

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF TM INTERNATIONAL FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 TO 31 DECEMBER 2006 AND THE AUDITORS' REPORT

Company No: 242188-H

TM International Berhad

(Formerly known as TM International Sdn Bhd)
(Incorporated in Malaysia)

**Consolidated Income Statements
for the financial years ended 31 December 2004,
31 December 2005 and 31 December 2006**

	Note	2004 RM'000	2005 RM'000	2006 RM'000
Operating revenue	6	915,563	1,606,413	4,050,250
Operating costs				
- depreciation and amortisation		(101,572)	(231,355)	(820,270)
- other operating costs	7	(475,810)	(934,185)	(2,080,081)
Other operating income	8	2,109	263,012	103,284
Operating profit before finance cost		340,290	703,885	1,253,183
- Finance income	9	13,547	31,319	50,208
- Finance cost	9	(26,383)	(29,884)	(202,012)
Net finance (cost)/income		(12,836)	1,435	(151,804)
Jointly controlled entities				
- share of results (net of tax)	20	-	-	(27,417)
Associates				
- share of results (net of tax)	21	85,736	18,342	28,563
- gain on dilution/disposal		1,576,217	84,485	-
Profit before tax		1,989,407	808,147	1,102,525
Taxation	10	(79,999)	(99,547)	(281,718)
Profit for the financial year		1,909,408	708,600	820,807
Attributable to:				
- equity holders of the Company		1,874,761	636,257	629,321
- minority interests		34,647	72,343	191,486
Profit for the financial year		1,909,408	708,600	820,807
Earnings per share (sen)	11	5,252	1,783	1,763

The above consolidated income statements are to be read in conjunction with the notes to the financial statements on pages 256 to 369.

TM International Berhad

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Consolidated Balance Sheets as at 31 December 2004, 31 December 2005 and 31 December 2006

	Note	2004 RM'000	2005 RM'000	2006 RM'000
Share capital	12	35,693	35,693	35,693
Share premium		58,329	58,329	58,329
Reserves	14	1,872,004	2,527,747	3,128,816
Total capital and reserves attributable to equity holders of the Company		1,966,026	2,621,769	3,222,838
Minority interests		98,204	598,741	703,845
Total equity		2,064,230	3,220,510	3,926,683
Borrowings	15	228,392	1,889,832	2,925,548
Amount due to holding company	16	611,096	3,441,577	2,598,323
Deferred tax liabilities	17	78,077	145,742	361,456
Deferred and long term liabilities		917,565	5,477,151	5,885,327
Shareholders' equity and non current liabilities		2,981,795	8,697,661	9,812,010
Intangible assets	18	-	2,797,518	3,165,079
Property, plant and equipment	19	1,071,130	4,361,281	6,456,191
Jointly controlled entities	20	-	-	632,219
Associates	21	30,481	50,142	222,313
Long term receivables – staff loans		-	300	356
Long term investments	22	41,276	31,843	-
Deferred tax assets	17	-	216,151	188,589
Total long term assets		1,142,887	7,457,235	10,664,747
Inventories	23	10,012	35,323	43,363
Trade and other receivables	24	236,487	470,629	625,035
Amount due from holding company	16	1,630,565	1,622,136	2,900
Amounts due from other related companies	25	16,873	7,204	6,159
Cash and bank balances	26	404,374	933,697	539,551
Current assets		2,298,311	3,068,989	1,217,008
Trade and other payables	27	378,506	1,056,739	1,548,112
Borrowings	15	62,591	747,986	500,644
Amount due to holding company	16	13,487	13,523	-
Current tax liabilities		4,819	10,315	20,989
Current liabilities		459,403	1,828,563	2,069,745
Net current (liabilities)/assets		1,838,908	1,240,426	(852,737)
		2,981,795	8,697,661	9,812,010

The above consolidated balance sheets are to be read in conjunction with the notes to the financial statements on pages 256 to 369.

TM International Berhad(Formerly known as TM International Sdn Bhd)
(Incorporated in Malaysia)**Consolidated Statement of Changes in Equity
for the financial years ended 31 December 2004, 31 December 2005 and 31 December 2006**

	Attributable to equity holders of the Company							Total equity RM'000
	Share Capital + RM'000	Share premium RM'000	Currency translation differences RM'000	Merger reserve RM'000	Retained profits RM'000	Minority interests RM'000		
At 1 January 2004	35,693	58,329	(144,527)	(20,885)	191,461	81,230	201,301	
Currency translation differences arising during the financial year	-	-	(28,806)	-	-	(9,193)	(37,999)	
Net gain/(loss) not recognised in the income statement	35,693	58,329	(173,333)	(20,885)	191,461	72,037	163,302	
Profit for the financial year	-	-	-	-	1,874,761	34,647	1,909,408	
Total recognised (expense)/income for the financial year	35,693	58,329	(173,333)	(20,885)	2,066,222	106,684	2,072,710	
Dividends paid to minority interest	-	-	-	-	-	(8,480)	(8,480)	
At 31 December 2004	35,693	58,329	(173,333)	(20,885)	2,066,222	98,204	2,064,230	

+ Issued and fully paid ordinary shares of RM1 each

TM International Berhad(Formerly known as TM International Sdn Bhd)
(Incorporated in Malaysia)**Consolidated Statement of Changes in Equity
for the financial years ended 31 December 2004, 31 December 2005 and 31 December 2006
(continued)****Attributable to equity holders of the Company**

	Share Capital ⁺ RM'000	Share premium RM'000	Currency translation differences RM'000	Merger reserve RM'000	Retained profits RM'000	Minority interests RM'000	Total equity RM'000
At 1 January 2005	35,693	58,329	(173,333)	(20,885)	2,066,222	98,204	2,064,230
Currency translation differences arising during the financial year	-	-	19,486	-	-	(172)	19,314
Net gain/(loss) not recognised in the income statement	35,693	58,329	(153,847)	(20,885)	2,066,222	98,032	2,083,544
Profit for the financial year	-	-	-	-	636,257	72,343	708,600
Total recognised income for the financial Year	35,693	58,329	(153,847)	(20,885)	2,702,479	170,375	2,792,144
Acquisition of equity interest in subsidiaries	-	-	-	-	-	390,994	390,994
Partial disposal of equity interest in a subsidiary	-	-	-	-	-	24,513	24,513
Dilution of equity interest in subsidiaries	-	-	-	-	-	23,340	23,340
Dividends paid to minority interest	-	-	-	-	-	(10,481)	(10,481)
At 31 December 2005	35,693	58,329	(153,847)	(20,885)	2,702,479	598,741	3,220,510

⁺ Issued and fully paid ordinary shares of RM1 each

TM International Berhad(Formerly known as TM International Sdn Bhd)
(Incorporated in Malaysia)**Consolidated Statement of Changes in Equity
for the financial years ended 31 December 2004, 31 December 2005 and 31 December 2006
(continued)**

	Attributable to equity holders of the Company							Total equity RM'000
	Share Capital ⁺ RM'000	Share premium RM'000	Currency translation differences RM'000	Capital contribution reserve RM'000	Merger reserve RM'000	Retained profits RM'000	Minority interests RM'000	
At 1 January 2006	35,693	58,329	(153,847)	-	(20,885)	2,702,479	598,741	3,220,510
Currency translation differences arising during the financial year	-	-	(28,773)	-	-	-	(13,491)	(42,264)
Net gain/(loss) not recognised in income statement	35,693	58,329	(182,620)	-	(20,885)	2,702,479	585,250	3,178,246
Profit for the financial year	-	-	-	-	-	629,321	191,486	820,807
Total recognised income for the financial year	35,693	58,329	(182,620)	-	(20,885)	3,331,800	776,736	3,999,053
Acquisition of equity interest in subsidiaries	-	-	-	-	-	-	(73,222)	(73,222)
Dilution of equity interest in subsidiaries	-	-	-	-	-	-	18,180	18,180
Dividend paid to minority interest	-	-	-	-	-	-	(22,488)	(22,488)
Employee share option scheme:								
- value of employee services	-	-	-	521	-	-	-	521
- options granted	-	-	-	-	-	-	4,639	4,639
At 31 December 2006	35,693	58,329	(182,620)	521	(20,885)	3,331,800	703,845	3,926,683

⁺ Issued and fully paid ordinary shares of RM1 each

The above consolidated statement of changes in equity is to be read in conjunction with the notes to the financial statements on pages 256 to 369.

TM International Berhad

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Consolidated Cash Flow Statements for the financial years ended 31 December 2004, 31 December 2005 and 31 December 2006

	Note	2004 RM'000	2005 RM'000	2006 RM'000
Cash flows from/(used in) operating activities	28	456,175	878,573	1,959,879
Cash flows from/(used in) investing activities	28	1,371,902	(4,013,874)	(4,142,880)
Cash flows from/(used in) financing activities	28	(1,582,984)	3,672,531	1,832,116
Net decrease in cash and cash equivalents		245,093	537,230	(350,885)
Effect of exchange rate changes		(3,101)	(14,769)	(43,261)
Cash and cash equivalents at beginning of the financial year		157,480	399,472	921,933
Cash and cash equivalents at end of the financial year	26	399,472	921,933	527,787

The above consolidated cash flow statements are to be read in conjunction with the notes to the financial statements on pages 256 to 369.

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Notes to the Financial Statements for the financial years ended 31 December 2004, 31 December 2005 and 31 December 2006

1 General information and principal activities

The Company was incorporated in Malaysia under the Malaysian Companies Act 1965 on 12 June 1992 as a private limited company under the name Telekom Malaysia International Sdn Bhd. On 16 October 2001, it changed its name to TM International Sdn Bhd. It was converted to a public limited company on 12 December 2007 and has since assumed its present name.

The principal activities of the Company are investment holding, to provide management services and to provide telecommunication and consultancy services in foreign countries where it has investments in subsidiaries and associated companies.

The principal activities of the subsidiaries are set out in Note 35 to the financial statements. There has been no significant change in the nature of these activities during the financial years presented.

The address of the registered office of the Company is:

Level 51, North Wing
Menara TM
Jalan Pantai Baharu
50672 Kuala Lumpur

The principal office and place of business of the Company is:

Level 42, South Wing
Menara TM
Jalan Pantai Baharu
50672 Kuala Lumpur

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Notes to the Financial Statements for the financial years ended 31 December 2004, 31 December 2005 and 31 December 2006 (continued)

2 Basis of preparation of the financial statements

Separate financial statements of the Company for the financial year ended 31 December 2004, 31 December 2005 and 31 December 2006 have been prepared for the purpose of statutory lodgement. Consolidated financial statements of the Company for the financial years ended 31 December 2004, 31 December 2005 and 31 December 2006 were not previously prepared as the Directors of the Company had used an exemption granted under Paragraph 10(d) of Financial Reporting Standards 127 "Consolidated and Separate Financial Statements". Under the exemption, consolidated financial statements of the Company for the financial years ended 31 December 2004, 31 December 2005 and 31 December 2006 were not required to be prepared as the Company was a wholly owned subsidiary company of Telekom Malaysia Berhad ('TM') and consolidated financial statements were produced by TM and were available for public use.

Special purpose consolidated financial statements have now been prepared for inclusion in the Shareholders' Circular to be dated 20 February 2008 in connection with the following:

- (a) Proposed demerger of the TM Group of Companies ('TM Group');
- (b) Proposed listing of the entire issued and paid-up ordinary share capital of the Company on the Main Board of Bursa Malaysia Securities Berhad;
- (c) Proposed shareholders' mandate for the issuance of up to 10% of the share capital of the Company;
- (d) Proposed employees' share option scheme to eligible employees of TM Group; and
- (e) Proposed acquisitions by the Company from Khazanah Nasional Berhad of equity interests in PT Excelmindo Pratama Tbk ('XL') and SunShare Investments Ltd ('SunShare').

The financial statements of the Group for the financial years ended 31 December 2004 and 31 December 2005 have been prepared to comply with Malaysian Accounting Standards Board ('MASB') approved accounting standards in Malaysia except for the early adoption of new Financial Reporting Standards (FRSs) as detailed in Note 2(a), the implications which are detailed in Note 38.

The financial statements of the Group for the financial year ended 31 December 2006 have been prepared in accordance with FRSs, the MASB approved accounting standards in Malaysia for Entities Other Than Private Entities. FRSs which are mandatory for financial years beginning on or after 1 January 2006 are as described in (a) below.

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Notes to the Financial Statements for the financial years ended 31 December 2004, 31 December 2005 and 31 December 2006 (continued)

2 Basis of preparation of the financial statements (continued)

The preparation of financial statements in conformity with the above, requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of the revenue and expenses during the reported period. It also requires Directors to exercise their judgement in the process of applying the Group's accounting policies. Although these estimates and judgement are based on the Directors' best knowledge of current events and actions, actual results may differ.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Group's financial statements are disclosed in Note 4 to the financial statements.

The financial statements of the Group have been prepared under the historical cost convention except as disclosed in the significant accounting policies below.

(a) Standards, amendments to published standards and interpretations that are effective

The new accounting standards, amendments to published standards and IC Interpretations to the existing standards effective for the Group's financial year beginning 1 January 2006 are as follows:

FRS 1	First-time Adoption of Financial Reporting Standards
FRS 2	Share-based Payments
FRS 3	Business Combinations
FRS 5	Non-Current Assets Held for Sale and Discontinued Operations
FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 108	Accounting Policies, Changes in Accounting Estimates and Errors
FRS 110	Events after the Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 128	Investments in Associates
FRS 131	Interests in Joint Ventures
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 133	Earnings per Share
FRS 136	Impairment of Assets
FRS 138	Intangible Assets
FRS 140	Investment Property

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Notes to the Financial Statements for the financial years ended 31 December 2004, 31 December 2005 and 31 December 2006 (continued)

2 Basis of preparation of the financial statements (continued)

(a) Standards, amendments to published standards and interpretations that are effective (continued)

Amendment to FRS 119₂₀₀₄ Employee Benefits – Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures – in relation to the “asset ceiling” test

IC 107	Introduction to Euro
IC 110	Government Assistance – No specific relation to Operating Activities
IC 112	Consolidation – Special Purpose Entities
IC 113	Jointly Controlled Entities – Non-Monetary Contributions by Venturers
IC 115	Operating Leases – Incentives
IC 121	Income Taxes – Recovery of Revalued Non-Depreciable Assets
IC 125	Income Taxes – Changes in the Tax Status of an Entity or its Shareholders
IC 127	Evaluating the Substance of Transactions Involving the Legal Form of a Lease
IC 129	Disclosure – Service Concession Arrangements
IC 131	Revenue – Barter Transactions Involving Advertising Services
IC 132	Intangible Assets – Website costs

All changes in accounting policies have been made in accordance with the transitional provisions in the respective standards, amendments to published standards and interpretations. All standards, amendments and interpretations (which are applicable) adopted by the Group require retrospective application other than:

FRS 2	– retrospective application for all equity instruments granted after 31 December 2004 and not vested at 1 April 2006;
FRS 3	– prospectively for business combinations for which the agreement date is or on after 1 January 2006;
FRS 5	– prospectively to non-current assets (or disposal groups) that meet the criteria to be classified as held for sale and to operations that meet the criteria to be classified as discontinued on/after 1 April 2006;
FRS 116	– the exchange of property, plant and equipment is accounted at fair value prospectively;
FRS 121	– prospective accounting for goodwill and fair value adjustments as part of foreign operations;
FRS 136 & 138	– applies to goodwill and intangible assets acquired in business combinations for which the agreement date is on or after 1 January 2006 and all other assets prospectively

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Notes to the Financial Statements for the financial years ended 31 December 2004, 31 December 2005 and 31 December 2006 (continued)

2 Basis of preparation of the financial statements (continued)

(a) Standards, amendments to published standards and interpretations that are effective (continued)

A summary of the impact of the new accounting standards, amendments to published standards and interpretations to existing standards on the financial statements of the Group are set out in Note 38.

(b) Standards, amendments to published standards and interpretations that are not yet effective and have not been early adopted

The new and revised standards, amendments to published standards and interpretations that are applicable to the Group's, which the Group has not early adopted, are as follows:

- FRS 117 Leases (effective for accounting period beginning on or after 1 October 2006). This standard requires the classification of leasehold land as prepaid lease payment. The Group will apply this standard from financial year beginning on 1 January 2007. The Group has not disclosed the financial impact of the application of this standard following the transitional provision which provides exemption from early disclosure of the financial impact prior to its effective date.
- FRS 124 Related Party Disclosures (effective for accounting period beginning on or after 1 October 2006). This standard will affect the identification of related parties and some other related party disclosures. The Group will apply this standard from financial year beginning 1 January 2007. The Group has not disclosed the financial impact of the application of this standard following the transitional provision which provides exemption from early disclosure of the financial impact prior to its effective date.
- FRS 139 Financial Instruments: Recognition and Measurement (effective date yet to be determined by Malaysian Accounting Standards Board). This new standard establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. Hedge accounting is permitted only under strict circumstances. The Group will apply this standard when effective.

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Notes to the Financial Statements for the financial years ended 31 December 2004, 31 December 2005 and 31 December 2006 (continued)

2 Basis of preparation of the financial statements (continued)

(b) Standards, amendments to published standards and interpretations that are not yet effective and have not been early adopted (continued)

The MASB also issued the following revised Standards, amendment to Standards and IC Interpretation which are only effective for annual periods on or after 1 July 2007. The Group will apply these Standards and Interpretations from financial periods beginning on 1 January 2008.

- Amendment to FRS 121 *The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operations*. This amendment requires exchange differences on monetary items that form part of the net investment in a foreign operation to be recognised in equity instead of in profit or loss regardless of the currency in which these items are denominated in.
- FRS 112 *Income Taxes*. This revised standard removes the requirements that prohibit recognition of deferred tax on unutilised reinvestment allowances or other allowances in excess of capital allowances.
- Other revised standards that have no significant changes compared to the original standards:
 - FRS 107 *Cash Flow Statements*
 - FRS 118 *Revenue*
 - FRS 137 *Provisions, Contingent liabilities and Contingent Assets*
- IC Interpretation 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*. This interpretation deals with changes in the estimated timing or amount of the outflow of resources required to settle the obligation, or a change in the discount rate.
- IC Interpretation 8 *Scope of FRS 2*. This interpretation clarifies that FRS 2 *Share-based Payment* applies even in the absence of specifically identifiable goods and services.

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Notes to the Financial Statements for the financial years ended 31 December 2004, 31 December 2005 and 31 December 2006 (continued)

2 Basis of preparation of the financial statements (continued)

(c) Standards that are not yet effective and not relevant for the Group's operations

- FRS 6 Exploration for and Evaluation of Mineral Resources (effective for accounting year beginning on or after 1 January 2007). FRS 6 is not relevant to the Group's operations as the Group does not carry out exploration for and evaluation of mineral resources.
- Amendment to FRS 119 Employee Benefits – *Actuarial Gains and Losses, Group Plans and Disclosures* (effective for accounting periods beginning on or after 1 January 2007). This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements.
- FRS 120 Accounting for Government Grants and Disclosure of Government Assistance. This revised standard allows the alternative treatment of recording non-monetary government grant at nominal amount on initial recognition.
- FRS 111 Construction Contracts. This revised standard has no significant changes compared to the original standards.
- IC Interpretation 2 Members' Shares in Co-operative Entities and Similar Instruments. This interpretation deals with liability or equity classification of financial instruments which give the holder the right to request redemption, but subject to limits on whether it will be redeemed.

