

Company No.

511251	V
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**BANK OF CHINA (MALAYSIA) BERHAD**  
(Incorporated in Malaysia)

**REPORTS AND FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006**

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**BANK OF CHINA (MALAYSIA) BERHAD**  
 (Incorporated in Malaysia)

**REPORTS AND FINANCIAL STATEMENTS**  
 FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

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**DIRECTORS' REPORT**

The Directors submit their report together with the audited financial statements of the Bank for the financial year ended 31 December 2006.

**PRINCIPAL ACTIVITIES**

The principal activities of the Bank are commercial banking and related financial services.

There is no significant changes in these activities during the financial year.

**FINANCIAL RESULTS**

	RM'000
Profit before taxation	26,425
Taxation	(7,496)
Profit after taxation	<u>18,929</u>
	<u><u>18,929</u></u>

**DIVIDENDS**

In respect of financial year ended 31 December 2005 as approved by the shareholders, the amount of final gross dividends paid by the Bank was 2.30% less tax amounting to RM5,034,240.

The Directors recommend the payment of a final gross dividend in respect of the current financial year of 3.93% less income tax of 27% amounting to RM8,721,456, subject to the approval of the member at the forthcoming Annual General Meeting.

**CHANGES IN DEBT AND EQUITY SECURITIES**

There were no issuance and repayment of debt and equity securities, share buy-backs, share cancellations, shares held as treasury shares and resale of treasury shares for the period under review.

**RESERVES AND PROVISIONS**

There were no material transfers to or from reserves or provisions during the financial year other than those disclosed in the financial statements and notes to the financial statements.

**BAD AND DOUBTFUL DEBTS**

Before the income statement and balance sheet of the Bank were made out, the Directors took reasonable steps to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts, and satisfied themselves that all known bad debts, if any, had been written off and adequate allowance had been made for doubtful debts.

At the date of this report, the Directors of the Bank are not aware of any circumstances which would render the amounts written off for bad debts, or the amount of the allowance for doubtful debts in the financial statements of the Bank inadequate to any substantial extent.

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**DIRECTORS' REPORT (CONTINUED)**

**CURRENT ASSETS**

Before the income statement and balance sheet of the Bank were made out, the Directors took reasonable steps to ensure that any current assets, other than debts, which were unlikely to realise in the ordinary course of business, their values as shown in the accounting records of the Bank had been written down to an amount which they might be expected 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 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 method of valuation of assets or liabilities of 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 Bank which has arisen since the end of the financial year which secures the liabilities of any other person; or
- (b) any contingent liability in respect of the Bank that has arisen since the end of the financial year other than in the ordinary course of banking business.

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

**ITEMS OF AN UNUSUAL NATURE**

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

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

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**DIRECTORS' REPORT (CONTINUED)**

**SUBSEQUENT EVENTS**

There were no material events subsequent to the balance sheet date that requires disclosure or adjustments to the financial statements.

**DIRECTORS**

The Directors who have held office during the period since the date of the last report and at the date of this report are as follows:

Zhang Lianli  
Xu Qilin  
Fang Yanmin  
Jin Yuming (resigned on 27.05.2006)  
Y Bhg Tan Sri Dato' Lim Guan Teik  
Tan Siak Tee

In accordance with Article 76 of the Articles of Association, Zhang Lianli and Tan Siak Tee retire from the Board by rotation at the forthcoming Annual General Meeting and being eligible, offer themselves for re-election.

Y Bhg Tan Sri Dato' Lim Guan Teik retires pursuant to Section 129 of the Companies Act, 1965 at the forthcoming Annual General Meeting and offers himself for the re-appointment in accordance with Section 129 of the Companies Act, 1965 to hold office until the conclusion of the next Annual General Meeting of the Bank.

**DIRECTORS' INTERESTS IN SHARES**

According to the Register of Directors' Shareholdings, none of the directors in office at the end of the financial year held any interest in shares of the Bank and its related companies.

**DIRECTORS' BENEFITS**

During and at the end of the financial year, no arrangements subsisted to which the Bank is a party, being arrangements with the object or objects of enabling Directors of the Bank to acquire benefits by means of the acquisition of shares in, or debentures of the Bank or any other body corporate.

During and at the end of the financial year, no Director has received or become entitled to receive a benefit (other than the benefit included in the aggregate amount of emoluments received or due and receivable by Directors shown in the financial statements, or the fixed salary of a full time employee of the Bank) 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 the Directors received remuneration from related corporations in their capacities as executives of those related corporations.

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**DIRECTORS' REPORT (CONTINUED)**

**ULTIMATE HOLDING COMPANY**

The Directors regard Bank of China Limited, a company incorporated in China as the holding company and Central SAFE Investments Limited, a company incorporated in China as the ultimate holding company of the Bank.

**BUSINESS REVIEW 2006**

In the year 2006, the Bank recorded a higher profit compared with the preceding year while maintaining its good assets quality. The Bank continued to focus on building its core customer base by offering conventional commercial banking, trade finance and retail banking products. The Bank has also diversified its income streams to grow fee-based income. While pursuing its business objectives, the Bank had further enhanced its internal control and risk management systems to ensure a steady and healthy development of the future business of the Bank.

**BUSINESS OUTLOOK FOR 2007**

In view of the increasingly volatile financial market, the Bank expects a more challenging operating environment. To sustain the Bank's profitability growth in this challenging environment, the Bank will continue to focus its activities towards expanding fee-based income and its trade finance business as well as marketing of higher stability loans. As part of its business strategies, the Bank will conduct its business with prudence, greater emphasis in risk management and stringent compliance with legal and regulatory requirements.

**RATINGS BY EXTERNAL RATING AGENCY**

The Bank is not rated by any external agency.

**AUDITORS**

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

In accordance with a resolution of the Board of Directors dated 12 March 2007.

ZHANG LIANLI  
DIRECTOR

TAN SIAK TEE  
DIRECTOR

Kuala Lumpur

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**DIRECTORS' PROFILES**

**Xu Qilin – Chairman, Non-Independent Non-Executive Director**

Mr. Xu Qilin, People's Republic of China citizen, aged 60, was appointed to the Board in year 2004 as Chairman of the Bank, representing Bank of China Limited.

Mr. Xu obtained his Bachelor of Arts from Beijing Foreign Trade College of China in 1974. He has also obtained his Senior Economist qualification from Bank of China Limited in year 1990.

Mr. Xu was engaged as the Manager responsible for the running of the BOC Trust & Consultant Company Investment Division in China in year 1985. He was promoted as the Deputy General Manager/ Trust & Consultant responsible for the running of the BOC Trust & Consultant Company in year 1987. He was subsequently promoted as the General Manager of Bank of China Ho Chi Minh City Branch in Vietnam responsible for the day-to-day management of the Branch.

**Fang Yanmin – Non-Independent Non-Executive Director**

Mr. Fang Yanmin, People's Republic of China citizen, aged 50, was appointed to the Board in year 2004 as a Non-Executive Director of the Bank, representing Bank of China Limited.

Mr. Fang obtained his Bachelor of Economy from Jilin University of China in 1984. He obtained his Master of Finance from Wuhan University of China in year 2000.

Mr. Fang was engaged as the Manager of Overseas Business Management Department of Bank of China Limited, responsible for the general administration and for developing the strategic plans of the bank's overseas operations since 1998. He was promoted as Deputy General Manager responsible for the day-to-day business management of overseas branches of the Holding Company in year 2001.

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**DIRECTORS' PROFILES (CONTINUED)**

**Zhang Lianli – Non-Independent Executive Director/Chief Executive Officer**

Mr. Zhang Lianli, People's Republic of China citizen, aged 53 was appointed to the Board in Year 2000 as an executive director representing Bank of China Limited. He obtained his Diploma in Arts from Nankai University, Tianjin, People's Republic of China in year 1977. He has also obtained his Certificate in Advanced Banking Management Programme from National University of Singapore and Certificate in Carneige Senior Management Training Programme from Carneige Senior Management Training Programme of Singapore in 1995 and 1997 respectively.

Mr. Zhang started his career as an officer/ Assistant Manager of the Banking Department of Bank of China Limited in 1977 responsible for the retail banking operations of the department. He was promoted as the Deputy Manager/ Manager of International Department in year 1983 and 1985 respectively responsible for the overall management of retail banking of all domestic and overseas branches. He was transferred to the Credit Card Department in 1989 responsible for the credit card business, planning, development and operations of the Credit Card Centre in Bank of China Limited and overseas branches. He was promoted as the Assistant General Manager and Deputy General Manager of Bank of China, Singapore Branch in year 1991 and 1995 respectively responsible for the retail banking, credit card centre and oversees all sub-branches in Singapore. He was also in charge of the security company and nominees company.

He has been involved in the preparatory work of the Bank initially as the Chairman of the Bank of China Re-establishment Committee and later as the Chief Executive Officer/Executive Director of the Bank upon its inception in year 2000.

**Tan Sri Dato' Lim Guan Teik – Independent Non-Executive Director**

Tan Sri Dato' Lim Guan Teik, Malaysian, aged 71, was appointed to the Board in year 2000 as an Independent Non-Executive Director of the Bank. No family relationship with any director and /or the shareholder of the Bank. He is also the chairman of the Bank's Audit Committee.

Tan Sri Dato' Lim obtained his Bachelor of Commerce from Nanyang University, Singapore. He has been appointed as the Chairman of Muda Holdings Berhad, a public listed company, since 1988. He was the Group Managing Director from 1983 until April 2004 when he relinquished this post in compliance with the best practices of the Malaysian Code on Corporate Governance. Tan Sri is also the Chairman of Unico Holdings Berhad.

Tan Sri Dato' Lim has been actively involved in the paper industry and has more than 40 years experience in the commercial and industrial sector. He was the President of the Malaysian Pulp & Paper Manufacturers Association from 1980 to 1992 and is currently one of the Advisors of the Association. He was the President of both the Associated Chinese Chamber of Commerce & Industry Malaysia (ACCCIM) from 1995 to 2003 and The Kuala Lumpur & Selangor Chinese Chamber of Commerce & Industry (KLSCCCI) from 1998 to 2003. He is now the Honorary President of both ACCCIM and KLSCCCI.

