



RHB SAKURA MERCHANT BANKERS BERHAD



Creative powers
never cease
to impress one's
imagination



Through them, the simple fusion of vibrant colours that are symmetrically imprinted become a butterfly motif and an art piece.

RHB assimilates such creativity in its business environment to enhance and enrich the economy through the myriad of innovative products and services that it consistently provides.

RHB will continue to impress one's imagination by nurturing personalised relationships that transcend borders in order to migrate towards higher value-added business.

www.rhb.com.my

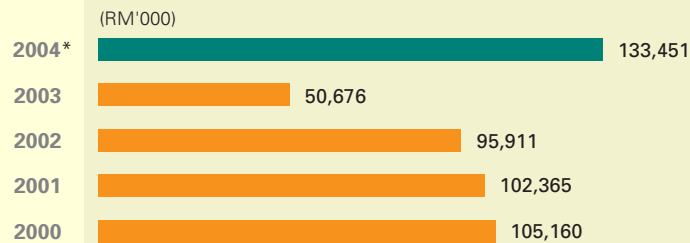
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Financial highlights

profit before taxation



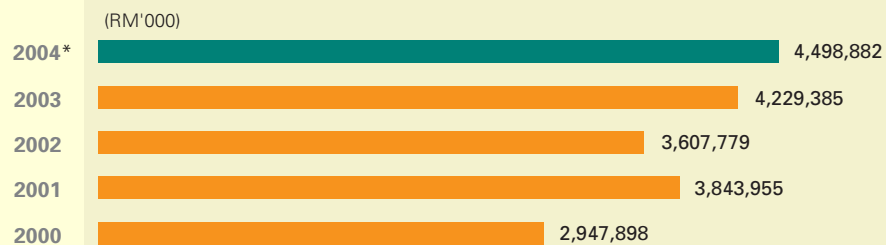
share capital



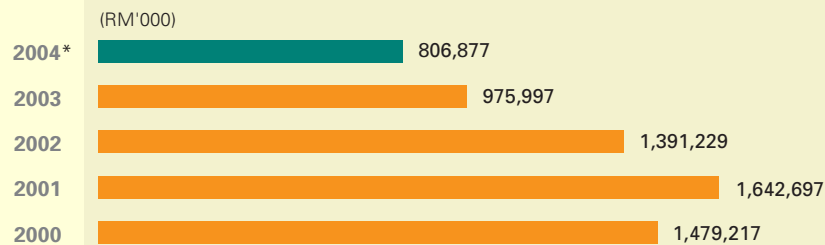
shareholder's equity



total assets



loans & advances



total deposits



* The Bank changed its financial year end from 30 June to 31 December with effect from the financial period ended 31 December 2004 and accordingly, the results for that financial period are for eighteen months.

Financial highlights

	2004* RM'000	2003 RM '000	2002 RM '000	2001 RM '000	2000 RM '000
RESULTS					
Profit before taxation	133,451	50,676	95,911	102,365	105,160
Profit after taxation and minority interests	98,270	35,752	67,785	73,580	71,957
Net dividends	97,530	48,765	30,478	30,478	30,478
BALANCE SHEETS					
Share capital	338,646	338,646	338,646	338,646	338,646
Shareholders' equity	827,853	753,890	760,805	723,498	680,396
Total assets	4,498,882	4,229,385	3,607,779	3,843,955	2,947,898
Loans and advances	806,877	975,997	1,391,229	1,642,697	1,479,217
Total deposits	2,513,219	2,819,588	2,266,856	2,684,851	2,084,528
RATIOS					
Earnings per share (sen)	29.0	10.6	20.0	21.7	21.2
Gross dividend per share (sen)	40.0	20.0	12.5	12.5	12.5
Net tangible assets per share (sen)	193.4	171.6	224.7	213.6	200.9
Return on shareholders' equity (%)**	8.3	4.7	9.1	10.5	10.9

* The Bank changed its financial year end from 30 June to 31 December with effect from the financial period ended 31 December 2004 and accordingly, the results for that financial period are for eighteen months.

** Annualised

Certain comparative figures have been adjusted for the effects of prior year adjustments.

Corporate information as at 15 April 2005

BOARD OF DIRECTORS

Abdullah Mat Noh
Non-Independent Non-Executive Chairman

Dato Sri Sulaiman Abdul Rahman Taib
Non-Independent Non-Executive Director

Akira Miyama
Non-Independent Non-Executive Director

Vaseehar Hassan Abdul Razack
Non-Independent Non-Executive Director

Johari Abdul Muid
Non-Independent Non-Executive Director

Dato' Mohamed Khadar Merican
Independent Non-Executive Director

Lew Foon Keong
Independent Non-Executive Director

SECRETARIES

Azman Shah Md Yaman

Norazzah Sulaiman

AUDIT COMMITTEE

Dato' Mohamed Khadar Merican
Chairman

Lew Foon Keong

Vaseehar Hassan Abdul Razack

EXECUTIVE COMMITTEE

Dato Sri Sulaiman Abdul Rahman Taib
Chairman

Abdullah Mat Noh

Akira Miyama

Vaseehar Hassan Abdul Razack

GROUP RISK MANAGEMENT COMMITTEE

Dato' Mohamed Khadar Merican
Chairman

Abdullah Mat Noh

Vaseehar Hassan Abdul Razack

REMUNERATION AND HUMAN RESOURCE COMMITTEE

Dato' Mohamed Khadar Merican
Chairman

Abdullah Mat Noh

Dato Sri Sulaiman Abdul Rahman Taib

Vaseehar Hassan Abdul Razack

NOMINATING COMMITTEE

Dato' Mohamed Khadar Merican
Chairman

Abdullah Mat Noh

Dato Sri Sulaiman Abdul Rahman Taib

Vaseehar Hassan Abdul Razack

Akira Miyama

SENIOR MANAGEMENT

Jamelah Jamaluddin
Chief Operating Officer

TREASURY

Aza Hamzah
Head of Department / First Senior Vice President

Hamdan Abd Manaf
Senior Vice President

Angie Ng Kat Wei
Senior Vice President

CORPORATE FINANCE

Tengku Nurul Azian Tengku Shahrman
Head of Department / Senior Vice President

Kenneth Chow Kah Sung
Senior Vice President

Lee Sum Moi
Senior Vice President

CORPORATE BANKING

Tan Kim Seng
Head of Department / Senior Vice President

CREDIT ADMINISTRATION & REHABILITATION

Tan Chee Hong
Head of Department / Senior Vice President

DEBT CAPITAL MARKET

Peter Choong Kia Woh
Head of Department / Senior Vice President

ISLAMIC FINANCE

Mashitah Hj Osman
Head of Department / Senior Vice President

Corporate information as at 15 April 2005

PRIVATE EQUITY

Mohamed Jamil Omar
Head of Department / Senior Vice President

INVESTMENT BANKING GROUP

Jamelah Jamaluddin
Head of Department

GROUP RISK MANAGEMENT

Patrick Ho Kwong Hoong
Head of Department / Senior Vice President

FINANCE & GENERAL SERVICES

Rafiza Ghazali
Head of Department / Vice President

HUMAN RESOURCES & ADMINISTRATION

Jamilah Abdul Sallam
Head of Department / Senior Vice President

GROUP INTERNAL AUDIT

Lam Jin Fatt
Head of Department / Senior Vice President

COMPLIANCE & REVIEW

Selva Durairajah
Assistant Vice President

MANAGEMENT OF SUBSIDIARIES

RHB Unit Trust Management Berhad

Michael Tan Lib Chau
Chief Executive Officer / Director

RHB Securities Sdn Bhd

Dr Zaha Rina Zahari
Chief Executive Officer / Director

RHB Asset Management Sdn Bhd

Hasni bin Harun
Managing Director

RHB Futures Sdn Bhd

Han Ai Le
Executive Director

RHB Research Institute Sdn Bhd

Lim Chee Sing
Executive Director

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COMPANY NO.

19663-P

AUDITORS

PricewaterhouseCoopers
Chartered Accountants
11th Floor, Wisma Sime Darby
Jalan Raja Laut
50350 Kuala Lumpur
Malaysia

Profile of the board of directors



ENCIK ABDULLAH MAT NOH

(64 years of age – Malaysian) **Non-Independent Non-Executive Chairman**

Encik Abdullah Mat Noh (“Encik Abdullah”) was formerly the President/Chief Executive Officer of Bank Utama (Malaysia) Berhad. Prior to joining Bank Utama in April 1999, he was attached to Standard Chartered Bank Malaysia Berhad for 36 years where his last position was the Senior Manager of its East Malaysia operations. He is a Member of the Chartered Institute of Bankers and Chartered Institute of Secretaries.

Encik Abdullah was appointed as the Chairman of RHB Sakura on 14 December 2004 representing RHB Capital Berhad, the holding company of RHB Sakura. He also serves as a Member of Executive Committee, Nominating Committee, Remuneration and Human Resource Committee and Group Risk Management Committee of RHB Sakura. He is also the Deputy Chairman of RHB Bank Berhad.



YBHG DATO SRI SULAIMAN ABDUL RAHMAN TAIB

(36 years of age – Malaysian) **Non-Independent Non-Executive Director**

YBhg Dato Sri Sulaiman Abdul Rahman Taib (“YBhg Dato Sri Sulaiman”) holds a Bachelor of Science degree in Business Administration from the University of San Francisco, USA. He was appointed as the Non-Independent Non-Executive Director of RHB Sakura on 7 May 2003 representing RHB Capital Berhad, the holding company of RHB Sakura.

YBhg Dato Sri Sulaiman is also currently the Group Chairman of Cahya Mata Sarawak Berhad (“CMSB”), a conglomerate listed on the Main Board of Bursa Malaysia Securities Berhad with financial services and infrastructure development as its main business. He was appointed as Group Chairman of CMSB in May 2002, having been on the Board of CMSB since January 1995. He was Acting Group Chief Executive Officer for the conglomerate in 2001, before assuming the position as Group Deputy Chairman from January till May 2002.

YBhg Dato Sri Sulaiman also serves as a Chairman of Executive Committee and a Member of the Nominating Committee and Remuneration and Human Resource Committee of RHB Sakura. His other directorships in public companies include Rashid Hussain Berhad (Executive Chairman), RHB Capital Berhad (Executive Chairman), RHB Bank Berhad, Utama Banking Group Berhad, Utama Merchant Bank Berhad, K&N Kenanga Holdings Berhad and CMS Works International Ltd.

Profile of the board of directors



MR AKIRA MIYAMA

(54 years of age – Japanese) **Non-Independent Non-Executive Director**

Mr Akira Miyama (“Mr Miyama”) was appointed as a Director of RHB Sakura on 25 September 2000. He also serves as a Member of the Executive Committee and Nominating Committee of RHB Sakura. His other directorships in public companies include RHB Capital Berhad, RHB Bank Berhad and The Japanese Chamber of Trade and Industry, Malaysia.

Mr Miyama is currently the Executive Director of RHB Bank Berhad responsible for its Japanese Desk. He started his career in London as Senior Vice President of the Syndicated Loan Division of The Sakura Bank [now known as Sumitomo Mitsui Banking Corporation (SMBC)] and thereafter as a Board Member of Central European International Bank in Budapest, Hungary. He held various positions including Chief Dealer of Capital Market, Head of International Financial Institutions Division and Secretary to Chairman of SMBC, Tokyo. Since 1998, he has been the Country Head of SMBC, Malaysia. He holds a Bachelor of Laws degree from Keio University, Tokyo.



ENCIK VASEEHAR HASSAN ABDUL RAZACK

(54 years of age – Malaysian) **Non-Independent Non-Executive Director**

Encik Vaseehar Hassan Abdul Razack (“Encik Vaseehar Hassan”) a Non-Independent Non-Executive Director of RHB Sakura was appointed on 7 May 2003 representing RHB Capital Berhad, the holding company of RHB Sakura. He has 25 years of experience in financial sector. He also serves as a Member of Executive Committee, Audit Committee, Nominating Committee, Group Risk Management Committee and Remuneration and Human Resource Committee of RHB Sakura.

Encik Vaseehar Hassan who has a Bachelor Degree in Accounting, Masters in Business Administration as well as Specialised Masters in Consulting and Coaching is currently pursuing a Doctoral Research at the Vrije Universiteit, Amsterdam.

In addition to being the Chief Executive and Director of the Malaysian subsidiary of Dallah AlBaraka Group of Saudi Arabia, Encik Vaseehar Hassan’s current directorships in public companies include Rashid Hussain Berhad, RHB Capital Berhad, RHB Bank Berhad, RHB Insurance Berhad, Utama Banking Group Berhad, CMS Trust Management Berhad and Ingress Corporation Berhad.

Profile of the board of directors



YBHG DATO' MOHAMED KHADAR MERICAN
(48 years of age – Malaysian) **Independent Non-Executive Director**

YBhg Dato' Mohamed Khadar Merican ("YBhg Dato' Khadar") was appointed as an Independent Non-Executive Director of RHB Sakura on 4 December 2003. YBhg Dato' Khadar has been the Chief Executive Officer of MKM Resources Sdn Bhd which provides business advisory and consulting services since May 2003. He also serves as Chairman of Audit Committee, Nominating Committee, Group Risk Management Committee and Remuneration and Human Resource Committee of RHB Sakura.

His other directorships in public companies include Rashid Hussain Berhad, RHB Insurance Berhad and Astro All Asia Networks Plc (AAAN). He is the Chairman of the Nomination and Corporate Governance Committee of AAAN and a member of its Audit Committee and Remuneration Committee.

YBhg Dato' Khadar has had over 20 years financial and general management experience in the commercial environment. He is a Member of the Institute of Chartered Accountants in England and Wales and is also a Member of the Malaysian Institute of Accountants. He was a past President of Malaysian Association of Hotel Owners.



MR LEW FOON KEONG
(47 years of age – Malaysian) **Independent Non-Executive Director**

Mr Lew Foon Keong ("Mr Lew") was appointed an Independent Non-Executive Director of RHB Sakura on 15 March 2004. He also serves as a Member of Audit Committee of RHB Sakura. He has over 20 years of investment banking experience. He started his career in 1983 in the City of London with Wardley James Capel (then the merchant banking and stockbroking operations of the HongKong Bank Group) in London and subsequently worked for British merchant bank, Robert Fleming and Credit Commercial de France before returning to Asia in 1990 to manage the regional corporate finance business for HG Asia Securities. In 1997, following the sale of HG Asia to ABN Amro Bank, Mr Lew was appointed Managing Director of ABN Amro's merchant banking business in Singapore. In late 1999, Mr Lew founded Equator Capital Pte Limited, an investment management and advisory company which currently active in equities options and derivatives trading apart from venture capital investments. Over the years, he has been involved in a wide range of investment banking work, including global Initial Public Offerings, equities placements, corporate takeovers and mergers, debt/equity restructuring and venture capital financing. He holds a BA (Hons) in Finance and Accounting from the University of East London and a MSc (MBA) in Management Science from Imperial College, University of London.

Mr Lew also sits on the Boards of a number of private companies involved in real estate investments and development, food and beverage retail and venture capital.

Profile of the board of directors



ENCIK JOHARI BIN ABDUL MUID

(47 years of age – Malaysian) **Non-Independent Non-Executive Director**

Encik Johari bin Abdul Muid (“Encik Johari”) was appointed as a Non-Independent Non-Executive Director of RHB Sakura on 1 April 2005 representing RHB Capital Berhad, the holding company of RHB Sakura. He is currently the Chief Investment Officer (Equity) of Employees Provident Fund (EPF). He is an Associate Member of the Chartered Institute of Management Accountants, United Kingdom.

Encik Johari has more than 20 years experience in the financial sector, starting his career as a Money Market Dealer with Asian International Merchant Bankers Berhad in 1981. From 1983 to 1994, he was with Commerce International Merchant Bankers Berhad, working in the Treasury Division and was made the Head of Treasury in 1988. He became the Senior Vice President of Institutional Sales in 1995, within a year of joining CIMB Securities Sdn Bhd (“CIMB Securities”), where he was responsible in setting up the Institutional Sales Team of CIMB Securities. Prior to joining EPF in August 2004, he was the Chief Investment Officer of ValueCap Sdn Bhd which he joined in February 2003. His other directorships in public companies include Rashid Hussain Berhad, RHB Capital Berhad and RHB Bank Berhad.

Chairman's report 2004



It gives me great pleasure to present on behalf of the Board of Directors the 2004 Annual Report and Audited Financial Statements of RHB Sakura Merchant Bankers Berhad ("RHB Sakura").

RHB Sakura changed its financial year end from 30 June to 31 December in 2004 to be co-terminous with that of its ultimate holding company, Rashid Hussain Berhad. As such the reporting period covers 18 months from 1 July 2003 to 31 December 2004.

FINANCIAL HIGHLIGHTS

I am pleased to report that RHB Sakura not only remained profitable but was able to improve on its performance despite a difficult operating environment marked by intense competition amidst weakening conditions in both the equities as well as debt capital markets.

On a consolidated basis, RHB Sakura registered a pretax profit of RM133.5 million for the 18-month period, an increase of RM82.8 million compared to the RM50.7 million pretax profit achieved for the year ended 30 June 2003. Even on an annualised basis, it represents a 76% improvement over the 2003 financial year. Consequently, total assets on a group basis increased to RM4.5 billion from RM4.2 billion as at the end of the last financial year, whilst the shareholders' equity jumped by RM74.0 million to RM827.9 million.

The Bank contributed a pretax profit of RM94.4 million to the Group for the 18-month period ended 31 December 2004.

For the 12 months ended 30 June 2004, the Bank registered a RM25.6 million pretax profit compared to RM89.7 million of pretax profit achieved for the 12 months ended 30 June 2003. Reflected by an increased fee based and trading activities during the last six months of the 2004 financial period, the Bank contributed a further RM68.8 million of pretax profit to make up a total of RM94.4 million of pretax profit for the whole 18-month period ended 31 December 2004.

The Bank's interest income increased by RM80.4 million to RM218.9 million for the 18-month period under review compared to RM138.5 million for 12 months ended 30 June 2003, out of which RM5.8 million increase occurred during the first 12 months and additional of RM74.6 million contributed during the last six months of the 18-month period under review.

The Bank's non-interest income on the other hand was largely affected by the adverse Bond market at the beginning of the reporting period resulting in lower trading income for the Bank. Non-interest income dropped by RM120.0 million to RM21.1 million for the 12 months ended 30 June 2004 compared to RM141.1 million for 12 months ended 30 June 2003. To minimize the impact of the adverse market conditions, the Bank stepped up origination activities during the period between January to June 2004 which later contributed RM48.1 million of non-interest income during the last six months of the 18-month period under review. Total non-interest income for the 18-month period under review was RM69.2 million.

Diligent recovery efforts also paid off with RHB Sakura writing back RM23.6 million in loan loss and other provisions during the period under review as against a provision of RM53.7 million during the 2003 financial year. It is the policy of the Bank to provide general provision for loans and advances at 1.85% as at 31 December 2004, above the minimum requirement of 1.5% set by Bank Negara Malaysia ("BNM").

The future will be challenging and we remain positive as the market shows sign of a gradual brightening.

A substantial part of the improved performance was partly attributable by the stronger equity market in the first half of the 2004 calendar year which had a positive effect on the financial performance of one of the key subsidiaries of RHB Sakura, namely RHB Securities Sdn Bhd ("RHB Securities"). It turned around with a pre-tax profit of RM43.2 million as against a loss of RM31.1 million in 2003. Two other main subsidiaries, RHB Asset Management Sdn Bhd ("RHB Asset Management") and RHB Unit Trust Management Berhad ("RHB Unit Trust") also registered improvements in profitability with increased pre-tax profits of RM7.0 million and RM8.6 million respectively for the 18 months period under review. Overall, the improved performance had a very positive effect on the Risk-Weighted Capital Adequacy Ratio which rose from 19.45% to 21.85% as at the end of 2004.

DIVIDENDS

The Bank paid a final dividend of 10.0 sen per share less 28.0% tax for the financial year 2003 amounting to RM24.4 million on 30 September 2003. The Board of Directors has recommended a final dividend of 40.0 sen per share (totaling 40.0 sen per share for the financial period under review) less 28.0% tax amounting to RM97.5 million in respect of the financial period just ended on the fully issued and paid up ordinary shares of the Bank of RM338.6 million.

REVIEW OF OPERATIONS

Equities Market

RHB Sakura experienced continued growth in the provision of corporate finance and advisory services in the 18 months period ended 31 December 2004. The equity market environment remained robust for most of the year, augmented by numerous initial public offerings and fund raisings.

Initial Public Offerings

RHB Sakura ended the reporting period successfully as the Financial Adviser, Joint Bookrunner and Joint Managing Underwriter for AirAsia Berhad, one of the largest Initial Public Offerings in Malaysia in 2004, while offering equity market solutions to several other high-profile corporate finance transactions, hence maintaining RHB Sakura's position as one of the leading merchant banks in Malaysia.

Fund Raising

Capital raising exercises and initial public offerings worth noting which RHB Sakura advised or managed included:

- Khazanah Nasional Berhad's offering of Covered Warrants Tranche I raising a total of RM201.0 million;
- Khazanah Nasional Berhad's offering of Covered Warrants Tranche II raising a total of RM438.0 million;
- AirAsia Berhad's Initial Public Offering raising a total of RM863.0 million;
- YSP Southeast Asia Holding Berhad's Initial Public Offering raising a total of RM35.0 million;
- KBB Resources Berhad's Initial Public Offering raising a total of RM15 million;
- Perisai Petroleum Teknologi Berhad's Initial Public Offering raising a total of RM17.0 million;
- Tricubes Berhad's Initial Public Offering raising a total of RM15.0 million;
- Efficient E-Solutions Berhad's Initial Public Offering raising a total of RM19.0 million;
- Malaysia Pacific Land Berhad's two-call rights issue raising a total of RM30.0 million;
- Pelangi Berhad's rights issue raising a total of RM121.0 million; and
- OCB Berhad's rights issue raising a total of RM37.0 million.



To continuously seek opportunities
to gain market share





Mergers & Acquisitions

In the area of acquisitions and divestitures, RHB Sakura advised or managed a number of sizeable transactions which included:

- Koperasi Angkatan Tentera's disposal of 100% interest in Malaysian Nippon Insurance Berhad with a transactional value of RM90.0 million;
- Utama Banking Group Berhad's disposal of 85.1% equity interest in Utama Merchant Bank Berhad with a transactional value of RM123.0 million;
- Encorp Berhad's acquisition of property assets and disposal of 51.0% equity interest in Great Wall Plastic Industries Berhad with a transactional value of RM91.0 million;
- Berjaya Land Berhad's acquisition of Selangor Turf Club with a transactional value of RM640.0 million;
- Berjaya Group Berhad's disposal of freehold land located in Sungai Tinggi and to build the new turf club thereon with a transactional value of RM605.0 million; and
- Amsteel Corporation Berhad's disposal 11.0% equity interest in SCB Development Berhad shares with a transactional value of RM92.0 million.

During the financial period under review, RHB Sakura was also active in underwriting, with notable undertakings including as Joint Lead Underwriter for the retail and institutional offering of Astro-All Asia Networks PLC with a combined fund raising size of RM1,900 million.

Stockbroking

The stockbroking business of RHB Sakura is undertaken via wholly-owned subsidiary RHB Securities which recorded a pretax profit of RM43.2 million for the 18 months ended 31 December 2004, a tremendous improvement from a loss of RM31.1 million for the year ended 30 June 2003. Both commission income and interest income increased significantly compared to the previous period, as RHB Securities benefited from the improvement in the investors sentiment and greater trading volumes, as well as its initiative to recommence share margin financing business to provide a more comprehensive array of products and services to its clients.

While the RHB Securities' revenue has increased significantly, overheads were maintained at similar levels to the previous year, as the result of the management efforts to tightly control costs. Perpetuating a long history of winning awards, in the recently held Asiamoney Annual Awards 2005, RHB Securities received the Best Local Brokerage from the Asiamoney in recognition. RHB Securities has a record of winning in this category on numerous occasions over the past 15 years.

Fund Management

The asset management business of RHB Sakura is undertaken via a wholly-owned subsidiary, RHB Asset Management which is recognized as one of the top private asset managers domestically with a total of RM3.7 billion under management as at 31 December 2004.

RHB Asset Management provides fund management services specialising in equities to fixed income securities for a diverse range of clients – from institutional and individual funds. Funds under management comprises of both Conventional accounts totaling RM3.3 billion to Syariah principled accounts totaling RM0.4 billion.

RHB Asset Management achieved a profit before taxation of RM7.0 million during the financial period under review compared to RM4.3 million recorded the previous year. The increase in profit was due to additional inflow of funds from new and existing clients and also from the appreciation of share prices in the Bursa Malaysia.

Unit Trust

The unit trust management business of RHB Sakura is undertaken via a wholly-owned subsidiary, RHB Unit Trust. As at the close of the 18-month financial period ended 31 December 2004, the total fund size under management reached RM1.46 billion compared to RM1.37 billion in the previous financial year. RHB Unit Trust registered a pretax profit of RM8.6 million for the 18-month period under review while sales of unit trust funds reached RM950 million. The fund size has moved up from RM850 million to more than RM1.46 billion in just two years.

Chairman's report 2004



RHB Unit Trust launched two funds this year, the RHB Islamic Growth Fund and the RHB Malaysia Recovery Fund (a relaunch) which roped in about RM150 million worth of investable funds. The latest fund launched recently in February 2005 was the RHB GoldenLife Funds, a retirement-purpose fund which aims to provide investors with a steady income stream upon their retirement. During this financial period, the RHB Technology and the RHB Malaysia Recovery Funds won the best performing fund awards for its one year and three years performance respectively at the Edge-Lipper Malaysian Unit Trust Funds Awards and the Standard & Poors Malaysian Unit Trust Funds Awards 2003.

DEBT MARKETS

The Ringgit private debt securities ("PDS") market was relatively quieter in 2004 compared to the year before. Corporate debt papers issued at RM28.3 billion were 35.0% lower than the total issued of RM43.7 billion in 2003. As a result, the amount of PDS outstanding in the primary market at the end of 2004 declined by 7.0% to RM117.8 billion compared to RM126.2 billion in 2003. Chief amongst the reasons contributing to the less active PDS market in 2004 were the Government's cutback in largescale infrastructure projects and a relatively more exciting equities market especially in the earlier part of the year. There was also a discernible shift by borrowers to the banking system which saw a 55.0% leapt in total loans disbursed. All these led to intense competition amongst market players in the pursuit of debt funding mandates.

