Annual Report 2003

DANAHARTA

Pengurusan Danaharta Nasional Berhad

Cover Rationale

Rowing Boat

The cover depicts a rowing boat with all its crew-members rowing hard and in unison to reach the finish line. Elements of this picture are used as an analogy for Danaharta's circumstances.

Danaharta, the national asset management company, was set up in June 1998 to tackle the then burgeoning non-performing loan problems of the Malaysian banking system. If left uncontained, the problems could have led to undue stress on the system whose collapse would have plunged the country into economic chaos.

Faced with tight deadlines, a mountain of work, numerous situations of complexity and sensitivity, Danaharta's staff and management responded like a rowing team.

Different functions had to be performed by different team members with skill and dedication. Similar to a rowing team, these individual efforts had to be coordinated with an eye for the team's overall objective. Teamwork is of utmost importance as the speed and smooth movement of the boat through the water is dependent on all its crew members, not just one. Clearly, the performance of the team also relied upon each team member to have the will to overcome all obstacles, fuelled by sheer hard work and determination.

The boat's drive to the finish line is reminiscent of Danaharta's current proximity to its own closure date in 2005. Uniquely, the closure of an agency like Danaharta is seen to be a sign of success rather than failure as it would have completed its mission and resolved the problem.

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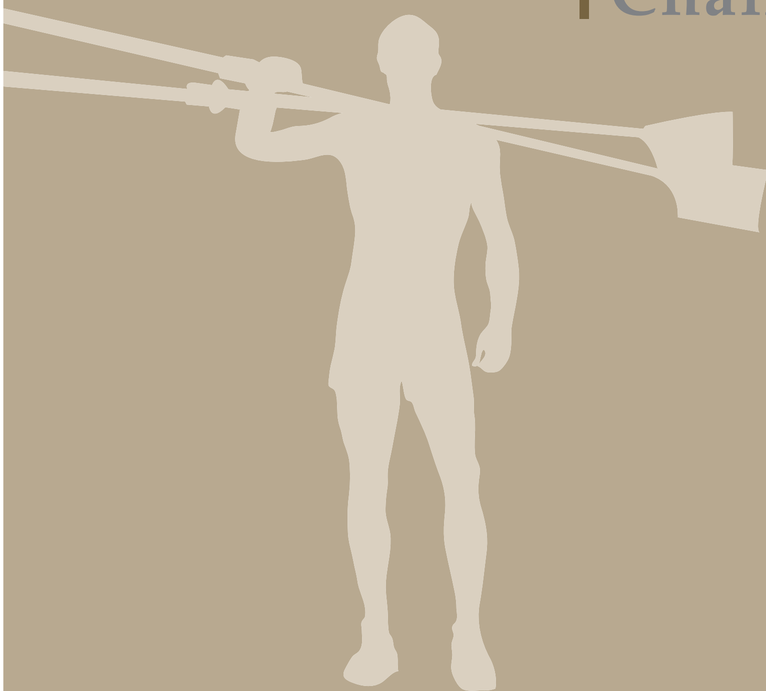
Chairman's Statement



> "Essentially, the process of recovery works smoothly if there is cooperation on the part of the borrower allied to a genuine desire to take responsibility for their situation."

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 2003.

Danaharta is the national asset management company (AMC) entrusted with a mission to resolve non-performing loans (NPLs) previously removed from the banking system.

Danaharta's relationship to its borrowers is more akin to that of a bank - albeit a special bank that seeks to recover as much of the loan outstanding as possible rather than extending funds. It is not our role to take control of businesses and companies. Essentially, the process of recovery works smoothly if there is cooperation on the part of the borrower allied to a genuine desire to take responsibility for their situation. In line with its principle of treating borrowers fairly, Danaharta gives each borrower the opportunity to restructure loan commitments and demonstrate their viability and capability to service their loans. The alternative would be for collateral and businesses to be sold in order to recover the loans. Recalcitrant borrowers are dealt with in a firm but fair manner in line with our stated guidelines and policies. Meanwhile, legal challenges from disgruntled parties have been met squarely.

As last year, we are using our mission flowchart again to depict (in a single chart) all the various activities carried out by Danaharta at each stage of its unique single lifecycle from establishment to targeted closure. The "Mission Flowchart" as illustrated on page 9, acts as a roadmap to highlight various key statistics on Danaharta's progress.

Danaharta has a total funding structure of RM14.14 billion, consisting of RM3 billion paid up capital and RM11.14 billion in government guaranteed zero coupon bonds. In the past, additional loans have been taken on from the Employees Provident Fund and Khazanah Nasional Berhad but have since been fully repaid.

The Danaharta NPL 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 from the now defunct Sime Bank Group and Bank Bumiputra Group. As at 31 December 2003, Danaharta had a combined NPL portfolio totalling RM52.44 billion in adjusted loan rights acquired (LRA) value*.

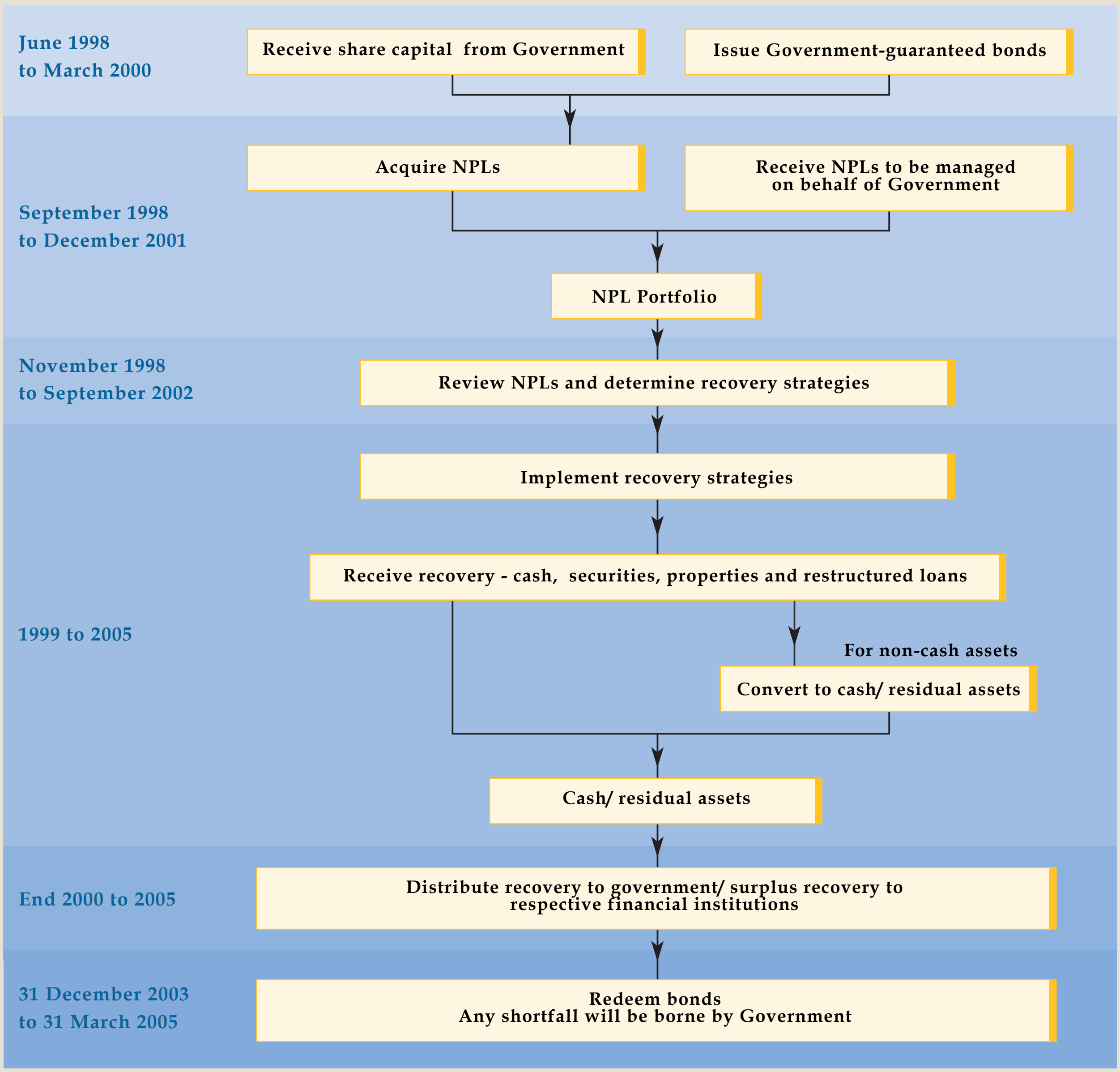
The immediate task of Danaharta is to generate enough cash from its recovery operations to repay all the outstanding bonds issued earlier

* LRA = Loan rights acquired, i.e. loan amount outstanding at the point of acquisition (principal & interest)
Adjusted LRA = LRA plus accrued interest at the point of restructuring

to purchase NPLs i.e. with a face value of RM11.14 billion. As at the end of December 2003, the available cash reserve for bond redemption stood at RM5.92 billion.

Thus, recovery operations are focused on collecting enough cash to close the gap. Should Danaharta succeed in doing so, it would be a remarkable feat as the cost to the Government would be limited to the share capital used to set up Danaharta. The recovery operations in respect of the Managed NPL component are simultaneously ongoing to ensure that maximum recoveries are repatriated to the Government. This would go a long way in reducing the cost to the Government in its resolution of the two banking groups.

THE MISSION FLOW CHART



Danaharta does not have compulsory powers of acquisition and thus we were unable to direct banks to sell their NPLs to us. A range of initiatives designed to encourage banks to voluntarily sell NPLs were brought to bear by the central bank and Danaharta. The most successful being the proposal that Danaharta shares 80% of any surplus recovery with the selling bank (i.e. where recoveries exceeded the initial acquisition price plus related costs).

The measures were accepted very well and the banks transacted with Danaharta. The transferred NPLs made up the Acquired NPL component of Danaharta's portfolio.

With an NPL portfolio in hand, Danaharta then proceeded to determine and implement recovery strategies - account by account (see Flowchart).

To gauge Danaharta's progress as at 31 December 2003, it is important to understand the benchmarks. Danaharta has estimated that it will recover roughly RM30 billion by the time it completes its mission in 2005. If we are successful in collecting the entire RM30 billion, we would achieve an average recovery rate of 58% over the combined NPL portfolio of RM52 billion. *(Note: 'combined' refers to the sum of the Acquired NPL component added to the Managed NPL component)*

Of this RM30 billion, approximately RM22 billion or 73% has been collected albeit a portion in non-cash form i.e. securities, properties and restructured loans. Of this amount, RM19.04 billion (including an additional RM2.88 billion being primarily interest generated on restructured loans) has been converted into cash.

Since the Managed NPL component is managed on the Government's behalf, all recoveries relating to those loans are channeled back to the Government. In this regard, a total of RM12.96 billion has been repatriated. For recoveries relating to the Acquired NPL component where surplus recoveries have been generated, Danaharta has distributed a total of RM0.43 billion and 66.5 million of securities to the relevant financial institutions in accordance with the surplus recovery sharing arrangement described earlier. 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 when they mature. The first tranche of the Danaharta bonds matured on 31 December 2003 and was duly redeemed, with the remaining tranches maturing in every subsequent quarter up to 31 March 2005. At this stage, we are confident that full redemption can be achieved without resorting to the government guarantee.

The Danaharta Act

In 2002, whilst hearing a case brought by an NPL borrower against Danaharta, the Court of Appeal decided to declare section 72 of the Danaharta Act as unconstitutional and void. Section 72 basically prohibits the granting of any injunction against Danaharta. It was enacted 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 taxpayers. It is important to note that the Act does not prevent an aggrieved party from suing Danaharta and winning compensation, if so decided by the court.

As a consequence of the Court of Appeal's decision, we lodged an appeal against this ruling at Malaysia's highest court i.e. the Federal Court as we firmly believe that the powers contained in the Danaharta Act are constitutional and fair given our special circumstances. In January 2004, the Federal Court declared in an unanimous decision that section 72 of the Danaharta Act was valid and constitutional.

We welcome this decision as the main beneficiary would be the Malaysian taxpayers, gaining from Danaharta working more efficiently and effectively. It also underscores the special nature of Danaharta. We note that there is now a body of caselaw (comprising this case and others) that sets precedents for the courts to refer to.

Transparency and Public Relations

From inception, Danaharta has emphasised transparency in its operations and promulgated a rigorous disclosure program to achieve this objective. It was clear that various audiences ranging from the ordinary taxpayers to financial analysts and Parliamentarians would need to comprehend and be satisfied on the approach taken by Danaharta on a multitude of issues and situations. As such, Danaharta held public briefings, issued detailed status reports on its operations on a quarterly basis, maintained a comprehensive website, and replied to Parliament and press enquiries. This proactive stance succeeded in clear approach taken by Danaharta on a multitude of issues and situations. As such, Danaharta held public briefings, issued detailed status reports on its operations on a quarterly basis, maintained a comprehensive website, and replied to Parliament and press enquiries. This proactive stance succeeded in clear dissemination of information to improve understanding about Danaharta's operations and minimised misconceptions.

Danaharta feels much encouraged to have received international recognition with regard to its model and approach. During the year, Danaharta was invited to a number of international conferences to share its experiences and expertise with other countries facing issues related to NPL resolution techniques and AMC establishment. Responding to official requests from multilateral agencies and those made on Government to Government basis, Danaharta made visits and presentations in Korea, Indonesia and Nepal whilst receiving delegations from International Monetary Fund (IMF), World Bank and the Asian Development Bank.

Financial Results

National AMCs are not profit making enterprises. They are essentially a cost mitigation measure aimed at protecting the integrity of a banking system. In its absence, the probable collapse of a banking system would be inherently more expensive and catastrophic for any country.

Surplus recovery generated from an account cannot be used to offset a loss suffered on another account. In addition, 80% of surpluses recovered are given back to the selling bank whilst losses suffered are wholly and solely borne by Danaharta. Meanwhile, financing costs are high because Danaharta is mainly funded by bonds. Arising from this, Danaharta Group made a consolidated net loss of RM250 million for the period ended 31 December 2003. Management took pains to keep operating expenditure low at RM68.3 million by managing costs proactively. No dividends were declared during the year.

Organisation

Danaharta has 245 staff members as it is specifically designed to be lean and with minimal hierarchy, befitting a project organisation. The saying that employees are a company's best assets has never been more true than in Danaharta's case. In contrast to the nature of our portfolio of assets (being largely non-performing loans), the staff have definitely performed with great skill and commendable commitment. Their reputation has made them to be much sought after by the market-place and this occasionally poses a human resource challenge to Danaharta. We need to manage staff movements whilst retaining enough key staff to ensure completion of our mission. During the year, in response to a Government call for employers to help train young graduates, we launched a trainee executive program that would last a year. The program commenced in November 2003 with eight trainees. It features personalised training programs and is aimed at making the trainees as marketable as possible for future employers.

Corporate Developments

During the year, Danaharta was honoured to host a visit by the Minister of Finance II, Dato' Dr Jamaluddin Jarjis. This event marked the first ever visit by a Cabinet Minister to Danaharta. The Minister conveyed the Government's appreciation for the work done by Danaharta to-date.

Acknowledgements

On behalf of the organisation, I wish to express our gratitude to the following for their support and co-operation:

Ministry of Finance;
Attorney General's Chambers;
Bank Negara Malaysia;
Securities Commission;
Malaysia Securities Exchange Berhad;
Foreign Investment Committee;
The National Economic Action Council;
Government ministries and departments at both federal and state level; and
The financial community.

Our thanks also go to the members of the Tender Board and the Oversight Committee for their time and effort involving Danaharta.

On behalf of the Board, I wish to record our deep appreciation for the exemplary contributions of the management and staff of Danaharta throughout the year. I hope that the high quality and quantity of efforts made will be sustained to the end to ensure a successful completion of our mission, targeted by end of 2005.

During the year, we also had some notable departures from the Board and management team.

Dato' Azman Yahya, a stalwart of Danaharta from its inception, ended his tenure as Chairman of the Board in July 2003 and was succeeded by me. In addition, Dato' Abdul Hamidy Hafiz completed his stint of duty as Managing Director also in July and was replaced by Dato' Zukri Samat - formerly the Director of Operations for Danaharta. Dato' Hamidy has since been re-appointed to the Board as a non-executive Board member. Long time Board members, Dato' Richard Ho and Dato' Mohamed Md Said retired at the end of June 2003 and November 2003 respectively after serving out their tenures. We also bid farewell to Mr Ramesh Pillai, a management team member who left in November 2003 to pursue his career in the private sector. To all of them, we wish them the very best in their future endeavours and proudly recognise their much-appreciated contribution to our mission which have placed Danaharta in the respected position it enjoys today.

At the same time, we warmly welcome Dato' Abd Wahab Maskan who joined our Board in November 2003. We look forward to benefiting from his vast experience in the corporate arena especially in property related matters.

We also thank our consultants, advisers and business associates who gave us their support in our work. We also acknowledge those borrowers who have demonstrated sincerity and responsibility in coping with their situation.

As the new Chairman, I record my appreciation for the Board members who have given their time and effort to uphold their obligations during Board meetings and in the various Board committees required by Danaharta's corporate governance policies. Clearly, Danaharta is fortunate to have such committed individuals to serve on the Board.

Conclusion

The effectiveness of Danaharta's recovery operations is greatly influenced by the prevailing economic condition in the country. A resurgent economy would help the implementation of the approved recovery strategies and pave the way towards achieving higher recovery rates. Defaults on workouts would also be reduced.

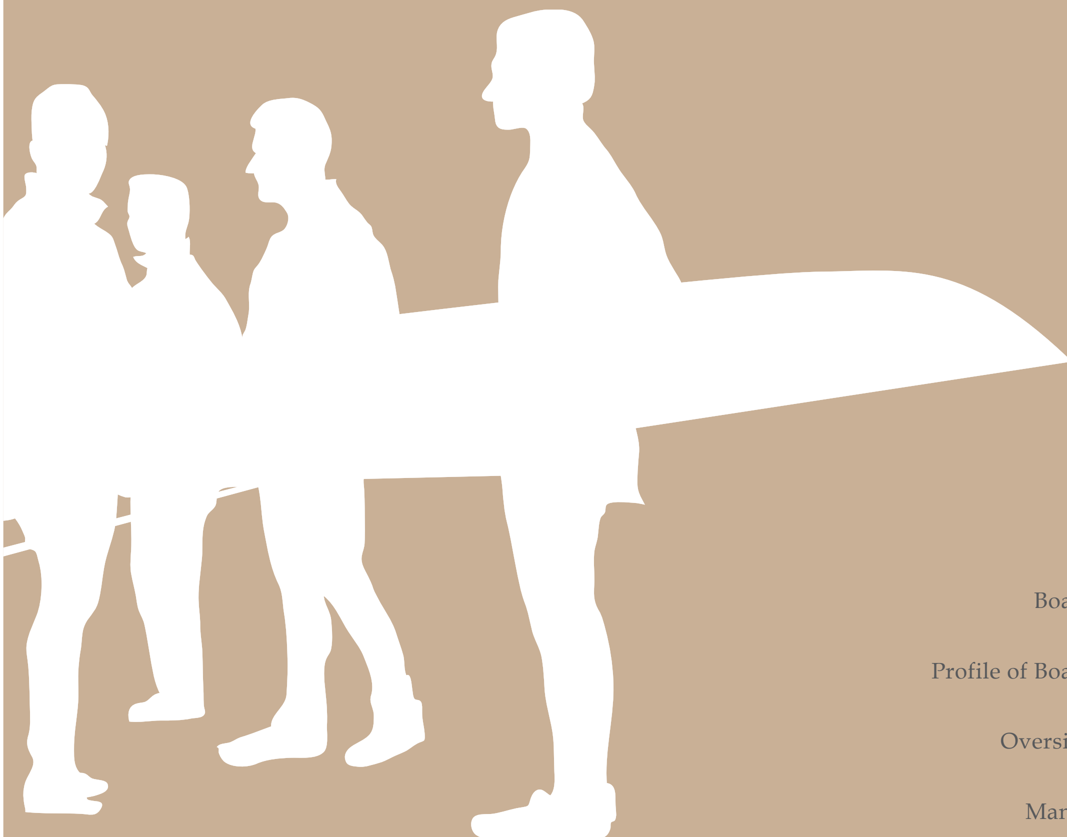
As our country's economic performance improves, I hope that our competitiveness and productivity continue to increase thus enabling opportunities to be grasped when presented.

In this regard, Danaharta will strive to seize opportunities to realise and maximise recovery value wherever and whenever possible.

Dato' Zainal A. Putih
Chairman

" Danaharta will strive to seize opportunities to realise and maximise recovery value wherever and whenever possible. "

Board of Directors & Management Team



sitting from left to right

Datin Husniarti Tamin | **Mr. Alister Maitland** | **Dato' Zainal A. Putih** | **Dato' Zukri Samat** | **Dato' Abdul Hamidy Hafiz**

standing from left to right

Puan Shamsiah A. Rahman (Joint Company Secretary) | **Mr. Andrew Phang** (Joint Company Secretary) | **Mr. David Moir** | **Dato' Abd Wahab Maskan** | **Dato' N. Sadasivan** | **Dato' Mohd Salleh Hj Harun**

Dato' Zainal A. Putih
Chairman (non-executive)

Dato' Zainal was appointed by the Minister of Finance as the Chairman of Danaharta on 1 August 2003. He replaced Dato' Azman Yahya whose tenure ended on 31 July 2003.

He is a Fellow of the Chartered Accountant of the England and Wales Institute (ICAEW), a Chartered Accountant of the Malaysian Institute of Accountants (MIA) and a Certified Public Accountant of the Malaysian Institute of Certified Public Accountants (MICPA).

A well known and respected professional accountant, Dato' Zainal has spent most of his career in public practice. He has accumulated vast and extensive experience in accounting and audit, servicing clients in the banking, insurance, energy, transportation, manufacturing, plantation and property sectors as well as several government agencies. Now retired, Dato' Zainal previously headed a leading Malaysian accounting firm with international affiliations.

He is the Chairman of the Malaysian Accounting Standards Board and an Advisor of Ernst & Young Malaysia. He currently sits on the board of several public listed companies, namely, Tenaga Nasional Malaysia Berhad, Esso Malaysia Berhad and CIMB Berhad. Dato' Zainal is also a member of the Investment Panel of the Employee Provident Fund (EPF) and is a Trustee of the National Heart Institute Foundation.

Dato' Zukri Samat
Managing Director

Dato' Zukri was appointed by the Minister of Finance as the Managing Director of Danaharta on 1 July 2003. He joined Danaharta in October 1998 as General Manager, Operations Division and was later promoted to Director of Operations on 1 August 2001 assuming direct line responsibility for all loan recovery activities of Danaharta.

Dato' Zukri has extensive experience in the banking sector having served in both local as well as international financial institutions in various capacities. Prior to joining Danaharta, he served in Credit Agricole Indosuez Labuan as the General Manager. He also worked in CIMB Berhad for a significant period of time; his last position being Deputy General Manager of the Capital Markets Department where he was responsible for transactions involving private debt securities, project finance, corporatisation and privatisation of state-owned companies.

Dato' Zukri holds an MBA from the University of Hull, United Kingdom.

Dato' Abdul Hamidy Hafiz
Director (non-executive)

Dato' Hamidy is the President/Chief Executive Officer of Affin Bank Berhad.

Prior to joining Affin Bank Berhad, Dato' Hamidy was the Managing Director of Danaharta. He was appointed as a non-executive member of the Danaharta Board on 1 July 2003.

In addition to his experience in Danaharta, Dato' Hamidy has vast exposure in the areas of corporate banking and banking operations with both local and international financial institutions.

He is currently a member of the Malaysia Securities Exchange Berhad Listing Committee and formerly a member of the Corporate Debt Restructuring Committee. He also sits on the board of several listed and private companies including Affin Bank Berhad, Crest Petroleum Berhad, Syarikat Prasarana Negara Berhad, Malaysia Debt Ventures Berhad and TL Offshore Sdn. Bhd.

Dato' Hamidy holds an MBA from Ohio University, USA and is also a Fellow of the Institute of Bankers Malaysia.

Datin Husniarti Tamin
Director (non-executive)

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 (non-executive)

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

Dato' Salleh is the Chairman of Credit Guarantee Corporation Malaysia Berhad.

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

Dato' Abd Wahab Maskan
Director (non-executive)

Dato' Abd Wahab was appointed to the Board on 21 November 2003 to replace Dato' Mohamed Md. Said who completed his tenure as a Director of Danaharta on 18 November 2003.

