

DIRECTORS' REPORT

The directors hereby submit their report together with the audited financial statements of the Group and the Company for the financial year ended 31 December, 2000.

PRINCIPAL ACTIVITIES

The principal activities of the Company are those of investment holding, provision of management and administrative services and dealing in securities.

The principal activities of the subsidiaries are described in Note 9 to the financial statements.

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

RESULTS

	<u>Group</u> RM'000	<u>Company</u> RM'000
Profit/(loss) after taxation	<u>345,656</u>	<u>(262)</u>

DIVIDENDS

No dividend has been paid or declared by the Company since the end of the previous financial year. The directors do not recommend the payment of any dividend for the current financial year.

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year.

BAD AND DOUBTFUL DEBTS

Before the income statements and balance sheets were made out, the directors took reasonable steps to ascertain that action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that there were no known bad debts and that adequate provision had been made for doubtful debts.

At the date of this report, the directors are not aware of any circumstances that would require any amount to be written off as bad debts or render the amount provided for as doubtful debts in the financial statements of the Group and the Company inadequate to any substantial extent.

CURRENT ASSETS

Before the income statements and balance sheets were made out, the directors took reasonable steps to ensure that any current assets which were unlikely to be realised in the ordinary course of business including their values as shown in the accounting records of the Group and the Company have been written down to an amount which they might be expected so to realise.

DIRECTORS' REPORT

At the date of this report, the directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Group and the Company misleading.

VALUATION METHODS

At the date of this report, the directors are not aware of any circumstances which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and the Company misleading or inappropriate.

CONTINGENT AND OTHER LIABILITIES

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

- (a) any charge on the assets of the Group or the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
- (b) any contingent liability of the Group or the Company which has arisen since the end of the financial year.

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

CHANGE OF CIRCUMSTANCES

At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Group or the Company which would render any amount stated in the financial statements misleading.

ITEMS OF AN UNUSUAL NATURE

The results of the operations of the Group and the Company during the financial year were not, in the opinion of the directors, substantially affected by any item, transaction or event of a material and unusual nature other than as disclosed in Note 27(a) to the financial statements.

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors, to affect substantially the results of the operations of the Group or the Company for the financial year in which this report is made.

SIGNIFICANT AND SUBSEQUENT EVENTS

- (a) On 4 January, 1999, Bank Negara Malaysia ("BNM") assumed control of the whole property, business and affairs of Kewangan Bersatu Berhad ("KBB"), a wholly owned subsidiary of the Company, pursuant to the Banking and Financial Institutions (Kewangan Bersatu Berhad) (Assumption of Control) Order 1998 issued by the Minister of Finance.

On 30 November, 2000, KBB entered into management services agreement with Mayban Finance Berhad ("MFB") to provide management services to KBB under the supervision of BNM. Subsequently on 30 August, 2000, an Assets Purchase Agreement has been entered into with MFB for the purpose of acquisition of certain assets of KBB.

DIRECTORS' REPORT

Arising from the above, the financial statements of KBB and its subsidiaries ("KBB Group") have not been consolidated in the preparation of the Group financial statements in the current financial year as the directors are of the opinion that the Company has lost effective control in KBB since the control and management of the affairs of KBB has been assumed by BNM since 4 January, 1999. Consequently, the audited financial statements of KBB Group will not be annexed to the Group financial statements as exempted by the Assistant Registrar of Companies on 31 July, 2002.