Against such a backdrop, it is commendable that RHB Sakura was able to maintain its position as a dominant arranger of PDS in 2004 both in terms of value and number of transactions. On the Islamic front, we remained a market leader in the origination of debt issues structured innovatively under various Islamic financing concepts. Indeed, we garnered the Top Lead Manager 1990 – 2002 (Islamic Cumulative Issue Value) award from Rating Agency Malaysia Berhad as part the rating agency's annual League Awards in 2004 for top lead arrangers in the domestic market.

For the period under review, we led arranged six PDS issues with a combined value of RM4.75 billion, most notable of which was the RM3.4 billion Bai' Bithaman Ajil Islamic Debt Securities issuance for Kapar Energy Ventures Sdn Bhd to part-finance its cost of acquiring the Kapar Power Station from Tenaga Nasional Berhad. Apart from being the single largest bond issue in Malaysia in 2004, it was also the largest non-recourse IPP debt raising in Asia in 2004. In recognition thereof, the deal earned the prestigious award Bond Deal of the Year from Thomson Financial's Project Finance International.

Amongst the other deals was the RM425.0 million debt issue structured and arranged for Sarawak Specialist Hospital and Medical Centre Sdn Bhd which was the only debt issue structured under the Islamic principle of Istisna' in 2004 and second issue to be done so in Malaysia. Another Islamic issue arranged by us which deserves mention is the RM300 million Islamic Bai' Inah note issuance facility arranged for Esso Malaysia Berhad ('Esso'). Leveraging on the strength of Esso's financial standing, the facility is backed only partially by a standby swingline provided by the Bank thereby saving the client in terms of underwriting fees otherwise payable.

Going forward in 2005, the PDS market will remain a viable alternative for debt financing with issuers continuing to take advantage of the still-low interest rates to lock in funding costs amid the prospects of a possible rise in the immediate future and potential re-pegging of the Ringgit against the US dollar. Apart from this, the Malaysian bond market is expected to be supported by the still ample liquidity, benign inflationary pressure and healthy economic growth.

TREASURY AND FIXED INCOME

Throughout the financial year under review, BNM continued to adopt a soft and accommodative monetary policy. This had a positive effect on our fund-based operations and was instrumental in RHB Sakura generating a substantial increase in fund-based income primarily from its gapping portfolio and positive funding of its bond holdings.

To maintain position as a
leading financial institution



Chairman's report 2004



A turnaround in the US Treasuries market sparked a massive sell-down in the Malaysian bond market starting early July 2003, which set a bearish undertone and a tough trading environment. For the better part of the financial period under review, the market as a whole was predominantly influenced by fears of a rising interest rate scenario in the United States. This led to a significant ebb in buying and trading in the secondary market. Fortunately, sentiments improved markedly in the second half of 2004 with buying interest gradually returning to the market, boosted by a combination of soft and steady domestic interest rates and ample liquidity. This turnaround, albeit lately, enabled RHB Sakura to realise a trading profit of RM16.4 million from sales of its trading portfolio.

In the primary market, complementing our status as a dominant player in the PDS market, we took up as primary subscriber the entire RM70.0 million of medium term notes issued by Media Prima Berhad under a RM100.0 million CP/MTN Programme arranged by the Bank and the RM425.0 million Istisna bonds the Bank arranged for Sarawak Specialist Hospital Medical Center Bonds. We were also a key member of the consortium that led arranged and subscribed to the RM3.42 billion Bai' Bithaman Ajil bond issue arranged for Kapar Energy Ventures Sdn Bhd.

CORPORATE BANKING

The switch to the debt capital market for funding of large scale projects and refinancing by borrowers coupled with our intentional shift to lending to support the Bank's investment banking activities continue to reduce the scope within which the Bank can generate lending opportunities. Accordingly, during the financial period under review, most new lendings were extended to support the Bank's corporate finance and debt capital market related exercises which involved funding of a short term nature and resulted in pronounced swings in the Bank's level of loans and advances.

Premised on this strategy, RHB Sakura approved new credit facilities of a total of RM878.9 million during the 18-month period under review. This notwithstanding, the Bank experienced a further contraction in gross loans and advances by 18.5% from RM1.14 billion at the end of the last financial year to RM931.9 million as at end December 2004.

Diligent loan monitoring efforts to protect asset quality and debt restructuring enabled the Bank to not only contain the rise in non-performing loans ("NPLs") but also reduced the ratio of NPLs. As at end December 2004, NPLs were reduced to 21.3% on a net basis as against 33.7% as at end June 2003. This is all the more commendable when we consider that the reduction was achieved against a backdrop of a decreasing base in loans and advances. In terms of sectoral exposure, selective lending to broad properties and share financing sectors has kept the Bank within the limits set by BNM of 20.0% and 30.0% respectively. As at end December 2004, the Bank's exposure to these sectors were 11.9% and 23.5% respectively.

Going forward, the Bank will continue to focus and prioritise its lending towards supporting corporate finance and debt capital market related exercises undertaken by the Bank.

RISK MANAGEMENT

RHB Sakura continued with key initiatives to enhance its risk management capabilities. Amongst the initiatives are the following projects:

Group Basel 2 Gap Analysis Project

RHB Sakura has engaged external consultants to undertake a Basel 2 risk management Gap Analysis Project completed in February 2004, which included its subsidiaries. This initiative was aimed to prepare the Group for the changes and impacts arising from adopting Basel 2 requirements to:

- Assess the current state of risk management practices of the entire RHB Sakura Group;



- Establish the Basel 2 target state approach for credit, market and operational risk across the group and identify the gaps of the current state of risk management practices; and
- Develop an implementation roadmap for the group to address those gaps by end-2007.

The Group Risk Management Department (GRMD) has been tasked with the project to ensure that all recommended project initiatives are implemented in a timely manner and to ensure that the Group is able to meet BNM's implementation target date for the adoption of Basel 2.

Implementation of Group-Wide Basel 2 Project Workstream

An implementation roadmap was established to support the development of a group-wide risk management strategy to ensure that the Group's internal capabilities are as sound and robust as possible benchmarked against good practice standards. The Group has completed projects under the credit, market and operational risk workstreams as follows:

- **Credit Risk**
An internal credit rating system, CARES has been in use since 2002 and the credit risk projects have been built on the significant amount of work that has been invested in developing the system and the credit risk management framework of the Group. The Group has identified requirements that will assist in advancing the credit risk model and portfolio reporting tools adopted where enhancements includes data, system, costing and implementation requirements which have been addressed and approved by the Board. The Information Technology ("IT") division and GRMD are developing a fully functional module within CARES to operate as a central repository for the collection and storage of all credit data. The next step will be to develop a set of standards and benchmarks to be adopted for all credit risk modelling development, enhancement, monitoring and maintenance activities across the group level.

- **Market Risk**
The Bank has determined the level of sophistication of market risk models to be implemented and has set guidelines for model development to maintain consistency of quality across the group. The next focus for implementation is for risk metrics to be collected from a common basis and aggregated to provide a group level view of risk which includes reporting and systems to monitor and manage market risk at group level.
- **Operational Risk**
The Group has established a group-wide operational risk management (ORM) strategy, objectives, organisation structure, policy and guidelines. It is in the midst of establishing a group-wide and business-level definition and categorisation of operational risks and development of key risk indicators for each operational risk category and sub-category at both group- and business-level. This will provide the foundation for mapping and collecting data on loss events and self-assessment models in subsequent phases of the ORM implementation. Efforts are also underway to enhance the process by enabling monitoring and reporting to be carried out on-line which shall be developed in-house by the Group's IT division and GRMD.

Formalisation of Group Risk Management Committee ("GRMC")

The Board of Directors of RHB Sakura approved the establishment of the GRMC on 28 May 2004 following the transfer of RHB Securities and other securities-related businesses to the Group. The GRMC currently comprises 1 non-independent executive and 2 independent non-executive directors. The Committee is authorised by the Board to review and articulate the strategies and policies relating to the management of group-wide risk and ensure that risk policies and procedures are aligned to the business strategies and risk return directions of the Board. The Committee is also tasked to ensure that the above strategies and policies are properly implemented. The Board has delegated the day-to-day risk management function to the GRMD of the Group which in turn reports to the Asset and Liability Committee (ALCO), GRMC and Board.



To ensure consistent risk management standards and practices Group-wide





The consolidation of roles and responsibilities within a single GRMC is intended to achieve the following objectives:

- Streamlining and reducing the number of Risk Management Committees within the Group;
- Enabling more efficient and effective oversight on a group-wide basis;
- Enabling the gauging of risk and adequacy of risk management at group level;
- Ensuring consistent risk management standards and practices group-wide; and
- Enabling a co-ordinated process of measuring and managing risk on an integrated or enterprise-wide risk management framework.

Formalisation of Compliance and Review Department

Recognising the need for an independent compliance function, RHB Sakura in its strategic business plan has set-up a new support department, Compliance and Review (“CARE”) to undertake the role of independent compliance and credit review function. CARE is a critical component in the Bank’s overall corporate governance structure, integrating compliance into the Bank’s control and risk management framework and making the management of regulatory risk a part of effective overall compliance, including additional risk oversight on credit risk management.

Risk Management Policies and Procedures

The GRMC has been tasked with overall responsibility for reviewing and recommending to the Board of Directors approval of appropriate risk management policies and procedures to govern all risk taking activities within the Group. Frequent reviews and updates are performed to ensure that all documentation is current and relevant to prevailing economic conditions, regulations or the activities of the Group. The ownership of the risk management policies lies with the Group’s GRMD which is responsible for making sure that policy copies are updated to reflect all revisions.

Continued Development and Enhancement of Risk Model

RHB Sakura has successfully migrated to a new treasury system in July 2003, which incorporates a risk engine for computation of various risk measurements such as Value-at-Risk (VaR) for the purpose of measuring exposures to treasury activities and equity holdings. The Bank has engaged external consultants to validate the VaR model used to manage market risk completed in April 2004. Going forward, the Bank will need to have an integrated risk management function for the entire group to measure its total financial risk profile. To achieve this, the Bank has:

- i. developed an internal models transition plan to identify portfolios where VaR modelling is practical and identify portfolios that can benefit from mark-to-model methodologies; and
- ii. developed VaR methodology standards and models that are validated as laid out in the transition plan.

Implementation of Anti-Money Laundering Framework

RHB Sakura is committed to achieving a high level of integrity, ethical standards and professionalism in the conduct of business that conforms to Malaysia’s Anti-Money Laundering Act 2004 to prevent laundering of illegally obtained money through the Group. In this connection, RHB Sakura has established policies for anti-money laundering and anti terrorism covering customer identification, account opening, product profiling, record keeping and suspicious transaction reporting. All staffs are required to abide by the procedures and controls established by the Group. The exacting standards set for the behaviour of staff have been further reinforced with on-going training courses on internal controls, anti-money laundering and anti-fraud directed by the newly appointed compliance officer of the Group. Following guidelines on Know Your Customer Policy (BNM/GP9), RHB Sakura has also developed in-house an on-line web-based portal to enable sharing of customer contact information amongst the business units.



Market Risk Capital Adequacy Framework

RHB Sakura has implemented the framework on a trial basis beginning September 2004 where market risk exposures are fully incorporated into capital adequacy computation. The shift over to the new framework is scheduled for April 2005. The Bank has also submitted its trading book policy statement, policy on hedge transactions and policy and procedures on the valuation of trading book positions to BNM for its review and approval.

BOARD OF DIRECTORS

Several changes took place in the Board during the year under review.

Datuk Azlan Zainol resigned as the Chairman of the merchant bank in November 2004 and I am honoured to succeed him. Earlier in December 2003, Senator Dato' Taha Ariffin and Michael Andrew Hague also resigned from the Board. On behalf of the Board, I thank them for their services and contributions to the bank during their tenure with us and we wish them all the best in their future undertakings.

In their place I welcome Dato' Mohamed Khadar Merican, Lew Foon Keong and Johari Muid who were appointed to the Board in December 2003, March 2004 and March 2005 respectively.

THE YEAR AHEAD

The year 2005 will be a challenging one with intense competition arising from the entrance of new local and international players. Despite that, the Group remains positive on its plan to increase its fee and non-interest income activities amidst signs showing a gradual brightening of the market outlook.

APPRECIATION

The Group's achievements to-date would not have been possible without the dedication hard work and support of the management and staff. I wish to record the Board's appreciation for their contribution.

I also wish to thank our customers for their continued support and the respective government authorities and regulators for their cooperation and goodwill.

Finally I would also like to take this opportunity to thank my colleagues on the Board of Directors for their guidance and advice throughout the period.

Abdullah Mat Noh

Chairman
15 April 2005



To achieve a high level of integrity,
ethical standards and professionalism
in business operations

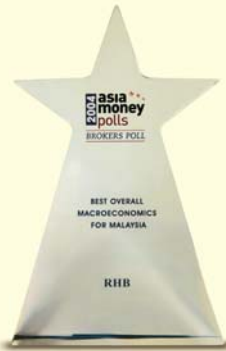


RHB Group

Achievements and awards



Asiamoney Annual Awards 2005
Best Local Brokerage
RHB Securities Sdn Bhd



Asiamoney Annual Awards 2005
Best Overall Macroeconomics
RHB Research Institute Sdn Bhd



Asiamoney Annual Awards 2005
Best Services for All Trade Needs
RHB Bank Berhad



Standard & Poor's The STAR
Investment Funds Award Malaysia 2004
**Best Performing Equity Malaysia Fund
over 3 years**
RHB Malaysia Recovery Fund



Standard & Poor's The STAR
Investment Funds Award Malaysia 2004
**Best Performing Sector
- TMT Malaysia Fund over 1 year**
RHB Technology Fund



With Appreciation from the Selangor
and Federal Territory Association
for Retarded Children



Anugerah Persekutuan
Orang Pekak Malaysia 2003
Caring Hearts
RHB Unit Trust



The Edge-Lipper
Malaysia Unit Trust Fund Awards 2003
**RHB Technology Fund
- No.1 in Equity Information
& Technology Funds**
RHB Unit Trust Management Sdn Bhd



The Edge-Lipper
Malaysia Unit Trust Fund Awards 2003
**RHB Malaysia Recovery Fund
- No.1 in Equity Growth Funds**
RHB Unit Trust Management Sdn Bhd

RHB Group Corporate highlights

Business activities



10 June 2004

MASJA Biz Power & Zakat



2 September 2004

National E-Commerce Week 2004



5 October 2004

RHB MyKiosk Internet Banking Launch



8 October 2004

Hari Wanita & Takaful



12 October 2004

Listing of Air Asia Berhad on Bursa Malaysia
Underwriting Ceremony for the Retail Offering



5 January 2005

Sale Agreement Signing Ceremony
of Bandar Wawasan Office Tower



19 January 2005

RHB Bank 'Infinity Banking' Launch



25 January 2005

FinanceAsia 'Annual Capital Markets Conference'

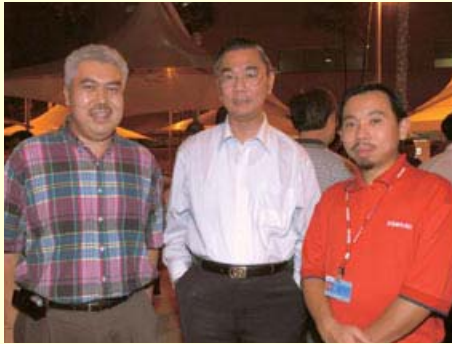


27 January 2005

VISA Infinite Credit Card Press Launch

RHB Group Corporate highlights

Social activities



9 - 10 July 2004

Boards of Directors Away-Day



2 July & 14 August 2004

RHB Bank's Staff Children's Academic Excellence Award



10 August 2004

The Edge Kuala Lumpur Rat Race 2004



25 September 2004

RHB Star SSO



28 October 2004

"Berbuka Puasa" – RHB Iftar



28 October 2004

Official Opening of Surau An-Nur, RHB Centre



24 November 2004

Malaysia International Fashion Awards (MiFA) in conjunction with Kuala Lumpur-Asia Fashion Week (KLAFW)



5 December 2004

RHB Group Hari Raya & Deepavali Open House



25 February 2005

RHB Bintang di Hati

RHB Group Corporate highlights



Official Launch of RHB Islamic Bank Berhad and Handover of Islamic Banking Operating Licence

by

YBhg. Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz

Governor, Bank Negara Malaysia

1 March 2005 (20 Muharram 1426)

RHB Centre, Kuala Lumpur



RHB Group Corporate highlights



RHB Di Hati *"Being With You"*

Official Launch of RHB Di Hati Nationwide Roadshow

Pahang Darul Makmur by Menteri Besar YAB Dato' Sri Hj. Adnan Hj. Yaakob
Terengganu Darul Iman by Menteri Besar YAB Dato' Seri Idris Jusoh



RHB Group Corporate highlights

RHB Group Hari Raya & Deepavali Open House 5 December 2004 RHB Centre, Kuala Lumpur



Corporate governance statement

INTRODUCTION

The Board of Directors ('Board') of RHB Sakura Merchant Bankers Berhad ('Bank') is pleased to report on the application by the Bank and its subsidiaries ('Group') of the principles contained in the Malaysian Code on Corporate Governance ('Code') and the extent of compliance with the best practices of the Code. The Bank was delisted from Kuala Lumpur Stock Exchange (now referred to as "Bursa Malaysia Securities Berhad") on 27 November 2002 following the group restructuring exercise. Although the Bank is no longer a listed entity, the Board has endeavoured to apply the principles of and comply with the relevant best practices of corporate governance as set out in the Code.

BOARD OF DIRECTORS

1. Board Responsibility

The Board subscribes to the principles of good corporate governance and as such, will always ensure that the Bank and the Group achieve best practices in the conduct of the Bank's and Group's businesses and operational activities. An indication of the Board's commitment is reflected in the conduct of regular Board meetings by the Bank and the incorporation of various processes and systems to achieve a risk awareness culture as well as the establishment of relevant Board Committees and Management Committees at the Bank and its operating subsidiaries.

2. Composition of the Board

The Board currently has seven (7) members, comprising the Non-Executive Chairman, four (4) Non-Independent Non-Executive Directors and two (2) Independent Non-Executive Directors which complies with Bank Negara Malaysia's Guidelines (BNM/GPI) that requires at least two (2) directors to be Independent Non-Executive Directors of the Bank.

The Directors bring together a wide range of business management skills as well as the experience in banking, financial and securities industry which is essential for the management of an expanding Group. All Board members participate fully in the deliberation and decision making process on the key issues involving the Group.

In the Bank and the operating subsidiaries, there are clear division of responsibilities between the Chairman and the Chief Executive Officers to ensure the balance of power and authority. At the Bank level, pending the appointment of a Chief Executive Officer, the Management Committee led by the Chief Operating Officer of the Bank has the primary responsibilities for the day-to-day management of the Bank. The Management together with the Non-Executive Directors ensure that the strategies and policies are fully discussed and examined, and taking into account the long-term interests of the various stakeholders including shareholders, employees, customers, suppliers and the various communities in which the Bank and the Group conduct their businesses with.

In addition to the role and guidance of the Independent Non-Executive Directors, each Director nevertheless brings an independent judgement to bear on issues of strategy, performance, resources and standards of conduct.

All decisions of the Board are based on the decision of the majority and no single Board member can make any decisions on behalf of the Board, unless duly authorised by the Board of Directors. As such, no individual or a group of individuals dominate the decision making process. This enables the Board to effectively discharge its principal responsibilities as set out in the Code.

The profile of each Director is presented on page 6 to page 9 of the Annual Report.

3. Board Meetings

The Board meets on a monthly basis with special meetings held when urgent issues and important decisions are required to be made between the scheduled meetings.

Corporate governance statement

3. Board Meetings (Continued)

The Board met twenty-one (21) times during the financial period ended 31 December 2004. The attendance of each Director in office at the end of the financial period at the aforesaid Board meetings are set out below:

Name of Director	Total meetings attended	Percentage of attendance (%)
Abdullah Mat Noh	20/21	95
Dato Sri Sulaiman Abdul Rahman Taib	16/21	76
Lim Cheng Yeow ³	18/21	86
Akira Miyama	21/21	100
Vaseehar Hassan Abdul Razack	18/21	86
Dato' Mohamed Khadar Merican ¹	15/16*	94
Lew Foon Keong ²	9/11*	82

Notes:

1 Appointed on 4 December 2003

2 Appointed on 15 March 2004

* Based on the number of Board meetings held since he was appointed to the Board.

3 Retired at the 30th Annual General Meeting held on 28 March 2005.

Encik Johari Abdul Muid was appointed on 1 April 2005.

All Directors are required pursuant to Bank Negara Malaysia Guidelines (BNM/GP1) to attend at least 75% of the Board meetings. Pursuant to the said BNM/GP1, a Non-Executive Director who has attended less than 75% of the Board meetings without valid reason for two (2) consecutive years shall be discharged without any termination benefits. All Directors of the Bank who were in office at the end of the financial period ended 31 December 2004, complied with this requirement for the period under review.

Scheduled Board meetings are structured with a pre-set agenda. The Board's principal focus is on the overall strategic direction, financial and corporate developments of the Group. Minutes of meetings of the various committees of the Bank are tabled to the Board for notation.

Key matters such as the Bank's business strategy, annual interim results, material contracts, major capital expenditure and corporate communication programme are reserved for the Board's decision. Agenda and Board papers are circulated to the Board prior to the Board meetings so as to give the Directors time to consider and deliberate on the issues to be raised at the Board meetings. To provide the Board members with relevant information which are important for their decision making, the Directors have full access to the Senior Management of the Bank and the advice and services of the Company Secretaries. In addition, the Directors may also seek independent professional advice, at the Bank's expense, if required. Directors may also consult with the Chairman and other Board members prior to seeking any independent professional advice.

BOARD COMMITTEES

The Board has established the following Committees to assist the Board in discharging its duties, each of which has a detailed terms of reference regarding its objectives, duties and responsibilities, authority, meeting and membership:

- I) Audit Committee;
- II) Executive Committee;
- III) Remuneration and Human Resource Committee;
- IV) Nominating Committee; and
- V) Group Risk Management Committee.

Corporate governance statement

BOARD COMMITTEES (CONTINUED)

The members of the respective Board Committees of the Bank are set out on page 4 of the Annual Report.

I) Audit Committee

The Audit Committee of the Board has been in place since 23 June 1997. The Audit Committee currently comprises three (3) Non-Executive Directors, two (2) of whom are Independent Non-Executive Directors. There is also a separate Audit Committee at RHB Securities Sdn Bhd, the stockbroking subsidiary of the Bank.

The Audit Committee of the Bank meets regularly with the internal auditors and whenever deemed necessary, together with the Senior Management of the respective companies in the Group and the external auditors to review the Bank's and the Group's financial reporting, the nature, scope and results of audit reviews, and the effectiveness of the system of internal controls and compliance.

The Audit Committee also meets at least once a year with the external auditors without the presence of the Management. During the financial period ended 31 December 2004, the AC had met 17 times.

The composition and terms of reference and the activities of the Audit Committee during the financial period ended 31 December 2004 are set out in the Audit Committee Report on page 34 to page 37 of this Annual Report.

II) Executive Committee

The Board has established the Executive Committee (EXCO) since 9 September 1974. The Executive Committee comprises the Chairman of the Bank and three (3) Non-Independent Non-Executive Directors.

It meets once a month and has full authority as delegated by the Board in, inter alia, managing the business, operational performance and credit risk of the Bank. The EXCO had met 18 times during the financial period ended 31 December 2004.

III) Remuneration And Human Resource Committee

The Board has established the Human Resource Committee on 31 October 2001 and on 31 July 2003, the Board changed the name to Remuneration and Human Resource Committee. The Remuneration and Human Resource Committee (RHRC) comprises the Chairman of the Bank and three (3) Non-Executive Directors, one (1) of whom is an Independent Non-Executive Director. The Committee is responsible to provide a formal and transparent procedure for developing remuneration policy for directors, Chief Executive Officer and key Senior Management Officers of the Bank and the Group and ensuring that compensation is competitive and consistent with the Group's culture, objectives and strategy. The Committee is required to recommend to the Board on the policies, strategies and framework for the Group in relation to staff remuneration, rewards and benefits. The Committee will have to oversee and review the scope and quality of human resource projects/programmes of the Group. The RHRC had met 11 times during the financial period ended 31 December 2004.

IV) Nominating Committee

On 7 May 2003, the Board established the Nominating Committee (NC), which currently comprises the Chairman of the Bank and four (4) Non-Executive Directors, one (1) of whom is an Independent Non-Executive Director. It meets at least once a year and is responsible to provide a formal and transparent procedure for the appointment of directors and Chief Executive Officer as well as assessment of effectiveness of individual directors, Board as whole and performance of Chief Executive Officer and key Senior Management Officers of the Bank. The Committee is to assist the Board in ensuring the appointments are made on merit against an agreed specification and to identify and review, on an annual basis, the required mix of skills, experience and other qualities, including core competencies which directors should bring to the Board and which the Board requires for it to function completely and efficiently. The Committee is further required to examine the size of the Board with a view of determining the impact of the number upon its effectiveness. The NC had met 6 times during the financial period ended 31 December 2004.

Corporate governance statement

BOARD COMMITTEES (CONTINUED)

V) Group Risk Management Committee

The Board has established the Risk Management Committee on 20 December 2001 and on 16 September 2004, the Board changed its name to Group Risk Management Committee to reflect the actual function of the Committee with the revision of the Bank's Credit Risk Management Policy. The Group Risk Management Committee currently comprises the Chairman of the Bank and two (2) Non-Executive Directors, one (1) of whom is an Independent Non-Executive Director.

The Committee is authorised by the Board to provide oversight and management of all risks in the Group and to ensure that the risk management process is in place and functioning, and that there is an on-going process to continuously manage the Group's risk proactively.

The Board has delegated the day-to-day risk management function to the Group Risk Management Department of the Bank which in turn reports to the Asset and Liability Committee, Group Risk Management Committee and the Board of Directors. The GRMC had met 17 times during the financial period ended 31 December 2004.

RE-ELECTION OF DIRECTORS

In accordance with the Bank's Articles of Association, one-third (1/3) of the Directors shall retire from office at each Annual General Meeting, subject to the retirement of all Directors at least once in every three (3) years. Retiring Directors can offer themselves for re-election. Directors who are appointed by the Board during the financial period are subject to re-election by the shareholder at the next Annual General Meeting held following their appointments.

DIRECTORS' REMUNERATION

The remuneration of Directors is determined at levels which enable the Group to attract and retain the Directors with the relevant experience and expertise needed to assist in managing the Group effectively. In the case of Non-Executive Directors, the level of remuneration reflects the level of responsibilities undertaken by the particular Non-Executive Director concerned in the Bank and in the Group.

