Annual Report 2002

DANAHARTA

Pengurusan Danaharta Nasional Berhad

Cover Rationale

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

The cover concept features **ANTS** - universally known as an industrious species. The ability to organise, speed of execution and determination to achieve goals are some of the characteristics associated with ants. Ants also have impressive collective problem-solving capabilities. An ant colony usually works in teams and each ant performs diligently a particular task for the greater interest of the colony, whilst sacrificing its own . A common example seen daily is ants going about their normal business to collect food to ensure the continued survival of the colony.

Like the ant colony, Danaharta relies on teamwork and speed of execution to achieve its objectives. Danaharta is designed with minimal hierarchy and driven by function. Professionals with different skills and assigned to different tasks come together to achieve organisational goals.

Having identified recovery strategies for each NPL in its portfolio, Danaharta is now focussed on implementing the strategies and collecting recovery assets. However, collection is an arduous task and will require the combined efforts of every employee. Like the ants, Danaharta is determined to keep going until its objectives have been achieved.

Contents

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Fifth 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 2002 including the Directors' Report and the Auditors' Report thereon.
   (Resolution 1)

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

AS SPECIAL BUSINESS
Ordinary Resolutions

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

3. "That the Directors' fees and allowances of RM258,000 for the financial year ended 31 December 2002 be approved."
   (Resolution 3)

4. "That Y. Bhg. Dato' Ho Ung Hun be re-appointed as a Director in accordance with Section 129(6) of the Companies Act, 1965."
   (Resolution 4)

By Order of the Board

PHANG TUCK KEONG
SHAMSIAH A. RAHMAN
Joint Company Secretaries

Kuala Lumpur
2 April 2003

Corporate Information

Corporate Information

BOARD OF DIRECTORS

Dato' Mohamed Azman Yahya - ***Chairman***
Dato' Abdul Hamidy Hafiz - ***Managing Director***
Datin Husniarti Tamin
Dato' Mohd Salleh Hj Harun
Dato' N. Sadasivan
Dato' Ho Ung Hun
Dato' Mohamed Md Said
Mr. Alister T. L. Maitland
Mr. David Moir

JOINT COMPANY SECRETARIES

Mr. Andrew Phang Tuck Keong
Puan Shamsiah A. Rahman

BOARD COMMITTEES

Executive Committee
Dato' Mohamed Azman Yahya - *Chairman*
Datin Husniarti Tamin
Dato' N. Sadasivan
Dato' Abdul Hamidy Hafiz

Audit Committee
Dato' Ho Ung Hun - *Chairman*
Dato' Mohd Salleh Hj Harun
Mr. Alister T. L. Maitland

Remuneration Committee
Dato' Mohamed Azman Yahya - *Chairman*
Dato' N. Sadasivan
Dato' Mohamed Md Said
Mr. David Moir

NON-BOARD COMMITTEES

Oversight Committee
Datuk Siti Maslamah Osman
Dato' Mohd Razif Abdul Kadir
Datuk Ali Tan Sri Abdul Kadir

Tender Board
Dato' Abdul Hamidy Hafiz
Mr. Ee Kok Sin
Encik Zainuddin Abdul Rahman
Encik Abdul Halim Othman

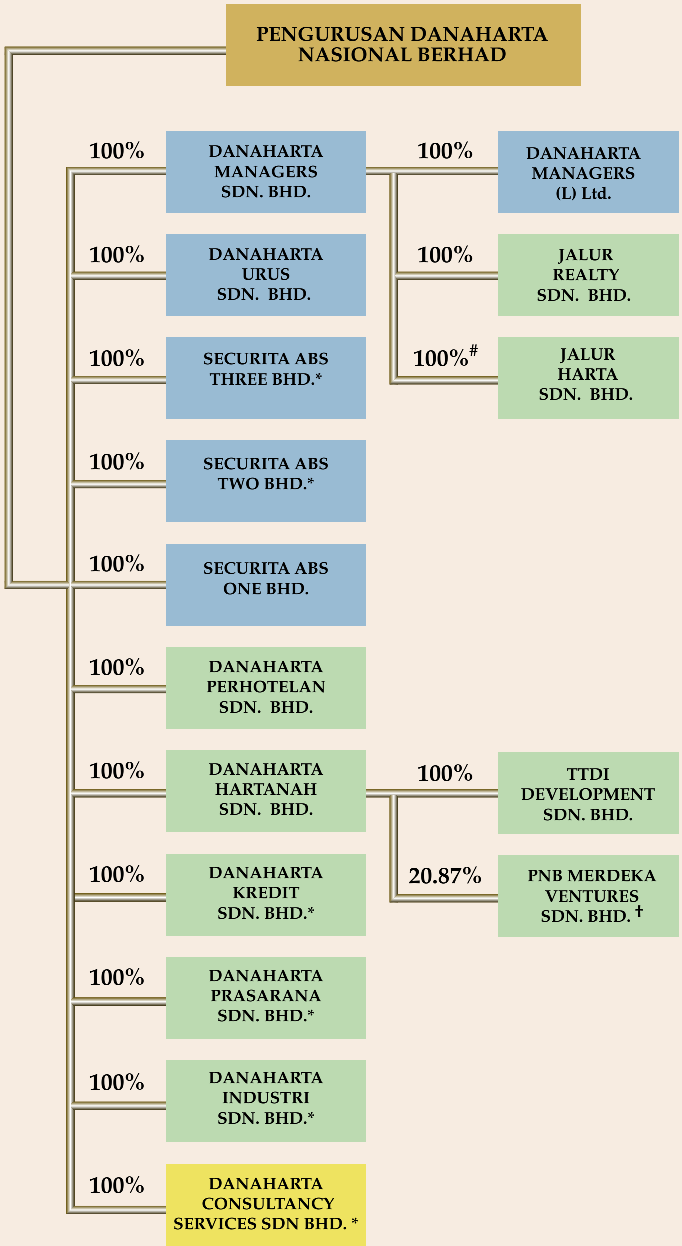
REGISTERED OFFICE

Tingkat 10, Bangunan Setia 1,
15 Lorong Dungun, Bukit Damansara
50490 Kuala Lumpur, Malaysia.
Tel: 603-2093 1122
Fax: 603-2093 4360

AUDITORS

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

Danaharta Group of Companies as at 31 December 2002



* Dormant as at 31 December 2002

\# Effective holding

† Total stake was disposed off on 13 March 2003

Loan Management Subsidiaries

Asset Management Subsidiaries

Key Management Personnel

PENGURUSAN DANAHARTA NASIONAL BERHAD

Dato’ Abdul Hamidy Hafiz
Managing Director

Encik Zukri Samat
Director, Operations

Encik Johan Ariffin
Senior General Manager, Property

Encik Fazlur Rahman Ebrahim
General Manager 1, Operations
(resigned w.e.f. 24 January 2003)

Encik Kris Azman Abdullah
General Manager 2, Operations

Encik Shariffuddin Khalid
General Manager, Communications and Human Resource

Mr. Andrew Phang Tuck Keong
General Manager, Legal Affairs and Joint Company Secretary

Mr. Ee Kok Sin
General Manager, Finance and Services

Puan Fatimah Abu Bakar
General Manager, Internal Audit and Compliance

Mr. Ramesh Pillai
General Manager, Risk Management
(seconded to Bank Negara Malaysia w.e.f. 18 September 2002)

Dato’ Derrick Fernandez
Senior General Manager, Corporate Debt Restructuring Division
(resigned w.e.f. 31 July 2002)

Mr. Eric Kew Ngai Yin
General Manager, Corporate Services
(resigned w.e.f. 31 March 2003)

TTDI DEVELOPMENT SDN BHD GROUP

Encik Johan Ariffin
Executive Director (w.e.f. 1 July 2002)

Dato’ Syed Hamid Hussain Al-Habshee
Group Chief Executive Officer (resigned w.e.f 31 August 2002)

Chairman's Statement

Chairman's Statement

On behalf of the Board of Directors, it is my pleasure to present to you the annual accounts and report for Pengurusan Danaharta Nasional Berhad for the financial year ended 31 December 2002.

Since its inception in mid 1998, Danaharta - the national asset management company ("AMC") has been making steady strides to fulfill its mission to resolve non-performing loans ("NPLs") previously removed from the banking system. However, given the passage of time and the tendency to focus on specific activities in our operations, a reiteration of the overall scheme of Danaharta is beneficial. As such, to facilitate easy understanding, we reproduce our mission flowchart that seeks to depict (in a single chart) all the activities carried out by Danaharta at each stage of its unique single lifecycle from establishment to targeted closure. The "Mission Flowchart" as illustrated on the next page, now acts as a basis and a roadmap for our six-monthly operations reports which feature key statistics on Danaharta's progress. Information in the reports is now laid out in the order depicted on the Mission Flowchart.

The Mission Flowchart begins with the injection of funds from the Government into Danaharta as initial capital. To-date, a total of RM14.54 billion in the form of paid up capital (RM3 billion), direct loans (RM0.4 billion) and zero coupon bonds (RM11.14 billion) have been utilised for the establishment and operations of the national AMC.

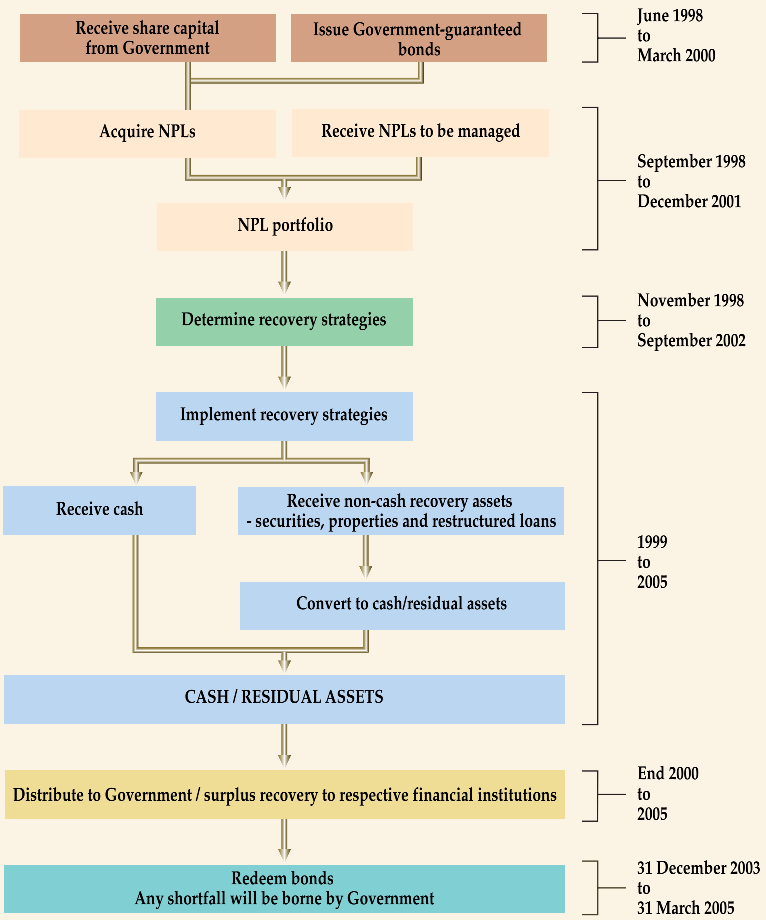
Next on the Flowchart was the build up of Danaharta's NPL portfolio. The portfolio comprised two components - one being loans acquired from nearly 70 financial institutions ("FIs") and the other being loans managed on behalf of the Government originally from Sime Bank Group and Bank Bumiputra Group. The Sime Bank Group and Bank Bumiputra Group have now ceased to exist. To encourage FIs to sell their NPLs to Danaharta, Danaharta agreed to share 80% of any surplus recovery (i.e. where recoveries exceeded the initial acquisition price plus related costs) with the FIs. As at 31 December 2002, Danaharta has an NPL portfolio totalling RM47.76 billion (value of loan rights acquired["LRA"]). Danaharta completed its acquisition phase on 31 March 2000 and will not be acquiring any more NPLs from the banking system.

With an NPL portfolio in hand, Danaharta then proceeded to determine recovery strategies - account by account (see Flowchart). In the main, Danaharta's recovery strategies run from restructuring loan repayments, corporate restructuring schemes (under section 176 of the Companies Act or under Special Administrators appointed by Danaharta) to settlement agreements and foreclosure and sale of collateral. Once the recovery strategies were identified, they would be implemented to generate recovery. As at 31 December 2002, Danaharta has dealt with all the NPLs in its portfolio. In other words, Danaharta has agreed on/identifed the appropriate recovery strategies for each account in its NPL portfolio.

Recovery operations are crucial as the objective in resolving the NPLs is to ensure that as much recovery is extracted from each NPL account. Generating maximum recovery will in turn impact on the eventual cost to be borne by the Government.

As the Flowchart shows, recovery operations result in recovery assets being generated in four forms - cash, properties, securities and restructured loans. The non-cash recovery assets received by Danaharta comprise restructured loans (i.e. rehabilitated NPLs paying out over a period of time), properties and securities that would be converted into cash over time. As at 31 December 2002, Danaharta expected to recover a total of RM30.19 billion - of which RM18.93 billion (or approximately 63% of the total expected recovery) has been received in both cash and non-cash recovery assets. Of this amount, RM14.61 billion (including adjustments) has been realised in cash.

MISSION FLOWCHART



Next on the Flowchart is distribution of the cash generated. As at 31 December 2002, for recovery relating to the managed loans component, Danaharta has distributed a total of RM10.92 billion to the Government since that component is managed on their behalf. For recovery relating to the acquired loans component, Danaharta has distributed a total of RM345.2 million and 55.9 million of securities to the relevant financial institutions in accordance with the surplus recovery sharing arrangement described earlier. As depicted by the Flowchart, pursuant to the distribution exercise, the balance of cash would be stockpiled for bond redemption and operational requirements.

The emphasis that Danaharta places on cash generation is mainly driven by the desire to redeem Danaharta's bonds as and when they become due. The first tranche of the Danaharta bonds will come due on 31 December 2003, with the remaining tranches maturing in every subsequent quarter up to 31 March 2005. To this end, Danaharta has initiated a tracking system to monitor and manage the process of matching the receipt of recoveries and, where necessary, the subsequent conversion into cash to meet the maturing bonds. It is Danaharta's aim to carry out redemption of the bonds without having to call upon the government guarantee.

As such, from now until closure of operations - targeted to be 2005, Danaharta's main activities will revolve around implementing recovery strategies, collection of recoveries, conversion of non-cash recovery assets into cash and distribution.

As at 31 December 2002, the overall expected recovery rate stood at 57% (increasing slightly from 56% from the year before). Over time, the overall expected recovery rate has fluctuated slightly. The fluctuation occurs mainly because of defaults e.g. a loan is restructured but subsequently defaults. In calculating the overall expected recovery rates, Danaharta assumes a very conservative stance of assigning zero recovery value to defaulted loans until an alternative recovery strategy is identified. When the alternative recovery strategy is being implemented, a new expected recovery value will be assigned and the overall expected recovery rate would then change accordingly. A defaulted loan can be revived when the borrower pays the outstanding amount and interest incurred during the default period or when an alternative strategy is identified to recover the loan. Only in the case where a new strategy is identified will the overall expected recovery be affected. Unfortunately, more often than not, the new recovery method will derive a lower recovery rate causing the expected recovery rate to decline. Actual recovery rates will be calculated at the closure of Danaharta's operations.

When discussing recovery rates, it is opportune to consider a misconception that has arisen - in part due to Danaharta's good performance to-date. The misconception is that Danaharta is profitable or will be profitable. In this context, it is important to realise that national AMCs are not profit making enterprises and even the ones considered to be highly successful such as Sweden's Securum and the US' Resolution Trust Corporation in the end cost taxpayers money. National AMCs are essentially a cost mitigation measure (designed to protect the integrity of a banking system) as the alternative of experiencing the collapse of a banking system would be inherently more expensive and catastrophic for the country.

In the past, commentators have compared Danaharta's average expected recovery rate (approximately 57% or 57 sen for every RM NPL) against the notional cost of the acquired loans component (approximately 45.6 sen for every RM NPL) and concluded that the positive margin reflected profits being made. However, this analysis is flawed. To begin with, the expected recovery rate of 57 sen is in relation to *both* managed and acquired loans components whilst the 45.6 sen relates *only* to the acquired loans component. The rule would be to compare like with like. In this regard, the average recovery rate for the acquired loans component is approximately 50 sen for every RM NPL. Comparing 50 sen to 45.6 sen still implies a slight positive margin but this is eroded by holding and operational costs. In addition, 80% of surpluses recovered are given back to relevant FIs whilst losses suffered are borne solely by Danaharta. Danaharta will not be able to use a surplus from a profitable account to offset the losses in another account. With regard to the managed loans component, there is no profit to be made as the cost to the Government was the book value of the loans. Danaharta's role is merely to extract the best recovery for such loans. Therefore, it is still very likely that Danaharta will end up loss making.

Like other businesses, the success of Danaharta's recovery operations hinges on the prevailing economic condition in the country. A robust economy will ease the implementation of the approved recovery strategies and help to clinch higher recovery rates. The possibility of defaults will also be markedly reduced in a positive economic environment.

A significant recent development is the Court of Appeal decision to declare Section 72 of the Danaharta Act as unconstitutional and void. We intend to appeal this judgement to the highest level i.e. Federal Court as we firmly believe that the powers contained in the Danaharta Act are constitutional and fair given our special circumstances.

Section 72 basically prohibits the granting of any injunction against Danaharta. It is there so that Danaharta does not suffer undue delay in carrying out its work in a timely manner. Time is money; delays will invariably cost the taxpayer. It is important to note that the Act does not prevent an aggrieved party from suing Danaharta and winning compensation. It is also worth noting that the decision to declare Section 72 void does not mean that Danaharta cannot carry out its work. It can operate as other powers remain intact. However, we may face delays when injunctions are brought against us as we need to litigate in court.

TRANSPARENCY AND PUBLIC RELATIONS

In line with Danaharta's strong emphasis on transparency in its operations, it continued to hold public briefings, issue quarterly status reports on its operations, update its comprehensive website on a regular basis, and reply to Parliamentary queries. Our objective is to enable everyone who is interested in tracking Danaharta's activities to do so with minimal effort. We believe in proactively providing information to improve understanding about Danaharta's operations and to minimise misconceptions.

Danaharta's model and approach continued to be of interest to international agencies and other countries. During the year, Danaharta hosted numerous visits and made comprehensive briefings to delegations from IMF, Asian Development Bank, Turkey, and China Huarong Asset Management Corporation.

FINANCIAL RESULTS

Danaharta Group made a consolidated net loss of RM141.20 million for the period ended 31 December 2002. Operating expenditure was also kept low at RM72.05 million resulting from the lean organisation structure and continued emphasis on effective cost management. No dividends were declared during the year.

CORPORATE DEVELOPMENTS

From 1 August 2001 to 31 July 2002, the Corporate Debt Restructuring Committee ("CDRC") and Danaharta shared a common Chairman. This was to ensure close coordination between the two entities. On 31 July 2002, CDRC was officially closed having dealt with 47 cases with a total debt of about RM44 billion. Parallel with this development, the Corporate Debt Restructuring Division ("CDRD"), a division that had been created in 2001 within Danaharta to provide support to the CDRC, was also closed down.

Also, during the year, an internal reorganisation took place resulting in a merger between Danaharta's Property Division and TTDI Development Sdn Bhd ("TTDI"), a wholly owned subsidiary of Danaharta. As of 1 August 2002, the two bodies were integrated as one operating unit. Pursuant to the reorganisation, Encik Johan Ariffin, as Senior General Manager of Property Division, became TTDI's Executive Director. Danaharta had previously acquired TTDI from a Government agency to provide property-related expertise and manpower. TTDI is not an NPL borrower nor is it intended to be finite life. It is run as a commercial entity on a going concern basis. Going forward, it will continue its main business of property development whilst providing property services to Danaharta. Upon closure of Danaharta's operations, it is envisaged that ownership of TTDI will be divested. The merger is aimed at enhancing operational efficiency in respect of Danaharta's activities.

ORGANISATION

Danaharta has 265 staff members and a project organisation's lean and flat structure. It is common for project organisations like Danaharta to carry out internal reorganisations frequently in response to project requirements as it progresses through the different phases in its lifecycle. In this connection, Danaharta has undergone several internal reorganisation exercises over the past two years.

The latest reorganisation, effective from 1 December 2002, has streamlined the organisation structure from nine (9) divisions down to six (6) divisions. Aside from the closure of the Corporate Debt Restructuring Division, the Risk Management Division was merged with the Legal Affairs Division and the Corporate Services

Division was disbanded with its staff redeployed to other divisions.
Danaharta now has the following structure:

- Operations Group to undertake and manage loan recovery activities
- Property Division (part of TTDI) to undertake property management and organise tender of property assets
- Legal Affairs and Risk Division to provide legal/company secretarial support and risk analysis
- Communications and Human Resource Division to provide communications, research and HR support
- Finance and Services Division to provide accounting, IT and general administration support; and
- Internal Audit and Compliance Division.

As Danaharta moves forward, the organisation faces a human resource challenge. Firstly, Danaharta staff, by and large, are sought after by the market due to their unique work experience so attrition can be expected. Secondly, recruitment has stopped given the proximity to the 2005 closure date. As workloads run down and functions become redundant, we need to seek a balance between shedding staff and retaining enough key staff to ensure completion of our mission.

ACKNOWLEDGEMENTS

On behalf of Danaharta and the Board, I wish to express my gratitude to the following for their support and co-operation:

The National Economic Action Council;
Ministry of Finance;
Ministry of Land and Cooperative Development and Land Offices nationwide;
Bank Negara Malaysia;
Securities Commission;
Attorney-General's Chambers
Kuala Lumpur Stock Exchange;
Foreign Investment Committee;
The Corporate Debt Restructuring Committee;
Danamodal Nasional Berhad;
The financial community; and
Government ministries and departments and regulators at both federal and state level.

A vote of appreciation goes to the members of the Tender Board and the Oversight Committee for their time and effort involving Danaharta.

On behalf of the Board, I thank the management and staff of Danaharta for their perseverance in confronting the challenges posed to date. It is hoped that the resourcefulness and determination shown by the management and staff thus far will endure to ensure the final success of Danaharta.

In this regard, I would like to thank three senior management members who have since left to pursue their careers in the private sector, Dato' Derrick Fernandez, Encik Fazlur Rahman Ebrahim and Mr Eric Kew. Their contribution to Danaharta was immense and much appreciated. I would also like to extend my sincere appreciation to everyone involved in the CDRC. Together, we were able to complete its mandate on schedule.

The Board recognises the key role played by our consultants, advisers and business associates to support Danaharta in its work. We also acknowledge the NPL borrowers who have co-operated with our resolution teams and shown patience and tolerance in coping with their situation.

As the Chairman, I am most grateful to all the Board members who have given their kind support and co-operation throughout the year. The Board members' active participation during Board meetings and in the various Board committees required by Danaharta's corporate governance policies clearly indicates their strong commitment to their duties in Danaharta.

DATO' AZMAN YAHYA
Chairman

Board of Directors & Management Team

Board of Directors

From left to right - First Row

- Yang Berbahagia Dato' Mohd Salleh Hj Harun
- Yang Berbahagia Dato' Azman Yahya
- Yang Berbahagia Dato' Abdul Hamidy Hafiz
- Yang Berbahagia Dato' N. Sadasivan

From left to right - Second Row

- Yang Berbahagia Dato' Ho Ung Hun
- Mr. Alister Maitland
- Mr. David Moir

From left to right - Third Row

- Puan Shamsiah A. Rahman (Joint Company Secretary)
- Mr. Andrew Phang (Joint Company Secretary)

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2

Absent

1 Yang Berbahagia Dato' Mohamed Md Said
2 Yang Berbahagia Datin Husniarti Tamin

Dato' Mohamed Azman Yahya - *Chairman*
Dato' Azman was appointed by the Minister of Finance as the Chairman of Danaharta on 1 August 2001. Immediately prior to his appointment as Chairman, he served as the Managing Director of Danaharta since its inception on 20 June 1998 until 31 July 2001. He holds a Bachelor's degree in Economics with first class honours from the London School of Economics and Political Science from the University of London and is a member of the Institute of Chartered Accountants in England and Wales, the Malaysian Institute of Accountants and a Fellow of the Institute of Bankers Malaysia.

Dato' Azman is the founder and Group Chief Executive of Symphony House Berhad, a listed IT and corporate services group. He also sits on the board of several listed and private companies including Sime Darby Berhad, Malaysian Airline System Berhad, PLUS Expressways Berhad and AE Multi Holdings Berhad. He serves as a member of the advisory panels for the Malaysian Financial Sector Masterplan, Malaysia Venture Capital Management Berhad and the Securities Commission Capital Market Advisory Council. Dato' Azman was also the Chairman of the Corporate Debt Restructuring Committee, which was set up to mediate and assist in the debt restructuring of viable companies.

Dato' Abdul Hamidy Hafiz - *Managing Director*
Dato' Hamidy was appointed by the Minister of Finance as the Managing Director of Danaharta on 1 August 2001. He holds a Bachelor's degree in Business Administration and an MBA from Ohio University, USA. He is also a Fellow of the Institute of Bankers Malaysia.

Prior to his appointment, Dato' Hamidy served as Director of Operations for Danaharta since its inception in June 1998. As Director of Operations and a senior member of the management team, he oversaw all loan management activities carried out by the agency – ranging from establishing procedures and processes to acquisition of non performing loans (NPLs); to management and recovery work.

He has extensive experience in corporate banking and banking operations both with local and international financial institutions. Immediately prior to joining Danaharta, Dato' Hamidy held several senior positions in the Amanah Capital Group (then a financial services and property group).

Dato' Hamidy is a member of the Kuala Lumpur Stock Exchange Listing Sub-Committee and was also a member of the Corporate Debt Restructuring Committee. He is also a Director of Intria Berhad, Malaysia Building Society Berhad, Crest Petroleum Berhad, Syarikat Prasarana Negara Berhad and Malaysia Debt Ventures Berhad.

Datin Husniarti Tamin - *Director*
Datin Husniarti was appointed to Danaharta's Board of Directors and Executive Committee in August 2000. She is currently the Deputy Secretary - General (Systems and Control) of Treasury, Ministry of Finance.

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

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

Dato' Mohd Salleh Hj Harun - *Director*
Dato' Salleh was appointed to Danaharta's Board of Directors in September 2000. He became a Deputy Governor of Bank Negara Malaysia in May 2000.

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

Dato' Salleh was on the board of Bank Industri Malaysia Berhad until 15 February 2002. He is Chairman of Credit Guarantee Corporation Malaysia Berhad.

He is a member of the Malaysian Association of Certified Public Accountants.

Dato' N. Sadasivan - *Director*
Dato' Sadasivan was with the Malaysian Industrial Development Authority (MIDA) for 27 years where he last served as its Director-General from 1984 to 1995. Prior to joining MIDA, he was an Economist/Head of Division with the Economic Development Board (EDB) of Singapore (1963 - 1968).

Dato' Sadasivan also sits on the boards of Chemical Company of Malaysia Berhad, Leader Universal Holdings Berhad, Petronas Gas Berhad, Amanah Capital Partners Berhad, APM Automotive Holdings Berhad, Malaysian Airline System Berhad and he is also a Director of Bank Negara Malaysia.

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

Dato' Mohamed Md Said - *Director*
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 Petroliam Nasional Berhad (1975 - 1979); and Deputy Public Prosecutor/Federal Counsel at the Attorney General's Chambers (1970 - 1974).

Mr. Alister Maitland - *Director*
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 with ANZ, 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 Deputy Chairman of the Victorian Schools of Innovation Commission and Chairman of Eastern Health Network Victoria, ComLand Ltd, Folkestone Limited, Bevington Consulting Ltd and Australian Centre for International Business, University of Melbourne.

Mr. David Moir - *Director*
Mr. Moir is currently a non-executive Director and Advisor to Standard Chartered Bank plc, United Kingdom. He has served the Standard Chartered Bank Group in various capacities since 1958. Mr. Moir was the Group Executive Director of Standard Chartered plc from 1993 to 2000, where he was responsible for the bank's corporate and institutional banking operations worldwide. He assumed his current position with Standard Chartered Bank plc in 2000. Throughout his career as a banker, Mr. Moir has acquired experience in commercial and investment banking, finance and trust company operations, as well as in the areas of corporate governance and compliance.

Apart from being a director of a number of financial institutions and banking councils, Mr. Moir served as an Appointed Member of the Hong Kong Exchange Fund Advisory Committee, as well as on International and Asia Pacific Boards of VISA international. He was also a former member of the Philippines British Council and Singapore International Chamber of Commerce. Mr. Moir was appointed Fellow of the Institute of Bankers Malaysia (IBBM) in 1987, and was appointed Commander of the Order of the British Empire (CBE) in 2000.

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

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

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

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

Datuk Siti Maslamah sits on the boards of several governmental agencies including Universiti Kebangsaan Malaysia, Kumpulan Wang Simpanan Guru, Lembaga Piawaian Perakaunan Malaysia and Institut Akauntan Malaysia. In addition, she is a council member of the Chartered Institute of Management Accountants (CIMA) Malaysia Division.

Datuk Siti Maslamah is also a Fellow of CIMA, United Kingdom and a Chartered Accountant of the Malaysian Institute of Accountants.

Dato' Mohd Razif Abdul Kadir
Dato' Mohd Razif is the Assistant Governor of Bank Negara Malaysia (BNM), the central bank of Malaysia.

He graduated with a Bachelor of Economics (Hons) degree from the University of Malaya and obtained his Masters in Business Administration (majoring in Finance) from the Syracuse University, Syracuse, New York, USA. He joined BNM in 1976 and since then has held various senior positions in BNM. Among others, he was the Chief Representative of the London Representative Office; and Director of Bank Regulation Department. He was seconded to the Labuan Offshore Financial Services Authority (LOFSA) as its Director General from 1999 to 2001.

He sits on the Board of Directors of Financial Park Sdn. Bhd., TPPT Sdn. Bhd. and Cagamas Berhad. He is a member of the Employees' Provident Fund Investment Panel, National Trust Fund and the Cagamas Berhad's Audit Committee. He is also the Chairman of the Technical Committee of the Islamic Financial Services Board (IFSB).

Datuk Ali Tan Sri Abdul Kadir
Datuk Ali is Chairman of the Securities Commission ("SC"), a post he assumed on 1 March 1999. He is Chairman of the Capital Market Advisory Council and a member of the Foreign Investment Committee, Financial Reporting Foundation and the National Economic Consultative Council II (MAPEN II). He also sits on the Finance Committee on Corporate Governance and is a member on the Labuan Offshore Financial Services Authority.

Datuk Ali is Chairman of the Asia-Pacific Regional Committee of the International Organisation of Securities Commissions (IOSCO), member of the IOSCO Executive Committee, and Chairman of its Islamic Task Force. He is also a member of the Accounting and Auditing Organisation for Islamic Financial Institution Board (AAOIFI).

Before assuming his present position, Datuk 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 in 1974. Datuk Ali was also the President of the Malaysian Association of Certified Public Accountants (MACPA), before his appointment as Chairman of the SC.

Dato' Abdul Hamidy Hafiz
Managing Director

Encik Zukri Samat
Director, Operations

Encik Johan Ariffin
Senior General Manager, Property

Standing
Encik Fazlur Rahman Ebrahim
General Manager 1, Operations

Sitting
Encik Kris Azman Abdullah
General Manager 2, Operations

Mr. Andrew Phang
General Manager,
Legal Affairs
Joint Company Secretary

Mr. Ramesh Pillai
General Manager,
Risk Management

Encik Shariffuddin Khalid
General Manager,
Communications and
Human Resource

Mr. Ee Kok Sin
General Manager,
Finance and
Services

Mr. Eric Kew
General Manager,
Corporate Services

Puan Fatimah Abu Bakar
General Manager,
Internal Audit and Compliance

Corporate Governance

COMPLIANCE WITH THE CODE

Danaharta's Board of Directors ("Board") and Management adhere closely to the principles and international best practices on corporate governance as outlined in the Malaysian Code on Corporate Governance ("Code"), which was issued in March 2000. In light of heightened public scrutiny, increased regulation and, the changing landscape of risk, the company continues to conduct its business with integrity and exercise a high level of transparency and objectivity throughout 2002 and to date.

The Board's and Management's commitment to good corporate governance is demonstrated by their establishment of Danaharta's Standards Business Conduct ("SBC"), which aims at instilling three values: honesty, transparency and fairness in the company and employees. This SBC sets high ethical business standards and practices for business conduct and the code of behavior for employees to adhere to. The SBC is supplemented by the Guidelines on Handling of Frauds, Defalcations, Breaches of the SBC and Misdemeanors. In addition to the SBC, all directors are required to adhere to the Directors' Code of Ethics. Responsibility for implementation of these policies and guidelines rests primarily with Management, whilst the Audit Committee ("AC") provides the oversight.

