

Company No.

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CELCOM (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

16 GOODWILL (CONTINUED)

The carrying value of the Group's goodwill on acquisition of subsidiary companies as at 31 December 2006 were assessed for impairment during the financial year.

Goodwill is allocated for impairment to the individual entity which is also the cash-generating units (CGUs) identified according to the respective company. The following CGU, being the lowest of asset for which there are separately identifiable cash flows, have carrying amount of goodwill that are considered significant in comparison with the Group's total goodwill balance.

	<u>2006</u>	<u>2005</u>
Celcom Mobile Sdn Bhd	117,141	117,141
Others	1,415	0
	<u>118,556</u>	<u>117,141</u>

Goodwill only arises in business combinations. The amount of goodwill initially recognised is dependent on the allocation of the purchase price to the fair value of the 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 management judgement.

(a) Key assumptions used in the value in use calculation

The following assumptions have been applied in the value in use calculation.

Terminal growth rate	1.5%
Pre-tax discount rate	13.1%

The recoverable amount of the CGUs is determined based on value in use calculation. The value-in-use calculations apply a discounted cash flow model using cash flow projections based on financial budgets and forecasts approved by management covering a five-year period.

Cash flows beyond the fifth year are projected based on management estimated growth rates taking into consideration past performance and its expectations for the market development, as stated in the table above.

The terminal growth rates used do not exceed the long term average growth rate of the industry and are consistent with forecasts included in industry reports.

The discount rates used are pre-tax and reflect specific risks relating to the CGU. The discount rates applied to the cash flow projections are derived from the cost of capital plus a reasonable risk premium at the date of the assessment of the respective CGU.

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16 GOODWILL (CONTINUED)

(b) Impact of possible change in key assumptions

Changing the assumptions selected by management, in particular the discount rate and growth rate assumptions used in the cash flow projections, could significantly affect the Group's result. The Group's review includes the key assumptions related to sensitivity in the cashflow projections. Based on the sensitivity analysis performed, we have concluded that no reasonably possible changes in the base case assumptions would cause the carrying amount of the cash-generating units to exceed their recoverable amount.

If pre-tax discount rate of 26.7% was applied to the cash flow projections of the cash generating units, the recoverable amount of goodwill on the cash generating units will be equal to the carrying value, assuming the other variables remain unchanged.

No impairment loss was required for the financial year ended 31 December 2006 for the goodwill assessed as their recoverable values were in excess of their carrying values.

17 INVENTORIES

	<u>Group</u>		<u>Company</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	RM'000	RM'000	RM'000	RM'000
SIM and recharge cards	19,307	16,881	0	0

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18 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Trade receivables	847,666	980,612	460,602	588,564
Allowance for doubtful debts	(616,851)	(770,777)	(435,582)	(569,721)
	<u>230,815</u>	<u>209,835</u>	<u>25,020</u>	<u>18,843</u>
Amounts due from subsidiaries	0	0	216,756	212,328
Allowance for amounts due from subsidiaries	0	0	(95,158)	(95,158)
	<u>0</u>	<u>0</u>	<u>121,598</u>	<u>117,170</u>
Deposits	60,144	53,859	45,732	39,565
Allowance for deposits	(21,036)	(16,301)	(17,519)	(14,739)
	<u>39,108</u>	<u>37,558</u>	<u>28,213</u>	<u>24,826</u>
Other receivables	30,775	22,603	13,648	5,664
Allowance for other receivables	(18,305)	(16,010)	(1,955)	(1,884)
	<u>12,470</u>	<u>6,593</u>	<u>11,693</u>	<u>3,780</u>
Amounts due from related companies	11,891	15,855	214	9,174
Prepayments	21,943	7,539	20,674	5,987
	<u>33,834</u>	<u>23,394</u>	<u>20,888</u>	<u>15,161</u>
Amount due from former associated company - Mobile Telecommunication Company Of Esfahan ('MTCE') (J.V. - P.J.S.)	17,859	17,925	17,859	17,925
Allowance for doubtful debt	(8,000)	(8,000)	(8,000)	(8,000)
	<u>9,859</u>	<u>9,925</u>	<u>9,859</u>	<u>9,925</u>

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18 TRADE AND OTHER RECEIVABLES (CONTINUED)

	Group		Company	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	RM'000	RM'000	RM'000	RM'000
Amount due from other former associated company	130,737	130,737	2,663	2,663
Allowance for amount due from other former associated company	(130,737)	(130,737)	(2,633)	(2,663)
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Funds placed with third parties	184,729	184,729	0	0
Allowance for funds placed with third parties	(184,729)	(184,729)	0	0
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Amounts due from former Executive Directors of TRI	55,826	55,826	0	0
Allowance for amount due from former Executive Directors of TRI	(55,826)	(55,826)	0	0
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<u>326,086</u>	<u>287,305</u>	<u>217,271</u>	<u>189,705</u>

The Group has undertaken legal action to pursue amounts owing from the former Executive Directors of TRI.

Included in other receivables are government grants of RM5,313,000 (2005: RM265,000)

The Group's normal trade credit terms range from 30 to 60 days. Other credit terms are assessed and approved on a case-by-case basis.

The Group is not exposed to major concentration of credit risk that may arise from exposures to a single debtor or group of debtors. The Group and Company consider the allowance for doubtful debt at the balance sheet date to be adequate to cover potential financial loss.

Included in the amounts due from subsidiaries are unsecured advances of RM101,452,000 out of which RM4,140,000 are due more than 12 months (2005: RM106,931,000 out of which RM5,140,000 are due more than 12 months) with a weighted average effective interest rate of 4% - 6% (2005: 4% - 6%) at the balance sheet date.

The amounts due from former associated companies are unsecured, interest-free and have no fixed terms of repayment.

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18 TRADE AND OTHER RECEIVABLES (CONTINUED)

The currency exposure profile for trade and other receivables are as follows:

	<u>Group</u>		<u>Company</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	RM'000	RM'000	RM'000	RM'000
- Ringgit Malaysia	320,272	247,248	212,157	162,280
- SDR	5,814	40,057	5,114	27,425
	<u>326,086</u>	<u>287,305</u>	<u>217,271</u>	<u>189,705</u>

19 MARKETABLE SECURITIES

	<u>Group</u>	
	<u>2006</u>	<u>2005</u>
	RM'000	RM'000
Shares - quoted in Malaysia	<u>1,687</u>	<u>1,147</u>
Market value of quoted shares	<u>1,687</u>	<u>1,147</u>

20 CASH AND BANK BALANCES

	<u>Group</u>		<u>Company</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	RM'000	RM'000	RM'000	RM'000
Cash on hand	212	214	207	213
Cash at banks	73,372	14,691	70,201	11,333
	<u>73,584</u>	<u>14,905</u>	<u>70,408</u>	<u>11,546</u>
Fixed deposits with:				
Licensed banks	510,494	458,452	509,495	457,452
Other financial institutions	100,483	618,398	100,483	618,398
Short term placements with:				
Licensed banks	477,064	667,503	477,064	664,837
Other financial institutions	39,499	536,098	39,499	536,098
	<u>1,127,540</u>	<u>2,280,451</u>	<u>1,126,541</u>	<u>2,276,785</u>
	<u>1,201,124</u>	<u>2,295,356</u>	<u>1,196,949</u>	<u>2,288,331</u>

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20 CASH AND BANK BALANCES (CONTINUED)

The currency exposure profile for cash and bank balances are as follows:

	<u>Group</u>		<u>Company</u>	
	<u>2006</u> RM'000	<u>2005</u> RM'000	<u>2006</u> RM'000	<u>2005</u> RM'000
- Ringgit Malaysia	1,178,750	2,268,885	1,175,844	2,261,938
- USD	22,374	26,471	21,105	26,393
	<u>1,201,124</u>	<u>2,295,356</u>	<u>1,196,949</u>	<u>2,288,331</u>

The weighted average interest rates and the average maturities of deposits, placements and bank balances as at 31 December 2006 for the Group and Company were as follows:

	<u>Weighted average interest rates</u>		<u>Average maturities</u>	
	<u>2006</u> %	<u>2005</u> %	<u>2006</u> days	<u>2005</u> days
Licensed banks	3.6	2.9	119	40
Other financial institutions	4.0	3.0	320	55

Included in fixed deposit and short term placements of the Group and of the Company amounting to RM377,354,000 (2005: RM314,566,000) are funds earmarked for principal and interest repayments under terms of the borrowings as disclosed in Note 21.

Included in fixed deposit and short term placements are placements held under Islamic principles of RM560,149,000 (2005: RM500,098,000) for the Group and Company.

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NOTES TO THE FINANCIAL STATEMENTS
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21 **BORROWINGS**

	Group		Company	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Short term borrowings				
Secured:				
Long term borrowings due within twelve months	513,750	413,750	513,750	413,750
Hire purchase and finance lease (Note 22)	7,513	7,651	3,883	7,651
	<u>521,263</u>	<u>421,401</u>	<u>517,633</u>	<u>421,401</u>
Long term borrowings				
Secured:				
Islamic Private Debt Securities:				
Al-Bai' Bithaman Ajil Bonds (Note 21(a))	600,000	900,000	600,000	900,000
Floating rate RM syndicated term loan (Note 21(a))	113,750	227,500	113,750	227,500
Unsecured:				
Long term loan (Note 21(b))	10,000	0	0	0
	<u>723,750</u>	<u>1,127,500</u>	<u>713,750</u>	<u>1,127,500</u>
Payables to equipment suppliers (Note 21(c))	12,378	0	0	0
Hire purchase and finance lease (Note 22)	10,391	11,534	3,883	11,534
	<u>746,519</u>	<u>1,139,034</u>	<u>717,633</u>	<u>1,139,034</u>
Less:				
Due within one year	(521,263)	(421,401)	(517,633)	(421,401)
	<u>225,256</u>	<u>717,633</u>	<u>200,000</u>	<u>717,633</u>

(a) The principle features of the Islamic Private Debt Securities and syndicated term loan are:

- (i) Syndicated term loan are repayable at their various maturity dates from 2003 to 2007.
- (ii) Tenure of the Al-Bai' Bithaman Ajil Bonds range from three to six years from the date of issue and the bonds carry profit rates, which have been fixed in accordance with Syariah principles at rates ranging from 7.00% to 8.50% per annum. They are repayable semi-annually from the respective issue dates. The Bonds are traded scripless under the Real Time Electronic Transfer of Funds and Securities managed by Bank Negara Malaysia.
- (iii) Islamic Private Debt Securities and syndicated term loan facilities are secured by deed of assignment over Company key bank collection accounts and designated bank accounts as stated in Note 21 (a)(iv) below.
- (iv) The Company is also required to deposit a proportion of its cashflows into designated bank accounts from which funds can be utilised only for interest and principal repayments on these borrowings, as disclosed in Note 20.