Non-Executive Directors' fees are determined after taking into consideration the amounts paid by comparable merchant banking groups in the market and payable upon obtaining shareholder's approval at the Annual General Meeting.

4. Accountability and Audit

Financial Reporting

In presenting the annual audited financial statements, quarterly and half-yearly announcements of results of the Group, the Directors take responsibility to present a balanced and understandable assessment of the Group's position and prospects. The Audit Committee assists by scrutinising the information to be disclosed, to ensure accuracy and adequacy. A Statement by Directors of their responsibilities in preparing the financial statements is set out on page 106 of this Annual Report.

Internal Control

The Statement on Internal Control set out on page 32 to page 33 of this Annual Report provides an overview of the state of internal controls within the Group.

Relationship with the Auditors

The Board maintains a formal and transparent professional relationship with the auditors, through the Audit Committee.

The role of the Audit Committee in relation to the internal and external auditors is described in the Audit Committee Report set out on page 34 to page 37 of this Annual Report.

Internal control statement

INTRODUCTION

The Malaysian Code on Corporate Governance requires listed companies to maintain a sound system of internal controls to safeguard shareholders' investments and the Group's assets. The Bursa Malaysia Securities Berhad's ("BMSB") Revamped Listing Requirements require directors of listed companies to include a statement in their annual reports on the state of their internal controls. The BMSB's Statement on Internal Control : Guidance for Directors of Public Listed Companies ("Guidance") provides guidance for compliance with these requirements.

Although RHB Sakura Merchant Bankers Berhad is no longer a listed company (delisted on 27 November 2002) on the BMSB, the Board has endeavoured to prepare its Internal Control Statement in accordance with the Guidance.

RESPONSIBILITY OF THE BOARD

The Board recognises the importance of sound internal controls and risk management practices to good corporate governance. The Board affirms its overall responsibility for the Group's system of internal controls and for reviewing its adequacy and integrity. Such system covers not only financial controls but also controls relating to operational, risk management and compliance with applicable laws, regulations, rules, directives and guidelines.

The system of internal controls involves each key business unit in the Group and its management, including the Board, and is designed to meet the Group's business objectives and to manage the risks to which it is exposed. The Board acknowledges that risks cannot be completely eliminated. The system, by its nature, can only provide reasonable and not absolute assurance against material misstatement, loss or fraud.

RISK MANAGEMENT FRAMEWORK

The Group has in place an ongoing process for identifying, evaluating, managing and reporting on the significant risks that may affect the achievement of its business objectives throughout the financial period under review and up to the date of this report. This process is regularly reviewed by the Board.

The Board has established a Group Risk Management Committee, which meets regularly with the objective of assisting the Board in carrying out its responsibilities in relation to managing the Bank's range of inter-related risks in an integrated manner. Risk Management Units have also been established at principal operating companies in the Group to assist the Group Risk Management Committee in discharging its duties.

Amongst the other management committees set up in the Bank to manage specific areas of risk are the Asset & Liability Committee, the Underwriting and Credit Committee and IT Steering Committee.

CONTROL SELF-ASSESSMENT PROCESS

Central to the Group's internal control system is its Control Self-Assessment ("CSA") process which covers all key business units in the Group. These business units are required to document the controls and processes for managing the risks arising from their activities and assess their effectiveness.

The Audit Committee regularly reviews the CSA process being implemented at the key business units as well as the results of review by the internal auditors on the CSA activities undertaken by these business units.

OTHER KEY ELEMENTS OF INTERNAL CONTROL

Apart from the above, the other key elements of the Group's internal control system which have been reviewed by the Board are described below: -

- The management of the Bank is delegated to its Chief Operating Officer and for the various companies in the Group, the management is delegated to the respective chief executive officer whose role and responsibilities and authority limits are set by the respective Board. Appointment of such officers at the companies concerned requires the approval of their respective Board;

Internal control statement

OTHER KEY ELEMENTS OF INTERNAL CONTROL (CONTINUED)

- Specific responsibilities have been delegated to the relevant Board committees, all of which have written terms of reference which are reviewed regularly. These committees have the authority to examine all matters within their scope of responsibility and report back to the Board with their recommendations. The ultimate responsibility for the final decision on all matters however lies with the entire Board;
- Policies and procedures manuals for key processes are documented and regularly updated for application across the Group. These are supplemented by operating standards set by the individual company, as required for the type of business or geographical location of each company;
- Compliance units are established at principal operating companies in the Group to enhance the overall compliance framework of the Group;
- There is a clear procedure for investment appraisal, including equity investment or divestment and capital expenditure;
- There are proper guidelines for hiring and termination of staff, training programmes for staff, annual performance appraisal and other relevant procedures in place to achieve the objective of ensuring staff are competent to carry out their responsibilities;
- Regular and comprehensive information is provided to management for monitoring of performance against the strategic plan approved by the Board, covering all key financial and operational indicators;
- A detailed budgeting process is established requiring all key operating companies in the Group to prepare budgets annually which are discussed and approved by the Board. Effective reporting system on actual performance against approved budgets is in place and significant variances are followed up by management and reported at the Board;
- Ongoing reviews of the internal control system are carried out by the internal auditors. Results of such reviews are reported to the Audit Committee. The work of the internal auditors is focused on areas of priority as identified by risk analysis and in accordance with the internal audit plans approved by the Audit Committee. The head of internal audit function reports to the Audit Committee; and
- The Audit Committee holds regular meetings to deliberate on findings and recommendations for improvement by both the internal and external auditors as well as Bank Negara Malaysia examiners on the state of the internal control system. The minutes of the Audit Committee meetings are tabled to the Board.

Audit committee report

ACTIVITIES OF THE AUDIT COMMITTEE AND THE INTERNAL AUDIT FUNCTION DURING THE 18-MONTH FINANCIAL PERIOD ENDED 31 DECEMBER 2004

ACTIVITIES OF THE AUDIT COMMITTEE

During the 18-month financial period ended 31 December 2004 ("period"), a total of 17 Audit Committee ("Committee") meetings were held. The Committee comprises the following members and details of attendance of each member at the Committee meetings held during the period are as follows:-

Composition Of The Committee	No. of Meetings Attended Whilst in Office
1. Dato' Mohamed Khadar bin Merican (Chairman / Independent Non-Executive Director) – appointed on 9 December 2003	13 out of 13 meetings
2. Lim Cheng Yeow (Member / Senior Independent Non-Executive Director)	17 out of 17 meetings
3. Vaseehar Hassan bin Abdul Razack (Member / Non-Independent Non-Executive Director)	12 out of 17 meetings

In the absence of an appointed Chairman of the Committee from 1 July 2003 to 8 December 2003, Mr Lim Cheng Yeow, a Senior Independent Non-Executive Director and a member of the Committee, chaired all the Committee meetings. On 9 December 2003, YBhg Dato' Mohamed Khadar bin Merican, an Independent Non-Executive Director, was appointed as the Chairman and a member of the Committee.

With the appointment of YBhg Dato' Mohamed Khadar bin Merican, the Bank's Board has complied with the best practices of corporate governance as set out in the Malaysian Code on Corporate Governance in having a minimum number of three (3) members in the Committee, the majority of whom are independent non-executive directors.

The Committee's activities are concentrated at RHB Sakura Merchant Bankers Berhad and the direct subsidiary companies of the RHB Sakura Merchant Bankers Berhad Group, excluding the RHB Securities Sdn Bhd Group which has its own audit committee. The main activities undertaken by the Committee during the period are as follows:-

- Reviewed the unaudited quarterly and half-yearly results and the audited financial statements of the Bank and the Group, and recommended the same for approval by the Board;
- Reviewed the related party transactions ("RPTs") and the adequacy of the Group's procedures for monitoring and reviewing of RPTs;
- Reviewed with the external auditors, the nature and scope of their audit plan and their fees as well as the findings emanating from their examination of the financial statements. The Committee met with the external auditors three (3) times, one (1) of which was without the presence of management;
- Reviewed the non-audit services rendered by the external auditors and the related fees as well as made recommendation on their reappointment to the Board for approval;
- Reviewed and approved the scope and adequacy of the internal audit plans and manpower resource needs;
- Reviewed the results of the risk-based audit work carried out and investigations by the internal auditors, and the status of completion of the internal audit plans. The internal auditors attended all the Committee meetings and a total of thirty-two (32) audit reports were tabled to the Committee;

Audit committee report

ACTIVITIES OF THE AUDIT COMMITTEE (CONTINUED)

- Reviewed the control self-assessment (“CSA”) exercise implemented at principal business units in the Bank and the Group as well as the results of review by the internal auditors on the CSA activities undertaken by each principal business unit concerned;
- Reviewed the inspection and examination reports issued by the regulatory authorities and monitored the status of remedial actions taken by management in respect of the findings;
- Reviewed the minutes of meetings of the audit committee of RHB Securities Sdn Bhd Group to the extent permitted by the relevant regulatory authorities to satisfy itself that all matters arising therefrom have been appropriately addressed by such audit committee; and
- Tabled the minutes of each Committee meeting to the Board for noting, and for further action by the Board, where necessary.

INTERNAL AUDIT FUNCTION

The internal audit function is guided by its Audit Charter and reports to the Committee. Its primary role is to assist the Committee to discharge its duties and responsibilities by independently reviewing and reporting on the adequacy and integrity of the Group’s system of internal controls.

The internal auditors adopt a risk-based approach towards the planning and conduct of audits which is consistent with the Group’s framework in designing, implementing and monitoring its internal control system.

The CSA exercise rolled out by the internal auditors during the period for implementation throughout the principal business units in the Bank and the Group, is in alignment with the practice of generating an embedded risk management capability and acceptable risk culture.

Upon completion of the audits, the internal auditors closely monitored the implementation progress of their audit recommendations in order to obtain assurance that all major risk and control concerns have been duly addressed by management. All audit reports on the results of work undertaken together with the recommended action plans and their implementation status were presented to management and the Committee.

The internal auditors work closely with the external auditors to resolve any control issues as raised by them to ensure that significant issues are duly acted upon by management.

TERMS OF REFERENCE OF THE AUDIT COMMITTEE

Objectives

1. To assist the Board discharge its responsibilities by reviewing the adequacy and integrity of the Bank’s and the RHB Sakura Merchant Bankers Berhad Group’s internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.
2. To reinforce the independence of the external auditors and thereby help assure that they will have free rein in the audit process.
3. To provide, by way of regular meetings, a line of communication between the Board and the external auditors.
4. To provide emphasis on the internal audit function by increasing the objectivity and independence of the internal auditors and provide a forum for discussion that is independent of management.
5. To review the quality of the audits conducted by the internal and external auditors.
6. To enhance the perceptions held by stakeholders (including shareholders, regulators, creditors and employees) of the credibility and objectivity of financial reports.

Audit committee report

TERMS OF REFERENCE OF THE AUDIT COMMITTEE (CONTINUED)

Duties and Responsibilities

1. To review the quarterly and half-year results, and year-end financial statements of the Bank and the Group, and to recommend the same to the Board for approval whilst ensuring that they are prepared in a timely and accurate manner complying with all applicable accounting and regulatory requirements and are promptly published.
2. To review the adequacy of provisioning for non-performing loans, sundry debtors, and bad and doubtful debts, including any write-off of bad loans or debts and to recommend the same to the Board for approval.
3. To review any related party transaction and conflict of interest situation that may arise within the Bank or the Group, including any transaction, procedure or course of conduct that raises questions of management integrity.
4. To review with the external and internal auditors whether the employees of the Group have given them appropriate assistance in discharging their duties.
5. To review the adequacy of the scope, functions and resources of the internal audit function and that it has the necessary authority to carry out its work.
6. To review the internal audit plan and processes, the results of the internal audit programme or investigation undertaken and whether or not appropriate action is taken by management on the recommendations of the internal auditors.
7. To appraise the performance of the head of internal audit and to review the appraisals of senior staff members of the internal audit function.
8. To approve any appointment or termination of the head of internal audit and senior staff members of the internal audit function and to review any resignations of internal audit staff members and provide resigning staff members an opportunity to submit reasons for resigning, where necessary.
9. To review with the external auditors, the nature and scope of their audit plan, their evaluation of the system of internal controls and their management letter and discuss any matter that the external auditors may wish to raise in the absence of management, where necessary.
10. To recommend to the Board on the appointment and the annual reappointment of the external auditors and their audit fee, after taking into consideration the independence and objectivity of the external auditors and the cost effectiveness of their audit.
11. To discuss and review with the external auditors any proposal from them to resign as auditors.
12. To review the non-audit services rendered by the external auditors and the related fees, and to recommend the same to the Board for approval.
13. To review the co-ordination of the audit approach where more than one audit firm of external auditors is involved and the co-ordination between the external and internal auditors.
14. To review the minutes of meetings of other audit committees within the Group to the extent permitted by the relevant regulatory authorities and be satisfied that all matters arising therefrom are being appropriately addressed by these other audit committees.
15. To review inspection and examination reports issued by any regulatory authority and to ensure prompt and appropriate actions are taken in respect of any findings.
16. To perform any other functions as authorised by the Board.

Audit committee report

TERMS OF REFERENCE OF THE AUDIT COMMITTEE (CONTINUED)

Authority

1. The Committee is authorised by the Board to investigate any matter within its terms of reference, to obtain the resources which it needs, and to have full and unrestricted access to information. It is also authorised to seek any information it requires from any employee of the Group and all employees are directed to co-operate with any request made by the Committee.
2. The Committee shall have direct communication channels with the external and internal auditors.
3. The Committee is authorised by the Board to obtain independent professional or other advice at the Bank's expense and to invite outsiders with relevant experience and expertise to attend meetings if it considers this necessary.

Meetings

1. Meetings shall be held at least four (4) times a year with a minimum quorum of two (2) members and the majority of members present shall be independent non-executive directors. Additional meetings may be called at any time at the discretion of the Chairman of the Committee.
2. The head of internal audit shall be in attendance at meetings of the Committee. The Committee may invite the external auditors, the chief financial officer, any other directors or members of the management and employees of the Group to be in attendance during meetings to assist in its deliberations.
3. At least once a year, the Committee shall meet with the external auditors without any executive Board member present and upon the request of the external auditors, the Chairman of the Committee shall convene a meeting to consider any matter which the external auditors believe should be brought to the attention of the Board or shareholders.
4. The Bank's Company Secretary shall be the Secretary of the Committee.
5. The minutes of each Committee meeting shall be tabled to the Board by the Chairman of the Committee.

Membership

1. The Committee shall be appointed by the Board from amongst its number and shall comprise not less than three (3) members, the majority of whom are independent non-executive directors.
2. The Chairman of the Committee shall be an independent non-executive director appointed by the Board.
3. No alternate director shall be appointed as a member of the Committee.
4. At least one member of the Committee:-
 - i) shall be a member of the Malaysian Institute of Accountants; or
 - ii) if he is not a member of the Malaysian Institute of Accountants, he shall have at least three (3) years' working experience and:-
 - (a) he must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act 1967; or
 - (b) he must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act 1967.
5. The term of office and performance of the Committee and each of its members must be reviewed by the Board at least once every three (3) years.
6. If a member of the Committee resigns or for any other reason ceases to be a member with the result that the number of members is reduced to below three (3), the Board shall within three (3) months of that event, appoint such number of new members as may be required to make up the minimum number of three (3) members.

Services

CORPORATE FINANCE

- Corporate and Debt Restructuring and Divestitures
- Take-overs, Mergers and Acquisitions
- Stock Exchange Listings
- Public Offerings of Equity and Debt Instruments
- Private Placement of Securities
- Financial Advisory Services
- Underwriting and Valuation of Securities

TREASURY SERVICES

- Authorised Dealer and Custodian in Malaysian Government Securities, Malaysia Treasury Bills, Malaysia Government Investment Certificates, Bank Negara Bills, Cagamas Bonds and Notes.
- Authorised Foreign Exchange Dealer
- Trading of Money Market and Capital Market Instruments
- Authorised Issuer and Dealer in Negotiable Certificate of Deposits
- Offering of Structured Products
- Repurchase Agreements
- Deposit
- Treasury and Cash Management Services

DEBT CAPITAL MARKETS

- Primary bond markets syndication
- Debt structured products
- Project advisory & project finance

CORPORATE BANKING

- Syndication
- Short, Medium and Long Term Loans
- Bridging Loans
- Bill Discounting and Banker's Acceptances
- Bank Guarantees – Financial Guarantees and Performance Bonds

ISLAMIC FINANCE

Islamic Finance services in Originating and Structuring of:

- Private Debt Securities and other Capital Market Instruments
- Structured Finance and Syndication
- Project Financing

INVESTMENT BANKING

- Originating proposals and developing structures for both debt and equity products to existing and new clients
- Developing and improving client relationships
- Identifying opportunities for the Bank's various products and services
- Co-ordinating a team effort from different business units of the Bank to provide a one-stop solution centre for clients

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Directors' report

The directors submit herewith their report together with the audited financial statements of the Group and the Bank for the financial period 1 July 2003 to 31 December 2004.

PRINCIPAL ACTIVITIES

The principal activities of the Bank are merchant banking and provision of related financial services. The principal activities of the Group consist of merchant banking, provision of related financial services, unit trust management, stock and share broking, asset management, futures broking, research services and provision of nominee services.

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

CHANGE OF FINANCIAL YEAR END

The Bank changed its financial year end from 30 June to 31 December to be co-terminous with that of its ultimate holding company, Rashid Hussain Berhad.

RESULTS

	18 months period ended 31 December 2004	
	Group RM'000	Bank RM'000
Profit before taxation	133,451	94,394
Taxation	(35,181)	(26,504)
Profit after taxation	98,270	67,890
Minority interest	-	-
Net profit for the financial period	98,270	67,890
Transfer to statutory reserves	(16,972)	(16,972)
Net profit after transfer to statutory reserves	81,298	50,918
Retained profits brought forward	211,781	235,101
Profit available for distribution	293,079	286,019
Dividends	(24,382)	(24,382)
Retained profits carried forward	268,697	261,637

DIVIDENDS

The dividends declared and paid by the Bank since 30 June 2003 were as follows:

RM'000

In respect of financial year ended 30 June 2003 as shown in the directors' report of that financial year:

Final gross dividend of 10.0 sen per share less tax of 28% paid on 30 September 2003	24,382
--------------------------------------------------------------------------------------	--------

The directors now recommend the payment of a final gross dividend of 40 sen per share less tax of 28% amounting to RM97,530,048 in respect of the current financial period on the fully issued and paid up ordinary shares of the Bank totalling RM338,646,000 which is subject to the approval of the member at the forthcoming Annual General Meeting of the Bank.

RESERVES AND PROVISIONS

All material transfers to or from reserves or provisions during the financial period are disclosed in the financial statements.

Directors' report

NON-PERFORMING DEBTS

Before the financial statements of the Group and the Bank were made out, the directors took reasonable steps to ascertain that actions have been taken in relation to the writing off of bad debts and the making of provision for non-performing debts and satisfied themselves that all known bad debts had been written off and adequate provisions had been made for non-performing debts.

At the date of this report, the directors are not aware of any circumstances which would render the amount written off for bad debts or the amount of provision for non-performing debts in the financial statements of the Group and the Bank inadequate to any substantial extent.

CURRENT ASSETS

Before the financial statements of the Group and the Bank were made out, the directors took reasonable steps to ascertain that any current assets, other than debts, which were unlikely to realise in the ordinary course of business, their values as shown in the accounting records of the Group and the Bank had been written down to an amount which they might be expected so to realise.

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 Bank 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 methods of valuation of assets or liabilities of the Group and the Bank 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 and the Bank which has arisen since the end of the financial period which secures the liabilities of any other person; or
- (b) any contingent liability of the Group and the Bank which has arisen since the end of the financial period other than in the ordinary course of business.

No contingent or other liability of the Group and the Bank has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial period which, in the opinion of the directors, will or may substantially affect the ability of the Group or the Bank 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 Bank, which would render any amount stated in the financial statements misleading or inappropriate.

ITEMS OF AN UNUSUAL NATURE

The results of the operations of the Group and the Bank for the financial period were not, in the opinion of the directors, substantially affected by any item, transaction or event of a material and unusual nature.

There has not arisen in the interval between the end of the financial period 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 Bank for the financial period in which this report is made.

SIGNIFICANT EVENTS DURING THE FINANCIAL PERIOD

Significant events during the financial period are disclosed in Note 41 to the financial statements.

Directors' report

DIRECTORS OF THE BANK

The directors of the Bank in office since the date of the last report are:

Abdullah bin Mat Noh	(appointed as Chairman on 14 December 2004)
Dato Sri Sulaiman Abdul Rahman Taib	
Lim Cheng Yeow	
Akira Miyama	
Vaseehar Hassan bin Abdul Razack	
Dato' Mohamed Khadar bin Merican	(appointed on 4 December 2003)
Lew Foon Keong	(appointed on 15 March 2004)
Datuk Azlan Zainol	(resigned on 6 November 2004)
Michael Andrew Hague	(resigned on 23 December 2003)
Senator Dato' Taha Ariffin	(resigned on 29 December 2003)

Pursuant to Article 93 of the Bank's Articles of Association, Dato Sri Sulaiman Abdul Rahman Taib retires at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

Pursuant to Article 97 of the Bank's Articles of Association, Dato' Mohamed Khadar bin Merican and Mr Lew Foon Keong, retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Mr Lim Cheng Yeow retires in accordance with section 129 of the Companies Act, 1965 at the forthcoming Annual General Meeting and, does not wish to offer himself for re-election.

DIRECTORS' INTERESTS IN SECURITIES

According to the register of directors' shareholdings, the interests of the directors in office at the end of the financial period in the securities of the Bank and its related corporations were as follows:

	Number of ordinary shares of RM1 each			As at 31.12.2004
	As at 1.7.2003	Bought	Sold	
Ultimate Holding Company				
Rashid Hussain Berhad				
Dato Sri Sulaiman Abdul Rahman Taib				
- Indirect ¹	226,127,000	12,000,000 [#]	-	238,127,000
Vaseehar Hassan bin Abdul Razack				
- Indirect ¹	226,127,000	12,000,000 [#]	-	238,127,000
Holding Company				
RHB Capital Berhad				
Dato Sri Sulaiman Abdul Rahman Taib				
- Indirect ²	1,182,896,459	-	-	1,182,896,459
Vaseehar Hassan bin Abdul Razack				
- Indirect ²	1,182,896,459	-	-	1,182,896,459

Directors' report

DIRECTORS' INTERESTS IN SECURITIES (CONTINUED)

	Number of Warrants 2001/2007			As at 31.12.2004
	As at 1.7.2003	Bought	Sold	
Ultimate Holding Company				
Rashid Hussain Berhad				
Dato Sri Sulaiman Abdul Rahman Taib				
– Indirect ¹	8,000,000	–	–	8,000,000
Vaseehar Hassan bin Abdul Razack				
– Indirect ¹	8,000,000	–	–	8,000,000

Each warrant of Rashid Hussain Berhad ('Warrants 2001/2002') entitles the registered holder to subscribe for one new ordinary share of RM1.00 each in Rashid Hussain Berhad at any time from the date of issue on 4 April 2001 at an exercise price of RM1.90 per share. The exercise price is subject to adjustments from time to time in accordance with the conditions stipulated in the Deed Poll executed on 13 February 2001. Pursuant to a Supplemental Deed Poll dated 20 March 2002, the exercise period of the Warrants 2001/2002 has been extended by five (5) years to expire on 24 March 2007 and the Warrants 2001/2002 are now known as Warrants 2001/2007.

	Nominal Amount (RM) of 2002/2012			As at 31.12.2004
	As at 1.7.2003	Bought	Sold/ Converted	
0.5% Irredeemable Convertible Unsecured Loan Stocks				
of RM1.00 each nominal value ('RHB ICULS-A')				

Ultimate Holding Company				
Rashid Hussain Berhad				
Dato Sri Sulaiman Abdul Rahman Taib				
– Indirect ¹	461,206,479	–	12,000,000 [#]	449,206,479
Vaseehar Hassan bin Abdul Razack				
– Indirect ¹	461,206,479	–	12,000,000 [#]	449,206,479

The RHB ICULS-A entitle the registered holders to convert their RHB ICULS-A into new ordinary shares of RM1.00 each in Rashid Hussain Berhad ('New Share') at the conversion price of RM1.00 per New Share ('Conversion Price') at any time within a period of ten (10) years from the date of issue on 24 December 2002 in accordance with the Trust Deed constituting the RHB ICULS-A dated 24 December 2002. The Conversion Price shall be satisfied by surrendering for conversion into New Shares such nominal value of RHB ICULS-A equal to the Conversion Price.

	Nominal Amount (RM) of 2002/2012			As at 31.12.2004
	As at 1.7.2003	Bought	Sold	
3.0% Irredeemable Convertible Unsecured Loan Stocks				
of RM1.00 each nominal value ('RHB ICULS-B')				

Ultimate Holding Company				
Rashid Hussain Berhad				
Dato Sri Sulaiman Abdul Rahman Taib				
– Indirect ¹	403,471,898	–	–	403,471,898
Vaseehar Hassan bin Abdul Razack				
– Indirect ¹	403,471,898	–	–	403,471,898

Directors' report

The RHB ICULS-B entitle the registered holders to convert their RHB ICULS-B into one (1) new ordinary shares of RM1.00 each in Rashid Hussain Berhad ('New Share') at the conversion price of RM1.13 per New Share ('Conversion Price') at any time within a period of ten (10) years from the date of issue on 24 December 2002 in accordance with the Trust Deed constituting the RHB ICULS-B dated 24 December 2002. The Conversion Price shall be satisfied by surrendering for conversion into New Shares such nominal value of RHB ICULS-B which equal to the Conversion Price or a combination of such nominal value of RHB ICULS-B and cash which aggregates to the Conversion Price, provided that at least RM1.00 nominal value of RHB ICULS-B is surrendered for conversion into one (1) New Share.

	Number of Warrants 1994/2004			As at 31.12.2004
	As at 1.7.2003	Bought	Sold/ Expired	
Holding Company				
RHB Capital Berhad				
Dato Sri Sulaiman Abdul Rahman Taib				
- Indirect ²	101,243,559	-	(101,243,559) [®]	-
Vaseehar Hassan bin Abdul Razack				
- Indirect ²	101,243,559	-	(101,243,559) [®]	-

Each Warrant of RHB Capital Berhad ('Warrants 1994/1999') entitles the registered holder to subscribe for one new ordinary share of RM1.00 each in RHB Capital Berhad at any time within a period of five (5) years from the date of issue on 28 December 1994 at an exercise price of RM5.40 per share. The exercise price is subject to adjustments from time to time in accordance with the conditions stipulated in the Deed Poll created on 7 December 1994. Pursuant to the Second Supplemental Deed Poll on 23 June 1999, the exercise period of the Warrants 1994/1999 has been extended by five (5) years to expire on 27 December 2004 and the Warrants 1994/1999 are now known as Warrants 1994/2004.