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**DIRECTORS' PROFILES (CONTINUED)**

**Tan Siak Tee – Independent Non-Executive Director**

Mr. Tan Siak Tee, Malaysian, aged 66, was appointed to the Board in year 2000 as an Independent Non-Executive Director of the Bank. No family relationship with any director and /or the shareholder of the Bank. He is the chairman of the Bank's Integrated Risk Management Committee and Credit Risk Management Committee as well as an Audit Committee member of the Bank.

Mr. Tan obtained his Bachelor of Commerce degree from University of New South Wales, Australia. He is an Associate of the Institute of Chartered Accountants of Australia and the Institute of Chartered Secretaries and Administrators. He is also a member of the Malaysian Institute of Certified Public Accountants.

Mr. Tan started his career as an Auditor with Coopers & Lybrand, Sydney and later seconded to Coopers & Lybrand, Kuala Lumpur. He has extensive experience in banking industry. He was the Chief Internal Auditor for Malaysian operations in OCBC Bank and Chung Khiaw Bank for the period from 1969 to 1971 and 1971 to 1973 respectively. He joined Lee Wah Bank Limited in 1973 as Manager of Malaysia Central Office and was promoted to Director and Chief Executive Officer for Malaysian operations in 1975. He was made a Director and Chief Executive Officer in United Overseas Bank (M) Berhad for the period from 1994 to 1997 after Lee Wah Bank Malaysian Operations was incorporated in Malaysia in 1994. After his retirement from UOB group, he became the director in Asia Commercial Finance Berhad from 1997 to 1999. He joined the Bank in April 2000. His other directorship in public companies are as follows:

Independent Non-Executive Director of Sunway City Berhad, a public listed company.  
Independent Non-Executive Director of Amsteel Corporation Berhad, a public listed company.

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**CORPORATE GOVERNANCE STATEMENT**

**BOARD OF DIRECTORS**

Adherence to the highest standards of corporate governance continues to be the cornerstone of the Bank's corporate culture.

**Roles and Responsibilities of the Board of Directors**

The Board of Directors of the Bank plays a critical role in ensuring sound and prudent policies and practices of the Bank. The Board carries ultimate responsibility for the proper stewardship of the Bank, ensures maximization of shareholders' value and safeguarding the stakeholders' interests. It needs to oversee the affairs, establishing, amongst others, the corporate values, vision and strategy that will direct the activities of the Bank. It also provides effective check and balance mechanism in the overall management of the Bank.

The major duties and responsibilities of the Board include:

1. Review and approve strategies, business plans and significant policies and monitor management's performance in implementing them;
2. Prescribes minimum standards and establishes policies on the management of credit risks and other key areas of the Bank's operations;
3. Regular oversight of the Bank's business operations and performance, and ensuring that the infrastructure, internal controls, and risk management processes are well in place to assess and manage business risks. The Board carries out various functions and responsibilities laid down by Bank Negara Malaysia in the guidelines and directives issued from time to time.

**Board Meetings and Supply of Information to the Board**

Board meetings are held regularly, 6 times a year, whereby reports on the progress of the Bank's business operations and minutes of the meetings of Audit Committee and other committees set up by the Bank to oversee various risks undertaken are tabled for review by Members of the Board. The Board meetings are convened to review and approve the Bank's quarterly financial statements, deliberate on the performance of the Bank and to provide policy direction and guidance for the management.

The agenda for every Board meeting, together with Management reports, proposal papers and supporting documents, are furnished to all the Members of the Board for their perusal well in advance of the Board meeting date, so that the Directors have ample time to review matters to be deliberated at the Board meeting and to facilitate informed decision making by the Directors.

Minutes of Board meetings are circulated to all Directors for their perusal prior to confirmation of minutes at the following Board meeting.

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**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

**BOARD OF DIRECTORS (CONTINUED)**

The Directors are regularly updated and advised by the Company Secretary on new statutory as well as regulatory requirements relating to the duties and responsibilities of Directors, including policy guidelines issued by BNM that concern the Bank or the discharge of their duties as Directors of a financial institution. Every member of the Board has ready and unrestricted access to the advice and services of the Company Secretary, and the Directors have the liberty to seek external professional advice if so required by them.

The attendance of the Board of Directors' meetings held during 2006 is as follows:

<b>Composition of Board of Directors</b>	<b>Number of Board Meetings</b>	
	<b>Held</b>	<b>Attended</b>
Zhang Lianli, Executive Director	6	5
Fang Yanmin, Non Executive Director	6	5
Xu Qilin, Chairman/Non Executive Director	6	6
Tan Sri Dato' Lim Guan Teik, Non Executive Director	6	6
Tan Siak Tee, Non Executive Director	6	5
Jin Yuming (resigned on 27 May 2006)	2	0

**Effectiveness of the Board of Directors**

**1. Division of Responsibilities Between the Chairman and Chief Executive Officer**

The roles of the Chairman and the Chief Executive Officer (CEO) are distinct and separate, with each having his respective scope of duties and responsibilities, to ensure a proper balance of power and authority.

The Chairman of the Board is a Non-Executive Director and his main responsibility is to lead and manage the work of the Board in order to ensure that it operates effectively and fully discharges its legal and regulatory responsibilities. Together with the rest of the Non-Executive and Independent Directors, he leads the discussions on the strategies and policies recommended by the Management.

The responsibilities for the day-to-day management of the Bank rest with the CEO. He is accountable for leading the management team, implementing the policies or decisions approved by the Board. He is also responsible for charting the future direction of the Bank for the Board's consideration and approval.

The Board considers and approves a set of expectations on the CEO. This subsequently acts as a yardstick against which his performance will be measured, evaluated and rewarded.

**2. Composition of the Board**

The Board currently comprises personnel with differing expertise and of high standing in the society. The Board comprises 5 members, of whom one is Executive director, and 2 out of 4 Non-Executive Directors are independent as defined under BNM/GP1 Guidelines issued by Bank Negara Malaysia.

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**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

**BOARD OF DIRECTORS (CONTINUED)**

**2. Composition of the Board (Continued)**

There is effective check and balance on the Board, with four-fifth of the Board Members being Non-Executive Directors and the independent directors consisted of one-third of the Board members.

**3. Appointments to the Board**

The proposed appointment of new member(s) of the Board or the re-election of directors at the General Meeting of the Bank, are assessed and recommended by the Board and approved by the Holding Company before the application on the proposed appointment is submitted to BNM for approval. The selection criteria with regard to the desired candidate encompass the combination of competencies, the minimum qualifications specified by regulatory authorities and relevant experience.

The Board of Directors has a broad range of skills and credentials. Each brings a high degree of independent judgement and knowledge to the Board's discussions. They are individuals of high calibre and social standing with backgrounds in banking, law, accounting and economics.

One-third of the directors for the time being must retire at each AGM and if eligible, may offer themselves for re-election. The profiles of the members of the Board are set out on pages 5 to 7 of the Report.

**4. Directors' Performance and Remuneration**

The Holding Company will carry out assessment on the performance of the Board annually. The members of the Board will be assessed based on the specific criteria set as well as the performance assessment of the Bank as a whole.

The Board will recommend on the policies and framework in relation to rewards and benefits of directors to the Holding Company for approval.

The independent directors who had served for the financial year are paid annual directors' fee with the shareholders' approval at the AGM.

The appointment, compensation and benefits of the CEO will be assessed by the Holding Company and the Board based on the qualification, experience and achievement of targets set.

**5. Induction and Training**

The newly appointed directors will receive in-house orientation and education programmes to assist them to familiarize with the industry and the Bank within 3 months of the appointment. The programmes should cover at a minimum the nature of business, the corporate strategy of the Bank, responsibilities and duties of the Board as a whole, an overview of the risks of the businesses, the risk management strategy of the Bank, legal requirements and financial overview of the Bank.

The Holding Company would ensure that all directors receive continuous training in order to keep abreast with latest developments in the industry, particularly on relevant new laws, regulations and the changing risk factors from time to time.

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**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

**INFORMATION ON COMMITTEES OF THE BANK**

The Board has established Audit Committee as well as various Management Committees to assist the Board in the running of the Bank.

The Bank has obtained BNM's approval to dispense with the establishment of Nominating, Remuneration and Risk Management Committees. Accordingly, the Board will undertake the responsibility for the roles and responsibilities expected of each of the committees as follows:

1. Nominating Committee

The proposed appointment of new member(s) of the Board, as well as the proposed re-appointment/ re-election of directors seeking re-appointment / re-election at the General Meeting of the Bank, are assessed and recommended by the Board and approved by the Holding Company before the application on the proposed appointment is submitted to BNM for prior approval.

2. Remuneration Committee

The Board of Directors of the Bank will recommend on the policies and framework in relation to rewards and benefits of directors to the Holding Company for approval. The functions of the Holding Company are to research and develop remuneration and benefits policies and to review the annual remuneration budget. The above requirement provides a formal, independent and transparent procedure for developing remuneration policy for directors of the subsidiaries as well as ensuring that compensation is competitive and consistent with the objective and strategy of the Holding Company.

3. Risk Management Committee

The Board meets periodically to oversee senior management's activities in managing credit risk, market risk, liquidity, operational, legal and other risk and to ensure that the risk management process of the Bank is in place and functioning.

The Board of Directors of the Bank has established the following committees to oversee the risk management, internal control and operations of the Bank:

(a) Integrated Risk Management Committee

The Integrated Risk Management Committee, headed by an independent director has been set up to monitor the various risk management functions of the Bank.

Currently, the committees coordinated by the Integrated Risk Management Committee are:

- (i) Assets & Liabilities Committee;
- (ii) Credit Risk Management Committee;
- (iii) Credit & Loan Committee;
- (iv) Anti-Money Laundering and Counter Financing of Terrorism Committee;
- (v) Operational Risk Management Committee.

The Committee shall meet on a quarterly basis or on a need basis.

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**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

**INFORMATION ON COMMITTEES OF THE BANK (CONTINUED)**

3. Risk Management Committee (Continued)

(b) Assets & Liabilities Committee (“ALCO”)

The ALCO is responsible for ensuring that the Bank’s Balance Sheet is structured in a way that is consistent with both the Board-approved policy on acceptable interest rate risk levels and the Bank’s overall business plan.