Dato' Abd Wahab is the Group Chief Executive Officer of Kumpulan Guthrie Berhad. In the past, Dato' Abd Wahab had held positions as Director of Development in Urban Development Authority (UDA), General Manager of Island & Peninsular Berhad, Managing Director of Negara Properties (M) Berhad (NPMB), Group Director and Chief Executive Officer of Golden Hope Plantations Berhad (GHPB). His working experience includes property development and investment, engineering and construction, assets and plantation management, trading and marketing and manufacturing companies, both in the public and private sectors.

Dato' Abd Wahab holds a Bachelor of Science Degree in Management (Real Estate) from the University of Reading, England. He is a Fellow of the Institution of Surveyors and a fellow of the Royal Institution of Chartered Surveyors (England and UK) and the Vice-President of the Business Council for Sustainable Development.

He is also a director of a number of local companies, including public listed companies such as GHPB, NPMB, Mentakab Rubber Company (Malaya) Berhad and Pelaburan Hartanah Nasional Bhd. Dato' Abd Wahab also sits on the boards of overseas companies such as Unimills BV (Netherlands), PT Budidaya Agro Lestari (Indonesia) and PT Sadika Natapalma (Indonesia).

Dato' N. Sadasivan
Director (non-executive)

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.

Mr. Alister Maitland
Director (non-executive)

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 (non-executive)

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 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.

Encik Othman Abdullah

Encik Othman Abdullah is the Accountant-General of Malaysia. He sits on the board of several governmental agencies including Lembaga Hasil Dalam Negeri (Inland Revenue Board), Kumpulan Wang Simpanan Guru and Lembaga Piawaian Perakaunan Malaysia (Malaysian Accounting Standards Board). In the private sector, Encik Othman is a board member of Bank Muamalat Berhad, Rashid Hussain Berhad and TimedotCom Berhad.

Prior to his present appointment, Encik Othman had served as Deputy Accountant-General (Operations), Director of Operation Services Centre and Agency Division, Director of Branch Account Management Division and Deputy General Manager (Finance) of Sabah Electricity Board.

He has a Bachelor's Degree in Economics and Diploma in Accounting from Universiti Malaya and is a member of the Malaysian Institute of Accountants (MIA).

Dato' Mohd Razif Abdul Kadir

Dato' Mohd Razif is the Assistant Governor of Bank Negara Malaysia (Central Bank of Malaysia) with responsibility covering regulation and development of banking and insurance, Islamic banking and takaful and development of Bank Negara Malaysia. He also oversees the internal risk management of Bank Negara Malaysia.

He is the Chairman of the Technical Committee of the Islamic Financial Services Board (IFSB) and its Working Group for Capital Adequacy Standards.

He also sits on the Employees Provident Fund (EPF) Investment Panel, the National Trust Fund Panel and the Board of Cagamas Berhad (National Mortgage Corporation). He was the Director General of the Labuan Offshore Financial Services Authority (LOFSA) from 1999 to 2001.

Dato' Mohd Razif holds a Bachelor of Economics (Honours) Degree from the University of Malaya and a Masters in Business Administration (majoring in Finance) from Syracuse University, New York.

Datuk Ali Tan Sri Abdul Kadir

Datuk Ali is the Chairman of the Securities Commission (SC), a position he assumed on 1 March 1999 (until 29 February 2004). He is the 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). Datuk Ali also chairs the International Communication for the Capital Market (ICCM) Committee. He also sits on the Finance Committee on Corporate Governance and is a member of LOFSA.

On the international front, Datuk Ali is Chairman of the Asia-Pacific Regional Committee of the International Organisation of Securities Commissions (IOSCO), a member of the IOSCO Executive Committee, and Chairman of its Islamic Task Force.

Before assuming his present position, Datuk Ali was the Executive Chairman and Partner of Ernst & Young in Malaysia. 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 Institute of Certified Public Accountants (MICPA), before his appointment as Chairman of the SC.

Note: Datin Zarinah Anwar, the Deputy Chief Executive of SC, replaced Datuk Ali in the Oversight Committee with effect from 1 March 2004.

Dato' Zukri Samat
Managing Director

1 **Encik Kris Azman Abdullah**
General Manager, Loan Restructuring

2 **Dato' Johan Ariffin**
Senior General Manager, Property

3 **Puan Fatimah Abu Bakar**
General Manager, Internal Audit and Compliance

4 **Mr. Richard Kong**
General Manager, Loan Management

5 **Mr. Ee Kok Sin**
General Manager, Finance and Services

6 **Encik Shariffuddin Khalid**
General Manager, Communications and Human Resource

7 **Mr. Andrew Phang**
General Manager, Legal Affairs & Risk and Joint Company Secretary

Corporate Governance

COMPLIANCE WITH THE CODE

The Board of Directors (Board) and Management are fully committed to ensure that international best practice standards of corporate governance and the principles of the Malaysian Code on Corporate Governance (Code) (issued in March 2000) are embedded and practised throughout the group. Throughout 2003 and to date, Danaharta continued to conduct its business with integrity and exercise a high level of transparency and objectivity.

The Board and Management illustrate their commitment to good corporate governance by ensuring employees adhere closely to Danaharta's Standards Business Conduct (SBC), which aims at instilling the three values: honesty, transparency and fairness in the company and employees. The SBC sets high ethical business standards and practices for business conduct and the code of behavior for employees to adhere to. It 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 implementing these policies and guidelines rests primarily with Management, whilst the Audit Committee (AC) provides the oversight.

The following sets out how Danaharta has applied the principles in the Code, the extent of compliance with the recommended Best Practices.

BOARD OF DIRECTORS

In 2003, Danaharta's Board went through some changes in its membership. These changes however, have not affected the Board's performance. 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. Directors' profiles appear on pages 17 to 19, reflect clearly the depth and diversity in expertise and perspective they have, to lead Danaharta and allow for an independent and objective analysis of major issues.

Board's Responsibilities

The Board's responsibilities remain unchanged. The Board has diligently carried out its responsibilities for the policies and general affairs of Danaharta whilst retaining full and effective control of the company. These include 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 30 of this annual report provides an outline of its role and functions.

The following Board Committees, which were set up since Danaharta started operations in 1998, have also fulfilled their specific responsibilities as set out in their terms of reference (refer to page 30).

- The 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 2003, the Board, the EXCO and RC held five, seven and three meetings respectively. There was full attendance at all meeting except for one normal and one special Board meetings. The high attendance at these meetings reflects the Directors' high level of commitment given to Danaharta.

Last but not least, the independent Oversight Committee (OC), which was established in November 1998 under Section 22 of the Pengurusan Danaharta Nasional Berhad Act, 1998, has also functioned well as per its terms of reference. The composition of three members comprises a representative 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 Administration, and the termination of the services of Special Administrators.

Board Composition & Balance

The composition of Managing Director and 8 non-executive directors remains the same throughout 2003. However, the number of independent non-executive Directors has dropped by one since August 2003. Currently, there are five independent non-executive Directors and three non-independent non-executive Directors. To ensure a balance of power and authority, Board meetings continue to be presided by a non-executive independent Chairman whose role is clearly separated from the role of the Managing Director (who does not have any voting right).

Appointments & Re-election to the Board

In 2003, the Minister of Finance (MOF) appointed:- a new non-executive independent Chairman, the Director of Operations as the new Managing Director, the previous Managing Director as a non-executive non-independent Director and lastly one new non-executive independent Director as per Section 5 of the Pengurusan Danaharta Nasional Berhad Act 1998 (Danaharta Act).

In the same period, MOF also approved the renewal of tenure for four non-executive independent directors for a term up to 31 December 2005 or such earlier date on which Danaharta ceases business operations and, the retirement of two independent non-executive directors.

Directors' Training

Danaharta provided a standard briefing on its operations to all newly appointed non-executive Directors to facilitate their understanding of Danaharta's business. All Directors (with the exception of three) have gone through the Mandatory Accreditation Programme conducted by the Research Institute of Investment Analysts Malaysia, an affiliate of the Malaysia Securities Exchange Berhad (MSEB).

Supply of Information to the Board

Before each Board meeting, Directors are provided with a complete set of board papers for the agenda items submitted for Board's review/approval and/or notation.

The Board monitors Danaharta's performance by reviewing the monthly Management Report, which provides a comprehensive review and analysis of the 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 make up of Managing Director's remuneration remains unchanged consisting of salary, allowances, bonus and other customary benefits 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 are the same as originally recommended by the Board/Remuneration Committee and approved by the Minister of Finance, Incorporated (as sole shareholder).

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

The Government of Malaysia owns Danaharta through the Minister of Finance, Incorporated. Dialogue with the shareholder is through regular meetings with the Minister of Finance, and attendance at the Post-Cabinet meetings and the Bank Negara Malaysia's Bank Steering Committee meetings by the Managing Director. Managing Director briefs the Heads of Division (HODs) on any pertinent issues discussed during his two-weekly meetings with them.

Annual General Meeting (AGM)

AGMs are normally held by way of shareholders circular resolution. The Annual Report and financial statements for the year ending December 2002 was tabled at the 5th AGM by way of shareholders circular resolution on 24 April 2003. Likewise the Annual Report and financial statements for the year ending December 2003 will be tabled at the 6th AGM by way of shareholders circular resolution before end May 2004.

ACCOUNTABILITY AND AUDIT

Financial Reporting

Danaharta continues to subscribe to the philosophy of providing transparent, fair, reliable and easily understandable reporting to stakeholders. The Board reflects its commitment by giving updated assessments on Danaharta's performance through the six-monthly Operations Report, quarterly announcements, ad hoc press conferences, regular press announcements and press conferences, briefings to analysts and fund managers, media and real estate agents throughout 2003.

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.

Statement of Directors' Responsibility for Preparing the Financial Statements

The Board is confident that the financial statements for the financial year ending 2003 give a true and fair view of the state of affairs, the results and cash flow of the Company and the Group for the financial year. There is reasonable assurance that Danaharta has maintained proper accounting records, used and consistently applied appropriate accounting policies supported by reasonable and prudent judgements and estimates, and prepared the financial statements to comply with the Companies Act 1965, approved accounting standards in Malaysia and other regulatory provisions.

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

Internal Control

Danaharta has a well-established and fully operational risk management and internal control system. At the heart of it is the Control Self-Assessment (CSA) process, which has been in place since 2001. The Statement on Internal Control, which is set out on pages 34 and 35 of the annual report provides an overview on the implementation of the risk management process/framework as well as how the internal control system has been designed and worked to manage, rather than eliminate, the risk of failing to achieve 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 the implementation of a sound internal control system and regular assessment of its effectiveness.

The AC has the responsibility to provide oversight on reviewing the adequacy and integrity of the internal control system. Reliance is placed on the results of independent appraisals performed primarily by internal auditors, the outcome of statutory audits on financial statements conducted by external auditors and on representations by Management based on their (and staff) control self-assessments for their areas of responsibility.

Minutes of AC meetings, which provide a summary of the proceedings, are circulated to Board members for notation and discussion (if any). 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 which reports functionally to the AC and administratively to the Managing Director. The division is responsible for conducting independent appraisals in accordance with the approved 2003 Internal Audit Plans. Details of Internal Audit Division's operations are disclosed in this annual report on page 102.

Relationship with Auditors

A professional and arms length relationship continues to exist between the Board/AC and the external auditors. The AC is authorised 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 29.

Throughout 2003 and to date, Danaharta's Audit Committee has satisfactorily performed its oversight role in reviewing the adequacy and integrity of the governance, risk management and control processes. The results of the Board's recent quality assurance review confirmed that the Audit Committee and members have carried out their duties in accordance with their terms of reference as set out on pages 33.

MEMBERSHIP AND MEETINGS

The Audit Committee's membership comprising independent, non-executive directors went through some changes in 2003 as reflected below:-

Y.Bhg. Dato' Ho Ung Hun (Chairman from 1.1.2003 to 31.8.2003)
Y.Bhg. Dato' Mohd Salleh Hj Harun (Chairman from 28.10.2003)
Y.Bhg. Dato' Mohamed Md Said (28.10.2003 to 18.11.2003)
Mr Alister T.L. Maitland

In the financial year ending 31 December 2003, the Audit Committee held four meetings, on 24 January, 25 March, 30 June and 28 October 2003. There was full attendance for all meetings except for the meeting held in March where one member was absent with apologies.

These meetings were also attended by the Managing Director, the General Manager of Finance & Services, the General Manager of Legal Affairs & Risk and the General Manager of Internal Audit and Compliance (IAC), who acted as Secretary to the Audit Committee.

The Group's external auditors attended two meetings, held on 25 March and 28 October 2003.

SUMMARY OF ACTIVITIES

At the meeting held on 25 March 2003, the External Auditors presented the results of their audit on the draft accounts and audited financial statements for the year ended 31 December 2002, and had a session with the Audit Committee without the presence of the executive member of the Board. The Audit Committee reviewed the external auditors' report and the audited financial statements for the year ended 31 December 2002. Recommendation of the latter for Board's approval was made after the Audit Committee was satisfied that the audited financial statements reflected a true and fair view of Danaharta operations.

Both the internal audit plans and the external auditors' statutory audit plans were submitted for review and approval by the Audit Committee at the meeting held on 28 October 2003.

Some of the main issues discussed at the above two meetings with external auditors were:

- New accounting standards applicable to the consolidated financial statements for the year ended 31 December 2003;
- 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.

At all the above quarterly meetings, the Audit Committee was updated on the business environment, Danaharta's performance and 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, the Audit Committee reviewed the Internal Audit activity's performance.

INTERNAL AUDIT ACTIVITY

Throughout 2003, a well-established IAC activity assisted the Audit Committee in monitoring and reviewing the adequacy and integrity of Danaharta's risk control system and governance process. The Internal Audit activity reports to the Chairman, Audit Committee functionally and administratively to the Managing Director. A report on the IAC activities is set out on page 102.

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 five 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

MEMBERSHIP

The Executive Committee (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 2 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 seven 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 Remuneration Committee (RC) from among the non-executive Directors of Danaharta, being the Chairman and one member each representing the local private sector and the international community.

When the number falls below 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, assessment 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 Remuneration Committee 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 Audit Committee (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.

INTRODUCTION

Danaharta has set its standard to maintain a sound internal control system to safeguard its shareholder's investment and the company's assets. Danaharta's Board of Directors (Board) acknowledges this responsibility, which forms an integral part of its role of overseeing Danaharta's loan recovery and asset disposal operations throughout 2003 by providing general guidance on direction and policies.

To this end, the Board has made the necessary appointments to ensure that Danaharta’s operations conform to its published missions i.e. to remove non-performing loan distraction and to maximise recovery value. As guardian of Danaharta’s loan and property assets, the Board has delegated its oversight role to the Audit Committee, who has continued to exercise 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 internal control system and regular assessment of its effectiveness.

RISK MANAGEMENT

Management has established an adequate framework for managing risk in accordance with the company’s risk management policy and also effected a fit-for-purpose system of internal control designed to manage, rather than eliminate, the risk of failing to achieve Danaharta’s objectives, which remain unchanged. These objectives are “maximising recovery value to fully redeem the Danaharta bonds”, and “minimising shareholder’s contingent liability at cessation by end 2005”.

Danaharta’s Risk Management Policy and the risk management framework/process has been operating satisfactorily throughout 2003 and up to the date of the approval of the 2003 Annual Report and Financial Statements.

The framework incorporates a process for assessment of risks and implementation of suitable control systems to mitigate and manage the identified risks. At the strategic level, risk assessment and evaluation form an integral part of the annual strategic business planning cycle. Each division is required to identify and document for its processes and risks to achieving its strategic objectives and the mitigating measures for each significant risk. At the operational level, the process calls for an independent review of the loan management, asset management and the investment proposal papers. This ongoing exercise presents Danaharta with the opportunity to continuously review its management of business risks and improve its control processes, where needed.

In September 2003, the Management of Danaharta established a working committee to address business closure issues. The committee, spearheaded by the Legal Affairs and Risk Division, seeks to mitigate risk concerns associated with the eventual closure of Danaharta’s operations. All other principal areas of risks are subject to quarterly reporting and review by the Audit Committee/Board and Management throughout 2003.

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, which is subjected to continuous review.

Policies and procedures based on assessment of risks for almost all the business and support activities have been developed and implemented and are subjected to ongoing review and revision 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;

- Division’s objectives, which are set to be in line with Danaharta’s objectives. Individual also set individual objectives, which are aligned, to the divisional objectives. Work activities are supervised and the performance are monitored and evaluated i.e. actual results against the agreed targets and objectives;

- 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 failing to achieve Danaharta’s objectives can only provide reasonable and not absolute assurance against material misstatement and loss.

ASSURANCE

Through the Audit Committee, the Board has satisfactorily performed its oversight role in ensuring a sound internal control system and regular review on its adequacy and integrity is conducted. Assurance on the effectiveness of risk management, control and governance process is obtained from Management and Auditors (internal and external).

Management provides assurance through a well-established Control-Self Assessment process. The process requires each division to document the risk control worksheets, which summarise the risks, the controls and mechanisms for managing the risks, and the means for assuring the processes are effective. Annually, each division prepares and submits to the Managing Director (MD), a statement on the effectiveness of the risk management and internal controls for his/her areas of responsibility. Based on the divisions’ representations on the effectiveness of their risk management and internal control systems the MD submits his statement on the state of Danaharta’s overall internal control system to the Board. In making his representation, the MD also relies the results of independent audits performed by internal auditors in 2003.

Internal auditors and external auditors conduct independent appraisals on Danaharta’s business operations and support activities and financial records and statements respectively to provide an opinion on the adequacy and integrity of Danaharta's overall internal control framework.

Finally, with the above assurances and external auditors’ comments as per their audit report on the financial statements for financial year ending December 2003, the Board concluded that there is assurance that the company will achieve its objectives of full redemption of Danaharta bonds at maturity, minimisation of shareholder’s contingent liability and closure of business operations by 31 December 2005.

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 2003.

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 14 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*
Net loss for the year	250,776	160,870

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 period since the date of the last report are:

Datin Husniarti Tamin	
Dato' Mohd Salleh Hj Harun	
Dato' Abdul Hamidy Abdul Hafiz	
Dato' N. Sadasivan	
Alister T.L. Maitland	
David Moir	
Dato' Zukri Samat	(appointed on 1.7.2003)
Dato' Zainal Abidin Putih	(appointed on 1.8.2003)
Dato' Abd Wahab Maskan	(appointed on 21.11.2003)
Dato' Mohamed Azman Yahya	(resigned on 1.8.2003)
Dato' Ho Ung Hun	(resigned on 1.7.2003)
Dato' Mohamed Md Said	(resigned on 18.11.2003)

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 2003, 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.

SIGNIFICANT POST BALANCE SHEET EVENT

On 31 March 2004, the Company has successfully redeemed its Third, Fourth and Fifth Issues of the redeemable guaranteed zero-coupon bearer bonds upon maturity on 31 March 2004 with a total nominal value of RM3,740,200,000.

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 2 April 2004.

DATO' ZAINAL ABIDIN PUTIH
Chairman

DATO' ZUKRI SAMAT
Managing Director

Kuala Lumpur

	Note	Group		Company	
		31.12.2003 RM'000	31.12.2002 RM'000	31.12.2003 RM'000	31.12.2002 RM'000
Revenue	4	**812,400**	944,462	**471,392**	537,441
Cost of Sales		**(162,748)**	(166,562)	**0**	0
Gross profit		**649,652**	777,900	**471,392**	537,441
Dividend Income		**0**	0	**250,000**	310,000
Other Income	3(d)	**20,115**	12,971	**16,089**	5,253
Overhead expenses	5	**(68,266)**	(72,045)	**(42,050)**	(43,527)
Allowance for diminution in acquired assets	6	**(411,477)**	(304,362)	**(412,446)**	(311,648)
Reversal/(allowance) for diminution in investment in an associated company		**6,470**	(6,470)	**0**	0
Loss on disposal of investment in an associated company		**(6,065)**	0	**0**	0
Profit from operations	7	**190,429**	407,994	**282,985**	497,519
Finance cost	8	**(443,876)**	(548,941)	**(443,855)**	(548,937)
Share of losses from associated companies		**0**	(191)	**0**	0
Loss before taxation		**(253,447)**	(141,138)	**(160,870)**	(51,418)
Taxation	9	**2,671**	232	**0**	0
Loss after taxation		**(250,776)**	(140,906)	**(160,870)**	(51,418)
Minority interest		**0**	(292)	**0**	0
Net loss for the year		**(250,776)**	(141,198)	**(160,870)**	(51,418)

The notes on pages 46 to 77 form an integral part of these financial statements.

	Note	Group		Company	
		31.12.2003 RM'000	31.12.2002 RM'000	31.12.2003 RM'000	31.12.2002 RM'000
NON-CURRENT ASSETS					
Acquired assets	10	**4,590,187**	6,611,572	**4,383,940**	6,378,291
Investment properties	11	**125,754**	69,620	**0**	0
Land held for development	12	**75,025**	0	**0**	0
Property, plant and equipment	13	**6,050**	7,749	**1,051**	3,092
Investment in subsidiary companies	14	**0**	0	**3,250**	3,250
Investment in associated companies	15	**56**	56	**0**	0
		4,797,072	6,688,997	**4,388,241**	6,384,633
CURRENT ASSETS					
Inventories	16	**2,498**	39,995	**0**	0
Property development expenditure	17	**55,384**	129,150	**0**	0
Trade and other receivables	18	**72,193**	97,107	**528,012**	600,053
Investment in associated companies	15	**0**	57,825	**0**	0
Investment in marketable securities	19	**65,323**	586,908	**65,237**	586,864
Other investment	20	**0**	396,590	**0**	396,590
Dividend receivables		**0**	0	**250,000**	0
Cash and cash equivalents	21	**3,243,740**	2,778,080	**2,798,651**	2,578,154
		3,439,138	4,085,655	**3,641,900**	4,161,661
LESS: CURRENT LIABILITIES					
Provisions	22	**56,124**	18,302	**16,384**	14,015
Trade and other payables	23	**792,797**	548,888	**737,137**	525,968
Taxation		**131**	131	**0**	0
		849,052	567,321	**753,521**	539,983
NET CURRENT ASSETS		**2,590,086**	3,518,334	**2,888,379**	3,621,678
LESS: NON-CURRENT LIABILITIES					
Deferred Taxation	24	**5,004**	5,004	**0**	0
Redeemable guaranteed zero-coupon bearer bonds	25	**5,686,940**	7,856,421	**5,686,940**	7,856,421
Long term loan	26	**0**	399,340	**0**	399,340
Joint venture	27	**172**	748	**0**	0
		5,692,116	8,261,513	**5,686,940**	8,255,761
		1,695,042	1,945,818	**1,589,680**	1,750,550
CAPITAL AND RESERVES					
Share capital	28	**3,000,000**	3,000,000	**3,000,000**	3,000,000
Reserves		**(1,304,958)**	(1,054,182)	**(1,410,320)**	(1,249,450)
Shareholders' equity		**1,695,042**	1,945,818	**1,589,680**	1,750,550

The notes on pages 46 to 77 form an integral part of these financial statements.

	Share capital RM'000	Accumulated losses RM'000	Total RM'000
Balance as at 1.1.2003	3,000,000	(1,054,182)	1,945,818
Net loss for the year		(250,776)	(250,776)
Balance as at 31.12.2003	**3,000,000**	**(1,304,958)**	**1,695,042**
Balance as at 1.1.2002	3,000,000	(912,984)	2,087,016
Net loss for the year		(141,198)	(141,198)
Balance as at 31.12.2002	3,000,000	(1,054,182)	1,945,818

The notes on pages 46 to 77 form an integral part of these financial statements.

	Share capital RM'000	*Accumulated losses RM'000*	*Total RM'000*
Balance as at 1.1.2003	3,000,000	(1,249,450)	1,750,550
Net loss for the year		(160,870)	(160,870)
Balance as at 31.12.2003	**3,000,000**	**(1,410,320)**	**1,589,680**
Balance as at 1.1.2002	3,000,000	(1,198,032)	1,801,968
Net loss for the year		(51,418)	(51,418)
Balance as at 31.12.2002	3,000,000	(1,249,450)	1,750,550

The notes on pages 46 to 77 form an integral part of these financial statements.

