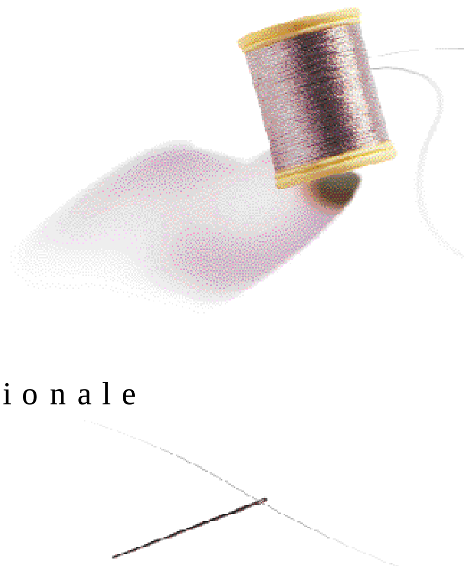
Annual Report 1999

DANAHARTA
Pengurusan Danaharta Nasional Berhad

Cover Rationale



"Astitch in time saves nine."

To achieve the above saying implies that the needle and thread must be applied to maximum effect in the most timely and professional manner.

Danaharta, the Malaysian national asset management company, was a pre-emptive action by the Government to protect the integrity of the banking system and help resolve problems caused by non-performing loans (NPLs). The NPL situation, if it had not been dealt with swiftly, would have placed the Malaysian banking system under tremendous pressure and distracted management of financial institutions from pursuing their all-important function of providing funds to viable enterprises and borrowers to spark off economic recovery.

To do its job properly, Danaharta needed to be focussed, professional, innovative in its approach and quick in its action.

The cover serves as a reminder to these qualities.

DANAHARTA
Pengurusan Danaharta Nasional Berhad 464363W

Contents

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Second 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 1999 including the Directors' Report and the Auditors' Report. **(Resolution 1)**

2. To re-appoint PricewaterhouseCoopers as the Company's auditors and to authorise the directors to fix the auditors' remuneration. **(Resolution 2)**

AS SPECIAL BUSINESS

Ordinary Resolutions

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

3. "That the proposed directors' remuneration of RM267,708 for the financial year ended 31 December 1999 be approved." **(Resolution 3)**

4. "That Y.A.Bhg.M. Raja Tun Mohar bin Raja Badiozaman be re-appointed as 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 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 Company Secretaries

Kuala Lumpur
3 April 2000

Corporate Information

Board of Directors

Y.A.Bhg.M. Raja Tun Mohar Raja Badiozaman (Chairman)
Y.Bhg. Dato’ Mohamed Azman Yahya (Managing Director)
Y.Bhg. Dato’ Dr. Abdul Aziz Mohd Yaacob
Y.Bhg. Dato’ Dr. Zeti Akhtar Aziz
Y.Bhg. Dato’ N. Sadasivan
Y.Bhg. Dato’ Richard Ho Ung Hun
Y.Bhg. Dato’ Mohamed Md Said
Mr. Eoghan M. McMillan
Mr. Alister T. L. Maitland

Executive Committee

Y.A.Bhg.M. Raja Tun Mohar Raja Badiozaman (Chairman)
Y.Bhg. Dato’ Mohamed Azman Yahya
Y.Bhg. Dato’ Dr. Abdul Aziz Mohd Yaacob
Y.Bhg. Dato’ N. Sadasivan

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. Dato’ N. Sadasivan
Y.Bhg. Dato’ Mohamed Md Said
Mr. Eoghan M. McMillan

Oversight Committee

Y.Bhg. Dato’ Mohamed Adnan Ali
Encik Ali Tan Sri Abdul Kadir
Y.Bhg. Datuk Dr. Awang Adek Hussin

Tender Board

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

Joint Company Secretaries

Mr. Andrew Phang Tuck Keong
Encik Kamarulzaman Mohd Ariff

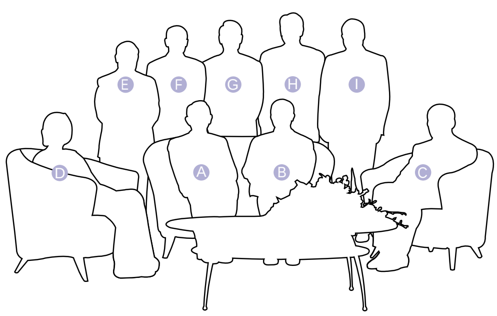
Registered Office

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.

Board of Directors



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

B Y.Bhg. Dato' Mohamed Azman Yahya

C Y.Bhg. Dato' Dr. Abdul Aziz Mohd Yaacob

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

E Y.Bhg. Dato' N. Sadasivan

F Y.Bhg. Dato' Mohamed Md Said

G Y.Bhg. Dato' Richard Ho Ung Hun

H Mr. Eoghan M. McMillan

I Mr. Alister T. L. Maitland

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 three Malaysian Prime Ministers: the late Tun Abdul Razak (1972 - 1975); the late Tun Hussein Onn (1975 - 1981); and Dato' Seri Dr. Mahathir Mohamad (1981 - 1988). Other Government positions held by Raja Tun Mohar include Secretary-General to Treasury, Ministry of Finance (1971); Secretary-General (1960 - 1970) and Controller (1957 - 1960), Trade Division 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 was Chairman of Petronas, the national oil corporation (1984-1988), Malaysian Airline System, the national carrier (1973-1991) and Islamic Bank Malaysia (1983-1992). Raja Tun Mohar is currently Chairman of Socfin Company Berhad, Ancom Berhad and Perusahaan Otomobil Kedua Berhad (PERODUA). He is also a Director of Johan Holdings Berhad and YTL Power International Berhad, and an adviser to YTL Corporation Berhad.

Y.Bhg. Dato' Mohamed Azman Yahya

Dato' Azman, a chartered accountant, started his career with KPMG Peat Marwick in London in 1985. He subsequently joined Island & Peninsular Berhad, a large listed property and plantations group, heading the Finance Department in 1989; Bumiputra Merchant Bankers Berhad heading the Corporate Finance Department in 1990; and Amanah Merchant Bank Berhad 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. Dato' Azman was named the Managing Director of Danaharta on 21 May 1998. He is also a Director of Sime Darby Berhad.

Y.Bhg. Dato' Dr. Abdul Aziz Mohd Yaacob

Dato' Dr. Abdul Aziz is the Deputy Secretary-General (Policy) at the Ministry of Finance. He was appointed to the Board in July 1999, replacing Tan Sri Datuk Dr. Aris Othman, former Secretary-General of Treasury at the Ministry of Finance.

Joining the Ministry of Finance as an Assistant Secretary in 1970, Dato' Dr. Abdul Aziz has since served in various capacities in the Public Services Department, Economic Planning Unit and Federal Agricultural Marketing Authority (FAMA). Prior to his current appointment as Deputy Secretary-General (Policy) at the Ministry of Finance in 1998, he was the Deputy Secretary-General (Trade) at the Ministry of International Trade and Industry.

Apart from Danaharta, Dato' Dr. Abdul Aziz sits on the boards of the Employees Provident Fund, Inland Revenue Board, Tenaga Nasional Berhad, National Trust Fund and Danamodal Nasional Berhad.

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 responsible for economics, reserve management, foreign and money market operations and exchange control, a position she had 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 the Bank's Chief Economist and Head of the Economics Department.

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).

Dato' Sadasivan also sits on the boards of Chemical Company of Malaysia Berhad, Leader Universal Holdings Berhad, Petronas Gas Berhad, Amanah Capital Partners Berhad and Amanah Merchant Bank Berhad.

Y.Bhg. Dato' Mohamed Md Said

Dato' Mohamed was appointed to the Board in November 1999, replacing Datuk Megat Zaharuddin Megat Mohd Nor. Dato' Mohamed has been the Managing Director of Sime UEP Properties Berhad since July 1990. He joined Sime Darby Berhad in 1981 as Group Legal Adviser and later served as Group Secretary of the company. Prior to this, Dato' Mohamed served as Group Manager, Corporate Affairs at Kumpulan Fima Berhad (1979 - 1981); Senior Legal Adviser at Petronas (1975 - 1979); and Deputy Public Prosecutor/Federal Council at the Attorney General's Chambers (1970 - 1974).

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. Dato' Richard Ho also sits on the boards of Aseambankers Malaysia Berhad, Mayban Finance Berhad and DMIB Berhad.

Mr. Eoghan M. McMillan

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

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

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

Mr. McMillan is a Director on appointment by the Hong Kong Government of Land Development Corporation and Hong Kong Securities Clearing Company Limited. He is also an adviser to the International Business Leaders' Advisory Council to the Mayor of Shanghai. In 1997, he was made an Honorary Citizen of Shanghai by the Shanghai Municipal Government.

Mr. Alister T. L. 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 and Trade Policy Advisory Council. He is Chairman of Folkestone Limited, Mawson Capital Pte Ltd, Bevington Consulting Ltd, Australia-India Business Council, Centre for Practice of International Trade, Melbourne Business School and Australian Centre for International Business, University of Melbourne.

Executive Committee

Membership

- Y.A.Bhg.M. Raja Tun Mohar Raja Badiozaman (Chairman)
- Y.Bhg. Dato' Mohamed Azman Yahya
- Y.Bhg. Dato' Dr. Abdul Aziz Mohd Yaacob
- Y.Bhg. Dato' N. Sadasivan

Functions

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

- Formulate the Danaharta Group's general policies and strategies which set out the direction of the Group for the short, medium and long term.

- Appoint the Danaharta Group's key management team which will translate the Board's general policies and strategies into detailed business plans.

- Review and assess the Danaharta Group's financial and operational performances through periodic feedback and reports from the Audit Committee and the management team.

- Review and assess the Danaharta Group's loan and asset portfolio management and ensure its consistency with the Danaharta Group's business policies and strategies.

- Approve major acquisitions and disposals within authority limits as set out in the Authority Manual.

- 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 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 practice.

The EXCO met 10 times in the year ended 31 December 1999.

Audit Committee

Membership

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

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

Functions

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

- Review the external auditors' work plan to satisfy itself that the audit will meet the needs of Danaharta's Board of Directors and stakeholders.

- Review the external auditors' report and the annual financial statements.

- Review the external auditors' evaluation of the internal control systems and subsequently the implementation of the agreed improvements or rectification of the weaknesses highlighted.

- Consider the nomination of external auditors and their remuneration.

- Review Danaharta's internal audit plans.

- Review the audit reports and internal audit work through the quarterly performance reporting by IAC on the implementation and execution of the approved internal audit plans, follow-up of the agreed actions and the performance of IAC.

- Review the compliance report in areas relating to the monitoring and review of control procedures.

- Review, assess and recommend the remuneration of the General Manager of IAC.

The Audit Committee met four times in the year ended 31 December 1999. During the year, the Audit Committee also established "Danaharta's Standards of Business Conduct" and the "Guidelines on Handling of Breaches of Standards of Business Conduct, Frauds, Defalcations and other Major Misdemeanours".

Remuneration Committee

Membership

- Y.A.Bhg.M. Raja Tun Mohar Raja Badiozaman (Chairman)
- Y.Bhg. Dato' N. Sadasivan
- Y.Bhg. Dato' Mohamed Md Said
- 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 staff.

- Evaluate the Danaharta Group's annual remuneration revision and bonus.

- Review the Scheme of Service of the Danaharta Group as and when required and approve revisions to the Scheme, where necessary.

- Recommend fees and / or allowances for the non-executive members of the Board of Directors with appropriate consultation with any independent advisers (if required) and to be approved by the 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.

The Remuneration Committee met three times in the year ended 31 December 1999.

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

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

Y.Bhg. 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

Encik Ali is presently Chairman of the Securities Commission ("SC"), a post he assumed on 1 March 1999. As SC Chairman, he has been appointed to be a member of the Foreign Investment Committee and Danaharta's Oversight Committee. He also sits on the Board of Financial Reporting Foundation. Encik Ali was appointed as a member of the Second National Economic Consultative Council (*Majlis Perundingan Ekonomi Negara Kedua, MAPEN II*) Working Groups on Islamic Banking & Financial System, and Economics and Competitiveness. The latest appointment he received is Chairman of Capital Market Strategic Committee.

Encik Ali was the President of the Malaysian Association of Certified Public Accountants ("MACPA") and Chairman of the Executive Committee and the Insolvency Practices Committee.

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

Y.Bhg. Datuk Dr. Awang Adek Hussin

Datuk Dr. Awang has been an Assistant Governor at Bank Negara Malaysia, the Central Bank since 1996. He is currently in charge of Regulation, covering Bank Regulation, Insurance Regulation and Exchange Control. Datuk Dr. Awang has held various positions in the Central Bank 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. Datuk Dr. Awang obtained his Ph.D. degree in economics from the University of Pennsylvania, Philadelphia, U.S.A. in 1984.

Datuk Dr. Awang is 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.

Tender Board

Danaharta has identified three modes of disposing property assets: sale by open tender; sale by private negotiation; and sale by auction. Under the open tender mode of disposition, the Tender Board will assess and evaluate the recommendations of the Tender Committee for the purpose of confirming the successful tenderer(s). The establishment of the Tender Board provides transparency and credibility to the open tender process. In addition, time and commitment from the Tender Board members also contributes to Danaharta's efforts in maximising recovery value of the assets.

Composition

The Tender Board, being the approving authority within Danaharta with respect to the sale of property assets, consists of two internal and three external members.

- Y.Bhg. Dato' Mohamed Azman Yahya - Managing Director, Danaharta
- Mr. Ee Kok Sin - General Manager, Finance and Services, Danaharta
- Encik Ahmad Zaini Muhamad - Director, Foreign Investment Committee
- Encik Abdul Jabbar Majid - Managing Partner, KPMG
- Encik Abdul Halim Othman - Deputy Managing Director, CH William, Talhar & Wong

Group Structure

Danaharta Group of Companies as at 31 December 1999

- **Pengurusan Danaharta Nasional Berhad**
  - **Loan Management Subsidiaries**
    - **100%** Danaharta Managers Sdn Bhd
      - **100%** Danaharta Managers (L) Ltd
    - **100%** Danaharta Urus Sdn Bhd
  - **Asset Management Subsidiaries**
    - **100%** Danaharta Hartanah Sdn Bhd
    - **100%** Danaharta Kredit Sdn Bhd*
    - **100%** Danaharta Ekuiti Sdn Bhd*
    - **100%** Danaharta Prasarana Sdn Bhd*
    - **100%** Danaharta Industri Sdn Bhd*
    - **100%** Danaharta Bina Sdn Bhd*
    - **100%** Danaharta Perhotelan Sdn Bhd*

**Dormant as at 31 December 1999*

Key Management Personnel

PENGURUSAN DANAHARTA NASIONAL BERHAD

Y.Bhg. Dato' Mohamed Azman Yahya
Managing Director

Encik Mohd Bakke Salleh
Director, Property

Encik Johan Ariffin
General Manager, Property

Mr Ramesh Pillai
General Manager, Risk Management

Mr Ee Kok Sin
General Manager, Finance and Services

Puan Fatimah Abu Bakar
General Manager, Internal Audit and Compliance

Encik Abdul Hamidy Hafiz
Director, Operations

Encik Zukri Samat
General Manager, Operations

Mr Ravindran Navaratnam
General Manager, Corporate Services

Mr Andrew Phang Tuck Keong
General Manager, Legal Affairs

Encik Shariffuddin Khalid
General Manager,
Communications and Human Resource

DANAHARTA MANAGERS SDN BHD

Mr Derrick Fernandez
General Manager

DANAHARTA URUS SDN BHD

Encik Fazlur Rahman Ebrahim
General Manager

"Danaharta has always been committed to achieving transparency in its operations because we believe it would contribute towards enhancing recovery values."

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

I am pleased to present on behalf of the Board of Directors the annual accounts and report for Pengurusan Danaharta Nasional Berhad for the financial year ended 31 December 1999.

Acquisitions

Danaharta has always been conscious of the fact that speed is of the essence in achieving its objectives. During the year, Danaharta completed the primary carve-out of non-performing loans (NPLs) from the financial institutions on 30 June 1999, achieving its objective six months ahead of schedule.

It is important to appreciate that Danaharta conducted a system-wide carve-out of NPLs, buying from any financial institution within the Malaysian banking system (including foreign-owned institutions). This differed from some other NPL resolution agencies in the region.

Completing the primary carve-out meant that the banking system could start to perform its function once again, namely lending to viable businesses and borrowers thereby supporting the economic recovery. At the same time this meant that Danaharta could embark on its management and asset disposal phases.

Danaharta has embarked on and plans to complete a secondary carve-out exercise for NPLs by 31 March 2000. The criteria used in determining NPLs to be included in the secondary carve-out are as follows:

- Common accounts - other NPLs relating to borrowers that are already in Danaharta's portfolio;
- Loans of borrowers with a total gross value of RM50 million and above;
- Unsecured loans to public listed companies; or
- Loans from financial institutions with net NPL ratio greater than 10%.

For NPLs purchased at fair value prices, Danaharta makes an upfront payment based on the value of the collateral in respect of secured NPLs whilst the upfront payment for unsecured NPLs was standardised at 10% of the loan amount outstanding. This resulted in an overall weighted average discount on gross value of NPLs acquired of 56%. Any surpluses realised from recoveries and disposals would be shared with selling financial institutions on an 80:20 basis in favour of the financial institution. As at 31 December 1999, the total NPL portfolio of Danaharta (arising from the primary and secondary carve-out exercises) was RM45.521billion from 68 institutions.