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21 **BORROWINGS (CONTINUED)**

(v) Under the respective debt covenants, the Company is required to comply with certain conditions which include not to be in breach of certain agreed financial ratios summarised as follows:

- debt equity ratio of not more than 1.25;
- debt over EBITDA ratio of not more than 2.5;
- EBITDA over finance cost ratio of more than 5; and
- finance service coverage ratio of more than 1.2.

(b) Term loan relates to bank borrowings by a subsidiary company at an interest rate of 6.13% per annum and is repayable on 2011.

(c) Payables to equipment suppliers are unsecured, bears a weighted average interest of 5.90% (2005: 5.52%) per annum and is repayable from January 2007 to September 2008 (2005: 29 December 2009)

Maturity of long term borrowings (excluding hire purchase, finance lease payables and payable to equipment suppliers):

	<u>Group</u>		<u>Company</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	RM'000	RM'000	RM'000	RM'000
Fixed rate borrowings				
Within one year	400,000	300,000	400,000	300,000
More than one year and less than two years	200,000	400,000	200,000	400,000
More than two years and less than five years	10,000	200,000	0	200,000
	<u>610,000</u>	<u>900,000</u>	<u>600,000</u>	<u>900,000</u>
Floating rate borrowings				
Within one year	113,750	113,750	113,750	113,750
More than one year and less than two years	0	113,750	0	113,750
More than two years and less than five years	0	0	0	0
	<u>113,750</u>	<u>227,500</u>	<u>113,750</u>	<u>227,500</u>

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21 BORROWINGS (CONTINUED)

	<u>Group</u>		<u>Company</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	RM'000	RM'000	RM'000	RM'000
Total borrowings				
Within one year	513,750	413,750	513,750	413,750
More than one year and less than two years	200,000	513,750	200,000	513,750
More than two years and less than five years	10,000	200,000	0	200,000
	<u>723,750</u>	<u>1,127,500</u>	<u>713,750</u>	<u>1,127,500</u>

The effective profit/interest rates during the financial year (excluding hire purchase, finance lease payables and payables to equipment suppliers), were as follows:

	<u>Group</u>		<u>Company</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	%	%	%	%
Al-Murabahah Commercial Papers	-	2.8	-	2.8
Al-Bai' Bithaman Ajil Bonds	8.1	8.1	8.1	8.1
Floating rate RM syndicated term loan	5.7	5.3	5.7	5.3

22 HIRE PURCHASE AND FINANCE LEASE PAYABLES

	<u>Group</u>		<u>Company</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	RM'000	RM'000	RM'000	RM'000
Minimum lease payments at the balance sheet date are as follows:				
Not later than one year	8,077	8,121	4,160	8,121
Later than one year and not later than two years	2,949	4,160	0	4,160
	<u>11,026</u>	<u>12,281</u>	<u>4,160</u>	<u>12,281</u>
Future finance charges	<u>(635)</u>	<u>(747)</u>	<u>(277)</u>	<u>(747)</u>
Present value of finance lease liabilities (Note 21)	<u>10,391</u>	<u>11,534</u>	<u>3,883</u>	<u>11,534</u>

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22 HIRE PURCHASE AND FINANCE LEASE PAYABLES (CONTINUED)

	Group		Company	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Present value of finance lease liabilities at the balance sheet date are as follows:				
Not later than one year (Note 21)	7,513	7,651	3,883	7,651
Later than one year and not later than two years	2,878	3,883	0	3,883
	10,391	11,534	3,883	11,534
	10,391	11,534	3,883	11,534

The hire purchase and finance lease payables interests at the balance sheet date ranged from 1% to 6% (2005: 1% to 3%) per annum.

23 TRADE AND OTHER PAYABLES

	Group		Company	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Trade payables	51,813	27,326	0	23,007
Due to associated company	0	1,231	0	1,231
Due to holding company	146,254	252,145	130,136	211,993
Due to related companies	24,380	8,746	0	2,076
Telecommunication network and equipment supplier payables	560,097	372,909	545,828	364,970
Payables to equipment suppliers	6,930	0	0	0
Customers' deposits	63,682	70,362	2,783	70,531
Deferred revenue	290,246	222,352	0	0
Provisions and accrued expenses	404,795	1,407,387	273,589	1,257,825
Interest payable	14,219	17,822	11,747	17,822
Other payables	275,385	295,885	149,467	249,687
	1,837,801	2,676,165	1,113,550	2,199,142
	1,837,801	2,676,165	1,113,550	2,199,142

Included in previous year provisions and accrued expenses are provisions made for legal claims as detailed in Note 5 of the financial statements.

The amounts due to holding company and related companies are unsecured, interest free and have no fixed terms of repayment.

The previous year amount due to associate company relates to Fibrecomm Network (M) Sdn Bhd.

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23 TRADE AND OTHER PAYABLES (CONTINUED)

Credit terms of other trade and other payables vary from 30 to 60 days depending on contract terms.

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

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
- Ringgit Malaysia	1,807,142	2,645,506	1,096,258	2,181,900
- SDR	30,659	30,659	17,242	17,242
	<u>1,837,801</u>	<u>2,676,165</u>	<u>1,113,500</u>	<u>2,199,142</u>

24 SHARE CAPITAL

	Number of ordinary shares of RM1 each		Group and Company	
	2006 '000	2005 '000	2006 RM'000	2005 RM'000
Authorised:				
At 1 January and 31 December	<u>4,000,000</u>	<u>4,000,000</u>	<u>4,000,000</u>	<u>4,000,000</u>
Issued and fully paid:				
At 1 January	2,357,209	2,619,121	2,357,209	2,619,121
Capital Repayment	(589,302)	(261,912)	(589,302)	(261,912)
At 31 December	<u>1,767,907</u>	<u>2,357,209</u>	<u>1,767,907</u>	<u>2,357,209</u>

On 9 November 2006, the Company was granted approval by the High Court of Malaya to proceed with a capital repayment scheme pursuant to Section 60, 62 and 64 of the Companies Act 1965. The scheme involved:

- Reduction in the par value of the ordinary shares of the Company, resulting in the decrease in the issued and paid up capital of RM2,357,208,918 comprising 2,357,208,918 ordinary shares of RM1.00 each by RM589,302,230 to RM1,767,906,688 comprising of 2,357,208,918 ordinary shares of 75.0 sen each;
- Cancellation and utilisation of the share premium account of RM110, 697,770; and
- Consolidation of 2,357,208,918 ordinary shares of 75.0 sen each into 1,767,906,688 ordinary shares of RM1.00 each credited as fully paid, resulting in an issued and paid up capital of RM1,767,906,688.

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25 RESERVES

	Group		Company	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	RM'000	(Restated) RM'000	RM'000	(Restated) RM'000
Non-distributable:				
Share premium	199,742	310,440	199,742	310,440
Foreign exchange reserve	2,184	2,184	0	0
Capital reserves	86	86	0	0
Capital contribution	8,458	1,692	8,458	1,692
Distributable:				
Retained earnings/(accumulated losses)	598,920	(209,053)	(1,308,833)	(1,341,472)
	<u>809,390</u>	<u>105,349</u>	<u>(1,100,633)</u>	<u>(1,029,340)</u>

26 DEFERRED TAXATION

Deferred tax liabilities	439,974	499,969	259,216	382,101
Deferred tax assets	0	(125,504)	0	0
	<u>439,974</u>	<u>374,465</u>	<u>259,216</u>	<u>382,101</u>
Deferred tax movement:				
At 1 January (as previously stated)	309,445	236,940	382,101	290,025
Adjustment (Note 36)	65,020	65,020	0	0
At 1 January (as restated)	<u>374,465</u>	<u>301,960</u>	<u>382,101</u>	<u>290,025</u>
Current year charged to income statement arising from (Note 10):				
- property, plant and equipment	50,510	134,363	1,596	92,076
- tax losses	197,816	(124,116)	0	0
- provisions and others	(182,817)	62,258	(124,481)	0
At 31 December	<u>439,974</u>	<u>374,465</u>	<u>259,216</u>	<u>382,101</u>

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26 DEFERRED TAXATION (CONTINUED)

Breakdown of cumulative balances by each type of temporary differences:

	<u>2006</u>	<u>Group</u> <u>2005</u>	<u>2006</u>	<u>Company</u> <u>2005</u>
	RM'000	(Restated) RM'000	RM'000	(Restated) RM'000
(a) Deferred tax assets				
Property, plant and equipment	3,184	136,287	0	0
Tax losses	710	198,526	0	0
Provisions and others	245,075	62,258	124,481	0
	<u>248,969</u>	<u>397,071</u>	<u>124,481</u>	<u>0</u>
Offsetting	(248,969)	(271,567)	(124,481)	0
	<u>0</u>	<u>125,504</u>	<u>0</u>	<u>0</u>
(b) Deferred tax liabilities				
Property, plant and equipment	688,943	771,536	383,697	382,101
Offsetting	(248,969)	(271,567)	(124,481)	0
	<u>439,974</u>	<u>499,969</u>	<u>259,216</u>	<u>382,101</u>

As at 31 December 2006, the Group has unabsorbed tax losses of RM62,419,000 (2005: RM61,694,000) and deductible temporary differences of RM72,353,000 (2005: RM37,078,000) (both of which have no expiry date) for which the related tax effects have not been included in the financial statements. The benefits of these tax losses and credits will only be obtained if the relevant subsidiaries derive future assessable income of a nature and amount sufficient for the benefits to be utilised.