	Note	31.12.2003 RM'000	31.12.2002 RM'000
CASH FLOW FROM OPERATING ACTIVITIES			
Loss after taxation		**(250,776)**	(141,198)
Adjustments for:			
Depreciation of property, plant and equipment		**2,629**	3,946
Interest expense		**443,756**	548,817
Interest income less amortisation of premium		**(140,521)**	(198,332)
Gain on disposal of property, plant and equipment		**(1,003)**	(425)
Gain on disposal of marketable securities		**(10,753)**	(57)
Share of losses from associated companies		**0**	191
(Reversal)/allowance for diminution in associated company		**(6,470)**	6,470
Loss on disposal of investment in an associated company		**6,065**	0
Allowance for diminution in acquired assets		**411,477**	304,362
Allowance/(write back) for doubtful debts		**281**	1,751
Write-down of inventories		**0**	4,800
Bad debts written off		**0**	57
		454,685	530,382
Movements in operating assets and liabilities:			
Acquired assets		**1,609,908**	427,463
Other assets		**(5,371)**	51,852
Other liabilities		**281,731**	226,507
Net cash flow from operating activities		**2,340,953**	1,236,204
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(713)**	(1,028)
Purchase of unquoted investment		**(42)**	0
Purchase of redeemable guaranteed zero-coupon bearer bonds		**(942,017)**	(1,207,264)
Cancellation of redeemable guaranteed zero-coupon bearer bonds		**940,600**	0
Proceeds from disposal of associated company		**58,230**	0
Proceeds from sale of marketable securities		**546,841**	218,009
Proceeds from sale of other investment		**400,648**	1,133,984
Proceeds from sale of property, plant & equipment		**1,212**	1,346
Interest received		**131,221**	74,372
Net cash flow from investing activities		**1,135,980**	219,419
CASH FLOW FROM FINANCING ACTIVITIES			
Interest paid		**(109,759)**	(47,401)
Payment of borrowings		**(300,000)**	(500,000)
Redemption of redeemable guaranteed zero-coupon bearer bonds			
- discounted value		**(1,851,049)**	0
- amortised amount		**(750,351)**	0
Advances to joint venture company		**(114)**	(157)
Net cash flow from financing activities		**(3,011,273)**	(547,558)
Net increase in cash and cash equivalents		**465,660**	908,065
Cash and cash equivalents at beginning of year		**2,778,080**	1,870,015
Cash and cash equivalents at end of year	21	**3,243,740**	2,778,080

The notes on pages 46 to 77 form an integral part of these financial statements.

	Note	31.12.2003 RM'000	31.12.2002 RM'000
CASH FLOW FROM OPERATING ACTIVITIES			
Loss after taxation		**(160,870)**	(51,418)
Adjustments for:			
Depreciation of property, plant and equipment		**1,950**	2,849
Interest expense		**443,735**	548,813
Interest income less amortisation of premium		**(127,384)**	(148,650)
Dividend income		**(250,000)**	(310,000)
Gain on disposal of property, plant and equipment		**(729)**	(346)
Gain on disposal of marketable securities		**(10,753)**	(57)
Allowance for diminution in acquired assets		**412,446**	311,648
Operating profit before working capital changes		**308,395**	352,839
Movements in operating assets and liabilities:			
Acquired loans		**1,581,905**	539,539
Other assets		**51,052**	(86,950)
Other liabilities		**213,538**	258,262
Net cash flow from operating activities		**2,154,890**	1,063,690
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(43)**	(335)
Purchase of redeemable guaranteed zero-coupon bearer bonds		**(942,017)**	(1,207,264)
Cancellation of redeemable guaranteed zero-coupon bearer bonds		**940,600**	0
Proceeds from sale of marketable securities		**546,841**	218,009
Proceeds from sale of other investment		**400,648**	1,133,984
Proceeds from sale of property, plant and equipment		**863**	482
Interest received		**129,854**	73,892
Dividend received		**0**	310,000
Net cash flow from investing activities		**1,076,746**	528,768
CASH FLOW FROM FINANCING ACTIVITIES			
Interest paid		**(109,739)**	(47,397)
Payment of borrowings		**(300,000)**	(500,000)
Redemption of redeemable guaranteed zero-coupon bearer bonds			
- discounted value		**(1,851,049)**	0
- amortised amount		**(750,351)**	0
Net cash flow from financing activities		**(3,011,139)**	(547,397)
Net increase in cash and cash equivalents		**220,497**	1,045,061
Cash and cash equivalents at beginning of year		**2,578,154**	1,533,093
Cash and cash equivalents at end of year	21	**2,798,651**	2,578,154

The notes on pages 46 to 77 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 14 to the accounts.

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

The number of employees at the end of the financial year amounted to 389 (2002: 424) employees in the Group and 202 (2002: 216) 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 2003 except for those subsidiary companies as disclosed in Note 14(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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(iv) Income from property development
Income from property development is recognised using the percentage of completion method. Where foreseeable losses are anticipated, full allowances 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.

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

(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

<u>Secured acquired loans</u>
Specific allowances are made for the shortfall in value between the net realisable value of the collateral and the carrying value of the acquired loan.

<u>Unsecured acquired loans</u>
Specific allowances are made against the carrying value of unsecured acquired loan 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 subsidiary companies, 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.

(h) Investment properties

Investment properties principally comprising leasehold land and building, are held for long term rental yields or to be developed to attain long term 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 and the amount in revaluation reserve to that investment property is realised and transferred to retained earnings.

(i) *Land held for development*

Land held for future development is stated at cost. When development work commences on such land, the land is transferred to properties under development at its carrying value.

(j) *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 1/3%
Computer equipment and software	33 1/3%
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.

(k) *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.

(l) *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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) *Investment in associated companies (continued)*

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.

(m) *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.

(n) *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.

(o) *Trade receivables*

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

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

(q) *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.

(r) *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.

(s) *Deferred taxation*

Deferred taxation is recognised in full, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purposes and their carrying amounts in the financial statements.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences or unused tax losses can be utilised.

(t) *Redeemable guaranteed zero-coupon bearer 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 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 fixed rate, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) 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.

(v) Capitalisation of borrowing costs

Borrowing costs incurred on capital work-in-progress and properties under development 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 or property under development, 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.

(w) 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	*31.12.2003*	*31.12.2002*
1 USD	**3.800**	3.800
1 SGD	**2.228**	2.192
100 JPY	**3.538**	3.209

(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 14(a), 14(b), 14(c) and 14(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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Financial instruments (continued)

(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 19.

(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 20.

(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 bearer bonds at the balance sheet date is determined based on the market yield of Malaysian Government Securities with the same tenure as disclosed in Note 25.

(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 26.

4. REVENUE

	Group		*Company*	
	31.12.2003	*31.12.2002*	*31.12.2003*	*31.12.2002*
	RM'000	*RM'000*	*RM'000*	*RM'000*
Interest income on deposits and placements	**110,956**	115,290	**97,819**	64,034
Interest income on marketable securities	**25,508**	37,985	**25,508**	37,985
Interest income from other investment	**4,057**	46,631	**4,057**	46,631
	140,521	199,906	**127,384**	148,650
Interest income from acquired loans	**311,728**	372,333	**311,728**	372,333
Income from recoveries on acquired loans	**32,280**	16,458	**32,280**	16,458
Revenue from acquired properties	**90,931**	112,007	**0**	0
Revenue from property development	**107,141**	86,380	**0**	0
Management fee income	**129,799**	157,378	**0**	0
	812,400	944,462	**471,392**	537,441

5. OVERHEAD EXPENSES

	Group		*Company*	
	31.12.2003	*31.12.2002*	*31.12.2003*	*31.12.2002*
	RM'000	*RM'000*	*RM'000*	*RM'000*
Personnel costs	**37,973**	36,205	**31,842**	29,822
Establishment costs	**3,959**	5,974	**3,424**	5,168
Administration and general expenses	**26,334**	29,866	**6,784**	8,537
	68,266	72,045	**42,050**	43,527

6. ALLOWANCES FOR DIMINUTION IN ACQUIRED ASSETS

	Group		*Company*	
	31.12.2003	*31.12.2002*	*31.12.2003*	*31.12.2002*
	RM'000	*RM'000*	*RM'000*	*RM'000*
As at 1 January	**560,566**	256,204	**515,550**	203,902
Charged to income statement	**411,477**	304,362	**412,446**	311,648
As at 31 December	**972,043**	560,566	**927,996**	515,550

During the year, certain foreclosed properties, which had undergone the Tender Process, were sold at less than their respective acquisition costs. 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 financial year, additional allowances have been made for unsecured loans and loans with budgeted zero recovery.

7. PROFIT FROM OPERATIONS

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

	Group		*Company*	
	31.12.2003 RM'000	*31.12.2002 RM'000*	*31.12.2003 RM'000*	*31.12.2002 RM'000*
Auditors' remuneration				
- Statutory audit	**346**	341	**144**	144
- Other services	**34**	16	**34**	16
Directors' remuneration (Note 29)	**1,712**	1,661	**1,634**	1,630
Depreciation of property, plant and equipment	**2,629**	3,946	**1,950**	2,849
Rental of premises	**2,671**	2,945	**2,157**	2,370
Rental of carpark	**0**	943	**0**	0
Hire of equipment	**476**	503	**426**	449
Share of profit from joint ventures	**(463)**	(67)	**0**	0
Allowance for doubtful debts	**281**	1,751	**0**	0
Bad debts written off	**0**	57	**0**	0
Write-down of inventories	**0**	4,800	**0**	0
Arbitrator's award	**1,000**	0	**0**	0
Flood mitigation and beautification expenses	**1,374**	0	**0**	0
Gain on disposal of property, plant and equipment	**(1,003)**	(425)	**(729)**	(346)
Gain on disposal of marketable securities	**(10,753)**	(57)	**(10,753)**	(57)

8. FINANCE COST

	Group		*Company*	
	31.12.2003 RM'000	*31.12.2002 RM'000*	*31.12.2003 RM'000*	*31.12.2002 RM'000*
Bank charges	**120**	124	**120**	124
Long term loan interest expense	**10,399**	57,492	**10,399**	57,492
Penalty on early settlement of long term loan	**0**	7,507	**0**	7,507
Amortisation of discount on zero-coupon bonds	**433,336**	483,814	**433,336**	483,814
Interest on bank overdrafts	**21**	4	**0**	0
	443,876	548,941	**443,855**	548,937

9. TAXATION

	Group	
	31.12.2003 RM'000	31.12.2002 RM'000
Income tax		
- current year	**0**	211
- over provision in prior year	**(2,671)**	(393)
Deferred tax		
- current year reversal	**0**	(50)
	(2,671)	(232)

10. ACQUIRED ASSETS

	Group		Company	
	31.12.2003 RM'000	31.12.2002 RM'000	31.12.2003 RM'000	31.12.2002 RM'000
Acquired loans	**4,383,940**	6,378,291	**4,383,940**	6,378,291
Acquired properties	**206,247**	233,281	**0**	0
	4,590,187	6,611,572	**4,383,940**	6,378,291

Allowance for diminution of RM972 million (2002: RM561 million) as disclosed in Note 6 is made up of allowance against acquired loans of RM928 million (2002: RM516 million) and against acquired properties of RM44 million (2002: RM45 million).

10. ACQUIRED ASSETS (CONTINUED)

Acquired loans are analysed by economic sector as follows:

	Loan Rights Acquired		*Carrying Value*	
	31.12.2003	*31.12.2002*	*31.12.2003*	*31.12.2002*
	RM'000	*RM'000*	*RM'000*	*RM'000*
Agriculture, hunting, forestry and fishing	**258,059**	258,059	**131,511**	140,141
Manufacturing	**1,771,301**	1,771,301	**240,817**	269,339
Electricity, gas and water	**3,762**	3,762	**0**	0
Wholesale, retail, restaurants and hotels	**913,626**	913,626	**132,836**	280,943
Construction	**6,216,138**	6,216,138	**2,265,150**	3,495,935
Purchase of residential property	**992,553**	992,553	**329,589**	490,039
Real Estate	**1,426,297**	1,426,297	**616,865**	867,904
Transport, storage and communications	**126,565**	126,565	**137**	4,487
Financing, insurance and business services	**2,429,675**	2,429,675	**255,761**	272,619
Consumption credit	**226,178**	226,178	**5,383**	7,182
Purchase of securities	**1,436,475**	1,436,475	**348,737**	367,133
Mining	**368,061**	368,061	**14,757**	75,023
Others	**3,649,214**	3,649,214	**42,397**	107,546
	19,817,904	19,817,904	**4,383,940**	6,378,291

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	
	31.12.2003	31.12.2002
	RM'000	RM'000
At cost		
- Long term leasehold land	**58,018**	29,750
- Buildings	**67,736**	39,870
	125,754	69,620

During the financial year, additional works performed on investment property of a subsidiary company amounting to RM0.9 million (2002:RM Nil) was recovered from the tenant.

Leasehold land and buildings amounting to RM32.7 million and RM28.8 million respectively was transferred from property development expenditure and inventories respectively.

12. LAND HELD FOR DEVELOPMENT

	Group	
	31.12.2003	31.12.2002
	RM'000	RM'000
At cost	**75,025**	0

Land held for development principally consists of leasehold land for a term of 99 years, expiring between the years 2083 and 2102.

Land held for development was transferred from property development expenditure.

13. PROPERTY, PLANT AND EQUIPMENT

	Furniture and fittings RM'000	*Office equipment RM'000*	*Motor vehicle RM'000*	*Computer equipment and software RM'000*	*Leasehold land and building RM'000*	*Office renovation RM'000*	*Total RM'000*
Group							
2003							
Cost							
As at 1 January 2003	8,548	6,958	4,132	3,610	2,935	464	26,647
Additions	51	225	47	23	0	367	713
Transfer from inventories	0	0	0	0	426	0	426
Disposals	(139)	(30)	(2,792)	0	0	0	(2,961)
Write-offs	(39)	(46)	0	(20)	0	0	(105)
As at 31 December 2003	**8,421**	**7,107**	**1,387**	**3,613**	**3,361**	**831**	**24,720**
Accumulated depreciation							
As at 1 January 2003	6,137	5,390	3,715	3,359	176	121	18,898
Charge during the year	1,539	667	134	147	70	72	2,629
Disposals	(102)	(19)	(2,631)	0	0	0	(2,752)
Write-offs	(39)	(46)	0	(20)	0	0	(105)
As at 31 December 2003	**7,535**	**5,992**	**1,218**	**3,486**	**246**	**193**	**18,670**
Net book value							
As at 31 December 2003	**886**	**1,115**	**169**	**127**	**3,115**	**638**	**6,050**

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Furniture and fittings RM'000	*Office equipment RM'000*	*Motor vehicle RM'000*	*Computer equipment and 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	8,475	6,642	5,659	3,368	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	**8,548**	**6,958**	**4,132**	**3,610**	**2,935**	**0**	**464**	**26,647**
Accumulated depreciation								
As at 1 January 2002	4,585	4,725	4,274	2,966	118	295	44	17,007
Charge during the year	1,552	703	873	393	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	**6,137**	**5,390**	**3,715**	**3,359**	**176**	**0**	**121**	**18,898**
Net book value								
As at 31 December 2002	2,411	1,568	417	251	2,759	0	343	7,749

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Furniture and fittings RM'000	*Office equipment RM'000*	*Motor vehicles RM'000*	*Computer equipment and software RM'000*	*Total RM'000*
Company					
2003					
Cost					
As at 1 January 2003	7,141	1,914	2,582	3,276	14,913
Additions	0	20	0	23	43
Disposals	(101)	(28)	(2,080)	0	(2,209)
Written-off	0	0	0	(20)	(20)
As at 31 December 2003	**7,040**	**1,906**	**502**	**3,279**	**12,727**
Accumulated depreciation					
As at 1 January 2003	5,112	1,339	2,341	3,029	11,821
Charge during the year	1,413	329	65	143	1,950
Disposals	(71)	(19)	(1,985)	0	(2,075)
Written-off	0	0	0	(20)	(20)
As at 31 December 2003	**6,454**	**1,649**	**421**	**3,152**	**11,676**
Net book value					
As at 31 December 2003	**586**	**257**	**81**	**127**	**1,051**
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**

14. INVESTMENT IN SUBSIDIARY COMPANIES

	Company 31.12.2003 RM'000	Company 31.12.2002 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 2003 %	Effective interest 2002 %	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	Dormant
Danaharta Consultancy Services Sdn Bhd	250,000	**100**	100	Dormant
Danaharta Industri Sdn Bhd	2	**100**	100	Dormant
Prokhas Sdn Bhd (formerly known as 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**	100	Dormant
Securita ABS Three Berhad	2	**100**	100	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

14. INVESTMENT IN SUBSIDIARY COMPANIES (CONTINUED)

Name	Paid-up capital RM	Effective interest 2003 %	Effective interest 2002 %	Principal activity
Subsidiary companies of TTDI Development Sdn Bhd				
TTDI Jaya Sdn Bhd #	25,779,000	**100**	100	Property development
TTDI Harta Sdn Bhd (formerly known as 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	Dormant
Tenaga Meranti Sdn Bhd #	250,002	**100**	100	Property investment
TTDI Properties Sdn Bhd #	2	**100**	100	Property investment
TTDI Realty Sdn Bhd #	500,000	**100**	100	Property investment
Subsidiary companies of TTDI Harta Sdn Bhd (formerly known as Pandan Maju Sdn Bhd)				
Indasaham Sdn Bhd #	100,000	**70**	70	Property development
Ikhlas Murni Sdn Bhd #	2	**100**	100	Property Investment

 # Subsidiary companies not audited by PricewaterhouseCoopers
** Subsidiary companies not consolidated as explained in note 14(d) below.*
+ Subsidiary companies in Members' Voluntary Liquidation.

(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

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 2003 is RM11.4 billion (2002: RM11.4 billion).

14. INVESTMENT IN SUBSIDIARY COMPANIES (CONTINUED)

(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 2003 is RM5.1 billion (2002: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	RM7,198,634	RM5,620,477
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	RM222,293	RM184,888
Sixth	13 July 2001	30 June 2005	RM386,110	RM321,139
Seventh	13 July 2001	30 September 2005	RM291,634	RM242,561
Eighth	13 July 2001	30 November 2005	RM279,134	RM232,164
Ninth	13 July 2001	31 December 2004	RM20,104	RM16,721
Tenth	13 July 2001	30 November 2005	USD7,613	USD5,990
Eleventh	12 September 2002	28 February 2006	RM545,108	RM463,958
Twelfth	12 September 2002	28 April 2006	RM78,327	RM66,678
Thirteenth	12 September 2002	30 June 2006	RM43,060	RM36,846
Fourteenth	12 September 2002	28 February 2006	USD48,848	USD42,933

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 2003 is RM11.3 billion (2002: RM11.3 billion).

On 31 March 2004, DUSB has refinanced the balance of the First and Second Issues of their zero-coupon bonds upon maturity on 31 March 2004 for a further period of five years. The details of the refinancing bonds are as follows:

Issue	*Date of Issue*	*Date of maturity*	*Nominal/ Maturity Value '000*	*Discounted Value '000*
First	31 March 2004	31 March 2009	RM1,712,132	RM1,401,106
Second	31 March 2004	31 March 2009	USD36,419	USD31,836

14. INVESTMENT IN SUBSIDIARY COMPANIES (CONTINUED)

(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.

  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.

15. INVESTMENT IN ASSOCIATED COMPANIES

	Group 31.12.2003 RM'000	Group 31.12.2002 RM'000
Share of net assets of associated companies	**56**	58,286
Less: Share of post-acquisition loss	**0**	(405)
	56	57,881
Less: Reclassified to Current Asset for PNB Merdeka Ventures Sdn Bhd	**0**	(57,825)
	56	56

The details of the associated companies are as follows:

Name	*Country of incorporation*	*Effective Interest* 2003	*Effective Interest* 2002
Colour Metal Sdn Bhd	Malaysia	**28.00%**	28.00%
PNB Merdeka Ventures Sdn Bhd	Malaysia	**0%**	20.87%

PNB Merdeka Ventures Sdn Bhd (PNBMV) was 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 (DHSB), a wholly owned subsidiary company, 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). On 5 March 2003, the approval from Foreign Investment Committee was obtained and the sale was completed with total loss on disposal of RM6.1 million and RM6.5 million at Group and DHSB level respectively.

16. INVENTORIES

	Group 31.12.2003 RM'000	Group 31.12.2002 RM'000
Developed properties, at cost	**2,498**	39,995

Included in developed properties in 2002 is an amount of RM35.2 million which is carried at net realisable value.

Developed properties amounting to RM28.8 million and RM0.43 million were transferred to investment properties and property, plant and equipment respectively.

17. PROPERTY DEVELOPMENT EXPENDITURE

	Group *31.12.2003* *RM'000*	*Group* *31.12.2002* *RM'000*
Land at cost		
- Leasehold land	**327**	327
- Freehold land	**22,349**	9,820
Development expenditure	**215,558**	290,122
	238,234	300,269
Portion of profit attributable to development work performed to date	**65,813**	122,518
Less: Allowance for foreseeable losses	**(415)**	(415)
	303,632	422,372
Less: Progress billings rendered	**(248,248)**	(293,222)
	55,384	129,150

The portion of property development expenditure in respect of which significant development has been undertaken and which is expected to be completed within the normal operation cycle of two to three years is considered as current asset.

During the year, properties under development in the Group amounting to RM75 million have been transferred to land held for future development of the Group. Properties under development in the Group amounting to RM32.7 million have been transferred to investment properties.

Pursuant to the joint venture agreement dated 23 January 1991 in one of the subsidiaries, the joint venture partner is required to contribute the land to the development. The consideration for the land is 13% of the gross proceeds to be derived from the units sold under the project.

On 28 October 1997, a supplementary agreement was entered into with the joint venture partner to vary the terms of the above agreement whereby the joint venture partner's contribution for the land for development has been reduced and joint venture partner's entitlement for the land, in addition to the 13% of the gross proceeds to be derived from the units sold under the project, to include 13% of the disposal proceed of the remaining unsold portion of the land.

The joint venture partner's share of gross proceeds for the year is RM20.7 million (2002: RM4.7 million)

18. TRADE AND OTHER RECEIVABLES

	Group		Company	
	31.12.2003 RM'000	*31.12.2002 RM'000*	*31.12.2003 RM'000*	*31.12.2002 RM'000*
Trade Receivables	**33,651**	32,998	**0**	0
Less: Allowance for doubtful debts	**(732)**	(819)	**0**	0
	32,919	32,179	**0**	0
Amount due by subsidiary companies	**0**	0	**495,004**	548,646
Other receivables	**7,173**	13,517	**1,385**	1,217
Accrued interest receivable	**1,220**	22,946	**804**	21,793
Staff loans	**30,556**	28,318	**30,530**	28,286
Loan to director	**289**	111	**289**	111
Amount due by associated companies	**36**	36	**0**	0
	72,193	97,107	**528,012**	600,053

The entire trade and other receivables balances are denominated in Ringgit Malaysia.

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.

19. INVESTMENT IN MARKETABLE SECURITIES

	Group		Company	
	31.12.2003 RM'000	31.12.2002 RM'000	31.12.2003 RM'000	31.12.2002 RM'000
Unquoted money market instruments in Malaysia				
Government backed securities:				
Danamodal Bonds	**0**	130,221	**0**	130,221
Khazanah Bonds	**20,338**	130,840	**20,338**	130,840
Private debt securities:				
Cagamas bonds/notes	**0**	45,172	**0**	45,172
Other securities	**36,920**	227,869	**36,920**	227,869
	57,258	534,102	**57,258**	534,102
Accretion of discounts less amortisation of premium	**7,979**	52,762	**7,979**	52,762
	65,237	586,864	**65,237**	586,864
Unquoted securities in Malaysia				
Shares	**86**	35	**0**	0
Quoted securities in Malaysia				
Shares at carrying value	**0**	9	**0**	0
	65,323	586,908	**65,237**	586,864

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

	Group		Company	
	31.12.2003 RM'000	31.12.2002 RM'000	31.12.2003 RM'000	31.12.2002 RM'000
One year to three years	**65,327**	439,172	**65,327**	439,172
Three years to five years	**0**	147,692	**0**	147,692
	65,327	586,864	**65,327**	586,864

The weighted average yield rates for the government backed securities and private debt securities that were effective during the year were 4.38% (2002: 5.07%) and 5.27% (2002: 5.25%) respectively. The entire balance of investment in marketable securities is denominated in Ringgit Malaysia.

