



financial
statements
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Directors'
Report

The directors hereby submit their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The Company is principally an investment holding company. The principal activities of the subsidiary companies are shown in Note 7 to the financial statements. There have been no significant changes in the nature of these activities during the financial year.

RESULTS

	Group RM'000	Company RM'000
Net loss for the financial year from continuing operations	108,198	336,902
Net loss for the financial year from discontinued operation	5,536	-
Net loss for the financial year	113,734	336,902

DIVIDENDS

No dividend has been paid or declared by the Company since the end of the previous financial year. The directors do not recommend any payment of dividend in respect of the financial year ended 31 December 2006.

ISSUE OF SHARES AND DEBENTURES

The Company has not issued any new shares or debentures during the financial year.

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.

DIRECTORS

The directors who held office since the date of the last report are:-

Richard Wong Shoon Fook
Y. Bhg. Tan Sri Dato Sri Abang Haji Ahmad Urai bin Datu Hakim Abang Haji Mohideen
Alexander Wong Shoon Choy
Bernard Wong Shoon Tet
Low Chin Tong
Chin Jit Pyng
Jeffrey Zhin Kok Wong
Lau Tiang Hua
Raymond Tan

In accordance with Article 118 of the Company's Articles of Association, Richard Wong Shoon Fook, Lau Tiang Hua and Raymond Tan retire from the Board by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Section 129(2) of the Companies Act, 1965, Y. Bhg. Tan Sri Dato Sri Abang Haji Ahmad Urai bin Datu Hakim Abang Haji Mohideen retires from the Board at the forthcoming Annual General Meeting and, the directors recommend his reappointment under Section 129(6) of the said Act.

Directors'
Report
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DIRECTORS' INTERESTS

Except as stated below, no other directors holding office at the end of the financial year had any beneficial interests in the ordinary shares of the Company and related corporations during the financial year ended 31 December 2006, as recorded in the Register of Directors' Shareholdings kept by the Company under Section 134 of the Companies Act, 1965:-

Shares in the Company	— Number of Ordinary Shares of RM1.00 each —			
	Balance as at 1.1.2006	Bought	Sold	Balance as at 31.12.2006
Richard Wong Shoon Fook				
Direct interest	2,734,861	-	-	2,734,861
Deemed connected	39,251,524	-	-	39,251,524
Bernard Wong Shoon Tet				
Direct interest	3,079,182	-	-	3,079,182
Deemed connected	39,251,524	-	-	39,251,524
Alexander Wong Shoon Choy				
Deemed connected	39,251,524	-	-	39,251,524
Chin Jit Pyng				
Direct interest	3,563,000	-	-	3,563,000
Deemed connected	2,051,000	-	-	2,051,000
Jeffrey Zhin Kok Wong				
Direct interest	4,145,000	-	-	4,145,000
Indirect interest	2,071,000	-	-	2,071,000

By virtue of Section 6A of the Companies Act, 1965, Richard Wong Shoon Fook, Bernard Wong Shoon Tet and Alexander Wong Shoon Choy are deemed to have an interest in the shares of the subsidiary companies to the extent of the Company having an interest.

DIRECTORS' BENEFITS

Since the end of the previous financial year, none of the directors has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the directors shown in the financial statements) by reason of a contract made by the Company or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

There were no arrangements during and at the end of the financial year, to which the Company is a party, which had the object of enabling directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

OTHER STATUTORY INFORMATION REGARDING THE GROUP AND THE COMPANY:-**(I) AS AT THE END OF THE FINANCIAL YEAR**

- (a) Before the income statements and balance sheets of the Group and of the Company were made out, the directors took reasonable steps:-
 - (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and have satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and
 - (ii) to ensure that any current assets which were unlikely to realise their book values in the ordinary course of business had been written down to their estimated realisable values.
- (b) In the opinion of the directors, the results of the operations of the Group and of the Company during the financial year have not been substantially affected by any item, transaction or event of a material and unusual nature.

OTHER STATUTORY INFORMATION REGARDING THE GROUP AND THE COMPANY:- (cont'd)

(II) FROM THE END OF THE FINANCIAL YEAR TO THE DATE OF THIS REPORT

(c) The directors are not aware of any circumstances:-

- (i) which would render the amounts written off for bad debts or the amounts of the provision for doubtful debts in the financial statements of the Group and of the Company inadequate to any material extent; or
- (ii) which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading; and
- (iii) which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.

(d) In the opinion of the directors:-

- (i) there has not arisen any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Group and of the Company for the financial year in which this report is made; and
- (ii) no contingent or other liability has become enforceable, or is likely to become enforceable, within the period of twelve months after the end of the financial year which will or may affect the ability of the Group or of the Company to meet their obligations as and when they fall due except for those highlighted in Notes 5.1 to the financial statements.

(III) AS AT THE DATE OF THIS REPORT

- (e) There are no charges on the assets of the Group and of the Company which have arisen since the end of the financial year to secure the liabilities of any other person.
- (f) There are no contingent liabilities of the Group and of the Company which have arisen since the end of the financial year.
- (g) The directors are not aware of any circumstances not otherwise dealt with in this report or financial statements which would render any amount stated in the financial statements of the Group and of the Company misleading.

SIGNIFICANT EVENTS

The significant events are disclosed in Note 44 to the financial statements.

EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

- (i) On 23 January 2007, the Company has obtained, inter-alia, the order from the Court viz, that the Company's Proposed Restructuring Scheme as set out in the Explanatory Statement to scheme creditors dated 27 October 2006, with the only modification made in relation to Section 9 of the Explanatory Statement to bring forward the completion deadline from 30 June 2007 to 31 March 2007 which had been duly approved by the scheme creditors at the court convened meetings held on 20 November 2006 be confirmed, approved and sanctioned by the Court so as to be binding upon the petitioner and the scheme creditors.
- (ii) On 27 March 2007, the Company has made an application to Bank Negara Malaysia ("BNM") for approval in principle for the Company to commence negotiations with Tokio Marine Asia Pte. Ltd. ("TMA"), pursuant to Section 67 of the Insurance Act, 1996 for the purpose of disposing PGB's entire equity shareholdings of 99.97% interest in PanGlobal Insurance Berhad ("PGI"). In the event discussions are successful, PGB and TMA will be required to obtain the prior approval of the Minister of Finance, based on the recommendation of BNM, pursuant to the relevant provisions of the Insurance Act 1996, before entering into any agreement to effect the above proposal.
- (iii) On 30 March 2007, the Company announced that, in view of the delay in the approved disposal of a subsidiary company, PGI, the approved Restructuring Scheme of the Company would not be completed by the prescribed deadline of 31 March 2007.

However, in view of the latest development in relation to the approved Disposal of PGI, the Board of Directors of PGB will be working closely with the scheme creditors in order to complete the approved Restructuring Scheme in an expeditious manner.

Directors'
Report
(cont'd)

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AUDITORS

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

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

.....
Richard Wong Shoon Fook
Director

.....
Bernard Wong Shoon Tet
Director

Kuala Lumpur
30 April 2007

Statement by Directors

In the opinion of the directors, the financial statements set out on pages 29 to 80 have been drawn up in accordance with applicable approved Financial Reporting Standards in Malaysia so as to give a true and fair view of:-

- (i) the state of affairs of the Group and of the Company as at 31 December 2006 and of their results for the financial year then ended; and
- (ii) the cash flows of the Group and of the Company for the financial year ended 31 December 2006.

On behalf of the Board,

.....
Richard Wong Shoon Fook
 Director

.....
Bernard Wong Shoon Tet
 Director

Kuala Lumpur
30 April 2007

Statutory Declaration

I, Tan Eke Luck, being the officer primarily responsible for the financial management of PanGlobal Berhad, do solemnly and sincerely declare that the financial statements set out on pages 29 to 80 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly)
 declared by the abovenamed at)
 Kuala Lumpur this)
 27 April 2007)

Tan Eke Luck

Before me:-

Kathirvelayudham A/L Palaniappan PPN (No.W385)
 Commissioner of Oaths

Report of the Auditors

to the Members of PanGlobal Berhad

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We have audited the financial statements set out on pages 29 to 80. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on the financial statements based on our audit.

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

1. Included in current liabilities are bank borrowings of the Group and the Company amounting to RM210,017,000 and RM199,392,000 respectively. These borrowings which are due for repayment within the next twelve (12) months from the financial year ended 31 December 2006 have largely resulted in the Group and the Company net current liabilities position as at 31 December 2006. As disclosed in Note 5.1 to the financial statements, as at this date, the Group and the Company have net current liabilities of RM116,229,000 and RM136,343,000 respectively and a deficit in the shareholders' equity of RM442,278,000 and RM328,088,000 respectively. These conditions indicate that the Group and the Company may not be able to discharge its liabilities as and when they fall due.

As disclosed in Note 44(I) to the financial statements, the Company has obtained approval from all the relevant parties for its Proposed Scheme of Arrangement ("SOA"), subject to the condition that the SOA be completed by 31 March 2007. The Company was granted a Restraining Order ("RO") under Section 176 (10) of the Companies Act, 1965 by the Kuala Lumpur High Court to facilitate the implementation of the SOA. However, in view of unforeseen delay in the proposed disposal of PanGlobal Insurance Berhad ("PGI"), the Company was not able to complete the SOA by the prescribed deadline of 31 March 2007. In addition, the RO had expired on 1 January 2007.

As disclosed in Note 5.1 to the financial statements, the financial statements of the Group and the Company have been prepared on a going concern basis, the validity of which is dependent upon the successful implementation of its SOA, the continuous financial support from the Group's and the Company's bankers and creditors, and the ability of the Group and the Company to generate profit and positive cash flow in the future. However, at the date of this report, we are unable to obtain sufficient appropriate evidence to satisfy ourselves as to whether the disposal of PGI can be successfully concluded and whether the implementation of the SOA can continue. Accordingly, we are unable to determine whether the going concern basis of accounting used in the preparation of the financial statements is appropriate.

2. We have considered the financial statements and auditors' reports of the subsidiary companies of which we have not acted as auditors, as indicated in Note 8 to the financial statements, being financial statements that are included in the consolidated financial statements.
3. The auditors' reports on the financial statements of the subsidiary companies were not subject to any qualification and did not include any comment made under Section 174(3) of the Act other than:-
 - (i) the auditors' report on the financial statements of Global Minerals (Sarawak) Sdn. Bhd. ("GMS") which was subject to the following modified audit opinion:-
 - (a) As disclosed in Note 44 (III) to the financial statements, GMS had entered into a Deed of Settlement and a Deed of Assignments dated 15 May 2006 with the Company and PanGlobal Trading Sdn. Bhd. ("PGT"), a fellow subsidiary, for the transfer of certain assets and rights of GMS as partial settlement of inter-company debts. Further, GMS had on 16 August 2006 entered into a Deed of Assignment and Novation with PGT and Sejingkat Power Corporation Sdn. Bhd. to assign the proceeds and receivables under the Coal Supply Contracts and rights and benefits under the Coal Supply Contracts to PGT.

The auditors of GMS reported that they are unable to perform appropriate sufficient audit procedures to enable them to conclude as to the timing and the consequential financial effects of these transactions on the financial statements of GMS. In addition, the auditors of GMS are also unable to ascertain as to whether GMS will be able to continue as a going concern in view of the transfer of all significant assets and contracts of GMS as described in Note 44 (III) to the financial statements.

- (b) As disclosed in Note 45(b) to the financial statements, there is a material contingent liability arising from a claim by an ex-mining contractor against GMS. GMS had applied to the Kuala Lumpur High Court to set aside the Interim Award and the Final Award of the arbitrator. However, on 14 April 2006, the Kuala Lumpur High Court dismissed GMS's application to set aside the Interim Award and the Final Award and ruled that the arbitrator may only make a finding with regards to damages on a figure of either RM29,241,234 or RM38,177,105. The auditors of GMS reported that they are of the opinion that a provision should be made for the above award to the ex-mining contractor. However, as GMS, based on the advice of their lawyers, will be making an appeal against the High Court decision, they are unable to ascertain as to the quantum of the provision to be made, the amount of which is dependent on the outcome of the appeal.