27 AMOUNTS DUE TO SUBSIDIARIES

The amounts due to subsidiaries classified as long term liabilities are unsecured, interest-free and are not repayable within the next 12 months. Included in the balance in the previous year is an amount due from a subsidiary company of RM175,000,000 with a weighted average interest rate of 4% - 6% which has been settled during the financial year.

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28 PROVISION FOR LIABILITIES

The provision for liabilities relates to provision for dismantling costs of existing telecommunication network and equipment.

	Group		Company	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
At 1 January	65,000	-	65,000	-
Current year provision	7,960	65,000	7,960	65,000
Over accrual of provision in respect of previous years	(7,559)	-	(7,559)	-
	65,401	65,000	65,401	65,000
Utilised during the year	(847)	-	(847)	-
At 31 December	64,554	65,000	64,554	65,000

29 COMMITMENTS

Outstanding commitments at balance sheet date not provided for in the financial statements are as follows:

	Group		Company	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Capital expenditure for property, plant and equipment:				
Approved and contracted for	296,353	332,819	278,693	332,819
Approved but not contracted for	505,316	117,143	505,316	117,143
	801,669	449,962	784,009	449,962

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29 COMMITMENTS (CONTINUED)

	<u>Group</u>		<u>Company</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	RM'000	RM'000	RM'000	RM'000
Non-cancellable operating lease commitments falling due as follows:				
Within one year	7,186	7,056	7,186	7,056
Between one and two years	14,112	14,112	14,112	14,112
	<u>21,298</u>	<u>21,168</u>	<u>21,298</u>	<u>21,168</u>

30 SEGMENTAL INFORMATION

Segmental information is not presented as there are no material segments other than that for the provision of telecommunications services and the Group's operations are conducted predominantly in Malaysia.

31 SUBSEQUENT EVENTS

On 16 January 2007, a joint venture agreement ("JVA") was entered into between CT Paging Sdn Bhd ("CT Paging"), a wholly owned subsidiary of the Company, I-Mobile International Co., Ltd ("I-Mobile") and C-Mobile Sdn Bhd ("C-Mobile"). The JVA is to establish C-Mobile as a vehicle to operate a joint venture business namely, to set up a distribution network of dealers and concept retail stores based on intellectual property rights owned by the Company ("Concept Stores"), within Malaysia. The Concept Stores will market and distribute exclusively Celcom Mobile Sdn Bhd's products and also distribute Samart i-Mobile (Malaysia) Sdn Bhd, a wholly owned subsidiary of I-Mobile, products. The equity interest of the Company held via CT Paging in C-Mobile effective 14 February 2007 is 49% representing 2,450,000 ordinary shares of RM 1.00 each.

32 CONTINGENT LIABILITIES

(a) By a Joint Venture Agreement dated 13 September 1993 ('JVA'), TRI and VIP Engineering and Marketing Limited ('VIPEM') agreed to establish TRI Telecommunications Tanzania Limited ('Tritel') as a joint venture company, to provide telecommunications services in Tanzania.

On 10 December 2001, vide Civil Case No. 427 of 2001 ('the Suit') VIPEM is claiming a sum of USD18.6 million as its share of loss of profits for mismanagement of Tritel. TRI through its solicitors asserted that the Court has no jurisdiction to hear the Suit because of the arbitration clause in the JVA and applied for a stay of proceedings. The Court concurred with TRI's contention and TRI then filed a petition to stay the proceedings pending reference of the dispute to arbitration. Subsequently, on 17 July 2003 the Court adjourned the Suit sine die pending completion of the liquidation of Tritel. In light of the winding-up order made against Tritel, on 22 July 2003, TRI filed its claims of RM123.4 million with the liquidator of Tritel.

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32 CONTINGENT LIABILITIES (CONTINUED)

The Directors, based on legal opinion received, are of the view that on the allegations of mismanagement, unless more evidence can be produced, the allegations are rhetorical and unsubstantiated. In view of the winding up proceedings, there is also a possibility that VIPEM will not pursue its claim. Hence, no provision has been made in the financial statements for the claim made by VIPEM.

- (b) On 16 February 2005, Rego Multi-Trades Sdn Bhd ("Rego"), a wholly owned subsidiary of TRI, which is also a subsidiary of the Company, filed a claim against Aras Capital Sdn Bhd ("Aras Capital") and Tan Sri Dato' Tajudin Ramli ("TSDTR") for RM261.8 million, as at 30 November 2004, together with interest and cost.

The claim was made for recovery of the said sums pursuant to:

- (i) the Investment Management Agreement dated 10 January 1997 ("the Investment Agreement") and the Supplemental Agreement dated 21 April 1997 ("the Supplemental Agreement") between Rego and Aras Capital; and
- (ii) the Letter of Indemnity dated 1 April 1998 ("the Letter of Indemnity") given by TSDTR to Rego relating to the investments made by Rego under the Investment Agreement and the Supplemental Agreement.

On 13 May 2005, TSDTR filed its Defence and instituted a counterclaim against Rego, TRI and its directors.

In the counterclaim, TSDTR seeks, inter alia, (i) a declaration that the Letter of Indemnity given by TSDTR to Rego relating to the investments made by Rego under the Investment Management Agreement and the Supplemental Agreement between Rego and Aras Capital is void or alternatively is avoided, (ii) rescission of the Letter of Indemnity, (iii) the return of the sum of RM100 million as being a sum allegedly paid by TSDTR to Rego and (iii) general, exemplary and aggravated damages to be assessed. The claim against the Rego/TRI directors is for general, exemplary and aggravated damages to be assessed arising from a claim of alleged conspiracy. On 4 July 2005, Rego filed its Reply and Defence to Counterclaim while TRI and the directors filed their respective Defences to the counterclaim. Subsequently Rego, TRI and the directors filed their respective application to strike out TSDTR's counterclaim on 19 July 2005. The striking out applications were fixed for hearing on 8 December 2005. On 18 May 2006, the Registrar dismissed Rego, TRI and the directors striking out applications. On 29 May 2006, Rego, TRI and the directors filed their respective appeal against the Registrar's decision on the striking out application to the Judge in Chambers ("Appeal") and the Appeals are fixed for hearing as follows:

- i. Rego's appeal is fixed for hearing on 12 July 2007
- ii. TRI's appeal is fixed for hearing on 27 July 2007
- iii. The directors' appeal is fixed for hearing on 17 August 2007

The Directors, based on legal advice received, are of the view that there are good prospects of striking out the counter claim against the Group.

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32 CONTINGENT LIABILITIES (CONTINUED)

- (c) On 24 November 2005 and 29 November 2005, the Company was served with 2 Writs of Summons and Statement of Claim by MCAT GEN Sdn Bhd ('MCAT'). The claims instituted were for (i) libel based on certain alleged press releases made by the Company which appeared in the New Straits Times, Utusan Malaysia, Harian Metro and Berita Harian ('1st Suit') and (ii) breach of contract on an alleged Resellers Agreement between the Company and MCAT ('2nd Suit'). In the 1st Suit, MCAT is seeking, amongst other, damages for libel in the sum of RM 1.0 billion, aggravated and exemplary damages, an injunction restraining the Company from further publishing any similar defamatory words, a public apology, interests and costs. In the 2nd Suit, MCAT seeks, amongst others, specific performance of the alleged Resellers Agreement, damages in the sum of RM609,688,667, damages in lieu or in addition to specific performance, interests and costs. On 24 January 2007, the Court allowed MCAT's amendment application, primarily to amend its claim for damages from RM609,688,667 to RM765,050,861.

Subsequently on 13 December 2005, the Company was served with a Writ of Summons and Statement of Claim by MCAT's directors, whereby the directors have pleaded a cause of action for libel against the Company based on certain alleged press releases which appeared in the New Straits Times, Utusan Malaysia, Harian Metro and Berita Harian. The directors are seeking, amongst others, damages for libel totaling RM1.01 billion, aggravated and exemplary damages, an injunction restraining the Company from further publishing any similar defamatory words, a public apology, interests and costs ('3rd Suit').

On 16 January 2006, the Company filed its Statement of Defence in the 3rd Suit and instituted a Counterclaim against the 5th Plaintiff, Mohd Razi bin Adam, the Chief Executive Officer of MCAT claiming damages and other reliefs for breach of fiduciary duty and breach of confidential information. The 5th Plaintiff was an employee of the Company before joining MCAT on 31 May 2005.

On 9 January 2006, the Company filed its Statement of Defence for both the 1st Suit and the 2nd Suit. The Company instituted a Counterclaim in the 1st Suit against MCAT for passing off and filed a striking out application to strike out MCAT's claim in the 1st Suit on the grounds that the Statement of Claim discloses no cause of action, is frivolous, vexatious and an abuse of the process of the Court. The striking out application is now fixed for hearing on 22 March 2007.

On the direction of the Court, the Company filed an application to consolidate the 1st Suit with the 3rd Suit. On 11 December 2006, the Court allowed the Company's application to consolidate and ordered that the 3rd Suit be transferred to the 1st Suit's Court. The 3rd Suit will be heard after the 1st Suit has been disposed off by the Court.

