdings Sdn Bhd				
SFSB Services (Melaka) Sdn Bhd *	Malaysia	Dormant	100.0	100.0
SSSB Services (Melaka) Sdn Bhd *	Malaysia	Dormant	100.0	100.0
Subsidiary of RHB Equities Sdn Bhd				
KYB Sdn Bhd *	Malaysia	Dormant	100.0	100.0
Subsidiaries of RHB Capital (Jersey) Limited				
RHB Overseas Limited * (xiv)	Jersey, Channel Islands	Investment holding	–	100.0
Rashid Hussain Securities (Philippines) Inc * (xv)	Philippines	Dormant	100.0	100.0
PT Rashid Hussain Securities * (ii)	Indonesia	Dormant	85.0	85.0
Subsidiary of RHBF Sdn Bhd				
KYF Sdn Bhd *	Malaysia	Dormant	100.0	100.0
Subsidiary of RHB Merchant Nominees (Tempatan) Sdn Bhd				
RHB Merchant Nominees (Asing) Sdn Bhd *	Malaysia	Nominee services for foreign beneficial shareholders	100.0	100.0
Subsidiary of RHB Private Equity Management Ltd				
RHB Private Equity Fund Ltd * (xvi)	Cayman Islands	Investment company	100.0	–

* audited by firms other than Ernst & Young.

i. Classified as discontinued operation.

ii. The subsidiary is in the process of being liquidated.

iii. The remaining 40% is held by CMS Premix Sdn Bhd.

iv. The shares in Utama Banking Group Berhad have been pledged to bankers for banking facilities granted to the Company.

v. The proportion of voting power is approximately 61% (2005: 61%).

19. INVESTMENT IN SUBSIDIARIES (CONTD)

vi. The equity interest of RHB in RHB Capital Berhad has decreased pursuant to the conversion of RHB Call Warrants 2003/2007 into RHB Capital ordinary shares existingly held by RHB by an exercising holder of the RHB Call Warrants 2003/2007.

vii. The Company has been dissolved on 23 January 2007.

viii. With effect from 22 September 2006, the Company has become a wholly-owned subsidiary of RHB Capital Berhad.

ix. With effect from 1 July 2001, the Company's activities relate primarily to recovery of outstanding debts.

x. The Company's assets and liabilities were vested to RHB Bank Berhad with effect from 1 January 2006. The Company has changed its name to RHB Delta Sdn Bhd and converted to a private company with effect from 6 June 2006 and 8 June 2006, respectively.

xi. Pursuant to the Vesting Order granted by the High Court of Malaya on 12 December 2006, the business of the Company including its assets and liabilities were transferred to RHB Investment Bank Berhad with effect from 30 December 2006. The Company changed its name to RHB Excel Sdn Bhd with effect from 9 January 2007.

xii. Pursuant to the Vesting Order granted by the High Court of Malaya on 12 December 2006, the business of the Company including its assets and liabilities were transferred to RHB Investment Bank Berhad with effect from 30 December 2006. The Company changed its name to RHB Progressive Sdn Bhd with effect from 9 January 2007.

xiii. The Company was incorporated on 15 September 2006 under the Offshore Companies Act, 1990.

xiv. Company has been dissolved on 9 June 2006.

xv. The Company has ceased operations effective from the close of business on 10 December 2001.

xvi. The Company was incorporated on 29 September 2006 under the Companies Law CAP 22.

20. INVESTMENT IN ASSOCIATES

	Group 2006 RM'000	Group 2005 RM'000 (Restated)
Quoted shares in Malaysia, at cost	282,170	282,170
Unquoted shares, at cost	16,175	16,155
Redeemable preference shares, at cost	4,000	–
	302,345	298,325
Share of post-acquisition reserves	(10,562)	(15,236)
	291,783	283,089
Market value:		
Ordinary shares	115,015	70,542

20. INVESTMENT IN ASSOCIATES (CONTD)

Details of the associates are as follows:

Name of associates	Country of incorporation	Principal activities	Proportion of ownership interest 2006 %	2005 % (Restated)
Held through subsidiaries:				
K&N Kenanga Holdings Berhad	Malaysia	Investment holding, stockbroking and financial services business	25.1	25.1
COPE-KPF Opportunities 1 Sdn Bhd	Malaysia	Investment holding	49.9	–
Positive Properties Sdn Bhd	Malaysia	Property investment	50.0	50.0
RHB-Cathay Securities Pte Ltd (i)	Singapore	Dormant	–	49.0

(i) The Company was liquidated on 27 March 2006.

The summarised financial information of the associates are as follows:

	2006 RM'000	2005 RM'000 (Restated)
Total assets	1,623,175	1,241,008
Total liabilities	860,429	514,790
Results		
Revenue	140,746	101,547
Profit/(loss) for the year	27,102	(41,930)

The net carrying amount of goodwill of an associate included within the Group's carrying amount of investment in associates is as follows:

	RM'000
At 31 January and 31 December 2006	89,447

21. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	Group 2006 RM'000	Group 2005 RM'000
Unquoted shares at cost	2,455	2,455
Share of post-acquisition reserves	6,413	3,128
	8,868	5,583

Details of the jointly controlled entities are as follows:

Name of jointly controlled entities	Country of incorporation	Principal activities	Proportion of ownership interest 2006 %	2005 %
PPES Works (Sarawak) Sdn Bhd/ Naim Cendera Sdn Bhd JV	Malaysia	Construction of buildings	55	55
PPES Works (Sarawak) Sdn Bhd/ Advance Praise Sdn Bhd JV	Malaysia	Green waste management and composting	51	51
Chiyoda Malaysia Sdn Bhd/ PPES Works (Sarawak) Sdn Bhd JV	Malaysia	Provision of design, construction and engineering services for various packages of the Independent Oil Terminal Project	40	40
CMS Energy Sdn Bhd/ Special Triumph Sdn Bhd/ Poscon Corporation JV	Malaysia	Sub-contract packages of the Independent Oil Terminal Project	51	51
CMS Energy Sdn Bhd/ Special Triumph Sdn Bhd/ Posco Machinery & Engineering Co Ltd JV	Malaysia	Package 8 (Design and Execution of the Hydraulic Steel Structure Package) of the Bakun Hydroelectric Project Package CW2 Main Civil Works	51	51

The Group's aggregate share of the current assets, non-current assets, current liabilities, non-current liabilities, income and expenses of the jointly controlled entities is as follows:

	Group 2006 RM'000	Group 2005 RM'000
Assets and liabilities		
Current assets	24,188	27,284
Non-current assets	163	215
Total assets	24,351	27,499

21. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES (CONTD)

The Group's aggregate share of the current assets, non-current assets, current liabilities, non-current liabilities, income and expenses of the jointly controlled entities is as follows: (contd)

	Group 2006 RM'000	Group 2005 RM'000
Current liabilities	(15,483)	(21,904)
Non-current liabilities	–	(12)
Total liabilities	(15,483)	(21,916)
Results		
Revenue	66,719	43,528
Expenses, including finance costs and taxation	60,827	39,196

22. SECURITIES AVAILABLE-FOR-SALE (“SECURITIES AFS”)

	Group 2006 RM'000	Group 2005 RM'000 (Restated)
At fair value		
Money market instruments:		
Quoted		
Cagamas bonds and Cagamas Mudharabah bonds	451,156	585,534
Singapore government stocks	103,952	–
Malaysian government securities	50,190	–
Khazanah bonds	9,405	–
Government investment issues	5,058	–
Unquoted		
Negotiable instrument of deposits	3,220,039	–
Private debt securities	912,132	414,022
BNM bills/notes	401,056	99,575
Structured notes	306,351	322,498
Singapore government treasury bills	85,890	56,761
Malaysian government treasury bills	85,678	42,534
Other government securities	–	4,546
	5,630,907	1,525,470
Quoted securities:		
In Malaysia		
Corporate loan stocks	54,813	74,849
Shares	23,856	44,353
Malaysian government securities	22,100	22,134
Private debt securities	9,209	4,433
Outside Malaysia		
Floating rate notes	292	313
Shares	129	135

22. SECURITIES AVAILABLE-FOR-SALE ("SECURITIES AFS") (CONTD)

	Group 2006 RM'000	Group 2005 RM'000 (Restated)
Unquoted securities:		
In Malaysia		
Shares	168,469	168,642
Corporate loan stocks	161,524	193,691
Corporate debt securities	83,212	85,350
Private debt securities	65,508	38,386
At fair value		
Unquoted securities:		
Outside Malaysia		
Private debt securities	49,109	3,298
Trading rights	367	238
Shares	345	345
	6,269,840	2,161,637

Included in securities AFS of the Group is an amount of RM3,539,529,000 (2005: RM375,000,000) being pledged to third parties in relation to securities sold under repurchase agreements.

23. SECURITIES HELD-TO-MATURITY

	Group 2006 RM'000	Group 2005 RM'000 (Restated)
At amortised cost		
Money market instruments:		
Quoted		
Malaysian government securities	2,124,505	2,424,601
Cagamas bonds and Cagamas Mudharabah bonds	911,120	656,125
Khazanah bonds	573,678	635,686
Government investment issues	80,964	–
Unquoted		
Negotiable instrument of deposits	5,286,823	5,367,009
Prasarana bonds	1,979,791	2,052,791
Private debt securities	796,394	1,026,996
Structured notes	353,052	151,181
Other government securities	234,310	140,747
Bankers' acceptances and Islamic accepted bills	99,065	714,033
Cagamas notes	98,157	–
Malaysian government treasury bills	–	73,406
Thailand government treasury bills	–	47,235
	12,537,859	13,289,810

23. SECURITIES HELD-TO-MATURITY (CONTD)

	Group 2006 RM'000	Group 2005 RM'000 (Restated)
At amortised cost		
Quoted securities:		
In Malaysia		
Floating rate notes	81,225	100,162
Unquoted securities:		
In Malaysia		
Private debt securities	389,458	399,183
Corporate loan stocks	205,231	187,992
Bonds	29,070	29,070
Shares	2,700	2,700
Promissory notes	–	375
Outside Malaysia		
Floating rate notes	10,595	–
	13,256,138	14,009,292
Less: Accumulated impairment losses	(233,986)	(182,182)
	13,022,152	13,827,110

Included in securities held-to-maturity is an amount of RM8,507,728,000 (2005: RM8,879,125,000) being pledged to third parties in relation to securities sold under repurchase agreements.

Included in unquoted shares are third party redeemable preference shares amounting to RM1,500,000 (2005: RM1,500,000) with a nominal value of RM1 each charged to a third party as part of financing transactions facilitated by subsidiaries.

24. DEFERRED TAX (ASSETS)/LIABILITIES

	Group 2006 RM'000	Group 2005 RM'000 (Restated)	Company 2006 RM'000	Company 2005 RM'000
At 1 January	(221,671)	(179,838)	–	–
Recognised in income statement (Note 10)	(4,611)	(48,561)	200	–
Recognised in equity	11,277	6,659	–	–
Exchange differences	(104)	69	–	–
At 31 December	(215,109)	(221,671)	200	–
Presented after appropriate offsetting as follows:				
Deferred tax assets	(254,801)	(247,658)	–	–
Deferred tax liabilities	39,692	25,987	200	–
At 31 December	(215,109)	(221,671)	200	–

24. DEFERRED TAX (ASSETS)/LIABILITIES (CONTD)

Deferred tax assets of the Group:

	Provision for liabilities RM'000	Provision for doubtful debts RM'000	Unused tax losses and unabsorbed capital allowances RM'000	Leasing business RM'000	General allowances on loans, advances and financing RM'000	Other temporary differences RM'000	Total RM'000
At 1 January 2006	(529)	(167)	(9,439)	(7,964)	(245,994)	(11,783)	(275,876)
Recognised in income statement	(8)	(117)	4,800	(8,552)	1,155	1,999	(723)
Exchange differences	–	–	(106)	–	–	1	(105)
At 31 December 2006	(537)	(284)	(4,745)	(16,516)	(244,839)	(9,783)	(276,704)
At 1 January 2005	(515)	–	(5,009)	(7,964)	(218,220)	(2,766)	(234,474)
Recognised in income statement	(14)	(167)	(4,501)	–	(27,774)	(9,017)	(41,473)
Exchange differences	–	–	71	–	–	–	71
At 31 December 2005	(529)	(167)	(9,439)	(7,964)	(245,994)	(11,783)	(275,876)

24. DEFERRED TAX (ASSETS)/LIABILITIES (CONTD)

The components and movements of deferred tax liabilities and assets during the financial year prior to offsetting are as follows:

Deferred tax liabilities of the Group:

	Revaluation of leasehold land and building RM'000	Accelerated capital allowances RM'000	Intangible assets RM'000	Securities available-for-sale RM'000	Total RM'000
At 1 January 2006	284	53,498	–	423	54,205
Recognised in income statement	(17)	(3,906)	36	11,277	7,390
At 31 December 2006	267	49,592	36	11,700	61,595
At 1 January 2005	291	60,579	–	(6,234)	54,636
Recognised in income statement	(7)	(7,081)	–	–	(7,088)
Recognised in equity	–	–	–	6,659	6,659
Exchange differences	–	–	–	(2)	(2)
At 31 December 2005	284	53,498	–	423	54,205

Deferred tax liability of the Company

	Accelerated capital allowances RM'000
At 1 January 2006	–
Recognised in income statement	200
At 31 December 2006	200

Deferred tax assets have not been recognised in respect of the following items:

	Group 2006 RM'000	Group 2005 RM'000 (Restated)	Company 2006 RM'000	Company 2005 RM'000
Unutilised tax losses	3,268,357	3,374,638	–	–
Unabsorbed capital allowances	44,240	50,773	114	4,039
Unutilised investment tax allowances	36,000	36,000	–	–
Provision for liabilities	53	20	–	–
Provision for doubtful debts	273	166	–	–
Shared losses from investment in joint venture	900	–	–	–
Other deductible temporary differences	370	–	–	–
	3,350,193	3,461,597	114	4,039

As at 31 December 2006, the deferred tax assets are not recognised as it is not probable that future taxable profit will be available against which the unutilised tax losses, unabsorbed capital allowances and unutilised investment tax allowances can be utilised. The availability for offsetting against future profits of the Group and the Company is subject to the provisions of the Income Tax Act, 1967.

25. REAL PROPERTY ASSETS

	Group 2006 RM'000	Group 2005 RM'000
Freehold land, at cost	102,511	102,511
Development expenditure	319,293	319,276
	421,804	421,787
Less: Accumulated impairment losses	(29,804)	–
	392,000	421,787

i. Movements of impairment losses in real property assets are as follows:

	Group 2006 RM'000	Group 2005 RM'000
At 1 January	–	131,604
Charge for the year (Note 5)	29,804	–
Realisation due to sale of real property asset	–	(35,606)
Reversal during the year	–	(95,998)
At 31 December	29,804	–

As at 31 December 2006, management has assessed the recoverable amount of the properties based on an indicative valuation of RM400,000,000, less the cost of disposal. The amount recoverable has been assessed to be lower than the carrying amount of the assets. Accordingly, impairment losses of RM29,804,000 for the properties is now recognised in the financial statements for the financial year ended 31 December 2006.

ii. The real property assets have been pledged as collateral for the revolving credit facilities granted to a subsidiary and a credit facility granted to RHB.

26. INVENTORIES

	Group 2006 RM'000	Group 2005 RM'000
Cost		
Raw materials	9,238	31,959
Finished goods	8,343	32,395
General stores	20,068	22,866
Work-in-progress	15	9
Goods-in-transit	10	164
	37,674	87,393
Net realisable value		
General stores	1,642	1,675
Finished goods	1,915	1,010
	3,557	2,685
	41,231	90,078

27. AMOUNT DUE FROM/(TO) CUSTOMERS ON CONTRACTS

	Group 2006 RM'000	Group 2005 RM'000
Construction contract costs incurred to-date	1,172,967	1,088,943
Attributable profits less recognised losses	107,297	106,456
	1,280,264	1,195,399
Less: Progress billings	(1,277,717)	(1,189,254)
	2,547	6,145
Amount due from customers on contracts	12,585	16,920
Amount due to customers on contracts	(10,038)	(10,775)
	2,547	6,145
The costs incurred to-date on construction contracts include the following charges made during the financial year:		
Depreciation of property, plant and equipment (Note 14)	953	1,723
Hire of equipment	2,764	2,819
Rental expense for buildings	333	355

28. STATUTORY DEPOSITS

Included in statutory deposits are:

i. Non-interest bearing statutory deposits of RM1,904,950,000 (2005: RM1,695,632,000) relating to the banking subsidiaries which are maintained with BNM in compliance with Section 37(1)(c) of the Central Bank of Malaysia Act, 1958 (revised-1994), with the Ministry of Finance, Negara Brunei Darussalam in compliance with Section 6A of the Banking Act, and with the Monetary Authority of Singapore in compliance with Banking Act, Cap. 19 and Singapore Finance Companies Act, Cap. 108. The amounts are determined by the respective authorities.

ii. Interest bearing statutory deposits of Nil (2005: RM100,000) favouring the Accountant General that has been placed by a subsidiary which is maintained with a banking subsidiary in accordance with Section 4(2)(d) of the Labuan Trust Companies Act, 1990.

iii. Non-interest bearing statutory deposits of RM100,000 (2005: RM100,000) relating to a trust subsidiary which is maintained with the Labuan Offshore Financial Services Authority in accordance with Section 4(2)(d)(ii) of the Labuan Trust Companies (Amendment) Act 2002.

29. SECURITIES HELD-FOR-TRADING

	Group 2006 RM'000	Group 2005 RM'000 (Restated)
At fair value		
Money market instruments:		
Quoted		
Government investment issues	421,241	208,084
Khazanah bonds	389,473	198,389
Malaysian government securities	196,338	25,030
Singapore government stocks	192,069	317,799
Unquoted		
Private debt securities	1,113,968	800,332
Negotiable instrument of deposits	955,019	59,994
Bankers' acceptances and Islamic accepted bills	757,128	763,727
BNM bills/notes	613,125	444,592
Fixed rate notes	229,710	249,057
Malaysian government treasury bills	28,965	20,654
	4,897,036	3,087,658

29. SECURITIES HELD-FOR-TRADING (CONTD)

	Group 2006 RM'000	Group 2005 RM'000 (Restated)
Quoted securities:		
Shares	42,817	44,008
Unit trust	6,720	4,416
Warrants	800	680
Outside Malaysia		
Other government securities	114,487	126,856
Bonds	98,682	105,289
Shares	900	424
Unquoted securities:		
Outside Malaysia		
Shares	–	316
	5,161,442	3,369,647

30. SHORT TERM INVESTMENTS

Quoted securities at cost:		
In Malaysia		
Ordinary shares	1,295	1,295
Less: Accumulated impairment losses	(1,110)	(1,110)
	185	185
Unit stocks	578	158
	763	343
Market value:		
Ordinary shares	583	241
Unit trusts	588	168

31. AMOUNT DUE FROM/(TO) SUBSIDIARIES

	Company 2006 RM'000	Company 2005 RM'000
Central cash management accounts (i)	95,304	44,185
Amount due from subsidiaries (ii)	428,224	430,033
	523,528	474,218
Less: Provision against advances to subsidiaries	(32,853)	(32,853)
	490,675	441,365
Central cash management accounts (i)	(261,025)	(225,155)
Amount due to subsidiaries (ii)	(14,737)	(362)
Loans from subsidiaries (iii)	–	(82,750)
	(275,762)	(308,267)

31. AMOUNT DUE FROM/(TO) SUBSIDIARIES (CONTD)

i. All balances deposited with the Company are repayable on demand and earn interest at the rate of 4.0% – 7.5% (2005: 4%–5%) per annum. All balances due to the Company are also repayable on demand and are charged interest ranging from 7.0% to 7.5% (2005: 7.0% to 7.5%) per annum.

ii. These amounts are unsecured, interest-free and have no fixed term of repayment.

iii. The loans from subsidiaries represent the syndicated term loans obtained by the subsidiaries and made available to the Company as provided for in the loan agreements.