BOARD OF DIRECTORS

Danaharta continues to have a strong and experienced Board, befitting the national asset management company's role as a government agency set up to restructure the banking sector. It consists of representatives from the Government (Ministry of Finance and Bank Negara Malaysia), private sector and international community with suitable qualifications and experience in relevant areas e.g. banking and property sectors. This brings depth and diversity in expertise and perspective to the leadership of Danaharta and allows for an independent and objective analysis of major issues. Directors' profiles appear on pages 15 to 17, reflect clearly the wide range of experiences critical to the management of a national asset management company.

Board's Responsibilities

The Board is responsible for the policies and general affairs of Danaharta and retains full and effective control of the company. This includes responsibility for: determining Danaharta's general policies and strategies for the short, medium and long term; approving business plans, including targets and budgets; and making all major strategic decisions. The Board's terms of reference disclosed on page 27 of this annual report provide an outline of its role and functions.

The following Board Committees with certain delegated responsibilities were set up when Danaharta started operations in 1998.

- The Board Executive Committee ("EXCO") acts as a sub committee of the Board and is primarily to assist the Board in discharging its primary role of overseeing Danaharta's operations.

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

- The AC is responsible for providing oversight on reviewing the adequacy and integrity of the internal control system and overseas the work of the internal and external auditors.

In addition to the above Committees, under Section 22 of the Pengurusan Danaharta Nasional Berhad Act, 1998, an independent Oversight Committee ("OC") was established in November 1998, which comprised three members who are representatives from Ministry of Finance, Bank Negara Malaysia and Securities Commission. OC is responsible for approving the appointments of Special Administrators and Independent Advisors, any extension or termination of moratorium periods given to companies under Special Administrators, and the termination of the services of Special Administrators and the administration of companies.

The above Committees conduct their functions as set out in their terms of reference which are disclosed in this annual report. During the year 2002, the Board, the EXCO and RC held four, eleven and three meetings respectively. The Directors' attendance at these meetings reflects the high level of commitment given to Danaharta.

Board Composition & Balance

Since Danaharta started operations in June 1998, the Board's composition has not changed and comprises the Managing Director ("MD") and eight non-executive directors. There are six independent non-executive Directors and two non-independent non-executive Directors. Board meetings are presided by a non-executive independent Chairman whose role is clearly separated from the role of the MD, (who does not have any voting rights), to ensure a balance of power and authority.

Appointments & Re-election to the Board

All directors are appointed to the Board by the Minister of Finance ("MOF") as per Section 5 of the Pengurusan Danaharta Nasional Berhad Act 1998 ("Danaharta Act"). In the second half of 2001, MOF approved the renewal for a two-year period the term of five non-executive directors including the newly appointed Chairman, and appointed one new member to the Board to replace one non-executive director. Since then there has been no new appointment or renewal of tenure.

Directors' Training

All newly appointed non-executive Directors undergo a company briefing to facilitate their understanding of Danaharta's operations. With the exception of three non-executive Directors, all the other Directors have gone through the Mandatory Accreditation Programme conducted by the Research Institute of Investment Analysts Malaysia, an affiliate of the Kuala Lumpur Stock Exchange (KLSE).

Supply of Information to the Board

About seven days before each Board meeting, Directors are provided with an agenda and board papers for each agenda item to be discussed.

The Board reviews the monthly performance (as per the Management Report) that includes a comprehensive review and analysis of Danaharta's operations and financial issues. In addition, the Minutes of the Board Committee meetings and the Management Committee meetings and other issues are also tabled and considered by the Board.

Procedures are in place for Directors to seek both independent professional advice at the company's expense and the advice and services of the Company Secretary in order to fulfil their duties and specific responsibilities.

DIRECTORS' REMUNERATION

Level and Make-up

The MD's remuneration is made up of salary, allowances and bonus. Other customary benefits are also made available as appropriate. Salary reviews take into account market rates and the performance of the individual and Danaharta.

Non-executive Directors' emoluments consist of two components - an annual flat fee as a Board member and an allowance for attendance of meetings at a standard rate. The directors fees and allowances were recommended by the Board/Remuneration Committee and approved by the Minister of Finance, Incorporated (as sole shareholder) at the Annual General Meeting ("AGM"). There were no changes to the annual flat fee and standard rate for meeting allowance in 2002.

Directors' emoluments are disclosed in the relevant note to the financial statements as an aggregate sum, in conformance to the relevant legislation.

SHAREHOLDERS

Dialogue between Companies and Shareholders

Danaharta is wholly owned by the Government of Malaysia through Minister of Finance (Incorporated). The MD meets with the Minister of Finance regularly and attends the Post-Cabinet meetings and the Bank Negara Malaysia's Bank Steering Committee meetings. At the weekly meetings for the Heads of Divisions ("HODs"), MD briefs the HODs on any pertinent issues discussed.

Annual General Meeting (AGM)

Danaharta is wholly owned by the Minister of Finance (Inc.) AGMs are held by way of shareholders circular resolution. The 4th AGM to table the Annual Report and financial statements for year ending December 2001, was held on 3 June 2002 by way of shareholders circular resolution.

ACCOUNTABILITY AND AUDIT

Directors' Responsibility Statement in respect of the Preparation of the Audited Financial Statements

The Companies Act 1965 requires that the Directors ensure financial statements prepared for each financial year give a true and fair view of the state of affairs of the Company and the Group as at end of the financial year, and of the results and cash flow of the Group for the financial year. In presenting the financial statements for the financial year ending 2002, the Board is confident that Danaharta has used appropriate accounting policies, which are consistently applied and supported by reasonable and prudent judgements and estimates. The Board is reasonably assured that Danaharta has maintained proper accounting records and prepared the financial statements to comply with the Companies Act 1965, approved accounting standards in Malaysia and other regulatory provisions.

Danaharta's Internal Control System

The Statement on Internal Control is set out on pages 31 and 32 of the annual report. It provides an overview on the implementation of the risk management process/framework as well as how the internal control system has been designed to manage, rather than eliminate, the risk of failure in achieving Danaharta's objectives.

The Board exercises proper management and protection of the company's loan and property assets by ensuring: proper implementation of the risk management policy and functioning of the risk management framework and process, as well as implementation of a sound system of internal control and for seeking regular assurance on its effectiveness.

Responsibility for providing oversight on reviewing the adequacy and integrity of the internal control system rests with the AC. The AC relies on the results of independent appraisals performed primarily by internal auditors and the outcome of statutory audits on financial statements conducted by external auditors. Since 2001, the Board places reliance on representations by Management based on their control self-assessments for their areas of responsibility.

Minutes of AC meetings provide a summary of the proceedings, and are tabled at the Board meeting for notation and discussion. The AC/Board and Management also receive quarterly Audit Summary Reports, which include an opinion on effectiveness of Danaharta's overall internal control framework.

Danaharta has an established Internal Audit & Compliance Division reporting functionally to the AC and administratively to the MD. The division is responsible for conducting independent appraisals in accordance with the approved 2002 Internal Audit Plans. Details of Internal Audit & Compliance Division's operations are disclosed in this annual report.

Relationship with Auditors

The Board through the AC maintains a professional and arms length relationship with the external auditors. The AC is authorized to communicate directly with both the external and internal auditors. A full AC report outlining its role in relation to the Auditors is set out on page 26.

Financial Reporting

Danaharta continues to subscribe to the philosophy of transparency, fair, reliable and easily understandable reporting to stakeholders. The Board reflected its commitment by giving updated assessments on Danaharta's performance through its six-monthly Operations Report, quarterly announcements, ad hoc press conferences, regular press announcements and press conferences as well as briefings to analysts, fund managers, media and real estate agents throughout 2002.

The Board acknowledges and accepts full responsibility for the financial information contained in this annual report and by which it provides a balanced, clear and meaningful assessment of its financial position and prospects as presented here in this and all other reports to the stakeholders, regulatory authorities and public.

All published information on Danaharta is also available on the company's website - *www.danaharta.com.my.*

The Audit Committee ("AC") was set up to maintain and enhance public confidence in the credibility and objectivity of the Board and Management of Danaharta. The first meeting was held in November 1998. Responsibility for providing oversight on reviewing the adequacy and integrity of the internal control system rests with the AC, which conducts its activities in accordance with the terms of reference set out on page 30.

MEMBERSHIPS AND MEETINGS

The Committee comprises the following three independent, non-executive directors:-
Y.Bhg. Dato' Ho Ung Hun (Chairman)
Y.Bhg. Dato' Mohd Salleh Hj Harun
Mr Alister T.L. Maitland

In the financial year ending 31 December 2002, the Committee had four meetings, as scheduled on 28 January, 5 April, 19 July and 21 October 2002 and all members attended the four meetings.

These meetings were also attended by the Managing Director, Director, Operations, GM, Finance & Services, GM, Risk Management (later replaced by GM, Legal & Risk) and GM, Internal Audit and Compliance ("IAC"), who acted as Secretary to the Audit Committee.

The Group's external auditors attended two of the meetings during the period including one where the Managing Director (who is a Board executive member) left the room to allow the Committee members time with the auditors only.

SUMMARY OF ACTIVITIES

At the above quarterly scheduled meetings, the AC reviewed the Internal Audit Summary Report prepared by GM, IAC. This report provided the Committee with an update on business environment, Danaharta's performance and an opinion on the status of Danaharta's overall internal control framework based on the results of the audits and observations made. The significant results of the audits were tabled and discussed, including follow-up on the progress or completion of the agreed actions arising from the audits performed. At these quarterly meetings, IAC also briefed the Committee on the division's performance against agreed key performance indicators.

In 2002, the Committee implemented a formal reporting on risk issues and conducted a forum at the AC meeting to discuss these issues; tabled minutes of TTDI's AC meetings for notation and were also briefed on any significant issues; and reviewed and recommended for Board's approval the changes to the Internal Audit Charter.

Some of the main issues discussed at the AC meetings were:
- The new accounting standards applicable to the consolidated financial statements for the year ended 31 December 2002;
- Adequacy of provision for diminution in property values;
- Activities to prepare for cessation of Danaharta end 2005;
- Accountabilities for specific risk issues;
- Treatment on residual liability; and
- Appointment of independent directors for Danaharta's subsidiary, TTDI.

Danaharta's IAC division was set up in September 1998. It reports functionally to the AC and administratively to the Managing Director. The division assists the AC in discharging its responsibilities in providing oversight by conducting independent appraisals. To this end, the AC acknowledges the support and co-operation given by Management and staff of IAC Division in assisting the Committee in discharging our roles and responsibilities. A review of the IAC Division's activities is set out on page 95.

Terms of Reference of the Board of Directors

MEMBERSHIP

The Board is appointed by the Minister of Finance and comprises the following members:

- A non-executive Chairman
- A Managing Director
- Two Federal Government officials
- Three members from the private sector
- Two members from the international community

MEETINGS

The Board meets at least once each quarter. The quorum for meetings is two members. The Managing Director attends and participates in discussions at Board meetings but does not have any voting rights.

The Board met four times during the period under review.

AUTHORITY

The Board is responsible for the policy and general administration of the affairs and business of Danaharta.

FUNCTIONS

The functions of the Board include the following:

- Formulate general policies and strategies for the Danaharta Group.

- Appoint key management which will translate the general policies and strategies into detailed business plans.

- Review and assess the Danaharta Group's financial and operational performance.

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

- Appoint the Executive Committee, Remuneration Committee and Audit Committee and approve their respective Terms of Reference.

- Appoint Danaharta's external auditors as well as determine their remuneration.

Terms of Reference of the Executive Committee (EXCO)

MEMBERSHIP

The EXCO, appointed by the Board of Directors, is made up of the Chairman, the Managing Director and one member each representing the Government and the private sector.

MEETINGS AND REPORTING

Meetings are scheduled on a monthly basis, with additional meetings set as the need arises. There should be a quorum of at least two members.

The EXCO may invite any other person it deems fit to attend its meetings to provide additional assistance or information only. These persons may not take part in any decisions made by the EXCO.

The relevant information and schedules required for the meetings should be prepared by the various Heads of Divisions prior to the meetings.

The EXCO met eleven times in the period under review.

AUTHORITY

The EXCO, which acts as a sub-committee of the Board, has been authorised by the Board to assist the Board in overseeing the operations of Danaharta. The Board may, from time to time, also confer additional powers to the EXCO to assist the Board in carrying out its roles and responsibilities.

FUNCTIONS

Included in the EXCO's functions to assist the Board of Directors are the following:

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

MEMBERSHIP

The Board of Directors appoints at least three members to the RC from among the non-excutive Directors of Danaharta, being the Chairman and one member each representing the local private sector and the international community.

When the number falls bellow three for whatever reason, the Board shall, within three months of that event, appoint such number of new members. The Board shall review the terms of office of the RC member at least once every three years.

MEETINGS AND REPORTING

The RC is only required to meet once annually in line with the current policy to revise remuneration of and declaration of bonus to its employees on an annual basis. There should be a quorum of at least two.

The meeting shall be held after the annual statutory audit but prior to the approval of the financial statements by the Board and before the Annual General Meeting of Danaharta. However, special meetings can be convened at the request of the Managing Director.

The relevant information and schedules required for the annual meeting should be prepared by the management prior to the meeting.

The RC met three times in the period under review.

AUTHORITY

The RC, which acts as a sub-committee of the Board, has been authorised to assist the Board to provide an independent and unbiased review, assesment and determination of Danaharta's remuneration structure and policy.

The RC is also given the authority to investigate any matters within its terms of reference, the resources which it needs to do so, and full access to information.

FUNCTIONS

The main functions of the RC include:

- Provide an independent and unbiased review, assessment and determination of Danaharta Group's remuneration structure and policy. This review encompasses all levels of employees, from the Managing Director to executive and clerical levels.

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

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

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

- Review, assess and determine the remuneration of the Managing Director and General Manager, Internal Audit and Compliance.

MEMBERSHIP

The Board of Directors appoints at least three members from among the non-executive Directors of Danaharta. The members of the AC shall elect a Chairman who shall be an independent Director.

When the number of members fall below three for whatever reason, the Board shall, within three months of that event, appoint new members as may be required to make up the minimum of three members. The Board shall review the terms of office of the AC member at least once every three years.

MEETINGS AND REPORTING

Meetings shall be held at least twice a year. The General Manager, Internal Audit & Compliance (IAC) and external auditors may request a meeting if they consider that one is necessary.

The Managing Director, the General Manager of Finance & Services, the General Manager of IAC, representatives of the external auditors and other Board members may be invited to attend meetings of the AC. However, at least once a year the AC shall meet with the external auditors without the executive Board member present.

The Secretary of the AC shall circulate the minutes of meetings of the AC to all members of the Board.

AUTHORITY

The AC is authorised by the Board to investigate any activity within its Terms of Reference. It can seek any information it requires from any employee and all employees are directed to co-operate with any request made.

The AC is also authorised to obtain independent legal and professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

FUNCTIONS

The independence of the AC serves to implement and support the oversight function of the Board in the following ways:

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

The Board of Directors' ("Board"), role is to oversee Danaharta's loan recovery and asset disposal operations by providing general guidance on direction and policies. We are positive that we have fulfilled our responsibilities with due diligence and care to safeguard our shareholders' investment and the company's assets.

Most importantly, the Board has made the necessary appointments to ensure that Danaharta's operations conform to its published missions ["to remove non-performing loan ("NPL") distraction" and "to maximise recovery value"]. As guardian of Danaharta's loan and property assets, the Board has exercised proper management and protection of these assets by ensuring proper implementation of a risk management policy and functioning of the risk management framework and process, as well as implementation of a sound system of internal control and for seeking regular assurance on its effectiveness.

Management has implemented a framework for managing risk in accordance with risk management policy and also effected a sound system of internal control designed to manage, rather than eliminate, the risk of failure in achieving Danaharta's objectives. The company's primary objectives are "maximising recovery value to fully redeem the Danaharta bonds and to minimise shareholder's contingent liability at cessation by end 2005".

The Board has delegated the responsibility for providing oversight on reviewing the adequacy and integrity of the internal control system to the Audit Committee ("AC"). The Internal Audit & Compliance Division assists the AC in discharging this responsibility by conducting independent appraisals of business operations and support activities and providing an opinion on the adequacy and integrity of Danaharta's overall internal control framework. The Committee also relies on the outcome of statutory audits on financial statements conducted by external auditors and since 2001 on representations from Management.

RISK ASSESSMENT

Danaharta's risk management policy has been in operation since 2000 and revisions to this policy have since been approved in July 2002. A process for assessment of risks and, suitable internal control systems to mitigate and manage the identified risks are in operation.

The risk management framework has been established since the company started operations in September 1998 with the set up of the Risk Management division. Subsequent to an internal reorganisation exercise which saw the merger of the Risk Management Division and the Legal Affairs Division, the Risk Management function was reassigned to a Unit reporting to the General Manager, Legal Affairs and Risk. The Unit is headed by an Assistant General Manager. The Board and AC are reasonably assured that these changes have not affected the risk management process, which is still operating adequately throughout 2002 and up to the date of the approval of the 2002 Annual Report and Financial Statements.

The risk management system consists of at the strategic level, the identification and analysis of principal risks by Management as part of the business planning and review process and at the operational level, the independent risk review of the loan management papers, asset management papers and investment proposal papers by the Risk Management Unit. Thus, this forms part of an ongoing process of managing business risks (recovery risk, credit risk, interest risk and valuation risk). Principal areas of risks are subjected to quarterly reporting and review by the AC/Board and Management throughout 2002.

INTERNAL CONTROL

Danaharta's internal control system is based on a clear definition of responsibility and delegation of authority to a number of Board and Management Committees. The roles and responsibilities for these committees are defined in their terms of references and their authority is spelt out in the Authority Manual. The Authority Manual was last reviewed and updated in 2002 to reflect the relevancy and practice.

Policies and procedures based on assessment of risks for almost all the business and support activities have been developed and implemented. In 2002, the company completed a major exercise to update the existing policies and procedures to reflect current practices and relevancy.

The system of internal control is also based on a framework of regular management information, administrative procedures including a system of clear definition of roles and responsibilities. In particular, it includes:

- A comprehensive collection budgeting process with an annual plan approved by the Board. The business results are reported monthly and compared to the plan. Forecasts are prepared annually and reviewed regularly throughout the year. Danaharta announces its business results through its published half-yearly Operations Report and the Annual Report;

- A clearly defined approved policies and procedures that meet international standards as defined in the various policy and procedures manuals, which employees are required to abide by when conducting their work;

- Divisional objectives, which are set to be in line with Danaharta's objectives. Individuals also set their own objectives, which are aligned, to the divisional objectives. Work activities are supervised and performance monitored and evaluated i.e. actual results against the agreed targets and objectives; and

- Regular (monthly) reporting and review of performance of loan recovery operations at the Management Credit Committee, disposal and sale of property at the Asset Management Committee, investment and disposal of securities at the Asset & Liability Committee and the overall business performance at the Management Executive Committee.

These control systems, which are designed to manage, rather than eliminate, the risk of failure in achieving Danaharta's objectives can only provide reasonable and not absolute assurance against material misstatement and loss.

ASSURANCE

The AC provides assurance on the effectiveness of Danaharta's overall internal control framework to the Board, based on the Audit Summary report presented at the quarterly AC meetings. The Summary report provides an opinion on the state of internal control based on the results of audits conducted on key business operations and activities and auditors' observations and investigations, etc. These reports together with the Minutes of AC meetings are tabled to the Board for notation and discussion (when applicable). A full AC report outlining its role in relation to the Auditors is set out on page 26 of the annual report.

Since 2001, the Managing Director ("MD") has made an annual representation to the Board on the state of Danaharta's overall internal control system by submitting a "statement on internal control". The MD's submission is based on his Divisional Heads' representations based on their self-assessment of the internal control systems for their areas of responsibility. In making his representation, the MD also takes into consideration the results of independent audits performed by internal auditors in 2002.

Finally, with the above assurances and external auditors' comments as per their audit report on the financial statements for financial year ending December 2002, the Board concluded that:-

"Danaharta's overall internal control system/framework continues to be robust and functioning satisfactorily to provide reasonable assurance of it achieving its primary objectives of maximising recovery value to fully redeem its bonds and to minimise shareholder's contingent liability at cessation by end 2005.

Throughout 2002 and to date, control issues requiring attention are highlighted and appropriate actions are taken promptly by Management. Outstanding actions (if any) however are not expected to significantly impact the adequacy and integrity of the overall internal control system in providing reasonable assurance of achieving its business objectives."

Financial Statements

The Directors have pleasure in submitting their report with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2002.

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 13 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
Loss after taxation	140,906	51,418
Minority Interest	292	0
Net loss for the year	141,198	51,418

DIVIDENDS

There were no dividends paid or declared by the Company during the financial year.

RESERVES AND PROVISIONS

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

SHARE CAPITAL

The Company has not issued any new shares during the financial year.

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:

Dato' Mohamed Azman Yahya
Datin Husniarti Tamin
Dato' Mohd Salleh Hj Harun
Dato' Ho Ung Hun
Dato' N. Sadasivan
Dato' Mohamed Md Said
Alister T.L. Maitland
David Moir
Dato' Abdul Hamidy Abdul Hafiz

One of the Directors, Dato' Ho Ung Hun, is over 70 years of age. In accordance with S129(2) of the Companies Act, 1965, he will retire as Director in the forthcoming Annual General Meeting but is eligible for re-appointment subject to the approval of the shareholders pursuant to Section 129(6) of the Companies Act, 1965.

DIRECTORS´ BENEFITS

During and at the end of the financial year, no arrangements subsisted to which the Company or its subsidiary companies is a party, being arrangements with the object or objects 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.

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than directors' remuneration as disclosed in the financial statements) 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.

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.

ACQUIRED ASSETS

Before the financial statements 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 allowances for diminution in acquired assets. Based on this assessment, as at 31 December 2002, other than the allowances for diminution in acquired assets as disclosed in note 6, there were no other write-offs against nor allowances for diminution in acquired assets.

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

CURRENT ASSETS

Before the income statements and balance sheets were made out, the Directors took reasonable steps:

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

- to ensure that any current assets, other than debts, which were unlikely to realise in the ordinary course of business their values as shown in the accounting records of the Group and Company had been written down to an amount which they might be expected so to realise.

VALUATION METHODS

At the date of this report, the Directors are not aware of any circumstances:

- which would render the amounts written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and Company inadequate to any substantial extent; or
- which would render the values attributed to the current assets in the financial statements of the Group and Company misleading; or
- which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and Company misleading or inappropriate.

CONTINGENT AND OTHER LIABILITIES

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

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

(a) any charge on the assets of the Group or 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 Company which has arisen since the end of the financial year.

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 financial statements of the Group and of the Company, that would render any amount stated in the financial statements 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.

Signed on behalf of the Board of Directors in accordance with their resolution dated 25 March 2003.

DATO' MOHAMED AZMAN YAHYA
Chairman

DATO' ABDUL HAMIDY ABDUL HAFIZ
Managing Director

Kuala Lumpur

Income Statements

for the Financial Year Ended 31 December 2002

	Note	Group		Company	
		31.12.2002 RM'000	31.12.2001 RM'000	31.12.2002 RM'000	31.12.2001 RM'000
Revenue	4	**944,462**	577,831	**537,441**	333,490
Cost of Sales		**(166,562)**	(120,696)	**0**	0
Gross profit		**777,900**	457,135	**537,441**	333,490
Dividend Income		**0**	0	**310,000**	0
Other Income	3(d)	**12,971**	11,115	**5,253**	6,029
Overhead expenses	5	**(72,045)**	(73,206)	**(43,527)**	(44,505)
Allowance for diminution in acquired assets	6	**(304,362)**	(150,250)	**(311,648)**	(105,948)
Allowance for diminution in associate		**(6,470)**	0	**0**	0
Profit from operations	7	**407,994**	244,794	**497,519**	189,066
Finance Cost	8	**(548,941)**	(557,644)	**(548,937)**	(557,532)
Share of losses from associated companies		**(191)**	(213)	**0**	0
Loss before taxation		**(141,138)**	(313,063)	**(51,418)**	(368,466)
Taxation	9	**232**	7,277	**0**	0
Loss after taxation		**(140,906)**	(305,786)	**(51,418)**	(368,466)
Minority interest		**(292)**	(173)	**0**	0
Net loss for the year		**(141,198)**	(305,959)	**(51,418)**	(368,466)

The notes on pages 43 to 71 form an integral part of these financial statements.

Financial Statements

Balance Sheets

as at 31 December 2002

	Note	Group 31.12.2002 RM'000	Group 31.12.2001 RM'000	Company 31.12.2002 RM'000	Company 31.12.2001 RM'000
NON-CURRENT ASSETS					
Acquired assets	10	**6,611,572**	7,343,397	**6,378,291**	7,229,478
Investment properties	11	**69,620**	67,494	**0**	0
Property, plant and equipment	12	**7,749**	11,588	**3,092**	5,742
Investment in subsidiary companies	13	**0**	0	**3,250**	3,250
Investment in associated companies	14	**56**	64,542	**0**	0
		6,688,997	7,487,021	**6,384,633**	7,238,470
CURRENT ASSETS					
Inventories		**39,995**	42,292	**0**	0
Property development expenditure	15	**129,150**	136,362	**0**	0
Trade and other receivables	16	**97,107**	88,217	**600,053**	502,270
Investment in associated company	14	**57,825**	0	**0**	0
Investment in marketable securities	17	**586,908**	787,565	**586,864**	787,521
Other investment	18	**396,590**	1,483,944	**396,590**	1,483,944
Cash and cash equivalents	19	**2,778,080**	1,870,015	**2,578,154**	1,533,093
		4,085,655	4,408,395	**4,161,661**	4,306,828
LESS: CURRENT LIABILITIES					
Provisions	20	**47,749**	50,065	**18,547**	19,212
Trade and other payables	21	**519,441**	296,776	**521,436**	269,523
Taxation		**131**	522	**0**	0
		567,321	347,363	**539,983**	288,735
NET CURRENT ASSETS		**3,518,334**	4,061,032	**3,621,678**	4,018,093
LESS: NON-CURRENT LIABILITIES					
Deferred Taxation	22	**5,004**	5,054	**0**	0
Redeemable guaranteed zero-coupon bearer bonds	23	**7,856,421**	8,579,871	**7,856,421**	8,579,871
Long term loans	24	**399,340**	874,724	**399,340**	874,724
Joint venture	25	**748**	973	**0**	0
		8,261,513	9,460,622	**8,255,761**	9,454,595
		1,945,818	2,087,431	**1,750,550**	1,801,968
CAPITAL AND RESERVES					
Share capital	26	**3,000,000**	3,000,000	**3,000,000**	3,000,000
Reserves		**(1,054,182)**	(912,984)	**(1,249,450)**	(1,198,032)
Shareholders' equity		**1,945,818**	2,087,016	**1,750,550**	1,801,968
Minority interest		**0**	415	**0**	0
		1,945,818	2,087,431	**1,750,550**	1,801,968

The notes on pages 43 to 71 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

for the Financial Year Ended 31 December 2002

	Share capital RM'000	Accumulated losses RM'000	Total RM'000
Balance as at 1.1.2002	3,000,000	(912,984)	2,087,016
Net loss for the year	0	(141,198)	(141,198)
Balance as at 31.12.2002	**3,000,000**	**(1,054,182)**	**1,945,818**
Balance as at 1.1.2001	3,000,000	(607,025)	2,392,975
Net loss for the year	0	(305,959)	(305,959)
Balance as at 31.12.2001	3,000,000	(912,984)	2,087,016

The notes on pages 43 to 71 form an integral part of these financial statements.

Company Statement of Changes in Equity

for the Financial Year Ended 31 December 2002

	Share capital RM'000	Accumulated losses RM'000	Total RM'000
Balance as at 1.1.2002	3,000,000	(1,198,032)	1,801,968
Net profit for the year	0	(51,418)	(51,418)
Balance as at 31.12.2002	**3,000,000**	**(1,249,450)**	**1,750,550**
Balance as at 1.1.2001	3,000,000	(829,566)	2,170,434
Net loss for the year	0	(368,466)	(368,466)
Balance as at 31.12.2001	3,000,000	(1,198,032)	1,801,968

The notes on pages 43 to 71 form an integral part of these financial statements.

Consolidated Cash Flow Statement
for the Financial Year Ended 31 December 2002

	Note	31.12.2002 RM'000	31.12.2001 RM'000
CASH FLOW FROM OPERATING ACTIVITIES			
Loss after taxation		**(141,198)**	(305,786)
Adjustments for:			
Depreciation of property, plant and equipment		**3,946**	4,731
Interest expense		**548,817**	557,529
Interest income less amortisation of premium		**(199,906)**	(161,993)
Gain on disposal of property, plant and equipment		**(425)**	(107)
Gain on disposal of marketable securities		**(57)**	(1,068)
Share of losses from associated companies		**191**	213
Provision for diminution in associated companies		**6,470**	0
Allowance for diminution in acquired assets		**304,362**	150,250
(Write back)/allowance for doubtful debts		**(50)**	714
Write-down of inventories		**4,800**	9,761
Write-down of investment in marketable securities		**0**	20
Bad debts written off		**57**	0
Operating profit before working capital changes		**527,007**	254,264
Movements in operating assets and liabilities:			
Acquired assets		**427,463**	773,444
Other assets		**55,227**	(16,048)
Redeemable guaranteed zero-coupon bearer bonds		**(1,207,264)**	(128,853)
Other liabilities		**226,507**	22,102
Net cash flow from operating activities		**28,940**	904,909
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of marketable securities		**0**	(286,707)
Purchase of other investment		**0**	(1,741,829)
Purchase of property, plant and equipment		**(1,028)**	(1,394)
Proceeds from sale of marketable securities		**218,009**	52,788
Proceeds from sale of other investment		**1,133,984**	324,500
Proceeds from sale of property, plant & equipment		**1,346**	140
Interest received		**74,372**	64,595
Net cash flow from investing activities		**1,426,683**	(1,587,907)
CASH FLOW FROM FINANCING ACTIVITIES			
Interest paid		**(47,401)**	(40,122)
Payment of borrowings		**(500,000)**	(760)
Advances to joint venture company		**(157)**	333
Net cash flow from financing activities		**(547,558)**	(40,549)
Net increase in cash and cash equivalents		**908,065**	(723,547)
Cash and cash equivalents at beginning of year		**1,870,015**	2,593,562
Cash and cash equivalents at end of year	19	**2,778,080**	1,870,015

The notes on pages 43 to 71 form an integral part of these financial statements.

Company Cash Flow Statement

for the Financial Year Ended 31 December 2002

	Note	31.12.2002 RM'000	31.12.2001 RM'000
CASH FLOW FROM OPERATING ACTIVITIES			
Loss after taxation		**(51,418)**	(368,466)
Adjustments for:			
Depreciation of property, plant and equipment		**2,849**	3,497
Interest expense		**548,813**	557,417
Interest income less amortisation of premium		**(148,650)**	(145,195)
Gain on disposal of property, plant and equipment		**(346)**	0
Gain on disposal of marketable securities		**(57)**	(1,068)
Allowance for diminution in acquired assets		**311,648**	105,948
Operating profit before working capital changes		**662,839**	152,133
Movements in operating assets and liabilities:			
Acquired loans		**539,539**	901,629
Other assets		**(86,950)**	(129,028)
Redeemable guaranteed zero-coupon bearer bonds		**(1,207,264)**	(128,853)
Other liabilities		**258,262**	(137,480)
Net cash flow from operating activities		**166,426**	658,401
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of marketable securities		**0**	(286,707)
Purchase of other investment		**0**	(1,741,829)
Purchase of property, plant and equipment		**(335)**	(472)
Proceeds from sale of marketable securities		**218,009**	52,788
Proceeds from sale of other investment		**1,133,984**	324,500
Proceeds from sale of property, plant and equipment		**482**	1
Investment in subsidiary companies		**0**	(250)
Interest received		**73,892**	63,720
Net cash flow from investing activities		**1,426,032**	(1,588,249)
CASH FLOW FROM FINANCING ACTIVITIES			
Interest paid		**(47,397)**	(39,890)
Payment of borrowings		**(500,000)**	0
Net cash flow from financing activities		**(547,397)**	(39,890)
Net increase/(decrease) in cash and cash equivalents		**1,045,061**	(969,738)
Cash and cash equivalents at beginning of year		**1,533,093**	2,502,831
Cash and cash equivalents at end of year	19	**2,578,154**	1,533,093

The notes on pages 43 to 71 .form an integral part of these financial statements.

1. PRINCIPAL ACTIVITIES

The Company is principally engaged in the business of acquiring and managing non-performing loans ('NPLs') from financial institutions with a view of maximising recovery values. The principal activities of the Company´s subsidiary companies are stated in Note 13 to the accounts.

There have been no significant changes in these principal activities during the financial year. The Company is incorporated and domiciled in Malaysia.

The number of employees at the end of the financial year amounted to 424 (2001: 479) employees in the Group and 216 (2001: 228) employees in the Company.

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and it is wholly owned by the Minister of Finance Incorporated.

The address of the registered office of the Company is Tingkat 10, Bangunan Setia 1, 15 Lorong Dungun, Bukit Damansara, 50490 Kuala Lumpur, Malaysia.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

(b) Basis of consolidation
The consolidated financial statements include the financial statements of the Company and all its subsidiary companies made up to 31 December 2002 except for those subsidiary companies as disclosed in Note 13(d) to the financial statements. All material inter-company transactions have been eliminated on consolidation.