In respect of the 2nd Suit, MCAT's application for an interim injunctive relief was heard and dismissed with costs on 13 April 2006. MCAT filed an appeal to the Court of Appeal. On 30 August 2006 the appeal was dismissed with costs. Subsequently, MCAT has filed a motion for leave to appeal to the Federal Court. On 31 October 2006, the Company filed an application for security of costs in the Federal Court seeking RM150,000 for security.

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32 CONTINGENT LIABILITIES (CONTINUED)

The Company had filed an application to strike out certain paragraphs in MCAT's Amended Statement of Claim due to MCAT's failure to comply with the Court's direction to furnish further and better particulars to the Company. The Court has directed parties to file written submission and fixed the same for clarification/decision on 23 February 2007.

Case management is fixed for mention on 2 March 2007.

In respect of the 3rd Suit, in light of the Company's consolidation application, which was allowed by the Court in the 1st Suit, the Court will inform the parties on the next hearing date for the striking out application. Case management is fixed for hearing on 9 March 2007.

The Directors, based on legal advice received, are of the view that the crystallisation of liability from the three (3) cases above is remote.

- (d) On 29 June 2006, the Company and TRI was served with a copy of a Defence and Counterclaim by TSDTR's solicitors making the Company and TRI a party to the above legal proceedings via counterclaim. Subsequently, on 13 July 2006 TSDTR filed an Amended Defence and Counterclaim and served a copy of the same on Telekom Malaysia Berhad ("TM"), Telekom Enterprise Sdn Bhd ("TESB"), the Company and TRI's solicitors ("TM Group's Solicitors").

TSDTR is seeking from the Company, TRI and 11 others jointly and/or severally the following relief in the Counterclaim:

- (i) the sum of RM6,246,492,000.00 (TRI shares at RM24.00 per share);
- (ii) general damages to be assessed;
- (iii) aggravated and exemplary damages to be assessed;
- (iv) damages for conspiracy to be assessed;
- (v) an Account of all sums paid under the Facility Agreement and/or to Danaharta by TSDTR including all such sums received by Danaharta including as a result of the sale of the TRI shares and the Naluri shares;
- (vi) an assessment of all sums due to be repaid by Danaharta to TSDTR as a result of overpayment by TSDTR to Danaharta;
- (vii) an Order that Danaharta forthwith pays all sums adjudged to be paid to TSDTR under prayer (vi);
- (viii) an Account of all dividends and/or payments received by TM arising out of or in relation to the TRI (now the Company) Shares;
- (ix) an Order that TM forthwith pays all sum adjudged to be paid to TSDTR under prayer (viii);
- (x) damages for breach of contract against Danaharta to be assessed.

In addition, TSDTR is also seeking, *inter alia*, from all the 24 Defendants to the Counterclaim the following relief:

- (i) the sum of RM7,214,909,224.01;
- (ii) damages for conspiracy to be assessed;
- (iii) a declaration that the Vesting Certificates are illegal and ultra vires that the Danaharta Act and/or unconstitutional against the provisions of the Federal Constitution and/or against Public Policy and void;

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32 CONTINGENT LIABILITIES (CONTINUED)

- (iv) a declaration that the Settlement Agreement is illegal and ultra vires the Danaharta Act and/or the Federal Constitution and is void and unenforceable pursuant to S.24 of the Contracts Act 1950 inter alia as being against Public Policy;
- (v) a declaration that all acts and deeds carried out and all agreements executed by Danaharta is illegal and unenforceable;
- (vi) an order that all contracts, agreements, transfers, conveyances, dealings, acts or deeds whatsoever carried out and executed by Danaharta hereby declared as null and void and set aside;
- (vii) all necessary and fit orders and directions as may be required to give full effect to the aforesaid declarations and orders;
- (viii) damages to be assessed;
- (ix) aggravated and exemplary damages to be assessed;
- (x) interest at the rate of 8% per annum on all sums adjudged to be paid by the respective Defendants to the Counterclaim to TSDTR from the date such loss and damage was incurred to the date of full payment;
- (xi) costs.

On 20 July 2006, TM Group's Solicitors filed applications on behalf of TM/TESB and Celcom/TRI respectively to strike out the Amended Counterclaim. The Company/TRI's application is fixed for mention on 27 February 2007 while TM/TESB's application is fixed for hearing on 6 June 2007.

On 2 February 2007, TSDTR's solicitors served on TM Group's Solicitors an application to re-amend the Amended Defence and Amended Counterclaim to include 14 additional defendants. The proposed additional defendants include present or former directors / officers of TM, TESB, the Company and TRI namely, (i) *Tan Sri Dato' Ir Muhammad Radzi Haji Mansor*, (ii) *Dato' Dr Md Khir Abdul Rahman*, (iii) *Dato' Dr Mohd Munir Abdul Majid*, (iv) *Dato' Lim Kheng Guan*, (v) *Rosli Bin Man*, (vi) *Tan Poh Keat*, (vii) *Dato' Abdul Wahid Omar*, (viii) *Bazlan Bin Osman*, (ix) *Datuk Azzat Kamaludin*, (x) *Ismael Fariz Ali* and (xi) *Dato' Mohamed Yunus Ramli Abbas*.

The court has fixed 12 March 2007 for hearing of the application to re-amend.

The Directors, based on legal advice received, are of the view that the crystallisation of liability from the above is remote.

- (e) On 6 July 2006, the Company was served with a Writ of Summons and Statement of Claim by the Plaintiff, Dato Saizo Abdul Ghani (trading under the name and style of Airtime Telecommunication). The Plaintiff seeks against the Company and Kamsani bin Hj Ahmad ("Kamsani"), an employee of the Company, general damages in the sum of RM15 million for the alleged libel and breach of contract, a further sum of RM15 million in exemplary and aggravated damages for the alleged libel and an injunction to prevent the Company and Kamsani from distributing or publishing any letters or content similar thereto, interest and costs.

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32 CONTINGENT LIABILITIES (CONTINUED)

A Memorandum of Appearance and a Statement of Defence was filed on 7 July 2006 and 21 July 2006 respectively on behalf of the Company and Kamsani ("Defendants"). On 28 August 2006, the Defendants filed a striking out application and the same has been fixed for hearing on 5 February 2007, which was later adjourned to 16 April 2007.

Based on legal advice, the Defendants have a reasonably good chance of success in defending the claims by the Plaintiff.

- (f) On 6 July 2006, the Company was served with a Writ of Summons and Statement of Claim by the Plaintiff, Asmawi bin Muktar (trading under the name and style of GM Telecommunication & Trading). The Plaintiff seeks against the Company and Kamsani, general damages in the sum of RM10 million for the alleged libel and breach of contract, a further sum of RM9 million in exemplary and aggravated damages for the alleged libel and an injunction to prevent the Company and Kamsani from distributing or publishing any letters or content similar thereto, and interest and costs.

A Memorandum of Appearance and a Statement of Defence was filed on 7 July 2006 and 21 July 2006 respectively on behalf of the Company and Kamsani ("Defendants"). On 28 August 2006, the Defendants filed a striking out application and the same has been fixed for hearing on 7 February 2007. On the hearing date, the court has fixed 22 February 2007 for clarification/decision.

Based on legal advice, the Defendants have a reasonably good chance of success in defending the claims by the Plaintiff.

- (g) TRI filed a claim against TSDTR, Bistamam Ramli and Dato' Lim Kheng Yew ("Defendants"), being former directors of TRI for the recovery of a total sum RM55.8 million which was paid to the Defendants as compensation for loss of office and incentive payment and also the return of two (2) luxury vehicles which were transferred to the first two Defendants.

On 18 September 2006, TRI was served with a copy of the 1st and 2nd Defendants' Defence and Counterclaim.

This matter is fixed for case management on 23 April 2007 and trial dates have been fixed for 2, 3, 4 and 5 March 2009.

The Directors have been advised that TRI has good prospect of success in respect of the claim.

Apart from the above, the Directors are not aware of any other proceedings pending against the Company and/or its subsidiaries or of any facts likely to give rise to any proceedings which might materially affect the position or business of the Company and/or its subsidiaries.

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NOTES TO THE FINANCIAL STATEMENTS
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33 FINANCIAL INSTRUMENTS

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's businesses whilst managing its interest rate, foreign exchange, liquidity and credit risks. The Group operates within clearly defined guidelines that are approved by the Board and the Group's policy is not to engage in speculative transactions.

INTEREST RATE RISK

The Group's primary interest rate risk relates to interest-bearing debt, as the Group had no substantial long-term interest-bearing assets as at 31 December 2006. The investment in financial assets are mainly short term in nature and they are not held for speculative purposes but have been mostly placed in fixed deposits or occasionally, in short term commercial papers which yield better returns than cash at bank.

The Group manages its interest rate exposure by maintaining a prudent mix of fixed and floating rate borrowings. The Group actively reviews its debt portfolio, taking into account the investment holding period and nature of its assets. This strategy allows it to capitalise on cheaper funding in a low interest rate environment and achieve a certain level of protection against rate hikes.