The interest and principal repayments to the subsidiaries were made in accordance with the terms of the syndicated loans offered by the bankers to the subsidiaries. The loans made available by the subsidiaries were fully settled during the year.

32. TRADE AND OTHER RECEIVABLES

	Group 2006 RM'000	Group 2005 RM'000 (Restated)	Company 2006 RM'000	Company 2005 RM'000
Trade receivables				
Third parties	194,582	242,021	–	–
Retention sum	24,045	16,483	–	–
Less: Provision for doubtful debts	(14,782)	(12,219)	–	–
Trade receivables, net	203,845	246,285	–	–
Other receivables				
Other receivables	392,266	295,138	2,853	164
Less: Provision for doubtful debts	(4,824)	(4,496)	–	–
	387,442	290,642	2,853	164
Proceeds receivable from CMS Income Securities on sold	51,375	–	51,375	–
Amount due from BNM	1,379	1,705	–	–
Amount due from joint venture	5,133	5,209	–	–
Other deposits	3,022	2,812	256	258
Prepayments	3,927	1,723	415	415
Interest receivable	223,867	173,923	–	–
Tax recoverable	127,584	135,461	18,020	17,640
Other receivables, net	803,729	611,475	72,919	18,477
	1,007,574	857,760	72,919	18,477

i. Credit risk
The Group's primary exposure to credit risk arises through its trade receivables. The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of one month, extending up to four months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Interest of 1% (2005: 1%) per annum is charged on overdue balances on a case-by-case basis.

ii. Included in other receivables of the Group is a deposit of RM32,800,000 (2005: RM32,800,000) paid by RHB Capital Berhad ("RHB Capital") pursuant to the sale and purchase agreement dated 7 November 2000 between Carta Bintang Sdn Bhd and RHB Capital for the sale and purchase of 60 million shares in SJ Securities Sdn Bhd as disclosed in Note 52(b)(ii)(b)(i).

33. DERIVATIVE ASSETS/(LIABILITIES)

	Group 2006 RM'000	Group 2005 RM'000
Derivative assets	169,619	48,234
Derivative liabilities	(310,737)	(121,326)
	(141,118)	(73,092)

	Contract or underlying principal amount RM'000	Year-end positive fair value RM'000	Year-end negative fair value RM'000
2006			
Foreign exchange related contracts:			
– forwards/swaps	13,722,481	107,946	82,807
– options	45,390	1,512	1,208
– cross-currency interest rate swaps	683,017	21,798	20,996
Interest rate related contracts:			
– futures	4,570,000	1,784	9,161
– swaps	4,308,397	35,779	44,059
Warrants		800	–
Call Warrants 2003/2007		–	152,506
		169,619	310,737
2005			
Foreign exchange related contracts:			
– forwards/swaps	6,958,530	13,435	16,163
– options	929,564	20,149	19,759
– cross-currency interest rate swaps	188,975	167	59
Interest rate related contracts:			
– futures	3,331,000	2,677	1,235
– swaps	3,862,403	11,126	32,035
Warrants 2001/2007		680	–
Call Warrants 2003/2007		–	52,075
		48,234	121,326

34. CLIENTS' AND BROKERS' BALANCES

Clients' and brokers' balances are stated net of specific and general allowance for doubtful debts of RM8,590,000 (2005: RM10,419,000) and RM1,130,000 (2005: RM974,000), respectively.

35. LOANS, ADVANCES AND FINANCING

	Group 2006 RM'000	Group 2005 RM'000
Gross loans, advances and financing	56,124,508	51,091,467
Less: Allowances for bad and doubtful debts and financing	(2,731,622)	(2,742,711)
Net loans, advances and financing	53,392,886	48,348,756

Included in term loans are housing loans and hire-purchase receivables sold to Cagamas with recourse amounting to RM2,879,284,000 (2005: RM3,356,992,000).

36. DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group 2006 RM'000	Group 2005 RM'000
Licensed banks	887,458	317,315
Licensed finance companies	–	36,500
Licensed merchant banks	20,000	15,084
BNM	4,675,000	2,249,100
Other financial institutions	14,391	2,332
	5,596,849	2,620,331
Included in deposits and placements with licensed bank are:		
Sinking fund accounts	–	86,440
Deposits pledged to licensed banks	8,443	8,994

37. CASH AND CASH EQUIVALENTS

	Group 2006 RM'000	Group 2005 RM'000 (Restated)	Company 2006 RM'000	Company 2005 RM'000
Cash in hand and at bank				
– a related company	–	–	875	11,692
– others	5,136	5,053	65	184
Short term deposits with financial institutions				
– a related company	–	–	87,456	82,000
– others	8,620	77,400	210	48,210
Cash and bank balances of banking subsidiaries	10,694,454	11,400,195	–	–
Cash and bank balances	10,708,210	11,482,648	88,606	142,086

Cash and balances of banking subsidiaries comprise the following:

	Group 2006 RM'000	Group 2005 RM'000
Cash and balances with banks and other financial institutions (a)	388,183	702,964
Money at call and deposit placements maturing within one month (b)	10,306,271	10,697,231
	10,694,454	11,400,195

37. CASH AND CASH EQUIVALENTS (CONTD)

	Group 2005 RM'000	Company 2006 RM'000
a. Included in cash and balances with banks and other financial institutions are:		
Accounts held in trust for clients	6,628	7,625
Sinking fund accounts	35	35
b. Included in money at call and deposits placements are:		
Accounts held in trust for clients and remisiers	91,974	49,454
Sinking fund accounts	51,419	31,687
Deposits pledged to licensed banks	16,802	35,597

Other information on financial risks of cash and cash equivalents are disclosed in Note 54.

For the purpose of the cash flow statements, cash and cash equivalents comprise the following as at the balance sheet date:

	Group 2006 RM'000	Group 2005 RM'000 (Restated)	Company 2006 RM'000	Company 2005 RM'000
Cash and bank balances	10,708,210	11,482,648	88,606	142,086
Bank overdrafts (Note 41)	(159)	(10,807)	(3)	(2,576)
	10,708,051	11,471,841	88,603	139,510

38. SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares of RM1 each	< ---------- Amount ---------- >		
	Share capital (Issued and fully paid) '000	Share capital (Issued and fully paid) RM'000	Share premium RM'000	Total share capital and share premium RM'000
At 1 January 2005, 31 December 2005 and 31 December 2006	329,446	329,446	427,513	756,959

	Number of Ordinary Shares of RM1 Each		Amount	
	2006 '000	2005 '000	2006 RM'000	2005 RM'000
Authorised				
At 1 January and 31 December	1,000,000	1,000,000	1,000,000	1,000,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

39. OTHER RESERVES

	Note	Capital reserves RM'000	Reserve funds RM'000	AFS reserves RM'000	Translation reserves RM000	Merger deficit RM'000	Total RM'000
Group							
At 1 January 2006							
As previously stated		85,776	29,868	(4,149)	–	(12,000)	99,495
Effects of adopting FRS 127	2.3(d)	–	–	3,691	(2,443)	–	1,248
At 1 January 2006 (restated)		85,776	29,868	(458)	(2,443)	(12,000)	100,743
Effects of adopting FRS 3	2.3(a)(ii)	(53)	–	–	–	–	(53)
Conversion of ICULS by minority interests		–	(1,091)	(27)	5	–	(1,113)
Currency translation differences		–	–	–	(1,167)	–	(1,167)
Exercise of call warrants 2003/2007		–	(271)	(6)	1	–	(276)
Unrealised net gain or revaluation of securities AFS		–	–	6,771	–	–	6,771
Net transfer to income statement on disposal or impairment		–	–	(1,676)	–	–	(1,676)
Deferred tax		–	–	(1,373)	–	–	(1,373)
Transfer in respect of disposal of land		(217)	–	–	–	–	(217)
Transfer in respect of statutory requirements		–	20,738	–	–	–	20,738
At 31 December 2006		85,506	49,244	3,231	(3,604)	(12,000)	122,377
At 1 January 2005							
As previously stated		85,776	16,583	(30,731)	–	(12,000)	59,628
Effects of adopting FRS 127	2.3(d)	–	–	29,655	(1,300)	–	28,355
At 1 January 2005 (restated)		85,776	16,583	(1,076)	(1,300)	(12,000)	87,983
Currency translation differences		–	–	–	(1,143)	–	(1,143)
Unrealised net gain on revaluation of securities AFS		–	–	(2,240)	–	–	(2,240)
Net transfer to income statement on disposal or impairment		–	–	3,206	–	–	3,206
Deferred tax		–	–	(348)	–	–	(348)
Transfer in respect of statutory requirements		–	13,285	–	–	–	13,285
At 31 December 2005		85,776	29,868	(458)	(2,443)	(12,000)	100,743

39. OTHER RESERVES (CONTD)

i. Capital reserves comprise accretion from shares issued by subsidiaries, retained earnings capitalised for bonus issues by subsidiaries as well as surplus arising from revaluation of land and buildings in 1996.

ii. The reserve funds represent non-distributable profits held by the banking subsidiaries in compliance with Section 36 of the Banking and Financial Institutions Act, 1989 and Section 18 of the Singapore Finance Companies (Amendment) Act 1994. These funds are not distributable as cash dividends.

iii. AFS reserves comprise any gain or loss arising from a change in fair value recognised from AFS securities.

40. RETAINED EARNINGS

As at 31 December 2006, the Company has tax exempt profits available for distribution of approximately RM104 million (2005: RM104 million), subject to the agreement of the Inland Revenue Board.

The Company has sufficient tax credit under Section 108 of the Income Tax Act, 1967 and the balance in the tax-exempt income account to frank the payment of dividends out of its entire retained earnings as at 31 December 2006.

41. BORROWINGS

	Note	Group 2006 RM'000	Group 2005 RM'000 (Restated)	Company 2006 RM'000	Company 2005 RM'000
Secured:					
Bank overdrafts (Note 37)	(i)	3	6,530	3	2,576
Bankers' acceptances	(i)	15,000	22,933	–	–
Revolving credits	(i)	75,950	113,890	20,000	35,000
Term loans	(i)	90,000	235,400	90,000	130,000
Banking subsidiaries:					
Revolving credits	(ii)	278,125	486,525	–	–
Term loans	(ii)	1,123,000	716,000	–	–
USD265 million 2.0% stepping up to 4.0% in 2005 Secured Bonds due 2007	(iii)	1,053,668	1,063,020	–	–
4.3% Bank Guaranteed Bonds	(iv)	200,000	200,000	–	–
Unsecured:					
Bank overdrafts (Note 37)	(i)	156	104	–	–
Bankers' acceptances	(i)	1,296	29,415	–	–
Trust receipts	(i)	–	37,423	–	–
Revolving credits	(i)	71,200	59,200	–	–
Term loan	(i)	16,502	19,500	–	–
Time loan	(i)	–	18,500	–	–
CMS Income Securities (Note 42)		338,007	167,128	338,007	167,128
Banking subsidiaries:					
Revolving credits	(v)	93,200	111,952	–	–
Term loans	(vi)	282,400	–	–	–
Bank overdrafts	(vii)	–	4,173	–	–
Redeemable Serial Fixed Rate Bonds 2002/2007	(viii)	–	375,000	–	–
RM600 million 6 years Serial Fixed Rate Bonds	(ix)	594,904	593,544	–	–
RM350 million Fixed Rate Bonds	(x)	341,308	–	–	–
		4,574,719	4,260,237	448,010	334,704
Maturity period of borrowings:					
Repayable within one year		1,915,571	1,202,670	82,101	77,576
One year to five years		2,018,231	2,761,267	348,700	257,128
Over five years		640,917	296,300	17,209	–
		4,574,719	4,260,237	448,010	334,704

41. BORROWINGS (CONTD)

i. **The bank overdrafts, revolving credits and term loans of the Company are secured by way of a pledge against shares of a subsidiary.**

The bank overdrafts, revolving credits and term loans of the Company bear interest at rates ranging from 5.10% to 8.40% (2005: 4.80% to 8.40%) per annum.

The bank overdrafts, bankers' acceptances, revolving credits and term loans of the subsidiaries are secured by fixed and floating charges over assets of certain subsidiaries and a legal charge over landed properties of a subsidiary.

The borrowings of the subsidiaries bear interest ranging from 2.88% to 8.0% (2005: 2.98% to 7.45%) per annum above the bankers' base lending rates or cost of funds.

ii. **Revolving credits and term loans (secured)**

Revolving credit and term loan facilities of RM278,125,000 (2005: RM486,525,000) and RM1,123,000,000 (2005: RM716,000,000) respectively, are secured against:

a. properties of wholly-owned subsidiaries;
b. shares and securities of subsidiaries;
c. fixed deposits of the Group of RM12,783,000 (2005: RM14,634,000) and RM9,234,000 (2005: RM26,069,000) respectively;
d. assignment of rental proceeds from a property of a subsidiary;
e. corporate guarantee by a subsidiary of RM240,000,000 (2005: RM240,000,000); and
f. standby letter of credit from Labuan offshore banks.

The secured revolving credit facilities and term loans bear interest at rates ranging from 4.22% to 8.00% (2005: 3.50% to 7.50%) and 4.28% to 8.50% (2005: 4.20% to 8.30%) per annum respectively.

The revolving credits of a banking subsidiary with a sum of RM110,000,000 repayable on 17 March 2007, are secured against fixed deposits amounting to RM12,783,000 (2005: RM14,634,000); 90,000,000 units of RHB call warrants; 226,127,000 ordinary shares of RHB; 176,100,000 units and 177,344,898 units of RHB ICULS A and ICULS B respectively; and bear interest at rates ranging from 4.60% to 6.24% (2005: 4.55% to 4.60%) per annum.

iii. **USD 265 million 2.0% stepping up to 4.0% in 2005 Secured Bonds due 2007**

In 2002, RHB proposed to the holders of the USD200 million 1.5% Redeemable Exchangeable Bonds ("Bonds 97/07") ("Bondholders") to restructure the Bonds 97/07 by way of an exchange of the Bonds 97/07 at their accreted value for approximately USD265.184 million nominal amount of Rashid Hussain Berhad Secured Bonds 2002/2007 ("New Bonds") with approximately 340.439 million detachable warrants ("New Warrants") ("Bond Restructuring"). The New Warrants entitled its holder to purchase shares of RHB Capital held by RHB at an exercise price of RM2.96 per share, by way of cash payment or the surrender for cancellation of the New Bonds at their accreted value or a combination of both. At the Bondholders' meeting held on 21 June 2002, the Bondholders had approved the settlement of the Bonds 97/07.

The Bond Restructuring enabled RHB to defer its repayment obligations under the Bonds 97/07 and is expected to ultimately enable the redemption of the Secured Bonds without a significant amount of cash outlay or fund raising by RHB. Proceeds from the exercise of New Warrants, which have an exercise price that is more reflective of the current market price of RHB Capital shares, will be used to redeem the Secured Bonds.

RHB had obtained the approval from Foreign Investment Committee ("FIC"), BNM and Securities Commission ("SC"), respectively on the Bond Restructuring. In a letter dated 28 November 2002, SC had approved the following:

a. issuance of up to USD265.485 million nominal amount of 2% stepping up to 4% in 2005, bonds due 2007 ("Secured Bonds") together with up to 340,440,000 detachable call warrants ("New Warrants") ("Secured Bonds with New Warrants"); and

b. the listing of and quotation for the New Warrants on the Bursa Securities.

The shareholders of RHB had approved the Bond Restructuring at an Extraordinary General Meeting held on 12 December 2002 and RHB has successfully fulfilled all conditions precedent for the restructuring of the Bonds 97/07 on 31 December 2002.

41. BORROWINGS (CONTD)

iii. USD 265 million 2.0% stepping up to 4.0% in 2005 Secured Bonds due 2007 (contd)

The Bond Restructuring was successfully completed on 21 February 2003 with the issuance of the Secured Bonds with New Warrants. The nominal value of Secured Bonds and the number of New Warrants issued by RHB were USD265,205,000 and 340,438,934 units, respectively.

During the financial year, 2,000,000 of the New Warrants were exercised and converted into RHB Capital ordinary shares.

The facility is secured against shares in a subsidiary.

The above USD265 million Secured Bonds are due for repayment in June 2007. Based on the information and documentations available to date, the Board of Directors of RHB is confident and committed to support the implementation of proposals that will enable RHB to repay the Secured Bonds.

iv. 4.3% Bank Guaranteed Bonds

On 31 December 2002, RHB issued RM200 million nominal amount of 5-year 4.30% bank guaranteed bonds ("Bank Guaranteed Bonds"). The Bank Guaranteed Bonds bear interest at the rate of 4.30% per annum, payable semi-annually in June and December every year, from June 2003. The facility is secured against shares in a subsidiary and fixed deposits of RM3,108,000 (2005: RM3,016,000).

A sinking fund is created by RHB and administered by the trustee of the Guaranteed Bonds to ensure repayment of the Guaranteed Bonds on maturity date.

	Minimum balance RM million
As at 31 December 2004	10
As at 31 December 2005	30
As at 31 December 2006	50
As at 31 December 2007	200

v. Revolving credits (unsecured)

The unsecured revolving credit facilities of RM93,200,000 (2005: RM111,952,000) bear interest at rates ranging from 4.59% to 5.95% (2005: 4.21% to 5.90%) per annum.

vi. Terms loans (unsecured)

On 7 April 2006, a subsidiary entered into an agreement with a foreign bank to obtain an unsecured Untied Loan facility of USD100 million for a tenure of 11 years. The said loan is repayable on 8 March and 8 September each year for 20 equal instalments commencing 8 March 2008 until 8 September 2017 and bears a floating interest rate of British Bankers Association Interest Settlement Rate in USD ("BBA LIBOR") plus 0.395% per annum. The term loan bears interest ranging from 5.81% to 6.02% (2005: Nil) per annum.

vii. Bank overdrafts (unsecured)

The unsecured overdrafts bear interest at rates ranging from 8.00% to 8.30% (2005: 8.00% to 8.30%) per annum.

viii. Redeemable Serial Fixed Rate Bonds 2002/2007

On 1 November 2002, RHB Capital issued RM500 million in aggregate nominal value of redeemable unsecured serial fixed rate bonds ("Serial Bonds"). The Serial Bonds comprising 3 series, are as follows:

Series	Nominal value RM million	Maturity date	Coupon rate (per annum)
1	125	1 November 2005	6.0%
2	125	1 November 2006	6.2%
3	250	1 November 2007	6.4%

The coupon payment is payable semi-annually in arrears in May and November each year, from May 2003 with the final coupon payment to be made on the respective maturity dates of each series.

A sinking fund is created by RHB Capital and administered by the trustee of the Serial Bonds to ensure repayment of the Serial Bonds on maturity date. Dividend income from subsidiaries of RHB Capital received by RHB Capital will first be credited into the said sinking fund to ensure the following balances are met at their respective dates.

41. BORROWINGS (CONTD)

viii. Redeemable Serial Fixed Rate Bonds 2002/2007 (contd)

	Minimum balance RM million
As at 31 December 2004	50
As at 31 December 2005	125
As at 31 December 2006	125
As at 31 December 2007	125

RHB Capital has fully redeemed its Redeemable Serial Fixed Rate Bonds 2002/2007 on 19 September 2006 by utilising part of the proceeds from the RM350 million Bonds as disclosed in Note 41(x).

ix. RM600 million 6 years Serial Fixed Rate Bonds

On 11 January 2005, RHB Capital issued RM600 million nominal value of 6 years Serial Fixed Rate Bonds. The Serial Bonds comprising 3 series, are as follows:

Series	Nominal value RM million	Maturity date	Coupon rate (per annum)
1	150	11 January 2009	6.2%
2	150	11 January 2010	6.7%
3	300	11 January 2011	7.2%

The coupon payment is payable semi-annually in arrears in January and July each year, with the final coupon payment to be made on the respective maturity dates of each series.

x. RM350 million Fixed Rate Bonds

On 18 September 2006, RHB Capital issued RM350 million Fixed Rate Bonds. The RM350 million Fixed Rate Bonds, with a tenure of 6 years, bear interest at the rate of 7.15% per annum, payable semi-annually in arrears in March and September each year.