Management and Disposal of the NPLs

Management of the NPLs is expected to take up most of Danaharta's projected lifespan of five to seven years. Danaharta's disposal process runs concurrently with the management of NPLs. In the main, there are two approaches towards managing the NPLs - loan restructuring and asset restructuring (application of which is determined by the viability of the NPL).

Restructuring

Borrowers with viable NPLs are given an opportunity to restructure their loans to achieve performing status subject to compliance with Danaharta's loan restructuring guidelines. Other borrowers are subject to the asset restructuring approach.

Danaharta's asset restructuring approach means either taking control of the borrower to restructure the business or foreclosing on the collateral. We have repeatedly reiterated that we do not seek to conduct 'fire sales' of assets or warehouse them indefinitely. Foreclosed collateral are offered first to the market with any unsold properties being managed by Danaharta's asset subsidiaries with a view to enhancing values before disposing at the best possible price.

The above process also means that Danaharta avoids to the extent possible the need to undertake significant property development work on its own. Close examination of the process will reveal three 'sieves' which act to reduce the amount of property collateral to be owned and managed by Danaharta. The first 'sieve' is that viable NPLs are restructured thereby ownership of the collateral remains with the borrower. The second 'sieve' is that foreclosed collateral is offered to the market, through tenders, with Danaharta absorbing the property if there are no bids or bids are lower than the minimum price. The third 'sieve' is that property collateral absorbed by Danaharta's asset subsidiaries is offered to the market again after value enhancement strategies are implemented or the properties have been jointly developed with joint-venture partners.

In November 1999, barely five months after completing the carve-out, Danaharta foreclosed on 44 properties and launched its first foreclosed property sale. Response was good with 183 tender packages sold and 105 bids received. Despite offering the properties on an 'as is where is' basis, we managed to sell 24 out of the 44 properties at prices above or close to their latest valuation. Of the remaining 20 properties, three were sold within a month after the close of the tender, while 17 properties are being transferred to Danaharta, thus enabling value enhancement strategies or repackaging to be undertaken before being offered for sale again. Danaharta undertakes foreclosed property sales once every quarter.

Foreign loan assets

It is worth noting that there would be no point in offering domestic NPLs for sale in their loan form. Due to Danaharta's special statutory powers, Danaharta is in a better position than any other possible buyer to extract maximum recovery value from such loans. However, this may not be the case for foreign loan assets as Danaharta's powers cannot apply outside Malaysian jurisdiction.

In July 1999, Danaharta successfully conducted a restricted tender exercise for approximately USD142 million in principal value of foreign loan assets that had formed part of Sime International Bank (L) Ltd's portfolio. Fourteen bidders took part with success going to Dresdner Kleinwort Benson, JP Morgan, Credit Suisse First Boston, Goldman Sachs and Salomon Smith Barney. The total consideration received was USD52.5 million for foreign loan assets with a principal value of USD94.95 million resulting in an encouraging average recovery rate of 55%.

The remaining foreign loan assets with a principal value of USD47.5 million were retained by Danaharta as bids received were below Danaharta's estimated fair values.

In December 1999, a second tranche of foreign loan assets with a principal value of USD251.8 million were offered to 16 bidders. We achieved an even better average recovery rate of 71% on 25 out of the 28 accounts offered. The 25 accounts have a combined principal value of USD244.8 million which represents 97.2% of the total offered for tender.

An innovative feature of the restricted tender exercise is that Danaharta allowed bidders to offer Malaysian non-performing loan assets as consideration (as a swap). This underlines our belief that our powers would enable us to extract value from such NPLs.

Transparency

Danaharta has always been committed to achieving transparency in its operations because we believe it would contribute towards enhancing recovery values. With this in mind, Danaharta strives to disclose accurate information in a timely and accessible manner via a variety of channels, for example:

- Operations report (containing key statistics - released on a half-yearly basis)
- Regular media and analyst briefings
- Published guidelines (on various aspects of its operations like loan restructuring)
- Parliamentary replies
- Active web-site (www.danaharta.com.my)

This has generated positive comments about Danaharta's conduct and efforts as different audiences from the World Bank and International Monetary Fund to senior Wall Street analysts to industry observers and participants understand and appreciate what is being done.

Dispelling misconceived perceptions

It has been observed that if people do not understand something, they usually assume the worst. Danaharta is no exception. Since establishment we have endeavoured to dispel as many misconceived perceptions about Danaharta as we can. The more common ones were:

- *Danaharta would be a bailout agency for selected banks and borrowers*. This is not the case. Banks are not selected as we purchase from all who wish to sell. Typically, banks suffer losses when selling to Danaharta. Borrowers who wish to restructure have to comply with strict guidelines. The alternative is foreclosure or the sale of a restructured business.
- *There would be no transparency in Danaharta's operations*. The disclosure efforts explained earlier refute this perception.
- *Danaharta would treat borrowers unfairly*. Our loan restructuring guidelines are based on international best practice and require borrowers to take responsibility for their situation. Borrowers who wish to restructure are given an opportunity to do so provided they comply with the above-mentioned guidelines.
- *Danaharta would sell assets only to selected groups*. Danaharta's disposals thus far have taken place in a transparent and professional manner. We seek to maximise recovery value. With this in mind, we transact with anybody who gives us the best value.
- *Danaharta will become the country's biggest developer*. Once properly understood, the 'three-sieve' effect explained earlier effectively indicates that, at best, Danaharta will be a reluctant developer.

Danaharta as a reference case

I am indeed happy to note that Danaharta, established in June 1998, and its modus operandi have been considered worthy of study by economic planners and NPL resolution agencies in other countries. As an example, during the year, Danaharta hosted study / working visits by senior officials from Vietnam, Zimbabwe and China. Many aspects of the approach and solutions devised by Danaharta were considered useful by them.

Financial Results

For the period ended 31 December 1999, the company made a loss of RM294.3 million. This is common for NPL resolution agencies and is mainly attributable to interest costs. No dividends were declared.

Organisation

During the year, Danaharta continued recruiting, in particular for its Operations Division and Property Division (established in July 1999). As a guiding rule Danaharta employs only experienced professionals. Danaharta's tight deadlines meant there was very little time to train staff and most would undertake live assignments almost from the day they joined.

From the start and given its finite lifespan, it was planned that Danaharta would be a relatively small project type organisation and flat in structure. However, Danaharta staff would have to be prepared to meet the challenges. To give some idea of the situation, as at 31 December 1999, Danaharta had 237 employees to deal with a loan portfolio (mostly non-performing) roughly two-thirds the size of Maybank's - Malaysia's largest bank. In fact, in terms of staff numbers, Danaharta is the smallest amongst the NPL resolution agencies in the region despite the fact that some of the other agencies are market clearing agencies that sell NPLs rather than asset management companies that actually manage recovery efforts. This necessitated an outsourcing philosophy where Danaharta would utilise the professional community to provide services and capabilities as needed.

To attract and retain private sector professionals, Danaharta adopted a private sector based scheme of service similar to that of local financial institutions.

Corporate developments

The sole shareholder of Danaharta, Minister of Finance Incorporated, increased the equity capital of the company by injecting RM250 million on 13 January 1999 and a further RM1 billion on 24 May 1999. The resultant paid-up capital of Danaharta as at 31 December 1999 stood at RM1.5 billion.

Two wholly-owned subsidiaries, currently dormant, were incorporated during the year to facilitate future asset management activities. Danaharta Perhotelan Sdn Bhd was incorporated on 24 June 1999 while Danaharta Kredit Sdn Bhd was incorporated on 5 August 1999.

On 3 March 1999, Danaharta appointed Malayan Banking Berhad as its agent bank for Danaharta and its loan management subsidiaries to provide operative facilities for specified banking services including overdrafts and trade facilities to Danaharta approved borrowers. Danaharta will assume the credit risk of approved borrowers. This agency arrangement enables Danaharta to leverage off Maybank's nation-wide network and infrastructure.

Acknowledgements

The Board recognises the dedicated hard work and effort put in by the management and staff who have persevered under very trying circumstances. They have had to cater for many different situations and aspirations under the tightest of deadlines. Above all, they have managed to uphold an image of a professional and capable organisation committed and focussed on achieving its objectives.

The Board places on record its appreciation for the guidance and co-operation of the National Economic Action Council, Ministry of Finance, Ministry of Land and Co-operative Development, Bank Negara Malaysia, Attorney-General's Chambers, Securities Commission, Registrar of Companies, Land Registries and Offices, Foreign Investment Committee, Kuala Lumpur Stock Exchange, government departments (both at federal and state levels) and other regulatory bodies.

The Board notes the excellent and constructive working relationship with Danamodal Nasional Berhad and the Corporate Debt Restructuring Committee in addressing the many issues of common interest. Together, these institutions have gone a long way in initiating and implementing reforms within the banking sector.

The Board acknowledges the co-operation extended by financial institutions in dealing with Danaharta. The Board would also wish to thank our consultants, advisers and business associates for the support and services provided to Danaharta.

During the year, a five-man Tender Board was constituted for the purpose of administrating the property tenders arising from the foreclosure of property collateral. The Board thanks the members of the Tender Board for the service they rendered.

The Board acknowledges and expresses its appreciation for the work of the Oversight Committee. During the year, there were two changes in the membership of the three-man committee. In April 1999, Datuk Dr. Awang Adek Hussin took over from Dato' Abdul Murad Khalid representing Bank Negara Malaysia whilst the Securities Commission representative Dato' Dr. Mohd Munir Abdul Majid was succeeded by Encik Ali Tan Sri Abdul Kadir.

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

- Tan Sri Datuk Dr. Aris Othman, former Secretary-General of the Ministry of Finance was replaced by Dato' Dr. Abdul Aziz Yaacob, Deputy Secretary-General (Policy) of the Ministry upon the former's retirement from Government service in July 1999; and

- Datuk Megat Zaharuddin Megat Mohd Nor of Shell (who left the Board in September 1999 due to an overseas transfer) was replaced by Dato' Mohamed Md Said who has had many years of corporate experience in the Sime Darby Group.

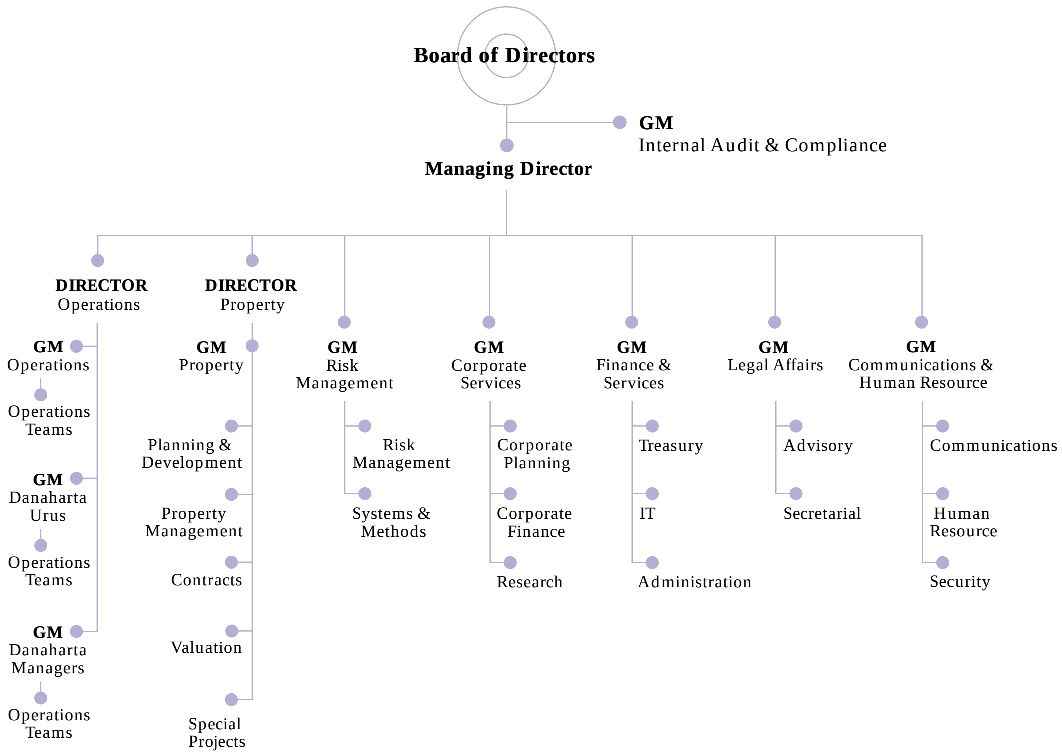
To both, I accord my sincere thanks for their contribution during their tenure of duty. At the same time, I extend a warm welcome to their replacements on the Board.

Finally, I am grateful to all the Board members for their efforts and active participation during Board meetings and the various Board committees mandated by Danaharta's corporate governance policies.

I end by expressing our hopes for a continued economic recovery for our country and better prospects for all in the new millennium.

Raja Tun Mohar Raja Badiozaman
Chairman

Danaharta Organisation Structure as at 31 December 1999



Operations Division

This Division is responsible for loan acquisition and loan restructuring.

Since the beginning of the acquisition stage, a total of RM54.605 billion in gross value of NPLs has been evaluated by the Division as well as the two loan management subsidiaries, Danaharta Managers Sdn Bhd and Danaharta Urus Sdn Bhd.

From this amount, a total of RM45.521 billion of NPLs had been acquired or were under management as at 31 December 1999, relating to 2,666 accounts (or 2,345 borrowers). At the year-end, the Division had initiated recovery measures with 88% of the borrowers in terms of value.

The Division is currently focussed on addressing the NPLs of the largest 20% of borrowers which represent around 85% in value of the total NPLs within Danaharta's portfolio as at 30 June 1999 i.e., the primary carve-out. For these borrowers, Danaharta aims to either agree on workout proposals with them or transfer them to asset restructuring (i.e. sale of business or collateral) by 30 June 2000.

With respect to the two loan restructuring subsidiaries, Danaharta Managers Sdn Bhd manages the NPLs of the former Sime Bank Group on behalf of Bank Negara Malaysia while Danaharta Urus Sdn Bhd manages that of the former BBMB Group on behalf of the Government of Malaysia.

In both cases, Danaharta receives fees as follows:

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

The Operations Division also houses a Credit Administration Unit to handle the administrative aspects of loan management.

Property Division

The Property Division was established in July 1999, in conjunction with Danaharta's progress into the asset management phase in the second half of the year.

Since properties constitute 42% of the collateral to NPLs within Danaharta's portfolio as at 31 December 1999, it was important to have a team with the requisite expertise to implement strategies relating to the management and disposition of those properties.

The Division has been entrusted with the following principal tasks:

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

In November 1999, the Division managed the first sale of foreclosed properties by way of open tender, involving 44 properties with a total indicative value of RM122.6 million. Danaharta received successful bids for 24 out of the 44 tendered properties. Of the 20 properties not sold in the tender, three properties with a combined indicative value of RM5.62 million were sold soon after the tender. Danaharta received a total consideration of RM4.60m for these three properties, giving Danaharta an average recovery rate of 82%.

The remaining 17 properties are being transferred to Danaharta's property subsidiary, which would allow Danaharta the opportunity to enhance the value of these properties for future disposal in the market.

Danaharta's second property sale opened on 29 March 2000 for a period of four weeks (until 28 April 2000) involving 123 properties with a total indicative value of RM276.4 million. Three weeks prior to the opening of the property sale, 124 real estate agents were involved in promoting the properties in a pre-marketing exercise.

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 disposition.

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 and restructuring, asset management and disposition, including that of foreign loan assets. The Unit liaises with external advisers and consultants who assist them in their work.

Research Unit

This Unit is responsible for producing economic research and data at both the macro and micro levels, including, on a periodic basis, special in-house reports on the various economic sub-sectors of interest to Danaharta.

Risk Management Division

The Risk Management Division comprises two units, namely the Risk Management Unit and the Systems & Methods Unit. The team has successfully undertaken numerous tasks since it was set up, some of which have already been completed and implemented into Danaharta's running of business.

Risk Management Unit

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

One of the main functions of this Unit lies in its independent review of loan management and other project papers to ensure not only conformity and consistency in the application of Danaharta's policies and procedures throughout the company and its subsidiaries, but also in ensuring that pertinent risk issues are properly highlighted and mitigated.

Systems & Methods Unit

This Unit is responsible for the formulation of effective and efficient procedures within Danaharta. In drafting such procedures, particular care is taken to ensure that management control is not compromised and business is conducted in line with the company's objectives and best practice. In order to achieve its objectives, the Unit has to undertake a certain amount of research on what constitutes best practice as well as the compilation of relevant statistics to support its formulation process.

Another important function of this Unit is in the rationalisation of existing procedures to ensure that Danaharta's operating procedures remain current, efficient and applicable throughout the life of Danaharta.

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 active management of acquired NPLs may include the continuation of operative facilities to borrowers. For legal and practical reasons, Danaharta itself cannot offer such operative facilities. For this reason, Malayan Banking Berhad was appointed the agent bank for Danaharta as well as its subsidiary companies in March 1999. As an agent bank, Maybank provides operative facilities for all banking services including overdrafts, bank acceptances and letters of credit to Danaharta-approved borrowers.