- (b) Pursuant to the Sale and Purchase Agreements dated 11 November, 1998 between the Company and the vendors of Saujaran Holdings Sdn. Bhd. ("Saujaran") and Mother Earth Resources & Timber Sdn. Bhd. ("MERT"), the Company entered into a Settlement & Compromise Agreement ("SCA") on 5 November, 2001 with the vendors of Saujaran, MERT, Angkasa Lampiran Sdn. Bhd. ("ALSB") and Bitarex Sdn. Bhd. ("BSB") to:
- (i) confirm that the entire deposits paid for the proposed acquisitions amounting to approximately RM17,064,000 and RM5,000,000 would be forfeited by the vendors of Saujaran and MERT respectively as agreed liquidated damages for termination of the Sale and Purchase Agreements; and
 - (ii) accept the shares in ALSB and BSB as full and final settlement of the advance due from the vendors amounting to RM7,936,000 in lieu of a cash refund.
- (c) The 58,919,318 detachable Warrants 1997/2001 were issued on a "bought deal" basis in conjunction with the issuance of RM120,000,000 nominal value of zero coupon redeemable Bank Guaranteed Bonds of RM1.00 each. The warrants 1997/2001 are convertible into fully paid Ordinary Shares of the Company at a rate of RM4.70 for one (1) new Arus Murni Corporation Berhad's share subject to adjustment in accordance with the terms of the Deed Poll dated 17 January, 1997 and the Supplemental Deed Poll dated 4 July, 1997. All warrants which are not exercised by 29 October, 2001 have lapsed.

RESTRUCTURING EXERCISE

The Group on 28 February, 2001 announced that it is considered to be an affected listed issuer pursuant to the requirement of Practice Note 4/2001 ("PN4") issued by the Kuala Lumpur Stock Exchange. The Group is required to regularise its financial conditions within the time frame stipulated by the PN4 failing which it may be regarded as a listed issuer whose financial conditions does not warrant continued trading and/or listing.

In view of the above matter, the Group and the Company are in the progress of formulating a plan to regularise its financial condition. The plan upon its finalisation will be conditional upon the approvals of amongst others, the regulatory authorities and the shareholders.

DIRECTORS' REPORT

DIRECTORS

The directors who served since the date of the last report are:

Dato' Shamsir bin Omar
 Muhamed bin Abdul Rahman
 Mohamad Malik bin Jamal Mohamed (appointed on 30 July, 2002)
 Ramli bin Harun (appointed on 30 July, 2002)
 Tan Lam Hin (appointed on 30 July, 2002)
 Zailan bin Othman (appointed on 7 August, 2002)
 Y.M. Tunku Mu'tamir bin Tunku Tan Sri Mohamed (resigned on 26 July, 2002)
 Abu Bakar bin Hashim (resigned on 30 July, 2002)
 Hamzah bin Harun (resigned on 30 July, 2002)
 Tan Poh Choon (resigned on 30 July, 2002)
 Datuk Lim Teow Jin (resigned on 6 August, 2002)
 Tan Lam Fatt (resigned on 6 August, 2002)

DIRECTORS' BENEFITS

During and at the end of the financial year, no arrangements subsisted to which the Company or its subsidiaries are a party with the object of enabling directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Since the end of the previous financial year, no director has received or become entitled to receive any benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors as shown in Note 23 to the financial statements) by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

DIRECTORS' INTERESTS

According to the register of directors' shareholdings, none of the directors holding office at the end of the financial year had any interest in shares in the Company or its subsidiaries during the financial year other than as follows:

	<u>Number of Ordinary Shares of RM1 Each</u>			
	<u>1 January, 2000</u>	<u>Bought</u>	<u>Sold</u>	<u>31 December, 2000</u>
Macbloom Sdn. Bhd.				
Hamzah bin Harun	1	-	-	1
Giltedged Options and Futures Sdn. Bhd.				
Hamzah bin Harun	1	-	-	1

DIRECTORS' REPORT

AUDITORS

Arthur Andersen & Co. retire and have indicated their willingness to accept re-appointment.

Signed on behalf of the Board
in accordance with a resolution
of the directors

DATO' SHAMSIR BIN OMAR

MUHAMED BIN ABDUL RAHMAN

Kuala Lumpur
Dated: 16 August 2002

STATEMENT BY DIRECTORS

We, DATO' SHAMSIR BIN OMAR and MUHAMED BIN ABDUL RAHMAN, being two of the directors of ARUS MURNI CORPORATION BERHAD, do hereby state that, in the opinion of the directors, the financial statements set out on pages 9 to 39 give a true and fair view of the state of affairs of the Group and the Company as at 31 December, 2000 and of their results and cash flows for the year then ended, and have been properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia.