42. CMS INCOME SECURITIES

On 29 December 2005, pursuant to a Trust Deed dated 16 December 2005, the Company undertook to issue RM400 million CMS Income Securities ("CMSIS") to refinance existing group borrowings and for working capital requirements.

The CMSIS consist of the following:

i. 400 fixed rate coupon-bearing serial bonds ("Bonds") at a nominal sum of RM999,000 each. The Bonds comprise the bond principal and the bond coupon; and

ii. 400 Non-Convertible Redeemable Preference Shares ("NCRPS") of RM1 each at an issue price of RM1,000 each (Note 43).

The NCRPS are effectively stapled to the Bonds in that the NCRPS and the Bonds are issued simultaneously to the same party and the coupon payment obligations under the Bonds are dependent on the payments made under the NCRPS.

a. The salient terms of the Bonds are as follows:

  i. The Bonds are issued in series and each series is redeemable from the second to the seventh anniversary from the date of issue:

Serial	Total nominal sum available for subscription RM'000	Tenor (years)
A	29,970	2
B	49,950	3
C	69,930	4
D	79,920	5
E	84,915	6
F	84,915	7
	399,600	

42. CMS INCOME SECURITIES (CONTD)

a. The salient terms of the Bonds are as follows: (contd)

ii. The Bonds comprise a principal element ("Bonds Principal") and a coupon element ("Bonds Coupon");

iii. The Bonds Coupon shall be at the nominal rate of 0.01% per annum unless dividends are not paid on the NCRPS, in which case the Bonds Coupon shall range from 6.67% to 18.80% per annum, to be paid semi-annually.

iv. Unless previously redeemed or purchased and cancelled, the Bonds Principal shall be redeemed by the Company at par on maturity;

v. A Debt Repayment Reserve Account ("DPRA") is maintained by the Company and charged to the Trustee for the benefit of the Bondholders. 60% of all future cash proceeds, if any, arising from the sale and/or the listing of equity interests in certain subsidiaries of the Company will be deposited in the DPRA. The Company shall be permitted to utilise the funds held in the DPRA to invest in Permitted Investments (as defined in the Trust Deed) pending utilisation of the funds and to utilise any income earned to service the debt payment due under the CMS Income Securities;

vi. The Bonds are not listed on any boards of Bursa Malaysia Securities Berhad but the Bonds Principal are tradeable and transferable under the Real Time Electronic Transfer of Funds and Securities System (RENTAS) maintained by BNM; and

vii. The Bonds bear a rating of A2 by Rating Agency Malaysia Berhad (RAM) at the date of issue.

b. The salient features of the NCRPS are as follows:

i. The NCRPS are effectively stapled to the Bonds in that the NCRPS and the Bonds are issued simultaneously to the same party and the coupon payment obligations under the Bonds are dependent on the payments made under the NCRPS;

ii. The NCRPS do not have a fixed tenor but are redeemable at any time within the last one year of the tenor of the respective series of Bonds to which the NCRPS are linked, at a premium of RM999 per share.

Serial	Total sum available for subscription RM'000	Tenor (years)
A	30	1
B	50	2
C	70	3
D	80	4
E	85	5
F	85	6
	400	

iii. The NCRPS holders have the right to pre-determined dividend rates in relation to the interest payment obligations which would otherwise be paid on the redeemable bonds linked thereto;

iv. The NCRPS do not carry any rights to participate in the profits or surplus assets of the Company;

v. The NCRPS shall not be converted to ordinary shares of the Company;

vi. The NCRPS holders have the right on a winding-up or other return to capital, to payment, prior to all other shares in the Company;

vii. The NCRPS holders are not entitled to voting rights at any general meeting of the Company except on resolutions to amend the NCRPS holders' rights, to declare dividends to other classes of shares whilst there remain preference dividends in arrears, or to commence dissolution of the Company; and

viii. The NCRPS are not listed on any boards of Bursa Malaysia Securities Berhad.

The CMSIS are classified as debt instruments and hence are reported as liabilities.

As at 31 December 2005, RM162,238,000 of the CMSIS were on sold to third parties. The said amount together with premium of RM6,747,873, was received up to the previous year-end. During the financial year, a total sum of RM182,704,318 was on sold comprising RM163,762,000 CMSIS and RM19,942,318 premium. The Company is only contractually obliged to make payments in respect of such Bonds that are sold.

42. CMS INCOME SECURITIES (CONTD)

The CMSIS are accounted for in the balance sheets as follows:

	Group/Company 2006 RM'000	Group/Company 2005 RM'000
Proceeds from issue of CMSIS	351,690	168,986
Less: Unamortised transaction costs	(1,592)	(1,858)
	350,098	167,128
Interest expense recognised in income statement:		
At 1 January	–	–
Recognised during the year (Note 6)	17,360	–
At 31 December	17,360	–
Preferential dividends on the NCRPS paid:		
At 1 January	–	–
Paid during the year	(29,451)	–
At 31 December	(29,451)	–
Balance at 31 December	338,007	167,128

The effective interest rate on the CMSIS is 6.30% per annum.

	Group/Company 2006 RM'000	Group/Company 2005 RM'000
The CMSIS are repayable over the following periods:		
Not later than 1 year	42,098	4,725
Later than 1 year and not later than 2 years	54,527	33,285
Later than 2 years and not later than 5 years	224,173	130,976
Later than 5 years	18,801	–
	339,599	168,986
Less: Unamortised transaction costs	(1,592)	(1,858)
	338,007	167,128

43. NON-CONVERTIBLE REDEEMABLE PREFERENCE SHARES ("NCRPS")

	Group/Company Number of NCRPS of RM1 each 2006	2005	Amount 2006 RM	2005 RM
Nominal value – issued and fully paid				
At 1 January	400	–	400	–
Issued during the year	–	400	–	400
At 31 December	400	400	400	400
Authorised				
At 1 January	400	–	400	–
Created during the year	–	400	–	400
At 31 December	400	400	400	400

43. NON-CONVERTIBLE REDEEMABLE PREFERENCE SHARES ("NCRPS") (CONTD)

	Group/Company 2006 RM'000	Group/Company 2005 RM'000
Share premium		
At 1 January	400	–
Increase during the year	–	400
At 31 December	400	400
Amount included CMSIS (Note 42)	400	400

The preferential dividends are charged to the CMSIS in the period in which they are incurred.

44. DEPOSITS FROM CUSTOMERS

	Group 2006 RM'000	Group 2005 RM'000
Deposits from customers of banking subsidiaries:		
Demand deposits	15,637,881	13,641,043
Savings deposits	4,861,397	4,722,989
Fixed deposits	34,082,623	29,323,738
Negotiable instruments of deposits	2,752,462	2,033,774
	57,334,363	49,721,544
The maturity structure of fixed deposits and negotiable instruments of deposits is as follows:		
Due within six months	29,325,507	24,856,720
Six months to one year	7,094,770	5,992,128
One year to three years	191,527	418,740
Three years to five years	223,282	86,059
Over five years	–	3,865
	36,835,085	31,357,512

45. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group 2006 RM'000	Group 2005 RM'000
Licensed banks	8,643,917	7,179,159
Licensed finance companies	–	62,770
Licensed merchant banks	101,286	523,788
BNM	1,192,276	948,947
Other financial institutions	1,639,639	2,314,167
	11,577,118	11,028,831

46. CLIENTS' AND BROKERS' BALANCES

Included in clients' and brokers' balances are clients' trust balances held by a subsidiary in trust of RM121,060,000 (2005: RM43,894,000).

47. TRADE AND OTHER PAYABLES

	Group 2006 RM'000	Group 2005 RM'000 (Restated)	Company 2006 RM'000	Company 2005 RM'000
Trade payables				
Third parties (i)	137,776	144,977	6	6
Retention sums on contracts	21,369	20,363	–	–
Progress billings in respect of property development costs	193	84	–	–
	159,338	165,424	6	6
Other payables				
Other payables	530,328	538,409	621	967
Interest payable	503,142	368,291	131	1,058
Prepaid instalments	61,889	51,594	–	–
Accruals	308,074	264,423	659	553
Deposits payable	102,778	110,002	–	–
Deferred income	2,093	2,063	–	–
Provision for liabilities (ii)	180	3,000	–	–
Amount due to BNM (iii)	296,129	256,738	–	–
General insurance fund (iv)	136,821	130,055	–	–
Amount due to Danaharta (v)	1,725	1,909	–	–
Hire purchase payables (vi)	4,674	3,011	–	–
	1,947,833	1,729,495	1,411	2,578
	2,107,171	1,894,919	1,417	2,584

i. Trade payables are non-interest bearing and the normal trade credit terms granted to the Group range from one month to four months.

ii. Provision for liabilities relates to the provision for termination benefits arising from the Group's intention to exit its steel operations from the first quarter 2006 onwards, as disclosed in Note 11 to the financial statements.

iii. The amount due to BNM mainly comprises collections on ex-Sime Bank's nonperforming loans sold to BNM which are managed by RHB Bank. Amount due to BNM was subject to interest at rates ranging from 3.21% to 3.70% (2005: 2.79% to 2.88%) per annum.

iv. General insurance fund

	Group 2006 RM'000	Group 2005 RM'000
Provision for outstanding claims	88,184	80,153
Unearned premium reserve	48,637	49,902
	136,821	130,055

v. Amount due to Danaharta
The amount due to Danaharta mainly comprises collections on ex-Sime Bank's overseas branches non-performing loans sold to Danaharta which is managed by RHB Bank's overseas branches.

47. TRADE AND OTHER PAYABLES (CONTD)

vi. Hire-purchase payables

	Group 2006 RM'000	Group 2005 RM'000
Minimum lease payments		
– not later than one year	1,632	1,036
– later than one year and not later than two years	1,380	1,002
– later than two years and not later than five years	2,256	1,293
	5,268	3,331
Future finance charges on hire-purchase	(594)	(320)
Present value of hire-purchase	4,674	3,011
Current	1,365	883
Non-current	3,309	2,128
	4,674	3,011
Present value of hire-purchase payables		
– not later than one year	1,365	883
– later than one year and not later than two years	1,207	900
– later than two years and not later than five years	2,102	1,228
	4,674	3,011

Hire-purchase are effectively secured as the rights to the leased assets revert to the lessor in the event of default.

The effective interest rates of hire-purchase payables at balance sheet date range from 3.72% to 6.54% (2005: 4.15% to 6.54%) per annum.

48. SUBORDINATED OBLIGATIONS

		Group 2006 RM'000	Group 2005 RM'000
8.2% RM165 million Tier II Subordinated Bonds 2002/2012	(i)	165,000	165,000
6.85% RM800 million Tier II Subordinated Bonds 2002/2012	(ii)	800,000	800,000
6.625% USD150 million Tier II Subordinated Notes 2002/2013	(iii)	528,158	565,252
		1,493,158	1,530,252

i. **8.2% RM165 million Tier II Subordinated Bonds 2002/2012**

On 9 December 2002, RHB Investment Bank Berhad ("RHB Investment Bank") issued a 10-year non-callable 5-year Subordinated Bonds for an aggregate nominal value of RM165 million at par ("Sub Bonds"). The Sub Bonds are redeemable unsecured subordinated obligations of RHB Investment Bank and qualified as Tier II capital for the purpose of BNM's capital adequacy requirements.

The Sub Bonds constitute redeemable unsecured obligations of RHB Investment Bank, subordinated in right and priority of payment, to the extent and in the manner provided in the terms of the Sub Bonds, to all deposit liabilities and other liabilities of RHB Investment Bank except those liabilities which by their terms rank pari passu in right of priority of payment with or subordinate to the Sub Bonds. The Sub Bonds are, in the event of a distribution of assets in the winding up or liquidation of RHB Investment Bank, rank senior to the share capital of RHB Investment Bank.

The Sub Bonds were used as part settlement of the transfer consideration paid by RHB Investment Bank for the Transfer of the Securities and Securities Related Business Entities from RHB Capital to RHB Investment Bank pursuant to the Group Restructuring Scheme of the RHB Group.

48. SUBORDINATED OBLIGATIONS (CONTD)

i. 8.2% RM165 million Tier II Subordinated Bonds 2002/2012 (contd)

The coupon for the Sub Bonds shall be accrued at the rate of 8.2% per annum, stepping up to 10.7% per annum from the beginning of the sixth year from the issue date to the maturity date. Coupon payments are payable semi-annually in arrears, with the last payment to be made on the maturity date.

ii. 6.85% RM800 million Tier II Subordinated Bonds 2002/2012

On 24 December 2002, RHB Bank issued a RM800 million nominal value 10-year redeemable unsecured Subordinated Bonds ("Sub-Bonds"). The Sub-Bonds are due in 2012. The Sub-Bonds may be redeemed at par at the option of RHB Bank on its fifth anniversary date ("First Redemption Date") or on each anniversary of the First Redemption Date up to the maturity date.

Interest on the Sub-Bonds shall be accrued at 6.85% per annum for the first five years ("Initial Coupon"). From the First Redemption Date onwards until the maturity date, the coupon rate shall be increased by 1.5% above the Initial Coupon rate or be equivalent to the base lending rate of Malayan Banking Berhad prevailing as at the First Redemption Date plus 1.5% whichever is higher. Interest is payable semi-annually in arrears from the date of issuance until the maturity date.

The Sub-Bonds constitute direct, unconditional, subordinated and unsecured obligations of RHB Bank, and will rank pari passu without any preference amongst themselves.

iii. 6.625% USD150 million Tier II Subordinated Notes 2002/2013

On 27 December 2002, RHB Bank issued a USD150 million nominal value (RM570 million equivalent) 10-year Subordinated Notes ("Sub-Notes") due 2013, callable with step-up in 2008 at 6.625% maturing on 25 January 2013. RHB Bank may at its option, subject to prior written approval of BNM, redeem the Sub-Notes on 25 January 2008 at their principal amount plus accrued interest. In addition, RHB Bank may at its option, subject to prior written approval as aforesaid, redeem the Sub-Notes at any time at their principal amount plus accrued interest in the event of certain changes affecting taxation in Malaysia as described under the 'Terms and Conditions of the Notes – Redemption and Purchase'.

Interest on the Sub-Notes shall be accrued at 6.625% per annum from issue date to, but excluding 25 January 2008 and, thereafter, at rate per annum equal to the US Treasury Rate (as defined under 'Terms and Conditions of the Notes – Interest') plus 6.475%. Interest is payable in arrears on 25 July and 25 January in each year, commenced on 25 July 2003.

The Sub-Notes constitute direct, unsecured and subordinated obligations of RHB Bank, and will rank pari passu with the RM800 million Sub-Bonds due 2012. The Sub-Notes will rank pari passu without any preference amongst themselves.

49. IRREDEEMABLE CONVERTIBLE UNSECURED LOAN STOCKS ("ICULS")

	Group 2006 RM'000	Group 2005 RM'000
0.5% ICULS 2002/2012 of RM1 each ("RHB ICULS-A")	906	1,846
3% ICULS 2002/2012 of RM1 each ("RHB ICULS-B")	196,938	202,517
	197,844	204,363

On 24 December 2002, RHB issued RM463,646,102 nominal value of 10-year 0.5% ICULS 2002/2012 designated as RHB ICULS-A and RM620,940,385 value of 10-year 3% ICULS 2002/2012 designated as RHB ICULS-B.

The details of the ICULS are as follows:

RHB ICULS-A

	Group 2006 RM'000	Group 2005 RM'000
At 1 January	1,846	2,182
Amount converted into ordinary shares during the financial year	(940)	(336)
At 31 December	906	1,846

49. IRREDEEMABLE CONVERTIBLE UNSECURED LOAN STOCKS ("ICULS") (CONTD)

a. Conversion rights – the registered holders of RHB ICULS-A have the option at any time from 24 December 2002 to 23 December 2012 to convert the ICULS into new ordinary shares of RM1 each in RHB ("RHB Shares") at a conversion price of RM1 per RHB Share (subject to adjustments under certain circumstances as provided in the Trust Deed).

b. All outstanding RHB ICULS-A will be automatically converted into new RHB Shares by RHB on 23 December 2012 at the said conversion price.

c. The RHB ICULS-A bears interest at 0.5% per annum payable semi-annually in arrears on every 30 June and 31 December, with the first payment due on 30 June 2003.

d. The new RHB Shares to be allotted and issued upon conversion of the RHB ICULS-A will rank pari passu in all respects with the then existing ordinary shares of RHB.

RHB ICULS-B

	Group 2006 RM'000	Group 2005 RM'000
At 1 January	202,517	203,568
Amount converted into ordinary shares during the financial year	(5,579)	(1,051)
At 31 December	196,938	202,517

a. Conversion rights – the registered holders of RHB ICULS-B have the option at any time from 24 December 2002 to 23 December 2012 to convert the ICULS into new RHB Shares at a conversion price of RM1.13 per RHB Share (subject to adjustments under certain circumstances as provided in the Trust Deed).

b. All outstanding RHB ICULS-B will be automatically converted into new RHB Shares by RHB on 23 December 2012 at the said conversion price.

c. The RHB ICULS-B bears interest at 3% per annum payable semi-annually in arrears on every 30 June and 31 December, with the first payment due on 30 June 2003.

d. The new RHB Shares to be allotted and issued upon conversion of the RHB ICULS-B will rank pari passu in all respects with the then existing ordinary shares of RHB.

50. IRREDEEMABLE NON-CUMULATIVE CONVERTIBLE PREFERENCE SHARES ("INCPS")

INCPS was issued on 3 June 1999. The salient features of the INCPS are as follows:

a. A non-cumulative preferential dividend (less tax) at the following rates:

   i. for the period from the date of issue of INCPS to the day preceding the fifth anniversary date of issue of the INCPS, a non-cumulative preferential dividend at the rate of 8% (less tax) per annum; and

   ii. thereafter, a non-cumulative preferential dividend at the rate of 10% (less tax) per annum.

b. Save and except that the INCPS shall rank in priority to RHB Bank ordinary shares with regards to the preferential dividend, and with regards to the return of capital in the event of winding up, the INCPS holders have no right to participate in the surplus assets and profits of RHB Bank.

c. The INCPS carry no right to attend and vote at general meetings of RHB Bank unless the dividends on the INCPS are in arrears for more than 3 months or the general meeting is:

   i. for any resolution which varies or is deemed to vary the rights and privileges of such INCPS; or

   ii. for any resolution for winding up of RHB Bank.

d. Holders of the INCPS have the option of converting the INCPS into new RHB Bank ordinary shares in the first 5 years from the date of issue of the INCPS ("Conditional Conversion Period") should:

   i. RHB Bank cease to be a subsidiary of RHB Capital; or

   ii. the risk weighted capital adequacy ratio of RHB Bank falls to a level at or below 8.5% and this is not remedied within 3 months from the occurrence of such event; or

50. IRREDEEMABLE NON-CUMULATIVE CONVERTIBLE PREFERENCE SHARES ("INCPS") (CONTD)

d. Holders of the INCPS have the option of converting the INCPS into new RHB Bank ordinary shares in the first 5 years from the date of issue of the INCPS ("Conditional Conversion Period") should: (contd)

iii. at any time the aggregate of dividends which are missed and not paid, exceed 4% of the par value of the INCPS; or

iv. at any time after the Conditional Conversion Period, at the Optional Conversion Price. The Optional Conversion Price means the consolidated net assets per RHB Bank ordinary share based on its consolidated management financial statements immediately preceding the date of conversion multiplied by 1.2 times. The Optional Conversion Price is subject to adjustments under certain circumstances in accordance with the terms of the INCPS.

e. In the event RHB Bank undertakes an initial public offering of shares for the purpose of seeking a listing on the Bursa Securities, the outstanding INCPS will be mandatorily converted based on a specified price which would yield a return of 12% per annum on the INCPS.