The Unit was also responsible for Danaharta's issue of RM10.812 billion in face value (with present value of RM7.960 billion) of Government guaranteed bonds to selling financial institutions for acquisitions of NPLs since the beginning of Danaharta's life.

Information Technology Unit

The IT Unit is responsible for all IT systems development, maintenance and operations and had ensured the Y2K readiness of Danaharta's IT systems.

Administration Unit

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

Legal Affairs Division

The Legal Affairs Division comprises 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 disposition of assets, including foreclosures.

The Unit organised a seminar on Danaharta's special legislative powers in April 1999. At the seminar, participants from financial, manufacturing and property associations as well as the capital markets were briefed on the Pengurusan Danaharta Nasional Berhad Act 1998. The seminar, which is part of Danaharta's efforts to educate interested parties on Danaharta's modus operandi and legal framework, also covered case studies and talks on administrations in Malaysia and Australia, given by partners from local and foreign legal firms as well as accounting firms.

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 the following Units:

Communications Unit

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 continued with its efforts to keep Danaharta's audiences updated on its progress in a timely manner. In the course of the year, it had conducted numerous briefing sessions and conferences with professional and industry associations, trade commissions, local and foreign financial institutions, analysts, fund managers, supra-national organisations such as the World Bank and International Monetary Fund and academic institutions, among others.

Danaharta posts all its publicly released information, including annual reports and half-yearly operations reports, on its website at www.danaharta.com.my. Interested parties have found the website to be a useful tool in keeping up-to-date with Danaharta's operations as evidenced by the number of visits to the site 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.

Danaharta continues to feature 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. Nonetheless, in line with its operations, Danaharta's total employee strength had grown from 107 in December 1998 to 237 by the end of 1999.

Security Unit

The Security Unit was set up during the year to oversee the security of Danaharta's premises.

Internal Audit and Compliance Division

The Internal Audit & Compliance (IAC) Division is an essential component of Danaharta's corporate governance structure. Its primary role is to assist Danaharta's Board of Directors (BOD), Audit Committee (AC) and management in ensuring that there is sound, effective and efficient managerial review and control over all of Danaharta's activities.

In accordance with the approved internal audit plans for 1999, IAC conducted audits / reviews of Danaharta's key business operations and support activities. Through these audits / reviews and reporting of the findings, IAC provided reasonable assurance on the fit for purpose of Danaharta's business controls. A total of 17 audit reports were completed in 1999 covering areas such as loan acquisition, loan management, credit administration, corporate services, legal services and financial accounting.

As part of Danaharta's continuing effort to enhance corporate governance, Danaharta commenced implementation of Control Self Assessment (CSA) in October 1999 for two selected business processes - loan management process (for Danaharta Urus Sdn Bhd) and the Restricted Tender Exercise for foreign loans and marketable securities (for Danaharta Managers Sdn Bhd). Thereafter, Danaharta will adopt CSA progressively throughout the organisation by end December 2000. CSA is a means by which Management monitors the fitness for purpose of the internal control systems through self-assessments and makes appropriate representations to the BOD.

Employees are required to observe and maintain a high standard of business conduct (based on international best practice) in performing their day-to-day activities. IAC assists Management and the BOD in enforcing Danaharta's general business principles that govern Danaharta's activities and also the code of conduct for its directors and employees. This is done through conducting staff briefings on the "Standards of Business Conduct" and administering the annual declaration of independence & financial disclosures and the pre-clearance for buying & selling of stocks / shares.

Statistics

Acquisition

NPLs in Danaharta's portfolio as at 31 December 1999

	RM billion	No. of accounts
Acquired	19.127	770
Under management	26.394	1,896
	45.521	2,666
Rejected by FIs	7.290	274
Evaluated but pending completion	1.794	111
Total evaluated by Danaharta	**54.605**	**3,051**

Average discount on gross value of acquired NPLs to date - 56%

Management

Gross value of loans and assets restructured or disposed as at 31 December 1999 - RM17.607bn
Recovery rate on restructured loans (excluding those under 'SA - pending approval') - 80.2%

Method	Loan Outstanding RM billion	Loan Recovery RM billion	Loan Recovery %
Performing loans	3.137	3.137	100%
Plain loan restructuring	4.384	3.879	88.5%
Foreclosure	1.853	0.885	47.8%
Scheme of arrangement	1.730	1.407	81.3%
*SA - scheme approved	0.369	0.187	50.7%
Pending full settlement	1.831	1.057	57.7%
Fully settled	1.742	1.512	86.8%
	15.046	**12.064**	**80.2%**
SA - pending approval	2.561	n/a	n/a
	17.607		

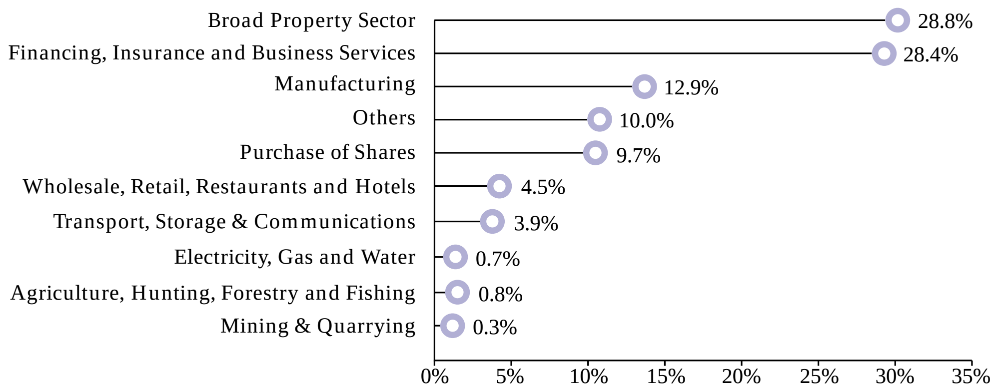
**SA - Special Administrators*

Further statistics on Danaharta's NPL portfolio as at 31 December 1999

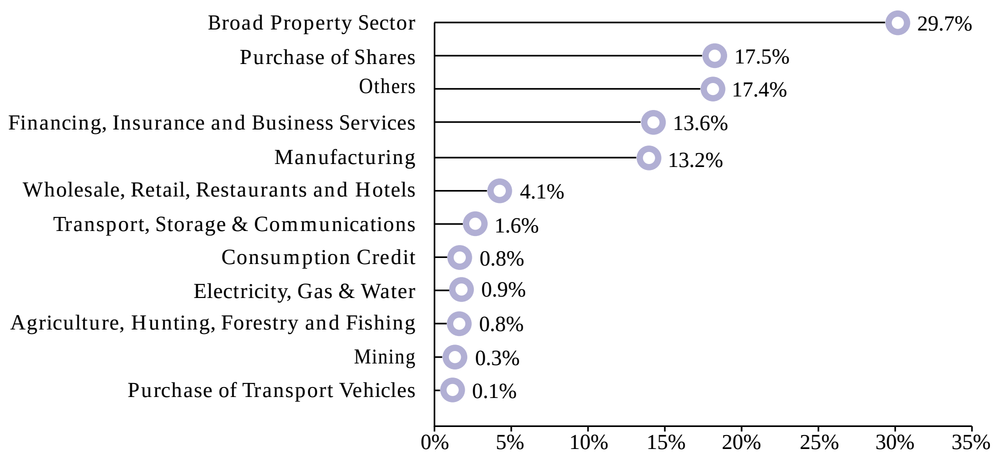
By type of financial institution

Type	RM Billion
Commercial Banks	11.062
Finance Companies	3.939
Merchant Banks	3.024
Development Finance Institutions	0.936
Offshore Banks	0.123
Others	0.043
Sime Bank Group	15.265
BBMB Group	11.129
TOTAL	**45.521**

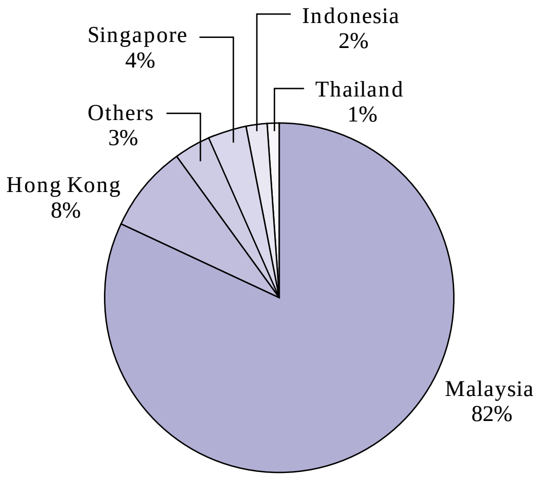
By business activity



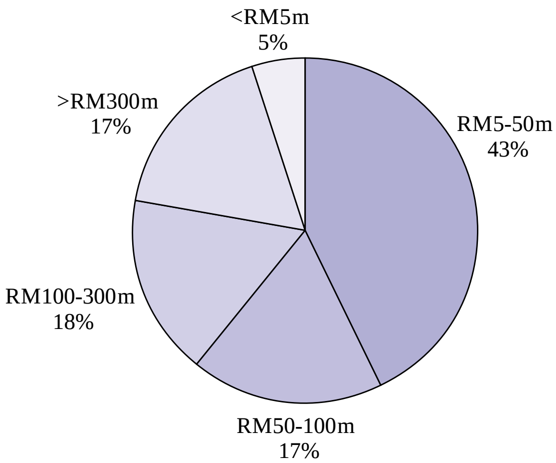
By purpose of loan



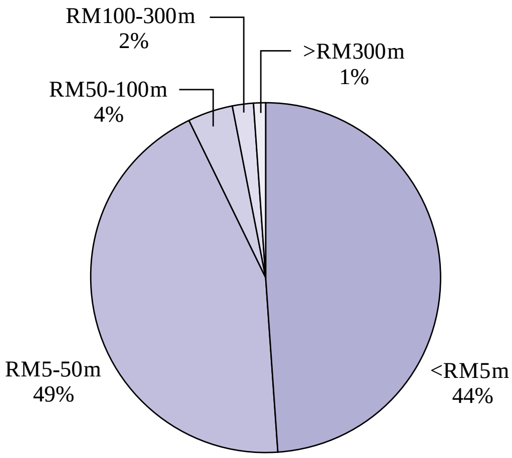
By Country



By value bracket



By value



By number of accounts

Other statistics

Bond issues up to 29 February 2000

Date of issue	Face Value RM billion	Price	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	1.105	71.301	6.654%	0.788	31 March 2004
26 February 1999	1.242	72.296	6.475%	0.898	31 March 2004
26 March 1999	1.393	72.758	6.445%	1.013	31 March 2004
29 April 1999	1.050	75.584	5.487%	0.793	30 June 2004
27 May 1999	0.511	76.229	5.400%	0.389	30 June 2004
29 June 1999	0.744	76.862	5.330%	0.572	30 June 2004
29 July 1999	0.527	76.223	5.319%	0.402	30 September 2004
26 August 1999	0.204	73.585	6.111%	0.150	30 September 2004
29 October 1999	0.575	76.365	5.283%	0.439	31 December 2004
29 December 1999	0.392	77.363	5.194%	0.303	31 December 2004
31 January 2000	0.162	77.244	5.063%	0.125	31 March 2005
29 February 2000	0.305	77.697	5.025%	0.237	31 March 2005
Total	**10.812**			**7.960**	

Note: There were no bond issues in September 1999 and November 1999.

Professional Staff Statistics (as at 31 December 1999)

	Percentage
Qualification	
Master's Degree / Professional Qualification	40
Bachelor's Degree / Diploma	57
Others	3
Career Background	
Local banks	53
Foreign banks	10
Multinationals / International firms	15
Local firms	15
Others	7
Working Experience	
More than 3 years	100
More than 5 years	79
More than 10 years	44
More than 15 years	22
Gender	
Male	65
Female	35
Age	
More than 25 years	100
More than 30 years	67
More than 35 years	39
More than 40 years	21

Post-Balance Sheet Review

Second restricted tender of foreign loan assets

The second restricted tender of foreign loan assets involved 28 accounts - nine loan accounts and 19 marketable securities - with a total principal value of USD251.84 million (RM957 million). Danaharta achieved an average recovery rate of 71% on 25 of the 28 accounts offered. The 25 accounts have a combined principal value of USD244.8 million which represents 97.2% of the total principal value.

The results are as follows:

	Number of Accounts	Principal Value USD million	Consideration Received USD million	Recovery Rate
Accounts sold to bidders				
• Principal Bidders	22	189.80		
• Marketable Account Bidders	3	55.00		
	25	244.80	173.23	70.8%
Accounts retained by Danaharta since offers received were lower than Danaharta's estimated fair values	3	7.04	n/a	n/a
Total	**28**	**251.84**		

The total consideration received of USD173.23 million consisted of USD169.27 million in cash and USD3.96 million in Malaysian loan assets.

Five principal bidders and 11 marketable account bidders participated in the restricted tender which opened on 17 January 2000 and closed on 22 February 2000. The successful bidders were the principal bidders namely, Credit Suisse First Boston, Dresdner Kleinwort Benson, J.P. Morgan, Lehman Brothers and Salomon Smith Barney, and two marketable account bidders which are Deutsche Bank and Goldman Sachs.

Danaharta's approach in management and disposition of assets is summarised in *Diagram 1*.

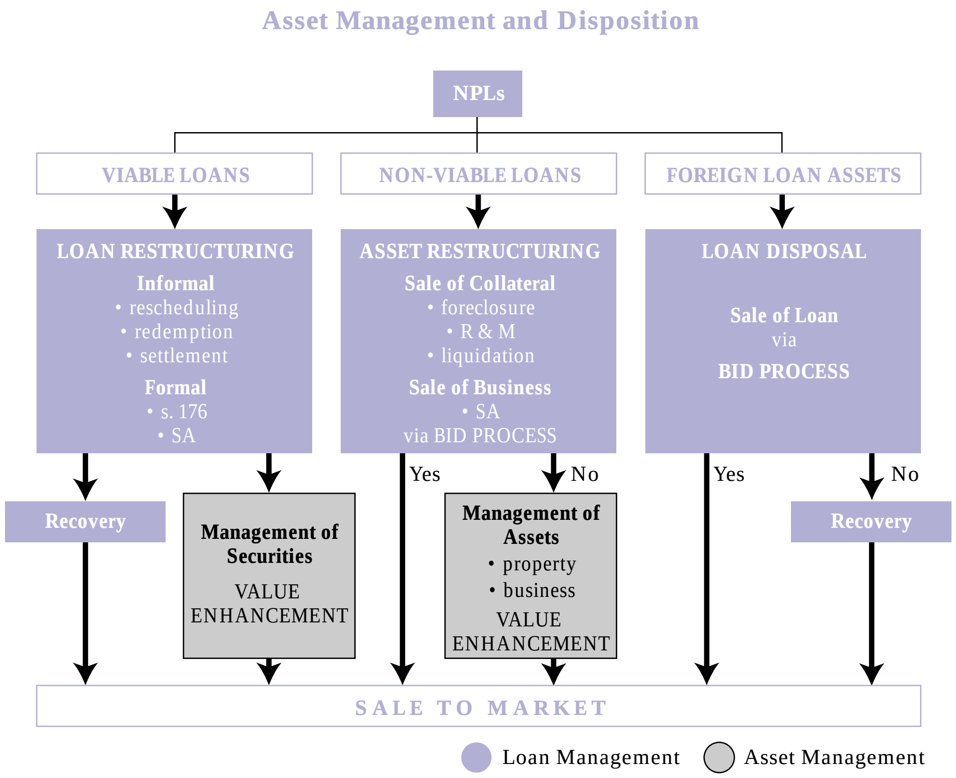


Diagram 1

Loan Management

A. Loan Restructuring

Danaharta's approach to managing its NPLs is to apply either loan restructuring or asset restructuring strategies. For loans that it finds viable after careful evaluation, Danaharta will apply loan restructuring strategies such as the rescheduling of loans and debt-equity conversions. In view of this, Danaharta has formulated a set of guidelines to assist it in the restructuring of viable loans.

In formulating the guidelines, the following objectives were taken into consideration:

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

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

The guidelines are divided into four segments, namely:

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

A1. LOAN RESTRUCTURING PRINCIPLES

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

1.1 Haircut to the shareholders of the borrower

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

1.2 Fair treatment to secured and unsecured creditors

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

1.3 No dilution of inadequate security

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

1.4 Only one opportunity given

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

1.5 Make borrowers work for lenders

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

A2. GUIDELINES FOR CORPORATE BORROWERS

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

2.1 Terms of settlement offered

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

2.2 Clarity of usage of funds

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

2.3 Equity-kicker elements

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

2.4 Repayment period

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

2.5 Benefits of written down assets

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

2.6 Anti-dilution clause

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

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

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

A3. GUIDELINES FOR INDIVIDUAL BORROWERS

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

3.1 Statutory declaration

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

3.2 Legal proceedings in the event the scheme fails

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

3.3 Annual review of performance

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

3.4 Moratorium on the disposal of personal assets

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

3.5 Consent Judgement

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

3.6 Equity-kicker

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

3.7 Repayment period

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

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

- A monitoring mechanism
- Future borrowings

A4. GUIDELINES FOR GUARANTORS

The guidelines apply to guarantors and should be adhered to:

4.1 Substantial and critical guarantors

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

4.2 Other guarantors

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

B. *Asset Restructuring*

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

B1. Sale of foreclosed properties

The foreclosure process usually starts with the issue of a notice to the borrower asking the borrower to repay the loan in accordance with the loan agreement. If the borrower fails to do so, Danaharta will issue a notice requiring the borrower to repay the loan within one month. The notice will also warn the borrower that Danaharta will proceed to sell the secured property by private treaty if the borrower fails to repay the loan. The sale by Danaharta can be done through various methods including tender, auction or private contract.