Signed on behalf of the Board
in accordance with a resolution
of the directors

DATO' SHAMSIR BIN OMAR

MUHAMED BIN ABDUL RAHMAN

Kuala Lumpur
Dated: 16 August 2002

STATUTORY DECLARATION

I, MUHAMED BIN ABDUL RAHMAN, the director primarily responsible for the financial management of ARUS MURNI CORPORATION BERHAD, do solemnly and sincerely declare that the financial statements set out on pages 9 to 39 are, to the best of my knowledge and belief, correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the)
abovenamed MUHAMED BIN ABDUL)
RAHMAN at Kuala Lumpur in Wilayah)
Persekutuan on 16 August 2002) MUHAMED BIN ABDUL RAHMAN

Before me

Commissioner for Oaths

AUDITORS' REPORT

To the Shareholders of
ARUS MURNI CORPORATION BERHAD

We have audited the financial statements set out on pages 9 to 39. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion,

- (a) the financial statements have been prepared in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia and give a true and fair view of:
 - (i) the state of affairs of the Group and the Company as at 31 December, 2000 and of their results and their cash flows for the year then ended; and
 - (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
- (b) the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

We have considered the financial statements and the auditors' reports of all the subsidiaries of which we have not acted as auditors, as indicated in Note 9 to the financial statements, being financial statements that have been included in the consolidated financial statements.

AUDITORS' REPORT

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

The auditors' reports on the financial statements of the subsidiaries, which were incorporated in Malaysia, were not subject to any qualification or any adverse comment made under subsection (3) of Section 174 of the Act.

Without qualifying our opinion, we draw attention to

- (i) Note 27(a) to the financial statements. The audited financial statements of a subsidiary, Kewangan Bersatu Berhad ("KBB"), are not annexed as required by the Ninth Schedule of the Companies Act, 1965 for reasons as referred to in Note 27(a).
- (ii) Note 29 to the financial statements wherein it has been disclosed that the Company has commenced legal action against Arus Murni Sdn. Bhd. to recover the shortfall in guaranteed profit and the said action is still in progress. On a prudent basis, recovery of the said shortfall will be included in the financial statements of the Group and the Company on a receipt basis.
- (iii) Note 27(b) to the financial statements. The Company entered into a Settlement and Compromise Agreement with the vendors of Saujaran Holdings Sdn. Bhd. ("Saujaran"), Mother Earth Resources & Timber Sdn. Bhd. ("MERT"), Angkasa Lampiran Sdn. Bhd. ("ALSB") and Bitarex Sdn. Bhd. ("BSB") to:
 - (a) confirm that the entire deposits paid for the proposed acquisitions amounting to approximately RM17,064,000 and RM5,000,000 would be forfeited by the vendors of Saujaran and MERT respectively as agreed liquidated damages for termination of the Sale and Purchase Agreements; and
 - (b) accept the shares in ALSB and BSB as full and final settlement of the advance due from the vendors amounting to RM7,936,000 in lieu of a cash refund.

Arthur Andersen & Co.
No. AF 0103
Chartered Accountants

George Koshy
No. 1846/07/03(J)
Partner of the Firm

Dated: 16 August 2002

BALANCE SHEETS**31 DECEMBER, 2000**

	Note	Group		Company	
		2000 RM'000	1999 RM'000	2000 RM'000	1999 RM'000
ASSETS					
Cash and bank balances		300	35,975	283	341
Fixed deposits	3	2,942	2,651	2,942	2,651
Dealing securities	4	-	1,488	-	1,488
Investment securities	5	-	74,660	-	-
Loans and advances	6	-	973,836	-	-
Other assets	7	7,991	22,888	7,991	3,156
Statutory deposit with Bank Negara Malaysia	8	-	63,600	-	-
Investment in subsidiaries	9	-	-	-	1,541
Due from subsidiaries	10	-	-	-	244
Property, plant and equipment	11	908	8,860	796	1,732
Intangible assets	12	-	1,203	-	-
TOTAL ASSETS		12,141	1,185,161	12,012	11,153
LIABILITIES					
Deposits from customers	13	-	166,738	-	-
Deposits and placements of banks and other financial institutions	14	-	1,297,790	-	-
Due to subsidiaries	15	-	-	-	28
Other liabilities	16	3,162	57,310	2,897	1,748
		<u>3,162</u>	<u>1,521,838</u>	<u>2,897</u>	<u>1,776</u>
SHAREHOLDERS' FUNDS/(DEFICIT)					
Share capital	17	168,341	168,341	168,341	168,341
Reserves		(159,362)	(505,018)	(159,226)	(158,964)
		<u>8,979</u>	<u>(336,677)</u>	<u>9,115</u>	<u>9,377</u>
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		12,141	1,185,161	12,012	11,153
COMMITMENTS AND CONTINGENCIES	26	<u>-</u>	<u>200,182</u>	<u>-</u>	<u>-</u>