51. OPERATING LEASE ARRANGEMENTS

The Group as lessee

The Group has entered into non-cancellable operating lease agreements for the use of land, buildings and certain plant and machinery. These leases have an average life of between 3 and 5 years with no renewal or purchase option included in the contracts. Certain contracts include escalation clauses or contingent rental arrangements computed based on sales achieved while others include fixed rentals for an average of 3 years. There are no restrictions placed upon the Group by entering into these leases.

The Group also leases various plant and machinery under cancellable operating lease agreements. The Group is required to give a six-month notice for the termination of those agreements.

The future aggregate minimum lease payments under non-cancellable operating leases contracted for as at the balance sheet date but not recognised as liabilities and the total of future aggregate minimum sublease receipts expected to be received under non-cancellable subleases, are as follows:

	Group 2006 RM'000	Group 2005 RM'000
Future minimum rentals payments:		
Not later than 1 year	13,770	20,240
Later than 1 year and not later than 5 years	13,057	16,850
Later than 5 years	35	–
	26,862	37,090

The lease payments recognised in profit or loss during the financial year are disclosed in Note 7.

52. COMMITMENTS AND CONTINGENCIES

	Group 2006 RM'000	Group 2005 RM'000 (Restated)	Company 2006 RM'000	Company 2005 RM'000
a. Capital commitments				
Authorised capital expenditure not provided for in the financial statements:				
Approved and contracted for:				
Property, plant and equipment	32,982	50,257	5,906	–
Approved and not contracted for:				
Property, plant and equipment	47,327	43,223	4,725	3,383
Others	16,000	–	–	–
	63,327	43,223	4,725	3,383
	96,309	93,480	10,631	3,383

52. COMMITMENTS AND CONTINGENCIES (CONTD)

	Group 2006 RM'000	Group 2005 RM'000 (Restated)	Company 2006 RM'000	Company 2005 RM'000
b. i. **Contingent liabilities**				
Unsecured guarantees in respect of banking facilities granted to subsidiaries	–	–	24,002	81,841
Share of contingent liabilities of associates	232,341	228,308	–	–
	232,341	228,308	24,002	81,841

In 2001, CMS Capital Sdn Bhd, a subsidiary of the Company, had provided an indemnity to the purchaser of Sarawak Securities Sdn Bhd against several legal suits filed by former remisiers in the Industrial Court of Malaysia claiming reinstatement of employment. The subsidiary's Directors are of the opinion that these remisiers would not be entitled to such claims. Accordingly no provision has been made in this respect.

Legal suits have been filed by former employees in the Industrial Court of Malaysia against the Company and a subsidiary alleging wrongful dismissal and claiming reinstatement to their former positions and/or other relief that the Court deems fit and proper. As the Industrial Court has yet to make a decision/award on these matters, it is not possible to determine the Group and the Company's potential liability (if any) at this juncture.

ii. **Other contingent liabilities of banking subsidiaries**

a. **Guarantees issued**

i. **Cahya Mata Sarawak Berhad ("CMSB")**

As at balance sheet date, CMSB has extended unsecured guarantees totaling RM55,000,000 (2005: RM135,500,000) for the borrowings of its subsidiaries. As at balance sheet date, RM24,002,308 (2005: RM81,840,843) of the above extended facilities were utilised by the subsidiaries of CMSB.

ii. **RHB**

As at balance sheet date, RHB has extended unsecured guarantees totalling RM36,400,000 and USD240,000,000 (2005: RM447,400,000 and Nil) for borrowings of its subsidiaries. As at balance sheet date, RM709,400,000 (2005: RM445,400,000) of the above extended facilities were utilised by the subsidiaries of RHB.

RHB has also extended unsecured guarantees for losses to be suffered and/or incurred by a financial institution for a term loan facility of a subsidiary, consequent upon the drop in the exchange rate of USD against Ringgit Malaysia, up to 10% of the facility limit in the event of default.

iii. **RHB Capital**

As at balance sheet date, RHB Capital has extended unsecured guarantees totalling RM44,500,000 (2005: RM169,500,000) and RM100,000,000 (2005: RM100,000,000) for borrowings and performance of its subsidiaries respectively. As at balance sheet date, RM1,000,000 (2005: RM1,000,000) of the borrowings were utilised by the subsidiaries of RHB Capital.

b. **Other contingent liabilities**

i. **RHB Capital**

On 19 October 2001, RHB Capital filed a suit against Carta Bintang Sdn Bhd ("CBSB"), the vendor of SJ Securities, for the recovery of the deposit of RM32,800,000 ("Deposit") paid by RHB Capital pursuant to the sale and purchase agreement dated 7 November 2000 between CBSB and RHB Capital for the sale and purchase of 60 million shares in SJ Securities. CBSB subsequently filed a counterclaim of RM258,688,153 together with interest thereon and costs.

The suit is still ongoing and the solicitors for RHB Capital are of the opinion that the chances of successfully recovering the Deposit are good. In addition, the solicitors for RHB Capital are also of the opinion that the prospects of successfully defending the counterclaim filed by CBSB against RHB Capital are good and that the said counterclaim is unlikely to succeed.

In view of the above, RHB Capital has not made any provision in relation to the said counterclaim, in the financial statements for the financial year ended 31 December 2006.

52. COMMITMENTS AND CONTINGENCIES (CONTD)

b. ii. Other contingent liabilities of banking subsidiaries (contd)

b. Other contingent liabilities (contd)

ii. RHB Excel and RHB Equities Sdn Bhd ("RHB Equities")

RHB Excel, a wholly-owned subsidiary of RHB Investment Bank, and RHB Equities, a wholly-owned subsidiary of RHB Capital, are parties, as the first and second defendants, to a suit for damages and for the return of shares pledged by the plaintiff as third party collateral for margin finance facilities initially provided by RHB Equities, which were subsequently transferred to RHB Excel together with the third party collateral. The plaintiff claimed that the transfer was made without the plaintiff's consent and has obtained an interim injunction to restrain disposal of the collateral. RHB Excel and RHB Equities have filed a defence and counterclaim against the said suit.

Plaintiff's suit against RHB Excel and RHB Equities was dismissed with costs on 19 May 2005. Plaintiff filed Notice of Appeal against the dismissal on 30 May 2005. With the dismissal, the injunction previously obtained against RHB Excel to deal with the collateral lapses. On 14 June 2005, the plaintiff filed an application for a stay of execution.

RHB Excel won in its counterclaim against the plaintiff with costs on 24 June 2005. On 4 August 2005, the plaintiff's stay application was allowed with costs. As such, RHB Excel is prohibited from disposing the shares until the hearing and disposal of the Appeal to the Court of Appeal.

With effect from 30 December 2006, the assets and liabilities of RHB Excel including the above suit have been vested in RHB Investment Bank pursuant to a vesting order of the High Court.

c. Contingent asset

	Group 2006 RM'000	Group 2005 RM'000
Contingent asset arising from the Supplemental Share Sale Agreement entered between Malaysian Industrial Development Finance Berhad and Utama Banking Group Berhad in respect of the disposal of Utama Merchant Bank Berhad (Note 56(viii)(f))	30,718	30,718

d. Other contingencies

An amount of RM5,466,968 included in trade receivables is in dispute and in the process of arbitration. Within the same claim on the receivable, a counterclaim of RM2,240,930 was filed by the debtor. Subsequent to the counterclaim, a further claim of RM4,268,307 was made by a subsidiary on the debtor for loss of profit and other general damages. Both counterclaims by the debtor and the further claim made by the subsidiary have not been accounted for in the financial statements. The Directors are of the opinion that the case is in favour of the subsidiary and are confident of recovering the debt and that the counterclaim is of no basis.

e. Commitments and contingencies of the banking subsidiaries

In the normal course of business, the banking subsidiaries make various commitments and incur certain contingent liabilities with legal recourse to their customers. Apart from the allowance for commitments and contingencies already made in the financial statements, no material losses are anticipated as a result of these transactions.

52. COMMITMENTS AND CONTINGENCIES (CONTD)

e. Commitments and contingencies of the banking subsidiaries

The commitments and contingencies are summarised below:

	2006			2005		
	Principal amount RM'000	Credit equivalent amount * RM'000	Risk weighted amount RM'000	Principal amount RM'000	Credit equivalent amount * RM'000	Risk weighted amount RM'000
Group						
Direct credit substitutes	1,647,540	1,647,540	1,479,599	1,633,122	1,633,122	1,471,038
Transaction-related contingent items	2,319,861	809,932	518,394	2,372,978	602,990	482,809
Short term self-liquidating trade-related contingencies	2,555,148	511,030	328,886	1,978,963	395,793	211,860
Obligations under underwriting agreements	440,240	131,620	131,620	511,353	131,620	131,620
Housing loans sold directly and indirectly to Cagamas with recourse	41,064	41,064	20,532	44,062	44,062	22,031
Irrevocable commitments to extend credit						
– maturity not exceeding one year	22,103,511	–	–	20,135,748	–	–
– maturity exceeding one year	3,657,643	1,828,821	1,601,601	3,605,340	1,802,669	1,471,014
Foreign exchange-related contracts						
– less than one year	14,063,806	240,969	67,290	7,924,399	116,479	38,257
– one year to less than five years	387,082	60,670	30,237	152,670	9,364	5,665
Interest rate-related contracts						
– less than one year	2,231,230	2,601	542	1,154,000	634	127
– one year to less than five years	6,124,566	92,087	20,825	5,850,918	111,743	34,874
– more than five years	522,601	33,982	17,334	188,485	6,633	2,021
Others	845,575	19,673	3,935	563,202	21,079	21,032
As at 31 December	56,939,867	5,419,989	4,220,795	46,115,240	4,876,188	3,892,348

* The credit equivalent amount is arrived at using the credit conversion factors as per BNM's guidelines. Foreign exchange and interest rate related contracts are subject to market risk and credit risk.

RHB Bank has given a continuing guarantee to BNM to meet the liabilities and financial obligations and requirements of its subsidiary, RHB Bank (L) Ltd., arising from offshore banking business in the Federal Territory of Labuan.

53. RELATED PARTY DISCLOSURES

During the financial year, the Group and the Company had, in the normal course of business transacted on normal commercial terms the following transactions:

a. Transactions with subsidiaries:

	Company 2006 RM'000	Company 2005 RM'000 (Restated)
Income		
Interest income	7,027	3,431
Internal audit fee	263	348
Secretarial fee	79	89
Management fee	67	10
Procurement fee	324	–
Expenditure		
Interest expense	10,136	9,253

Information regarding outstanding balances with subsidiaries as at 31 December 2006 are disclosed in Note 31.

b. Transactions with companies in which certain Directors of the Company and/or persons connected to them have a substantial financial interest and/or are Directors:

	Group 2006 RM'000	Group 2005 RM'000	Company 2006 RM'000	Company 2005 RM'000
Income				
Management fees	875	–	–	–
Expenditure				
Telecommunication equipment and services	24	57	3	6
Office upkeep and rental	1,439	1,641	1,207	1,401
Professional fees	951	1,488	–	–

c. Transactions with companies in which certain Directors of the subsidiaries and/or persons connected to them have a substantial financial interest and/or are Directors:

	Group 2006 RM'000	Group 2005 RM'000
Expenditure		
Purchase of reinforced concrete products	127	549
Purchase of steel bars	4,603	4,781

d. Transactions with a company in which a person connected to a key management personnel of the Group has a substantial financial interest:

	Group 2006 RM'000	Group 2005 RM'000
Income		
Sale of stones, premix and RC piles	1,430	4,320
Provision of cement stabilisation works	–	1,828
Expenditure		
Subcontracting works paid	–	205

54. FINANCIAL INSTRUMENTS

a. **Financial risk management objectives and policies**

The Company and its non-banking subsidiaries' ("the Group") financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's businesses whilst managing its interest rate (both fair value and cash flow), liquidity and credit risks. The Board reviews and agrees policies for managing each of these risks and they are summarised below. It is and has been throughout the year under review, the Group's policy that no trading in derivative financial instruments shall be undertaken.

b. **Interest rate risk**

The Group's primary interest rate risk relates to interest-bearing debt, as the Group had no substantial long-term interest-bearing assets as at 31 December 2006. The investments in financial assets are short term in nature and they are not held for speculative purposes.

The following tables set out the carrying amounts, the weighted average effective interest rates ("WAEIR") as at the balance sheet date and the remaining maturities of the Group's and the Company's financial instruments that are exposed to interest rate risk:

	WAEIR %	Within 1 year RM'000	1 – 2 years RM'000	2 – 5 years RM'000	More than 5 years RM'000	Total RM'000
At 31 December 2006						
Group						
Fixed rate						
CMS Income Securities	6.30	(42,098)	(54,527)	(224,173)	(18,801)	(339,599)
Hire purchase payables	3.81	(666)	(642)	(1,681)	–	(2,989)
Floating rate						
Deposits with financial institutions	2.86	11,549	–	–	–	11,549
Bank overdrafts	7.26	(159)	–	–	–	(159)
Revolving credits	6.47	(147,150)	–	–	–	(147,150)
Bankers' acceptances	3.61	(16,296)	–	–	–	(16,296)
Term loans	5.52	(24,875)	(74,875)	(6,752)	–	(106,502)
Company						
Fixed rate						
Amount due from subsidiaries	7.46	95,304	–	–	–	95,304
Amount due to subsidiaries	4.28	(260,948)	–	–	–	(260,948)
CMS Income Securities	6.30	(42,098)	(54,527)	(224,173)	(18,801)	(339,599)
Floating rate						
Deposits with financial institutions	2.91	87,190	–	–	–	87,190
Bank overdrafts	7.75	(3)	–	–	–	(3)
Revolving credits	5.90	(20,000)	–	–	–	(20,000)
Term loan	5.54	(20,000)	(70,000)	–	–	(90,000)

54. FINANCIAL INSTRUMENTS (CONTD)

b. Interest rate risk (contd)

	WAEIR %	Within 1 year RM'000	1 – 2 years RM'000	2 – 5 years RM'000	More than 5 years RM'000	Total RM'000
At 31 December 2005						
Group						
Fixed rate						
Term loans	7.31	(73,500)	–	–	–	(73,500)
Hire purchase payables	4.25	(201)	(177)	(225)	–	(603)
CMS Income Securities	6.30	(4,725)	(33,285)	(130,976)	–	(168,986)
Floating rate						
Deposits with financial institutions	2.51	32,031	–	–	–	32,031
Bank overdrafts	7.16	(6,634)	–	–	–	(6,634)
Revolving credits	5.77	(173,090)	–	–	–	(173,090)
Bankers' acceptances	3.56	(52,348)	–	–	–	(52,348)
Term loans	5.30	(92,025)	(66,700)	(51,175)	–	(209,900)
Trust receipts	4.17	(37,423)	–	–	–	(37,423)
Company						
Fixed rate						
Amount due from subsidiaries	7.44	44,185	–	–	–	44,185
Amount due to subsidiaries	4.24	(225,089)	–	–	–	(225,089)
CMS Income Securities	6.30	(4,725)	(33,285)	(130,976)	–	(168,986)
Term loan	8.40	(20,000)	–	–	–	(20,000)
Floating rate						
Deposits with financial institutions	2.71	130,210	–	–	–	130,210
Bank overdrafts	7.02	(2,576)	–	–	–	(2,576)
Revolving credits	7.08	(35,000)	–	–	–	(35,000)
Term loans	5.10	(20,000)	(50,000)	(40,000)	–	(110,000)

54. FINANCIAL INSTRUMENTS (CONTD)

c. Liquidity risk

The Group manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that refinancing, repayment and funding needs are met. As part of its overall liquidity management, the Group maintains sufficient levels of cash or cash convertible investments to meet its working capital requirements. In addition, the Group strives to maintain available banking facilities of a reasonable level to its overall debt position.

d. Credit risk

The Group's credit risk is primarily attributable to trade receivables. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Head of Credit Control. Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, marketable securities and non-current investments, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these financial assets.

The Group does not have any significant exposure to any individual customer or counterparty nor does it have any major concentration of credit risk related to any financial assets.

e. Financial risk management objectives and policies relating to the banking subsidiaries

Utama Banking Group Berhad's ("UBG") predominant financial instruments are short-term interest-bearing debt and its long-term, strategic holding of RHB's shares and related securities. Therefore, UBG is subject to predominantly interest rate risk, market risk and liquidity risk associated with its holding and employment of financial instruments.

UBG manages such risks through close monitoring of changes in market prices and interest rates. Regular reports are tabled at the regular Board meetings for information and decision. In situations where immediate steps need to be taken to address such risks, the matter would be brought to the attention of the Executive Committee for deliberations and decisions (if within its delegated authority). UBG does not use any derivative financial instruments to hedge its exposure to these financial risks and the Group's policy is not to engage in speculative transactions.

UBG adopts a prudent liquidity risk management policy. It maintains adequate cash and short term funds to meet its financial obligations as well as operational needs. In addition, it also has in place a short-term credit facility to meet its contingent funding requirements.

The above are not adopted by UBG's subsidiary, Rashid Hussain Berhad and its group of companies ("RHB Group") which have financial risk management objectives and policies of its own that are adopted from the main operating subsidiaries' risk management policies. Various programs have been initiated at the operating subsidiaries in order to identify, measure, control and monitor all identifiable risks.

RHB Group operates within a clearly defined set of principles and guidelines based on best practices that have been approved by the Board of RHB. Various working committees were formed at the operating subsidiaries in carrying out the process to ensure that all identifiable risks are addressed and managed adequately.

The main areas of financial risks faced by RHB and the policies to address these financial risks in respect of RHB are set out as follows:

Rashid Hussain Berhad

Liquidity risk

RHB manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that all repayment and funding requirements are met. RHB's cash flows is reviewed regularly to ensure that it has sufficient level of cash and cash equivalents to meet its working capital requirements and is able to settle its commitments when they fall due.

Interest rate risk

RHB's primary interest rate risk relates to interest-bearing borrowings. RHB manages its interest rate exposure through the use of fixed and floating rate debt. The objectives for the mix between fixed and floating rate borrowings are set to manage the fluctuations in interest rates and their impact on RHB.

54. FINANCIAL INSTRUMENTS (CONTD)

e. Interest/Profit rate risk

The tables below summarise the Group's banking subsidiaries exposure to interest rate risks. The assets and liabilities at carrying amount are categorised by the earlier of contractual repricing or maturity dates:

	< ---- Non-trading book					---- >			
Group 2006	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-interest bearing RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
Assets									
Cash and short term funds	10,305,050	–	–	–	–	389,404	–	10,694,454	3.56
Securities purchased under resale agreements	1,034,585	1,656,956	–	–	–	–	–	2,691,541	3.81
Deposits and placements with banks and other financial institutions	47,560	4,907,142	642,147	–	–	–	–	5,596,849	3.63
Securities held-for-trading	–	–	–	–	–	900	5,159,742	5,160,642	4.02
Securities AFS	2,572,387	1,379,380	766,748	905,409	452,459	193,457	–	6,269,840	4.02
Securities held-to-maturity	2,537,605	2,625,594	1,560,926	4,965,970	1,563,320	(231,263)	–	13,022,152	3.80
Loans, advances and financing									
– performing	30,268,891	6,494,649	4,934,467	7,622,456	2,526,870	138	–	51,847,471	6.84
– non-performing*	–	–	–	–	–	1,545,415	–	1,545,415	
Clients' and brokers' balances	36,824	–	–	–	–	140,203	–	177,027	0.66
Other assets and derivative assets	1,798	–	245	753	1,139	597,030	169,619	770,584	5.82

* This is arrived at after deducting the general allowance and specific allowance from the outstanding non-performing loans.