The ALCO shall meet monthly, or regularly as required, i.e., upon a significant change in the Bank’s environment (either external or internal), which is expected to have an impact on the Bank’s financial position.

(c) Credit Risk Management Committee (“CRM”)

The objective of CRM is to assist the Board of Directors of the Bank in overseeing the credit risk management process, thereby upgrading the conduct of the credit-granting activities of the Bank.

The CRM is an independent committee chaired by a director, without power to approve credit. The Committee is to assist the Board of Directors in carrying the supervision role of the Bank.

The Committee comprised persons experienced in credit and risk management.

The CRM reports directly to the Board and meets on a quarterly basis or on a need basis.

(d) Credit & Loan Committee (“CLC”)

The objective of the CLC is to assist the General Manager/CEO of the Bank in overseeing the credit risk management process, thereby upgrading the conduct of the credit-granting activities of the Bank.

The main functions of the CLC are the credit appraisal functions and the review functions.

The Committee shall conduct weekly meeting or on need basis.

(e) Anti-Money Laundering & Counter Financing of Terrorism (AML/CFT) Committee

The objective of the AML/CFT Committee is to ensure the proper development, monitoring, compliance and avoid of all forms of Money Laundering and Terrorism Financing activities in the Bank, as well as to ensure the adoption of a coordinate approach in this regards.

The Committee shall meet on a quarterly basis or on a need basis.

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**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

**INFORMATION ON COMMITTEES OF THE BANK (CONTINUED)**

3. Risk Management Committee (Continued)

(f) Operational Risk Management Committee ("ORMC")

The objective of the ORMC is to manage the operational risk associated with the bank's activities and to mitigate the risks accordingly.

So far, each department has identified the risk areas and a risk scorecard for each department has been developed to prevent/mitigate the risk areas. The risk scorecard is being reviewed periodically.

The Committee shall meet on a quarterly basis or on a need basis.

The Board has approved the establishment of Audit Committee and its terms of reference.

1. Audit Committee

(a) Membership and Attendance

The Audit Committee ("AC") comprises the following members and details of attendance of each member at the AC meetings held during 2006 are as follows:

Composition of Audit Committee	Number of AC Meetings	
	Held	Attended
Tan Sri Dato' Lim Guan Teik Chairman/Independent Non-Executive Director	4	4
Xu Qilin Member/Non-Independent Non-Executive Director	4	4
Tan Siak Tee Member/Independent Non-Executive Director	4	3

(b) Composition and Terms of Reference

The Audit Committee shall comprise only non-executive directors with at least (3) three members but not more than (5) five members, of which the majority should be independent directors. At least one member should have accounting expertise or experience in the field of finance.

The Audit Committee members shall elect a Chairman among them who is an independent non-executive director.

A minimum of four meetings per year are planned although meetings may be called at any time at the Chairman's discretion. Meeting includes by way of physical presence and telephone/video conferencing.

The quorum shall be not less than (2) two.

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**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

**INFORMATION ON COMMITTEES OF THE BANK (CONTINUED)**

1. Audit Committee (Continued)

(c) Roles and Responsibilities

The Audit Committee is given full authority to investigate any matter within its terms of reference, full access to and co-operation by management and full discretion to invite any director or executive director to attend its meetings, and reasonable resources to enable it to discharge its functions properly. The Audit Committee should have full and unrestricted access to information and be able to obtain independent professional advice.

(d) Key Internal Control Processes

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls include the following:

(i) The Audit Committee reviews internal control issues identified by the Internal Audit Department, the external auditors, regulatory authorities, the auditors from the Holding Company and the management, and evaluates the adequacy and effectiveness of the internal control systems. The minutes of the Audit Committee meetings are tabled to the Board of the Bank on a periodic basis;

(ii) The Internal Audit Department of the Bank monitors compliance with policies and procedures and the effectiveness of the internal control systems and highlights significant findings in respect of any non-compliance. Audits are carried out on all departments except the Information Technology Department where the audit would be covered by the auditors from the Holding Company. The frequency of the audit is determined by the level of risk assessed, to provide an independent and objective report on operational and management activities of the departments. The annual audit plan is reviewed and approved by the Audit Committee and the findings of the audits are submitted to the Audit Committee for review at their periodic meetings.

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**BALANCE SHEET**  
**AS AT 31 DECEMBER 2006**

	<u>Note</u>	<u>2006</u> RM'000	<u>2005</u> RM'000
<b>ASSETS</b>			
Cash and short-term funds	2	397,732	396,694
Deposits and placements with banks and other financial institutions	3	285,200	128,400
Securities portfolio			
Held-to-maturity investments	4	55,770	56,396
Loans and advances	5	335,108	286,300
Other assets	6	5,195	4,446
Deferred taxation assets	7	3,226	5,172
Tax recoverable		374	146
Statutory deposits with Bank Negara Malaysia	8	-	-
Property, plant and equipment	9	721	885
<b>TOTAL ASSETS</b>		<u>1,083,326</u>	<u>878,439</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Deposits from customers	10	528,196	320,610
Deposits and placements of banks and other financial institutions	11	189,431	178,922
Bills and acceptances payable		-	26,746
Other liabilities	12	22,527	22,884
<b>TOTAL LIABILITIES</b>		<u>740,154</u>	<u>549,162</u>
Financed by:			
Share Capital	13	304,000	304,000
Reserves	14	39,172	25,277
<b>SHAREHOLDERS' EQUITY</b>		<u>343,172</u>	<u>329,277</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<u>1,083,326</u>	<u>878,439</u>
<b>COMMITMENTS AND CONTINGENCIES</b>	24	<u>323,592</u>	<u>480,863</u>

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INCOME STATEMENT  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

	<u>Note</u>	<u>2006</u> RM'000	<u>2005</u> RM'000
Interest income	15	44,569	36,033
Interest expense	16	(22,244)	(16,900)
Net interest income		22,325	19,133
Other operating income	17	11,117	7,352
Other operating expenses	18	(6,549)	(12,021)
Allowance for losses on loans and advances	20	(468)	(258)
Profit before taxation		26,425	14,206
Taxation	21	(7,496)	(4,009)
Net profit for the financial year		18,929	10,197
Basic earnings per share (sen)	22	6.2	3.4
Ordinary dividend per RM1 share of 3.93 sen (2005: 2.30 sen) gross per share, less income tax (sen)	14 (b)	2.87	1.66

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**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006**

	<u>Note</u>	<u>Issued and fully paid ordinary shares of RM1 each</u>	<u>Non- distributable</u>	<u>Distributable</u>		
		<u>Nominal value RM'000</u>	<u>Statutory reserve RM'000</u>	<u>Retained profit RM'000</u>	<u>Proposed dividend RM'000</u>	<u>Total RM'000</u>
At 1 January 2006		304,000	19,868	375	5,034	329,277
Net profit for the financial year		-	-	18,929	-	18,929
Total recognised income for the year		-	-	18,929	-	18,929
Transfer to statutory reserve		-	9,465	(9,465)	-	-
Proposed dividend	14 (b)	-	-	(8,721)	8,721	-
Dividend paid		-	-	-	(5,034)	(5,034)
At 31 December 2006		<u>304,000</u>	<u>29,333</u>	<u>1,118</u>	<u>8,721</u>	<u>343,172</u>
At 1 January 2005		304,000	14,769	311	-	319,080
Net profit for the financial year		-	-	10,197	-	10,197
Total recognised income for the year		-	-	10,197	-	10,197
Transfer to statutory reserve		-	5,099	(5,099)	-	-
Proposed dividend		-	-	(5,034)	5,034	-
At 31 December 2005		<u>304,000</u>	<u>19,868</u>	<u>375</u>	<u>5,034</u>	<u>329,277</u>

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**CASH FLOW STATEMENT**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006**

	<u>Note</u>	<u>2006</u> RM'000	<u>2005</u> RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before taxation		26,425	14,206
<i>Adjustments for:</i>			
Depreciation of property, plant and equipment		376	579
Amortisation of premium less accretion of discount		626	814
Loan loss allowance		600	258
Write back of loan loss allowance		(132)	-
Interest income from held-to-maturity investments		(2,705)	(3,209)
Unrealised foreign exchange gain		(1,141)	(299)
<b>Cash flow from operating profit before changes in operating assets and liabilities</b>		<b>24,049</b>	<b>12,349</b>
<b>(INCREASE)/DECREASE IN OPERATING ASSETS</b>			
Deposits and placements with banks and other financial institutions		(156,800)	(128,400)
Loans and advances		(49,276)	(33,312)
Other assets		390	14,723
<b>INCREASE/(DECREASE) IN OPERATING LIABILITIES</b>			
Deposits from customers		207,586	99,918
Deposits and placements of banks and other financial institutions		10,509	(122,848)
Bills and acceptances payable		(26,746)	26,326
Other liabilities		(357)	8,156
<b>Cash generated/(used in) operating activities</b>		<b>9,355</b>	<b>(123,088)</b>
Taxation paid		(5,778)	(4,005)
<b>Net cash generated/(used in) operating activities</b>		<b>3,577</b>	<b>(127,093)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(212)	(216)
Net sale of held-to-maturity investments		-	35,000
Interest received on held-to-maturity investments		2,707	2,837
<b>Net cash generated from investing activities</b>		<b>2,495</b>	<b>37,621</b>

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CASH FLOW STATEMENT  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

	<u>Note</u>	<u>2006</u> RM'000	<u>2005</u> RM'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		(5,034)	-
Net cash used in financing activities		(5,034)	-
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE FINANCIAL YEAR			
		1,038	(89,472)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR		396,694	486,166
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR	2	<u>397,732</u>	<u>396,694</u>

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS - 31 DECEMBER 2006**

**A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Unless otherwise stated, the following accounting policies have been applied consistently in dealing with items that are considered material in relation to the financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

**1 BASIS OF PREPARATION**

The financial statements of the Bank have been prepared under the historical cost convention unless otherwise indicated in this summary of significant accounting policies in accordance with Financial Reporting Standards, the Malaysian Accounting Standard Board ("MASB") approved accounting standards in Malaysia for entities other than private entities, as well as comply with the provisions of the Companies Act, 1965 and Bank Negara Malaysia Guidelines.