Notes

- ¹ Deemed interest pursuant to Section 6A of the Companies Act, 1965 by virtue of their indirect substantial interest in Utama Banking Group Berhad ("UBG").
- ² Deemed interest pursuant to Section 6A of the Companies Act, 1965 by virtue of their indirect substantial interest in the ultimate holding company.
- [®] The Warrants 1994/2004 expired on 27 December 2004. Any Warrant 1994/2004 not exercised on the expiry date had lapsed and are null and void. The Warrants 1994/2004 ceased to be exercisable thereafter. Accordingly, the Warrants 1994/2004 were removed from the Official Listing of Bursa Malaysia Securities Berhad on 28 December 2004.
- [#] On 3 September 2004, 12,000,000 new ordinary shares of RM1.00 each in Rashid Hussain Berhad were allotted and issued to UBG pursuant to UBG's conversion of RM12,000,000 RHB ICULS-A.

By virtue of their indirect substantial interests in the shares of Rashid Hussain Berhad (RHB), Dato Sri Sulaiman Abdul Rahman Taib and Vaseehar Hassan bin Abdul Razack are also deemed to have an indirect substantial interest in the securities of the Bank and all the subsidiaries of RHB to the extent RHB has an interest.

Other than the above, none of the other directors holding office at the end of the financial period had any interest in the shares of the Bank or its related corporations during the financial period.

Directors' report

DIRECTORS' BENEFITS

Since the end of the previous financial year, no director of the Bank has received or become entitled to receive a benefit (other than as disclosed in the financial statements) by reason of a contract made by the Bank or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest except as disclosed below.

RHB Bank Berhad ('RHB Bank'), a fellow subsidiary of the Bank, has entered into recurrent related party transactions of a revenue nature which are necessary for day-to-day operations with Asterix Systems Sdn Bhd ('Asterix').

These transactions involve the procurement by RHB Bank of IT hardware, software, peripherals and services (collectively, 'IT products and services'), and a sub-license for the software for the e-HR System, from Asterix.

During the period from 1 April 2003 to 16 December 2003, RHB Bank procured IT products and services from Asterix amounting to RM1,447,748. Since then, RHB Bank has not procured further IT products and services from Asterix.

As for the sub license for the software for the e-HR System, RHB Bank became a party to a business agreement formerly entered into by Bank Utama (Malaysia) Berhad ('Bank Utama') and Asterix on 30 April 2002 ('Business Agreement'), following the merger of the banking business of Bank Utama with RHB Bank which took effect on 1 May 2003.

The e-HR System is an internet browser based payroll and human resources solution offered to customers of RHB Bank. The agreed rate payable to Asterix under the Business Agreement is RM200 per month per customer. For the period from 1 May 2003 until 16 December 2003, the amount incurred by RHB Bank under the Business Agreement was RM627,800. Since then until 31 December 2004, the amount incurred by RHB Bank under the Business Agreement is less than 5% of the consolidated net tangible assets of Asterix.

The interested related party for the above transactions with Asterix is Dato Sri Sulaiman Abdul Rahman Taib, the Executive Chairman of Rashid Hussain Berhad ("RHB") and a common major shareholder of both RHB and Asterix, who at the point of entering into the contract held a direct equity interest of 69.37% in Asterix which has since increased to 79%.

DISCLOSURE OF COMMITTEES

NOMINATING COMMITTEE

The Board has established the Nomination Committee on 7 May 2003 which was renamed as Nominating Committee on 31 July 2003. During the financial period ended 31 December 2004, a total of 6 meetings were held. The Nominating Committee of the Bank comprises the following members and details of attendance of each member of the Nominating Committee meetings held during the period are as follows:

Composition of the Nominating Committee	Attendance at the committee meetings
1. Mr Lim Cheng Yeow (Chairman / Senior Independent Non-Executive Director)	6 out of 6 meetings
2. Dato Sri Sulaiman Abdul Rahman Taib (Member / Non-Independent Non-Executive Director)	2 out of 6 meetings
3. Encik Abdullah bin Mat Noh (Member / Non-Independent Non-Executive Director)	4 out of 5 meetings
4. Dato' Mohamed Khadar bin Merican (Member / Independent Non-Executive Director)	5 out of 5 meetings
5. Encik Vaseehar Hassan bin Abdul Razack (Member / Non-Independent Non-Executive Director)	3 out of 5 meetings

The Nominating Committee is responsible in providing a formal and transparent procedure for the appointment as well as assessment of effectiveness of individual Directors, the Board and key senior management of the Bank.

Directors' report

DISCLOSURE OF COMMITTEES (CONTINUED)

REMUNERATION AND HUMAN RESOURCE COMMITTEE

The Board has established the Human Resource Committee on 31 October 2001 which was renamed as the Remuneration and Human Resource Committee on 31 July 2003. During the financial period ended 31 December 2004, a total of 11 meetings were held. The Remuneration and Human Resource Committee comprises the following members and details of attendance of each member at the Remuneration and Human Resource Committee meetings held during the period are as follows:

Composition of the Remuneration and Human Resource Committee

Attendance at the committee meetings

Current Members:

1. Dato' Mohamed Khadar bin Merican (Chairman / Independent Non-Executive Director) – Appointed on 9 December 2003	7 out of 7 meetings
2. Dato Sri Sulaiman Abdul Rahman Taib (Member / Non-Independent Non-Executive Director)	7 out of 11 meetings
3. Encik Abdullah bin Mat Noh (Member / Non-Independent Non-Executive Director)	8 out of 11 meetings
4. Mr Lim Cheng Yeow (Member / Senior Independent Non-Executive Director)	10 out of 11 meetings
5. Encik Vaseehar Hassan bin Abdul Razack (Member / Non-Independent Non-Executive Director)	8 out of 11 meetings

RISK MANAGEMENT AT RHB SAKURA MERCHANT BANKERS BERHAD

Risk Management Overview

The Bank's risk governance and processes are structured to ensure that the Bank's risks are identified, measured, controlled, monitored and effectively managed in an integrated enterprise-wide risk management framework.

The Bank has established a formal risk governance structure based on the following principles:-

- Authority for all risk-taking activities rests with the Board of Directors and its Group Risk Management Committee, which approves risk management policies, delegates limits and reviews management's assessment of risk in risk-taking activities;
- Clearly defined risk management policies, outline principles and standards, limit escalation procedures and provide measurement guidelines for each category of risk;
- Segregation of responsibilities, control and oversight functions;
- Clearly articulated risk tolerance levels as defined by the Board and regularly reviewed to ensure that risk taking is consistent with its business strategy, capital structure and current or anticipated market conditions;
- Continuous review, analysis and valuation of all risk-taking activities by independent risk management units
- Additional dedicated risk management unit function within each of the Bank's operating subsidiaries.

Directors' report

RISK MANAGEMENT AT RHB SAKURA MERCHANT BANKERS BERHAD (CONTINUED)

Group Risk Management Committee

The Board of Directors has delegated the risk oversight function to the Group Risk Management Committee ("GRMC") to assist the Board in its supervisory role on the management of the Bank's overall risk in an integrated manner. The day-to-day risk oversight function is performed by the Group Risk Management Department ("GRMD"). The GRMD is answerable to the GRMC and is responsible for ensuring that sound risk management policies and procedures are developed and implemented.

The management committees of the Bank that provide an executive forum for discussions and decisions on specific areas are:-

- The Underwriting and Credit Committee that oversees the credit risk management
- The Asset and Liability Committee that provides strategic direction for the management of market risk, interest rate risk and liquidity risk
- The IT Steering Committee that oversees the development and maintenance of the IT strategic plan and operational risk.

Terms of Reference of The Group Risk Management Committee

Objective

To provide oversight and management of all risks in the RHB Sakura Group ("Group"), and to ensure that the risk management process is in place and functioning, and that there is an on-going process to continuously manage the Bank's risks proactively. The financial risk management objectives and policies are disclosed in Note 39 of the financial statements.

Duties and Responsibilities

1. To review, assess and recommend strategies, policies and risk tolerance relating to the management of RHB Sakura Group's risk for Board's approval.
2. To ensure that the risk policies and procedures of the Group are aligned to the business strategies and risk return directions of the Board.
3. To review, assess and ensure, through the Group Risk Management Department, that there is adequate framework for risk identification, risk measurement, risk monitoring and control, and the extent to which these are operating effectively.
4. To ensure that infrastructure, resources and systems are in place for risk management i.e. ensuring that the staff responsible for implementing risk management systems perform those duties independently of Group's risk taking activities.
5. To ensure that there is a consistent risk management standard and practices, and a co-ordinated process of making and managing risk on an independent RHB Sakura Group's wide risk management framework.
6. To keep the Board informed of the Group's risk profile. The GRMC shall hold regular meetings, at least once every quarter, and shall report regularly to the Board.
7. To review and report to the Board, management's periodic reports on risk exposures, risk portfolio composition, risk management activities, and overall bank-wide risks under stress scenario.

Composition

The Group Risk Management Committee ("GRMC") comprises not less than three (3) members, all of whom are non-executive directors and chaired by an independent non-executive director.

During the financial period ended 31 December 2004, a total of 17 meetings were held. The GRMC comprises the following members and details of attendance of each member at the committee meetings held during the financial period ended 31 December 2004 are as follows:

Composition of GRMC	Attendance at the committee meetings
Current Members:	
1. Mr Lim Cheng Yeow (Chairman / Senior Independent Non-Executive Director)	17 out of 17 meetings
2. Encik Abdullah Mat Noh (Member / Non-Independent Non-Executive Director)	16 out of 17 meetings
3. Dato' Mohamed Khadar bin Merican (Member / Independent Non-Executive Director)	11 out of 12 meetings

Directors' report

HOLDING AND ULTIMATE HOLDING COMPANY

The directors regard RHB Capital Berhad and Rashid Hussain Berhad, both companies incorporated in Malaysia, as the holding and ultimate holding company, respectively.

By virtue of being a subsidiary of RHB Capital Berhad and Rashid Hussain Berhad, the Bank is deemed related to parties related to RHB Capital Berhad and Rashid Hussain Berhad. The related parties of RHB Capital Berhad and Rashid Hussain Berhad are disclosed in the respective financial statements of those companies.

BUSINESS PLAN AND STRATEGY FOR FINANCIAL PERIOD ENDED 31 DECEMBER 2004 AND OUTLOOK FOR 2005

The immediate strategy for the financial period ended 31 December 2004 was to step up efforts on origination activities with the objective to increase the level of deal flows and ultimately operating income to the Bank.

Operationally, the Bank continues with the integration process of the merchant banking business and of its subsidiaries, strengthening the existing infrastructure, in its aim to become a one-stop solution centre in providing investment banking services.

This is further strengthened with increased efforts in cross selling services and products of the companies within the Group.

The Group is ready to embark a challenging year for 2005 and is mindful of the intense competition that it will face with the entrance of new local and international players. Despite that, the Group remains positive on its plan to increase its fee and non-interest income activities amidst signs showing a gradual brightening of the market outlook.

RATING BY AGENCY

The Rating Agency Malaysia Berhad in February 2004 reaffirmed the Bank's long term rating of A2 and its short term rating of P1.

AUDITORS

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with their resolution dated 26 February 2005.

ABDULLAH BIN MAT NOH
CHAIRMAN

DATO SRI SULAIMAN ABDUL RAHMAN TAIB
DIRECTOR

Balance sheets

AS AT 31 DECEMBER 2004

	Note	Group		Bank	
		As at 31.12.2004 RM'000	As at 30.6.2003 RM'000	As at 31.12.2004 RM'000	As at 30.6.2003 RM'000
ASSETS					
Cash and short-term funds	2	857,948	778,510	791,320	725,422
Securities purchased under resale agreements		148,843	19,077	-	-
Deposits and placements with financial institutions	3	-	33,506	-	19,000
Dealing securities	4	1,360,609	1,075,534	1,339,784	1,046,001
Investment securities	5	517,499	598,336	515,499	594,835
Loans and advances	6	806,877	975,997	806,877	975,997
Clients' and brokers' balances	7	272,079	143,308	-	-
Other assets	8	28,419	42,748	19,419	34,765
Amounts due from holding company	9	205,615	252,332	-	-
Amounts due from subsidiaries	10	-	-	53,153	55,380
Deferred taxation assets	11	4,382	15,304	4,258	5,151
Tax recoverable		17,678	19,491	17,090	16,547
Statutory deposit with Bank Negara Malaysia	12	89,556	81,206	89,556	81,206
Investments in subsidiaries	13	-	-	489,574	489,574
Property, plant and equipment	14	16,533	21,192	3,067	1,583
Goodwill	15	172,844	172,844	-	-
TOTAL ASSETS		4,498,882	4,229,385	4,129,597	4,045,461
LIABILITIES AND SHAREHOLDERS' EQUITY					
Deposits from customers	16	1,370,015	1,366,946	1,370,015	1,366,946
Deposits and placements of banks and other financial institutions	17	1,143,204	1,452,642	1,143,204	1,452,642
Obligations on securities sold under repurchase agreements		597,307	234,423	597,307	234,423
Amount due to Cagamas Berhad		-	16,544	-	16,544
Bills and acceptances payable		-	2,936	-	2,936
Clients' and brokers' balances	18	297,533	137,204	-	-
Other liabilities	19	89,240	93,474	33,376	29,783
Taxation		3,729	6,326	-	-
Short term borrowings	20	5,001	-	-	-
Subordinated bonds	21	165,000	165,000	165,000	165,000
TOTAL LIABILITIES		3,671,029	3,475,495	3,308,902	3,268,274
Share capital	22	338,646	338,646	338,646	338,646
Reserves	23	489,207	415,244	482,049	438,541
SHAREHOLDER'S EQUITY		827,853	753,890	820,695	777,187
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		4,498,882	4,229,385	4,129,597	4,045,461
COMMITMENTS AND CONTINGENCIES	34	2,672,226	1,477,516	2,672,226	1,477,516

Income statements

FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

	Note	Group		Bank	
		18 months period ended	12 months year ended	18 months period ended	12 months year ended
		31.12.2004 RM'000	30.6.2003 RM'000	31.12.2004 RM'000	30.6.2003 RM'000
Interest income	24	236,741	146,471	218,851	138,479
Interest expense	25	(163,055)	(102,388)	(160,798)	(102,314)
Net interest income		73,686	44,083	58,053	36,165
Non-interest income	26	223,293	170,616	69,228	141,137
Net income		296,979	214,699	127,281	177,302
Overhead expenses	27	(186,649)	(109,447)	(56,499)	(33,905)
Operating profit before provision		110,330	105,252	70,782	143,397
Writebacks/(Loan loss and other provisions)	29	23,121	(54,576)	23,612	(53,732)
Profit before taxation and minority interest		133,451	50,676	94,394	89,665
Taxation	30	(35,181)	(14,668)	(26,504)	(25,191)
Profit after taxation		98,270	36,008	67,890	64,474
Minority interest		–	(276)	–	–
Net profit for the financial period/year		98,270	35,732	67,890	64,474
Basic earnings per share (sen)	31	29.0	10.6	20.0	19.0
Dividends per share (sen)	32	40.0	20.0	40.0	20.0

Statement of changes in shareholders' equity

FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

	Note	Share capital RM'000	Non-distributable Statutory reserve RM'000	Translation reserve RM'000	Distributable Retained profits RM'000	Total RM'000
Group						
Balance as at 30.6.2002		338,646	187,321	–	234,838	760,805
Net profit for the financial year		–	–	–	35,732	35,732
Currency translation differences		–	–	23	–	23
Dividends for year ended:						
– 30.6.2002		–	–	–	(18,287)	(18,287)
– 30.6.2003	32	–	–	–	(24,383)	(24,383)
Transfer to statutory reserve		–	16,119	–	(16,119)	–
Balance as at 30.6.2003		338,646	203,440	23	211,781	753,890
Balance as at 30.6.2003		338,646	203,440	23	211,781	753,890
Net profit for the financial period		–	–	–	98,270	98,270
Currency translation differences		–	–	75	–	75
Dividends for year ended:						
– 30.6.2003	32	–	–	–	(24,382)	(24,382)
Transfer to statutory reserve		–	16,972	–	(16,972)	–
Balance as at 31.12.2004		338,646	220,412	98	268,697	827,853
Bank						
	Note	Share capital RM'000	Non-distributable Statutory reserve RM'000		Distributable Retained profits RM'000	Total RM'000
Balance as at 30.6.2002		338,646	187,321		229,416	755,383
Net profit for the financial year		–	–		64,474	64,474
Dividends for year ended:						
– 30.6.2002		–	–		(18,287)	(18,287)
– 30.6.2003	32	–	–		(24,383)	(24,383)
Transfer to statutory reserve		–	16,119		(16,119)	–
Balance as at 30.6.2003		338,646	203,440		235,101	777,187
Balance as at 30.6.2003		338,646	203,440		235,101	777,187
Net profit for the financial period		–	–		67,890	67,890
Dividends for year ended:						
– 30.6.2003	32	–	–		(24,382)	(24,382)
Transfer to statutory reserve		–	16,972		(16,972)	–
Balance as at 31.12.2004		338,646	220,412		261,637	820,695

Cash flow statements

FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

Note	Group		Bank	
	18 months period ended	12 months year ended	18 months period ended	12 months year ended
	31.12.2004 RM'000	30.6.2003 RM'000	31.12.2004 RM'000	30.6.2003 RM'000
OPERATING ACTIVITIES				
Profit before taxation	133,451	50,676	94,394	89,665
Adjustments for items not involving movement of cash and cash equivalents:				
Depreciation	11,651	4,960	1,456	351
Accretion of discount less amortisation of premium	(3,874)	(1,046)	(3,874)	(1,076)
Provision for bad and doubtful debts(net) (Writeback)/provision for other debtors (net)	17,356 (4,634)	39,269 4,170	16,865 (4,634)	38,431 4,170
Net interest suspended	8,887	21,935	4,251	21,528
Provision for/(writeback of) diminution in value of shares and securities	31,327	(3,270)	31,327	(3,270)
Interest income from investment securities	(22,511)	(40,332)	(22,511)	(39,577)
Other income from investment securities	(5,713)	–	(5,712)	–
Gain on allocation of Bursa Malaysia Berhad shares	(12,492)	–	–	–
Gain from sale of investment securities	(2,202)	(25,459)	(3,596)	(25,459)
Net gain on disposal of property, plant and equipment	(883)	(1,157)	(453)	(996)
Property, plant and equipment written off	584	1,177	–	11
Gross dividend income	(844)	(1,416)	(22,810)	(9,009)
Gain from disposal of a subsidiary	(107)	–	–	–
Provision for amounts recoverable from Danaharta	–	11,131	–	11,131
	149,996	60,638	84,703	85,900
(Increase)/decrease in operating assets:				
Securities purchased under resale agreements	(129,766)	1,059	–	–
Deposits and placements with financial institutions	33,506	33,097	19,000	30,000
Dealing securities	(272,583)	(748,851)	(293,783)	(720,499)
Loans and advances	148,004	330,840	148,004	330,840
Clients' and brokers' balances	(133,897)	9,630	–	–
Other assets	58,805	45,162	15,528	(24,210)
Statutory deposits with Bank Negara Malaysia	(8,350)	(12,300)	(8,350)	(12,300)
(Decrease)/increase in operating liabilities:				
Deposits from customers	3,069	609,174	3,069	609,174
Deposits and placements of banks and other financial institutions	(309,438)	(56,442)	(309,438)	(56,442)
Obligations on securities sold under repurchase agreements	362,884	(215,610)	362,884	(215,610)
Amount due to Cagamas Berhad	(16,544)	(1,927)	(16,544)	(1,927)
Bills and acceptances payable	(2,936)	2,936	(2,936)	2,936
Clients' and brokers' balances	160,329	(46,426)	–	–
Other liabilities	(4,234)	(68,316)	3,593	(61,680)
Cash generated from/(used in) operations	38,845	(57,336)	5,730	(33,818)
Tax paid	(7,720)	(47,046)	(2,680)	(46,805)
Tax recovered	10,858	–	10,858	–
Net cash generated from/(used in) operating activities	41,983	(104,382)	13,908	(80,623)

Cash flow statements

FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

	Note	Group		Bank	
		18 months period ended	12 months year ended	18 months period ended	12 months year ended
		31.12.2004 RM'000	30.6.2003 RM'000	31.12.2004 RM'000	30.6.2003 RM'000
INVESTING ACTIVITIES					
Proceeds from sale net of purchase of investment securities		55,586	492,638	55,479	491,519
Interest received from investment securities		6,958	42,430	6,957	41,675
Purchase of property, plant and equipment		(7,925)	(5,391)	(2,946)	(1,520)
Proceeds from sale of property, plant and equipment		1,232	3,283	459	1,123
Dividend income received		608	1,332	16,423	1,332
Proceeds from disposal of a subsidiary	41	377	–	–	–
Acquisition of subsidiaries	38	–	(241,253)	–	(314,896)
Acquisition of shares from minority interest	38	–	(8,646)	–	(8,646)
Net cash generated from investing activities		56,836	284,393	76,372	210,587
FINANCING ACTIVITIES					
Drawdown of borrowings		5,001	–	–	–
Dividends paid to shareholders		(24,382)	(33,719)	(24,382)	(42,670)
Dividends paid to minority interest		–	(8,951)	–	–
Net cash used in financing activities		(19,381)	(42,670)	(24,382)	(42,670)
Net increase in cash and short-term funds		79,438	137,341	65,898	87,294
Cash and cash equivalents at beginning of the financial period/year		778,510	641,169	725,422	638,128
Cash and cash equivalents at end of the financial period/year		857,948	778,510	791,320	725,422
ANALYSIS OF CASH AND CASH EQUIVALENTS:					
Cash and short-term funds	2	857,948	778,510	791,320	725,422

Summary of significant accounting policies

FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

The following accounting policies have been used consistently in dealing with items which are considered material in relation to the financial statements other than the adoption of the new applicable approved accounting standards as disclosed below.

A BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the Group and the Bank have been prepared under the historical cost convention except as disclosed in this summary of significant accounting policies and is in accordance with the applicable approved accounting standards in Malaysia, directives and guidelines issued by Bank Negara Malaysia ('BNM') and the provisions of the Companies Act, 1965.

The new applicable approved accounting standard adopted in these financial statements is MASB Standard 29 "Employee Benefits". There is no material impact on the financial statements as a result of the adoption of this standard.

B BASIS OF CONSOLIDATION

Subsidiaries are consolidated using the acquisition method of accounting.

Under the acquisition method of accounting, subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The cost of an acquisition is the amount of cash paid and the fair value at the date of acquisition of other purchase consideration given by the acquirer together with directly attributable expenses of the acquisition. At the date of acquisition, the fair values of the subsidiaries' net assets are determined and these values are reflected in the consolidated financial statements. The excess of the cost of acquisition, over the fair value of the Group's share of the subsidiaries identifiable net assets at the date of acquisition is reflected as goodwill.

All material intercompany transactions have been eliminated on consolidation and the consolidated financial statements reflect external transactions only.

The gain or loss on disposal of a subsidiary is the difference between net disposal proceeds and the Group's shares of its net assets together with the goodwill on consolidation.

C GOODWILL

Goodwill arising on consolidation represents the excess of the purchase price over the fair value of the separable net assets of subsidiaries at the date of acquisition.

Goodwill is retained in the consolidated balance sheet and is stated at cost less any impairment losses. At each balance sheet date, the Group assesses whether there is any indication of impairment in goodwill. If such indications of impairment exist, the carrying amount of goodwill is assessed and written down immediately to its recoverable amount.

D INCOME RECOGNITION

- (i) Interest income is recognised on an accrual basis. Where an account is classified as non-performing, interest is suspended until it is realised on a cash basis. Customers' accounts are classified as non-performing when repayments are in arrears for six months or more from the first day of default for loans and advances and after three months from maturity date for bankers' acceptances. The policy on suspension of interest is in conformity with BNM's 'Guidelines on the Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts (GP3)'.
- (ii) Interest income from margin financing, clients' overdue outstanding purchases and contra losses are recognised on an accrual basis and where an account is classified as non-performing, recognition of interest income is suspended until it is realised on a cash basis. The stockbroking subsidiary's policy of classifying an account as non-performing conforms with the requirements of Chapter 11, Schedule 7, Rule 1104.1 laid down in the Rules of the Bursa Malaysia Securities Berhad.
- (iii) Loan arrangement, management and participation fees, acceptance and underwriting commissions are recognised as income when all conditions precedent are fulfilled.

Summary of significant accounting policies

FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

D INCOME RECOGNITION (CONTINUED)

- (iv) Brokerage is recognised when contracts are executed.
- (v) Guarantee fees are recognised as income upon issuance of guarantees.
- (vi) Commitment fees are recognised as income based on time apportionment.
- (vii) Fees from advisory and corporate finance activities are recognised as income on completion of each stage of the engagement and issuance of invoice.
- (viii) Sales value of trust units is recognised on the approval of a unitholder's application. Value from the cancellation of trust units is recognised on the approval by the Trustee.
- (ix) Management fee of the unit trust management company are recognised on an accrual basis.
- (x) Dividends from subsidiaries are recognised when the shareholders' right to receive payment is established, while dividends from other investments are recognised when received.

E PROVISION FOR NON-PERFORMING DEBTS

Specific provisions are made for debts which have been individually reviewed and specifically identified as non-performing.

A general provision for banking operations based on a percentage of the loan portfolio is also made to cover possible losses which are not specifically identified.

General provision for securities operations is made based on a percentage of the total amount due from clients after deducting the amount of interest-in-suspense and specific provision for bad and doubtful debts.

An uncollectible loan or portion of a loan classified as bad is written off after taking into consideration the realisable value of collateral, if any, when in the judgement of the management, there is no prospect of recovery.

The Bank's provision for non-performing debts is in conformity with the minimum requirements of BNM's 'Guidelines on the Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts' ('GP 3').

The stockbroking subsidiary's provision for non-performing debts is in conformity with the requirements of Chapter 11, Schedule 7, Rule 1104.1 of the Rules of the Bursa Malaysia Securities Berhad.

F REPURCHASE AGREEMENTS

Securities purchased under resale agreements are securities which the Group had purchased with a commitment to resell at a future date. The commitment to resell the securities is reflected as an asset on the balance sheet.