54. FINANCIAL INSTRUMENTS (CONTD)

e. Interest/Profit rate risk (contd)

	< Non-trading book					>			
Group 2006	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-interest bearing RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
Liabilities									
Deposits from customers	22,420,488	7,156,792	12,883,730	614,609	200	14,258,544	–	57,334,363	3.17
Deposits and placements of banks and other financial institutions	5,999,638	3,427,159	1,110,117	949,725	89,050	1,429	–	11,577,118	3.67
Obligations on securities sold under repurchase agreements	12,700,606	2,275,063	–	–	–	–	–	14,975,669	3.38
Bills and acceptances payable	1,272,468	1,493,303	605,157	–	–	407,830	–	3,778,758	3.88
Clients' and brokers' balances	56,973	–	–	–	–	194,399	–	251,372	2.84
Other liabilities and derivative liabilities	296,677	9,281	528	985	–	1,566,884	310,737	2,185,092	3.63
Recourse obligation on loans sold to Cagamas	122,267	–	658,771	1,882,468	215,778	–	–	2,879,284	4.52
Borrowings	1,103,725	–	1,253,668	1,267,904	341,308	–	–	3,966,605	7.00
Subordinated obligations	–	–	–	1,493,158	–	–	–	1,493,158	6.91
ICULS	–	–	–	–	197,844	–	–	197,844	1.93
INCPS	–	–	–	1,104,469	–	–	–	1,104,469	10.00

54. FINANCIAL INSTRUMENTS (CONTD)

e. Interest/Profit rate risk (contd)

Group 2005	< Non-trading book					>			
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-interest bearing RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
Assets									
Cash and short term funds	11,084,652	–	–	–	–	315,543	–	11,400,195	2.97
Securities purchased under resale agreements	907,147	1,252,377	59,967	–	–	–	–	2,219,491	3.00
Deposits and placements with banks and other financial institutions	280,021	2,283,123	57,187	–	–	–	–	2,620,331	3.06
Securities held-for-trading	–	–	–	–	–	740	3,368,227	3,368,967	3.57
Securities AFS	170,164	467,306	431,634	795,186	218,143	79,204	–	2,161,637	3.79
Securities held-to-maturity	1,730,533	1,764,960	3,352,671	4,471,733	2,686,672	(179,459)	–	13,827,110	3.52
Loans, advances and financing									
– performing	27,108,975	4,746,067	3,876,081	6,793,917	4,227,122	46	–	46,752,208	6.42
– non-performing *	–	–	–	–	–	1,596,548	–	1,596,548	
Clients' and brokers' balances	–	–	–	–	–	162,220	–	162,220	8.80
Other assets and derivative assets	150	–	167	631	1,301	446,629	48,234	497,112	3.95

* This is arrived at after deducting the general allowance and specific allowance from the outstanding non-performing loans.

54. FINANCIAL INSTRUMENTS (CONTD)

e. Interest/Profit rate risk (contd)

Group 2005	< ---- Non-trading book					---- >			
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-interest bearing RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
Liabilities									
Deposits from customers	19,647,925	6,485,876	10,223,129	523,227	3,865	12,837,522	–	49,721,544	2.76
Deposits and placements of banks and other financial institutions	5,840,946	2,720,626	1,144,412	1,239,611	79,556	3,680	–	11,028,831	2.98
Obligations on securities sold under repurchase agreements	8,562,259	1,760,202	620,338	–	–	–	–	10,942,799	2.86
Bills and acceptances payable	1,094,038	1,329,676	550,901	–	–	338,445	–	3,313,060	3.31
Clients' and brokers' balances	35,794	–	–	–	–	162,696	–	198,490	2.60
Other liabilities and derivative liabilities	256,730	117	540	1,853	–	1,394,436	121,326	1,775,002	2.87
Recourse obligation on loans sold to Cagamas	–	–	441,711	1,600,025	1,315,256	–	–	3,356,992	4.44
Borrowings	1,125,650	–	318,000	1,809,792	296,772	–	–	3,550,214	7.44
Subordinated obligations	–	–	–	1,530,252	–	–	–	1,530,252	6.91
ICULS	–	–	–	–	204,363	–	–	204,363	1.93
INCPS	–	–	–	1,104,469	–	–	—	1,104,469	10.00

54. FINANCIAL INSTRUMENTS (CONTD)

f. Fair value

The carrying amounts of financial assets and liabilities of the Company and its non-banking subsidiaries at the balance sheet date approximated their fair values except for the following:

	Group/Company	
	Carrying amount RM'000	Fair value RM'000
At 31 December 2006		
CMS Income Securities	339,599	341,066
At 31 December 2005		
CMS Income Securities	168,986	168,986

The methods and assumptions used by management to determine fair values of financial instruments other than those whose carrying amounts reasonably approximate their fair values are as follows:

CMS Income Securities

The fair value is estimated based on discounted cash flows using prevailing market rates for borrowings with similar risk profile.

g. Fair values of financial instruments relating to the banking subsidiaries

Financial instruments comprise financial assets, financial liabilities and also off-balance sheet financial instruments. The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in a forced or liquidation sale. The information presented herein represents estimates of fair values as at the balance sheet date.

Quoted and observable market prices, where available, are used as the measure of fair values. However, for a significant portion of the financial instruments, including loans and advances to customers, such market prices do not exist as there is currently no ready market wherein exchanges between willing parties occur.

Accordingly, various methodologies have been used to estimate what the approximate fair values of such instruments might be. These methodologies involve uncertainties and are significantly affected by the assumptions used and judgements made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. Changes in the uncertainties and assumptions could significantly affect these estimates and the resulting fair value estimates. Where these methodologies are not able to estimate the approximate fair values, such instruments are stated at carrying amount.

In addition, fair value information is not provided for non-financial instruments and financial instruments that are excluded from the scope of FRS 132 which requires fair value information to be disclosed. These include property, plant and equipment, investments in subsidiaries and associates and intangibles.

Therefore, for a significant portion of the Group's financial instruments, including loans and advances to customers, their respective fair value estimates do not purport to represent, nor should they be construed to represent, the amount that the Group could have realised in a sales transaction at the balance sheet date.

Furthermore, it is the Group's intention to hold most of its financial instruments to maturity and, therefore, it is not probable that the fair value estimates shown will be realised.

54. FINANCIAL INSTRUMENTS (CONTD)

g. Fair values of financial instruments relating to the banking subsidiaries (contd)

The above mentioned range of methodologies and assumptions had been used in deriving the fair value of the Group's financial statements at balance sheet date. The total fair value of each financial instrument approximates the total carrying value, except for the following:

	Group Carrying value RM'000	Group Estimated fair value RM'000	
2006			
Financial assets			
Loans, advances and financing @	53,392,886	53,272,658	
Securities held-to-maturity	13,022,152	13,049,441	
Financial liabilities			
Deposits and placements of banks and other financial institutions	11,577,118	11,578,407	
Recourse obligation on loans sold to Cagamas	2,879,284	2,909,218	
Borrowings	3,821,605	3,869,691	
Subordinated obligations	1,493,158	1,525,856	
ICULS	197,844	253,421	
INCPS	1,104,469	2,016,829	
Hire-purchase payables	1,508	1,421	
2005			
Financial assets			
Loans, advances and financing	48,358,756	48,668,988	
Securities held-to-maturity	13,827,110	13,824,873	*
Financial liabilities			
Deposits and placements of banks and other financial institutions	11,028,831	11,028,821	
Recourse obligation on loans sold to Cagamas	3,356,992	3,365,638	
Borrowings	3,412,814	3,533,302	
Subordinated obligations	1,530,252	1,592,535	
ICULS	204,363	115,889	
INCPS	1,104,469	1,918,860	
Hire-purchase payables	2,346	2,117	

@ Loans, advances and financing are stated at cost and not at fair value but are subject to impairment in accordance with BNM/GP3. The Group is of the view that there is no further impairment other than that already provided for.

* The carrying amount is not written down to the fair value, as the amount is deemed to be recoverable, as substantially, it relates to government guaranteed bonds.

54. FINANCIAL INSTRUMENTS (CONTD)

g. **Fair values of financial instruments relating to the banking subsidiaries (contd)**

The fair values are based on the following methodologies and assumptions:

i. **Cash and short-term funds and deposits and placements with financial institutions**

For cash and short-term funds and deposits and placements with financial institutions with maturities of less than six months, the carrying value is a reasonable estimate of fair value. For deposits and placements with maturities of six months and above, estimated fair value is based on discounted cash flows using prevailing money market interest rates at which similar deposits and placements would be made with financial institutions of similar credit risk and remaining period to maturity.

ii. **Securities purchased under resale agreements**

The fair values of securities purchased under resale agreements with maturities of less than six months approximate the carrying values. For securities purchased under resale agreements with maturities of six months and above, the estimated fair values are based on discounted cash flows using market rates for the remaining term to maturity.

iii. **Securities held-for-trading, available-for-sale and held-to-maturity**

The estimated fair value is generally based on quoted and observable market prices. Where there is no ready market in certain securities, fair values have been assessed by reference to market indicative interest yields or net tangible asset backing of the investee. Where discounted cash flow technique is used, the estimated future cash flows are discounted using the prevailing market rates for a similar instrument at the balance sheet date.

iv. **Loans, advances and financing**

For floating rate loans, the carrying value is generally a reasonable estimate of fair value.

For fixed rate loans, the fair value is estimated by discounting the estimated future cash flows using the prevailing market rates of loans with similar credit risk and maturities.

The fair values of impaired floating and fixed rates loans are represented by their carrying value, net of specific allowance being the expected recoverable amount.

v. **Clients' and brokers' balances**

The fair values of clients' and brokers' balances approximate their carrying amounts as at balance sheet date due to their short term tenure of less than one year.

vi. **Other assets and liabilities**

The carrying value less any estimated allowance for financial assets and liabilities included in other assets and liabilities are assumed to approximate their fair values as these items are not materially sensitive to the shift in market interest rates.

vii. **Deposits from customers**

For deposits from customers with maturities of less than six months, the carrying amounts are reasonable estimates of their fair values. For deposits with maturities of six months and above, fair values are estimated using discounted cash flows based on prevailing market rates for similar deposits from customers.

viii. **Deposits and placements of banks and other financial institutions, obligations on securities held under repurchase agreements, bills and acceptances payable**

The estimated fair values of deposits and placements of banks and other financial institutions, repos and bills and acceptances payable with maturities of less than six months approximate the carrying values. For the items with maturities of six months and above, the fair values are estimated based on discounted cash flows using prevailing money market interest rates with similar remaining period to maturities.

ix. **Recourse obligation on loans sold to Cagamas**

For amount due to Cagamas with maturities of less than one year, the carrying amounts are a reasonable estimate of their fair values. For amount due to Cagamas with maturities of more than one year, fair value is estimated based on discounted cash flows using prevailing money market interest rates with similar remaining periods to maturity.

54. FINANCIAL INSTRUMENTS (CONTD)

g. Fair values of financial instruments relating to the banking subsidiaries (contd)

x. Borrowings

The estimated fair values of borrowings with maturities of less than six months approximate the carrying values. For borrowings with maturities of six months or more, the fair values are estimated based on either discounted cash flow model using a current yield curve appropriate for the remaining term to maturity or discounted cash flows using prevailing market rates for borrowings with similar risk profile.

xi. Subordinated obligations

The estimated fair value of subordinated obligations is generally based on quoted and observable market prices at the balance sheet date.

xii. ICULS

The estimated fair value of the ICULS is based on quoted and observable market prices at the balance sheet date.

xiii. INCPS

The estimated fair value of the INCPS is based on the price over net assets value of comparable banks, adjusted for the conversion option of the INCPS.

xiv. Hire-purchase payables

The estimated fair values of hire-purchase payables are based on discounted expected future cash flows using the current interest rates for liabilities with similar risk profiles.

xv. Credit related commitment and contingencies

The net fair value of these items was not calculated as estimated fair values are not readily ascertainable. These financial instruments generally relate to credit risks and attract fees in line with market prices for similar arrangements. They are not presently sold nor traded. The fair value may be represented by the present value of fees expected to be received, less associated costs.

xvi. Foreign exchange and interest rate related contracts

The fair values of foreign exchange and interest rate related contracts are the estimated amounts the Group would receive or pay to terminate the contracts at the balance sheet date.

55. SEGMENT INFORMATION

The segment reporting format is determined to be business segments as the Group's risk and rates of return are affected predominantly by differences in products and services produced.

The Group is organised into eight major business segments:

i. Manufacturing – manufacturing of cement and concrete products;
ii. Construction – civil engineering, road construction and maintenance;
iii. Construction materials – quarry operations, production and sale of premix;
iv. Banking – commercial and investment banking;
v. Stockbroking – stockbroking, asset and fund management;
vi. Insurance – underwriting of general insurance business;
vii. Property development – property holding and development and project management;
viii. Others – general trading, education and other services; and
ix. Discontinued operation – manufacturing of steel.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, liabilities and expenses.

Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, expenses and results include transfer between business segments. These transfers are estimated on consolidation.

55. SEGMENT INFORMATION (CONTD)

	< ------ Continuing operations ------ >										
	Manu-facturing RM'000	Const-ruction RM'000	Const-truction materials RM'000	Banking RM'000	Stockbroking and other financial services RM'000	Insurance RM'000	Property develop-ment RM'000	Others RM'000	Total RM'000	Discon-tinued operation RM'000	Total operations RM'000
31 December 2006											
Revenue											
Sales to external customers	320,989	336,640	94,073	5,297,943	126,491	71,496	50,614	131,978	6,430,224	43,242	6,473,466
Inter-segment sales	(13,092)	(17,804)	(34,190)	(63,665)	(448)	(14,747)	(29,346)	(88,041)	(261,333)	(2,789)	(264,122)
Total revenue	307,897	318,836	59,883	5,234,278	126,043	56,749	21,268	43,937	6,168,891	40,453	6,209,344
Results											
Segment operating profit/(loss)	63,696	32,163	7,061	988,393	41,800	44,680	17,464	(72,226)	1,123,031	1,183	1,124,214
Unallocated corporate exercise									(25,043)	–	(25,043)
Finance costs									(590,017)	(2,085)	(592,102)
Share of (loss)/profit of associates	–	–	–	(308)	6,638	–	–	–	6,330	–	6,330
Share of profit/(loss) of jointly controlled entities	–	5,222	–	–	–	–	–	(814)	4,408	–	4,408
Profit/(loss) before tax									518,709	(902)	517,807
Income tax expense									(262,292)	–	(262,292)
Net profit/(loss) for the year									256,417	(902)	255,515

55. SEGMENT INFORMATION (CONTD)

	< ---------- Continuing operations									---------- >		
	Manu-facturing RM'000	Const-ruction RM'000	Const-truction materials RM'000	Banking RM'000	Stockbroking and other financial services RM'000	Insu-rance RM'000	Property develop-ment RM'000	Others RM'000	Elimi-nations RM'000	Total RM'000	Discon-tinued operation RM'000	Total operations RM'000
31 December 2006												
Assets												
Segment assets	281,396	491,038	165,762	100,819,783	382,484	271,925	553,036	448,550	(413,589)	103,000,385	58,818	103,059,203
Investment in associates	–	–	–	15,446	276,337	–	–	–		291,783	–	291,783
Investment in jointly controlled entities	–	8,868	–	–	–	–	–	–		8,868	–	8,868
Unallocated assets	–	–	–	–	–	–	–	–		50,439	–	50,439
Total assets	281,396	499,906	165,762	100,835,229	658,821	271,925	553,036	448,550		103,351,475	58,818	103,410,293
Liabilities												
Segment liabilities	101,730	319,109	32,860	99,207,207	318,685	161,242	125,332	343,090	(324,272)	100,284,983	14,000	100,298,983
Unallocated liabilities	–	–	–	–	–	–	–	–		449,599	–	449,599
Total liabilities	101,730	319,109	32,860	99,207,207	318,685	161,242	125,332	343,090		100,734,582	14,000	100,748,582
Other segment information												
Capital expenditure	9,640	6,291	341	67,831	2,548	685	171	16,279		103,786	270	104,056
Depreciation	8,788	3,791	1,534	85,791	6,896	1,176	5,959	4,157		118,092	142	118,234
Amortisation of intangible assets	–	–	–	–	–	–	–	1,421		1,421	–	1,421
Impairment losses recognised in profit and loss	–	1,008	2,081	66,404	–	–	–	922		70,415	–	70,415
Other significant non-cash expenses	–	–	–	860,051	(2,685)	15	29,865	62,865		950,111	–	*950,111

55. SEGMENT INFORMATION (CONTD)

	< ----- Continuing operations							----- >		
	Manu-facturing RM'000	Const-ruction RM'000	Const-truction materials RM'000	Banking RM'000	Stockbroking and other financial services RM'000	Insurance RM'000	Property develop-ment RM'000	Others RM'000	Total RM'000	Discon-tinued operation RM'000	Total operations RM'000
31 December 2005											
Revenue											
Sales to external customers	290,748	295,686	133,656	4,352,567	112,117	48,769	74,444	132,618	5,440,605	100,567	5,541,172
Inter-segment sales	(13,157)	(11,842)	(19,730)	(116,117)	–	(16,894)	(29,412)	(36,839)	(243,991)	(13,580)	(257,571)
Total revenue	277,591	283,844	113,926	4,236,450	112,117	31,875	45,032	95,779	5,196,614	86,987	5,283,601
Results											
Segment operating profit/(loss)	52,737	24,301	9,858	846,618	17,782	24,143	113,065	(17,337)	1,071,167	(126,406)	944,761
Unallocated corporate exercise									(24,867)	–	(24,867)
Finance costs									(569,864)	(3,903)	(573,767)
Share of profit/(loss) of associates	–	–	–	295	(10,476)	–	–	–	(10,181)	–	(10,181)
Share of profit of jointly controlled entities	–	3,598	–	–	–	–	–	–	3,598	–	3,598
Profit/(loss) before tax									469,853	(130,309)	339,544
Income tax expense									(156,962)	128	(156,834)
Net profit/(loss) for the year									312,891	(130,181)	182,710

55. SEGMENT INFORMATION (CONTD)

	< ------				Continuing operations					------ >		
	Manu-facturing RM'000	Const-ruction RM'000	Const-truction materials RM'000	Banking RM'000	Stockbroking and other financial services RM'000	Insu-rance RM'000	Property develop-ment RM'000	Others RM'000	Elimi-nations RM'000	Total RM'000	Discon-tinued operation RM'000	Total operations RM'000
31 December 2005												
Assets												
Segment assets	434,878	443,446	166,838	87,520,883	334,260	262,256	677,193	475,354	(450,042)	89,865,066	–	89,865,066
Investment in associates	–	–	–	15,734	267,355	–	–	–		283,089	–	283,089
Investment in jointly controlled entities	–	5,583	–	–	–	–	–	–		5,583	–	5,583
Unallocated assets	–	–	–	–	–	–	–	–		43,644	–	43,644
Total assets	434,878	449,029	166,838	87,536,617	601,615	262,256	677,193	475,354		90,197,382	–	90,197,382
Liabilities												
Segment liabilities	300,122	322,987	38,378	86,289,676	233,876	153,587	232,325	193,347	(356,710)	87,407,588	–	87,407,588
Unallocated liabilities	–	–	–	–	–	–	–	–		337,289	–	337,289
Total liabilities	300,122	322,987	38,378	86,289,676	233,876	153,587	232,325	193,347		87,744,877	–	87,744,877

55. SEGMENT INFORMATION (CONTD)

	< ------ Continuing operations									------ >		
	Manu-facturing RM'000	Const-ruction RM'000	Const-truction materials RM'000	Banking RM'000	Stockbroking and other financial services RM'000	Insu-rance RM'000	Property develop-ment RM'000	Others RM'000	Elimi-nations RM'000	Total RM'000	Discon-tinued operation RM'000	Total operations RM'000
31 December 2005												
Other segment information												
Capital expenditure	15,659	1,827	659	65,065	2,702	1,545	2,857	3,589		93,903	343	94,246
Depreciation	17,569	4,319	3,030	92,269	4,948	1,480	5,826	4,308		133,749	8,948	142,697
Amortisation of intangible assets								701		701	–	701
Amortisation of goodwill	35	332	1,749	9,174	–	–	–	207		11,497	1,073	12,570
Impairment losses recognised in profit and loss	–	–	–	(10,186)	–	–	–	–		(10,186)	114,753	104,567
Other significant non-cash expenses	–	–	–	733,676	9,722	608	95,998	5,794		845,798	–	*845,798

* Included in other non-cash expenses other than depreciation are allowances for losses on loans and financing, impairment loss, interest suspended and accretion of discount less amortisation of premium.