...it is important to note that the indicative value is not the reserve price...

If a property has not undergone a recent valuation, Danaharta will commission a fresh valuation by an independent professional valuer. The valuation gives an indication of the market value of the property, and serves as the basis of the 'indicative value'. It is important to note that the indicative value is not the reserve price that Danaharta sets nor does it reflect the gross value of a particular NPL under Danaharta's portfolio.

Tender exercises are proposed to be held every quarter and have two objectives:
- To reduce the number of properties that will actually be managed by Danaharta.
- To establish a clear and transparent process to foreclose assets at acceptable market-based prices.

Having finalised the properties to be offered in a tender exercise, Danaharta then publishes a brochure for each property. Each brochure states the indicative value of the property, as well as other salient information extracted from the valuation report, such as a description of the property and its surrounding neighbourhood, types of services and utilities available, particulars of title, photograph of the property, location and site maps, and where required, floor plans of the property. Prospective buyers may collect the brochures from Danaharta from the date the tender opens. The brochures are also posted on the Danaharta website (www.danaharta.com.my).

Prior to the launching of a tender, Danaharta engages the services of a panel of real estate agents (REAs) to conduct a pre-marketing exercise. Equipped with the property brochures, the REAs seek potential buyers for the properties on offer. Being foreclosed properties, they are offered on an “as is, where is” basis. There are marketing constraints where Danaharta is unable to accommodate certain requests by prospective buyers, for example, to inspect the interior of the properties (since the original owner may still be in possession of the property). Danaharta is also unable to improve the condition of the properties at that stage. It should be noted that these constraints are removed if Danaharta were to take ownership of the property following the foreclosure sale.

...tender process is guided by internal procedures and guidelines, and monitored by internal and external auditors...

Prospective buyers have to purchase tender packages (one for each property) for properties they are interested in. All bids submitted by the closing date of the tender are collated by a Tender Committee. The results are then tabled, with recommendations, to the Tender Board for its confirmation and approval. The whole tender process is guided by internal procedures and guidelines, and monitored by internal and external auditors.

For every tender exercise, Danaharta aims to notify successful bidders and receive from them confirmation of purchase of the property not later than 30 days after the tender closes. Following this, Danaharta and each successful bidder will execute a sale & purchase agreement to mark the completion of the transaction. If the title document for the property has been issued, Danaharta will issue a transfer form called Form 1(B)B (Fifteenth Schedule, National Land Code) to the buyer, which describes the property being transferred to the buyer. In cases where the title document has not been issued, both parties will execute a deed of assignment together with the sale & purchase agreement.

...in the case of large properties, an open tender may not be the most appropriate or effective method to secure a sale...

Properties not sold via the tender process are transferred to Danaharta's property subsidiary (as the buyer) using the same process. The transfer does not mean that Danaharta will 'warehouse' the properties indefinitely. Secondary sale efforts will begin as soon as possible. If the unsold property requires little or no improvement or value enhancement, it is marketed almost immediately. For example, one of the unsold properties in the first tender exercise, a double-storey semi-detached house in Pulau Pinang, was successfully sold within 10 days after the announcement of the tender results. Otherwise Danaharta strives to enhance value, such as by obtaining vacant possession of the property, carrying out minor improvements or removing encumbrances to ownership.

Once the properties are under its management, Danaharta increases its efforts to ensure success in the secondary sale. These include assigning up to three REAs to actively market a property, following up with prospective buyers who have registered their interest with Danaharta or actively seeking potential property investors. In some instances, especially in the case of large properties, an open tender may not be the most appropriate or effective method to secure a sale. The secondary sale allows prospective buyers to have a closer look at the property. However, Danaharta will not adopt a 'fire sale' approach in disposals. Each sale will be guided by the indicative value of the property.

Progress to date

True to its schedule and promise, Danaharta launched its first sale of foreclosed property assets, organised and managed by its Property Division, by the end of 1999.

The first tender opened on 19 November 1999 and closed on 9 December 1999, involving 44 properties with a total indicative value of RM122.6 million. Successful bids were received for 24 out of the 44 properties tenders, details of which are tabulated below:

Type	Properties sold	Properties to be transferred to Danaharta's property subsidiary	Indicative value* (IV) of properties sold RM million	Consideration to be received (CR) for properties sold RM million	CR/IV (%)
Residential	8	3	2.70	2.90	107%
Commercial	4	1	3.36	3.26	97%
Industrial	7	9	6.40	7.12	111%
Development/ agricultural land	5	4	4.03	4.47	111%
Office	–	1	n/a	n/a	n/a
Retail	–	2	n/a	n/a	n/a
TOTAL	**24**	**20****	**16.49**	**17.75**	**108%**

* Indicative value is based on independent professional valuation of each property conducted prior to the tender.

** Three properties with a combined indicative value of RM5.62 million were sold within a month after the close of the tender on 9 December 1999.

...upon appointment, the Special Administrators assume control of the assets and affairs of the company...

B2. Sale of business via Special Administrators

The Pengurusan Danaharta Nasional Berhad Act 1998 confers on Danaharta the ability to manage corporate borrowers via the appointment of Special Administrators. Upon appointment, the Special Administrators assume control of the assets and affairs of the company. The powers of the management and the Board of the company are effectively suspended and only the Special Administrators can deal with the assets of the company.

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

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

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

As at 25 February 2000, Danaharta had appointed Special Administrators ("SAs") over 53 companies, 11 of which are listed on the Kuala Lumpur Stock Exchange. The list of companies under Special Administration and a brief update on each company are given in pages 63 - 67. The services of the SAs for Fima Securities Sdn Bhd (formerly known as Capitalcorp Securities Sdn Bhd) and Teramaju Sdn Bhd were terminated upon the successful completion of the restructuring of these two companies.

C. Foreign loan assets

...PBs can bid for both loan accounts and marketable securities while MABs can bid for only marketable securities...

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

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

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

To date, Danaharta has conducted two restricted tenders to dispose foreign loan assets within its portfolio. Principal bidders ("PBs") and marketable account bidders ("MABs") have participated in these tenders. PBs can bid for both loan accounts and marketable securities while MABs can bid for only marketable securities.

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

The results of the two restricted tenders held to date are shown in the tables below.

First restricted tender (5 July 1999 - 9 August 1999)

	No. of accounts	Principal value USD million	Consideration received USD million	Recovery rate
Accounts sold to bidders				
• Principal Bidders	8	55.15		
• Marketable Account Bidders	3	30.00		
	11	85.15	42.69	50.1%
Accounts repaid in full by borrowers	2	9.80	9.80	100%
Subtotal	**13**	**94.95**	**52.49**	**55.3%**
Accounts retained by Danaharta since offers received were lower than Danaharta's estimated fair values	2	47.50	n/a	n/a
Total	**15**	**142.45**		

Second restricted tender (17 January 2000 - 22 February 2000)

	No. of accounts	Principal value USD million	Consideration received USD million	Recovery rate
Accounts sold to bidders				
• Principal Bidders	22	189.80		
• Marketable Account Bidders	3	55.00		
	25	244.80	173.23	70.8%
Accounts retained by Danaharta since offers received were lower than Danaharta's estimated fair values	3	7.04	n/a	n/a
Total	**28**	**251.84**		

Case Studies

Case Study 1 - Project Revival

Tiara Etika Development Sdn Bhd ("Tiara Etika") is a property development company that was developing an industrial park ("Project") in Selangor. When the recession began in 1997 and continued into 1998, Tiara Etika experienced increasing cash flow problems and defaulted on its loan repayments. This led to the appointment of a Receiver & Manager ("R&M") over the company in the second half of 1998.

Meanwhile, construction on the Project had come to a halt. The R&M's efforts to sell the individual units and vacant land met with poor response as potential purchasers were concerned that the Project had stalled. In addition, there were no individual titles to the properties as the Land Office could not effect the division of titles since Tiara Etika had not paid quit rent for the land.

...that two phases out of the six-phase development be completed as a means of enhancing Danaharta's security value...

Danaharta then acquired the related loan, based on unsold lots only i.e., sold units and progressive billings received were not taken into account. Instead of abandoning the Project, it was proposed that two phases out of the six-phase development be completed as a means of enhancing Danaharta's security value. It is important to note that these two phases were already 70%-90% completed and around 60% of the units in these two phases had purchasers with end-financing lines.

The completion of these two phases, the infrastructure and availability of sub-divided titles would greatly increase the attractiveness and saleability of the unsold lots and vacant land. This would constitute the first step towards revitalising the area. As purchasers take possession of the factories, the area would be re-populated and other potential developers/contractors could be encouraged to bid for the unsold partly constructed industrial lots and vacant lands.

A turn-key contractor has been appointed to complete the two phases. The R&M, re-appointed by Danaharta, also has access to a credit line to expedite the construction and smooth completion of the two phases including infrastructure works. The workout plan of Tiara Etika allows for amounts due to Danaharta to be paid from the disposal of unsold properties, including fully built factories.

Case Study 2 - Resolution of stockbroking companies

In 1998, a Task Force comprising the Securities Commission, Kuala Lumpur Stock Exchange and Danaharta was formed with the objective of resolving distressed Malaysian stockbroking companies (SBCs). Since the formation of the Task Force, Danaharta has appointed Special Administrators (SAs) for 11 distressed SBCs and has been involved in the resolution of all 11 SBCs.

Of the 11 SBCs, one, Fima Securities Sdn Bhd (formerly known as Capitalcorp Securities Sdn Bhd), has been resolved, with the appointments of the SAs terminated. The resolution of the remaining 10 SBCs is well underway. Workout schemes for two SBCs, Labuan Securities Sdn Bhd and Alor Setar Securities Sdn Bhd, have received the approval of both creditors and regulators, with termination of the appointments of the SAs pending. Of the remaining eight SBCs, the workout schemes for seven of them have been approved by the creditors, with regulatory approvals pending. The remaining SBC, Halim Securities Sdn Bhd, was recently placed on sale and acquisition proposals received are currently being evaluated.

In general, the resolution of the distressed SBCs took one of the following forms:

...Danaharta has appointed Special Administrators (SAs) for 11 distressed SBCs...

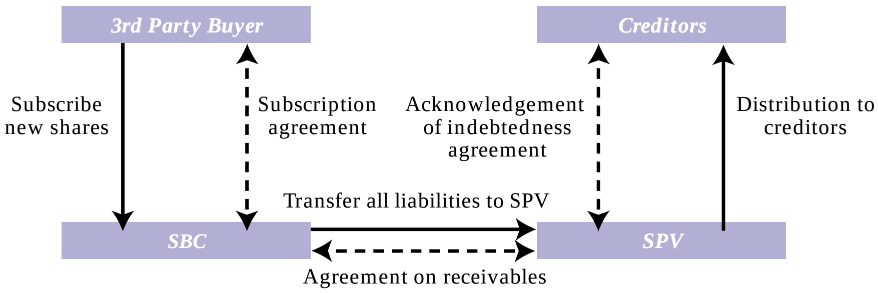
- **Resolution by the borrowers.** In this instance, the borrowers had been able to come up with workout schemes acceptable to their creditors. These schemes involved a restructuring of the loans, and also the introduction of certain covenants and operational and management restructuring to ensure that the stockbroking business will continue as a viable entity. SBCs that have or are being resolved using this method are Fima Securities Sdn Bhd, Jupiter Securities Sdn Bhd and Innosabah Securities Sdn Bhd.
- **Third party resolution.** Under this category, third party buyers participated in acquiring the business of the distressed SBC. SBCs that are being sold to third party buyers are WK Securities Sdn Bhd, Halim Securities Sdn Bhd, Alor Setar Securities Sdn Bhd, MGI Securities Sdn Bhd, Premier Capital Securities Sdn Bhd and Labuan Securities Sdn Bhd.
- **Acquisition by Danaharta.** In this case, since the borrower could not come up with a resolution and a suitable third party buyer was unavailable, Danaharta acquired the SBC with the objective of maximising the recovery value. The two SBCs acquired by Danaharta are MBf Northern Securities Sdn Bhd and Taiping Securities Sdn Bhd. Danaharta's intention is to strengthen and enhance the potential of the acquired SBCs and sell them as soon as possible.

In the resolution of the SBCs, several important points should be highlighted. These are:

- **Value preservation and maximisation.** One of the key objectives when the SBCs are placed under Special Administration is to preserve the value of the stockbroking business, with a view to maximising their recovery value. With the exception of Halim Securities Sdn Bhd and Labuan Securities Sdn Bhd, which are completely suspended from trading, the SAs have attempted to preserve and even enhance the value of the business of the remaining nine SBCs through the following measures:

- Maintaining and servicing the customer base and remisiers of the SBCs;
- Resolving the Y2K issue;
- Maintaining cash flow of the business;
- Streamlining debt recovery actions; and
- Strengthening operational controls.

In developing the workout schemes for SBCs to be acquired by third party buyers, the underlying objective is to maximise the recovery value of the stockbroking business. Hence, the SAs have instituted certain measures to raise the attractiveness of the distressed SBCs to third party buyers. These measures include restructuring that allows the utilisation of tax losses, which a profitable buyer can benefit from, the transfer of existing liabilities to a separate Special Purpose Vehicle (SPV), a capital reduction exercise, and the subsequent injection of new capital by the third party buyer.



...the underlying objective is to maximise the recovery value of the stockbroking business...

- **Strong private sector initiative and involvement in the resolution of the distressed SBCs.** With the exception of MBf Northern Securities Sdn Bhd and Taiping Securities Sdn Bhd, the remaining nine SBCs are being resolved without the use of public funds, but involve a market-based resolution that reflects the private sector's interest and confidence in the stockbroking business. In the case of MBf Northern Securities Sdn Bhd and Taiping Securities Sdn Bhd, Danaharta's involvement would not be a long-term one, as the key objective is to dispose these SBCs as soon as possible.

- **Consolidation of the stockbroking industry**. In resolving the distressed SBCs, Danaharta has played a role in encouraging the consolidation of the industry. This is particularly evident in cases where the distressed SBC is acquired by another existing SBC. Under this instance, the distressed SBC will operate as a branch of the acquirer SBC. This would reduce the number of stockbroking companies in the market, and provide an opportunity for stronger SBCs to expand their business by acquiring branches.

- **Leverage effect of Danaharta's power.** It is worth noting that, of the remaining 10 SBCs that are awaiting complete resolution, Danaharta's exposure in terms of NPLs relating to these SBCs amounted to only RM274 million. However, these 10 SBCs still owe the banking system a total of RM1.8 billion (excluding Danaharta's portion). Therefore, with only about 13% of the total outstanding NPLs of these SBCs, Danaharta has been able to resolve a much wider stockbroking industry NPL problem amounting to more than RM2.0 billion.

Asset Management

'Three-sieve' effect

Danaharta's approach to managing its NPL portfolio contains three sieves which act to reduce the eventual amount of property collateral it needs to own and manage.

Sieve 1: With regard to loans including those secured by property, Danaharta first evaluates the viability of loan restructuring in accordance with Danaharta's published loan restructuring principles and guidelines. If viable, the loan will go through loan restructuring and foreclosure will therefore not be necessary.

Sieve 2: Where foreclosure is necessary, the foreclosed assets are first offered to the market. To the extent that the assets are acquired by third parties, Danaharta wil not need to transfer the assets to its property subsidiary.

Sieve 3: This takes place after the asset has been transferred to Danaharta's property subsidiary. It is at this point that Danaharta actually takes over the ownership of the assets. Prior to this, Danaharta was only a chargee. Where Danaharta considers the asset as having potential, Danaharta can either attempt another outright sale or, where it involves partially completed properties or development land, enter into a joint-venture agreement with a third party for the latter to develop the property. Therefore, the number of properties to be eventually managed by Danaharta is expected to be minimal and incidental to Danaharta's objective of maximising the value of acquired loan assets.

Foreclosed properties

The 17 properties that were not sold in the first tender of foreclosed properties Danaharta in November 1999 and subsequently, are being transferred to Danaharta's property subsidiary. This would allow Danaharta the opportunity to enhance the properties to attract potential buyers e.g., securing higher tenancy, making improvements to the building and granting access for inspection.

Stockbroking companies ("SBCs")

Danaharta had appointed Special Administrators over 11 SBCs, an overview of which is given in a case study on pages 45 and 46. The businesses of two SBCs, MBf Northern Securities Sdn Bhd and Taiping Securities Sdn Bhd, were transferred into Danaharta's asset management division. Danaharta is in the process of getting the operations of these two SBCs in order with a view to consolidation before a re-offer to the market is made.

Article 1 - Corporate Restructuring : Malaysia's Approach and Lessons Learnt

What is corporate restructuring?