Report of the Auditors

to the Members of PanGlobal Berhad (cont'd)

In view of the significance of the matters discussed in the paragraph 3(a) and 3(b), the auditors of GMS are unable to form an opinion on whether the financial statements of GMS have been properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable Financial Reporting Standards in Malaysia so as to give a true and fair view of the financial position of GMS as at 31 December 2006 and of the results and cash flows of GMS for the year then ended.

The auditors of GMS also reported that they are unable to form an opinion as to whether the accounting and other records required by the Act to be kept by GMS have been properly kept in accordance with the provisions of the Act.

(ii) The auditors' report of the following subsidiary companies were qualified on the appropriateness of using the going concern basis of accounting in the preparation of the financial statements as their going concern status is dependent upon the successful implementation of the SOA of the Company.

- (a) Menara PanGlobal Sdn. Bhd.
- (b) PanGlobal Management Services Sdn. Bhd.
- (c) Perintis Glokal Teknologi Sdn. Bhd. (formerly known as PanGlobal Technologies Sdn. Bhd.)
- (d) PanGlobal Services Sdn. Bhd.
- (e) PanGlobal Corporate Services Sdn. Bhd.

4. In view of the matters set out in paragraph 3, we are unable to satisfy ourselves that the financial statements of the subsidiary companies that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purpose of the preparation of the consolidated financial statements and we have not received satisfactory information and explanations required by us for those purposes.

In view of the significance of the matters discussed in the preceding paragraphs, we are unable to form an opinion on whether the financial statements of the Group and of the Company have been prepared in accordance with the provisions of the Companies Act, 1965 and applicable approved Financial Reporting Standards in Malaysia so as to give a true and fair view of:-

- (i) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
- (ii) the state of affairs of the Group and of the Company as at 31 December 2006 and of the results and cash flows of the Group and of the Company for the financial year ended on that date.

In our opinion, the accounting and other records and registers of the Company and its subsidiary companies of which we have acted as auditors, as indicated in Note 8 to the financial statements, have been properly kept in accordance with the provisions of the Act.

BDO Binder
AF: 0206
Chartered Accountants

Siew Kah Toong
1045/03/08 (J)
Partner

Kuala Lumpur
30 April 2007

Balance Sheets

as at 31 December 2006

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	NOTE	Group		Company	
		2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
ASSETS					
NON-CURRENT ASSETS					
Property, plant and equipment	6	60,352	81,109	255	412
Investment in subsidiary companies	8	-	-	20,421	345,431
Amounts owing by subsidiary companies	9	-	-	376,345	407,536
Investment properties	10	215,632	280,845	-	-
Other investments	11	6,470	90,468	3,470	886
Exploration, evaluation and development expenditure	12	37,106	35,089	-	-
Long term receivable	13	-	1,378	-	-
Deferred tax assets	14	281	1,486	-	-
		319,841	490,375	400,491	754,265
CURRENT ASSETS					
Deferred mining costs	15	10,065	8,298	-	-
Inventories	16	5,505	6,867	-	-
Trade receivables	17	14,822	27,359	-	-
Other receivables, deposits and prepayments	18	11,799	35,639	2,453	16,534
Tax recoverable		1,169	5,254	1,226	847
Fixed deposits	19	5,236	102,141	-	2,506
Cash and bank balances		8,087	16,936	587	468
		56,683	202,494	4,266	20,355
Assets of disposal group/ non-current assets classified as held for sale	20	262,586	-	107,216	-
		319,269	202,494	111,482	20,355
TOTAL ASSETS		639,110	692,869	511,973	774,620

Balance
Sheets

as at 31 December 2006 (cont'd)

	NOTE	Group		Company	
		2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
EQUITY AND LIABILITIES					
EQUITY					
Share capital	21	140,130	140,130	140,130	140,130
Reserves	22	(582,408)	(468,674)	(468,218)	(131,316)
(DEFICIT IN SHAREHOLDERS' EQUITY) / SHAREHOLDERS' EQUITY		(442,278)	(328,544)	(328,088)	8,814
INSURANCE RESERVES					
Unearned Premium Reserve	23	-	53,573	-	-
NON-CURRENT AND DEFERRED LIABILITIES					
Amounts owing to subsidiary companies	9	-	-	15,974	14,570
Hire-purchase creditors	24	651	586	224	317
Borrowings	25	534,310	544,936	465,248	465,248
Provision for outstanding claims	26	-	95,071	-	-
Provision for retirement benefits	27	143	2,052	-	-
Provision for premium on redemption of loan stocks	28	110,786	67,584	110,786	67,584
Deferred tax liabilities	14	-	-	4	4
		645,890	710,229	592,236	547,723
CURRENT LIABILITIES					
Trade payables	29	7,105	12,437	-	-
Other payables and accruals	30	57,484	39,901	48,340	18,598
Hire-purchase creditors	24	314	279	93	93
Borrowings	25	210,017	204,704	199,392	199,392
Provision for retirement benefits	27	172	-	-	-
Tax liabilities		197	290	-	-
		275,289	257,611	247,825	218,083
Liabilities directly associated with assets classified as held for sale	20	160,209	-	-	-
		435,498	257,611	247,825	218,083
TOTAL LIABILITIES		1,081,388	1,021,413	840,061	765,806
TOTAL EQUITY AND LIABILITIES		639,110	692,869	511,973	774,620

Income Statements

for the financial year ended 31 December 2006

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	NOTE	Group		Company	
		2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Revenue	31	171,064	161,327	59	88
Cost of sales		(150,061)	(140,792)	-	-
Gross profit		21,003	20,535	59	88
Other operating income		1,295	1,183	26,116	26,424
Administration expenses		(13,357)	(11,693)	(4,722)	(3,361)
Other operating expenses		(37,798)	(9,732)	(286,316)	(8,603)
Finance costs		(78,350)	(71,898)	(72,418)	(66,487)
Loss before tax		(107,207)	(71,605)	(337,281)	(51,939)
Tax (expense)/income	33	(991)	(687)	379	766
Net loss for the financial year for continuing operations		(108,198)	(72,292)	(336,902)	(51,173)
Discontinued operation					
Net loss for the financial year for discontinued operation	20	(5,536)	(26,127)	-	-
Net loss for the financial year	32	(113,734)	(98,419)	(336,902)	(51,173)
Loss per ordinary share (sen)	34				
- from continuing operations		77	51		
- from discontinued operation		4	19		
		81	70		

Statements of Changes in Equity

for the financial year ended 31 December 2006

Group	Share capital RM'000	Share premium RM'000	Capital reserve RM'000	Merger reserve RM'000	Accumulated losses RM'000	Total RM'000
Balance as at 31 December 2004	140,130	95,699	-	58,545	(522,605)	(228,231)
Net loss for the financial year	-	-	-	-	(98,419)	(98,419)
Balance as at 31 December 2005	140,130	95,699	-	58,545	(621,024)	(326,650)
Change in accounting policy (Note 46)	-	-	-	-	(1,894)	(1,894)
Restated balance	140,130	95,699	-	58,545	(622,918)	(328,544)
Net loss for the financial year	-	-	-	-	(113,734)	(113,734)
Balance as at 31 December 2006	140,130	95,699	-	58,545	(736,652)	(442,278)

Company	Share capital RM'000	Share premium RM'000	Capital reserve RM'000	Merger reserve RM'000	Accumulated losses RM'000	Total RM'000
Balance as at 31 December 2004	140,130	97,689	2,121	234,785	(414,738)	59,987
Net loss for the financial year	-	-	-	-	(51,173)	(51,173)
Balance as at 31 December 2005	140,130	97,689	2,121	234,785	(465,911)	8,814
Net loss for the financial year	-	-	-	-	(336,902)	(336,902)
Balance as at 31 December 2006	140,130	97,689	2,121	234,785	(802,813)	(328,088)

Cash Flow Statements

for the financial year ended 31 December 2006

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	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss before tax from:				
Continuing operations	(107,207)	(71,605)	(337,281)	(51,939)
Discontinued operation	(5,536)	(27,504)	-	-
Adjustments for:-				
Net claims incurred	74,220	78,657	-	-
Amortisation of premium	62	230	-	-
Accretion of discount	(364)	(207)	-	-
Allowance for doubtful debts	14,870	160	68,397	-
Bad debts recovered	-	(214)	-	-
Bad debts written off	919	6	-	-
(Decrease)/Increase in unearned premium reserves	(15,942)	11,016	-	-
Depreciation and amortisation	15,669	12,532	209	206
Deposits written off	701	-	-	-
Gain on disposal of property, plant and equipment	(250)	(269)	-	-
Loss on disposal of investment properties	-	68	-	-
Loss/ (Gain) on disposal of other investments	1,573	(792)	-	-
Loss on fair value adjustment on investment properties	19,483	-	-	-
Interest and dividend receivable	(7,321)	(7,244)	(59)	(88)
Interest expense	36,228	29,745	29,217	23,285
Interest receivable from subsidiary companies	-	-	(25,788)	(26,421)
Impairment loss on investment in subsidiary companies	-	-	217,794	-
Impairment loss on investment properties	-	264	-	-
Inventories written off	-	346	-	-
Waiver of late payment interest	-	218	-	-
Premium on redemption of loan stocks	42,252	42,252	43,202	43,202
Property, plant and equipment written off	1,490	8	1	-
Provision for retirement benefits	(235)	157	-	-
Provision for litigation loss	125	7,408	125	7,408
Reversal of allowance for diminution in value of other investments	(5,934)	-	(318)	-
Allowance for diminution in value of other investments	-	9,767	-	1,195
Write down of intangible assets	583	-	-	-
Operating profit/(loss) before working capital changes	65,386	84,999	(4,501)	(3,152)
Decrease/(Increase) in inventories	1,362	(2,585)	-	-
Decrease/(Increase) in trade receivables	4,968	(276)	-	-
Increase in deferred mining costs	(1,280)	(4,289)	-	-
(Increase)/Decrease in other receivables, deposits and prepayments	(3,056)	10,516	(2,789)	(1,362)
Increase in trade payables	2,033	60	-	-
Increase/(Decrease) in other payables and accruals	263	(1,437)	596	(1,408)
Cash generated from/(used in) operations	69,676	86,988	(6,694)	(5,922)
Interest and dividend received	7,151	6,927	59	88
Net claims paid	(66,604)	(74,661)	-	-
Income tax paid	(1,765)	(1,753)	-	-
Retirement benefits paid	(181)	-	-	-
Net cash from/(used in) operating activities	8,277	17,501	(6,635)	(5,834)

Cash Flow
Statements

for the financial year ended 31 December 2006 (cont'd)

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from disposal of investment properties	-	292	-	-
Uplift of fixed deposits	3,844	114	-	-
Decrease in investment in fixed deposits	-	759	-	-
Purchase of intangible assets	(717)	-	-	-
Purchase of property, plant and equipment (Note 35)	(8,006)	(26,315)	(53)	(23)
Exploration, evaluation and development expenditure	(1,607)	(1,553)	-	-
Purchase of other investments	(53,744)	(37,808)	-	-
Proceeds from disposal of other investments	59,951	36,215	-	-
Proceeds from disposal of property, plant and equipment	342	272	-	-
Net repayment from subsidiary companies	-	-	4,417	17,612
Net cash from/(used in) investing activities	63	(28,024)	4,364	17,589
CASH FLOWS FROM FINANCING ACTIVITIES				
Net repayment to subsidiary companies	-	-	-	(5,095)
Repayment of borrowings	(5,313)	-	-	-
Repayment of hire-purchase creditors	(365)	(306)	(93)	(93)
Payment of interest expense	(7,884)	(17,054)	(23)	(9,983)
Net cash used in financing activities	(13,562)	(17,360)	(116)	(15,171)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,222)	(27,883)	(2,387)	(3,416)
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR	21,722	49,605	2,974	6,390
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR (Note 36)	16,500	21,722	587	2,974

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1. GENERAL INFORMATION

The Company is a public limited liability company, incorporated and domiciled in Malaysia and listed on the Main Board of Bursa Malaysia Securities Berhad.