The preparation of financial statements in conformity with the provisions of the Companies' Act, 1965, Financial Reporting Standards, the MASB approved accounting standards in Malaysia for entities other than private entities and BNM's Guidelines requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported year. It also requires Directors to exercise their judgment in the process of applying the Bank's accounting policies. Although these estimates are based on the Directors' best knowledge of current events and actions, actual results may differ from estimates.

Critical accounting estimates and assumptions that are significant to the financial statements, and areas involving a higher degree of judgment and complexity are disclosed in Section B: Critical accounting estimates and assumptions.

During the financial year, the Bank adopted the following new and revised Financial Reporting Standards ("FRS") issued by MASB that are effective for financial statements commencing 1 January 2006. The following are the new and revised FRS that are relevant to the Bank:

- (a) FRS 101 Presentation of Financial Statements
- (b) FRS 108 Accounting Policies, Changes in Accounting Estimates and Errors
- (c) FRS 110 Events after the Balance Sheet Date
- (d) FRS 116 Property, Plant and Equipment
- (e) FRS 121 The Effect of Changes in Foreign Exchange Rates
- (f) FRS 132 Financial Instruments: Disclosure and Presentation
- (g) FRS 133 Earnings Per Share
- (h) FRS 136 Impairment of Assets

The adoption of the new and revised FRSs does not have any significant financial impact on the results of the Bank.

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS - 31 DECEMBER 2006**  
 (CONTINUED)

**A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**1 BASIS OF PREPARATION (CONTINUED)**

The new standards, amendments to published standards and interpretations that are mandatory for the Bank's financial periods beginning on or after 1 January 2007 or later periods, but which the Bank has not early adopted, are as follows:

- FRS 124 Related Party Disclosures (effective for accounting periods beginning on or after 1 October 2006). This standard will affect the identification of related parties and some other related party disclosures. The Bank will apply this standard from financial periods beginning 1 January 2007.
- FRS 139 Financial Instruments: Recognition and Measurement (effective date yet to be determined by Malaysian Accounting Standards Board). This new standard establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. Hedge accounting is permitted only under strict circumstances. The Bank will apply this standard when effective. Nevertheless, the accounting policies of the Bank incorporates revised guidelines on Financial Reporting for Licensed Institutions (BNM/GP8) issued by BNM which includes selected principles of FRS 139.

**2 RECOGNITION OF INTEREST INCOME ON LOANS AND ADVANCES**

Interest income is recognised on an accrual basis using the effective yield method. Interest income on housing loans and term loans is recognised by reference to monthly rest periods.

Where an account becomes non-performing, interest accrued and recognised as income prior to the date the loans are classified as non-performing is reversed out of income by debiting the interest income in the income statement and crediting the accrued interest receivable account in the balance sheet. Subsequently, interest earned on non-performing loans is recognised as income on cash basis.

Customers' account are classified as non-performing where repayments are in arrears for more than three (3) months for loans and overdrafts, and three (3) months after maturity date for trade bills, bankers' acceptances and trust receipt. The policy on suspension of interest is in conformity with Bank Negara Malaysia's "Revised Guidelines on Financial Reporting for Licensed Institutions, BNM/GP8". However, the Bank has been given approval by Bank Negara Malaysia to compute impairment losses on loans and advances based on "Guidelines on classification of Non-performing Loans and Provision for Substandard, Bad and Doubtful Debts, BNM/GP3".

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(CONTINUED)

A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3 RECOGNITION OF FEES AND OTHER INCOME

Loan arrangement fees and commissions are recognised as income when all conditions precedent are fulfilled.

Commitment fees and guarantee fees which are material are recognised as income based on time apportionment.

Dividends from securities are recognised when received.

4 SECURITIES PORTFOLIO

Securities held by the Bank are segregated based on the following categories and valuation method:

The Bank classify their securities portfolio into the following categories: held for trading, available-for-sale and held-to-maturity securities. Management determines the classifications of its securities up-front at the point when transactions are entered into.

Purchase and sales of securities are recognised and derecognised on settlement date. For initial recognition, all securities are measured at fair value, which corresponds to the transaction price or purchase consideration given (in the case of acquisition of securities) or received (in the case of securities sold). All securities are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

(i) Held for Trading Securities

Held for trading ("HFT") securities held with the objective of short term resale and/or with the intent of benefiting from actual or expected short-term price movement to lock in arbitrage profits. Securities held for trading are stated at fair value at initial recognition. Any gain or loss arising from a change in the fair value are recognised in the income statement.

The amortisation of premium and accretion of discount on HFT securities is recognised as interest income using the effective interest method.

The realised gains or losses on derecognition of HFT securities, which are derived on the difference between the proceeds received and the carrying value of the securities, are credited or charged to the income statement.

(ii) Held-to-Maturity Investments

Held-to-maturity ("HTM") investments are securities with fixed or determinable payments and fixed maturity as well as positive intention and ability to hold to maturity. Securities held-to-maturity are measured at amortised cost using the effective interest method.

The amortisation of premium and accretion of discount on HTM securities is recognised as interest income using the effective interest method.

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(CONTINUED)

A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4 SECURITIES PORTFOLIO (CONTINUED)

(ii) Held-to-Maturity Investments (continued)

The realised gains or losses on derecognition of HTM securities, which are derived based on the difference between the proceeds received and the carrying value of the securities, are credited or charged to the income statement.

If the Bank sold or reclassified more than an insignificant amount of the HTM securities portfolio before maturity (other than under those conditions specified in BNM/GP8) during the current financial year or the last two preceding financial years, the entire category would be tainted and reclassified as available-for-sale securities at fair value. The difference between the carrying value and fair value at the date of reclassification is recognised directly in equity.

(iii) Available-for Sale Securities

Securities available-for-sale ("AFS") are financial assets that are not classified as held for trading or held-to-maturity investments and are subsequently measured at fair value, with unrealised gains and losses arising from changes in fair value recognised in equity, net of income tax, until such securities are sold, collected or otherwise disposed of, or until such securities are determined to be impaired.

Equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are state at cost, less impairment losses.

The amortisation of premium and accretion of discount on AFS securities is recognised as interest income using the effective interest method.

The realised gains or losses on derecognition of AFS securities, which are derived based on the difference between the proceeds received and the carrying value of the securities plus any cumulative unrealised gains and losses arising from changes in fair value previously recognised in equity, are credited or charged to the current period's income statement.

Dividends on an available-for-sale equity instrument are recognised in the income statement when the right to receive payment is established.

5 LOANS AND ADVANCES

Loans and advances, include overdrafts, term loans, acceptances credit and staff loans are recognised when cash is advanced to borrowers. They are initially recorded at fair value, which is the cash given to originate the loans and advances, and subsequently are carried at amortised cost, which is represented by the gross value of the outstanding balance, net of allowance for bad and doubtful debts and unearned interest.

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(CONTINUED)

**A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**6 PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION**

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

Depreciation of property, plant and equipment is calculated to write off the cost of the property, plant and equipment on a straight line basis over the expected useful life of the assets concerned. The principal annual rates are:

Computer equipment and software	40%
Motor vehicles	20%
Office equipment	14%
Renovation	10%

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

At each balance sheet date, the Bank assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. See Note 10 on impairment of non-financial assets.

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement.

**7 FINANCIAL LIABILITIES**

All non-trading financial liabilities are initially recognised at fair value, being the consideration received at transaction date. Subsequently, non-trading financial liabilities are measured at amortised costs using the effective interest method.

Non-trading financial liabilities are derecognised when the obligations specified in the contracts are discharged or cancelled or expired.

**8 BILLS AND ACCEPTANCES PAYABLE**

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

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**A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**9 IMPAIRMENT OF SECURITIES**

The Bank assess at each balance sheet date whether there is objective evidence that a security is impaired. A security is impaired and impairment loss is incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the securities that can be reliably estimated.

**(a) Securities carried at amortised cost**

If there is objective evidence that an impairment loss on HTM securities carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flow discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a HTM security has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement. For HTM securities stated at cost, no reversal of impairment loss is allowed when the amount of impairment loss decreases.

**(b) Securities carried at fair value**

When a decline in fair value of AFS securities has been recognised directly in equity and there is objective evidence that the security is impaired, the cumulative loss that has been recognised directly in equity is removed from equity and recognised in the income statement even though the security has not been derecognised. The amount of cumulative loss is the difference between the acquisition price (net of principal repayment and amortisation) and current fair value, less any impairment loss on that security previously recognised in the income statement.

If, in subsequent periods, the fair value of a debts instrument classified as AFS increase and the increase can be objectively related to an event occurring after the impairment was recognised in the income statement, that portion of impairment loss is reversed through the income statement. For equity instruments, no reversal of impairment loss through the income statement is allowed when there is an increase in fair value of the equity instrument in subsequent period.

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(CONTINUED)

**A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**10 IMPAIRMENT OF NON-FINANCIAL ASSETS**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there is separately identifiable cash flows (cash generating units).

The impairment loss is charged to the income statement unless it reverses a previous revaluation in which case it is charged to the revaluation surplus. Any subsequent increase in recoverable amount is recognised in the income statement unless it reverses an impairment loss on a revalued asset, in which case it is taken to revaluation surplus.

**11 DIVIDENDS PAYABLE**

Dividends on ordinary shares are recognised as liabilities in the period in which the dividends are declared.

**12 CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

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

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

**13 FORWARD EXCHANGE CONTRACTS**

Unmatured forward exchange contracts are valued at forward rates as at balance sheet date, applicable to their respective dates of maturity, and unrealised losses and gains are recognised in the income statement for the financial year. Positive fair value are carried as assets and negative fair value are carried as liabilities.

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(CONTINUED)

**A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**14 CURRENCY TRANSLATIONS**

**(a) Functional and presentation currency**

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates (the "functional currency"). The financial statements are presented in Ringgit Malaysia, which is the Bank's functional and presentation currency.

**(b) Transactions and balances**

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

**15 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprise cash in hand, bank balances and deposit placements maturing less than one month held for the purpose of meeting short term commitments and readily convertible into cash without significant risk of changes in value.

**16 OPERATING LEASE**

Leases of assets under which all the risks and benefits of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charge to the income statement on a straight line basis over the period of the lease.