(c) Revenue Recognition

(i) Interest income
Interest income on acquired loans is recognised on a receipt basis. All other interest income is recognised on an accrual basis. The income accreted from investments in own bonds is netted-off against the finance cost of the bonds.

(ii) 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 financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Revenue Recognition (continued)

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

(iv) Income from property development
Income from property development is recognised using the percentage of completion method. Where foreseeable losses are anticipated, full provision for these losses is made in the financial statements.

(v) Sale of properties are recognised upon full settlement and full compliance of the terms and conditions in the sales and purchase agreement.

(vi) Rental income is recognised on an accrual basis in accordance with the tenancy agreement.

(d) Other income

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

(e) Acquired loans

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

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

(i) Properties
Properties are valued by a panel of independent professional valuers.

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

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

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

(f) Allowance for diminution in acquired loans

Secured acquired loans
Specific allowances 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 allowances 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.

(g) Acquired properties

The investment in acquired properties is stated at the consideration paid by Danaharta Hartanah Sdn Bhd and Danaharta Perhotelan Sdn Bhd to acquire the properties. Diminution in value will be provided when the sales price or revised valuation performed by external valuers is lower than the carrying value.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Property development expenditure

Properties under development comprising land and development expenditure are stated at cost plus attributable profit less foreseeable losses, net of progress billing. Development expenditure includes interest expense on loans and advances utilised to finance on-going development.

(i) Investment properties

Investment properties principally comprising leasehold land and building, are held for long term rental yields. Investment properties are treated as long term investments and stated at valuation. The Group revalues its long term investments every five years. Additions subsequent to the date of valuation are stated at cost until the next revaluation exercise.

Any surplus arising from revaluation is dealt with in the investment revaluation reserve. Any deficit arising is offset against the revaluation reserve to the extent of a previous increase from the same investment. In all other cases, a decrease in the carrying amount is charged to the income statement. On disposal of the investment property, the difference between the net disposal proceeds and the carrying amount is charged or credited to the income statement.

(j) 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, by which, the Company has power to exercise control over the financial and reporting policies so as to obtain benefits from their activities. Subsidiary companies are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. Subsidiary companies are consolidated using the acquisition method of accounting. 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.

Intragroup transactions, balances and unrealised gains on transactions are eliminated, unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, adjustments are made to the financial statements of subsidiary companies to ensure consistency of accounting policies with those of the Group.

Minority interest is measured at the minorities' share of the post acquisition fair values of the identifiable assets and liabilities of the acquiree. Separate disclosure is made of minority interest.

(k) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Freehold land, building in progress and renovations in progress are not depreciated. Depreciation of other property, plant and equipment is calculated to write off the cost of the property, plant and equipment 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	10% - 33 ⅓%
Computer equipment and software	33 ⅓%
Motor vehicles	25%
Leasehold land and buildings	2%
Car park equipment	20%
Office renovation	10%

When an indication of impairment exists, the carrying amount of the asset is assessed and written down immediately to its recoverable amount. Gain and losses on disposals are determined by comparing proceeds with carrying amount and are included in profit/(loss) from operations.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) 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 yield to date 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 yield to date basis over the duration of the loan. The total principal and interest is payable at maturity.

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.

(m) 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 yield to date 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 investment in marketable securities are valued at cost of purchase plus the accretion of discount less amortisation of premium on a yield to date basis.

(n) Foreign currency

Foreign currency translations in Group Companies are accounted for at exchange rates prevailing at the transaction dates. Foreign currency monetary assets and liabilities are translated at exchange rates prevailing at the balance sheet date. Exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are included in the income statement.

The principal closing rate used in the translation of foreign currency amounts are as follows:

Foreign Currency	**31.12.2002**	31.12.2001
1 USD	**3.800**	3.800
1 SGD	**2.192**	2.060
100 JPY	**3.209**	2.887

(o) Investment in associated companies

Associated companies are companies in which the Group exercises significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the associated companies but not control over those policies. Investments in associated companies are accounted for in the consolidated financial statements by the equity method of accounting.

Equity accounting involves recognising in the income statement the Group's share of the results of associated companies for the period. The Group's investments in associated companies are carried in the balance sheet as an amount that reflects its share of the net assets of the associated companies and includes goodwill on acquisition.

Unrealised gains and losses on transactions between group companies and associated companies have been eliminated to the extent of the Group's interest in the associated companies unless the transaction provides evidence on impairment of the asset transferred. Where necessary, in applying the equity method, adjustments have been made to the financial statements of associated companies to ensure consistency of accounting policies with the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Jointly controlled entities

Jointly controlled entities are corporations, partnerships or other entities over which there is contractually agreed sharing of control by the Group and one or more parties. The Group's investments in jointly controlled entities are accounted for in the consolidated financial statements by the equity method of accounting.

(q) Accounting for leases

Leases of property, plant and equipment where the Group assumes substantially all the benefits and risks of ownership are classified as finance leases.

Finance leases are capitalised at the estimated present value of the underlying lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest element of the finance charge is charged to the income statement over the lease period.

The property, plant and equipment acquired under finance lease contracts are depreciated over the useful life of the asset.

(r) Deferred taxation

Provision is made using the liability method of taxation deferred by timing differences except where the tax effects of such timing difference are expected to be deferred indefinitely.

Deferred tax benefits are recognised only if there is reasonable expectation of their realisation.

(s) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks, bank overdrafts and short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(t) Inventories

Completed properties held for resale are stated at the lower of cost and net realisable value. Cost is determined on a specific identification basis and includes land, all direct building costs, interest charges relating to the financing of the development and other related development costs.

(u) Trade Receivables

All known bad debts are written off and specific allowance is made for all known doubtful debts.

(v) Capitalisation of borrowing costs

Borrowing costs incurred on capital work-in-progress, properties under development and gross amount due from contract customers are capitalised. Capitalisation of borrowing costs will cease when the assets are ready for their intended use.

The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is the weighted average of the borrowing costs applicable to the Group's borrowings that are outstanding during the year, other than borrowings made specifically for the purpose of financing a specific capital work-in-progress, property under development or gross amount due from contract customers, in which case the actual borrowing costs incurred on that borrowing less any investment income on the temporary investment of that borrowing will be capitalised.

Capitalisation of borrowing costs is suspended during extended periods in which active development is interrupted.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Provisions

Provisions are recognised when the Group or the Company has a present legal or contractual obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate of the amount can be made.

(x) Financial instruments

(i) Financial instruments recognised in the balance sheet

The Group's financial instruments which are recognised in the balance sheet comprise acquired assets, investment in marketable securities, other investment, redeemable guaranteed zero-coupon bearer bonds, long term loans, other borrowings and other items such as trade and other receivables and trade and other payables that arise directly from its operations.

(ii) Financial instruments not recognised in the balance sheet

The Group has bonds issued by its subsidiary companies, namely Danaharta Managers Sdn Bhd ('DMSB'), Danaharta Urus Sdn Bhd ('DUSB') and Securita ABS One Berhad ('Securita') which are not recognised on the balance sheet for reasons disclosed in Notes 13(a), 13(b), 13(c) and 13(d)(ii).

(iii) Fair value estimation for disclosure purposes

In estimating the fair values of financial instruments, the following assumptions and bases were applied:

(a) The fair values of acquired assets approximate their carrying values as periodic reviews are conducted on the underlying securities of the acquired assets to assess any impairment to the carrying value. Where an indication of impairment exists, the carrying value of acquired assets is assessed and written down immediately to its recoverable amount.

(b) The carrying value of trade and other receivables, with a maturity of less than one year, is assumed to approximate fair value.

(c) The fair value of marketable securities is determined based on the market yield of the same or similar instruments at the balance sheet date as disclosed in Note 17.

(d) The fair value of other investment is determined based on the market yield of the same or similar instrument at the balance sheet date as disclosed in Note 18.

(e) The carrying amount of cash and cash equivalents approximate fair values because of the short maturity periods of these instruments.

(f) The carrying value of trade and other payables, with a maturity of less than one year, is assumed to approximate fair value.

(g) The fair value of the redeemable guaranteed zero-coupon bonds at the balance sheet date is determined based on the market yield of Malaysian Government Securities with the same tenor as disclosed in Note 23.

(h) The fair value of the long term loan at the balance sheet date is determined based on the weighted average of the yield of the same instruments at balance sheet date as disclosed in Note 24.

4. REVENUE

	Group 31.12.2002 RM'000	Group 31.12.2001 RM'000	Company 31.12.2002 RM'000	Company 31.12.2001 RM'000
Interest income on deposits and placements	**115,290**	61,100	**64,034**	44,302
Interest income on marketable securities	**37,985**	34,279	**37,985**	34,279
Interest income from other investment	**46,631**	66,614	**46,631**	66,614
	199,906	161,993	**148,650**	145,195
Interest income from acquired loans	**372,333**	165,070	**372,333**	165,070
Income from recoveries on acquired loans	**16,458**	23,225	**16,458**	23,225
Revenue from acquired properties	**112,007**	66,420	**0**	0
Revenue from property development	**86,380**	80,454	**0**	0
Management fee income	**157,378**	80,669	**0**	0
	944,462	577,831	**537,441**	333,490

5. OVERHEAD EXPENSES

	Group 31.12.2002 RM'000	Group 31.12.2001 RM'000	Company 31.12.2002 RM'000	Company 31.12.2001 RM'000
Personnel costs	**36,205**	36,665	**29,822**	29,687
Establishment costs	**5,974**	6,243	**5,168**	5,383
Administration and general expenses	**29,866**	30,298	**8,537**	9,435
	72,045	73,206	**43,527**	44,505

6. ALLOWANCES FOR DIMINUTION IN ACQUIRED ASSETS

	Group 31.12.2002 RM'000	Group 31.12.2001 RM'000	Company 31.12.2002 RM'000	Company 31.12.2001 RM'000
As at 1 January	**256,204**	105,954	**203,902**	97,954
Charged to income statement	**304,362**	150,250	**311,648**	105,948
As at 31 December	**560,566**	256,204	**515,550**	203,902

During the year, certain foreclosed properties, which had undergone the Tender Process, were sold at less than their respective Fair Purchase Price ('FPP') . This shortfall was provided for against Acquired Loans as the loan rights of the corresponding loans are still outstanding. For unsold properties, allowance was made for any shortfall between the carrying value and the revised valuation performed by external valuers.

During the year, additional allowance for diminution has been made for accounts off-set by properties and shares and accounts with pledged shares.

7. PROFIT FROM OPERATIONS

The following items have been charged /(credited) in arriving at profit from operations:

	Group		Company	
	31.12.2002 RM'000	31.12.2001 RM'000	31.12.2002 RM'000	31.12.2001 RM'000
Auditors' remuneration				
- Statutory audit	**341**	307	**144**	120
- Other services	**16**	18	**16**	6
Directors' remuneration (Note 27)	**1,630**	1,442	**1,630**	1,442
Depreciation	**3,946**	4,731	**2,849**	3,497
Rental of premises	**2,945**	2,916	**2,370**	2,344
Rental of carpark	**943**	792	**0**	0
Hire of equipment	**503**	459	**449**	403
Share of (profit)/loss of joint venture	**(40)**	(274)	**0**	0
Allowance for doubtful debts	**0**	714	**0**	0
Bad debts written off	**57**	0	**0**	0
Write-down of inventories	**4,800**	9,761	**0**	0
Write-down of investment in marketable securities	**0**	20	**0**	0
Management fee	**0**	48	**0**	0
Gain on disposal of property, plant and equipment	**(425)**	(107)	**(346)**	0
Gain on disposal of marketable securities	**(57)**	(1,068)	**(57)**	(1,068)

8. FINANCE COST

	Group		Company	
	31.12.2002 RM'000	31.12.2001 RM'000	31.12.2002 RM'000	31.12.2001 RM'000
Bank charges	**124**	115	**124**	115
Long term loan interest expense	**57,492**	64,616	**57,492**	64,616
Penalty on early settlement of long term loan	**7,507**	0	**7,507**	0
Amortisation of discount on zero-coupon bonds	**483,814**	492,801	**483,814**	492,801
Interest on short-term borrowings	**4**	112	**0**	0
	548,941	557,644	**548,937**	557,532

9. TAXATION

	Group 31.12.2002 RM'000	Group 31.12.2001 RM'000
Income tax		
- current year	**211**	110
- over provision in prior year	**(393)**	(4,319)
Deferred tax		
- current year reversal	**(50)**	(3,068)
	(232)	(7,277)

10. ACQUIRED ASSETS

	Group 31.12.2002 RM'000	Group 31.12.2001 RM'000	Company 31.12.2002 RM'000	Company 31.12.2001 RM'000
Acquired loans	**6,378,291**	7,229,478	**6,378,291**	7,229,478
Acquired properties	**233,281**	113,919	**0**	0
	6,611,572	7,343,397	**6,378,291**	7,229,478

Allowance for diminution of RM561 million as disclosed in Note 6 is made up of allowance against acquired loans of RM516 million (2001: RM204 million) and against acquired properties of RM45 million (2001: RM52 million).

10. ACQUIRED ASSETS (CONTINUED)

Acquired loans are analysed by economic sector as follows:

	Loan Rights Acquired		Carrying Value	
	31.12.2002 RM'000	31.12.2001 RM'000	31.12.2002 RM'000	31.12.2001 RM'000
Agriculture, hunting, forestry and fishing	**258,059**	258,059	**140,141**	148,765
Manufacturing	**1,771,301**	1,771,301	**269,339**	412,524
Electricity, gas and water	**3,762**	3,762	**0**	0
Wholesale, retail, restaurants and hotels	**913,626**	913,626	**280,943**	402,705
Construction	**6,216,138**	6,216,138	**3,495,935**	3,650,893
Purchase of residential property	**992,553**	992,553	**490,039**	611,220
Real Estate	**1,426,297**	1,426,297	**867,904**	876,269
Transport, storage and communications	**126,565**	126,565	**4,487**	6,733
Financing, insurance and business services	**2,429,675**	2,429,675	**272,619**	321,572
Consumption credit	**226,178**	226,178	**7,182**	29,741
Purchase of securities	**1,436,475**	1,441,475	**367,133**	570,345
Mining	**368,061**	368,061	**75,023**	83,190
Others	**3,649,214**	3,649,214	**107,546**	115,521
	19,817,904	19,822,904	**6,378,291**	7,229,478

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 a 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.

11. INVESTMENT PROPERTIES

	Group	
	31.12.2002 RM'000	31.12.2001 RM'000
At cost		
Long term leasehold land	**29,750**	29,750
Buildings	**39,870**	37,744
	69,620	67,494

12. PROPERTY, PLANT AND EQUIPMENT

	Furniture and fittings RM'000	Office equipment RM'000	Motor vehicle RM'000	Computer equipment & software RM'000	Leasehold land and building RM'000	Car Park equipment RM'000	Office renovation RM'000	Total RM'000
Group								
2002								
Cost								
As at 1 January 2002	8,292	6,642	5,659	3,551	2,935	1,124	392	28,595
Additions	73	409	168	242	0	0	136	1,028
Disposals	0	(2)	(1,568)	0	0	0	0	(1,570)
Disposal of subsidiary	0	(91)	(127)	0	0	(1,124)	(64)	(1,406)
As at 31 December 2002	**8,365**	**6,958**	**4,132**	**3,793**	**2,935**	**0**	**464**	**26,647**
Accumulated depreciation								
As at 1 January 2002	4,489	4,725	4,274	3,062	118	295	44	17,007
Charge during the year	1,516	703	873	429	58	279	88	3,946
Disposals	0	(1)	(1,361)	0	0	0	0	(1,362)
Disposal of subsidiary	0	(37)	(71)	0	0	(574)	(11)	(693)
As at 31 December 2002	**6,005**	**5,390**	**3,715**	**3,491**	**176**	**0**	**121**	**18,898**
Net book value								
As at 31 December 2002	**2,360**	**1,568**	**417**	**302**	**2,759**	**0**	**343**	**7,749**
Group								
2001								
Cost								
As at 1 January 2001	8,243	6,325	5,831	3,424	2,935	535	271	27,564
Additions	49	319	176	140	0	589	121	1,394
Disposals	0	(2)	(348)	(13)	0	0	0	(363)
As at 31 December 2001	8,292	6,642	5,659	3,551	2,935	1,124	392	28,595
Accumulated depreciation								
As at 1 January 2001	2,977	3,970	3,416	2,067	59	106	11	12,606
Charge during the year	1,512	756	1,185	997	59	189	33	4,731
Disposals	0	(1)	(327)	(2)	0	0	0	(330)
As at 31 December 2001	4,489	4,725	4,274	3,062	118	295	44	17,007
Net book value								
As at 31 December 2001	3,803	1,917	1,385	489	2,817	829	348	11,588

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Furniture and fittings RM'000	Office equipment RM'000	Motor vehicles RM'000	Computer equipment & software RM'000	Total RM'000
Company					
2002					
Cost					
As at 1 January 2002	7,105	1,859	3,588	3,034	15,586
Additions	36	57	0	242	335
Disposals	0	(2)	(1,006)	0	(1,008)
As at 31 December 2002	**7,141**	**1,914**	**2,582**	**3,276**	**14,913**
Accumulated depreciation					
As at 1 January 2002	3,687	962	2,542	2,653	9,844
Charge during the year	1,425	378	670	376	2,849
Disposals	0	(1)	(871)	0	(872)
As at 31 December 2002	**5,112**	**1,339**	**2,341**	**3,029**	**11,821**
Net book value					
As at 31 December 2002	**2,029**	**575**	**241**	**247**	**3,092**
Company					
2001					
Cost					
As at 1 January 2001	7,081	1,703	3,412	2,920	15,116
Additions	24	158	176	114	472
Disposals	0	(2)	0	0	(2)
As at 31 December 2001	7,105	1,859	3,588	3,034	15,586
Accumulated depreciation					
As at 1 January 2001	2,267	600	1,678	1,803	6,348
Charge during the year	1,420	363	864	850	3,497
Disposals	0	(1)	0	0	(1)
As at 31 December 2001	3,687	962	2,542	2,653	9,844
Net book value					
As at 31 December 2001	3,418	897	1,046	381	5,742

13. INVESTMENT IN SUBSIDIARY COMPANIES

	Company 31.12.2002 RM'000	Company 31.12.2001 RM'000
Unquoted shares in Malaysia, at cost	**3,250**	3,250

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

Name	Paid-up capital RM	Effective interest 2002 %	Effective interest 2001 %	Principal activity
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
Danaharta Hartanah Sdn Bhd	1,000,000	**100**	100	Acquiring and managing properties
Danaharta Perhotelan Sdn Bhd	2	**100**	100	Acquiring and managing hotel properties
Danaharta Consultancy Services Sdn Bhd	250,000	**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**	100	Dormant
Securita ABS One Berhad*	2	**100**	100	Asset management
Securita ABS Two Berhad	2	**100**	0	Dormant
Securita ABS Three Berhad	2	**100**	0	Dormant
Jalur Realty Sdn Bhd *	2,500,000	**100**	100	Property development and rental
Jalur Harta Sdn Bhd *	12,250,000	**100**	100	Property development and rental
Jalur Services Berhad *+	14,000,000	**100**	100	Dormant
Jalur Leasing (M) Sdn Bhd *+	2,000,000	**100**	100	Dormant
Subsidiary company of Danaharta Hartanah Sdn Bhd				
TTDI Development Sdn Bhd #	223,000,002	**100**	100	Property development

13. INVESTMENT IN SUBSIDIARY COMPANIES (CONTINUED)

Name	Paid-up capital RM	Effective interest 2002 %	Effective interest 2001 %	Principal activity
Subsidiary companies of TTDI Development Sdn Bhd				
TTDI Jaya Sdn Bhd #	25,779,000	**100**	100	Property development
Pandan Maju Sdn Bhd #	6,000,000	**100**	100	Property development
Tadisma Harta Sdn Bhd #	1,000,000	**100**	100	Property development
TTDI Management Sdn Bhd #	500,000	**100**	100	Project management
Tenaga Meranti Sdn Bhd #	250,002	**100**	100	Investment holding
Panetra Imej Parking Sdn Bhd #	200,000	**-**	51	Operator of car park
TTDI Properties Sdn Bhd #	2	**100**	100	Dormant
TTDI Realty Sdn Bhd #	500,000	**100**	100	Dormant
Subsidiary companies of Pandan Maju Sdn Bhd				
Indasaham Sdn Bhd #	100,000	**70**	70	Development of properties for sale
Ikhlas Murni Sdn Bhd #	2	**100**	100	Property investment

 # Subsidiary companies not audited by PricewaterhouseCoopers
** Subsidiary companies not consolidated as explained in note 13(d) below.*
+Subsidiary companies in Members' Voluntary Liquidation.

During the year, TTDI Development Sdn Bhd disposed its entire investment in Panetra Imej Parking Sdn Bhd for a consideration of RM660,480 giving rise to a loss of RM61,078.

(a) Danaharta Managers Sdn Bhd

Following the agreement between Bank Negara Malaysia, the Company and Danaharta Managers Sdn Bhd ('DMSB') on 7 December 1998, the Non-Performing Loans ('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 issued zero-yield bonds for the consideration of the acquisition, the redemption of which is conditional upon the recovery of the acquired assets and is indemnified by Bank Negara Malaysia.

The details of the zero-yield bonds issued are as follows:-

Issue	Date of issue	Date of maturity	Amount issued '000
First	31 December 1998	30 December 2009	RM 4,325,184
Second	05 March 1999	04 March 2009	USD 980,000
Third	09 June 1999	08 June 2009	RM 511,592
Fourth	15 June 1999	14 June 2009	RM 1,056,412
Fifth	30 September 1999	29 September 2009	RM 23,603
Sixth	22 October 1999	21 October 2009	RM 335,393
Seventh	01 November 1999	31 October 2009	USD 174,280
Eighth	19 November 1999	18 November 2009	USD 25,239
Ninth	22 December 1999	21 December 2009	RM 111,369
Tenth	14 January 2000	13 January 2010	USD 73,479
Eleventh	29 February 2000	26 February 2010	RM 256,668
Twelfth	29 February 2000	26 February 2010	USD 12,290
Thirteenth	08 August 2000	07 August 2010	RM 45,900
Fourteenth	03 January 2001	02 January 2011	RM 166,333
Fifteenth	30 November 2001	29 November 2011	RM 40,011

13. INVESTMENT IN SUBSIDIARY COMPANIES (CONTINUED)

(a) Danaharta Managers Sdn Bhd (continued)
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. The total loan rights of the assets under management of DMSB as at 31 December 2002 is RM 11.4 billion (2001: RM11.4 billion).

(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 assets 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. The total loan rights of the assets under management of DMLL as at 31 December 2002 is RM5.1 billion (2001:RM5.1 billion).

(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 Bank Bumiputera Malaysia Berhad ('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 details of the zero-coupon bonds issued are as follows:

Issue	Date of issue	Date of maturity	Nominal/ Maturity value '000	Discounted value '000
First	28 September 1999	31 March 2004	RM 7,198,634	RM 5,620,477
Second	28 September 1999	31 March 2004	USD251,493	USD194,728
Third	30 October 2000	31 December 2004	RM3,796,459	RM2,950,798
Fourth	30 October 2000	31 December 2004	USD123,705	USD93,196
Fifth	13 July 2001	31 March 2005	RM 222,293	RM 184,888
Sixth	13 July 2001	30 June 2005	RM 386,110	RM 321,139
Seventh	13 July 2001	30 September 2005	RM291,634	RM 242,561
Eighth	13 July 2001	30 November 2005	RM279,134	RM 232,164
Ninth	13 July 2001	31 December 2004	RM20,104	RM 16,721
Tenth	13 July 2001	30 November 2005	USD7,613	USD 5,990
Eleventh	12 September 2002	28 February 2006	RM 545,108	RM 463,958
Twelfth	12 September 2002	28 April 2006	RM 78,327	RM 66,678
Thirteenth	12 September 2002	30 June 2006	RM 43,060	RM36,846
Fourteenth	12 September 2002	28 February 2006	USD 48,848	USD 42,933

13. INVESTMENT IN SUBSIDIARY COMPANIES (CONTINUED)

(c) Danaharta Urus Sdn Bhd (continued)

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 total loan rights of the assets under management of DUSB as at 31 December 2002 is RM11.3 billion (2001: RM11.3 billion).

(d) Subsidiary Companies Not Consolidated

(i) Jalur Realty Sdn Bhd, Jalur Harta Sdn Bhd, Jalur Services Berhad and Jalur Leasing (M) Sdn Bhd (collectively referred to as 'Jalur subsidiaries')

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 the Jalur subsidiaries for RM23,603,002. DMSB assumed a liability of RM23,603,000 for the consideration of the acquisition and the remainder was paid in cash.

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 Jalur subsidiaries and is unable to exercise its legal voting rights and has no influence on the management control of the Jalur 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 Jalur subsidiaries are not consolidated into the financial statements of the Group.

(ii) Securita ABS One Bhd

Danaharta Bina Sdn Bhd ('DBSB') was a dormant company consolidated into the Group in previous financial statements. On 3 October 2001, DBSB was converted from a Private Company to a Public Company and changed its name to Securita ABS One Bhd ('Securita'). With a Purchase Agreement dated 11 December 2001 between the Company, DUSB, DMSB and Securita, Securita was used as a special purpose vehicle to undertake the following securitisation exercise:

- On and as of 20 December 2001 ('Closing Date'), the Company, DUSB and DMSB (jointly known as "Sellers" and "Seller" individually), sold, transferred and assigned to Securita all rights, title and interest (both present and future) of each Seller to a portfolio of loan assets ('Initial Credits') agreed upon in the agreement. The Sellers and Securita intend the sale of the Initial Credits to be a true sale and shall be without recourse to the Sellers.

- Initial Credits comprise term loans, revolving credit facilities, overdrafts and omnibus facilities which amount to RM569,819,481, consisting of RM81,479,790 from DMSB, RM289,692,402 from DUSB and RM198,647,289 from the Company.

- The purchase price paid to the Sellers by Securita for the Initial Credits consists of a cash component in the amount of RM293,849,559 and RM285,390,000 in aggregate principal amount of Subordinated Notes.

13. INVESTMENT IN SUBSIDIARY COMPANIES (CONTINUED)

(ii) Securita ABS One Bhd (continued)

With the aforementioned arrangement, the Company has no further control over Securita and the majority of the risks and rewards pertaining to the holding of Subordinated Notes, and any rights to the dividends and residual profits of Securita lies with DMSB and DUSB where it is to be accrued to Bank Negara Malaysia and the Government respectively based on the provisions of the agreement dated 7 December 1998 (between Bank Negara Malaysia, the Company and DMSB) and agreement dated 6 May 1999 (between the Government, DUSB and DMLL).

In view of the above circumstances and in the absence of control over the financial and operating policies of these companies, in accordance with MASB 11 Consolidated Financial Statements and Investments in Subsidiaries, the Companies Commission of Malaysia has granted relief to Pengurusan Danaharta Nasional Berhad from having to consolidate and annex the financial statements of these companies to the financial statements of the Company pursuant to Section 169A of the Companies Act, 1965.

14. INVESTMENT IN ASSOCIATED COMPANIES

	Group	
	31.12.2002 RM'000	31.12.2001 RM'000
Share of net assets of associated companies	**58,286**	64,756
Less: Share of post-acquisition loss	**(405)**	(214)
	57,881	64,542
Less: Reclassified to Current Asset for PNB Merdeka Ventures Sdn Bhd	**(57,825)**	0
	56	64,542

The details of the associated companies are as follows:

Name	Country of incorporation	Effective Interest 2002	Effective Interest 2001
Colour Metal Sdn Bhd	Malaysia	**28.00%**	28.00%
PNB Merdeka Ventures Sdn Bhd	Malaysia	**20.87%**	20.87%

PNB Merdeka Ventures Sdn Bhd ('PNBMV') is an associated company of Danaharta Hartanah Sdn Bhd.

Colour Metal Sdn Bhd is an associated company of TTDI Realty Sdn Bhd

On 20 December 2002, Danaharta Hartanah Sdn Bhd entered into a sale of shares agreement ('Agreement') with Permodalan Nasional Berhad to dispose off its entire 20.87% interest in PNBMV for a total cash consideration of Ringgit Malaysia Fifty Eight Million Two Hundred and Thirty Thousand (RM58,230,000).

The Agreement is subject to the approval of the Foreign Investment Committee ('FIC'') being obtained. As such, the sale transaction is taken to be incomplete as at year end and accordingly, the investment in PNBMV has been reclassified to current assets net of an allowance for diminution of RM6,407,000 representing the shortfall between the consideration amount and the carrying value.

On 5 March 2003, the approval from FIC was obtained and the sale was completed subsequent to the end of the financial year.

15. PROPERTY DEVELOPMENT EXPENDITURE

	Group	
	31.12.2002 RM'000	31.12.2001 RM'000
Land at cost		
- Leasehold land	**327**	327
- Freehold land	**9,820**	9,820
Development expenditure	**290,122**	269,884
	300,269	280,031
Portion of profit attributable to development work performed to date	**122,518**	147,611
Less: Allowance for foreseeable losses	**(415)**	(415)
	422,372	427,227
Less: Progress billings rendered	**(293,222)**	(290,865)
	129,150	136,362

Included in development expenditure is interest expense of RM NIL (2001: RM151,000) charged for the year.

16. TRADE AND OTHER RECEIVABLES

	Group		Company	
	31.12.2002 RM'000	31.12.2001 RM'000	31.12.2002 RM'000	31.12.2001 RM'000
Trade Receivables	**32,998**	37,924	**0**	0
Less: Allowance for doubtful debts	**(819)**	(870)	**0**	0
	32,179	37,054	**0**	0
Amount due by subsidiary companies	**0**	0	**548,646**	457,525
Other receivables	**13,517**	14,449	**1,217**	11,481
Tax recoverable	**0**	2,487	**0**	0
Accrued interest receivable	**22,946**	11,848	**21,793**	10,960
Staff loans	**28,318**	21,964	**28,286**	21,925
Loan to director	**111**	379	**111**	379
Amount due by associated companies	**36**	36	**0**	0
	97,107	88,217	**600,053**	502,270

The amount due by subsidiary companies and associated companies is unsecured, free of interest and with no fixed terms of repayment.

The carrying value approximates the fair value due to the relatively short term nature.

17. INVESTMENT IN MARKETABLE SECURITIES

Unquoted Money Market Instruments in Malaysia

	Group		Company	
	31.12.2002 RM'000	31.12.2001 RM'000	31.12.2002 RM'000	31.12.2001 RM'000
Government backed securities:				
Danamodal Bonds	**130,221**	130,221	**130,221**	130,221
Khazanah Bonds	**130,840**	130,840	**130,840**	130,840
Prasarana Bonds	**0**	217,952	**0**	217,952
Private debt securities:				
Cagamas bonds/notes	**45,172**	45,172	**45,172**	45,172
Other securities	**227,869**	227,869	**227,869**	227,869
	534,102	752,054	**534,102**	752,054
Amortisation of premium less accretion of discounts	**52,762**	35,467	**52,762**	35,467
	586,864	787,521	**586,864**	787,521
Unquoted securities in Malaysia				
Shares	**35**	35	**0**	0
Quoted securities in Malaysia				
Shares at carrying value	**9**	9	**0**	0
	586,908	787,565	**586,864**	787,521

The maturity structure of money market instruments held for investment is as follows:-

	Group		Company	
	31.12.2002 RM'000	31.12.2001 RM'000	31.12.2002 RM'000	31.12.2001 RM'000
One year to three years	**439,172**	214,180	**439,172**	214,180
Three years to five years	**147,692**	573,341	**147,692**	573,341
	586,864	787,521	**586,864**	787,521

The weighted average yield rates for the government backed securities and private debt securities that were effective during the year were 5.07% (2001: 5.62%) and 5.25% (2001: 5.37%) respectively.

17. INVESTMENT IN MARKETABLE SECURITIES (CONTINUED)

The credit profile of the investment in private debt securities by Rating Agency Malaysia Berhad are as follows:-

	Group and Company	
	31.12.2002 RM'000	31.12.2001 RM'000
AAA	**120,971**	120,971
AA	**100,473**	100,473
AA (bg)	**51,597**	51,597
	273,041	273,041

The fair value of the investment in marketable securities as at balance sheet date is as follows:

	Average Market Yield 31.12.2002 %	Group 31.12.2002 RM'000	Company 31.12.2002 RM'000
<u>Unquoted Money Market Instruments in Malaysia</u>			
Government backed securities:			
Danamodal Bonds	2.95	**166,039**	166,039
Khazanah Bonds	3.06	**159,997**	159,997
Private debt securities:			
Cagamas bonds/notes	3.10	**47,218**	47,218
Other securities	3.70	**235,094**	235,094
		608,348	608,348
<u>Unquoted securities in Malaysia</u>			
Shares		**35**	0
<u>Quoted securities in Malaysia</u>			
Market value of quoted shares		**7**	0
		608,390	608,348

The fair value of investment in unquoted money market instruments is determined based on the market yield of the same or similar instruments at balance sheet date. The market value of quoted securities at the balance sheet date approximated the fair value. The carrying value of the unquoted securities at the balance sheet date approximated the fair value.