The registered office and principal place of business of the Company is located at Level 33, Menara PanGlobal, 8, Lorong P. Ramlee, 50250 Kuala Lumpur.

The financial statements are presented in Ringgit Malaysia.

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's activities expose it to a variety of financial risks, including liquidity risk, underwriting risk, equity market risk, interest rate risk and credit risk. The Group's overall financial risk management objective is to ensure that the Group creates value for its shareholders. The Group focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. Financial risk management is carried out through risk reviews, internal control systems, and adherence to the Group financial risk management policies. The Board regularly reviews these risks and approves the treasury policies, which covers the management of these risks.

Liquidity risk

It is the Group's policy to ensure continuity to service its cash obligations in the future by way of monitoring and forecasting its cash commitments and maintaining a level of cash and cash equivalents deemed adequate to the Group's operations and development activities.

Underwriting risk

Underwriting risk mainly arise from the Group's insurance business. The underwriting risk includes the risk of incurring higher claims costs than expected owing to the random nature of claims and their frequency and severity and the risk of change in legal or economic conditions of insurance or reinsurance cover. This may result in the insurer having either received too little premium for the risks it has agreed to underwrite and hence has not enough funds to invest and pay claims, or that claims are in excess of those expected.

The Group seeks to minimise underwriting risk with an appropriate mix and spread of business between classes of business based on its overall strategy. This is complemented by observing formalised underwriting guidelines and limits, and high standards applied to the security of reinsurers.

Equity market risk

Movements in the equity market will have significant impact on the carrying values of the Group's investments in equity. The Group manages this risk through the appointment of a professional investment firm to manage the Group' investments in equity and also via a sound and diversified investments policy.

Interest rate risk

The Group's exposure to interest rate risk for changes in interest rates relates primarily to the Group's interest-bearing debts and fixed deposits. As the Group's income and operating cash flows are substantially independent of changes in interest rates, the Group does not use derivative financial instruments to hedge its risk.

Credit risk

The Group's cash deposits and receivables may give rise to credit risk which requires loss to be recognised if a counter party fails to perform as contracted. It is the Group's policy to continue to monitor the financial standing of these parties on an ongoing basis and perform credit evaluation on customers requiring credit to ensure that the Group is exposed to minimal credit risk.

3. PRINCIPAL ACTIVITIES

The Company is principally an investment holding company. The principal activities of the subsidiary companies are shown in Note 8 to the financial statements. There have been no significant changes in the nature of these activities during the financial year.

4. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the Group and of the Company have been prepared in accordance with the applicable approved Financial Reporting Standards ("FRSs") in Malaysia and the provisions of the Companies Act, 1965.

5 SIGNIFICANT ACCOUNTING POLICIES**5.1 Basis of accounting**

The financial statement of the Group and of the Company are prepared under the historical cost convention unless otherwise indicated in the accounting policies below and complied with the provisions of the Companies Act, 1965 and all applicable approved accounting standards in Malaysia and on the going concern basis.

The going concern basis has been made on the assumptions that the Company is able to successfully implement the approved Scheme of Arrangement ("SOA") under Section 176 of the Companies Act, 1965, more fully described in Note 44(I).

The Company was not able to implement the SOA by the prescribed deadline of 31 March 2007 as the approved disposal of PanGlobal Insurance Berhad ("PGI") was still pending as at that date. As at the date of this report, Bank Negara Malaysia has given its approval to the Company and to the interested buyer, Tokio Marine Asia Pte. Ltd. to commence negotiation for the disposal of PGI. In view of the unforeseen delay on the disposal of PGI, the Company will be pursuing with the Scheme Creditors and all the relevant authorities to extend the date for the implementation of the approved SOA. Further, the Company will be applying for a fresh restraining order under Section 176 of the Companies Act, 1965 to enable it to carry out the implementation of the proposed SOA without any disruption.

The Board of Directors are committed to the expeditious implementation of the approved SOA.

5.2 Changes in accounting policies

The accounting policies have been consistently applied by the Group and the Company and are consistent with those used in the previous financial year, except for the changes in accounting policies discussed below.

5.2.1 Adoption of new/revised standards

On 1 January 2006, the Group and the Company adopted the following new/revised FRSs which are relevant to the Group and the Company and mandatory for annual financial periods beginning on or after 1 January 2006. All new/revised standards adopted by the Group and the Company require retrospective application unless otherwise stated.

(i) FRS 140: Investment property

In accordance with FRS 140, investment properties can be carried either at cost or fair value. The Group has adopted the fair value method in measuring investment properties with effect from 1 January 2006. Following the adoption of FRS 140, all investment property are measured initially at cost and subsequently at fair value with any change therein recognised in the income statement.

In the previous financial year, certain investment properties were included in investment. Following the adoption of FRS 140 Investment Property, these investment properties are now classified separately.

In accordance with the transitional provisions, FRS 140 has been applied by adjusting the opening balance of retained earnings as at 1 January 2006 and the comparative figures have not been restated.

(ii) FRS 138 Intangible assets

In accordance with FRS 138, computer software that is not integral to the functionality of the related equipment is classified as intangible assets. Intangible assets are stated at cost less accumulated amortisation and impairment losses, if any.

In the previous financial year, the said computer software were included in property, plant and equipment. Following the adoption of FRS 138, these computer software are now classified as intangible assets.

(iii) FRS 5 Non-current Assets Held for Sale and Discontinued Operations

Prior to 1 January 2006, non-current assets (or disposal groups) held for sale were neither classified nor presented as current assets or liabilities. There were no differences in the measurement of non-current assets (disposal groups) held for sale and those for continuing use. Upon the adoption of FRS 5, non-current assets (or disposal groups) held for sale are classified as current assets (and current liabilities, in the case of non-current liabilities included within disposal groups) and are stated at the lower of carrying amount and fair value less costs to sell.

Notes to the Financial Statements

31 December 2006 (cont'd)

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5 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

5.2 Changes in accounting policies (cont'd)

5.2.1 Adoption of new/revised standards (cont'd)

(iii) FRS 5 Non-current Assets Held for Sale and Discontinued Operations (cont'd)

Prior to 1 January 2006, the Group would have recognised a discontinued operation at the earlier of the date the Group enters into a binding sale agreement and the date the Board of Directors approved and announced a formal disposal plan. FRS 5 requires a component of an entity to be classified as a discontinued operation when the criteria to be classified as held for sale have been met or it has been disposed of and such a component represents a separate major line of business or geographical area of operations, is part of a single co-ordinated major line of business or geographical area of operations or is a subsidiary company acquired exclusively with a view to resale. The principal impact of this change in accounting policy is that a discontinued operation is recognised by the Group at a later point than it would be under the previous accounting policy due to the stricter criteria in FRS.

In accordance with the transitional provisions, FRS 5 has been applied prospectively to non-current assets (or disposal group) that meet the criteria to be classified as held for sale and operations that meet the criteria to be classified as discontinued after the effective date of the FRS.

(iv) Other new/revised standards adopted

In addition, the Group adopted the following FRSs which did not result in any significant change in accounting policies:-

FRS 3	Business Combinations
FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 108	Accounting Policies, Changes in Accounting Estimates and Errors
FRS 110	Events after the Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 133	Earnings per Share
FRS 136	Impairment of Assets

The adoption of the above standards does not have any significant financial impact to the Group.

5.2.2 FRSs issued but not yet effective

The Group and the Company have not applied the following FRSs which are relevant to the Group and the Company and have been issued but are yet to be effective for annual financial periods beginning on or after 1 January 2006:-

(i) FRS 117: Leases and FRS 124: Related Party Disclosures

These standards are effective for annual financial periods beginning on or after 1 October 2006.

(ii) FRS 139: Financial Instruments: Recognition and Measurement

The effective date of this standard is yet to be announced.

By virtue of the exemption in these standards, the impact on its financial statements upon first adoption of these standards as required by the paragraph 30(b) of the FRS 108 is not disclosed.

5.3 Significant accounting estimates and judgements

Estimates, assumptions concerning the future and judgements are made in the preparation of the financial statements. They affect the application of the Group's and the Company's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an ongoing basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances.

5.3.1 Key sources of estimation uncertainty and critical judgements

The key assumptions concerning the future and other key sources of estimation uncertainty and critical judgements, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

5 SIGNIFICANT ACCOUNTING POLICIES (cont'd)**5.3 Significant accounting estimates and judgements** (cont'd)**5.3.1 Key sources of estimation uncertainty and critical judgements** (cont'd)**(a) Income taxes**

Judgement is required in determining the capital allowances, reinvestment allowance and deductibility of certain expenses when estimating the provision for income taxes. There were transactions during the ordinary course of business for which the ultimate tax determination is uncertain. The Group and the Company recognise liabilities for anticipated tax issues, if any, based on judgement of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which the outcome is known.

(b) Depreciation of property, plant and equipment

The depreciable costs of assets are allocated on a straight-line basis over their estimated useful lives as disclosed in Note 5.6 to the financial statements. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets.

(c) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses and unabsorbed capital allowances to the extent that it is probable that taxable profit will be available against which the unused tax losses and unabsorbed capital allowances can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

(d) Provision for outstanding claims

Estimating the provision for outstanding claims, involves projection of the Group's future claims experience based on current claims experience. As with all projections, there are elements of uncertainty and thus the projected future claims experience may be different from its actual claims experience due to the level of uncertainty involved in projecting future claims experience based on past claims experience and underwriting practice.

These uncertainties arise from changes in underlying risks, changes in spread of risks, claims settlement as well as uncertainties in the projection model and underlying assumptions.

(e) Valuation of investment properties

Fair value of investment properties is determined by the directors by comparing its current value with recent sale of similar properties in the vicinity with appropriate adjustments made to differences in location, floor area and other relevant factors before arriving at the fair value of the investment properties. The determination of appropriate adjustments to the recent sale value involves a degree of judgement before arriving at the respective investment property's fair value.

(f) Going concern

The financial statements of the Group and of the Company are prepared on the going concern basis. The going concern basis has been made on the assumption that the Company is able to successfully implement the approved Scheme of Arrangement ("SOA") under Section 176 of the Companies Act, 1965, more fully described in Note 44(I).

The Company was not able to implement the SOA by the prescribed deadline of 31 March 2007 as the approved disposal of PGI was still pending as at that date. As at the date of this report, BNM has given its approval to the Company and to the interested buyer, Tokio Marine Asia Pte. Ltd. to commence negotiation for the disposal of PGI. In view of the unforeseen delay on the disposal of PGI, the Company will be pursuing with the Scheme Creditors and all the relevant authorities to extend the date for the implementation of the approved SOA. Further, the Company will be applying for a fresh restraining order under Section 176 of the Companies Act, 1965 to enable it to carry out the implementation of the proposed SOA without any disruption.

5.4 Subsidiary companies and principles of consolidation**5.4.1 Subsidiary companies**

Subsidiary companies are entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities. The Group generally has such power when it directly or indirectly, hold more than 50% of the issued share capital or control more than half of the voting power. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiary companies are consolidated from the date on which control is transferred to the Group and ceased to be consolidated from the date on which control is transferred out of the Group.

