

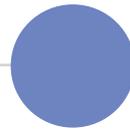
Annual Report 1998



**DANAHARTA**

Pengurusan Danaharta Nasional Berhad 464363W

# Rationale



The *gasing*, or the spinning top. A traditional pastime that is quintessentially Malaysian. An activity of constant mobility, speed and precision - elements that are the very essence of Danaharta and its role in Malaysia's economic recovery.

From the finest aged wood that makes the body of the *gasing*, to the expertise of the craftsman in achieving perfect symmetry, balance and workmanship, and finally, to the skill of the *gasing*-spinner who makes the top dance for him for hours on end...

Malaysia's national asset management company, Pengurusan Danaharta Nasional Berhad, is fronted by a team of professionals whose combined skills and expertise form the backbone of Danaharta's strategies to maximise the recovery value of the country's non-performing loans.

As the *gasing* spins on its axis, it is a picture of expert craftsmanship, perfect balance and constant mobility - virtues that are reflective of Danaharta's pledge to revive the nation's economy.

## Contents

Notice of Annual General Meeting .....	2
Corporate Information .....	3
Executive Committee .....	4
Audit Committee .....	5
Remuneration Committee .....	6
Board of Directors .....	7
Oversight Committee .....	10
Group Structure .....	12
Chairman's Statement .....	13
Overview of Financial Restructuring Measures .....	18
Review of Operations .....	20
Feature Articles .....	29
Loan and Asset Management Strategies .....	37
Legislative Framework .....	41
Milestone Events .....	44
Financial Statements .....	47

## Notice of Annual General Meeting

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

### **As Ordinary Business**

#### **Ordinary Resolutions**

1. To receive the Audited Accounts for the financial year ended 31 December 1998 including the Directors' Report and the Auditor's Report. (Resolution 1)
2. To re-appoint PricewaterhouseCoopers as the Company's auditors and to authorise the directors to fix the auditors' remuneration. (Resolution 2)

### **As Special Business**

#### **Ordinary Resolutions**

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

3. "That the proposed directors' remuneration of RM139,000 for the financial year ended 31 December 1998 be approved." (Resolution 3)
4. "That Y.A.Bhg.M. Raja Tun Mohar bin Raja Badiozaman be re-appointed as a director in accordance with Section 129(6) of the Companies Act, 1965." (Resolution 4)
5. "That Y.Bhg. Dato' Ho Ung Hun be re-appointed as a director in accordance with Section 129(6) of the Companies Act, 1965." (Resolution 5)
6. "That in accordance with Section 132D of the Companies Act, 1965, authority be given to the directors to issue shares in the Company at any time to such persons upon such terms and conditions and for such purposes as the directors may in their absolute discretion deem fit." (Resolution 6)

By Order of the Board

**Phang Tuck Keong**

**Kamarulzaman Mohd Ariff**

Joint Secretaries

Kuala Lumpur

16 April 1999



## Corporate Information

### **Board of Directors**

Y.A.Bhg.M. Raja Tun Mohar Raja Badiozaman (Chairman)

Encik Azman Yahya (Managing Director)

Y.Bhg. Datuk Dr. Aris Othman

Y.Bhg. Dato' Dr. Zeti Akhtar Aziz

Y.Bhg. Datuk Megat Zaharuddin Megat Mohd Nor

Y.Bhg. Dato' N. Sadasivan

Y.Bhg. Dato' Richard Ho Ung Hun

Mr. Eoghan M. McMillan

Mr. Alister T. L. Maitland

### **Executive Committee**

Y.A.Bhg.M. Raja Tun Mohar Raja Badiozaman (Chairman)

Y.Bhg. Datuk Dr. Aris Othman

Y.Bhg. Dato' N. Sadasivan

Encik Azman Yahya

### **Audit Committee**

Y.Bhg. Dato' Richard Ho Ung Hun (Chairman)

Y.Bhg. Dato' Dr. Zeti Akhtar Aziz

Mr. Alister T. L. Maitland

### **Remuneration Committee**

Y.A.Bhg.M. Raja Tun Mohar Raja Badiozaman (Chairman)

Y.Bhg. Datuk Megat Zaharuddin Megat Mohd Nor

Mr. Eoghan M. McMillan

### **Joint Company Secretaries**

Mr. Andrew Phang Tuck Keong

Encik Kamarulzaman Mohd Ariff

### **Oversight Committee**

Y.Bhg. Dato' Mohamed Adnan Ali

Encik Ali Tan Sri Abdul Kadir

Dr. Awang Adek Hussin

### **Registered Office**

Tingkat 10

Bangunan Setia 1

15, Lorong Dungun

Bukit Damansara

50490 Kuala Lumpur

Malaysia

Tel: 603-253 1122

Fax: 603-253 4360

### **Auditors**

PricewaterhouseCoopers

22nd Floor, IGB Plaza

Jalan Kampar,

Off Jalan Tun Razak

P. O. Box 10184

50706 Kuala Lumpur

Malaysia



## Executive Committee

### Membership

The Committee comprises the following Directors of Danaharta:

- Y.A.Bhg.M. Raja Tun Mohar Raja Badiozaman (Chairman)
- Y.Bhg. Datuk Dr. Aris Othman
- Y.Bhg. Dato' N. Sadasivan
- Encik Azman Yahya (non-voting)

### Functions

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

- Formulate the Danaharta Group's general policies and strategies which set out the direction of the Danaharta Group for the short, medium and long term.
- Appoint the Danaharta Group's key management team which will translate the Board's general policies and strategies into detailed business plans.
- Review and assess the Danaharta Group's financial and operational performances through periodic feedback and reports from the Audit Committee and the management team.
- Review and assess the Danaharta Group's loan and asset portfolio management and ensure its consistency with the Danaharta Group's business policies and strategies.
- Approve major acquisitions and disposals within authority limits as set out in the Authority Manual.
- Assist the Board of Directors in taking into account the interest of parties interested in the affairs of Danaharta, including the Government, the general Malaysian public, suppliers of capital/funds as well as other users of its financial statements.
- Assist the Board of Directors in ensuring that all appropriate information made available to interested parties and to the general public are meaningful and accurate for all intents and purposes, and are in accordance with generally accepted practices in Malaysia whilst giving due consideration to international best practices.



## Audit Committee

### **Membership**

The Committee comprises the following three non-executive Directors of Danaharta:

- Y.Bhg. Dato' Richard Ho Ung Hun (Chairman)
- Y.Bhg. Dato' Dr. Zeti Akhtar Aziz
- Mr. Alister T. L. Maitland

### **Functions**

The Audit Committee's main function is to enhance corporate governance in the Danaharta Group. Its functions include the following:

- Review the external auditors' work plan to satisfy itself that the audit will meet the needs of Danaharta's Board of Directors and stakeholders.
- Review the external auditors' evaluation of the internal control systems and monitor the subsequent implementation of the agreed improvements and/or rectification of weaknesses by the management.
- Review the external auditors' report and the annual financial statements.
- Review the internal audit plan, internal audit work and reports.
- Review any related party transactions.
- Consider the nomination of external auditors, remuneration and any questions of resignation or dismissal.
- Review the compliance report in areas relating to the monitoring and review of control procedures.
- Perform additional functions such as:
  - review, assess and recommend the remuneration of the Head of Internal Audit and Compliance
  - establish and periodically review a corporate code of conduct
  - review profit forecasts and cash flow statements
  - perform or supervise special investigations
  - assist in establishing appropriate control procedures
  - review policies on sensitive payments and executive expenses
  - review compliance with relevant government regulations
  - access the performance of financial management



## Remuneration Committee

### **Membership**

- Y.A.Bhg.M. Raja Tun Mohar Raja Badiozaman (Chairman)
- Y.Bhg. Datuk Megat Zaharuddin Megat Mohd Nor
- Mr. Eoghan M. McMillan

### **Functions**

The main functions of the Remuneration Committee are to:

- Provide an independent and unbiased review, assessment and determination of the Danaharta Group's remuneration structure and policy. This review encompasses all levels of employees, from the Managing Director to executive and clerical levels.
- Evaluate the Danaharta Group's annual remuneration revision and bonus.
- Review the Scheme of Services of the Danaharta Group as and when required and approve revision to the Scheme, where necessary.
- Recommend fees and/or allowances for the non-executive members of the Board of Directors with appropriate consultation with any independent advisers (if required) and to be approved by the shareholders at the Annual General Meeting.
- Review and approve expenses incurred by the Board of Directors in conjunction with their official duties and Board of Directors meetings in excess of RM5,000.



## Board of Directors

### **Y.A.Bhg.M. Raja Tun Mohar Raja Badiozaman**

Raja Tun Mohar has had a distinguished career in government, having served as Special Economic Adviser to the late Tun Abdul Razak (1972 - 1975), the late Tun Hussein Onn (1975 - 1981) and Dato' Seri Dr. Mahathir Mohamad (1981 - 1988). Other Government positions held by Raja Tun Mohar include Secretary General to Treasury, Ministry of Finance (1971); Secretary General (1960 - 1970) and Controller, Trade Division (1957 - 1960) at the Ministry of Commerce and Industry; Senior Assistant Controller of Trade and Economic Officer at the Penang Ministry of Commerce and Industry (1956).



He is currently the Chairman of Socfin Company Berhad, New Selangor Plantations Sdn Bhd, Ancom Berhad and Perusahaan Otomobil Kedua Berhad (PERODUA). He is also a Director of Johan Holdings Berhad and YTL Power International Berhad, and an advisor to YTL Corporation Berhad.



### **Encik Azman Yahya**

Azman Yahya, a chartered accountant, started his career with KPMG Peat Marwick in London in 1985. He subsequently joined Kumpulan Island & Peninsular, a large listed property and plantations group, heading the Finance Department in 1989; Bumiputra Merchant Bankers heading the Corporate Finance Department in 1990; and Amanah Merchant Bank as the Chief Executive in 1994.

He later assumed the position of Group Executive Director of Amanah Capital Group, a financial services and property group involved in inter-alia investment banking, money and futures broking, finance company, discount house operations and fund management. Encik Azman was named the Managing Director of Danaharta on 21 May 1998. He is also a Director of Sime Darby Berhad.

### **Y.Bhg. Datuk Dr. Aris Othman**

Datuk Dr. Aris is the Secretary General of Treasury, Ministry of Finance, having served as Deputy Secretary General (Policy) from 1994 to 1997. He represents the Ministry of Finance as a member of the Board of Directors in Bank Negara Malaysia, Khazanah Nasional Berhad, Malaysian Airline System Berhad, PETRONAS, Multimedia Super Corridor, Malaysian Industry - Government Group for High Technology, Perbadanan Putrajaya and Johor Corporation. He is also Chairman of Cyberview Sdn Bhd, Bintulu Port Sdn Bhd and Inland Revenue Board of Malaysia.





**Y.Bhg. Dato' Dr. Zeti Akhtar Aziz**

Dato' Dr. Zeti was appointed the Deputy Governor at Bank Negara Malaysia, the Central Bank, in September 1998. Prior to this, she was the Assistant Governor, a position she held since 1995. Dato' Dr. Zeti joined the Economics Department in Bank Negara Malaysia in 1985 and was appointed Secretary to the Board of the Bank in 1987. In 1989 she was posted to the Bank Negara Malaysia London Representative Office as the Chief Representative. Upon returning to the Head Office in 1994, she was appointed Head of the Economics Department.

**Y.Bhg. Datuk Megat Zaharuddin Megat Mohd Nor**

Datuk Megat Zaharuddin is the Chairman and Chief Executive of Shell in Malaysia, having assumed this position in mid-1995. He is also active outside Shell, for example, as Chairman of the Advisory Board for the National Science Centre; Board Member of MIMOS (national microelectronics company); Member of the National Information Technology Council (NITC); Trustee for the Malaysian Institute for Economic Research; Executive Member of the Malaysian Business Council for Sustainable Development; and a Director of Universiti Malaysia Sarawak (UNIMAS).



**Y.Bhg. Dato' N. Sadasivan**

Dato' Sadasivan served as the Director - General of Malaysian Industrial Development Authority (MIDA) for 11 years from 1984 to 1995. Prior to this, he held several positions in MIDA, namely Deputy Director-General (1976 - 1984), Director of MIDA's first Overseas Promotion Office in Dusseldorf, Germany (1972 - 1976), Head of the Investment Promotion and Public Relations Division (1970 - 1972) and Head of Industrial Development in the States Division (1968 - 1970).

**Y.Bhg. Dato' Richard Ho Ung Hun**

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





**Mr. Eoghan McMillan**

Mr. McMillan is Chairman of Rodamco Pacific, the Asia Pacific arm of Rodamco NV, a major global real estate investment company. He was with Arthur Andersen & Co from 1959 to 1993 and served as Country Managing Partner for its practices in Hong Kong and the People's Republic of China from 1979 to 1993.

During his years at Arthur Andersen & Co., Mr. McMillan also served during various periods as a Member of the Professional Standards Committee, the Partners' Income Committee, the International Board of Directors, as Chairman of the Finance Committee and as Regional Managing Partner for operations in South East Asia.

Mr. McMillan is also a Director of Amway Asia Pacific Ltd, Vitasoy International Holdings Ltd, Sun Hung Kai Development (China) Ltd, Shangri-La Asia Ltd, Land Development Corporation (Hong Kong) and Hong Kong Securities Clearing Company Limited.

**Mr. Alister Maitland**

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



Today, he is a consultant to corporations and Governments and a professional company director. He is Chairman of the Education Trust Victoria Ltd, Member of the Federal Government's National Multicultural Advisory Council, Trade Policy Advisory Council and White Paper Advisory Panel on Foreign Policy and Trade. He is Chairman of Folkestone Ltd, Mawson Capital P/Ltd, Australia/India Business Council, Centre for Practice of International Trade Melbourne, Business School and Australian Centre for International Business, University of Melbourne.