The accompanying notes are an integral part of these balance sheets.

INCOME STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER, 2000**

	Note	Group		Company	
		2000 RM'000	1999 RM'000	2000 RM'000	1999 RM'000
Interest income	18	105	162,792	105	129
Interest expense	19	-	(104,499)	-	-
Net interest income		105	58,293	105	129
Loan provision	20	-	(86,678)	-	-
		105	(28,385)	105	129
Non-interest income	21	9,636	2,299	9,636	696
Overhead expenses	22	(10,965)	(80,369)	(10,003)	(36,160)
Net realisation of accumulated losses arising from deconsolidation of subsidiaries		346,880	-	-	-
Profit/(loss) before taxation		345,656	(106,455)	(262)	(35,335)
Taxation	24	-	(52)	-	-
Profit/(loss) for the year		345,656	(106,507)	(262)	(35,335)
Earnings/(loss) per share (sen)	25	205	(63)		

The accompanying notes are an integral part of these statements.

STATEMENTS OF CHANGES IN EQUITY**FOR THE YEAR ENDED 31 DECEMBER, 2000**

	<----- Reserves ----->			
	<u>Non-distributable</u>			
	<u>Share capital</u>	<u>Share premium</u>	<u>Accumulated losses</u>	<u>Total</u>
	RM'000	RM'000	RM'000	RM'000
<u>Group</u>				
At 1.1.1999	168,341	317,358	(715,869)	(230,170)
Net loss for the year	-	-	(106,507)	(106,507)
At 31.12.1999	168,341	317,358	(822,376)	(336,677)
Net profit for the year	-	-	345,656	345,656
At 31.12.2000	<u>168,341</u>	<u>317,358</u>	<u>(476,720)</u>	<u>8,979</u>
<u>Company</u>				
At 1.1.1999	168,341	317,358	(440,987)	44,712
Net loss for the year	-	-	(35,335)	(35,335)
At 31.12.1999	168,341	317,358	(476,322)	9,377
Net loss for the year	-	-	(262)	(262)
At 31.12.2000	<u>168,341</u>	<u>317,358</u>	<u>(476,584)</u>	<u>9,115</u>

The accompanying notes are an integral part of these statements.

CONSOLIDATED CASH FLOW STATEMENT**FOR THE YEAR ENDED 31 DECEMBER, 2000**

	<u>2000</u>	<u>1999</u>
	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(loss) before taxation	345,656	(106,455)
Adjustments for:		
Property, plant and equipment written off	-	315
Intangible assets written off	1,203	-
Amortisation of premium less accretion of discounts	-	1,650
Loan and advances provision	-	86,678
Provision for doubtful debts	2,764	50,942
Net interest suspended	-	43,806
Dividend income	-	(221)
Interest income	(105)	(208,248)
Interest expense	140	104,682
Depreciation	915	4,523
Write back of provision for diminution in value of quoted shares	-	(630)
Write back of provision for diminution in value of dealing securities	(5,373)	(3,142)
Write back of provision for doubtful debts for advances paid for proposed acquisitions	(7,936)	-
Provision for diminution in value of investments	1,500	-
Loss from dealing securities	3,725	2,645
Gain on disposal of property, plant and equipment	(52)	-
Net realisation of accumulated losses arising from deconsolidation of subsidiaries*	(346,880)	-
Provision for commitments and contingencies	1,974	565
Operating losses before changes in working capital	(2,469)	(22,890)
Decrease/(increase) in operating assets:		
Loans and advances	-	447,881
Statutory deposit with Bank Negara Malaysia	-	19,870
Other assets	338	(27,932)
Intangible assets	-	(69)
Increase/(decrease) in operating liabilities:		
Deposits from customers	-	(368,748)
Deposits and placements of banks and other financial institutions	-	(260,786)
Other liabilities	(851)	37,110
Taxation paid	-	(9,436)
Interest paid	(140)	(104,682)
Net cash used in operating activities	(3,122)	(289,682)