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

	Group and Company	
	31.12.2003 RM'000	31.12.2002 RM'000
AAA	**0**	120,971
AA	**12,752**	100,473
AA (bg)	**24,168**	51,597
	36,920	273,041

19. INVESTMENT IN MARKETABLE SECURITIES (CONTINUED)

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

	Average Market Yield		Group		Company	
	2003	2002	31.12.2003	31.12.2002	31.12.2003	31.12.2002
	%	%	RM'000	RM'000	RM'000	RM'000
Unquoted Money Market Instruments in Malaysia						
Government backed securities:						
Danamodal Bonds	**0**	2.95	**0**	166,039	**0**	166,039
Khazanah Bonds	**2.71**	3.06	**24,690**	159,997	**24,690**	159,997
Private debt securities:						
Cagamas bonds/notes	**0**	3.10	**0**	47,218	**0**	47,218
Other securities	**3.63**	3.70	**41,290**	235,094	**41,290**	235,094
			65,980	608,348	**65,980**	608,348
Unquoted securities in Malaysia						
Shares			**86**	35	**0**	0
Quoted securities in Malaysia						
Market value of quoted shares			**0**	7	**0**	0
			66,066	608,390	**65,980**	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.

20. OTHER INVESTMENT

	Group and Company 31.12.2003 RM'000	Group and Company 31.12.2002 RM'000
Advances for DUSB bonds redemption	**0**	363,953
Accretion of discounts	**0**	32,637
	0	396,590

Advances for DUSB bonds redemption represents advances from the Company for early redemption of DUSB bonds. Such advances were at call and carried 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 14(c)), the said advances and the income thereon have not been eliminated on consolidation.

The advances have been fully settled during the financial year.

The fair value of the other investment based on the average market yield of similar instruments at 31 December 2002 of 3.023% was RM402 million.

21. CASH AND CASH EQUIVALENTS

	Group		Company	
	31.12.2003 RM'000	31.12.2002 RM'000	31.12.2003 RM'000	31.12.2002 RM'000
Deposits with licensed banks	**2,148,460**	1,727,325	**1,754,157**	1,622,736
Deposits with licensed finance companies	**1,020,206**	1,015,349	**999,619**	931,270
Deposits with discount houses	**0**	11,250	**0**	9,500
Cash and bank balances	**75,074**	24,156	**44,875**	14,648
	3,243,740	2,778,080	**2,798,651**	2,578,154

Included in the cash and bank balances is an amount of RM8.88 million (2002: RM2.51 million) held under the Housing Development Account as required under Section 4 of the Housing Development (Housing Development Account) Regulations 1991.

Included in the fixed deposits with finance companies is an amount of RM0.2 million (2002: 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.

21. CASH AND CASH EQUIVALENTS (CONTINUED)

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

	Group		*Company*	
	31.12.2003 RM'000	*31.12.2002 RM'000*	*31.12.2003 RM'000*	*31.12.2002 RM'000*
Ringgit Malaysia	**3,243,740**	2,761,262	**2,798,651**	2,578,154
US Dollars	**0**	16,818	**0**	0
	3,243,740	2,778,080	**2,798,651**	2,578,154

The weighted average interest rate for cash and cash equivalent balances that was effective during the year was 2.91%. (2002: 2.95%)

Deposits of the Group and Company have an average maturity of 71 days (2002: 72 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.

22.PROVISIONS

	Development expenditure RM'000	*Gratuity and retrenchment RM'000*	*Total RM'000*
Group			
2003			
As at 1 January 2003	0	18,302	18,302
Provisions made during the year	35,497	5,788	41,285
Payments made during the year	0	(3,463)	(3,463)
As at 31 December 2003	**35,497**	**20,627**	**56,124**
Company			
2003			
As at 1 January 2003	0	14,015	14,015
Provisions made during the year	0	5,312	5,312
Payments made during the year	0	(2,943)	(2,943)
As at 31 December 2003	**0**	**16,384**	**16,384**

The provision for development expenditure was made in respect of the Group's obligation to contractors and consultants as well as cost for infrastructure works.

23. TRADE AND OTHER PAYABLES

	Group		Company	
	31.12.2003 RM'000	31.12.2002 RM'000	31.12.2003 RM'000	31.12.2002 RM'000
Trade payables	**15,095**	21,647	**0**	0
Deferred interest income on acquired assets	**485,902**	298,302	**485,902**	298,302
Security Deposits	**69,738**	62,034	**69,138**	55,611
Other liabilities	**222,062**	166,905	**176,166**	112,031
Amount due to subsidiary companies	**0**	0	**5,931**	60,024
	792,797	548,888	**737,137**	525,968

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

24. DEFERRED TAXATION

	Group	
	31.12.2003 RM'000	31.12.2002 RM'000
At 1 January	**5,004**	5,054
Transfer to income statement	**0**	(50)
At 31 December	**5,004**	5,004

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	
	31.12.2003 RM'000	31.12.2002 RM'000
Unutilised tax losses	**(14,591)**	(19,620)
Temporary differences	**8,997**	9,037

25. REDEEMABLE GUARANTEED ZERO-COUPON BEARER BONDS

	Group and Company	
	31.12.2003 RM'000	31.12.2002 RM'000
Nominal value of bonds	**8,539,000**	11,140,400
Less: Unamortised discount	**(246,982)**	(794,570)
	8,292,018	10,345,830
Less : Cost of investment in own bonds	**(2,394,877)**	(2,270,145)
Accretion of discount	**(210,201)**	(219,264)
	5,686,940	7,856,421
Discount upon issuance	**2,173,442**	2,923,793
Amortisation to date	**(1,926,460)**	(2,129,223)
Unamortised discount as at 31 December	**246,982**	794,570

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 Security (MGS) yield of a similar tenor.

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

	Date of issue	Date of maturity	Nominal/Maturity value RM'000	Discounted value RM'000
First issue	20 November 1998	31 December 2003	1,021,600	713,404
Second issue	30 December 1998	31 December 2003	1,579,800	1,137,645
Third issue	29 January 1999	31 March 2004	1,105,400	788,161
Fourth issue	26 February 1999	31 March 2004	1,241,900	897,844
Fifth issue	26 March 1999	31 March 2004	1,392,900	1,013,446
Sixth issue	29 April 1999	30 June 2004	1,049,700	793,405
Seventh issue	27 May 1999	30 June 2004	511,200	389,683
Eighth issue	29 June 1999	30 June 2004	744,100	571,930
Ninth issue	29 July 1999	30 September 2004	527,200	401,848
Tenth issue	26 August 1999	30 September 2004	203,700	149,893
Eleventh issue	29 October 1999	31 December 2004	575,200	439,251
Twelfth issue	29 December 1999	31 December 2004	391,700	303,031
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
Redeemed during the financial year			(2,601,400)	(1,851,049)
			8,539,000	6,365,558

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 (2002: 6.1%) (being the internal rate of return of the bonds). The bonds are denominated in Ringgit Malaysia.

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 4.278% is RM5.1 billion.

The First and Second Issues have been successfully redeemed by the Company in December 2003.

26. LONG-TERM LOAN

	Group and Company 31.12.2003 RM'000	Group and Company 31.12.2002 RM'000
Khazanah Nasional Berhad		
Total interest charged on loan	**123,118**	123,118
Interest charged to date	**(109,739)**	(99,340)
Interest savings on early redemption	**(13,379)**	0
Unaccrued interest charged as at 31 December	**0**	23,778
Loan redemption amount	**423,118**	423,118
Less: Unaccrued interest charged	**0**	(23,778)
Less: Interest savings on early redemption	**(13,379)**	0
	409,739	399,340
Less: Principal loan redeemed on 30 June 2003	**(300,000)**	0
Less: Interest charges paid to date	**(109,739)**	0
	0	399,340

The long term loan relates to drawdown on unsecured loan from Khazanah Nasional Berhad (Khazanah) denominated in Ringgit Malaysia. The interest on the Khazanah loan is at a fixed rate of approximately 6.9% per annum and is calculated on the carrying value of the loan semi-annually on a compounded basis and is payable on the maturity date of the loan. Details of the interest charged are disclosed in Note 8. The details of the loans are summarised below:

Lender	*Date of drawdown*	*Date of maturity*	*Repayment amount RM'000*	*Principal upon drawdown RM'000*
Khazanah Nasional Berhad	18 December 1998	18 December 2003	423,118	300,000
			423,118	300,000

During the year, the Khazanah loan was fully settled before maturity.

27. JOINT VENTURE

	Group 31.12.2003 RM'000	Group 31.12.2002 RM'000
Advances to joint venture	**916**	916
Share of losses	**(1,088)**	(1,664)
	(172)	(748)

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

After charging:		
- Auditors' remuneration	**2**	2

The profit in 2002 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 the assets, liabilities, income and expenses of a joint venture operation. The Group effectively owns 88% (2002: 88%) interest in Joint Venture, whereby the subsidiary companies TTDI Harta Sdn Bhd (formerly known as Pandan Maju Sdn Bhd) and Indasaham Sdn Bhd owns 60% and 40% interest respectively in the Joint Venture. The Group's share of the joint ventures' assets and liabilities at the balance sheet date and their results for the financial year are as follows:

	31.12.2003 RM'000	31.12.2002 RM'000
Current assets	**32**	577
Current liabilities	**(204)**	(1,325)
Net current liabilities	**(172)**	(748)
Represented by:		
Group current account	**(172)**	(748)

28. SHARE CAPITAL

	Group and Company 31.12.2003 RM'000	Group and Company 31.12.2002 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

29. DIRECTORS' REMUNERATION

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

	Group		Company	
	31.12.2003 RM'000	31.12.2002 RM'000	31.12.2003 RM'000	31.12.2002 RM'000
Fees	**110**	80	**80**	80
Other remuneration				
- Executive director	**1,207**	1,072	**1,207**	1,072
- Non-executive directors	**395**	509	**347**	478
	1,712	1,661	**1,634**	1,630

The estimated monetary value of benefits-in-kind received by the directors during the financial year amounted to RM19,010 (2002: RM23,700)

30. 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.

The exemption granted to the Company and its subsidiaries have been extended for another two years commencing Year of Assessment 2004 until Year of Assessment 2005 following the Letter from the Minister of Finance (MOF) dated 27 August 2003, by the powers vested onto the Minister of Finance under Section 127(3) (b) Income Tax Act 1967.

31. 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 RM24 million as at 31 December 2003 (2002: RM313 million). The interest income credited to the income statement from these investments amounts to RM14 million (2002: RM17 million). Details of such investments are disclosed in note 19.

(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 14.

(c) As at 31 December 2003, the Group has repaid long term borrowing from Khazanah Nasional Berhad (KNB). The interest expense charged to the income statement for the borrowing from KNB amounts to RM10 million (2002: RM25 million). Details of the borrowings are disclosed in note 26.

31. RELATED PARTY DISCLOSURES (CONTINUED)

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

	Group	
	31.12.2003	***31.12.2002***
	RM'000	***RM'000***
(a) Sale of properties to :-		
- Director of the Company	**0**	1,715
- A company in which a Director of the Company has an interest	**0**	1,715

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

32. 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 guide lines, and internal control system which cover the management of financial risks.

The following is a summary of the major financial risks:

(i) Credit risk

(a) 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.

(b) 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.

(c) Trade and other receivables

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

(d) 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.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(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.

(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 on-going 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 in 2002, whereby an amount of RM16.8 million (USD4.4 million) was included in the Group's cash and cash equivalents, which was 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.

33. SIGNIFICANT POST BALANCE SHEET EVENT

On 31 March 2004, the Company has successfully redeemed its Third, Fourth and Fifth Issues of the redeemable guaranteed zero-coupon bearer bonds upon maturity on 31 March 2004 with a total nominal value of RM3,740,200,000.

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

We, Dato' Zainal Abidin Putih and Dato' Zukri Samat, 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 80 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 2003 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 2 April 2004.

DATO' ZAINAL ABIDIN PUTIH
Chairman

DATO' ZUKRI SAMAT
Managing Director

Kuala Lumpur

Financial Statements | *Statutory Declaration Pursuant to Section 169(16) of the Companies Act*

Statutory Declaration Pursuant to Section 169(16) of the Companies Act

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 80 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 2 April 2004 before me:

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

PricewaterhouseCoopers
(AF 1146)
Chartered Accountants
11th Floor Wisma Sime Darby
Jalan Raja Laut
PO Box 10192
50706 Kuala Lumpur, Malaysia
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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 30 to 80. 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 2003 and of the results and cash flow 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 subsidiary companies 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
(Company No. 464363 W)

The names of the subsidiary companies which we have not acted as auditors are indicated in Note 14 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 subsidiary companies 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.

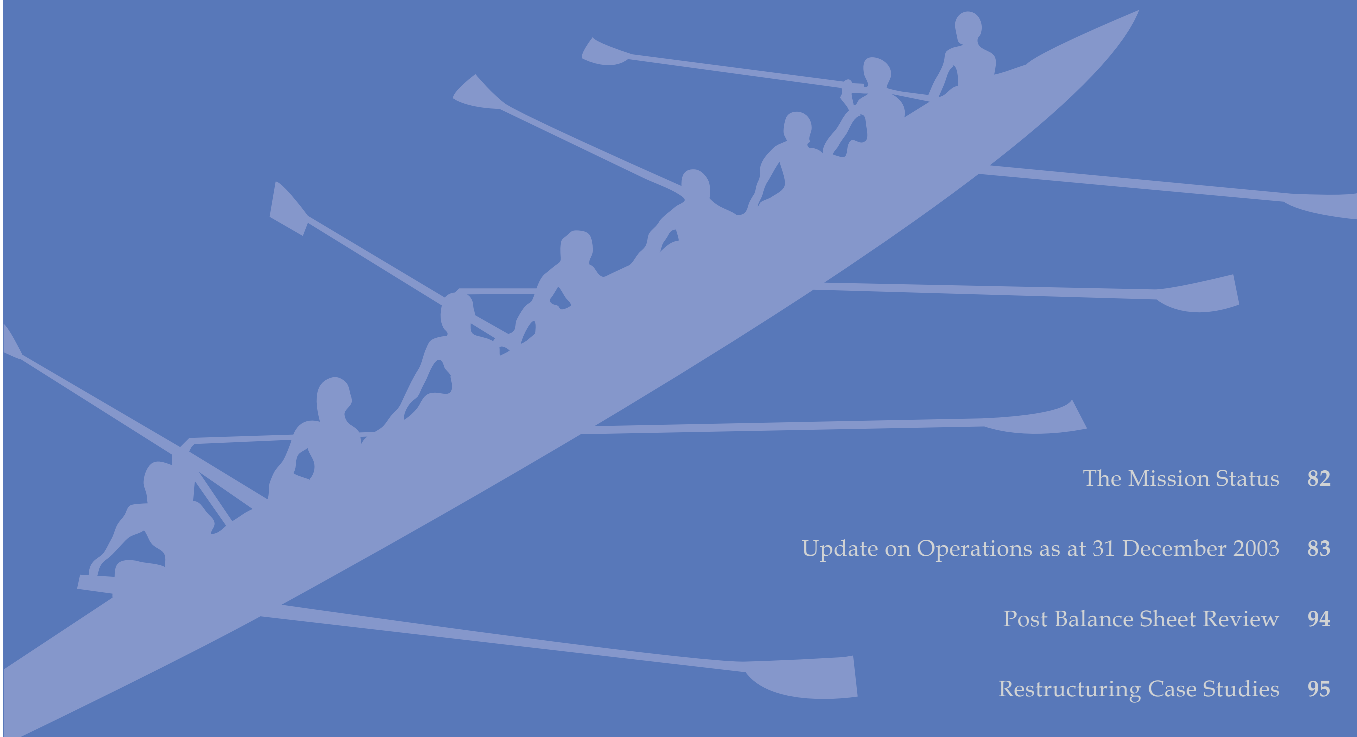
The audit reports on the financial statements of the subsidiary companies were not subject to any qualification and did not include any comment made under subsection (3) of Section 174 of the Act.

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

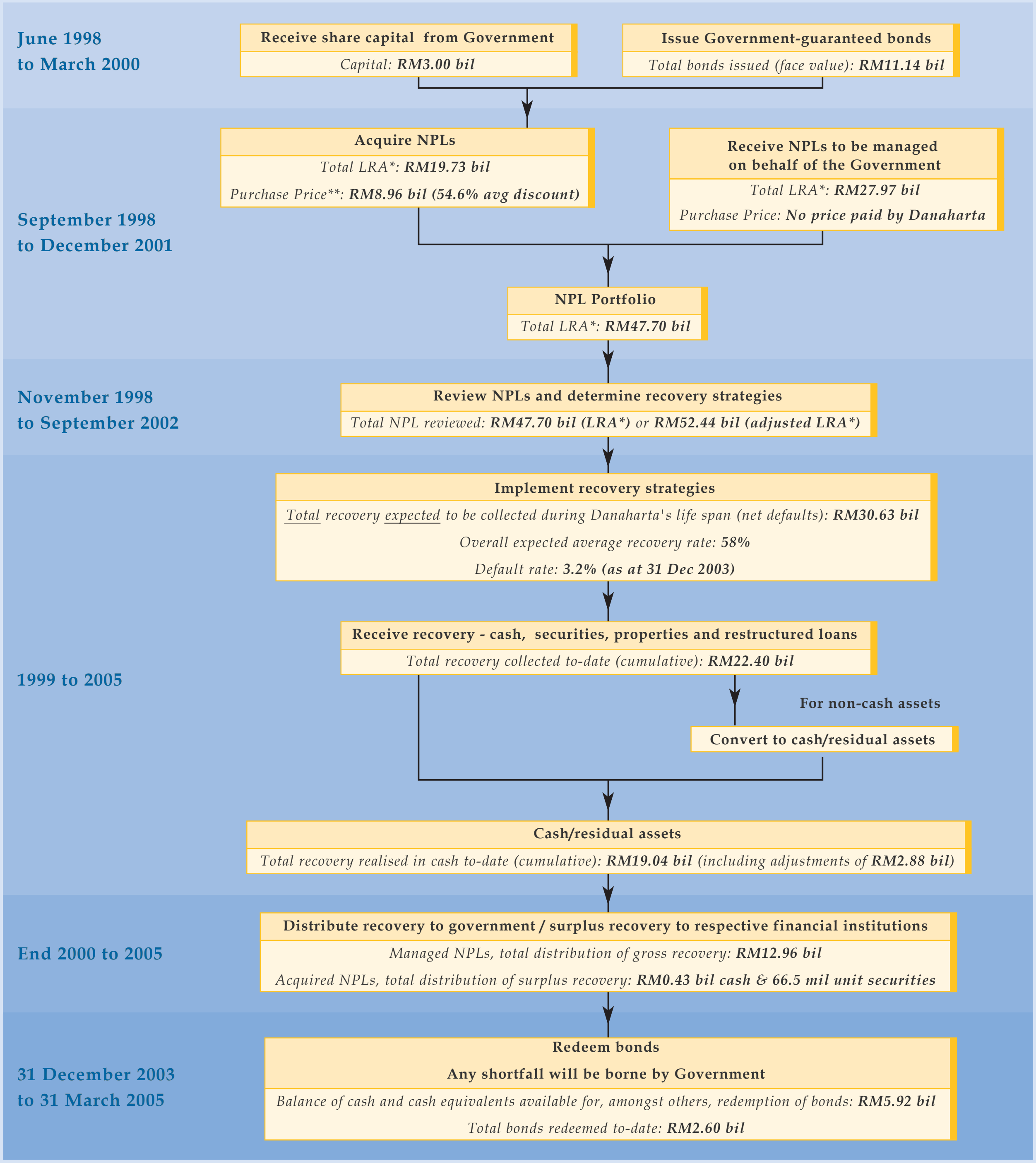
MOHD DARUIS ZAINUDDIN
(No. 969/03/05 (J/PH))
Partner of the firm

2 April 2004

Review of Operations



THE MISSION STATUS



* *LRA = Loan rights acquired, i.e. loan amount outstanding at the point of acquisition (principal & interest)*
Adjusted LRA = LRA plus accrued interest at the point of restructuring
** *Purchase price paid at the point of acquisition*

1. BACKGROUND AND OVERVIEW

In the wake of the Asian financial crisis in 1998, the Malaysian Government established Pengurusan Danaharta Nasional Berhad (Danaharta), the national asset management company (AMC) to address the non-performing loans (NPLs) problem that plagued the banking system. It was a pre-emptive measure to avert the threat of a banking system failure.

The Mission Status on the cover provides an overview and key statistics on Danaharta's operations.
Danaharta's first objective was to remove NPLs from the banking system, to allow the system to function effectively to support economic growth in the country. The removal was accomplished via two modes:

a) ***Acquired NPLs***
acquiring NPLs from almost 70 financial institutions (FIs) nationwide
Total fair purchase price of NPLs: **RM8.96 billion**

b) ***Managed NPLs***
being given the NPLs of the now defunct Sime Bank Berhad Group (Sime Bank Group) and Bank Bumiputra Malaysia Berhad (BBMB Group) to manage on the Government's behalf.
Total price paid by Danaharta: **Nil**

The first objective was achieved in March 2001 after the last batch of NPLs was transferred to Danaharta and no further NPL acquisitions have since been made. As at 31 December 2003, the NPL portfolio stands at RM47.70 billion (LRA*).

The subsequent objective is to manage the NPLs to achieve maximum recovery. The recovery process begins with Danaharta reviewing each NPL account in its portfolio to determine the most appropriate recovery strategy. The respective recovery strategies are then implemented to generate recovery, received in the form of cash and non-cash assets i.e. securities, properties and restructured loans.

Ultimately, all non-cash recovery assets received will be converted into cash. Part of the cash received will be distributed to the FIs that had sold NPLs to Danaharta (as required by the surplus sharing arrangements agreed upon during NPL acquisition) and to the Government (in respect of the Managed NPLs). The balance of the cash would be used, primarily, to redeem the RM11.14 billion bonds (face value) issued to the respective FIs for acquiring the NPLs. *(For more details on Danaharta bonds please refer to page 93)*

Danaharta is a finite life agency aiming to close down by 2005. To-date, it has reviewed and identified recovery strategies for all the NPLs in its portfolio. Over its life-span, Danaharta expects to recover in total RM30.63 billion from the NPLs. By 31 December 2003, it had received approximately 73% or RM22.40 billion of the total expected recovery in the form of cash and non-cash assets. It has a total cash and cash equivalents of RM5.92 billion after redeeming the first two tranches of the Danaharta bonds valued at RM2.60 billion which matured on 31 December 2003.

Going forward, Danaharta is focused on the following: implementing the recovery strategies identified for the remaining NPLs, collecting recovery, converting non-cash recovery assets into cash and redeeming the remaining bonds.

In general, national AMCs are loss-making entities due to the non-performing nature of their assets. Being a national AMC, Danaharta is likely to record a loss at its closure, which will be a cost to be borne by the Government. However, this cost is small compared to the greater losses Malaysia would have suffered economically and socially had the banking system in the country collapsed. Nonetheless, Danaharta strives to minimise its eventual cost through maximizing the recovery value of its NPLs.

** LRA = Loan rights acquired, i.e. loan outstanding at the point of acquisition (principal & interest)*

2. ESTABLISHMENT AND FUNDING

As with all national AMCs in the world, Danaharta's establishment and operations are funded by the Government.

As at 31 December 2003, Danaharta has a total capital and outstanding liabilities of RM11.54 billion, RM3 billion lower than its total in end 2002. The reduction is due to Danaharta's redemption of the first two tranches of the Danaharta bonds, which matured at the end of 2003 and the repayment of its RM0.4 billion loan with Khazanah Nasional Berhad. As at 31 December 2003, Danaharta has fully repaid its loans with Employees Provident Fund and Khazanah Nasional Berhad.

Table 1: Danaharta's funding sources and outstanding liabilities as at 31 December 2003

Funding sources	Purpose	Maximum amount allocated RM billion	Maximum amount utilised RM billion	Capital & outstanding liabilities RM billion
Government contribution	Initial capital	3.00	3.00	3.00
Loans from Employee Provident Fund/Khazanah Nasional Berhad	Draw down available For working capital	2.00	1.30	0.00
Zero - coupon bonds issued to selling FIs*	For loan acquisition	15.00	11.14	8.54
TOTAL		20.00	15.44	11.54

** Reported in nominal value/face value of bonds.*

3. NPL PORTFOLIO

3.1 Status of portfolio

As at 31 December 2003, Danaharta's NPL portfolio totaled RM47.70 billion (LRA), involving 2,564 borrowers (2,903 accounts).