## Oversight Committee

As provided for by Section 22 of the Pengurusan Danaharta Nasional Berhad Act 1998, an Oversight Committee was established on 17 November 1998 to perform the following tasks:

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

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

### **Dato' Mohamed Adnan Ali**

Dato' Adnan is the Accountant - General at the Ministry of Finance. He has also worked at other Government departments, including the Ministry of Works and Energy, Federal Treasury and Foreign Investment Committee. Dato' Adnan had previously been seconded to Universiti Teknologi Malaysia and the International Islamic University (Malaysia) as Bursar. He has also worked as a senior manager at the Employees Provident Fund in Malaysia.

Dato' Adnan is a Fellow of the Chartered Institute of Management Accountants (FCMA-UK).

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

Prior to his appointment as the Chairman of the Securities Commission on 1 March 1999, Encik Ali was the Executive Chairman of Ernst & Young. He has more than twenty-eight years of professional experience. He is the President of the Malaysian Association of Certified Public Accountants (MACPA) and the Chairman of the Executive Committee and Insolvency Practice Committee.

He previously served on the Boards of Development & Commercial Bank Berhad, PERCON Corporation Berhad and Choo Bee Metal Industries Berhad. Presently, he is a Board member of Bangkok Bank Berhad, Malaysian Exchange of Securities Dealing & Automated Quotation Berhad (MESDAQ) and Takaful Nasional Sdn Bhd.

Encik Ali is also very much involved in the technical aspects of the profession. He has lectured in many national level seminars for the professional bodies and has a number of publications to his credit. His professional qualifications include: Fellow of the Institute of Chartered Accountants in England & Wales (since 1974); Member of MACPA (since 1975); and Member of the Malaysian Institute of Accountants (since 1975).



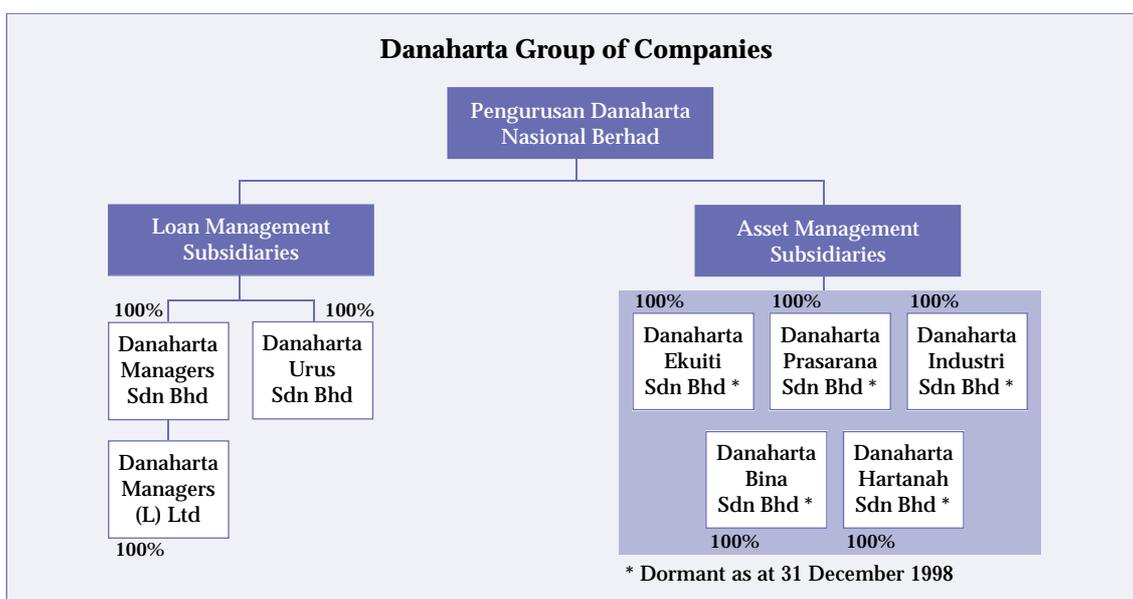
**Dr. Awang Adek Hussin**

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

Dr. Awang is currently a member of the Securities Commission and a board member of Labuan Development Authority, Danamodal Nasional Berhad, Malaysia Export Credit Insurance Berhad, Malaysian Institute of Insurance as well as Amanah Saham Nasional Management Board and its Investment Committee.



## Group Structure



## Key Management Personnel

### PENGURUSAN DANAHARTA NASIONAL BERHAD

**Azman Yahya**

Managing Director

**Abdul Hamidy Hafiz**

Director, Operations

**Mohd. Bakke Salleh (w.e.f. 1 July 1999)**

Director, Property

**Zukri Samat**

General Manager I, Operations

**Ramesh Pillai**

General Manager, Risk Management

**Andrew Phang**

General Manager, Legal Affairs

Joint Company Secretary

**Ravindran Navaratnam**

General Manager, Corporate Services

**Ee Kok Sin**

General Manager, Finance and Services

**Shariffuddin Khalid**

General Manager, Communications  
and Human Resource

**Fatimah Abu Bakar**

Head, Internal Audit and Compliance  
Compliance Officer

### *Loan Management Subsidiaries*

**DANAHARTA MANAGERS SDN BHD**

**Derrick Fernandez**

General Manager

**DANAHARTA URUS SDN BHD**

**Fazlur Rahman Ebrahim**

General Manager



## Chairman's Statement

It gives me great pleasure to present on behalf of the Board of Directors the inaugural annual accounts and report for Pengurusan Danaharta Nasional Berhad for the period ended 31 December 1998.

### **Establishment**

Danaharta (as it is popularly known) has embarked on a critical mission as mandated by the National Economic Action Council in the National Economic Recovery Plan. Its task is to remove non-performing loans (NPLs) from the banking system so as to allow banks to get back to the business of lending to viable borrowers without being unduly distracted by managing NPLs. In addition, in respect of NPLs acquired, the task is to maximise its recovery value to the extent possible.

Danaharta was set up at great speed because the quicker it can achieve its mission the better for the economy and everyone in general. It is a unique organisation in many ways. For instance it is a statutory company, i.e. incorporated under the Companies Act 1965 but given special powers to resolve NPLs by virtue of the Pengurusan Danaharta Nasional Berhad Act 1998



which came into force on 1 September 1998. It was set up as a company to give it the greatest flexibility to address challenges in financing and operations. In addition, being a company reinforces the perception that commercial principles will be adopted wherever possible within the company, e.g. minimising costs and maximising recovery value whilst facilitating the transparency of its operations.

Danaharta acquires NPLs of RM5 million and above. Acquisitions are paid for via a mixture of zero coupon bonds and cash. The total funding requirement of Danaharta is estimated to be RM15 billion. It should be noted that Danaharta does not seek to remove all NPLs from the banking system. All banking systems worldwide can tolerate a certain level of NPLs.



Within three months of the announcement of its creation in June 1998, Danaharta had commenced operations buying NPLs. This it did via a market mechanism, i.e. banks would have to sell NPLs to Danaharta at fair market value. The market mechanism is necessary because unlike many other asset management companies (AMCs) around the world (all of whom are unique in their own way), Danaharta was set up as a pre-emptive action to avert a banking crisis. This meant that it did not have compulsory powers of acquisition. Therefore a carrot and stick approach was used.

Banks who sell to Danaharta are offered incentives such as a surplus sharing mechanism where any surplus realised by Danaharta from asset disposition, over and above its cost of acquisition plus directly attributable costs, is shared with the selling bank on an 80 (bank) : 20 (Danaharta) basis.

The stick is that banks receiving recapitalisation assistance are required to divest NPLs until their NPL ratios are at manageable levels. Also, banks not wishing to sell NPLs to Danaharta have to write down the NPLs not sold to their forced sale value which is defined as 80% of the offer made by Danaharta.

### Progress

This has resulted in banks selling their NPLs in a significant manner to Danaharta as reflected in our detailed operational statistics contained in the operations report for the period ended 31 December 1998. As at 31 December 1998, Danaharta had acquired RM8.106 billion (gross value) of NPLs from banks and had under management a further RM11.622 billion relating to the Sime Bank Group, bringing the total under Danaharta's care to RM19.728 billion.

### Lifecycle



The life cycle of Danaharta after being set up can be divided into three main sections - asset acquisition, asset management and asset disposition. We have made remarkable progress in acquiring assets and have commenced managing assets that we have acquired. However, we have not yet started to dispose of any assets. In this respect, Danaharta is a true asset management company where we will seek to dispose of our assets in a timely fashion after first doing whatever we can to add value to the extent possible. Danaharta will not be a rapid disposition agency nor a 'warehouse' agency.





### **Financial Results**

It is common for an AMC to run at a loss principally because the assets it takes over are non-performing and recoveries and/or sales proceeds do not occur immediately. However, the Board and management are determined to make every effort to minimise the cost to the Government by maximising the recovery value of assets under Danaharta's care.

For the period ended 31 December 1998, the company made a loss of RM17.3 million. This was attributable to set-up and operating costs. No dividends were declared.

### **Organisation**

As at end December 1998, Danaharta employed 107 persons. Most are professionals who have worked in the banking fraternity, multinationals and management consultancies. Most have had at least five years of working experience while more than half have had in excess of ten years.

Danaharta is designed to be a project organisation with a very flat and functional structure. Great emphasis is placed on teamwork and professionalism with minimal hierarchy. The company adopts a private sector based scheme of service with pay levels benchmarked against the mainstream local banks.

The core organisation of Danaharta itself is envisaged to remain small not exceeding 300 persons. The company has an outsourcing philosophy meaning, where necessary, services and capabilities will be acquired from reputable consultants, specialists and industry experts. This is because in many instances expertise and capabilities are only required on an ad-hoc or temporary basis.

Danaharta is a finite life organisation. It exists because of its mission and when the mission is achieved the organisation is expected to be dissolved. The exact life of Danaharta is difficult to estimate at this juncture, perhaps 10 years, but it will be largely determined by two factors:

- The recovery of the Malaysian economy. If the economy recovers faster, Danaharta will have a better chance to dispose of the assets in its care more quickly.
- The type of assets acquired. An example of this is if we acquire an NPL secured by a half-completed project. We may wish to complete the project first before disposing and the time taken will therefore comprise part of Danaharta's life.



### **Corporate developments**

In common with other AMCs around the world, Danaharta is funded by the Government. The equity of the company is wholly held by Minister of Finance Incorporated and its borrowings are guaranteed by the Government.

Danaharta also created a wholly owned subsidiary named Danaharta Managers Sdn Bhd whose sole purpose is to manage the NPLs belonging to the Sime Bank Group. This management is done on behalf of Bank Negara Malaysia. All recovery proceeds less Danaharta's fees will be for Bank Negara Malaysia's account.

During the period under review, Danaharta incorporated several asset subsidiaries in preparation for our future activities in managing the assets acquired. The wholly owned subsidiaries are each envisaged to have a main core activity such as property development or management, hotel and leisure assets and manufacturing. This allows for pools of expertise to be developed to address assets of a similar nature.

### **Acknowledgements**

The Board acknowledges the hard work of the management and staff of the company. They have had to work under tremendous time pressure and on many occasions displayed great resourcefulness and ingenuity in coming up with solutions so as to remain on track.

The Board places on record our gratitude for the guidance and assistance of the National Economic Action Council, Ministry of Finance, Ministry of Land and Cooperative Development, Bank Negara Malaysia and the Securities Commission as well as other regulatory bodies.

The Board also expresses its appreciation for the cooperation of Danamodal Nasional Berhad and the Corporate Debt Restructuring Committee. It is noted that together with Danaharta these organisations represent the multi-pronged approach coordinated by Bank Negara Malaysia to address the problems of the banking system.

The Board also acknowledges the cooperation of the financial institutions that have dealt with Danaharta.

Finally, the Board is grateful for the support and help given by our business associates, consultants and advisers.



**Chairman's Statement** (continued)

On a personal note, I would like to thank my fellow Board members for their untiring efforts to participate in Board deliberations and for their work in the various committees required under Danaharta's corporate governance structure.

We all hope for a better 1999 and look forward to building a more resilient economy.

**Raja Tun Mohar Raja Badiozaman**  
Chairman



## Overview of Financial Restructuring Measures

In January 1998, the Malaysian Government set up the National Economic Action Council (NEAC) to prepare the National Economic Recovery Plan (NERP) that would guide the country out of the deepening financial crisis and towards economic recovery.

Through the NERP, the Malaysian Government instituted both short and long-term measures to deal with the contagion effect of the Asian economic crisis that started in 1997. The main thrust of the NERP is encapsulated in six objectives one of which is to maintain financial stability. Six action plans were formulated to address the problems of the financial sector.

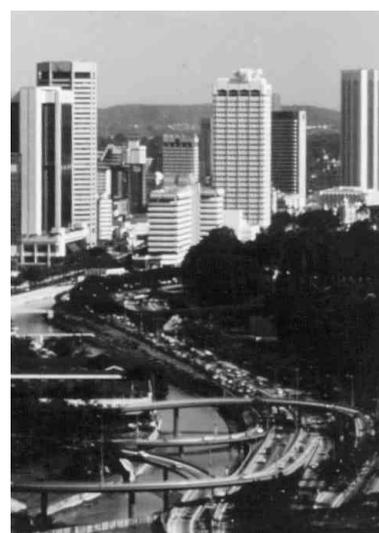
The NERP identified the major weaknesses of the financial sector, narrowing it to three related factors, namely rapid credit growth, high exposure to the property and stock markets and high leverage with short-term domestic debt and increasing non-performing loans (NPLs).