Notes to the Financial Statements

31 December 2006 (cont'd)

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5 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

5.4 Subsidiary companies and principles of consolidation (cont'd)

5.4.1 Subsidiary companies (cont'd)

In the Company's separate financial statements, investment in subsidiary companies are stated at cost less any impairment losses.

The consolidated financial statements incorporate the financial statements of the Company and all its subsidiary companies made up to 31 December 2006 using the acquisition method of accounting. Prior to the adoption of FRS 3, the Company has adopted both the acquisition and merger method of consolidation which was allowed under Malaysian Accounting Standard Board 21: Business Combination.

Where the merger method is used, the excess of the cost of investment over the nominal value of the shares transferred is treated as merger deficit arising on consolidation. The results of subsidiary companies acquired are accounted for on a full year basis.

5.4.2 Principles of consolidation

Under the acquisition method, the results of the subsidiary companies acquired or disposed off are included in the consolidated financial statements from the date of acquisition or up to the date of their disposal.

Any excess of the cost of the business combination over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities is recorded as goodwill. If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the income statement.

The cost of the business combination is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the business combination. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, regardless of the extent of any minority interest, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with FRS 5 Non-Current Assets Held for Sale and Discontinued Operations ("FRS 5"), which are recognised and measured at fair value less costs to sell.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation and the consolidated financial statements reflect external transactions only. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

5.5 Contingencies in business acquisitions

Adjustments to the purchase consideration of business and/or investment acquisitions which are contingent upon one or more specified future events, are recognised in the cost of acquisition as at the date of acquisition if the adjustment is probable and the amount can be measured reliably.

Any refund of purchase consideration including any shortfall in profit guarantee receivable is accounted for as a reduction in the cost of acquisition with a consequential effect on goodwill or merger reserve, as the case may be.

5.6 Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

The valuation has not been updated as the Group has not adopted a policy of regular revaluation. As permitted by the FRS 116, the assets were stated at their 1981 valuation less accumulated depreciation and impairment losses, if any.

Subsequent costs including the costs of replacing a part of property, plant and equipment are included in the carrying amount of the asset or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the Company and the cost of item can be measured reliably. The carrying amount of the parts of property, plant and equipment being replaced is derecognised accordingly. The cost of regular repairs and maintenance is charged to the income statement during the financial period in which they are incurred.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Upon derecognition of an item of property, plant and equipment, the difference between the net disposal proceeds and the net carrying amount is recognised in the income statement and the revaluation reserve related to these assets, if any, is transferred directly to retained profits.

Freehold land and capital work-in-progress are not depreciated.

Notes to the
Financial Statements

31 December 2006 (cont'd)

5 SIGNIFICANT ACCOUNTING POLICIES (cont'd)**5.6 Property, plant and equipment and depreciation** (cont'd)

Leasehold land and buildings are depreciated over the terms of the respective lease periods ranging from 31 to 89 years. Any lease periods of more than 50 years are considered long term and not subject to depreciation.

Other property, plant and equipment are depreciated on a straight line method to write off the costs of the assets to its residual value over their estimated useful lives. The principal annual depreciation rates used are as follows:-

Freehold buildings	2% - 33 $\frac{1}{3}$ %
Wharf, stockyard, access roads and bridges	5%
Plant and machinery	10% -20%
Furniture, fixtures, renovation and equipment	10% -33 $\frac{1}{3}$ %
Motor vehicles	20%
Haul road	RM2 per tonnage hauled

Included in furniture, fixtures, fittings, renovation and equipment are crockery, cutlery, glassware and linen which are capitalised at the minimum requirements level for normal operations. Additions and replacements are written off in the financial year in which they are acquired.

The residual values and useful lives of property, plant and equipment are reviewed, and adjusted if appropriate, at each balance sheet date to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

5.7 Intangible assets**5.7.1. Recognition and measurement**

Computer software that is not integral to the functionality of the related equipment is classified as intangible assets. Intangible assets are stated at cost less accumulated amortisation and impairment losses, if any.

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

5.7.2. Amortisation

Amortisation is charged to the income statement on a straight line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date that they are available for use.

The estimated useful lives for the current and comparative periods are as follows:

	2006	2005
Computer software	20%	10% - 20%

Certain computer software acquired in the previous financial year were depreciated over 10 years instead of 5 years under property, plant and equipment. The effect of this different useful lives used was a lower depreciation charge of RM639,166 for the previous financial year.

During the current financial year, the useful life for the computer software have been reassessed taking into consideration of its usage and it has been reset to 5 years. The effect of this change was an increase in amortisation charge of RM1,406,141 for the current financial year.

5.8 Investment properties

Investment properties are properties which are owned or held under a leasehold interest to earn rental income or for capital appreciation or both.

In the previous years, investment property was stated at cost or at valuation and includes related and incidental expenditure incurred. Investment property was not depreciated. The carrying amount of investment property was reduced to recognise impairment loss, if any. Following the adoption of FRS 140, all investment properties are measured initially at cost and subsequently at fair value with any change therein recognised in the income statement. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property.

Notes to the Financial Statements

31 December 2006 (cont'd)

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5 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

5.8 Investment properties (cont'd)

External, independent valuation companies, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Company's investment property portfolio.

Valuation of the investment properties involves a degree of judgement before arriving at the respective investment property's fair value. As such, the fair value of the investment properties may be different from its actual market price.

When an item of property, plant and equipment is transferred to investment property following a change in its use, any difference arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognised directly in equity as a revaluation surplus. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the income statements. Upon disposal of the investment property, any surplus previously recorded in equity is transferred to retained earnings, the transfer is not made through the income statement.

Investment properties are derecognised when either they have been disposed off or when the investment property is permanently withdrawn from use and no future economic benefits is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

5.9 Other investments

Investments in Malaysian Government Securities and other investment as specified by Bank Negara Malaysia and held to maturity are stated at cost adjusted for amortisation of premiums or accretion of discounts, calculated on a constant yield basis, from the date of purchase to the date of maturity. Amortisation of premiums and accretion of discounts are taken up in the income statement.

Quoted investments are stated at the lower of cost and market value on an investment portfolio basis. In addition, Regulation 15(2) of the Insurance Regulations 1996 requires specific allowance for diminution in value of certain quoted investments of a subsidiary company to be made, if any, when the market value has been less than 80% of its cost at all times during the preceding 24 months, by writing down the cost of that quoted investment to the average median price for each month during that 24 months period or market value whichever is the lower, except for certain securities disposed of after the balance sheet date which would be written down to the actual realised value.

All other unquoted investments are stated at cost. An allowance is made when the directors are of the view that there is a diminution in their value which is other than temporary.

On disposal of an investment, the difference between net disposal proceeds and its carrying amount is recognised in the income statement.

All investments in debt and equity securities are accounted for using settlement date accounting. Settlement date accounting refers to:

- (a) the recognition of an asset on the day it is received by the entity; and
- (b) the derecognition on an asset and recognition of any gain or loss on disposal on the date it is delivered.

5.10 Exploration, evaluation and development expenditure

All exploration, evaluation and development costs relating to current areas of interest including interest incurred on borrowings to finance the development of the mine are carried forward to the extent that:-

- (i) such costs are expected to be recouped through successful development and production of the areas or by its sale; or
- (ii) exploration and/or evaluation activities in the area have not reached a stage which permits a reasonable assessment of the existence of economically recoverable reserve.

Costs are amortised over the lives of the related areas of interest from the date of commencement of production. Amortisation is determined on a production output basis.

In the event that an area of interest is abandoned or the directors consider the expenditure to be of no value, accumulated costs carried forward are written off in the year in which it is abandoned or the assessment is made.

5.11 Deferred mining costs

Deferred mining costs represent costs incurred in the removal of overburden ahead of coal recovered and are deferred to match with future revenue. Such costs are amortised on a unit of production basis and when the coal is recovered.

5 SIGNIFICANT ACCOUNTING POLICIES (cont'd)**5.12 Impairment of assets**

The carrying amounts of the Group's and the Company's assets, other than financial assets (other than investment in subsidiary companies) and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated and an impairment loss is recognised whenever the recoverable amount is less than the carrying amount of the asset. Where it is not possible to estimate the recoverable amount of an individual asset, the Group and the Company estimates the recoverable amount of the cash generating unit ("CGU") to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped (as GCU) at the lowest levels for which there are separately identifiable cash flows. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset.

The impairment loss and all reversals of impairment loss are recognised in the income statement immediately.

When an impairment loss is subsequently reversed, the carrying amount of the asset or CGU is increased to the revised estimate recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or CGU in prior years.

5.13 Borrowing costs

Costs incurred on borrowings to finance a qualifying asset is capitalised until the asset is ready for its intended use, after which such expense is charged to the income statement. All other borrowing costs are recognised as an expense in the income statement in the period in which they are incurred.

5.14 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first in, first out method and comprises the original cost of purchase plus the cost of bringing the inventories to their present condition and location.

5.15 Receivables

Receivables are carried at anticipated realisable value.

Known bad debts are written off and specific allowance is made for debts considered to be doubtful of collection.

5.16 Payables

Payables are measured initially and subsequently at cost. Payables are recognised when there is a contractual obligation to deliver cash or another financial asset to another entity.

5.17 Provisions

Provisions are recognised when there is a present obligation, legal or constructive, as a result of a past event, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

5.18 Non-current assets (or disposal group) held for sale and discontinued operation

Non-current assets (or disposal group) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. The condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary.

Immediately before classification as held for sale, the measurement of the non-current asset (or all the assets and liabilities in a disposal group) is brought up-to-date in accordance with applicable FRSs. Then, on initial classification as held for sale, non-current assets or disposal group (other than investment properties, deferred tax asset, employee benefits assets, contractual rights under insurance contracts, financial assets and inventories) are measured in accordance with FRS 5, that is at the lower of carrying amount and fair value less costs to sell. Any differences are included in the income statement in the year in which they arise.

A component of the Company is classified as a discontinued operation when the criteria to be classified as held for sale have been met or has been disposed off and such a component represents a separate major line of business or geographical area of operations or is part of a single coordinated major line of business or geographical area of operations.

Notes to the Financial Statements

31 December 2006 (cont'd)

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5 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

5.19 Foreign currency transactions and translations

(i) Functional and presentation currency

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

(ii) Transactions and balances in foreign currencies

Foreign currency transactions are initially recorded in the functional currency using the exchange rates prevailing on transaction dates. Subsequently in each balance sheet dates, monetary items denominated in foreign currencies are translated using the closing rate and non-monetary items measured at historical cost and fair value are translated at transaction rates or at the rates when the fair value was determined respectively.

Exchange differences arising from settlement or re-translating of monetary items are recognised in the income statements.

5.20 General insurance underwriting results

The general insurance underwriting results are determined for each class of business after taking into account inter alia reinsurances, commissions, unearned premiums and claims incurred.

(i) Premium income

Premium is recognised in a financial period in respect of risks assumed during that particular financial period. Inward treaty reinsurance premiums are recognised on the basis of periodic advices received from ceding insurers.

(ii) Inward treaty business

Underwriting results relating to reinsurance inward treaty transactions, regardless of the underwriting years to which they pertain, are included in current operations to the extent that such transactions are reported by the brokers and reinsurers in their statements of accounts received as at the end of the financial year.

(iii) Unearned Premium Reserve

The Unearned Premium Reserve ("UPR") represents the portion of the net premiums of insurance policies written that relates to the unexpired period of the policies at the end of the financial year. In determining the UPR at balance sheet date, the methods that most accurately reflects the actual earned premiums are used and are as follows:-

- (a) 25% method for Malaysian marine and aviation cargo and transit business; and
- (b) 1/24th method for all other classes of Malaysian general policies business reduced by the percentage of accounted gross direct business commissions not exceeding limits specified by Bank Negara Malaysia.