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Notes to the Financial Statements for the financial years ended 31 December 2004, 31 December 2005 and 31 December 2006 (continued)

2 Basis of preparation of the financial statements (continued)

(c) Standards that are not yet effective and not relevant for the Group's operations (continued)

- IC Interpretation 5 Rights to Interests arising from Decommission, Restoration and Environmental Rehabilitation Funds. This interpretation deals with accounting by a contributor for its interests arising from decommissioning funds.
- IC Interpretation 6 Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment. This interpretation provides guidance on the recognition, in the financial statements of the producers, of liabilities for waste management under the European Union Directive in respect of sales of historical household equipment.
- IC Interpretation 7 Applying the Restatement Approach under FRS 129 Financial Reporting in Hyperinflationary Economies. This interpretation provides guidance on how to apply the requirements of FRS 129 in a reporting period in which an entity identifies the existence of hyperinflationary in the economy of its functional currency, when that economy was not hyperinflationary in the prior period.

3 Significant accounting policies

(a) Economic entities in the Group

(i) Subsidiaries

Subsidiaries are those corporations or other entities (including special purpose entities) in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from their activities, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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Notes to the Financial Statements for the financial years ended 31 December 2004, 31 December 2005 and 31 December 2006 (continued)

3 Significant accounting policies (continued)

(a) Economic entities in the Group (continued)

(i) Subsidiaries (continued)

Subsidiaries are consolidated using the purchase method of accounting except for certain business combinations which were accounted for using the merger method as follows:

- subsidiaries that were consolidated prior to 1 April 2002 in accordance with Malaysian Accounting Standard 2 'Accounting for Acquisitions and Mergers', the generally accepted accounting principles prevailing at that time
- business combinations consolidated on/after 1 April 2002 but with agreement dates before 1 January 2006 that meet the conditions of a merger as set out in FRS 122₍₂₀₀₄₎ 'Business Combinations'
- internal group reorganisations, as defined in FRS 122₍₂₀₀₄₎, consolidated on/after 1 April 2002 but with agreement dates before 1 January 2006 where:
 - the ultimate shareholders remain the same, and the rights of each such shareholder, relative to the others, are unchanged; and
 - the minorities' share of net assets of the Group is not altered by the transfer
- business combinations involving entities or businesses under common control with agreement dates on/after 1 January 2006

The Group has taken advantage of the exemption provided by FRS 122₍₂₀₀₄₎ and FRS 3 to apply these Standards prospectively.

Under the merger method of accounting, the results of subsidiaries are presented as if the merger had been effected throughout the current and previous years. The assets and liabilities combined are accounted for based on the carrying amounts from the perspective of the common control shareholder at the date of transfer. On consolidation, the cost of the merger is cancelled with the values of the shares received. Any resulting credit difference is classified as equity and regarded as a non-distributable reserve. Any resulting debit difference is adjusted against any suitable reserve. Any share premium, capital redemption reserve and any other reserves which are attributable to share capital of the merged enterprises, to the extent that they have not been capitalised by a debit difference, are reclassified and presented as movement in other capital reserves.

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Notes to the Financial Statements for the financial years ended 31 December 2004, 31 December 2005 and 31 December 2006 (continued)

3 Significant accounting policies (continued)

(a) Economic entities in the Group (continued)

(i) Subsidiaries (continued)

Under the purchase method of accounting, subsidiaries are fully consolidated from the date on which control is transferred to the Group and are excluded from consolidation from the date that control ceases. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired at the date of acquisition is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

Minority interests represent that portion of the profit or loss and net assets of subsidiaries attributable to equity interest that are not owned, directly or indirectly through the subsidiaries by the parent. It is measured at the minorities share of the fair values of the subsidiaries identifiable assets and liabilities at the acquisition date and the minorities share of changes in subsidiaries equity since that date. Separate disclosure is made of minority interests.

Where more than one exchange transaction is involved, any adjustment to the fair value of the subsidiaries identifiable assets, liabilities and contingent liabilities relating to previously held interests of the Group is accounted for as a revaluation.

Intragroup transactions, balances and unrealised gains or losses on transactions between Group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the accounting policies adopted by the Group.

The gain or loss on disposal of a subsidiary is the difference between the net disposal proceeds and the Group's share of the subsidiary net assets as of the date of disposal, including the cumulative amount of any exchange differences that relate to that subsidiary which were previously recognised in equity, and is recognised in the consolidated income statement.

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Notes to the Financial Statements for the financial years ended 31 December 2004, 31 December 2005 and 31 December 2006 (continued)

3 Significant accounting policies (continued)

(a) Economic entities in the Group (continued)

(ii) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share of the carrying value of net assets of the subsidiary acquired.

(iii) Jointly controlled entities

Jointly controlled entities are corporations, partnerships or other entities over which there is contractually agreed sharing of control by the Group with one or more parties where the strategic financial and operation decisions relating to the entity requires unanimous consent of the parties sharing control.

The Group's interest in jointly controlled entities is accounted for in the consolidated financial statements using the equity method of accounting. Equity accounting involves recognising the Group's share of the post acquisition results of the jointly controlled entities in the consolidated income statement and its share of post acquisition movement within reserve in reserves. The cumulative post acquisition movements are adjusted against the cost of the investment and includes goodwill on acquisition (net of accumulated impairment loss).

Equity accounting is discontinued when the Group ceases to have joint control in the jointly controlled entities.

The Group recognises the portion of gains or losses on the sale of assets by the Group to the jointly controlled entities that is attributable to the other venturers. The Group does not recognise its share of profits or losses from the jointly controlled entities that result from the purchase of assets by the Group from the jointly controlled entities until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss. Where necessary, in applying the equity method, adjustments are made to the financial statements of jointly controlled entities to ensure consistency of the accounting policies with those of the Group.

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3 Significant accounting policies (continued)

(a) Economic entities in the Group (continued)

(iv) Associates

Associates are corporations, partnerships or other entities in which the Group exercises significant influence but which it does not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Significant influence is the power to participate in the financial and operating policy decisions of the associates but not control over those policies.

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting. Equity accounting is discontinued when the Group ceases to have significant influence over the associates. The Group's investments in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associates post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised within reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investments. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group's interest is reduced to nil and recognition of further loss is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

The results of associates are taken from the most recent financial statements of the associates concerned, made up to dates not more than three months prior to the end of the financial year of the Group.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, in applying the equity method, appropriate adjustments are made to the financial statements of the associates to ensure consistency of accounting policies with those of the Group.

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3 Significant accounting policies (continued)

(a) Economic entities in the Group (continued)

(iv) Associates (continued)

Dilution gains and losses are recognised in the income statement.

For incremental interest in associates, the date of acquisition is the date at which significant influence is obtained. Goodwill is calculated at each purchase date based on the fair value of assets and liabilities identified. The previously acquired stake is stepped up to fair value and the share of profits and equity movements for the previously acquired stake are not recognised since they are embedded in the step up.

(b) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of acquisition of subsidiaries, jointly controlled entities and associates over the Group's share of the fair value of the identifiable net assets including contingent liabilities of subsidiaries, jointly controlled entities and associates at the date of acquisition. Goodwill on acquisition occurring on or after 1 January 2002 in respect of a subsidiary is included in the consolidated balance sheet as an intangible asset.

Goodwill is carried at cost less accumulated impairment losses. Goodwill is tested for impairment at least annually, or when events or circumstances occur indicating that an impairment may exist. Impairment of goodwill is charged to the consolidated income statement as and when it arises. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity disposed.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each cash-generating unit or a group of cash-generating units represents the lowest level within the Group at which goodwill is monitored for internal management purposes and which are expected to benefit from the synergies of the combination.

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3 Significant accounting policies (continued)

(b) Intangible assets (continued)

(i) Goodwill (continued)

The Group allocates goodwill to each business segment in each country in which it operates. Goodwill on acquisition of jointly controlled entities and associates occurring on or after 1 January 2002 is included in the investments in jointly controlled entities and associates respectively. Such goodwill is tested for impairment as part of the overall balance.

Goodwill on acquisitions that occurred prior to 1 January 2002 was written off against reserves in the financial year of acquisition.

(ii) Licences

Acquired licences are shown at cost. Licences have finite useful lives and are carried at cost less accumulated amortisation. Amortisation is calculated using straight line method, from the effective date of commercialisation of services, subject to impairment, to the end of the assignment period. Licences are not revalued.

(c) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items.

(i) Cost

The cost of telecommunication network includes cost of equipment, site surveys, contractors charges, materials and related overhead. The cost of other property, plant and equipment comprises their purchase cost and any incidental cost of acquisition. These costs include the costs of dismantling, removal and restoration, the obligation which was incurred as a consequence of installing the asset.

Subsequent cost is included in the carrying amount of the asset or recognised as appropriate only when it is probable that the future economic benefit associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying value of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the period in which they are incurred.

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3 Significant accounting policies (continued)

(c) Property, plant and equipment (continued)

(ii) Depreciation and residual value

Freehold land is not depreciated as it has an infinite life. Leasehold land is amortised in equal instalments over the period of the respective leases. Long term leasehold land has an unexpired lease period of fifty years and above. Other property, plant and equipment are depreciated on a straight line basis to write off the cost of the assets to their residual values over their estimated useful lives in years as summarised below:

Buildings	5 – 40 years
Telecommunication network	3 – 20 years
Movable plant and equipment	5 – 8 years
Computer support systems	3 – 5 years

Depreciation on property, plant and equipment under construction commences when the property, plant and equipment are ready for their intended use. Depreciation on property, plant and equipment ceases at the earlier of derecognition and classification as held for sale.

The assets residual values and useful lives are reviewed and adjusted as appropriate at each balance sheet date.

(iii) Impairment

At each balance sheet date, the Group assesses whether there is any indication of impairment. If such indication exists, an analysis is performed to assess whether the carrying value of the asset is fully recoverable. A write down is made if the carrying value exceeds the recoverable amount (See accounting policies Note 3(e) on impairment of assets).

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3 Significant accounting policies (continued)

(c) Property, plant and equipment (continued)

(iv) Gains or losses on disposal

Gains or losses on disposal are determined by comparing the proceeds with the carrying amount of the related asset and are included in the income statement.

(v) Asset exchange transaction

Property, plant and equipment may be acquired in exchange for a non-monetary asset or for a combination of monetary and non-monetary assets and is measured at fair values unless;

- the exchange transaction lacks commercial substance; or
- the fair value of neither the assets received nor the assets given up can be measured reliably.

The acquired item is measured in this way even if the Group cannot immediately derecognise the assets given up. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

(vi) Repairs and maintenance

Repairs and maintenance are charged to the income statement during the period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. This cost is depreciated over the remaining useful life of the related asset.

(d) Investments

Investments in subsidiaries, jointly controlled entities and associates are stated at cost less accumulated impairment losses. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount.

On disposal of an investment, the difference between net disposal proceeds and carry amount is charged/credited to the income statement.

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3 Significant accounting policies (continued)

(e) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested for impairment annually, or as and when events or circumstances occur indicating that an impairment may exist. Property, plant and equipment and other non-current assets, including intangible assets with definite useful life, are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value-in-use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there is separately identifiable cashflows (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal at each reporting date.

(f) Inventories

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

Cost is determined on a weighted average basis and comprises all cost of purchase and other cost incurred in bringing the inventories to their present location. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs.

Net realisable value represents the estimated selling price in the ordinary course of business, less all estimated costs to completion and applicable variable selling expenses. In arriving at the net realisable value, due allowance is made for all obsolete and slow moving items.

Inventories include maintenance spares acquired for the purpose of replacing damaged or faulty plant or spares and supplies used in constructing and maintaining the network.

(g) Trade receivables

Trade receivables are carried at invoice amount less an allowance for doubtful debts. The allowance is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

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3 Significant accounting policies (continued)

(h) Cash and cash equivalents

For the purpose of the cash flow statements, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short term, highly liquid investments with original maturities of three months or less and bank overdrafts. Deposits held as pledged securities for term loans granted are not included as cash and cash equivalents. Bank overdrafts are included within borrowings in current liabilities in the balance sheet.

(i) Non-current assets (or disposal group) classified as assets held for sale

Non-current assets (or disposal group) are classified as assets held for sale if their carrying amount will be recovered principally through a sale transaction rather than through a continuing use.

Assets held for sale are stated at the lower of carrying amount and fair value less cost to sell.

(j) Share capital

Ordinary share with discretionary dividends are classified as equity. Other shares are classified as equity and/or liability according to the economic substance of the particular instrument.

Distribution to holders of a financial instrument classified as an equity instrument is charged directly to equity.

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3 Significant accounting policies (continued)

(k) Bonds, notes, debentures and borrowings

Bonds, notes and debentures, are stated at the net proceeds received on issue. The finance costs which represent the difference between the net proceeds and the total amount of the payments of these borrowings are allocated to periods over the term of the borrowings at a constant rate on the carrying amount and are charged to the income statement.

Interests, dividends, losses and gains relating to a financial instrument, or a component part, classified as a liability is reported within finance cost in the income statement.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

Borrowing cost incurred in connection with financing the construction and installation of property, plant and equipment is capitalised until the property, plant and equipment are ready for their intended use. All other borrowing costs are charged to the income statement.

(l) Operating leases

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Income Statement on the straight line basis over the lease period.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

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3 Significant accounting policies (continued)

(m) Income taxes

Current tax expense is determined according to the tax laws of each jurisdiction in which the Group operates and include all taxes based upon the taxable profits, including withholding taxes payable by foreign subsidiaries, jointly controlled entities or associates on distributions of retained earnings to companies in the Group, and real property gains taxes payable on disposal of properties.

Deferred tax 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. However deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at that time of the transaction affects neither accounting nor taxable profit or loss.

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 unutilised tax losses can be utilised.

Deferred tax is recognised on temporary differences arising on investments in subsidiaries, jointly controlled entities and associates except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The Group's share of income taxes of jointly controlled entities and associates are included in the Group's share of results of jointly controlled entities and associates.

Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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3 Significant accounting policies (continued)

(n) Provisions

Provisions are recognised when the Group have a present legal or constructive 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. Where the Group expects a provision to be reimbursed (for example, under an insurance contract), the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in a settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(o) Contingent liabilities and contingent assets

The Group does not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by uncertain future events beyond the control of the Group or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare circumstance where there is a liability that cannot be recognised because it cannot be measured reliably.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by uncertain future events beyond the control of the Group. The Group does not recognise a contingent asset but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

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3 Significant accounting policies (continued)

(o) Contingent liabilities and contingent assets (continued)

In the acquisition of subsidiaries by the Group under a business combination, the contingent liabilities assumed are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The Group recognises separately the contingent liabilities of the acquirees as part of allocating the cost of a business combination where their fair values can be measured reliably. Where the fair values cannot be measured reliably, the resulting effect will be reflected in the goodwill arising from the acquisitions.

Subsequent to the initial recognition, the Group measures the contingent liabilities that are recognised separately at the date of acquisition at the higher of the amount that would be recognised in accordance with the provisions of FRS 137 and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with FRS 118.

(p) Revenue recognition

Operating revenue comprises the fair value of the consideration received or receivables for the sale of products and rendering of services net of returns, duties, sales discounts and sales taxes paid, after eliminating sales within the Group. Operating revenue is recognised or accrued at the time of the provision of the products or services.

Dividend income from investment in subsidiaries, jointly controlled entities, associates and other investments is recognised when a right to receive payment is established.

Interest income includes income from deposits with licensed banks, finance companies, other financial institutions and staff loans, and is recognised on an accrual basis.

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3 Significant accounting policies (continued)

(q) Employee benefits

(i) Short term employee benefits

Wages, salaries, paid annual leave and sick leave, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group.

(ii) Contribution to Employees Provident Fund ('EPF')

The Group's contributions to EPF are charged to the Income Statement in the period to which they relate. Once the contributions have been paid, the Group has no further payment obligations. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(iii) Termination benefits

Termination benefits are payable whenever an employees employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than twelve months after the balance sheet date are discounted to present value.

(iv) Share-based compensation

The Group has applied the provision of FRS 2 to all equity instruments granted after 31 December 2004 but not fully vested as at 1 January 2006, the effective date the Group adopted this FRS.

The Group operates equity settled, share-based compensation plans for the employees of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense in the income statement over the vesting periods of the grant with a corresponding increase in equity.

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3 Significant accounting policies (continued)

(q) **Employee benefits (continued)**

(iv) **Share-based compensation (continued)**

For share-based compensation plans operated by the Group, the total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity. For options granted to subsidiaries within the Group, the expense will be recognised in the subsidiaries' financial statements over the vesting periods of the grant.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

In addition, the Group's eligible employees are also entitled to the TM Employees' Share Option Scheme ('ESOS'). TM's ESOS covers both eligible employees of TM and TM's subsidiaries. The Scheme requires the Group to bear all costs and expenses in any way, arising out of, or connected with, the grant or vesting of the options to their employees. Options to which the grantees are not qualified to exercise shall lapse, be null and void.

The total amount to be expensed over the vesting period will be determined by TM, the grantor of the ESOS, and charged to the Group based on the number of ESOS options granted to the eligible employees under the Group.

The Group recognises the expense in the income statement, and a corresponding adjustment to capital contribution in equity. Revision of original estimates, if any will be recognised in the income statement, and the corresponding adjustment to capital contribution over the remaining vesting period.

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3 Significant accounting policies (continued)

(r) Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Ringgit Malaysia, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders equity. When a foreign operation is disposed of or sold, such exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on disposal.

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3 Significant accounting policies (continued)

(r) **Foreign currencies (continued)**

(iii) Group companies (continued)

Goodwill and fair value adjustments arising on the acquisition of a foreign entity completed on or after 1 January 2006 are treated as assets and liabilities of the foreign entity and are recorded in the functional currency of the foreign entity and translated at the exchange rate prevailing at balance sheet date. For acquisition of foreign entities completed prior to 1 January 2006, goodwill and fair value adjustments continued to be recorded at the exchange rates at the respective date of acquisitions.

(iv) Closing rates

The principal closing rates (units of Malaysian Ringgit per foreign currency) used in translating significant balances at financial year end are as follows:

Foreign currency	31 December 2004	31 December 2005	31 December 2006
US Dollar	3.80000	3.77900	3.52700
Sri Lanka Rupee	0.03640	0.03705	0.03284
Bangladesh Taka	0.06369	0.05709	0.05107
Indonesian Rupiah	-	0.00039	0.00039
Pakistani Rupee	-	0.06328	0.05807
Singapore Dollar	-	2.27281	2.29967
Thai Baht	0.097812	0.09214	0.09958
Indian Rupee	-	0.08403	0.07996
Iran Riyal	-	-	0.00038

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3 Significant accounting policies (continued)

(s) Financial instruments

(i) Description

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset from another enterprise, a contractual right to exchange financial instruments with another enterprise under conditions that are potentially favourable, or an equity instrument of another enterprise.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another enterprise, or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable.