The Government subsequently implemented new requirements in March 1998, which included, among others, a 20% provisioning against the uncollateralised portion of sub-standard loans and increasing the minimum risk-weighted capital ratio (RWCR) of finance companies from 8% to 10% with interim compliance of 9%. More specifically, recognising that it is important for businesses to continue to have access to funding to generate economic activities, measures were also planned to address the twin distractions of growing NPLs and erosion in capital base.

The NEAC recommended that the Ministry of Finance establish both an asset management company (AMC) to acquire NPLs from financial institutions (FIs) and a special purpose vehicle (SPV) to carry out the task of recapitalising the FIs. Pengurusan Danaharta Nasional Berhad (Danaharta) and Danamodal Nasional Berhad (Danamodal) were subsequently established in June and August 1998 respectively.

Danaharta's objectives are to remove the distraction of managing NPLs from the FIs (allowing them to concentrate on their core business activity which is to lend to viable borrowers) and to maximise the recovery value of acquired assets.

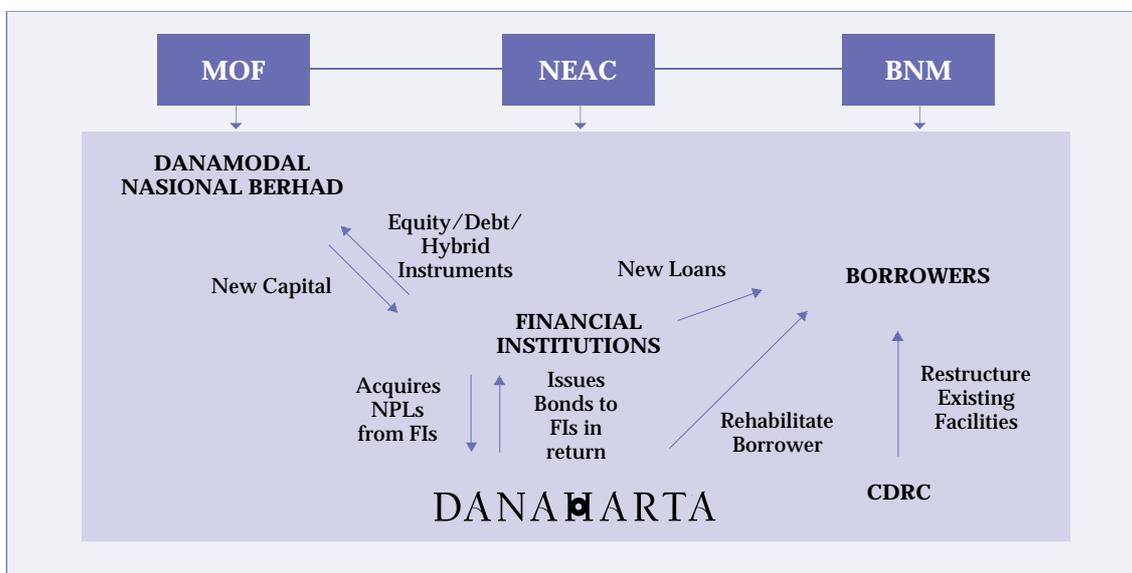
Going parallel with the removal of NPLs, Danamodal plays its part by injecting fresh capital into the FIs. Danamodal provides funds to FIs which require additional capital to meet their capital adequacy requirements, but are unable to raise them on their own given the drastic changes in market conditions and sentiment.



As the health of the banking sector is also dependent on a strong and stable economic environment with vibrant business activities and particularly a viable corporate sector, it is important that both financial and corporate restructuring be implemented simultaneously.

Following this, a committee under the auspices of Bank Negara Malaysia (BNM) was formed in August 1998. The committee, known as the Corporate Debt Restructuring Committee (CDRC), serves to facilitate discussions between borrowers and FIs to enable sharing of information and joint - decision making based on an orderly and expeditious restructuring of debts. As such, both the debtors and creditors are in an environment which would encourage both parties to coordinate measures aimed at realising a greater collective benefit.

### Banking Sector Reform Initiatives



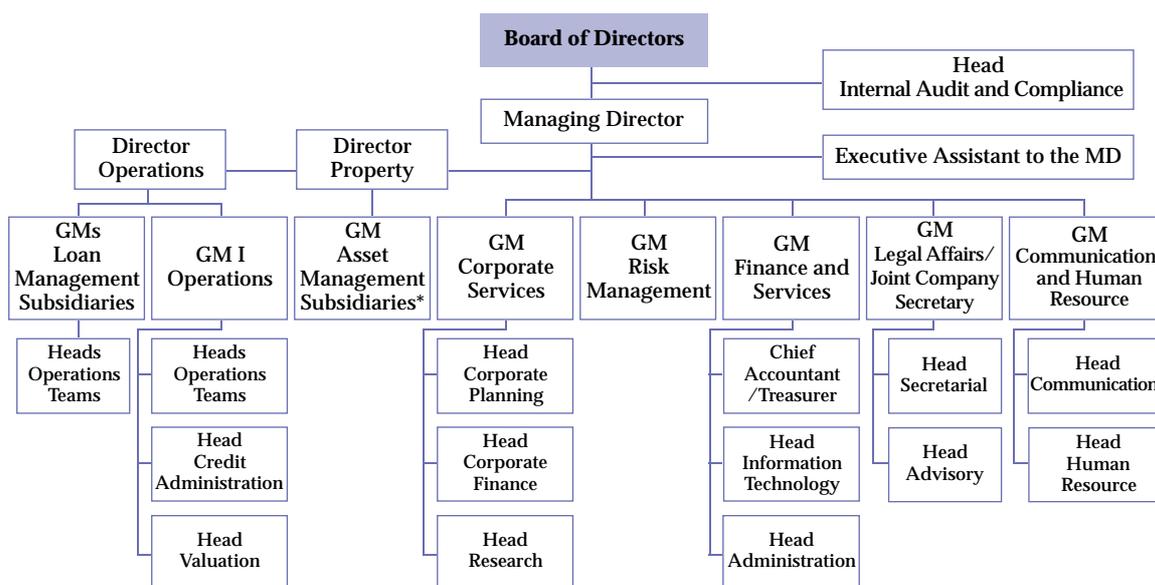
While Danaharta, Danamodal and CDRC are governed by their respective operational frameworks, their roles are complementary. All these entities are coordinated in their work by a Steering Committee chaired by the Governor of BNM. The establishment of these three agencies is the Malaysian Government's pre-emptive strategy in accelerating the restructuring and strengthening of the financial system. The initiatives taken by the Government, coupled with improvements in Malaysia's economic climate, have greatly reduced the risk of a banking system crisis in Malaysia.



## Review of Operations

Danaharta is designed as a project organisation with a flat but flexible organisation structure. For the time being, at its heart lies the Operations Division that is complemented and supplemented by six other key Divisions. The scope of work and focus of all Divisions will change as Danaharta passes through the various phases of its lifecycle. A new Division to be set up in 1999 is the Property Division which would look at Danaharta's property assets which result from any foreclosure exercise.

### Danaharta Organisation Structure



\* Dormant as at 31 December 1998

### Operations Division

This Division is responsible for loan acquisition and loan management.

The loan acquisition phase commenced in late August 1998. In tackling the task of acquiring NPLs, the initial acquisition approach was to deal with all financial institutions on a first come-first served basis. This was superseded by a more structured approach announced on 6 October 1998 which prioritised the acquisition of NPLs by type and financial institution. Essentially the order of priority for loan type was secured loans followed by unsecured loans and other types of facilities. Danaharta would then deal with the weaker institutions (especially those receiving recapitalisation assistance from Danamodal) first before the stronger institutions. In addition, Danaharta manages NPL portfolios on behalf of the Government or Bank Negara Malaysia (BNM), i.e. in the case of the Sime Bank Group. This is effected via a wholly owned subsidiary, Danaharta Managers Sdn Bhd.



Since the start of the acquisition stage, a total of RM24.270 billion in gross value of NPLs have been evaluated. From this amount, a total of RM19.728 in gross value of NPLs had been acquired or were under management as at 31 December 1998.



For those acquired NPLs, Operations has commenced the management process that involves applying either loan management strategies or asset management strategies. Loan management strategies are applied on viable loans involving the rescheduling of loan repayments, debt-equity conversions and restructuring via the appointment of Special Administrators or receivers and managers, or a section 176 scheme. Danaharta announced details of its loan restructuring guidelines on 7 April 1999.

Asset management strategies are applied on non-viable loans and involve the management of the borrower via the appointment of a Special Administrator or management of the loan collateral by way of foreclosure. Throughout the management process, the Division's overriding objective is to maximise the recovery value of the assets. To this end, Operations staff will lead, coordinate and implement input from in-house specialists, external advisers/consultants and industry experts. Once this has been achieved, these assets will then be disposed of.

As of 31 December 1998, there had been no disposal of assets, but Danaharta expects to make its first asset disposition in the second half of 1999. The disposal strategy that the Division will apply depends on the type of asset. The implementation of the appropriate strategies will be made through close consultation with other key Divisions, e.g. the Corporate Services Division.

The Operations Division also houses a Valuation Unit which liaises and coordinates with external property valuers and a Credit Administration Unit to handle the administrative aspects of the work.

### **Corporate Services Division**

The Corporate Services Division comprises the following Units:

#### ***Corporate Planning Unit***

Essentially, the Corporate Planning Unit is responsible for developing Danaharta's corporate planning process involving Danaharta's business strategies, operational plans and budget. This includes the business strategies that will be implemented with respect to the acquisition of assets, their management and subsequent disposal.



In this regard, the Unit has assisted in the formulation of Danaharta's *Business Plan*. The *Business Plan* sets out in detail Danaharta's objectives, the key factors affecting its business activities and the strategies that will be implemented. This document serves to assist Danaharta's Board and management in achieving a clear view of Danaharta's overall direction. The Unit also facilitates accurate reporting of Danaharta's activities, via the Communications Unit, through the provision of relevant NPL data and statistics.

#### ***Corporate Finance Unit***

The Corporate Finance Unit provides support to the Operations Division on all corporate finance-related matters arising from Danaharta's core activities of loan acquisition, asset management and asset disposition. The Unit's scope of corporate finance work covers that of asset evaluation and design of financial and asset restructuring schemes. The Unit liaises with external advisers and consultants who assist them in their work.

#### ***Research Unit***

Danaharta consumes a large amount of research data and statistics from a wide economic spectrum. The Research Unit is responsible for meeting this huge demand for economic research and data at both the macro and micro levels. The unit produces, on a periodic basis, in-house reports and bulletins on the various economic sub-sectors of interest to Danaharta. The Research Unit taps on sources from the Government as well as private sector entities. In addition, they conduct ongoing research on various asset management companies (AMCs) in the region to enable fine-tuning to be done to the Malaysian model.

#### **Finance and Services Division**

The Finance and Services Division comprises the following Units:

##### ***Finance and Treasury Unit***

The Finance and Treasury Unit is responsible for all aspects of Danaharta's accounting, financial management and treasury work, including management accounting as well as statutory requirements.

The Unit also plans and manages the funding requirements of Danaharta. To this end, the Unit was responsible for Danaharta's issue of around RM3.843 billion in face value (with present value of RM2.737 billion) of Government guaranteed bonds to selling financial institutions for acquisitions of NPLs during the period. The total fair purchase price paid by Danaharta was RM3.153 billion (RM2.737 billion plus cash payments of RM0.416 billion). Cash payments are made for acquisitions of NPLs from development finance institutions, loans extended under the Islamic concept and unsecured loans.



## Review of Operations (continued)

The bond issues made in relation to acquisitions in the period ended 31 December 1998 are as follows:

Date of issue	Face value RM billion	Price for every RM100.00 in face value	Yield	Present value RM billion	Date of maturity
20 November 1998	1.022	69.832	7.150%	0.713	31 December 2003
30 December 1998	1.580	72.012	6.672%	1.138	31 December 2003
29 January 1999	1.098 *	71.301	6.654%	0.783	31 March 2004
26 February 1999	0.143 *	72.296	6.475%	0.103	31 March 2004
	<b>3.843</b>			<b>2.737</b>	

\* The total face value of the bond issues on 29 January 1999 and 26 February 1999 were RM1.105 billion and RM1.242 billion respectively. The above values exclude payments for NPLs acquired in 1999.

### **Information Technology Unit**

Danaharta places great emphasis on the use of information technology to promote efficiency and effectiveness. The IT Unit is responsible for all IT systems development, maintenance and operations.

### **Administration Unit**

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

### **Legal Affairs Division**

The Legal Affairs Division comprises two Units as follows:

#### **Advisory Unit**

The Advisory Unit provides the full spectrum of legal support services to Danaharta including legal advice on the company's operations, namely acquisition, management, financing and disposal of assets.

At the beginning of Danaharta's life, the Advisory Unit was under a hectic schedule, preparing the necessary legislation for Danaharta's operations. Between 13 and 27 July 1998, the Pengurusan Danaharta Nasional Berhad Bill (Danaharta Bill) and the National Land Code (Amendment) Bill were tabled in Parliament. The Danaharta Bill was passed by Parliament on 5 August 1998. A few weeks later, the Pengurusan Danaharta Nasional Berhad Act 1998 (Danaharta Act) came into force on 1 September 1998. The National Land Code (Amendment) Act 1998 came into force on 10 September 1998.



The Advisory Unit also fulfills the important roles of communicating Danaharta's functions to the legal fraternity in Malaysia as well as educating Danaharta employees about the Danaharta Act.

A summary of the legislative framework within which Danaharta works is given on pages 41 to 43.

#### **Secretarial Unit**

The Secretarial Unit advises the management on and ensures compliance with the law, policies and procedures relating to meetings of directors and committees. In accordance with proper company secretarial practice, it also ensures that all statutory and non-statutory books and records are properly kept and maintained.