**17 TAXATION AND DEFERRED TAXATION**

Income tax for the year comprises current and deferred taxes. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred tax is recognised in full, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purposes and their carrying amounts in the financial statements. The principal temporary differences arise from loans and advances and excess of capital allowance over depreciation.

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

Tax rates (and tax laws) enacted or substantively enacted by the balance sheet date are used to determine deferred tax and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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(CONTINUED)

**A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**18 ALLOWANCE FOR BAD AND DOUBTFUL DEBTS**

Specific allowance are made for doubtful debts which have been individually reviewed and specifically identified as bad or doubtful.

Write-back of specific allowance is permitted where there is cash inflow or enhancement in the value of security.

A general allowance is established to cover possible losses that are judged to be present in the lending portfolio at balance sheet date, but which have not been specifically identified as such.

An uncollectible loan and advances or portion of a loan and advances 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 allowance for non-performing loans is in conformity with the minimum requirements of Bank Negara Malaysia's "Guidelines on the Classification of Non-performing Loans and Provision for Substandard, Bad and Doubtful Debts, BNM/GP3". The Bank's Non-performing Loans classification policy is explained in accounting policy Note 2.

**19 PROVISIONS**

Provisions, other than provision for bad and doubtful debts, are recognised when the Bank have a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

**20 EMPLOYEE BENEFITS**

**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 Bank.

**Post-employment benefits - defined contribution plans**

A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a fund and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods.

The Bank's contributions to a national defined contribution plan (the Employee Provident Fund) on a mandatory basis and the amounts contributed to the plan are charged to the income statement in the period to which they relate. Once the contributions have been paid, the Bank has no further payment obligations.

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(CONTINUED)

**21 FINANCIAL INSTRUMENTS**

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

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

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

**Financial instruments recognised on the balance sheet**

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

**Financial instruments not recognised on the balance sheet**

The Bank is a party to financial instruments that comprise foreign currency forward contracts. These instruments are measured at fair value and are carried as assets when the fair value is positive and as liabilities when fair value is negative.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Bank designates certain derivatives as either:

**Fair value hedge**

Where a derivative financial instrument hedges the change in fair value of a recognised asset or liability, any gain or loss on the hedging instrument is recognised in the income statement. The hedged item is also stated at fair value in respect of the risk being hedge, with any gain or loss being recognised in the income statement to offset the value change on the hedging instrument.

**Cash flow hedge**

Gains and losses on the hedging instrument, to the extent that the hedge is effective are deferred in equity. The deferred gains or losses are released to the income statement when the hedged cash flow items affects income. The ineffective part of any gain or loss is recognised in the income statement.

**B CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS**

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**1 ALLOWANCES FOR LOSSES ON LOANS, ADVANCES AND FINANCING**

The Bank make allowance for losses on assessment of recoverability which is guided by the relevant BNM's Guidelines.

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**1 GENERAL INFORMATION**

The principal activities of the Bank are commercial banking and related financial services.

The holding company is Bank of China Limited, a company incorporated in China. The ultimate holding company is Central SAFE Investments Limited, a company incorporated in China.

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

The address of the registered office of the Bank is:

Mezzanine Floor, Plaza OSK  
Jalan Ampang, 50450 Kuala Lumpur

**2 CASH AND SHORT-TERM FUNDS**

	<u>2006</u> RM'000	<u>2005</u> RM'000
Cash and balances with banks and other financial institutions	49,832	19,350
Money at call and deposit placements maturing within one month	347,900	377,344
	<u>397,732</u>	<u>396,694</u>

**3 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS**

	<u>2006</u> RM'000	<u>2005</u> RM'000
Bank Negara Malaysia	285,200	128,400
	<u>285,200</u>	<u>128,400</u>

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4 SECURITIES PORTFOLIO HELD-TO-MATURITY INVESTMENTS

	<u>2006</u> RM'000	<u>2005</u> RM'000
At amortised cost		
Money market instrument:		
Malaysian Government Securities	58,029	58,029
Amortisation of premium less accretion of discounts	(2,259)	(1,633)
	<u>55,770</u>	<u>56,396</u>
	<u><u>55,770</u></u>	<u><u>56,396</u></u>

5 LOANS AND ADVANCES

(i) By type

	<u>2006</u> RM'000	<u>2005</u> RM'000
Overdrafts	45,567	39,059
Term loans		
- Housing loans	6,704	4,785
- Syndicated term loan	92,997	117,876
- Other term loans	95,849	84,016
Bills receivable	7	625
Trust receipts	6,809	3,817
Claims on customers under acceptance credits	36,362	37,560
Staff loans	1,314	1,384
Of which: RMnil are to Directors		
Loans to banks and other financial institutions	60,294	7,477
	<u>345,903</u>	<u>296,599</u>
Unearned interest and income	(226)	(198)
	<u>345,677</u>	<u>296,401</u>
Less: Allowance for bad and doubtful debts:		
- General	(10,410)	(9,810)
- Specific	(159)	(291)
Total net loans and advances	<u>335,108</u>	<u>286,300</u>

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**5 LOANS AND ADVANCES (CONTINUED)**

(ii) By type of customer

	<u>2006</u> RM'000	<u>2005</u> RM'000
Domestic banking institutions	52,991	-
Domestic non-bank financial institutions	7,303	7,477
Domestic business enterprises		
- Small medium enterprises ("SME")	147,585	136,877
- Non-SME	55,543	59,543
Government and statutory bodies	53,724	64,936
Individuals	10,872	8,662
Foreign entities	17,659	18,906
	<hr/> 345,677	<hr/> 296,401
	<hr/> <hr/>	<hr/> <hr/>

(iii) By interest rate sensitivity

	<u>2006</u> RM'000	<u>2005</u> RM'000
Fixed rate		
- Housing loans	914	3,398
- Other fixed rate loan	1,314	1,384
Variable rate		
- BLR plus	161,318	136,216
- Cost plus	36,143	37,527
- Other variable rates	145,988	117,876
	<hr/> 345,677	<hr/> 296,401
	<hr/> <hr/>	<hr/> <hr/>

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**5 LOANS AND ADVANCES (CONTINUED)**

(iv) By purpose

	<u>2006</u> RM'000	<u>2005</u> RM'000
Purchase of transport vehicles	135	275
Purchase of landed property	46,761	47,000
- Residential	8,062	6,140
- Non-residential	38,699	40,860
Personal use	2,164	1,357
Construction	11,259	10,976
Working capital	256,204	192,793
Other purpose	29,154	44,000
	<u>345,677</u>	<u>296,401</u>

(v) Non-performing Loans ("NPL")

(a) Movement in non-performing loans and advances

	<u>2006</u> RM'000	<u>2005</u> RM'000
At beginning of year	403	392
Classified as non-performing during the year	7,303	-
Amount recovered	(132)	-
Other adjustments (referring to payment made for legal fees, insurance premium, deposit to Land Office, quit rent & assessment and valuation fees)	42	11
At end of year	7,616	403
Specific allowance	(159)	(291)
Net non-performing loans and advances	<u>7,457</u>	<u>112</u>
Ratio of net non-performing loans and advances to net loans and advances	2.16%	0.04%

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**5 LOANS AND ADVANCES (CONTINUED)**

(v) Non-performing Loans (NPL) (Continued)

(b) Movement in allowance for bad and doubtful debts

	<u>2006</u> RM'000	<u>2005</u> RM'000
<u>General allowance</u>		
At beginning of year	9,810	9,810
Allowance made during the year	600	-
At end of year	<u>10,410</u>	<u>9,810</u>
As % of gross loans and advances less specific allowance	3.0%	3.3%
<u>Specific allowance</u>		
At beginning of year	291	33
Allowance made during the year	-	258
Amount recovered	(132)	-
At end of year	<u>159</u>	<u>291</u>

(c) NPL by purpose

	<u>2006</u> RM'000	<u>2005</u> RM'000
Working capital	<u>7,616</u>	<u>403</u>
	<u>7,616</u>	<u>403</u>

**6 OTHER ASSETS**

	<u>2006</u> RM'000	<u>2005</u> RM'000
Interest receivable	2,741	2,020
Other debtors, deposits and prepayments	2,454	2,426
	<u>5,195</u>	<u>4,446</u>

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**7 DEFERRED TAX ASSETS**

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

	<u>2006</u> RM'000	<u>2005</u> RM'000
Loans and advances	2,748	2,819
Excess of capital allowance over depreciation	(5)	(47)
Other temporary differences	483	2,400
Deferred tax assets (net)	<u>3,226</u>	<u>5,172</u>

The movements in deferred tax assets/(liabilities) during the year comprise the following:

	Loans and advances RM'000	Excess of capital allowance over depreciation RM'000	Other temporary differences RM'000	Total RM'000
At 1 January 2006	2,819	(47)	2,400	5,172
(Debited)/credited to income statement	<u>(71)</u>	<u>42</u>	<u>(1,917)</u>	<u>(1,946)</u>
At 31 December 2006	<u>2,748</u>	<u>(5)</u>	<u>483</u>	<u>3,226</u>
At 1 January 2005	2,747	(133)	2,163	4,777
Credited to income statement	<u>72</u>	<u>86</u>	<u>237</u>	<u>395</u>
At 31 December 2005	<u>2,819</u>	<u>(47)</u>	<u>2,400</u>	<u>5,172</u>

The deferred tax assets and liabilities have been adjusted to take into account the reduction in tax rate to 27% in Year of Assessment 2007, 26% in Year of Assessment 2008 and thereafter, adjustments are made based on amounts of temporary differences expected to be reversed in the prospective years.

**8 STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA**

The non-interest bearing statutory deposits are maintained with Bank Negara Malaysia in compliance with Section 37(1)(c) of the Central Bank of Malaysia Act 1958 (Revised-1994), the amounts of which are determined as set percentages of total eligible liabilities.

During the year, no statutory deposits were maintained with Bank Negara Malaysia as the total eligible liabilities of the Bank is nil in December 2006 (2005: nil).