The net exposure of borrowings of the Group and Company to interest rate changes and the periods in which the borrowings mature or reprice (whichever is earlier) are as follows:

Financial instruments	Functional currency/ currency exposure	Effective	Total carrying amount	Floating interest rate <1 year	Fixed interest rate <1 year	Islamic financial instruments
		interest at balance sheet date				
		% p.a.	RM'000	RM'000	RM'000	RM'000
<u>Group</u>						
<u>At 31 December 2006</u>						
Deposits with:						
- licensed banks	RM/RM	3.6	972,285	0	549,153	423,132
- licensed banks	USD/USD	5.2	15,273	0	15,273	0
- other financial institutions	RM/RM	4.0	139,982	0	2,966	137,016
Bank balances	RM/RM	-	66,271	66,271	0	0
Bank balances	USD/USD	4.6	7,101	7,101	0	0
Floating rate RM syndicated loan	RM/RM	5.7	(113,750)	(113,750)	-	-
Term Loan	RM/RM	6.1	(10,000)	(10,000)	-	-
Payable to equipment Suppliers	RM/RM	5.9	(19,308)	(19,308)	-	-

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33 FINANCIAL INSTRUMENTS (CONTINUED)

<u>Financial instruments</u>	<u>Functional currency/ exposure</u>	<u>Effective interest at balance sheet date</u> % p.a.	<u>Total carrying amount</u> RM'000	<u>Floating interest rate</u> <u><1 year</u> RM'000	<u>Fixed interest rate</u> <u><1 year</u> RM'000	<u>Islamic financial instruments</u> RM'000
<u>Group (continued)</u>						
<u>At 31 December 2005</u>						
Deposits with:						
- licensed banks	RM/RM	2.9	1,102,310	0	1,102,310	0
- licensed banks	USD/USD	4.1	23,645	0	23,645	0
- other financial institutions	RM/RM	3.0	1,154,496	0	1,154,496	0
Bank balances	RM/RM	0	11,865	11,865	0	0
Bank balances	USD/USD	3.0	2,826	2,826	0	0
Floating rate RM syndicated loan	RM/RM	5.3	(227,500)	(227,500)	0	0

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33 FINANCIAL INSTRUMENTS (CONTINUED)

FOREIGN CURRENCY EXCHANGE RISK

The objectives of the Group's foreign exchange policies are to allow the Group to manage exposures that arise from trading activities effectively within a framework of controls that does not expose the Group to unnecessary foreign exchange risks. Functional currencies in foreign investment companies differ from RM, giving rise to conversion exposure. Foreign currency denominated assets and liabilities together with expected cash flows from highly probable purchases and sales give rise to foreign exchange exposures.

The Group maintains a natural hedge, whenever possible, by borrowing in the currency of the country in which the property or investment is located. Foreign exchange exposures in transactional currencies other than functional currencies of the operating entities are kept to an acceptable level. Material transaction foreign exchange exposures are hedged, mainly with derivative financial instruments such as forward foreign exchange contracts and through natural hedging by having multi-currency bank accounts. This condition is however that a well functioning capital market is in place for the relevant currency of the debt. The amounts denominated in various currencies are disclosed in their respective notes.

LIQUIDITY RISK

The Group actively manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that all refinancing, repayment and funding needs are met. As part of its overall prudent liquidity management, the Group maintains sufficient levels of cash or cash convertible investments to meet its working capital requirements. In addition, the Group strives to maintain available banking facilities of both capital markets and financial institutions and prudently balances its portfolio with some short term funding so as to achieve overall cost effectiveness.

The Group also manages its liquidity by planning ahead its cash requirements on a weekly basis and by having designated bank accounts to set funds aside for meeting future debt obligations.

CREDIT RISK

Credit risk, or the risk of counterparties defaulting, is controlled by the application of credit approvals, limits and monitoring procedures. Trade receivables are monitored on an ongoing basis via Group credit management and management reporting procedures. The Group is exposed to credit risk related to losses in the event of non-performance by third parties to other financial instruments but it does not expect any third parties to fail to meet their obligations given the Group's policy of selecting only third parties with high credit ratings. The exposure limit for each counterparty is set according to the creditworthiness of that party.

The Group does not have any significant unprovided exposure to any individual customer or counterparty nor does it have any major concentration of credit risk related to any financial instruments. Deposits are placed with creditworthy Malaysian financial institutions. Procedures are established to monitor the liquidity flows of the Group's credit facilities and are meant to ensure that the credit risk is kept low.

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33 FINANCIAL INSTRUMENTS (CONTINUED)

FAIR VALUES

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

	Group				Company			
	Carrying amount	Net fair value	Carrying amount	Net fair value	Carrying amount	Net fair value	Carrying amount	Net fair value
	2006	2006	2005	2005	2006	2006	2005	2005
	RM'mil	RM'mil	RM'mil	RM'mil	RM'mil	RM'mil	RM'mil	RM'mil
<u>Financial liabilities</u>								
Al-Bai' Bithaman Ajil	600	617	900	947	600	617	900	947
Finance lease	11	11	11	12	4	4	11	12
Payables to equipment suppliers	12	11	0	0	0	0	0	0

The fair value of the Al-Bai' Bithaman Ajil bonds has been estimated using the respective quoted offer price. The fair value of the finance lease has been estimated by discounting the estimated cash flows using the prevailing market rates for similar credit risks and the remaining period to maturity.

Long-term borrowings from subsidiaries are not repayable within 12 months and are interest free (Note 27), and the carrying amounts recorded does not differ significantly from their fair values.

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

34 NON CASH TRANSACTIONS

There is no significant non cash transaction during the year. Previous year principal non cash transaction was the disposal and acquisitions of associated companies as detailed in Note 3(f) and 3(g) of the financial statements and the purchase of plant and equipment under hire purchase.

35 CHANGES IN ACCOUNTING POLICIES

The list of new accounting standards, amendments to published standards and interpretations on existing standards that are effective for the Company's accounting periods beginning on or after 1 January 2006 is set out in Note A.

The following describes the impact of new standards, amendments and interpretations on the financial statements of the Group and Company.

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35 **CHANGES IN ACCOUNTING POLICIES (CONTINUED)**

(a) Irrelevant or immaterial effect on financial statements

The adoption of FRS 1, 5, 102, 108, 110, 116, 121, 140, 127, 128, 131, 132, 133, the 'asset ceiling' amendment to FRS 119(2004) and ICs did not have a material impact on the financial statements of the Group and Company. In summary:

- FRS 1 and the amendment to FRS 119(2004) are not relevant to the Group and Company's operations
- FRS 5, 102, 108, 110, 116, 127, 128, 131, 132, 133, 140 and ICs had no material effect on the Group and Company's policies.
- FRS 121 had no material effect on the Group's and Company's policies as the Group's entities have the same functional currency as their measurement currency.

(b) Reclassification of prior year comparatives

Set out below are changes in accounting policies that resulted in reclassification of prior year comparatives but did not affect the recognition and measurement of the Group and Company's net assets:

- FRS 101 has affected the presentation of minority interest. In the consolidated balance sheet, minority interest is now presented within equity, separately from parent shareholders' equity. Profit or loss in the consolidated income statement as well as total income and expenses for the year recognised directly in equity are now allocated between minority interest and equity holders of the parent.
- Under FRS 101, the Group's share of results of jointly controlled entity and of associates are now shown net of tax.

(c) FRS 2 "Share-based Payment"

The adoption of FRS 2 has resulted in a change in the accounting policy for share-based payments. In the previous years, the provision of the share options to employees did not result in a charge to 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 accounting policy has been applied retrospectively with comparatives restated in respect of options granted to employees after 31 December 2004 and which had not vested at the beginning of the period. The effect on the Group financial statements for the prior year is set out in Note 36.

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CELCOM (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

35 **CHANGES IN ACCOUNTING POLICIES (CONTINUED)**

- (d) FRS 3 "Business Combinations", FRS 136 "Impairment of Assets" and FRS 138 "Intangible Assets"

Goodwill and Negative Goodwill

The adoption of FRS 3, FRS 136 and FRS 138 resulted in a change in the accounting policy for goodwill prospectively from 1 January 2006.

- Recognition of contingent liabilities and intangible assets as part of the allocation; of the cost of acquisition in determining goodwill arising from acquisition;
- Negative goodwill are recognised immediately to the income statement;
- Goodwill is allocated to cash generating units for purpose of impairment testing; and
- Intangible assets are recognised and its useful life assessed.

Until 1 January 2006, goodwill was amortised on a straight line basis and assessed for an indication of impairment at each balance sheet date. In accordance with the provision of FRS 3 and FRS 138;

- the Group ceased amortization of goodwill from 1 January 2006;
- accumulated amortization as at 31 December 2005 has been eliminated with a corresponding decrease in the cost of goodwill;
- from the period of 1 January 2006 onwards, goodwill is capitalised and stated at cost less accumulated impairment. Capitalised goodwill is tested for impairment at least annually, or if events or circumstances occur indicating that an impairment may exist. Impairment of goodwill is charged to consolidated income statement as and when it arises. Impairment losses on goodwill are not reversed. Goodwill is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

As this standard is applied prospectively, there is no impact of this change in accounting policy on prior year consolidated financial statements.

Business Combination

The adoption of FRS 3, FRS 136 and 138 also resulted in change in the accounting policy for business combinations with agreement dates on/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, 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 allocated to contingent liabilities of the entity acquired.

As this standard is applied prospectively, there is no impact of this change in accounting policy on prior year consolidated financial statements.

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CELCOM (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

36 **COMPARATIVES**

- (i) The goodwill balance as at 31 December 2005 arising from the acquisition of Celcom Mobile Sdn Bhd has been restated due to the overstatement of the unutilised capital allowance existing at acquisition date. The impact of the restatement is to increase the goodwill balance as at 31 December 2005 by RM45,513,914 (net of accumulated amortisation of RM19,505,962) and decrease the deferred tax asset, net loss after taxation for the financial year and retained earnings as at 1 January 2005 by RM65,019,877, RM6,501,987 and RM13,003,975 respectively.
- (ii) The retained earnings for as at 31 December 2006 has also been restated for ESOS expenses for the financial year 2005. The impact of the restatement is to decrease the profit after tax and retained earnings for that financial year by RM1,691,923.