The UPR calculations are adjusted for additional UPR as required under the guidelines issued by Bank Negara Malaysia in respect of premiums ceded to overseas reinsurers.

(iv) Provision for claims

A liability for outstanding claims is recognised in respect of both direct insurance and inward reinsurance. The amount of outstanding claims is made for the estimated costs of all claims together with the related expenses less recoveries to settle the present obligations at the balance sheet date.

Provision is also made for the cost of claims, together with related expenses incurred but not reported ("IBNR") at balance sheet date, using a mathematical method of estimation by a qualified external actuary.

(v) Acquisition costs

The cost of acquiring and renewing insurance policies net of income derived from ceding reinsurance premiums is recognised as incurred and properly allocated to the periods in which it is probable they would give rise to income.

Acquisition costs or ceding income which are not recoverable or not payable in the event of a termination of the policy to which they relate are not deferred but are recognised in the period in which they occur.

Notes to the
Financial Statements

31 December 2006 (cont'd)

5 SIGNIFICANT ACCOUNTING POLICIES (cont'd)**5.21 Employee benefits****5.21.1 Short term employee benefits**

Wages, salaries, social security contributions and non-monetary benefits are recognised as an expense in the financial year when employees have rendered their services to the Group.

Short-term accumulating compensated absences such as paid annual leave are recognised as an expense when services are rendered by employees that increase their entitlement to future compensated absences. Short-term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

Bonuses are recognised as an expense when there is a present, legal or constructive obligation to make such payments, as a result of past events and when a reliable estimate can be made of the amount of the obligation.

5.21.2 Defined contribution plans

The Group makes contributions to a statutory provident fund and recognises the contributions payable:-

- (a) after deducting contributions already paid as a liability; and
- (b) as an expense in the financial year in which the employees render their services.

5.21.3 Defined benefit plan

Certain subsidiary companies operate unfunded defined benefit plans (the retirement benefits scheme) for eligible employees who are entitled to a payment calculated by reference to their length of service and earnings.

Provision for retirement benefits is computed based on the predetermined rate of the basic salaries and length of service of the employees and is not subject to actuarial valuation as any adjustment is not considered to be significant to the financial statements.

The retirement benefits scheme of a subsidiary company has been withdrawn with effect from 3 December 1997. Accordingly, employees who joined on or after the said date are not eligible for the scheme.

5.22 Income tax

Income tax in the financial statements for the financial year comprises current tax expense and deferred tax.

5.22.1 Current tax expense

Current tax expenses are based on taxable profits. Current tax expenses also include real property gains taxes payable on disposal of properties.

5.22.2 Deferred tax

Deferred tax, which includes deferred tax liabilities and assets, is provided for under the liability method in respect of all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base including unused tax losses and capital allowances. Deferred tax is measured at the tax rates that are expected to apply to the period when the temporary difference is reversed, based on tax rates that have been enacted or substantially enacted by the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. The carrying amount of a deferred tax asset is reviewed at each balance sheet date. If it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised, the carrying amount of the deferred tax asset will be reduced accordingly. When it becomes probable that sufficient taxable profit will be available, such reductions will be reversed to the extent of the taxable profit.

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 tax assets and deferred tax liabilities relate to the same taxation authority.

5.23 Assets acquired under hire-purchase agreements

Assets financed by hire-purchase arrangements which transfer substantially all the risks and rewards of ownership to the Group and the Company are capitalised as property, plant and equipment and the corresponding obligations are treated as liabilities. The property, plant and equipment capitalised are depreciated on the same basis as owned assets.

Finance charges are allocated to the income statement over the period of the agreements to give a constant periodic rate of charge on the remaining hire-purchase liabilities.

Notes to the Financial Statements

31 December 2006 (cont'd)

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5 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

5.24 Revenue recognition

(i) Rental income and car park collection

Rental income from tenants is recognised on an accrual basis in accordance with the terms in the rental agreements except where default in payment of rent has already occurred and rent due remains outstanding for six months, in which case recognition of rental income is suspended. Subsequent to suspension, income is recognised on the receipt basis until all arrears have been paid.

Income from car park collection is recognised upon receipt.

(ii) Timber and coal mining

Revenue from sale of timber and coal are recognised upon delivery of goods and customers' acceptance.

(iii) Interest income

Interest from fixed interest investment is recognised on a time proportion basis in accordance with the respective interest yield of the assets.

(vi) Dividend income

Dividend income is recognised when the shareholder's right to receive payment is established.

(vii) Other income

All other income are recognised on an accrual basis.

5.25 Segment information

Segment information is presented in respect of the Group's business segments. The primary reporting segment information is in respect of business segments as the Group's risk and rates of return are affected predominantly by differences in the products it produces. The Group operates predominantly in Malaysia.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly finance cost and corporate administration expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

5.26 Cash and cash equivalents

Cash and cash equivalents include cash and bank balances, bank overdrafts, deposits and other short term, highly liquid investments which are readily convertible to cash and which are subject to insignificant risk of changes in value.

5.27 Financial instruments recognised on the balance sheets

Financial instruments are recognised in the balance sheets when the Group has become a party to the contractual provisions of the instruments.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity.

(a) Ordinary shares

Ordinary shares are recorded at nominal value and proceeds in excess of the nominal value of shares issued, if any, are accounted for as share premium. Both ordinary shares and share premium are classified as equity. Cost incurred directly attributable to the issuance of shares is accounted for as a deduction from share premium. Otherwise it is charged to the income statement.

(b) Loan stocks

3.5% Redeemable Convertible Unsecured/Secured Loan Stocks 2004/2009 ("RCULS & RCSLS")

In view of the relatively high interest rate and redemption premium of the RCULS and RCSLS, it appears that the Company has a contractual obligation to deliver cash to the holders of the instruments under conditions that are potentially unfavourable to it. Thus, RCULS and RCSLS are carried in the financial statements as liabilities.

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Financial Statements

31 December 2006 (cont'd)

5 SIGNIFICANT ACCOUNTING POLICIES (cont'd)**5.27 Financial instruments recognised on the balance sheets (cont'd)****(c) Other borrowings**

Other interest bearing borrowings are recorded at the amount of proceeds received, net of transaction cost.

(d) Other financial instruments

The accounting policies for other financial instruments are disclosed in the individual policy associated with each item.

6. PROPERTY, PLANT AND EQUIPMENT

Group	Balance as at 1 January RM'000	Additions RM'000	Disposals RM'000	Written off RM'000	Reclassification to intangible assets RM'000	Reclassification RM'000	Adjustments RM'000	Reclassified as held for sale RM'000	Balance as at 31 December RM'000
Cost unless otherwise stated									
Freehold land and buildings									
- at cost	637	-	-	-	-	-	-	(475)	162
- at 1981 valuation	590	-	-	-	-	-	-	(590)	-
Long leasehold land and buildings	19,971	-	-	-	-	(212)	-	(573)	19,186
Short leasehold land and buildings	11,745	-	-	(9)	-	611	-	-	12,347
Wharf, stockyard, roads and bridges	28,468	184	-	(45)	-	526	-	-	29,133
Plant and machinery	32,800	4,638	(392)	(173)	-	-	-	-	36,873
Furniture, fixtures and equipment	79,823	1,894	(3)	(562)	(18,004)*	-	-	(29,429)	33,719
Motor vehicles	28,429	638	(501)	(3)	-	-	-	(1,732)	26,831
Capital work-in-progress	3,826	1,117	-	(1,392)	-	(925)	(455)	-	2,171
	206,289	8,471	(896)	(2,184)	(18,004)	-	(455)	(32,799)	160,422
Accumulated depreciation									
Freehold land and buildings									
- at cost	79	7	-	-	-	-	-	(86)	-
- at 1981 valuation	139	8	-	-	-	-	-	(147)	-
Long leasehold land and buildings	113	6	-	-	-	-	-	(119)	-
Short leasehold land and buildings	10,328	351	-	(9)	-	-	-	-	10,670
Wharf, stockyard, roads and bridges	14,217	1,441	-	(24)	-	-	-	-	15,634
Plant and machinery	23,185	3,762	(392)	(173)	-	-	-	-	26,382
Furniture, fixtures and equipment	51,472	5,324	(2)	(485)	(8,819)*	-	-	(25,210)	22,280
Motor vehicles	25,647	1,118	(410)	(3)	-	-	-	(1,248)	25,104
Capital work-in-progress	-	-	-	-	-	-	-	-	-
	125,180	12,017	(804)	(694)	(8,819)	-	-	(26,810)	100,070

* Computer software reclassified as intangible assets following the adoption of FRS 138 as disclosed in Note 5.2.1 (ii) to the financial statements.

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31 December 2006 (cont'd)

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6. PROPERTY, PLANT AND EQUIPMENT (cont'd)

Group	Balance as at 1 January RM'000	Additions RM'000	Disposals RM'000	Written off RM'000	Adjustments RM'000	Balance as at 31 December RM'000
Cost unless otherwise stated						
Freehold land and buildings						
- at cost	637	-	-	-	-	637
- at 1981 valuation	590	-	-	-	-	590
Long leasehold land and buildings	19,971	-	-	-	-	19,971
Short leasehold land and buildings	11,637	108	-	-	-	11,745
Wharf, stockyard, roads and bridges	28,145	323	-	-	-	28,468
Plant and machinery	24,754	8,787	(738)	(3)	-	32,800
Furniture, fixtures and equipment	65,616	15,255	(614)	(102)	(332)	79,823
Motor vehicles	28,789	96	(161)	(295)	-	28,429
Capital work-in-progress	2,080	1,746	-	-	-	3,826
	182,219	26,315	(1,513)	(400)	(332)	206,289

Group	Balance as at 1 January RM'000	Charge for the financial year RM'000	Disposals RM'000	Written off RM'000	Adjustments RM'000	Balance as at 31 December RM'000
Accumulated depreciation						
Freehold land and buildings						
- at cost	72	7	-	-	-	79
- at 1981 valuation	131	8	-	-	-	139
Long leasehold land and buildings	107	6	-	-	-	113
Short leasehold land and buildings	9,993	335	-	-	-	10,328
Wharf, stockyard, roads and bridges	12,838	1,379	-	-	-	14,217
Plant and machinery	21,010	2,916	(738)	(3)	-	23,185
Furniture, fixtures and equipment	45,449	6,688	(574)	(91)	-	51,472
Motor vehicles	25,020	1,083	(161)	(295)	-	25,647
Capital work-in-progress	-	-	-	-	-	-
	114,620	12,422	(1,473)	(389)	-	125,180

Company	Balance as at 1 January RM'000	Additions RM'000	Written off RM'000	Balance as at 31 December RM'000
2006				
Cost				
Furniture, fixtures and equipment	1,336	53	(7)	1,382
Motor vehicles	1,397	-	-	1,397
	2,733	53	(7)	2,779

Notes to the
Financial Statements

31 December 2006 (cont'd)

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6. PROPERTY, PLANT AND EQUIPMENT (cont'd)

- (i) Certain freehold land and buildings of the Group were revalued in 1981 by the directors based on the valuation report from an independent firm of chartered surveyors using the "open market" value basis. The Group has not adopted a policy of regular revaluations. These revalued assets have been retained on the basis of their previous valuation in accordance with the transitional provisions of International Accounting Standard ("IAS") No. 16 (Revised) - Property, Plant and Equipment applied by the Group when the IAS was first adopted by the Malaysian Accounting Standards Board ("MASB") in 1998 as an approved accounting standard. The above transitional provisions are available only on the first application of the IAS 16 which is effective for periods ending on or after 1 September 1998. The transitional provisions will remain in force until and unless the Company adopts a revaluation policy in place of a cost policy where FRS 116 would require revaluations to be carried out at regular intervals.

The net book value of these revalued land and buildings based on the historical cost convention has not been disclosed as the relevant information is not available. The management is unable to segregate the carrying value of the leasehold land from the leasehold buildings based on existing records.