(ii) Financial instruments recognised on the balance sheet

The particular recognition and measurement method for financial instruments recognised on the balance sheet is disclosed in the individual significant accounting policy statements associated with each item.

(iii) Financial instruments not recognised on the balance sheet

Financial derivative hedging instruments are used in the Group's risk management of foreign currency and interest rate exposures of its financial liabilities. Hedge accounting principles are applied for the accounting of the underlying exposures and their hedge instruments. These hedge instruments are not recognised in the financial statements on inception.

Exchange gains and losses relating to hedge instruments are recognised in the Income Statement in the same period as the exchange differences on the underlying hedged items. No amounts are recognised in respect of future periods.

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3 Significant accounting policies (continued)

(s) Financial instruments (continued)

(iv) Fair value estimation for disclosure purposes

The fair value of publicly traded financial instruments is based on quoted market prices at the balance sheet date. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

In assessing the fair value of non-traded financial instruments, the Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices are used if available or other techniques, such as estimated discounted value of future cash flows, are used to determine fair value. In particular, the fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

The carrying values for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values.

(t) Segment reporting

Segment reporting is presented for enhanced assessment of the Group's risks and returns. A business segment is a group of assets and operations engaged in providing products or services that are subject to risk and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those components. Segment revenue, expense, assets and liabilities are those amounts resulting from the operating activities of a segment that are directly attributable to the segment and the relevant portion that can be allocated on a reasonable basis to the segment.

Segment revenue, expense, assets and segment liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

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4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated by the Directors and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical judgements in applying the entity's accounting policies

In determining and applying accounting policies, judgement is often required in respect of items where the choice of specific policy could materially affect the reported results and financial position of the Group. The following accounting policy require subjective judgements, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

Intangible Assets

The Group has applied judgement in determining the treatment of the annual fees payable over ten (10) years in respect of a 3G spectrum licence granted to a foreign subsidiary. The annual fee is charged to the consolidated income statement when incurred based on management's judgement that future annual fees will no longer be payable upon the decision by the subsidiary to return the licence. Management considers the annual payment to be usage fees based on interpretation of the licence conditions, written confirmation from the Directorate General of Post and Telecommunication, Indonesia and current year assessment of 3G operations. The annual fees are therefore not considered part of the acquisition cost of the licence. Should the regulations and conditions with regards to the payment of the annual fees be amended in the future with the consequence that payment of the remaining outstanding annual fees cannot be avoided upon the subsidiary surrendering the licence, the Group will recognise an intangible asset and a corresponding liability at the present value of the remaining annual fees at that point in time.

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4 Critical accounting estimates and judgements (continued)

4.2 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. To enhance the information content of the estimates, certain key variables that are anticipated to have material impact to the Group's results and financial position are tested for sensitivity to changes in the underlying parameters. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year are mentioned below.

(i) Impairment of Goodwill

The Group tests goodwill for impairment annually in accordance with its accounting policy or whenever events or change in circumstances indicate that this is necessary. The assumptions used, results and conclusion of the impairment assessment are stated in Note 18 to the financial statements.

(ii) Impairment of Property, Plant and Equipment, Intangible Assets (other than goodwill) and Investments

The Group assesses impairment of the assets mentioned above whenever the events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable i.e. the carrying amount of the asset is more than the recoverable amount. Recoverable amount is measured at the higher of the fair value less cost to sell for that asset and its value-in-use. The value-in-use is the net present value of the projected future cash flow derived from that asset discounted at an appropriate discount rate. Projected future cash flows are based on Group's estimates calculated based on historical, sector and industry trends, general market and economic conditions, changes in technology and other available information.

(iii) Estimated Useful Lives of Property, Plant and Equipment

The Group reviews annually the estimated useful lives of property, plant and equipment based on factors such as business plan and strategies, expected level of usage and future technological developments. Future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the estimated useful lives of property, plant and equipment would increase the recorded depreciation and decrease the property, plant and equipment.

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4 Critical accounting estimates and judgements (continued)

4.2 Critical accounting estimates and assumptions (continued)

(iv) Taxation

Income taxes

The Group is subject to income tax in numerous jurisdictions. Judgement is involved in determining the group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for tax matters based on estimates of whether additional taxes will be due. If the final outcome of these tax matters result in a difference in the amounts initially recognised, such differences will impact the income tax and/or deferred tax provisions in the period in which such determination is made.

Deferred tax assets

Deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which temporary differences can be utilised. This involves judgement regarding future financial performance of a particular entity in which the deferred tax asset has been recognised.

(v) Share-based payments

Equity settled share-based payments (share options) are measured at fair values at the grant dates. In addition, the Group revises the estimated number of performance linked share options that participants are expected to receive based on non-market conditions at each balance sheet date. The assumptions used in the valuation to determine these fair values are explained in Note 13 to the financial statements.

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5 Significant acquisitions and disposals

(a) Financial year ended 31 December 2004

Acquisitions

During the financial year, TM Group undertook an investment rationalisation programme. In conjunction with this exercise, several investments were transferred to TM International (L) Limited ('TMIL'), the Company's wholly owned subsidiary, as follows:

(i) Thintana Communications LLC

TMIL acquired a 40% interest in Thintana Communications LLC ('Thintana') at a purchase consideration of RM1,375.0 million (USD 361.8 million) from Telekom Malaysia-Africa Sdn Bhd ('TMA'), a subsidiary of TM. As at 1 April 2004, Thintana became an associate company of the TMIL.

Thintana is a limited liability company formed by TMA together with SBC International Transatlantic LLC ('SBC') which holds the other 60% effective interest in Thintana, to acquire a 30% strategic equity interest in Telkom SA Limited ('TSA').

The purchase consideration for the acquisition of Thintana was satisfied by way of TMIL assuming all of TMA's obligation to repay a shareholder's loan advanced by TM together with all interest accruing ('shareholder's loan') totalling RM1,331.7 million (USD 350.4 million) and that the difference between the purchase consideration and the shareholder's loan shall be deemed to be payable to TMA.

(ii) TM International (Bangladesh) Ltd

TMIL acquired 2,379,990 ordinary shares of Taka100 each representing 70% of the entire issued and paid up share capital of TM International (Bangladesh) Ltd. ('TMIB'). As a result, as at 27 October 2004, TMIB became a subsidiary of TMIL.

The purchase consideration for the acquisition of TMIB was in the form of the issue of 14,970,212 new ordinary shares of USD 1.00 each by TMIL at an issue price of USD 1.00 each.

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5 Significant acquisitions and disposals (continued)

(a) Financial year ended 31 December 2004 (continued)

Acquisitions (continued)

(ii) TM International (Bangladesh) Ltd (continued)

Subsequent to the acquisition date, TMIB declared a net dividend of Taka 280.8 million (USD 4.6 million) in respect of the financial year ended 31 December 2003. This dividend had been accounted for as a reduction of the cost of investment by TMIL in TMIB.

The Group's share of assets and liabilities of TMIB as at 27 October 2004 is as follows:

	RM'000
Non-current assets	359,604
Current assets	276,864
Current liabilities	(168,007)
Non current liabilities	(228,621)
Net assets	<u>239,840</u>

The international restructuring satisfied the definition of a merger, and has been accounted for under the merger method of accounting accordingly.

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5 Significant acquisitions and disposals (continued)

(a) Financial year ended 31 December 2004 (continued)

Disposals and distribution

- (iii) On 18 June 2004 and 15 November 2004, Thintana disposed its existing interest in TSA for a total cash consideration of South African Rand 12.5 billion (USD 2.0 billion). The impact of the disposal amounted to RM1.6 billion.

Following this disposal, Thintana in accordance with shareholders resolutions dated 10 June 2004 and 7 November 2004, had distributed the proceeds by way of dividend and capital distribution.

In conjunction with the disposal, the shareholders of Thintana agreed to bear the cost arising from the disposal. TMIL's share of the cost totalled of USD5.6 million.

As per the terms of the shareholders resolution, if any of the partners sell 100% of its beneficial interest in TSA, then the distribution to that member shall be considered as distribution in liquidation of its interest.

As no agreement for dissolving Thintana has been reached with SBC as at balance sheet date, Thintana continued to be shown as an associate as at 31 December 2004.

A Certificate of Cancellation of Thintana was issued on 26 April 2005.

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5 Significant acquisitions and disposals (continued)

(b) Financial year ended 31 December 2005

Acquisitions

(i) Indocel Holding Sdn Bhd (formerly known as Indocel Holding Sdn)

TMIL acquired 23.1% equity interest in XL through the acquisition of 100% equity interest in Indocel Holding Sdn Bhd ('Indocel'), a private unlimited company on 11 January 2005 for a purchase consideration of USD265.7 million.

On 6 January 2005, Indocel changed its name from Nynex Indocel Holdings Sdn to Indocel Holding Sdn. It subsequently changed its status from a private unlimited company to a private limited company, Indocel Holding Sdn Bhd, on 29 March 2005.

On 24 March 2005, TMIL subscribed for additional newly issued shares of Indocel. The total cash consideration paid for this transaction was USD26,263 (RM99,800) for the subscription of 99,800 new ordinary shares at an issue price of RM1.00 each.

(ii) PT Excelcomindo Pratama

On 9 December 2004, TMIL entered into a Share Sale and Purchase Agreement with Rogan Partners Inc. and PT Telekomindo Primabhakti ('Telekomindo') for the acquisition of 618,345 XL shares, representing 27.3% of XL's issued and paid-up share capital, indirectly through the acquisition of a 100% equity interest in a special purpose holding company, Indocel for a total cash consideration of USD314.0 million. This transaction was completed in two tranches as follows:

- On 11 January 2005, TMIL through the acquisition of Indocel as mentioned above, acquired 523,215 ordinary shares of Indonesian Rupiah (Rp) 250,000 each in XL, representing 23.1% of the issued and paid-up capital of XL for a cash consideration of USD265.7 million (RM1,009.5 million).
- On 15 June 2005, TMIL through Indocel, completed the acquisition of the remaining 95,130 ordinary shares of Rp250,000 each in XL, representing 4.2% of the issued and paid-up share capital of XL, for a cash consideration of USD48.3 million (RM183.5 million).

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5 Significant acquisitions and disposals (continued)

(b) Financial year ended 31 December 2005 (continued)

(ii) PT Excelcomindo Pratama (continued)

On 11 January 2005, TMIL and Telekomindo also entered into a Call and Put Option Agreement (Option Agreement) where Telekomindo may require TMIL to purchase from Telekomindo, and TMIL may require Telekomindo to sell to TMIL, up to 52.7% of the issued and paid-up share capital of XL. On 23 September 2005, TMIL and Telekomindo entered into an agreement to amend the Option Agreement in relation to the exercise period and payment date.

On 4 August 2005, XL undertook a share split where each of its ordinary share of par value Rp250,000 was split into 2,500 ordinary shares of par value Rp100 each.

On 29 September 2005, XL was listed on the Jakarta Stock Exchange. Pursuant to the Initial Public Offering ('IPO') exercise, TMIL through Indocel subscribed for 226,638,000 new XL shares, representing an additional 3.2% of the enlarged issued and paid-up share capital of XL at the IPO price of Rp2,000 per share for a total cash consideration of USD44.5 million (RM167.6 million). Upon completion of the IPO, TMIL's holding in XL was diluted from 27.3% to 25.0%. The IPO exercise resulted in a net gain on dilution of RM82.7 million.

On 20 October 2005, TMIL through Indocel exercised its call option requiring Telekomindo to sell part of its equity interest in XL to Indocel. Consequently, a total of 2,265,002,500 XL shares (Call Option Shares) were sold by Telekomindo to TMIL through Indocel under the call option at a total consideration of USD460.0 million (RM1,736.2 million). The acquisition of the above Call Option Shares was completed in two tranches between 20 October 2005 to 27 October 2005.

With the completion of the acquisition of the Call Option Shares, the Group's equity interest in XL increased from 25.0% post IPO to 56.9% whereupon, XL became a subsidiary of the Group on 27 October 2005. Consequently, the Group consolidated XL's results with effect from 1 November 2005.

The impact of the acquisition on the income statement is analysed in Note 31 for the year ended 31 December 2005, for which, XL's contribution is reflected in the Indonesia segment result.

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5 Significant acquisitions and disposals (continued)**(b) Financial year ended 31 December 2005 (continued)****(ii) PT Excelcomindo Pratama (continued)**

The fair value of the net assets acquired at 27 October 2005 was provisional as at 31 December 2005 pending finalisation of the fair value determination of XL's telecommunication plant and equipment and certain assets and liabilities. Following the completion of the fair value determination in 2006, the provisional fair value of net assets acquired increased by RM104.1 million. The adjustments arising from the fair value determination has been adjusted to the goodwill balance at acquisition date.

Details of net assets acquired, goodwill and cash flow arising from the acquisition were as follows:

	At date of acquisition RM'000
Property, plant and equipment	2,042,327
Deferred tax assets	230,513
Inventories	10,590
Trade and other receivables	215,050
Cash and bank balances	455,118
Trade and other payables	(436,686)
Current tax liabilities	(966)
Borrowings	(1,644,900)
	<hr/>
Fair value of total net assets as at 27 October 2005	871,046
Minority interests at 43.1%	(375,421)
Less: Amount accounted for as an associate as at 26 October 2005	(230,700)
	<hr/>
Fair value of net assets acquired as at 27 October 2005	264,925
Goodwill on acquisition offset against gain on dilution	126,200
Goodwill on acquisition retained as an asset	2,723,331
	<hr/>
Cost of acquisition (comprising purchase consideration and expenses directly attributable to the acquisition)	3,114,456
	<hr/>
Purchase consideration discharged by cash	3,096,800
Expenses directly attributable to the acquisition, paid by cash	17,600
Less: Cash and cash equivalents of subsidiary acquired	(455,100)
	<hr/>
Cash outflow of the Group on acquisition	<u>2,659,300</u>

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5 Significant acquisitions and disposals (continued)

(b) Financial year ended 31 December 2005 (continued)

(iii) During the financial year, the Group acquired the following companies for a total consideration of RM97.2 million:

- (i) 78% equity interest in Multinet Pakistan (Private) Limited
- (ii) the remaining 15% equity interest in G-Com Limited
- (iii) 100% equity interest in MTT Network (Private) Limited (*now known as Dialog Broadband Networks (Private) Limited*)

The effect on the financial results of the Group and details of net assets acquired, goodwill and cash flow arising from the acquisitions are not disclosed as the amounts are insignificant.

Disposal and dilution

(iv) Dialog Telekom Limited (formerly known as MTN Networks (Private) Limited)

On 28 July 2005, the Group's wholly owned subsidiary, Dialog Telekom Limited ('Dialog'), was listed on the Colombo Stock Exchange in Sri Lanka. In conjunction with the listing, the following transactions took place:

- Offer for sales of 422,262,311 Dialog shares by the Group to the public;
- Issuance of 290,073,982 new shares by Dialog for public subscription; and
- Issuance of 199,892,741 new shares by Dialog to Employee Share Options Scheme Trust.

The listing exercise had resulted in a dilution of the Group's equity interest in Dialog from 100.0% to 90.10%.

The impact of the dilution amounted to RM98.3 million during the financial year.

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5 Significant acquisitions and disposals (continued)

(c) Financial year ended 31 December 2006

Acquisitions

(i) Additional interest in XL

In 2005, the Group through TMIL acquired 56.9% equity interest in XL through various stage of acquisitions. XL became a subsidiary of the Group on 27 October 2005.

On 7 June 2006, TMIL, entered into an agreement with AIF (Indonesia) Limited ('AIF') to purchase 195,605,400 ordinary shares of Indonesian Rupiah 100 each in XL, representing approximately 2.8% of the issued and paid-up share capital of XL from AIF (the 'AIF Purchased Shares') for a cash consideration of USD39.7 million.

The acquisition of the AIF Purchased Shares was completed on 12 June 2006. Consequently, the Group's effective equity interest in XL increased from 56.9% to 59.7%.

	RM'000
Purchase consideration:	
Cash consideration	144,720
Expenses directly attributable to the acquisition	191
	<u>144,911</u>
Carrying value of net assets acquired	<u>(29,632)</u>
Goodwill on acquisition	<u>115,279</u>

The Group's effective equity interest in XL was reduced to 59.6% following the sale of 3,507,000 of XL shares through the Jakarta Stock Exchange.

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5 Significant acquisitions and disposals (continued)

(c) Financial year ended 31 December 2006 (continued)

Acquisitions (continued)

- (ii) Remaining 49.0% equity interest in Telekom Malaysia International (Cambodia) Company Limited (formerly known as Cambodia Samart Communication Company Limited) ('Casacom')

As at 1 January 2006, the Company held 51.0% equity interest in Casacom.

On 17 February 2006, the Company entered into a Share Sale and Purchase Agreement with Samart Corporation Public Company Limited ('Samart'), a company incorporated in Thailand, for the acquisition of 1,038,700 ordinary shares of USD4.00 each representing the remaining 49.0% equity interest in Casacom from Samart for a consideration of USD29.0 million (RM107.9 million).

Casacom became a wholly owned subsidiary of the Group upon completion of the transaction on 27 March 2006.

	RM'000
Purchase consideration:	
Cash consideration	107,184
Expenses directly attributable to the acquisition	715
	<u>107,899</u>
Carrying value of net assets acquired	<u>(50,722)</u>
Goodwill on acquisition	<u>57,177</u>

On 3 October 2006, Casacom changed its name to Telekom Malaysia International (Cambodia) Company Limited.

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5 Significant acquisitions and disposals (continued)

(c) Financial year ended 31 December 2006 (continued)

Acquisitions (continued)

(iii) 24.42% equity interest in Samart I-Mobile Public Company Limited ('SIM')

On 17 February 2006, the Company entered into a Share Sale and Purchase Agreement with Samart for the acquisition of 105 million ordinary shares of Thai Baht (THB)1.00 each representing 24.42% equity interest in SIM from Samart for a consideration of THB1,312.5 million (RM124.8 million).

SIM became an associate of the Group upon completion of the transaction on 27 March 2006. The goodwill on acquisition arising from the above transaction was RM62.0 million, being the excess of the purchase price over the Group's share of the fair value of SIMs identifiable net assets as at 27 March 2006. The above goodwill was included in the cost of investment in associates. This acquisition had no material effect to the results of the Group in the financial year.

(iv) 49.0% equity interest in Spice Communications Limited (formerly known as Spice Communications Private Limited) ('Spice') through the acquisition of the entire equity interest in TMI India Ltd ('TMI India') (formerly known as Distacom Communications (India) Limited) ('DCIL').

TMI Mauritius Ltd ('TMIM'), a wholly owned subsidiary of the Group, held via the Company, acquired a 100% equity interest in DCIL, pursuant to the Share Sale and Purchase Agreement on 10 March 2006, for a cash consideration of USD178.8 million (RM659.4 million). DCIL is an investment holding company having a 49.0% equity interest in Spice.

DCIL became a wholly owned subsidiary and Spice became a jointly controlled entity of the Group upon completion of the acquisition on 10 May 2006.

The goodwill on acquisition arising from the above transaction was RM691.1 million, being the excess of the purchase price over the Group's share of the fair value of Spices identifiable net assets as at 10 May 2006. The above goodwill was included in the cost of investment in jointly controlled entities. This acquisition had no material effect to the results of the Group in the financial year.