Danaharta's portfolio (in LRA) comprises:

- RM19.73 billion of *Acquired NPLs*
  Loans acquired from FIs with bonds and cash at RM8.96 billion (average discount of 54.6% to LRA value).
- RM27.97 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

Table 2: Danaharta's NPL portfolio as at 31 December 2003

Type of NPL	Source of NPL	NPLs in LRA value RM billion
Acquired NPLs	NPLs acquired from FIs	19.73
Managed NPLs	NPLs which Danaharta is managing on behalf of the Government	27.97
TOTAL		**47.70**

3.2 Key features of the two types of NPLs

There are some differences between the two NPL components in Danaharta's portfolio (i.e. Acquired NPLs and Managed NPLs). However, the NPLs are treated alike irrespective of their origination. Below are some key features of the two NPL components:

Comparison of key features between Acquired NPLs and Managed NPLs

Key features	Acquired NPLs	Managed NPLs
Where do they originate?	NPLs bought on willing-buyer-willing-seller basis from financial institutions.	NPLs of now defunct Sime Bank Group and BBMB Group, assigned by the Government to manage on its behalf.
What is the purchase price?	RM8.96 billion* [average discount of 54.6% to RM19.73 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 financial institutions 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 NPLs are managed using the same approach. The objective is to extract maximum recovery value from the NPLs.	

** At point of acquisition*

3.3 Contingent liabilities

As at 31 December 2003, the total contingent liabilities in Danaharta's portfolio amounted to RM382.23 million.

Table 3: Analysis of contingent liabilities in Danaharta's portfolio as at 31 December 2003

Type of NPL	Contingent liabilities RM million
Acquired NPLs	125.19
Managed NPLs	257.04
TOTAL	**382.23**

Some NPLs in Danaharta's portfolio have contingent liabilities attached. A contingent liability, such as a bank guarantee, will be an additional loan to be recovered by Danaharta when crystallised (materialized). An example of the crystallisation of a contingent liability is when a bank guarantee (a contingent liability in the books of the bank) issued by a bank to a third party (at the borrower's request) is called upon by the third party, thus converting the bank guarantee into a loan to be repaid by the borrower. Typically, the third party would only exercise his right to call upon the bank guarantee if the borrower fails to pay.

4. RECOVERY

As at 31 December 2003, Danaharta has reviewed and identified appropriate recovery strategies for every NPL account. The adjusted LRA value for the total portfolio is RM52.44 billion (Note: "Adjusted LRA" is equivalent to LRA plus interest accrued from the date of acquisition by Danaharta to the point of restructuring/reviewing).

After each recovery strategy has been identified, the expected recovery value for the loan is determined/calculated. As at 31 December 2003, Danaharta expects to recover, over its life-span, RM30.63 billion from its NPL portfolio or a 58% average recovery rate.

Of the total expected recovery of RM30.63 billion, RM19.98 billion is expected from the Managed NPLs component and RM10.65 billion from the Acquired NPLs component. The average recovery rates are 66% and 49% respectively.

Table 4: Analysis of expected recovery from various recovery methods as at 31 December 2003

Recovery method	*Adjusted LRA RM billion (a)		^Adjusted expected recovery RM billion (b)		Expected recovery rate (%) (c)=(b)/(a)	
	Acquired NPLs	Managed NPLs	Acquired NPLs	Managed NPLs	Acquired NPLs	Managed NPLs
Plain loan restructuring	2.18	5.45	1.35	4.76	62%	87%
Settlement	2.65	6.72	2.35	5.24	89%	78%
Schemes of arrangement	2.87	6.90	1.90	5.29	66%	77%
Schemes under Special Administrators	2.45	2.87	1.24	1.00	51%	35%
Foreclosure	9.85	4.51	2.77	2.09	28%	46%
Others	1.73	3.01	1.04	1.60	60%	53%
Legal action	0.21	1.04	-	-	-	-
TOTAL	**21.94**	**30.50**	**10.65**	**19.98**	**49%**	**66%**
OVERALL	**52.44**		**30.63**		**58%**	

**comprising total LRA of RM47.70 billion and accrued interest of RM4.74 billion.*

^assuming zero recovery on defaulted cases as at 31 December 2003.

4.1 Identifying recovery methods/strategies for the NPLs

In general, Danaharta employs a number of recovery methods (as listed in Table 4) and the application varies with NPL accounts. Set out below is a general guideline on how Danaharta determines the recovery method for each NPL:

- **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**
  For loans that are non-viable and in cases where borrowers fail to comply with the loan restructuring guidelines to restructure its loans, the recovery normally involves the sale of a borrower's business or the underlying collateral. The methods adopted by Danaharta are - Foreclosure (sale of collateral), Appointment of Special Administrators (disposal of business or assets) and Legal Action.

4.2 Recovery Methods and Types of Recovery Assets Received

Having identified the recovery methods for all the NPLs, Danaharta then focuses on implementing these strategies. Different methods or strategies will yield different types of recovery assets namely cash, property, securities, and restructured loans. 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) Settlement

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

Recovery assets generated: cash, properties and securities.

iii) Schemes of Arrangement (SOA)

SOA are voluntary schemes formulated by both borrowers and creditors, aiming 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

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

As at 19 March 2004, Danaharta had appointed SAs across 73 groups of companies, with 32 groups of companies still at various stages of special administration. A complete list of companies under Special Administration and their current status can be found in Reference Material on pages 111 to 139.

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

v) Foreclosure

Foreclosure involves the sale of property or share collateral pledged as security to a loan. Danaharta may foreclose on the collateral if a borrower fails to repay its loan. However, Danaharta does not own these foreclosed assets and the ownership remain with the borrowers until the assets are sold.

Recovery assets generated: cash (generated from the sale of foreclosed assets)

vi) Others

"Others" include 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

Taking legal action against the borrower is a last resort for Danaharta. Danaharta will only choose this route after all other recovery methods have been exhausted, as it is lengthy and costly and usually generates minimal recovery.

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

5. RECOVERY ASSETS

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

1. **Cash: Foreclosures** : generated from the sale of collateral i.e. shares and properties
   Non-foreclosures : generated from cash settlements, redemption of collateral, the sale of 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)

5.1 Recovery

Between 31 December 2002 and 31 December 2003, Danaharta's cumulative recovery collection increased from RM18.93 billion to RM22.40 billion, or approximately 73% of total expected recovery of RM30.63 billion (excluding defaulted loans of RM1.01 billion). The remaining RM8.23 billion is still pending implementation of the respective recovery strategies and will be collected over time.

5.2 Default rate

Some loans that have been restructured by Danaharta may default again. With more defaulted loans reinstated during the period, the default rate of Danaharta's portfolio declined from 6.4% as at 31 December 2002 to 3.2%.

In calculating published statistics, Danaharta conservatively assumes zero recovery for such defaulted loans (RM1.01 billion). Essentially, when a loan defaults, an alternative recovery strategy will be sorted to reverse the default and this normally results in some recovery. Once a new expected recovery amount has been estimated and approved, it will be included in the total expected recovery.

5.3 Fully settled borrowers

Overall, as at 31 December 2003, a total of 767 borrowers have fully settled RM14.58 billion (LRA value) of NPLs relating to 881 accounts.

A *fully settled borrower* is one who has fully settled all outstanding accounts with Danaharta. All expected payments have been made either in the form of cash and/or non-cash assets, and no further recovery is expected from the borrower.

Table 6: Analysis of recovery proceeds by asset group as at 31 December 2003

Asset group (RM billion)		Expected recovery# (a)	Defaulted (b)	Expected recovery excluding default (c) =(a) - (b)	Pending implementation of recovery strategy (d)	Recovery received (e) =(c) - (d)
Cash	Non -foreclosures	10.99	0.07	10.92	5.32	5.60
	Foreclosures	4.67	0.01	4.66	0.65	4.01
Restructured loans		9.35	0.93	8.42	0.60	7.82
Securities		5.20	-	5.20	1.45	3.75
Properties		1.43	-	1.43	0.21	1.22
TOTAL		**31.64**	**1.01**	**30.63**	**8.23**	**22.40**

 # 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 NPLs as at 31 December 2003

Type of loan (RM billion)	Expected recovery^	Pending implementation of recovery strategy	Recovery received
Acquired NPLs	10.65	4.05	6.60
Managed NPLs	19.98	4.18	15.80
TOTAL	**30.63**	**8.23**	**22.40**

^ Expected recovery excluding defaulted loans

6. CONVERSION OF NON-CASH ASSETS INTO CASH

Some of Danaharta's loan recoveries are received in the form of non-cash assets (i.e. restructured loans, properties and securities). Nevertheless, Danaharta does not intend to retain these non-cash assets and where possible, will strive to convert them into cash.

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

i) Restructured loans : payment of loan installments and securitisation (see Reference Material on pages 125 to 126 for details on asset-backed securitisation)

ii) Properties : sale of properties

iii) Securities : sale of securities

As at 31 December 2003, Danaharta has converted RM19.04 billion (including adjustments of RM2.88 billion) of its recovery into cash, an increase of RM6.73 billion from 31 December 2002. As at 31 December 2003, Danaharta still has RM6.24 billion of non-cash recovery assets in stock to be realised into cash eventually.

Table 8: Analysis of cash received by asset group as at 31 December 2003

Asset group (RM billion)		Recovery received (e)	Stock (f)	Realised in cash (g)= (e) - (f)
Cash	Non-foreclosures	5.60	-	5.60
	Foreclosures	4.01	1.24#	2.77
Restructured loans		7.82	2.17	5.65
Securities		3.75	2.15	1.60
Properties		1.22	0.68	0.54
TOTAL		**22.40**	**6.24**	**16.16**

Includes foreclosed properties or shares which are unsold and pending inclusion into future tenders

Table 9: Total cash received from recovery proceeds as at 31 December 2003

	RM billion
Cash from recovery proceeds	16.16
Add: Adjustments, comprising primarily interest received on restructured loans and gains or losses on sale of foreclosed collateral and securities	2.88
TOTAL CASH RECEIVED	**19.04**

Acquired NPLs: RM6.08 billion

Managed NPLs: RM12.96 billion

7. DISTRIBUTION OF CASH FROM RECOVERY PROCEEDS

Of the RM19.04 billion cash generated, Danaharta has distributed on a gross cumulative basis, RM13.39 billion to the Government and 36 FIs as at 31 December 2003. The amount distributed consists of RM0.43 billion of surplus recovery for Acquired NPLs and RM12.96 billion of recovery for the BBMB Group and Sime Bank Group loans that are being managed by Danaharta. A total of 66,472,341 units of securities have also been distributed to the selling FIs as part of the surplus sharing agreement.

Surplus sharing for Acquired NPLs

Unlike most 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 where NPLs were purchased on a willing-buyer-willing-seller basis. Danaharta purchased the Acquired NPLs at an average discount of 54.6%, resulting in shortfalls [difference between the loan outstanding (LRA) and the acquisition price] for many selling FIs. To encourage banks to sell their NPLs, Danaharta had agreed to share the surplus recovery with the selling FI should Danaharta recover more than the loan acquisition price in addition to holding costs incurred.

Typically, the surplus recovery is shared on an 80(selling FI):20(Danaharta) basis and the amount receivable by the selling FI 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.

Management fee for Managed NPLs

With regard to the NPLs from the BBMB Group and the Sime Bank Group managed by Danaharta, the 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 management 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.

These management fees are deducted from the gross recoveries for Managed NPLs prior to distribution to the Government.

Details of distribution are as follows:

Table 10: Distribution of recovery proceeds as at 31 December 2003

			Distribution of recovery	
A.	**Gross recovery for Managed NPLs**		**Cash (RM)**	**Securities (Unit)**
	NPLs of the BBMB Group and the Sime Bank Group		12,964,197,848.44	-
	Sub-total		**12,964,197,848.44**	-
B.	**Recipient of surplus recovery for Acquired NPLs+**	**No. of accounts**	**Cash (RM)**	**Securities (Unit)**
1	Arab-Malaysian Bank Berhad	3	1,426,758.80	-
2	Arab-Malaysian Finance Berhad	1	1,575,687.64	-
3	Aseambankers Malaysia Berhad	2	865,381.81	*3,968,319
4	Amanah Merchant Bank Berhad	3	9,401,996.48	-
5	Bumiputra Merchant Bankers Berhad	1	1,044,005.77	~3,167,637
6	Bank Bumiputra Malaysia Berhad#	8	59,095,450.89	-
7	Bank Industri Malaysia Berhad	1	480,082.15	-
8	Bank Islam Berhad	2	11,572,020.02	~2,716,208
9	Bank of Commerce (M) Berhad	2	49,389,810.26	-
10	BSN Commercial Bank	1	310,643.16	-
11	BSN Merchant Bank Berhad	1	210,830.75	-
12	Bangkok Bank Berhad	2	1,383,839.52	-
13	Hong Leong Bank Berhad	3	845,005.52	^1,994,397
14	Hock Hua Bank Berhad	1	2,458,158.29	-
15	HSBC (M) Berhad	1	142,915.26	*1,730,284
16	Malaysian International Merchant Bankers Berhad	4	21,354,533.31	*7,950,567
17	Mayban Finance Berhad	1	3,518,006.94	-
18	Maybank Berhad	6	34,869,208.99	~1,146,487
19	MBf Finance Berhad	5	40,645,428.67	-
20	MBF Leasing Sdn Bhd	1	388,919.70	-
21	Multi-Purpose Bank Berhad	1	276,102	-
22	OCBC Bank (Malaysia) Berhad	1	148,898.61	-
23	Oriental Bank Berhad	12	31,281,853.40	^2,642,648
24	Overseas Union Bank (M) Berhad	1	853,809.60	-
25	Perwira Affin Bank Berhad	1	38,000.00	^2,427,982
26	Perdana Merchant Bankers Berhad	1	332,248.03	~1,076,710
27	Perwira Affin Merchant Bank Berhad	2	613,434.45	-
28	Public Finance Berhad	1	251,880.89	-
29	RHB Bank Berhad	10	67,184,848.12	*@27,247,820
30	RHB Sakura Merchant Bankers Berhad	5	15,518,284.67	*3,986,502
31	Sabah Bank Berhad	3	3,179,913.61	~2,465,757
32	Sabah Development Bank Berhad	1	4,705,933.56	-
33	Southern Bank Berhad	2	4,823,463.04	*3,951,023
34	The Pacific Bank Berhad	7	51,247,355.59	-
35	United Merchant Finance Berhad	1	263,912.26	-
36	Utama Merchant Bank Berhad	1	3,783,122.79	-
	Sub-total	**97**	**425,481,744.74**	**66,472,341**
	TOTAL DISTRIBUTED		**13,389,679,593.18**	**66,472,341**

+ *In cases where banks have merged or have been acquired by another bank, payment 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*
@ *Payment in Taiping Consolidated Berhad irredeemable convertible preference shares (ICPS) with a par value of RM1.00 each share*
~ *Payment in Avenue Assets Berhad shares with a par value of RM1.00 each share and Avenue Assets Berhad warrants*

8. BOND REDEMPTION

As at 31 December 2003, Danaharta has a total cash and cash equivalents of RM5.92 billion. During the second half of 2003, Danaharta successfully redeemed the first two tranches of Danaharta bonds valued at RM2.60 billion when they fell due on 31 December 2003.

The remaining tranches of bonds will mature every quarterly until 31 March 2005. Danaharta will strive to generate enough cash to meet its subsequent obligations (for details on Danaharta bonds issued, please see page 93). Should it fail to do so, Danaharta could roll over the bonds for up to five years, but the zero-coupon bonds would be converted into interest-bearing bonds. As a final resort, the Government guarantee will be invoked to bear any shortfall of the bond redemption.

Table 11: Summary of cash statement as at 31 December 2003

	RM billion
Total cash received from recovery proceeds	19.04
Add:	
Capital received	3.00
Long-term loans	1.30
Other inflows - including, amongst others, interest received on deposits and placements	1.85
Total inflow	25.54
Less:	
Bond redemption	2.60
Total surplus recovery distributed to FIs under surplus sharing arrangement	0.40
Total cash distributed/ to be distributed for recovery of loans from Sime Bank Group and the BBMB Group (net of management fees)	11.55
Other outflows - including, amongst others, cash paid for NPL acquisition, repayment of loans, operational costs	5.07
Total outflow	19.62
TOTAL CASH/CASH EQUIVALENT AVAILABLE AS AT 31 DECEMBER 2003	**5.92**
TOTAL BONDS OUTSTANDING AS AT 31 DECEMBER 2003	**RM8.54 billion**

Comparison of key statistics from 31 December 2001 to 31 December 2003

RM billion	31 December 2001	31 December 2002	31 December 2003
Adjusted LRA of total NPL	50.94	52.52	52.44
Expected recovery (net of defaults)	28.51	30.19	30.63
Overall expected recovery rate	56%	57%	58%
Default rate	11%	6.4%	3.2%
Total recovery received to-date	15.17	18.93	22.40
Total cash received (incl. adjustments)	9.69	14.61	19.04
Total capital and outstanding liabilities	n.a.	14.54	11.54
Fully settled borrowers*/Fully settled amount (LRA)	n.a.	304/ RM6.62 bil	767/ RM14.58 bil

** A fully settled borrower is one who has fully settled all outstanding accounts with Danaharta. All expected payments have been made either in the form of cash and/or non-cash assets, and no further recovery is expected from the borrower.*

Summary of Danaharta bond issues for Acquired NPLs as at 31 December 2003

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	Status
20 November 1998	1.022	69.832	7.150%	0.713	31 December 2003	Redeemed
30 December 1998	1.580	72.012	6.672%	1.138	31 December 2003	Redeemed
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 bonds issued	11.140			8.217		
Less: adjustments	(0.483)					
redemption	(2.602)					
Total as at 31 December 2003	**8.055**					

Note: 1) No bonds were issued in September and November 1999 and after 31 March 2000.
2) The adjustments account for NPLs that were put back to financial institutions.

REDEMPTION ON DANAHARTA BONDS

On 31 March 2004, Danaharta redeemed three tranches of matured bonds with a total face value of RM3.74 billion. The redeemed bonds were the third to fifth of the 15 tranches of zero coupon bonds (with a total face value of RM11.14 billion) issued by Danaharta to acquire non-performing loans from financial institutions during the Asian financial crisis.

NINTH NATIONWIDE PROPERTY TENDER

Danaharta held its ninth nationwide property tender from 23 March 2004 to 22 April 2004. The tender offered 202 properties with a total indicative value of RM468 million.

IDRIS HYDRAULIC (M) BHD

Idris Hydraulic (M) Bhd (Idris), an investment holding company listed on the Main Board of the Malaysian Securities Exchange Berhad (MSEB), was involved in a myriad of activities ranging from insurance to property development and manufacturing through its 52 subsidiaries and associated companies. During the economic downturn in 1998, its revenue sources were adversely affected, and further exacerbated by the high cost of borrowing.

With total debts amounting to RM847.3 million as at 31 December 1999, Idris could not meet its financial obligations satisfactorily and had to seek the assistance of the Corporate Debt Restructuring Committee (CDRC) to restructure its business and rationalise its debt position. As one of the larger creditors to the Idris Group, Danaharta was included into the Creditors Committee. Working together with Idris and its financial advisers, the Creditors Committee formulated a plan aimed at resolving the Group's debt, whilst ensuring the survival of its business.

A debt restructuring scheme (which took into account the introduction of a white knight) was hammered out and entailed the following:

- The incorporation of a new company to assume Idris' listing status;
- A rights issue exercise to raise RM42.0 million to part repay financial creditors and restructuring expenses;
- A debt restructuring scheme featuring the issuance of Loan Stocks to retire all borrowings, and
- The disposal of its non-core assets over a 24 month period to generate cash to redeem the Loan Stocks.

Upon completion of the restructuring exercise, the new Idris would be transformed into a much leaner conglomerate focused in insurance services with Talasco Insurance Bhd being its primary revenue earner. As part of its plan to re-emerge as a key player in the insurance services industry, it successfully tendered and completed the purchase of the Peoples' Insurance Company Malaysia Bhd in April 2002.

KASUMA RESORTS SDN BHD

Kasuma Resorts Sdn Bhd (Kasuma), formerly known as Gasing Heights (Sarawak) Sdn Bhd, is a joint-venture company between Gasing Heights Sdn Bhd and Sarawak Land Custody and Development Authority, which undertook a mixed development project at Petra Jaya, Kuching, Sarawak (the Project). The Project covers a total land area of 48.7 hectares, comprising mainly condominiums, service apartments and bungalow lots. The Project was partly financed by a financial institution in 1994.

The financial crisis in 1997 caused a slump in the Sarawak property market, which badly affected the sales of the condominium units and bungalow lots. As a result, the construction works on the Project slowed down.

In 1999, Danaharta acquired Kasuma's loans from the financial institution that had financed the Project. In view of the soft demand in the property market, Kasuma required time to reconfigure its development plans and relaunch the Project. In this respect, Danaharta agreed to reschedule Kasuma's loan repayment in accordance with Danaharta's loan restructuring guidelines and principles, to allow the company to complete the Project. In addition, after conducting a viability study, Kasuma decided to convert the land that was initially earmarked for the development of three condominium blocks into bungalow lots, which proved to be more marketable.

Since the relaunch of the Project in 2001, the sales for the bungalow lots and the remaining condominiums units have increased significantly. This positive development has also allowed Kasuma to meet its scheduled loan repayments in advance and successfully complete the Project.

PEPS-JV (M) SDN BHD

Peps-JV (M) Sdn Bhd (Peps-JV) is principally involved in the manufacturing of car chassis parts, metal stamping, metal welding and assembling of motor components including cross member assembly, rear suspension system, front deck assembly and others for various car models of Proton and Perodua.

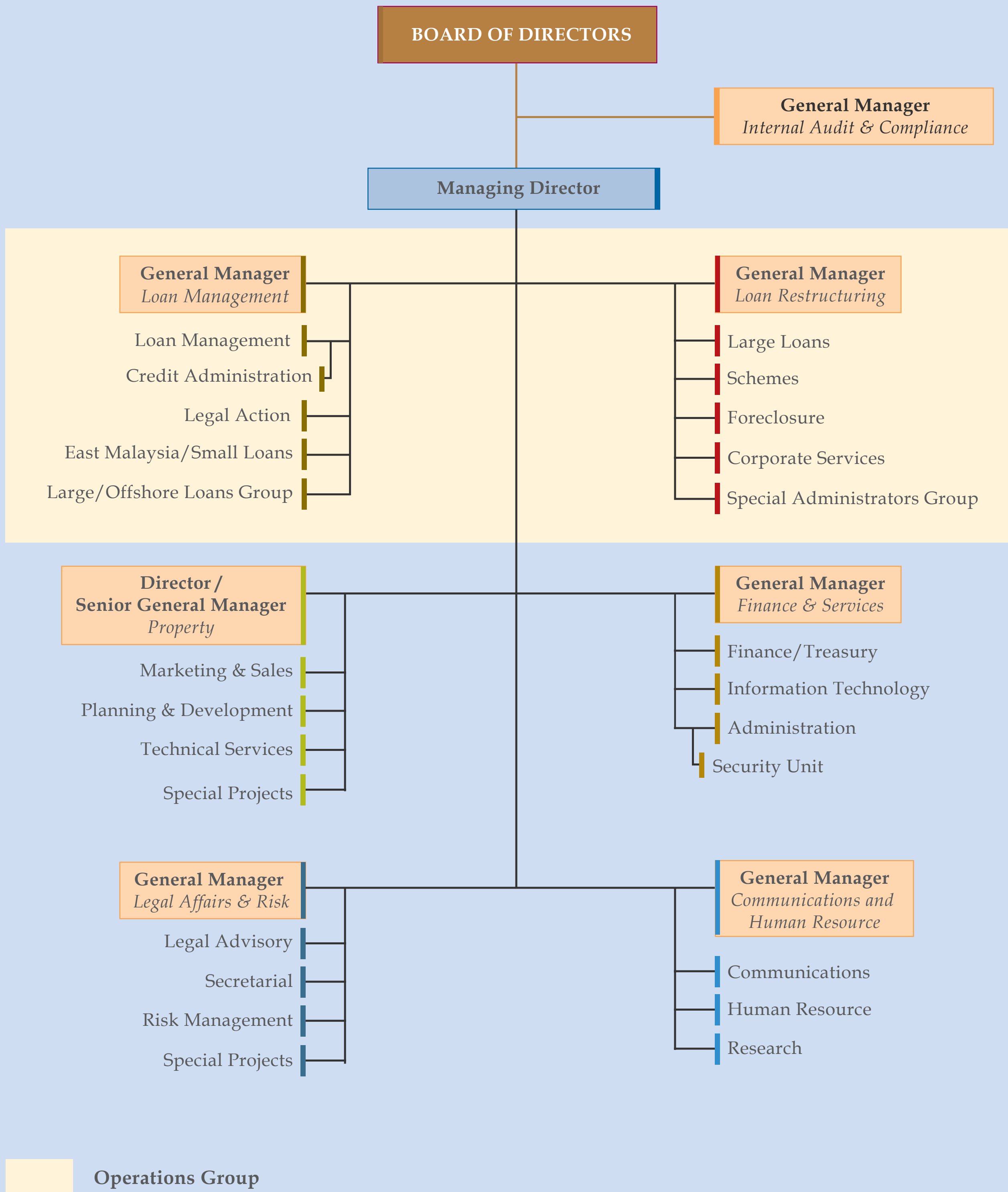
Being in the automotive industry, Peps-JV was among the first to be affected by the economic crisis. Orders from Proton and Perodua plunged whilst the installed capacity and stocks were incurring holding costs. Peps-JV's business and turnover were severely affected resulting in insufficient operating cashflow to service its debt obligations.