18. OTHER INVESTMENT

	Group and Company	
	31.12.2002 RM'000	31.12.2001 RM'000
Advances for DUSB bonds redemption	**363,953**	1,429,000
Accretion of discounts	**32,637**	54,944
	396,590	1,483,944

18. OTHER INVESTMENT (CONTINUED)

Advances for DUSB bonds redemption represents advances from the Company for early redemption of DUSB bonds. Such advances are at call and carry a yield of 5.569%, which is equivalent to the issued yield of the underlying DUSB bonds redeemed. Since DUSB's liability on the bonds is neither reflected in the balance sheets of DUSB nor in the consolidated balance sheet of the Group [as disclosed in Note 13 (c)], the said advances and the income thereon have not been eliminated on consolidation.

The fair value of the other investment based on the average market yield of similar instruments at the balance sheet date of 3.023% is RM402 million.

19. CASH AND CASH EQUIVALENTS

	Group		Company	
	31.12.2002 RM'000	31.12.2001 RM'000	31.12.2002 RM'000	31.12.2001 RM'000
Deposits with licensed banks	**1,727,325**	1,355,139	**1,622,736**	1,096,329
Deposits with licensed finance companies	**1,015,349**	460,066	**931,270**	428,748
Deposits with discount houses	**11,250**	10,550	**9,500**	0
Cash and bank balances	**24,156**	44,260	**14,648**	8,016
	2,778,080	1,870,015	**2,578,154**	1,533,093

Included in the cash and bank balances is an amount of RM2.51 million (2001: RM5.89 million) held under the Housing Development Account as required under Section 7A of the Housing Developers Regulation 1991. Included in the deposits with finance companies is an amount of RM0.2 million (2001: RM0.2 million) relating to balance of retention sum to a subcontractor of a subsidiary for payment upon expiry of the warranty period. Interest accrued will be payable to the subcontractor upon expiry of the warranty period.

The currency profile of cash and cash equivalents are as follows:-

	Group		Company	
	31.12.2002 RM'000	31.12.2001 RM'000	31.12.2002 RM'000	31.12.2001 RM'000
Ringgit Malaysia	**2,761,262**	1,755,738	**2,578,154**	1,533,093
US Dollars	**16,818**	114,277	**0**	0
	2,778,080	1,870,015	**2,578,154**	1,533,093

The weighted average interest rate for cash and cash equivalent balances that was effective during the year was 2.95%. (2001: 3.16%)

Deposits of the Group and Company have an average maturity of 72 days (2001:50 days). Bank balances are deposits held at call with banks.

The carrying amount of cash and cash equivalents approximate fair values because of the short maturity periods of these instruments.

20. PROVISIONS

	Group		Company	
	31.12.2002 RM'000	31.12.2001 RM'000	31.12.2002 RM'000	31.12.2001 RM'000
Provisions for gratuity and retrenchment	**18,302**	14,589	**14,015**	11,015
Other provisions	**29,447**	35,476	**4,532**	8,197
	47,749	50,065	**18,547**	19,212

21. TRADE AND OTHER PAYABLES

	Group		Company	
	31.12.2002 RM'000	31.12.2001 RM'000	31.12.2002 RM'000	31.12.2001 RM'000
Trade payables	**21,647**	27,296	**0**	0
Interest payable to EPF	**0**	7,014	**0**	7,014
Deferred interest income on acquired assets	**298,302**	92,547	**298,302**	92,547
Security Deposits	**62,034**	21,705	**55,611**	21,011
Other liabilities	**137,458**	148,214	**107,499**	123,409
Amount due to subsidiary companies	**0**	0	**60,024**	25,542
	519,441	296,776	**521,436**	269,523

The fair value approximates the carrying value due to the relatively short term nature.

22. DEFERRED TAXATION

	Group	
	31.12.2002 RM'000	31.12.2001 RM'000
At 1 January	**5,054**	8,122
Transfer to income statement	**(50)**	(3,068)
At 31 December	**5,004**	5,054

Subject to agreement by Inland Revenue board, the potential deferred tax benefits not taken up in the financial statements under the liability method are as follows:

	Group	
	31.12.2002 RM'000	31.12.2001 RM'000
Unutilised tax losses	**(19,620)**	(19,968)
Other timing differences	**9,037**	9,037

23. REDEEMABLE GUARANTEED ZERO-COUPON BEARER BONDS

	Group and Company	
	31.12.2002 RM'000	31.12.2001 RM'000
Nominal value of bonds	**11,140,400**	11,140,400
Less: Unamortised discount	**(794,570)**	(1,369,832)
	10,345,830	9,770,568
Less : Cost of investment in own bonds	**(2,270,145)**	(1,062,739)
Accretion of discount	**(219,264)**	(127,958)
	7,856,421	8,579,871
Discount upon issuance	**2,923,793**	2,923,793
Amortisation to date	**(2,129,223)**	(1,553,961)
Unamortised discount as at 31 December	**794,570**	1,369,832

These bonds are guaranteed by the Government of Malaysia and 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 a further 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 Securities ('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:

Issue	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
Thirteenth issue	31 January 2000	31 March 2005	162,300	125,367
Fourteenth issue	29 February 2000	31 March 2005	305,100	237,054
Fifteenth Issue	31 March 2000	31 March 2005	328,600	254,645
			11,140,400	8,216,607

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 6.1% per annum (2001: 6.1%) (being the internal rate of return of the bonds).

The fair value of the redeemable guaranteed zero-coupon bonds based on the market yield of the Malaysian Government Securities with similar tenor at balance sheet date of 3.153% is RM6.7 billion.

24. LONG-TERM LOANS

	Group and Company	
	31.12.2002 RM'000	31.12.2001 RM'000
Khazanah Nasional Berhad		
Total interest charged on loan	**123,118**	123,118
Interest charged to date	**(99,340)**	(74,724)
Unaccrued interest charged as at 31 December	**23,778**	48,394
Loan redemption amount	**423,118**	423,118
Less: Unaccrued interest charged	**(23,778)**	(48,394)
	399,340	374,724
Employees Provident Fund		
Loan Principal	**0**	500,000
	399,340	874,724

The Long-Term loans relate to drawdowns on unsecured 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. During the year, the EPF loan was fully settled before maturity which resulted in penalty interest of RM7.5 million. Details of the interest charged are disclosed in Note 8. The details of the loans are summarised below:

	Date of drawdown	Date of maturity	Repayment amount RM'000	Principal upon drawdown RM'000
Khazanah	18 December 1998	18 December 2003	423,118	300,000
EPF	28 April 1999	28 April 2004	500,000	500,000
			923,118	800,000

The fair value of the long term loans based on the weighted average of the yield of the same instruments at balance sheet date of 3.363% is RM344 million.

25. JOINT VENTURE

	Group	
	31.12.2002 RM'000	31.12.2001 RM'000
Advances to joint venture	**916**	916
Share of loss	**(1,664)**	(1,889)
	(748)	(973)

The share of results for the current year is arrived at:

After charging:		
Auditors' remuneration	**2,000**	880

The profit in 2001 is due to reversal of provisions relating to the property development project whose account is in the process of finalisation.

The financial statements include the Group's share of assets, liabilities, income and expenses of a joint venture operation ('JV'). The Group effectively owns 88% (2001:88%) interest in the JV via TTDI's subsidiary companies, Pandan Maju Sdn Bhd and Indasaham Sdn Bhd, which owns 60% and 40% interest respectively in the JV. The JV's assets and liabilities at the balance sheet date and their results for the financial year are as follows:

	31.12.2002 RM'000	31.12.2001 RM'000
Current assets	**577**	408
Current liabilities	**(1,325)**	(1,381)
Net current liabilities	**(748)**	(973)
Financed by		
Current account	**(748)**	(973)
Minority Interest	**0**	0
	(748)	(973)

26. SHARE CAPITAL

	Group and Company 31.12.2002 RM'000	Group and Company 31.12.2001 RM'000
Ordinary shares of RM1 each		
Authorised:		
As at 31 December	**10,000,000**	10,000,000
Issued and fully paid:		
As at 1 January / 31 December	**3,000,000**	3,000,000

27. DIRECTORS' REMUNERATION

Forms of remuneration in aggregate for all directors charged to the income statement for the year are as follows:

	Group		Company	
	31.12.2002 RM'000	31.12.2001 RM'000	31.12.2002 RM'000	31.12.2001 RM'000
Fees	**80**	82	**80**	82
Other remuneration				
- Executive director	**1,072**	1,075	**1,072**	1,075
- Non-executive directors	**478**	285	**478**	285
	1,630	1,442	**1,630**	1,442

28. CORPORATE TAX EXEMPTION

Following the Gazette dated 10 July 2001 under Income Tax (Exemption) (No.4) Order 2001, the Company and all its wholly owned subsidiary companies are exempted from income tax liabilities from Year of Assessment 1999 until Year of Assessment 2003.

29. RELATED PARTY DISCLOSURES

The Company is a public company incorporated under the Companies Act, 1965 and is wholly owned by the Minister of Finance Incorporated. Transactions entered into by the Company, other than those transactions which are entered into by enterprises in general in the course of their normal dealings with Government Departments, agencies or Government controlled entities, are considered to be related party transactions.

The transactions, balances and other arrangements between the Group and such entities are as follows:

(a) The Group's investments in marketable securities includes investment in bonds issued by Danamodal Nasional Berhad and Khazanah Nasional Berhad with a total carrying value of RM313 million as at 31 December 2002 (2001: RM296 million). The interest income credited to the income statement from these investments amounts to RM17 million (2001: RM17 million). Details of such investments are disclosed in note 17.

29. RELATED PARTY DISCLOSURES (CONTINUED)

(b) As part of the Group's Asset Management activity, the Group entered into loan management arrangements with the following parties:-

(i) Bank Negara Malaysia ('BNM') to manage NPLs of Sime Bank Berhad and Danaharta Managers (L) Ltd (formerly known as Sime International Bank (L) Ltd),

(ii) Ministry of Finance ('MOF') to manage NPLs of BBMB, BBMB Kewangan Bhd, BBMB Discount House Bhd and BBMB International Bank (L) Ltd.

Details of the arrangements are disclosed in note 13.

(c) As at 31 December 2002, the Group has long term borrowing from Khazanah Nasional Berhad ('KNB'). The interest expense charged to the income statement for the borrowing from KNB amounts to RM25 million (2001: RM25 million). During the financial year, there is early settlement of the loan from Employees Provident Fund ('EPF') by the Group. Interest charged to the income statement amount to RM40 million (2001: RM40 million) including penalty interest on early settlement of RM7.5 million. Details of the borrowings are disclosed in note 24.

Other than the entities mentioned above, the Group has related party transactions as disclosed below:

	Group	
	31.12.2002 RM'000	31.12.2001 RM'000
(a) Sale of properties to :-		
- Director of the Company	**1,715**	0
- A company in which a Director of the Company has an interest	**1,715**	0
- Directors of subsidiary companies	**0**	6,888
- Senior management of the Company	**0**	5,800
(b) Management fees :-		
- Received from affiliated companies	**0**	18
- Paid to affiliated companies	**0**	48
(c) Rental of land to :-		
- Affiliated companies	**0**	11

The above transactions have been entered into in the normal course of business and have been established under negotiated terms.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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. Operating within such a business environment, the Group's overall financial risk management objective is to maximize recovery value for assets within the Group's portfolio, which will result in a minimisation of losses incurred over the long term.

The Group's normal course of business exposes it to a variety of financial risks, including credit risk, interest rate risk, liquidity and cash flow risk, and foreign currency exchange risk. Financial risk management is carried out through regular risk reviews, setting up and adherence of appropriate policies and guidelines, and a comprehensive internal control system. The Board regularly reviews these risks and the policies and guidelines, and internal control system which cover the management of financial risks.

The following is a summary of the major financial risks:

(i) Credit risk

Acquired assets

Acquired assets are mainly NPLs acquired from financial institutions and other financial assets derived from subsequent loan restructuring. The Group inherited the credit risks associated with the acquired NPLs and generally does not have any control over the credit initiation process.

As such, the Group's credit risk management process focuses on preventing deterioration of the inherited credit profile of acquired assets. This is accomplished by putting in place proper loan management and operations policies and guidelines, and regular risk reviews, monitoring and tracking of the individual asset.

Investment in marketable securities and other investment

The Group's investment strategy seeks to maximize credit quality and optimize yield, thus minimising risk of loss or impairment of invested funds. This is achieved by putting in place an investment policy, which among others, sets out the permissible investment criteria, investment limits and counter party limits.

Trade and other receivables

The Group has a general credit policy in place and exposure to credit risk is monitored on an ongoing basis.

Concentration of credit risk

At balance sheet date, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

(ii) Interest rate risk

The Group's financial liabilities, comprising mainly of redeemable guaranteed zero-coupon bearer bonds and long term loans, are at fixed rates, while its financial assets, comprising mainly of acquired loans and investments, are at floating rates. This mismatch exposes the Group to potential interest rate risk.

While the above interest rate profile was a conscious decision made during the inception of the Group, the interest rate profile of acquired loans and investments is regularly reviewed against prevailing and anticipated market interest rates to ensure potential exposure, if any, is within acceptable level.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(iii) Liquidity and cash flow risk

The bulk of the Group's financial assets comprise NPLs acquired from financial institutions and other financial assets derived from subsequent loan restructuring. Given the non-performing nature of such assets, timing and quantum of recovery are subjected to an element of uncertainty, while the Group's financial liabilities, comprising mainly of redeemable guaranteed zero-coupon bearer bonds and long term loans, have fixed maturity dates. This exposes the Group to potential liquidity and cash flow risk.

To ensure the Group is able to meet its obligations when they fall due, the asset and liability gap position of the Group is reviewed and monitored on an ongoing basis. The Group also has in place a contingency plan to cover cash flow timing mismatch if required.

(iv) Foreign currency exchange risk

The Group's financial assets and liabilities are all denominated in Ringgit Malaysia except for an amount of RM16.8million (USD4.4 million) included in the Group's cash and cash equivalents, which is denominated in US Dollars. The Group has not hedged against the said exposure as the amount does not form a significant proportion of the Group's gross assets.

Financial Statements

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

We, Dato' Mohamed Azman Yahya and Dato' Abdul Hamidy Abdul Hafiz, being two of the Directors of Pengurusan Danaharta Nasional Berhad state that, in the opinion of the Directors, the financial statements set out on pages 37 to 71 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 2002 and of the results and cash flows of the Group and of the Company for the financial year ended on that date in accordance with the applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965.

Signed on behalf of the Board of Directors in accordance with their resolution dated 25 March 2003.

DATO' MOHAMED AZMAN YAHYA
Chairman

DATO'ABDUL HAMIDY ABDUL HAFIZ
Managing Director

Kuala Lumpur

Financial Statements

Statutory 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 financial statements of the Group and the Company set out on pages 37 to 71 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

EE KOK SIN

Subscribed and solemnly declared by the abovenamed Ee Kok Sin at Kuala Lumpur in Wilayah Persekutuan on 25 March 2003 before me:

BARATHAN A/L SINNIAH @ CHINNIAH
Commissioner for Oaths
Kuala Lumpur

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
(AF 1146)
Chartered Accountants
11th Floor Wisma Sime Darby
Jalan Raja Laut
P O Box 10192
50706 Kuala Lumpur, Malaysia
Telephone +60 3 2693 1077
Facsimile +60 3 2693 0997

REPORT OF THE AUDITORS TO THE MEMBERS OF
PENGURUSAN DANAHARTA NASIONAL BERHAD
(Company No. 464363 W)

We have audited the financial statements set out on pages 37 to 71. These financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

(a) the financial statements have been prepared in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of;

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

  (ii) the state of affairs of the Group and the Company as at 31 December 2002 and of the results and cash flows of the Group and the Company for the financial year ended on that date;

and

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

PRICEWATERHOUSECOOPERS

REPORT OF THE AUDITORS TO THE MEMBERS OF
PENGURUSAN DANAHARTA NASIONAL BERHAD (CONTINUED)
(Company No. 464363 W)

The names of the subsidiary companies which we have not acted as auditors are indicated in Note 13 to the financial statements. We have considered the financial statements of these subsidiary companies and the auditor′s reports thereon.

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

The audit reports on the financial statements 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)
Chartered Accountants

MOHD DARUIS ZAINUDDIN
(No. 969/03/03 (J/PH))
Partner of the firm

25 March 2003

Review of Operations

SALIENT STATISTICS AS AT 31 DECEMBER 2002

Funding

- Capital and outstanding liabilities - **RM14.54 billion**

Please refer to pages 78 to 79 for further details.

NPL portfolio

	RM billion	*No. of accounts*
Acquired	19.82	804
Managed	27.94	2,101
Total Loan Rights Acquired ("LRA")	**47.76***	**2,905**

* *Adjusted LRA of RM52.52 billion - comprising LRA of RM47.76 billion and accrued interest of RM4.76 billion*

- Cost of **acquired NPLs component** - RM9.03 billion (average discount rate of 54.4%)
- Cost of **managed NPLs component** (managing on behalf of the Government) **- no cost to Danaharta**

Please refer to pages 79 to 80 for further details.

Recovery

- Total NPLs dealt with – **RM47.76 billion** (LRA) or **RM52.52 billion** (adjusted LRA i.e. LRA plus accrued interest)
- Total recovery expected (net of defaults) – **RM30.19 billion (RM11.03 billion** from acquired NPLs, **RM19.16 billion** from managed NPLs)
- Overall expected average recovery rate – **57%** (combined acquired and managed NPLs components)
- **For acquired NPLs component,** expected average recovery rate – **50%**
- **For managed NPLs component,** expected average recovery rate – **63%**

Please refer to pages 80 to 84 for further details.

Recovery assets received (cash/non-cash)

- Total recovery received – **RM18.93 billion (RM4.63 billion** from acquired NPLs, **RM14.30 billion** from managed NPLs)
- Balance of recovery pending collection or receipt – **RM11.26 billion**
- Default rate – **6.4%**

Please refer pages 84 to 85 for further details.

Cash realisation (including conversion of non-cash recovery assets into cash)

- Total recovery realised in cash – **RM14.61 billion** (including adjustments of RM2.30 billion)
- **For acquired NPLs component,** recovery realised in cash – **RM3.68 billion**
- **For managed NPLs component,** recovery realised in cash – **RM10.93 billion**

Please refer to pages 85 to 86 for further details.

Distribution of recovery proceeds

- **For managed NPLs component (BBMB Group and Sime Bank Group),** gross cumulative recovery – **RM10.92 billion**
- **For acquired NPLs component,** surplus recovery distributed to 30 financial institutions – **RM345.2 million in cash, 55.9 million units in securities at par value**

Please refer to pages 86 to 87 for further details.

Bond redemption

- Balance of cash available for, amongst others, redemption of bonds – **RM6.14 billion**

Please refer to page 88 for further details.

SALIENT STATISTICS AS AT 31 DECEMBER 2002 (CONTINUED)

Special Administrators (as at 17 February 2003)

- Number of companies that had Special Administrators appointed - 121
- Number of companies where Special Administrators had been discharged upon successful restructuring - 44
- Number of companies that are at the stage where workout proposals are being implemented - 33

A complete list of companies under Special Administration and their current status can be found in the Reference Material section on pages 129 to 141.

UPDATE ON OPERATIONS AS AT 31 DECEMBER 2002

PREFACE AND OVERVIEW

The Mission flowchart on the following page provides an overview of the stages of Danaharta's operations and forms the basis for this update on its operations.

As at 31 December 2002, Danaharta's NPL portfolio stands at RM47.76 billion [value of loan rights acquired ("LRA"), i.e. the value of the loan plus accrued interest at the point of purchase]. The portfolio comprises

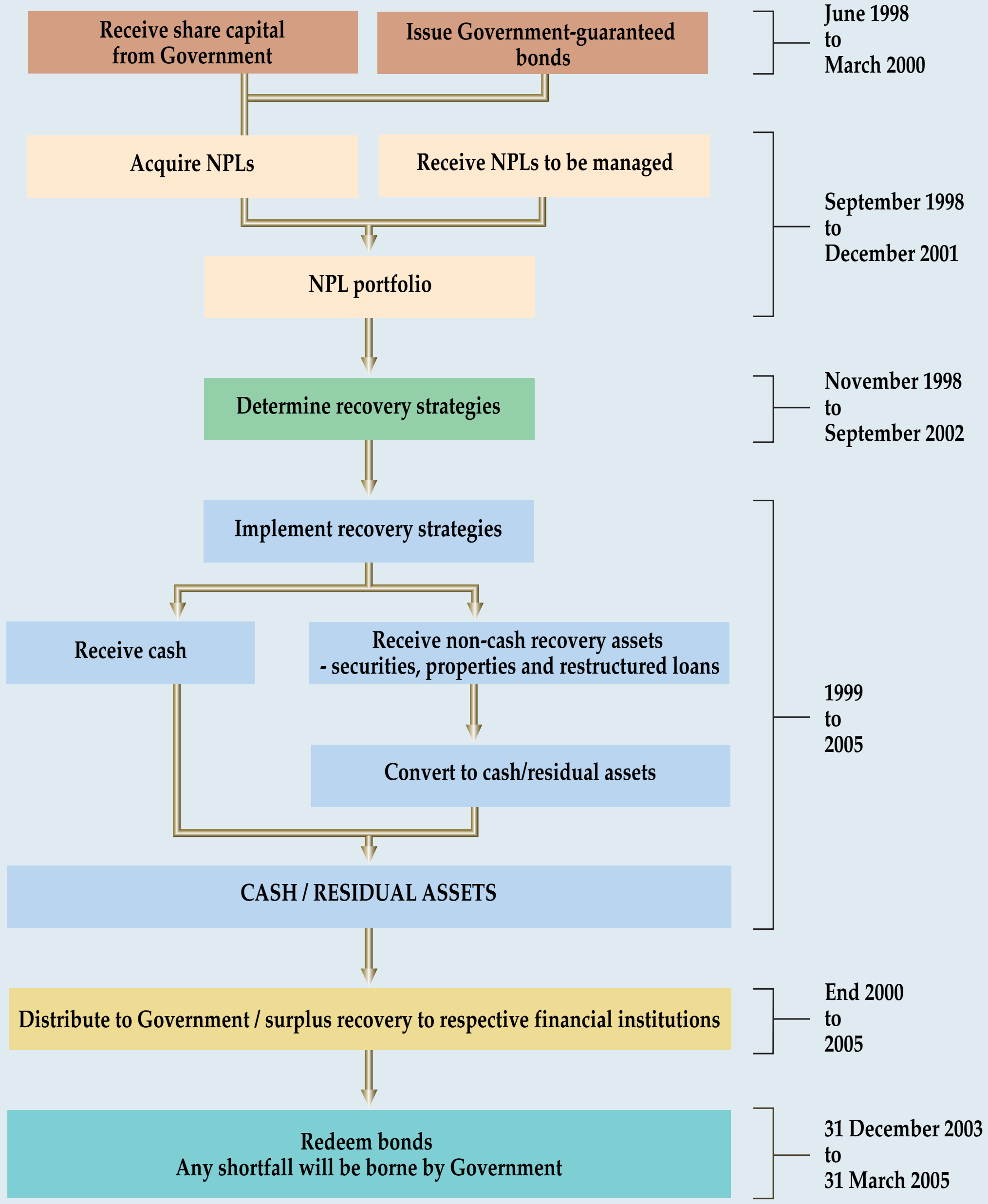
i) acquired loans [NPLs acquired from various financial institutions (FIs)] ; and
ii) managed loans [NPLs of now defunct Bank Bumiputra Malaysia Berhad Group (BBMB Group) and Sime Bank Berhad Group (Sime Group)], which Danaharta is managing on behalf of the Government of Malaysia.

To-date, Danaharta has reviewed and decided on the most appropriate resolution strategies for all the NPLs in the portfolio and is currently focusing on implementing these strategies. In implementing the respective resolution strategies, Danaharta expects to recover RM30.19 billion from its NPLs or an overall expected recovery rate of 57%. Of the RM30.19 billion expected recovery, Danaharta has received RM18.93 billion in the form of cash and non-cash assets namely securities, properties and restructured loans. Danaharta does not intend to retain the non-cash assets and ultimately will convert them into cash.

As at 31 December 2002, Danaharta has converted RM14.61 billion (including adjustments) of the recovery received into cash. Part of the cash would be distributed back to the FIs that had sold NPLs to Danaharta (as required by surplus sharing arrangements agreed to during acquisition) and some of it to the Government (in respect of the managed NPLs). The balance of the cash would be used, primarily, to redeem the bonds issued to the respective FIs for acquiring the NPLs.

As a national asset management company, Danaharta is fully funded by the government. However, it is Danaharta's aim to minimise its eventual cost to taxpayers. To achieve that, Danaharta has always focused on extracting maximum recovery from each NPL to generate enough cash to repay its liabilities, the main one being the bonds issued to purchase the NPLs. The first tranche of the bonds will mature on 31 December 2003 and Danaharta is on course to redeem them. Danaharta will continue to strive to redeem the rest of the tranches.

THE MISSION FLOW CHART



ESTABLISHMENT AND FUNDING

In general, it should be noted that all national asset management companies (AMCs) are loss-making entities due to significant funding costs and the deteriorating nature of NPLs. Being a national AMC (fully funded by the Government), Danaharta's operations will also result in a cost to be borne by the Government. However, the cost will be relatively small compared to the alternative of the banking system collapsing that would have wrought chaos on the Malaysian economy and resulted in a much higher cost. Nonetheless, Danaharta strives to minimise the eventual cost to the Government through maximizing the recovery value of its NPLs.

ESTABLISHMENT AND FUNDING (CONTINUED)

Table 1: Danaharta's funding sources and outstanding liabilities as at 31 December 2002

Funding Sources	*Purpose*	*Maximum amount allocated RM billion*	*Capital & outstanding liabilities RM billion*
Government contribution	Initial capital	3.00	3.00
Loans from Employees Provident Fund / Khazanah Nasional Berhad	Draw down available for working capital	2.00	0.40*
Zero-coupon bonds issued to selling financial institutions	For loan acquisition	15.00*	11.14**
TOTAL		**20.00**	**14.54**

* *The total loan drawn down was RM1.3 billion.*
** *Refers to nominal value/face value of total bonds issued.*

As at 31 December 2002, Danaharta has a total capital and outstanding liabilities of RM14.54 billion.

During the second half of 2002, Danaharta paid the full outstanding amount of its direct loan with the Employees Provident Fund. As such, Danaharta is left with only about RM0.4 billion of its direct loan outstanding with Khazanah Nasional Berhad.

NPL PORTFOLIO AND PAYMENT

As at 31 December 2002, Danaharta has RM47.76 billion of NPLs [value of loan rights acquired ("LRA")], relating to 2,556 borrowers, (involving 2,905 accounts) in its portfolio.

Table 2: Danaharta's NPL portfolio as at 31 December 2002

Type of NPL	*NPLs in LRA value RM billion*
Acquired	19.82
Managed	27.94
TOTAL	**47.76**

Danaharta's portfolio (in LRA) comprises:

- RM19.82 billion of *acquired NPLs*, purchased with bonds and cash at a total cost of RM9.03 billion (average discount of 54.4% to LRA value).
- RM27.94 billion of *managed NPLs* (loans from the now defunct BBMB Group and Sime Bank Group which Danaharta is managing on behalf of the Government of Malaysia).

NPL PORTFOLIO AND PAYMENT (CONTINUED)

NPLs in Danaharta's portfolio are dealt with in the same manner, whether coming from the acquired NPLs component or managed NPLs component. However, it is worth noting certain key features of the two components:

Comparison of key features between acquired NPLs and managed NPLs

Key features	*Acquired NPLs*	*Managed NPLs*
Where do they originate from?	NPLs bought on willing buyer -willing seller basis from financial institutions (FIs).	NPLs of now defunct Sime Bank Group and BBMB Group, assigned by the Government to manage on their behalf.
What is the cost?	RM9.03 billion [average discount of 54.4% to RM19.82 billion (LRA)].	No cost to Danaharta as NPLs belong to the Government.
What is the mode of payment?	Cash and bonds.	No payment made.
Surplus recovery arrangement	Danaharta has agreement with selling FIs to distribute surplus recovery [80 (FI): 20 (Danaharta)] if recovery exceeds purchase price plus holding costs of NPLs.	No surplus recovery agreement. Danaharta receives a fee for managing the loans.
How are they managed?	Both types of loans are managed using the same approach. The objective is to extract maximum recovery value from the NPLs.	

Danaharta's portfolio includes some NPLs with contingent liabilities attached. A contingent liability, such as a bank guarantee, is an obligation made by a borrower to a third party. This contingent liability, if crystallised, will increase Danaharta's NPL portfolio. An example of a crystallisation of a contingent liability is when a borrower's bank guarantee facility is called upon by the third party, thus converting the bank guarantee into a loan to be repaid. The loan will therefore be an additional NPL to be recovered by Danaharta. Typically, the third party will only exercise his right to call upon the bank guarantee if the borrower fails to pay him.

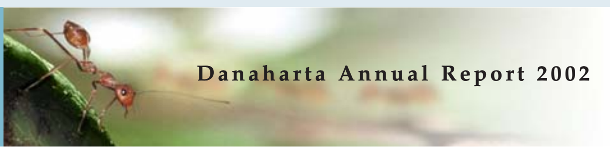
Table 3: Analysis of contingent liabilities in Danaharta's portfolio as at 31 December 2002

Type of NPL	*Contingent liabilities RM million*
Acquired	125.5
Managed	283.3
TOTAL	**408.8**

RECOVERY

As at 31 December 2002, Danaharta has dealt with all the NPLs in its portfolio. In other words, Danaharta has reviewed and identified the appropriate recovery strategy for every NPL account.

The adjusted LRA value of loans restructured or approved for restructuring or disposed (as in the case of foreign loan assets) is RM52.52 billion (Note: 'Adjusted LRA' is equivalent to LRA plus interest accrued at the point of restructuring).



RECOVERY (CONTINUED)

The expected recovery value for each loan is determined once the recovery strategy has been identified. Overall, Danaharta expects to recover RM30.19 billion (Note: This is the total recovery value that is expected to be collected and realised. Until Danaharta completes all collection, this estimate figure will fluctuate due to defaults and reinstatements). Of this amount, RM19.16 billion is expected from managed loans and RM11.03 billion from acquired loans. The average recovery rates are 63% and 50% respectively, whilst the overall average recovery rate is 57%.

An analysis of the recovery proceeds from various recovery methods is provided in Table 4 below.

Table 4: Analysis of expected recovery from various recovery methods

Recovery method	*Adjusted LRA RM billion (a)*		*Adjusted expected recovery* RM billion (b)*		*Expected recovery rate (%) (c)= (b)/(a)*	
	Acquired loans	*Managed loans*	*Acquired loans*	*Managed loans*	*Acquired loans*	*Managed loans*
Plain loan restructuring	3.18	6.33	2.55	5.00	80%	79%
Settlements	1.55	5.79	1.28	4.37	83%	75%
Schemes of arrangement	3.09	7.14	2.03	5.54	66%	78%
Schemes under Special Administrators	2.38	2.87	1.26	0.94	53%	33%
Foreclosure	9.82	4.14	2.84	1.85	29%	45%
Others	1.79	2.78	1.07	1.46	60%	53%
Legal action	0.29	1.37	-	-	-	-
TOTAL	**22.10**	**30.42**	**11.03**	**19.16**	**50%**	**63%**
OVERALL	**52.52^**		**30.19**		**57%**	

^ *comprising total LRA of RM47.76 billion and accrued interest of RM4.76 billion.*
* *assuming zero recovery on defaulted cases as at 31 December 2002.*

Identifying recovery methods/strategies for the NPLs
In general, Danaharta employs a number of recovery methods (as listed in Table 4).The recovery method identified varies depending on the loan account. Set out below is a general guideline on how Danaharta determines the recovery method for each loan:

- **Viable loans**
  Borrowers with viable loans are given a chance to restructure and rehabilitate their loans according to Danaharta's loan restructuring principles and guidelines. This arrangement is also beneficial to Danaharta as loan restructuring generally yields higher recovery rates vis-à-vis other recovery methods. Danaharta employs three methods for loan restructuring - *Plain Loan Restructuring, Settlement of Loans and Schemes of Arrangement.*

- **Non-viable loans**
  Non-viable loans and cases where borrowers fail to comply with the loan restructuring guidelines to restructure its loans, are placed under asset restructuring. Loans are recovered through the sale of a borrower's business or the underlying collateral of an NPL. The methods adopted by Danaharta under asset restructuring are - *Foreclosure (sale of property and securities), Appointment of Special Administrators (disposal of business) and Legal Action.*

RECOVERY (CONTINUED)

Detailed descriptions of these recovery methods are set out below.

Recovery Methods and Types of Recovery Assets Received
Having identified the recovery methods for all the loans, Danaharta then focuses on implementing these strategies. Different methods or strategies will result in different types of recovery assets. Naturally, cash is preferred but Danaharta also accepts recovery in the form of properties or securities. Where an NPL has been restructured i.e. the borrower agrees to a new repayment schedule, in effect the restructured loan is a recovery asset (being a stream of repayments over a period of time).