56. SIGNIFICANT EVENTS

In addition to the significant events disclosed elsewhere in this report, other significant events are disclosed in Note 11, 19 and 57 to the financial statements.

i. On 5 January 2006, the Board of Directors of the Company approved and announced the closure of the operations of CMS Steel Berhad ('CMS Steel'), a subsidiary of the Company and its decision to exit from the steel operations. In September 2006, CMS Steel entered into an agreement with Pert Progetti E Rilievi Tecnici S.R.L. of the Republic of Italy for the disposal of the steel mill for Euro 9 million.

ii. On 16 May 2006, CMS Opus Private Equity Sdn Bhd increased its paid-up share capital from 100,000 ordinary shares of RM1 each to 200,000 ordinary shares of RM1 each. Its holding company, CMS Capital Sdn Bhd maintains its equity interest at 51%.

iii. On 7 June 2006, a subsidiary, CMS Sumber Sdn Bhd resolved to be wound up vountarily.

iv. On 31 July 2006, a subsidiary, CMS Resources Sdn Bhd acquired from SCIB Holdings Sdn Bhd 49,000 ordinary shares of RM1 each at par, representing the remaining 49% equity interest of PPES Concrete Product Sdn Bhd

v. On 30 October 2006, a subsidiary, CMS Works Sdn Bhd disposed of its entire equity interests in CMS Works International Ltd, a company incorporated in Labuan for a cash consideration of RM50,000.

vi. On 6 December 2006, a subsidiary, CMS Works Sdn Bhd acquired 100% equity interest in CMS Works International (China) Ltd, a company incorporated in Labuan for a cash consideration of USD1.00.

vii. On 31 December 2006, CMS Education Sdn Bhd increased its paid-up share capital from 1,000,000 ordinary shares of RM1 each to 3,000,000 ordinary shares of RM1 each, which was fully subscribed by the Company. Accordingly the Company's investment in CMS Education Sdn Bhd has increased to 93%.

viii. Events relating to the banking subsidiaries:

a. Merger of RHB Bank and RHB Delta Sdn Bhd's (formerly known as RHB Delta Finance Berhad) ("RHB Delta") operations ("BAFIN Merger")

Following the regulatory approvals and High Court order obtained in December 2005 for the BAFIN Merger, with effect from 1 January 2006:

i. all assets and liabilities of RHB Delta with the exception of the Islamic assets and liabilities, were transferred to RHB Bank;

ii. all businesses and operations of RHB Delta will be conducted through RHB Bank;

iii. the Islamic assets and liabilities of RHB Delta were transferred to RHB Islamic Bank Berhad; and

iv. RHB Leasing Sdn Bhd and RHB Delta Nominees (Tempatan) Sdn Bhd will become direct subsidiaries of RHB Bank.

b. Creation of an Investment Bank:
RHB Capital announced on 4 July 2006 that BNM and the SC had approved the proposed establishment of an investment bank by its subsidiary, RHB Investment Bank, by way of the proposed acquisition of the assets and liabilities of RHB Excel Sdn Bhd (formerly known as RHB Securities Sdn Bhd) ("RHB Excel") and RHB Progressive Sdn Bhd (formerly known as RHB Futures Sdn Bhd) ("RHB Progressive") ("Proposed IB Merger").

The said approval is conditional upon, amongst others, the following:

i. the implementation of the Proposed IB Merger is to be completed within a period of one year from 30 June 2006; and

ii. RHB Investment Bank shall comply with all requirements of the guidelines issued by BNM and SC in relation to the Investment Bank framework at all times.

56. SIGNIFICANT EVENTS (CONTD)

viii. Events relating to the banking subsidiaries: (contd)

b. Creation of an Investment Bank: (contd)

RHB Excel and RHB Progressive are wholly-owned subsidiaries of RHB Investment Bank, which in turn is a wholly-owned subsidiary of RHB Capital.

RHB Capital announced on 13 October 2006 that RHB Sakura Merchant Bankers Berhad changed its name to RHB Investment Bank on 10 October 2006 in line with RHB Group's plan to transform the merchant bank into an investment bank.

On 28 December 2006, RHB Capital announced that the vesting orders for the transfer of the business, assets and liabilities of RHB Excel and RHB Progressive respectively which was obtained on 12 December 2006, to RHB Investment Bank shall take effect on 30 December 2006, thereby completing the transformation of RHB Investment Bank into a full fledged investment bank.

c. RM150 million Commercial Paper/Medium Term Notes ("CP/MTN") Program and RM350 million Fixed Rate Bonds (collectively known as 'The Proposed PDS Program')

RHB Capital has successfully launched the Proposed PDS Program and has issued the RM350 million Fixed Rate Bonds on 18 September 2006.

The proceeds from the issuance of the RM350 million Fixed Rate Bonds were utilised as follows:

	RM'Million
Early redemption of RHB Capital's Redeemable Serial Fixed Rate Bonds 2002/2007 as disclosed in Note 49	199.5
Partial repayment of the RHB Capital's existing borrowings	140.7
Repayment of interest on borrowings	0.7
	340.9

The balance of RM9.1 million represents discount on the RM350 million Fixed Rate Bonds which is amortised throughout the tenure of the bonds.

As at 31 December 2006, RHB Capital has not issued any CP/MTN.

d. Acquisition of Straits Asset Holdings Sdn Bhd ("Straits Asset")

Straits Asset has become a direct subsidiary of RHB Capital with effect from 22 September 2006 pursuant to:

i. the acquisition of 100% of the issued and paid-up share capital of Straits Asset ("SAHSB Shares") by RHB Investment Bank from RHB Marketing Services Sdn Bhd, a wholly-owned subsidiary of RHB Investment Bank; and

ii. subsequent acquisition of SAHSB Shares by RHB Capital from RHB Investment Bank.

e. Acquisition of shares from Daewoo Engineering & Construction Co, Ltd ("DEC"):

RHB announced on 26 September 2006 that it has acquired the remaining 20% shares of Vision City (Malaysia) Sdn Bhd ("Vision City") from DEC for a nominal consideration sum of RM1 by way of a Share Sale Agreement entered into between RHB and DEC.

RHB-DAEWOO Sdn Bhd has changed its name to Vision City (Malaysia) Sdn Bhd on 1 December 2006.

56. SIGNIFICANT EVENTS (CONTD)

viii. Events relating to the banking subsidiaries: (contd)

f. Arbitration Hearing

UBG entered into a conditional Share Sale Agreement ("SSA") with Malaysian Industrial Development Finance Berhad ("MIDF") on 6 May 2004 for the sale of 189,772,222 ordinary shares of RM1 each comprising 85.1% of the issued capital of Utama Merchant Bank Berhad ("UMBB") ("Proposed Disposal"), a former subsidiary of UBG, for a cash consideration of 1.8 times UMBB's net tangible assets value on a "willing seller-willing buyer" basis.

A dispute arose under the SSA as to the enforceability of certain charges granted to UMBB, the value of which is relevant to the determination of the purchase price under the SSA.

On 22 December 2004, UBG announced that UBG and MIDF have entered into a Supplemental Share Sale Agreement for the following:

i. the Parties have agreed that the completion net tangible assets value of UMBB as at 30 June 2004 ("Completion NTA") shall be RM110,711,000;

ii. the Parties have agreed to:

   a. refer the enforceability of the charges granted by third party chargors in favour of UMBB to secure the prepayment of sundry receivables owing to UMBB as contained in the unaudited management accounts of UMBB as at 30 June 2004 ("the Charges") amounting to RM45,120,000 ("UMBB Sundry Receivables") to the Regional Centre of Arbitration, Kuala Lumpur ("RCAKL") for arbitration ("Arbitration");

   b. accordingly, for the premium to be paid by MIDF to UBG on UMBB's Sundry Receivables amounting to RM30,718,000 ("UMBB Premium") to be deferred pending the outcome of the Arbitration. In this regard, the Completion NTA as set out in (i) above is inclusive of the UMBB Sundry Receivables;

iii. the Parties have agreed that the consideration to be paid by MIDF to UBG on the completion date of the Proposed Disposal (within 7 business days from the date of the Supplemental Agreement) prior to the outcome of the Arbitration shall be RM138,869,000; and

iv. the Parties have agreed that in the event the decision of the arbitrator on the Charges is:

   a. in the affirmative, the UMBB Premium (which is held by a mutually agreed stakeholder) shall be released to UBG; and

   b. in the negative, the UMBB Premium shall be released to MIDF.

The sale of UMBB to MIDF was completed on 31 December 2004 upon receipt of the balance of cash payment of RM122,564,029 (RM138,869,000 less the initial deposit of RM16,304,971). UMBB therefore ceased to be a subsidiary of UBG on that date.

On 25 January 2005, the lawyers of UBG and MIDF have jointly referred the issue on the enforceability of the charges mentioned in (ii)(a) above, to RCAKL for arbitration.

The hearing of the arbitration proceedings has been completed in November 2006 and the Arbitrator has made his Award on 12 April 2007 at 12.00 noon in the following terms:

i. that the Charges are enforceable to recover the sums due and owing set out in the books of Utama Merchant Bank Berhad as Sundry Receivables; and

ii. accordingly the Stakeholder is required, within 5 days of the issuance or publication of this Award, to release the whole of the UMBB Premium (RM30,718,000.00) and the accrued interest thereon (less applicable charges if any) to UBG.

56. SIGNIFICANT EVENTS (CONTD)

viii. Events relating to the banking subsidiaries: (contd)

g. Offers to purchase UBG's interests in RHB

UBG announced on 26 June 2006 that it had received and was considering a written conditional offer ("Offer") from the Employees Provident Fund Board ("EPF") to acquire all ordinary shares and RHB ICULS A and B in RHB held by UBG as at 14 April 2006.

After careful consideration, UBG informed EPF in writing on 14 September 2006 that it was unable to consider the Offer as the offer price was significantly below its valuation of its entire interest in RHB.

On 18 December 2006, UBG announced that it had received a letter dated 15 December 2006 from BNM informing that it had no objection in principle for UBG to commence negotiations with a consortium of investors to be formed and led by Kuwait Finance House (Malaysia) Berhad ("KFHMB") in relation to the proposed sale of its equity interest in RHB ("Proposed Disposal").

57. SUBSEQUENT EVENTS

a. Offers from KFHMB – Led Consortium

On 16 January 2007, UBG entered into a Memorandum of Understanding ("MOU") with KFHMB, setting out the understanding of the parties with respect to the process that shall take place in relation to the Proposed Disposal to a consortium of investors to be formed and led by Kuwait Finance House (Malaysia) Berhad ("KFHMB").

During its negotiations with KFHMB and in line with BNM's current policy which permits negotiations for the acquisition or disposal of equity interest in licensed institutions regulated by BNM to be carried out with more than one party, UBG also announced on 31 January 2007 that it had also received a letter dated 30 January 2007 from BNM that it had no objection in principle for UBG to commence negotiations with Primus Pacific Partners Ltd and its consortium of investors ("PPP-Led Consortium") on a proposed recapitalisation and restructuring of its equity interest in RHB.

On 7 February 2007, UBG announced that it had received an indicative offer from KFHMB, on behalf of KFHMB and the Kuwait Finance House Consortium ("KFH Consortium"), to acquire the Company's investments in RHB ("the stake") for RM2.16 billion. The KFHMB's offer was accepted on a conditional basis, and in conjunction therewith UBG decided to pursue negotiations with KFHMB on an exclusive basis. The acceptance was subject inter alia, to:

i. the purchase price of RM2.16 billion payable in cash, with an option exercisable by UBG at its sole discretion to purchase up to 20% of the voting share capital of a Special Purpose Vehicle, which would hold the assets purchased from UBG, at the price of up to RM510 million; and

ii. the parties reaching final agreement on the terms of a Conditional Sale and Purchase Agreement ("Conditional SPA") for the proposed disposal of the Stake by 16 February 2007 or such other date as may be mutually agreed between the parties.

The terms had been accepted and agreed to by KFHMB.

Consequently, UBG discontinued negotiations with the PPP-Led Consortium with effect from 7 February 2007.

On 16 February 2007, UBG announced that it had reached a mutual agreement with KFHMB to continue negotiations on an exclusive basis, and to extend the deadline for both parties to reach final agreement on the terms of the Conditional SPA to Friday, 23 February 2007.

On 23 February 2007, the MOU dated 16 January 2007 was deemed to have lapsed as UBG and KFHMB had yet to reach final agreement on the terms of the Conditional SPA as of Friday, 23 February 2007. Nevertheless, UBG and KFHMB had mutually agreed to continue negotiations on a non-exclusive basis. However, the Conditional SPA was not finalised following UBG's receipt of a letter on 6 March 2007 from KFHMB informing of the KFH Consortium's intention to submit applications to BNM to seek BNM's approval for the Consortium to make a general offer for all the remaining shares, and any dilutive instruments of RHB, RHB Capital and RHB Bank, if required.

Subsequent events disclosed below have overtaken the negotiations with KFHMB and KFH Consortium's intended general offer.

57. SUBSEQUENT EVENTS (CONTD)

b. **Offer from EPF**

UBG announced on 6 March 2007 that it had received a proposed offer from EPF to acquire its interest in RHB as follows for a total cash consideration of RM2.2 billion ("Proposed EPF Offer"):

i. 238,127,000 ordinary shares of RM1 each in RHB at RM1.80 per share;

ii. 449,206,479 unit of 2002/2012 0.5% RHB Irredeemable Unsecured Loan Stock A ("RHB ICULS-A") at RM1.88 per unit;

iii. 403,471,898 2002/2012 3% RHB Irredeemable Unsecured Loan Stock B ("RHB ICULS-B") at RM1.88 per unit; and

iv. 92,461,730 units of RHB Call Warrants 2003/2007 at RM1.84 per unit.

The Proposed EPF Offer was valid until 5.00 p.m. on Thursday 8 March 2007 and was subject to the approval of the Minister of Finance, Malaysia via BNM.

On 8 March 2007, UBG announced that it had received and accepted, subject to shareholders and regulatory approvals, EPF's revised offer dated 7 March 2007 involving all the securities held by UBG in RHB, as follows:

i. 238,127,000 ordinary shares of RM1 each in RHB at RM1.80 per share;

ii. 449,206,479 units of 2002/2012 0.5% RHB ICULS-A at RM1.94 per unit;

iii. 403,471,898 units of 2002/2012 3% RHB ICULS B at RM1.94 per unit; and

iv. 92,461,730 units of RHB Call Warrants 2003/2007 at RM1.84 per unit.

Consequently, the total cash consideration receivable by UBG would increase from RM2.20 billion to RM2.25 billion. The other terms of the EPF revised offer as announced on 6 March 2007 remained unchanged.

Upon the Proposed EPF Acquisition becoming conditional, EPF will hold approximately 62.46% of the issued and paid-up capital of RHB. Pursuant to Section 33B(2) of the Securities Commission Act, 1993 and Part II of the Malaysian Code on Take-Overs and Mergers 1998 ("Code"), EPF would be required to extend an unconditional take-over offer for all the remaining securities of RHB not already owned by EPF based on the same consideration payable to UBG pursuant to the Sales and Purchase Agreement ("Proposed RHB Offer").

Upon EPF obtaining control of RHB through the completion of the sale and purchase agreement between EPF and UBG, by virtue of RHB Capital Berhad being a subsidiary of UBG and pursuant to Practice Note 2.2 the Code, EPF will also extend an unconditional take-over offer for all the remaining shares of RHB Capital not already owned by EPF. The offer price will be RM4.80 per RHB Capital share.

UBG was informed by EPF that it may also be obliged to extend an unconditional take-over offer for all the remaining shares in RHB Bank Berhad and RHB Insurance Berhad not already owned by EPF.

c. **Proposed Disposal to EPF and Proposed Capital Repayment**

On 3 April 2007, UBG announced that it had entered into a conditional sale and purchase agreement ("SPA") with EPF setting out the details of the Proposed Disposal as well as the respective rights and obligations of the parties thereto for purposes of, inter-alia, giving effect to and implementing the Proposed Disposal. It had on 29 March 2007 received the approval of BNM for the Proposed Disposal.

Following the completion of the Proposed Disposal, UBG is proposing to undertake the Proposed Capital Repayment.

In conjunction with the Proposed Capital Repayment, UBG is also proposing to undertake the Proposed Increase in Authorised Share Capital and the Proposed Amendments.

57. SUBSEQUENT EVENTS (CONTD)

c. **Proposed Disposal to EPF and Proposed Capital Repayment (contd)**

The details of the proposals are as follows:

i. Proposed disposal of UBG's entire investment in RHB to the EPF for a cash consideration of RM2,252,954,234.58 ("Proposed Disposal");

ii. Proposed capital repayment via a cash distribution of RM1,365,519,892 to the shareholders of UBG on the basis of RM2 for every one (1) existing ordinary share of RM1 each ("Share") held in UBG at an entitlement date to be determined later ("Proposed Capital Repayment");

iii. Proposed increase in the authorised share capital of UBG from RM1,000,000,000 comprising 1,000,000,000 shares to RM1,500,000,000 comprising 1,500,000 shares by the creation of 500,000,000 new shares ("Proposed Increase in Authorised Share Capital"); and

iv. Proposed amendments to the Memorandum and Articles of Association of UBG ("Proposed Amendments").

The Proposed Disposal is conditional upon the following:

i. the approval of the Minister of Finance via BNM, which was obtained on 29 March 2007;

ii. the approval of the SC;

iii. the approval of the Equity Compliance Unit of the SC, which shall be applied by EPF;

iv. the approval of the shareholders of UBG at an Extraordinary General Meeting ("EGM") to be convened;

v. the approval of Bursa Securities for the direct business transaction, which shall be applied jointly by UBG and EPF (if required); and

vi. the approval and/or consent from any other relevant authorities and/or persons, if required.

The Proposed Capital Repayment is conditional upon the following:

i. the approval of the SC for the Proposed Shares Consolidation and the listing of and quotation for the Consolidated Shares;

ii. the approval of Bursa Malaysia Securities Berhad ("Bursa Securities") for the listing of and quotation for the Consolidated Shares;

iii. the approval of the shareholders of UBG at an EGM to be convened;

iv. the confirmation of the High Court of Malaysia and/or Sabah and Sarawak ("High Court"); and

v. the approval and/or consent from any other relevant authorities and/or persons, if required.

The Proposed Increase in Authorised Share Capital and Proposed Amendments are conditional upon the following:

i. the approval of the shareholders of UBG at an EGM to be convened;

ii. the approval and/or consent from any other relevant authorities and/or persons, if required.

The Proposed Capital Repayment, Proposed Increase in Authorised Share Capital and Proposed Amendments are inter-conditional upon each other and are conditional upon the Proposed Disposal. The Proposed Disposal is, however, not conditional upon the Proposed Capital Repayment, Proposed Increase in Authorised Share Capital and Proposed Amendments.

57. SUBSEQUENT EVENTS (CONTD)

c. **Proposed Disposal to EPF and Proposed Capital Repayment (contd)**

In addition, UBG undertakes, inter-alia, to procure undertakings to enable CMSB to vote in favour of the resolution to be passed at the EGM of UBG in respect of the Proposed Disposal.

The cut-off date for the Proposed Disposal is on 8 June 2007 or such other date as mutually agreed.