Conversely, obligation on securities sold under repurchase agreements are securities which the Group had sold from its portfolio, with a commitment to repurchase at a future date. Such financing transactions and the obligation to repurchase the securities are reflected as a liability on the balance sheet.

G FORWARD EXCHANGE CONTRACTS

Outstanding forward exchange contracts are valued as at balance sheet at forward rates applicable to their respective dates of maturity, and unrealised gains or losses are recognised in the income statement for the financial period.

H BILLS AND ACCEPTANCES PAYABLE

Bills and acceptances payable represent the Bank's own bills and acceptances rediscounted and outstanding in the market.

Summary of significant accounting policies

FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

I AMOUNT DUE TO CAGAMAS

In the normal course of banking operations, the Bank enters into agreements with third parties to acquire loans for onward sale to Cagamas Berhad. The Bank is liable in respect of loans which are regarded as defective and this obligation is reflected as a liability on the balance sheet. The liability is fully indemnified by the originator of the loans and accordingly the amount indemnified is recognised as an asset on the balance sheet.

J DEALING SECURITIES

Dealing securities are marketable securities that are acquired and held with the intention of resale in the short-term, and are stated at the lower of cost and market value determined on portfolio basis.

The unquoted shares of Bursa Malaysia Berhad are stated at the fair value of those shares, which the Directors consider in the absence of an active market for such shares, the fair value shall be based on the net asset value of those shares.

Transfers, if any, between dealing and investment securities are made at the lower of cost and market value.

K INVESTMENT SECURITIES

Investment securities are securities that are acquired and held for yield or capital growth or to meet minimum liquid assets requirement pursuant to the new liquidity framework and are usually held to maturity.

Malaysian Government securities, Malaysian Government investment certificates, Cagamas bonds, other Government securities, and Bank Guaranteed Private Debt Securities held for investment are stated at cost adjusted for amortisation of premium or accretion of discount to maturity date. Other Private Debt Securities are valued at lower of cost and market value. Other investment securities are stated at cost and provision is made in the event of any permanent diminution in value.

Transfers, if any, between investment and dealing securities are made at the lower of carrying value and market value.

L RECEIVABLES

Receivables are carried at anticipated realisable value. An estimate is made for doubtful debts based on review of all outstanding amounts at the end of the period. Bad debts are written off during the financial period in which they are identified.

M INVESTMENT IN SUBSIDIARIES

Subsidiaries are those corporations or other entities in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from their activities.

Investment in subsidiaries are shown at cost less any impairment losses. At each balance sheet date, the Company assesses whether there is any indication of impairment. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount.

N PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated to write off the cost of the property, plant and equipment on a straight line basis over the expected useful lives of the assets concerned. The principal annual rates are:

Office equipment and furniture	15% to 33 $\frac{1}{3}$ %
Renovations	10%
Computer equipment	33 $\frac{1}{3}$ %
Motor vehicles	20%

Depreciation on property, plant and equipment under work-in-progress commences when the assets are ready for their intended use.

At each balance sheet the Group assesses whether there is any indication of impairment. Where an indication of impairment exists, the carrying amount of the asset is assessed and written down immediately to its recoverable amount.

Summary of significant accounting policies

FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

O INTEREST RATE SWAPS, FUTURES, FORWARD AND OPTION CONTRACTS

The Bank acts as an intermediary with counterparties who wish to swap their interest obligation. The Bank also uses interest rate swaps, futures, forward and option contracts in its trading account activities and overall interest rate risk management.

Interest income or interest expense associated with interest rate swaps that qualify as hedges is recognised over the life of the swap agreement as a component of interest income or interest expense. Gains and losses on interest rate swaps, futures, forward and option contracts that qualify as hedges are deferred and amortised over the life of the hedged assets or liabilities as adjustments to interest income or interest expense.

Gains and losses on interest rate swaps, futures, forward and option contracts that do not qualify as hedges are recognised in the current financial period using the mark-to-market method, and are included in the income statement.

P DEFERRED TAXATION

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise from property, plant and equipment, loans and advances and tax losses carried forward.

Tax rates enacted or substantively enacted at the balance sheet date are used to determine deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Q OPERATING LEASES - ASSETS PURCHASED UNDER LEASE

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight line basis over the lease period.

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

R AMOUNTS RECOVERABLE FROM DANAHARTA

For loans sold to Pengurusan Danaharta Nasional Berhad ('Danaharta'). The total consideration is received in two portions; upon the sale of the loans (initial consideration) and upon the recovery of the loans (final consideration). The final consideration amount represents the Bank's predetermined share of the surplus over the initial consideration upon recovery of the loans.

The difference between the carrying value of the loans and the initial consideration is recognised as 'Amounts Recoverable from Danaharta' within the 'Other Assets' component of the balance sheet. Provisions against these amounts are in accordance with BNM's 'Guidelines on the Sale of Non-Performing Loans to Pengurusan Danaharta Nasional Berhad' issued on 30 April 1999, and reflect the Directors' assessment of the realisable value of the final consideration as at the balance sheet date.

S EMPLOYEE BENEFITS

(i) Short term employee benefits

Wages, salaries, paid annual leave and sick leave, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group. In previous financial years, the Group did not accrue for paid annual leave. However, there is no material impact as a result of adopting the change in accounting policy.

(ii) Post-employment benefits

A defined contribution plan is a pension plan under which the Group pays fixed contributions to a national pension scheme, Employee Provident Fund ('EPF').

The Group's contributions to defined contribution plans are charged to the income statement in the period to which they relate. Once the contributions have been paid, the Group has no further legal or constructive obligations.

Summary of significant accounting policies

FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

T IMPAIRMENT OF ASSETS

Property, plant and equipment and other non-current assets, including intangible asset, are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's net selling price and value in use. For the purposes of assessing impairments, assets are grouped at the lowest level for which there is separately identifiable cash flows.

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

U CURRENCY CONVERSION AND TRANSLATION

The financial statements are presented in Ringgit Malaysia.

Transaction in foreign currencies are translated into Ringgit Malaysia at exchange rates prevailing at the transaction dates. Monetary assets and liabilities in foreign currencies at the balance sheet date are translated into Ringgit Malaysia at exchange rates prevailing at the balance sheet date. Exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are included in the income statement.

The principal closing rates used in translation of foreign currency amounts were as follows:

	31.12.2004	30.6.2003
	RM	RM
Foreign currency		
1 US Dollar	3.80	3.80

V CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash and bank balances and short term funds that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

W DIVIDENDS

Dividends on ordinary shares are recognised as liabilities when shareholder's right to receive the dividends is established.

X BORROWINGS

Borrowings are initially recognised based on the proceeds received, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method. Any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings.

Notes to the financial statements

FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

1 GENERAL INFORMATION

RHB Sakura Merchant Bankers Berhad is a public limited company, incorporated and domiciled in Malaysia. It is principally engaged in merchant banking and provision of related financial services.

The principal activities of the Group consist of merchant banking, provision of related financial services, unit trust management, stockbroking, asset management, futures broking, research services and provision of nominee services.

The financial year end of the Bank was changed from 30 June to 31 December to be consistent with that of its ultimate holding company, Rashid Hussain Berhad. Accordingly, comparative amounts for the income statements, changes in equity, cash flow and related notes are not comparable.

The number of employees in the Group and the Bank as at the end of the financial period amounted to 703 (30.6.2003: 713) and 225 (30.6.2003: 187) employees respectively.

The directors regard RHB Capital Berhad and Rashid Hussain Berhad, both companies incorporated in Malaysia as the holding company and ultimate holding company respectively.

The address of the registered office of the Bank is Level 10, Tower One, RHB Centre, Jalan Tun Razak, 50400 Kuala Lumpur.

2 CASH AND SHORT-TERM FUNDS

	Group		Bank	
	As at 31.12.2004 RM'000	As at 30.6.2003 RM'000	As at 31.12.2004 RM'000	As at 30.6.2003 RM'000
Cash and balances with banks and other financial institutions	43,232	26,098	370	1,322
Money at call and deposit placements maturing within one month	814,716	752,412	790,950	724,100
	857,948	778,510	791,320	725,422

Included in cash and balances with banks and other financial institutions of the Group are trust accounts totalling RM10,958,000 (30.6.2003: RM4,089,000) maintained by the stockbroking and futures broking subsidiaries in trust for clients.

Included in money at call and deposit placements of the Group are (i) trust accounts totalling RM122,788,000 (30.6.2003: RM28,312,000) maintained by the stockbroking and futures broking subsidiaries in trust for clients, and (ii) deposit placements of RM120,000 (30.6.2003: RM nil) pledged to the licensed banks concerned as security for facilities granted to the stockbroking subsidiary.

3 DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

	Group		Bank	
	As at 31.12.2004 RM'000	As at 30.6.2003 RM'000	As at 31.12.2004 RM'000	As at 30.6.2003 RM'000
Licensed banks	–	33,506	–	19,000

Deposits placed with licensed banks amounting to RM nil (30.6.2003: RM219,000) of the Group is pledged to the licensed banks concerned as security for facilities granted to the stockbroking subsidiary.

Included in deposits and placements with licensed banks of the Group are trust accounts totalling RM nil (30.6.2003: RM11,927,182) maintained by the stockbroking subsidiary in trust for remisers.

Notes to the financial statements

FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

4 DEALING SECURITIES

	Group		Bank	
	As at 31.12.2004 RM'000	As at 30.6.2003 RM'000	As at 31.12.2004 RM'000	As at 30.6.2003 RM'000
Money market instruments:				
Malaysian Government securities	125,204	258,767	125,204	258,767
Cagamas bonds	–	44,376	–	44,376
Bankers' acceptances	689,560	–	689,560	–
Negotiable certificates of deposit	20,057	–	20,057	–
Malaysian Government treasury bills	40	2,993	40	2,993
Bank Negara negotiable notes	1,330	–	1,330	–
Promissory notes	26,717	9,834	26,717	9,834
Khazanah Bonds	–	51,630	–	51,630
Corporate bonds	465,659	655,162	465,659	655,162
	1,328,567	1,022,762	1,328,567	1,022,762
Quoted securities:				
<u>In Malaysia</u>				
Shares	13,682	23,270	11,217	23,239
Unit trust	5,868	29,502	–	–
Unquoted securities:				
<u>In Malaysia</u>				
Shares	12,492	–	–	–
Total dealing securities	1,360,609	1,075,534	1,339,784	1,046,001
Market value of quoted money market instruments and securities:				
Malaysian Government securities	125,359	259,387	125,359	259,387
Cagamas bonds	–	44,502	–	44,502
Shares	28,914	53,704	26,449	23,882
Unit Trust	5,987	29,787	–	–

The unquoted shares of Bursa Malaysia Berhad (4,545,455 ordinary shares at a nominal value of RM0.50 each) at the end of the current financial period was received by the stockbroking subsidiary arising from the demutualisation of the Kuala Lumpur Stock Exchange which was completed on 5 January 2004 under Section 4(4) of the Demutualisation (Kuala Lumpur Stock Exchange) Act 2003. The shares cannot be disposed without the appropriate regulatory approvals until and unless such shares have been listed. In the absence of other clear indicators, the Directors consider that the underlying net tangible asset value of RM2.75 per share as reflected in the latest audited financial statements of Bursa Malaysia Berhad as at 31 December 2003 is a reasonable indicator of fair value.

Notes to the financial statements

FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

5 INVESTMENT SECURITIES

	Group		Bank	
	As at 31.12.2004 RM'000	As at 30.6.2003 RM'000	As at 31.12.2004 RM'000	As at 30.6.2003 RM'000
Money market instruments:				
Malaysian Government securities	55,525	4,996	55,525	4,996
Khazanah bonds	45,507	–	45,507	–
Danaharta bonds	–	17,856	–	17,856
Prasarana Bonds	97,302	–	97,302	–
Bankers' acceptances	–	308,356	–	308,356
Negotiable certificates of deposit	–	20,374	–	20,374
Corporate bonds	50,000	15,107	50,000	15,107
	248,334	366,689	248,334	366,689
Quoted securities:				
<u>In Malaysia</u>				
Corporate bonds	–	32,129	–	32,129
Unquoted securities:				
<u>In Malaysia</u>				
Corporate bonds	352,490	226,933	352,490	225,433
Shares	4,223	4,224	2,223	2,223
<u>Outside Malaysia</u>				
Corporate bonds	–	24,282	–	24,282
	605,047	654,257	603,047	650,756
Accretion of discount less amortisation of premium	2,543	4,236	2,543	4,236
Provision for diminution in value of investment securities	(90,091)	(60,157)	(90,091)	(60,157)
	517,499	598,336	515,499	594,835

Included in unquoted shares is RM1,000,000 of a third party redeemable preference shares with a nominal value of RM1.00 each which were charged to a third party as part of a financing transaction facilitated by the Bank.

	Group		Bank	
	As at 31.12.2004 RM'000	As at 30.6.2003 RM'000	As at 31.12.2004 RM'000	As at 30.6.2003 RM'000
(i) The market value of quoted money market instruments and securities:				
Malaysian Government securities	53,504	5,046	53,504	5,046
Corporate bonds	45,854	20,965	45,854	20,965

Notes to the financial statements

FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

5 INVESTMENT SECURITIES (CONTINUED)

	Group and Bank	
	As at	As at
	31.12.2004	30.6.2003
	RM'000	RM'000
(ii) The maturity structure of money market instruments held for investment are as follows:		
Maturity within one year	–	333,869
One to three years	50,000	17,713
Three to five years	57,057	–
Over five years	141,277	15,107
	248,334	366,689

6 LOANS AND ADVANCES

	Group and Bank	
	As at	As at
	31.12.2004	30.6.2003
	RM'000	RM'000
Term loans – floating rate	571,078	537,506
Claims on customers under acceptance credits	23,263	22,607
Revolving credits	329,279	574,028
Staff loans	8,441	9,777
	932,061	1,143,918
Unearned interest	(135)	(83)
Gross loans and advances	931,926	1,143,835
Provision for bad and doubtful debts		
– specific	(77,810)	(100,696)
– general	(15,209)	(18,396)
Interest-in-suspense	(32,030)	(48,746)
Net loans and advances	806,877	975,997
(i) The maturity structure of loans and advances are as follows:		
Maturity within one year	673,846	1,030,105
One year to three years	182,465	102,940
Three years to five years	46,279	10,873
Over five years	29,471	–
	932,061	1,143,918

Notes to the financial statements

FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

6 LOANS AND ADVANCES (CONTINUED)

	Group and Bank	
	As at	As at
	31.12.2004	30.6.2003
	RM'000	RM'000
(ii) Loans and advances analysed by their economic sectors are as follows:		
Agriculture	34,073	18,911
Mining and quarrying	31,293	27,227
Manufacturing	240,949	259,160
Electricity, gas and water	73,676	200,976
Construction	22,877	120,703
Real estate	142,021	163,708
Purchase of landed property (of which:		
(i) Residential	5,249	6,177
(ii) Non-residential)	12,870	3,039
General commerce	58,869	62,363
Transport, storage and communication	2	10,018
Finance, insurance and business services	-	58,594
Purchase of securities	251,611	119,474
Purchase of transport vehicles	3,105	3,524
Consumption credit	20,147	76
Others	35,319	89,968
	932,061	1,143,918
(iii) Movements in the non-performing loans (including interest receivables) are as follows:		
Balance as at beginning of the financial period/year	480,353	429,255
Non-performing during the financial period/year (gross)	51,512	131,591
Amount recovered	(67,025)	(14,284)
Amount reclassified as performing	-	(17,008)
Amount written off	(55,324)	(1,368)
Amount converted to investment securities	(125,961)	(47,833)
Balance as at end of the financial period/year	283,555	480,353
Total non-performing loans and advances less specific provision and interest-in-suspense expressed as a percentage of gross loans and advances less specific provision and interest-in-suspense	21.30%	33.71%
(iv) Movements in the provision for bad and doubtful debts and interest-in-suspense are as follows:		
General provision		
Balance as at beginning of the financial period/year	18,396	26,223
Write back during the financial period/year	(3,187)	(7,827)
Balance as at end of the financial period/year	15,209	18,396
% of total gross loans and advances less specific provision and interest-in-suspense	1.85%	1.85%

Notes to the financial statements

FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

6 LOANS AND ADVANCES (CONTINUED)

(iv) Movements in the provision for bad and doubtful debts and interest-in-suspense are as follows: (continued)

	Group and Bank	
	As at	As at
	31.12.2004	30.6.2003
	RM'000	RM'000
Specific provision		
Balance as at beginning of the financial period/year	100,696	76,611
Provision made during the financial period/year	20,443	46,285
Amount recovered	(391)	(27)
Amount transferred to diminution in value of securities	(4,670)	(20,900)
Amount written off	(38,268)	(1,273)
Balance as at end of the financial period/year	77,810	100,696
Interest-in-suspense		
Balance as at beginning of the financial period/year	48,746	29,813
Interest suspended during the financial period/year	26,504	25,810
Amount recovered	(22,253)	(4,282)
Amount transferred to diminution in value of securities	(3,911)	(2,500)
Amount written off	(17,056)	(95)
Balance as at end of the financial period/year	32,030	48,746

7 CLIENTS' AND BROKERS' BALANCES

	Group	
	As at	As at
	31.12.2004	30.6.2003
	RM'000	RM'000
Performing accounts	270,004	144,846
Non-performing accounts – Bad	21,337	10,225
– Doubtful	–	2,417
	291,341	157,488
Less: Provision for bad and doubtful debts		
– Specific	(6,882)	(5,696)
– General	(905)	(1,600)
Interest-in-suspense	(11,475)	(6,884)
	272,079	143,308

Movements in the specific provision are as follows:

Balance as at beginning of the financial period/year	5,696	–
Arising from acquisition of a subsidiary	–	4,858
Provision made during the financial period/year	5,489	844
Amount written off	–	(6)
Recoveries	(4,303)	–
Balance as at end of the financial period/year	6,882	5,696

Movements in the interest-in-suspense are as follows:

Balance as at beginning of the financial period/year	6,884	–
Arising from acquisition of a subsidiary	–	6,672
Interest suspended during the financial period/year	6,604	1,512
Amount recovered	(1,968)	(1,105)
Amount written off	(45)	(195)
Balance as at end of the financial period/year	11,475	6,884

Notes to the financial statements

FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

8 OTHER ASSETS

		Group		Bank	
		As at 31.12.2004 RM'000	As at 30.6.2003 RM'000	As at 31.12.2004 RM'000	As at 30.6.2003 RM'000
Housing loans acquired for sale to Cagamas Berhad	(i)	–	16,544	–	16,544
Amounts due from related companies	(ii)	1,978	1,333	766	747
Other debtors, deposits and prepayments		14,308	12,834	6,525	5,437
Accrued interest receivable		12,133	12,037	12,128	12,037
Amount recoverable from Danaharta	(iii)	–	–	–	–
		28,419	42,748	19,419	34,765

The other debtors, deposits and prepayments balances for the Group and the Bank are stated at net of provision for doubtful debts of RM6,613,758 (30.6.2003: RM15,843,182).

(i) Housing loans acquired for sale to Cagamas Berhad

In the normal course of banking operations, the Bank entered into agreements with third parties to acquire loans for onward sale to Cagamas Berhad. Included in 'Amount due to Cagamas' is the outstanding balance of RM nil (30.6.2003: RM16,544,000) for which the Bank is liable in respect of loans sold to Cagamas Berhad. The liability is fully indemnified by the originator of the loans and accordingly the amount to be indemnified is disclosed as 'Housing loans acquired for sale to Cagamas Berhad'.

(ii) Amounts due from related companies are unsecured, interest-free and not subject to fixed repayment terms.

(iii) Amount recoverable from Danaharta

	Group and Bank	
	As at 31.12.2004 RM'000	As at 30.6.2003 RM'000
Balance as at beginning of the financial period/year	–	15,076
Provision made during the financial period/year	–	(14,423)
Amount recovered during the financial period/year	–	(653)
Balance as at end of the financial period/year	–	–

9 AMOUNTS DUE FROM HOLDING COMPANY

	Group	
	As at 31.12.2004 RM'000	As at 30.6.2003 RM'000
Amounts due from holding company	205,615	252,332

Amounts due from holding company are unsecured, interest free and not subject to fixed repayment terms except an amount of RM76,352,000 (30.6.2003: RM123,510,000) bear interest ranging from 3.6% to 7.9% (30.6.2003: 3.6% to 7.9%) per annum.

Notes to the financial statements

FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

10 AMOUNTS DUE FROM SUBSIDIARIES

	Bank	
	As at 31.12.2004 RM'000	As at 30.6.2003 RM'000
Amount due from subsidiaries	53,153	55,380

Amounts due from subsidiaries are unsecured, interest-free and not subject to fixed repayment terms.

11 DEFERRED TAXATION ASSETS

The movements during the financial period relating to deferred tax are as follows:

	Property plant and equipment RM'000	General provision on loans and advances RM'000	Unabsorbed tax losses RM'000	Other temporary differences RM'000	Total RM'000
Group					
31.12.2004					
Balance as at beginning of the financial period	920	5,151	8,975	258	15,304
(Charged)/credited to income statement	(1,660)	(893)	(8,562)	193	(10,922)
Balance as at end of the financial period	(740)	4,258	413	451	4,382
30.6.2003					
Balance as at beginning of the financial year	-	7,342	-	-	7,342
(Charged)/credited to income statement	262	(2,191)	5,266	(97)	3,240
Acquisition of subsidiaries	658	-	3,709	355	4,722
Balance as at end of the financial year	920	5,151	8,975	258	15,304
Bank					
31.12.2004					
Balance as at beginning of the financial period	-	5,151	-	-	5,151
Charged to income statement	-	(893)	-	-	(893)
Balance as at end of the financial period	-	4,258	-	-	4,258
30.6.2003					
Balance as at beginning of the financial year	-	7,342	-	-	7,342
Charged to income statement	-	(2,191)	-	-	(2,191)
Balance as at end of the financial year	-	5,151	-	-	5,151

12 STATUTORY DEPOSIT WITH BANK NEGARA MALAYSIA

The non-interest bearing statutory deposit is maintained with Bank Negara Malaysia in compliance with Section 37(1)(c) of the Central Bank of Malaysia Act 1958 (revised 1994), the amount of which is determined as a set percentage of total eligible liabilities.

Notes to the financial statements

FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

13 INVESTMENTS IN SUBSIDIARIES

	Bank	
	As at 31.12.2004 RM'000	As at 30.6.2003 RM'000
Unquoted shares at cost	489,574	489,574

The subsidiaries of the Bank are as follows:

Name of Company	Country of incorporation	Paid-up capital RM	Percentage of equity held		Principal activities
			31.12.2004 %	30.6.2003 %	
RHB Unit Trust Management Berhad	Malaysia	2,000,000	100	100	Management of unit trust funds
RHB Merchant Nominees (Tempatan) Sdn Bhd	Malaysia	10,000	100	100	Nominee services for Malaysian beneficial shareholders
RHB Merchant Nominees (Asing) Sdn Bhd	Malaysia	10,000	100	100	Nominee services for foreign beneficial shareholders
RHB Venture Capital Sdn Bhd	Malaysia	2	100	100	Dormant
RHB Holdings Sdn Bhd	Malaysia	2	100	100	Dormant
Semara Jaya Sdn Bhd ¹	Malaysia	2	-	100	Dormant
RHB Securities Sdn Bhd	Malaysia	200,000,000	100	100	Stock broking
RHB Nominees Sdn Bhd	Malaysia	25,000	100	100	Nominee and custodian services
RHB Nominees (Tempatan) Sdn Bhd	Malaysia	25,000	100	100	Nominee and custodian services for Malaysian beneficial shareholders
RHB Nominees (Asing) Sdn Bhd	Malaysia	25,000	100	100	Nominee and custodian services for foreign beneficial shareholders
Straits Nominees (Tempatan) Sdn Bhd	Malaysia	25,000	100	100	Dormant
Straits Nominees (Asing) Sdn Bhd	Malaysia	25,000	100	100	Dormant
RHB Marketing Services Sdn Bhd	Malaysia	100,000	100	100	Investment holding

Notes to the financial statements

FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

13 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of Company	Country of incorporation	Paid-up capital RM	Percentage of equity held		Principal activities
			31.12.2004 %	30.6.2003 %	
Straits Asset Holdings Sdn Bhd	Malaysia	45,000,000	100	100	Investment holding
SSSB Services (Melaka) Sdn Bhd	Malaysia	40,000,000	100	100	Dormant
SFSB Services (Melaka) Sdn Bhd	Malaysia	5,000,000	100	100	Dormant
Straits-G.K. Goh Research Sdn Bhd	Malaysia	500,000	–	100	Research services
RHB Research Institute Sdn Bhd	Malaysia	500,000	100	100	Research services
RHB Asset Management Sdn Bhd	Malaysia	2,000,000	100	100	Asset management services
RHB Futures Sdn Bhd	Malaysia	13,500,000	100	100	Futures and options broking
RHB Management Services (Jersey) Limited	Jersey, Channel Islands	72	100	100	Management services

All subsidiary companies are audited by PricewaterhouseCoopers, Malaysia.

Note

¹ With effect from 7 October 2004 the company has been dissolved following the strike-off procedure pursuant to Section 308 of the Companies Act, 1965.