#### **Communications and Human Resource Division**

The Communications and Human Resource Division comprises two Units as follows:

##### **Communications Unit**

As Malaysia's national asset management company, Danaharta and its activities are always under close scrutiny. As a consequence there is a need to communicate a clear understanding of its objectives and activities. In this regard, the Communications Unit serves as a bridge between Danaharta and its various audiences. It adopts, as a guide, the principles of transparency, consistency and clarity in its efforts to build and enhance the credibility of Danaharta.

The Unit's activities cover all aspects of investor relations, public relations, advertising and event management. The Communications Unit has made significant inroads towards achieving its objectives. Major milestones in Danaharta's progress are usually publicised through a press release followed by a press conference. Since its inaugural press conference in June 1998, the Unit has organised more than a dozen of such events. These sessions help to keep Danaharta's audiences updated on its progress. In addition, interviews with selected media are organised regularly.



Since Danaharta's inception, the Unit has conducted sessions with professional and industry associations, trade commissions, local and foreign financial institutions, supra-national organisations (e.g. World Bank, International Monetary Fund, etc.) and academic institutions, to name a few. Due to the dynamic nature of Danaharta's activities, these sessions are held on an ongoing basis.



As part of its efforts to educate, publications have also been distributed to the public, financial institutions and other interested parties. The first of such publications was the *Information Guide*, which contains a comprehensive overview of Danaharta, its activities and other relevant information. Danaharta also publishes on a biannual basis an *Operations Report* which includes its half-yearly accounts and analyses of its NPL portfolio.



The Communications Unit also makes full use of technology with its own site on electronic media such as *Bloomberg* and *Reuters*. Danaharta makes available all its publicly released information on its very own website at [www.danaharta.com.my](http://www.danaharta.com.my). The website is updated regularly and attracts hundreds of visitors each day.

#### **Human Resource Unit**

The Human Resource Unit is responsible for all the human resource management needs of Danaharta including recruitment, human resource development and personnel administration.

A key task in the establishment of Danaharta was a full-scale recruitment drive. It was important that the human resource needs of Danaharta were met as soon as possible. With a private sector based scheme of service in place, recruitment advertisements were published, attracting over 3000 applications. From a handful of initial team members, Danaharta's total employee strength grew to 107 employees by December 1998. By the end of 1999, the Human Resource Unit anticipates employee strength at Danaharta to exceed 200. Danaharta features a flat organisation structure with minimal hierarchy in line with its project-oriented nature. Full-time staff are supplemented by outsourcing services and capabilities on an ad hoc or contract basis.

#### **Professional Staff Statistics as at 31 December 1998**

Qualifications	Percentage
Master's Degree/Professional Qualification	56
Bachelor's Degree/Diploma	41
Others	3
Gender	Percentage
Male	66
Female	34
Age	Percentage
More than 25 years	100
More than 30 years	68
More than 35 years	41
More than 40 years	21

Career Background	Percentage
Local banks	54
Foreign banks	12
Multinationals/International firms	13
Local firms	12
Others	9
Working Experience	Percentage
More than 3 years	100
More than 5 years	84
More than 10 years	53
More than 15 years	26



Due to the unique nature of Danaharta, staff recruitment had to be done carefully although the pressure to take in people was great. The selection criteria places great emphasis on candidates with suitable academic qualifications and relevant work experience. This was because Danaharta could not afford the time to train people so recruits had to fit in and contribute almost from the day they joined.

#### **Internal Audit and Compliance Division**

An essential component of Danaharta's corporate governance structure is the Internal Audit and Compliance Division. The Division assists the Board of Directors (BOD), Audit Committee (AC) and management in achieving sound managerial review and control over all of Danaharta's activities to ensure that these activities can be carried out effectively and efficiently. This is achieved through providing an independent review of the fit for purpose of Danaharta's business controls and making recommendations for improvements to ensure the control framework remains complete, effective and efficient.

The Division has developed the internal audit control frameworks (*Internal Audit Charter* and *Internal Audit Management Manual*) which were endorsed by the AC at their first meeting on 30 November 1998. The AC also approved a plan for audits covering five years, with focus on the current year plus two, as well as the adoption of *Control Self Assessment (CSA) for Corporate Governance*, a tool for monitoring the fitness for purpose of the internal control systems by carrying out self-audit and reporting to senior management and the BOD.

Danaharta maintains a high standard of business conduct (based on international best practice) by setting out in the *Standards of Business Conduct (SBC)* document, the general principles which govern Danaharta's activities and also the code of conduct for directors and employees to adhere to in the performance of their day-to-day activities. The SBC was approved by the BOD on 30 November 1998.

The Division's role in this regard is to safeguard Danaharta's reputation by monitoring matters of independence and conflicts of interest as well as activities which Danaharta may not want to be associated with.

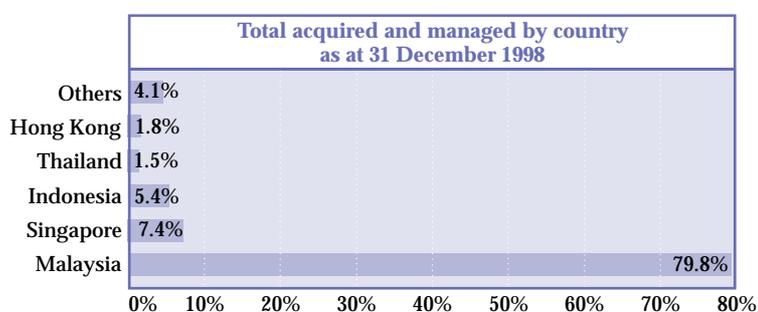
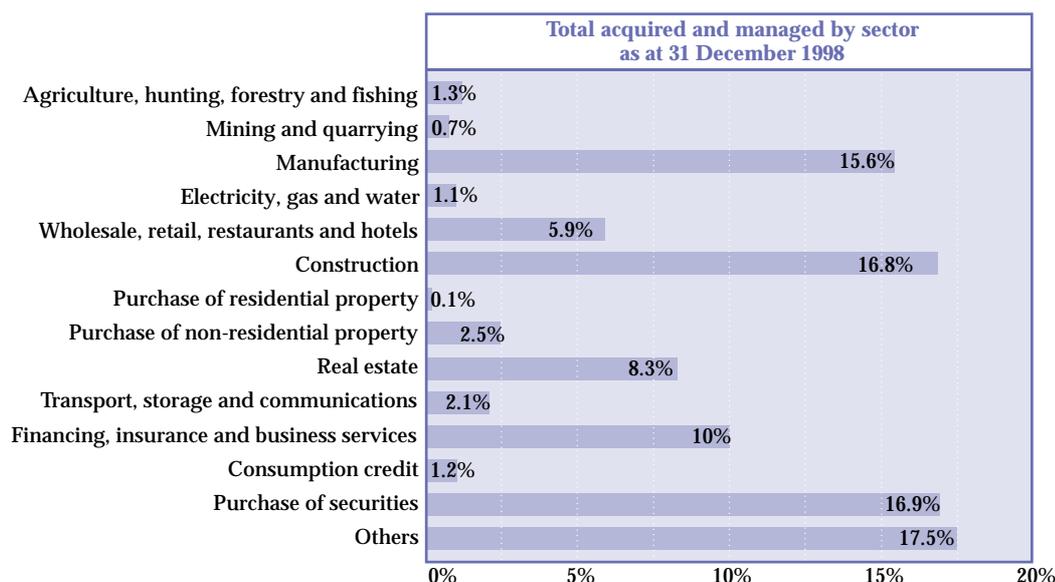
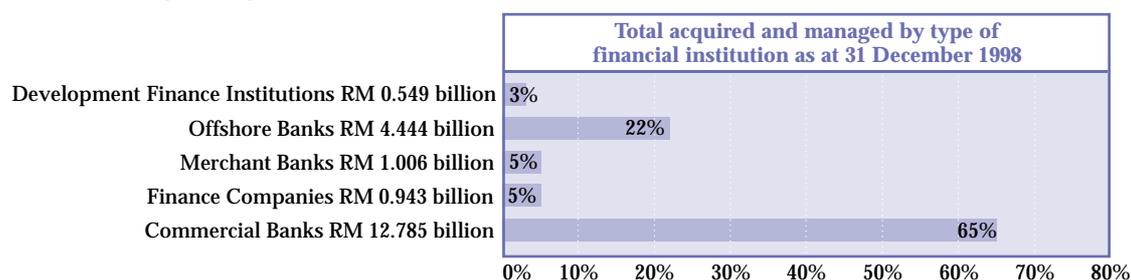


**Non-Performing Loans in Danaharta's Portfolio as at 31 December 1998**

	RM billion	RM billion	No. of accounts
Acquired and completed	8.106		202
Managed	<u>11.622</u>	19.728	<u>632</u>
			834
Evaluated but pending completion	2.763		109
Rejected by FIs	<u>1.779</u>	4.542	<u>52</u>
<b>Total evaluated by Danaharta</b>		<b>24.270</b>	<b>995</b>

Average discount on gross value of acquired NPLs

- 61%
- 37% (if excluding one large loan)



## **Post-Balance Sheet Review**

### ***Appointment of Special Administrators***

In the first quarter of 1999, Danaharta appointed Special Administrators over seven stockbroking companies, namely Capitalcorp Securities Sdn Bhd, Alor Setar Securities Sdn Bhd, WK Securities Sdn Bhd, Labuan Securities Sdn Bhd, Taiping Securities Sdn Bhd, MBf Northern Securities Sdn Bhd and Halim Securities Sdn Bhd.

Special Administrators were also appointed over Malaysia Electric Corporation Berhad and Teramaju Sdn Bhd on 7 April 1999, and over Teras Cemerlang Sdn Bhd and Repco Holdings Berhad and some of its subsidiaries on 8 April 1999.

The Special Administrators assumed control and management of the assets and affairs of these companies. Apart from coming up with workout proposals to maximise recovery value, the Special Administrators also seek to ensure that effective management and controls are in place to reduce the risk of future losses.

A workout proposal for Capitalcorp Securities Sdn Bhd was presented by its Special Administrators and approved by secured creditors on 16 March 1999. (See Case Study C on page 40)

### ***NPLs of Bank Bumiputra (Malaysia) Berhad (BBMB)***

On 28 January 1999, a new wholly owned subsidiary, Danaharta Urus Sdn Bhd, was incorporated to manage the NPLs of BBMB as part of the merger arrangement between BBMB and Bank of Commerce (M) Berhad.

### ***Increase in paid-up share capital***

Danaharta increased its paid-up share capital from RM250 million to RM500 million on 13 January 1999. It is expected that Danaharta's paid-up share capital will increase to RM1.5 billion by the middle of 1999.

### ***Loan Restructuring Guidelines***

On 7 April 1999, Danaharta made public its Loan Restructuring Guidelines. The Guidelines, which were formulated to assist Danaharta in the restructuring of viable loans, are divided into four sections as follows:

- Loan Restructuring Principles
- Guidelines for Corporate Borrowers
- Guidelines for Individual Borrowers
- Guidelines for Guarantors



## 1. Property Sector Oversupply : Danaharta's Experience With Valuations To Date

### Overview

It has become a recent phenomenon that emerging Asian economies go into recession accompanied by the bursting of a property price bubble and/or a situation of gross oversupply in certain segments of the property market. In Malaysia, although the current recession has been brought about by a combination of factors, both external and structural, the end result has been quite similar - a depressed property market.

### Factors Leading To The Oversupply

#### ***Market buoyed by high economic growth***

The property market usually has a boom-bust cycle. The decade-long period of high economic growth led to the boom cycle. While most experienced developers had expected a correction in property prices as far back as 1995, new players emerged, buying development land at peak prices and launching high-end products for which they thought demand would continue to hold firm.

#### ***No central information gathering agency***

There was no one-stop information centre where the developers could refer to so as to ensure that there would not be overbuilding in certain locations or in certain segments of the property market.

#### ***Over-diversification***

Many companies, whose core businesses were unrelated to property, jumped onto the bandwagon, lured by higher returns on equity compared with their core businesses.

#### ***Easy credit***

Bankers were buoyed by the long spell of economic growth and increased liquidity in the banking system, especially in the mid-1990s, and were caught up in intense competition to grow their loan books. Lending to the property sector was easy, especially with an identifiable asset such as property as collateral.



### **The Impact On Property Values**

Based on the latest published National House Price Index (HPI), residential property prices have fallen by 9.3% year-on-year (YoY) during the first six months of 1998 compared with the corresponding period in 1997. The Index, which is produced by the Valuation and Property Services Department, Ministry of Finance, represents the YoY change in the prices of residential properties, calculated every six months.

It should be noted that in the course of Danaharta's operations, the bulk of the property assets secured for NPLs are non-residential. The basic make-up of property assets which form the collateral of NPLs acquired by Danaharta up to 1 April 1999 is development land (50%), industrial (16%), retail space (11%), office space (10%), agricultural land (8%), hotels (3%) and residential units (2%). Therefore, the general decline in prices as shown by the HPI should not be used as a rule-of-thumb to make generalisations about Danaharta's valuations.

#### ***Development land***

- Prices of development land are more sensitive to any downturn in property prices. A 1% change in property prices would lead to a change of more than 1% in land prices due to the holding cost, risks of development and the multiplier effect, as land constitutes only a portion of the total development cost. Land is also valued based on its development potential, land-use category and surrounding environment, as well as the general economic conditions.
- During the boom years, development land was being valued based on assumptions which were tied to the strong growth performance of the Malaysian economy over the last decade. In some cases, valuations were done based on various assumptions of approvals and conversion rather than on an "as is" basis, which is the basis adopted by Danaharta.