	<u>As previously stated</u> RM'000	<u>Adjustment</u> RM'000	<u>As Restated</u> RM'000
<u>Group</u>			
<u>Balance Sheet</u>			
Goodwill	71,627	45,514	117,141
Deferred tax asset	190,524	(65,020)	125,504
Capital Contribution	0	1,692	1,692
Retained earnings/ (accumulated losses)			
- At 1 January 2005	6,489	(13,004)	(6,515)
- Net loss after taxation	(194,344)	(8,194)	(202,538)
- At 31 December 2005	<u>(187,855)</u>	<u>(21,198)</u>	<u>(209,053)</u>
Shareholders' equity	<u>2,482,064</u>	<u>(19,506)</u>	<u>2,462,558</u>
<u>Income Statement</u>			
Other operating expenses	2,563,747	8,194	2,571,941
Net loss after taxation	<u>(194,344)</u>	<u>(8,194)</u>	<u>(202,538)</u>
<u>Company</u>			
<u>Balance Sheet</u>			
Capital Contribution	0	1,692	1,692
Accumulated losses	<u>(1,339,780)</u>	<u>(1,692)</u>	<u>(1,341,472)</u>
<u>Income Statement</u>			
Other operating expenses	1,907,026	1,692	1,908,718
Net loss after taxation	<u>(662,476)</u>	<u>(1,692)</u>	<u>(664,168)</u>

Company No.

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CELCOM (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

36 COMPARATIVES (CONTINUED)

(iii) Certain components have been reclassified to conform with current year's presentation, as follows:

<u>Group</u>	<u>As previously stated</u> RM'000	<u>Reclassification</u> RM'000	<u>As Restated</u> RM'000
<u>Balance Sheet</u>			
Trade and other payables	2,688,417	(12,252)	2,676,165
Deferred Income	0	12,252	12,252
	<u> </u>	<u> </u>	<u> </u>
<u>Company</u>			
<u>Balance Sheet</u>			
Amount due from a subsidiary company	0	5,140	5,140
Trade and other receivables	194,845	(5,140)	189,705
Trade and other payables	2,211,394	(12,252)	2,199,142
Deferred Income	0	12,252	12,252
	<u> </u>	<u> </u>	<u> </u>

37 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 16 February 2007.

Company No.

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CELCOM (MALAYSIA) BERHAD
(Incorporated in Malaysia)

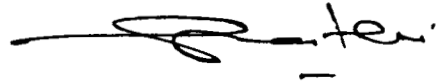
**STATEMENT BY DIRECTORS PURSUANT TO
SECTION 169 (15) OF THE COMPANIES ACT, 1965**

We, Tan Sri Dato' Ir. Muhammad Radzi Bin Haji Mansor and Dato' Sri Mohammed Shazalli bin Ramly, two of the Directors of Celcom (Malaysia) Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 376 to 450 are drawn up so as to give a true and fair view of the state of affairs of the Group and Company as at 31 December 2006 and of the results and cash flows of the Group and Company for the financial year ended 31 December 2006 in accordance with Financial Reporting Standards, the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities and comply with the Companies Act, 1965.

Signed on behalf of the Board of Directors in accordance with their resolution dated 16 February 2007.



TAN SRI DATO' IR. MUHAMMAD RADZI
BIN HAJI MANSOR
DIRECTOR



DATO' SRI MOHAMMED SHAZALLI
BIN RAMLY
DIRECTOR

Kuala Lumpur

**STATUTORY DECLARATION PURSUANT TO
SECTION 169 (16) OF THE COMPANIES ACT, 1965**

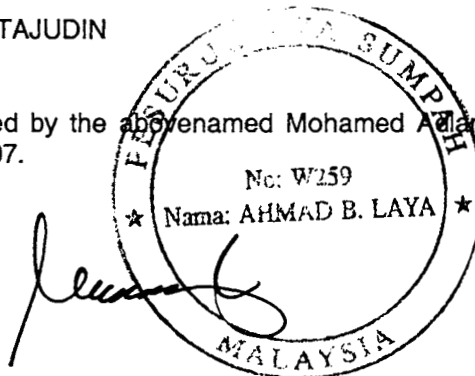
I, Mohamed Adlan bin Ahmad Tajudin, being the officer primarily responsible for the financial management of Celcom (Malaysia) Berhad, do solemnly and sincerely declare that the financial statements set out on pages 376 to 450 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.



MOHAMED ADLAN BIN AHMAD TAJUDIN

Subscribed and solemnly declared by the abovesigned Mohamed Adlan bin Ahmad Tajudin at Kuala Lumpur on 16 February 2007.

Before me,



COMMISSIONER FOR OATHS

LOT 5.28-5.30, TINGKAT 5
WISMA CENTRAL
JALAN AMPANG
50450 KUALA LUMPUR

**REPORT OF THE AUDITORS TO THE MEMBER OF
CELCOM (MALAYSIA) BERHAD**
(Company No. 167469 A)

We have audited the financial statements set out on pages 376 to 450. These financial statements are the responsibility of the Company's Directors. It is our responsibility to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

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

In our opinion:

- (a) the financial statements have been prepared in accordance with Financial Reporting Standards, the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities and provisions of the Companies Act 1965 so as to give a true and fair view of:
 - (i) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
 - (ii) the state of affairs of the Group and the Company as at 31 December 2006 and of the results and cash flows of the Group and the Company for the financial year ended on that date;

and

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

The name of the subsidiary of which we have not acted as auditors is indicated in Note 12 to the financial statements. We have considered the financial statements of the subsidiary and the auditors' report thereon.

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

REPORT OF THE AUDITORS TO THE MEMBER OF
CELCOM (MALAYSIA) BERHAD (CONTINUED)
(Company No. 167469 A)

The auditors' reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment made under subsection 3 of Section 174 of the Act.



PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants



THAYAPARAN A/L S. SANGARAPILLAI
(No. 2085/09/08 (J))
Partner of the firm

16 February 2007

AUDITED FINANCIAL STATEMENTS OF SUNSHARE FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 AND THE AUDITORS' REPORT

Company No: LL-04845

SunShare Investments Limited

(Incorporated in Federal Territory of Labuan, Malaysia under the Offshore Companies Act, 1990)

Principal activity and corporate information

The principal activity of the Company is that of investment holding. There has been no significant change in the nature of the activities during the financial year.

The Company is a limited liability company, incorporated and domiciled in Malaysia.

There is no employee at the end of the financial year (2005: Nil). The operational and administrative affairs of the Company are managed by its majority shareholder.

The address of the registered office of the Company is:

Unit Level 13(E)
Main Office Tower
Financial Park Labuan
Jalan Merdeka
87000 Wilayah Persekutuan Labuan

The address of the principal place of business of the Company is:

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

SunShare Investments Limited

(Incorporated in Federal Territory of Labuan, Malaysia under the Offshore Companies Act, 1990)

Income statement for the financial year ended 31 December 2006

	Note	Year ended 31.12.2006 SGD	Period from 7.6.2005 (date of incorporation) to 31.12.2005 SGD (restated)
Dividend income		76,968,791	3,407,986
Other operating income – Interest from deposits		2,366,958	627,736
Administrative expenses		(117,934)	(28,323)
Other operating expenses		<u>(2,552,947)</u>	<u>(2,899,875)</u>
Profit from ordinary activities	5	76,664,868	1,107,524
Finance cost		<u>(19,666,533)</u>	<u>(1,286,531)</u>
Profit/(loss) from ordinary activities before taxation		56,998,335	(179,007)
Taxation	6	<u>0</u>	<u>0</u>
Profit/(loss) for the financial year/period		<u><u>56,998,335</u></u>	<u><u>(179,007)</u></u>

The above income statement is to be read in conjunction with the notes to the financial statements on pages 460 to 473.

SunShare Investments Limited

(Incorporated in Federal Territory of Labuan, Malaysia under the Offshore Companies Act, 1990)

Balance sheet as at 31 December 2006

	Note	2006 SGD	2005 SGD (restated)
Capital and reserves			
Share capital	7	1,237,337	1,237,337
Share premium	8	122,494,663	122,494,663
Retained profits/(accumulated losses)		56,819,328	(179,007)
Shareholders' funds		180,551,328	123,552,993
Non current assets			
Investment in an associate	9	645,905,453	529,741,279
Current assets			
Other receivables		190,973	17,759
Cash and bank balances	10	76,437,434	40,140,491
		76,628,407	40,158,250
Less: Current liabilities			
Payables and accruals	11	1,909,898	25,474,460
Amount owing to Corporate Shareholders	12	72,634	75,540
Borrowings	13	0	420,796,536
		1,982,532	446,346,536
Net current assets/(liabilities)		74,645,875	(406,188,286)
Non current liability			
Borrowings	13	540,000,000	0
		180,551,328	123,552,993

The above balance sheet is to be read in conjunction with the notes to the financial statements on pages 460 to 473.

Company No: LL-04845

SunShare Investments Limited

(Incorporated in Federal Territory of Labuan, Malaysia under the Offshore Companies Act, 1990)

Statement of changes in equity for the financial year ended 31 December 2006

	Note	Issued and paid-up ordinary share of USD1 each		Number of shares	Share capital SGD	Number of shares	Non distributable RCPS of USD0.01 each		Share premium SGD	Retained profits / (accumulated losses) SGD	Total SGD
		Number of shares	Share capital SGD				Share capital SGD	Share premium SGD			
At 1 January 2006 (as previously stated)		10	17	73,399,990	1,237,320	122,494,663					120,552,993
Prior year adjustment	15	0	0	0	0	0				3,000,000	3,000,000
At 1 January 2006 (restated)		10	17	73,399,990	1,237,320	122,494,663				(179,007)	123,552,993
Profit for the financial year		0	0	0	0	0				56,998,335	56,998,335
At 31 December 2006		10	17	73,399,990	1,237,320	122,494,663				56,819,328	180,551,328

Company No: LL-04845

SunShare Investments Limited

(Incorporated in Federal Territory of Labuan, Malaysia under the Offshore Companies Act, 1990)

Statement of changes in equity for the financial year ended 31 December 2006 (continued)

	Note	Issued and paid-up ordinary share of USD1 each		Number of shares	Share capital SGD	Non distributable RCPS of USD0.01 each			Total SGD
		Number of shares	Share capital SGD			Share Capital SGD	Share premium SGD	Accumulated losses SGD	
At 7 June 2005 (date of incorporation)		2	3	0	0	0	0	0	3
Issue of share during the period	7	8	14	73,399,990	1,237,320	122,494,663	0	0	123,731,997
Loss for the financial period		0	0	0	0	0	(3,179,007)	(3,179,007)	(3,179,007)
At 31 December 2005		10	17	73,399,990	1,237,320	122,494,663	(3,179,007)	(3,179,007)	120,552,993

RCPS denotes Redeemable Convertible Preference Shares.