On 22 August 2006 and 28 December 2006, DCIL and Spice changed their names to TMI India Ltd and Spice Communications Limited respectively.

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5 Significant acquisitions and disposals (continued)

(c) Financial year ended 31 December 2006 (continued)

Acquisitions (continued)

(v) Mobile Telecommunication Company of Esfahan ('MTCE')

On 7 December 2005, Technology Resources Industries Berhad, a wholly owned subsidiary of Celcom (Malaysia) Berhad, had signed a Share Sale Agreement ('SSA') with the Company, to transfer its 49.0% equity interest in MTCE for a consideration of USD6.0 million. The transfer was completed on 9 August 2006. The acquisition had no material effect to the results of the Group in the financial year.

(vi) During the financial year, the Group also acquired the following companies for a total consideration of RM36.6 million:

- (i) 90.0% equity interest in Asset Media (Pvt) Ltd for USD3.15 million (RM11.6 million).
- (ii) 100% stake in Communiq Broadband Network (Private) Limited for USD3.51 million (RM18.3 million).
- (iii) 100% stake in CBN SAT (Private) Limited for USD1.39 million (RM6.7 million).

The above acquisitions have no material effect to the results of the Group in the financial year.

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6 Operating revenue

	2004 RM'000	2005 RM'000	2006 RM'000
Mobile	891,986	1,580,395	3,892,428
Others	23,577	26,018	157,822
Total operating revenue	915,563	1,606,413	4,050,250

7 Other operating costs

	2004 RM'000	2005 RM'000	2006 RM'000
Allowance for doubtful debts (net of bad debt recoveries)	38,805	66,914	59,503
Charges and commission	6,647	11,022	28,011
Domestic interconnect and international outpayment	121,816	266,973	651,219
Impairment of property, plant and equipment (PPE)	1,198	2,500	3,560
Maintenance	12,951	34,137	98,529
Marketing, advertisement and promotion	105,958	196,614	406,049
Business licence fees	8,871	10,420	84,629
Professional fees	13,345	18,427	47,552
Net loss on foreign exchange realised	766	45,028	61,369
Net (gain)/loss on foreign exchange unrealised	1,545	(19,804)	(178,670)
Rental – land and building	16,240	27,849	55,330
Rental – equipment	1,456	5,681	23,250
Rental - others	2,492	5,703	13,800
Staff costs ¹	61,540	104,711	304,321
Staff costs capitalised in PPE ¹	-	(2,894)	(14,308)
Supplies and inventories	30,811	61,068	129,789
Transportation and travelling	11,426	16,146	25,129
Universal Service Provision	-	1,776	14,835
Utilities	11,705	22,609	73,625
Others ²	28,238	59,305	192,559
Total Other operating costs	475,810	934,185	2,080,081

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7 Other operating costs (continued)

	2004 RM'000	2005 RM'000	2006 RM'000
¹ Staff costs include:			
- salaries, allowances, overtime and bonus	48,210	85,444	239,433
- termination benefit	722	3,175	19,884
- contribution to Employees Provident Fund (EPF)	3,353	4,662	11,554
- other staff benefits	9,087	8,260	10,119
- ESOS expense	-	-	8,698
- remuneration of Directors of the Company:			
• fees	44	110	106
• salaries, allowances and bonus	38	82	121
• contribution to EPF	86	84	98
• ESOS expense	-	-	-
	61,540	101,817	290,013
 Benefit in kind	 34	 31	 32
 ² Others include:			
- audit fees:			
• PricewaterhouseCoopers Malaysia	24	107	64
• Member firm of PricewaterhouseCoopers International Limited *	41	427	1,129

* Separate and independent legal entity from PricewaterhouseCoopers Malaysia

The Directors of the Company in office during the financial years presented are as follows:

	Date of appointment	Date of resignation
Tan Sri Dato' Ir Muhammad Radzi bin Haji Mansor		
Dato' Lim Kheng Guan		
Dato' Sri Abdul Wahid Bin Omar	1 July 2004	
Ganendran Sarvananthan	5 January 2005	
Datuk Bazlan bin Osman	6 May 2005	
Dato' Yusof Annuar bin Yaacob	1 June 2005	
Dato' Dr. Mohd Munir bin Abdul Majid		1 June 2004
Dato' Dr. Md Khir bin Abdul Rahman		1 July 2004
Jaffa Sany bin Md. Ariffin		6 May 2005
Christian Manuel de Faria		31 May 2005

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8 Other operating income

	2004 RM'000	2005 RM'000	2006 RM'000
Gain on partial disposal of interest in subsidiaries	-	160,657	2,659
Gain on dilution of subsidiaries	-	98,316	9,678
Gain on disposal of long term investments	-	-	77,409
Gain on disposal of property, plant and equipment	907	-	409
Penalty on breach of contract	-	-	5,827
Others	1,202	4,039	7,302
Total other operating income	2,109	263,012	103,284

9 Net finance (cost)/income

	2004 RM'000	2005 RM'000	2006 RM'000
Total finance income	13,547	31,319	50,208
Finance cost from borrowings	(24,483)	(30,453)	(218,221)
Finance cost from loan to holding company	(1,900)	(2,641)	(3,050)
Amortisation of fair value adjustments on borrowings	-	3,210	19,259
Total finance cost	(26,383)	(29,884)	(202,012)
Net finance (cost)/income	(12,836)	1,435	(151,804)

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10 Taxation

The taxation charge for the Group comprise:

	2004 RM'000	2005 RM'000	2006 RM'000
Malaysia:			
Income tax			
- Current year	-	647	750
- Prior year	(382)	(4,034)	(12)
Overseas:			
Income tax			
- Current year	2,906	11,119	15,336
- Prior year	(546)	4,961	-
Deferred tax (net)			
- Current year	78,021	86,854	265,644
	<u>79,999</u>	<u>99,547</u>	<u>281,718</u>
Current taxation:			
- Current year	2,906	11,766	16,086
- (Over)/under accrual in prior years (net)	(928)	927	(12)
Deferred taxation:			
- Origination and reversal of temporary differences	78,021	86,854	265,644
	<u>79,999</u>	<u>99,547</u>	<u>281,718</u>

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10 Taxation (continued)

Numerical reconciliation between taxation expense and the product of accounting profit multiplied by the Malaysian tax rate:

	2004 RM'000	2005 RM'000	2006 RM'000
Profit before taxation	1,989,407	808,147	1,102,525
Statutory income tax rate of Malaysia	557,034	226,281	308,707
Tax effects of:			
- shares of results of jointly controlled entities and associates	(3,135)	(5,285)	(321)
- different taxation rates in other countries	33,312	27,580	48,814
- expenses not deductible for taxation purposes	13,784	16,168	157,427
- income not subject to taxation	(599,004)	(186,586)	(231,942)
- utilisation of tax losses	-	(1,863)	(565)
- previously unrecognised temporary differences	78,008	-	-
- under/(over) accrual of income tax (net)	-	4,868	(402)
- under accrual of deferred tax (net)	-	18,384	-
Total taxation	79,999	99,547	281,718

11 Earnings per share

Earnings per share of the Group is calculated by dividing the profit attributable to equity holders by the weighted average number of ordinary shares of the Company in issue during the year.

	2004 RM'000	2005 RM'000	2006 RM'000
Profit attributable to equity holders	1,874,761	636,257	629,321
Weighted average number of ordinary shares in issue	35,693	35,693	35,693
Earnings per share (sen)	5,252	1,783	1,763

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12 Share capital

	2004 RM'000	2005 RM'000	2006 RM'000
Ordinary shares of RM1 each			
Authorised:			
At beginning/end of financial year	500,000	500,000	500,000
Issued and fully paid:			
At beginning/end of financial year	35,693	35,693	35,693

Financial year ended 31 December 2004

On 31 December 2004, the authorised share capital of the Company was increased from RM25,000,000 to RM500,000,000 by the creation of 475,000,000 ordinary shares of RM1.00 each. In addition the issued share capital of the Company was increased from RM16,250,000 to RM30,471,701 by the issuance of 14,221,701 new ordinary shares of RM1.00 at a premium for RM4.00 each, in conjunction with TM internal restructuring to rationalise its investments.

During the financial year, TM disposed its shareholding in TMIB to TMIL. In consideration for this disposal, TMIL issued 14,970,212 new ordinary shares of USD1.00 to the Company. In turn, the Company issued 14,221,701 new ordinary shares of RM1.00 each at a premium for RM4.00 to TM.

Financial year ended 31 December 2005

On 16 March 2005, the issued and paid up share capital of the Company was increased from RM30,471,701 to RM35,693,116 by the issuance of 5,221,415 new ordinary shares of RM1.00 at a premium for RM4.00 each, as consideration for the acquisition of Telekom Management Services Sdn Bhd from TM, as part of TM's internal restructuring to rationalise its investments.

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12 Share capital (continued)

On 16 March 2005, the issued and paid up share capital of the Company was increased from RM30,471,701 to RM35,693,116 by the issuance of 5,221,415 new ordinary shares of RM1.00 at a premium for RM4.00 each, as consideration for the acquisition of Telekom Management Services Sdn Bhd from TM, as part of TM's internal restructuring to rationalise its investments.

The new ordinary shares issued by the Company in both financial years rank pari passu in all respects with the existing ordinary shares of the Company.

13 Employees' Share Option Scheme ('ESOS')

(a) ESOS of Telekom Malaysia Berhad

Background of Share-Based Compensation Scheme

The holding company ('TM') existing share option scheme ('ESOS 3'), in which certain employees of the Company is entitled to, was approved by TM shareholders at an Extraordinary General Meeting held on 21 May 2002. Options to subscribe for ordinary shares of RM1 each under ESOS 3 was granted in various phases, as follows:

Scheme	Grant date	Granted to	Number of options granted to the Company	Exercise price (RM)
ESOS 3 (phase 1)	1 August 2002	Executives and Non-Executives	0	7.09
ESOS 3 (phase 2)	20 October 2005	Executives and Non-Executives	207,000	9.22
ESOS 3 (phase 3)	18 December 2006	Executives and Non-Executives	104,000	8.69

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13 Employees' Share Option Scheme ('ESOS') (continued)

(a) ESOS of Telekom Malaysia Berhad (continued)

Performance Linked Employee Option Scheme ('PLES')

On 20 October 2005, TM also implemented a PLES for Senior Management of TM and its subsidiaries. The scheme is an extension of the existing ESOS 3 and expires on 31 July 2006. The maximum number of PLES options granted and the vesting period is as follows:

Performance Condition	Vesting Period/Maximum Option Allocation		
	1 May 2005	1 May 2006	1 May 2006
Current year performance for financial year 2004, 2005 and 2006	5,991,200	5,991,200	5,991,200
Aggregated performance for 2004-2006	-	-	11,982,400
Total	5,991,200	5,991,200	17,973,600

Options granted under PLES are conditional grants and are based on the performance of the Group and individuals for the respective years preceding the vesting period. Options under PLES has an exercise price of RM10.24.

In respect of PLES, the number of options that a grantee may exercise will be notified to the grantee through a Letter of Notification after the end of the respective financial years. Options to be which grantees are not qualified to exercise shall lapse, be null and void.

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13 Employees' Share Option Scheme ('ESOS') (continued)

(a) ESOS of Telekom Malaysia Berhad (continued)

Principal features of Share-Based Compensation Scheme

- (i) The eligibility for participation in ESOS is at the discretion of the Option Committee appointed by the TM Board of Directors.
- (ii) The total number of shares to be offered shall not exceed 10% of the total issued and paid-up shares of TM.
- (iii) No option shall be granted for less than 100 shares nor more than 1,200,000 shares unless so adjusted pursuant to item (vi) below.
- (iv) The subscription price of each RM1 share shall be the average of the middle market quotation of the shares as shown in the daily official list issued by the Bursa Malaysia Securities Berhad for the five (5) trading days preceding the date of offer with a 10% discount.
- (v) In the event of any alteration in capital structure of TM during the option period which expires on 31 July 2007, such corresponding alterations shall be made in:
 - (i) the number of new shares in relation to ESOS so far as unexercised;
 - (ii) and/or the subscription price.

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13 Employees' Share Option Scheme ('ESOS') (continued)

(a) ESOS of Telekom Malaysia Berhad (continued)

Specific features of ESOS 3

(vi) Subject to item (v) below, an employee may exercise their options subject to the following limits:

(a) In respect of any options, granted and remain unexercised prior to 17 May 2005, being the effective date of the 2005 amendments to the ESOS by-law:

Number of options granted	Percentage of options exercisable (%)				
	Year 1	Year 2	Year 3	Year 4	Year 5
Below 20,000	100	-	-	-	-
20,000 – 99,999	*40	30	**30	-	-
100,000 and above	20	20	20	20	20

* 40% or 20,000 options, whichever is higher

** 30% or the remaining number of options unexercised

(b) In respect of options granted after 17 May 2005, the number of options which a grantee may exercise in a relevant year shall be evenly distributed over the number of unexpired years of the scheme, as calculated on the date of acceptance of the option, save as determined otherwise by the Options Committee.

For outstanding share option granted before 31 December 2004 or share options granted after 31 December 2004 but vested before 1 January 2006, no ESOS expense is recognised.

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13 Employees' Share Option Scheme ('ESOS') (continued)**(a) ESOS of Telekom Malaysia Berhad (continued)****Specific features of ESOS 3 (continued)**

The movement during the financial year ended 31 December 2006 in the number of options over the ordinary shares of RM1 each of TM, in which the employees of the Company is entitled to, is as follows:

Option Scheme	Exercise Price RM	At 1 January '000	Granted '000	Exercised '000	At 31 December '000	Fair value at grant date RM
ESOS 3 (Phase 1)	7.09	0	0	0	0	*
ESOS 3 (Phase 2)	9.22	207	0	(5)	202	1.61
PLES 1	10.24	1,848	0	0	1,848	1.14
ESOS 3 (Phase 3)	8.69	0	104	0	104	1.07
Total		2,055	104	(5)	2,154	

As at 31 December 2006, all ESOS 3 options are vested whilst PLES 1 options are not vested.

The Group has applied the provision of FRS 2 to all equity instruments granted after 31 December 2004 but not fully vested as at 1 January 2006, the effective date the Group adopted this FRS.

* FRS 2 not applicable for these transactions.

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13 Employees' Share Option Scheme ('ESOS') (continued)**(a) ESOS of Telekom Malaysia Berhad (continued)****Specific features of ESOS 3 (continued)**

Details relating to options exercised during the financial year are as follows:

<u>Exercise date</u>	Exercise price RM/share	Number of share issued	
		2006	2005
January to October 2006	7.09	0	0
	9.22	0	0
November to December 2006	7.09	0	0
	9.22	5,000	0

The fair value of options granted in which FRS 2 applies, were determined using the Black Scholes Valuation model. The significant inputs in the model are as follows:

	ESOS 3	Phase 3	PLES
Exercise price	RM8.69	RM9.22	RM10.24
Option life (no of days to expiry)	225	649	649
Weighted average share price at grant date	RM9.65	RM10.10	RM10.10
Expected dividend yield	3%	3%	3%
Risk free interest rates (Yield of Malaysian Government securities)	3.21%	3.18%	3.18%
Expected volatility	15.74%	23.27%	23.27%
TM share historical volatility period			
From	18.12.2004	24.10.2003	24.10.2003
To	18.12.2006	14.10.2005	14.10.2005

The volatility measured at the standard deviation of continuously compounded share return is based on statistical analysis of daily share prices over the last two years from the grant date.

The total expense recognised arising from share-based payments amounted to RM521,581 and is disclosed in Note 7 to the financial statements.

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13 Employees' Share Option Scheme ('ESOS') (continued)

(b) ESOS of Dialog Telekom Limited (Dialog)

On 11 July 2005, the Board of Directors of Dialog resolved and issued 199,892,741 ordinary shares of Dialog at the Initial Public Offering (IPO) price of Sri Lanka Rupee (SLR) 12 to an ESOS Trust, being 2.7% of the issued share capital of Dialog.

Of the total ESOS shares that were transferred to the ESOS Trust, 88,841,218 shares (44.4%) were granted at the point of the IPO with the exercise price equals to IPO price. The balance 111,051,523 shares (56.6%) are accounted as treasury shares of Dialog as at 31 December 2006 and shall be granted to employees as an ongoing performance incentive mechanism in four (4) further tranches.

The principal features of ESOS are as follows:

- (i) The eligibility for participation in ESOS is at the discretion of the ESOS Committee appointed by the Board of Directors of Dialog.
- (ii) Except the existing tranche, the exercise price of the granted ESOS shares will be based on the five (5) days weighted average market price of Dialogs shares immediately preceding the offer date for options, with the ESOS Committee having the discretion to set an exercise price up to 10% lower than that derived weighted average market price.
- (iii) Options are conditional on an employee satisfying the following: has attained the age of eighteen (18) years; is employed full-time by and on the payroll of a company within Dialog Group; and has been in the employment of Dialog Group for a period of at least one (1) year of continuous service prior to and up to the offer date, including service during the probation period.
- (iv) No options shall be granted for more than 8.0 million shares.
- (v) An employee may exercise his options subject to the following limits:

Number of options granted	Percentage of options exercisable (%)		
	Year 1	Year 2	Year 3
Support and Operative	100	-	-
Supervisory and Middle Management	50	50	-
Management and Senior Management	50	30	20

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13 Employees' Share Option Scheme ('ESOS') (continued)**(b) ESOS of Dialog Telekom Limited (Dialog) (continued)**

The movement during the financial year in the number of ESOS shares outstanding is as follows:

<u>Grant date</u>	<u>Exercise price</u> SLR	<u>At 1 January</u> '000	<u>Granted</u> '000	<u>Exercised</u> '000	<u>Forfeited</u> '000	<u>At 31 December</u> '000	<u>Fair value at grant date</u> SLR
<u>2006</u>							
11 July 2005	12	87,725	-	(38,341)	(649)	48,735	4
<u>2005</u>							
11 July 2005	12	-	88,841	(1,116)	-	87,725	4

The fair values of options granted in which FRS 2 applies, was determined using the Black Scholes Valuation model. The significant inputs into the model are as follows:

<u>Exercise price</u>	<u>SLR12</u>
Option life (number of days to expiry)	1,826
Weighted average share price at grant date	SLR12
Expected dividend yield	2.1%
Risk free interest rates	
(Yield of treasury bond of Central Bank of Sri Lanka)	10.00%
Expected volatility	28.24%

The above volatility rate was derived after considering the patent and level of historical volatility of entities in the same industry since Dialog does not have sufficient information on historical volatility as it was only listed on the Colombo Stock Exchange in July 2005.

The volatility measured at the standard deviation of continuously compounded share return is based on statistical analysis of daily share prices of these entities over the last two (2) years from the grant date.

Total expense recognised arising from share-based payments amounted to RM5,176,705 and is disclosed in Note 7 to the financial statements.

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13 Employees' Share Option Scheme ('ESOS') (continued)

(c) ESOS of PT Excelcomindo Pratama Tbk ('XL')

Based on the Resolution of an Extraordinary General Meeting of Shareholders, as stated in Deed No. 127, dated 19 July 2005, XL's shareholders approved the plan to implement an employees' stock option program through the Employee Stock Allocation (ESA) which was realised together with XL's initial stock public offering.