14 PROPERTY, PLANT AND EQUIPMENT**Group**

31.12.2004 Cost	Office equipment and furniture		Renovations	Computer equipment	Motor vehicles	Total
	RM'000	RM'000				
Balance as at beginning of financial period	22,049	26,228	57,223	5,561	111,061	
Additions	799	840	4,251	2,035	7,925	
Disposal	(304)	(6)	(453)	(2,736)	(3,499)	
Write-offs/transfer	(2,062)	(1,042)	(3,918)	(423)	(7,445)	
Balance as at end of financial period	20,482	26,020	57,103	4,437	108,042	
Accumulated depreciation						
Balance as at beginning of financial period	20,922	23,956	37,386	4,680	86,944	
Charge for the financial period	769	1,363	8,673	846	11,651	
Disposal	(230)	(6)	(352)	(2,562)	(3,150)	
Write-offs/transfer	(2,053)	(1,042)	(3,346)	(420)	(6,861)	
Balance as at end of financial period	19,408	24,271	42,361	2,544	88,584	

Notes to the financial statements

FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

14 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**Group**

31.12.2004	Office equipment and furniture RM'000	Renovations RM'000	Computer equipment RM'000	Motor vehicles RM'000	Total RM'000
Impairment losses					
Balance as at beginning and end of financial period	–	–	2,925	–	2,925
Net book value as at end of financial period	1,074	1,749	11,817	1,893	16,533

30.6.2003

Cost	22,049	26,228	57,223	5,561	111,061
Accumulated depreciation	(20,922)	(23,956)	(37,386)	(4,680)	(86,944)
Impairment loss	–	–	(2,925)	–	(2,925)
Net book value as at end of financial year	1,127	2,272	16,912	881	21,192

Bank	Office equipment and furniture RM'000	Computer equipment RM'000	Motor vehicles RM'000	Total RM'000	
31.12.2004					
Cost					
Balance as at beginning of financial period		8,355	4,878	1,142	14,375
Additions		602	989	1,355	2,946
Disposal		–	–	(1,013)	(1,013)
Write off		(236)	(240)	–	(476)
Balance as at end of financial period		8,721	5,627	1,484	15,832
Accumulated depreciation					
Balance as at beginning of financial period		8,295	3,367	1,130	12,792
Charge for the financial period		80	1,188	188	1,456
Disposal		–	–	(1,007)	(1,007)
Write off		(236)	(240)	–	(476)
Balance as at end of financial period		8,139	4,315	311	12,765
Net book value as at end of financial period		582	1,312	1,173	3,067
30.6.2003					
Cost		8,355	4,878	1,142	14,375
Accumulated depreciation		(8,295)	(3,367)	(1,130)	(12,792)
Net book value as at end of financial year		60	1,511	12	1,583

Notes to the financial statements

FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

15 GOODWILL ON CONSOLIDATION

	Group	
	As at	As at
	31.12.2004	30.6.2003
	RM'000	RM'000
Cost		
Balance as at beginning of the financial period/year	172,844	–
Arising during the financial period/year	–	172,844
Balance as at end of the financial period/year	172,844	172,844

16 DEPOSITS FROM CUSTOMERS

	Group and Bank	
	As at	As at
	31.12.2004	30.6.2003
	RM'000	RM'000
Fixed deposits	1,370,015	1,366,946
(i) Maturity structure of fixed deposits are as follows:		
Due within six months	1,210,015	1,343,546
Six months to one year	160,000	23,400
	1,370,015	1,366,946
(ii) The deposits are sourced from the following customers:		
Business enterprises	979,315	996,246
Others	390,700	370,700
	1,370,015	1,366,946

17 DEPOSITS AND PLACEMENTS OF BANKS AND FINANCIAL INSTITUTIONS

	Group and Bank	
	As at	As at
	31.12.2004	30.6.2003
	RM'000	RM'000
Licensed banks	770,000	779,190
Licensed finance companies	–	30,000
Other financial institutions	373,204	643,452
	1,143,204	1,452,642

18 CLIENTS' AND BROKERS' BALANCES

Included in clients' and brokers' balances are clients' trust balances, held by a subsidiary in trust for clients of RM128,862,000 (30.6.2003: RM38,064,000).

Notes to the financial statements

FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

19 OTHER LIABILITIES

	Group		Bank	
	As at	As at	As at	As at
	31.12.2004	30.6.2003	31.12.2004	30.6.2003
	RM'000	RM'000	RM'000	RM'000
Accrued interest payable	11,548	21,428	11,548	21,426
Amount due to related companies (i)	7,805	412	8,624	397
Amount due to immediate holding company (ii)	679	1,590	-	-
Amount payable for creation of units due to funds	14,037	14,980	-	-
Amount payable for redemption of units	742	20,290	-	-
Remisiers' trust deposits	12,048	11,927	-	-
Accrued personnel costs	10,342	9,748	8,591	4,984
Other accruals and payables	32,039	13,099	4,613	2,976
	89,240	93,474	33,376	29,783

(i) Amounts due to related companies and immediate holding company are unsecured, interest free and not subject to fixed repayment terms.

20 SHORT TERM BORROWINGS

	Group	
	As at	As at
	31.12.2004	30.6.2003
	RM'000	RM'000
Unsecured:		
Revolving credits	5,000	-
Bank overdrafts	1	-
	5,001	-

These borrowings bear interest at rates ranging from 1.25% to 1.75% per annum above the cost of funds or base lending rate of the respective banking institutions.

21 SUBORDINATED BONDS

	Group and Bank	
	As at	As at
	31.12.2004	30.6.2003
	RM'000	RM'000
Subordinated bonds	165,000	165,000

On 9 December 2002, the Bank issued a 10 year non-callable 5-year Subordinated Bonds for an aggregate nominal value of RM165 million at par ('Sub Bonds'). The Sub Bonds are redeemable unsecured subordinated obligations of the Bank and qualify as Tier II capital for the purpose of BNM's capital adequacy requirements.

The Sub Bonds constitute redeemable unsecured obligations of the Bank, subordinate in right and priority of payment, to the extent and in the manner provided in the terms of the Sub Bonds, to all deposit liabilities and other liabilities of the Bank except those liabilities which by their terms rank pari-passu in right of priority of payment with or subordinate to the Sub Bonds. The Sub Bonds are, in the event of a distribution of assets in the winding-up or liquidation of the Bank, rank senior to the share capital of the Bank.

Notes to the financial statements

FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

21 SUBORDINATED BONDS (CONTINUED)

The Sub Bonds was used as part settlement of the transfer consideration paid by the Bank for the proposed Transfer of the Securities and Securities Related Business Entities from RHB Capital to the Bank pursuant to the Group Restructuring Scheme of the RHB Group.

The coupon for Sub Bonds shall be accrued at the rate of 8.20% per annum ('p.a') and commencing from the beginning of the sixth year from the issue date, the coupon rate shall be stepped up to 10.70% p.a. to the maturity date. Coupon payments are payable semi-annually in arrears, with the last payment to be made on the maturity date.

22 SHARE CAPITAL

	Bank	
	As at 31.12.2004 RM'000	As at 30.6.2003 RM'000
Ordinary shares of RM1 each:		
Authorised	1,000,000	1,000,000
Issued and fully paid	338,646	338,646

23 RESERVES

The statutory reserve is maintained in compliance with Section 36 of the Banking and Financial Institutions Act, 1989 and is not distributable as cash dividends.

Subject to agreement by the Inland Revenue Board, the Bank has sufficient tax credits under Section 108 of the Income Tax Act, 1967 and tax exempt income under Section 12 of the Income Tax (Amendment) Act 1999 to pay dividends out of its entire retained profits as at 31 December 2004.

24 INTEREST INCOME

	Group		Bank	
	18 months period ended 31.12.2004 RM'000	12 months year ended 30.6.2003 RM'000	18 months period ended 31.12.2004 RM'000	12 months year ended 30.6.2003 RM'000
Loans and advances	83,622	75,919	83,622	75,919
Money at call and deposit placements with financial institutions	38,165	24,369	35,884	23,660
Dealing securities	76,312	19,501	76,312	19,501
Investment securities	22,511	40,332	22,511	39,577
Others	21,144	7,239	899	304
	241,754	167,360	219,228	158,961
Accretion of discount less amortisation of premium	3,874	1,046	3,874	1,046
Interest suspended net of recoveries	(8,887)	(21,935)	(4,251)	(21,528)
	236,741	146,471	218,851	138,479

Notes to the financial statements

FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

25 INTEREST EXPENSE

	Group		Bank	
	18 months period ended 31.12.2004 RM'000	12 months year ended 30.6.2003 RM'000	18 months period ended 31.12.2004 RM'000	12 months year ended 30.6.2003 RM'000
Deposits and placements of financial institutions	83,871	65,949	83,871	65,949
Deposits from other customers	55,243	28,672	55,243	28,672
Subordinated bonds	20,388	7,562	20,388	7,562
Others	3,553	205	1,296	131
	163,055	102,388	160,798	102,314

26 NON-INTEREST INCOME

	Group		Bank	
	18 months period ended 31.12.2004 RM'000	12 months year ended 30.6.2003 RM'000	18 months period ended 31.12.2004 RM'000	12 months year ended 30.6.2003 RM'000
Fee income:				
Brokerage	109,779	17,788	268	911
Fund management fees	9,546	2,688	-	-
Fee on loans and advances	10,553	1,885	10,553	1,885
Corporate advisory fees	15,684	14,467	15,684	14,467
Guarantee fees	3,042	2,364	3,042	2,364
Underwriting commissions	5,044	541	4,967	541
Unit trust fee income (a)	37,599	15,579	-	-
Other fee income	16,984	16,962	12,015	14,551
	208,231	72,274	46,529	34,719
Investment income:				
Net profit from dealing securities	21,042	61,851	21,042	62,753
Gains from sale of investment securities	2,202	25,459	3,596	25,459
Gross dividends from Malaysia	844	1,416	22,810	9,009
(Provision for)/writeback of diminution in value of shares and securities	(31,327)	3,270	(31,327)	3,270
	(7,239)	91,996	16,121	100,491
Other income:				
Foreign exchange gain				
- realised	4	-	4	-
Gain on disposal of property, plant and equipment	883	1,157	453	996
Gain on allocation of Bursa Malaysia Berhad shares (Note 4)	12,492	-	-	-
Other operating income	8,922	5,189	6,121	4,931
	22,301	6,346	6,578	5,927
	223,293	170,616	69,228	141,137

Notes to the financial statements

FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

26 NON-INTEREST INCOME (CONTINUED)

(a) Unit trust fee income is derived as follows:

	Group	
	18 months ended 31.12.2004 RM'000	12 months ended 30.6.2003 RM'000
Income from sale of units	940,597	502,776
Income from cancellation of units	672,885	32,263
Cost of units created and repurchased	(1,601,886)	(532,591)
Service fee income	11,596	2,448
Annual management fee income	26,003	13,131
	37,599	15,579

27 OVERHEAD EXPENSES

	Group		Bank	
	18 months period ended 31.12.2004 RM'000	12 months year ended 30.6.2003 RM'000	18 months period ended 31.12.2004 RM'000	12 months year ended 30.6.2003 RM'000
Personnel costs (i)	97,628	63,538	39,662	22,686
Establishment costs	46,696	20,509	6,937	4,040
Marketing expenses	18,171	9,067	1,250	542
Administration and general expenses	24,154	16,333	8,650	6,637
	186,649	109,447	56,499	33,905
(i) Personnel costs				
Wages, salaries and bonus	77,046	46,907	29,997	17,748
Contribution to defined contribution plan	9,573	7,406	5,114	2,972
Other staff related costs	11,009	9,225	4,551	1,966
	97,628	63,538	39,662	22,686

The above expenditure includes the following disclosures:

Directors' remuneration (Note 28)	7,918	26,010	1,334	3,049
Rental of premises	15,800	8,103	4,116	2,735
Auditors' remuneration				
– statutory audit fees	157	263	50	110
– special audit fees	269	–	90	–
– non-audit fees	238	–	–	–
Depreciation	11,651	4,960	1,456	351
Property, plant and equipment written off	1,189	1,177	456	11
Impairment loss on property, plant and equipment	–	2,925	–	–

Notes to the financial statements

FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

28 DIRECTORS' REMUNERATION

The Directors of the Bank in office during the financial period are as follows:

Abdullah bin Mat Noh (Chairman)
 Dato Sri Sulaiman Abdul Rahman Taib
 Lim Cheng Yeow
 Akira Miyama
 Vaseehar Hassan bin Abdul Razack
 Dato' Mohamed Khadar Bin Merican
 Lew Foon Keong

The aggregate remuneration of the Directors of the Group and Bank are as follows:

	Group		Bank	
	18 months period ended	12 months year ended	18 months period ended	12 months year ended
	31.12.2004 RM'000	30.6.2003 RM'000	31.12.2004 RM'000	30.6.2003 RM'000
Directors of the Bank				
Executive				
- Salaries	-	431	-	431
- Benefits-in-kind (Based on estimated money value)	-	9	-	9
- Bonus	-	511	-	511
- Pension contribution	-	248	-	248
- Gratuity paid to ex-director	-	1,228	-	1,228
- Others	-	19	-	19
Non-Executive				
- Fees	288	245	288	245
- Allowances	1,046	358	1,046	358
	1,334	3,049	1,334	3,049
Directors of Subsidiaries				
Executive				
- Salaries	3,361	1,704	-	-
- Benefits-in-kind (Based on estimated money value)	60	55	-	-
- Bonus	2,040	720	-	-
- Pension contribution	579	363	-	-
- Gratuity paid to ex-director*	-	20,000	-	-
- Others	304	5	-	-
Non-Executive				
- Fees	109	83	-	-
- Allowances	131	31	-	-
	7,918	26,010	1,334	3,049

The remuneration attributable to the Chief Executive Officer of the Bank including benefits-in-kind during the financial period/year amounted to RMNil (30.6.2003: RM2,445,818).

* In the previous financial year, the Group's holding company made a gratuity payment to the former Executive Chairman of the stockbroking subsidiary upon his retirement and this item was borne by the stockbroking subsidiary.

Notes to the financial statements

FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

29 LOAN LOSS AND OTHER PROVISIONS

	Group		Bank	
	18 months period ended 31.12.2004 RM'000	12 months year ended 30.6.2003 RM'000	18 months period ended 31.12.2004 RM'000	12 months year ended 30.6.2003 RM'000
Provision for bad and doubtful debts and financing:				
- specific provision (net)	21,238	47,096	20,052	46,258
- general provision	(3,882)	(7,827)	(3,187)	(7,827)
	17,356	39,269	16,865	38,431
Bad debts and financing:				
- recovered	(1,571)	-	(1,571)	-
- written off	-	6	-	-
	(1,571)	6	(1,571)	-
Provision on amounts recoverable from Danaharta:				
- provision for value impairment during the financial year	-	14,423	-	14,423
- amount written back on final settlement	(34,272)	(3,292)	(34,272)	(3,292)
	(34,272)	11,131	(34,272)	11,131
(Writeback)/provision for doubtful debts:				
- other debtors	(4,634)	4,170	(4,634)	4,170
	(4,634)	4,170	(4,634)	4,170
	(23,121)	54,576	(23,612)	53,732

30 TAXATION

	Group		Bank	
	18 months period ended 31.12.2004 RM'000	12 months year ended 30.6.2003 RM'000	18 months period ended 31.12.2004 RM'000	12 months year ended 30.6.2003 RM'000
Malaysian income tax				
- Current year	25,228	22,043	25,611	23,000
- Overprovision in prior years	(969)	(4,135)	-	-
Deferred taxation	10,922	(3,240)	893	2,191
	35,181	14,668	26,504	25,191

Notes to the financial statements

FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

30 TAXATION (CONTINUED)

The numeric reconciliation between the average tax rate and the applicable tax rate are as follows:

	Group		Bank	
	18 months period ended 31.12.2004	12 months year ended 30.6.2003	18 months period ended 31.12.2004	12 months year ended 30.6.2003
	%	%	%	%
Group and Bank average applicable tax rate	28.0	28.0	28.0	28.0
Tax effects in respect of:				
Non allowable expenses	0.9	10.5	(0.4)	0.8
Non-taxable income	(2.8)	(1.3)	0.5	(0.7)
Overprovision in prior years	-	(8.2)	-	-
Effect of different tax rate	(0.1)	(0.1)	-	-
Temporary differences previously not recognised	0.4	-	-	-
Average effective tax rate	26.4	28.9	28.1	28.1

	Group	
	18 months ended 31.12.2004	12 months ended 30.6.2003
	RM'000	RM'000

Tax losses are analysed as follows:

Tax savings recognised during the financial period/year arising from utilisation of tax losses brought forward from previous years	8,117	-
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31 BASIC EARNINGS PER SHARE

The basic earnings per share have been calculated by dividing the net profit for the financial period/year of the Group and the Bank of RM98,270,000 (30.6.2003: RM35,732,000) and RM67,890,000 (30.6.2003: RM64,474,000) by the weighted average number of ordinary shares in issue during the financial period/year of 338,646,000 (30.6.2003: 338,646,000).

32 DIVIDENDS

Dividends declared or proposed in respect of the financial period ended 31 December 2004 are as follows:

	Group and Bank			
	18 months period ended 31.12.2004		12 months year ended 30.6.2003	
	Gross dividend per share Sen	Amount of dividend, net of tax RM'000	Gross dividend per share Sen	Amount of dividend, net of tax RM'000
Interim dividends paid	-	-	10	24,383
Proposed final dividend	40	97,530	10	24,382
	40	97,530	20	48,765

The directors now recommend the payment of a final gross dividend of 40 sen per share less tax of 28% amounting to RM97,530,048 in respect of the current financial period on the fully issued and paid up ordinary shares of the Bank totalling RM338,646,000 which is subject to the approval of the member at the forthcoming Annual General Meeting of the Bank.

These financial statements do not reflect final dividends as accrued liabilities.

Notes to the financial statements

FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

33 SIGNIFICANT RELATED PARTY DISCLOSURES

(a) The related parties of and their relationships with the Bank are as follows:

Related parties	Relationship
Rashid Hussain Berhad	Ultimate holding company
Subsidiaries and associates of Rashid Hussain Berhad as disclosed in its financial statements	Subsidiaries and associates of ultimate holding company
RHB Capital Berhad	Holding company
Subsidiaries and associates of RHB Capital Berhad as disclosed in its financial statements	Subsidiaries and associates of holding company

(b) Significant related party transactions and balances

In addition to related party disclosures mentioned elsewhere in the financial statements, set out below are other significant related party transactions and balances.

	Holding companies RM'000	Other related companies RM'000
Financial period from 1.7.2003 to 31.12.2004		
Significant related party transactions of the Group:		
Income		
Interest on deposits	–	2,557
Interest on loans and advances	5,861	763
Brokerage fees	–	33
Fund management fees	–	487
Other fee income / operating income	–	324
	5,861	4,164

Expenditure

Insurance premium	–	910
Interest on deposits	–	22,501
Management fees	–	5,812
Rental of premises	–	16,782
Security services	–	417
Personnel expenses	–	1,215
Marketing expenses	–	7,223
Administration and general expenses	–	589
	–	55,449

As at 31.12.2004

Related party balances of the Group:

Amount due from

Cash and short term funds	–	123,802
Securities purchased under resale agreements	–	148,843
Other assets	205,615	1,977
	205,615	274,622

Notes to the financial statements

FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

33 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(b) Significant related party transactions and balances (continued)

	Holding companies RM'000	Other related companies RM'000
As at 31.12.2004		
Amount due to		
Deposits and placements of financial institutions	–	540,000
Others	678	7,805
	678	547,805

Financial year from 1.7.2002 to 30.6.2003

Significant related party transactions of the Group:

Income

Interest on deposits	–	1,032
Interest on loans and advances	5,921	2,191
Brokerage fees	–	60
Fund management fees	–	253
	5,921	3,536

Expenditure

Insurance premium	–	132
Interest on deposits	–	9,743
Management fees	–	4,529
Rental of premises	–	7,520
Security services	–	40
Personnel expenses	–	351
Marketing expenses	24	2,996
Administration and general expenses	–	95
Others	–	43
	24	25,449

As at 30.6.2003

Related party balances of the Group:

Amount due from

Cash and short term funds	–	7,767
Securities purchased under resale agreements	–	19,077
Deposits and placements with financial institutions	–	7,181
Loans and advances	–	50,051
Other assets	252,332	1,333
	252,332	85,409

Amount due to

Deposits and placements of financial institutions	–	252,073
Other liabilities	1,590	412
	1,590	252,485

Notes to the financial statements

FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

33 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(b) Significant related party transactions and balances (continued)

	Subsidiary companies RM'000	Other related companies RM'000
Financial period from 1.7.2003 to 31.12.2004		
Significant related party transactions of the Bank:		
Income		
Interest on deposits	–	290
Interest on loans and advances	–	763
Dividends	22,000	–
Service charges / Other operating income	164	–
	22,164	1,053
Expenditure		
Insurance premium	–	850
Interest on deposits	–	22,495
Management fees	–	608
Rental of premises	–	3,847
Administration and general expenses	56	513
	56	28,313
As at 31.12.2004		
Related party balances of the Bank:		
Amount due from		
Cash and short term funds	–	87,184
Other assets	53,153	766
	53,153	87,950
Amount due to		
Deposits and placements of financial institutions	–	540,000
Other liabilities	947	7,678
	947	547,678
Financial year from 1.7.2002 to 30.6.2003		
Significant related party transactions of the Bank:		
Income		
Interest on deposits	–	464
Interest on loans and advances	–	2,191
Dividends	7,593	–
	7,593	2,655

Notes to the financial statements

FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

33 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(b) Significant related party transactions and balances (continued)

Financial year from 1.7.2002 to 30.6.2003 (continued)	Subsidiary companies RM'000	Other related companies RM'000
Expenditure		
Insurance premium	–	132
Interest on deposits	–	9,743
Management fees	–	840
Rental of premises	–	2,591
Security services	–	40
Administration and general expenses	–	30
Others	–	45
	–	13,421
As at 30.6.2003		
Related party balances of the Bank:		
Amount due from		
Cash and short term funds	–	1
Loans and advances	–	50,051
Other assets	55,380	747
	55,380	50,799
Amount due to		
Deposits and placements of financial institutions	–	252,073
Other liabilities	–	397
	–	252,470

Other related parties comprise of related companies, being subsidiaries of the holding and/or ultimate holding companies.

Transactions with other related companies are aggregated because these transactions are similar in nature and no single transaction with those parties is significant enough to warrant separate disclosure.

Interest rates on all related party transactions are at normal commercial rates (except as indicated otherwise in the financial statements). All other fee income or expenditure incurred are in the Group and/or Bank's ordinary course of business with related parties at terms negotiated and agreed upon between the parties.

Notes to the financial statements

FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

34 COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank makes various commitments and incur certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

Risk Weighted Exposures of the Group and Bank as at 31 December 2004

	As at 31.12.2004		As at 30.6.2003	
	Principal amount RM'000	Credit equivalent amount* RM'000	Principal amount RM'000	Credit equivalent amount* RM'000
Direct credit substitutes	167,947	167,947	189,935	189,935
Transaction-related contingent items	3,724	1,862	18,527	9,264
Obligations under underwriting agreement	144,204	72,102	159,000	79,500
Irrevocable commitments to extend credit				
– maturity exceeding one year	114,430	57,215	80,019	40,010
– maturity not exceeding one year	621,921	–	926,035	–
Interest rate related contracts				
– less than one year	520,000	–	39,000	–
– one year to less than five years	1,100,000	4,464	65,000	1,450
Total	2,672,226	303,590	1,477,516	320,159

* The credit equivalent amount is arrived at using the credit equivalent factor as per Bank Negara Malaysia circulars.

Breakdown of interest rate related contracts:

	Group and Bank	
	31.12.2004 Principal amount RM'000	30.6.2003 Principal amount RM'000
Interest rate related contracts		
– futures contracts	1,470,000	54,000
– swaps	150,000	50,000
	1,620,000	104,000

Interest rate related contracts are subject to market risk and credit risk.

Market risk

Market risk is the potential change in value caused by a movement in market rates or prices. The contractual amounts stated above provide only a measure of involvement in these types of transactions and do not represent the amounts subject to market risk. Exposure to market risk may be reduced through offsetting on and off-balance sheet positions. As at 31 December 2004, the amount of contracts which were not hedged and, hence, exposed to market risk was RM20,000,000 (30.6.2003: RM104,000,000).

Credit risk

Credit risk arises from the possibility that a counterparty may be unable to meet the terms of contract in which the Bank has a gain position. As at 31 December 2004, the amount of credit risk, measured in terms of the cost to replace the profitable contracts, was RM464,000 (30.6.2003: RM73,000). This amount will increase or decrease over the life of the contracts, mainly as a function of maturity dates and market rates or prices.

Notes to the financial statements

FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

34 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Contingencies

The stockbroking subsidiary is the defendant to a suit in relation to claims of mismanagement of the Plaintiff's account and breach of duty of care in carrying out the Plaintiff's instructions. The Plaintiff has claimed for damages arising from the mismanagement of the account and the sum of RM908,813.35 and interest arising from the loss incurred as a result of the subsidiary company's alleged failure to carry out the Plaintiff's instructions. The subsidiary company has filed a defence against the said suit.

The stockbroking subsidiary is the second defendant to a suit for damages and for the return of shares pledged by the plaintiff as third party collateral for margin finance facilities initially provided by its related company which were subsequently transferred to the subsidiary company together with the third party collateral. The plaintiff claimed that the transfer was made without the plaintiff's consent and has obtained an interim injunction to restrain disposal of the collateral. The subsidiary company has filed a defence and counterclaim against the said suit.

Since the above suit is still ongoing and the solicitors for the subsidiary are unable to ascertain the outcome of the claims with certainty, the Group has not made any provision in the financial statements as at 31 December 2004.

35 LEASE COMMITMENTS

The Bank has lease commitments in respect of rented premises which are classified as operating leases. A summary of the non-cancellable long-term commitments, net of sub-leases is as follows:

	Group		Bank	
	31.12.2004 RM'000	30.6.2003 RM'000	31.12.2004 RM'000	30.6.2003 RM'000
Future minimum lease payments				
Not later than 1 year	–	1,283	–	1,283
More than 5 years	1,832	–	–	–
	1,832	1,283	–	1,283

36 CAPITAL COMMITMENTS

	Group		Bank	
	31.12.2004 RM'000	30.6.2003 RM'000	31.12.2004 RM'000	30.6.2003 RM'000
Capital expenditure not provided for in the financial statements are as follows:				
Property, plant and equipment				
Authorised and contracted for	11,865	1,465	322	671

Notes to the financial statements

FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

37 CAPITAL ADEQUACY

The capital adequacy ratios of the Bank are as follows:

	As at 31.12.2004 RM'000	As at 30.6.2003 RM'000
Tier I Capital		
Paid-up share capital	338,646	338,646
Other reserves	482,049	438,541
Less: Deferred tax assets	(4,258)	(5,151)
Total Tier I Capital	816,437	772,036
Tier II Capital		
General provision for bad and doubtful debts	15,209	18,396
Subordinated bonds	165,000	165,000
Total Tier II capital	180,209	183,396
Total capital	996,646	955,432
Less: Investments in subsidiary companies	(489,574)	(489,574)
Total capital base	507,072	465,858
	As at 31.12.2004 %	As at 30.6.2003 %
Capital ratios		
Core capital ratio	21.85	19.45
Risk-weighted capital adequacy ratio	21.85	19.45

The breakdown of risk-weighted assets in the various categories of risk-weights are as follows:

	As at 31.12.2004 RM'000	As at 30.6.2003 RM'000
0%	417,152	513,110
10%	-	44,377
20%	1,544,209	1,182,941
50%	5,590	22,924
100%	2,009,013	2,141,864
	3,975,964	3,905,216
Total risk-weighted assets	2,320,650	2,394,352

Pursuant to Bank Negara Malaysia's circular, "Recognition of Deferred Tax Assets ('DTA') and Treatment of DTA for RWCR Purposes" dated 8 August 2003, deferred tax income/(expense) is excluded from the computation of Tier-I capital and deferred tax asset is excluded from the calculation of risk-weighted assets.