Corporate restructuring can be broadly divided into:

- Financial restructuring - Many companies in Asia, including Malaysia, utilise sub-optimal financing structures e.g., mismatching of short-term borrowings to fund long-term projects. Management and shareholders must also appreciate both the costs of debt and equity of doing business, not cost of debt alone. Financial restructuring methods typically include debt-equity conversion, debt rescheduling, debt forgiveness and foreclosure.

- Operational restructuring - While financial restructuring is already a feature in the resolution of distressed companies, less evident is operational restructuring such as a change in management, consolidation and rationalisation of assets and business, a re-focussing on core business activities and an improvement in productivity.

Why the need to restructure?

Essentially, companies must restructure to ensure their own survival and sustainable growth. Companies with improved balance sheets and operational structure will ensure not only their viability and survival, but also the ability to invest for future growth, creating multiplier benefits to the economy.

- Increasing competition - The advent of globalisation, and the attendant liberalisation of markets, means that only the fittest will survive. Asian companies must shape up to face foreign competitors.

- In the case of Malaysia, much of our growth in the past had been fuelled by an influx of capital. This capital must be worked effectively and efficiently, that is, productivity must be enhanced and costs managed.

- Significant excess capacity - Throughout Asia, there is excess capacity in the property market and in many manufacturing sectors. Resources were often misallocated to inferior businesses that failed to generate returns that commensurate with the cost of capital. Businesses must learn to identify their own strengths and weaknesses, and develop niches and competitive edges that are not only applicable in their domestic market, but also on a global basis.

It is crucial that corporate restructuring should encompass both financial restructuring and operational restructuring. Many proposals by the corporate sector restructure only the debt element without any reference to a change in the stewardship, assets, business focus and management of the company. There is a clear need to ensure that the corporate debtor is not just buying time under the guise of corporate restructuring.

Key issues confronting corporate restructuring

Restructuring efforts are, however, not without problems. Some of the common problems confronting corporate restructuring, and Malaysia's approach to overcome them, include:

- **Creditors' unwillingness or inability to recognise losses arising from corporate restructuring due to their weak position.**

  This is especially pertinent for weak creditor banks that are not well-capitalised as haircuts will erode capital. Malaysia's approach is to facilitate early recognition of losses arising from NPLs through the operations of Danaharta. An early recognition of losses also provides a platform for financial restructuring.

- **Debtors' unwillingness to restructure due to the potential dilution in ownership and loss of management control which may arise from a restructuring scheme.**

  Malaysia's approach is to provide strong powers to Danaharta to force restructuring issues. Malaysia has existing bankruptcy and foreclosure procedures that are well-established. Notwithstanding this, Danaharta is given special powers under the Pengurusan Danaharta Nasional Berhad Act 1998 (Danaharta Act), such as the ability to assume management and control of the borrower, as well as a quicker 30-day foreclosure process. These provide added teeth to Danaharta and a threat to debtors, and enable efficient and effective financial restructuring.

- **Lack of clear guidelines for restructuring which are acceptable to creditors.**

  It is this reason that a number of proposals from the corporate sector, which were painstakingly devised by the borrowers, are rejected by the creditors without much guidance given. Malaysia's approach out of this confusion is through the formulation and publication by Danaharta of a set of loan restructuring principles and guidelines (see pages 35 - 37) to promote transparency and provide a basis for borrowers and their advisers to arrive at workout proposals.

- **Time taken to complete a restructuring.**

  Speed is essential in the formulation and implementation of a workable scheme. Malaysia's approach is that Danaharta's Special Administrators, whose key task is to devise workout proposals, are able to undertake this task within a period of six to twelve months upon their appointment.

- **Lack of a clear leader.**

  There are many instances where the creditors comprise a number of banks and there is no clear leader to spearhead the creditors' action. This is where the Corporate Debt Restructuring Committee plays its role of facilitating the debt restructuring process. In the case of Danaharta, this leadership role is successfully played via the Special Administrators.

Lessons to be learnt

Although it is important to recognise the social implications and costs to the economy, especially if restructuring involves retrenchment or strategic industries, such considerations must not undermine the efficient economic reallocation of resources, so crucial in ensuring the long-term survival of businesses. This is so that future generations can benefit from and build upon a legacy of economic wealth and efficiency.

The important lessons to learn would include the following:

- Corporate restructuring is an important feature of any structural adjustment undertaken by any country in the world. Management must be proactive enough to review their own performance, appreciate the changing environment and embrace painful adjustments to ensure survival. Management must also formulate performance targets and be held responsible for achieving them.

- Companies need to be focussed and not stray to areas where the management has little requisite expertise. A re-focussing on core competencies would include the disposal of non-core assets, rationalisation / consolidation of activities and reduction in excess capacity.

- There is a need to be firm, but fair, reduce red tape and processing time, and ensure transparency in the process. Speed is of the essence. Here, the Government must play a key role in facilitating the process.

- Financial sector restructuring vehicles such as asset management companies can and must be effectively used as a tool for corporate restructuring, since they would likely become a major creditor for many corporations, and have considerable power, such as the threat of foreclosure.

Article 2 - Hotel Sector NPLs : Lessons To Be Learnt

Overview

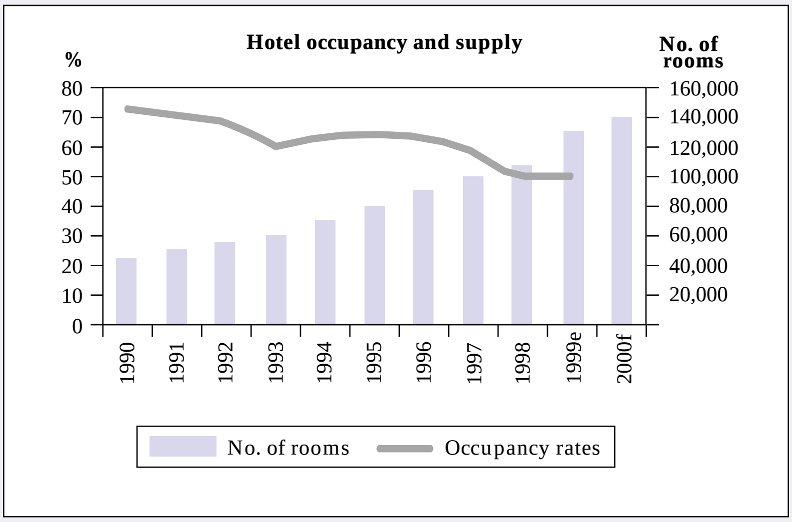
The Malaysian hotel industry is among the hardest hit within the property sector, badly affected by a combination of the recent economic slowdown, an oversupply of rooms, and a sharp drop in tourist arrivals which inevitably led to intense competition resulting in even lower room rates. Many hotels are recording lower profits or even operational losses. Some of the less-established hotels are facing sub-50% occupancy rates, with the average occupancy rate for Malaysian hotels declining significantly to its lowest level of 49.9% in 1998, an 8.1 percentage point decline from the 58% registered in 1997. There has also been a significant drop in the food and beverage (F&B) business, as corporate clients reduce their entertaining expenses due to the economic contraction.

Not surprisingly, the incidence of NPLs related to the hotel sector is significant, and many hotels, particularly in the Klang Valley, have been put up for sale by their cash-strapped owners as the economic crisis severely dented their ability to service debt. As at end-1999, Danaharta has under its management hotel sector NPLs amounting to RM1.5bn, whose collateral comprise 27 operating hotels, six uncompleted hotels, four non-operating hotels, four golf resorts and two serviced apartments.

Macro Causes of Hotel Sector NPLs

Oversupply...

The main problem facing the hotel industry is that there is an acute oversupply of hotel rooms in the country. The growth in supply of hotel rooms has far exceeded the growth in demand for hotel rooms, and the decline during the recession years of 1997-99 of tourist arrivals and commercial demand has further exacerbated the difficult operating environment of the hotel sector. The government had initially planned to have 84,000 rooms by the year 2000, but this target was already exceeded in 1996. Room supply grew by an average annual rate of 16.3% during the period 1995-98.



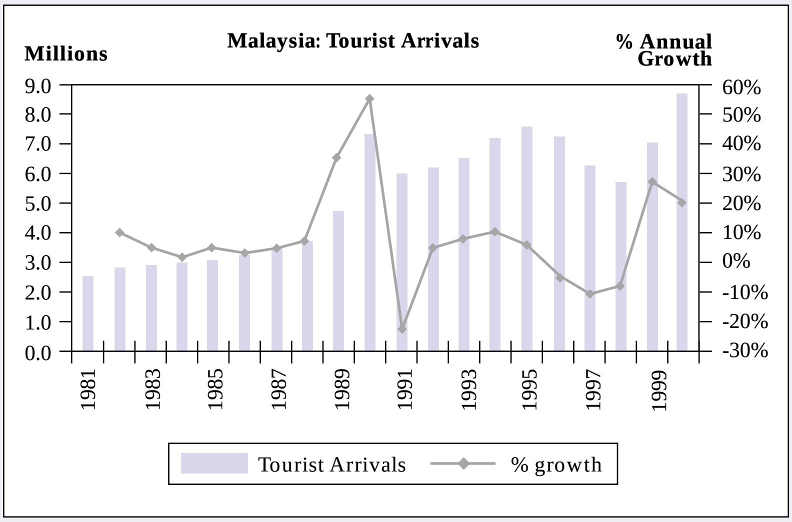
Sources: Malaysia Tourism Promotion Board; Malaysian Association of Hotel Owners

... exacerbated by poor demand

Besides an oversupply of hotel rooms, the other major reason for depressed occupancy rates is poor demand. There are several reasons for this:

- The regional economic downturn badly affected business travel as well as corporate entertainment. This is especially true for Klang Valley hotels which cater primarily to business travelers rather than tourists.

- Tourist arrivals fell sharply by 13% in 1997 and a further 10.6% in 1998 to 5.5 million, a far cry from its peak of 7.5 million in 1995. This was attributable to a combination of a drop in tourists from around the region as Asia was hit by the financial crisis (Asian visitors typically make up more than 80% of tourist arrivals in Malaysia), bad overseas publicity arising from the haze problem in 1997, a perception of political uncertainty, and ineffective marketing of Malaysia as a top tourist destination.



Sources: Malaysia Tourism Promotion Board; Malaysian Association of Hotel Owners

... leading to price cuts

As supply has been growing faster than demand, any economic downturn would impact the hotel industry significantly. The oversupply of hotel rooms and depressed demand led to intense competition among the hotels. There is an ongoing price war among the hotels, which has led to very low room rates, adversely affecting their bottom-line. The strategy for most hotels has been to fill up the rooms at whatever cost to improve occupancy rates. Room rates have fallen by between 20 and 50% depending on the hotel rating.

Micro Causes of Hotel NPLs

Unrealistic expectations

Developers were buoyed by the prospects arising from events such as the Commonwealth Games, and the anticipated transformation of Kuala Lumpur into a regional hub following the completion of Kuala Lumpur International Airport. At one point in time, tourist arrivals were projected to reach 12.5 million in the year 2000, due to the overwhelming success of the Visit Malaysia Year campaigns of 1990 and 1994. These expectations were further buoyed by incentives provided by the Government amidst continued strong economic growth during 1990-96. The easy availability of credit during the boom years and the ambitious plans of property developers to diversify their property portfolio fueled the development of numerous owner-operated hotels. Lending for hotel projects were based on somewhat aggressive assumptions of achievable occupancy rates and room rates.

Poor conceptualisation

The economic boom years of the early 1990s saw a flurry of new entrants into the hotel business. Many developers rushed into building hotels without proper feasibility studies of the market and without prior consultation with the Ministry of Culture, Arts and Tourism. This led to hotels with poor location, mismatch between type of hotel and market catchment, and overbuilding in certain saturated markets.

Over-development

Over-development not only refers to overbuilding in saturated locations, but also where a particular hotel project is oversized in terms of rooms, or the project itself has too many components which are not economically-viable or synergistic with the hotel itself, thus adding to the cost of the project.

Funding-investment mismatch

Hotels should not be viewed as a piece of property, but as an income-generating business concern. A hotel may take a longer time to generate sufficient income to offset the capital invested by its owners (at least seven years for 5-star hotels) due to its capital-intensive nature. The average tenure of term loans for hotel projects is much too short, thereby severely restricting the debt servicing capability of the hotel's cash flows.

Gearing

Due to the capital-intensive nature of a hotel investment and its slow payback period, hotel owners would have to shoulder much of the cost using other sources of capital. Bank lending would need to be kept at a minimum to allow cash flows from the hotel operations to service debt. Unfortunately, there have been cases where gearing was above 70%.

Development cost over-runs

Although it may not be possible to meet the general rule of thumb of keeping a hotel's development cost at 1,000 times the achieved average daily room rate, the boom years have seen some hotels built with extravagant costs. Malaysian hotels have limited pricing power, especially more so with the current price war; hence the performance of some of these hotels have failed to justify their development costs. This is the main reason that recent hotel transactions have been below replacement costs, as hotel investors, especially the foreign ones, are valuing hotels using income-based valuation methods.

Lessons to be Learnt

Market studies

As with other sectors in the property sector, market studies are of paramount importance in order to avoid overbuilding in saturated markets, poorly-conceptualised products, mismatch between type of product and the available market, and developments of too large a scale. Proper feasibility studies which include realistic projections of future performance, not only of the hotel itself, but also of its competitors in the same market, would ensure that the development is well thought-out and makes economic sense.

Longer loan amortisation period needed

Due to the long-term nature of the hotel business and its long payback period, banks may wish to explore longer loan amortisation periods for loans to the hotel industry. Gearing should also be kept to a minimum to ensure that hotel projects are financially viable.

Hotel as a business

Hotels should be viewed as businesses, not as properties such as office buildings or retail shoplots, due to its service-oriented nature. As such, hotels should be valued as a business concern and their real values would need to be based on the income they are likely to generate instead of their development or replacement costs. Any lending by banks should therefore be based on the income method of valuation of the hotel asset collateral, and not their development or replacement costs.

Outlook for the Hotel Sector

The hotel industry is likely to remain weak over the next two years, and would be the last sector of the property market to recover, as prices and room rates are fairly inflexible upwards. There are positive signs to support a recovery by the year 2002, especially as the regional economies shake off the effects of the recent financial crisis. The current freeze on the approvals by the Government to build new 4-5 star hotels will limit new entrants into the hotel sector and allow demand growth to catch up with the current supply.

A recovery in tourist arrivals is widely anticipated with arrivals for 1999 estimated by the Ministry of Culture, Arts and Tourism to be 7 million, while for 2000, a target of 8.7 million foreign tourists has been set with a projected revenue of RM14.7bn. With the current regional economic recovery, corporate travel is likely to increase.

Malaysia has the advantage of having the lowest hotel room rates in Asia. Based on a recent survey by Arthur Andersen, the average rate at Kuala Lumpur hotels is only US$39 per night, a decline of 16% from 1998. This compares favourably with rates in Bangkok (US$54), Jakarta (US$78) and Singapore (US$95). Marketing Malaysia as a cheap tourist destination would be a wise move as the tourist market is just beginning to shake off the after-effects of the financial crisis.

Malaysia has for a long time relied on Asian tourists for business, and this over-reliance was a contributing factor to the decline in tourist arrivals during the Asian financial crisis. Recent efforts to penetrate the Middle East market and other new markets in Europe and attract long-haul and big-spending tourists, as well as to develop Malaysia as an eco-tourism and shopping destination, are positive moves and will boost Malaysia's hotel industry performance.

These positive moves, underpinned by existing factors such as good infrastructure conducive to tourism such as the KLIA and a good public transportation system, a myriad of tourist attractions, and Malaysia's competitive prices and room rates, augur well for the hotel sector. All that needs to be done is to ensure that mistakes from the past are not repeated.

Article 3 - Review of Agencies similar to Danaharta in other Asian countries

Introduction

The Asian financial crisis brought about different policy responses from the countries affected by it. The bank restructuring programmes undertaken by the three IMF-assisted Asian countries - Indonesia, Thailand and South Korea - include the setting-up of agencies to deal with non-performing loans (NPLs) in the banking system, similar to Danaharta. Other countries such as China and Japan have also set up mechanisms to handle their NPL problem. However, the operational structure, modus operandi and legal framework of these agencies are different from those of Danaharta.

Comparison of key indicators and policy reactions in four Asian countries

	Malaysia	Indonesia	Thailand	Korea
Latest NPL ratio (% of total loans)*	6.6%* (Dec 1999)	57.0% (Dec 1998)	38.5% (Dec 1999)	8.2% (Sep 1999)
IMF assistance	Not applicable	USD42.3bn	USD17.2bn	USD57bn
Financial institutions closed, merged or nationalised	2 banks merged with stronger banks	66 banks closed; 4 state banks merged; 14 banks taken over by IBRA	56 financial companies and 2 banks nationalised	5 banks closed; 2 banks nationalised
Approach	Danamodal recapitalises banks; Danaharta removes NPLs; CDRC facilitates corporate debt restructuring	IBRA handles restructuring and rehabilitation of banking sector, including bank recapitalisation and NPL resolution	FRA disposed assets of closed financial companies via auction; Thai AMC acts as bidder of last resort; 10 banks (both state-owned and private) have set up their own AMCs	Korea Deposit Insurance Corporation recapitalises the banks; KAMCO removes NPLs

* *Malaysia reports NPLs on a net basis while the others report on a gross basis.*

Indonesia

Indonesia had by far the most severe banking crisis compared with all the other countries in the Asian region. It had the most number of banks in the region (238 before the crisis) and the highest level of NPLs (over 70% at its peak) during the crisis, and this was further compounded by persistent political turmoil. Indonesia had to take extreme measures to resolve the woes of its banking system. The **Indonesian Bank Restructuring Agency ("IBRA")** was formed by emergency decree in January 1998, as a sub-division of the Ministry of Finance, to implement the restructuring and rehabilitation of the banking sector. A new banking law was enacted in November 1998 and regulations were implemented beginning March 1999.