Danaharta acquired Peps-JV's loan in April 1998. After analysing the economic scenario vis-a-vis its operations, Peps-JV's loan was restructured to match its cashflow (while complying with Danaharta's loan restructuring guidelines and principles). All overdue trade debts were converted into a term loan with a step-up repayment schedule that matched Peps-JV cashflow and repayment capability while the working capital facilities were maintained for its business operations. Meanwhile, an independent Monitoring Accountant was appointed to provide monthly progress updates on Peps-JV's operational cashflow and business performance.

Subsequently, it was discovered that Peps-JV's shrinking margin could not support its financing for capital investment and may turn the company into a losing concern. The company took steps to remedy its position. Being a Tier 1 supplier, Peps-JV diversified and entered into arrangement with BOSCH to manufacture consolidated braking system and with other local OEMs to manufacture, amongst others, Fuel Tank Assembly. In addition, Peps-JV decided to reconfigure its financing profile from bank borrowings to that procured from the capital market. In this regard, Peps-JV commenced negotiation with EP Manufacturing Berhad, a company listed on the Malaysia Securities Exchange Berhad to settle the amount owing in exchange for an equity position in Peps JV.

In May 2003, EP Manufacturing Berhad, acquired Peps-JV and settled the indebtedness in September 2003.

Organisation Chart as at 31 December 2003



REORGANISATION

Danaharta, like other project companies, periodically reorganises itself to meet the changing requirements of its mission. When the Director of Operations (DOO) was appointed the Managing Director of Danaharta in July 2003, the position of DOO fell away. The two General Managers of Operations who had previously reported to the DOO now report directly to the Managing Director. The Operations Group comprises two arms - Loan Restructuring and Loan Management (see Organisation Chart on page 97)

In addition, a new Corporate Services sub-group was established to amalgamate the various sections and functions of corporate finance, corporate planning as well as reporting and administration. The Corporate Services sub-group now forms part of the new Operations Group.

There were no changes to the structure of the other divisions.

LINE ACTIVITIES

The Operations Group and the Property Division undertake the line activities within Danaharta.

OPERATIONS GROUP

The Operations Group, responsible for managing the NPL portfolio of Pengurusan Danaharta Nasional Berhad (PDNB), Danaharta Managers Sdn Bhd (DMSB) and Danaharta Urus Sdn Bhd (DUSB), represents the backbone of the agency. The NPL portfolio managed consists of those that were acquired by Danaharta and NPLs from the now defunct Sime Bank and Bank Bumiputera Groups which are 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 Operations Group continued to implement recovery measures identified for each account, monitored performing loans to ensure timely repayment and stepped up its collection efforts to maximise recovery. This is crucial as recovery proceeds collected would be utilised to redeem the bonds issued by Danaharta.

Meanwhile, the Corporate Services sub-group continued to assist in the evaluation of complex workout proposals submitted by corporate borrowers, formulate strategies to manage the disposal of marketable securities received as settlement of debt. The corporate planners reviewed and updated the business plan for Danaharta, including preliminary strategy work on Danaharta's impending closure by end 2005. The sub-group also continued to monitor the key performance indicators of Danaharta for reporting to the management.

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 period under review, the Division conducted one nationwide tender and 5 specific tenders involving 304 properties with a total indicative value of RM1.21 billion.

SUPPORT ACTIVITIES

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.

In the period under review, the Unit played its role efficiently in redeeming the first two tranches of Danaharta's bonds with a total value of RM2.6 billion which matured on 31 December 2003.

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.

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. It also manages a panel of external legal firms that represent Danaharta in litigation and conveyance 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 (the 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 property sales program.

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 the 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 of Danaharta's policies and procedure manuals.

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 property tenders as well as the sale of shares.

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 2003, Danaharta's employees' strength remained steady at 245. 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 2003)

Qualifications	Percentage (%)
Masters Degree/Professional Qualification	26
Bachelor Degree	59
Diploma	11
SPM	4

Career Background	Percentage (%)
Local Banks	54
Foreign Banks	9
Multinationals/International firms	9
Local firms	24
Others	4

Working Experience	Percentage (%)
More than 3 years	100
More than 5 years	98
More than 10 years	60
More than 15 years	33

Age	Percentage (%)
More than 25 years	100
More than 30 years	89
More than 35 years	55
More than 40 years	31

Gender	Percentage (%)
Male	59
Female	41

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 Danaharta would have an interest by reason of its activities.

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 internal control system that contributes to the safeguarding of shareholder's (government's) interest and Danaharta's assets by performing independent appraisals of business operations and activities.

The Division has satisfactorily met its objectives as stated in its Audit Charter. This is confirmed by the results of a second independent Quality Assurance Review conducted in April 2003. The review also concluded that there was no instance of significant deficiencies that amounted to non-adherence to industry standards or practices.

In 2003, IAC completed a total of 22 audits on the company's business operations and support activities. The focus of these audits was primarily on areas relating to realization of cashflows, addressing timing mismatch for redemption of bonds and meeting the company's contingent liabilities. These reviews assessed the adequacy and integrity of the risk control systems to provide reasonable assurance that Danaharta would achieve its business objectives and safeguard shareholder's (government's) interest and the company's assets.

In addition to the audits conducted, four Audit Committee meetings were organised in 2003. At these meetings, the results of the audits and all actions to be taken and followed up were discussed. IAC also provided an update on the status of Danaharta's overall risk control framework based on the results of the completed audits or investigations performed, and observations made when attending the Management Committee meetings and participation in projects.

In 2003, IAC monitored compliance with Danaharta's Standard Business Conduct, which included,

- Processing pre-clearance forms for buying & selling of stocks/shares;
- Conducting two briefings on "Governance, risk and controls" for Danaharta staff;
- Administering the annual declaration of independence & financial disclosures; and
- Coordinating Management's representations and sign-off on the statement on internal control for his/her respective areas of responsibility

In addition to the above, IAC

- Organised and facilitated the Management Strategy meeting;
- Coordinated the business continuity planning exercise;
- Acted as independent observers in the opening of tenders for sale of company, business, property and securities; and
- Conducted Control Self-Assessment (CSA) workshops to assist TTDI Development in implementing CSA.

IAC continued to maintain its independence by reporting functionally to the Audit Committee and administratively to the Managing Director. The internal auditors continued to render impartial and unbiased judgements and also demonstrated objectivity in their audit reports to the best of their ability.

Feature Articles

OVERVIEW

In a follow-up to our previous feature article entitled "Review of Agencies Similar to Danaharta in Other Asian Countries", published in the Danaharta Annual Report of 1999, this article aims to examine the progress of the asset management companies (AMCs) in the Asian region since their establishment.

This article highlights the main points of a recent report published by the Financial Stability Institute[1] of the Bank for International Settlements[2] (BIS) entitled "*Public Asset Management Companies in East Asia: A Comparative Study*", dated February 2004 (Ben Fung, Guonan Ma, Stefan Hohl and Jason George).

Although the report included China and Japan, we have narrowed the comparisons to Indonesia, Korea, Thailand and Malaysia.

INTRODUCTION

Prompted by the Asian financial crisis, several East Asian governments established or activated AMCs that would deal with the fast emerging non-performing loans (NPLs) in their respective banking systems. Korea was the first with the activation of Korea Asset Management Corporation (KAMCO). Malaysia soon followed with Danaharta in 1998, Indonesia with Indonesia Bank Restructuring Agency (IBRA) in 1998, and later in 2001 Thailand set up the Thai Asset Management Corporation (TAMC).

Most AMCs are temporary agencies and as illustrated in Table 1, IBRA, Danaharta and TAMC have definitive lifespan ranging from five to twelve years. Generally, a predetermined and realistic sunset date may help speed up NPL resolution and give a means for the public to measure the AMC's progress.

[1] *The **Financial Stability Institute (FSI)** was set up in 1999. The BIS operates the FSI jointly with the Basel Committee on Banking Supervision.*

[2] *The **Bank for International Settlements (BIS)** was established in 1930. It is the world's oldest international financial institution. It was originally formed under the Hague Agreements, as were the International Monetary Fund and World Bank. BIS is an international organisation which fosters cooperation among central banks and other agencies in pursuit of monetary and financial stability. The BIS also has two administrative offices in Hong Kong and Mexico City.*

The BIS paper identifies a set of major factors that can contribute to the successful operation of an AMC. Danaharta complies with all of them.

Major factors contributing to the successful operation of an asset management company

Strong political will: *Strong political backing on the part of the government to address NPLs in the system is a crucial starting point for any successful AMC. An AMC should operate with sufficient independence, free from political interference.*

Explicit government financial support: *Preferably, the government should fund the AMC's operations directly through its budget. If an AMC has to issue its own debt instead, an explicit guarantee by the government is needed to strengthen the financial positions of the banks and the AMC.*

Supportive legal infrastructure: *An effective legal regime - including bankruptcy and foreclosure laws as well as special legal powers granted to the AMC - that allows the AMC to resolve its assets more quickly and to achieve a higher recovery rate.*

Efficient market environment: *Well functioning capital markets facilitate asset sales, while permitting foreign investors to purchase assets from the AMC will also speed up asset disposition, especially when the domestic capital market is not so well developed.*

Clear AMC mandate: *The AMC must have clear objectives and procedures for its operation, such as the types of assets to be acquired and the resolution methods it is permitted to use. It should focus on asset sales and not be overly burdened by broad corporate restructuring.*

Well defined AMC life: *In general, the tenure of an AMC should be limited in order to prevent it from sitting on assets it acquires for long periods of time for fear of realising large losses, but it should also be realistic relative to the task on hand in order to give the AMC sufficient time to deal with the assets under its control.*

Adequate governance: *The AMC should have a sound internal control system and effective external supervision, and be audited regularly by an independent audit firm.*

Good transparency: *The AMC should periodically disclose the results of its operations vis-à-vis its mandate as well as its audit results in a manner that can be easily understood by the market and the public.*

Realistic asset pricing: *Generally, assets should be transferred to an AMC at market-based prices, especially for privately owned banks. Often, proper incentives, such as option-like profit-/loss-sharing agreements, or enforcements help facilitate asset transfers.*

Speedy resolution: *The AMC should aim for speedy disposition of acquired assets. Waiting for an economic turnaround to increase recovery often leads to slower resolution progress and larger losses.*

Extracted from BIS paper "Public Asset Management Companies in East Asia: A Comparative Study", February 2004

Table 1: Main characteristics of AMCs

Country	Name of AMC	Year set up	Official mandate	Sunset date
Indonesia	IBRA	1998	Restructuring	Feb 2004
Korea	KAMCO	1962	Restructuring/rapid disposition	N.A.#
Malaysia	Danaharta	1998	Restructuring/rapid disposition	2005
Thailand	TAMC	2001	Restructuring	June 2013

Source: BIS

KAMCO does not have a sunset date for the agency has a strong mandate to deal with corporate restructuring even before the Asian crisis.

ASSET TRANSFERS

A primary task of the public AMCs is to remove a substantial portion of NPLs from the banking systems. Speedy NPL removal is important to AMCs as it is often a precondition for a successful NPL resolution.

There are several factors that determine the AMC's success in removing the NPLs: the volume, type and quality of the NPLs, the pricing methodology used by the AMC e.g. incentives to encourage transfer and political will/backing for the AMC.

As of end-Dec 2002, the cumulative volume of NPLs transferred from banks and other financial institutions to AMCs ranged from US$15bn in Malaysia to US$90bn in Korea. Table 2 illustrates the amount of asset transferred by the respective AMCs varied widely among the countries. In terms of percentage of GDP, both IBRA and KAMCO had to deal with the largest share of NPLs as assets transferred amounted to 19.5% of GDP, compared to Danaharta which had to deal with 14.3% of GDP.

Table 2: Cumulative transfers of non-performing assets to AMCs (book value as at 31 December 2002)

	Local currency	In US$	As a % of GDP	As a % of total loans	As a % of total NPLs
Indonesia	314trn	35bn	19.5	76.4	90.4
Korea	110trn	90bn	19.5	29.8	85.0
Malaysia	48bn	15bn	14.3	7.4	91.6
Thailand	718bn	17bn	13.7	18.7	29.0

Source: BIS

Asset transfer pricing and methods

The pricing methods used by the Asian AMCs for the NPL acquisition can greatly affect the pace of asset transfers, the selling bank's financial statement, loss allocation and, subsequently, the recapitalisation programmes. The two broad approaches for pricing of NPLs are: book value and fair value (see Table 3).

In Thailand, Korea and Malaysia, the actual average acquisition price ranges from one-third to half of the book value of the acquired NPLs. While detailed pricing techniques differ among AMCs in these economies, the general principle is that these AMCs pay market-based prices for their asset acquisition. In such cases, shareholders of selling banks directly recognise part of the losses when the asset transfer takes place. Generally, fair value approaches carry less moral hazard risk and cap fiscal burdens for taxpayers, if sufficient political backing is in place to effect speedy stripping out of NPLs.

Table 3: Approaches to asset transfers by AMCs

	Indonesia	Korea	Malaysia	Thailand
Average acquisition price (as a % of book value)	100.0	36.1	46.0	33.2
Pricing approaches used: Book Value	Yes	No	No	No
Fair Value	No	Yes	Yes	No
Others	No	No	Yes	Yes
Incentives/penalties: Statutory requirements	Yes	Yes	Yes	Yes
Gain- or loss-sharing (options)	No	Yes	Yes	Yes

Source: BIS

To encourage rapid asset transfers, some AMCs arranged for certain profit/loss sharing or option schemes with the selling financial institution. For instance, the Malaysia selling banks do participate in profit-sharing with Danaharta, where the former will receive 80% of any surplus recovery realised while Danaharta retains only 20%. In Korea, before late 1999, selling banks and KAMCO retained call and put options respectively in the event that the market prices of the sold assets differed markedly from the original transaction prices later.

ASSET RESOLUTION

Following asset transfers, the next task is NPL resolution, which is by far the most vital aspect of the operation of an AMC. The resolution methods can be categorised into two broad approaches as follows:

- converting NPL into a performing loan, mainly through restructuring of either the loan, or the borrower i.e. corporate restructuring, or both.
- disposal of asset, including the underlying collateral through various means.

The approach adopted by an AMC is largely determined by factors such as the nature of its NPL portfolio, the AMCs' mandate, the political and financial backing, the legal environment and the prevailing economic and market conditions. In general, both approaches are widely used by the AMCs.

Resolution progress and asset recovery

The pace of NPL resolution is important in determining the success of an AMC. In general, a rapid resolution of NPLs will help to lower the bank restructuring costs to be borne by the country. Whilst it is difficult to compare resolution progress, BIS has used the following indicators to gauge the performance of each AMC:

	Indicator	What it measures
1.	The ratio of the cumulative assets resolved to the total transferred assets of the AMC (in book value)	Measures what proportion of the NPLs has been dealt with rather than being parked in the warehouse
2.	Cumulative recovery in both cash and non-cash assets	Measures asset recovery performance on a broad basis
3.	Cumulative recovery in cash only	Measures asset recovery performance on a narrow basis

The progress in asset resolution has been different across AMCs (see Table 6). While Danaharta has almost resolved (i.e. dealt with) its entire portfolio of NPLs within four years of its establishment, KAMCO and TAMC have only resolved 60% and 40% of their portfolios respectively. Similar information on IBRA is not available.

The table below shows that the four AMCs are expected to recover about one quarter to half of the book value of the acquired assets, comparable to the previous experiences in other parts of the world. On the broader measure, KAMCO and Danaharta's recovery efforts have been more impressive, achieving recovery rates of 50% to 60%. According to BIS, it was harder to measure the progress of IBRA due to insufficient information on the amount of NPLs resolve.

Table 6: Disposition and recovery of assets transferred (cumulative as at 31 December 2002)

	Indonesia	Korea	Malaysia	Thailand
Resolution	--	65 trn	52.5 bn	293 bn
% of asset transfer	--	58.8	100	40.82
RECOVERY				
Total recovery	134.9 trn	30.3 trn	29.7 bn	--
Total recovery rate (%)	34.0	47.0	57.0	--
Total cash recovery	102.6 trn	26.5 trn	14.6 bn	0.6 bn
Cash recovery rate (%)	25.9	41.4	27.8	0.2
Total target recovery	--	42 trn	30.2 bn	--
% of asset transfer	--	42.0	57.0	47.0

Source: BIS

The lower cash recovery in the cases of Danaharta and TAMC may indicate some residual risk, as the market value of the non-cash recovery remains exposed to fluctuating market conditions.

CONCLUSION

In conclusion, the AMCs have played vital and effective roles in assisting the revival of the banking system. They have helped to restore the health of the system by removing NPLs from the banks to allow them to concentrate on their core business of lending.

In 2002, a company called Kekatong Sdn Bhd (Kekatong) challenged the constitutionality of section 72 of the Danaharta Act to stop Danaharta from selling a land that it had charged to Danaharta as security for a loan. Section 72 prevents any injunction to be taken against Danaharta.

Kekatong's application for injunction was first heard in the High Court, but was rejected. However, the Court of Appeal subsequently overturned the High Court's decision and declared section 72 void and unconstitutional and gave Kekatong its injunction. Danaharta went on to appeal to the Federal Court, Malaysia's highest court, against the decision of the Court of Appeal and on 16 January 2004 the Federal Court declared section 72 as valid and constitutional.

The loan, secured by Kekatong's land, was originally extended by Bank Bumiputra Malaysia Berhad (Bank Bumiputra) to a company called Kredin Sdn Bhd (Kredin), in May 1983. Kredin and Ketakong have common directors. Kredin failed to repay the loan when it was due in 1984 and subsequent attempts by Bank Bumiputra to recover the loan proved futile. Bank Bumiputra later sold the non-performing loan (NPL) to Danaharta in 1999.

Why did Danaharta want to sell the Kekatong land?

Because Kredin and Kekatong failed to repay Kredin's NPL to Danaharta. So three years after acquiring the NPL, Danaharta offered the Kekatong land for sale by open tender in May 2002 to reduce the debt.

But is it fair to sell Kekatong's land when Kredin took the loan?

Yes, although Kredin took the loan Kekatong had agreed to repay it. Also, Bank Bumiputra only gave Kredin the loan because Kekatong had agreed to charge its land as security for the loan. Under the charge, Kekatong agreed that the land could be sold to reduce the debt if the loan was not repaid. Such arrangements known as "third party charges" are very common in Malaysia.

In any case, Kredin/Kekatong had had 20 years to repay the NPL but failed.

How was the land offered for sale?

The land was offered for sale through an open tender. Parliament amended the National Land Code to allow Danaharta to foreclose quickly through open tender instead of selling through the court auction process.

It is a quick and transparent process. Also, because it is an open tender anybody can bid and so the market decides what is the market value of the property that is offered for sale.

Did anyone bid for the Kekatong land?

Yes, there were six bidders. Danaharta signed a sales agreement with the highest bidder but could not complete the sale because Kekatong applied for an injunction to stop it.

Does this mean Danaharta can now complete the sale of the Kekatong land?

Unfortunately not because Kekatong has filed a caveat to stop the sale. Danaharta has applied to the High Court to remove this caveat.

Is it legal for Kekatong to place the caveat?

Our lawyers say no. According to our lawyers, a caveat over land is meant to give a third party a chance to put others on notice of its interest in the land. In this case, Kekatong is the owner of the land and its interest (which is subject to the charge it had given) is already registered on the title!

Is this a problem for Danaharta?

The land is valued at over RM50 million. If the sale cannot be completed, it means Danaharta's recovery is reduced by that amount. Because Danaharta is funded by taxpayers, it also means that the cost to taxpayers of the debt recovery program is increased by the same amount.

Is that why the Kekatong decision is important to taxpayers?

Yes, if we have even 10 such cases it means taxpayers have lost RM500 million.

Does the Federal Court decision mean that Kekatong cannot sue Danaharta?

No, it means that Kekatong cannot get an injunction to stop the sale but it can still sue Danaharta for damages. Of course, whether or not it is entitled to damages is a matter for the courts to decide.

So what the courts do can have a significant impact on Danaharta?

Yes. For example, if the Federal Court had decided that section 72 was unconstitutional and gave Kekatong an injunction, the sale of the land cannot be completed and Danaharta's recovery would be reduced by more than RM50 million. Similarly, if a court later decides that Danaharta should pay damages to Kekatong, that will come out of the taxpayer's pocket.

If so, why didn't Parliament prevent damages against Danaharta to save taxpayers' money?

Instead of preventing damages altogether, Parliament has chosen to limit the circumstances when a person can get damages against Danaharta. This means you cannot get damages if Danaharta does its job in good faith.

Does that mean Kekatong cannot get damages unless Danaharta has acted in bad faith?

Yes. This is to prevent an NPL borrower who does not want to repay his debt from engaging in all kinds of legal suits to delay and frustrate repayment. Such legal suits will use up valuable resources in Danaharta's recovery efforts and may mean Danaharta cannot close down within its targeted timeframe (in 2005).

Isn't that unfair to borrowers like Kekatong?

No, if NPL borrowers like Kekatong do not pay their debts Danaharta's recovery would be reduced and taxpayers would in effect bear that cost. This would be terribly unfair to the ordinary taxpayer who pays his debts on time. If you don't pay your car loan or housing loan, you will find that the finance company or bank will repossess your car or sell your house. It does not make sense then to treat corporate borrowers differently just because their debt runs into millions.

If that is the case, then why has the Danaharta Act been criticised as being draconian?

Maybe because the special powers given to Danaharta are not commonly available in Malaysia. That is because our laws are not as advanced as more modern insolvency laws overseas. The special powers given to Danaharta are in fact generally available in more developed economies. For example, banks can appoint special administrators in Australia and England. Likewise, in Singapore, banks can foreclose on land through private treaty sales.

Does the Kekatong decision mean that the Federal Court endorses the Danaharta Act?

The Federal Court decision relates to section 72 of the Danaharta Act. However, in reaching its decision the Court recognises why Parliament passed the Danaharta Act. This is consistent with a number of decisions of the High Court in the past. Interestingly, it is also consistent with the approach taken by the courts in the United States in construing their much stronger AMC law.

Does this mean the Court of Appeal does not recognise Parliament's intention in passing the Danaharta Act?

The Court of Appeal decided that section 72 was unconstitutional because it breached Article 8 of the Federal Constitution. However, a five member panel of the Federal Court (the highest court in Malaysia) unanimously disagreed with the Court of Appeal.

What is Article 8?

Article 8 of the Federal Constitution says that all persons are equal before the law and entitled to the equal protection of the law.

Why did the Court of Appeal think that section 72 breached Article 8?

The Court of Appeal felt that section 72 discriminated against Kekatong because Danaharta could get an injunction against Kekatong but Kekatong could not get an injunction against Danaharta. The Court also said that section 72 denied Kekatong access to justice.

Why did the Federal Court disagree?

The Federal Court followed previous Federal Court cases on Article 8 and said there was nothing wrong with section 72 because any discrimination was based on reasonable classification. The Federal Court also said that the right of access to justice is a common law right which can be modified by Parliament.

What does reasonable classification mean?

It means a law can discriminate between different groups of people so long as those in the same group are treated equally. For example, under our tax laws a millionaire pays more tax than a clerk. Although that is discriminatory, it does not breach Article 8 because all millionaires pay the same rate of tax and all clerks pay the same rate of tax. Similarly, section 72 is valid because all NPL borrowers (and not just Kekatong) cannot get an injunction against Danaharta.

Did the Federal Court decide for Danaharta because Danaharta is a government agency?