Notes to the financial statements

FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

38 SIGNIFICANT ACQUISITIONS DURING THE PREVIOUS FINANCIAL YEAR

The Proposed Creation of an Investment Banking Group

As part of the RHB Group Restructuring Scheme, and pursuant to and in support of the recommendations contained in Bank Negara Malaysia's Financial Sector Master Plan, it is proposed that the Bank be transformed into an investment banking group through the acquisition by the Bank of the securities and securities related business entities of RHB Capital ("the Transfer of Securities and Securities Related Business Entities"), as follows ("the subject companies").

Subject Companies

The Subject Companies of which all of RHB Capital's equity interest have been transferred to the Bank pursuant to the Transfer of Securities and Securities Related Business Entities, are as follows:

- (1) RHB Securities Sdn Bhd ("RHB Securities")
 - (a) RHB Securities is a private limited company duly incorporated under the laws of Malaysia with an authorised share capital of RM500,000,000 divided into 500,000,000 ordinary shares of RM1.00 each of which 200,000,000 ordinary shares of RM1.00 each have been issued and paid up as at the date of these financial statements.
 - (b) RHB Securities is a holder of a dealer's licence issued by the SC and a member company of KLSE, and is involved in stockbroking and related activities.
 - (c) RHB Securities holds:
 - (i) 100% of the issued and paid-up share capital of RHB Nominees Sdn Bhd ("RHB Nominees") comprising 25,000 ordinary shares of RM1.00 each, which is involved in the provision of nominees and custodian services;
 - (ii) 100% of the issued and paid-up share capital of RHB Nominees (Tempatan) Sdn Bhd comprising 25,000 ordinary shares of RM1.00 each, which is involved in the provision of nominees and custodian services for Malaysian beneficial owners of securities; and
 - (iii) 100% of the issued and paid-up share capital of RHB Nominees (Asing) Sdn Bhd comprising 25,000 ordinary shares of RM1.00 each, which is involved in the provision of nominees and custodian services for foreign beneficial owners of securities.
- (2) RHB Marketing Services Sdn Bhd ("RHB Marketing")
 - (a) RHB Marketing is a private limited company duly incorporated under the laws of Malaysia with an authorised share capital of RM100,000 divided into 100,000 ordinary shares of RM1.00 each, all of which have been issued and are fully paid up as at the date of these financial statements.
 - (b) RHB Marketing is an investment holding company which currently holds 100% of the issued and paid-up share capital of Straits Asset Holdings Sdn Bhd ("SAHSB") comprising 45,000,000 ordinary shares of RM1.00 each, which in turn holds 100% of the issued and paid-up share capital of:
 - (i) SSSB Services (Melaka) Sdn Bhd (formerly known as Straits Securities Sdn Bhd) ("Straits Securities") comprising 40,000,000 ordinary shares of RM1.00 each, which was a holder of a dealer's licence issued by the SC, a member company of KLSE and was primarily involved in stockbroking and related activities, and in turn holds 100% of the issued and paid-up share capital of:
 - Straits Nominees (Tempatan) Sdn Bhd; and
 - Straits Nominees (Asing) Sdn Bhd;
 - (ii) SFSB Services (Melaka) Sdn Bhd (formerly known as Straits Futures Sdn Bhd) ("Straits Futures") comprising 5,000,000 ordinary shares of RM1.00 each, which was a holder of a futures broker's licence issued by the SC, a member of MDEX and was involved in the provision of futures and options broking.
 - (iii) Straits-G K Goh Research Sdn Bhd ("SGKGR") comprising 500,000 ordinary shares of RM1.00 each, which is a holder of an investment adviser's licence issued by the SC and is primarily involved in the provision of equity research and related services.

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FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

38 SIGNIFICANT ACQUISITIONS DURING THE PREVIOUS FINANCIAL YEAR (CONTINUED)

Subject Companies (Continued)

- (3) RHB Research Institute Sdn Bhd ("RHB Research")
- (a) RHB Research is a private limited company duly incorporated under the laws of Malaysia with an authorised share capital of RM10,000,000 divided into 10,000,000 ordinary shares of RM1.00 each of which 500,000 ordinary shares of RM1.00 each have been issued and paid up as at the date of these financial statements.
 - (b) RHB Research is a holder of an investment adviser's licence issued by the SC and is involved in the provision of equity research and related services.
- (4) RHB Asset Management Sdn Bhd ("RHBAM")
- (a) RHBAM is a private limited company duly incorporated under the laws of Malaysia with an authorised share capital of RM5,000,000 divided into 5,000,000 ordinary shares of RM1.00 each of which 2,000,000 ordinary shares of RM1.00 each have been issued and paid up as at the date of these financial statements.
 - (b) RHBAM is a holder of a fund manager's licence and futures fund manager's licence issued by the SC and is involved in the provision of fund management services.
- (5) RHB Futures Sdn Bhd ("RHB Futures")
- (a) RHB Futures is a private limited company duly incorporated under the laws of Malaysia with an authorised share capital of RM20,000,000 divided into 20,000,000 ordinary shares of RM1.00 each of which 13,500,000 ordinary shares of RM1.00 each have been issued and paid up as at the date of these financial statements.
 - (b) RHB Futures is a holder of a futures broker's licence issued by the SC, a member of MDEX and is involved in the provision of futures and options broking.
- (6) RHB Unit Trust Management Berhad ("RHB Unit Trust")
- (a) RHB Unit Trust is a public limited company duly incorporated under the laws of Malaysia with an authorised share capital of RM5,000,000 divided into 5,000,000 ordinary shares of RM1.00 each of which 2,000,000 ordinary shares of RM1.00 each have been issued and paid up as at the date of these financial statements.
 - (b) RHB Unit Trust is involved in the management of unit trust funds.
- (7) RHB Management Services (Jersey) Limited ("RHB Management Jersey")
- (a) RHB Management Jersey is a private limited company duly incorporated in Jersey, the Channel Islands with an authorised share capital of GBP10,000 divided into 10,000 ordinary shares of GBP1.00 each of which 12 ordinary shares of GBP1.00 each have been issued and paid up as at the date of these financial statements.
 - (b) RHB Management Jersey is involved in the provision of management and consultancy services.

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38 SIGNIFICANT ACQUISITIONS DURING THE PREVIOUS FINANCIAL YEAR (CONTINUED)

The effect of these acquisitions on the financial results of the Group during the previous financial year is shown below:

	RHB Securities Group 7 months ended 30.6.2003 RM'000	RHB Marketing Group 7 months ended 30.6.2003 RM'000	RHB Research 7 months ended 30.6.2003 RM'000	RHBAM 7 months ended 30.6.2003 RM'000	RHB Futures 7 months ended 30.6.2003 RM'000	RHB Unit Trust 7 months ended 30.6.2003 RM'000	RHB Management Jersey 7 months ended 30.6.2003 RM'000
Interest income	6,552	508	–	381	323	–	–
Interest expense	(45)	–	–	(18)	(11)	–	–
Net interest income	6,507	508	–	363	312	–	–
Non-interest income	14,714	(2,070)	–	1,149	1,224	–	–
Net income	21,221	(1,562)	–	1,512	1,536	–	–
Overhead expenses	(52,752)	(3,120)	(3,588)	(2,243)	(1,815)	–	(24)
Operating profit before provisions	(31,531)	(4,682)	(3,588)	(731)	(279)	–	(24)
Loan loss and provisioning	(844)	–	–	–	–	–	–
Profit before taxation	(32,375)	(4,682)	(3,588)	(731)	(279)	–	(24)
Taxation	9,523	1,226	(89)	17	119	–	–
	(22,852)	(3,456)	(3,677)	(714)	(160)	–	(24)
Minority interest	–	–	–	–	–	418	–
Increase/(decrease) in Group net profit	(22,852)	(3,456)	(3,677)	(714)	(160)	418	(24)

The effect of these acquisitions on the financial position at previous financial year end is as follows:

	RHB Securities Group 30.6.2003 RM'000	RHB Marketing Group 30.6.2003 RM'000	RHB Research 30.6.2003 RM'000	RHBAM 30.6.2003 RM'000	RHB Futures 30.6.2003 RM'000	RHB Unit Trust 30.6.2003 RM'000	RHB Management Jersey 30.6.2003 RM'000
ASSETS							
Cash and short term funds	41,280	2,204	20	186	5,366	–	128
Securities purchased under resale agreements	350	300	–	–	4,850	–	–
Deposits and placements with financial institutions	14,287	–	–	219	–	–	–
Clients' and brokers' balances	130,666	–	–	–	12,642	–	–
Dealing securities	31	–	–	–	–	–	–
Investment securities	–	1,500	–	–	2,000	–	–
Deferred taxation assets	10,125	–	39	–	16	–	–
Other assets	103,176	128,019	1,577	17,543	5,797	–	378
Tax recoverable	6	1,283	–	–	–	–	–
Property, plant and equipment	17,232	237	43	658	29	–	–
Goodwill	36,497	–	–	–	–	–	–
Total assets	353,650	133,543	1,679	18,606	30,700	–	506

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FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

38 SIGNIFICANT ACQUISITIONS DURING THE PREVIOUS FINANCIAL YEAR (CONTINUED)

	RHB Securities Group 30.6.2003 RM'000	RHB Marketing Group 30.6.2003 RM'000	RHB Research 30.6.2003 RM'000	RHBAM 30.6.2003 RM'000	RHB Futures 30.6.2003 RM'000	RHB Unit Trust 30.6.2003 RM'000	RHB Management Jersey 30.6.2003 RM'000
LIABILITIES							
Clients' and brokers' balances	121,243	–	–	–	15,961	–	–
Other liabilities	21,798	844	1,491	579	305	–	4
Taxation and zakat	3,262	1,262	134	506	22	–	–
Deferred taxation	–	27	–	–	–	–	–
Total liabilities	146,303	2,133	1,625	1,085	16,288	–	4
Minority interest	–	–	–	–	–	6,421	–
Increase in Group net assets	207,347	131,410	54	17,521	14,412	6,421	502

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

	RHB Securities Group As at date of acquisition 30.11.2002 RM'000	RHB Marketing Group As at date of acquisition 30.11.2002 RM'000	RHB Research As at date of acquisition 30.11.2002 RM'000	RHBAM As at date of acquisition 30.11.2002 RM'000	RHB Futures As at date of acquisition 30.11.2002 RM'000	RHB Unit Trust As at date of acquisition 30.11.2002 RM'000	RHB Management Jersey As at date of acquisition 30.11.2002 RM'000
ASSETS							
Cash and short term funds	59,768	7,253	10	139	6,271	–	202
Securities purchased under resale agreements	4,410	4,200	–	–	2,350	–	–
Deposits and placements with financial institutions	9,034	8,350	–	219	–	–	–
Clients' and brokers' balances	134,989	11,777	–	–	7,417	–	–
Investments securities	1,150	1,500	–	–	2,000	–	–
Other assets	182,896	68,160	499	16,565	8,840	–	376
Deferred taxation assets	4,701	–	48	–	–	–	–
Property, plant and equipment	19,766	1,300	307	817	25	–	–
Tax recoverable	6	2,489	–	–	–	–	–
Total assets	416,720	105,029	864	17,740	26,903	–	578
LIABILITIES							
Clients' and brokers' balances	166,896	4,640	–	–	12,094	–	–
Other liabilities	8,393	55,181	603	520	204	–	356
Taxation and zakat	7,885	3	199	846	112	–	–
Deferred taxation liabilities	–	27	–	–	–	–	–
Total liabilities	183,174	59,851	802	1,366	12,410	–	356
Minority interest	–	–	–	–	–	5,823	–

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FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

38 SIGNIFICANT ACQUISITIONS DURING THE PREVIOUS FINANCIAL YEAR (CONTINUED)

	RHB Securities Group As at date of acquisition 30.11.2002 RM'000	RHB Marketing Group As at date of acquisition 30.11.2002 RM'000	RHB Research As at date of acquisition 30.11.2002 RM'000	RHBAM As at date of acquisition 30.11.2002 RM'000	RHB Futures As at date of acquisition 30.11.2002 RM'000	RHB Unit Trust As at date of acquisition 30.11.2002 RM'000	RHB Management Jersey As at date of acquisition 30.11.2002 RM'000
Fair value of net assets acquired	233,546	45,178	62	16,374	14,493	5,823	222
Goodwill	123,452	39,671	119	7,010	(90)	2,823	(141)
Total purchase consideration	356,998	84,849	181	23,384	14,403	8,646	81
Less: Purchase consideration discharged by sub-bond	(165,000)	-	-	-	-	-	-
Purchase consideration discharged by cash	191,998	84,849	181	23,384	14,403	8,646	81
Less: Cash and cash equivalents in subsidiary acquired	(59,768)	(7,253)	(10)	(139)	(6,271)	-	(202)
Cash outflow on acquisition	132,230	77,596	171	23,245	8,132	8,646	(121)

39 USE OF FINANCIAL INSTRUMENTS

The Group is a full service investment bank that offers an extensive range of on and off balance sheet financial instruments.

The Bank

A Financial risk management objectives and policies

Market risk

Market risk is the risk of loss relating to the change in values of financial instruments or portfolio due to volatility of market variables such as interest rates, foreign exchange rates, credit spreads and equity prices.

Market risk is managed through policies and limits approved by the Board of Directors. Group Risk Management Department is responsible for the development and implementation of risk management policies and measurement techniques, and monitors limit utilisation on a daily basis.

Since no single risk statistic can reflect all aspects of market risk, the Bank uses a variety of techniques, both statistical and non-statistical, to measure and control the market risks it assumes in its various activities. The Bank uses the value-at-risk ("VAR") statistical measure to measure the amount of potential loss from adverse market movement in an ordinary market environment. The Bank conducts back-testing of VAR against actual financial results, based on daily market risk-related revenue on a yearly basis.

While VAR measures the Bank's potential losses in normal market movements, extreme market movements are simulated under stress testing scenarios. Stress testing examines the impact that abnormally large swings in market factors, and years of prolonged inactivity, might have on portfolios. The Bank performs stress test on its portfolios using multiple scenarios that are continually reviewed and updated to reflect changes in economic events.

Stress results are provided on a monthly basis to Management and Group Risk Management Committee for better understanding of event risk and to ascertain the Bank's tolerance to years of extreme market turmoil.

In addition, non-statistical risk measures such as net open position, sensitivity analysis and simulation models are also used to measure and provide additional information on market risk exposures and the direction in which the risk factors are moving.

Notes to the financial statements

FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

39 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

A Financial risk management objectives and policies (continued)

Credit risk

Credit risk is the potential loss when the counterparty to a transaction does not fulfil its financial obligations to the Bank in a timely manner. Credit risk arises in the Bank's direct lending activities, primarily through loans and advances and guarantees. In addition, credit risk also occurs in the Bank's funding, investment, trading and derivatives activities, where counterparties may not be able to fulfill their obligations when they fall due.

In view of the significance of credit risk and the changing landscape of the debt market with the introduction of new and innovative products, the Bank has implemented several initiatives, which is consistent with Bank Negara Malaysia's Best Practices for the Management of Credit Risk.

The credit approving authority has been delegated to the Underwriting and Credit Committee comprising senior executives of the Bank. An Internal Risk Rating System has been developed and implemented to ensure credits are objectively measured and rated using a consistent methodology. All credit facilities are assigned an internal rating on a scale one to thirteen based on a standard set of qualitative and quantitative factors. The internal rating process is a two-tier approach that assign ratings to obligor and facility separately. In addition, an independent Credit Administration & Rehabilitation Department performs pre-approval credit review to ensure that credit proposals are independently evaluated and adherence to the Bank's Credit Policy. Credit Administration & Rehabilitation is also responsible for managing problem credits.

Credit exposures are reviewed at least once a year for signs of deterioration in financial condition, which could affect the client's ability to meet its obligation to the Bank. Frequency of credit review is dependent on the internal rating assigned whereby higher risk credits are reviewed more than once a year.

Credit Administration & Rehabilitation works in tandem with Group Risk Management Department to formulate policies, limits, guidelines and risk measurement methodologies. These models are subject to ongoing review and back-testing to ensure the continuing validity of their parameters.

Netting arrangements

The Group also enters into master agreements that provide for close-out and settlement netting with counterparties, whenever possible. A master agreement that governs all transactions between two parties, creates the greatest legal certainty that credit exposure will be netted. In effect, it enables the netting of outstanding obligations upon termination of outstanding transactions if an event of default occurs.

The extent to which the Group's overall exposure to credit risk is reduced through a master netting arrangement may change substantially within a short period following the balance sheet date because the exposure is affected by each transaction subject to the agreement.

Liquidity and funding risk

Liquidity risk management is concentrated on the management of liquidity structure of the Bank's assets, liabilities and commitments so that cash flows are appropriately balanced to ensure the Bank is able to fulfil its current and future payment obligations in full when due.

The Bank's liquidity risk management is modelled based on Bank Negara Malaysia's New Liquidity Framework (NLF). The NLF analyses cash flows of assets, liabilities and potential off-balance sheet funding requirements under specific normal behaviour assumptions to ensure that the Bank has sufficient liquidity to meet potential future cash requirements over a 30-day forward horizon.

In addition to the NLF, the Bank uses a blend of complementary qualitative and quantitative tools and techniques to manage and control liquidity risk. These include 'what-if' scenario analysis under hypothetical crisis situations and liquidity indicators to monitor deposit concentration.

The Bank has a Liquidity Contingency Plan that could be implemented on a timely basis so that appropriate action can be taken to remedy any dramatic change in market conditions.

Notes to the financial statements

FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

39 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

A Financial risk management objectives and policies (continued)

Operational risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, controls, fraud, unauthorised activities, errors and omissions, inefficiencies, systems and technology failures or external event. The impact of operational risk can be financial loss, reputation impairment, loss of competitive position or legal and regulatory proceedings.

The Bank endeavours to minimise operational risk by maintaining a system of comprehensive policies and a control framework designed to provide a sound and well-controlled operational environment. The Bank has established and maintained a comprehensive system of internal controls based on the principle of checks and balances, segregation of duties, independent checks and verification processes.

In addition, the Bank's internal auditors have implemented the Control Self-Assessment ("CSA") and adopted a risk-based approach to the internal audit function. Internal audit performs regular audits to ensure adherence to policies and procedures, and evaluates and assesses the adequacy of internal control systems, new products and systems, and the reliability and integrity of data processing operations.

The stockbroking subsidiary

Market risk

Market risk is defined as fluctuations in value of any outstanding position resulting from adverse movement and volatility in share prices.

Market risk in the Company as a result of its equity trading activities could arise either from client-related business or from proprietary positions. Such risks are managed/mitigated as follows:-

- Purchase positions are secured against collateral pledged by commissioned dealer's representatives and clients by way of cash or shares.
- Assignment of appropriate trading limits.
- Daily monitoring of large exposure risk to single equity and single client to manage the concentration risk.
- Requirement of collateral or upfront payment for purchase of volatile stocks prior to the date of the transaction and exposure to volatile stocks are being monitored.
- In compliance with the Bursa Malaysia Securities Berhad Rules, clients must settle all positions on the 3rd market day after the transaction day (i.e. T+3), otherwise the outstanding positions will be force sold by the Company on the following market day. Hence, the market risk is contained within 4 market days after the transaction day.
- The Bursa Malaysia Securities Berhad Rules on Capital Adequacy Requirements (CAR) restrict stockbroking companies' exposure in relation to position risk, counter party risk, large exposure risk and operational risk. The main objective of CAR is to prevent over-trading by stockbroking companies.

Credit Risk

Credit and counterparty risk is defined as the possibility of losses due to an unexpected default or due to a deterioration of a business partner's creditworthiness.

In trading activities, credit risk arises from the possibility that our counterparty will not be able or willing to fulfil its obligation on a transaction on or before settlement date.

The Credit Control Division in the Company ensures that credit risk is mitigated by:-

- Structured and systematic credit checking and processing based on approved policies, procedures and guidelines.
- Proper trading limit structure for dealer's representatives and clients are in place in line with the credit policies.

Notes to the financial statements

FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

39 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

A Financial risk management objectives and policies (Continued)

The stockbroking subsidiary (continued)

Credit Risk (continued)

- Daily review and monitoring of exposure and adequacy of collateral.
- Requirement of upfront payment for purchase positions prior to the date of transaction for any exposure which is beyond acceptable risk tolerance levels.
- Internal policy on suspension of clients from trading once their accounts are overdue. Clients' losses are reviewed daily and recovery action initiated when appropriate.
- All losses incurred by clients are secured against the dealer representatives' collaterals and/or commissions/incentives.

B Interest rate risk

The table below summarises the Group's exposure to interest rate risks. Included in the table are the Group's assets and liabilities at their full carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The off-balance sheet gap represents the net notional amounts of all interest rate sensitive derivative financial instruments. As interest rates and yield curves change over time the Group may be exposed to a loss in earnings due to the effects of interest rates on the structure of the balance sheet. Sensitivity to interest rates arises from mismatches in the repricing dates, cash flows and other characteristics of the assets and their corresponding liability funding.

	Group								Effective average interest rate %
	31.12.2004								
	Up to 1 month RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-interest bearing RM'000	Total RM'000	
Assets									
Cash and short-term funds	809,637	-	-	-	-	-	48,311	857,948	2.76
Securities purchased under resale agreements	148,843	-	-	-	-	-	-	148,843	2.68
Deposits and placements with financial institutions	-	-	-	-	-	-	-	-	-
Dealing securities	253,257	289,965	165,567	29,359	492,226	100,658	29,577	1,360,609	3.68
Investment securities	3,434	-	-	34,311	205,191	271,340	3,223	517,499	6.45
Loans and advances	753,697	166,543	3,245	-	3,192	5,249	(125,049)	806,877	6.37
Clients' and brokers' balances	23,528	71,358	-	-	-	-	177,193	272,079	7.74
Other assets	-	-	127	85	419	820	26,968	28,419	4.00
Amounts due from holding company	76,352	-	-	-	-	-	129,263	205,615	5.10
Deferred taxation assets	-	-	-	-	-	-	4,382	4,382	-
Tax recoverable	-	-	-	-	-	-	17,678	17,678	-
Statutory deposit with Bank Negara Malaysia	-	-	-	-	-	-	89,556	89,556	-
Property, plant and equipment	-	-	-	-	-	-	16,533	16,533	-
Goodwill	-	-	-	-	-	-	172,844	172,844	-
Total assets	2,068,748	527,866	168,939	63,755	701,028	378,067	590,479	4,498,882	

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FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

39 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

B Interest rate risk (continued)

	Group							Total	Effective average interest rate %
	31.12.2004								
	Up to 1 month RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non- interest bearing RM'000	RM'000	
Liabilities									
Deposits from customers	555,019	574,796	80,200	160,000	-	-	-	1,370,015	2.76
Deposits and placements of banks and other financial institutions	151,060	230,735	331,409	240,000	190,000	-	-	1,143,204	2.99
Obligations on securities sold under repurchase agreements	597,307	-	-	-	-	-	-	597,307	2.66
Amount due to Cagamas Berhad	-	-	-	-	-	-	-	-	-
Clients' and brokers' balances	105,697	-	-	-	-	-	191,836	297,533	2.68
Other liabilities	12,048	-	-	-	-	-	77,192	89,240	3.00
Taxation	-	-	-	-	-	-	3,729	3,729	-
Short term borrowings	5,001	-	-	-	-	-	-	5,001	4.22
Subordinated bonds	-	-	-	-	165,000	-	-	165,000	8.20
Total liabilities	1,426,132	805,531	411,609	400,000	355,000	-	272,757	3,671,029	
On balance sheet – interest rate gap	642,616	(277,665)	(242,670)	(336,245)	346,028	378,067			
Off balance sheet – interest rate gap	(10,000)	(10,000)	(10,000)	(20,000)	(220,000)	-			
Net interest rate gap	632,616	(287,665)	(252,670)	(356,245)	126,028	378,067			

Notes to the financial statements

FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

39 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

B Interest rate risk (continued)

	Group								
	30.6.2003								
	Up to 1 month RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non- interest bearing RM'000	Total RM'000	Effective average interest rate %
Assets									
Cash and short-term funds	759,582	-	-	-	-	-	18,928	778,510	2.97
Securities purchased under resale agreements	19,077	-	-	-	-	-	-	19,077	2.62
Deposits and placements									
with financial institutions	14,287	19,000	-	219	-	-	-	33,506	1.92
Dealing securities	1,999	994	-	54,210	227,408	738,151	52,772	1,075,534	4.45
Investment securities	201,142	123,342	20,054	191	84,053	164,830	4,724	598,336	4.49
Loans and advances	1,035,800	31,058	67,200	-	3,600	6,177	(167,838)^	975,997	7.07
Clients' and Brokers' balance	21,574	9,466	-	-	-	-	112,268	143,308	8.43
Amounts due from holding company	123,510	-	-	-	-	-	128,822	252,332	5.88
Other assets	-	-	-	329	16,747	434	25,238	42,748	4.55
Deferred taxation assets	-	-	-	-	-	-	15,304	15,304	-
Tax recoverable	-	-	-	-	-	-	19,491	19,491	-
Statutory deposit with Bank Negara Malaysia	-	-	-	-	-	-	81,206	81,206	-
Property, plant and equipment	-	-	-	-	-	-	21,192	21,192	-
Goodwill	-	-	-	-	-	-	172,844	172,844	-
Total assets	2,176,971	183,860	87,254	54,949	331,808	909,592	484,951	4,229,385	
Liabilities									
Deposits from customers	767,496	426,541	149,509	23,400	-	-	-	1,366,946	2.84
Deposits and placements									
of banks and other financial institutions	238,560	521,020	355,682	24,000	313,380	-	-	1,452,642	3.09
Obligations on securities sold under repurchase agreements	234,423	-	-	-	-	-	-	234,423	2.74
Amount due to Cagamas Berhad	-	-	-	-	16,544	-	-	16,544	3.75
Bills and acceptances payable	2,936	-	-	-	-	-	-	2,936	2.76
Clients' and brokers' balances	19,857	-	-	-	-	-	117,347	137,204	2.67
Other liabilities	11,927	-	-	-	-	-	81,547	93,474	3.00
Taxation	-	-	-	-	-	-	6,326	6,326	-
Subordinated bonds	-	-	-	-	165,000	-	-	165,000	8.20
Total liabilities	1,275,199	947,561	505,191	47,400	494,924	-	205,220	3,475,495	
On balance sheet – interest rate gap	901,772	(763,701)	(417,937)	7,549	(163,116)	909,592			
Off balance sheet – interest rate gap	-	(43,000)	(22,000)	5,000	30,000	-			
Net interest rate gap	901,772	(806,701)	(439,937)	12,549	(133,116)	909,592			