IBRA's task is all-encompassing and there are three asset types that IBRA is handling - banks, financial assets and "Holdco" assets (corporate assets transferred to holding companies by bank shareholders). IBRA has three objectives:

- Resolution, restructuring and sale of banks - which includes the closure of banks, the recapitalisation of survivor banks, and the restructuring and merger or sale of banks taken over or related to IBRA. This is carried out by IBRA's Asset Management Investment unit.

- Recovery, restructuring and sale of loans - transfer, restructure and liquidate core and non core assets of closed banks, and the NPLs of state banks and banks related to IBRA. This is carried out by IBRA's Asset Management Credit unit.

- Monitoring and sale of corporate or "Holdco" assets comprising equity in companies transferred to holding companies by the former bank shareholders.

IBRA sees itself as a temporary custodian of banking system assets to maximise recovery values, and its goal is to raise cash in the quickest possible time. IBRA has recapitalised seven banks, merged four state banks, took over 14 banks and closed 66 banks. The cost of its operations is to be fully borne by the government, estimated to be around Rp351.6trillion (USD47bn at an exchange rate of Rp7,435=USD1 as at 6 March 2000), to be satisfied by the issuance of government bonds. The government has already transferred Rp220trillion (USD30bn) worth of financial assets at book value from 64 institutions to IBRA for future disposal to reimburse the cost of the bank recapitalisation and liquidity guarantees as a result of the massive bank runs during the financial crisis.

IBRA has also reached settlements with bank shareholders to repay the cost of recapitalisation. To date, ownership of 215 companies with a total transfer value of over USD10bn has been transferred to IBRA. The sale of corporate and financial assets is a key source of funding for the bank recapitalisation programme. IBRA has set for itself a strategic, but flexible, four-year target to dispose these assets.

Thailand

The **Financial Restructuring Authority ("FRA")** was established by the Thai government in October 1997 under the Emergency Decree on Financial Sector Restructuring, to supervise the liquidation of the 56 closed financial companies and to assist the recovery of the creditors of these financial companies. The major creditor of these institutions is the Financial Institutions Development Fund (FIDF), a government agency which provided guarantee of deposits and liabilities of financial institutions. The FRA, which has an expected life span of 3 years, is basically a rapid disposition agency modelled after the Resolution Trust Corporation (RTC) of the United States. It received seed capital of B500mn (USD13mn at an exchange rate of B38.075=USD1 as at 6 March 2000) from the government and is entitled to 1% of the sales proceeds.

The FRA received the mandate to dispose all the assets of the closed financial companies amounting to B851bn (USD22bn) by the end of 1999 via the auction process. Innovative strategies such as profit-sharing and future cashflow-sharing arrangements have been introduced to maximise recoverable value. To date, the FRA has managed to achieve an average recovery rate of 25.3% from seven major auctions of loans. The FRA plans to wind down its operations by end-2000 once it has returned the proceeds of the sales to the creditors and officially liquidated the 56 financial companies.

		Value (USDbn)	Bid price (USDbn)	Recovery rate
Jun 1998	Hire purchase contracts	1.363	0.654	48.0%
Aug 1998	Residential mortgage loans	0.648	0.303	46.8%
Dec 1998	Business loans (1st round)	4.097	1.026	25.0%
Mar 1999	Business loans (2nd round)	5.830	1.061	18.2%
Jul 1999	Construction loans	0.034	0.004	11.8%
Aug 1999	Commercial and other loans (1st round)	3.394	0.815	24.0%
Nov 1999	Commercial and other loans (2nd round)	0.429	0.141	32.9%
Total core assets sold		**15.795**	**4.004**	**25.3%**

Source: Financial Restructuring Authority (FRA)

The Thailand **Asset Management Corporation ("AMC")** was established in October 1997 by Emergency Decree, and is 100%-owned by the Ministry of Finance and regulated by the Bank of Thailand. AMC has a registered capital of B15bn (USD0.4bn), and can borrow or issue government-guaranteed bonds of up to 12 times its capital. The bonds issued would be amortised over a 3-7 year period. The objectives of the AMC are to purchase, manage and subsequently dispose the assets of the 56 closed financial companies auctioned by the FRA, and the troubled assets of the financial institutions taken over by the FIDF. It effectively acts as bidder of last resort to the FRA auctions, and manages and disposes these assets to ensure higher recovery values. To date, the AMC has bought B186bn (USD4.95bn) of loans from the FRA auctions and is in the process of negotiating the restructuring of these loans.

Unlike Malaysia, there is no system-wide carve-out of NPLs in Thailand. Apart from the liquidation of the assets of the 56 closed financial companies, the government is encouraging Thai financial institutions to resolve their NPLs by setting up their own asset management companies. Five state-owned banks - Krung Thai Bank, Siam City Bank, Bangkok Metropolitan Bank, BankThia and Radanasin Bank - are in the process of transferring B659bn (USD17bn) of NPLs into their own AMCs. Five private banks - Bangkok Bank, Thai Farmers Bank, Siam Commercial Bank, Bank of Ayudhya and Thai Military Bank - are planning to transfer B360bn (USD9bn) of NPLs to their respective AMCs.

Korea

The **Korea Asset Management Corporation ("KAMCO")** was initially established in April 1962 as a subsidiary of the Korea Development Bank. KAMCO's role then was as the intermediary agency for the disposition of distressed assets. KAMCO was re-established in November 1997 as a Non-performing Asset Management Fund worth W21trillion (USD18.8bn at an exchange rate of W1,119.2=USD1 as at 6 March 2000) to help the restructuring of the financial sector. Its sources of funding are the issuance of KAMCO bonds (95.4%), loans from Korea Development Bank (2.3%) and capital from financial institutions (2.3%).

Effective 30 April 1999, KAMCO was re-orientated under the direct supervision of the Financial Supervisory Commission to function as a "bad bank" with the role of supplying liquidity and restoring stability to the financial sector by acquiring, managing and disposing non-performing assets of distressed financial institutions. It has undergone a major reorganisation and adopted a divisional structure similar to the RTC of the United States. KAMCO has an authorised capital of W1trillion (US$0.9bn) and a paid-in capital of W130bn (USD116mn). It is 38%-owned by the government, with the Korea Development Bank holding a 31% stake and 24 other banks owning the remaining 31%.

Since November 1997, KAMCO has purchased W55.9trillion (USD50bn) worth of NPLs from financial institutions at an average discount rate of 59.3%. Since September 1998, KAMCO has switched to a "Fixed Purchase Rate" method of acquiring non-performing assets - for secured NPLs it is 45% of the most recent appraised value of the collateral while for unsecured NPLs, it is 3% of principal loan amount.

KAMCO deals with several types of assets: ordinary NPLs which are loans in default for 3 months and longer; special NPLs are corporate loans which have future cash flows and have obtained court approval for financial restructuring; real estate owned (REOs) loans; and real estate properties confiscated by the government. These assets are to be disposed via a direct loan sale through auction, foreclosure auction and securitisation. In April 1999, the Korean government authorised KAMCO to facilitate the workout of distressed companies and in January 2000, the government granted additional powers to KAMCO by broadening the types of NPLs to be purchased and allowing KAMCO to lend to companies under its workout programme.

KAMCO's asset disposition strategy is to sell over 98% of total non-performing assets (which is expected to grow to W92trillion or USD82.2bn) by 2003. KAMCO has thus far managed to achieve an average recovery rate of 54.6% from the resolution of W22.22trillion (USD19.9bn) worth of NPLs. KAMCO has also raised W1.21trillion (USD1.1bn) through four issuance of asset-backed securities with maturities of up to 10 years in the local market.

KAMCO Sale of assets

	Value (USDbn)	Amount recovered (USDbn)	Recovery rate
International bidding	3.940	1.322	33.6%
Asset-backed Securitisation (ABS) Issuance	1.081	1.036	95.9%
Foreclosure auction	2.752	1.608	58.4%
Public auction	0.500	0.214	42.9%
Voluntary payment	1.010	1.010	100%
Rescheduling	0.429	0.429	100%
Reverse and cancellation by the banks	10.141	5.307	52.3%
Total	**19.853**	**10.838**	**54.6%**

Source: Korea Asset Management Corporation (KAMCO)

KAMCO plans to form three Corporate Restructuring Companies (CRC) in partnership with foreign institutional investors with a combined asset size of US$1bn. The CRCs will make direct investments into stocks, bonds, and real estate properties for the purpose of supporting corporate and financial restructuring programmes. KAMCO also plans to set up seven joint-venture AMCs with foreign investment houses with an asset size of W500bn (USD447mn) each.

Four commercial banks, namely Hanvit Bank, Kookmin Bank, Chohung Bank and Korea Development Bank, have also announced plans to establish their own bank-based AMCs, to be jointly managed by foreign investors.

AMCs in other Asian Countries

China

The Chinese Government has taken measures to clear some US$1.2 trillion of loans which turned sour before 1995 from the books of state-owned commercial banks (SOCBs). This is estimated to cost about 14% of China's 1999 GDP. In 1999, the government decided to establish asset management companies (AMCs) at its four largest state-owned banks - China Construction Bank, Industrial and Commercial Bank of China, Agricultural Bank of China and Bank of China. These four SOCBs are estimated to be saddled with more than US$120bn worth of bad debts. The AMCs are being established with the mandate to purchase, manage, and dispose NPLs from the banking sector. The government expects that 30% of the loans are recoverable over a period of about ten years through the disposal of loans/assets or the restructuring of state-owned enterprises which are the biggest borrowers.

The first AMC in China was set up to manage the NPLs of China Construction Bank. China Cinda Asset Management Corporation was formally established in Beijing on 20 April 1999 after the approval by the State Council and the Central Bank. It is a wholly state-owned financial institution with registered capital of RMB10bn (US$1.2bn), fully paid by the Ministry of Finance. CINDA is charged with recovering some RMB250bn (US$30bn) in bad loans, which represent around 25% of total loans of China Construction Bank. Its mission is to manage and dispose the non-performing assets while its business objective is to preserve state assets and minimise losses.

The Chinese Government has also set up three more AMCs to take over the NPLs of three other SOCBs, namely Industrial and Commercial Bank of China, Agricultural Bank of China and Bank of China. These AMCs are named Huarong, Changcheng and Dongfang respectively. Changcheng is expected to look at more than 100 projects and may also be involved in direct investment, commercial lending and financial consulting. Dongfang will attempt to resolve at least US$16bn of NPLs and would also be allowed to carry out securities-related businesses. These AMCs will do their jobs independently, but with the advice of foreign experts.

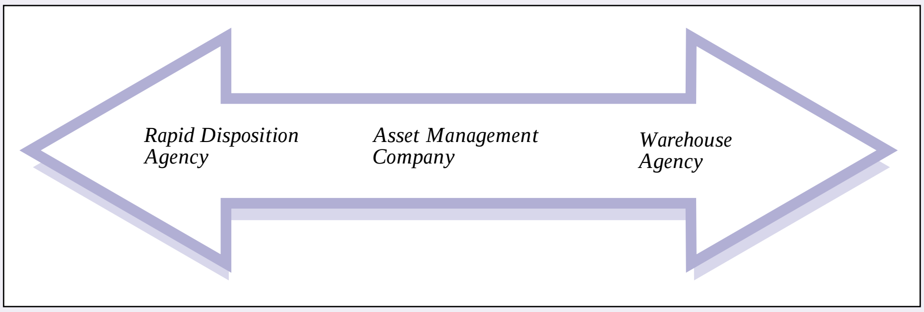
Japan

In March 1999, the government pumped in Y7.5trillion (USD70bn) in public funds into 15 major commercial banks in an effort to recapitalise the banking system which has been in the doldrums since the bursting of the Japanese bubble economy in the late 1980s. In April 1999, the Japanese Government established a new institution to recover bad loans in an attempt to repair its battered financial system. The new agency called the Resolution and Collection Corporation (RCC), modelled after RTC of the United States, will buy problem loans from the banks and sell the collateral (predominantly real estate) to recover as much value as possible. The extent of the NPL problem in Japan has been estimated at Y30.1trillion (USD280bn) as at end-September 1998, identified as "risk management" loans by Japan's Financial Supervisory Agency. (Risk management loans are defined as loans to borrowers who are legally bankrupt or loans in arrears for six months or more).

How does Malaysia compare with the other countries?

The standard asset management continuum shows the rapid asset disposition type of AMCs on the one end (e.g. RTC of the United States or FRA of Thailand) and the warehousing type of AMCs on the other. More market-driven ones would lie in the middle of the continuum, a good example being Sweden's Securum. Malaysia tends towards the Securum model since it adopts a market-oriented approach in dealing with the NPLs.

AMC Continuum



The different approaches taken by Indonesia, Thailand, Korea and Malaysia reflect the diversity of the problems in these countries. For instance, in a country such as Thailand, where bankruptcy and foreclosure laws are relatively weaker, it made sense for them to dispose the assets via auction in a rapid manner simply due to the sheer size of the loans portfolio in terms of number of accounts. This is especially so since small loans including hire purchase contracts and residential mortgages form a significant amount of the assets, and it would have been administratively difficult to manage such assets. KAMCO, which has taken a predominantly rapid disposition approach, is to a certain extent, thinking of managing the non-performing assets, although their problems are more manufacturing-inclined rather than property-related as is the case in Malaysia. In Indonesia, where the banking system structure is fragile, an all-encompassing agency such as IBRA is needed to facilitate and implement the restructuring process.

No two asset management companies are and can be alike, due to the different circumstances and legal framework which exist in each country. A comparison to determine which approach is the best would be an exercise in futility, but it is useful to compare the different approaches each country takes and to draw out lessons to be learnt from their experiences.

List of Companies under Special Administration

As at 25 February 2000, there were 51 companies under Special Administration.

Company	Special Administrators	Independent Advisors	Update
Alor Setar Securities Sdn Bhd	Mr Adam Primus Varghese bin Abdullah; Mr Ooi Teng Chew (Ernst & Young)	Amanah Merchant Bank Berhad	Workout proposal approved by secured creditors.
WK Securities Sdn Bhd	Encik Nordin bin Baharuddin; Mr Adam Primus Varghese bin Abdullah (Ernst & Young)	Amanah Merchant Bank Berhad	Workout proposal approved by secured creditors.
Labuan Securities Sdn Bhd	Mr Gan Ah Tee; Mr John Ho Shui Fah; Mr Ooi Woon Chee (KPMG)	RHB Sakura Merchant Bankers Berhad	Workout proposal approved by secured creditors.
Taiping Securities Sdn Bhd	Mr Gan Ah Tee; Mr Ooi Woon Chee; Mr Peter Ho Kok Wai (KPMG)	Amanah Merchant Bank Berhad	Workout proposal approved by secured creditors.
MBf Northern Securities Sdn Bhd	Mr Gan Ah Tee; Mr Peter Ho Kok Wai; Mr Ooi Woon Chee (KPMG)	Amanah Merchant Bank Berhad	Workout proposal approved by secured creditors.
Halim Securities Sdn Bhd	Mr Gong Wee Ning; Ms Chan Yim Fun (PricewaterhouseCoopers)	RHB Sakura Merchant Bankers Berhad	No successful bidders in earlier tender. SAs to pursue other measures via competitive bidding process.
Malaysia Electric Corporation Berhad	Mr Lim Tian Huat; Mr George Koshy (Arthur Andersen & Co)	Commerce International Merchant Bankers Berhad	Workout proposal to be approved by secured creditors.
MEC Industrial Park Sdn Bhd		To be appointed.	SAs preparing workout proposal.

Company	Special Administrators	Independent Advisors	Update
Teras Cemerlang Sdn Bhd	Mr Gong Wee Ning; Mr Kenneth Teh Ah Kiam (PricewaterhouseCoopers)	Aseambankers Malaysia Berhad	SAs preparing workout proposal.
Repco Holdings Berhad and seven subsidiaries, namely: • Repco (Malaysia) Sdn Bhd • Everise Capital Sdn Bhd • Even Horizon Sdn Bhd • Repco Timber Sdn Bhd • Everise Ventures Sdn Bhd • Hajat Semarak (M) Sdn Bhd • Teluk Jadi Sdn Bhd			
MGI Securities Sdn Bhd	Mr Yeo Eng Seng; Mr Adam Primus Varghese bin Abdullah; Ms Wong Lai Wah (Ernst & Young)	Ferrier Hodgson MH	Workout proposal approved by secured creditors.
Jupiter Securities Sdn Bhd	Mr Gan Ah Tee; Mr Ooi Woon Chee (KPMG)	RHB Sakura Merchant Bankers Berhad	Workout proposal approved by secured creditors.
Premier Capital Sdn Bhd	Mr Gong Wee Ning; Ms Chan Yim Fun; Ms Yap Wai Fun; Mr Kenneth Teh Ah Kiam (PricewaterhouseCoopers)	RHB Sakura Merchant Bankers Berhad	Workout proposal approved by secured creditors.
Innosabah Securities Sdn Bhd	Mr Gong Wee Ning; Ms Chan Yim Fun; Ms Yap Wai Fun; Mr Kenneth Teh Ah Kiam (PricewaterhouseCoopers)	Amanah Merchant Bank Berhad	Workout proposal approved by secured creditors.