The members of ESA received free shares from XL totaling 5,000,000 shares which were distributed proportionally to XL's employees based on their respective working periods and positions. This program is only valid for permanent employees who have been working for a minimum of twelve (12) months on the date of stock listing on the Jakarta Stock Exchange (Stock Exchange). The IPO price of Indonesian Rupiah 2,000 was deemed the fair value of the free shares.

The shares from the ESA program will be returned to XL if the employees resign or have their contracts terminated within one (1) year from the date on which the shares were recorded. Shares for this program cannot be sold within one (1) year of the stock listing on the Stock Exchange and cannot be taken as cash by the member of the ESA.

14 Reserves

	2004 RM'000	2005 RM'000	2006 RM'000
Retained profits	2,066,222	2,702,479	3,331,800
Capital contribution reserve	-	-	521
Merger reserve	(20,885)	(20,885)	(20,885)
Currency translation differences arising from translation of foreign subsidiaries/jointly controlled entities/associates	(173,333)	(153,847)	(182,620)
Total reserves	1,872,004	2,527,747	3,128,816

No dividend was declared or proposed by the Company for the financial years ended 31 December 2004, 31 December 2005 and 31 December 2006.

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	2004			2005			2006					
	Weighted average rate of finance	Long term RM'000	Short term RM'000	Total RM'000	Weighted average rate of finance	Long term RM'000	Short term RM'000	Total RM'000	Weighted average rate of finance	Long term RM'000	Short term RM'000	Total RM'000
FOREIGN												
Secured												
Borrowings from financial institutions	4.49%	85,769	36,769	122,538	8.88%	178,148	29,307	207,455	7.90%	497,689	301,408	799,097
Other borrowings *	-	-	-	-	0.00%	113,322	-	113,322	1.96%	201,295	11,963	213,258
Bank overdrafts	-	-	-	-	12.00%	-	1,948	1,948	14.0%	-	1,720	1,720
Unsecured												
Notes and Debentures	-	-	-	-	7.78%	1,367,271	264,918	1,632,189	7.64%	2,133,830	-	2,133,830
Borrowings from financial institutions	7.64%	142,623	25,822	168,445	1.99%	231,091	451,813	682,904	9.09%	92,734	183,469	276,203
Bank overdrafts	-	-	-	-	-	-	-	-	17.34%	-	2,084	2,084
TOTAL BORROWINGS	6.32%	228,392	62,591	290,983	6.03%	1,889,832	747,986	2,637,818	7.47%	2,925,548	500,644	3,426,192

* Other borrowings consist supplier credit that bears 0% interest during the first 2 years and is repayable from 2007 to 2012. This supplier credit is secured by way of fixed charge on property, plant and equipment of a foreign subsidiary. An analysis for the financial years presented are:

Financial year	RM' million
31 December 2006	29.2
31 December 2005	60.0
31 December 2004	0.0

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15 Borrowings (continued)

	2004 RM'000	2005 RM'000	2006 RM'000
The Group's long term borrowings are repayable as follows:			
After one year and up to five years	54,609	1,635,928	1,634,782
After five years and up to ten years	173,783	253,904	1,290,766
	<u>228,392</u>	<u>1,889,832</u>	<u>2,925,548</u>

The currency exposure profile of borrowings is as follows:

	2004 RM'000	2005 RM'000	2006 RM'000
US Dollar	164,958	2,391,064	2,842,171
Bangladesh Taka	14,890	11,390	322,705
Sri Lanka Rupee	111,135	233,122	188,800
Other currencies	-	2,242	72,516
	<u>290,983</u>	<u>2,637,818</u>	<u>3,426,192</u>

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16 Amount due to/(from) holding company

The holding company is TM, a company incorporated in Malaysia that owns the entire issued share capital of the Company.

Amount due to holding company

	2004 RM'000	2005 RM'000	2006 RM'000
<u>Long term</u>			
Loans	40,404	38,146	34,827
Advances	376,644	3,213,460	2,535,500
Others*	194,048	189,971	27,996
	<u>611,096</u>	<u>3,441,577</u>	<u>2,598,323</u>
<u>Short term</u>			
Others*	13,487	13,523	-
	<u>13,487</u>	<u>13,523</u>	<u>-</u>

*includes trading and interest on loan

Loans are extended by the holding company for investments in subsidiaries and associates and for working capital purposes. Advances consist of amounts payable in respect of advances from the holding company for operating expenses.

The loans and advances from the holding company are unsecured, interest free and have no fixed terms of repayment, except for loan to TMIB which bears interest of 3.5% + LIBOR per annum. The holding company has indicated that it will not demand repayment of these amounts within the next twelve months.

The carrying amount recorded is not anticipated to be significantly different from its fair value at the balance sheet date.

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16 Amount due to/(from) holding company (continued)Amount due from holding company

	2004 RM'000	2005 RM'000	2006 RM'000
Advances	1,630,478	1,622,061	-
Others*	87	75	2,900
	<u>1,630,565</u>	<u>1,622,136</u>	<u>2,900</u>

*includes trading and interest on loan

The amounts due from holding company is unsecured, interest free and have no fixed terms of repayment.

17 Deferred tax assets/(liabilities)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

	2004 RM'000	2005 RM'000	2006 RM'000
Subject to income tax:			
Deferred tax assets	-	216,151	188,589
Deferred tax liabilities	(78,077)	(145,742)	(361,456)
Total deferred tax	<u>(78,077)</u>	<u>70,409</u>	<u>(172,867)</u>
At 1 January	-	78,077	(70,409)
Current year charged/(credited) to income statement arising from:			
- property, plant and equipment	78,021	95,414	319,000
- others	-	(8,560)	(53,356)
Current year credited directly to equity			
- acquisition of subsidiaries	-	(230,513)	-
- currency translation differences	56	(4,827)	(22,368)
At 31 December	<u>78,077</u>	<u>(70,409)</u>	<u>172,867</u>

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17 Deferred tax assets/(liabilities) (continued)

The tax effect of deductible temporary differences and unutilised tax losses of the company for which no deferred tax asset is recognised in the balance sheet are as follows:

	2004 RM'000	2005 RM'000	2006 RM'000
Deductible temporary differences	485	739	541
Unutilised tax losses	1,816	1,816	10,403
	<u>2,301</u>	<u>2,555</u>	<u>10,944</u>

Breakdown of cumulative balances by each type of temporary difference:

	2004 RM'000	2005 RM'000	2006 RM'000
(a) Deferred Tax Assets			
- Property, plant and equipment	-	281,794	182,787
- Others	-	22,757	98,802
Offsetting	-	(88,400)	(93,000)
Total deferred tax assets after offsetting	-	<u>216,151</u>	<u>188,589</u>
(b) Deferred Tax Liabilities			
- Property, plant and equipment	78,077	224,772	444,765
- Others	-	9,370	9,691
- Offsetting	-	(88,400)	(93,000)
- Total deferred tax liabilities after offsetting	<u>78,077</u>	<u>145,742</u>	<u>361,456</u>

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18 Intangible assets

	<u>Goodwill</u> RM'000	<u>Licenses</u> RM'000	<u>Total</u> RM'000
At 1 January 2006	2,764,548	32,970	2,797,518
Addition	172,457	184,533	356,990
Currency translation differences	(1,639)	(8,998)	(10,637)
Acquisition of subsidiaries	39,030	-	39,030
Amortisation	-	(17,822)	(17,822)
At 31 December 2006	<u>2,974,396</u>	<u>190,683</u>	<u>3,165,079</u>
At 1 January 2005	-	-	-
Acquisition of subsidiaries	2,764,548	32,970	2,797,518
Amortisation	-	-	-
At 31 December 2005	<u>2,764,548</u>	<u>32,970</u>	<u>2,797,518</u>
At 31 December 2006			
Cost	2,974,396	208,505	3,182,901
Accumulated amortisation	-	(17,822)	(17,822)
Net book value	<u>2,974,396</u>	<u>190,683</u>	<u>3,165,079</u>
At 31 December 2005			
Cost and net book value	<u>2,764,548</u>	<u>32,970</u>	<u>2,797,518</u>

There is no intangible asset as at 1 January 2004 and 31 December 2004.

The remaining amortisation period of acquired licences range from two (2) years to twelve (12) years as at 31 December 2005.

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18 Intangible assets (continued)

Impairment tests for goodwill

The Group undertakes an annual test for impairment of its cash-generating units. No impairment loss was required for the carrying amount of goodwill assessed as at 31 December 2006 as their recoverable amounts were in excess of their carrying amounts.

Goodwill is allocated to the Group's cash-generating units identified according to business segment and the country of operations.

The following cash-generating units, being the lowest level of asset for which there are separately identifiable cash flows, have carrying amounts of goodwill that are considered significant in comparison with the Group's total goodwill:

	2004 RM'000	2005 RM'000	2006 RM'000
Cellular			
Indonesia	-	2,723,331	2,838,610
Cellular and Others			
Multiple units without significant goodwill	-	41,217	135,786
	-	2,764,548	2,974,396

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18 Intangible assets (continued)

Impairment tests for goodwill (continued)

The amount of goodwill initially recognised is dependent upon the allocation of the purchase price to the fair value of identifiable assets acquired and the liabilities assumed. The determination of the fair value of the assets and liabilities is based, to a considerable extent, on managements judgement.

(a) Key assumptions used in the value-in-use calculations

The recoverable amounts of the cash-generating units including goodwill in these tests are determined based on value-in-use calculations.

This value-in-use calculations apply a discounted cash flow model using cash flow projections based on forecasts and projections approved by management covering a ten-year period for the cellular business in Indonesia. These forecasts and projections reflect managements expectation of revenue growth, operating costs and margins for each cash-generating unit based on past experience. Cash flows beyond the tenth year for the cellular business in Indonesia are extrapolated using estimated terminal growth rates. These rates have been determined with regards to projected growth rates for the respective markets in which the cash-generating units participate and are not expected to exceed the long term average growth rates for those markets.

The value-in-use calculation for the Group's cash-generating unit in Indonesia reflects the low penetration of mobile telecommunications in that country and the expectation of strong revenue growth throughout the ten-year plan.

Discount rates applied to the cash flow forecasts are derived from the cash-generating units pre-tax weighted average cost of capital plus a reasonable risk premium at the date of the assessment of the respective cash-generating units.

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18 Intangible assets (continued)

Impairment tests for goodwill (continued)

(a) Key assumptions used in the value-in-use calculations (continued)

The following assumptions have been applied in the value-in-use calculations for the financial year ended 31 December 2006:

	Indonesia
	<u>%</u>
Pre-tax discount rate	18.5
Terminal growth rate	4.0

(b) Impact of possible change in key assumptions

Changing the assumptions selected by management, in particular the discount rate assumptions used in the discounted cash flow model could significantly affect the Group's results. The Group's review includes an impact assessment of changes in key assumptions. Based on the sensitivity analysis performed, management has concluded that no reasonable change in the base case key assumptions would cause the carrying amounts of the cash-generating units to exceed their recoverable amounts.

If the following pre-tax discount rates are applied to the cash flow forecasts and projections of the Group's cash-generating units, the carrying amounts of the cash-generating units including goodwill will equal the corresponding recoverable values, assuming all other variables remain unchanged.

	Indonesia
	<u>%</u>
Pre-tax discount rate	20.0

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	Land RM'000	Buildings RM'000	Tele communication network RM'000	Movable plant and equipment RM'000	Computer support systems RM'000	Capital work-in- progress RM'000	Total RM'000
2004							
Net book value							
At 1 January 2004	12,636	16,812	727,890	29,638	18,985	98,211	904,172
Additions	1,140	3,721	41,071	13,413	10,430	236,735	306,510
Assetisation	-	-	215,385	8,146	711	(224,242)	-
Disposals	(1,790)	(1,603)	-	(75)	(74)	-	(3,542)
Depreciation	(49)	(1,108)	(83,308)	(7,265)	(9,842)	-	(101,572)
Impairment	-	-	(1,198)	-	-	-	(1,198)
Currency translation differences	(331)	(555)	(25,852)	(1,674)	(1,074)	(3,754)	(33,240)
At 31 December 2004	11,606	17,267	873,988	42,183	19,136	106,950	1,071,130
At 31 December 2004							
Cost	11,673	20,627	1,150,400	69,145	38,432	106,950	1,397,227
Accumulated depreciation	(67)	(3,360)	(275,214)	(26,962)	(19,296)	-	(324,899)
Accumulated impairment	-	-	(1,198)	-	-	-	(1,198)
Net book value	11,606	17,267	873,988	42,183	19,136	106,950	1,071,130

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	Land RM'000	Buildings RM'000	Tele communication network RM'000	Movable plant and equipment RM'000	Computer support systems RM'000	Capital work-in- progress RM'000	Total RM'000
2005							
Net book value							
At 1 January 2005	11,606	17,267	873,988	42,183	19,136	106,950	1,071,130
Acquisition of subsidiaries	168,327	10,093	1,513,389	31,270	31,774	375,457	2,130,310
Additions	17,354	7,087	454,603	68,397	24,120	871,794	1,443,355
Assetisation	-	93	596,839	29,996	1,356	(628,284)	-
Disposals	(736)	(659)	(909)	(341)	(53)	-	(2,698)
Depreciation	(4,403)	(1,313)	(196,641)	(12,358)	(16,640)	-	(231,355)
Impairment	-	-	(710)	(789)	-	(1,001)	(2,500)
Currency translation differences	(76)	55	(44,518)	141	406	(2,969)	(46,961)
At 31 December 2005	192,072	32,623	3,196,041	158,499	60,099	721,947	4,361,281
At 31 December 2005							
Cost	196,407	37,153	3,645,040	195,541	94,204	722,948	4,891,293
Accumulated depreciation	(4,335)	(4,530)	(447,091)	(36,253)	(34,105)	-	(526,314)
Accumulated impairment	-	-	(1,908)	(789)	-	(1,001)	(3,698)
Net book value	192,072	32,623	3,196,041	158,499	60,099	721,947	4,361,281

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	Land RM'000	Buildings RM'000	Tele communication network RM'000	Movable plant and equipment RM'000	Computer support systems RM'000	Capital work-in- progress RM'000	Total RM'000
2006							
Net book value							
At 1 January 2006	192,072	32,623	3,196,041	158,499	60,099	721,947	4,361,281
Acquisition of subsidiaries	-	-	7,868	1,426	1,819	-	11,113
Additions	107,561	32,676	1,497,041	35,378	11,711	1,320,630	3,004,997
Assetisation	99	14,082	877,368	7,873	16,932	(916,354)	-
Disposals	-	(73)	(936)	(186)	(70)	(1,127)	(2,392)
Write off	-	-	(96)	-	(7)	-	(103)
Depreciation	(33,709)	(10,072)	(699,933)	(32,281)	(26,453)	-	(802,448)
Impairment	-	-	(2,958)	-	-	(602)	(3,560)
Currency translation differences	2,610	(1,962)	(85,333)	(12,841)	(1,668)	(13,503)	(112,697)
At 31 December 2006	268,633	67,274	4,789,062	157,868	62,363	1,110,991	6,456,191
At 31 December 2006							
Cost	307,050	92,397	5,784,512	221,292	107,889	1,112,594	7,625,734
Accumulated depreciation	(38,417)	(25,123)	(990,584)	(62,635)	(45,526)	-	(1,162,285)
Accumulated impairment	-	-	(4,866)	(789)	-	(1,603)	(7,258)
Net book value	268,633	67,274	4,789,062	157,868	62,363	1,110,991	6,456,191

(a) Included in property, plant and equipment of the Group are fully depreciated assets which are still in use costing RM750,288,223 (2005: RM513,428,134)(2004: Nil).

(b) During the financial year ended 31 December 2006, the Group incurred impairment losses of RM2.6 million (2005: RM10.2 million) (2004: RM1.2 million) following impairment assessments performed by subsidiaries. The allowance for impairment relates primarily to the write down of certain telecommunication network assets.

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(c) Breakdown of land owned by the Group are as follows:

	2005		2006		Total RM'000
	Freehold RM'000	Short term leasehold RM'000	Freehold RM'000	Short term leasehold RM'000	
Net Book Value					
At 1 January	11,606	-	11,606	11,989	192,072
Acquisition of subsidiaries	420	167,907	168,327	-	-
Additions	843	16,511	17,354	1,481	107,561
Assetisation	-	-	-	-	99
Disposals	(736)	-	(736)	-	-
Depreciation	-	(4,403)	(4,403)	-	(33,709)
Currency translation differences	(144)	68	(76)	1,936	674
At 31 December	11,989	180,083	192,072	15,406	268,633
At 31 December					
Cost	11,989	237,729	249,718	15,406	359,313
Accumulated depreciation	-	(57,646)	(57,646)	-	(90,680)
Net Book Value	11,989	180,083	192,072	15,406	268,633

(i) Land as at 31 December 2004 comprise freehold land.

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20 Jointly controlled entities

	2004 RM'000	2005 RM'000	2006 RM'000
Share of net assets of jointly controlled entities	-	-*	632,219

* RM30

The Group's share of the revenue and results of the jointly controlled entities are as follows:

	2004 RM'000	2005 RM'000	2006 RM'000
Revenue	-	-	227,543
Other income	-	-	3,855
Expenses excluding tax	-	-	(258,815)
Loss after tax	-	-	(27,417)

The Group's share of the assets and liabilities of the jointly controlled entities are as follows:

	2004 RM'000	2005 RM'000	2006 RM'000
Non-current assets	-	-	1,089,020
Current assets	-	-	111,664
Current liabilities	-	-	(95,894)
Non-current liabilities	-	-	(472,571)
Net liabilities	-	-	632,219

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20 Jointly controlled entities (continued)

Financial year ended 31 December 2005

On 17 August 2005, the Company and Khazanah Nasional Berhad ('Khazanah') formed a consortium for the proposed acquisition of shares in MobileOne Limited ('M1'). As at 31 December 2005, the interest held by Sunshare, the jointly controlled entity, in M1 was 24.76%. M1 is incorporated in Singapore and is listed on the Singapore Exchange, with the principal activity of providing mobile and mobile related telecommunication services as well as the research and development of mobile telecommunication products and services and investment holding function.

Financial year ended 31 December 2006

During the financial year, the Group acquired 49% of Spice via the purchase of the entire issued share capital of DCIL (now known as TMI India) through its wholly owned subsidiary, TMIM.

The Group's equity interest in the jointly controlled entities, their respective principal activities and countries of incorporation are listed in Note 36 to the financial statements.

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21 Associates

	2004 RM'000	2005 RM'000	2006 RM'000
Share of net assets of associates			
- Quoted	30,481	50,142	197,401
- Unquoted	-	-	24,912
Total	30,481	50,142	222,313
Market value of quoted associates	133,200	137,100	361,600

The Group's share of revenue and profit of associates are as follows:

	2004 RM'000	2005 RM'000	2006 RM'000
Revenue	283,464	334,923	529,535
Profit after taxation	85,736	18,342	28,563

The Group's share of assets and liabilities of associates are as follows:

	2004 RM'000	2005 RM'000	2006 RM'000
Non-current assets	107,246	110,791	183,620
Current assets	110,309	119,265	331,773
Current liabilities	(100,091)	(108,301)	(242,999)
Non current liabilities	(86,983)	(71,613)	(50,081)
Net assets	30,481	50,142	222,313

The Group's equity interest in the associates, their respective principal activities and countries of incorporation listed in Note 37 to the financial statements.