#### ***Retail***

- The retail sector is one of the worst hit segments of the property market, as it is directly linked with the performance of the economy.
- The negative repercussions from the demand side of the equation are further amplified by the huge oversupply of retail space. In the latest Property Market Report 1998 released by the Ministry of Finance, the country's total amount of retail space under construction is 2.44 million sq. metres, with a projected future supply of 4.29 million sq. metres, to add to the 5.16 million sq. metres of existing retail space. Occupancy rates fell to 69.1% at the end of 1998 (1997 - 77.7%).



- In terms of valuation, retail space is highly sensitive to tenancy or lease arrangements. Fully-tenanted shopping complexes such as Sungai Wang Plaza would command better prices than a sparsely tenanted new shopping complex which is typical of collateral underlying NPLs bought by Danaharta.
- Another observation is that property developers have been building large shopping malls in suburban areas, especially in the newer mixed development projects. For some, it has reaped rich rewards, but for most new residential areas, the captive market is not large enough to justify such a property, and hence valuations will have to be adjusted accordingly.

### **Hotels**

- The Malaysian hotel sector has been badly affected by a combination of the economic slowdown, intense competition, an oversupply of rooms and a sharp drop in tourist arrivals. There has also been a significant drop in the food and beverage business, as corporate clients reduce their entertaining expenses due to the economic contraction.
- There is an acute oversupply of hotel rooms in the country, with a glut forming in the Klang Valley for 4-5 star hotels. The number of hotels in the country has far exceeded the government's target. The government's plan was to have 84,000 rooms by the year 2000, but this target was already exceeded in 1996.

### **Hotel supply**

	1995	1996	1997	1998
Number of establishments	1,220	1,289	1,365	1,419
Number of rooms	76,373	85,514	98,440	107,791

Source: Malaysia Tourism Promotion Board

- Besides an oversupply of hotel rooms, the other major reason which has depressed occupancy rates is poor demand. Malaysia's economic downturn, compounded by the Asian financial crisis and regional uncertainty, has badly affected business travel as well as corporate dining. This is especially true for Klang Valley hotels, which cater primarily to business travellers, rather than tourists.



- There are some NPLs pertaining to uncompleted hotels under Danaharta's consideration. The valuations took into account the inherent risks involved in this category of property, i.e. marketability, cost to complete, cost overrun, physical, functional and economic obsolescence and a host of other risk elements. Moreover, the market value of the hotel would have to reflect its earnings potential.

***Terraced factories***

- Another segment of the property market that has been badly affected is industrial property, especially industrial terraced factories. Demand for this type of properties has slowed down, due to the drop in investment activities and the contraction in manufacturing activities.
- However, the main reason for the slump in this sector is the huge oversupply which was led by the building frenzy of the last few years. In the Klang Valley alone, Jones Lang Wootton estimates another 7,820 factory units to be completed by the end of 2000 to add to the existing supply of 13,694 units. With weak real effective demand and a large supply overhang, rentals, and hence capital values have declined significantly.

***Other types of properties***

- For some types of properties, Danaharta's valuations have been relatively higher than previous valuations. These include agricultural land, where land planted with oil palm has appreciated in value, in line with the strong crude palm oil prices of the last 21 months. Some shophouses and residential landed properties located in exclusive areas where new supply is limited, have also recorded marginal increases. Specialised assets where significant costs have been incurred to enhance their value have also been valued higher than previous valuations.



## 2. Danaharta Bonds

Danaharta bonds represent a key source of financing for the company. Under its Bonds Issuance Programme, Danaharta will issue (to financial institutions in exchange for NPLs bought) up to RM15 billion in nominal value of Government guaranteed zero coupon redeemable bonds, to partly meet its financing requirements. Danaharta will be issuing its bonds progressively, the timing and size of which will be in tandem with its acquisition process. The bonds have a tenor of five years, but Danaharta has the option of refinancing upon maturity for an additional period of one year, three years or five years.

A zero coupon bond provides no regular interest payments during its life. These bonds are issued at a discount to its nominal value, and upon maturity, they are redeemed at the nominal value. For instance, the inaugural Danaharta bonds are priced at 69.832 for every RM100.00 in face value, which means that the effective net value is RM69.832. Upon maturity in five years, Danaharta will pay RM100.00 to the holder of the bond. The discount of the inaugural Danaharta bonds implies a yield of 7.15%, which was the indicative yield to maturity of Malaysian Government Securities with a similar remaining life.

Danaharta bonds carry a yield similar to Malaysian Government Securities as they are guaranteed by the Government. Danaharta bonds are also tradeable in the secondary market by persons specified in Section 47(B) of the Companies Act 1965.

Danaharta bonds also enjoy a special status as Class-1 liquefiable assets under the new liquidity framework for financial institutions. As they are guaranteed by the Government, Danaharta bonds also carry zero risk weight for capital adequacy purposes, and can be rediscounted with Bank Negara Malaysia under the central bank's role as lender of last resort.

The benefits to the financial institutions when they dispose their NPLs to Danaharta in exchange for the latter's bonds are as follows:

- i. Financial institutions will be exchanging non-income generating NPLs for a yielding asset. When a financial institution sells its NPLs to Danaharta, it is essentially swapping an item in its balance sheet that is not generating any income, for Danaharta bonds, which provide a yield varying from 6.4% to 7.1%.



- ii. By exchanging their NPLs for Danaharta bonds, financial institutions' balance sheets can be strengthened. As Danaharta bonds carry zero risk weight for capital adequacy purposes, a financial institution swapping its NPLs for Danaharta bonds may see an improvement in its risk-weighted capital ratio (RWCR). A financial institution that requires liquidity may also sell the bonds it holds in the secondary market to raise cash.

Besides the obvious benefits to the financial institutions, Danaharta bonds will also add depth and variety to Malaysia's nascent bond market. Financial institutions wishing to sell their holdings of Danaharta bonds in the secondary market would likely be able to find ready buyers, as several large insurance companies have indicated interest in investing in quality bonds, such as those issued by Danaharta.



### 3. Funding

Danaharta estimates its funding requirements to be RM15 billion. Many questions have been raised as to whether RM15 billion is adequate if Danaharta is to effectively achieve its objective of removing NPLs from the banking system so as to revitalise the banking industry. We believe this amount to be sufficient for the following reasons.

It is not Danaharta's intention to remove every single NPL in the banking system. Experience has shown us that every banking system, be it in Asia, Europe or elsewhere, has a certain level of NPLs. As at the end of January 1999, the net level of NPLs based on a 6-month NPL classification period stood at 8.6%. This would increase to 13.9% if the more stringent 3-month NPL classification period were used.

It should be noted that Danaharta focuses on NPLs with a gross value of at least RM5 million. This threshold limit is adopted because NPLs in Malaysia tend to be concentrated, with around 70% of the NPLs in the system above RM5 million in gross value. By focusing on this segment, Danaharta will maximise its efficiency and effectiveness in removing NPLs from the system.

Within the banking system are also NPLs that are transitional in nature. These are loans that are already performing, possibly because the financial institutions and the borrowers have managed to restructure the loans. While the borrowers are already servicing the principal and interest payments, the loans cannot be re-classified as performing yet, because they have not met the minimum six months of continuous performance. In instances like these, where the loans are already 'technically performing', it is very unlikely that financial institutions will sell such 'rehabilitated' loans to Danaharta.

The Corporate Debt Restructuring Committee was set up with the objective of restructuring problem loans of borrowers. Through restructuring of these loans, it is hoped that the loans can be avoided from turning into NPLs, or if they are already non-performing, can be restructured so that they become performing again. Again, financial institutions are unlikely to sell such loans to Danaharta.



Another reason is because of Danaharta's market driven approach to the valuation of NPLs - we pay fair value based on existing market conditions. For instance, in the case of a loan secured by a piece of property, a professional property valuer would be engaged to arrive at the current market value of the property. In most instances, the current market value of the property would have fallen considerably to reflect the economic and property market downturn. The value of the secured loan would be based on the current market value of its underlying collateral. During the period ended 31 December 1998, Danaharta acquired NPLs at an overall weighted average discount of 61%.

There is also the leverage effect which enables Danaharta to stretch its 'purchasing power' of RM15 billion. This little understood effect, which is probably unique to Danaharta, arises from its special power to appoint Special Administrators to manage corporate borrowers. There is no



minimum amount of loan that Danaharta must have acquired in order to exercise this power. For an illustration of the leverage effect, please refer to the case study on Capitalcorp Securities Sdn Bhd on page 40.

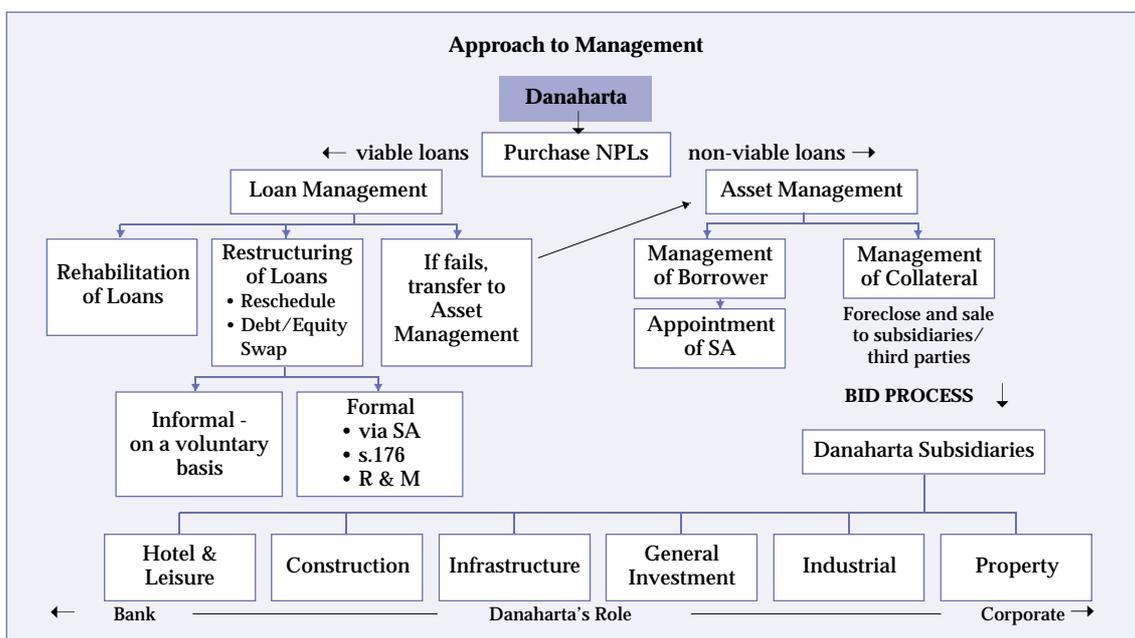
Finally, Danaharta has also been engaged by Bank Negara Malaysia to manage the NPLs of the Sime Bank Group amounting to RM11.622 billion on behalf of the Bank. Our RM15 billion funding requirement excludes the need to buy the NPLs of the Sime Bank Group as funding for these is provided by Bank Negara Malaysia. Pending finalisation, a similar arrangement may also be applied with regards to the NPLs of Bank Bumiputera Malaysia Berhad.



## Loan and Asset Management Strategies

When Danaharta acquires an NPL, Danaharta will first assess the viability of the loan. For viable loans, Danaharta will undertake loan management strategies whereby Danaharta will seek to rehabilitate or restructure the loan. Loan repayments may be rescheduled or debt-equity conversion schemes put in place.

Where the NPL is not viable or if the loan management strategy fails, Danaharta will employ asset management strategies. Here, Danaharta will restructure the NPL either by managing the borrower or the underlying collateral. If Danaharta assesses that there is value in the company, Danaharta may appoint a Special Administrator to take over the management and restructuring of the company. If not, Danaharta will likely foreclose on the collateral and manage it instead.



Case Study A on page 38 illustrates the loan management strategy applied by Danaharta on a producer of oil palm and rubber. It is also a classic example of how companies with good and viable principal businesses came unstuck when their forays into property development turned sour in the economic downturn.

Case Study B on page 39 shows how Danaharta Managers Sdn Bhd achieved the successful turnaround of a bakery company.

Case Study C on page 40 gives a summary of the loan management strategy undertaken for Capitalcorp Securities Sdn Bhd.



### **Case Study A : Back To Basics**

This company was incorporated in the 1970s and is principally involved in the cultivation and production of oil palm and rubber. Five years ago, buoyed by the general optimism over the domestic property sector, the company ventured into property development in a bid to diversify and improve its earnings base. To this end, the company obtained bank borrowings to finance an industrial cum mixed development project on a piece of estate land in the Klang Valley. The management was confident that the projected sale proceeds from the development would be adequate to service and repay the debt obligations and they may have been right if the economic slowdown had not precipitated a severe correction in the property market.

Burdened with a difficult operating environment and escalating interest costs and hit by an unexpected retraction of credit lines, the company defaulted on its loan repayments. As the company could not arrive at an amicable solution with its bank, the NPL was submitted by the bank for acquisition by Danaharta.

Danaharta conducted, in close collaboration with the company's management, an immediate assessment of the company's business activities, financial position and economic viability. The aim of this exercise was to ascertain the reason for non-performance of the loan and to consider the best possible way to resuscitate the business, augment the company's income-generating assets and facilitate an amicable recovery arrangement. It transpired that the main reason for the company's cash flow problems was its ill-timed foray into industrial property development while its principal activity of oil palm production was still very viable, especially in light of enhanced revenues in US dollars.

The workout strategy for the company therefore involved a refocus on the core business of oil palm production and a deferment of its property-based activities. Besides allowing the management to continue running the company, the workout programme included regular reporting on financial affairs and strict adherence to interest servicing and repayment schedules.