Company	Special Administrators	Independent Advisors	Update
Manalom Sdn Bhd	Mr. Mak Kum Choon; Mr. Chu Siew Koon (Kassim Chan & Co)	Aseambankers Malaysia Berhad	SAs preparing workout proposal.
Perdana Industri Holdings Berhad	Mr Gong Wee Ning; Mr Lim San Peen (PricewaterhouseCoopers)	Malaysian International Merchant Bankers Berhad	Workout proposal approved by secured creditors.
RNC Corporation Berhad (formerly known as Arensi Holdings (M) Berhad)	Mr Robert Teo Keng Tuan; Mr Chew Chong Eu (Hanifah Teo & Associates)	Amanah Merchant Bank Berhad	Workout proposal finalised pending secured creditors' approval.
Dax Foods Sdn Bhd	Mr Mok Yuen Lok; Mr Onn Kien Hoe (Horwath Mok & Poon)	Hew & Tan	Workout proposal approved by secured creditors.
Sin Heng Chan (Malaya) Berhad	Mr Lim Tian Huat; Mr George Koshy (Arthur Andersen & Co)	Malaysian International Merchant Bankers Berhad	SAs preparing workout proposal.
Advance Synergy Furniture Sdn Bhd	Tuan Syed Amin Aljeffri; Encik Mohd Arif Hj Mustapah (Aljeffri & Co)	To be appointed.	SAs preparing workout proposal.
Austral Amalgamated Berhad	Mr Lim Tian Huat; Mr George Koshy (Arthur Andersen)	To be appointed.	SAs preparing workout proposal.
Instangreen Corporation Berhad and two subsidiaries, namely: • SPJ Construction Sdn Bhd • Instangreen (Landscape) Sdn Bhd	Mr Mak Kum Choon; Mr Chu Siew Koon (Kassim Chan & Co)	To be appointed.	SAs preparing workout proposal.

Company	Special Administrators	Independent Advisors	Update
Perusahaan Sadur Timah Malaysia Berhad	Mr Adam Primus Varghese bin Abdullah; Mr Foo San Kan; Ms Wong Lai Wah (Ernst & Young)	Arab-Malaysian Merchant Bank Berhad	Workout proposal approved by secured creditors.
Sportma Corporation Berhad	Mr Robert Teo Keng Tuan; Mr Chew Chong Eu (Hanifah Teo & Associates)	Ferrier Hodgson MH	Workout proposal finalised pending secured creditors' approval.
Seng Hup Corporation Berhad	Mr Tan Kim Leong; Mr David Siew Kah Toong (BDO Binder)	To be appointed.	SAs preparing workout proposal.
Beloga Sdn Bhd	Mr Heng Ji Keng; Mr Kelvin Edward Flynn (Ferrier Hodgson MH)	To be appointed.	SAs preparing workout proposal.
Kilang Papan Seribu Daya Berhad	Mr Adam Primus Varghese bin Abdullah; Ms Wong Lai Wah; Mr Kevin K. How (Ernst & Young)	To be appointed.	SAs preparing workout proposal.
Timbermaster Industries Berhad and four subsidiaries, • Timbermaster Timber Complex (Sabah) Sdn Bhd • Kompleks Perkayuan Timbermaster Smallholders Sdn Bhd • Timbermaster (Malaysia) Sdn Bhd • Perkayuan T.M. (Malaysia) Sdn Bhd	Mr Lim San Peen; Ms Yap Wai Fun (PricewaterhouseCoopers)	To be appointed.	SAs preparing workout proposal.

Company	Special Administrators	Independent Advisors	Update
Lumberise Sdn Bhd	Ms Chan Yim Fun; Ms Yap Wai Fun (PricewaterhouseCoopers)	To be appointed.	SAs preparing workout proposal.
Nian Aik Sdn Bhd	Mr Narendra Kumar Jasani; Ms Janise Lee Guat Hoe (Shamsir Jasani Grant Thornton)	O.S.K. Holdings Berhad	SAs preparing workout proposal.
Sandakan Plywood and Veneer Sdn Bhd and subsidiary Sandakan Blockboard Manufacturing Co. Sdn Bhd	Ms Chan Yim Fun; Mr Lim San Peen (PricewaterhouseCoopers)	To be appointed.	SAs preparing workout proposal.
Winshine Holdings Sdn Bhd and subsidiary Winshine Industries Sdn Bhd	Mr Gan Ah Tee; Encik Mohamed Raslan bin Abdul Rahman; Mr Ng Chwe Hwa (KPMG)	To be appointed.	SAs preparing workout proposal.
CA Furniture Industries Sdn Bhd and CA Manufacturing Sdn Bhd	Mr Ooi Woon Chee; Encik Mohamed Raslan bin Abdul Rahman; Mr Ng Chwe Hwa (KPMG)	To be appointed.	SAs preparing workout proposal.
Caton Wood Industries Sdn Bhd	Mr Kevin K. How; Mr Adam Primus Varghese bin Abdullah; Ms Wong Lai Wah (Ernst & Young)	To be appointed.	SAs preparing workout proposal.
Mentakab Veneer & Plywood Sdn Bhd	Mr Heng Ji Keng; Mr Kelvin Edward Flynn (Ferrier Hodgson MH)	BDO Binder	SAs preparing workout proposal.

Calendar of Events

3 March 1999	Danaharta appoints Malayan Banking Berhad as the agent bank
16 March 1999	Danaharta unveils the inaugural operations report for the period ended 31 December 1998 Secured creditors approve the workout proposal for Capitalcorp Securities Sdn Bhd
2 April 1999	Encik Ali Tan Sri Abdul Kadir and Datuk Dr. Awang Adek Hussin are appointed to Danaharta's Oversight Committee
7 April 1999	Danaharta unveils its Loan Restructuring Guidelines
18 May 1999	Danaharta unveils the inaugural annual report
7 June 1999	Tan Sri Datuk Dr. Aris Othman, former Secretary-General of the Ministry of Finance, resigns from Danaharta's Board of Directors following his retirement from Government service
30 June 1999	Danaharta completes primary carve-out and commences management phase
1 July 1999	Danaharta announces that a restricted tender exercise for foreign loan assets with principal value of USD142.45 million will begin on 5 July 1999
2 July 1999	Dato' Dr. Abdul Aziz bin Mohd Yaacob, Deputy Secretary-General (Policy) of the Ministry of Finance, is appointed to the Board of Directors
16 August 1999	Danaharta announces the results of the restricted tender of foreign loan assets which opened on 5 July 1999 and closed on 9 August 1999
23 August 1999	Danaharta announces the tender for Halim Securities Sdn Bhd and WK Securities Sdn Bhd
26 August 1999	Danaharta issues the operations report for the six months ended 30 June 1999

23 September 1999	Datuk Megat Zaharuddin Megat Mohd Nor resigns from the Board of Directors due to an overseas posting
24 September 1999	The High Court of Malaya dismisses the application by Repco Holdings Berhad for an interim injunction to restrain the Special Administrators appointed over the company and some of its subsidiaries on 8 April 1999
27 October 1999	Danaharta announces that it will embark on a secondary carve-out of NPLs
4 November 1999	Danaharta announces that its first property sale by way of open tender will begin on 19 November 1999
26 November 1999	Dato' Mohamed Md Said, Managing Director of Sime UEP Properties Berhad, is appointed to the Board of Directors
16 December 1999	Danaharta announces the second restricted tender exercise for foreign loan assets with principal value of USD251.8 million
20 December 1999	Danaharta announces that successful bids were received for 24 of the 44 properties offered in the sale by open tender on 19 November 1999

Post-balance sheet

24 February 2000	Danaharta announces results of second restricted tender of foreign loan assets in which an average recovery rate of 71% was achieved on 25 out of the 28 accounts offered
29 February 2000	Danaharta issues the operations report for the six months ended 31 December 1999
6 March 2000	124 real estate agents begin pre-marketing 123 foreclosed properties with a combined indicative value of RM276.4 million in Danaharta's second sale of foreclosed property

Financial Statements

The Directors have pleasure in submitting their report with the audited accounts of the Group and of the Company for the financial year ended 31 December 1999.

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 in 1998 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 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. 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 assist it to achieve its objective. 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 8 to the accounts.

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

FINANCIAL RESULTS

	Group RM'000	Company RM'000
Operating loss	294,255	400,035

RESERVES AND PROVISIONS

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

SHARE CAPITAL

During the financial year, 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
13 January 1999	250,000,000	Raising capital	Cash at par
24 May 1999	1,000,000,000	Raising capital	Cash at par
	1,250,000,000		

DIRECTORS OF THE COMPANY

The Directors of the Company who have held office during the financial year since the date of the last report are:
Raja Tun Mohar Raja Badiozaman
Dato' Mohamed Azman Yahya
Dato' Dr. Zeti Akhtar Aziz
Dato' N. Sadasivan
Dato' Ho Ung Hun
Eoghan M. McMillan
Alister T.L. Maitland
Dato' Dr. Abdul Aziz Mohd Yaacob (appointed 2.7.99)
Dato' Mohamed bin Mohd Said (appointed 26.11.99)
Datuk Dr. Aris Othman (resigned 7.6.99)
Datuk Megat Zaharuddin Megat Mohd. Nor (resigned 23.9.99)

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 end of the previous financial period, 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 year, 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, none of the Directors in office at the end of the financial year held any interests in the shares of the Company or its related corporations during the financial year.

The Director's interests in the shares of subsidiary companies, if any, 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 1999, 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 year 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 year 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 year 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 year 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 year 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 year in which the report was made.

AUDITORS

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

On behalf of the Board of Directors

Raja Tun Mohar Raja Badiozaman
Chairman

Dato' Mohamed Azman Yahya
Managing Director

Kuala Lumpur
23 March 2000

Balance Sheets as at 31 December 1999

	Note	Group As at 31.12.1999 RM'000	Group As at 31.12.1998 RM'000	Company As at 31.12.1999 RM'000	Company As at 31.12.1998 RM'000
ASSETS					
Cash and bank balances		38,228	157	22,227	153
Deposits and placements with financial institutions	4	1,523,301	472,323	1,415,266	471,319
Acquired loans	5	8,286,855	3,152,753	8,286,855	3,152,753
Other assets	6	13,318	4,287	12,886	4,251
Investment in marketable securities	7	274,895	–	274,895	–
Investment in subsidiary companies	8	–	–	2,000	1,000
Fixed assets	9	12,610	4,184	11,738	4,078
Total assets		**10,149,207**	**3,633,704**	**10,025,867**	**3,633,554**
LIABILITIES AND SHAREHOLDERS' FUNDS					
Redeemable guaranteed zero-coupon bearer bonds	10	7,537,574	1,857,968	7,537,574	1,857,968
Amounts payable on acquired loans		–	1,233,207	–	1,233,207
Long term loans	11	1,358,900	300,877	1,358,900	300,877
Other liabilities	12	64,297	8,961	46,741	8,815
Total liabilities		**8,960,771**	**3,401,013**	**8,943,215**	**3,400,867**
Financed by:					
SHARE CAPITAL	13	1,500,000	250,000	1,500,000	250,000
RESERVES	14	(311,564)	(17,309)	(417,348)	(17,313)
SHAREHOLDERS' FUNDS		1,188,436	232,691	1,082,652	232,687
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		**10,149,207**	**3,633,704**	**10,025,867**	**3,633,554**

The notes on pages 80 to 94 form an integral part of these accounts.

	Note	Group Year ended 31.12.1999 RM'000	Group Period ended 31.12.1998 RM'000	Company Year ended 31.12.1999 RM'000	Company Period ended 31.12.1998 RM'000
Interest income	15	119,635	5,639	112,038	5,635
Interest expense	16	(488,174)	(7,796)	(488,174)	(7,796)
Net interest expense		(368,539)	(2,157)	(376,136)	(2,161)
Income from recoveries on acquired loans	3(d)	815	–	815	–
Management fee income	3(e)	97,021	–	–	–
Other Income	3(f)	1,205			
Overhead expenses	17	(24,757)	(15,152)	(24,714)	(15,152)
Operating loss		(294,255)	(17,309)	(400,035)	(17,313)
Accumulated loss brought forward		(17,309)	–	(17,313)	–
Accumulated loss carried forward		**(311,564)**	**(17,309)**	**(417,348)**	**(17,313)**

The notes on pages 80 to 94 form an integral part of these accounts.

	Period ended 31.12.1999 RM'000	Period ended 31.12.1998 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating loss	(294,255)	(17,309)
Adjustments for:		
Depreciation	2,741	390
Interest expense accrued	460,969	7,796
Interest income accrued	(28,591)	–
Loss on sale of fixed assets	8	–
Operating profit/(loss) before working capital changes	140,872	(9,123)
Movements in operating assets and liabilities:		
Acquired loans	(5,134,102)	(3,152,753)
Other assets	(9,031)	(4,287)
Redeemable guaranteed zero-coupon bearer bonds	5,748,492	1,851,049
Amounts payable on acquired loans	(1,233,207)	1,233,207
Other liabilities	55,336	8,961
Net cash used in operating activities	(431,640)	(72,946)
CASH FLOW USED IN INVESTING ACTIVITIES		
Purchase of own bonds	(453,292)	–
Purchase of marketable securities	(264,844)	–
Purchase of fixed assets	(11,178)	(4,574)
Proceeds from sale of fixed assets	3	–
Net cash used in investing activities	(729,311)	(4,574)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issuance of share capital	1,250,000	250,000
Proceeds from long-term loans	1,000,000	300,000
Net cash generated from financing activities	2,250,000	550,000
Net increase in cash and cash equivalents as at 31 December	1,089,049	472,480
Cash and cash equivalents at beginning of year	472,480	–
	1,561,529	472,480
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Deposits and placements with financial institutions	1,523,301	472,323
Cash and bank balances	38,228	157
	1,561,529	472,480

The notes on pages 80 to 94 form an integral part of these accounts.

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 8 to the accounts.

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

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 1999 except for those subsidiary companies as disclosed in Note 8 to the accounts. 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 in the Company's account.

(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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Other Income

Other income represents income derived from rental of premises, tender fees, fees on provision of financing facilities and any other income recognised on inception of such transactions.

(g) Acquired loans

Acquired loans comprise of 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.

(h) 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.

(i) 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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) 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 1/3%
Motor vehicles	25%

(k) 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.

The carrying value of the fixed rate long term loan from Employees Provident Fund('EPF') is the principal amount upon drawdown. Interest on the loan is accrued on a monthly basis and paid to EPF on a semi-annual basis.

(l) Investment in marketable securities

The carrying value of the Company's investment in its own bonds and other zero-coupon bonds is the cost of purchase plus the accretion of discount to maturity on a straight-line basis. The carrying value of the Company's investment in its own bonds is shown as a deduction of the Company's liabilities. The carrying value of the Company's other investments are shown as an asset in 'Investment in Marketable Securities'.

(m) Foreign Currencies

Foreign currency transactions are converted into Ringgit Malaysia at the rate of exchange ruling on the transaction dates. Assets and liabilities in foreign currencies at balance sheet date are translated into Ringgit Malaysia at the rate of exchange ruling at that date.

Gains and losses arising from the current year's transactions are dealt with in the profit and loss account.

4 DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

	Group		Company	
	As at 31.12.1999	As at 31.12.1998	As at 31.12.1999	As at 31.12.1998
	RM'000	RM'000	RM'000	RM'000
Licensed banks	1,447,541	372,323	1,339,506	371,319
Licensed finance companies	75,760	100,000	75,760	100,000
	1,523,301	472,323	1,415,266	471,319

5 ACQUIRED LOANS

	Group		Company	
	As at 31.12.1999	As at 31.12.1998	As at 31.12.1999	As at 31.12.1998
	RM'000	RM'000	RM'000	RM'000
Acquired loans	8,286,855	3,152,753	8,286,855	3,152,753

Acquired loans are analysed by economic sector as follows:

	Loan Rights Outstanding		Carrying Value	
	As at 31.12.1999	As at 31.12.1998	As at 31.12.1999	As at 31.12.1998
	RM'000	RM'000	RM'000	RM'000
Agriculture, hunting, forestry and fishing	227,493	172,674	130,804	162,171
Manufacturing	1,621,569	511,817	586,422	316,220
Electricity, gas and water	12,684	8,922	4,245	3,920
Wholesale, retail, restaurants and hotels	853,015	107,020	456,224	51,005
Construction	6,133,729	1,721,180	3,874,305	1,234,843
Purchase of residential property	918,406	223,476	691,027	165,646
Real Estate	1,204,167	927,582	687,689	654,831
Transport, storage and communications	126,565	38,099	21,261	11,723
Financing, insurance and business services	2,386,465	372,402	1,002,466	180,124
Consumption credit	196,709	10,784	49,179	340
Purchase of securities	1,738,709	719,633	544,966	303,370
Mining	56,469	–	25,643	–
Others	3,650,982	3,291,786	212,624	68,560
	19,126,962	8,105,375	8,286,855	3,152,753

5 ACQUIRED LOANS (Continued)

Included in ‘Others’ are loan rights outstanding totalling RM3,088 million which were acquired for a nominal value of RM4. 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 any 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.