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22 Long term investments

	2004 RM'000	2005 RM'000	2006 RM'000
Investments in unquoted shares, at cost	41,276	31,843	-

Investments include investment in Ghana Telecommunications Company Limited ('GT'), a former associate, which, due to permanent loss of significant influence, has been accounted as a long term investment. During the financial year ended 31 December 2006, the Group recognised the disposal of its investment in GT, resulting in a gain of RM77.4 million, which included the realisation of foreign exchange loss of RM83.6 million.

23 Inventories

	2004 RM'000	2005 RM'000	2006 RM'000
Telecommunication equipment	1,906	4,873	6,839
Spares and others *	8,106	30,450	36,524
Inventories	10,012	35,323	43,363

* Included in spares and others are trading inventories mainly comprise of SIM cards, phones and other consumables.

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24 Trade and other receivables

	2004 RM'000	2005 RM'000	2006 RM'000
Receivables from customers	165,415	258,217	312,040
Receivables from non-customers	7,621	39,963	33,244
Allowance for doubtful debts	(52,405)	(114,530)	(120,697)
Total trade receivables after allowance	<u>120,631</u>	<u>183,650</u>	<u>224,587</u>
Prepayments	14,770	103,658	146,462
Staff loans	71	275	451
Other receivables from associates	154	66	37
Other receivables	100,861	182,980	253,498
Total other receivables after allowance	<u>115,856</u>	<u>286,979</u>	<u>400,448</u>
Total trade and other receivables after allowance	<u><u>236,487</u></u>	<u><u>470,629</u></u>	<u><u>625,035</u></u>

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24 Trade and other receivables (continued)

The currency exposure profile of trade and other receivables after allowance is as follows:

	2004 RM'000	2005 RM'000	2006 RM'000
Ringgit Malaysia	1,492	4,585	1,189
US Dollar	78,778	82,282	132,067
Indonesian Rupiah	-	151,538	202,042
Sri Lanka Rupee	63,358	96,454	166,232
Bangladesh Taka	84,859	116,828	114,750
Euro Dollar	-	9,825	-
Other currencies	8,000	9,117	8,755
	<u>236,487</u>	<u>470,629</u>	<u>625,035</u>

The receivables from customers balance as at 31 December 2004 was due from GT in connection with the provision of technical services provided by the Company. This amount was disputed by GT. In 2002, TM issued a notification of claim to the Government of Ghana ('GoG') in respect of several shareholder disputes relating to its investment in GT. Included in the notification of claim was this trade receivable balance due from GT. This balance was written off as at 31 December 2005.

The receivables from customers balance as at 31 December 2005 and 31 December 2006 relate to a former related party which has been fully provided for.

The Group is not exposed to major concentration of credit risk due to the diversified customer base. In addition, credit risk is mitigated to a certain extent by cash deposits and bankers' guarantee obtained from customers. The Group consider the allowance for doubtful debts at balance sheet date to be adequate to cover the potential financial loss.

Credit terms of trade receivables for the Group range from 30 to 90 days for all the financial years presented.

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25 Amounts due from other related companies

	2004 RM'000	2005 RM'000	2006 RM'000
Amounts due from other related companies	16,873	7,204	6,159

The amounts due from other related companies are unsecured, interest free and has no fixed terms of repayment.

26 Cash and bank balances

	2004 RM'000	2005 RM'000	2006 RM'000
Deposits with:			
- Licensed banks	236,208	715,659	377,569
- Licensed finance companies	43,500	25,688	8,304
- Other financial institutions	-	37	76
- Deposits under Islamic principles	19,108	12,341	8,105
Total deposits	298,816	753,725	394,054
Cash and bank balances	105,558	179,972	145,497
Total cash and bank balances	404,374	933,697	539,551
Less:			
Deposits pledged	(4,902)	(11,764)	(11,764)
Total cash and cash equivalents at end of the financial year	399,472	921,933	527,787

The currency exposure profile of cash and bank balances is as follows:

	2004 RM'000	2005 RM'000	2006 RM'000
Ringgit Malaysia	47,560	64,639	26,745
US Dollar	76,096	409,670	226,407
Indonesian Rupiah	-	85,983	143,238
Sri Lanka Rupee	99,006	179,825	15,344
Bangladesh Taka	176,102	190,021	77,798
Other currencies	5,610	3,559	50,019
	404,374	933,697	539,551

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26 Cash and bank balances (continued)

The deposits are placed mainly with a number of creditworthy financial institutions. There is no major concentration of deposits in any single financial institution. Maturity range of deposits are as follows:

(In days)	<u>From</u>	<u>To</u>
Financial year ended 31 December 2004	Overnight	365
Financial year ended 31 December 2005	Overnight	365
Financial year ended 31 December 2006	Overnight	360

Bank balances are deposits held at call with banks.

The weighted average interest rate of deposits (excluding deposits under Islamic principles) for the Group are as follows:

	<u>%</u>
As at 31 December 2004	6.24
As at 31 December 2005	6.60
As at 31 December 2006	6.77

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27 Trade and other payables

	2004 RM'000	2005 RM'000	2006 RM'000
Trade payables	86,170	509,694	732,781
Accrued expenses	113,889	219,222	265,524
Deferred revenue	11,662	66,491	109,095
Finance cost payable	2,277	51,216	76,002
Customer deposits	61,998	60,746	64,291
Business licence payable	-	21,789	26,123
Payroll liabilities	341	3,508	28,637
Other accruals	22,960	27,578	116,433
Other payables	79,209	96,495	129,226
Total trade and other payables	378,506	1,056,739	1,548,112

The currency exposure profile of trade and other payables are as follows:

	2004 RM'000	2005 RM'000	2006 RM'000
Ringgit Malaysia	28,521	10,028	5,303
US Dollar	29,523	341,944	659,290
Indonesian Rupiah	-	272,232	432,677
Sri Lanka Rupee	108,195	155,098	206,325
Bangladesh Taka	206,378	243,380	171,890
Euro Dollar	-	17,239	34,839
Other currencies	5,889	16,818	37,788
	378,506	1,056,739	1,548,112

Credit terms of trade and other payables vary from 30 to 180 days depending on the terms of the contracts respectively for all the financial years presented.

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28 Cash flows

	2004 RM'000	2005 RM'000	2006 RM'000
Receipts from customers	839,724	1,561,215	4,111,816
Payments to suppliers and employees	(355,613)	(650,741)	(1,945,861)
Payment of finance cost	(26,383)	(29,884)	(202,012)
Payment of income taxes	(1,553)	(2,639)	(4,064)
Tax refund	-	622	-
Total cash flows from operating activities	456,175	878,573	1,959,879
Disposal of property, plant and equipment	4,449	2,698	2,801
Purchase of property, plant and equipment	(274,256)	(1,480,865)	(3,074,432)
Payment of intangible asset	-	-	(184,531)
Disposal of long term investments	-	-	155,608
Disposal of an associate	3,003,162	-	-
Disposal of subsidiaries (net of cash disposed)	-	185,171	-
Acquisition of subsidiaries (net of cash acquired)	-	(2,750,568)	(36,670)
Partial disposal of a subsidiary	-	2,091	3,502
Additional investment in subsidiaries	-	(3,420)	(252,810)
Investment in a jointly controlled entity	-	-	(659,399)
Acquisition of associates	(1,375,000)	-	(146,923)
Interest received	13,547	31,319	50,208
Loans to employees	-	(300)	(234)
Total cash flows generated from/(used in) investing activities	1,371,902	(4,013,874)	(4,142,880)

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28 Cash flows (continued)

	2004 RM'000	2005 RM'000	2006 RM'000
Issue of share capital to minority interests	-	140,895	15,109
Proceeds from borrowings	73,862	774,361	2,222,676
Repayments of borrowings	(70,538)	(71,190)	(1,145,640)
Dividends paid to minority interests	(8,480)	(10,481)	(22,488)
Net (repayment)/advance from holding company	(1,577,828)	2,838,946	762,459
Total cash flows generated (used in)/from financing activities	(1,582,984)	3,672,531	1,832,116

29 Contingencies and commitments**(a) Capital commitments**

	2004 RM'000	2005 RM'000	2006 RM'000
Property, plant and equipment			
Commitments in respect of expenditure approved and contracted for	153,256	910,503	1,791,600
Commitments in respect of expenditure approved but not contracted for	13,300	233,278	694,044
Lease rental commitments	-	40,166	16,192
	166,556	1,183,947	2,501,836

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29 Contingencies and commitments (continued)

(b) Other commitments

On 21 April 2006, a Deed of Undertaking was signed between the Company, Spice, TM and DBS Bank Ltd in connection with the provision of limited sponsor support for the USD215.0 million INR Facility Agreement and USD50.0 million USD Facility Agreement dated 21 April 2006 between DBS Bank Ltd ('Facility Agent') and Spice ('Borrower'). Under the terms, the Company, failing which TM, is required to make payment of any outstanding principal or interest under the facilities to the lenders upon occurrence of any of the specific trigger events. Upon the occurrence of the specific trigger events, the Company and TM would be able to exercise their call option under the terms of the Shareholders' Agreement dated 10th March 2006 to acquire additional shares in Spice from the existing shareholder, namely Modi Wellvest Private Limited ('MWPL'), consequently making Spice a subsidiary of the Company.

(c) Contingent liabilities (unsecured)

As at 31 December 2005

On 5 October 2005, a financial institution in Karachi issued a USD10.0 million Standby Letter of Credit ('SBLC') to Pakistan Telecommunication Authority ('PTA') on behalf of Multinet. This SBLC is part of the requirement in awarding the Long Distance International License to Multinet with respect to roll out commitments as per the Information Memorandum dated 8 March 2004. The maturity date of this SBLC is 5 October 2006 and is automatically extended on maturity date unless notice of cancellation is given not less than 60 days before the maturity date.

On 5 October 2005, a financial institution in Labuan issued a USD10.0 million SBLC to the above financial institution in Karachi on behalf of TMIL as a counter guarantee to the USD10.0 million SBLC issued by that financial institution in Karachi to PTA on behalf of its subsidiary, Multinet. The tenure of the SBLC for counter guarantee is one year to mature on 5 October 2006.

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29 Contingencies and commitments (continued)

(c) Contingent liabilities (unsecured) (continued)

As at 31 December 2006

On 6 October 2005, TMIL had executed a Blanket Counter Indemnity in favour of a financial institution in Labuan for all facilities offered. As at 31 December 2006, the amount outstanding was USD16.6 million. A summary of the facilities offered by the financial institution in Labuan is as follows:

- (a) Issuance of USD10.0 million SBLC to a financial institution in Karachi on behalf of the Company on 5 October 2005 to counter guarantee USD10.0 million SBLC to Pakistan PTA on behalf of a subsidiary, Multinet. This SBLC was part of the requirement in awarding the Long Distance International License to Multinet. The tenure of the SBLC is three (3) years subject to annual review.
- (b) Offering of an additional SBLC Facility of up to USD33.0 million to TMIL on 18 December 2006, to counter guarantee a financial institution in Karachi for the BG issuances on behalf of Multinet to Telenor Pakistan (Private) Limited ('Telenor'). As at 31 December 2006, the SBLC issued was USD6.6 million being 1st tranche. The tenure of the SBLC is one (1) year subject to annual review. Multinet and Telenor had entered into a 20 years Indefeasible Right of Use ('IRU') agreement which requires a Bank Guarantee ('BG') favouring Telenor to be issued by Multinet. A financial institution in Karachi had issued a BG to Telenor on behalf of Multinet. The BG is to be issued in three (3) tranches.

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30 Significant subsequent events

(a) 31 December 2006

- (i) At an Extraordinary General Meeting of shareholders of a foreign subsidiary on 22 December 2006, the shareholders approved a subsidiary's plan to obtain new borrowings in the aggregate amount not exceeding USD430.0 million through one or a number of transactions in the form of bilateral credit facility, syndicated credit facility, and/or through issuances of bonds and/or other debts instruments, denominated in foreign currencies and/or Indonesian Rupiah (IDR) for the financial year ended 31 December 2007. On 26 April 2007, the subsidiary issued IDR Bond amounting to IDR1.5 trillion with coupon rate of 10.35% per annum which will mature on 26 April 2012.
- (ii) On 3 January 2007 to 5 January 2007, a foreign subsidiary entered into several foreign currency contracts to hedge the US Dollar Bond payment, which will mature in 2009 and 2013. The notional amount of the contract is USD125.0 million. The premium on the foreign currency contract will be paid semi-annually.
- (iii) On 8 January 2007, a foreign subsidiary entered into a credit agreement with a foreign bank amounting to USD50.0 million. The facility will be available for drawdown commencing on 8 January 2007 up to the termination date on 30 May 2007. Based on the contract, the subsidiary agreed to pay a floating rate of interest at quarterly intervals of USD London Interbank Offer Rate (LIBOR) plus 1.05% margin per annum. The loan will mature in thirty-six (36) months from the first drawdown date.
- (iv) On 15 January 2007, a foreign subsidiary entered into a credit agreement with a foreign bank amounting to USD50.0 million. The facility will be available for drawdown commencing on 30 January 2007 up to 30 April 2007. Based on the contract, the subsidiary agreed to pay a floating rate of interest at quarterly intervals of USD LIBOR plus 0.95% margin per annum. The loan will mature on 29 January 2010. On 15 January 2007, a foreign subsidiary entered into a credit agreement with a foreign bank amounting to USD50.0 million. Based on the contract, the subsidiary agreed to pay a floating rate of interest at quarterly intervals of USD LIBOR plus 0.95% margin per annum. The loan will mature on 29 January 2010.

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30 Significant subsequent events (continued)

(a) 31 December 2006 (continued)

(v) In June 2006, XL received the 2004 tax assessment results on withholding tax applicable for offshore interest including penalty amounting to RM13.1 million, based on withholding tax of 10%. XL had submitted an objection in September 2006. However, the objection was rejected by the local tax authority in August 2007 and XL was assessed to pay the 2004 withholding tax at 20%. In June 2007, XL received the tax assessment results for financial year 2005 for the similar issue amounting to RM33.0 million. The above additional withholding tax payment was duly paid by Excelcomindo in the third quarter of financial year ended 31 December 2007.

Although the tax assessment for 2006 and 2007 has not been issued by the local tax authority, XL has accrued and paid the additional withholding tax for financial year ended 31 December 2007 on the basis that similar tax assessment would be applied. Hence, additional withholding tax and penalty of RM129.9 million was recognised in the third quarter of the 2007. XL is in the process of appealing to the local tax authority on the 2004 and 2005 tax assessment.

(vi) On 30 September 2006, TMIL entered into a Sale and Purchase Agreement with Mr Nasser Khan Ghazi on the acquisition of an additional 11% equity in Multinet, a private limited liability company incorporated in the Islamic Republic of Pakistan in 1996 for a total cash consideration of USD2.42 million. The acquisition was completed on 6 April 2007 whereby TMIL's shareholding in Multinet increased from 78% to 89%.

(vii) On 19 April 2007, TMIL entered into a Stock Purchase Agreement with AIF (Indonesia) Ltd (AIF) to purchase all of AIF's stake in XL. TMIL has agreed to purchase 523,532,100 ordinary shares of Indonesian Rupiah 100 each in XL (AIF Purchased Shares), representing approximately 7.38% of the issued and paid-up share capital of XL from AIF for a cash consideration of USD113.0 million. The acquisition of the AIF Purchased Shares was completed on 4 June 2007. Consequently, the Group's equity interest in XL increased to 67.02%.

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30 Significant subsequent events (continued)

(a) 31 December 2006 (continued)

(viii) On 20 April 2007, TM announced the following proposals undertaken by its Sri Lankan subsidiary, Dialog:

- To raise approximately Sri Lanka Rupees (SLR) 15.54 billion (approximately USD142.63 million) by way of a Rights Issue to holders of the issued ordinary shares of Dialog in the proportion of one (1) ordinary shares for every ten (10) ordinary shares held in the capital of Dialog, at a price of SLR21 per share.
- To raise up to SLR five billion (5,000,000,000) (approximately USD45.89 million) via the issuance of five billion (5,000,000,000) Rated Cumulative Redeemable Preference Shares (RCRPS) of SLR1 per share.
- To amend the Memorandum of Association of Dialog to provide for the increase of the authorised capital.

The proceeds of the Rights Issue and RCRPS of approximately SLR20.54 billion will partially finance Dialog's capital expenditure planned for the next three (3) years, targeting accelerated expansion of network capacity and coverage and transformational investments in convergent technologies spanning the multiple business lines of Dialog. The proposals were tabled and approved in the Extraordinary General Meeting (EGM) of Dialog on 21 May 2007.

Pursuant to the resolutions passed, 740,343,492 ordinary shares in the form of rights issue were allotted to Dialog's existing shareholders. It was subscribed for by over 100%, thereby making the issue the largest ever equity raising exercise executed in Sri Lanka capital market. The exercise was completed on 27 June 2007, being the final date shares were deposited into subscribers' securities account with the Central Depository Systems (Pvt.) Limited.

In tandem with the above, the authorised share capital of Dialog was increased from SLR10 billion divided into 10 billion shares of SLR1 per share to SLR25 billion divided into 25 billion shares of SLR1 each. Memorandum of Association of Dialog has been amended to facilitate increment in authorised share capital.

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30 Significant subsequent events (continued)

- (a) 31 December 2006 (continued)
- (ix) On 5 June 2007, Spice, a 49% owned jointly controlled entity of TM, held through TMI India Limited, concluded a Pre-IPO placement of 24,873,889 shares at INR45 per shares. On completion of the Pre-IPO placement, TM's equity interest in Spice reduced from 49% to 46.89% as at the end of 30 June 2007. Spice commenced trading on the Bombay Stock Exchange ('BSE') on 19 July 2007 with debut price of INR55.75 per share. Pursuant to the Initial Public Offering, 13,111,111 equity shares were issued at INR46 per share. Consequently, TM's shareholding was further diluted from 46.89% to 39.2%.
- (x) On 14 September 2007, Dialog acquired the remaining 10% equity interest in Dialog Television (Private) Limited ('DTV') (previously known as Asset Media (Private) Limited) from Mr Muhunthan Canagasooriyam and Mr Niranjana Canagasooriyam for a purchase consideration of USD0.35 million. As a result of the said acquisition, DTV is now a wholly owned subsidiary of Dialog.
- (xi) On 28 September 2007, TM announced the proposed demerger of the mobile and fixed line businesses of the TM Group to create 2 separate entities to serve the different market segments within the telecommunications industry ('Proposed Demerger').