Set out below are detailed descriptions of the recovery methods employed by Danaharta and the types of recovery received from the implementation of each method.

i) Plain Loan Restructuring (PLR)
PLR generally includes rescheduling of loans, i.e., the extension of a loan tenure to facilitate the borrower's repayment over time.

Recovery assets generated: restructured loans and cash.

ii) Settlements
Settlements are cases where borrowers opt for a one-time settlement for the loans via cash or set-off of assets.

Recovery assets generated: cash, properties and securities.

iii) Schemes of Arrangement (SOA)
SOA comprise schemes that are voluntarily formulated by both borrowers and creditors, with the aim to restructure the loans. These schemes also include voluntary schemes that come under Section 176 of the Companies Act 1965, and the Corporate Debt Restructuring Committee ("CDRC").

Recovery assets generated: cash, restructured loans, securities and properties.

iv) Schemes under Special Administrators
In cases where a corporate borrower is unable to pay its debts, fulfill its loan obligations or meet Danaharta's restructuring guidelines, the Pengurusan Danaharta Nasional Berhad Act 1998 (Danaharta Act) enables Danaharta to appoint Special Administrators over the borrower. The Special Administrators' role is to assume temporary control and management of the assets and affairs of the corporate borrower, and prepare a workout proposal aimed at maximising the recovery value on the business.

As at 17 February 2003, Danaharta had appointed Special Administrators across 71 groups of companies, with 40 groups of companies still at various stages of special administration.

Recovery assets generated: cash, restructured loans, securities and properties.

v) Foreclosure
Foreclosure involves the sale of property or share collateral pledged as security to loans. Danaharta may foreclose on the collateral of the loans if a borrower fails to comply with its loan obligation.

Recovery assets generated: cash. (However, the property and share collateral that have been foreclosed but not sold by Danaharta will remain in our portfolio until they are eventually converted into cash.)

For guidelines governing the management of share collateral, please refer to "Loan and Asset Management and Disposition"on page 123 in the Reference Materials section.

RECOVERY (CONTINUED)

Property collateral

The Danaharta Act and the Fifteenth Schedule of the National Land Code 1965 give Danaharta additional rights as a chargee over property collateral. If a borrower does not repay his loan within one month of the date of a foreclosure notice from Danaharta, Danaharta may sell the underlying property collateral by way of private treaty. Private treaty comprises sales by open tender, private contract or auction, as provided for under Section 57 of the Danaharta Act. However, Danaharta prefers to dispose of the foreclosed properties via the open tender approach.

Primary sales involve properties that are foreclosed and offered for tender for the first time. As at 31 December 2002, Danaharta had conducted seven nationwide property tenders and five specific tenders^ in its primary sales. Both the nationwide open tenders and specific tenders are part of Danaharta's efforts to dispose properties to the market in a timely and structured manner, with the objective of maximising recovery value from the NPLs secured by these properties.

As at 31 December 2002, Danaharta had offered a total of 890 properties worth RM2.312 billion to the market. As many as 745 properties (or approximately 84%) had been sold for a total consideration of RM1.39 billion - 550 properties (RM1043.94 million) in primary sales and 195 properties (RM348.08 million) in secondary sales. Previously, Danaharta Hartanah Sdn Bhd, a wholly-owned subsidiary of Danaharta, had acted as the buyer of last resort for the properties which were unsold in the primary sales. This policy has now been stopped. Starting from the seventh tender in October 2002, unsold properties will no longer be automatically transferred to Danaharta Hartanah. This is because Danaharta deems that the property market is now better positioned to absorb these properties. Concurrently, Danaharta is drawing closer to its closure in year 2005 and intends to avoid warehousing unsold properties. Nevertheless, these unsold properties will continue to be marketed for sale via private treaty after each tender and may also be re-offered in future property tenders.

The results of the property sales are summarised in the following table:

Table 5: Results of property sales as at 31 December 2002

	Number of properties	*Indicative value (IV) (RM million)*	*Consideration received (C) (RM million)*	*C/IV %*
Sold in primary sales*	550	983.07	1,043.94	106%
Sold in secondary sales **	195	460.22	348.08	76%
Subtotal sold	745	1,443.29	1,392.02	96%
Unsold##	145	869.07	-	-
Total offered to the market as at 31 December 2002	**890**	**2,312.36**		

***Notes**:*

* *Includes 12 properties belonging to Jalur Realty Sdn Bhd (JRSB), a property management company which was previously part of the Sime Bank Group.*

** *Includes 2 properties belonging to JRSB.*
The above 14 properties have a total indicative value of RM16.9 million and were sold for a total consideration of RM17.6 million. The sale of JRSB properties formed part of the resolution of the Sime Bank Group.

Comprises 76 properties owned by Danaharta Hartanah, 30 properties unsold in the seventh tender and 39 properties from prior tenders that were not transferred to Danaharta Hartanah.

^ *Specific tenders feature the disposal of individual properties or properties of the same type or within the same development.*

RECOVERY (CONTINUED)

Sale of hotel and leisure properties

As a part of Danaharta's industry-specific NPL resolution initiatives, 11 hotels were offered for sale. Three of the 11 hotels were foreclosed hotels offered by Danaharta, and the remaining eight hotels were offered by the Special Administrators of seven companies.

Ten hotels had been sold for a total consideration of RM164.18 million as at 31 December 2002. The remaining one hotel will be offered to the market using various avenues, including tenders or sale by way of private treaty.

vi) Others

"Others" include amongst others, cases of partial resolution, liquidation of companies and appointment of Receivers and Managers over companies or assets.

Recovery assets generated: properties, securities and cash.

vii) Legal action

The final resort for Danaharta will be to take legal action against the borrower. Danaharta will only choose this route after all other recovery methods have been exhausted. This method is the least preferred by Danaharta as it is lengthy and can involve significant cost with minimal recovery.

Recovery assets generated: cash, properties or securities depending on the outcome of the legal suit.

RECOVERY ASSETS

The implementation of the various recovery strategies generates recovery assets in four categories, namely:

1. **Cash,** generated from cash settlements, redemption of collateral, the sale of collateral and foreign loan assets, and asset disposal.

2. **Restructured loans,** made up of restructured or rehabilitated NPLs i.e. a stream of repayments over a period of time.

3. **Securities,** comprising all kinds of securities e.g., shares or loan stocks that have been issued to Danaharta as part of settlement schemes. (Note that this does not refer to share collateral)

4. **Properties,** comprising properties which are under the beneficial ownership of Danaharta Hartanah, and set-off properties, i.e. properties that are offered and accepted as full or partial settlement for NPLs. (Note that this does not refer to property collateral that has not been foreclosed)

As at 31 December 2002, Danaharta's cumulative recovery is RM18.93 billion, or approximately 63% of total expected recovery of RM30.19 billion (excluding defaulted loans of RM2.06 billion). The remaining RM11.26 billion is still pending implementation of the respective recovery strategies and will be collected over time.

The overall default rate declined from 11% as at 31 December 2001 to 6.4% as at 31 December 2002. The decline is mainly attributable to the reinstatement of some defaulted loans. In calculating our published statistics, Danaharta conservatively assumes zero recovery for the defaulted loans (RM2.06 billion) for as long as they remain in default. Essentially, a default will mean an alternative recovery strategy will be implemented. In many cases, this will result in some recovery being collected. Once a new expected recovery amount has been estimated and approved, it will be included in the total expected recovery.

On the whole, as at 31 December 2002, a total of 304 borrowers have fully settled RM6.62 billion (LRA) of NPLs relating to 348 accounts. A fully settled borrower is one who has fully settled all outstanding accounts with Danaharta. All expected payment has been made by the borrower, either in the form of cash and/or non-cash assets, and no further recovery shall be expected from the borrower.

RECOVERY ASSETS (CONTINUED)

Table 6: Analysis of recovery proceeds by asset groups as at 31 December 2002

Asset group (RM billion)	*Expected recovery# (a)*	*Defaulted (b)*	*Expected recovery excluding default (c) = (a) - (b)*	*Pending implementation (d)*	*Recovery received (e) = (c) - (d)*
Cash	14.00	0.47	13.53	6.82	6.71
Restructured loans	11.21	1.39	9.82	1.70	8.12
Securities	5.58	0.20	5.38	1.97	3.41
Properties	1.46	-	1.46	0.77	0.69
Total	**32.25**	**2.06**	**30.19**	**11.26**	**18.93**

 # Expected recovery does not include interest or adjustments due to gains or losses arising from the recovery process.

Table 7: Analysis of recovery proceeds by acquired and managed loans as at 31 December 2002

Type of loans	*Expected recovery^ (RM billion)*	*Pending implementation (RM billion)*	*Recovery received (RM billion)*
Acquired loans	11.03	6.40	4.63
Managed loans	19.16	4.86	14.30
Total	**30.19**	**11.26**	**18.93**

^ Expected recovery excluding defaulted loans

CONVERSION OF NON-CASH ASSETS INTO CASH

In the course of its recovery operations, Danaharta receives some non-cash recovery assets (i.e., restructured loans, properties and securities). It is not Danaharta's intention to be permanent owners of these assets. Therefore, Danaharta will strive to convert, where possible, non-cash recovery assets into cash.

The 3 non-cash asset groups are converted into cash via the following methods:

i) Restructured loans : payment of loan instalments and securitisation
ii) Properties : sale of properties
iii) Securities : sale of securities

Table 8: Analysis of cash conversion by asset group as at 31 December 2002.

Asset group (RM billion)	*Recovery received (e)*	*Stock (f)*	*Realised in cash (g)= (e) - (f)*
Cash	6.71	-	6.71
Restructured loans	8.12	4.26	3.86
Securities	3.41	2.06	1.35
Properties	0.69	0.30	0.39
Total	**18.93**	**6.62**	**12.31**

CONVERSION OF NON-CASH ASSETS INTO CASH (CONTINUED)

Table 9: Total cash received from recovery proceeds as at 31 December 2002

	RM billion
Cash from recovery proceeds	12.31
Add: Adjustments, comprising primarily interest received on restructured loans and gains or losses on sale of foreclosed collateral and securities	2.30
TOTAL CASH RECEIVED (as at 31 December 2002)	**14.61**

Acquired loans: RM3.68 billion

Managed loans: RM10.93 billion

As at 31 December 2002, Danaharta has converted RM14.61 billion (including adjustments of RM2.30 billion) of its recovery received into cash. A total of RM3.68 billion of the cash was generated from recovery from acquired loans while the remaining RM10.93 billion was from managed loans.

As at 31 December 2002, Danaharta still has RM6.62 billion of non-cash recovery assets in stock which will be realised into cash eventually.

DISTRIBUTION OF RECOVERY PROCEEDS

From the RM14.61 billion of cash generated, Danaharta has distributed (on a gross cumulative basis) RM11.27 billion to the Government and 30 FIs as at 31 December 2002. The amount distributed consists of surplus recovery for acquired loans and amount recovered from the BBMB Group and the Sime Bank Group loans that are being managed by Danaharta. A total of 55,899,542 units of securities at par value have also been distributed to the selling FIs as part of the surplus recovery agreement.

Unlike many other national AMCs, Danaharta does not have compulsory powers of acquisition i.e. it does not have the power to direct FIs to transfer NPLs to the agency. Instead, Danaharta relied on a market-based approach to attract FIs to sell NPLs. Danaharta purchased the acquired NPLs at an average discount of 54.4%, resulting in shortfalls (difference between the loan outstanding (LRA) and the acquisition price) for many selling FIs. To make it attractive for banks to sell their NPLs, it was agreed that in cases where Danaharta recovers more than the acquisition price it paid for a loan, in addition to holding costs incurred, it would share the surplus recovery with the selling FI .

Typically, the surplus is shared on an 80(selling FI):20(Danaharta) basis and the amount receivable by the selling financial institution is capped at the shortfall value. Once Danaharta has realised its acquisition costs (plus holding costs) in cash, it will distribute the surplus recovery to the FI in the form of cash or a combination of cash and instruments.

With regard to the NPLs from the BBMB Group and the Sime Bank Group managed by Danaharta, recoveries are for the Government's account. However, Danaharta Urus and Danaharta Managers (both wholly-owned subsidiaries of Danaharta set up to manage the NPLs) receive fees as follows:

(a) If net recovery value is less than or equals net book value, Danaharta Managers/Danaharta Urus receives 2% of the net recovery value; and

(b) if net recovery value exceeds net book value, Danaharta Managers/ Danaharta Urus receives 2% of the net book value and 20% of the excess.

DISTRIBUTION OF RECOVERY PROCEEDS (CONTINUED)

Details of distribution are as follows:

Table 10: Distribution of recovery proceeds as at 31 December 2002

A.	Gross recovery for managed loans		Distribution of recovery Cash (RM)	Securities (units)
	NPLs of the BBMB Group and the Sime Bank Group		10,924,748,519	-
	Sub-total		**10,924,748,519**	**-**
B.	***Recipient of surplus recovery for acquired loans+***	***No. of accounts***	***Cash (RM)***	***Securities (units)***
1.	Arab-Malaysian Bank Berhad	3	1,426,758.80	-
2.	Arab-Malaysian Finance Berhad	1	1,575,687.64	-
3.	Aseambankers Malaysia Berhad	1	328,582.08	*3,968,319
4.	Amanah Merchant Bank Berhad	1	2,680,435.30	-
5.	Bank Bumiputra Malaysia Berhad#	8	56,188,617.18	-
6.	Bank Industri Malaysia Berhad	1	480,082.15	-
7.	Bank Islam Berhad	2	1,056,163.74	-
8.	Bank of Commerce (M) Berhad	2	49,389,810.26	-
9.	BSN Merchant Bank Berhad	1	210,830.75	-
10.	Bangkok Bank Berhad	2	1,383,839.52	-
11.	Bumiputra Merchant Bankers Berhad	1	1,044,005.77	-
12.	Hong Leong Bank Berhad	3	845,005.52	^1,994,397
13.	HSBC (M) Berhad	1	142,915.26	*1,730,284
14.	Malaysian International Merchant Bankers Berhad	4	15,788,072.51	*7,950,567
15.	Mayban Finance Berhad	1	3,518,006.94	-
16.	Maybank Berhad	4	31,231,387.37	-
17.	MBf Finance Berhad	4	21,136,778.56	-
18.	OCBC Bank (Malaysia) Berhad	1	148,898.61	-
19.	Oriental Bank Berhad	12	25,603,882.85	^2,642,648
20.	Perdana Merchant Bankers Berhad	1	322,248.03	-
21.	Perwira Affin Bank Berhad	1	38,000.00	^2,427,982
22.	Perwira Affin Merchant Bank Berhad	1	143,782.35	-
23.	Public Finance Berhad	1	251,880.89	-
24.	RHB Bank Berhad	6	59,402,345.14	@27,247,820
25.	RHB Sakura Merchant Bankers Berhad	3	11,356,674.79	*3,986,502
26.	Sabah Bank Berhad	3	2,719,601.94	-
27.	Sabah Development Bank Berhad	1	4,705,933.56	-
28.	Southern Bank Berhad	2	3,803,573.89	*3,951,023
29.	The Pacific Bank Berhad	4	48,011,912.34	-
30.	United Merchant Finance Berhad	1	263,912.26	-
	Sub-total	**77**	**345,209,626.00**	**55,899,542**
	TOTAL DISTRIBUTED		**11,269,958,145.00**	**55,899,542**

+ *In cases where banks have merged or have been acquired by another bank, payments are made to the new legal entity or the acquiring bank.*
# *Relating to loans acquired at discounted prices by Danaharta prior to the arrangement for Danaharta to manage the BBMB Group NPL portfolio. Payment made to Danaharta Urus Sdn Bhd as the manager of BBMB NPLs.*
* *Payment in ordinary Arab-Malaysian Corporation Berhad shares with a par value of RM1.00 each share.*
^ *Payment in Ho Wah Genting Berhad RCULS with a par value of RM1.00 each.*
@ *Payment in 7,907,820 units Arab-Malaysian Corporation Berhad shares with a par value of RM1.00 each share and 19,340,000 units of Taiping Consolidated Berhad irredeemable convertible preference shares (ICPS) with a par value of RM1.00 each share.*

BOND REDEMPTION

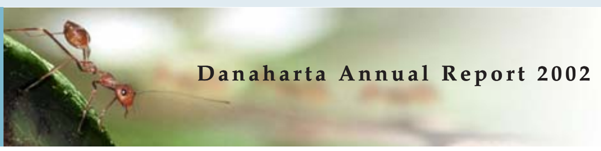
As at 31 December 2002, Danaharta has a total cash balance of RM6.14 billion. The balance of cash available will be used in part to redeem Danaharta bonds and to repay loans taken by Danaharta. The first tranche of Danaharta's government guaranteed bonds will become due on 31 December 2003.

Table 11: Summary of cash statement

	RM billion
Total cash realised from recovery proceeds	14.61
Add:	
1. Capital received	3.00
2. Long-term loans	1.30
3. Other inflows - including, amongst others, interest received on deposits and placements	1.81
Total inflow	**20.72**
Less:	
1. Total surplus recovery, distributed to financial institutions under profit sharing arrangement	0.35
2. Total cash distributed/ to be distributed for recovery of loans from the Sime Bank Group and the BBMB Group	9.94
3. Other outflows - including, amongst others, cash paid for NPL acquisition, repayment of loans, operational costs	4.29
Total outflow	**14.58**
TOTAL CASH/CASH EQUIVALENT AVAILABLE AS AT 31 December 2002	**6.14**

Total bonds outstanding as at 31 December 2002 **11.14 billion**

Danaharta will strive to generate enough cash to redeem all of its bonds when they fall due. Should Danaharta fail to do so, it could rollover the bonds for up to five years, thus turning the zero-coupon bonds into interest-bearing bonds. If the rollover option is not taken up, then the Government guarantee will be invoked to bear any shortfall in the bond redemption exercise.



BOND REDEMPTION (CONTINUED)

Summary of Danaharta bond issues for acquired NPLs as at 31 December 2002

Date of issue	*Face value RM billion*	*Price for every RM100.00 in face value*	*Yield*	*Present value at issue date 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%	1.014	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%	0.390	30 June 2004
29 June 1999	0.744	76.862	5.330%	0.572	30 June 2004
29 July 1999	0.527	76.223	5.319%	0.402	30 September 2004
26 August 1999	0.204	73.585	6.111%	0.150	30 September 2004
29 October 1999	0.575	76.365	5.283%	0.439	31 December 2004
29 December 1999	0.392	77.363	5.194%	0.303	31 December 2004
31 January 2000	0.162	77.244	5.063%	0.125	31 March 2005
29 February 2000	0.305	77.697	5.025%	0.237	31 March 2005
31 March 2000	0.328	77.494	5.165%	0.255	31 March 2005
Total	**11.140**			**8.217**	
Less adjustments	**(0.273)**			**(0.202)**	
Total as at 31 December 2002	**10.867**			**8.015**	

Note: No bonds were issued in September and November 1999 and after 31 March 2000.

BOARD OF DIRECTORS

- **MANAGING DIRECTOR**
  - **General Manager**
    Managing Director's Office
  - Managing Director 's Corporate Office
  - **Director**
    Operations
    - **General Manager**
      Operations
    - Loan Management
    - Corporate Finance
  - **Director / Senior General Manager**
    Property
    - Marketing & Sales
    - Planning & Development
    - Technical Services
    - Property Management
  - **General Manager**
    Finance & Services
    - Finance/Treasury
    - Information Technology
    - Administration
      - Security
  - **General Manager**
    Legal Affairs & Risk
    - Legal Advisory
    - Secretarial
    - Risk Management
  - **General Manager**
    Communications and Human Resource
    - Communications
    - Human Resource
    - Research
- **General Manager**
  Internal Audit & Compliance

As at 1 December 2002

ORGANISATION STRUCTURE

Danaharta continues to re-organise internally to streamline its operations in line with the emphasis of the Company's operations at the different crucial stages of its lifecycle.

Towards the end of year 2002, the Company was re-organised to cater for the operational needs of the company in one of the most crucial stages of its lifecycle, the resolution phase. The resolution phase involves the implementation of the recovery strategies and the collection of recovery from all NPLs in the portfolio.

As Danaharta prepares to wind down its operations in the year 2005, the re-organisation exercise will allow all efforts to be geared towards collection of recovery, to enable Danaharta to redeem the bonds it had issued to financial institutions to acquire the NPLs.

The re-organisation exercise involved the dissolution of the Corporate Services Division and the redeployment of resources in the Corporate Finance, Corporate Planning and Research units which were under the Corporate Services Division to other Divisions. The General Manager of Corporate Services together with the Corporate Planning Unit were assigned to perform their tasks under the purview of the Managing Director's office. Meanwhile, the Corporate Finance Unit and the Research Unit were transferred to the Operations Group and Human Resource and Communications Division respectively.

The re-organisation also involved the integration of the Risk Management Division into the Legal Affairs Division. The Legal Affairs Division has been renamed as Legal Affairs and Risk Division.

The activities of the revised organisation structure are as set out below:

MANAGING DIRECTOR'S OFFICE

Corporate Planning Unit

During the year, the Unit had reviewed and updated the business plan for Danaharta, with emphasis on the closure plans of Danaharta. The Unit also continued to monitor the key performance indicators of Danaharta and report the results to the management.

LINE DIVISIONS

The Operations Group, Property Division, and Corporate Debt Restructuring Division (until it was dissolved in August 2002) constitute the Line Divisions within Danaharta. A summary of their functions is as follows:

OPERATIONS GROUP

The Operations Group ("Group"), responsible for managing the NPL portfolio of Danaharta Group [comprising Pengurusan Danaharta Nasional Berhad ("PDNB"), Danaharta Managers Sdn Bhd ("DMSB") and Danaharta Urus Sdn Bhd ("DUSB")], represents the backbone of the company. The NPL portfolio consists of those that were acquired by Danaharta and NPLs from the now defunct Sime Bank and Bank Bumiputera Groups managed by wholly-owned subsidiaries of Danaharta, DMSB and DUSB respectively, on behalf of the Government of Malaysia.

To increase productivity and to eliminate the duplication of tasks, the Operations Group is divided into various specialised work groups. These work groups are categorised by the different job functions such as liasing with Special Administrators, managing legal actions, carrying out section 57 foreclosures of property collateral, and monitoring of repayment and collection.

During the period under review, the Group completed its task of identifying the recovery method for each NPL in Danaharta's portfolio which started in the year 2000. The Group also continued to implement the recovery measures that had been identified for each account, the monitoring of performing loans to ensure timely repayment and its collection efforts to maximise recovery.

LINE DIVISIONS (CONTINUED)

Meanwhile, the Corporate Finance Team under the Group, continued to evaluate workout proposals submitted by corporate borrowers, formulate strategies to manage the disposal of marketable securities received as settlement of debt.

The Operations Group will be a crucial component of the Company in ensuring timely collection from the recovery operations which will be utilised to redeem the bonds issued by Danaharta to financial institutions which it had acquired NPLs from.

PROPERTY DIVISION

The Property Division provides advisory services to the Operations Group on property-related issues such as feasibility of projects and valuation of property collateral. The Division also manages property collateral under Danaharta's portfolio and facilitates foreclosure of property collateral. In this regard, the Division helps to manage the disposal of the property collateral and the transfer process. Danaharta's sales of properties are not limited to the primary sales, i.e. nationwide property tenders and specific tenders. Properties not cleared through the primary sales are re-offered to the market via secondary sales (private contract sales).

In the third quarter of the period under review, the Property Division was relocated to the premises of TTDI Development Sdn Bhd, a wholly-owned property subsidiary of Danaharta. The exercise was undertaken to integrate and synergise property-related activities and also to facilitate the sharing and transfer of expertise within the Danaharta Group.

CORPORATE DEBT RESTRUCTURING DIVISION

The Corporate Debt Restructuring Division ("CDRD") which was formed in August 2001 was dissolved in August 2002 upon the closure of the Corporate Debt Restructuring Committee ("CDRC") in July 2002. The Division was set up to support the CDRC in its role of facilitating the restructuring of large corporate debts in Malaysia, pursuant to the appointment of Dato' Azman Yahya as Chairman of both CDRC and Danaharta in August 2001.

As at 15 August 2002, CDRC had resolved 47 cases with total debts amounting to almost RM44 billion. The resolved cases represented approximately 65% of the total cases under the auspices of the committee.

SUPPORT DIVISIONS

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. Monthly management reports are prepared in which the results of loan acquisitions, loan and asset management and asset disposals are reported and compared to forecasts.

The Unit had also been responsible for issuing Danaharta's government-guaranteed bonds to financial institutions for NPL acquisitions.

Information Technology Unit

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

SUPPORT DIVISIONS (CONTINUED)

Administration Unit

This Unit is responsible for office administration and security matters necessary to support the various Divisions of Danaharta. In this regard, the Security Unit which was previously under the Communications and Human Resource Division was transferred to the Administration Unit under the re-organisation exercise.

LEGAL AFFAIRS AND RISK DIVISION

The Legal Affairs and Risk Division comprises the following units:

Legal Advisory Unit

The Legal Advisory Unit provides legal support services to line divisions and Danaharta Group companies. This includes legal advice on loan acquisitions, loan management and asset management matters.

The Unit continued to support the Operations Group in loan restructuring and workout proposals and, in particular, ensuring that the Pengurusan Danaharta Nasional Berhad Act 1998 ("Danaharta Act") and the National Land Code (Fifteenth Schedule) are implemented as intended. The Unit also continued to play an active role in supporting the Property Division on Danaharta's sales program.

During the year, the Unit with the co-operation of the office of the Chief Registrar of the Federal Court, conducted a one-day briefing on the Danaharta Act to High Court judges to explain the background and purpose of the Act.

Secretarial Unit

The Secretarial Unit undertakes company secretarial services. It maintains the Group's statutory books and records and ensures compliance with relevant laws and policies and procedures relating to meetings of the Board and Board committees as well as management meetings.

During the year, the Unit continued to provide company secretarial support to other Danaharta Group companies such as TTDI Development Sdn. Bhd. This was to ensure consistency in company secretarial policies and procedures within the Danaharta Group.

The Unit also acts as the secretariat to the Oversight Committee and the Tender Board.

Risk Management Unit

The Risk Management Unit provides risk advisory support services to the line divisions on all aspects of Danaharta Group's operations.

The core functions of the Unit are as follows:

- independent review of loan management and asset management to ensure conformity and consistency in the application of Danaharta's policies and procedures throughout the Danaharta Group as well as to highlight risk issues and recommend risk mitigation measures.
- formulating effective and efficient procedures that encompass Danaharta's policies and objectives and best practices.
- acting as custodian for Danaharta's policies and procedure manuals.

SUPPORT DIVISIONS (CONTINUED)

COMMUNICATIONS AND HUMAN RESOURCE DIVISION

The Communications and Human Resource Division comprises the following Units:

Communications Unit

This Unit's activities cover all aspects of public and investor relations, advertising and event management. Given Danaharta's strong commitment to transparency in its operations, the Communications Unit continues in its role as the official channel via which Danaharta updates all interested parties on its objectives and activities in a timely manner.

It is also responsible for responding to queries from the public, Parliament, media and industry analysts as well as producing the Company's publications such as the half-yearly Operations Report and the Annual Report.

Throughout the year, the Unit continued to be involved in briefings to media, local and foreign analysts and fund managers, supra-national organisations and various professional and trade associations. Internally, the Unit was involved in the marketing and advertising efforts related to the national property tenders and specific tenders as well as the sale of shares.

The Unit had also assisted the Legal Advisory Unit in organising a one-day briefing on the Danaharta Act to High Court judges.

Human Resource Unit

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

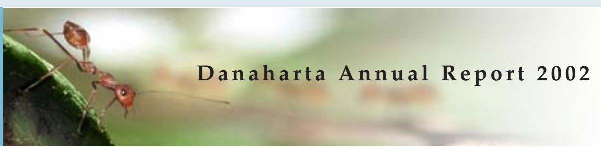
As at 31 December 2002, Danaharta's employees' strength remained steady at 265. Nearer to the date of its closure in 2005, Danaharta will be looking at reducing the number of staff in a timely and orderly manner.

Professional Staff Statistics (as at 31 December 2002)

Qualifications	*Percentage (%)*
Master's Degree/Professional Qualification	28
Bachelor's Degree	57
Diploma	10
SPM	5

Career Background	*Percentage (%)*
Local Banks	53
Foreign Banks	9
Multinationals/International firms	10
Local firms	25
Others	3

Working Experience	*Percentage (%)*
More than 3 years	100
More than 5 years	98
More than 10 years	61
More than 15 years	33



SUPPORT DIVISIONS (CONTINUED)

Age	*Percentage (%)*
More than 25 years	100
More than 30 years	89
More than 35 years	53
More than 40 years	31

Gender	*Percentage (%)*
Male	61
Female	39

Research Unit

During the year, the Research Unit continued to monitor macroeconomic and equity market developments, both locally and internationally, which have bearings on the restructuring and disposal efforts of the Danaharta Group. In addition, microanalyses were conducted on various sectors, e.g. property and manufacturing, and on companies in which the Danaharta Group would have an interest by reason of its activities.

The Unit was also involved in the management and monitoring of marketable securities within Danaharta's portfolio in conjunction with Corporate Finance Unit.

INTERNAL AUDIT & COMPLIANCE DIVISION

The Internal Audit & Compliance Division (IAC) assists the Audit Committee in discharging its oversight responsibility to ensure there is a sound system of internal control that contributes to safeguarding of shareholder's (government's) interest and Danaharta's assets by performing independent appraisals of business operations and activities. IAC maintains its independence and objectivity through reporting functionally to the Audit Committee and administratively to the Managing Director.

In the year 2002, IAC conducted a total of 24 audits in accordance with Danaharta's approved 2002's internal audit plans. The reviews focused primarily on the key business operations of loan restructuring and recovery and disposal of acquired assets (properties and securities) as well as support activities and significant risk areas (such as legal advisory, credit administration, risk management, employees compensation, etc). The purpose of these audits was to evaluate the adequacy and integrity of the risk control systems to ensure they provide reasonable assurance towards the achievement of Danaharta's business objectives. These audit reports were distributed to the Audit Committee and Management team members.

Based on the results of these audits or investigations performed, and observations made when attending the Management Committee meetings and participation in projects, IAC had assessed the effectiveness of Danaharta's overall risk control framework and provided an opinion on the state of the overall internal control in the company to the Audit Committee/Board and Management through IAC's quarterly summary report.

The quarterly summary report also provided an update on the progress and completion of the agreed actions (arising from the audits). Management monitored the timely completion of actions taken and the Audit Committee reviewed the follow-up actions.

The Division continued to provide advice and support on internal controls to line divisions in the development or revision of policies and procedures for specific projects. Some of the the activities undertook last year by IAC included assisting Management in organising and facilitating the Management Strategy meeting, reviewing Danaharta's policies and procedure manuals and being independent observers in the opening of tenders for sale of companies, business, properties and securities.

In addition to the above, IAC assisted Management and the BOD in promoting a good "tone at the top". This is done through assessing compliance with the SBC and conducting briefings to new staff on Danaharta's business principles and code of conduct and behavior, administering the annual declaration of independence & financial disclosures and the pre-clearance for buying & selling of stocks/shares.

KUALA LUMPUR INDUSTRIES HOLDINGS BERHAD

Kuala Lumpur Industries Holdings Berhad ("KLIH") is listed on the main board of the Kuala Lumpur Stock Exchange. Its principal business is that of investment holding while its subsidiaries and associated companies are involved in property development, manufacturing and provision of financial services.

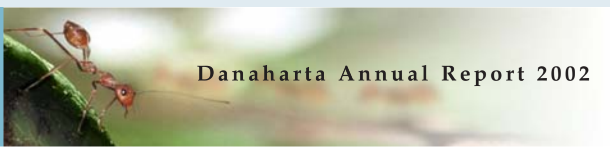
The regional economic slump and downturn in the property market in late-1997 adversely affected the business and profitability of the Group. As a result, KLIH was unable to generate enough cash flow to service its debt obligations aggregating RM967 million as at 30 September 2000. This resulted in the Group defaulting on its various loan obligations. As at 31 March 2000, the KLIH Group was technically insolvent.

In its effort to restructure its debt obligations, KLIH secured a White Knight* for the latter to participate in the Group's corporate and debt restructuring scheme. At the request of KLIH, Danaharta had on 30 June 2000 appointed Special Administrators ("SAs") to facilitate the implementation of KLIH's restructuring scheme. Following the appointment of SAs, a moratorium on all legal and recovery proceedings was immediately effected.

Under the workout proposal formulated by the SAs, the White Knight, which is principally involved in property development, shall acquire the listing status of KLIH and several other assets (mainly property related), which are synergistic to its core business activities. The consideration payable by the White Knight for the listing status and selected assets of KLIH would be in the form of a combination of cash equity and convertible loan stocks. The residual assets of KLIH, i.e. investments in an insurance company had been sold by KLIH whilst other non-core landed properties which are not acquired by the White Knight would be transferred to a Special Purpose Vehicle ("SPV") to be disposed off systematically. The proceeds from realisation of assets, along with consideration received from the White Knight, would be utilised as part settlement to KLIH's creditors.