- (ii) Included in property, plant and equipment of the Group and of the Company are motor vehicles acquired under hire-purchase arrangements with a net book value of RM1,145,000 and RM158,000 (2005: RM1,053,000 and RM316,000) respectively.
- (iii) The property, plant and equipment of a subsidiary company which are pledged to banks for credit facilities granted to the Group and the Company are as follows:-

	Group	
	2006	2005
	RM'000	RM'000
At net book value :-		
Long leasehold land and building	19,053	19,053

- (iv) Included in the motor vehicles of the Group is a motor vehicle registered under the name of a third party.

7. INTANGIBLE ASSETS

Group	Reclassification from				Balance as at 31 December RM'000
	Balance as at 1 January RM'000	property, plant and equipment RM'000	Additions RM'000	Written down RM'000	
2006					
Cost					
Computer software	-	18,004	717	(3,509)	15,212

	Reclassification from				Balance as at 31 December RM'000
	Balance as at 1 January RM'000	property, plant and equipment RM'000	Additions RM'000	Written down RM'000	
Amortisation					
Computer software	-	8,819	3,088	(2,926)	8,981

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Financial Statements

31 December 2006 (cont'd)

7. INTANGIBLE ASSETS (cont'd)

	Group 2006 RM'000
Net book value	
Computer software	<u>6,231</u>

8. INVESTMENT IN SUBSIDIARY COMPANIES

	Company	
	2006 RM'000	2005 RM'000
Unquoted shares, at cost	238,215	345,431
Less: Impairment losses	<u>(217,794)</u>	<u>-</u>
	<u>20,421</u>	<u>345,431</u>

The recoverable amounts of investment in subsidiary companies which are based on their adjusted net assets that have declined significantly due to poor economic performance in the past few years, the transfer of assets and business from Global Minerals (Sarawak) Sdn. Bhd. and the limited remaining period of the timber concession of Limbang Trading (Limbang) Sdn. Bhd.. Consequently, an impairment loss of RM217,794,000 was recognised to reflect their recoverable amounts. The impairment of certain investments in subsidiary companies is recognised to reflect their recoverable amounts which are based on the adjusted net assets of each subsidiary company.

Shares in a subsidiary company at cost of RM122,940,000 (2005: RM122,940,000) are pledged to a bank for a banking facility granted to the Company.

The details of the subsidiary companies are as follows:-

Name of Company	Country of Incorporation	Equity interest held by				Principal Activities
		Company		Subsidiary Companies		
		2006 %	2005 %	2006 %	2005 %	
*# PanGlobal Insurance Berhad	Malaysia	99.96	99.96	-	-	Underwriting all classes of general insurance business
* Limbang Trading (Limbang) Sdn. Bhd.	Malaysia	100	100	-	-	Logging and marketing of timber
* Global Minerals (Sarawak) Sdn. Bhd.	Malaysia	100	100	-	-	Coal mining
PanGlobal Properties Sdn. Bhd.	Malaysia	100	100	-	-	Property investment, leasing of real estate and property development
PanGlobal Management Services Sdn. Bhd.	Malaysia	100	100	-	-	Business management
PanGlobal Services Sdn. Bhd.	Malaysia	100	100	-	-	Project management
PanGlobal Corporate Services Sdn. Bhd.	Malaysia	100	100	-	-	Inactive
* PanGlobal Trading Sdn. Bhd.	Malaysia	100	100	-	-	Trading of coal and leasing of equipment

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31 December 2006 (cont'd)

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7. INTANGIBLE ASSETS (cont'd)

Name of Company	Country of Incorporation	Equity interest held by Subsidiary Companies				Principal Activities
		Company		Company		
		2006	2005	2006	2005	
		%	%	%	%	
Subsidiary companies of PanGlobal Properties Sdn. Bhd.						
Menara PanGlobal Sdn. Bhd.	Malaysia	-	-	100	100	Renting out office and commercial premises, and operator of hotel apartments
Perintis Glokal Teknologi Sdn. Bhd. (formerly known as PanGlobal Technologies Sdn. Bhd.)	Malaysia	-	-	60	60	Satellite service provider selling images from satellite and satellite communication services

* Subsidiary companies not audited by BDO Binder

Classified as discontinued operation during the current financial year

9. AMOUNTS OWING BY/(TO) SUBSIDIARY COMPANIESAmounts owing by subsidiary companies

	Company	
	2006	2005
	RM'000	RM'000
Amount owing by subsidiary companies	430,138	407,536
Less: Allowance for doubtful debts	(53,793)	-
	376,345	407,536

The amounts owing by subsidiary companies represent balances arising from loan, advances, payments made on behalf and balances arising from the settlement of certain subsidiary companies' debts by issuance of Redeemable Convertible Secured Loan Stocks ("RCSLS") and Redeemable Convertible Unsecured Loan Stocks ("RCULS") in the Company pursuant to the scheme of arrangement of the Company and these subsidiary companies under Section 176 of the Companies Act, 1965. The amounts owing are unsecured, interest free and are not repayable within the next 12 months except for outstanding advances of RM320,041,000 (2005: RM298,875,000) bear interest at range of 5% to 10% (2005: 5% to 10%) per annum.

Amounts owing to subsidiary companies

These represent advances and payments made on behalf which are unsecured, interest-free and repayable on demand.

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31 December 2006 (cont'd)

10. INVESTMENT PROPERTIES

	Group	
	2006 RM'000	2005 RM'000
Balance as at 1 January:		
Freehold land and buildings	234,305	234,410
Leasehold land and buildings	46,540	48,593
	280,845	280,003
Effect of prior year adjustment (Note 44)	-	(1,894)
	280,845	281,109
Balance as at 1 January, as restated	(19,483)	(264)
Less: Loss from fair value adjustment		
	261,362	280,845
Reclassified as held for sale	(45,730)	-
	215,632	280,845

- (i) Investment properties comprise a hotel apartment and several commercial properties that are leased to third parties for which the subsidiary companies earned rental income. The leases do not contain any initial non-cancellable periods. Subsequent renewals are negotiated with the lessees. No contingent rents are charged.
- (ii) Freehold land and buildings amounting to RM193,900,000 (2005: RM195,259,000) are pledged to a bank as security for banking facilities granted to the Group.

11. OTHER INVESTMENTS

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Quoted:-				
Malaysian Government Securities	-	29,368	-	-
Less: Amortisation of premiums	-	(727)	-	-
	-	28,641	-	-
Corporate bonds	-	14,703	-	-
Add: Accretion of discount	-	72	-	-
	-	14,775	-	-
Cagamas bonds	-	2,999	-	-
Less: Allowance for diminution in value	-	(5)	-	-
	-	2,994	-	-
Quoted:-				
Shares in corporations, quoted in Malaysia	17,152	77,107	17,152	17,152
Less: Allowance for diminution in value	(15,948)	(46,325)	(15,948)	(16,266)
	1,204	30,782	1,204	886
Loan stocks and unit trusts of corporations, quoted in Malaysia	-	3,845	-	-
Less: Allowance for diminution in value	-	(114)	-	-
	-	3,731	-	-

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31 December 2006 (cont'd)

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11. OTHER INVESTMENTS

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Unquoted investments:-				
Shares in corporations	5,559	3,293	2,559	293
Less: Allowance for diminution in value	(293)	(293)	(293)	(293)
	5,266	3,000	2,266	-
Corporate bonds in Malaysia	-	5,633	-	-
Add: Accretion of discount	-	912	-	-
	-	6,545	-	-
	6,470	90,468	3,470	886
Market value:-				
Malaysian Government Securities	-	29,965	-	-
Corporate bonds	-	14,992	-	-
Shares quoted in Malaysia	1,204	30,782	1,204	886
Loan stocks quoted in Malaysia	-	3,959	-	-
Cagamas bonds	-	2,994	-	-

Quoted investments of the Group and the Company with a carrying amount of RM1,204,000 (2005: RM886,000) are held by a licensed bank to secure credit facilities granted to the Company.

12. EXPLORATION, EVALUATION AND DEVELOPMENT EXPENDITURE

	Group	
	2006 RM'000	2005 RM'000
Areas of interest in the production phase	29,848	26,770
Less: Accumulated amortisation	(4,310)	(3,233)
	25,538	23,537
Areas of interest in the exploration and evaluation phase	11,568	11,552
	37,106	35,089
Included in the above expenditure incurred during the year are the following charges:-		
Redemption premium on RCSLS	950	950
Interest on RCSLS	511	511
Depreciation of property, plant and equipment	26	35
Loss on disposal of property, plant and equipment	-	1

The mining lease No. 112 covering the Belawie Mujan area expired on 12 August 2002 and the renewal is still pending the approval of the Land and Survey Department. Currently, the subsidiary company operates under the mining certificate which expires on 30 April 2007.

Notes to the
Financial Statements

31 December 2006 (cont'd)

13. LONG TERM RECEIVABLE

	Group	
	2006 RM'000	2005 RM'000
Arising from the disposal of heavy equipment and machinery in a subsidiary company	1,378	1,910
Less:		
Receivable within 12 months, included under other receivables	(1,378)	(532)
Receivable after more than 12 months	-	1,378

14. DEFERRED TAX ASSETS/(LIABILITIES)

(a) The deferred tax assets/(liabilities) are made up of the following:-

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Balance as at 1 January	1,486	(42)	(4)	(4)
Recognised in the income statement (Note 33)	145	1,528	-	-
	1,631	1,486	(4)	(4)
Reclassified as held for sale	(1,350)	-	-	-
Balance as at 31 December	281	1,486	(4)	(4)
Presented after appropriate offsetting:				
Deferred tax assets	1,101	2,791	-	-
Deferred tax liabilities	(820)	(1,305)	-	-
	281	1,486	-	-

(b) The movement of deferred tax asset/(liabilities) during the financial year prior to offsetting are as follows:-

	Group	
	2006 RM'000	2005 RM'000
<u>Deferred tax assets</u>		
Balance as at 1 January	2,791	2,151
Recognised in the income statement:-		
Unutilised tax losses	(65)	531
Unabsorbed capital allowance	475	109
Reclassified as held for sale	(2,100)	-
	(1,690)	640
Balance as at 31 December	1,101	2,791

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31 December 2006 (cont'd)

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14. DEFERRED TAX ASSETS/(LIABILITIES) (cont'd)

(b) The movement of deferred tax asset/(liabilities) during the financial year prior to offsetting are as follows:- (cont'd)

	Group	
	2006	2005
	RM'000	RM'000
<u>Deferred tax liabilities</u>		
Balance as at 1 January	1,305	2,193
Recognised in the income statement:-		
Excess of capital allowance over corresponding depreciation	265	(888)
Reclassified as held for sale	(750)	-
	(485)	(888)
Balance as at 31 December	<u>820</u>	<u>1,305</u>

(c) The components of deferred tax assets/liabilities as at the end of the financial year comprise the tax effect of:-

	Group		Company	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Deferred tax assets				
Allowance for bad and doubtful debts	-	2,089	-	-
Reserves for unexpired risks	-	11	-	-
Unabsorbed capital allowances	613	138	-	-
Unutilised tax losses	488	553	-	-
	<u>1,101</u>	<u>2,791</u>	<u>-</u>	<u>-</u>
Deferred tax liabilities				
Excess of capital allowance over corresponding depreciation	820	1,305	-	-

(d) The amount of temporary differences for which no deferred tax assets have been recognised in the balance sheets are as follows:-

	Group	
	2006	2005
	RM'000	RM'000
Allowance for diminution in value of investments	-	30,176
Accelerated capital allowances	542	(1,102)
Unabsorbed capital allowances	50,896	47,376
Unabsorbed tax losses	120,586	125,467
Others	198	3,043
	<u>172,222</u>	<u>204,960</u>

The unabsorbed capital allowances and tax losses carried forward are subject to the agreement of the Inland Revenue Board.