Today, the company's operations are proceeding on an even keel with the company comfortably meeting its debt servicing obligations. The management is now able to focus on rebuilding the business and position the company for any future opportunities. Danaharta continues to play a proactive role in the regeneration of the business and provides critical support when needed. An example of this is the professional advice rendered by Danaharta on the proposal by the company to enter into a joint venture with a foreign investor to re-visit the industrial property development project.



### Case Study B : Bakery Revived

This company was incorporated in September 1996 by an Austrian baker and two Malaysian partners. Its plant in Bangi was commissioned in November 1997 with financing obtained from Sime Bank Berhad. Operations commenced in that year with machinery and technical know-how imported from Switzerland. Due to worsening economic conditions, the business fared badly as their target market - hotels and cafeterias - was adversely affected by the slowdown. The production level at the Bakery was half its optimum capacity and losses ensued resulting in the company being unable to service its loans.

At this point, a European public company expressed interest in acquiring the Bakery and continue running the business under a new company. An offer was made, but their proposal was declined and the offer lapsed.



Another European public company then emerged to pursue its interest, intending to use the Bakery as a wholly owned subsidiary producing for the Asian market where its sales had already reached around RM20 million in 1998. By now, the loan had come under Danaharta Managers Sdn Bhd (DHM). On 15 January 1999, representatives from the European party and the Bakery presented to DHM their proposal to revive the business and rehabilitate the loan. DHM proceeded to evaluate the proposal and negotiated a better deal for the Bakery. On 29 January 1999, DHM agreed to the revised proposal, thereby creating a win-win situation for both parties.

Malaysia also stands to gain considerably because the European investor plans to invest an additional RM20 million to expand the operations and use the Malaysian plant as the base for its Asian export sales which are expected to double to RM40 million by the year 2000.



### **Case Study C : Light At The End Of The Tunnel**

A workout proposal for Capitalcorp Securities Sdn Bhd (Capitalcorp) was presented by the Special Administrators and approved by secured creditors on 16 March 1999. It was a classic example of the leverage effect and how Danaharta's legal powers can be utilised effectively.

Capitalcorp ran into financial difficulty in 1997 due to its exposure to margin financing and weak controls of the management. By December 1997, the Kuala Lumpur Stock Exchange had imposed trading restrictions on the stockbroking company and, by April 1998, it was granted a restraining order under section 176 of the Companies Act 1965. There were three attempts to resolve Capitalcorp's debts via a section 176 scheme, all of which failed.

Danaharta's appointment of Special Administrators on 4 January 1999 enabled a workout proposal to be formulated and tabled to secured creditors within two and a half months. Danaharta's involvement has resulted in expediting a solution for Capitalcorp and its creditors within a short timeframe.

Salient features of the workout proposal are:

- Secured creditors will be repaid in full in cash by way of instalments.
- Unsecured creditors will be repaid with a combination of redeemable convertible preference shares, redeemable non-convertible preference shares and loan stocks.
- Shareholders' contributions are a combination of cash and asset injection, waivers of inter-company debts, conversion of inter-company debts into equity and a capital reduction of existing shares.

For an exposure of about RM30 million, Danaharta was able to facilitate resolution of about RM220 million worth of NPLs. This illustrates the leverage effect that Danaharta possesses whereby a much larger loan exposure of the company can be resolved with just a partial exposure by Danaharta.

Under the Danaharta-driven workout proposal, a resounding 97% of the secured creditors voted in favour of the scheme. As part of the workout proposal, there will also be significant changes in management and improvement in the operations and procedures of the company, in order to provide a stronger platform for Capitalcorp to resume its business.

Capitalcorp is also one of the stockbroking companies which Danaharta has been working on as part of an initiative by the Securities Commission to resolve broker problems.



### **Background To The Pengurusan Danaharta Nasional Berhad Act 1998 (Danaharta Act)**

The Danaharta Act provides the legislative framework for Danaharta to undertake its unique mission. The Danaharta Act also ensures that Danaharta is able to do its job in an efficient and economical manner. This is important because the quicker Danaharta can complete its special task, the greater the benefits to the economy and taxpayers.

The Danaharta Act sets out Danaharta's main reason for being which is to act as the national asset management company and to acquire, manage, finance and dispose of assets and liabilities. Danaharta's detailed objectives are contained in its Memorandum and Articles of Association.

The Danaharta Act contains provisions to protect Danaharta's independence and integrity, including the requirement to disclose conflicts of interests and obligations of secrecy. This reflects the fact that Danaharta is a company under the Companies Act 1965 and also the Government's desire that Danaharta operates along commercial lines.

#### **- Danaharta's special powers**

The Act confers on Danaharta two special powers:

- First, the ability to buy assets through statutory vesting. This is essential to enable Danaharta to acquire assets with certainty of title and maximise value.
- Second, the ability to appoint Special Administrators to manage the affairs of distressed companies.

#### **Statutory vesting**

Before Danaharta can buy an asset, it must agree on the terms of the acquisition with the seller. If, for example, Danaharta wants to buy an NPL submitted by the selling bank, it must first agree on the terms and conditions of the acquisition (including price) with the selling bank. Once those terms and conditions have been agreed by both parties, they can then proceed with the acquisition.

The Danaharta Act allows Danaharta and the selling bank to effect the acquisition by way of statutory vesting. Essentially, it allows Danaharta to step into the shoes of the selling bank. Danaharta is then able to take the same interest and enjoy the same priority as the selling bank, subject to registered interests and disclosed claims. For example, if the selling bank had a first charge over land as security for the NPL, Danaharta would also have a first charge over the land. The borrower is still the owner of the land. However, instead of dealing with the bank, the borrower will now deal with Danaharta.



If a second charge was registered over the land by another bank, that second charge would continue to exist without any change in priority. Likewise, any caveats lodged over the land would remain. This means that although statutory vesting allows Danaharta to buy the NPL, Danaharta must deal with existing registered interests should it wish to sell the land. In this manner, the Act preserves essential third party rights.

Where Danaharta acquires a secured loan from a bank, the ownership of the security or collateral does not change, i.e. it is not passed to Danaharta. Danaharta merely 'steps into the shoes' of the selling bank and assumes the selling bank's rights as a chargee of the asset, say land. Should Danaharta need to sell the land to recover the loan, provisions of the National Land Code (as amended by the National Land Code (Amendment) Act 1998) must be adhered to.

### **Special Administration**

Where a borrower is a company, Danaharta has the right to appoint a Special Administrator over the corporate borrower or a subsidiary which is a security provider if the corporate borrower is unable to pay its debts or fulfil its obligations. In addition, Danaharta must be satisfied that the appointment would maximise value or is in the public interest.

Before a Special Administrator can be appointed, Danaharta must seek the approval of an Oversight Committee formed for this purpose.

Once appointed, the Special Administrator will take over the control and management of the assets and affairs of the corporate borrower. In order to preserve those assets until the Special Administrator is able to complete his task, a 12-month moratorium automatically takes effect. During that time, no one may take action against the corporate borrower.

The Special Administrator will prepare a workout proposal which is then given to an Independent Advisor approved by the Oversight Committee. The Independent Advisor's role is to review the reasonableness of the proposal taking into consideration the interests of all creditors (whether secured or unsecured) and shareholders. The proposal, together with the Independent Advisor's report, is then given to Danaharta for approval.

If Danaharta approves the proposal prepared by the Special Administrator, the Special Administrator will call for a meeting of secured creditors to consider and vote on the proposal. A majority in value of secured creditors at the meeting must approve the proposal before it can be implemented. Relevant regulatory approvals (such as from the Securities Commission) must also be obtained.



- **Impact of the Danaharta Act**

The Danaharta Act allows Danaharta to obtain and convey title to assets subject only to a defined set of obligations without unduly disturbing the interests of others.

The special administration of corporate borrowers provides a much-needed option for maximising value through the use of skilled specialists to turn around distressed enterprises. Without this option, lenders may look increasingly to liquidation and holders of security may rush to enforce their security. This, in turn, will bring down weakened enterprises and erase value.

The safeguards contained in the Danaharta Act ensure that the special powers conferred on Danaharta are balanced and effective with a view to a measured rejuvenation and revitalisation of the economy.

**Background To The National Land Code (Amendment) Act 1998 (NLC (Amendment) Act)**

The NLC (Amendment) Act is intended to facilitate the implementation of the Danaharta Act.

The NLC (Amendment) Act:

- Facilitates the acquisition of assets by Danaharta.
- Clarifies that the vesting certificate will be conclusive evidence of the transfer of the NPL to Danaharta.
- Where necessary, in order to enable Danaharta to maximise recovery value, provides for the realisation of collateral by way of private treaty.

The NLC (Amendment) Act allows Danaharta to buy NPLs that are secured by land in an efficient, economical and effective manner.

The NLC (Amendment) Act makes clear that existing registered interests will not prevent the transfer of security for a loan to Danaharta. However, under the Danaharta Act, Danaharta would acquire the NPL subject to those registered interests.

**Supporting Legislation**

Apart from the Danaharta Act and the NLC (Amendment) Act, Danaharta's operations are also supported by the Development Funds (Amendment) Act 1998 which allows the Government to provide grants or loans to, or invest in, Danaharta.



## Milestone Events

20 May 1998	Government announces creation of a national asset management company (AMC)
4 June 1998	Inaugural press conference to present the outline of the AMC
20 June 1998	Incorporation of Danaharta as the national AMC
2 July 1998	Dialogue with financial institutions (FIs)
13 - 27 July 1998	Danaharta Bill and National Land Code (Amendment) Bill tabled at Parliament
4 Aug 1998	Development Funds (Amendment) Bill tabled in Parliament
5 Aug 1998	Danaharta Bill passed by Parliament
1 Sept 1998	Pengurusan Danaharta Nasional Berhad Act 1998 comes into force
10 - 11 Sept 1998	Amendment to Development Funds Act & Amendment to National Land Code in force
6 Oct 1998	Danaharta announces details of its acquisition approach
16 Oct 1998	Appointment by Bank Negara Malaysia to manage Sime Bank Berhad's NPLs
11 Nov 1998	Danaharta signs agreement to acquire NPLs from 11 financial institutions
20 Nov 1998	Danaharta issues first tranche of bonds to FIs under its RM15bn Bond Issuance Programme
26 Nov 1998	Danaharta announces the appointment of Oversight Committee members
2 Dec 1998	Danaharta makes further acquisitions and agrees to manage loan portfolio of Sime International Bank (L) Ltd
30 Dec 1998	Danaharta issues bonds with nominal value of RM1.5798 billion



## Milestone Events (continued)

<b>Post-balance sheet</b>	
<b>4 Jan 1999</b>	Danaharta appoints Special Administrators for Capitalcorp Securities Sdn Bhd
<b>29 Jan 1999</b>	Danaharta issues bonds with nominal value of RM1.1054 billion
<b>12 Feb 1999</b>	Danaharta appoints Special Administrators over six stockbroking companies
<b>26 Feb 1999</b>	Danaharta issues bonds with nominal value RM1.2419 billion
<b>3 Mar 1999</b>	Danaharta appoints Malayan Banking Berhad as agent bank
<b>16 Mar 1999</b>	Danaharta unveils inaugural Operations Report Secured creditors approve workout proposal for Capitalcorp Securities Sdn Bhd
<b>26 Mar 1999</b>	Danaharta issues bonds with nominal value of RM1.3929 billion
<b>2 Apr 1999</b>	Encik Ali Tan Sri Abdul Kadir and Dr. Awang Adek Hussin appointed to Danaharta's Oversight Committee
<b>7 Apr 1999</b>	Danaharta unveils its Loan Restructuring Guidelines Danaharta appoints Special Administrators over Malaysia Electric Corporation Berhad and Teramaju Sdn Bhd
<b>8 Apr 1999</b>	Danaharta appoints Special Administrators over Teras Cemerlang Sdn Bhd, and Repco Holdings Berhad and some of its subsidiaries



...the first of these is the fact that the ...

...the second of these is the fact that the ...

...the third of these is the fact that the ...

...the fourth of these is the fact that the ...

...the fifth of these is the fact that the ...

...the sixth of these is the fact that the ...

...the seventh of these is the fact that the ...

...the eighth of these is the fact that the ...

...the ninth of these is the fact that the ...

...the tenth of these is the fact that the ...

...the eleventh of these is the fact that the ...

...the twelfth of these is the fact that the ...

...the thirteenth of these is the fact that the ...

...the fourteenth of these is the fact that the ...

...the fifteenth of these is the fact that the ...

...the sixteenth of these is the fact that the ...

...the seventeenth of these is the fact that the ...

...the eighteenth of these is the fact that the ...

The Directors have pleasure in submitting their inaugural report with the audited accounts of the Group and of the Company for the financial period ended 31 December 1998.

### **Incorporation**

Pengurusan Danaharta Nasional Berhad ('the Company') was incorporated on 20 June 1998. The accounts have been prepared for the period from the date of incorporation to 31 December 1998.

### **Background**

The Company is a public company incorporated under the Companies Act, 1965. It is wholly owned by the Minister of Finance Incorporated.

The Company was established by the Government of Malaysia to act as the national asset management company. Its objectives are to remove the distraction of managing non-performing loans (NPLs) from financial institutions and maximise the recovery value of acquired assets. Given the non-performing nature of assets which are being acquired, national asset management companies generally do not have the long term prospect of making profits. However, the Directors will pursue the objective of maximising recovery value for assets within the Company's portfolio as this will result in a minimisation of losses incurred over the long term.

The Pengurusan Danaharta Nasional Berhad Act 1998, which came into effect on 1 September 1998, confers onto the Company the necessary powers to achieve its objectives. Through this Act the Company has the ability to acquire assets with certainty of title and the ability to appoint Special Administrators to manage the affairs of corporate borrowers.

### **Principal Activities**

The Company is principally engaged in the business of acquiring and managing NPLs from financial institutions.