The completion of the SPA shall take place not later than the fourteenth (14th) market day from the date the last of the conditions precedent set out in the SPA shall have been fulfilled or waived, as the case may be, or such other date as UBG and EPF may agree in writing.

Upon completion of the Proposed Disposal, UBG is proposing to distribute RM1,365,519,892 out of the total proceeds receivable from the Proposed Disposal to the shareholders of UBG on the basis of RM2 for every one (1) existing Share held in the UBG at an entitlement date to be determined later by the Board ("Entitlement Date").

The Proposed Capital Repayment will entail the following:

i. Proposed bonus issue of 682,759,946 new Shares in UBG ("Bonus Shares") on the basis of one (1) new Share in UBG for every one (1) existing Share in UBG held prior to the Proposed Capital Reduction (as defined below) which shall be effected by way of capitalising RM357,006,537 and RM325,753,409 from the share premium account and retained earnings of UBG respectively ("Proposed Bonus Issue");

ii. Proposed reduction of the issued and paid-up share capital of UBG after the Proposed Bonus Issue from RM1,365,519,892 comprising 1,365,519,892 Shares to RM68,275,995 comprising 1,365,519,892 ordinary shares of 5 sen each, representing a capital reduction of ninety-five (95) sen for every one (1) existing Share in UBG held after the Proposed Bonus Issue;

iii. Proposed reduction of the remaining balance of the share premium account of UBG after the Proposed Bonus Issue of RM68,275,995, in accordance with the provisions of Sections 60(2) and 64 of the Companies Act, 1965;

(items (ii) and (iii) are to be collectively referred to as the "Proposed Capital Reduction")

iv. Thereafter, the issued and paid-up share capital of UBG of RM68,275,995 comprising 1,365,519,892 ordinary shares of 5 sen each shall be consolidated on the basis of five (5) ordinary shares of 5 sen each into one (1) ordinary share of 25 sen each in UBG. The resultant issued and paid-up share capital of UBG will be RM68,275,995 comprising 273,103,978 ordinary shares of 25 sen each ("Proposed Shares Consolidation").

The shares arising from the Proposed Shares Consolidation will be credited into the Central Depository System ("CDS") accounts of the entitled shareholders of UBG and subsequently listed on the Main Board of Bursa Securities.

The Proposed Capital Repayment will be subject to the confirmation of the High Court. Accordingly, an application will be made to the High Court after obtaining shareholders' approval for the Proposed Capital Repayment.

The authorised share capital of UBG is RM1,000,000,000 comprising 1,000,000,000 Shares, of which 682,759,946 Shares have been issued and are fully paid-up as at 16 March 2007.

In order to accommodate the issuance of the Bonus Shares pursuant to the Proposed Bonus Issue, UBG is proposing to increase its authorised share capital to RM1,500,000,000 by the creation of 500,000,000 new Shares.

In consequence of the Proposed Capital Repayment, UBG is proposing to amend the Memorandum and Articles of Association of UBG to cater for the alteration to the authorised share capital of UBG subsequent to the completion of the Proposed Increase In Authorised Share Capital and Proposed Capital Repayment, from RM1,000,000,000 comprising 1,000,000,000 Shares to RM1,500,000,000 comprising 6,000,000,000 ordinary shares of 25 sen each.

57. SUBSEQUENT EVENTS (CONTD)

d. Offer Notice of Conditional Voluntary Offer

On 7 February 2007, the Board of Directors ("Board") of RHB received a Notice of Conditional Voluntary Offer ("Notice") from MIMB Investment Bank Berhad (formerly known as Malaysian International Merchant Bankers Berhad) ("MIMB") on behalf of EON Capital Berhad ("EONCap") on the Proposed Offer (as defined below) whereby EONCap intends to carry out a conditional voluntary offer to acquire the following securities in RHB:

i. all the ordinary shares of RM1 each in RHB ("RHB Shares") in issue and any such new RHB Shares which are issued upon conversion of the ICULS-A, ICULS-B or Warrants-A, Warrants-B and Warrants-C (as defined below) ("Offer Shares") at the offer price of RM1.80 per Offer Share ("Share Offer");

ii. up to RM451,008,302 nominal value of ICULS-A in RHB ("Offer ICULS-A") as at 14 April 2006 at the cash offer price of RM1.85 per RM1 nominal value of Offer ICULS-A ("ICULS-A Offer");

iii. up to RM605,261,169 nominal value of ICULS-B in RHB ("Offer ICULS-B") as at 14 April 2006 at the cash offer price of RM1.85 per RM1 nominal value of Offer ICULS-B ("ICULS-B Offer");

iv. up to 33,305,528 warrants 1997/2007 ("Warrants-A") in RHB (expiring on 24 March 2007) ("Offer Warrants-A") as at 14 April 2006 at the offer price of 0.01 sen per Offer Warrants-A ("Warrants-A Offer");

v. up to 135,015,204 warrants 1999/2009 ("Warrants-B") in RHB (expiring on 16 August 2009) ("Offer Warrants-B") as at 14 April 2006 at the offer price of 0.01sen per Offer Warrants-B ("Warrants-B Offer"); and

vi. up to 21,564,372 warrants 2001/2007 ("Warrants-C") in RHB (expiring on 24 March 2007) ("Offer Warrants-C") as at 14 April 2006 at the offer price of 0.01 sen per Offer Warrants-C ("Warrants-C Offer"),

not already held by EONCap.

The offers extended in respect of the Offer Shares, Offer ICULS-A, Offer ICULS-B, Offer Warrants-A, Offer Warrants-B and Offer Warrants-C shall be collectively referred to as 'the Proposed Offer'.

The Notice was served in tandem with an offer by EONCap to acquire the entire business and undertaking of RHB Capital including all the assets and liabilities of RHB Capital at an aggregate cash consideration equivalent to approximately RM4.80 per ordinary share of RM1 each in the issued and paid up share capital of RHB Capital ("RHB Capital Share") multiplied by the total outstanding RHB Capital Shares ("Proposed Business Acquisition").

On 9 March 2007, RHB announced the following:

i. In respect of the Proposed Offer, that it had received copies of letters from EPF and UBG to EONCap formally communicating to EONCap their rejections of the Proposed Offer. RHB further noted that the said rejections represented 62.42% of the total voting shares in the issued and paid-up share capital of RHB as of 9 March 2007, and that the Proposed Offer was conditional upon EONCap receiving valid acceptances of more than 50% of the total voting shares of RHB.

ii. In respect of the Proposed EONCap Acquisition, that after deliberating on all aspects of the Proposed EONCap Acquisition including its terms and conditions and after taking note of the letters from EPF and UBG stating their intention not to support any resolution to be tabled at a general meeting of RHB that may be convened to decide on the Proposed EONCap Acquisition, the Board had resolved not to accept the Proposed EONCap Acquisition.

57. SUBSEQUENT EVENTS (CONTD)

e. **Proposed renounceable offer for sale of RHB Capital Shares by RHB**

Proposed renounceable offer for sale of up to 1,176,197,699 existing ordinary shares of RM1 each in RHB Capital ("RHBC Shares") at an offer price and an entitlement date to be determined, to:

i. Shareholders of RHB on a tentative basis of up to 66 existing RHBC Shares for every 100 existing ordinary shares of RM1 each held ("RHB Shares") ("Proposed Offer to Shareholders");

ii. Holders of the ICULS designated as RHB ICULS-A of RHB on a tentative basis of up to 66 existing RHBC Shares for every RM100 nominal amount of RHB ICULS-A held ("Proposed Offer to ICULS-A Holders"); and

iii. Holders of the ICULS designated as RHB ICULS-B of RHB on a tentative basis of up to 66 existing RHBC Shares for every RM100 nominal amount of RHB ICULS-B held ("Proposed Offer to ICULS-B Holders").

(hereinafter collectively referred to as the "Proposed Offer for Sale")

RHB announced on 13 February 2007 that RHB proposes to undertake the Proposed Offer for Sale.

The Proposed Offer for Sale is undertaken to enable RHB to raise funds to repay its outstanding debts and the inter-company loan due to RHB Capital, whilst ensuring investment continuity for the shareholders of RHB and holders of the RHB ICULS-A and RHB ICULS-B via a direct stake in RHB Capital at a discount to the prevailing market price.

After the completion of the Proposed Offer for Sale and the settlement of the intercompany loan, RHB Capital is expected to be in a stronger financial position as it would have additional cash of approximately RM1.2 billion.

Authorised Share Capital	:	1,000,000,000 ordinary shares of RM1.00 per share 400 non-cumulative redeemable preference shares of RM1.00 per share
Issued and Paid-up Share Capital	:	329,445,840 ordinary shares of RM1.00 per share 400 non-cumulative redeemable preference shares of RM1.00 per share
Voting Right	:	One voting right for one ordinary share

Directors' shareholdings

Name of shareholder	Direct shareholdings	% of issued capital	Indirect shareholdings	% of issued capital
1 Dato Sri Sulaiman Abdul Rahman Taib	29,465,085	8.94	–	–
2 Haji Mahmud Abu Bekir Taib	29,400,085	8.92	–	–

Distribution of Shareholdings

Size of shareholdings	No. of shareholders	% of shareholders	No. of ordinary shares held	% of issued capital
1 to 99	38	0.57	1,066	0.00
100 to 1,000	1,875	28.33	1,814,037	0.55
1,001 to 10,000	3,801	57.42	16,119,600	4.89
10,001 to 100,000	812	12.27	23,582,905	7.16
100,001 to less than 5% of issued shares	88	1.33	120,172,600	36.48
5% and above of issued shares	5	0.08	167,755,632	50.92
Total	6,619	100.00	329,445,840	100.00

Category of shareholders

Category	No. of shareholders	% of shareholders	No. of ordinary shares held	% of issued capital
Individuals	5,361	80.99	142,495,501	43.25
Banks/Finance companies	11	0.17	15,274,900	4.64
Investment Trusts/Foundation/Charities	2	0.03	97,000	0.03
Industrial and Commercial Companies	99	1.50	48,034,902	14.58
Government Agencies/Institutions	3	0.04	27,087,665	8.22
Nominee Companies	1,143	17.27	96,455,872	29.28
Total	6,619	100.00	329,445,840	100.00

Thirty largest shareholders as per record of depositors

Name of shareholder	No. of ordinary shares held	% of issued capital
1 Majaharta Sdn Bhd	44,925,102	13.64
2 Lejla Taib	37,000,000	11.23
3 Dato Sri Sulaiman Abdul Rahman Taib	29,465,085	8.94
4 Haji Mahmud Abu Bekir Taib	29,400,085	8.92
5 Sarawak Economic Development Corporation	26,965,360	8.19
6 DB (Malaysia) Nominee (Asing) Sdn Bhd *Exempt AN for Deutsche Bank AG Singapore (PWM Asing)*	16,163,000	4.91
7 Employees Provident Fund Board	15,214,800	4.62
8 Pui Cheng Wui	8,127,405	2.47
9 HSBC Nominees (Asing) Sdn Bhd *Exempt AN for HSBC Private Bank (Suisse) S.A. (Singapore Tst Accl)*	6,033,000	1.83
10 Malaysia Nominees (Asing) Sdn Bhd *Pretoria Limited*	6,000,000	1.82
11 Malaysia Nominees (Asing) Sdn Bhd *Kimber Cove Corporation*	6,000,000	1.82
12 UOBM Nominees (Asing) Sdn Bhd *Galliano Holdings Limited*	6,000,000	1.82
13 UOBM Nominees (Asing) Sdn Bhd *Roundsun Assets Limited*	5,646,200	1.71

Thirty largest shareholders as per record of depositors (Contd)

	Name of shareholder	No. of ordinary shares held	% of issued capital
14	UOBM Nominees (Asing) Sdn Bhd *Taminga Profits Limited*	5,600,000	1.70
15	Malaysia Nominees (Asing) Sdn Bhd *Honeywell Assets Limited*	5,500,000	1.67
16	Malaysia Nominees (Asing) Sdn Bhd *Fullstead Finance Corporation*	5,287,695	1.61
17	Malaysia Nominees (Asing) Sdn Bhd *Bakerville Profits Limited*	5,146,200	1.56
18	Malaysia Nominees (Asing) Sdn Bhd *Fullearn Assets Inc*	4,400,000	1.34
19	Dato' Haji Onn bin Mahmud	2,506,000	0.76
20	Citigroup Nominees (Asing) Sdn Bhd *CBNY for DFA Emerging Markets Fund*	1,169,500	0.35
21	Citigroup Nominees (Asing) Sdn Bhd *Exempt AN for Merrill Lynch Pierce Fenner & Smith Incorporated*	1,142,200	0.35
22	Mayban Nominees (Tempatan) Sdn Bhd *Li Cheng Thong @ Lee Chen Thung*	1,042,000	0.32
23	UOBM Nominees (Asing) Sdn Bhd *Exempt AN for Societe Generale Bank & Trust, Singapore Branch (Cust Asset)*	1,030,000	0.31
24	Citigroup Nominees (Asing) Sdn Bhd *GSI for Alcor Capital Asia Fund Ltd*	1,000,000	0.30
25	HDM Nominees (Asing) Sdn Bhd *UOB Kay Hian Pte Ltd for Ban Song Long*	918,500	0.28
26	Public Nominees (Tempatan) Sdn Bhd *Kong Goon Khing*	900,000	0.27
27	Hanifah Hajar Taib	705,000	0.21
28	HSBC Nominees (Asing) Sdn Bhd *Herbert UHL*	650,000	0.20
29	HSBC Nominees (Asing) Sdn Bhd *Exempt AN for Credit Suisse*	611,000	0.19
30	AIBB Nominees (Tempatan) Sdn Bhd *Tan Teck Piow*	583,800	0.18
	Total	275,131,932	83.51

Substantial Shareholders as per Register of Substantial Shareholders, excluding nominee companies

	Name of substantial shareholders	Direct shareholding	Indirect shareholding	% of issued capital
1	Hanifah Hajar Taib	705,000	44,925,102 *	13.85
2	Majaharta Sdn Bhd	44,925,102	–	13.64
3	Jamilah Hamidah Taib	–	44,925,102 *	13.64
4	Lejla Taib	37,000,000	–	11.23
5	Dato Sri Sulaiman Abdul Rahman Taib	29,465,085	–	8.94
6	Haji Mahmud Abu Bekir Taib	29,400,085	–	8.92
7	Sarawak Economic Development Corporation	26,965,360	–	8.19

** Deemed interested by virtue of direct shareholdings of over 15% in Majaharta Sdn Bhd pursuant to Section 6A of the Companies Act, 1965*

Location	Date of acquisition/ Revaluation	Description	Usage	Tenure	Remaining lease period (Expiry Date)	Land area/ Built up area (Hectare/m²)	Age of buildings	Net book value RM
Lot 5895, Section 64 Sungai Tabuan, Pending Industrial Estate, Kuching * *The age of the new office extention and canteen is 10 years*	1996	Land & cement mill	Office & factory	Leasehold	30 years (2036)	6.25/ 15,223	29 years*	20,697,102
Lot 766, Block 20 Kemena Land District Bintulu	1997	Land & cement mill	Office & factory	Leasehold	56 years (2062)	6.88/ 68,797	10 years	18,735,371
Lot 767, Block 20 Kemena Land District Bintulu	1997	Land	Vacant land	Leasehold	56 years (2062)	10.125/ N/A	–	7,361,250
Lot 415, Block 32 Kemena Land District Bintulu	1996	Industrial land	Held for rental income	Leasehold	38 years (2044)	2.228/ N/A	–	2,059,411
Lot 34 & 35, Section 15 Kuching Town Land District Nanas Road, Kuching	1994	4 storey shophouse	Held for rental income	Leasehold	809 years (2815)	0.41/ 1,400	10 years	4,434,344
Lot 90, Block 11 Lambir Land District Km 17 Miri-Bintulu Road, Miri	1994	Mixed zone land	Premix operation	Leasehold	48 years (2054)	2.73/ N/A	–	55,074
Lot 444, Block 11 Seduan Land District 8th Mile, Sibu Ulu Oya Road Sibu	1994	Mixed zone land	Premix operation	Leasehold	49 years (2055)	2.76/ N/A	–	153,719
Lot 71, Block 17 Kuching Central Land District Kuching	1996	Mixed zone land	Quarry operation	Leasehold	50 years (2056)	18.94/ N/A	–	2,091,045
Lot 294, Block 17 Kuching Central Land District Kuching	1996	Mixed zone land	Quarry operation	Leasehold	50 years (2056)	2.75/ N/A	–	505,241
Lot 212, Block 17 Kuching Central Land District Kuching	1996	Mixed zone land	Office & factory	Leasehold	50 years (2056)	5.04/ 900	9 years	1,255,206
Lot 353, Block 17 Kuching Central Land District Kuching	1996	Mixed zone land	Premix operation	Leasehold	50 years (2056)	2.24/ N/A	–	376,499
Lot 338, 340 – 345 Block 10 Sentah-Segu Land District Kuching	1996	Mixed zone land	Quarry operation	Leasehold	32 years (2038)	3.07/ N/A	–	984,998

LIST OF PROPERTIES as at 31 December 2006

Location	Date of acquisition/ Revaluation	Description	Usage	Tenure	Remaining lease period (Expiry Date)	Land area/ Built up area (Hectare/m²)	Age of buildings	Net book value RM
Lot 302-304, 354-357 362 & 363, Block 17 Kuching Central Land District Kuching	1999	Mixed zone land	Quarry operation	Leasehold	818 years (2824)	4.27/ N/A	–	3,463,257
Lot 342-343, Block 17 Kuching Central Land District Kuching	1999	Mixed zone land	Quarry operation	Leasehold	18 years (2024)	0.74/ N/A	–	233,860
Lot 134, Section 64 Kuching Town Land District Kuching	1998	Mixed zone land	Jetty and land	Leasehold	52 years (2058)	0.43/ N/A	9 years	1,552,133
Lot 2128, Sublot 2 Kuching Town Land District Kuching	1998	3-Storey shophouse	Office	Leasehold	54 years (2060)	0.012/ 334.45	9 years	427,328
Lot 2116, Sublot 2 Kuching Town Land District Kuching	2003	3-Storey corner shophouse	Office	Leasehold	54 years (2060)	0.012/ 327.6	9 years	521,855
Lot 493, Block 5 Muara Tebas Land District Sejingkat, Kuching	1996	Mixed zone land	Vacant land	Freehold	In perpetuity	1.223/ N/A	–	254,956
Lot 494, Block 5 Muara Tebas Land District Sejingkat, Kuching	1998	Mixed zone land	Vacant land	Leasehold	31 years (2037)	0.53/ N/A	–	89,477
Lot 488, Block 5 Muara Tebas Land District Sejingkat, Kuching	1996	Mixed zone land	Vacant land	Leasehold	20 years (2026)	2.70/ N/A	–	368,272
Lot 1319, Block 7 Muara Tebas Land District Sejingkat, Kuching	1997	Mixed zone land	Land held for development	Leasehold	90 years (2096)	26.4/ N/A	–	22,262,020
Lot 1321, Block 7 Muara Tebas Land District Sejingkat, Kuching	1997	Mixed zone land	Land held for development	Leasehold	90 years (2096)	73.4/ N/A	–	61,895,162
Lot 622, Section 66 Kuching Town Land District Kuching	1998	Mixed zone land	Land held for development	Leasehold	52 years (2058)	3.14/ N/A	–	3,671,118
Lot 744, Section 66 Kuching Town Land District Kuching	1998	Mixed zone land	Land held for development	Leasehold	52 years (2058)	14.508/ N/A	–	16,860,451
Lot 777, Block 5 Muara Tebas Land District Sejingkat, Kuching	1998	Land & steel mill	Office & factory	Leasehold	51 years (2057)	27.60/ 39,220	8 years	22,974,052
Lot 2082, Section 66 Kuching Town Land District Kuching	1996	Land & factory	Office & factory	Leasehold	39 years (2045)	0.85/ 3,936	23 years	2,766,553

Location	Date of acquisition/ Revaluation	Description	Usage	Tenure	Remaining lease period (Expiry date)	Land area/ Built up area (Hectare/m²)	Age of buildings	Net book value RM
Parcel 42, Block 71 Kuching Central Land District Kuching	–	**	Quarry operation	–	–	N/A / 1,262	14 years	360,377
G.N. No.100 Sebuyau Kota Semarahan Division Kuching	–	**	Jetty	–	–	N/A	7 years	402,959
Lot 846, Block 9 Salak Land District Kuching	1999	Mixed zone land	Land held for township development	Leasehold	92 years (2098)	1,577/ N/A	–	12,091,806
Lot 1966, 1999, 3114 & 3242 Block 9 Salak Land District Kuching	1999	Mixed zone land	Land held for township development	Leasehold	92 years (2098)	170.818/ N/A	–	1,073,779
Lot 1, Block 13 Salak Land District Kuching	1999	Mixed zone land	Land held for township development	Leasehold	92 years (2098)	349.70/ N/A	–	2,710,680

** Land owned by third party

Revaluation Policy

The Group does not adopt a policy of regular revaluation.