The above statement of changes in equity is to be read in conjunction with the notes to the financial statements on pages 460 to 473.

SunShare Investments Limited

(Incorporated in Federal Territory of Labuan, Malaysia under the Offshore Companies Act, 1990)

Cash flow statement for the financial year ended 31 December 2006

	Note	Period from 1.1.2006 to 31.12.2006 SGD	Period from 7.6.2005 (date of incorporation) to 31.12.2005 SGD (restated)
Cash flows from operating activities			
(Payments)/advances for professional services		(26,411,561)	104,220
Interest paid		(19,666,533)	(1,286,531)
Interest received		2,366,956	627,736
Net cash flows used in operating activities		<u>(43,711,138)</u>	<u>(554,575)</u>
Cash flows from investing activities			
Acquisition of an associate		(116,164,174)	(507,241,456)
Dividend received		76,968,791	3,407,986
Net cash flows used in investing activities		<u>(39,195,383)</u>	<u>(503,833,470)</u>
Cash flow from financing activities			
Issuance of share capital		0	17
Issuance of Redeemable Convertible Preference Shares		0	123,731,983
Drawdown of borrowings		119,203,464	422,990,000
Repayment of borrowings		0	(2,193,464)
Net cash flows from financing activities		<u>119,203,464</u>	<u>544,528,536</u>
Net increase in cash and cash equivalents during the year/period		36,296,943	40,140,491
Cash and cash equivalent at beginning of financial year/date of incorporation		<u>40,140,491</u>	<u>0</u>
Cash and cash equivalent at end of financial year/period	10	<u><u>76,437,434</u></u>	<u><u>40,140,491</u></u>

The above cash flow statement is to be read in conjunction with the notes to the financial statements on pages 460 to 473.

SunShare Investments Limited

(Incorporated in Federal Territory of Labuan, Malaysia under the Offshore Companies Act, 1990)

Notes to the financial statements for the financial year ended 31 December 2006

1 Principal activity

The principal activity of the Company is that of investment holding. There has been no significant change in the nature of the activities during the financial year.

2 Basis of preparation of the financial statements

The financial statements of the Company have been prepared in accordance with Financial Reporting Standards ('FRS'), the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities.

The financial statements of the Company have been prepared under the historical cost convention except as disclosed in the Significant Accounting Policies below.

The preparation of financial statements in conformity with FRS, the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities requires the use of certain critical estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. It also requires Directors to exercise their judgment in the process of applying the Company's accounting policies. The estimates are based on the Director's best knowledge of current events and actions.

SunShare Investments Limited

(Incorporated in Federal Territory of Labuan, Malaysia under the Offshore Companies Act, 1990)

Notes to the financial statements for the financial year ended 31 December 2006 (continued)

2 Basis of preparation of the financial statements (continued)

(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 Company financial period beginning 1 January 2006 are as follows:

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

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

With the exception of FRS 121, the adoption of the above new accounting standards, amendments to published standards and IC Interpretations to the existing standards did not result in substantial changes to the Company’s accounting policies.

Previously, the results and financial position of the Company were measured in US Dollar. Under FRS 121, the concept of functional currency is emphasized as being the currency of the primary economic environment in which the Company operates. The functional currency has been re-evaluated and as a result, the results and financial position of the Company is now measured in the same functional currency as their measurement currency. The effect of this change in policy is disclosed in note 15 to the financial statements.

SunShare Investments Limited

(Incorporated in Federal Territory of Labuan, Malaysia under the Offshore Companies Act, 1990)

Notes to the financial statements for the financial year ended 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

- FRS 124 Related Party Disclosure (effective for accounting periods beginning on or after 1 October 2006). This standard will affect the identification of related parties and some other related party disclosures. The Company will apply this standard from financial periods beginning 1 January 2007.
- 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 Company will apply this standard when effective.

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

- FRS 6 Exploration for and Evaluation of Mineral Resources (effective for accounting periods beginning on or after 1 January 2007). FRS 6 is not relevant to the Company's operations as the Company does not carry out exploration for and evaluation of mineral resources.
- FRS 117 Leases (effective for accounting periods beginning on or after 1 October 2006). This standard requires the classification of leasehold land as prepaid lease payments. FRS 117 is not relevant to the Company.
- Amendment to FRS 119²⁰⁰⁴ 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. This standard is not relevant to the Company.

SunShare Investments Limited

(Incorporated in Federal Territory of Labuan, Malaysia under the Offshore Companies Act, 1990)

Notes to the financial statements for the financial year ended 31 December 2006 (continued)

3 Significant accounting policies

The following accounting policies have been used consistently in dealing with items which are considered material in relation to the financial statements.

(a) Investments

Investments in subsidiaries and associates are stated at cost. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount. See accounting policy note on impairment of non-financial assets.

Investments in quoted shares within current assets are carried at the lower of cost and market value, determined on an aggregate portfolio basis by category of investment. Cost is derived at based on the weighted average basis. Market value is calculated by reference to stock exchange quoted selling price at the close of business on the balance sheet date. Increase/decrease in the carrying amount of marketable securities are credited/charged to the Income Statement.

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

(i) Associates

Associates are corporations or other entities in which the Company 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.

(b) Foreign currency

(i) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Singapore Dollar, which is the Company's functional and presentation currency.

SunShare Investments Limited

(Incorporated in Federal Territory of Labuan, Malaysia under the Offshore Companies Act, 1990)

Notes to the financial statements for the financial year ended 31 December 2006 (continued)

3 Significant accounting policies (continued)

(b) Foreign currency (continued)

(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.

(c) Impairment of non financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment 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 assets 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 purposes of assessing impairment, assets are grouped at the lowest level for which there is separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

The impairment loss is charged to the income statement. Any subsequent increase in recoverable amount is recognised in the income statement.

(d) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprises cash on hand, bank balances, demand deposits, 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.

SunShare Investments Limited

(Incorporated in Federal Territory of Labuan, Malaysia under the Offshore Companies Act, 1990)

Notes to the financial statements for the financial year ended 31 December 2006 (continued)

3 Significant accounting policies (continued)

(e) Bonds, notes and debentures borrowings

Borrowings, which includes bonds, notes and debentures are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Income Statement over the period of the borrowings using the effective interest method.

Interest, 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 Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(f) Contingent liabilities and contingent assets

The Company 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 Company 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 Company. The Company do not recognise contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

(g) Revenue recognition

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

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group and Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised either as cash is collected or on a cost-recovery basis as conditions warrant.

SunShare Investments Limited

(Incorporated in Federal Territory of Labuan, Malaysia under the Offshore Companies Act, 1990)

Notes to the financial statements for the financial year ended 31 December 2006 (continued)

3 Significant accounting policies (continued)

(h) Taxation

The principal activity of the Company is that of an offshore non-trading activity as defined by the Labuan Offshore Business Activity Tax Act, 1990. In accordance with the provision of the Act, the Company shall not be subjected to tax.

(i) Financial instruments

The particular recognition method adopted for financial instruments recognised on the balance sheet is disclosed in the individual policy statements associate with each item.

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

4 Significant acquisitions

The Company's shareholding in MobileOne Limited ('M1'), a company listed on the Singapore Exchange ('SGX') has increased from 24.76% in 2005 to 29.78% in 2006 following the purchases of shares from the open market, which was more than the dilution arising from the exercise of share options by M1 employees.

5 Profit/(loss) from ordinary activities

	2006 SGD	2005 SGD (restated)
The following items have been charged/(credited) in arriving at profit for the financial year/period:		
Auditors' remuneration	3,257	3,302
Professional and consultancy fees	314,357	1,861,423
Unrealised foreign exchange loss	<u>2,228,390</u>	<u>1,064,091</u>

6 Taxation

The principal activity of the Company is that of an offshore non-trading activity as defined by the Labuan Offshore Business Activity Tax Act, 1990. In accordance with the provision of the Act, the Company shall not be subjected to tax.