Notes to the financial statements

FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

39 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

B Interest rate risk (continued)

	Bank							Total	Effective average interest rate
	31.12.2004								
	Up to 1 month	>1-3 months	>3-6 months	>6-12 months	>1-5 years	Over 5 years	Non-interest bearing	RM'000	%
Assets									
Cash and short-term funds	790,950	-	-	-	-	-	370	791,320	2.75
Dealing securities	250,792	289,965	165,567	29,359	492,226	100,658	11,217	1,339,784	3.68
Investment securities	3,434	-	-	34,311	205,191	271,340	1,223	515,499	6.45
Loans and advances	753,697	166,543	3,245	-	3,192	5,249	(125,049) ^	806,877	6.37
Other assets	-	-	-	-	-	-	19,419	19,419	-
Amounts due from subsidiaries	-	-	-	-	-	-	53,153	53,153	-
Deferred taxation assets	-	-	-	-	-	-	4,258	4,258	-
Tax recoverable	-	-	-	-	-	-	17,090	17,090	-
Statutory deposit with Bank									
Negara Malaysia	-	-	-	-	-	-	89,556	89,556	-
Investments in subsidiaries	-	-	-	-	-	-	489,574	489,574	-
Property, plant and equipment	-	-	-	-	-	-	3,067	3,067	-
Total assets	1,798,873	456,508	168,812	63,670	700,609	377,247	563,878	4,129,597	
Liabilities									
Deposits from customers	555,019	574,796	80,200	160,000	-	-	-	1,370,015	2.76
Deposits and placements of banks and other financial institutions	151,060	230,735	331,409	240,000	190,000	-	-	1,143,204	2.99
Obligations on securities sold under repurchase agreements	597,307	-	-	-	-	-	-	597,307	2.66
Other liabilities	-	-	-	-	-	-	33,376	33,376	-
Subordinated bonds	-	-	-	-	165,000	-	-	165,000	8.20
Total liabilities	1,303,386	805,531	411,609	400,000	355,000	-	33,376	3,308,902	
On balance sheet – interest rate gap	495,487	(349,023)	(242,797)	(336,330)	345,609	377,247			
Off balance sheet – interest rate gap	(10,000)	(10,000)	(10,000)	(20,000)	(220,000)	-			
Net interest rate gap	485,487	(359,023)	(252,797)	(356,330)	125,609	377,247			

Notes to the financial statements

FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

39 USE OF FINANCIAL INSTRUMENTS (CONTINUED)**B Interest rate risk (continued)**

	Bank							Total	Effective average interest rate %
	30.6.2003								
	Up to 1 month RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-interest bearing RM'000		
Assets									
Cash and short-term funds	724,100	–	–	–	–	–	1,322	725,422	2.97
Deposits and placements									
with financial institutions	–	19,000	–	–	–	–	–	19,000	1.43
Dealing securities	1,999	994	–	54,210	227,408	738,151	23,239	1,046,001	4.45
Investment securities	201,142	123,342	20,054	191	84,053	164,830	1,223	594,835	4.49
Loans and advances	1,035,800	31,058	67,200	–	3,600	6,177	(167,838) [^]	975,997	7.07
Other assets	–	–	–	–	16,544	–	18,221	34,765	4.25
Amounts due from subsidiaries	–	–	–	–	–	–	55,380	55,380	–
Deferred taxation assets	–	–	–	–	–	–	5,151	5,151	–
Tax recoverable	–	–	–	–	–	–	16,547	16,547	–
Statutory deposit with Bank									
Negara Malaysia	–	–	–	–	–	–	81,206	81,206	–
Investments in subsidiaries	–	–	–	–	–	–	489,574	489,574	–
Property, plant and equipment	–	–	–	–	–	–	1,583	1,583	–
Total assets	1,963,041	174,394	87,254	54,401	331,605	909,158	525,608	4,045,461	
Liabilities									
Deposits from customers	767,496	426,541	149,509	23,400	–	–	–	1,366,946	2.84
Deposits and placements of banks and other financial institutions	238,560	521,020	355,682	24,000	313,380	–	–	1,452,642	3.09
Obligations on securities sold under repurchase agreements	234,423	–	–	–	–	–	–	234,423	2.74
Amount due to Cagamas Berhad	–	–	–	–	16,544	–	–	16,544	3.75
Bills and acceptances payable	2,936	–	–	–	–	–	–	2,936	2.76
Other liabilities	–	–	–	–	–	–	29,783	29,783	–
Subordinated bonds	–	–	–	–	165,000	–	–	165,000	8.20
Total liabilities	1,243,415	947,561	505,191	47,400	494,924	–	29,783	3,268,274	

Notes to the financial statements

FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

39 USE OF FINANCIAL INSTRUMENTS (CONTINUED)**B Interest rate risk (continued)**

	Bank					
	30.6.2003					
	Up to 1 month RM'000	>1-3 months' RM'000	>3-6 months RM'000	>6-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000
On balance sheet						
– interest rate gap	719,626	(773,167)	(417,937)	7,001	(163,319)	909,158
Off balance sheet						
– interest rate gap	–	(43,000)	(22,000)	5,000	30,000	–
Net interest rate gap	719,626	(816,167)	(439,937)	12,001	(133,319)	909,158

Actual repricing dates may differ from contractual dates as contractual terms do not reflect the actual behavioural patterns of assets and liabilities. Assets and liabilities are assumed to be held until the earlier of contractual repricing or maturity dates. The Bank uses this contractual repricing information as a base, which is then altered to incorporate consumer behaviour, in managing its interest rate risk.

The off balance sheet interest rate gap is calculated using the derivative instruments' principal amount, without taking into account the cash flow impact relating to the derivative instruments.

^ The negative balance includes specific provision, general provision and interest-in-suspense for loans and advances.

Derivative financial instruments

The Bank has entered into interest rate swap contracts that entitle it to receive interest at fixed rates on notional principal amounts and obliges it to pay interest at floating rates on the same amounts. Under the interest rate swaps, the Bank agrees with other parties to exchange, at quarterly intervals, the differences between fixed rate and floating rate interest amounts calculated by reference to the agreed notional principal amounts. The floating rates of the Bank's interest rate swap contracts are linked to the Kuala Lumpur Inter Bank Offer Rate.

The remaining terms and notional principal amounts of the outstanding interest rate swap contracts of the Bank at the balance sheet date, which are denominated in Ringgit Malaysia are as follows:

	Group and Bank	
	31.12.2004 RM'000	30.6.2003 RM'000
One to five years	150,000	50,000

The interest basis of interest rate swap contracts used and the weighted average interest rates are shown below:

	Group and Bank	
	Average interest receivable rate %	Average interest payable rate %
31 December 2004		
Pay variable interest and receive fixed interest	3.78	2.85
Pay fixed interest and receive floating	2.86	4.38
30 June 2003		
Pay variable interest and receive fixed interest	3.20	3.12
Pay fixed interest and receive floating	3.12	3.30

Notes to the financial statements

FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

39 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

C Credit risk

The following table sets out the credit risk concentrations of the Group by asset class:

	Group							
	31.12.2004							
	Short term funds and placements with financial institutions RM'000	Securities purchased under resale agreements RM'000	Dealing securities RM'000	Investment securities RM'000	Loans and advances RM'000	Clients' and brokers' balances and other financial assets RM'000	On-balance sheet total RM'000	Commitments and contin- gencies* RM'000
Agricultural	-	-	-	94,350	34,073	132	128,555	8,500
Mining and quarrying	-	-	-	-	31,293	-	31,293	3,000
Manufacturing	-	-	60,481	113,582	176,196	2,196	352,455	252,751
Electricity, gas and water	-	-	85,720	-	65,200	2,023	152,943	259,374
Construction	-	-	-	-	19,535	85	19,620	138,636
Real estate	-	-	58,199	60,729	129,069	2,620	250,617	41,500
General commerce	-	-	35,569	34,311	52,335	872	123,087	107,786
Transport, storage and communication	-	-	173,512	97,663	2	3,080	274,257	76,879
Finance, insurance and business services	154,048	148,843	724,577	-	-	224,803	1,252,271	1,680,750
Government and government agencies	703,900	-	126,573	103,214	-	1,289	934,976	-
Purchase of landed property	-	-	-	-	17,133	1,278	18,411	677
Purchase of securities	-	-	-	3,434	247,263	256,570	507,267	65,196
Purchase of transport vehicles	-	-	-	-	3,105	35	3,140	-
Consumption credit	-	-	-	-	20,147	11	20,158	7,177
Others	-	-	63,936	6,993	26,735	10,167	107,831	30,000
Total	857,948	148,843	1,328,567	514,276	822,086	505,161	4,176,881	2,672,226
Assets not subject to credit risk	-	-	32,042	3,223	(15,209) ^	952	21,008	-
	857,948	148,843	1,360,609	517,499	806,877	506,113	4,197,889	2,672,226

^ Excludes general provision amounting to RM15,209,000.

* Comprises credit equivalent balances of credit related contracts and derivatives amounting to RM299,126,000 and RM4,464,000 respectively.

Notes to the financial statements

FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

39 USE OF FINANCIAL INSTRUMENTS (CONTINUED)**C Credit risk (continued)**

The following table sets out the credit risk concentrations of the Group by asset class:

	Group							
	30.6.2003							
	Short term funds and placements with financial institutions RM'000	Securities purchased under resale agreements RM'000	Dealing securities RM'000	Investment securities RM'000	Loans and advances RM'000	Clients' and brokers' balances and other financial assets RM'000	On-balance sheet total RM'000	Commitments and contin- gencies* RM'000
Agricultural	-	-	-	-	18,146	-	18,146	12,000
Mining and quarrying	-	-	-	-	27,227	-	27,227	7,850
Manufacturing	-	-	42,086	142,539	183,183	3,450	371,258	323,095
Electricity, gas and water	-	-	-	-	193,405	158	193,563	182,501
Construction	-	-	148,551	-	120,254	1,856	270,661	257,155
Real estate	-	-	34,177	11,427	141,997	208	187,809	94,892
General commerce	-	-	53,218	40,879	55,814	1,640	151,551	109,500
Transport, storage and communication	-	-	250,005	15,100	10,018	2,966	278,089	98,000
Finance, insurance and business services	175,516	19,077	53,177	328,410	58,594	271,292	906,066	352,750
Government and government agencies	636,500	-	404,536	30,313	-	3,624	1,074,973	-
Purchase of landed property	-	-	-	-	9,216	602	9,818	390
Purchase of securities	-	-	37,012	24,945	114,101	144,662	320,720	39,367
Purchase of transport vehicles	-	-	-	-	3,524	71	3,595	16
Consumption credit	-	-	-	-	76	54	130	-
Others	-	-	-	-	58,838	7,805	66,643	-
Total	812,016	19,077	1,022,762	593,613	994,393	438,388	3,880,249	1,477,516
Assets not subject to credit risk	-	-	52,772	4,723	(18,396) [^]	-	39,099	-
	812,016	19,077	1,075,534	598,336	975,997	438,388	3,919,348	1,477,516

[^] Excludes general provision amounting to RM18,396,000.

* Comprises credit equivalent balances of credit related contracts and derivatives amounting to RM318,709,000 and RM1,450,000 respectively.

Notes to the financial statements

FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

39 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

C Credit risk (continued)

The following table sets out the credit risk concentrations of the Bank by asset class:

	Bank							
	31.12.2004							
	Short term funds and placements with financial institutions RM'000	Securities purchased under resale agreements RM'000	Dealing securities RM'000	Investment securities RM'000	Loans and advances RM'000	Other financial assets RM'000	On-balance sheet total RM'000	Commitments and contingencies* RM'000
Agricultural	-	-	-	94,350	34,073	132	128,555	8,500
Mining and quarrying	-	-	-	-	31,293	-	31,293	3,000
Manufacturing	-	-	60,481	113,582	176,196	2,196	352,455	252,751
Electricity, gas and water	-	-	85,720	-	65,200	2,023	152,943	259,374
Construction	-	-	-	-	19,535	85	19,620	138,636
Real estate	-	-	58,199	60,729	129,069	2,620	250,617	41,500
General commerce	-	-	35,569	34,311	52,335	872	123,087	107,786
Transport, storage and communication	-	-	173,512	97,663	2	3,080	274,257	76,879
Finance, insurance and business services	87,420	-	724,577	-	-	54,857	866,854	1,680,750
Government and government agencies	703,900	-	126,573	103,214	-	1,289	934,976	-
Purchase of landed property	-	-	-	-	17,133	-	17,133	677
Purchase of securities	-	-	-	3,434	247,263	-	250,697	65,196
Purchase of transport vehicles	-	-	-	-	3,105	-	3,105	-
Consumption credit	-	-	-	-	20,147	-	20,147	7,177
Others	-	-	63,936	6,993	26,735	5,418	103,082	30,000
Total	791,320	-	1,328,567	514,276	822,086	72,572	3,528,821	2,672,226
Assets not subject to credit risk	-	-	11,217	1,223	(15,209)	-	(2,769)	-
	791,320	-	1,339,784	515,499	806,877	72,572	3,526,052	2,672,226

^ Excludes general provision amounting to RM15,209,000.

* Comprises credit equivalent balances of credit related contracts and derivatives amounting to RM299,126,000 and RM4,464,000 respectively.

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FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

39 USE OF FINANCIAL INSTRUMENTS (CONTINUED)**C Credit risk (continued)**

The following table sets out the credit risk concentrations of the Bank by asset class:

	Bank							
	30.6.2003							
	Short term funds and placements with financial institutions RM'000	Securities purchased under resale agreements RM'000	Dealing securities RM'000	Investment securities RM'000	Loans and advances RM'000	Other financial assets RM'000	On-balance sheet total RM'000	Commitments and contin- gencies* RM'000
Agricultural	-	-	-	-	18,146	-	18,146	12,000
Mining and quarrying	-	-	-	-	27,227	-	27,227	7,850
Manufacturing	-	-	42,086	142,539	183,183	3,450	371,258	323,095
Electricity, gas and water	-	-	-	-	193,405	158	193,563	182,501
Construction	-	-	148,551	-	120,254	1,856	270,661	257,155
Real estate	-	-	34,177	11,427	141,997	208	187,809	94,892
General commerce	-	-	53,218	40,879	55,814	1,640	151,551	109,500
Transport, storage and communication	-	-	250,005	15,100	10,018	2,966	278,089	98,000
Finance, insurance and business services	107,922	-	53,177	328,410	58,594	73,770	621,873	352,750
Government and government agencies	636,500	-	404,536	30,313	-	3,624	1,074,973	-
Purchase of landed property	-	-	-	-	9,216	-	9,216	390
Purchase of securities	-	-	37,012	24,944	114,101	1,354	177,411	39,367
Purchase of transport vehicles	-	-	-	-	3,524	12	3,536	16
Consumption credit	-	-	-	-	76	-	76	-
Others	-	-	-	-	58,838	1,107	59,945	-
Total	744,422	-	1,022,762	593,612	994,393	90,145	3,445,334	1,477,516
Assets not subject to credit risk	-	-	23,239	1,223	(18,396) [^]	-	6,066	-
	744,422	-	1,046,001	594,835	975,997	90,145	3,451,400	1,477,516

[^] Excludes general provision amounting to RM18,396,000.

* Comprises credit equivalent balances of credit related contracts and derivatives amounting to RM318,709,000 and RM1,450,000 respectively.

Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 34.

Notes to the financial statements

FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

40 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets, financial liabilities and off-balance sheet financial instruments. The fair value of a financial instrument is the amount at which the financial instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction. The information presented herein represents the estimates of fair values as at the balance sheet date.

Where available, quoted and observable market prices are used as the measure of fair values. Where such quoted and observable market prices are not available, fair values are estimated based on a range of methodologies and assumptions regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows and other factors. Changes in the uncertainties and assumptions could materially affect these estimates and the resulting fair value estimates.

In addition, fair value information for non-financial assets and liabilities are excluded as they do not fall within the scope of MASB 24 which requires the fair value information to be disclosed. These include property, plant and equipment, investment in subsidiaries and intangibles.

A range of methodologies and assumptions has been used in deriving the fair values of the Group's and the Bank's financial instruments at balance sheet date. The total fair value of each financial instrument is not materially different from the total carrying value, except for the following financial assets and liabilities:

	Group 31.12.2004		Bank 31.12.2004	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
Financial assets				
Dealing securities	1,360,609	1,368,035	1,339,784	1,347,090
Investment securities	517,499	515,138	515,499	513,138

Financial liabilities				
Deposits and placements of banks and other financial institutions	1,143,204	1,144,075	1,143,204	1,144,075
Subordinated bonds	165,000	178,662	165,000	178,662

	Group 30.6.2003		Bank 30.6.2003	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
Financial assets				
Dealing securities	1,075,534	1,116,007	1,046,001	1,086,474
Investment securities	598,336	594,670	594,835	591,169

Financial liabilities				
Deposits and placements of banks and other financial institutions	1,452,642	1,454,566	1,452,642	1,454,566
Subordinated bonds	165,000	183,794	165,000	183,794

Notes to the financial statements

FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

40 FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

The fair values of derivative financial instruments at the balance sheet date are as follows:

	Group and Bank		
	31.12.2004		
	Notional Principal RM'000	Asset RM'000	Liability RM'000
Derivative financial instruments			
Interest rate contracts:			
– Futures	1,470,000	1,981	1,002
– Swaps	150,000	464	2,006

	Group and Bank		
	30.6.2003		
	Notional Principal RM'000	Asset RM'000	Liability RM'000
Derivative financial instruments			
Interest rate contracts:			
– Futures	54,000	23	8
– Swaps	50,000	50	27

The derivative financial instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The extent to which instruments are favourable or unfavourable and the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The fair values are based on the following methodologies and assumptions:

Deposits and placements with financial institutions

For deposits and placements with financial institutions with maturities of less than one year, the carrying amount is a reasonable estimate of fair value. For deposits and placements with maturities one year and above, fair value is estimated based on discounted cash flows using prevailing money market interest rates at which similar deposits and placements would be made with financial institutions of similar credit risks and maturities.

Dealing and investment securities

The estimated fair value is generally based on quoted and observable market prices. Where there is no ready market in certain securities, fair values have been estimated by reference to market indicative yields or net tangible asset backing of the investee. Where discounted cash flow technique is used, the estimated cash flows are discounted using the prevailing market rates for a similar instrument as at balance sheet date.

Loans and advances

For floating rate loans, the carrying amount is generally a reasonable estimate of fair value.

For fixed rate loans, the fair value is estimated by discounting the estimated future cash flows using the prevailing market rates of loans with similar credit risks and maturities.

The fair values of impaired floating and fixed rate loans are represented by their carrying amounts, net of specific provision and interest-in-suspense, being the expected recoverable amount.

Notes to the financial statements

FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

40 FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

Deposits from customers

For deposits from customers with maturities of less than one year, the carrying amounts are a reasonable estimate of their fair values. For deposit with maturities of one year or more, fair values are estimated using discounted cash flows based on prevailing market rates for similar deposits from customers.

Deposits and placements of banks and other financial institutions

The estimated fair values of deposits and placements of banks and other financial institutions with maturities of less than one year approximate the carrying amounts. For deposits and placements with maturities one year or more, the fair values are estimated based on discounted cash flows using prevailing money market interest rates for deposits and placements with similar maturities.

Long term debts

Long term debts comprise negotiable certificates of deposits issued by the Bank. The estimated fair values are estimated based on discounted cash flows using prevailing market rates for similar negotiable certificates of deposits. Where there are no ready market rates, fair values are estimated by reference to corporate bond indicative yields taking into consideration the credit rating of the Bank.

Amount due to Cagamas Berhad/Housing loans acquired for sale to Cagamas Berhad

For amounts with maturities of less than one year, the fair values approximate their carrying amounts. For amounts with maturities of more than one year, the fair values have been estimated based on discounted cash flows using prevailing rates offered by Cagamas Berhad for similar contract type and maturities.

Amounts due from/to subsidiary companies and immediate holding company

The amounts due from/to subsidiary companies and immediate holding company have no fixed terms of repayment and deemed repayable on demand. These balances are not materially sensitive to changes in market interest rates and the fair values approximate their carrying amounts as at balance sheet date.

Subordinated Bonds

The fair value has been estimated by reference to market indicative yields for similar credit risk profile and remaining maturity as at balance sheet date.

Credit risk related contracts

The net fair value of these items was not calculated as estimated fair values are not readily ascertainable. These financial instruments generally relate to credit risks and attract fees in line with market prices for similar arrangements. They are not presently sold nor traded. The items generally do not involve cash payments other than in the event of default. The fair value may be represented by the present value of fees expected to be received, less associated costs. The overall level of fees involved is not material.

Foreign exchange rate, interest rate and equity contracts

The fair values of foreign exchange rate, interest rate and equity contracts are the estimated amounts the Group or the Bank would receive or pay to terminate the contracts as at balance sheet date.

Other financial instruments

The fair values of other financial instruments approximate their carrying amounts as at balance sheet date due to their short term tenure of less than one year.

Notes to the financial statements

FOR THE FINANCIAL PERIOD 1 JULY 2003 TO 31 DECEMBER 2004

41 SIGNIFICANT EVENT DURING THE FINANCIAL PERIOD

On 25 April 2003, Straits Asset Holdings Sdn Bhd (SAHSB) and G.K. Goh Holdings Limited entered into a sale of shares agreement for the disposal of SAHSB 100% equity interest in Straits-G.K. Goh Research Sdn Bhd (SGKGR) to G.K. Goh Holdings Limited for a cash consideration of RM377,128, equal to 1.4 times the audited net tangible value of SGKGR as at 30 September 2002, resulting in a gain on disposal of RM106,716. This is the same consideration attributed to SGKGR under the Transfer of Securities and Securities Related Business Entities from RHB Capital Berhad to the Bank in the previous financial year.

The sale of shares agreement was completed on 18 July 2003, resulting SGKGR ceasing to be an indirect wholly-owned subsidiary of the Bank. There is no material effect from the disposal on the financial position of the Group

42 SIGNIFICANT EVENT SUBSEQUENT TO THE BALANCE SHEET DATE

On 28 January 2005, a Writ of Summons had been filed at the High Court of Malaya in Kuala Lumpur by RHB Capital Berhad ('RHB Capital'), the holding company of the Bank, RHB Securities Sdn Bhd ('RHB Securities'), a subsidiary of the Bank and a related company, RHB Equities Sdn Bhd ('RHB Equities') against the following individuals:

- (i) Tan Sri Dato' Abdul Rashid bin Hj Mohamed Hussain in his capacity as former Executive Chairman of RHB Capital and RHB Securities and in his capacity as former Director of RHB Equities;
- (ii) Mr Chong Kin Leong in his capacity as former Director of RHB Capital and RHB Equities;
- (iii) Mr Seah Fook Chin in his capacity as former Director of RHB Capital and RHB Equities;
- (iv) Encik Tajul Ariffin bin Mohd Tahir in his capacity as former Executive Director of RHB Securities and in his capacity as former Director of RHB Equities;
- (v) Mr Ong Tiang Lock in his capacity as former Director of RHB Equities; and
- (vi) Encik Rosley bin Ahmad in his capacity as former principal legal advisor and former Company Secretary of RHB Capital, RHB Securities and RHB Equities;

for a total sum of RM1,430,410,355.96 on the grounds of breach of fiduciary duties, breach of trust, breach of contracts of employment and/or negligence in relation to certain margin finance facilities granted by RHB Equities during the abovenamed individuals' tenure as directors and/or officers of RHB Capital and/or RHB Securities and/or RHB Equities.

RHB Securities is a wholly owned subsidiary of the Bank which in turn is a wholly owned subsidiary of RHB Capital whereas RHB Equities is a wholly owned subsidiary of RHB Capital.

The suit is not expected to have any material adverse effect on the financial results of the Group and the Bank for the financial year ending 31 December 2005.

43 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 26 February 2005.

Statement by directors

PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965

We, Abdullah bin Mat Noh and Dato Sri Sulaiman Abdul Rahman Taib, being two of the directors of RHB Sakura Merchant Bankers Berhad, state that, in the opinion of the directors, the financial statements set out on pages 49 to 105 are drawn up so as to give a true and fair view of the state of affairs of the Group and the Bank as at 31 December 2004 and of the results and cash flows of the Group and the Bank for the financial period 1 July 2003 to 31 December 2004 in accordance with the applicable approved accounting standards in Malaysia, Bank Negara Malaysia Guidelines and the provisions of the Companies Act, 1965.

Signed on behalf of the Board of Directors in accordance with their resolution dated 26 February 2005.

ABDULLAH BIN MAT NOH
CHAIRMAN

DATO SRI SULAIMAN ABDUL RAHMAN TAIB
DIRECTOR

Statutory declaration

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

I, Mahathir bin Dato' Mohd Ismail, the officer primarily responsible for the financial management of RHB Sakura Merchant Bankers Berhad, do solemnly and sincerely declare that the financial statements set out on pages 49 to 105 are, in my opinion, correct, and I make this solemn declaration conscientiously believing the same to be true by virtue of the provisions of the Statutory Declarations Act, 1960.

MAHATHIR BIN DATO' MOHD ISMAIL

Subscribed and solemnly declared by the abovenamed Mahathir bin Dato' Mohd Ismail at Kuala Lumpur on 26 February 2005, before me.

JAYAM GNANAPRAGASAM
COMMISSIONER FOR OATHS

Report of the auditors

TO THE MEMBER OF RHB SAKURA MERCHANT BANKERS BERHAD

We have audited the financial statements set out on pages 49 to 105. These financial statements are the responsibility of the Bank's directors. Our responsibility is to express an opinion on these financial statements based on this audit.

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

In our opinion:

- (a) the financial statements have been prepared in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia and Bank Negara Malaysia Guidelines 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 Bank as at 31 December 2004 and of the results and cash flows of the Group and the Bank for the financial period 1 July 2003 to 31 December 2004;

and

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

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

Our audit reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment made under subsection (3) of section 174 of the Act.

PRICEWATERHOUSECOOPERS

(No. AF: 1146)
Chartered Accountants

Kuala Lumpur
26 February 2005

MOHAMMAD FAIZ BIN MOHAMMAD AZMI

(No. 2025/03/06 (J))
Partner of the firm