In this case, recovery to creditors was derived through an operational restructuring of related businesses with that of the incoming White Knight and the orderly disposal of the remaining non-related assets. This has resulted in an enhanced recovery to the creditors as compared to that under a liquidation scenario. KLIH's scheme has received the requisite approvals from the relevant authorities and is currently pending implementation.

** White Knight is a third party involved in the rescue of a troubled company via a corporate restructuring exercise. The restructuring exercise will normally involve injection of cash/income generating assets into the company and subsequent transfer of ownership of the company to the White Knight.*



HO WAH GENTING BERHAD

Ho Wah Genting Berhad ("HWGB"), an investment holding company, was quoted on the second board of the Kuala Lumpur Stock Exchange ("KLSE") in 1994. Before the financial crisis in 1997, the Group was principally involved in the manufacturing of cables and wires and transportation businesses. The Group was also involved in, amongst others, interior decoration, manufacturing of furniture and timber-related products, travel and tour as well as the provision of hire purchase, leasing and share financing.

When Malaysia and other regional economies were hit by the currency and financial crisis in 1997-1998, the HWGB Group suffered significant losses which resulted in a negative shareholders' fund of RM172.4 million as at 31 December 1998 and accumulated losses of RM250.4 million for the said financial year. HWGB obtained a Restraining Order under Section 176 of the Companies Act, 1965 in August 1998. Danaharta was one of its creditors when it acquired some of HWGB's loans from various financial institutions. Working together with other financial institution creditors, Danaharta assisted HWGB in formulating a composite Scheme of Arrangement and Compromise Repayment ("SOA").

The SOA essentially entailed a capital and debt restructuring of HWGB, the acquisition of Kintron Sdn Bhd (now known as Ho Wah Genting Kintron Sdn Bhd), the business of which complemented HWGB's existing wires and cables manufacturing operations. Under the debt restructuring scheme, HWGB's secured creditors were accorded settlement via a combination of property set-off, issuance of shares and redeemable convertible unsecured loan stocks while its unsecured creditors were repaid through the issuance of a combination of shares and redeemable convertible unsecured loan stocks. The creditors were able to reap a better recovery under the SOA compared to that if the Company was liquidated. The terms of the SOA complied with the loan restructuring principles and guidelines issued by Danaharta in April 1999.

The SOA was approved by the scheme creditors and subsequently by the shareholders and the regulatory authorities. HWGB received High Court sanction for its SOA on 20 July 2000 and thereafter proceeded to implement the SOA. The counter was subsequently transferred to the main board of the KLSE in November 2000. The restructured HWGB Group is now principally involved in the manufacturing of moulded power supply cord sets and cable assemblies for electrical and electronic devices and equipment and the manufacturing of wires and cables.

MALAYSIA ELECTRIC CORPORATION BHD

Malaysia Electric Corporation Bhd ("MECB") began its operations in the 1970s manufacturing household electrical appliances and establishing a reputation as an Original Equipment Manufacturer for many internationally renowned brands. In 1996, it decided to focus its resources and expertise on the manufacture of "Made-in-Malaysia" consumer electrical products under the domestic brand name of "MEC".

In order to achieve economies of scale and enhance its vendor development programme to encourage the growth of small and medium sized support industries, MECB acquired approximately 1,217 hectares of land in Gambang, Kuantan to be known as "MEC City". On it, approximately 34 hectares underwent development with the construction of several factory blocks and staff quarters to house the manufacturing facilities and related activities.

To finance this massive capital expenditure, MECB became highly geared with a debt exposure of more than RM500 million. However, the regional economic and financial slump in late-1998 adversely affected MECB's business and turnover resulting in insufficient operational cashflow to service its burgeoning debt obligation. In addition, MECB was subjected to various creditor recovery action thus further undermining the group's business and asset values significantly.

There was a pressing need to ensure the survival and integrity of MECB as a going concern and preserve its inherent asset values due to the strategic nature of its business. Special Administrators ("SAs") were appointed over MECB on 7 April 1999 to achieve such objectives.

During their preliminary investigations pursuant to their appointment, the SAs found that the manufacturing facilities were operating well below capacity with numerous incomplete production lines suffering from technological obsolescence. In addition, it was also discovered that the developed landbank at MEC City, albeit substantial, was yet unconverted to industrial status due to unpaid conversion premiums of approximately RM4 million. As a result, the state authorities were threatening to expropriate the land should the premiums remain unpaid. To further exacerbate the situation, the remaining undeveloped landbank measuring approximately 900 hectares was lying idle and subject to neglect.

In view of the daunting position MECB was in, the SAs saw the urgency to rejuvenate the group's manufacturing operations expediently to generate revenue and rationalise its debt burden to a more manageable and sustainable level. It was also deemed as vital to unlock the substantial value of the group's landed assets by freeing it from encumbrances to maximise return to all affected stakeholders of the group.

To this end, a workout proposal was formulated by the SAs which saw the incorporation of a Special Purpose Vehicle ("SPV") to assume certain key manufacturing related assets of MECB valued at approximately RM75 million. In consideration thereof, an equivalent amount of liabilities (representing a portion of MECB's liabilities novated to the SPV and direct liabilities of the SPV incurred in relation to MECB) were novated to the SPV. This amount would be repaid over a period of two and a half to five years, commensurate with projected cashflow. Other non-manufacturing related assets would remain with MECB.

A group of White Knights comprising, amongst others, Fiamma Holdings Bhd, an established consumer electrical product manufacturer, would assume proportionate equity stakes in the SPV by injecting RM30 million into the latter to provide the impetus to kickstart the manufacturing operation.

To unlock the value of the landed assets at MEC City, it was deemed imperative that the unpaid conversion premiums be amicably settled with the state authorities. Against this backdrop and given the absence of adequate funds in MECB, the SAs agreed to a negotiated compromised settlement which entailed the relinquishment of a portion of land at MEC City commensurated with the amount owing for the premium. In return, the State Government agreed to waive the unpaid conversion premiums and allow unrestricted sale and transfer of the remaining land to parties nominated by the SAs. This way, the SAs would be able to complete the requisite land transfer to the SPV to facilitate the White Knights' efforts to revive the manufacturing operations in accordance with MECB's approved workout proposal. Furthermore, the remaining land which are free from encumbrances would then be realised gradually, the proceeds of which would be utilised to repay MECB's remaining debts, not novated to the SPV. Today, the MEC brand name continues to be visible throughout the country.

SRI KELADI SDN BHD

Sri Keladi Sdn Bhd ("SKSB") is the landowner of the property development project in Bukit OUG ("Project"), which is located in the vicinity of developed housing estates such as Taman Yarl and Taman Overseas Union in Jalan Klang Lama, Kuala Lumpur. The Project comprises condominiums, townhouses, terrace and detached factories, shop offices as well as land reserved for institutional and commercial use. A financial institution had financed the Project in 1990.

The Project was initially launched in 1991 but progress of construction was slow due to financial constraint and weak sales.

Construction of the Project accelerated in 1993 and the developer managed to complete the construction of all the buildings in 1996 except for six condominium blocks. However, due to continued weak sales, exacerbated by the economic downturn in 1997, the Project was halted. This resulted in SKSB defaulting on its loan obligations.

In July 1999, Danaharta acquired SKSB's loan from the financial institution that had financed the Project. In acquiring the loan, Danaharta had stepped into the shoes of the selling financial institution and assumed the loan rights which included being the chargee of the collateral pledged to the loan taken by SKSB. Being a chargee, however, did not mean that Danaharta assumed the role of the developer. Legally, the developer continued to be responsible for the Project.

Due to numerous complaints from end purchasers of the Project, including those of the uncompleted condominiums, the Ministry of Housing and Local Government convened a meeting between the developer and Danaharta in March 2000 to examine ways to resolve the outstanding issues, with the main objective being completion of the Project.

At that point in time, the status of the six condominium blocks was as follows:

- Blocks B1 and B2 were completed, whilst Block B3 was near completion. However, remedial works were still required on all three blocks.
- Blocks A1, A2 and A3 were at the 60% to 70% stage of completion.

In addition, the developer was unable to make payment of about RM2.05 million being the access road contribution due to Dewan Bandaraya Kuala Lumpur ("DBKL").

Danaharta had agreed to revive the Project subject to it being carried out in accordance with Danaharta's loan restructuring principles and guidelines. To facilitate the completion of the Project and the subsequent delivery of the completed units to all end purchasers of the Project, Danaharta had also agreed to credit all new sales proceeds from the sale of the completed buildings (for units that have been sold but not redeemed) into a special Housing Development Account (HDA). The funds in this account were to be utilised specifically to complete the Project and any balance thereof to first repay Danaharta as the chargee, and thereafter for other expenses related to the Project.

Since the revival of the Project in August 2000, and with the assistance of the relevant parties, all the condominium blocks (except for Blocks A1 and A2) have been completed and issued with Certificates of Fitness. The developer also managed to deliver vacant possession to all end purchasers of the completed blocks. In addition, DBKL agreed to waive the access road contribution. Construction of Blocks A1 and A2 is currently in progress and the developer expects completion to be in November 2003 and February 2004 respectively.

It should be noted that reviving abandoned projects is not one of Danaharta's objectives. Our objective is to maximise the recovery value of the NPLs in our portfolio. Just like a bank, Danaharta will participate in the revival of an abandoned project only when the completion of the project is deemed viable and clearly part of the recovery process.

Feature Articles

BACKGROUND

The Pengurusan Danaharta Nasional Berhad Act 1998 (the "Danaharta Act") became law on 1 September 1998. Critics did not doubt the need for such special legislation. However, the nature and width of powers contained in the Danaharta Act gave rise to concerns about its intended use and potential for abuse.

Ultimately, however, Parliament passed the Danaharta Act and gave Danaharta the special powers it needed given the difficult economic circumstances prevailing then. The economic conditions at that time included:

- the depreciation by end-August 1998 in the ringgit by 40% against the United States dollar from pre-crisis levels
- the decline in the stock market as measured by the Kuala Lumpur Composite Index by 72% during the same period
- the threefold increase in non-performing loans ("NPLs") from 4.7% at the end of 1997 to 14.9% in November 1998
- the contraction in the economy in 1998 by 7.4% (i.e. negative growth) after 12 years of expansion averaging 7.8% per year

It was in these circumstances that the Government established the national asset management company ("AMC"), Danaharta, as a pre-emptive measure to address the NPL problem and avoid a banking crisis in Malaysia.

DANAHARTA POWERS ARE COMMON AMC POWERS

Throughout the world lawmakers have given national AMCs[1] like Danaharta special powers to help them achieve their mission and overcome the difficult circumstances in which AMCs operate. These special powers include compulsory acquisition powers, the power to change shareholding, the power to substitute existing boards for new and powers to repudiate contracts, transfer assets and liquidate companies. More often than not, such powers are exercisable unilaterally with limited rights of review if at all.

Thus, for example, the US Financial Institutions Reform, Recovery and Enforcement Act of 1989 conferred on the American AMC, the Resolution Trust Corporation ("RTC"), powers to seize insolvent financial institutions; to repudiate a contract that the RTC determined was burdensome; and to unilaterally transfer assets and liabilities.

In other words, the scope of powers given to Danaharta under the Danaharta Act are common to national AMCs worldwide. Undoubtedly, these powers are stronger than those possessed by the banks, but this is necessary to enable Danaharta to resolve NPLs better than the banks.

However, Danaharta's powers are less sweeping compared to some national AMCs. For example, Danaharta does not have compulsory acquisition powers or power to confiscate borrowers' assets.

Like all national AMC laws, the special powers in the Danaharta Act are intended to ensure that Danaharta can operate quickly and efficiently. This is because Danaharta is funded by the Government and so the faster Danaharta can act, the better the recovery values from NPLs and the lower the eventual cost to taxpayers of resolving the NPL problem.

DANAHARTA POWERS ARE DERIVED FROM GENERAL LAW

Although the powers given to Danaharta are strong, it is interesting to note that the key concepts in the Danaharta Act - statutory vesting of NPLs; management of companies through special administrators; and a process to fast-track foreclosures - are derived from laws that have general application.

[1] *For the purpose of this article, the term national AMC is synonymous with national NPL resolution agency*

For example, Part V of the Danaharta Act facilitates the process of acquiring NPLs by enabling the transfer of NPLs through a statutory vesting process. In brief, this process allows Danaharta to buy NPLs speedily and with minimal administrative procedures in much the same way that assets are transferred to an acquiring bank in a bank merger under section 50 of the Banking and Financial Institutions Act 1989.

Likewise, Part VI of the Danaharta Act which allows for the appointment of Special Administrators draws on corresponding provisions of the Australian Corporations Law and the English Insolvency Act 1986, both of which are laws of general application. In other words, in Australia and England, banks themselves have powers to appoint persons with functions similar to Special Administrators.

Similarly, the right given to Danaharta under Part VII of the Danaharta Act to carry out foreclosures without going through a court auction process is a right that is available to banks in general under the Singapore Conveyancing and Law of Property Act 1985.

Indeed, even section 72 which prohibits injunctions against Danaharta is not new. Governments in Malaysia and England have enjoyed similar protection for the last 50 years. This means that if Danaharta had been established as a unit within the Ministry of Finance (instead of a company owned by MOF Inc), it would have automatically enjoyed existing protection under section 29 of the Government Proceedings Act, 1956 without the need for new legislation.[2] Section 29 of the Government Proceedings Act, 1956 derives from an old English statute, the Crown Proceedings Act, 1947. Under English law (supported by jurisprudence developed by the European Court of Human Rights), the absence of interim relief against the Crown has been held not to breach Article 13 of the 1950 European Convention for the Protection of Human Rights and Fundamental Freedom.

EFFECTIVE CHECK AND BALANCE

The concern that the Danaharta Act is draconian is perhaps less a reflection of the type of powers conferred on Danaharta - after all, these in some way or other are derived from general law - but more a reflection of the fact that the Act excludes the courts from its processes.

This is not unprecedented. In the United States, the AMC law prohibited a court from taking any action to restrain or affect the exercise of powers or functions of the RTC.

Indeed, even under general law the exclusion of the courts is not an entirely alien concept. In Singapore, a bank can foreclose on land without the need for a court order just as Danaharta can under the Danaharta Act.

More recently in the United Kingdom, legislative changes have been introduced to provide for the appointment of administrators without going through the courts.

Commentators have in fact recognised the exclusion of the courts as one of the reasons Danaharta has progressed as quickly as it has. What is important in such a situation is that effective check and balance exist to prevent an abuse of the special powers conferred on Danaharta.

In this regard, substantial safeguards exist both in the legislation and, more importantly, in the way in which Danaharta is structured and operates, to prevent abuse. These include the following.

- Although the Danaharta Act facilitates the acquisition of NPLs through the vesting process, acquisitions are done on a willing-seller willing-buyer basis - banks are free to sell or keep their NPLs.

- The Danaharta Act protects Danaharta against unknown claims in relation to acquired NPLs. However, the claimant continues to have recourse to the selling bank (i.e. the original lending bank). This is logical because if the selling bank has caused the borrower to suffer a loss, then it is the selling bank that should compensate the borrower for that loss.

[2] *On 21 November 2002 the Court of Appeal held that section 72 of the Danaharta Act was unconstitutional but has yet to issue its written grounds of judgment. The decision is on appeal to the Federal Court.*

- The establishment of an Oversight Committee made up of the Accountant General, the Securities Commission Chairman and a Deputy Governor of Bank Negara to oversee, approve and terminate appointments of Special Administrators.

- Danaharta's preference to sell foreclosed property collateral through an open tender process where the highest bidder wins subject only to a minimum (reserve) price.

More generally but no less important, Danaharta has been structured to facilitate transparency and minimise the opportunity for abuse. A good example is the composition of its nine-member Board, seven of whom are from the private sector (with two representing the international community) and the remaining two representing the Government. Except for the Managing Director, all Board members are non-executive. The Managing Director sits on the Board but does not have voting rights.

Another example is Danaharta's internal policies and procedures which do not allow any one person to make decisions on loan restructurings or sales of assets. For example, for a bidder to influence the outcome of a sale of property through Danaharta's open tenders, it would have to influence a total of almost 50 people involved in the tender process - the 20-member bid data entry team, the 16-member bid checking team, the five-member Tender Committee, the five-member Tender Board (three of whom are non-Danaharta employees) as well as Danaharta's internal and external auditors.

To further enhance its standards of corporate governance, Danaharta chose voluntarily to adopt the Code on Corporate Governance that the Kuala Lumpur Stock Exchange imposes on public-listed companies even though Danaharta is not a public-listed company.

All these steps taken are supplemented by Danaharta's communication policy which calls for timely and regular disclosure of relevant information.

These structures and processes have helped Danaharta fend off legal action and challenges.

IS THE DANAHARTA ACT CONSTITUTIONAL?

Whether or not the Danaharta Act is draconian is therefore a relative issue. Danaharta's powers under the Danaharta Act are stronger than powers that banks have in recovering NPLs. However, they are not as strong as the powers of other AMCs.

Whether or not the Danaharta Act is draconian, however, does not determine whether the Act is lawful. A law that may be regarded as 'draconian' by the layman can still be lawful if it is permitted by the Federal Constitution. That is why challenges relating to the Danaharta Act have focussed on the constitutionality of the Act. This has also been the experience in the United States where attacks on the RTC have centered on claims that its Act is unconstitutional.

Interestingly, even in the United States which jealously guards constitutional rights and liberties, the courts have seen fit time and again to uphold the even wider powers given to the RTC. This is because those powers were given to the RTC for the public benefit to deal expeditiously with a major economic and social crisis facing the United States following the collapse of the Savings and Loans institutions.

It is for this reason that the preamble to the Danaharta Act states in no uncertain terms Parliament's intentions in passing the legislation and the need for special provisions to deal with the difficult economic circumstances of the time in the public interest and for the public good.

Just as in the United States, therefore, Malaysian Courts have given effect to Parliament's intentions and recognised the need for Danaharta's special powers having regard to Danaharta's unique mission.

DANAHARTA ACT AS KEY SUCCESS FACTOR

Danaharta is generally recognised as one of the more successful national AMCs in the world. The removal of NPLs from the banking system by Danaharta reduced NPL levels from 14.9% in November 1998 to 9.7% in 2000 (when Danaharta completed its NPL acquisition program from the banking sector).

The acquisition of NPLs by Danaharta removed the distraction of managing NPLs from banks and allowed banks to focus on their business of lending. Loans growth in the banking system increased from 0.1% in 1999 to 5.5% in 2000.

Danaharta's efforts together with other initiatives by the Government contributed to improved economic conditions and recovery in the Malaysian economy. Real gross domestic product (GDP) recovered from negative growth of 7.4% in 1998 to positive 6.1% in 1999 and 8.3% in 2000.

Commentators have recognised the Danaharta Act and the special powers given to Danaharta as a key factor contributing to Danaharta's success so far.

The special powers given to Danaharta under the Danaharta Act have enabled Danaharta to move quickly towards achieving its mission. The faster that Danaharta can move in recovery actions, the better the recovery values and the lower the cost to taxpayers of solving the NPL problem.

The Danaharta Act must therefore be seen in the context of the type of institution that Danaharta is, that is, an asset management company with a specific mission and a finite life. The special powers given to Danaharta under the Danaharta Act will assist Danaharta in completing its mission and cease operating by its targetted closure date of 2005.

Danaharta's Role in Abandoned Property Projects

The property sector in Malaysia was badly hit by the 1997-1998 Asian financial crisis due to a combination of factors.

The economic boom years of 1993 to 1996, which witnessed the Kuala Lumpur Composite Index ("KLCI") continuously reaching new heights, led property developers to believe that there was a huge sustainable demand for properties. The prospect of making profits from property sales even enticed a big number of non-property corporate groups to set up their own property development arms so as not to miss the wave.

The result: developers, both veterans and rookies, rushed to secure land in prime growth areas or places speculated to be the next growth centres, often at a considerable acquisition cost and almost invariably financed through bank borrowings. Most developers had to borrow further to develop their land. A major portion of the projects was later found to be over-ambitious and poorly conceptualised. Many developers neglected to conduct proper feasibility studies, resulting in, for example, over-development in certain locations, or building a property that had no demand.

The regional economic downturn beginning in 1997 forced prospective buyers to re-evaluate their liquidity positions in the face of a recession. Suddenly the developers were caught in a situation where the projected sales simply did not, and seemingly would not, materialise. With little or no income flow from the projects to be used to service their borrowings, the developers defaulted on their loans, contributing towards the burgeoning non-performing loan ("NPL") rate in the banking system.

The significance of property-related NPLs is immediately apparent: 30 percent of the loans in Danaharta's portfolio are related to borrowers classified by Bank Negara Malaysia as those involved in the "broad property sector". This group forms the single largest category of debtors under Danaharta. Another telling sign is the fact that properties form 43 per cent of the loan collateral held by Danaharta (shares form 20 per cent, while the remaining 37 per cent are unsecured loans). The property collateral includes residential units (landed and strata-type), agricultural and development land, industrial premises, office blocks, retail and commercial lots and shopping complexes, hotels, as well as land with abandoned development projects.

Nevertheless, it is also important to note that property-related bad loans transferred to Danaharta are not limited to NPLs that occurred during the 1997-1998 financial crisis. When the transfer window was opened, some banks took the opportunity to sell to Danaharta NPLs dating back to the early 1980s, including loans relating to abandoned development projects (especially housing). Invariably, this type of NPL (old and new) involves frustrated unit purchasers who have been dutifully paying for their properties, but have yet to take delivery of them. This is where the question arises: in resolving the NPL, does Danaharta assume the role of the developer?

THE MISCONCEPTION ABOUT DANAHARTA BEING A DEVELOPER

There has been a general misconception that once Danaharta takes over an NPL (usually a bridging financing facility) secured by an abandoned project, Danaharta would be responsible in dealing with the unit purchasers. In fact, Danaharta does not assume the responsibilities of the developer. Danaharta is merely a creditor to the borrower / developer and a security holder over the land.

NPLs are transferred from the selling banks to Danaharta by way of statutory vesting, as provided under Section 14 of the Pengurusan Danaharta Nasional Berhad Act 1998 ("the Danaharta Act"). Essentially, once Danaharta acquires a loan, it steps into the shoes of the selling bank. This allows Danaharta to take the same interest and enjoy the same priority as the selling bank, subject to registered interests and disclosed claims. For example, if the selling bank has a first charge over a piece of land as security for an NPL, upon completion of the acquisition, Danaharta will also have a first charge over the land. If another bank has registered its interest as a second chargee over the land, that second charge will continue to exist without any change in priority. The borrower remains as the owner of the land. However, instead of dealing with the selling bank, the borrower now deals with Danaharta.

Danaharta's legal position vis-à-vis an NPL secured by land with abandoned development project will be no different. Danaharta has the rights of a chargee over the collateral, but it does not assume the role of the developer (the borrower). The responsibilities to continue with the project and to deal with unit purchasers remain with the developer. This is similar to the situation where a bank has security interests over a piece of land.

This is in line with the purpose of establishing Danaharta as Malaysia's NPL resolution agency. Danaharta's objectives, as mandated by the National Economic Action Council in the National Economic Recovery Plan are: first, to remove NPL distraction from the banking system so as to allow banks to focus on lending to viable borrowers without being unduly distracted by the task of managing NPLs, and second, to maximise recovery value from the NPLs in its portfolio. Therefore, Danaharta's dealings in property are incidental in nature; they form part of the NPL resolution effort. The mandate does not include allowing Danaharta to establish itself as a property investor or developer. Furthermore, Danaharta has always emphasised that, as a temporary agency with a specific mission, it has set a target to complete its work and cease operations by 2005. Involvement as an investor or a developer in the property sector will prevent the agency from meeting its own operational deadline.

WHO DEALS WITH THE UNIT PURCHASERS?

Dealing with property collateral in the form of abandoned projects is not as straightforward as dealing with vacant development land or a factory. In the latter two situations, the number of parties involved are limited: Danaharta as the chargee; the borrower / property owner; and if the property is rented out, the tenant. Abandoned projects will involve existing unit purchasers anxious to see the projects completed and their units delivered. Although Danaharta will not get involved in the project itself, in resolving the NPL, the agency may have to consider issues such as identifying the units that have been sold to and paid for by the purchasers as well as the construction stage and the condition of the project.

There are three general scenarios on how Danaharta can recover from an NPL backed by an abandoned project:

Scenario 1: Loan restructuring

Where an NPL is still viable, Danaharta allows the borrower to restructure his loan in accordance with Danaharta's loan restructuring guidelines. In the process, the project may be revived and completed, resulting in a win-win situation - the developer remains in control of the project, Danaharta receives maximum recovery out of the loan, and the purchasers take delivery of their units (albeit delayed).

Scenario 2: Appointment of Special Administrators

Where an NPL is found to be non-viable, or the borrower fails to meet the requirements of the loan restructuring guidelines, Danaharta will have to consider other recovery measures. One option is to appoint Special Administrators ("SAs") over the property development company. Under the Danaharta Act, the powers of the Board of Directors and the management of the company are suspended upon the appointment of the SAs, who now have full control over the affairs and assets of the company. A 12-month moratorium takes effect from the date of the SAs appointment, preventing any party from taking any legal action against the company. The moratorium period, which is renewable if necessary, allows the SAs to focus on formulating a resolution of the company's debts. The SAs can explore options such as finding a new investor to take over the development company and inject new capital to enable it to complete the project or selling the project to another developer who will finish the project. As long as the SAs are in control of the company, they are responsible in dealing with the unit purchasers.

Scenario 3: Foreclosure

However, if the only option available for Danaharta to recover the loan is through foreclosing on the abandoned project and selling it through tender (as provided for under section 57 of the Danaharta Act), Danaharta will first conduct a due diligence over the security. This is to identify and distinguish the units that have been paid for and redeemed by the purchasers from the ones unsold. The main sources of reference are the sales and purchase agreements executed by the developer and purchasers, as well as the disclaimer letters issued by the earlier bridging financier, i.e. the bank that sold the NPL to Danaharta, to the purchasers. Purchasers who wish to stake their claims over their bought units will be required to provide proof of redemption.

Danaharta will foreclose only on the unsold and / or not fully redeemed portion of the development. Typically, it then commissions a fresh valuation over the unsold portion. This valuation later serves as the basis for the indicative value of the property when it is offered in the tender. The successful bidder for the property will take over ownership of the unsold portion, but he (who is usually the new developer), is not liable for the actions of the previous developer. Therefore, if the existing unit purchasers have complaints about their purchases, e.g. dispute on payments, they should seek redress from the previous developer, since the contracts were made between them and the old developer.

Although technically the new developer will only be responsible over the portion that he buys through the tender, commercially it makes more sense to look at enhancing the whole development, and it will be more beneficial for the new developer and existing unit purchasers to co-operate. For example, in a situation where a housing project is 80 per cent completed, the existing unit purchasers may find it more feasible to fork out extra cash to pay the new developer to complete their units, rather than keep on paying for uninhabitable houses. By agreeing to help complete these houses, the new developer will be able to increase the attractiveness of the whole development, which may translate into higher sales value for his portion.

ULTIMATE RECOURSE FOR UNIT PURCHASERS IS AGAINST THE DEVELOPER

The various scenarios outlined above feature a common theme: the development company, or the company's agents (e.g. Special Administrators, Receivers and Managers, Liquidators) are the ones responsible in dealing with the unit purchasers. Being a creditor, Danaharta has no legal standing to address matters relating to breach of contract between the purchasers and the delinquent developer. As explained earlier, Danaharta does not intend to assume the role of the developer either.

Danaharta's roles in this situation are, at best, administrative and intermediary. Having taken over the loan from the previous bridging financier, it is incumbent on Danaharta to process all redemption payments received from the end-financiers in a diligent and efficient manner, and to issue the letters of disclaimer as soon as possible so that the rights of the purchasers over their units are not jeopardized. In cases where Danaharta receives complaints from the unit purchasers, they are brought to the developers' attention for further action, but the ultimate recourse for the purchasers would be against the developers themselves.

In conclusion, there are many lessons to be learned from the plight of these purchasers. First and foremost is the need for a framework to educate the purchasers on their rights and the actions they should take when caught in an abandoned project situation. A primary concern will be the bank loans that the purchasers need to continue servicing regardless of the fact that the project has stalled. The framework may also guide prospective property purchasers on how to assess the viability of a development project and the credibility of a development company. More importantly, property developers should be more responsible and disciplined in proposing and selling a development. The consequence of their irresponsible action and negligence is not limited to them defaulting on their loans, but may also result in socio-economic distortions, especially when it involves house purchasers who have to pay for properties with no certain delivery date.

Although Danaharta was set up to resolve the bad loan situation in the banking sector that arose in the late '90s, the general public probably associates us more closely with our regular property tenders. No doubt this is because the former activity is conducted between borrowers and affected creditors behind closed doors whereas every man or woman in the street can participate in the latter. And they often do, because we tender out not only large tracts of land worth tens of millions of ringgit but also shophouses, retail shoplots and residential units costing little more than a couple of hundred thousand ringgit each.

Our property tenders are conducted in a timely manner. To date, we have conducted seven nationwide tenders, i.e. big tenders offering foreclosed properties located all over the country, and five specific tenders, i.e. tenders offering individual properties or properties of the same type or within the same development.

The maiden nationwide tender exercise was held at the end of 1999 when we offered, not surprisingly, the fewest number of properties of any of our nationwide tenders so far, just 44 units. This was followed in quick succession by three tenders in 2000 - April, August and December - which turned out to be our most prolific year. A weaker economic climate ensued and we conducted just one tender in 2001, in July, but we had two in 2002, one each in May and December.

How successful are the tenders? This is a fair question, but the answer depends largely on the yardsticks that are used to measure success. Those yardsticks in turn have to be based on the role that these tender exercises are designed to play in fulfilling our twin objectives to remove NPL distractions from the banking system and to maximise the recovery value of the NPLs within our portfolio. It is with regards to the latter that property tenders are instrumental.

Bearing this in mind, we can think of at least three criteria to measure the performance of our property tenders. First, do we attract enough buyers? This will show whether the marketing channels we employ are effective. Second, are we getting fair prices for the properties or are we selling ourselves short? Lastly, are we on target to dispose all the properties that we expect to acquire?

DO WE ATTRACT ENOUGH BUYERS?

One way to gauge this is to look at the number of properties we managed to sell as a percentage of those offered. On average, we have been able to sell 62% or over half the foreclosed properties offered for the first time in our nationwide tenders.

Nationwide Tender	***Number of properties offered for the first time***	***Number of properties sold****	***Percentage sold %***
December 1999	44	24	55
April 2000	100	65	65
August 2000	214	114	53
December 2000	90	60	67
July 2001	165	115	69
May 2002	161	103	64
December 2002	82	53	65
TOTAL	**856**	**534**	**62**

** The figures reflect the number of properties sold at the close of each tender.*

A 62% sales rate may not appear high but one has to take into account that bidders are often not allowed to enter and inspect premises that are collateral for outstanding loans. The situation is not unlike new property launches where prospective buyers have to rely on artist impressions or scale models to guide them. In fact, those residential property buyers who have access to show units have a decision-making advantage over many of our bidders.

Therefore, we would have done well if our tender results can match those of new property launches. This was indeed the case. The National Property Information Centre (“NAPIC”) quarterly reports show that new residential property launches in 2000 and 2001 managed an average sales rate of just 51%. We should therefore be satisfied with our 62% sales rate, especially as it applies to a basket of various types of properties and sales rates for non-residential properties are notoriously low. If we isolate residential properties, our average sales rate is actually a much higher 87%.

The good sales performance vindicates our use of real estate agents as our main marketing channel. They were responsible for 42% of successful bids in the first tender but this has risen steadily and more recently accounted for over 90% of successful bids in the later tenders.

As an aside, the regular nationwide tenders do not reflect the performance of our overall sales effort. In between those regular tenders, we conduct specific tenders - e.g. that for Puncak Bangsar in June 2002 - and private treaty negotiations for unsold properties from past tenders. A better way to gauge our overall sales performance may be to look at cumulative sales. In fact, this is more relevant to us than the result of individual tenders.

To date, we have offered 890 properties and have sold 745, i.e. 84%. The unsold portion represents an ‘overhang’ rate of 16%. Once again, this compares favorably with national overhang rates of 25% (residential), 38% (commercial) and 37% (industrial) as at June 2002 as published by NAPIC.

DO WE PRICE OUR PROPERTIES CORRECTLY?

The good sales rate may leave observers wondering whether it was the result of low pricing. In theory, a competitive bidding process - which is what tenders are meant to foster - should eliminate any risk of us selling ourselves short. But for that to work, we must receive enough bids to ensure market forces drive the eventual winning price.