The principal activities of the Company's subsidiary companies are stated in Note 7 to the accounts.

There have been no significant changes in these principal activities during the financial period.



## Directors' Report (continued)

### Financial Results

	<b>Group</b>	<b>Company</b>
	<b>RM'000</b>	<b>RM'000</b>
Retained losses	17,309	17,313

### Reserves And Provisions

There were no material transfers to or from reserves or provisions during the period other than those disclosed in the accounts and notes to the accounts.

### Share Capital

During the financial period, the following shares were issued by the Company.

Date of issue	No. of ordinary shares of RM1.00 each	Purpose of issue	Terms of issue
20 June 1998	2	Incorporation of company	Cash at par
15 July 1998	249,999,998	Raising capital	Cash at par
	250,000,000		

### Directors Of The Company

The Directors of the Company who have held office during the financial period since the date of incorporation and at the date of this report are:

Raja Tun Mohar Raja Badiozaman	(appointed on 25.8.98)
Mohamed Azman Yahya	(appointed on 20.6.98)
Datuk Dr. Aris Othman	(appointed on 26.8.98)
Dato' Dr.. Zeti Akhtar Aziz	(appointed on 25.8.98)
Datuk Megat Zaharuddin Megat Mohd. Nor	(appointed on 26.8.98)
Dato' N. Sadasivan	(appointed on 25.8.98)
Dato' Ho Ung Hun	(appointed on 26.8.98)
Eoghan M. McMillan	(appointed on 25.8.98)
Alister T.L. Maitland	(appointed on 26.8.98)
Othman Jusoh	(appointed on 20.6.98; resigned on 26.8.98)



Two of the Directors, Raja Tun Mohar Raja Badiozaman and Dato' Ho Ung Hun are over 70 years of age. In accordance with S129(2) of the Companies Act, 1965, they will retire as Directors in the forthcoming Annual General Meeting but are eligible for re-appointment subject to the approval of the shareholders pursuant to Section 129(6) of the Companies Act, 1965.

#### Directors' Benefits

Since the date of incorporation, no Director has received or become entitled to receive a benefit (other than as disclosed in the accounts) by reason of a contract made by the Company or a related corporation with the Director or with a firm in which the Director is a member or with a company in which the Director has a substantial financial interest.

During and at the end of the financial period, no arrangements subsisted to which the Company or its subsidiaries is a party with the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

#### Directors' Interests

According to the Register of Directors' shareholdings, the interests of Directors in office since the date of incorporation and at the end of the financial period in the shares of the Company are as follows:

	Number of Ordinary Shares			As at 31.12.1998
	As at incorporation	Acquired	Disposed	
Mohamed Azman Yahya	1	-	1	-
Othman Jusoh	1	-	1	-

None of the other Directors in office at the end of the financial period had any interest in the shares of the Company and its related corporations.

The Directors' interests in the shares of subsidiary companies are disclosed in those companies' financial statements.

#### Acquired Loans

Before the accounts of the Group and of the Company were made out, the Directors took reasonable steps to ascertain that actions had been taken in assessing the write-offs against and provisions for acquired loans. Based on this assessment, as at 31 December 1998, there was no write-off against nor provision for acquired loans.



At the date of this report, the Directors are not aware of any circumstances which would render the carrying value of acquired loans in the accounts of the Group and of the Company impaired to any substantial extent.

#### **Current Assets**

Before the accounts of the Group and of the Company were made out, the Directors took reasonable steps to ensure that any current assets, other than debts and financing, which were unlikely to realise in the ordinary course of business, their values as shown in the accounting records of the Group and of the Company, have been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances which would render the values attributed to the current assets in the accounts of the Group and of the Company misleading.

#### **Valuation Methods**

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

#### **Contingent And Other Liabilities**

At the date of this report, there does not exist:

- (a) any charge on the assets of the Group or of the Company which has arisen since the end of the financial period which secures the liabilities of any other person; or
- (b) any contingent liability of the Group or of the Company which has arisen since the end of the financial period other than in the normal course of business.

No contingent or other liability of the Group or of the Company has become enforceable, or is likely to become enforceable, within the period of twelve months after the end of the financial period which, in the opinion of the Directors, will or may substantially affect the ability of the Group or of the Company to meet their obligations as and when they fall due.

#### **Change Of Circumstances**

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



**Items Of An Unusual Nature**

In the opinion of the Directors, the results of the Group's and Company's operations during the financial period were not substantially affected by any item, transaction or event of a material and unusual nature.

There has not arisen in the interval between the end of the financial period and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Group and of the Company for the current financial period in which the report was made.

**Year 2000 Compliance**

As the Company is newly-incorporated, all equipment and computer software were purchased as new. It is the Company's IT policy that all equipment and computer software purchased are Year 2000 compliant. The Directors of the Company have taken reasonable steps to ensure that this policy has been adhered to.

**Auditors**

The auditors, PricewaterhouseCoopers, who were appointed during the year have expressed their willingness to continue in office.

On behalf of the Board of Directors

**Raja Tun Mohar Raja Badiozaman**  
Chairman

**Mohamed Azman Yahya**  
Managing Director

Kuala Lumpur  
13 April 1999



## Balance Sheets

as at 31 December 1998

		<b>Group</b>	<b>Company</b>
		<b>As at</b>	<b>As at</b>
	<b>Note</b>	<b>31.12.1998</b>	<b>31.12.1998</b>
		<b>RM'000</b>	<b>RM'000</b>
<b>Assets</b>			
Cash and bank balances		157	153
Deposits and placements with financial institutions	4	472,323	471,319
Acquired loans	5	3,152,753	3,152,753
Other assets	6	4,287	4,251
Investment in subsidiary companies	7	-	1,000
Fixed assets	8	4,184	4,078
<b>Total Assets</b>		<b>3,633,704</b>	<b>3,633,554</b>
<b>Liabilities And Shareholders' Funds</b>			
Redeemable guaranteed zero-coupon bearer bonds			
	9	1,857,968	1,857,968
Amounts payable on acquired loans	10	1,233,207	1,233,207
Long term loans	11	300,877	300,877
Other liabilities	12	8,961	8,815
<b>Total Liabilities</b>		<b>3,401,013</b>	<b>3,400,867</b>
Financed by:			
Share Capital	13	250,000	250,000
Reserves	14	(17,309)	(17,313)
<b>Shareholders' Funds</b>		<b>232,691</b>	<b>232,687</b>
<b>Total Liabilities and Shareholders' Funds</b>		<b>3,633,704</b>	<b>3,633,554</b>

The notes on pages 55 to 66 form an integral part of these accounts.



## Profit and Loss Accounts

for the financial period from 20 June 1998 (date of incorporation) to 31 December 1998

	Note	Group Period ended 31.12.1998 RM'000	Company Period ended 31.12.1998 RM'000
Interest income	15	5,639	5,635
Interest expense	16	(7,796)	(7,796)
Net interest expense		(2,157)	(2,161)
Income from recoveries on acquired loans	3(d)	-	-
Management fee income	3(e)	-	-
Overhead expenses	17	(15,152)	(15,152)
<b>Operating and retained loss</b>	<b>14</b>	<b>(17,309)</b>	<b>(17,313)</b>

The notes on pages 55 to 66 form an integral part of these accounts.



## Consolidated Cash Flow Statement

for the financial period from 20 June 1998 (date of incorporation) to 31 December 1998

### Cash Flows From Operating Activities

	<b>Period ended</b>
	<b>31.12.1998</b>
	<b>RM'000</b>
<b>Operating Loss</b>	(17,309)
Adjustments for:	
Depreciation	390
Interest expense accrued	7,796
Operating loss before working capital changes	(9,123)
Movements in operating assets and liabilities:	
Acquired loans	(3,152,753)
Other assets	(4,287)
Redeemable guaranteed zero-coupon bearer bonds	1,851,049
Amounts payable on acquired loans	1,233,207
Other liabilities	8,961
Net cash used in operating activities	(72,946)
<b>Cash Flow Used In Investing Activities</b>	
Purchase of fixed assets	(4,574)
Net cash used in investing activities	(4,574)
<b>Cash Flow From Financing Activities</b>	
Proceeds from issuance of share capital	250,000
Proceeds from long-term loans	300,000
Net cash generated from financing activities	550,000
Net increase in cash and cash equivalents and balance as at 31 December 1998	472,480
<b>Analysis Of Cash And Cash Equivalents</b>	
Deposits and placements with financial institutions	472,323
Cash and bank balances	157
	472,480

The notes on pages 55 to 66 form an integral part of these accounts.



31 December 1998

**1 Principal Activities**

The Company is principally engaged in the business of acquiring and managing non-performing loans ('NPLs') from financial institutions.

The principal activities of the Company's subsidiary companies are stated in Note 7 to the accounts.

There have been no significant changes in these principal activities during the financial period.

**2 Basis Of Preparation Of The Accounts**

The accounts of the Group and the Company are prepared in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia.

**3 Significant Accounting Policies**

**(a) Basis of accounting**

The accounts of the Group and the Company have been prepared under the historical cost convention.

**(b) Basis of consolidation**

The consolidated accounts include the accounts of the Company and all its subsidiaries made up to 31 December 1998. All material inter-company transactions have been eliminated on consolidation.

**(c) Recognition of interest income**

Interest income on acquired loans is recognised on a receipt basis. All other interest income is recognised on an accrual basis.

**(d) Recognition of income from recoveries of acquired loans**

Upon the recovery of an acquired loan by the Company, any surplus obtained from the consideration received on recovery against the consideration paid on acquisition of the loan (Fair Purchase Price) will be shared between the selling financial institution and the Company on a predetermined basis, after deducting the Company's direct and holding costs. The Company's holding costs are calculated based on Malayan Banking Berhad's Base Lending Rate.

In the event that the Company suffers a loss on the recovery of an acquired loan, that loss is immediately recognised.



31 December 1998

**3 Significant Accounting Policies (continued)**

**(e) Recognition of management fee income**

Management fee income represents fee income earned on the management of assets by the Company's subsidiaries. The fee income is earned on recovery of the assets under management and as such is recognised on a receipt basis.

**(f) Acquired loans**

Acquired loans comprise acquired non-performing loans, advances and financing.

The Fair Purchase Price of acquired secured loans is based on the fair value of the collateral on which the loans are secured, subject to a minimum value of 10% of the principal outstanding:

**(i) Properties**

Properties are valued by a panel of independent professional valuers.

**(ii) Shares**

Shares are either valued internally or by professional advisers based on general valuation principles.

The Fair Purchase Price of acquired unsecured loans is determined at 10% of the principal outstanding.

The carrying value of an acquired loan is its Fair Purchase Price less provision and repayment.

**(g) Provisions for acquired loans**

**Secured acquired loans**

Specific provisions are made for the shortfall in value between the value of the collateral and the carrying value of the acquired loan.

**Unsecured acquired loans**

Specific provisions are made against the carrying value of unsecured acquired loans when, in the opinion of the Directors, credit risks or economic or political factors make recovery doubtful.

**(h) Investment in subsidiary companies**

A subsidiary company is a company in which the Company controls the composition of its board of directors or more than half of its voting power, or holds more than half of its issued ordinary share capital.

Investments in subsidiary companies are stated at cost, and written down when the Directors consider that there is a permanent diminution in the value of such investments.



31 December 1998

**3 Significant Accounting Policies (continued)****(i) Fixed assets and depreciation**

Fixed assets are stated at cost less accumulated depreciation.

Freehold land, building in progress and renovations in progress are not depreciated. Depreciation of other fixed assets is calculated to write off the cost of the fixed assets on a straight-line basis over the expected useful lives of the assets concerned. The principal annual rates of depreciation are as follows:

Office equipment and furniture and fittings	20%
Computer equipment and software	33 N%
Motor vehicles	25%

**(j) Issued zero-coupon bonds and fixed rate long term loan**

The carrying value of the redeemable guaranteed zero-coupon bearer bonds issued by the Company is the nominal value of the bonds less the unamortised discount. The discount on the bonds is amortised on a straight-line basis over the duration of the bond.

The carrying value of the fixed rate long term loan from Khazanah Nasional Berhad is the principal amount upon drawdown plus the accrued interest charge on the loan. As the total interest charge is predetermined, the interest on the loan is accrued on a straight-line basis over the duration of the loan.

**4 Deposits And Placements With Financial Institutions**

	<b>Group</b>	<b>Company</b>
	<b>31.12.1998</b>	<b>31.12.1998</b>
	<b>RM'000</b>	<b>RM'000</b>
Licensed banks	372,323	371,319
Licensed finance companies	100,000	100,000
	<b>472,323</b>	<b>471,319</b>



Notes to the Accounts (continued)

31 December 1998

5 Acquired Loans

	<b>Group</b>	<b>Company</b>
	<b>31.12.1998</b>	<b>31.12.1998</b>
	<b>RM'000</b>	<b>RM'000</b>
Acquired loans	3,152,753	3,152,753

Acquired loans are analysed by economic sector as follows:

	<b>Loan Rights Outstanding</b>	<b>Carrying Value</b>
	<b>RM'000</b>	<b>RM'000</b>
Agriculture, hunting, forestry and fishing	172,674	162,171
Manufacturing	511,817	316,220
Electricity, gas and water	8,922	3,920
Wholesale, retail, restaurants and hotels	107,020	51,005
Construction	1,721,180	1,234,843
Purchase of residential property	223,476	165,646
Real Estate	927,582	654,831
Transport, storage and communications	38,099	11,723
Financing, insurance and business services	372,402	180,124
Consumption credit	10,784	340
Purchase of securities	719,633	303,370
Others	3,291,786	68,560
	<b>8,105,375</b>	<b>3,152,753</b>

Included in 'Others' are loan rights outstanding totalling RM 3,088 million which were acquired for a nominal value of RM 4. This relates to financing extended to a holding company which invested in a company engaged in primary industry outside Malaysia. The classification of these loans as 'Others' was determined by the Company in view of the fact that they cannot be easily categorised to any of the specific sectors. In substance, these loans are being managed by the Company and a substantial proportion of the gains from the recoveries of these loans will accrue to the selling financial institutions.