LIST OF PROPERTIES as at 31 December 2006

List of Top 10 Properties (In Terms Of Net Book Value) of UBG-deemed Subsidiaries

Location	Owner	Year of acquisition/ Revaluation	Description	Usage	Tenure	Expiry of lease	Area (m^2)	Age of buildings (Years)	Net book value RM'000
Malaysia									
424 Jalan Tun Razak Kuala Lumpur	RHB Hartanah Sdn Bhd	1989	12 storey office building	Office Space	Freehold	–	20,440	16	131,416
426 Jalan Tun Razak Kuala Lumpur	RHB Hartanah Sdn Bhd	1989	16 storey office building	Office Space	Freehold	–	22,516	10	125,925
Along Jalan Sultan Ismail Geran 43759 Lot 2523 Section 41 Kuala Lumpur	Vision City (Malaysia) Sdn Bhd (formerly known as RHB-Daewoo Sdn Bhd)	1995	Land Under Development	For Retail Complex Bandar Wawasan project	Freehold	–	19,157	–	294,905
Along Jalan Sultan Ismail Geran 43759 Lot 2523 Section 41 Kuala Lumpur	Vision City (Malaysia) Sdn Bhd (formerly known as RHB-Daewoo Sdn Bhd)	1995	Vacant Land	For Commercial Development	Freehold	–	397	–	
Along Jalan Sultan Ismail Geran 43759 Lot 2523 Section 41 Kuala Lumpur	Vision City (Malaysia) Sdn Bhd (formerly known as RHB-Daewoo Sdn Bhd)	1995	Land Under Development	For Retail & Apartment Bandar Wawasan project	Freehold	–	4,164	–	50,712
Along Jalan Sultan Ismail Geran 43757 Lot 2521 Section 41 Kuala Lumpur	Vision City (Malaysia) Sdn Bhd (formerly known as RHB-Daewoo Sdn Bhd)	1995	Land Under Development	For Office Building Bandar Wawasan project	Freehold	–	5,012	–	46,383
Lot No. 8 Jalan Institusi Bandar Baru Bangi Selangor	RHB Bank Berhad	1999	6 storey office block, 5 storey training block, 7 storey IT block & 5 storey carpark block	Training Centre	Leasehold	2090	56,188	5	96,479
Singapore									
10, Jalan Besar 01-03 Sim Lim Tower	RHB Bank Berhad	1999	Ground Floor of office buildings	Bank Branch	Freehold	–	543	27	26,958
14A/B, 16A/B & 18A/B East Coast Road	RHB Bank Berhad	1999	3 units of 3 storey shophouses	Bank Branch	Freehold	–	442	47	14,228
90 Cecil Street	Banfora Pte Ltd	1997	2 commercial buildings	Commercial Building	Leasehold	2980	796	26	96,468

Cahya Mata Sarawak Berhad 21076-T
Level 6, Wisma Mahmud
Jalan Sg Sarawak
93100 Kuching
T +6 082 238 888
F +6 082 333 828

Kuala Lumpur Office
Level 33, Menara Maxis
Kuala Lumpur City Centre
50088 Kuala Lumpur
T +6 03 2078 9133
F +6 03 2072 5511

CEMENT & CONSTRUCTION MATERIALS

CMS Cement Sdn Bhd 321916-K
Lot 5895, Jalan Kilang Simen
Pending Industrial Estate
93450 Kuching
T +6 082 332 111
F +6 082 484 049

CMS Concrete Products Sdn Bhd 366884-X
Lot 212, Block 17, KCLD
Jalan Old Airport
93250 Kuching
T +6 082 618 718
F +6 082 614 406

CMS Wires Sdn Bhd 23092-U
Lot 87, Lorong Tenaga
Bintawa Industrial Estate
93450 Kuching
T +6 082 334 772
F +6 082 486 085

CMS Resources Sdn Bhd 98773-T
7th Mile
Kuching-Serian Road
93350 Kuching
T +6 082 610 226
F +6 082 612 434

CMS Quarries Sdn Bhd 121767-D
7th Mile
Kuching-Serian Road
93350 Kuching
T +6 082 611 987
F +6 082 615 598

CMS Penkuari Sdn Bhd 27895-T
9th Mile
Kuching-Serian Road
93350 Kuching
T +6 082 614 913
F +6 082 614 923

CMS Premix Sdn Bhd 117700-W
Lot 353, Block 117
7th Mile, Penrissen Road
93250 Kuching
T +6 082 614 208
F +6 082 614 626

CMS Premix (Miri) Sdn Bhd 218541-T
Mile 11
Miri-Bintulu Road
98000 Miri
T +6 085 491 136
F +6 085 491 136

PPES Concrete Product Sdn Bhd 150276-P
Lot 212, Block 17, KCLD
Jalan Old Airport
93250 Kuching
T +6 082 618 718
F +6 082 614 406

CONSTRUCTION & ROAD MAINTENANCE

PPES Works (Sarawak) Sdn Bhd 209892-K
Lot 619-623, Section 62
Jalan Padungan
93100 Kuching
T +6 082 340 588
F +6 082 340 695

CMS Roads Sdn Bhd 287718-K
Level 2, Lot 58-59
Section 63
Jalan Padungan
93100 Kuching
T +6 082 340 840
F +6 082 230 758

CMS Pavement Tech Sdn Bhd 340934-W
Level 2, Lot 58-59
Section 63
Jalan Padungan
93100 Kuching
T +6 082 340 841
F +6 082 340 842

CMS Works International (China) Ltd LL05496
Level 6, Wisma Mahmud
Jalan Sg Sarawak
93100 Kuching
T +6 082 238 888
F +6 082 333 828

PROPERTY DEVELOPMENT

Projek Bandar Samariang Sdn Bhd 443828-P
Level 5, Wisma Mahmud
Jalan Sg Sarawak
93100 Kuching
T +6 082 237 777
F +6 082 252 652

CMS Property Development Sdn Bhd 321917-U
Level 5, Wisma Mahmud
Jalan Sg Sarawak
93100 Kuching
T +6 082 237 777
F +6 082 252 652

GROUP DIRECTORY

CMS Property Management Sdn Bhd 326616-U
Level 5, Wisma Mahmud
Jalan Sg Sarawak
93100 Kuching
T +6 082 237 777
F +6 082 252 652

CMS Land Sdn Bhd 410797-H
Level 5, Wisma Mahmud
Jalan Sg Sarawak
93100 Kuching
T +6 082 237 777
F +6 082 252 652

CMS Hotels Sdn Bhd 690299-T
Level 6, Wisma Mahmud
Jalan Sg Sarawak, 93100 Kuching
T +6 082 238 888
F +6 082 333 828

CMS River Bus Sdn Bhd 317047-P
Level 6, Wisma Mahmud
Jalan Sg Sarawak, 93100 Kuching
T +6 082 238 888
F +6 082 333 828

SERVICES

CMS Infra Trading Sdn Bhd 196635-M
No 2128, Sublot 2
Jalan Utama, Pending
93450 Kuching
T +6 082 348 950
F +6 082 348 952

CMS Education Sdn Bhd 392555-A
Level 6, Wisma Mahmud
Jalan Sg Sarawak
93100 Kuching
T +6 082 238 888
F +6 082 333 828

CMS Energy Sdn Bhd 343095-A
Level 6, Wisma Mahmud
Jalan Sg Sarawak
93100 Kuching
T +6 082 238 888
F +6 082 333 828

CMS Digital Sdn Bhd 535906-V
Level 5, Wisma Mahmud
Jalan Sg Sarawak
93100 Kuching
T +6 082 236 799
F +6 082 341 599

CMS I-Systems Berhad 227507-D
Level 13, Kelana Brem Tower 1
Jalan SS 7/15, Kelana Jaya
47301 Petaling Jaya
Selangor Darul Ehsan
T +6 03 7492 2238
F +6 03 7492 2268

CMS Global (BVI) Ltd 672792
Level 6, Wisma Mahmud
Jalan Sg Sarawak
93100 Kuching
T +6 082 238 888
F +6 082 333 828

FINANCIAL SERVICES

Concordance Holdings Sdn Bhd 73782-U
Level 6, Wisma Mahmud
Jalan Sg Sarawak
93100 Kuching
T +6 082 238 888
F +6 082 333 828

Utama Banking Group Berhad 240931-X
Level 33, Menara Maxis
Kuala Lumpur City Centre
50088 Kuala Lumpur
T +6 03 2078 9133
F +6 03 2072 5511

UBG Enterprise Berhad 95567-W
Level 6, Wisma Mahmud
Jalan Sg Sarawak
93100 Kuching
T +6 082 238 888
F +6 082 333 828

Rashid Hussain Berhad 163211-V
Level 9, Tower One, RHB Centre
Jalan Tun Razak
0400 Kuala Lumpur
T +6 03 9285 2233
F +6 03 9285 5522

CMS Capital Sdn Bhd 120674-T
Level 6, Wisma Mahmud
Jalan Sg Sarawak
93100 Kuching
T +6 082 238 888
F +6 082 333 828

Kenanga Investment Bank Berhad 302859-X
Level 1, Wisma Mahmud
Jalan Sg Sarawak
93100 Kuching
T +6 082 333 800
F +6 082 338 222

CMS Trust Management Berhad 353563-P
Level 1, Wisma Mahmud
Jalan Sg Sarawak
93100 Kuching
T +6 082 343 022
F +6 082 343 006

CMS Dresdner Asset Management Sdn Bhd 296881-M
Level 39
Menara Standard Chartered
Jalan Sultan Ismail
50250 Kuala Lumpur
T +6 03 2142 6888
F +6 03 2142 6887

CMS Opus Private Equity Sdn Bhd 694013-H
Suite 1308, Level 13
Menara HLA
No 3, Jalan Kia Peng
50450 Kuala Lumpur
T +6 03 2166 2088
F +6 03 2166 1022

CMS Mezzanine 362809-D
Level 6, Wisma Mahmud
Jalan Sg Sarawak
93100 Kuching
T +6 082 238 888
F +6 082 333 828

NOTICE IS HEREBY GIVEN that the Thirty-second Annual General Meeting of the Company will be held at Sarawak Chamber 2, 3rd Floor, Crowne Plaza Riverside Kuching, Jalan Tunku Abdul Rahman, 93100 Kuching, Sarawak on Thursday, 24 May 2007 at 11:30 am for the following purposes:

1. To receive the Audited Accounts for the year ended 31 December 2006 and the Reports of the Directors and Auditors thereon. **Resolution 1**

2. To declare a first and final dividend of 5 sen per share less 27% income tax for the year ended 31 December 2006. **Resolution 2**

3. To re-elect the following Directors who are retiring in accordance with Article 110 of the Company's Articles of Association and are offering themselves for re-election:

    a. Datuk Wan Ali Tuanku Yubi **Resolution 3**
    b. Datu Michael Ting Kuok Ngie @ Ting Kok Ngie **Resolution 4**
    c. Mr Kevin How Kow **Resolution 5**

4. To elect the following Directors who are retiring in accordance with Article 112 of the Company's Articles of Association and are offering themselves for election:

    a. Dato' Richard Alexander John Curtis **Resolution 6**
    b. Tuan Syed Ahmad Alwee Alsree **Resolution 7**

5. To consider and if thought fit, pass the following Resolution:

    "THAT pursuant to Section 129(6) of the Companies Act, 1965, YBhg Dato Sri Liang Kim Bang who is over seventy years of age be re-appointed as a Director of the Company to hold office until the next Annual General Meeting." **Resolution 8**

6. To approve the payment of Directors' remuneration for the year ended 31 December 2006. **Resolution 9**

7. To re-appoint Messrs. Ernst & Young as Auditors of the Company and to authorise the Directors to fix their remuneration. **Resolution 10**

8. To transact any other ordinary business of which due notice shall have been given.

NOTICE OF DIVIDEND PAYMENT

NOTICE IS HEREBY GIVEN that the first and final dividend of 5 sen per share less 27% income tax for the financial year ended 31 December 2006, if approved at the above Annual General Meeting, will be paid on 8 August 2007 to Depositors whose names appear in the Record of Depositors on 23 July 2007.

A Depositor shall qualify for entitlement only in respect of:

a. Shares transferred into the Depositor's Securities Account before 4.00 pm on 23 July 2007 in respect of transfers;
b. Shares bought on Bursa Malaysia on a cum entitlement basis according to the Rules of Bursa Malaysia.

By Order of the Board

ISAAC LUGUN
DENISE KOO SWEE PHENG
Company Secretaries
Kuching, Sarawak
30 April 2007

1. A member entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company. A corporation must complete the form of proxy under its common seal or under the hand of a duly authorised officer or attorney. Where a member appoints more than one proxy, the appointment shall be invalid unless he specifies the proportion of his shareholdings to be represented by each proxy.

2. A Form of Proxy is enclosed herewith and should be completed and deposited at the Registered Office of the Company at Level 6, Wisma Mahmud, Jalan Sungai Sarawak, 93100 Kuching, Sarawak not less than 48 hours before the time fixed for the meeting.

STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

Further details of Directors seeking election/re-election/re-appointment at the Annual General Meeting.

Name	**Datuk Wan Ali Tuanku Yubi**	**Datu Michael Ting Kuok Ngie @ Ting Kok Ngie**	**Kevin How Kow**
Age	57	66	58
Nationality	Malaysian	Malaysian	Malaysian
Designation	Independent Non-Executive Director	Independent Non-Executive Director	Independent Non-Executive Director
Date first appointed on the Board	12 June 1995	24 March 1999	12 March 2004
Working experience and occupation	As per profile in page 6	As per profile in page 6	As per profile in page 6
Directorships in other public companies	Rashid Hussain Berhad	CMS Trust Management Bhd	CMS I-Systems Berhad K & N Kenanga Holdings Berhad Kenanga Investment Bank Berhad (formerly known as K&N Kenanga Berhad) Sabah Development Bank Berhad Saham Sabah Berhad
Securities holdings in the Company and its subsidiaries	–	–	–
Family relationship with any Director and/or major shareholder of the Company	–	–	–
Conflict of interest with the Company	–	–	–
List of convictions for offences within the past 10 years	–	–	–
No of the Company's Board meetings attended in the financial year	5/6 (83%)	6/6 (100%)	6/6 (100%)

Name	**Dato' Richard Alexander John Curtis**	**Tuan Syed Ahmad Alwee Alsree**	**Dato Sri Liang Kim Bang**
Age	55	41	70
Nationality	British	Singaporean	Malaysian
Designation	Group Managing Director	Deputy Group Managing Director	Senior Independent Non-Executive Director
Date first appointed on the Board	4 September 2006	4 September 2006	26 June 1986
Working experience and occupation	As per profile in page 7	As per profile in page 7	As per profile in page 5
Directorships in other public companies	CMS Trust Management Bhd Utama Banking Group Berhad K&N Kenanga Holdings Berhad Yayasan Raja Muda Selangor	CMS I-Systems Berhad CMS Foundation CMS Global (BVI) Ltd CMS Trust Management Bhd CMS Works International (China) Ltd Rashid Hussain Berhad	CMS Trust Management Berhad Utama Banking Group Berhad MISC Berhad PPB Group Berhad PPB Oil Palms Berhad Rashid Hussain Berhad
Securities holdings in the Company and its subsidiaries	–	–	504,000 ordinary shares of RM1.00 each in Utama Banking Group Berhad
Family relationship with any Director and/or major shareholder of the Company	–	He is a brother-in-law of Jamilah Hamidah Taib (a major shareholder of CMSB), Dato Sri Sulaiman Abdul Rahman Taib and Tuan Haji Mahmud Abu Bekir Taib (directors and major shareholders of CMSB). He is also a son-in-law of Lejla Taib (major shareholder of CMSB) and the spouse of Hanifah Hajar Taib, (a major shareholder of CMSB)	–
Conflict of interest with the Company	–	–	–
List of convictions for offences within the past 10 years	–	–	–
No of the Company's Board meetings attended in the financial year	2/2 (100%)*	2/2 (100%)*	5/6 (83%)

** Appointed on 4 September 2006*

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FORM OF PROXY

Cahya Mata Sarawak

Cahya Mata Sarawak Berhad
Company No. 21076-T
Incorporated in Malaysia

No. of Shares Held	

I/We (full name) ____________________ NRIC/Co No. ____________

of (full address) ____

being a member/members of Cahya Mata Sarawak Berhad hereby appoint ____________________

of ____

or, failing him, the Chairman of the Meeting as my/our proxy to attend and vote for me/us and on my/our behalf at the Thirty-second Annual General Meeting of the Company to be held at Sarawak Chamber 2, 3rd Floor, Crowne Plaza Riverside Kuching, Jalan Tunku Abdul Rahman, 93100 Kuching, Sarawak on Thursday, 24 May 2007 at 11:30 am and at any adjournment thereof.

No.	Resolutions	For	Against
1	Receive the Audited Accounts and Reports of the Directors and Auditors thereon		
2	Declaration of First and Final Dividend		
3	Re-election of Datuk Wan Ali Tuanku Yubi as Director		
4	Re-election of Datu Michael Ting Kuok Ngie @ Ting Kok Ngie as Director		
5	Re-election of Mr Kevin How Kow as Director		
6	Election of Dato' Richard Alexander John Curtis as Director		
7	Election of Tuan Syed Ahmad Alwee Alsree as Director		
8	Re-appointment of Dato Sri Liang Kim Bang as Director		
9	Approval of Directors' remuneration for the year ended 31 December 2006		
10	Re-appointment of Auditors		

Date: ________________ 2007　　　　Signature: ________________

Notes:

1. A member entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company. A corporation must complete this form of proxy under its common seal or under the hand of a duly authorised officer or attorney. Where a member appoints more than one proxy, the appointment shall be invalid unless he specifies the proportion of his shareholdings to be represented by each proxy.

2. This form of proxy, duly signed, must be deposited at the Registered Office of the Company at Level 6, Wisma Mahmud, Jalan Sungai Sarawak, 93100 Kuching, Sarawak not less than 48 hours before the time fixed for the meeting.

3. Unless voting instructions are indicated in the spaces provided above, the proxy may vote as he thinks fit.

Stamp/Setem

THE COMPANY SECRETARY

Cahya Mata Sarawak Berhad
Level 6, Wisma Mahmud
Jalan Sungai Sarawak
93100 Kuching, Sarawak

1. Fold here

2. Fold here

3. Fold here

ERRATA

We refer to the CMSB Annual Report 2006 that was duly issued to you on 30 April 2007.

Please take note of corrections in the following pages:

Page 008:

Profit Before Tax RM519.0 million

Page 039:

CMSB Share Price Information (RM)

	2002	**2003**	**2004**	**2005**
High	2.96	2.36	2.38	1.63
Low	1.71	1.53	1.44	0.88

We apologise for any inconvenience caused.