Nationwide Tender	*Properties that received bids during the tender*	*Total bids received*	*Average bids per property*
December 1999	28	105	3.8
April 2000	80†	433	5.4
August 2000	138†	376	2.7
December 2000	96†	274	2.9
July 2001	144†	639	4.4
May 2002	161†	766	4.8
December 2002	105†	279	2.7
TOTAL	752	2,872	3.8

† *Includes properties being offered for the first time and unsold properties from previous nationwide tenders.*

Counting both primary sales (properties being offered for the first time in the tender) and secondary sales (referring only to those unsold properties from previous nationwide tenders re-offered in the following tenders), we received almost four bids per property. This average is depressed by properties that attract only peripheral interest and those not sold in the end. So those that were sold would have scored above average bid ratios.

Note that more properties were bid for than were sold. This is because some bids came in below the minimum price and so were rejected. In some cases, this eventually meant that no successful bid was received for certain properties. Obviously, there were also properties that did not receive any bid at all.

Is our '4 bids per property ratio' adequate? There is no property sector yardstick to use, unlike the case with sales rate. We resort to comparing with the most visible form of tender exercise today, i.e. a Kuala Lumpur Stock Exchange Initial Public Offering ("IPO"). The IPO subscription rate, representing bids per share offered, corresponds to the bid ratio in our tender exercise.

In 2002, IPOs of property counters attracted an average subscription rate of 4.8 times *(source: Investors Digest)*. Against this, the 4-bid ratio we achieved looks very good if we take into account that subscribing for IPOs is much more affordable than tendering for properties and the element of chance is greater, both of which enhances the bid rate.

Confident that we are receiving enough bids, we analyse our pricing strategy. The properties are correctly priced and we are not flogging them off cheaply if the eventual selling prices do not stray far from the indicative values set prior to the tender. And so it was that the consideration we received for properties sold - combining primary and secondary sales - was only slightly higher than their indicative values.

Nationwide Tender	***Indicative Value of sold properties (IV)* (RM mil)***	***Consideration Received (C)* (RM mil)***	***C/IV (%)***
December 1999	16.5	17.8	108.0
April 2000	104.0	106.0	102.0
August 2000	216.0	209.0	97.0
December 2000	156.0	155.0	99.0
July 2001	242.0	282.0	117.0
May 2002	290.0	326.0	112.0
December 2002	144.0	144.0	100.0
TOTAL	**1,168.5**	**1,239.8**	**106.0**

** The figures reflect the indicative value and consideration received for the sold properties at the close of each tender.*

On average, considerations received exceeded indicative values by just 6%. The biggest difference was 17% during the fifth tender. More often than not, the excess came from sale of development land. Overall, we think a 5-10% variance is healthy as it means the properties are priced attractively to secure bids - thus ensuring a market driven process - without foregoing too much upside.

As the indicative values are based on independent valuations conducted by professional valuers prior to the tender, the small difference also indicates that they are doing a pretty good job in predicting what investors would likely pay for those properties. In a nutshell, the valuations are realistic.

ARE WE ON TARGET?

Over the past three years, we have sold RM1.39 billion worth of properties via our seven nationwide tenders, specific tenders and private treaty sales.

As at 31 December 2002, Danaharta's property portfolio comprises about RM869 million worth of properties and we expect to receive another RM1.5 billion worth of properties from loan restructuring and set-off proposals that are being implemented. Therefore, the amount of properties yet to be sold is roughly RM2.4 billion.

We have less than three years to sell these properties before our planned closure in 2005. We will therefore need to speed up and intensify our disposal efforts. The public could expect our property tenders to take place more frequently from now on, largely in the form of specific tenders offering more individual high-ticket properties.

Can the market absorb this amount of property? We believe so. According to NAPIC, RM20 billion worth of properties of all types was transacted in the country in the first half of 2002, after RM39 billion changed hands in 2001 and RM41 billion in 2000. Our RM2.4 billion worth of properties spread out over three years is insignificant by comparison.

CONCLUSION

'So far so good' best describes how we feel about our property tenders. To be sure, we seek to improve our sales and bid rates but Pareto's rule may suggest that any quantum leap is likely to be found elsewhere. Our limited lifespan is a major consideration and with the end approaching fast, we continue to look for alternative ways to dispose our property assets. Nevertheless, to the extent that new methods will need to be equally transparent and do as much justice to the underlying value of our assets, we suspect that they are likely to complement rather than replace our regular tender exercises.

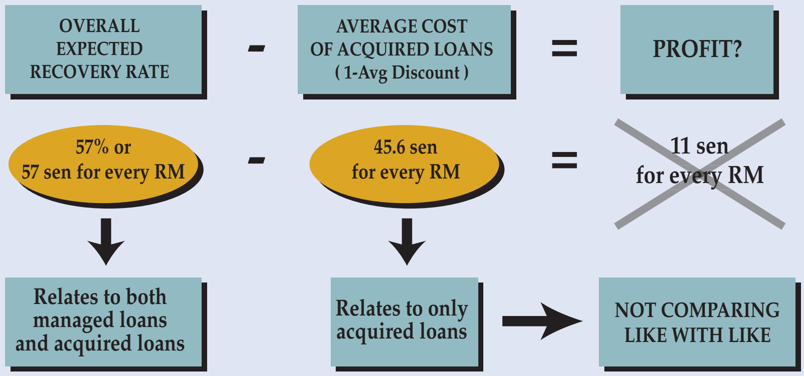
Reference Materials

PROFITABILITY

Danaharta's loans were purchased at 54.4% discount i.e. cost of 45.6 sen for every Ringgit Malaysia ("RM"), and the current overall expected recovery rate is 57% i.e. 57 sen for every RM. Therefore, Danaharta expects to make a profit of about 11 sen per RM.

In the past, industry observers have compared Danaharta's average expected recovery rate (approximately 57% or 57 sen for every RM NPL) against the notional cost of the acquired loans component (approximately 45.6 sen for every RM NPL), concluding that the positive margin reflects Danaharta's profitability. Unfortunately, this analysis is flawed.

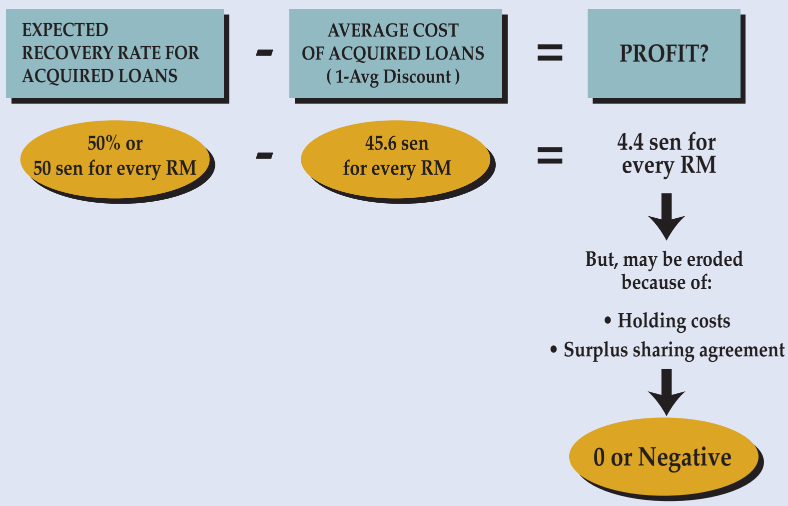
INACCURATE CALCULATION



To begin with, the expected recovery rate of 57 sen is in relation to *both* managed and acquired loans components whilst the 45.6 sen relates *only* to the acquired loans component.

The rule would be to compare like with like, i.e. comparing the average recovery rate for the *acquired loans* component which is about 50 sen for every RM with the notional cost of 45.6 sen.

CORRECT CALCULATION



Such comparison still implies a slight positive margin but it is important to note that the margin may be eroded by holding and operational costs. In addition, 80% of surpluses recovered from acquired loans are given back to relevant financial institutions whilst any loss suffered is borne solely by Danaharta. In other words, Danaharta will not be able to use the surplus from one profitable account to offset the loss in another account.

With regard to the managed loans component, there is no profit to be made as the cost to the Government was the book value of the loans. Danaharta's role is merely to extract the best recovery for such loans.

In conclusion, it is still very likely that Danaharta will end up making a slight loss.

DISPOSAL OF PROPERTY COLLATERAL

Danaharta is slow in disposing the properties in its portfolio.

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

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

RECOVERY

Danaharta has almost RM53 billion of NPLs, but has only collected RM1.4 billion from property sales. There is no real recovery from the NPLs.

Danaharta's property sales represent a part of the recovery proceeds because foreclosure (sale of property collateral) is only one of the recovery strategies employed in its recovery operations. In fact, Danaharta prefers to use other recovery strategies such as plain loan restructuring and settlements that give better yields than foreclosure.

As at 31 December 2002, Danaharta has received RM18.93 billion of the expected recovery of RM30.19 billion. Of the RM18.93 billion recovery received, RM12.31 billion have been converted into cash.

With Danaharta now focusing on implementing approved recovery strategies, more recovery proceeds are expected to be collected over time.

Danaharta has the power to foreclose on loan collateral as it wishes

When Danaharta acquires a loan from the banks, Danaharta assumes the role as the chargee to the collateral by stepping into the shoes of the banks. Danaharta does not own the collateral that is pledged to the loan, be it properties or shares, but merely has a charge over them. Similar to any financial institution, Danaharta will only foreclose on the collateral to recover from the loan if the borrower does not comply with his loan repayment obligations. Therefore, so long as the borrower fulfils this obligation, Danaharta will not foreclose on the security. Danaharta's objective is to maximise recovery value, as such borrowers are always encouraged to restructure their loans as this method generally yields a higher return.

Under Section 57 of the Danaharta Act, Danaharta may sell the underlying property collateral if a borrower fails to repay his loan within one month of the date of a foreclosure notice from Danaharta requiring him to do so. The property collateral will be sold by way of private treaty sales, which include sale via open tender, private contract or auction. However, the foreclosure on shares that are pledged to the loans has to be done as per the loan agreement.

In the event that a loan has not defaulted but an interested party has approached Danaharta to propose the purchase of the collateral, Danaharta will have to seek consent from the borrower before disposing of the assets. In other words, the disposal of the securities hinges on the borrower's decision and Danaharta will only act with the borrower's consent.

AMENDMENTS TO THE DANAHARTA ACT

The Danaharta Act is not effective, therefore it needs to be amended.
The Danaharta Act has been effective. It has facilitated and expedited Danaharta's acquisition of non-performing loans (NPLs) with an adjusted loan rights value of almost RM53 billion from financial institutions within 18 months of Danaharta's establishment, and has enabled Danaharta to restructure viable loans, or foreclose on collateral and appoint Special Administrators over corporate borrowers to maximise recovery value.

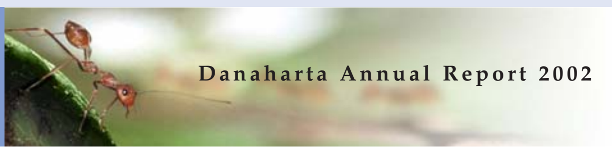
Many international analysts who have conducted studies of Danaharta and other asset management companies (AMCs) in the region have concluded that effective legislative powers are the main contributing factor towards Danaharta's good recovery rates.

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

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

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

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



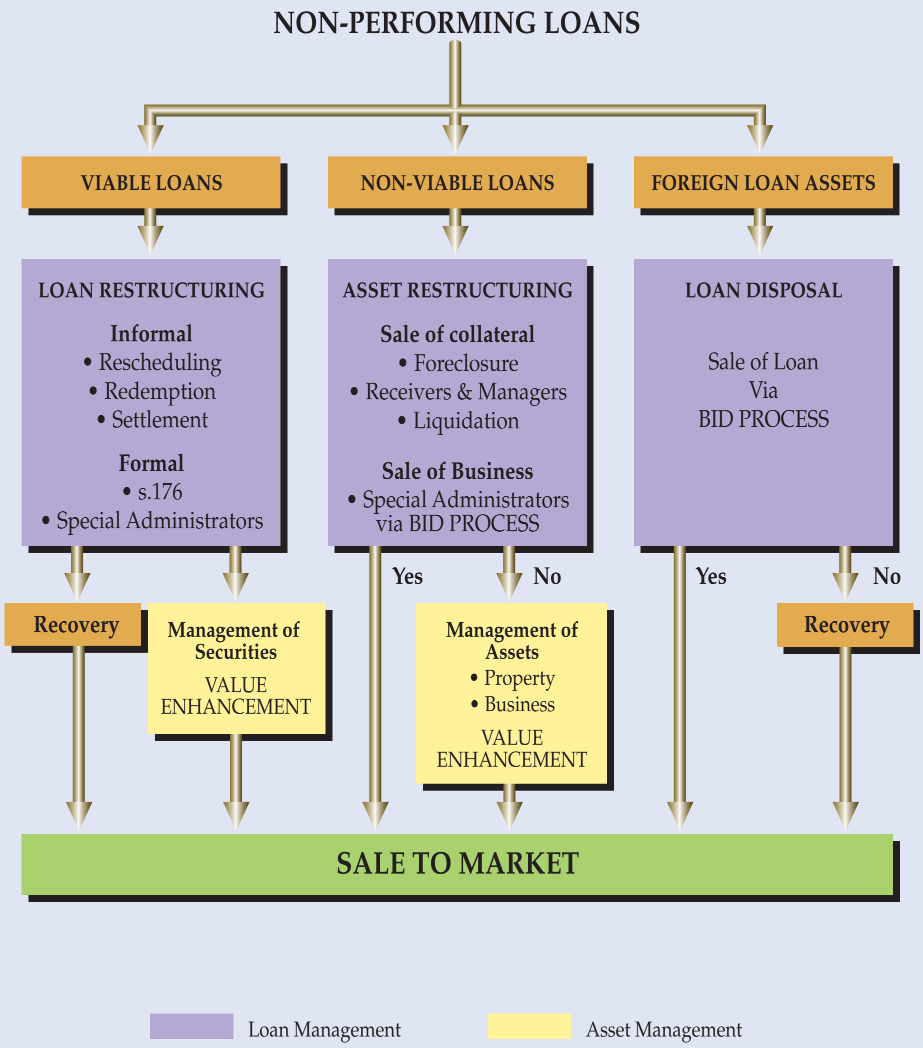
Danaharta's powers are open to abuse.
Danaharta's corporate governance structure serves as an effective check and balance mechanism, for example:

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

REDEMPTION OF BONDS ISSUED TO ACQUIRE NPLS

Danaharta has no cash to redeem the Danaharta bonds that were issued to acquire NPLs.
As at 31 December 2002, Danaharta has a total cash balance of RM6.14 billion. This cash balance will be used in part to finance the bond redemption and for operational costs.

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



LOAN MANAGEMENT

LOAN RESTRUCTURING

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

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

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

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

The guidelines are divided into four segments, namely:
- Loan restructuring principles;
- Guidelines for corporate borrowers;
- Guidelines for individual borrowers; and
- Guidelines for guarantors.

1. Loan Restructuring Principles

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

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

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

1.3 No dilution of inadequate security
Schemes should not result in a dilution of the security to the lenders unless the collateral is in excess of the outstanding loans. All forms of cash collateral must only be utilised to retire or settle the outstanding loan amount.

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

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

2. Guidelines for Corporate Borrowers

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

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

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

2.3 Equity-kicker elements
The scheme should involve equity-kickers such as warrants, convertible loans, etc.

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

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

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

2.7 The scheme should contain covenants for monitoring purposes such as:
- A monitoring mechanism
- Inter-company lending
- Transfer of assets
- Dividend payments
- Future borrowings

3. Guidelines for Individual Borrowers

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

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

3.2 Legal proceedings in the event the scheme fails
Legal proceedings are to be taken against the borrower should the scheme fail.

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

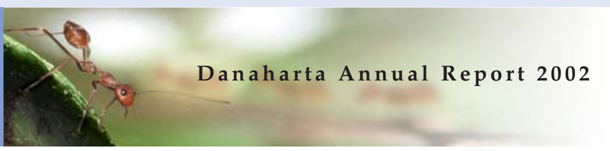
3.4 Moratorium on the disposal of personal assets
The disposal of personal assets by the borrower should not be allowed during the duration of the scheme unless the proceeds are for the settlement of debts outstanding.

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

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

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

3.8 The scheme should contain some covenants for monitoring purposes such as:
- A monitoring mechanism
- Future borrowings



4. Guidelines for Guarantors

The guidelines apply to guarantors and should be adhered to:

4.1 Substantial and critical guarantors

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

4.2 Other guarantors

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

ASSET RESTRUCTURING

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

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

Sale of foreclosed properties

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

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

Sale by tender

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

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

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

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

The tenders are marketed via a wide range of media, including newspaper advertisements, radio announcements, television and newspaper interviews and through the Danaharta website *(www.danaharta.com.my)*. Other efforts include communication with potential investors as well as establishment of links with and direct marketing to members of trade organisations such as the Federation of Malaysian Manufacturers and various Chambers of Commerce. Spearheading the marketing efforts are the real estate agents on Danaharta's panel, who actively market the properties and advise bidders on their tenders.

It is important to appreciate that the tender process represents an initial sale of property collateral. Unsold properties will continue to be offered for sale to the market.

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

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

Sale of business via Special Administrators

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

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

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

Sale of foreign loan assets

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

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

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

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

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

MANAGEMENT OF SECURITIES

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

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

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

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

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

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

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

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

OBJECTIVES OF THE AMENDMENTS

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

These amendments are intended:

(a) to clarify existing provisions of the Danaharta Act in order to remove any doubts about their intended effect; and

(b) to overcome practical difficulties which have arisen since Danaharta began operations.

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

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

Administrative matters

Vesting process

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

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

Disclosure of information

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

Oversight Committee

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

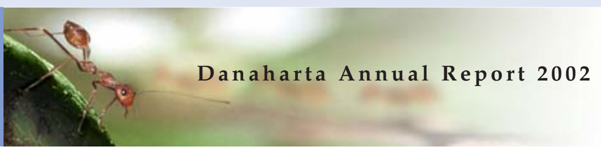
Special Administrators

Appointment of Special Administrators

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

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

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



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

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

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

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

Special Administrators' powers

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

(a) to perform a function as an officer of the affected company without the prior approval of the Special Administrator: *new section 33(4) of the Danaharta Act;* and

(b) to obstruct or hinder the Special Administrator: *new section 39A of the Danaharta Act.*

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

New section 42A of the Danaharta Act allows a Special Administrator to challenge transactions involving the acquisition of assets above fair value from, or the sale of assets below fair value to, a director of the affected company or a related party. This is similar to a liquidator's right under section 295 of the Companies Act, 1965.

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

Moratorium

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

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

Workout proposals

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

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

Private treaty sales

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

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

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

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

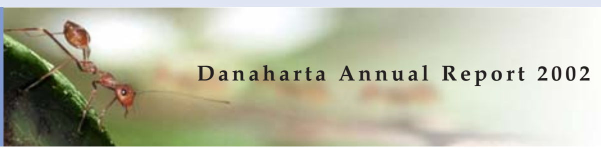
General matters

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

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

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

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



Securitisation
- Another Milestone In Danaharta's Progress

INTRODUCTION

On 20 December 2001, Danaharta successfully completed the issuance of RM310 million AAA-rated Senior Notes by Securita ABS One Berhad ("Securita"), a special purpose vehicle, to the investing public. The issuance was the first Collateralised Loan Obligations ("CLO") transaction in Malaysia.

What is securitisation?

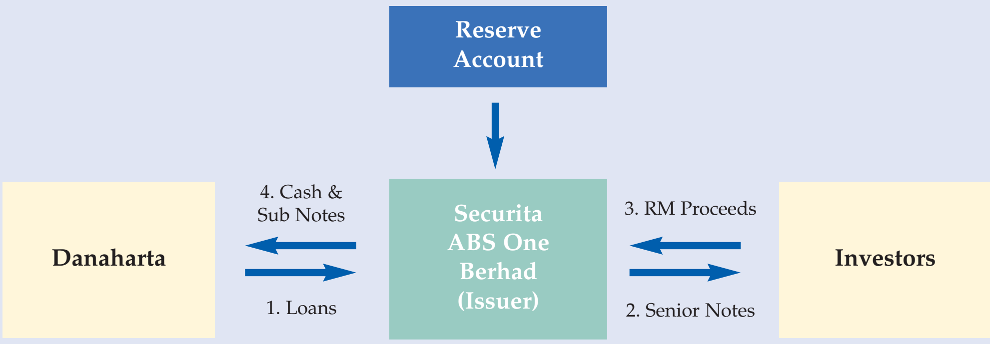
Securitisation is a fund raising technique whereby funds are raised via the issuance of securities backed by specific underlying assets. The underlying assets in a CLO transaction are loan obligations.

Securitisation was identified as a suitable method for Danaharta to divest its restructured loans for the following reasons:-

- It represents an efficient means for divestment as compared to selling loans individually, especially with regard to smaller loans.
- It enables a wider investor base to be addressed.
- Placement of rated debt securities would be easier than overcoming the difficulties in auctioning large number of loans where multiple investors would need access to loan data.
- Securitisation avoids the risk of investors "cherry picking" under the direct sale method.
- Danaharta's retention of the subordinated tranche of the securities would enable it to enjoy any residual upside in the recovery. At the same time, Danaharta would be incentivised to effect maximum recovery.
- The initiative would assist the Government in promoting securitisation as well as introduce new products to the financial market.

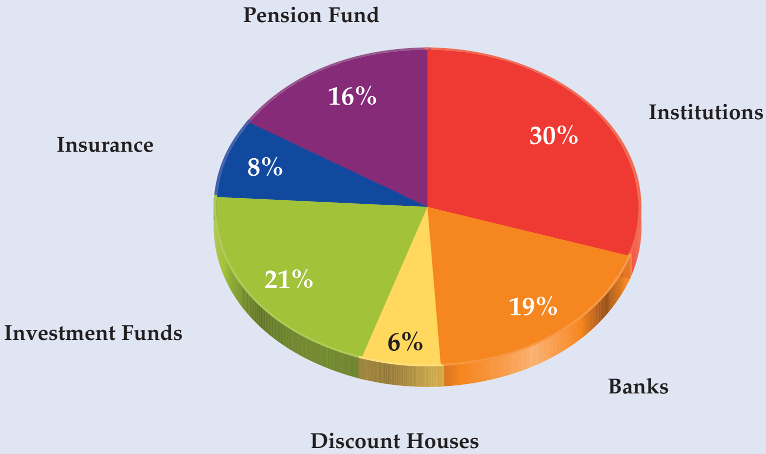
TRANSACTION SUMMARY

Danaharta's CLO transaction essentially involved the transfer of a portfolio of performing loans and cash totalling RM595 million to Securita by Danaharta Group. In return, Danaharta received cash and Subordinated Notes issued by the special purpose vehicle. Securita raised the cash by issuing RM310 million worth of Senior Notes to the investing public. The Notes have a coupon rate of 3.875% and mature in December 2005.



SUCCESSFUL LAUNCH AND ISSUE

Following a book-building process by the Joint-Lead Managers for the offer, the Senior Notes were issued at 99.54% of par value, giving an effective yield of 4.0% per annum to the investors. Total proceeds raised from the issue amounted to RM308.57 million. The offer was very well received by investors, resulting in an over-subscription rate of 3.5 times with orders in excess of RM1.0 billion. The Senior Notes were issued on 20 December 2001 and allocated to a well diversified portfolio of investors as follows:-



UPDATE ON COMPANIES UNDER SPECIAL ADMINISTRATION AS AT 17 FEBRUARY 2003

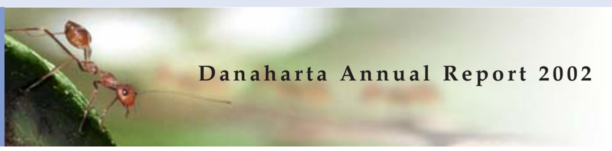
As at 17 February 2003, Danaharta had appointed Special Administrators across 71 groups of companies, with 40 groups of companies still at various stages of special administration. The stages of Special Administration can be categorised in 6 stages as follows:

	Description	*No. of companies*
(a)	Special Administrators discharged	44
(b)	Workout proposal implemented, Special Administrators pending discharge	8
(c)	Workout proposal approved by authorities, being implemented	33
(d)	Workout proposal submitted to authorities, awaiting approval	7
(e)	Workout proposal approved by secured creditors, pending submission to authorities	0
(f)	Special Administrators appointed, pending preparation of workout proposal	29

(a) Companies where Special Administrators have been discharged (44 companies):

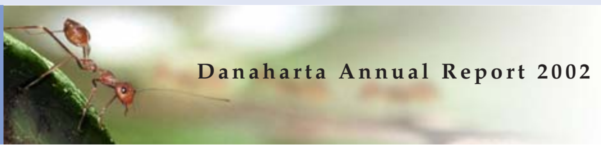
	Company, principal activities & listing status	*Special Administrators*	*Independent Advisors*
1	**Fima Securities Sdn Bhd** (formerly known as Capitalcorp Securities Sdn. Bhd.) *Stockbroking*	Mr Chew Hoy Ping Ms Chan Yim Fun *(PricewaterhouseCoopers)* *Appointed on 4 January 1999* *Discharged on 2 July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

Company, principal activities & listing status	*Special Administrators*	*Independent Advisors*
8. **WK Securities Sdn Bhd** *Stockbroking*	Dato' Nordin Baharuddin Mr Adam Primus Varghese Abdullah *(Ernst & Young)* *Appointed on 12 February 1999* *Discharged on 29 November 2000*	Amanah Merchant Bank Berhad
9. **Labuan Securities Sdn Bhd** *Stockbroking*	Mr Gan Ah Tee Mr John Ho Shui Fah Mr Ooi Woon Chee *(KPMG)* *Appointed on 12 February 1999* *Discharged on 29 November 2000*	RHB Sakura Merchant Bankers Berhad
10. **MGI Securities Sdn Bhd** *Stockbroking*	Mr Yeo Eng Seng Mr Adam Primus Varghese Abdullah Ms Wong Lai Wah *(Ernst & Young)* *Appointed on 30 April 1999* *Discharged on 29 November 2000*	Ferrier Hodgson MH
11. **Halim Securities Sdn Bhd** *Stockbroking*	Mr Gong Wee Ning Ms Chan Yim Fun *(PricewaterhouseCoopers)* *Appointed on 12 February 1999* *Discharged on 15 December 2000*	RHB Sakura Merchant Bankers Berhad
12. **J&C Trading Sdn Bhd** *Trading*	Mr Mok Yuen Lok Mr Poon Yew Hoe *(Horwath Mok & Poon)* *Appointed on 30 June 2000* *Discharged on 20 December 2000*	Not required
13. **Taiping Securities Sdn Bhd** *Stockbroking*	Mr Gan Ah Tee Mr Ooi Woon Chee Mr Peter Ho Kok Wai *(KPMG)* *Appointed on 12 February 1999* *Discharged on 29 December 2000*	Amanah Merchant Bank Berhad
14. **MBf Northern Securities Sdn Bhd** *Stockbroking*	Mr Gan Ah Tee Mr Peter Ho Kok Wai Mr Ooi Woon Chee *(KPMG)* *Appointed on 12 February 1999* *Discharged on 10 February 2001*	Amanah Merchant Bank Berhad
15. **Utama Impian Sdn Bhd** *Property development company*	Encik Razalee Amin Mr Tam Kok Meng *(Razalee & Co.)* *Appointed on 1 June 2000* *Discharged on 30 April 2001*	(SAs discharged before formulation of workout proposal, therefore no Independent Advisor appointed)
16. **Dax Foods Sdn Bhd** *Manufacturing and marketing of chocolate based confectionery*	Mr Mok Yuen Lok Mr Onn Kien Hoe *(Horwath Mok & Poon)* *Appointed on 28 July 1999* *Discharged on 20 September 2001*	Hew & Tan



Company, principal activities & listing status	*Special Administrators*	*Independent Advisors*
17. **Winshine Holdings Sdn Bhd** *Investment holding and the provision of management services*	Mr Gan Ah Tee En Mohamed Raslan Abdul Rahman *(KPMG)* *Appointed on 15 December 1999* *Discharged on 8 November 2001*	Horwath Mok & Poon
18. **Winshine Industries Sdn Bhd** *Manufacturing of furniture and wood-based products*	As above.	As above.
19. **Mentakab Veneer & Plywood Sdn Bhd** *Manufacturing of veneer and plywood*	Mr Heng Ji Keng Mr Kelvin Edward Flynn *(Ferrier Hodgson MH)* *Appointed on 23 February 2000* *Discharged on 29 September 2001*	BDO Binder
20. **Uncang Emas Sdn Bhd** *Property development and management*	En Mohd Noor Abu Bakar En Suhaimi Badrul Jamil *(Mohd Noor & Associates)* *Appointed on 4 July 2000* *Discharged on 7 September 2001*	(SAs discharged before formulation of workout proposal, therefore no Independent Advisor appointed)
21. **Miharja Development Sdn Bhd** *Property development and investment*	As above.	As above.
22. **Sri Hartamas Hotels Sdn Bhd** *Owner of two hotels in Melaka and Pulau Pinang respectively* *Subsidiary of Sri Hartamas Berhad*	Mr Gan Ah Tee Mr Ooi Woon Chee En Mohamed Raslan Abdul Rahman *(KPMG)* *Appointed on 21 August 2000* *Discharged on 19 February 2002*	Deloitte KassimChan
23. **Instangreen Corporation Berhad** (Beginning 30 January 2002, known as LBS Bina Group Bhd.) *Listed on KLSE Main Board*	Mr Mak Kum Choon Mr Chu Siew Koon *(Deloitte KassimChan)* *Appointed on 9 September 1999* *Discharged on 29 March 2002*	Perwira Affin Merchant Bank Berhad
24. **SPJ Construction Sdn Bhd**	As above.	As above.
25. **Instangreen (Landscape) Sdn Bhd** *The Group's principal activities are property and golf resort development, golf course and sports field design and construction, landscaping and general civil engineering works*	As above.	As above.
26. **Pakata Sdn Bhd** *Manufacturing of printed colour boxes and industrial packaging*	Mr Narendra Kumar Jasani Ms Janise Lee Guat Hoe *(Shamsir Jasani Grant Thornton)* *Appointed on 1 July 2000* *Discharged on 28 February 2002*	Ernst & Young
27. **Lumberise Sdn Bhd** *Manufacturing of wood products*	Ms Chan Yim Fun Ms Yap Wai Fun *(PricewaterhouseCoopers)* *Appointed on 15 December 1999* *Discharged on 3 May 2002*	K&N Kenanga Berhad

Company, principal activities & listing status	*Special Administrators*	*Independent Advisors*
28. **Soctek Sdn Bhd** *Palm oil refiner and trader in crude palm oil*	Mr Yeo Eng Seng Mr Adam Primus Varghese Abdullah Ms Wong Lai Wah *(Ernst & Young)* *Appointed on 10 July 2001* *Discharged on 24 April 2002*	Ferrier Hodgson MH
29. **Soctek Edible Oils Sdn Bhd** *Manufacturing of all types of edible oils and specialty fats*	As above.	As above.
30. **Lean Seng Chan (Quarry) Sdn Bhd** *Involved in the operation of quarry* *Subsidiary of Bridgecon Holdings Bhd*	Mr Siew Kah Toong Mr Tan Kim Leong *(BDO Binder)* *Appointed on 24 May 2001* *Discharged on 23 May 2002*	Horwath Mok & Poon
31. **Emville Sdn Bhd** *Property developer* *Subsidiary of Kuala Lumpur Industries Holdings Bhd*	Mr Mok Yuen Lok Mr Onn Kien Hoe *(Horwath Mok & Poon)* *Appointed on 27 October 2000* *Discharged on 12 July 2002*	PricewaterhouseCoopers
32. **Mewah Rembang Sdn Bhd** *Involved in property development* *Subsidiary of Sri Hartamas Berhad*	Mr Gan Ah Tee Mr Ooi Woon Chee En Mohamed Raslan Abdul Rahman *(KPMG)* *Appointed on 18 October 1999* *Discharged on 5 July 2002*	Deloitte KassimChan
33. **Golden Pearl Island Hotel Sdn Bhd** *Owner of a 12-storey, 126-room hotel in Pulau Pinang*	Mr Mok Yuen Lok Mr Poon Yew Hoe *(Horwath Mok & Poon)* *Appointed on 24 July 2000* *Discharged on 23 July 2002*	Ferrier Hodgson MH
34. **Advance Synergy Furniture Sdn Bhd** *Integrated furniture manufacturing*	Tuan Syed Amin Aljeffri En Mohd Neezal Md Noordin *(Aljeffri & Co)* *Appointed on 9 September 1999* *Discharged on 24 October 2002*	O.S.K. Holdings Berhad
35. **MEC Industrial Park Sdn Bhd** *Property holding company* *Subsidiary of Malaysia Electric Corporation Berhad*	Mr Lim Tian Huat Mr George Koshy *(Ernst & Young)* *Appointed on 9 September 1999* *Discharged on 25 October 2002*	Commerce International Merchant Bankers Berhad
36. **Mitsuoka Electronics (M) Sdn Bhd** *Manufacturing and sale of transformers, adaptors and motor coils*	Mr Mak Kum Choon Mr Chu Siew Koon *(Deloitte KassimChan)* *Appointed on 24 May 1999* *Discharged on 11 November 2002*	Ernst & Young
37. **CA Furniture Industries Sdn Bhd** *Manufacturing of rubber wood furniture*	Mr Ooi Woon Chee En Mohamed Raslan Abdul Rahman Mr Ng Chwe Hwa *(KPMG)* *Appointed on 16 December 1999* *Discharged on 11 November 2002*	Asia Pacific Management Insight Sdn Bhd
38. **CA Manufacturing Sdn Bhd** *Manufacturing of rubber wood furniture*	As above.	As above.