Deferred tax assets have not been recognised in respect of the above items as it is not probable that taxable profit will be available against which these items can be utilised.

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Financial Statements

31 December 2006 (cont'd)

15. DEFERRED MINING COSTS

	Group	
	2006	2005
	RM'000	RM'000
Deferred mining costs	10,065	8,298

Included in deferred mining costs for the year are the following:-

Depreciation of property, plant and equipment	487	534
Property, plant and equipment written off	-	3

16. INVENTORIES

	Group	
	2006	2005
	RM'000	RM'000
At cost		
Stockpile of coal	1,506	3,301
Stores and consumables	3,973	3,539
Others	26	27
	5,505	6,867

17. TRADE RECEIVABLES

	Group	
	2006	2005
	RM'000	RM'000
Trade receivables	57,999	77,769
Less: Allowance for doubtful debts	(43,177)	(50,410)
	14,822	27,359

The credit terms offered by the Group in respect of trade receivables range from 7 to 90 days from date of invoice.

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31 December 2006 (cont'd)

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18. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Other receivables	8,540	12,221	1,586	24
Less: Allowance for doubtful debts	(2,436)	(2,817)	-	-
	6,104	9,404	1,586	24
Deposits	1,765	4,371	836	1,869
Shortfall in profit guarantee	14,604	14,604	14,604	14,604
Less: Allowance for doubtful debts	(14,604)	-	(14,604)	-
	-	14,604	-	14,604
Interest accrued on profit guarantee	9,911	9,911	9,911	9,911
Less: Allowance for doubtful debts	(9,911)	(9,911)	(9,911)	(9,911)
	-	-	-	-
Prepayments	3,930	7,260	31	37
	11,799	35,639	2,453	16,534

19. FIXED DEPOSITS

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Placed with:-				
- licensed banks	5,236	88,752	-	1,000
- licensed finance companies	-	400	-	-
- discount houses	-	12,989	-	1,506
	5,236	102,141	-	2,506

The effective interest rates and maturity periods of fixed deposits are as follows:-

	Group		Company	
	2006	2005	2006	2005
Effective interest rates	2.50% - 3.88%	2.50% - 3.00%	-	2.60% - 3.00%
Maturity period (days)	30 - 365	1 - 365	-	1 - 30

Included in fixed deposits of 2005 were fixed deposits totaling RM97,355,000 held by a subsidiary company for investment purposes.

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Financial Statements

31 December 2006 (cont'd)

20. DISCONTINUED OPERATION AND DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

As disclosed in Note 44 (I), the revised Restructuring Scheme ("RS") of the Company was approved by the Scheme Creditors at the Court convened meeting held on 20 November 2006 and was subsequently approved by the shareholders of the Company at the Extraordinary General Meeting held on 22 January 2007.

The approved RS shall entail the disposal for cash by the Company of up to 99,970,156 PanGlobal Insurance Berhad ("PGL") Shares representing 99.97% equity interest in PGI for not less than the net tangible assets ("NTA") value of PGI, calculated in proportion to the number of PGI shares to be disposed of, based on its latest audited financial statements at the time of signing of the agreement for the disposal. Consequently, its entire underwriting of general insurance business which was reported as financial services segment previously is to be discontinued and disposed of.

The negotiation with the potential buyer, Tokio Marine Asia Pte. Ltd. is currently at an advanced stage and the directors are confident that the disposal can be concluded within the next few months. As at 31 December 2006, the assets and liabilities of PGI have been presented on the consolidated balance sheet as a disposal group held for sale and results from this subsidiary company is presented separately on the consolidated income statement as discontinued operation. The carrying amount of the investment in this subsidiary company has also been presented as a non-current asset held for sale on the Company's balance sheet as at 31 December 2006.

An analysis of the result of discontinued operation is as follows:-

	Group	
	2006	2005
	RM'000	RM'000
Revenue	105,183	130,699
Expenses	(110,719)	(158,203)
Loss before tax of discontinued operation	(5,536)	(27,504)
Tax income	-	1,377
Net loss for the financial year from discontinued operation	(5,536)	(26,127)

The major classes of assets and liabilities of PanGlobal Insurance Berhad classified as held for sale on the consolidated balance sheet as at 31 December 2006 are as follows:-

	Note	Group Carrying amount as at 31 December 2006 RM'000
Assets		
Property, plant and equipment	6	5,989
Intangible assets	7	6,231
Investment properties		45,730
Other investments		84,719
Deferred tax assets	14	1,350
Trade receivables		6,335
Other receivables, deposits and prepayments		10,752
Tax recoverable		4,791
Fixed deposits		93,512
Cash and bank balances	36	3,177
Assets of disposal group classified as held for sale		<u>262,586</u>

Notes to the Financial Statements

31 December 2006 (cont'd)

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20. DISCONTINUED OPERATION AND DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE (cont'd)

The major classes of assets and liabilities of PanGlobal Insurance Berhad classified as held for sale on the consolidated balance sheet as at 31 December 2006 are as follows:-

	Note	Group Carrying amount as at 31 December 2006 RM'000
Liabilities		
Trade payables		6,910
Other payables and accruals		11,660
Provision for retirement benefits	27	1,321
Provision for outstanding claims	26	102,687
Unearned Premium Reserve	23	37,631
		<hr/>
Liabilities directly associated with assets classified as held for sale		160,209
		<hr/>

The cash flows attributable to the discontinued operation are as follows:-

	Group	
	2006 RM'000	2005 RM'000
Operating cash flows	3,780	6,940
Investing cash flows	(1,294)	(10,104)
	<hr/>	<hr/>
Total cash flows	2,486	(3,164)
	<hr/>	<hr/>

The non-current asset classified as held for sale on the Company's balance sheet as at 31 December 2006 is as follows:-

	Company 2006 RM'000
Asset	
Investment in a subsidiary company	107,216
	<hr/>

21. SHARE CAPITAL

	Group	
	2006 RM'000	2005 RM'000
Ordinary shares of RM1.00 each		
Authorised:-		
1,000,000,000 ordinary shares of RM1.00 each	1,000,000	1,000,000
	<hr/>	<hr/>
Issued and fully paid:-		
140,130,340 ordinary shares of RM1.00 each	140,130	140,130
	<hr/>	<hr/>

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22. RESERVES

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Non-distributable:-				
Share premium	95,699	95,699	97,689	97,689
Capital reserve	-	-	2,121	2,121
Merger reserve	58,545	58,545	234,785	234,785
	154,244	154,244	334,595	334,595
Accumulated losses	(736,652)	(622,918)	(802,813)	(465,911)
	(582,408)	(468,674)	(468,218)	(131,316)

23. UNEARNED PREMIUM RESERVE

	Group	
	2006 RM'000	2005 RM'000
Unearned Premium Reserve		
Balance as at 1 January	53,573	42,557
Transfer (to)/from income statements	(15,942)	11,016
	37,631	53,573
Reclassified as held for sale	(37,631)	-
Balance as at 31 December	-	53,573

24. HIRE-PURCHASE CREDITORS

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Minimum hire-purchase payments:-				
- not later than one year	389	351	116	116
- later than one year and not later than five years	769	736	279	395
	1,158	1,087	395	511
Less: Future interest charges	(193)	(222)	(78)	(101)
Present value of hire-purchase liabilities	965	865	317	410
Repayable as follows:-				
Current liabilities:-				
- not later than one year	314	279	93	93
Non-current liabilities:-				
- later than one year and not later than five years	651	586	224	317
	965	865	317	410

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31 December 2006 (cont'd)

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25. BORROWINGS

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Current liabilities				
Secured loan stocks (Note 37)	140,265	140,265	140,265	140,265
Unsecured loan stocks (Note 37)	59,127	59,127	59,127	59,127
	199,392	199,392	199,392	199,392
Restructured term loan (Note 38)	10,625	5,312	-	-
	210,017	204,704	199,392	199,392
Non-current liabilities				
Secured loan stocks (Note 37)	327,286	327,286	327,286	327,286
Unsecured loan stocks (Note 37)	137,962	137,962	137,962	137,962
	465,248	465,248	465,248	465,248
Restructured term loan (Note 38)	69,062	79,688	-	-
	534,310	544,936	465,248	465,248
Total borrowings				
Loan stocks (Note 37)	664,640	664,640	664,640	664,640
Restructured term loans (Note 38)	79,687	85,000	-	-
	744,327	749,640	664,640	664,640

As the Proposed Scheme of Arrangement involving the Scheme Creditors as disclosed in Note 44(I) to the financial statements has been approved and is in the process of implementation, the Company:-

- (i) did not remit the amount of interest due and payable on 9 December 2005 amounting to RM11,663,000; and
- (ii) did not redeem a minimum of 30% of the total loan stocks by 9 June 2006 amounting to RM199,392,000.

	Group		Company	
	2006 %	2005 %	2006 %	2005 %
Effective interest rates:-				
Restructured term loan	8.25-8.75	8-8.25	-	-
Loan stocks:-				
- interest	3.50	3.50	3.50	3.50
- premium on redemption	6.50	6.50	6.50	6.50

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26. PROVISION FOR OUTSTANDING CLAIMS

	Group	
	2006 RM'000	2005 RM'000
Balance as at 1 January	95,071	91,075
Net claims incurred	74,220	78,657
Net claims paid	(66,604)	(74,661)
	7,616	3,996
	102,687	95,071
Reclassified as held for sale	(102,687)	-
Balance as at 31 December	-	95,071

This can be further analysed as follows:-

	Group	
	2006 RM'000	2005 RM'000
Provision for outstanding claims	113,854	109,870
Less: Recoverable from reinsurers thereon	(11,167)	(14,799)
Net outstanding claims	102,687	95,071

27. PROVISION FOR EMPLOYEE RETIREMENT BENEFITS

	Group	
	2006 RM'000	2005 RM'000
Balance as at 1 January	2,052	1,895
Provision made during the financial year	69	157
Overprovision in prior years	(304)	-
Payments made during the financial year	(181)	-
	1,636	2,052
Reclassified as held for sale	(1,321)	-
Balance as at 31 December	315	2,052
Repayable as follows:		
Current liabilities:-		
- not later than one year	172	-
Non-current liabilities:-		
- later than one year and not later than five years	143	2,052
	315	2,052

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28. PROVISION FOR PREMIUM ON REDEMPTION OF LOAN STOCKS

	Group and Company	
	2006	2005
	RM'000	RM'000
Balance as at 1 January	67,584	24,382
Provision made during the financial year	43,202	43,202
Balance as at 31 December	110,786	67,584

The provision for premium on redemption of loan stocks is made based on premium of 6.5% (2005: 6.5%) per annum on a cumulative and compounding basis.

29. TRADE PAYABLES

The credit terms available to the Group in respect of trade payables range from 15 to 60 days from the date of invoice.

30. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Other payables	3,002	14,477	430	361
Accruals	10,350	10,474	5,587	4,935
Rental deposits	1,637	1,648	-	-
Accrued interest	42,495	13,302	42,323	13,302
	57,484	39,901	48,340	18,598

Included in accruals is an amount of RM2,784,000 (2005: RM2,485,000) which represents the accrued employee benefits for certain key management staff of the Group. This provision is calculated based on two (2) months' salary for each year of employment based on the employees' last drawn salary pursuant to their contracts of employment.