The above economic sector classifications are as defined by Bank Negara Malaysia and as determined by the selling financial institution, other than the acquired loans as described in the preceding paragraph.



## Notes to the Accounts (continued)

31 December 1998

### 6 Other Assets

	<b>Group</b>	<b>Company</b>
	<b>31.12.1998</b>	<b>31.12.1998</b>
	<b>RM'000</b>	<b>RM'000</b>
Amounts owing by subsidiaries	-	107
Other debtors, deposits and prepayments	1,004	861
Accrued interest receivable	1,263	1,263
Staff loans	2,020	2,020
	<b>4,287</b>	<b>4,251</b>

### 7 Investment In Subsidiary Companies

Unquoted shares in Malaysia, at cost	-	1,000
--------------------------------------	---	-------

The following are the subsidiaries of the Company, all of which are incorporated in Malaysia:

Name	Paid-up capital	Effective interest 1998	Principal activity
Danaharta Ekuiti Sdn Bhd	2	100	Dormant
Danaharta Hartanah Sdn Bhd	2	100	Dormant
Danaharta Bina Sdn Bhd	2	100	Dormant
Danaharta Industri Sdn Bhd	2	100	Dormant
Danaharta Prasarana Sdn Bhd	2	100	Dormant
Danaharta Managers Sdn Bhd	1,000,000	100	Asset management
Danaharta Managers (L) Ltd (formerly known as Sime International Bank (L) Ltd)	US\$5,000,000	100	Asset management



Notes to the Accounts (continued)

31 December 1998

**8 Fixed Assets**

	Furniture and fittings RM'000	Office equipment RM'000	Motor vehicles RM'000	Computer equipment and software RM'000	Total RM'000
<b>Group</b>					
<b>Cost</b>					
As at date of incorporation	-	-	-	-	-
Additions	21	585	2,386	1,582	4,574
As at 31 December 1998	21	585	2,386	1,582	4,574
<b>Accumulated depreciation</b>					
As at date of incorporation	-	-	-	-	-
Charge during the period	1	53	180	156	390
As at 31 December 1998	1	53	180	156	390
<b>Net Book Value</b>					
as at 31 December 1998	20	532	2,206	1,426	4,184
<b>Company</b>					
<b>Cost</b>					
As at date of incorporation	-	-	-	-	-
Additions	21	573	2,386	1,485	4,465
As at 31 December 1998	21	573	2,386	1,485	4,465
<b>Accumulated depreciation</b>					
As at date of incorporation	-	-	-	-	-
Charge during the period	1	53	180	153	387
As at 31 December 1998	1	53	180	153	387
<b>Net Book Value</b>					
as at 31 December 1998	20	520	2,206	1,332	4,078



Notes to the Accounts (continued)

31 December 1998

**9 Redeemable Guaranteed Zero-Coupon Bearer Bonds**

	<b>Group</b>	<b>Company</b>
	<b>31.12.1998</b>	<b>31.12.1998</b>
	<b>RM'000</b>	<b>RM'000</b>
Nominal value of bonds	2,601,400	2,601,400
Less : Unamortised discount	(743,432)	(743,432)
	<b>1,857,968</b>	<b>1,857,968</b>
Discount upon issuance	750,351	750,351
Amortisation for the period	(6,919)	(6,919)
Unamortised discount as at 31 December 1998	743,432	743,432

During the period, the Company issued RM2,601,400,000 nominal value of redeemable guaranteed zero-coupon bearer bonds as consideration for the acquisition of loans. These bonds are guaranteed by the Government of Malaysia. The bonds are redeemable by the Company at its nominal value on the maturity date with the option by the Company to refinance any of the bonds upon maturity for another period of 1, 3 or 5 years. The refinanced bonds would carry a coupon rate, which will be based on the then prevailing Malaysian Government Security (MGS) yield of a similar tenor.

The discounted value of the bonds at the date of issue represents the consideration for the acquisition of loans as shown below:

	<b>Date of issue</b>	<b>Date of maturity</b>	<b>Nominal/ maturity value RM '000</b>	<b>Discounted value RM '000</b>
First issue	20 November 1998	31 December 2003	1,021,600	713,404
Second issue	30 December 1998	31 December 2003	1,579,800	1,137,645
			<b>2,601,400</b>	<b>1,851,049</b>

The timing of the redemption of the bonds is dependent on the recovery of the acquired loans, realising proceeds at a minimum level of the Fair Purchase Price plus approximately 7% per annum (being the internal rate of return of the bonds).



Notes to the Accounts (continued)

31 December 1998

**10 Amounts Payable On Acquired Loans**

The amounts payable on acquired loans represent consideration for those loans whose acquisition had been completed in 1998 but was paid for after 31 December 1998.

**11 Long-Term Loans**

	<b>Group</b>	<b>Company</b>
	<b>31.12.1998</b>	<b>31.12.1998</b>
	<b>RM'000</b>	<b>RM'000</b>
Total loan redemption amount	423,118	423,118
Less: Unaccrued interest charge	(122,241)	(122,241)
	<b>300,877</b>	<b>300,877</b>
Total interest charge on loan	123,118	123,118
Interest charge recognised during the period	(877)	(877)
Unaccrued interest charge as at 31 December 1998	122,241	122,241

The above relates to the first tranche of a loan from Khazanah Nasional Berhad. This first tranche is repayable on 18 December 2003. The interest on the loan is at a fixed rate of approximately 7% per annum and is calculated on the carrying value of the loan semi-annually on a compounded basis. The total interest charge on the loan is RM 123,118,000. The interest charge is payable on the maturity date of the loan. The details of the loan are summarised below:

	<b>Date of drawdown</b>	<b>Date of maturity</b>	<b>Redemption amount (including interest charge)</b>	<b>Principal upon drawdown</b>
			<b>RM '000</b>	<b>RM '000</b>
First tranche	18 December 1998	18 December 2003	423,118	300,000



Notes to the Accounts (continued)
-----------------------------------

31 December 1998

**12 Other Liabilities**

	<b>Group</b>	<b>Company</b>
	<b>31.12.1998</b>	<b>31.12.1998</b>
	<b>RM'000</b>	<b>RM'000</b>
Accruals and provisions for operational expenses	8,345	8,225
Other liabilities	616	590
	<b>8,961</b>	<b>8,815</b>

**13 Share Capital**

Ordinary shares of RM1 each

Authorised:

As at 31 December 1998	10,000,000,000
------------------------	----------------

Issued and fully paid:

As at date of incorporation	2
-----------------------------	---

Issued during the financial period	249,999,998
------------------------------------	-------------

As at 31 December 1998	250,000,000
------------------------	-------------

**14 Reserves**

Accumulated losses	17,309	17,313
--------------------	--------	--------

**15 Interest Income**

	<b>Group</b>	<b>Company</b>
	<b>Period ended</b>	<b>Period ended</b>
	<b>31.12.1998</b>	<b>31.12.1998</b>
	<b>RM'000</b>	<b>RM'000</b>
Interest income from acquired loans	433	433
Interest income on deposits and placements	5,187	5,183
Interest income on staff loans	19	19
	<b>5,639</b>	<b>5,635</b>



Notes to the Accounts (continued)

31 December 1998

**16 Interest Expense**

	<b>Group</b>	<b>Company</b>
	<b>Period ended</b>	<b>Period ended</b>
	<b>31.12.1998</b>	<b>31.12.1998</b>
	<b>RM'000</b>	<b>RM'000</b>
Long term loan interest expense	877	877
Amortisation of discount on zero-coupon bonds	6,919	6,919
	<b>7,796</b>	<b>7,796</b>

**17 Overhead Expenses**

Personnel costs	2,983	2,983
Establishment costs	524	524
Administration and general expenses	11,645	11,645
	<b>15,152</b>	<b>15,152</b>

The above expenditure includes the following expenses:

Auditors' remuneration		
- Statutory audit	35	25
- Other services	20	20
Directors' remuneration (Note 18)	388	388
Depreciation	390	387
Rental of premises	288	288
Consultancy fees in relation to establishment of company	9,518	9,518
Hire of equipment	104	104

**18 Directors' Remuneration**

Forms of remuneration in aggregate for all Directors charged to the profit and loss account for the period are as follows:

	<b>Group and Company</b>
	<b>Period ended</b>
	<b>31.12.1998</b>
	<b>RM'000</b>
Fees	30
Other remuneration	
- Executive Director	249
- Non-executive Directors	109
	<b>388</b>



31 December 1998

## 19 Significant Events During The Period

### (a) Management of Sime Bank NPLs

Following the agreement between Bank Negara Malaysia, the Company and Danaharta Managers Sdn Bhd (DMSB) on 7 December 1998, the NPLs of Sime Bank Berhad are to be managed by the Company and as such the NPLs were acquired by DMSB, a 100% owned subsidiary of the Company. DMSB assumes a liability for the consideration of the acquisition of which the repayment of that liability is conditional upon the recovery of the acquired NPLs. Under the loan management arrangement, DMSB does not have any risk of losses from the non-recovery of these NPLs and as such, neither the loans nor DMSB's liability to acquire the loans has been reflected in the balance sheet of DMSB or in the consolidated balance sheet of the Group.

### (b) Acquisition of Danaharta Managers (L) Ltd ('DMLL') (formerly known as Sime International Bank (L) Ltd)

Following the agreement between Bank Negara Malaysia, the Company and DMSB on 2 December 1998, the assets of Sime International Bank (L) Ltd are to be managed by the Company and as such, DMSB acquired the entire share capital of Sime International Bank (L) Ltd (which subsequently changed its name to "Danaharta Managers (L) Ltd.") on 18 December 1998 for a nominal value of US\$2 (approx. RM8). Under this arrangement, DMSB assumes the liabilities of DMLL of which the repayment is conditional upon the recovery of NPLs and accumulated losses of DMLL. Under the loan management arrangement, DMSB does not have any risk of direct losses from the non-recovery of NPLs and accumulated losses in DMLL and as such, neither DMLL's NPLs nor DMSB's assumption of DMLL's liabilities is reflected in DMSB's balance sheet or in the consolidated balance sheet of the Group.

The assets under the management of DMSB and DMLL as at 31 December 1998 are RM 7.3 billion and RM 4.3 billion respectively. All of the assets under management in the respective companies pertain to the abovementioned agreements.



31 December 1998

**20 Significant Post-Balance Sheet Events**

**(a) NPLs of Bank Bumiputra (Malaysia) Berhad ('BBMB')**

On 28 January 1999, a new wholly owned subsidiary, Danaharta Urus Sdn Bhd was incorporated to manage the NPLs of BBMB as part of the merger arrangement between BBMB and Bank of Commerce (M) Bhd. The details of the loan management arrangement have not been finalised.

**(b) Increase in issued and paid up share capital**

On 13 January 1999, the Company increased its issued and paid up share capital from 250 million ordinary shares of RM1 each to 500 million ordinary shares of RM1 each. These shares were issued by the Company to the Minister of Finance Incorporated for cash at par value.



Statement by Directors pursuant to Section 169(15) of the Companies Act, 1965

We, Raja Tun Mohar Raja Badiozaman and Mohamed Azman Yahya, being two of the Directors of Pengurusan Danaharta Nasional Berhad state that, in the opinion of the Directors, the accounts set out on pages 52 to 66 are drawn up so as to give a true and fair view of the state of affairs of the Group and the Company as at 31 December 1998 and of the results and cash flows of the Group for the financial period ended on that date in accordance with the applicable approved accounting standards in Malaysia.

On behalf of the Board

**Raja Tun Mohar Raja Badiozaman**  
Chairman

**Mohamed Azman Yahya**  
Managing Director

Kuala Lumpur  
13 April 1999

Declaration Pursuant To Section 169(16) Of The Companies Act, 1965

I, Ee Kok Sin, the officer primarily responsible for the financial management of Pengurusan Danaharta Nasional Berhad, do solemnly and sincerely declare that the accompanying Balance Sheets of the Group and the Company as at 31 December 1998 and the related Profit and Loss accounts of the Group and of the Company and the Cash Flow Statement of the Group for the financial period then ended, together with the notes thereto are, to the best of my knowledge and belief, 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.

**Ee Kok Sin**  
General Manager, Finance And Services

Subscribed and solemnly declared by the above-named Ee Kok Sin at Kuala Lumpur in Wilayah Persekutuan on 13 April 1999

before me:

**Maisharah binti Abu Hasan**  
Commissioner For Oaths  
Kuala Lumpur



## Report of the Auditors to the Members of Pengurusan Danaharta Nasional Berhad

We have audited the accounts set out on pages 52 to 66. These accounts are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these accounts based on our audit.

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

In our opinion:

- (a) the accounts give a true and fair view of the state of affairs of the Group and the Company as at 31 December 1998 and of the results of the Group and the Company and cash flows of the Group for the financial period ended on that date in accordance with the applicable approved accounting standards in Malaysia, and comply with the Companies Act, 1965; and
- (b) the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries have been properly kept in accordance with the provisions of the Act.

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

Our audit reports on the accounts of the subsidiaries were not subject to any qualification and did not include any comment made under subsection (3) of Section 174 of the Act.

**PricewaterhouseCoopers**

(No. AF: 1146)

Public Accountants

**Uthaya Kumar S/O K. Vivekananda**

(No. 1455/6/00 (J))

Partner of the firm

Kuala Lumpur

13 April 1999