The Proposed Demerger is expected to involve the following:

- an internal restructuring whereby Telekom Enterprise Sdn Bhd ('TESB'), a wholly owned subsidiary of TM, transfers Celcom (Malaysia) Berhad ('Celcom') to the Company where the Company will become the holding company for all of TM Group's mobile and non-Malaysian businesses excluding TM Regional Offices ('RegionCo') ('Proposed Internal Restructuring');
- a demerger of RegionCo from the TM Group through the distribution by TM of all the ordinary shares of RM1.00 each in the Company ('TMI') to its shareholders; and
- a listing of the Company on the Main Board of Bursa Malaysia Securities Berhad ('Bursa Securities').

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30 Significant subsequent events (continued)

(a) 31 December 2006 (continued)

On 8 December 2007, the Board of Directors ('Board') of TM, approved the final terms of the Proposed Demerger. Consequently, on 10 December 2007, TM entered into an agreement with its wholly owned subsidiaries, TESB, the Company, Celcom and Celcom Transmission (M) Sdn Bhd ('CTX') to give effect to the Proposed Internal Restructuring.

The Proposed Internal Restructuring involves the following:

- CTX, a wholly-owned subsidiary of Celcom, transferring its entire holding of 38,250,000 ordinary shares of RM1.00 each in Fibrecomm Network (M) Sdn Bhd ('Fibrecomm'), which represents 51% of the issued and paid-up share capital of Fibrecomm to TESB for a consideration of RM33 million;
- TESB transferring its entire holding of 1,237,534,681 ordinary shares of RM1.00 each in Celcom, representing 100% of the issued and paid-up share capital of Celcom, to the Company for a consideration of RM4,677 million;
- TM transferring its entire holding of 37,433,992 redeemable convertible preference shares of USD0.01 each in SunShare, representing approximately 51% of the issued and paid-up share capital of SunShare to the Company for a consideration of RM141 million; and
- Settlement of net amount owing by the Company and its subsidiaries upon completion of the Proposed Internal Restructuring to TM and its subsidiaries upon the completion of the Proposed Demerger as at 30 November 2007 of RM3,041 million,

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30 Significant subsequent events (continued)

(a) 31 December 2006 (continued)

whereby the net consideration of RM7,826 million in relation to the Proposed Internal Restructuring will be satisfied as follows:

- RM3,801 million shall be satisfied through the issuance of such number of ordinary shares in the Company ('TMI Shares') in favour of TM or its nominee(s) at an issue price to be determined such that the enlarged number of TMI Shares (after the Proposed Demerger) is the same as the number of ordinary shares of RM1.00 each in TM ('TM Shares') in issue as at a date (to be determined and announced later) on which TM's shareholders must be registered in TM's Record of Depositors or Register of Members in order to participate in the Proposed Distribution ('Entitlement Date');
- RM2,925 million shall be satisfied by way of an amount owing from the Company to TM at a finance cost of 5.90% per annum ('First Amount Owing'); and
- RM1,100 million shall be satisfied by way of an amount owing from the Company to TM at a finance cost of 6.72% per annum ('Second Amount Owing').

Following the Proposed Internal Restructuring, TM will distribute its entire holdings in and rights to TMI Shares to the shareholders of TM whose names appear in TM's Record of Depositors or Register of Members as at the Entitlement Date ('Entitled Shareholders') on the basis of 1 TMI Share for every 1 TM Share held as at the Entitlement Date out of TM's retained earnings.

The entire issued and paid-up ordinary share capital of the Company (including new TMI Shares issued under the Proposed Internal Restructuring and pursuant to the Proposed Shareholders' Mandate, if any) is proposed to be listed on the Main Board of Bursa Securities.

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30 Significant subsequent events (continued)

(a) 31 December 2006 (continued)

- (viii) On 17 May 2007 and 21 May 2007, the Group through TMIL, disposed 3.82% of its shareholding in Dialog, recording a net gain on disposal of RM194.4 million.

On 24 September 2007, TMIL further disposed 0.8% of its shareholding in Dialog to International Finance Corporation ('IFC'). The Group recorded a net gain on disposal of RM40.6 million. TMIL has also entered into a Call Option agreement with IFC to dispose a further 0.8% of its shareholding in Dialog. Under the Call Option agreement, for a period of 6 months, IFC has the right to purchase USD15 million worth of DTL's shares at a price of at least LKR26.50 per share.

- (ix) On 11 January 2005, TM and Rajawali group through TMIL and Telekomindo respectively, entered into a Shareholders' Agreement to govern their relationship as shareholders in XL ('Previous SHA'). Following the sale by the Rajawali group of its shareholding in XL to Etisalat, the Previous SHA will terminate.

On 11 December 2007, TMIL entered into a Shareholders' Agreement ('SA') with Etisalat pursuant to the entry by Etisalat as a new shareholder in XL. The SA sets out the terms governing the relationship between Etisalat and TMIL as shareholders in XL including transfer restrictions on the shareholdings of the parties and composition of the Board of Commissioners and Board of Directors of XL.

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30 Significant subsequent events (continued)

(b) 31 December 2005

In addition to the events occurring as detailed in Note 30(a), the following were additional events occurring subsequent to 31 December 2005:

- (i) Subsequent to the year end, the Company via Indocel sold a total of 165,000 of its shares in XL shares the Jakarta Stock Exchange. The sale was undertaken to increase the number of floated shares in the market with an ultimate aim of improving its trading liquidity.
- (ii) On 18 January 2006, a subsidiary of XL, Excelcomindo Finance B.V., issued guaranteed notes ('the Notes') amounted to USD250.0 million (full amount) with an issuance price at 99.323% and coupon rate of 7.125%. The Notes is valid for 7 years and listed on the Singapore Exchange Securities Trading Ltd (SGX-ST). The difference between the nominal principal and the issuance price was deferred as a bond discount and being amortised over 7 years.

The interest is payable semi-annually in arrears on 18 January and 18 July each year, commencing on 18 July 2006.

The Notes mature on 18 January 2013. The Notes are unsecured senior obligations and guaranteed by Excelcomindo on a senior unsecured basis.

The Notes are BB-by Standard and Poor's Rating Services and B1 by Moody's Investor Services, Inc.

XL is required to comply with certain conditions, such as limitations on assets sale and, or leaseback transactions, and the Consolidated Leverage Ratio does not exceed 5.0 to 1.0 on or prior to 27 January 2007, and 4.5 to 1.0 thereafter.

- (iii) From 19 January 2006 to 24 February 2006, SunShare acquired an additional 20,604,000 ordinary shares of MI, thus increasing its stake to a total of 264,339,160 ordinary shares representing 26.82% equity interest in MI.
- (iv) Subsequent to 31 December 2005, the Group acquired/increased its equity interest in new subsidiaries/associated companies and joint controlled entities as detailed in Note 5(c) (i) to (vi).

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30 Significant subsequent events (continued)

(c) 31 December 2004

In addition to the events occurring as detailed in Note 30 (a) and (b), the following were additional events occurring subsequent to 31 December 2004:

- (i) On 17 August 2005, the Company and Khazanah entered into a Joint Venture and Shareholders' Agreement (JV Agreement) to set up SunShare Investments Ltd ('SunShare') for the proposed acquisition of shares of M1, as detailed in Note 20.
- (ii) Subsequent to 31 December 2004, the Group acquired/increased/decreased its equity interest in subsidiaries and associate companies as detailed in Note 5 (b).
- (iii) On 16 March 2005, the issued and paid up share capital of the Company was increased from RM30,471,701 to RM35,693,116 by the issuance of 5,221,415 new ordinary shares of RM1.00 at a premium for RM4.00 each, as consideration for the acquisition of Telekom Management Services Sdn Bhd from TM., as part of TM's internal restructuring to rationalise its investments.

On the same date, subsequent to the completion of TMS acquisition, the Company subscribed for an additional 99,998 new ordinary shares of RM1.00 each in TMS.

The new ordinary shares issued by the Company rank pari passu in all respects with the existing ordinary shares of the Company.

There were no other material events subsequent to the end of the financial year ended 31 December 2006 that have not been reflected in the financial statements.

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31 Segmental reporting

By geographical location

The Group operates in many countries as shown in Note 35 to the financial statements. Accordingly, the segmentisation of Group operation by geographical location is segmentised to the key countries of operation of the Group. Others as no other individual overseas country contributed less than 10% collectively of consolidated operating revenue or assets.

In presenting information for geographical segments of the Group, sales, total assets and capital expenditure are based on the country in which the customers are located.

Segment results represent segment operating revenue less segment expenses. The accounting policies used to derive reportable segment results are consistent with those as described in the Significant accounting policies.

Segment assets disclosed for each segment represent assets directly managed by each segment, primarily include intangibles, property, plant and equipment, receivables (include receivables from related companies), inventories and cash and bank balances. Segment liabilities comprise operating liabilities specific to each segment. Tax related items are excluded from segment assets and liabilities.

Segment capital expenditure comprises additions to intangibles, property, plant and equipment, including additions resulting from acquisition of subsidiaries as shown in Note 19 to the financial statements.

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31 Segmental reporting (continued)

	Indonesia RM'000	Bangladesh RM'000	Sri Lanka RM'000	Others RM'000	Total RM'000
Financial year ended 31 December 2004					
Operating revenue					
Total operating revenue	-	410,712	429,290	80,208	920,210
Inter-segment *	-	-	-	(4,647)	(4,647)
External operating revenue	-	410,712	429,290	75,561	915,563
Results					
Segment results	-	189,913	162,628	(14,360)	338,181
Other income	-	58	1,250	801	2,109
Operating profit before finance cost	-	189,971	163,878	(13,559)	340,290
Finance income	-	8,538	4,022	987	13,547
Finance cost	-	(6,904)	(12,562)	(6,917)	(26,383)
Associates					
- share of results (net of tax)	-	-	-	85,736	85,736
- gain on disposal	-	-	-	-	1,576,217
Profit before taxation	-	-	-	-	1,989,407
Taxation	-	-	-	-	(79,999)
Profit for the year	-	-	-	-	1,909,408
At 31 December 2004					
Segment assets	-	953,149	705,345	1,752,223	3,410,717
Associates	-	-	-	30,481	30,481
Total assets	-	-	-	-	3,441,198
Segment liabilities	-	314,010	256,868	432,211	1,003,089
Borrowings	-	85,769	122,731	82,483	290,983
Tax related liabilities	-	-	-	-	82,896
Total liabilities	-	-	-	-	1,376,968
Financial year ended 31 December 2004					
Other information					
Capital expenditure					
- additions during the year	-	128,303	148,491	29,716	306,510
Depreciation and amortisation	-	29,110	59,980	12,482	101,572
Impairment of property, plant and equipment	-	-	-	1,198	1,198
Significant non-cash expenses/(income)	-	30,936	10,360	(1,316)	39,980

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31 Segmental reporting (continued)

	Indonesia RM'000	Bangladesh RM'000	Sri Lanka RM'000	Others RM'000	Total RM'000
Financial year ended 31 December 2005					
Operating revenue					
Total operating revenue	293,626	541,039	680,873	96,741	1,612,279
Inter-segment *	-	-	-	(5,866)	(5,866)
External operating revenue	<u>293,626</u>	<u>541,039</u>	<u>680,873</u>	<u>90,875</u>	<u>1,606,413</u>
Results					
Segment results	81,612	171,674	274,542	(86,955)	440,873
Other income	<u>271</u>	<u>185</u>	<u>2,069</u>	<u>260,487</u>	<u>263,012</u>
Operating profit before finance cost	81,883	171,859	276,611	173,532	703,885
Finance income	2,454	18,356	6,474	4,035	31,319
Finance cost	(18,357)	4,618	(13,823)	(2,322)	(29,884)
Associates					
- share of results (net of tax)	-	-	-	18,342	18,342
- gain on dilution/disposal					<u>84,485</u>
Profit before taxation					808,147
Taxation					<u>(99,547)</u>
Profit for the financial year					<u>708,600</u>
At 31 December 2005					
Segment assets	5,374,664	1,554,176	1,239,490	2,091,601	10,259,931
Associates	-	-	-	50,142	50,142
Tax related assets					<u>216,151</u>
Total assets					<u>10,526,224</u>
Segment liabilities	589,585	306,115	183,686	3,432,453	4,511,839
Borrowings	1,632,189	584,396	394,215	27,018	2,637,818
Tax related liabilities					<u>156,057</u>
Total liabilities					<u>7,305,714</u>
Financial year ended 31 December 2005					
Other information					
Capital expenditure					
- additions during the year	386,416	653,282	321,713	81,944	1,443,355
- acquisition of subsidiaries	4,765,658	-	59,089	103,081	4,927,828
Depreciation and amortisation	73,506	53,752	81,166	22,931	231,355
Impairment of property, plant and equipment	428	1,091	-	981	2,500
Significant non-cash expenses/(income)	(41,944)	48,022	20,694	40,192	66,964

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31 Segmental reporting (continued)

	Indonesia RM'000	Bangladesh RM'000	Sri Lanka RM'000	Others RM'000	Total RM'000
Financial year ended 31 December 2006					
Operating revenue					
Total operating revenue	2,310,394	709,554	906,690	129,670	4,056,308
Inter-segment *	-	-	-	(6,058)	(6,058)
External operating revenue	<u>2,310,394</u>	<u>709,554</u>	<u>906,690</u>	<u>123,612</u>	<u>4,050,250</u>
Results					
Segment results	517,277	209,793	368,162	54,667	1,149,899
Other income	7,504	186	5,327	90,267	103,284
Operating profit before finance cost					<u>1,253,183</u>
Finance income	20,667	16,195	8,977	4,369	50,208
Finance cost	(166,481)	(27,161)	(26,121)	17,751	(202,012)
Jointly controlled entities					
- share of results (net of tax)	-	-	-	(27,417)	(27,417)
Associates					
- share of results (net of tax)	-	-	-	28,563	28,563
Profit before taxation					<u>1,102,525</u>
Taxation					<u>(281,718)</u>
Profit for the financial year					<u>820,807</u>
At 31 December 2006					
Segment assets	7,216,533	1,686,902	1,468,743	466,456	10,838,634
Jointly controlled entities	-	-	-	632,219	632,219
Associates	-	-	-	222,313	222,313
Tax related assets					188,589
Total assets					<u>11,881,755</u>
Segment liabilities	1,027,085	232,828	272,873	2,613,649	4,146,435
Borrowings	2,095,312	909,655	304,589	116,636	3,426,192
Tax related liabilities					382,445
Total liabilities					<u>7,955,072</u>
Financial year ended 31 December 2006					
Other information					
Capital expenditure					
- additions during the year	1,865,126	674,331	370,423	95,117	3,004,997
- acquisition of subsidiaries	275,215	-	57,408	56,688	389,311
Depreciation and amortisation	597,705	101,188	106,525	14,852	820,270
Write off of property, plant and equipment	43	-	60	-	103
Impairment of property, plant and equipment	602	351	-	2,607	3,560
Significant non-cash expenses/(income)	(153,295)	(5,681)	35,653	4,930	(118,393)

* Inter-segment operating revenue has been eliminated in arriving at respective segment operating revenue. The inter-segment operating revenue was entered into in the normal course of business and at prices available to third parties or at negotiated terms.

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31 Segmental reporting (continued)

By business segments

Segmental information is not presented by business segments as there are no other significant business segments other than the provision of mobile telecommunication services.

32 Financial instruments

The main risks arising from the Group's financial assets and liabilities are foreign exchange, interest rate, credit and liquidity risk. The Group's overall risk management seeks to minimise potential adverse effects of these risks on the financial performance of the Group.

The Group has established risk management policies, guidelines and control procedures to manage its exposure to financial risks. Hedging transactions are determined in the light of commercial commitments. Derivative financial instruments are used only to hedge underlying commercial exposures and are not held for speculative purposes.

(a) Foreign Exchange Risk

The Group comprise subsidiaries and associates operating in foreign countries, which generate revenue and incur costs denominated in foreign currencies. The main currency exposures are Sri Lanka Rupee, Bangladesh Taka and Indonesian Rupiah as well as borrowings denominated in US Dollar.

(b) Interest Rate Risk

The Group has cash and bank balances and deposits placed with creditworthy licensed banks and financial institutions. The Group manages its interest rate risk by placing such balances on varying maturities and interest rate terms.

The Group's debts include bank overdrafts, bank borrowings, bonds, notes and debentures. The Group's interest rate risk objective is to manage the acceptable level of rate fluctuation on the interest expense. In order to achieve this objective, the Group targets a composition of fixed and floating debt based on assessment of its existing exposure and desirable interest rate profile.

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32 Financial instruments (continued)

(c) Credit Risk

Financial assets that potentially subject the Group to concentrations of credit risk are primarily receivables and cash and bank balances.

The Group has no significant concentration of credit risk due to its diverse customer base. Credit risk is managed through the application of credit assessment and approval, credit limit and monitoring procedures. Where appropriate, the Group obtains deposits or bank guarantees from customers.

The Group places its cash and cash equivalents with a number of creditworthy financial institutions. The Group's policy limits the concentration of financial exposure to any single financial institution.

For on-balance-sheet financial instruments, the main credit risk exposure has been disclosed elsewhere in the financial statements.

(d) Liquidity Risk

In the management of liquidity and cash flow risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Due to the dynamic nature of the underlying business, the Group aims at maintaining flexibility in funding by keeping both committed and uncommitted credit lines available.

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33 Interest rate risk

The table below summarises the Group's exposure to interest rate risk. Included in the tables are the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of repricing or contractual maturity dates. The off-balance-sheet gap represents the net notional amounts of all interest rate sensitive derivative instruments. Sensitivity to interest rates arises from mismatches in the repricing dates, cash flows and other characteristics of assets and their corresponding liability funding.