No, the Federal Court was simply following previous Federal Court cases on Article 8 stretching back over 30 years. A court in England and Europe would have reached the same decision because the legal principles in this case are well established.

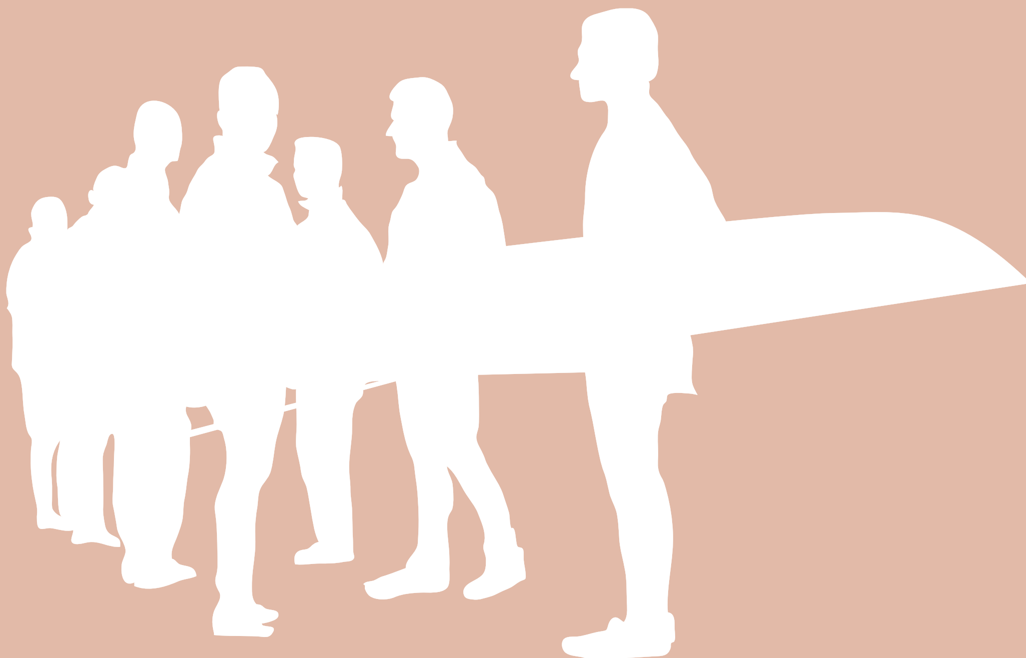
So, do investors like the decision?

The Federal Court decision has been well received by the local and international community. It is seen as a boost to Malaysia's debt recovery program.

Does this mean Danaharta can close in 2005?

The Federal Court decision is important because it clears one hurdle in Danaharta's debt recovery efforts. However, there is still a lot of work to do. Danaharta has recovered 73% of its total expected recovery of RM30.63 billion. That leaves another 27% or over RM8 billion to collect between now and 2005 when Danaharta intends to close its business operations.

Reference Materials



PROFITABILITY

Danaharta is going to be profitable at its closure.
As with all national asset management companies (AMCs), Danaharta's objective is not to generate profit. It was established to avert a banking crisis, which would have wreaked havoc in the country had it not been avoided. Given the non-performing nature of its assets, Danaharta is likely to be loss-making.

There is always a cost to save a banking system from collapsing. Nonetheless, Danaharta strives hard to minimise this cost through maximisation of its recovery value.

Danaharta's loans were purchased at 54.6% discount i.e. cost of 45.4 sen for every Ringgit Malaysia (RM), and the current overall expected recovery rate is 58% i.e. 58 sen for every RM. Therefore, Danaharta expects to make a profit of about 12 sen per RM.
In the past, industry observers have compared Danaharta's average expected recovery rate (approximately 58% or 58 sen for every RM NPL) against the notional cost of the Acquired NPLs component (approximately 45.4 sen for every RM NPL), concluding that the positive margin reflects Danaharta's profitability. Unfortunately, this analysis is flawed. (see Chart 1)

To begin with, the expected recovery rate of 58 sen is in relation to both Managed and Acquired NPLs components whilst the 45.4 sen relates only to the Acquired NPLs component.

The rule would be to compare like with like, i.e. comparing the average recovery rate for the Acquired NPLs component which is about 49 sen for every RM with the notional cost of 45.4 sen. (see Chart 2)

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 which are significant; in year 2003, financing costs amounted to approximately RM440 million. In addition, 80% of surpluses recovered from Acquired NPLs 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 NPLs 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.

Chart 1

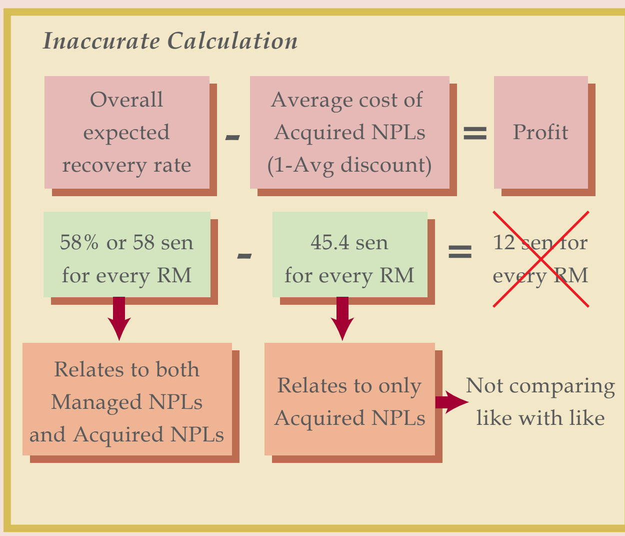
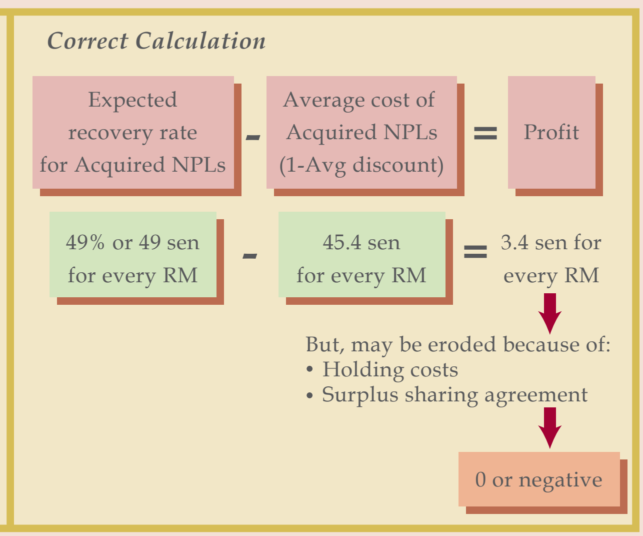


Chart 2



RECOVERY

In the past, Danaharta had reported a much higher recovery rate than its current 58%. It is disturbing that the recovery rates keep changing.

The expected recovery rate reported is not fixed and may continue to fluctuate so long as the loan accounts are not fully settled and recoveries are still pending. This is because some of the loans, even after being restructured, may default again and this will affect the overall expected recovery.

When a loan defaults, a zero recovery value is assigned to the account, causing the expected recovery rates to decline. However, when it is subsequently revived, the expected recovery rates will be adjusted upward accordingly. This movement contributes to the fluctuation in the recovery rates.

However, as Danaharta moves forward and actual collection takes place, the uncertainty of defaults will reduce and the fluctuation will also taper off. Danaharta will be able to report the actual recovery rate at its closure.

PROPERTY

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.

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

Similar to any financial institution, Danaharta will only foreclose on the collateral if the borrower fails to repay his loan. 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 higher return.

In the event that an interested party approaches Danaharta to propose the purchase of the collateral belonging to a borrower who has not defaulted, Danaharta will have to seek consent from the borrower before disposing the assets. In other words, Danaharta can only act with the borrower's consent.

When Danaharta acquires a loan from the bank, Danaharta assumes the role as the chargee to the collateral by stepping into the shoes of the bank. Danaharta does not own the collateral that is pledged to the loan - be it properties or shares - but merely has a charge over them.

DANAHARTA ACT

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. These special powers enable Danaharta to work effectively and speedily to fulfill its mission. Many international analysts who have conducted studies of Danaharta and other national AMCs in the region have concluded that effective legislative powers are the main contributing factor towards Danaharta's good recovery rates.

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.

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:

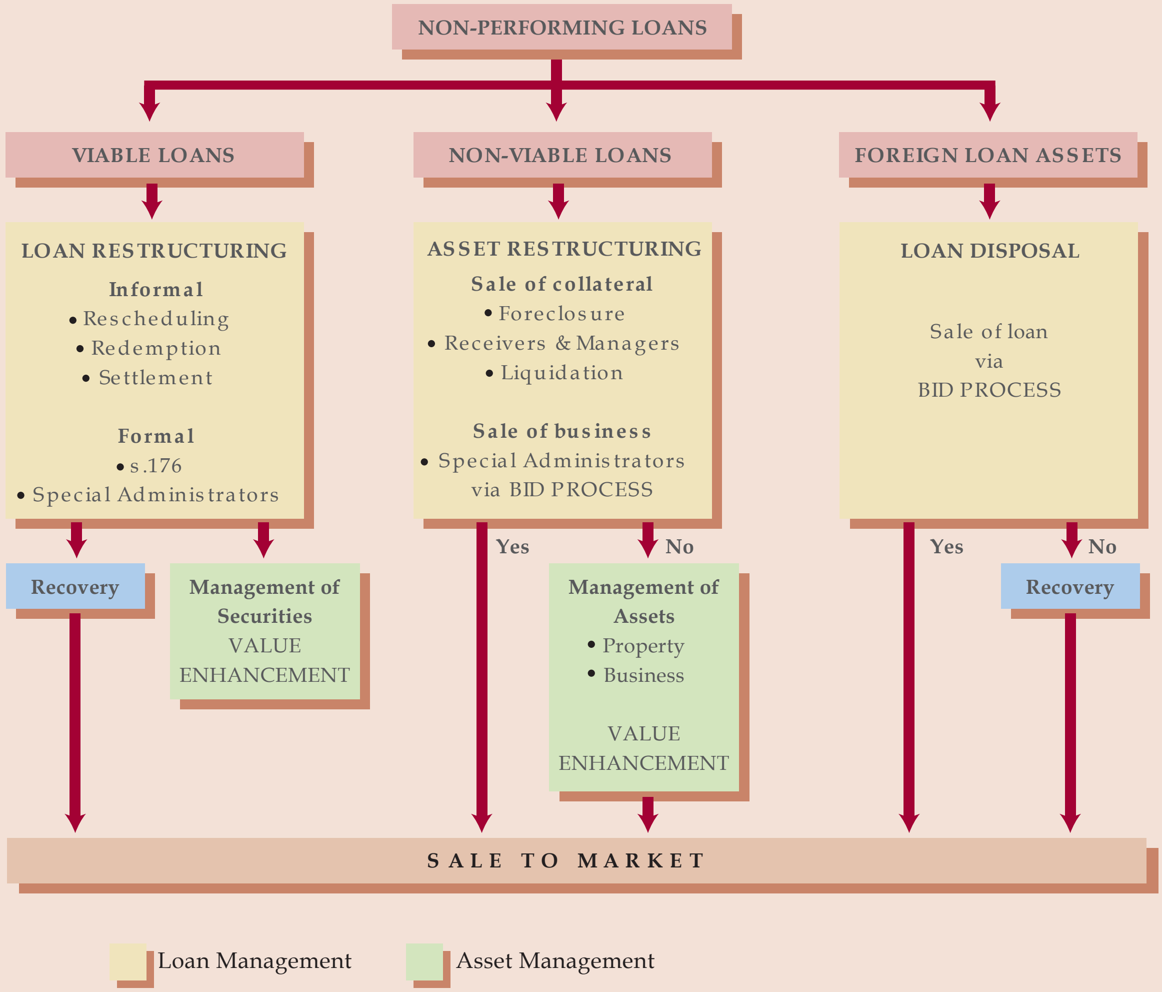
- An independent nine-member Board of Directors, comprising a non-executive Chairman, a Managing Director, two representatives from the public sector, three representatives from the private sector and two from the international community.

- 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 reviews 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.

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



LOAN MANAGEMENT

LOAN RESTRUCTURING

When Danaharta acquires a non-performing loan (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 30 days from the date of a notice from Danaharta requiring it to do so, Danaharta may sell the underlying property collateral by private treaty.

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

Sale by tender

Danaharta prefers the sale of property by way of open tender since it is the most transparent method and allows the best recovery value. Properties are offered for sale at their respective indicative values based on the latest independent valuations of the properties. A member of the public can obtain from Danaharta 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 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.

The list of companies under Special Administration (including a brief update on each company) as well as those where the Special Administrators have been released from their appointments, are given on pages 127 to 139.

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.

ASSET MANAGEMENT

Property sale by Danaharta Hartanah Sdn Bhd

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

Previously, Danaharta Hartanah Sdn Bhd (Danaharta Hartanah), 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 held 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 via private treaty after each tender and may also be re-offered in future property tenders.

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 price 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 Malaysia Securities Exchange Berhad (MSEB) where the securities are listed and normally traded through the MSEB; 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 MSEB).

  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 ACT

The Pengurusan Danaharta Nasional Berhad Act 1998 (Danaharta Act) was passed to provide for special laws in the public interest for the acquisition, management, financing and disposition of assets and liabilities by Pengurusan Danaharta Nasional Berhad (Danaharta). In 2000, Parliament passed the Pengurusan Danaharta Nasional Berhad (Amendment) Act 2000 to clarify existing provisions of the Act in order to remove any doubts about their intended effect and to overcome practical difficulties which arose after Danaharta began operations.

The Danaharta Act supports Danaharta in accomplishing its mission of removing non-performing loan (NPL) distractions from the banking sector and maximising the recovery value of the NPLs.

There are three special powers conferred on Danaharta by the Danaharta Act. First, the ability to acquire NPLs through statutory vesting. Second, the ability to appoint Special Administrators (SAs) to manage the affairs of distressed companies. And third, the ability to foreclose on NPLs by way of open tender outside of court auction process. These special powers are among the salient terms of the Danaharta Act which are summarised below.

1. Statutory vesting

Acquisition by vesting

The Danaharta Act introduced a statutory vesting process to allow Danaharta to acquire NPLs in a speedy and efficient manner.

This process involves the issue of a vesting certificate to prove Danaharta's acquisition of an NPL. On and from the vesting date Danaharta acquires all of the selling bank's rights, title and interests in the NPL subject only to registered interests and claims disclosed to Danaharta before the vesting date.

The statutory vesting process has enabled Danaharta to complete its acquisition of NPLs well ahead of schedule.

Disposition by Danaharta

A person acquiring an asset from Danaharta is also able to enjoy the benefits of vesting conferred upon Danaharta. A transfer certificate is issued to effect the sale of the assets.

2. Special Administration

Appointment of Special Administrators

The criteria for the appointment of SAs are set out in section 25 of the Danaharta Act. If the criteria are satisfied, Danaharta may recommend the appointment of SAs over a company (known as an "affected person"). In addition to the borrower company itself, Danaharta may also appoint SAs over the following class of persons:

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

Oversight Committee

Under the Danaharta Act, Danaharta can only appoint SAs with the approval of the Oversight Committee established under the Danaharta Act. The Oversight Committee currently comprises the Accountant-General, the Chairman of the Securities Commission (SC)* and the Assistant Governor of Bank Negara Malaysia (the central bank). In addition to approving the appointment of SAs, the Oversight Committee also approves the appointment of Independent Advisors, extensions and terminations of moratoria (see "moratorium" in the next page) and the termination of SAs.

To obtain approval, Danaharta must satisfy the Oversight Committee that the criteria set out in Section 25 of the Danaharta Act have been met. These include the fact that the company cannot pay its debts, that the appointment would achieve the company's survival as a going concern or would result in a more advantageous realisation of assets than on a winding up, or that it would achieve a more expeditious restructuring.

** The Chairman of the SC was replaced by the Deputy Chief Executive of SC with effect from 1 March 2004.*

SAs' powers

On appointment, the SAs are empowered to manage the assets and affairs of the affected person and the powers of all the officers of the affected person are suspended. No person is authorised to perform a function as an officer of the affected person without the prior approval of the SAs. It is also an offence for a person to obstruct or hinder the SAs.

Sometimes, to preserve the value of viable businesses, it may be necessary for the affected person 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 Danaharta Act provides creditors who lend to the affected person during the special administration such priority. Likewise, the SAs will be paid approved costs and expenses in priority.

Moratorium

Upon the appointment of SAs, a moratorium on all claims and proceedings against the affected person takes effect and lasts for 12 months unless extended in accordance with the Danaharta Act. A person who wishes to commence legal proceedings against a company under special administration or against any person acting as a guarantor of the company must first seek Danaharta's approval to do so. This is consistent with the underlying purpose of the Danaharta Act, which is to ensure that Danaharta can achieve its mission promptly, efficiently and economically.

The Danaharta Act makes a breach of the moratorium a specific offence and the penalty is a fine not exceeding RM250,000 or imprisonment for up to three years or both.

Workout proposals

The SAs' main task is to prepare a proposal to restructure the debts of the affected person. An Independent Advisor approved by the Oversight Committee will then review the reasonableness of the proposal taking into consideration the interest of creditors and shareholders. The workout proposal is submitted for approval by Danaharta and, subsequently, by secured creditors. The Danaharta Act defines secured creditors to be those who hold tangible assets - such as land, shares or fixed deposits - as security. This definition reflects the more common types of security usually held by financial institutions. In cases where the affected person does not have secured creditors, the Act states that, approval by Danaharta is sufficient. A workout proposal approved in accordance with the Danaharta Act binds the affected person, shareholders, creditors and anyone else affected by the proposal.

Modifications to the workout proposal are allowed and if the Independent Advisor thinks the modifications are sufficiently material, it may require the SAs to convene a meeting of secured creditors (if any) to consider the modifications.

If a proposal is not approved or is abandoned, Danaharta may request the SAs to submit a new proposal, remove the moratorium or appoint a replacement SA.

3. Foreclosure

Modes of foreclosure

The Danaharta Act (supplemented by the Fifteenth Schedule of the National Land Code) allows Danaharta to foreclose on assets charged to it through sale by private treaty. While the modes of sale provided for by the Danaharta Act include auction, tender and private contract, Danaharta's preferred mode of sale has been by open tenders.

Pursuant to the Act, Danaharta may act as buyer of last resort for foreclosed assets. 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 may stand in as a buyer of last resort to ensure that properties are sold at a minimum price, and not at fire sale prices.

Right to sell notwithstanding foreclosure proceedings
Danaharta may exercise its rights to foreclose under the Danaharta Act even though the selling bank may have commenced foreclosure proceedings. As the loans acquired by Danaharta are non-performing loans, foreclosure proceedings may already have been commenced by the selling bank by the time they were sold 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.

Preservation of value
Danaharta may also take appropriate steps to preserve the value of properties charged to it and to facilitate the sale of the property. For example, Danaharta may appoint guards to protect the property against acts of vandalism and malicious damage. Danaharta may also arrange for site inspections, maintenance and repair of the property. All these steps assist in maximising the recovery values of the property.

4. General matters

Secrecy
The Danaharta Act imposes an obligation of secrecy on officers, employees and agents of Danaharta including the Oversight Committee and specifies a penalty for breach of this secrecy obligation, which is RM250,000 or jail for up to 3 years or both.

Offences by a company
Where a company commits an offence under the Danaharta Act, officers of the company may also be charged for the same offence.

Immunity
The Danaharta Act protects Danaharta and its directors, employees and agents, as well as the Oversight Committee, against legal suits for things done in good faith and in the intended exercise of any power or discharge of any duty under Danaharta Act. Such protection is common for national debt resolution agencies such as Danaharta given the nature of their work.

Acts done in good faith
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.

No injunctions
Section 72 of the Danaharta Act prohibits injunctions being issued against Danaharta, the Oversight Committee, SAs or Independent Advisors.

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 they 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. 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.

Although Section 72 was challenged recently, the Federal Court has declared that Section 72 of the Act is valid and constitutional.

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?

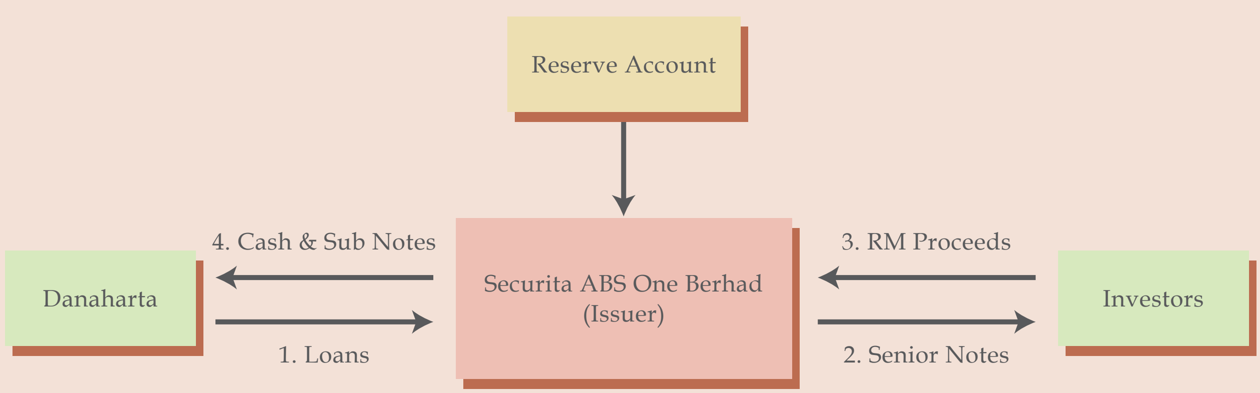
Securitisation is a fund raising technique whereby funds are raised via the issuance of securities backed by specific underlying assets. The underlying assets in a CLO transaction are loan obligations.

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.

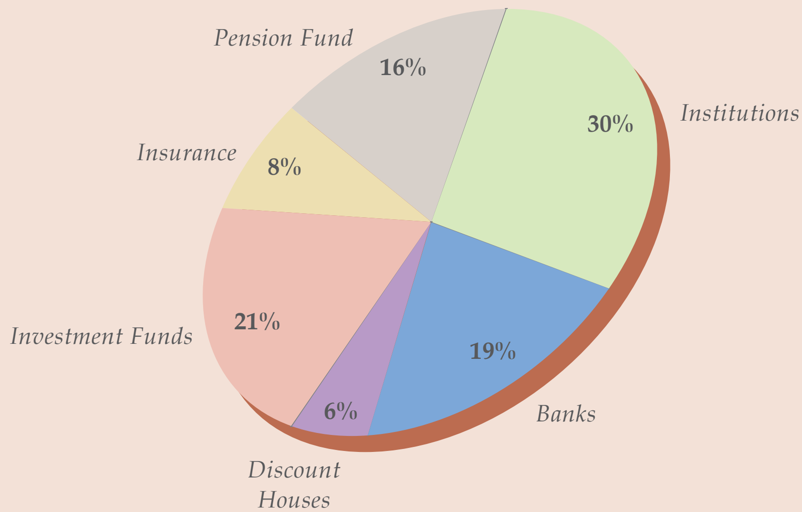
TRANSACTION SUMMARY

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 19 MARCH 2004

As at 19 March 2004, Danaharta had appointed Special Administrators across 73 groups of companies, with 32 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	82
(b)	Workout proposal implemented, Special Administrators pending discharge	11
(c)	Workout proposal approved by authorities, being implemented	15
(d)	Workout proposal submitted to authorities, awaiting approval	0
(e)	Workout proposal approved by Secured Creditors, pending submission to authorities	0
(f)	Special Administrators appointed, pending preparation of workout proposal	16

(a) Companies where Special Administrators have been discharged (82 companies):

	Company, principal activities & listing status	*Special Administrators*	*Independent Advisors*
1.	**Fima Securities Sdn Bhd** *(previously 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** *Manufacturing of plywood and wood-based products.*	Mr Patrick Chew Kok Mr Alvin Tee Guan Pian *(Anuarul Azizan Chew & Co.)* *Appointed on 7 April 1999* *Discharged on 6 January 2000*	AM 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*	Alliance 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*	Alliance Merchant Bank Berhad
7.	**Perusahaan Sadur Timah Malaysia Berhad** *Manufacture and sale of tin plates, Listed on MSEB 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*	AM 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*	Alliance 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 Yeoh Eng Seng Mr Adam Primus Varghese Abdullah Mr 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)* *Appointed on 30 June 2000* *Discharged on 20 December 2000*	(SAs discharged before formulation of workout proposal, therefore no Independent Advisor appointed)
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*	Alliance 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*	Alliance Merchant Bank Berhad
15. **Utama Impian Sdn Bhd** *Property development company.*	En 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)* *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
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. **Instangreen Corporation Berhad** *The Group's principal activities are property & golf resort development, golf course and sports field design and construction, landscaping and general civil engineering works. Previously listed on MSEB Main Board.*	Mr Mak Kum Choon Mr Chu Siew Koon *(Deloitte KassimChan)* *Appointed on 9 September 1999* *Discharged on 29 March 2002*	Affin Merchant Bank Berhad
23. **SPJ Construction Sdn Bhd**	As above.	As above.
24. **Instangreen (Landscape) Sdn Bhd**	As above.	As above.
25. **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
26. **Lumberise Sdn Bhd** *Manufacturing of wood products.*	Mr Chan Yim Fun Ms Yap Wai Fun *(PricewaterhouseCoopers)* *Appointed on 15 December 1999* *Discharged on 3 May 2002*	K&N Kenanga Berhad
27. **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
28. **Soctek Edible Oils Sdn Bhd** *Manufacturing of all types of edible oils and specialty fats.*	As above.	As above.