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Notes to the financial statements for the financial year ended 31 December 2006 (continued)

7 Share capital

	2006		2005	
	Number of shares	Nominal value USD	Number of shares	Nominal value USD
Authorised:				
- Ordinary shares of USD1.00 each				
Class A	10	10	10	10
Class B	99,999,990	99,999,990	99,999,990	99,999,990
Redeemable Convertible Preference Shares ('RCPS') of USD0.01 each	<u>10,000,000,000</u>	<u>100,000,000</u>	<u>10,000,000,000</u>	<u>100,000,000</u>
At beginning and end of the financial year/period	<u>10,100,000,000</u>	<u>200,000,000</u>	<u>10,100,000,000</u>	<u>200,000,000</u>
	2006		2005	
	Number of shares	Nominal value SGD	Number of shares	Nominal value SGD
Issued and fully paid up:				
- Class A ordinary shares of USD1 each				
At beginning of financial year/period	10	17	2	3
Issued during the financial year/period	<u>0</u>	<u>0</u>	<u>8</u>	<u>14</u>
At end of financial year/period	10	17	10	17
- RCPS of USD0.01 each				
At beginning of financial year/period	73,399,990	1,237,320	0	0
Issued during the financial year/period	<u>0</u>	<u>0</u>	<u>73,399,990</u>	<u>1,237,320</u>
At end of financial year/period	<u>73,400,000</u>	<u>1,237,337</u>	<u>73,400,000</u>	<u>1,237,337</u>

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Notes to the financial statements for the financial year ended 31 December 2006 (continued)

7 Share capital (continued)

The main features of the Redeemable Convertible Preference Shares ('RCPS') are as follows:

- (a) The RCPS shall carry a variable dividend which will be payable annually at the option of the Issuer provided that any such dividends shall only be payable subject to the availability of distributable profits.
- (b) The RCPS shall rank for dividend in priority to the ordinary shares.
- (c) Any declaration or payment of dividend on the RCPS shall always at all times be based on the proportion of RCPS held by the holders respectively.
- (d) The RCPS shall only be redeemable at the option of the Issuer at anytime in accordance with the Offshore Companies Act, 1990.
- (e) The RCPS shall be convertible at the option of the Issuer at anytime during the tenure.
- (f) The conversion price will be USD1.00 for the RCPS. Each RCPS will be convertible into 1 new class "B" ordinary share of the Issuer.
- (g) The RCPS shall rank prior to the class "A" ordinary shares in the event of the winding up/liquidation of the Issuer provided there shall be no further right to participate in the surplus assets or profit of the Issuer.

The Class B ordinary shares to be issued pursuant to the conversion of the RCPS will upon allotment and issue rank pari passu in all respects with the existing Class A ordinary shares except that they shall not be entitled to any dividends, rights, allotments and, or other distributions, the entitlement date of which precedes the allotment date of the new ordinary shares.

8 Share premium

	2006	2005
	SGD	SGD
Relating to:		
- Redeemable Convertible Preference Shares	<u>122,494,663</u>	<u>122,494,663</u>

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Notes to the financial statements for the financial year ended 31 December 2006 (continued)

9 Investment in an associate

At balance sheet date, the Company hold a 29.78% (2005 : 24.76%) equity interest in an associate, MobileOne Ltd ("M1"), a company incorporated in Singapore. The principal activity of the associate is the provision of mobile telecommunication services, international call services, mobile retail sales, after-sales support, customer services, paging services, research and development of mobile telecommunication products and services and investment holding function.

If the equity method of accounting had been applied, the carrying amount of investment in the associate would have been as follows:

	2006	2005
	SGD	SGD
At cost :		
Quoted foreign investment	645,905,453	529,741,279
Share of post acquisition reserves	52,352,710	3,323,308
Less : Dividend receivables	(80,376,777)	(3,407,986)
	<u>617,881,386</u>	<u>529,656,601</u>
Represented by:		
Share of net assets (including goodwill)	698,258,163	533,064,587
Less : Dividend receivables	(80,376,777)	(3,407,986)
	<u>617,881,386</u>	<u>529,656,601</u>
Market value	<u>625,000,000</u>	<u>514,000,000</u>

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Notes to the financial statements for the financial year ended 31 December 2006 (continued)

10 Cash and bank balances

	2006 SGD	2005 SGD
Cash in hand	13	13
Cash at bank	11,276	7,182
Deposits with a licensed bank	76,426,145	40,133,296
	<u>76,437,434</u>	<u>40,140,491</u>

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

	2006 SGD	2005 SGD
- US Dollar	16,795,613	36,765,212
- Singapore Dollar	59,641,821	3,375,279
	<u>76,437,434</u>	<u>40,140,491</u>

Weighted average interest rate of deposit and bank balances that was effective at the end of the financial year/period was 3.42% (2005 : 4.07%) per annum.

Deposits of the Company have an average maturity of 7 days (2005:7 days). Bank balances are deposits held at call.

11 Payables and accruals

	2006 SGD	2005 SGD
Other payables	0	22,499,823
Accruals	1,909,898	2,974,637
	<u>1,909,898</u>	<u>25,474,460</u>

Included in other payables in the previous year is an amount owing to a bank in relation to the further on-market purchases of its investment in M1 shares including the financing costs of Nil (2005 : 2.4%) per annum calculated on a daily basis.

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Notes to the financial statements for the financial year ended 31 December 2006 (continued)

12 Amount owing to Corporate Shareholders

Amount owing to Corporate Shareholders, Khazanah Nasional Berhad and TM International Sdn Bhd are unsecured, interest free and have no fixed terms of repayment.

13 Borrowings

	2006 SGD	2005 SGD
Term Loan	<u>540,000,000</u>	<u>420,796,536</u>

In the previous year, the bridging loan is classified as current liabilities. The bridging loan is unsecured and is part of a facility taken by the Company, which is convertible into a term loan of up to the maximum aggregate principal amount of SGD540,000,000.

On 27 April 2006, the Company extended the repayment date of the facility so that it is repayable in full in 2010 and subsequently, the facility has been drawdown in full on 31 October 2006.

The effective interest rate at balance sheet date is 3.1% (2005: 3.1%).

14 Financial instruments

Financial instruments carried in the balance sheet include receivable and bank balances, payable and intercompany balances.

Financial risk management objectives and policies

The Company's overall financial risk management objective is to create value for its shareholder. Financial risk management is carried out through an effective internal control system and adherence to the Company's financial management policies. Where necessary, advances from the Corporate Shareholders are obtained to meet its financial obligations.

(a) Interest rate risk

The Company's income and operating cash flows are substantially independent of changes in market interest rates. Interest rate exposure arises from the Company's deposits and is managed through the use of fixed rate placements. All balance sheet items which are interest rate sensitive are due within one year.

SunShare Investments Limited

(Incorporated in Federal Territory of Labuan, Malaysia under the Offshore Companies Act, 1990)

Notes to the financial statements for the financial year ended 31 December 2006 (continued)

14 Financial instruments (continued)

(b) Credit risk

The Company seeks to invest cash assets safely and profitably. Its deposits are placed with creditworthy financial institutions.

The Company as an investment holding company primarily derives income from its investments in associates. Hence, its exposure to credit risk is restricted to the exposures to the risk inherent in these investments.

(c) Currency risk

The Company is exposed to currency risk as a result of the foreign transactions entered into by the Company. However, the Company maintains a USD bank account to receive USD income and to pay USD expenses and hence, management believes that this represents a natural hedge over its currency risk.

(d) Liquidity and cash flow risk

Prudent liquidity risk management implies maintaining sufficient liquid funds and where necessary, advances from the Corporate Shareholders are obtained to meet its financial obligations.

(e) Fair values

The carrying amounts of financial assets and liabilities of the Company as at balance sheet date approximate their fair values.

SunShare Investments Limited

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Notes to the financial statements for the financial year ended 31 December 2006 (continued)

15 Effect of change in accounting policy

During the financial year, the Company re-assessed its functional currency whereby its functional currency has been changed from United States Dollar to Singapore Dollar. The change in functional currency has resulted in prior year adjustments. Comparative amounts as at 31 December 2005 has been restated as follows:

	As previously stated SGD	Adjustment SGD	As restated SGD
<u>Balance Sheet</u>			
Borrowings	423,796,536	(3,000,000)	420,796,536
<u>Income Statement</u>			
Other operating expenses	5,899,875	(3,000,000)	2,899,875
Loss after taxation	<u>(3,179,007)</u>	<u>3,000,000</u>	<u>(179,007)</u>

16 Approval of financial statements

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 21 February 2007.

Company No: LL-04845

SunShare Investments Limited

(Incorporated in Federal Territory of Labuan, Malaysia under the Offshore Companies Act, 1990)

Statement by a Director for the financial period ended 31 December 2006

In the opinion of the Director, the financial statements set out on pages 2 to 20 are drawn up so as to exhibit a true and fair view of the state of affairs of the Company as at 31 December 2006 and of the results and cash flows of the Company for the financial period then ended in accordance with Financial Reporting Standard, the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities.



Yusof Annuar bin Yaacob
Director

Kuala Lumpur
21 February 2007

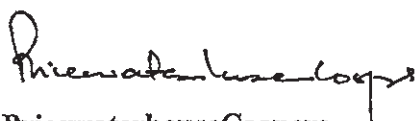
**Report of the Auditors
to the members of SunShare Investments
Limited**

(Company No: LL-04845)
(Incorporated in Federal Territory of Labuan, Malaysia Under the
Offshore Companies Act, 1990)

We have audited the financial statements set out on pages 455 to 473. These financial statements are the responsibility of the Company's Directors. It is our responsibility to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you, as a body, in accordance with Section 117 of the Offshore Companies Act 1990 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

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

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2006 and of the results and cash flows of the Company for the financial year ended on that date in accordance with Financial Reporting Standard, the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities.



PricewaterhouseCoopers
(AAL-0017)
Chartered Accountants



Shirley Goh
(1778/08/08 (J))
Partner

Labuan
21 February 2007

Company No: LL-01004

SUNSHARE INVESTMENTS LIMITED

(Incorporated in Federal Territory of Labuan, Malaysia under the Offshore Companies Act, 1990)

CERTIFICATE BY AN APPROVED AUDITOR

We certify that:

- (a) proper financial statements for the financial period ended 31 December 2006 have been kept by the Company and a balance sheet, income statement and statement of changes in equity for that financial period have been prepared and audited by us; and
- (b) the director who gave the certificate under Section 109 (5) of the Act has been furnished with a copy of those financial statements.

Dated this 21 February 2007



PRICEWATERHOUSECOOPERS
(AAL : 0017)
Chartered Accountants