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9 PROPERTY, PLANT AND EQUIPMENT

	Computer equipment & software RM'000	Motor vehicles RM'000	Office equipment RM'000	Renovation RM'000	Total RM'000
<u>2006</u>					
<u>Cost</u>					
At 1 January	3,569	449	994	679	5,691
Additions	123	-	76	13	212
At 31 December	<u>3,692</u>	<u>449</u>	<u>1,070</u>	<u>692</u>	<u>5,903</u>
<u>Accumulated depreciation</u>					
At 1 January	3,365	435	653	353	4,806
Charged during the financial year	158	14	135	69	376
At 31 December	<u>3,523</u>	<u>449</u>	<u>788</u>	<u>422</u>	<u>5,182</u>
Net book value	<u>169</u>	<u>-</u>	<u>282</u>	<u>270</u>	<u>721</u>
<u>2005</u>					
<u>Cost</u>					
At 1 January	3,427	449	943	656	5,475
Additions	142	-	51	23	216
At 31 December	<u>3,569</u>	<u>449</u>	<u>994</u>	<u>679</u>	<u>5,691</u>
<u>Accumulated depreciation</u>					
At 1 January	3,014	407	520	286	4,227
Charged during the financial year	351	28	133	67	579
At 31 December	<u>3,365</u>	<u>435</u>	<u>653</u>	<u>353</u>	<u>4,806</u>
Net book value	<u>204</u>	<u>14</u>	<u>341</u>	<u>326</u>	<u>885</u>

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**NOTES TO THE FINANCIAL STATEMENTS  
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**10 DEPOSITS FROM CUSTOMERS**

(i) By type of deposits

	<u>2006</u> RM'000	<u>2005</u> RM'000
Demand deposits	86,103	69,700
Savings deposits	16,894	17,528
Fixed deposits	189,186	124,370
Negotiable instruments of deposits	236,000	109,000
Others	13	12
	<u>528,196</u>	<u>320,610</u>

(a) Maturity structure of fixed deposits and negotiable instrument of deposits are as follows:

	<u>2006</u> RM'000	<u>2005</u> RM'000
Due within six months	414,045	224,164
Six months to one year	11,141	9,087
One year to three years	-	119
	<u>425,186</u>	<u>233,370</u>

(ii) By type of customer

	<u>2006</u> RM'000	<u>2005</u> RM'000
Government and statutory bodies	40,606	1,012
Business enterprises	408,419	247,760
Individuals	79,000	71,771
Others	171	67
	<u>528,196</u>	<u>320,610</u>

**11 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS**

	<u>2006</u> RM'000	<u>2005</u> RM'000
Licensed banks	189,431	178,922
	<u>189,431</u>	<u>178,922</u>

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**12 OTHER LIABILITIES**

	<u>2006</u> RM'000	<u>2005</u> RM'000
Interest payable	2,981	1,868
Accrued expenses	2,463	8,929
Margin Deposits	7,961	7,176
Other liabilities	9,122	4,911
	<u>22,527</u>	<u>22,884</u>

**13 SHARE CAPITAL**

	<u>2006</u> RM'000	<u>2005</u> RM'000
Authorised:		
304,000,000 ordinary shares of RM1 each	<u>304,000</u>	<u>304,000</u>
Issued and fully paid:		
Ordinary shares of RM1 each		
Balance as at 1 January/31 December	<u>304,000</u>	<u>304,000</u>

**14 RESERVES**

	<u>2006</u> RM'000	<u>2005</u> RM'000
Distributable:		
Retained profit (a)	1,118	375
Proposed dividend (b)	8,721	5,034
	<u>9,839</u>	<u>5,409</u>
Non-distributable:		
Statutory reserve (c)	29,333	19,868
	<u>39,172</u>	<u>25,277</u>

- (a) Subject to agreement by Inland Revenue Board, the Bank has sufficient tax credit under Section 108 of the Income Tax Act, 1967 to frank the payment of dividends out of all its retained profit as at 31 December 2006.
- (b) The Directors recommend the payment of a final gross dividend in respect of the current financial year of 3.93% less income tax of 27% amounting to RM8,721,456, subject to the approval of member at the forthcoming Annual General Meeting. These financial statements do not reflect this final dividend which will be accrued as liability in the financial year ending 31 December 2007 when approved by the shareholder at the Annual General Meeting.
- (c) 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.

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15	INTEREST INCOME	2006 RM'000	2005 RM'000
Loans and advances			
- Interest income other than recoveries from NPL	19,646	15,974	
- Recoveries from NPLs	288	-	
Money at call and deposit placement with financial institutions	22,729	17,664	
Securities			
- Held-to-maturity investments	2,705	3,209	
	45,368	36,847	
Amortisation of premium less accretion of discount	(626)	(814)	
Interest suspended	(173)	-	
	44,569	36,033	
Total interest income			

  

16	INTEREST EXPENSE	2006 RM'000	2005 RM'000
Deposits and placements of banks and other financial institutions	9,370	6,913	
Deposits from customers	12,874	9,987	
	22,244	16,900	

  

17	OTHER OPERATING INCOME	2006 RM'000	2005 RM'000
Fees and commission income:			
- Processing fees	12	22	
- Syndication fees	89	178	
- Commitment fees	300	279	
- Other fees relating to loan & finance	389	576	
- Guarantee fees	942	1,049	
- Acceptance commission	455	462	
- Other fee income	4,488	1,950	
	6,675	4,516	
Foreign exchange gain:			
- Realised	3,301	2,537	
- Unrealised	1,141	299	
	11,117	7,352	

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18 OTHER OPERATING EXPENSES

	<u>2006</u> RM'000	<u>2005</u> RM'000
<b>Personnel expenses</b>		
Salaries & wages (includes CEO/EDs)	3,836	3,425
Bonuses	846	2,060
Employee provident fund	902	614
Staff welfare expenses	687	337
Other personnel costs	538	730
	<hr/> 6,809	<hr/> 7,166
<b>Marketing expenses</b>		
Entertainment expenses	813	339
Other marketing expenses	150	211
	<hr/> 963	<hr/> 550
<b>Establishment costs</b>		
Lease rental of premises	1,414	1,181
Depreciation of property, plant and equipment	376	579
Repairs and maintenance	673	547
Other establishment costs	524	378
	<hr/> 2,987	<hr/> 2,685
<b>Administration and general expenses</b>		
Management fees (Reversal of amount no longer required)	(6,100)	100
Insurance premium	278	323
Auditors' remuneration - statutory audit fees	50	46
- other fees	11	15
Other administration and general expenses	1,551	1,136
	<hr/> (4,210)	<hr/> 1,620
	<hr/> 6,549	<hr/> 12,021
<b>The above expenditure includes the following expense:</b>		
Directors' remuneration (Note 19)	<hr/> 769	<hr/> 1,174

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**19 DIRECTORS' REMUNERATION**

The Directors who have held office during the period since the date of the last report and at the date of this report are as follows:

Executive Directors

Zhang Lianli

Non Executive Directors

Xu Qilin

Fang Yanmin

Jin Yuming (resigned on 27.05.2006)

Y Bhg Tan Sri Dato' Lim Guan Teik

Tan Siak Tee

	<u>2006</u> RM'000	<u>2005</u> RM'000
<u>Executive Directors</u>		
- salary and other remuneration	380	636
- bonus	168	292
- benefits-in-kind	77	102
<u>Non Executive Directors</u>		
- fees	144	144
	<hr/> 769	<hr/> 1,174
	<hr/> <hr/>	<hr/> <hr/>

The remuneration attributable to the Chief Executive Officer of the Bank, including benefits-in-kind during the financial year amounted to RM625,405 (2005: RM584,105).

The number of Directors of the Bank whose total remuneration including benefits-in-kind for the financial year which fall within the required disclosure bands is as follows:

	<u>Number of Directors</u>	
	<u>2006</u>	<u>2005</u>
<u>Executive Directors</u>		
RM400,001 - RM450,000	-	1
RM550,001 - RM600,000	-	1
RM600,001 - RM650,000	1	-
<u>Non-Executive Directors</u>		
Below RM50,000	4	4
RM100,001 - RM150,000	1	1

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20	(WRITE OFF) / ALLOWANCE FOR LOSSES ON LOANS AND ADVANCES			
		<u>2006</u> RM'000	<u>2005</u> RM'000	
	Allowance for bad and doubtful debts on loans and advances			
(a)	Specific allowance			
	- Made in the financial year	-	258	
	- Written back	(132)	-	
(b)	General allowance			
	- Made in the financial year	600	-	
		<u>468</u>	<u>258</u>	
		<u><u>468</u></u>	<u><u>258</u></u>	

21	TAXATION			
		<u>2006</u> RM'000	<u>2005</u> RM'000	
	Current tax - Malaysian income tax	5,626	4,454	
	Transfers (to)/from deferred taxation (Note 7)	1,946	(395)	
	Overprovision of prior year taxation	(76)	(50)	
		<u>7,496</u>	<u>4,009</u>	
		<u><u>7,496</u></u>	<u><u>4,009</u></u>	

The explanation on the relationship between taxation and profit before taxation is as follows:

		<u>2006</u> RM'000	<u>2005</u> RM'000	
	Profit before taxation	<u>26,425</u>	<u>14,206</u>	
		<u><u>26,425</u></u>	<u><u>14,206</u></u>	
	Tax calculated at a rate of 28%	7,399	3,978	
	Expenses not deductible for tax purposes	192	81	
	Income not subject to tax	(265)	-	
	Overprovision of prior year taxation	(76)	(50)	
	Reduction in deferred taxes resulting from reduction in tax rate	246	-	
		<u>7,496</u>	<u>4,009</u>	
		<u><u>7,496</u></u>	<u><u>4,009</u></u>	

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**22 BASIC EARNINGS PER SHARE**

Basic earnings per ordinary share is calculated by dividing the net profit for the financial year by the weighted average number of ordinary shares in issue during the financial year.

	<u>2006</u> RM'000	<u>2005</u> RM'000
Net profit for the financial year	18,929	10,197
Weighted average number of ordinary shares in issue	304,000	304,000
Basic earnings per share (sen)	6.2	3.4

**23 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES**

The related parties of, and their relationship with the Bank are as follows:

<u>Related company</u>	<u>Relationship</u>
Central SAFE Investments Limited	Ultimate holding company
Bank of China Limited	Holding company
Bank of China (Sydney)	Fellow subsidiaries
Bank of China (Toronto)	Fellow subsidiaries
Bank of China (Tokyo)	Fellow subsidiaries
Bank of China (Frankfurt)	Fellow subsidiaries
Bank of China (Singapore)	Fellow subsidiaries
Bank of China (London)	Fellow subsidiaries
Bank of China (New York)	Fellow subsidiaries
Bank of China (Hong Kong)	Fellow subsidiaries

A number of banking transactions are entered into with related parties in the normal course of business. These transactions were carried out on commercial terms and at market rates.