	Company, principal activities & listing status	Special Administrators	Independent Advisors
	Subsidiaries of Sri Hartamas Berhad		
29.	**Sri Hartamas Hotels Sdn Bhd** *Previously the owner of two hotels in Melaka and Pulau Pinang respectively.*	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
30.	**Puncak Permata Sdn Bhd** *Property developer.*	*Appointed on 18 October 2000* *Discharged on 21 March 2003*	As above.
31.	**Cempaka Mewah Sdn Bhd** *Property developer.*	As above.	As above.
32.	**Mawar Tiara Sdn Bhd** *Property developer.*	*Appointed on 18 October 2000* *Discharged on 5 May 2003*	As above.
33.	**Mewah Rembang Sdn Bhd** *Involved in property development.*	*Appointed on 18 October 2000* *Discharged on 5 July 2002*	As above.
34.	**Golden Pearl Island Hotel Sdn Bhd** *Previously the owner of a 12-storey, 126-room hotel in Pulau Pinang.*	Mr Mok Yuen Lok Mr Poon Yew Hoe *(Horwath)* *Appointed on 24 July 2000* *Discharged on 23 July 2002*	Ferrier Hodgson MH
35.	**Advance Synergy Furniture Sdn Bhd** *Manufacturing of integrated furniture.*	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
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 2000* *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 December 2002*	Asia Pacific Management Insight Sdn Bhd
38.	**CA Manufacturing Sdn Bhd** *Manufacturing of rubber wood furniture.*	As above.	As above.
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.* *Previously listed on MSEB Main Board.*	Ms Yap Wai Fun Mr Lim San Peen *(PricewaterhouseCoopers)* *Appointed on 28 July 1999* *Discharged on 26 December 2002*	Deloite KassimChan

Company, principal activities & listing status	Special Administrators	Independent Advisors
41. **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 2003*	Asia Pacific Management Insight Sdn Bhd
Subsidiaries of NCK Corporation Berhad		
42. **NCK Wire Products Sdn Bhd** *Manufacturing and marketing of wire products.*	Dato' Nordin Baharuddin Mr Adam Primus Varghese Abdullah Ms Wong Lai Wah *(Ernst & Young)* *Appointed on 11 October 2001* *Discharged on 23 January 2003*	Ferrier Hodgson MH
43. **NCK Metal Sdn Bhd** *Provision of specialist materials and soil protection works. Leasing and rental of temporary construction materials.*	*Appointed on 11 October 2001* *Discharged on 30 June 2003*	As above.
44. **Ng Choo Kwan & Sons Hardware Sdn Bhd** *Hardware merchant.*	*Appointed on 11 October 2001* *Discharged on 4 July 2003*	As above.
45. **NCK Aluminium Extrusion Sdn Bhd** *Manufacturing of aluminium products.*	As above.	As above.
46. **Fook Chuan Trading Sdn Bhd** *Dealer in building materials, including hardware products.*	As above.	As above.
47. **Alpha Agencies Sdn Bhd** *Previously the owner 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* *Discharged on 18 July 2003*	BDO Binder
48. **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
49. **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.
50. **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* *Discharged on 24 March 2003*	Commerce International Merchant Bankers Berhad
51. **MEC Industrial Park Sdn Bhd** *Property holding company.*	*Appointed on 9 September 1999* *Discharged on 25 October 2002*	As above.

Company, principal activities & listing status	*Special Administrators*	*Independent Advisors*
52. **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. Previously listed on MSEB Main Board.*	Mr Lim Tian Huat Mr George Koshy *(Ernst & Young)* *Appointed on 9 September 1999* *Discharged on 4 July 2003*	RHB Sakura Merchant Bankers Berhad
53. **Profound View Sdn Bhd** *Property development.*	*Appointed on 6 July 2000* *Discharged on 4 July 2003*	As above.
54. **Danau Kota Development Sdn Bhd** *Property development.*	As above.	As above.
55. **Likas View Sdn Bhd** *Property development.*	As above.	As above.
56. **Kuala Lumpur Industries Holdings Berhad** *Investment holding.* *Previously listed on MSEB Main Board.*	Mr Mok Yuen Lok Mr Onn Kien Hoe *(Horwath)* *Appointed on 30 June 2000* *Discharged on 25 February 2004*	PricewaterhouseCoopers
57. **Emville Sdn Bhd** *Property developer.*	*Appointed on 27 October 2000* *Discharged on 12 July 2002*	As above.
58. **Sistem Irama Sdn Bhd** *Property developer.*	*Appointed on 30 June 2000* *Discharged on 15 October 2003*	As above.
59. **Bee Hin Holdings Sdn Bhd** *Investment holding, rental of properties and the provision of corporate and financial support services.*	*Appointed on 27 October 2000* *Discharged on 19 December 2003*	As above.
60. **Kuala Lumpur Industries Berhad** *Investment and investment property holding company.*	*Appointed on 30 June 2000* *Discharged on 12 January 2004*	As above.
61. **Bridgecon Holdings Bhd** *The Group is involved in the provision of civil engineering and concrete pumping services, manufacturing and supplying ready-mixed concrete, building construction, turnkey project management, quarrying operations and property development.* *Previously listed on MSEB Second Board.*	Mr Siew Kah Toong Mr Tan Kim Leong *(BDO Binder)* *Appointed on 6 April 2001* *Discharged on 31 October 2003*	Horwath
62. **Bridgecon Engineering Sdn Bhd** *Involved in the provision of civil engineering and concrete pumping services, manufacturing and supplying ready-mixed concrete, building construction, turnkey project management, quarrying operations and property development.*	*Appointed on 24 May 2001* *Discharged on 31 October 2003*	As above.
63. **Lean Seng Chan (Quarry) Sdn Bhd** *Involved in the operation of quarry.*	*Appointed on 24 May 2001* *Discharged on 23 May 2002*	As above.

	Company, principal activities & listing status	*Special Administrators*	*Independent Advisors*
64.	**LMD Sdn Bhd** *(previously known as Salanta Development Sdn Bhd)* *Property developer.*	En Abdul Khudus Mohd Naim En Hassan Hussain *(KS & Associates)* *Appointed on 29 August 2000* *Discharged on 28 August 2003*	BDO Binder
65.	**Cableview Services Sdn Bhd** *Television broadcasting services.*	Mr Lim Tian Huat Mr Chew Cheng Leong Y.M. Raja Ali Raja Othman *(Ernst & Young)* *Discharged on 29 August 2003*	(SAs discharged before formulation of workout proposal, therefore no Independent Advisor required)
66.	**Sportma Corporation Berhad** *Manufacture and trading of racquets and other sports equipment. Previously listed on MSEB Second Board.*	Mr Robert Teo Keng Tuan Mr Vincent Chew Chong Eu *(Hanifah Teo & Associates)* *Appointed on 9 September 1999* *Discharged on 9 September 2003*	Ferrier Hodgson MH
67.	**Profil Kemas Sdn Bhd** *Previously the developer and operator of a 14-storey, 330-room hotel in Kota Bharu, Kelantan.*	Mr Kenneth Teh Ah Kiam Ms Chan Yim Fun *(PricewaterhouseCoopers)* *Appointed on 24 July 2000* *Discharged on 23 September 2003*	OSK Holdings Berhad
68.	**MGR Corporation Bhd** *Manufacturing and marketing of timber-related products. Previously listed on the MSEB Second Board.*	Mr Adam Primus Varghese Abdullah Ms Wong Lai Wah Mr Kevin K. How *(Ernst & Young)* *Appointed on 11 October 2001* *Discharged on 7 October 2003*	BDO Binder
69.	**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* *Discharged on 8 October 2003*	Anuarul Azizan Chew & Co
70.	**Metropolitan TV Sdn Bhd** *Investment holding company involves in broadcasting activities.*	Mr Mok Yuen Lok Mr Onn Kien Hoe *(Horwath)* *Appointed on 12 July 2002* *Discharged on 5 December 2003*	Ferrier Hodgson MH
71.	**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* *Discharged on 12 December 2003*	K&N Kenanga Berhad
72.	**Sandakan Blockboard Manufacturing Co. Sdn Bhd** *Manufacturing of plywood and blockboard.*	As above.	As above.
73.	**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. Previously listed on the MSEB Second Board.*	Mr Tan Kim Leong Mr Siew Kah Toong *(BDO Binder)* *Appointed on 9 September 1999* *Discharged on 19 December 2003*	Shamsir Jasani Grant Thornton

Company, principal activities & listing status	Special Administrators	Independent Advisors
74. **Parit Perak Holdings Berhad** *Investment holding, provision of management services, property investment and development, and investment dealing. Previously listed on MSEB 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* *Discharged on 19 December 2003*	Ferrier Hodgson MH
75. **Abrar Corporation Berhad** *Investment holding company with subsidiaries involved in property investment, development and construction. Previously listed on MSEB Main Board.*	Mr Lim San Peen Ms Yap Wai Fun *(PricewaterhouseCoopers)* *Appointed on 27 May 2000* *Discharged on 26 February 2004*	KPMG
76. **Techno Asia Holdings Berhad** *[previously known as Westmont Land (Asia) Berhad]* *Investment holding company with subsidiaries involved in property development, investment holding, palm plantations, power generation and hotel operations.* *Previously listed on MSEB Main Board*	Mr Lim Tian Huat Mr Chew Cheng Leong *(Ernst & Young)* *Appointed on 2 February 2001* *Discharged on 30 January 2004*	OSK Holdings Berhad
77. **Litang Plantations Sdn Bhd** *Oil palm plantation.*	*Appointed on 30 April 2001* *Discharged on 5 January 2004*	As above.
78. **Cempaka Sepakat Sdn Bhd** *Oil palm plantation.*	As above.	As above.
79. **Ganda Plantations (Perak) Sdn Bhd** *Oil palm plantation.*	As above.	As above.
80. **Techno Asia Venture Capital Sdn Bhd** *Capital financing.*	As above.	As above.
81. **Ganda Edible Oils Sdn Bhd** *Processing of crude palm oil.*	As above.	As above.
82. **Prima Moulds Manufacturing Sdn Bhd** *(previously known as Techno Asia Sdn Bhd)* *Manufacturer of standard and custom mould bases.*	*Appointed on 2 February 2001* *Discharged on 5 January 2004*	As above.

(b) Companies where workout proposals have been implemented, and Special Administrators are pending discharge (11 companies):

	Company, principal activities & listing status	*Special Administrators*	*Independent Advisors*
1.	**Tang Kwor Ham Realty Sdn Bhd** *Previously the owner & operator of a 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 2004*	Asia Pacific Management Insight Sdn Bhd
2.	**Rahman Hydraulic Tin Sdn Bhd** *Tin mining and rubber production.* *Previously listed on MSEB 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 2004*	AM Merchant Bank Berhad
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 2004*	KPMG
	Subdiaries of Techno Asia Holding Berhad		
4.	**Mount Austin Properties Sdn Bhd** *Property development.*	Mr Lim Tian Huat Mr Chew Cheng Leong *(Ernst & Young)* *Appointed 30 April 2001* *Moratorium extended to 29 April 2004*	OSK Holdings Berhad
5.	**Wisma Dindings Sdn Bhd** *Property development and investment.*	As above.	As above.
6.	**L & M Corporation Bhd** *Involved in construction and construction related services.* *Previously listed on MSEB Second Board.*	Mr Gan Ah Tee Mr Ooi Woon Chee En Mohamed Raslan Abdul Rahman *(KPMG)* *Appointed on 30 August 2002* *Moratorium extended to 29 August 2004*	BDO Binder
7.	**Associated Kaolin Industries Berhad** *Manufacturing and sale of refined kaolin, logging and downstream timber products.* *Previously listed on MSEB Second Board.*	Ms Yap Wai Fun Mr Lim San Peen *(PricewaterhouseCoopers)* *Appointed on 3 May 2000* *Moratorium extended to 2 May 2004*	BDO Binder
8.	**Timbermaster Industries Berhad** *Investment holding company.* *Previously listed on MSEB Second Board.*	Mr Lim San Peen Ms Yap Wai Fun *(PricewaterhouseCoopers)* *Appointed on 14 December 1999* *Moratorium extended to 13 December 2004*	KPMG
9.	**Manalom Sdn Bhd** *Housing & property development.*	Mr Mak Kum Choon Mr Chu Siew Koon *(Deloitte KassimChan)* *Appointed on 27 July 1999* *Moratorium extended to 26 July 2004*	Aseambankers Malaysia Berhad

Company, principal activities & listing status	Special Administrators	Independent Advisors
10. **Projek Kota Langkawi Sdn Bhd** *Previously the 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 2004*	Deloitte KassimChan
11. **Hiap Aik Construction Berhad** *Undertaking of earthworks, foundation and construction contracts.* *Listed on MSEB Second Board.*	Mr Patrick Chew Kok Bin Mr Alvin Tee Guan Pian *(Anuarul Azizan Chew & Co)* *Appointed on 1 April 2002* *Moratorium extended to 31 March 2004*	Horwath

(c) Companies where workout proposals have been approved by the authorities and are being implemented (15 companies) :

Company, principal activities & listing status	Special Administrators	Independent Advisors
1. **RNC Corporation Berhad** *(previously 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 MSEB Main Board.*	Mr Robert Teo Keng Tuan Mr Vincent Chew Chong Eu *(Hanifah Teo & Associates)* *Appointed on 28 July 1999* *Moratorium extended to 27 July 2004*	Alliance Merchant Bank Berhad
2. **Sri Hartamas Berhad** *Property development company.* *Listed on MSEB 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 2004*	Deloitte KassimChan
3. **Kilang Papan Seribu Daya Berhad** *Production of sawn timber and moulded timber products.* *Listed on MSEB 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 2004*	Aseambankers Malaysia Berhad
4. **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 MSEB Main Board.*	Mr Lim Tian Huat Mr George Koshy *(Ernst & Young)* *Appointed on 11 August 1999* *Moratorium extended to 10 August 2004*	Asia Pacific Management Insight Sdn Bhd
5. **Jupiter Securities Sdn Bhd** *Stockbroking.*	Mr Gan Ah Tee Mr Ooi Woon Chee *(KPMG)* *Appointed on 30 April 1999* *Moratorium extended to 29 April 2004*	RHB Sakura Merchant Bankers Berhad
6. **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 MSEB 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 2004*	Ferrier Hodgson MH

	Company, principal activities & listing status	Special Administrators	Independent Advisors
7.	**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 2004*	Ferrier Hodgson MH
8.	**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.
9.	**Matahari-TCP Sdn Bhd** *Wholesale, retail, deal and trade in computer products.*	As above.	As above.
	Subsidiaries of Timbermaster Industries Berhad.		
10.	**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 2004*	KPMG
11.	**Perkayuan T.M. (Malaysia) Sdn Bhd** *Manufacturing of wood products.*	*Appointed on 24 January 2000* *Moratorium extended to 23 January 2005*	As above.
12.	**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* *Moratorium extended to 11 July 2004*	PricewaterhouseCoopers
13.	**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 2004*	Horwath
14.	**Woo Hing Brothers (Malaya) Berhad** *Retailer in watches.* *Listed on MSEB Second Board.*	Mr Heng Ji Keng Mr Bradley Dean Norman *(Ferrier Hodgson MH)* *Appointed on 2 March 2000* *Moratorium extended to 1 March 2005*	Horwath
15.	**Bescorp Industries Berhad** *Manufacturing & sale of reinforced concrete piles and contracting of piling & substructure works for infrastructure & construction projects.* *Listed on MSEB Second Board.*	Mr Tan Kim Leong Mr Siew Kah Toong *(BDO Binder)* *Appointed on 2 March 2000* *Moratorium extended to 1 March 2005*	Deloitte KassimChan

(d) Companies where workout proposals have been submitted to authorities, and are awaiting approval (0 companies):

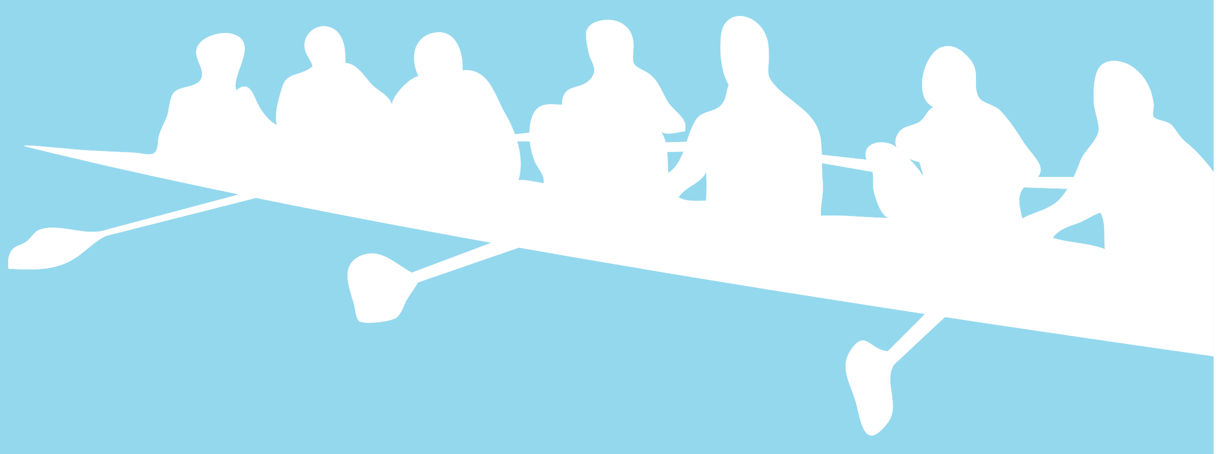
(e) Companies where workout proposals have been approved by secured creditors, and are currently pending submission to authorities (0 companies):

(f) Companies where special administrators have been appointed, and pending preparation of workout proposals (16 companies):

	Company, principal activities & listing status	*Special Administrators*	*Independent Advisors*
1.	**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 2004*	KPMG
2.	**Repco Holdings Berhad** *Investment holding and provision of management services to companies within the Repco group.* *Previously listed on MSEB Second Board.* *De-listed by MSEB on 11 August 2003.*	Ms Chan Yim Fun Mr Kenneth Teh Ah Kiam *(PricewaterhouseCoopers)* *Appointed on 8 April 1999* *Moratorium extended to 7 April 2004*	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.	**Abrar Group International Sdn Bhd** *Investment holding company with subsidiaries involved in financial services.*	Mr Lim San Peen Mr Yap Wai Fun *(PricewaterhouseCoopers)* *Appointed on 27 May 2000* *Moratorium extended to 26 May 2004*	Horwath

Company, principal activities & listing status	Special Administrators	Independent Advisors
12. **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* *Moratorium extended to 14 October 2004*	To be appointed.
13. **Naluri Berhad** *Investment holding.* *Listed on MSEB Main Board.*	Mr Gan Ah Tee Mr. Ooi Woon Chee En Mohamed Raslan Abdul Rahman *(KPMG)* *Appointed on 23 December 2002* *Moratorium extended to 23 December 2004*	BDO Binder
14. **Saship Holdings Berhad** *Investment holding, letting out of properties and provision of management services.* *Listed on MSEB Main Board.* *De-listed by MSEB on 4 February 2004*	Mr Lim Tian Huat Mr. Chew Cheng Leong Y.M. Raja Ali Raja Othman *(Ernst & Young)* *Appointed on 28 April 2003*	Deloitte KassimChan.
15. **Sabah Shipyard Sdn Bhd** *Involved in the engineering, construction, servicing and repairing of ships, barges and buoys, as well as in the fabrication of offshore oil and gas production platforms.*	As above.	As above.
16. **Waktu Cerah Sdn Bhd** *Property developer.* *Subsidiary of Bescorp Industries Berhad.*	Mr Tan Kim Leong Mr Siew Kah Toong *(BDO Binders)* *Appointed on 16 March 2004*	To be appointed.

Calendar of Events 2003



JANUARY

7 Danaharta briefs Group Editors and Business Editors of major local media

FEBRUARY

6 Visit by Indian AMC

MARCH

10 Visit by HSBC Research, Singapore

11 Visit by Sri Lanka Central Bank

Roundtable Discussion with analysts

18 Visit by Japan Embassy Counsellor

26 Visit by Vietnam Bank Association - Group 1

APRIL

23 Danaharta announces the launch of a specific tender to sell two properties in Pulau Pinang

25 Visit by Australian High Commissioner

28 Visit by Singapore High Commissioner

Danaharta appoints Special Administrators of Saship Holdings Berhad and Sabah Shipyard Sdn Bhd

MAY

21 Jalur Realty, Danaharta's subsidiary, announces the launch of a specific tender to sell nine commercial properties

JUNE

9 Visit by Indonesian Bank Restructuring Agency (IBRA)

12 Visit by Institute of International Finance, New York

Danaharta announces Dato' Zukri Samat's appointment as Managing Director, replacing Dato' Hamidy Abdul Hafiz, effective 1 July 2003

26 Danaharta announces the appointment of Dato' Abdul Hamidy Hafiz as its non-Executive Director, replacing Dato' Richard Ho Ung Hun, effective 1 July 2003

JULY

1 Danaharta announces the launch of a specific tender to sell properties located in Johor, Pulau Pinang and Melaka

24 Danaharta briefs Universiti Teknologi Malaysia students

29 Visit by International Monetary Fund (IMF)

30 Visit by the Minister of Finance II YB Dato' Dr. Jamaluddin Jarjis

Danaharta announces the appointment of Dato' Zainal A. Putih as Chairman of Danaharta, replacing Dato' Azman Yahya effective 1 August 2003

AUGUST

6 Danaharta announces eighth nationwide property tender

14 Danaharta presents a paper on "*Debt Management Initiatives*" at the Study Group on Asian Tax Administration and Research Training Programme organised by Inland Revenue Board Malaysia

15 Danaharta briefs Van Eck Global, New York (a fund management company)

27 Visit by British High Commissioner

28 Visit by IBRA

SEPTEMBER

22 Danaharta announces the launch of a specific tender to sell factory plots and four commercial properties

23 Danaharta presents a paper on "*Danaharta's Restructuring and Recovery Approaches*" at the Expanding the Capital Horizons 2003 conference organised by U-Link Smart Venture Sdn Bhd

OCTOBER

1 Danaharta launched a one-year trainee executive program

3 Visit by Allens Arthur Robinson, a legal firm in Australia

11 Danaharta announces the sales results of the eighth nationwide property tender

16/17 Visit to IBRA by Managing Director - Jakarta

NOVEMBER

3 Danaharta announces the launch of a specific tender to sell two commercial properties in Petaling Jaya

4 Visit by IMF

5 Visit by Vietnam Bank Association - Group 2

6 Visit by Asian Development Bank (ADB)

10/11 Danaharta presents a paper on "*Asset Management Companies in Asia: Experiences and Current Challenges*" at the Organization for Economic and Co-operation and Development (OECD) 3rd Forum for Asian Insolvency Reform in Seoul, Korea

12/13 Danaharta presents a paper on "*Financial Sector Reform Experience in Malaysia*" to the Nepal Rastra Bank (Central Bank of Nepal) at the Non-Performing Loans Workshop in Kathmandu, Nepal

19 Visit by Deutsche Bank AG, Frankfurt

21 Danaharta appoints Dato' Abd Wahab Maskan to its Board of Directors, replacing Dato' Mohamed Md. Said, effective 21 November 2003

DECEMBER

2 Visit by American Embassy

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