6 OTHER ASSETS

	Group		Company	
	As at 31.12.1999 RM’000	As at 31.12.1998 RM’000	As at 31.12.1999 RM’000	As at 31.12.1998 RM’000
Amounts owing by subsidiaries	–	–	180	107
Other debtors, deposits and prepayments	2,916	1,004	2,896	861
Accrued interest receivable	2,350	1,263	1,758	1,263
Staff loans	8,052	2,020	8,052	2,020
	13,318	4,287	12,886	4,251

7 INVESTMENT IN MARKETABLE SECURITIES

Unquoted Securities in Malaysia

	Group		Company	
	As at 31.12.1999 RM’000	As at 31.12.1998 RM’000	As at 31.12.1999 RM’000	As at 31.12.1998 RM’000
Zero-coupon bonds	264,844	–	264,844	–
Accretion of discounts	10,051	–	10,051	–
	274,895	–	274,895	–

8 INVESTMENT IN SUBSIDIARY COMPANIES

	Group		Company	
	As at 31.12.1999	As at 31.12.1998	As at 31.12.1999	As at 31.12.1998
	RM'000	RM'000	RM'000	RM'000
Unquoted shares in Malaysia, at cost	–	–	2,000	1,000

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

Name	Paid-up capital	Effective interest 1999	Effective interest 1998	Principal activity
	RM	%	%	
Danaharta Ekuiti Sdn Bhd	2	100	100	Dormant
Danaharta Hartanah Sdn Bhd	2	100	100	Dormant
Danaharta Bina Sdn Bhd	2	100	100	Dormant
Danaharta Industri Sdn Bhd	2	100	100	Dormant
Danaharta Prasarana Sdn Bhd	2	100	100	Dormant
Danaharta Kredit Sdn Bhd	2	100	–	Dormant
Danaharta Perhotelan Sdn Bhd	2	100	–	Dormant
Danaharta Managers Sdn Bhd	1,000,000	100	100	Asset management
Danaharta Managers (L) Ltd	US$5,000,000	100	100	Asset management
Danaharta Urus Sdn Bhd	1,000,000	100	100	Asset management
Simeban Realty Sdn Bhd*	2,500,000	100	–	Property development and rental
Simeban Harta Sdn Bhd*	12,250,000	100	–	Property development and rental
Simeban Services Bhd*	14,000,000	100	–	Dormant
Sime Leasing (M) Sdn Bhd*	2,000,000	100	–	Dormant

* *Following the share sale agreements between Sime Bank Berhad and Danaharta Managers Sdn Bhd('DMSB') and the share sale agreements between Sime Finance Berhad and DMSB, on 17 September 1999, the Company acquired Simeban Realty Sdn Bhd, Simeban Harta Sdn Bhd, Simeban Services Berhad and Sime Leasing (M) Sdn Bhd (collectively referred to as 'Sime subsidiaries') for RM23,603,002. DMSB assumes a liability of RM23,603,000 for the consideration of the acquisition and the remainder is paid in cash.*

8 INVESTMENT IN SUBSIDIARY COMPANIES (Continued)

**Following the agreement between Bank Negara Malaysia and DMSB on 17 September 1999, DMSB is not subjected to any risk nor reward from its investment in the Sime subsidiaries and is unable to exercise its legal voting rights and has no influence on the management control of the Sime subsidiaries. Under this agreement, the repayment of DMSB's liability as consideration for the acquisition is conditional upon any cashflow received from the investments. Any surplus cashflow shall accrue to Bank Negara Malaysia. As such, neither DMSB's investment nor the corresponding liability to acquire the investment is reflected in the balance sheet of DMSB, and for this reason the results of the Sime subsidiaries are not consolidated into the accounts of the Group.*

The Registrar of Companies has granted relief to Pengurusan Danaharta Nasional Berhad from having to consolidate and annex the accounts of these companies to the accounts of the Company pursuant to Section 169A of the Companies Act, 1965.

(a) Danaharta Managers Sdn Bhd

Following the agreement between Bank Negara Malaysia, the Company and DMSB on 7 December 1998, the NPLs of Sime Bank Bhd 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 is not subjected to any risk nor reward from these NPLs and as such, neither the loans nor DMSB's liability to acquire the loans is reflected in the balance sheet of DMSB or in the consolidated balance sheet of the Group.

(b) Danaharta Managers (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'(DMLL')) 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 is not subjected to any risk nor reward from these assets of DMLL and as such, neither DMLL's assets nor DMSB's assumption of DMLL's liabilities is reflected in DMSB's balance sheet or in the consolidated balance sheet of the Group.

8 INVESTMENT IN SUBSIDIARY COMPANIES (Continued)

(c) Danaharta Urus Sdn Bhd

Following the agreement between the Government of Malaysia ('Government'), Danaharta Urus Sdn Bhd ('DUSB') and DMLL on 6 May 1999, the NPLs of BBMB, BBMB Kewangan Bhd and BBMB Discount House Bhd are to be managed by DUSB, a 100% owned subsidiary of the Company and the NPLs of BBMB International Bank (L) Ltd are to be managed by DMLL. DUSB issued zero-coupon bonds for the consideration of the acquisition, the redemption of which is conditional upon the recovery of the acquired assets and is indemnified by the Government. The bonds were issued at discounted values of RM5,620,477,408 and USD194,728,494 and have redemption values of RM7,198,633,923 and USD251,492,973 respectively and mature on 31 March 2004. Under the loan management arrangement, DUSB is not subjected to any risk nor reward from these NPLs and as such, neither the loans nor DUSB's liability to acquire the loans is reflected in the respective balance sheets of DUSB or in the consolidated balance sheet of the Group.

The assets under management of DMSB, DMLL and DUSB as at 31 December 1999 are RM 10.8 billion, RM5.4 billion and RM10.1 billion respectively. All assets under management in the respective companies pertain to the abovementioned agreements.

9 FIXED ASSETS

1999 Group	Furniture and fittings RM'000	Office equipment RM'000	Motor vehicles RM'000	Computer equipment and software RM'000	Total RM'000
Cost					
As at 1 January 1999	21	585	2,386	1,582	4,574
Additions	7,268	1,105	1,123	1,682	11,178
Disposals	(10)	(2)	–	–	(12)
As at 31 December 1999	7,279	1,688	3,509	3,264	15,740
Accumulated depreciation					
As at 1 January 1999	1	53	180	156	390
Charge during the year	922	228	777	814	2,741
Disposals	–	(1)	–	–	(1)
As at 31 December 1999	923	280	957	970	3,130
Net Book Value					
As at 31 December 1999	6,356	1,408	2,552	2,294	12,610
Company					
Cost					
As at 1 January 1999	21	573	2,386	1,485	4,465
Additions	7,172	981	1,144	1,444	10,741
Disposals	(121)	(4)	(266)	(168)	(559)
As at 31 December 1999	7,072	1,550	3,264	2,761	14,647
Accumulated depreciation					
As at 1 January 1999	1	53	180	153	387
Charge during the year	896	214	736	713	2,559
Disposals	–	(1)	(20)	(16)	(37)
As at 31 December 1999	897	266	896	850	2,909
Net Book Value					
As at 31 December 1999	6,175	1,284	2,368	1,911	11,738

9 FIXED ASSETS (Continued)

1998	**Furniture and fittings**	**Office equipment**	**Motor vehicles**	**Computer equipment and software**	**Total**
Group	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Cost					
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
Accumulated depreciation					
As at date of incorporation	–	–	–	–	–
Charge during the period	1	53	180	156	390
As at 31 December 1998	1	53	180	156	390
Net Book Value					
As at 31 December 1998	20	532	2,206	1,426	4,184
Company					
Cost					
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
Accumulated depreciation					
As at date of incorporation	–	–	–	–	–
Charge during the period	1	53	180	153	387
As at 31 December 1998	1	53	180	153	387
Net Book Value					
As at 31 December 1998	20	520	2,206	1,332	4,078

10 REDEEMABLE GUARANTEED ZERO-COUPON BEARER BONDS

	Group and Company	
	As at 31.12.1999	As at 31.12.1998
	RM'000	RM'000
Nominal value of bonds	10,344,400	2,601,400
Less: Unamortised discount	(2,334,994)	(743,432)
	8,009,406	1,857,968
Less : Cost of investment in own bonds	(453,292)	–
Accretion of discount	(18,540)	–
	7,537,574	1,857,968
Discount upon issuance	2,744,859	750,351
Amortisation to date	(409,865)	(6,919)
Unamortised discount as at 31 December	2,334,994	743,432

During the year, the Company issued RM7,743,000,000 (1998: 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:

	Date of issue	Date of maturity	Nominal/Maturity Value RM'000	Discounted Value RM'000
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
Third issue	29 January 1999	31 March 2004	1,105,400	788,161
Fourth issue	26 February 1999	31 March 2004	1,241,900	897,844
Fifth issue	26 March 1999	31 March 2004	1,392,900	1,013,446
Sixth issue	29 April 1999	30 June 2004	1,049,700	793,405
Seventh issue	27 May 1999	30 June 2004	511,200	389,683
Eighth issue	29 June 1999	30 June 2004	744,100	571,930
Ninth issue	29 July 1999	30 September 2004	527,200	401,848
Tenth issue	26 August 1999	30 September 2004	203,700	149,893
Eleventh issue	29 October 1999	31 December 2004	575,200	439,251
Twelfth issue	29 December 1999	31 December 2004	391,700	303,031
			10,344,400	7,599,541

10 REDEEMABLE GUARANTEED ZERO-COUPON BEARER BONDS (Continued)

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 6.2% per annum (being the internal rate of return of the bonds).

11 LONG-TERM LOANS

	Group		Company	
	As at 31.12.1999 RM'000	As at 31.12.1998 RM'000	As at 31.12.1999 RM'000	As at 31.12.1998 RM'000
Khazanah Nasional Berhad				
Total interest charge on loan	420,737	123,118	420,737	123,118
Interest charge to date	(58,900)	(877)	(58,900)	(877)
Unaccrued interest charge as at 31 December 1999	361,837	122,241	361,837	122,241
Loan redemption amount	1,220,737	423,118	1,220,737	423,118
Less: Unaccrued interest charge	(361,837)	(122,241)	(361,837)	(122,241)
	858,900	300,877	858,900	300,877
Employees Provident Fund				
Loan Principal	500,000	–	500,000	–
	1,358,900	300,877	1,358,900	300,877

The Long-Term loans relate to drawdowns on loans from Khazanah Nasional Berhad ('Khazanah') and the Employees Provident Fund ('EPF'). The interest on the Khazanah loans are at a fixed rate of approximately 6.9% per annum and are calculated on the carrying value of the loan semi-annually on a compounded basis. The interest charge for the Khazanah loans is payable on the maturity date of the loans. The interest on the EPF loan is at a fixed rate of 8% per annum and is payable on a semi-annual basis. The details of the loans are summarised below:

	Date of drawdown	Date of maturity	Repayment Amount RM'000	Principal Upon Drawdown RM'000
Khazanah First tranche	18 December 1998	18 December 2003	423,118	300,000
Khazanah Second tranche	18 March 1999	17 March 2006	797,619	500,000
EPF	28 April 1999	28 April 2004	500,000	500,000
			1,720,737	1,300,000

12 OTHER LIABILITIES

	Group		Company	
	As at 31.12.1999 RM'000	As at 31.12.1998 RM'000	As at 31.12.1999 RM'000	As at 31.12.1998 RM'000
Accruals and provisions for operational expenses	6,352	8,345	5,905	8,225
Interest payable to EPF	7,123	–	7,123	–
Deferred interest income on acquired assets	24,898	–	24,898	–
Other liabilities	25,924	616	8,815	590
	64,297	8,961	46,741	8,815

13 SHARE CAPITAL

	As at 31.12.1999 RM	As at 31.12.1998 RM
Ordinary shares of RM1 each		
Authorised:		
As at 31 December 1999	10,000,000,000	10,000,000,000
Issued and fully paid:		
As at 1 January	250,000,000	2
Issued during the financial year	1,250,000,000	249,999,998
As at 31 December 1999	1,500,000,000	250,000,000

14 RESERVES

	Group		Company	
	As at 31.12.1999 RM'000	As at 31.12.1998 RM'000	As at 31.12.1999 RM'000	As at 31.12.1998 RM'000
Accumulated losses	311,564	17,309	417,348	17,313

15 INTEREST INCOME

	Group		Company	
	Year ended 31.12.1999	Period ended 31.12.1998	Year ended 31.12.1999	Period ended 31.12.1998
	RM'000	RM'000	RM'000	RM'000
Interest income from acquired loans	40,434	433	40,434	433
Interest income on deposits and placements	78,991	5,187	71,394	5,183
Interest income on staff loans	210	19	210	19
	119,635	5,639	112,038	5,635

16 INTEREST EXPENSE

	Group		Company	
	Year ended 31.12.1999	Period ended 31.12.1998	Year ended 31.12.1999	Period ended 31.12.1998
	RM'000	RM'000	RM'000	RM'000
Bank charges	27	–	27	–
Long term loan interest expense	85,201	877	85,201	877
Amortisation of discount on zero-coupon bonds	402,946	6,919	402,946	6,919
	488,174	7,796	488,174	7,796

17 OVERHEAD EXPENSES

	Group		Company	
	Year ended 31.12.1999	Period ended 31.12.1998	Year ended 31.12.1999	Period ended 31.12.1998
	RM'000	RM'000	RM'000	RM'000
Personnel costs	14,406	2,983	14,406	2,983
Establishment costs	2,776	524	2,759	524
Administration and general expenses	7,575	11,645	7,549	11,645
	24,757	15,152	24,714	15,152

17 OVERHEAD EXPENSES (Continued)

The above expenditure includes the following expenses:

	Group		Company	
	Year ended 31.12.1999	Period ended 31.12.1998	Year ended 31.12.1999	Period ended 31.12.1998
	RM'000	RM'000	RM'000	RM'000
Auditors' remuneration				
- Statutory audit	200	35	115	25
- Other services	–	20	–	20
Directors' remuneration (Note 18)	918	388	918	388
Depreciation	2,741	390	2,559	387
Rental of premises	2,144	288	1,798	288
Consultancy fees in relation to establishment of company	–	9,518	–	9,518
Hire of equipment	359	104	359	104
Loss on sale of fixed assets	8	–	8	–

18 DIRECTORS' REMUNERATION

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

	Group and Company	
	Year ended 31.12.1999	Period ended 31.12.1998
	RM'000	RM'000
Fees	76	30
Other remuneration		
- Executive director	650	249
- Non-executive directors	192	109
	918	388

19 CORPORATE TAX EXEMPTION

Following the Letter from the Minister of Finance dated 4 September 1998, by the powers vested onto the Minister of Finance under Section 127(3) (b) Income Tax Act 1967, the Company and its subsidiaries are exempted from income tax liabilities for three years commencing Year of Assessment 1999 until Year of Assessment 2001.

Statement By Directors Pursuant To Section 169(15) Of The Companies Act, 1965

We, Raja Tun Mohar Raja Badiozaman and Dato' 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 77 to 94 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 1999 and of the results and cash flows of the Group for the financial year 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

Dato' Mohamed Azman Yahya
Managing Director

Kuala Lumpur
23 March 2000

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 1999 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 year 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 abovenamed Ee Kok Sin at Kuala Lumpur in Wilayah Persekutuan on 23 March 2000

before me:

Barathan a/l Sinniah @ Chinniah
Commissioner For Oaths
Kuala Lumpur

Report Of The Auditors To The Members Of Pengurusan Danaharta Nasional Berhad

(Company No. 464363 W)

We have audited the accounts set out on pages 77 to 94. 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 1999 and of the results of the Group and the Company and cash flows of the Group for the financial year 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
23 March 2000

DANAHARTA is a special word coined by the Government referring to assets in both financial and physical form. As such, to promote an awareness of Danaharta and its mission to manage such assets, it was decided to make the name itself the logo - that is, a logotype.

The blue of the logotype conveys strength and determination - qualities needed in abundance to achieve Danaharta's objectives i.e., to resolve non-performing loans (NPLs) acquired from financial institutions and to maximise their recovery value. The coin in the centre of the logo signifies the tool of trade for financial institutions, befitting Danaharta's role as a major government agency helping to restructure and reform the banking sector, whilst the rich matte gold hue of the coin represents Danaharta's national standing. The cursive script used in the logotype is a reference to the creativity and resourcefulness required to formulate solutions to difficult challenges.

Pengurusan Danaharta Nasional Berhad 464363W

Tingkat 10, Bangunan Setia 1, 15 Lorong Dungun, Bukit Damansara, 50490 Kuala Lumpur, Malaysia.
Tel: 603-253 1122 Fax: 603-253 4360 Website: www.danaharta.com.my