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23 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

	Holding company RM'000	Other related companies RM'000
<u>2006</u>		
INCOME		
Interest income on deposits and placements with banks	89	1,218
EXPENDITURE		
Interest expense on deposits and placement of banks	7,754	44
Management fees payable (Reversal of amount no longer required)	(6,100)	-
AMOUNT DUE FROM		
Cash and bank balances	3,854	44,141
AMOUNT DUE TO		
Deposits and placements of banks	145,154	-
Interest payable	800	-
<u>2005</u>		
INCOME		
Interest income on deposits and placements with banks	455	378
EXPENDITURE		
Interest expense on deposits and placement of banks	5,037	23
Management fees	100	-
AMOUNT DUE FROM		
Cash and bank balances	1,312	15,354
Money at call and deposit placements	-	9,449
Interest receivable	-	3
AMOUNT DUE TO		
Deposits and placements of banks	154,960	5,669
Management fees payable	6,100	-
Interest payable	718	1

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**24 COMMITMENTS AND CONTINGENCIES**

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions, and hence are not provided for in the financial statements.

The commitments and contingencies constitute the following:

	2006			2005		
	Principal RM'000	Credit equivalent RM'000	Risk weighted RM'000	Principal RM'000	Credit equivalent RM'000	Risk weighted RM'000
Direct credit substitutes	-	-	-	150	150	150
Transaction-related contingent items	132,621	66,311	13,009	194,261	97,131	20,578
Short-term self liquidation trade related contingencies	22,983	4,597	265	26,126	5,225	482
Irrevocable commitments to extend credit:						
- Maturity not exceeding one year	98,183	-	-	96,770	-	-
- Maturity exceeding one year	25,878	12,939	12,652	19,810	9,905	9,170
Foreign exchange related contracts:						
- Less than one year	17,012	-	-	13,530	-	--
Others	26,915	-	-	130,216	-	-
	<u>323,592</u>	<u>83,847</u>	<u>25,926</u>	<u>480,863</u>	<u>112,411</u>	<u>30,380</u>

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

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**25 LEASE COMMITMENTS**

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

	<u>2006</u> RM'000	<u>2005</u> RM'000
Not later than 1 year	1,381	1,154
Later than 1 year but not later than 5 years	3,193	3,758
	<u>4,574</u>	<u>4,912</u>

**26 CAPITAL ADEQUACY**

The capital adequacy ratios of the Bank are as follows:

	<u>2006</u> RM'000	<u>2005</u> RM'000
<u>Tier-1 capital</u>		
Paid-up ordinary share capital	304,000	304,000
Retained profit	1,118	375
Proposed dividend	8,721	5,034
Other reserves	29,333	19,868
	<u>343,172</u>	<u>329,277</u>
Less: Deferred tax assets	(3,226)	(5,172)
Total Tier-1 Capital	<u>339,946</u>	<u>324,105</u>

Tier-2 capital

General allowance for bad and doubtful debts	10,410	9,810
Total Tier-2 Capital	<u>10,410</u>	<u>9,810</u>
Total capital base	<u>350,356</u>	<u>333,915</u>

Capital ratios

Core capital ratio (inclusive of market risk)	97%	100%
Risk-weighted capital ratio (inclusive of market risk)	100%	103%
Core capital ratio (inclusive of market risk and net of proposed dividends)	95%	99%
Risk-weighted capital ratio (inclusive of market risk and net of proposed dividends)	<u>97%</u>	<u>102%</u>

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**26 CAPITAL ADEQUACY (CONTINUED)**

(ii) Breakdown of risk-weighted assets in the various categories of risk-weights:

		<u>2006</u>		<u>2005</u>	
		Principal RM'000	Risk-Weighted RM'000	Principal RM'000	Risk-Weighted RM'000
0%	679,541		-	547,980	-
10%	-		-	-	-
20%	178,218	35,644		155,050	31,010
50%	8,676	4,338		7,538	3,769
100%	308,485	308,485		288,973	285,530
Total risk-weighted assets for credit risk	1,174,920	348,467		999,541	320,309
Total risk-weighted assets for market risk #	-	1,994		-	3,443
Total risk-weighted assets for credit and market risks	<u>1,174,920</u>	<u>350,461</u>		<u>999,541</u>	<u>323,752</u>

\* 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 taxation income/(expense) is excluded from the computation of Tier 1 capital and deferred taxation assets is excluded from the calculation of risk weighted assets.

# The Bank Negara Malaysia Guidelines on Market Risk Adequacy Framework are effective from 1 April 2005.

**27 FINANCIAL INSTRUMENTS**

(a) Financial risk management objectives and policies

The objectives of the Bank's financial risk management is to establish an integrated risk management system which will help evaluate risk with reward and maximise income within an acceptable risk level through risk identification, measurement, monitoring and management.

The Board of Directors and our holding company, Bank of China Limited approves the extent of the Bank's risk appetite in the pursuit of agreed business strategies and objectives. The Board of Directors also approves risk limits and regularly reviews major policies designed to control risk within the Bank.

**Credit Risk**

Credit risk is the risk of financial loss that results from customers failing to meet their obligations. Credit risk arises primarily from lending activities and represents the major risk of the Bank. The Board of Directors of the Bank approves major policies and limits that govern monitoring of the credit risk. The Board of Directors delegates authorities to the Credit Risk Management Committee for overseeing the credit risk of the Bank.

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**27 FINANCIAL INSTRUMENTS (CONTINUED)**

**(a) Financial risk management objectives and policies (continued)**

**Credit Risk (continued)**

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk acceptable in relation to one borrower, or group of borrowers and industry segments. Such risks are monitored on a regular basis and are subject to annual or more frequent review. Limits on the single customer, by group of customers, by industry sectors and other procedures set by the relevant authorities and Bank of China Limited were adopted by the Bank for monitoring of the credit risks.

**Market Risk**

Market risk arises from adverse movements in the level and volatility of market factors such as interest rates, foreign exchange rates which will have an effect on the balance sheet structure in terms of liquidity and funding.

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates and foreign exchange rates on its financial position and cash flow. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Assets and Liabilities Committee of the Bank monitor the interest rate risk and currency risk on a regular basis.

**Liquidity Risk**

Liquidity risk is the potential inability of the Bank to meet its payment obligations. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdowns, guarantees etc.

The objective of the liquidity policy of the Bank is to ensure that the Bank is able to meet its financial obligations, whether such obligations are scheduled or unforeseen. The Bank has set a limit on the minimum proportion of maturing funds available to meet such calls, and complies with the limits set by Bank Negara Malaysia under the New Liquidity Framework and relevant procedures set by the Head Office, Bank of China Limited.

**Operational Risk**

Operational risk can be defined as the risk of monetary loss resulting from inadequate or failed internal processes, people, and system or from external events. The Operational Risk Management Committee of the Bank is responsible for the development of a control framework, the promotion of a strong risk management culture in the Bank, and the monitoring and administration of operational risk.

Some of the key management and control techniques include segregation of duties, clear delegation of authority, sound project management and disaster recovery plan. Our internal audit function independently appraises the adequacy and effectiveness of the internal control environment and reports results independently to the Audit Committee of the Bank.

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27 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Interest rate risk

The tables below summarise the Bank's exposure to interest rate risks. Included in the tables are the Bank'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 Bank 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.

	2006	Non Trading Book						Effective Interest Rate %
		Up to 1 month RM'000	>1 – 3 months RM'000	>3 – 12 months RM'000	1 – 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	
Assets								
Cash and short term funds	395,894		-	-	-	-	1,838	397,732
Deposits & placement with banks & other financial institutions	-	285,200		-	-	-	-	285,200
Securities portfolio	-	-		55,770	-	-	-	55,770
Loans and advances								
- performing	209,231	119,297	8,218	208	1,107	(10,410)	327,651	6.19%
- non-performing	-	-	-	-	-	7,457	7,457	
Other assets	-	-	-	-	-	5,195	5,195	
Deferred taxation	-	-	-	-	-	3,226	3,226	
Tax recoverable	-	-	-	-	-	374	374	
Property, plant and equipment	-	-	-	-	-	721	721	
Total assets	<u>605,125</u>	<u>404,497</u>	<u>8,218</u>	<u>55,978</u>	<u>1,107</u>	<u>8,401</u>	<u>1,083,326</u>	

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27 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Interest rate risk (continued)

	2006	Non Trading Book						Effective Interest Rate %
		Up to 1 month RM'000	>1 – 3 months RM'000	>3 – 12 months RM'000	1 – 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	
<u>Liabilities</u>								
Deposits from customers	285,759	136,875	21,092	-	-	-	84,470	528,196
Deposits and placements of banks and other financial institutions	83,531	105,900	-	-	-	-	-	189,431
Bills and acceptances payable	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	22,527	22,527
<b>Total liabilities</b>	<b>369,290</b>	<b>242,775</b>	<b>21,092</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>106,997</b>	<b>740,154</b>
 Shareholders' equity	 -	 -	 -	 -	 -	 -	 343,172	 343,172
<b>Total liabilities and Shareholders' equity</b>	<b>369,290</b>	<b>242,775</b>	<b>21,092</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>450,169</b>	<b>1,083,326</b>
On balance sheet – interest rate gap	235,835	161,722	(12,874)	55,978	1,107	(441,768)	-	-
Off balance sheet – interest rate gap	-	-	-	-	-	-	-	-
<b>Total interest sensitivity gap</b>	<b>235,835</b>	<b>161,722</b>	<b>(12,874)</b>	<b>55,978</b>	<b>1,107</b>	<b>(441,768)</b>	<b>-</b>	<b>-</b>

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27 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Interest rate risk (continued)