W.A.R.F.*	1 year or less RM'000	>1 - 2 years RM'000	>2 - 3 years RM'000	>3 - 4 years RM'000	>4 - 5 years RM'000	More than 5 years RM'000	Total interest sensitive RM'000	Non- interest sensitive RM'000	Balances under Islamic principles	
									RM'000	RM'000
Maturing or repriced in										
Financial Assets										
Long Term Investments	9,433	-	-	-	-	-	9,433	31,843	-	-
Trade and Other Receivables	-	-	-	-	-	-	-	236,487	-	-
Cash and Bank Balances	279,708	-	-	-	-	-	279,708	105,558	19,108	-
Amount due from holding company	-	-	-	-	-	-	-	1,630,565	-	-
Amounts due from related companies	-	-	-	-	-	-	-	16,873	-	-
Total	289,141	-	-	-	-	-	289,141	2,021,326	19,108	2,329,575
Financial Liabilities										
Borrowings										
- floating interest rate	25,822	16,188	38,421	-	-	158,893	239,324	-	-	239,324
- fixed interest rate	36,769	-	-	-	-	14,890	51,659	-	-	51,659
Amount due to holding company	7,971	6,208	6,208	6,208	-	-	26,595	597,988	-	624,583
Trade and Other Payables	-	-	-	-	-	-	-	378,506	-	378,506
Total	70,562	22,396	44,629	6,208	-	173,783	317,578	976,494	-	1,294,072

*W.A.R.F. Weighted Average Rate of Finance as at 31 December

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W.A.R.F.*	1 year or less RM'000	Maturing or repriced in							Total interest sensitive RM'000	Non- interest sensitive RM'000	Balances under Islamic principles RM'000	Total RM'000
		>1 - 2 years RM'000	>2 - 3 years RM'000	>3 - 4 years RM'000	>4 - 5 years RM'000	More than 5 years RM'000	Total interest sensitive RM'000	Non- interest sensitive RM'000				
2005												
Financial Assets												
	-	-	-	-	-	-	-	-	31,843	-	-	31,843
Long term investments	-	-	-	-	-	-	-	-	300	-	-	300
Long term receivables	-	-	-	-	-	-	-	-	470,629	-	-	470,629
Trade and other receivables	-	-	-	-	-	-	-	741,384	179,972	12,341	933,697	
Cash and bank balances	6.60%	741,384	-	-	-	-	-	-	-	-	-	-
Amount due from holding company	-	-	-	-	-	-	-	-	1,622,136	-	-	1,622,136
Amounts due from related companies	-	-	-	-	-	-	-	-	7,204	-	-	7,204
Total		741,384	-	-	-	-	-	741,384	2,312,084	12,341	-	3,065,809
Financial Liabilities												
Borrowings												
- floating interest rate	6.19%	319,551	75,459	-	-	-	100,113	251,439	-	-	-	746,562
- fixed interest rate	6.11%	428,435	-	92,348	1,366,883	1,125	2,465	1,891,256	-	-	-	1,891,256
Trade and other payables	-	-	-	-	-	-	-	-	1,056,739	-	-	1,056,739
Amount due to holding company	8.20%	8,540	8,541	6,651	6,651	6,651	-	37,034	3,418,066	-	-	3,455,100
Total		756,526	84,000	98,999	1,373,534	107,889	253,904	2,674,852	4,474,805	-	-	7,149,657

* W.A.R.F. Weighted Average Rate of Finance as at 31 December

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Notes to the Financial Statements for the financial years ended 31 December 2004, 31 December 2005 and 31 December 2006 (continued)

33 Interest rate risk (continued)

	W.A.R.F.*	Maturing or repriced in							Balances		
		1 year or less RM'000	>1 - 2 years RM'000	>2 - 3 years RM'000	>3 - 4 years RM'000	>4 - 5 years RM'000	More than 5 years RM'000	Total interest sensitive RM'000	Non-interest sensitive RM'000	under Islamic principles RM'000	Total RM'000
2006											
Financial assets											
Long term receivables	-	-	-	-	-	-	-	-	356	-	356
Trade receivables and other receivables	-	-	-	-	-	-	-	-	625,035	-	625,035
Cash and bank balances	6.77%	385,949	-	-	-	-	-	385,949	145,497	8,105	539,551
Amount due from holding company	-	-	-	-	-	-	-	-	2,900	-	2,900
Amounts due from related companies	-	-	-	-	-	-	-	-	6,159	-	6,159
Total		385,949	-	-	-	-	-	385,949	779,947	8,105	1,174,001

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33 Interest rate risk (continued)

	W.A.R.F.*	Maturing or repriced in						Total interest sensitive RM'000	Non- interest sensitive RM'000	Balances under Islamic principles RM'000	Total RM'000
		1 year or less RM'000	>1 - 2 years RM'000	>2 - 3 years RM'000	>3 - 4 years RM'000	>4 - 5 years RM'000	More than 5 years RM'000				
2006											
Financial Liabilities											
Borrowings											
- floating interest rate	7.42%	136,702	-	-	82,097	93,018	422,721	734,538	-	734,538	
- fixed interest rate	7.37%	363,942	119,136	1,328,394	-	12,137	868,045	2,691,654	-	2,691,654	
Trade and Other Payables									1,548,112	1,548,112	
Amount due to holding company	8.87%	-	8,588	8,588	6,688	6,688	6,688	37,240	2,561,083	2,598,323	
Total		500,644	127,724	1,336,982	88,785	111,843	1,297,454	3,463,432	4,109,195	7,572,627	

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34 Fair value of financial assets and liabilities

The carrying amounts of the financial assets and liabilities of the Group at the balance sheet date approximated their fair values except as set out below:

	2004		2005		2006	
	Carrying amount RM'000	Net fair value RM'000	Carrying amount RM'000	Net fair value RM'000	Carrying amount RM'000	Net fair value RM'000
Financial Liabilities						
Long Term Borrowings	228,392	228,392	1,889,832	1,916,806	2,925,548	3,001,623

The fair value of quoted bonds has been estimated using the respective quoted offer price. For unquoted borrowings with fixed interest rate, the fair values have been estimated by discounting the estimated future cash flows using the prevailing market rates for similar credit risks and remaining period to maturity. For unquoted borrowings with floating interest rate, the carrying values are generally reasonable estimates of their fair values.

The financial liabilities will be realised at their carrying values and not at their fair values as the Directors have no intention to settle these liabilities other than in accordance with their contractual obligations.

For all other short term on-balance-sheet financial instruments maturing within one (1) year or are repayable on demand, the carrying values are assumed to approximate their fair values.

There were no off-balance sheet financial instruments as at 31 December 2004, 31 December 2005 and 31 December 2006.

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Notes to the Financial Statements for the financial years ended 31 December 2004, 31 December 2005 and 31 December 2006 (continued)

35 List of subsidiaries

The subsidiaries are as follows:

Name of company	% of effective shareholding			Principal activities	Place of incorporation
	2004	2005	2006		
G-Com Limited **	85.00	100.00	100.00	Investment holding	Ghana
TM International (L) Limited ^{###}	100.00	100.00	100.00	Investment holding	Labuan
TMI Mauritius Ltd ^{###}	100.00	100.00	100.00	Investment holding	Mauritius
Telekom Malaysia International (Cambodia) Company Ltd. (formerly known as Cambodia Samart Communication Company Ltd) ^{###}	51.00	51.00	100.00	Provision of mobile telecommunication services in Cambodia	Cambodia
Telekom Management Services Sdn Bhd	100.00	100.00	100.00	Provision of consultancy and engineering services in telecommunication and related area	Malaysia
Subsidiaries held through TM International (L) Limited					
Dialog Telekom Limited ^{###}	100.00	90.10	89.62	Provision of mobile telecommunication services in Sri Lanka	Sri Lanka
TESS International Ltd	100.00	100.00	100.00	Investment holding	Mauritius
TM International (Bangladesh) Limited ^{###}	70.00	70.00	70.00	Provision of mobile telecommunication services in Bangladesh	Bangladesh
TM International Lanka (Private) Limited ^{###}	100.00	100.00	100.00	Investment holding	Sri Lanka
Multinet Pakistan (Private) Limited **	-	78.00	78.00	Provision of cable television services, information technology (including software development) telecommunication and multimedia services in Pakistan	Pakistan
Indocel Holding Sdn Bhd	-	100.00	100.00	Investment holding	Malaysia
Subsidiaries held through Indocel Holding Sdn Bhd					
P.T. Excelcomindo Pratama Tbk. ^{###}	-	56.92	59.63	Provision of mobile telecommunication services in Republic of Indonesia	Indonesia

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35 List of subsidiaries (continued)

Name of company	% of effective Shareholding			Principal activities	Place of incorporation
	2004	2005	2006		
Subsidiaries held through Dialog Telekom Limited					
Dialog Broadband Networks (Private) Limited (Formerly known as MTT Network (Private) Limited) ^{##}	-	100.00	100.00	Provision of voice and data communication systems, radio and television broadcasting systems and mobile radio communications systems in Sri Lanka	Sri Lanka
Dialog Television (Private) Limited (previously known as Asset Media (Private) Limited) ^{##}	-	-	90.00	Provision of Television Broadcasting Station and a Television Broadcasting Network in Sri Lanka	Sri Lanka
Subsidiaries held through Asset Media (Private) Limited					
Communiq Broadband Network (Private) Limited ^{##}	-	-	100.00	Provision of information technology including data, content transmission services, audio visual services and television programmes services.	Sri Lanka
CBN Sat (Private) Limited ^{##}	-	-	100.00	Provision of manufacturing, assembling, importing and exporting of electronic consumer products and audio visual goods	Sri Lanka
Subsidiaries held through TMI Mauritius Ltd					
TMI India Ltd (formerly known as Distacom Communications (India) Ltd) ^{##}	-	-	100.00	Investment holding	Mauritius

[#] Amounts less than 0.1 million in their respective currency

^{##} Audited by a member firm of PricewaterhouseCoopers International Limited which is a separate and independent legal entity from PricewaterhouseCoopers Malaysia

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36 List of jointly controlled entities

Details of the jointly controlled entities are as follows:

Name of company	% of effective shareholding			Principal activities	Place of incorporation
	2004	2005	2006		
SunShare Investments Ltd	-	-*	-*	Investment holding	Singapore
Joint venture held through TMI India Ltd (formerly known as Distacom Communications (India) Limited ('DCIL'))					
Spice Communications Limited ** (formerly known as Spice Communications Private Limited)	-	-	49.00	Licensed Mobile Cellular Telecommunications Service Provider in the states of Punjab and Karnataka in India	India

* Issuance of preference shares in SunShare Investments Limited resulted in the TM/TMI and Khazanah consortium to have an economic interest in the ratio of 51%:49%.

** Not audited by PricewaterhouseCoopers

All jointly controlled entities have co-terminous financial year end with the Company except for Spice Communications Limited which has a financial year end of 30 June.

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Notes to the Financial Statements for the financial years ended 31 December 2004, 31 December 2005 and 31 December 2006 (continued)

37 List of associates

The investments in associates are as follows:

Name of company	% of effective shareholding			Principal activities	Place of incorporation
	2004	2005	2006		
Samart Corporation Public Company Limited	19.43	19.24	18.98	Design, implementation and installation of telecommunication systems and the sale and distribution of telecommunication equipment in Thailand	Thailand
Samart I-Mobile Public Company Limited	-	-	24.42	Mobile phone distributor accessories, and bundled with content and administration of the distribution channels for, and Management of customer care and billing system of 1900MHz mobile phone in Thailand	Thailand
Associates held through TM International (L) Limited					
Mobile Telecommunication Company of Esfahan (MTCE)	-	-	49.00	Planning, designing, installing, operating and maintaining a GSM cellular telecommunication network to customers in the province of Esfahan, Iran	Iran

All associates have co-terminous financial year end with the Company except for Mobile Telecommunications Company of Esfahan which has a financial year end of 20 March.

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38 Changes in accounting policies

The following describes the impact of the new accounting standards, amendments to the published standards and IC interpretations early adopted by the Group for financial year beginning on 1 January 2004 as listed in note 1(a) of the Significant Accounting Policies on Basis of Preparation of the Financial Statements.

(a) Irrelevant or immaterial effect on financial statements

The adoption of FRS 1, 102, 18, 110, 128, 131, 132, 133, 140 and the 'assets ceiling' amendments to FRS 119 did not result in significant changes to the Group's accounting policies. In summary:

- FRS 1 is not relevant to the Group's operation.
- FRS 5, 102, 108, 110, amendment to FRS 119, 128, 131, 132, 133 and 140 and IC interpretations had no material impact on the Group's accounting policies.
- FRS 101 has affected the presentation of minority interests. Minority interests are now presented within total equity, separately from the parent shareholders equity in the Consolidated Balance Sheet and as an allocation from net profit for the year in the Consolidated Income Statement. The movement of minority interests is now presented in the Consolidated Statement of Changes in Equity.

Under FRS 101, the Group's share of results of jointly controlled entities and associates are now presented net of tax in the Consolidated Income Statement.

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Notes to the Financial Statements for the financial years ended 31 December 2004, 31 December 2005 and 31 December 2006 (continued)

38 Changes in accounting policies (continued)

(b) Relevant effect from adoption of new accounting policies or changes in accounting policies

(i) FRS 2 “Share-based Payment”

The adoption of FRS 2 had resulted in a change in accounting policy for share-based payment. In the previous year, the provision of share options to employees did not result in a charge in the Income Statement. Upon adoption of FRS 2, the Group recognises the fair value of such share options as an expense in the Income Statement over the vesting period of the grant with a corresponding increase in equity.

The Group participates in Employees’ Share Option Schemes whereby share options are granted to eligible employees of the Company and the following subsidiaries:

- Dialog Telekom Limited (a company listed on the Colombo Stock Exchange)
- PT Excelcomindo Pratama Tbk (a company listed on the Jakarta Stock Exchange)

The new accounting policy has been applied retrospectively in respect of equity instruments granted after 31 December 2004 and not yet vested as at 1 January 2006. The financial impact to the Group arising from the retrospective application is not material and hence, no restatement of retained earnings is performed.

The impact of the application of FRS 2 to the financial results of the Group in the financial year ended 31 December 2006 was RM8.7 million.

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38 Changes in accounting policies (continued)

(b) Relevant effect from adoption of new accounting policies or changes in accounting policies (continued)

(ii) FRS 116 “Property, Plant and Equipment”

The adoption of FRS 116 had resulted in an extension of the accounting policy on property, plant and equipment as follows:

- The cost of property, plant and equipment includes costs of dismantling, removal and restoration, the obligation incurred as a consequence of installing the assets;
- The assets’ residual values and useful life are reviewed and adjusted as appropriate at least at each financial year-end; and
- Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Income Statement during the financial period in which they are incurred.

The Group has applied the aforesaid and no material adjustment resulted from this assessment.

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Notes to the Financial Statements for the financial years ended 31 December 2004, 31 December 2005 and 31 December 2006 (continued)

38 Changes in accounting policies (continued)

(b) Relevant effect from adoption of new accounting policies or changes in accounting policies (continued)

(iii) FRS 121 “The Effects of Changes in Foreign Exchange Rates”

Functional Currency

Previously, the results and financial position of Group entities were measured in local currency and where applicable, translated into Ringgit Malaysia upon consolidation. Exchange differences arising thereon were taken directly to currency translation reserve.

Under FRS 121, the concept of functional currency is emphasised as being the currency of the primary economic environment in which the Group entities operate. The functional currency of each Group entity has been re-evaluated and as a result, the results and financial position of certain Group entities are now measured in the functional currency which is not the presentation currency.

This change in accounting policy has no material impact on the consolidated financial statements as majority of the Group entity have the same functional currency as their measurement currency.

Goodwill and Fair Value Adjustments

Previously, goodwill arising on the acquisition of foreign operations and fair value adjustments to the carrying amounts of assets and liabilities arising on such acquisition were deemed to be assets and liabilities of the parent company and were translated using the exchange rate at the date of acquisition. On adoption of FRS 121, goodwill and fair value adjustment arising from acquisition of foreign entities are now treated as assets and liabilities of the acquiring entity and are translated at the closing rate.

The Group has applied this change in accounting policy prospectively to all acquisitions completed on or after 1 January 2006 in accordance with the transitional provision of FRS 121. This change in accounting policy has no material impact on the Group’s consolidated financial statements.

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38 Changes in accounting policies (continued)

(b) Relevant effect from adoption of new accounting policies or changes in accounting policies (continued)

(iv) FRS 3 'Business Combination', FRS 136 'Impairment of Assets' and FRS 138 'Intangible Assets'

Goodwill and Negative Goodwill

The adoption of FRS 3, FRS 136 and FRS 138 had resulted in the extension of accounting policy for goodwill to cover the following:

- Recognition of contingent liabilities and intangible assets as part of allocation of the cost of acquisition in determining goodwill arising from acquisition;
- Recognition of the excess in fair value of the net identifiable assets acquired over the cost of acquisition immediately to the Consolidated Income Statement;
- Allocation of goodwill to cash-generating units for the purpose of impairment testing. Each cash generating unit represents the lowest level within the Group at which goodwill is monitored for internal management purposes and which are expected to benefit from the synergies of the combination; and
- Impairment of goodwill is charged to Consolidated Income Statement as and when it arises and reversal is not allowed.

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Notes to the Financial Statements for the financial years ended 31 December 2004, 31 December 2005 and 31 December 2006 (continued)

38 Changes in accounting policies (continued)

(b) Relevant effect from adoption of new accounting policies or changes in accounting policies (continued)

(iv) FRS 3 ‘Business Combination’, FRS 136 ‘Impairment of Assets’ and FRS 138 ‘Intangible Assets’ (continued)

Business Combination

The adoption of FRS 3, FRS 136 and FRS 138 had also resulted in change in the accounting policy for business combinations with agreement dated on or after 1 January 2006.

Previously, where shares were issued as cost of a business combination, the measurement of the shares issued were that valued by independent advisers and agreed upon by the parties to the acquisition. Under FRS 3, the fair value of the shares at the date of exchange is used instead.

Previously, intangible assets acquired in a business combination are recognised if, and only if, the probability recognition criterion was met. Under FRS 3, the probability recognition criterion for intangible assets is always considered to be satisfied. In addition, the cost of business combinations is now also allocated to contingent liabilities of the entity acquired.

The above changes in accounting policy have been applied prospectively for business combinations with agreement dated on or after 1 January 2006. This change in accounting policy has no material financial impact on the Group's consolidated financial statements.

(v) FRS 127 “Consolidated and Separate Financial Statements”

The adoption of FRS 127 has resulted in a change in accounting policy on recognition of subsidiaries by the inclusion of existence and effect of potential voting rights that are currently exercisable in assessing control.

The Group has applied FRS 127 retrospectively. This FRS does not have a material impact on the Group's consolidated financial statements.

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39 Currencies

All amounts are expressed in Ringgit Malaysia (RM).

40 Approval of financial statements

The financial statements have been approved for issuance in accordance with a resolution of the Board of Directors on 4 February 2008.

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TM International Berhad

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Statement by Directors

We, Dato' Sri Abdul Wahid bin Omar and Datuk Bazlan bin Osman, being the two Directors of TM International Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 250 to 369 are drawn up so as to exhibit a true and fair view of the state of affairs of the Group and the Company at 31 December 2004, 31 December 2005 and 31 December 2006 and of the results and cash flows of the Group and Company for the financial year ended on that date in accordance with Financial Reporting Standards, the MASB approved Accounting Standards in Malaysia for Entities other than Private Entities.

Signed on behalf of the Board of Directors in accordance with their resolution dated 4 February 2008.

Dato' Sri Abdul Wahid bin Omar
Director

Datuk Bazlan bin Osman
Director

Statutory declaration

I, Datuk Bazlan bin Osman, being the Director primarily responsible for the financial management of TM International Berhad, do solemnly and sincerely declare that to the best of my knowledge and belief, the financial statements set out on pages 250 to 369 are 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.

Datuk Bazlan bin Osman
Director

Subscribed and solemnly declared at Kuala Lumpur on 4 February 2008.

Before me:

Commissioner for Oaths
Pesuruhjaya Sumpah (W426)
No. 49-1 Jalan 3/76D Desa Pandan
55100 Kuala Lumpur



Report of the Auditors to the member of TM International Berhad

(Formerly known as TM International Sdn Bhd)
(Company no: 242188-H)

We have audited the accompanying consolidated balance sheet of the Group as of 31 December 2004, 31 December 2005 and 31 December 2006 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the three years then ended. 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 audits.

We conducted our audits 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 the Directors, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2004, 31 December 2005 and 31 December 2006, and of the results of its operations and cash flows for each of the three years then ended in accordance with the MASB approved Accounting Standards in Malaysia for Entities other than Private Entities.



PricewaterhouseCoopers
(AF: 1146)
Chartered Accountants

Kuala Lumpur
4 February 2008