CONSOLIDATED CASH FLOW STATEMENT**FOR THE YEAR ENDED 31 DECEMBER, 2000**

	<u>2000</u> RM'000	<u>1999</u> RM'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividend received	-	221
Interest received	14	162,671
Net proceeds from disposal of dealing and investment securities	3,136	146,249
Purchase of property, plant and equipment	(5)	(3)
Proceeds from disposal of property, plant and equipment	120	-
Net cash generated from investing activities	<u>3,265</u>	<u>309,138</u>
CASH FLOW FROM FINANCING ACTIVITY		
Repurchase of bonds	-	(42)
NET INCREASE IN CASH AND CASH EQUIVALENTS	143	19,414
NET CASH MOVEMENT ARISING FROM DECONSOLIDATION OF SUBSIDIARIES*	(35,618)	-
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	<u>35,975</u>	<u>16,561</u>
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	<u><u>500</u></u>	<u><u>35,975</u></u>
Cash and cash equivalents comprise:		
Cash and bank balances	300	35,975
Short term deposits with licensed bank	200	-
	<u>500</u>	<u>35,975</u>

* Analysis of deconsolidation of subsidiaries:

	KBB Group RM'000
Cash and bank balances	35,618
Investment securities	73,160
Loans, advances and financing	973,836
Other assets	19,731
Statutory deposits with Bank Negara Malaysia	63,600
Property, plant and equipment	6,974
Deposits from customers	(166,738)
Deposits and placements of banks and other financial institutions	(1,297,790)
Other liabilities	(55,271)
Net liabilities	(346,880)
Net realisation of accumulated losses arising from deconsolidation	<u>346,880</u>
	-
Less: Surplus in cash and cash equivalents of KBB Group	<u>35,618</u>
Net cash movement arising from deconsolidation	<u><u>(35,618)</u></u>

The accompanying notes are an integral part of this statement.

CASH FLOW STATEMENT**FOR THE YEAR ENDED 31 DECEMBER, 2000**

	<u>2000</u> RM'000	<u>1999</u> RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before taxation	(262)	(35,335)
Adjustment for:	(105)	(129)
Provision for doubtful debts	3,045	30,064
Interest income		
Interest expense	132	104
Dividend income	-	(39)
Depreciation	873	1,113
Write back of provision for diminution in value of dealing securities	(5,373)	(3,142)
Write back of provision for doubtful debts for advances paid for proposed acquisitions	(7,936)	-
Loss from dealing securities	3,725	2,645
Provision for diminution in value of investment in subsidiaries	1,541	959
Provision for commitments and contingencies	1,974	-
Gain on disposal of property, plant and equipment	(52)	-
Operating loss before working capital changes	<u>(2,438)</u>	<u>(3,760)</u>
Decrease in other assets	336	485
Increase in intercompany balances	(65)	195
Decrease in other liabilities	(825)	(346)
Cash used in operations	<u>(2,992)</u>	<u>(3,426)</u>
Interest paid	(132)	(104)
Net cash used in operating activities	<u>(3,124)</u>	<u>(3,530)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	14	8
Dividend received	-	39
Net proceed from disposal of securities	3,137	1,485
Proceeds from disposal of property, plant and equipment	120	-
Purchase of property, plant and equipment	(5)	(3)
Net cash generated from investing activities	<u>3,266</u>	<u>1,529</u>
CASH FLOW FROM FINANCING ACTIVITY		
Repurchase of bonds	<u>-</u>	<u>(42)</u>