Assets	Non Trading Book						Total RM'000	Effective Interest Rate %
	Up to 1 month RM'000	>1 – 3 months RM'000	>3 – 12 months RM'000	1 – 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000		
Cash and short term funds	394,010	-	-	-	-	2,684	396,694	3.18%
Deposits & placement with banks & other financial institutions	-	128,400	-	-	-	-	128,400	3.09%
Securities	-	-	-	56,396	-	-	56,396	4.92%
Loans and advances								
- performing	172,220	59,458	60,469	117	3,734	(9,810)	286,188	6.19%
- non-performing	-	-	-	-	-	112	112	
Other assets	-	-	-	-	-	4,446	4,446	
Deferred taxation	-	-	-	-	-	5,172	5,172	
Tax recoverable	-	-	-	-	-	146	146	
Property, plant and equipment	-	-	-	-	-	885	885	
<b>Total assets</b>	<b>566,230</b>	<b>187,858</b>	<b>60,469</b>	<b>56,513</b>	<b>3,734</b>	<b>3,635</b>	<b>878,439</b>	

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27 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Interest rate risk (continued)

	2005	Non Trading Book						Effective Interest Rate %
		Up to 1 month RM'000	>1 – 3 months RM'000	>3 – 12 months RM'000	1 – 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	
<u>Liabilities</u>								
Deposits from customers	222,012	12,438	16,329	119	-	69,712	320,610	2.75%
Deposits and placements of banks and other financial institutions	95,773	56,693	26,456	-	-	-	178,922	4.36%
Bills and acceptances payable	14,460	11,150	1,136	-	-	-	26,746	3.19%
Other liabilities	-	-	-	-	-	22,884	22,884	
<u>Total liabilities</u>	<u>332,245</u>	<u>80,281</u>	<u>43,921</u>	<u>119</u>	<u>-</u>	<u>92,596</u>	<u>549,162</u>	
<u>Shareholders' equity</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>329,277</u>	<u>329,277</u>	
<u>Total liabilities and Shareholders' equity</u>	<u>332,245</u>	<u>80,281</u>	<u>43,921</u>	<u>119</u>	<u>-</u>	<u>421,873</u>	<u>878,439</u>	
On balance sheet – interest rate gap	233,985	107,577	16,548	56,394	3,734	(418,238)	-	
Off balance sheet – interest rate gap	-	-	-	-	-	-	-	
<u>Total interest sensitivity gap</u>	<u>233,985</u>	<u>107,577</u>	<u>16,548</u>	<u>56,394</u>	<u>3,734</u>	<u>(418,238)</u>	<u>-</u>	

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**27 FINANCIAL INSTRUMENTS (CONTINUED)**

**(c) Credit risk**

2006

	Short term funds and placements with financial institutions RM'000	Held- to-maturity investments RM'000	Loans and advances RM'000	Other assets RM'000	On-balance sheet total RM'000	Commitments and contingencies RM'000
The following tables set out the credit risk concentrations by sector:						
Primary agriculture	-	-	27,905	-	27,905	27,089
Mining & quarrying	-	-	-	-	-	300
Manufacturing	-	-	38,341	-	38,505	50,808
Electricity, gas and water supply	-	-	21,614	-	21,450	-
Construction	-	-	147	-	147	119,801
Real estate	-	-	71,873	-	71,873	24,434
Wholesale & retail trade and restaurants & hotels	-	-	37,732	-	37,732	30,670
Transport, storage and communication	-	-	57,722	-	57,722	18,494
Finance, insurance and business services	82,059	-	60,294	10	142,363	20,839
Household	-	-	10,872	-	10,872	-
Government and government agencies	599,377	55,770	-	4,784	659,830	-
Education, health & others	-	-	19,018	401	19,520	31,155
	681,436	55,770	345,518	5,195	1,087,919	323,592
Assets not subject to credit risk	1,496	-	-	4,321	5,817	-
	682,932	55,770	345,518 <sup>^</sup>	9,516#	1,093,736	323,592

<sup>^</sup> Excludes general allowance amounting to RM 10,410,000.

# Other assets include property, plant and equipment, deferred tax assets and tax recoverable.

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**27 FINANCIAL INSTRUMENTS (CONTINUED)**

**(c) Credit risk (continued)**

2005

	Short term funds and placements with financial institutions RM'000	Held- to-maturity investments RM'000	Loans and advances RM'000	Other assets RM'000	On-balance sheet total RM'000	Commitments and contingencies RM'000
The following tables set out the credit risk concentrations by sector:						
Agriculture, hunting, forestry and fishing	-	-	547	-	547	5,000
Mining and quarrying	-	-	-	-	-	-
Manufacturing	-	-	43,373	-	43,373	53,704
Electricity, gas and water	-	-	41,629	-	41,629	373
Construction	-	-	3,383	-	3,383	181,067
Real estate	-	-	79,156	-	79,156	37,596
Wholesale & retail trade and restaurants & hotels	-	-	35,347	-	35,347	33,180
Transport, storage and communication	-	-	57,828	-	57,828	13,938
Finance, insurance and business services	64,094	-	7,477	50	71,621	17,610
Household	-	-	8,662	-	8,662	4,613
Government and government agencies	459,181	56,396	-	3,967	519,544	-
Education, health & others	-	-	18,906	429	19,335	133,782
	<u>523,275</u>	<u>56,396</u>	<u>296,308</u>	<u>4,446</u>	<u>880,425</u>	<u>480,863</u>
Assets not subject to credit risk	<u>1,819</u>	<u>-</u>	<u>-</u>	<u>6,203</u>	<u>8,022</u>	<u>-</u>
	<u><u>525,094</u></u>	<u><u>56,396</u></u>	<u><u>296,308<sup>^</sup></u></u>	<u><u>10,649#</u></u>	<u><u>888,447</u></u>	<u><u>480,863</u></u>

<sup>^</sup> Excludes general allowance amounting to RM 9,810,000.

# Other assets include property, plant and equipment, deferred tax assets and tax recoverable.

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**27 FINANCIAL INSTRUMENTS (CONTINUED)**

(d) Liquidity risk

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs and guarantees, and from margin and other calls on cash-settled derivatives. The Bank does not maintain cash resources to meet all of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

The Bank has always complied with the liquidity compliance requirement as agreed by Bank Negara Malaysia under the first two time buckets for "up to 1 week" and ">1 week to 1 month".

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**28 FAIR VALUE OF FINANCIAL INSTRUMENTS**

Financial instruments comprise financial assets, financial liabilities and off-balance sheet financial instruments. Fair value is the amount at which a financial asset could be exchanged or a financial liability 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 FRS 132 which requires the fair value information to be disclosed. These include property, plant and equipment, investment in subsidiary and associated companies and intangibles.

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

	31.12.2006		31.12.2005	
	Carrying amount RM	Fair value RM	Carrying amount RM	Fair value RM
<u>Financial assets</u>				
Held-to-maturity investments	55,770	55,941	56,396	56,747
<u>Financial liabilities</u>				
Deposits from customers	528,183	528,205	320,610	320,652

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**28 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

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

- (a) Deposits and placements with financial institutions
 

For deposits and placements with financial institutions with maturities of less than six months, the carrying amount is a reasonable estimate of fair value. For deposits and placements with maturities six months and above, estimated fair value is 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 risk and remaining period to maturity.
- (b) Held-to-maturity investments
 

The estimated fair value is generally based on quoted and observable market prices.
- (c) 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 value, net of specific allowance, being the expected recoverable amount.
- (d) Deposits from customers
 

For deposits from customers with maturities of less than six months, the carrying amounts are a reasonable estimate of their fair value. For deposits with maturities of six months or more, fair values are estimated using discounted cash flows based on prevailing market rates for similar deposits from customers.
- (e) 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 six months approximate the carrying amounts. For deposits and placements with maturities six months or more, the fair values are estimated based on discounted cash flows using prevailing money market interest rates for deposits and placements with similar remaining period to maturities.
- (f) Foreign exchange rate and interest rate contracts
 

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

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**29 CHANGES IN ACCOUNTING POLICIES**

The list of new accounting standards and amendments to published standards that are relevant and effective for the Bank's accounting periods beginning on or after 1 January 2006 is set out in Note 1 of the summary of significant accounting policies.

The adoption of those FRS have no material effect on the Bank's accounting policies and did not have material impact on the financial statements.

**30 AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS**

The financial statements have been authorised for issue in accordance with a resolution of the Board of Directors on 12 March 2007.

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

We, Zhang Lianli and Tan Siak Tee, being two of the Directors of Bank of China (Malaysia) Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 15 to 58 are drawn up so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2006 and of the results and cash flows of the Bank for the financial year ended on that date and in accordance with the MASB approved accounting standards in Malaysia for entities other than private entities, the provisions of the Companies Act, 1965 and Bank Negara Malaysia Guidelines.

In accordance with a resolution of the Board of Directors dated 12 March 2007.

ZHANG LIANLI  
DIRECTOR

TAN SIAK TEE  
DIRECTOR

Kuala Lumpur

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

I, Cho Lai Kuan, the officer primarily responsible for the financial management of Bank of China (Malaysia) Berhad, do solemnly and sincerely declare that the financial statements set out on pages 15 to 58 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

CHO LAI KUAN

Subscribed and solemnly declared by the abovenamed Cho Lai Kuan at Kuala Lumpur on 12 March 2007, before me.

COMMISSIONER FOR OATHS

REPORT OF THE AUDITORS TO THE MEMBER OF  
BANK OF CHINA (MALAYSIA) BERHAD  
(Company No. 511251 V)

We have audited the financial statements set out on pages 15 to 58. These financial statements are the responsibility of the Bank's Directors. It is our responsibility to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

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

In our opinion:

- (a) the financial statements have been prepared in accordance with the provisions of the Companies Act, 1965, the MASB approved accounting standards in Malaysia for entities other than private entities and Bank Negara 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 Bank as at 31 December 2006 and of the results and cash flows of the Bank for the financial year ended on that date;

and

- (b) the accounting and other records and the registers required by the Act to be kept by the Bank have been properly kept in accordance with the provisions of the Act.

PRICEWATERHOUSECOOPERS  
(No. AF: 1146)  
Chartered Accountants

SOO HOO KHOON YEAN  
(No. 2682/10/07 (J))  
Partner of the firm

Kuala Lumpur