Company, principal activities & listing status	Special Administrators	Independent Advisors
39. **Timbermaster (Malaysia) Sdn Bhd** *Trading and exporting of wood products* *Subsidiary of Timbermaster Industries Berhad*	Mr Lim San Peen Ms Yap Wai Fun *(PricewaterhouseCoopers)* *Appointed on 14 December 1999* *Discharged on 11 December 2002*	KPMG
40. **Perdana Industries Holdings Berhad** *Investment holding* *Listed on KLSE Main Board*	Ms Yap Wai Fun Mr Lim San Peen *(PricewaterhouseCoopers)* *Appointed on 28 July 1999* *Discharged on 26 December 2002*	Deloitte Kassim Chan *(Malaysian International Merchant Bankers Berhad* was *replaced by Deloitte KassimChan on 5 October 2001)*
41. **NCK Wire Products Sdn Bhd** *Manufacturing and marketing of wire products* *Subsidiary of NCK Corporation Berhad*	Dato' Nordin Baharuddin Mr Adam Primus Varghese Abdullah Ms Wong Lai Wah *(Ernst & Young)* *Appointed on 11 October 2001* *Discharged on 23 January 2002*	Ferrier Hodgson MH
42. **Caton Wood Industries Sdn Bhd** *Manufacturing of veneer, plywood and blockboard*	Mr Adam Primus Varghese Abdullah Ms Wong Lai Wah Mr Kevin K. How *(Ernst & Young)* *Appointed on 16 December 1999* *Discharged on 29 January 2002*	Asia Pacific Management Insight Sdn Bhd
43. **Nitcom Sales & Services Sdn Bhd** *Distributor of telecommunication products and provider of telecommunication products and services*	Mr Tan Lye Chong Mr Siew Kah Toong *(BDO Binder)* *Appointed on 19 November 2001* *Discharged on 17 February 2003*	Horwath Mok & Poon
44. **Nitcom Technology Sdn Bhd** *Provide advance contract manufacturing assembly services to OEMs in the computer, telecommunications, aviation, medical and electronics industries*	As above.	As above.

(b) Companies where workout proposals have been implemented, and Special Administrators are pending discharge (8 companies):

Company, principal activities & listing status	Special Administrators	Independent Advisors
1. **Austral Amalgamated Berhad** *Holding company with subsidiaries involved in property development and investment, hotels and resorts, foreign investments, travel and tours, trading, timber extraction and finance.* *Listed on KLSE Main Board*	Mr Lim Tian Huat Mr George Koshy *(Ernst & Young)* *Appointed on 9 September 1999* *Moratorium extended to 8 September 2003*	RHB Sakura Merchant Bankers Berhad
2. **Profound View Sdn Bhd** *Property development*	*Appointed on 6 July 2000* *Moratorium extended to 5 July 2003*	As above.
3. **Danau Kota Development Sdn Bhd** *Property development*	As above.	As above.
4. **Likas View Sdn Bhd** *Property development*	As above.	As above.

Company, principal activities & listing status	Special Administrators	Independent Advisors
5. **Malaysia Electric Corporation Berhad** *Manufacturing and retailing of household and electrical appliances*	Mr Lim Tian Huat Mr George Koshy *(Ernst & Young)* *Appointed on 7 April 1999* *Moratorium extended to 6 April 2003*	Commerce International Merchant Bankers Berhad
Subsidiaries of Sri Hartamas Berhad		
6. **Puncak Permata Sdn Bhd** *Property developer*	Mr Gan Ah Tee Mr Ooi Woon Chee En Mohamed Raslan Abdul Rahman *(KPMG)* *Appointed on 18 October 2000* *Moratorium extended to 17 October 2003*	Deloitte KassimChan
7. **Cempaka Mewah Sdn Bhd** *Property developer*	As above.	As above.
8. **Tang Kwor Ham Realty Sdn Bhd** *Owner and operator of 112-room hotel in Melaka*	Mr Gan Ah Tee Mr Ooi Woon Chee En Mohamed Raslan Abdul Rahman *(KPMG)* *Appointed on 30 June 2000* *Moratorium extended to 29 June 2003*	Asia Pacific Management Insight Sdn Bhd

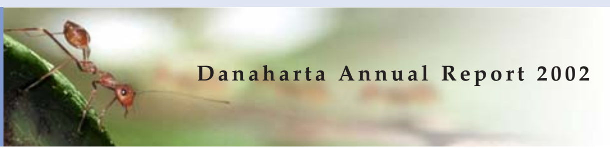
(c) Companies where workout proposals have been approved by the authorities and are being implemented (33 companies):

Company, principal activities & listing status	Special Administrators	Independent Advisors
1. **RNC Corporation Berhad** (formerly known as Arensi Holdings (M) Berhad) *Manufacturing and trading of PVC pipes and fittings, ready mixed concrete, cement bricks and pre-cast products, as well as the provision of financing services and timber products* *Listed on KLSE Main Board*	Mr Robert Teo Keng Tuan Mr Vincent Chew Chong Eu *(Hanifah Teo & Associates)* *Appointed on 28 July 1999* *Moratorium extended to 28 July 2003*	Alliance Merchant Bank Berhad
2. **Sportma Corporation Berhad** *Manufacture and trading of racquets and other sports equipment* *Listed on KLSE Second Board*	Mr Robert Teo Keng Tuan Mr Vincent Chew Chong Eu *(Hanifah Teo & Associates)* *Appointed on 9 September 1999* *Moratorium extended to 8 September 2002*	Ferrier Hodgson MH
3. **Beloga Sdn Bhd** *Manufacturing and recycling of aluminium and copper products and general trading*	Mr Heng Ji Keng Mr Bradley Dean Norman *(Ferrier Hodgson MH)* *Appointed on 12 October 1999* *Moratorium extended to 11 October 2003* *Mr Kelvin Edward Flynn was discharged on 8 October 2001 and replaced by Mr Bradley Dean Norman (appointed on 10 October 2001)*	KPMG

Company, principal activities & listing status	*Special Administrators*	*Independent Advisors*
4. **Associated Kaolin Industries Berhad** *Manufacturing and sale of refined kaolin, logging and downstream timber products* *Listed on KLSE Second Board*	Ms Yap Wai Fun Mr Lim San Peen *(PricewaterhouseCoopers)* *Appointed on 3 May 2000* *Moratorium extended to 2 May 2003* *Mr Gong Wee Ning was discharged on 8 October 2001 and replaced by Ms Yap Wai Fun (appointed on 10 October 2001)*	BDO Binder
5. **Sri Hartamas Berhad** *Property development company* *Listed on KLSE Main Board*	Mr Gan Ah Tee Mr Ooi Woon Chee En Mohamed Raslan Abdul Rahman *(KPMG)* *Appointed on 16 June 2000* *Moratorium extended to 15 June 2003*	Deloitte KassimChan
6. **Mawar Tiara Sdn Bhd** *Property developer*	*Appointed on 18 October 2000* *Moratorium extended to 17 October 2003*	As above.
7. **Projek Kota Langkawi Sdn Bhd** *Owner of a 177-room resort hotel in Pulau Langkawi, Kedah*	Ms Chan Yim Fun Mr Kenneth Teh Ah Kiam *(PricewaterhouseCoopers)* *Appointed on 24 July 2000* *Moratorium extended to 23 July 2003*	Deloitte KassimChan
8. **Manalom Sdn Bhd Berhad** *Housing and property development*	Mr Mak Kum Choon Mr Chu Siew Koon *(Deloitte KassimChan)* *Appointed on 27 July 1999* *Moratorium extended to 26 July 2003*	Aseambankers Malaysia
9. **Alpha Agencies Sdn Bhd** *Developer of a 14-storey, 291-room hotel in Kota Kinabalu, Sabah*	Mr Lim Tian Huat Mr Ng Teck Wah *(Ernst & Young)* *Appointed on 24 July 2000* *Moratorium extended to 23 July 2003*	BDO Binder
10. **Kilang Papan Seribu Daya Berhad** *Production of sawn timber and moulded timber products* *Listed on KLSE Second Board*	Mr Adam Primus Varghese Abdullah Ms Wong Lai Wah Mr Kevin K. How *(Ernst & Young)* *Appointed on 14 December 1999* *Moratorium extended to 13 December 2002*	Aseambankers Malaysia Berhad
11. **Rahman Hydraulic Tin Berhad** *Tin mining and rubber production* *Listed on KLSE Main Board*	Mr Yeo Eng Seng Mr Adam Primus Varghese Abdullah Ms Wong Lai Wah *(Ernst & Young)* *Appointed on 16 June 2000* *Moratorium extended to 15 June 2003*	Arab Malaysian Merchant Bank Berhad
12. **MGR Corporation Bhd** *Manufacturing and marketing of timber-related products* *Listed on the KLSE Second Board*	Mr Adam Primus Varghese Abdullah Ms Wong Lai Wah Mr Kevin K. How *(Ernst & Young)* *Appointed on 11 October 2001* *Moratorium extended to 10 October 2003*	BDO Binder

List of Companies
Under Special Administration

Company, principal activities & listing status	Special Administrators	Independent Advisors
13. **Kuala Lumpur Industries Holdings Berhad** *Investment holding* *Listed on KLSE Main Board*	Mr Mok Yuen Lok Mr Onn Kien Hoe *(Horwath Mok & Poon)* *Appointed on 30 June 2000* *Moratorium extended to 29 June 2003*	PricewaterhouseCoopers
14. **Bee Hin Holdings Sdn Bhd** *Investment holding, rental of properties and the provision of corporate and financial support services*	*Appointed on 27 October 2000* *Moratorium extended to 26 October 2003*	As above.
15. **Kuala Lumpur Industries Berhad** *Investment and investment property holding company*	As above.	As above.
16. **Sistem Irama Sdn Bhd** *Property developer*	As above.	As above.
17. **NCK Corporation Berhad** *Investment holding company with subsidiaries involved in manufacturing and marketing of steel pipes and building materials, as well as property development* *Listed on KLSE Main Board*	Dato' Nordin Baharuddin Mr Adam Primus Varghese Abdullah Ms Wong Lai Wah *(Ernst & Young)* *Appointed on 16 April 2001* *Moratorium extended to 15 April 2003*	Ferrier Hodgson MH
18. **Fook Chuan Trading Sdn Bhd** *Dealer in building materials, including hardware products*	*Appointed on 11 October 2001* *Moratorium extended to 10 October 2003*	As above.
19. **Techno Asia Holdings Berhad** {formerly known as Westmont Land (Asia) Berhad} *Investment holding company with subsidiaries involved in property development, investment holding, palm plantations, power generation and hotel operations*	Mr Lim Tian Huat Mr Chew Cheng Leong *(Ernst & Young)* *Appointed on 2 February 2001* *Moratorium extended to 1 February 2004*	OSK Holdings Sdn Bhd
20. **Prima Moulds Manufacturing Sdn Bhd** (formerly known as Techno Asia Sdn Bhd) *Manufacturer of standard and custom mould bases*	As above.	As above.
21. **Mount Austin Properties Sdn Bhd** *Property development*	*Appointed 30 April 2001* *Moratorium extended to 29 April 2003*	As above.
22. **Litang Plantations Sdn Bhd** *Oil palm plantation*	As above.	As above.
23. **Cempaka Sepakat Sdn Bhd** *Oil palm plantation*	As above.	As above.
24. **Ganda Plantations** *Oil palm plantation (Perak) Sdn Bhd*	As above.	As above.
25. **Wisma Dindings Sdn Bhd** *Property development and investment*	As above.	As above.



Company, principal activities & listing status	*Special Administrators*	*Independent Advisors*
(Techno Asia Holdings Berhad group cont'd)		
26. **Techno Asia Venture Capital Sdn Bhd** *Capital financing*	Mr Lim Tian Huat Mr Chew Cheng Leong *(Ernst & Young)* *Appointed 30 April 2001* *Moratorium extended to 29 April 2003*	OSK Holdings Sdn Bhd
27. **Ganda Edible Oils Sdn Bhd** *Processing of crude palm oil*	As above.	As above.
28. **Sin Heng Chan (Malaya) Berhad** *Investment holding company Subsidiaries engaged in broiler breeding, as well as manufacturing and selling of formulated animal products* *Listed on KLSE Main Board*	Mr Lim Tian Huat Mr George Koshy *(Ernst & Young)* *Appointed on 11 August 1999* *Moratorium extended to 10 August 2003*	Asia Pacific Management Insight Sdn Bhd *(Malaysian International Merchant Bankers Berhad was replaced by Asia Pacific Management Insight Sdn Bhd on 16 August 2002)*
29. **Timbermaster Industries Berhad** *Investment holding company* *Listed on KLSE Second Board*	Mr Lim San Peen Ms Yap Wai Fun *(PricewaterhouseCoopers)* *Appointed on 14 December 1999* *Moratorium extended to 13 December 2002*	KPMG
30. **Woo Hing Brothers (Malaya) Berhad** *Retailer in watches* *Listed on KLSE Second Board*	Mr Heng Ji Keng Mr Bradley Dean Norman *(Ferrier Hodgson MH)* *Appointed on 2 March 2000* *Moratorium extended to 1 March 2003* *Mr Kelvin Edward Flynn was discharged on 8 October 2001 and replaced by Mr Bradley Dean Norman (appointed on 10 October 2001)*	Horwath Mok & Poon *(Shamsir Jasani Grant Thornton was replaced by Horwath Mak & Poon on 4 July 2002)*
31. **Abrar Corporation Berhad** *Investment holding company, with subsidiaries involved in property investment, development and construction* *Listed on KLSE Main Board*	Mr Lim San Peen Ms Yap Wai Fun *(PricewaterhouseCoopers)* *Appointed on 27 May 2000* *Moratorium extended to 26 May 2003* *Mr Gong Wee Ning was discharged on 8 October 2001 and replaced by Ms Yap Wai Fun (appointed on 10 October 2001)*	KPMG *(Horwath Mok & Poon was replaced by KPMG on 10 July 2001)*
32. **Bridgecon Holdings Bhd** *The Group is involved in the provision of civil engineering and concrete pumping services, manufacture and supply of ready-mixed concrete, building construction, turnkey project management, quarrying operations and property development* *Listed on KLSE Second Board*	Mr Siew Kah Toong Mr Tan Kim Leong *(BDO Binder)* *Appointed on 6 April 2001* *Moratorium extended to 5 April 2003*	Horwath Mok & Poon
33. **Jupiter Securities Sdn Bhd** *Stockbroking*	Mr Gan Ah Tee Mr Ooi Woon Chee *(KPMG)* *Appointed on 30 April 1999* *Moratorium extended to 29 April 2003*	RHB Sakura Merchant Bankers Berhad

(d) Companies where workout proposals have been submitted to authorities, and are awaiting approval (7 companies):

Company, principal activities & listing status	*Special Administrators*	*Independent Advisors*
1. **Safire Pharmaceuticals (M) Sdn Bhd** *Manufacturing of generic pharmaceutical products*	Dato' Mohammad Aidid Mohd Shariff En Mohamed Raslan Abdul Rahman *(KPMG)* *Appointed on 19 November 2001* *Moratorium extended to 18 November 2003*	Anuarul Azizan Chew & Co *(Shamsir Jasani Grant Thornton was replaced by Anuarul Azizan Chew & Co on 16 August 2002)*
Subsidiaries of NCK Corporation Berhad		
2. **NCK Metal Sdn Bhd** *Provision of specialist materials and soil protection works. Leasing and rental of temporary construction materials*	Dato' Nordin Baharuddin Mr Adam Primus Varghese Abdullah Ms Wong Lai Wah *(Ernst & Young)* *Appointed on 11 October 2001* *Moratorium extended to 10 October 2003*	Ferrier Hodgson MH
3. **Ng Choo Kwan & Sons Hardware Sdn Bhd** *Hardware merchant*	As above.	As above.
4. **NCK Aluminium Extrusion Sdn Bhd** *Manufacturing of aluminium products*	As above.	As above.
Subsidiaries of Timbermaster Industries Berhad		
5. **Kompleks Perkayuan Timbermaster Smallholders Sdn Bhd** *Provide custom kiln drying and pressure treatment services for wood*	Mr Lim San Peen Ms Yap Wai Fun *(PricewaterhouseCoopers)* *Appointed on 14 December 1999* *Moratorium extended to 13 December 2003*	KPMG
6. **Perkayuan T.M. (Malaysia) Sdn Bhd** *Manufacturing of wood products*	*Appointed on 24 January 2000* *Moratorium extended to 23 January 2004*	As above.
7. **Metropolitan TV Sdn Bhd** *Investment holding company involved in broadcasting activities*	Mr Mok Yuen Lok Mr Onn Kien Hoe *(Horwath Mok & Poon)* *Appointed on 12 July 2002*	Ferrier Hodgson MH

(e) Companies where workout proposals have been approved by secured creditors, and are currently pending submission to authorities (No companies listed under this category as at 17 February 2003)

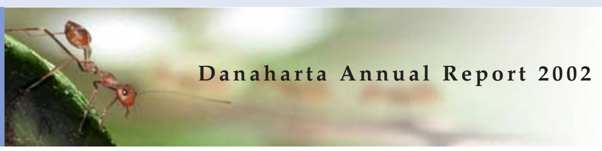
(f) Companies where Special Administrators have been appointed, and pending preparation of workout proposals (29 companies):

Company, principal activities & listing status	*Special Administrators*	*Independent Advisors*
1. **Seng Hup Corporation Berhad** *Import, export, wholesale and retail trading of decorative light fittings and equipment and related products and accessories, as well as the provision of management services, property development and holding* *Listed on the KLSE Second Board*	Mr Tan Kim Leong Mr David Siew Kah Toong *(BDO Binder)* *Appointed on 9 September 1999* *Moratorium extended to 8 September 2003*	Shamsir Jasani Grant Thornton *(KPMG was replaced by Shamsir Jasani Grant Thornton on 8 October 2002)*

Company, principal activities & listing status	Special Administrators	Independent Advisors
2. **Repco Holdings Berhad** *Investment holding and provision of management services to companies within the Repco group* *Listed on KLSE Second Board*	Ms Chan Yim Fun Mr Kenneth Teh Ah Kiam *(PricewaterhouseCoopers)* *Appointed on 8 April 1999* *Moratorium extended to 7 April 2003* *Mr Gong Wee Ning was discharged on 8 October 2001 and replaced by Ms Chan Yim Fun (appointed on 10 October 2001)*	Aseambankers Malaysia Berhad
3. **Repco (Malaysia) Sdn Bhd** *Trading in automotive parts*	As above.	As above.
4. **Even Horizon Sdn Bhd** *Investment holding*	As above.	As above.
5. **Everise Capital Sdn Bhd** *Trading and investment holding*	As above.	As above.
6. **Repco Timber Sdn Bhd** *Provision of timber operation management services and the marketing of timber related products*	As above.	As above.
7. **Everise Ventures Sdn Bhd** *Organising and managing of 4-digit forecast pools*	As above.	As above.
8. **Hajat Semarak (M) Sdn Bhd** *Trading of timber logs*	As above.	As above.
9. **Teluk Jadi Sdn Bhd** *Extraction of timber logs*	As above.	As above
10. **Teras Cemerlang Sdn Bhd** *Investment holding* *Substantial shareholder of Repco Holdings Berhad*	As above.	As above.
11. **Timbermaster Timber Complex (Sabah) Sdn Bhd** *Manufacturing of plywood and kiln drying facility* *Subsidiary of Timbermaster Industries Berhad*	Mr Lim San Peen Ms Yap Wai Fun *(PricewaterhouseCoopers)* *Appointed on 14 December 1999* *Moratorium extended to 13 December 2003*	KPMG
12. **Sandakan Plywood and Veneer Sdn Bhd** *Logging and manufacturing of veneer*	Ms Chan Yim Fun Mr Lim San Peen *(PricewaterhouseCoopers)* *Appointed on 15 December 1999* *Moratorium extended to 14 December 2003*	K&N Kenanga Berhad
13. **Sandakan Blockboard Manufacturing Co. Sdn Bhd** *Manufacturing of plywood and blockboard*	As above.	As above.

List of Companies
Under Special Administration

Company, principal activities & listing status	*Special Administrators*	*Independent Advisors*
14. **Bescorp Industries Berhad** *Manufacturing and sale of reinforced concrete piles and contracting of piling and substructure works for infrastructure & construction projects* *Listed on KLSE Second Board*	Mr Tan Kim Leong Mr Siew Kah Toong *(BDO Binder)* *Appointed on 2 March 2000* *Moratorium extended to 1 March 2003*	Deloitte KassimChan
15. **Abrar Group International Sdn Bhd** *Investment holding company with subsidiaries involved in financial services* *Subsidiary of Abrar Corporation Berhad*	Mr Lim San Peen Ms Yap Wai Fun *(PricewaterhouseCoopers)* *Appointed on 27 May 2000* *Moratorium extended to 26 May 2003* *Mr Gong Wee Ning was discharged on 8 October 2001 and replaced by Ms Yap Wai Fun (appointed on 10 October 2001)*	Horwath Mok & Poon
16. **Profil Kemas Sdn Bhd** *Developer and operator of a 14-storey, 330-room hotel in Kota Bharu, Kelantan*	Mr Kenneth Teh Ah Kiam Ms Chan Yim Fun *(PricewaterhouseCooper)* *Appointed on 24 July 2000* *Moratorium extended to 23 July 2003*	OSK Holdings Berhad
17. **Trimula Development Sdn Bhd** *Property developer and investment holding company*	En Mohamed Raslan Abdul Rahman Mr Ooi Woon Chee Mr Gan Ah Tee *(KPMG)* *Appointed on 22 August 2000* *Moratorium extended to 21 August 2003*	To be appointed
18. **LMD Sdn Bhd** (previously known as Salanta Development Sdn Bhd) *Property developer*	En Abdul Khudus Mohd Naaim En Hassan Hussain *(KS & Associates)* *Appointed on 29 August 2000* *Moratorium extended to 28 August 2003*	BDO Binder
19. **Tool Consult & Press Sdn Bhd** *Involved in tool and metal engineering and consultancy business*	En Razalee Amin En Daud Yunus *(Razalee & Co)* *Appointed on 21 November 2001* *Moratorium extended to 20 November 2003*	Ferrier Hadgson MH
20. **Tool Shop Sdn Bhd** *Manufacturing, designing and fabricating of plastic mould and press die for use in the electrical, electronics and automotive industries*	As above.	As above.
21. **Matahari-TCP Sdn Bhd** *Wholesale, retail, deal and trade in computer products*	As above.	As above.
22. **Bridgecon Engineering Sdn Bhd** *Involved in the provision of civil engineering and concrete pumping services, manufacture and supply of ready-mixed concrete building construction, turnkey project management, quarrying operations and property development* *Subsidiary of Bridgecon Holdings Berhad*	Mr Siew Kah Toong Mr Tan Kim Leong *(BDO Binder)* *Appointed on 24 May 2001* *Moratorium extended to 23 May 2002*	Horwath Mok & Poon



Company, principal activities & listing status	*Special Administrators*	*Independent Advisors*
23. **Hiap Aik Construction Berhad** *Undertaking of earthworks, foundation and construction contracts* *Listed on KLSE Second Board*	Mr Patrick Chew Kok Bin Mr Alvin Tee Guan Pian *(Anuarul Azizan Chew & Co)* *Appointed on 1 April 2002*	Horwath Mok & Poon
24. **Kinabalu Glamour Sdn Bhd** *Involved in the operation of a bowling centre*	Mr Ooi Chee Kun Ms Khoo Pek Ling *(Folks DFK & Co)* *Appointed on 12 July 2002*	To be appointed.
25. **L&M Corporation Bhd** *Investment in construction and construction-related services* *Listed on KLSE Second Board*	Mr Gan Ah Tee Mr Ooi Woon Chee En Mohamed Raslan Abdul Rahman *(KPMG)* *Appointed on 30 August 2002*	BDO Binder
26. **Parit Perak Holdings Berhad** *Investment holding, provision of management services, property investment and development, and investment dealing* *Listed on KLSE Main Board*	Mr Patrick Chew Kok Bin Mr Alvin Tee Guan Pian En Zulkharnain A. Rahim *(Anuarul Azizan Chew & Co)* *Appointed on 30 August 2002*	Ferrier Hodgson MH
27. **Cableview Services Sdn Bhd** *Television broadcasting serivces*	Mr Lim Tian Huat Mr Chew Cheng Leong Y.M. Raja Ali Raja Othman *(Ernst & Young)* *Appointed on 30 August 2002* *Y.M. Raja Ali Raja Othman was appointed as additional SA on 16 December 2002*	Anuarul Azizan Chew & Co
28. **Pekeliling Triangle Sdn Bhd** *Property developer*	Mr Lim Tian Huat Mr Chew Cheng Leong Y.M. Raja Ali Raja Othman *(Ernst & Young)* *Appointed on 15 October 2002* *Y.M. Raja Ali Raja Othman was appointed as additional SA on 16 December 2002*	To be appointed
29. **Naluri Berhad** *Investment holding* *Listed on KLSE Main Board*	Mr Gan Ah Tee Mr Ooi Woon Chee En Mohamed Raslan Abdul Rahman *(KPMG)* *Appointed on 23 December 2002*	To be appointed

Calendar of Events 2002

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JANUARY

18 Visit by Moody's Investor Services (an international rating agency).

22 Danaharta announces the launch of a specific tender to sell 30 shop offices in Bandar Tasik Selatan, Kuala Lumpur.

23 Danaharta presents paper on *"Malaysia's Economic Outlook And Impact On Corporate Restructuring"* at the National Conference On Corporate Strategy: Survival & Growth Strategies in the Aftermath of September 11 organised by Asian Strategy & Leadership Institute (ASLI).

FEBRUARY

28 Visit by Embassy of Japan.

MARCH

5 Danaharta announces the launch of a specific tender to sell industrial park in Alor Gajah, Melaka.

7 Danaharta presents paper on *"Development of the Bond Market in Malaysia"* at the Malaysian Debt Conference organised by Finance Asia.

12 Danaharta briefs media and analysts on its Operations Report for the six months ended 31 December 2001.

18 Danaharta presents paper on *"Malaysia's Experience in Multi-Creditor Workouts"* at the Insolvency Interest Forum : Global Approach to Multi-Creditor Workouts organised by Malaysian Institute of Certified Public Accountants.

Danaharta announces the sales result of the 30 shop offices in Bandar Tasik Selatan, Kuala Lumpur.

20 Danaharta announces sixth tender of foreclosed properties.

21 Danaharta presents paper on *"Turning Around an Organisation"* at a Senior Leadership & Management course organised by the National Institute of Public Administration Malaysia (Institut Tadbiran Awam Negara).

25 Visit by Salomon Smith Barney.

27 Visit by JP Morgan.

28 The Kuala Lumpur High Court rules in favour of Danaharta on the application of injunction by Kekatong Sdn Bhd ("Kekatong") to stop the sale of land pledged to its loan.

29 The High Court of Malaya rules in favour of Danaharta on the application of injunction by Tan Sri Tajuddin to stop the sale of shares pledged to his loan.

APRIL

1 Danaharta appoints Special Administrators of Hiap Aik Construction Berhad.

4 Danaharta briefs British High Commissioner on its operations.

18 Visit by Credit Lyonnais.

29 Visit by Bank Indonesia.

APRIL (CONTINUED)

29 Danaharta announces the sale of 260 million Technology Resources Industries Berhad shares which were pledged as security to Tan Sri Tajudin Ramli's loan.

30 Visit by Central Bank of Sri Lanka.

MAY

5 Danaharta announces offer for tender 309.6 million Naluri Berhad shares which were pledged as security to Tan Sri Tajudin Ramli's loan.

6 Visit by the APEC Ambassador of the United States.

Danaharta announces the launch of a specific tender to sell Puncak Bangsar, a $12\frac{1}{2}$ storey office building in Bangsar, Kuala Lumpur.

8 Danaharta presents paper on *"Malaysian Corporate Restructuring"* at a luncheon talk organised by British Malaysian Chamber of Commerce.

13 Danaharta issues Annual Report 2001 for the year ended 31 December 2001.

15 Visit by Samsung Economic Research.

Danaharta issues quarterly report as at 31 March 2002.

24 Danaharta announces the result for the tender of 309.6 million Naluri Berhad shares (sold to Valiant Entity Sdn Bhd).

30 Danaharta presents paper on *"The Role of Danaharta in the Revival of the Malaysia Real Estate Industry"* at the International Real Estate Federation (FIABCI) 53rd World Congress 2002.

Visit by Societe Generale.

JUNE

3-6 Danaharta briefs Turkish delegation from the Banking Regulation and Supervision Agency ("BRSA") of Turkey.

4 Visit by the Bank of International Settlements.

10 Danaharta announces the sales result of sixth nationwide property tender.

Visit by a delegation from China Huarong Asset Management Corporation (one of China's four state asset management companies).

11 Danaharta presents paper on *"Leadership for the Asian CEO Today"* at a Dinner Forum to Boston Consulting Group Leaders organised by Boston Consulting Group Sdn Bhd.

Danaharta presents paper on *"Corporate Restructuring – The Impact of Corporate Governance on the Resolution of Non-Performing Loans"* at the Fourth Meeting of The Asian Program of The Institute Of International Finance, Inc. organised by Maybank Berhad.

Meeting with Credit Suisse Asset Management.

19 Visit by International Monetary Fund (IMF) team.

24 Danaharta announces sales result of Puncak Bangsar , a $12\frac{1}{2}$ storey office building in Bangsar, Kuala Lumpur.

JULY

4 Visit by Monetary Authority of Singapore.

12 Danaharta appoints Special Administrators over Metropolitan TV Sdn Bhd and Kinabalu Glamour Sdn Bhd.

18 Visit by French Central Bank.

19 Danaharta briefs Ir Laksamana Sukardi, Indonesian State Minister of State Owned Enterprises, on its operations.

26 Danaharta presents paper on *"Case Study Malaysia: Danamodal, Danaharta and Corporate Debt Restructuring Committee ("CDRC") : Strengthening the Malaysian Banking Sector"* at a seminar organised by IMF and BRSA of Turkey, in Ankara.

30 Danaharta acts as a panelist for the CEO Roundtable Discussion for the National Human Resource Award, jointly organised by ASPAC Executive Search Sdn Bhd and Malaysian Institute of Human Resource Management.

Visit by HSBC Research.

AUGUST

15 Danaharta presents paper on *"Trends in Malaysian Corporate Governance"* at the Standard & Poor's (S&P) Roundtable Luncheon.

26 Danaharta holds a briefing on Danaharta Act for High Court Judges.

28 Danaharta briefs media and analysts on its Operations Report for the six months ended 30 June 2002.

30 Danaharta appoints Special Administrators of Cableview Services Sdn Bhd, Parit Perak Holdings Bhd and L&M Corporation (M) Bhd.

SEPTEMBER

24 Danaharta presents paper on *"The Role of Danaharta in Structural Reforms during the Financial Crisis"* at the 21st Central Bank Course Seminar organised by Bank Negara Malaysia ("BNM").

OCTOBER

1 Danaharta announces seventh tender of foreclosed properties.

4 Visit by BNP Paribas.

15 Danaharta appoints Special Administrators of Pekeliling Triangle Sdn Bhd.

23 Danaharta presents paper on *"Prospects and Challenges of Corporate Restructuring in the Era of Globalisation"* at the National Conference on Corporate Restructuring organised by the Malay Businessmen and Industrialists Association of Malaysia (Perdasama).

28 Danaharta presents paper on *"The Role of Danaharta and CDRC"* at the 2nd SEACEN-Toronto Centre Leadership Seminar for Senior Management of Central Banks on Financial System Oversight organised by BNM.

NOVEMBER

1 Danaharta issues quarterly report as at 30 September 2002.

5 Danaharta briefs international delegations (comprising analysts, economists and journalists) organised by Institute of Strategic and International Studies' (ISIS) as part of their International Visitors' Programme.

9 The Court of Appeal rules in favour of Kekatong on their appeal against the Kuala Lumpur High Court's decision and grants an injunction against Danaharta's sale of Kekatong's pledged property. The Court of Appeal also rules section 72 of Danaharta Act void and unconstitutional.
(Please see article "Amendments to the Danaharta Act 1998" on page 124 for further details on section 72 of the Danaharta Act).

29 Visit by Asian Development Bank.

DECEMBER

11-17 Danaharta joins official delegation to Argentina to brief on Malaysia's experience in financial crisis management.

23 Danaharta announces the termination of sale agreement with Valiant Entity Sdn Bhd for the foreclosed 309.6 million Naluri Berhad shares and appoints Special Administrators over Naluri Berhad.

Danaharta announces results of the seventh property tender.

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DANAHARTA is a special word coined by the Government referring to assets in both financial and physical forms. 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

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