CASH FLOW STATEMENT**FOR THE YEAR ENDED 31 DECEMBER, 2000**

	<u>2000</u> RM'000	<u>1999</u> RM'000
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	142	(2,043)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	341	2,384
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	<u>483</u>	<u>341</u>
Cash and cash equivalents comprise:		
Cash and bank balances	283	341
Short term deposits with licensed bank	200	-
	<u>483</u>	<u>341</u>

The accompanying notes are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER, 2000

1. PRINCIPAL ACTIVITIES AND GENERAL INFORMATION

The principal activities of the Company are those of investment holding, provision of management and administrative services and dealing in securities.

The principal activities of the subsidiaries are described in Note 9.

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

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the Main Board of the Kuala Lumpur Stock Exchange. The registered office of the Company is located at 20th Floor, East Wing, Plaza Permata, No. 6, Jalan Kampar, Off Jalan Tun Razak, 50400 Kuala Lumpur.

The number of employees in the Group and the Company at the end of the year were 16 (1999 : 254) and 16 (1999 : 22) respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The financial statements of the Group and the Company have been prepared under the historical cost convention unless otherwise indicated in the accounting policies below and comply with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia.

The finance subsidiary's financial statements in the previous financial year was prepared in accordance with the Banking and Financial Institutions Act, 1989 with such modifications and exceptions as determined by Bank Negara Malaysia. The financial statements in the previous financial year incorporate activities relating to Islamic Banking Scheme ("SPI") which have been undertaken by the finance subsidiary. SPI refers generally to the acceptance of deposits and granting of financing under the Syariah principles.

(b) Basis of Consolidation

Subsidiaries are those companies which the Group has power to exercise control over the financial and operating policies so as to obtain benefits therefrom. Companies acquired or disposed are included in the consolidated financial statements from the date of acquisition or to the date of disposal. Subsidiaries are consolidated using the acquisition method of accounting.

The consolidated financial statements include the financial statements of the Company and all its subsidiaries except for non-consolidated subsidiary namely Kewangan Bersatu Berhad and its subsidiaries, KBB Nominees (Tempatan) Sdn. Bhd. and KBB Properties Sdn. Bhd. The reasons for the non-consolidation are disclosed in Note 27(a).

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER, 2000

Intragroup transactions, balances and resulting unrealised gains are eliminated on consolidation and the consolidated financial statements reflect external transactions only. Unrealised losses are eliminated on consolidation unless costs cannot be recovered.

The difference between the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition is included in the consolidated balance sheet as goodwill or reserve arising on consolidation. Goodwill on consolidation is reviewed at each balance sheet date and will be written down for impairment where it is considered necessary.

The gain or loss on disposal of a subsidiary is the difference between net disposal proceeds and the Group's share of its net assets together with any unamortised balance of goodwill which were not previously recognised in the consolidated income statement.

(c) Investments

Investments in subsidiaries and other long term investments are stated at cost less provision for any permanent diminution in value. Such provision is made when there is a decline other than temporary in the value of investments and is recognised as an expense in the period in which the decline occurred. On disposal of an investment, the difference between net disposal proceeds and its carrying amount is charged or credited to the income statement.

(d) Revenue Recognition

(i) Interest income is recognised on an accrual basis. In respect of the finance subsidiary in the previous financial year, interest was accrued using the following basis:

- (1) Interest income on hire purchase, block discounting and leasing transactions were recognised on the "Rule of 78" method.
- (2) Interest income on housing and term loans was recognised by reference to rest periods, which are either monthly or yearly.

Where an account is classified as non-performing, interest was suspended and clawed back to day one until it was realised on a cash basis. Customers' financial statements were classified as non-performing where repayments are in arrears for more than six months for loan, hire purchase account, block discounting, leasing and advances. The policy on suspension of interest was in conformity with BNM's Guidelines on the classification of non-performing loans, and provision for substandard, bad and doubtful debts, BNM/GP3.

(ii) Loan arrangement fees and commissions were recognised as income when all conditions precedent are fulfilled.