31. REVENUE

	Group		Company	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Food and beverage	6,083	5,617	-	-
Rental income	14,229	11,465	-	-
Parking collections	620	590	-	-
Sale of logs, sawn timber and veneer	74,832	86,461	-	-
Sale of coal	74,867	56,866	-	-
Interest income	59	88	59	88
Others	374	240	-	-
	171,064	161,327	59	88

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32. NET LOSS FOR THE FINANCIAL YEAR

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Net loss for the financial year is arrived at:-				
After charging:-				
Allowance for diminution in value of quoted investments	-	9,767	-	1,195
Auditors' remuneration:-				
- current year	206	151	22	22
- under/(over) provision in prior years	41	(5)	-	-
Allowance for doubtful debts	14,870	160	68,397	-
Amortisation of premium on Malaysian Government Securities	62	230	-	-
Amortisation of exploration, evaluation and development expenditure	1,077	679	-	-
Amortisation of intangible assets	3,088	-	-	-
Bad debts written off	919	6	-	-
Depreciation of property, plant and equipment	11,504	11,853	209	206
Deposits written off	701	-	-	-
Directors' remuneration payable by:-				
- the company:-				
- fees	160	160	160	160
- emoluments other than fees	56	55	56	55
- the subsidiary companies:-				
- fees	264	240	-	-
- emoluments other than fees	2,549	5,063	-	-
Loss on fair value adjustment on investment properties	19,483	-	-	-
Interest expense:-				
- bank borrowings	7,324	6,815	-	-
- hire-purchase	91	79	23	23
- 3.5% redeemable convertible loan stocks	22,751	22,751	23,262	23,262
- default interest on loan stocks	5,932	-	5,932	-
- others	130	100	-	-
Impairment loss on investment properties	-	264	-	-
Impairment loss on other investments in subsidiary companies	-	-	217,794	-
Inventories written off	-	346	-	-
Loss on disposal of investment properties	-	68	-	-
Loss on disposal of other investments	1,573	-	-	-
Property, plant and equipment written off	1,490	8	-	-
Premium on redemption of loan stocks	42,252	42,252	43,202	43,202
Provision for retirement benefits	(235)	157	-	-
Provision for litigation loss	125	7,408	125	7,408
Realised foreign exchange loss	4	-	-	-
Rental expense	356	560	-	-
Waiver of late payment interest	-	218	-	-
Write down of intangible assets	583	-	-	-
And crediting:-				
Accretion of discount on bonds	364	207	-	-
Bad debts recovered	401	214	-	-
Gross dividends from shares:-				
- quoted in Malaysia	1,365	1,254	-	-
- unquoted shares	150	150	-	-
Gain on disposal of other investments	-	792	-	-
Gain on disposal of property, plant and equipment	250	269	-	-
Interest income:-				
- from subsidiary companies	-	-	25,788	26,421
- others	5,806	5,840	59	88
Reversal of allowance for diminution in value of other investments	5,934	-	318	-
Rental income	16,107	13,443	-	-

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31 December 2006 (cont'd)

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32. NET LOSS FOR THE FINANCIAL YEAR (cont'd)

The remuneration, including benefit-in-kind, attributable to the Chief Executive Officer of a subsidiary company for the year included in staff salaries of the Company amounted to RM419,858 (2005: RM640,300).

33. TAX EXPENSE

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Current tax expense based on profit for the year	1,557	2,029	-	379
Overprovision in prior years	(421)	(1,182)	(379)	(1,145)
	1,136	847	(379)	(766)
Deferred tax (Note 14)	(145)	(160)	-	-
	991	687	(379)	(766)

The numerical reconciliation between the average applicable tax rate and the effective tax rate are as follows:-

	Group		Company	
	2006 %	2005 %	2006 %	2005 %
Average applicable tax rate	(28.00)	(28.00)	(28.00)	(28.00)
Non allowable expenses	25.13	21.15	28.00	28.73
Movement of unrecognised deferred tax assets	4.09	9.32	-	-
Website development cost	-	(0.24)	-	-
Effect of change in tax rates	0.08	-	-	-
Income not subject to tax	(0.05)	(1.73)	-	-
	1.25	0.50	-	0.73
Overprovision in prior years	(0.37)	(1.20)	(0.11)	(2.20)
Average effective tax rate	0.88	(0.70)	(0.11)	(1.47)

In the Malaysia Budget 2007, it was announced that the corporate income tax rate will be reduced to 27% in 2007 and 26% in 2008. Consequently, deferred tax assets are measured using these rates.

34. LOSS PER ORDINARY SHARE (SEN)

The loss per ordinary share is calculated by dividing the Group's loss after tax amounting to RM113,734,000 (2005: RM98,419,000) by the number of ordinary shares in issue during the financial year of 140,130,340 (2005: 140,130,340).

35. PURCHASE OF PROPERTY, PLANT AND EQUIPMENT

During the financial year, the Group and the Company made the following cash payments to purchase property, plant and equipment:-

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Purchase of property, plant and equipment (Note 6)	8,471	26,315	53	23
Financed by hire-purchase arrangements	(465)	-	-	-
Cash payments on purchase of property, plant and equipment	8,006	26,315	53	23

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36. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the cash flow statements comprise the following balance sheet amounts:

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Fixed deposits	5,236	102,141	-	2,506
Cash and bank balances	8,087	16,936	587	468
	13,323	119,077	587	2,974
Less: Fixed deposits held for investment purposes	-	(97,355)	-	-
	13,323	21,722	587	2,974
Cash and bank balances classified as held for sale	3,177	-	-	-
	16,500	21,722	587	2,974

37. LOAN STOCKS

	Group and Company	
	2006 RM'000	2005 RM'000
3.5% Redeemable Convertible Secured Loan Stocks 2004/2009 ("RCSLS")	467,551	467,551
3.5% Redeemable Convertible Unsecured Loan Stocks 2004/2009 ("RCULS")	197,089	197,089
	664,640	664,640
Repayable as follows:-		
Current liabilities:-		
- not later than one year (Note 25)	199,392	199,392
Non-current liabilities:-		
- later than one year and not later than five years (Note 25)	465,248	465,248
	664,640	664,640

The RCSLS of the Group and of the Company are secured by the following:-

- (i) certain quoted investments with a carrying amount of RM1,204,000 (2005: RM886,000);
- (ii) a Deed of Debenture of charge of the shares, and fixed and floating charges over the assets, in a subsidiary company;
- (iii) first legal charge over certain landed properties of the Group; and
- (iv) certain secured loan stock of the Group are guaranteed by the Company

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37. LOAN STOCKS (cont'd)

The principal features of the RCSLS and RCULS are as follows:-

- (i) The registered holders have the option to convert the RCSLS and RCULS into ordinary shares of the Company at a conversion price of RM1.00 nominal value of RCSLS and RCULS for every ordinary shares of RM1.00 each by issuing a 30 days notice to the Company on or after 10 June 2006;
- (ii) Fully redeemable at a premium of 6.5% per annum on a cumulative and compounding basis at the option of the Company on any semi-annual date commencing from 9 June 2005 unless the registered holders choose the option of conversion;
- (iii) A minimum of 30% of the total RCSLS and RCULS issued shall be redeemed by the Company by 9 June 2006, being the second anniversary date of the issuance of RCSLS and RCULS;
- (iv) The RCSLS and RCULS bear interest at 3.5% per annum payable half yearly; and
- (v) The new ordinary shares issued from the conversion of RCSLS and RCULS will be deemed fully paid-up and rank pari passu in all respects with all existing ordinary shares of the Company.

38. RESTRUCTURED TERM LOAN - SECURED

	Group	
	2006	2005
	RM'000	RM'000
Restructured term loan repayable by sixteen equal semi-annual instalments of RM5,312,500 each commencing 23 December 2006	79,687	85,000

	Group	
	2006	2005
	RM'000	RM'000
Repayable as follows:-		
Current liabilities:-		
- within one year	10,625	5,312
Non-current liabilities:-		
- later than one year and not later than five years	42,500	42,500
- later than five years	26,562	37,188
	69,062	79,688
	79,687	85,000

The restructured term loan is secured by a first legal charge on an investment property of the Group and an assignment of the rental proceeds received from the investment property.

39. SEGMENT REPORTING

The Group's operations comprise the following business segments:-

Financial services	: Underwriting of all classes of general insurance business
Property	: Property investment, leasing of real estate and property development
Timber	: Extraction of logs, sawmilling and manufacturing of veneer
Coal mining	: Extraction of coal and trading of meritcoal in bulk
Management services and others	: Investing, business management, building and fitness club management.

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39. SEGMENT REPORTING (cont'd)

2006	Continuing operations					Total	Discontinued operation	Total operations
	Property RM'000	Timber RM'000	Coal mining RM'000	Management services and others RM'000	Elimi- nation RM'000			
Revenue								
External sales	21,281	74,832	74,867	84	-	171,064	105,183	276,247
Inter-segment sales	1,881	-	13,741	-	(15,622)	-	-	-
Total	23,162	74,832	88,608	84	(15,622)	171,064	105,183	276,247
Results								
Segment results (external)	(16,108)	6,716	4,996	(19,294)	-	(23,690)	(5,406)	(29,096)
Unallocated corporate expenses						(5,167)	-	(5,167)
Operating profits						(28,857)	(5,406)	(34,263)
Finance costs						(78,350)	(130)	(78,480)
Loss before tax						(107,207)	(5,536)	(112,743)
Tax expense						(991)	-	(991)
Net loss for the financial year						(108,198)	(5,536)	(113,734)
Assets								
Segment assets	285,770	15,703	107,138	129,070	(162,662)	375,019	257,795	632,814
Unallocated corporate assets						1,505	4,791	6,296
Total assets						376,524	262,586	639,110
Liabilities								
Segment liabilities	299,555	17,595	104,087	399,639	(162,792)	658,084	160,209	818,293
Unallocated corporate liabilities						263,095	-	263,095
Total liabilities						921,179	160,209	1,081,388
Other segment information								
Capital expenditure	1,571	395	5,796	54	-	7,816	655	8,471
Depreciation and amortisation	2,285	597	6,099	291	-	9,272	6,398	15,670
Non-cash expenses other than depreciation and amortisation	20,941	22	-	14,965	-	35,928	2,704	38,632

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39. SEGMENT REPORTING (cont'd)

2006	Continuing operations						Discontinued operation	Total operations RM'000
	Property RM'000	Timber RM'000	Coal mining RM'000	Management services and others RM'000	Elimi- nation RM'000	Total RM'000	Financial services RM'000	
Revenue								
External sales	17,732	86,461	56,866	268	-	161,327	130,699	292,026
Inter-segment sales	2,165	-	6,980	70	(9,215)	-	-	-
Total	19,897	86,461	63,846	338	(9,215)	161,327	130,699	292,026
Results								
Segment results (external)	2,260	5,576	6,838	(9,912)	80	4,842	(27,405)	(22,563)
Unallocated corporate expenses						(4,549)	-	(4,549)
Operating profits						293	(27,405)	(27,112)
Finance costs						(71,898)	(99)	(71,997)
Loss before tax						(71,605)	(27,504)	(99,109)
Tax (expense)/income						(687)	1,377	690
Net loss for the financial year						(72,292)	(26,127)	(98,419)
2005	Financial services RM'000	Property RM'000	Timber RM'000	Coal mining RM'000	Management services and others RM'000	Elimi- nation RM'000	Conso- lidation RM'000	
Assets								
Segment assets	276,232	303,367	15,255	100,491	138,695	(146,918)	687,122	
Unallocated corporate assets	4,458	-	-	30	1,259	-	5,747	
Total assets							692,869	
Liabilities								
Segment liabilities	169,361	270,031	20,840	100,214	339,577	(146,918)	753,105	
Unallocated corporate liabilities	-	85,085	370	-	182,853	-	268,308	
Total liabilities							1,021,413	
Other segment information								
Capital expenditure	10,127	5,067	37	11,060	24	-	26,315	
Depreciation and amortisation	4,854	2,075	644	4,673	286	-	12,532	
Non-cash expenses other than depreciation and amortisation	9,051	5	805	3	1,511	-	11,375	

No segment reporting by geographical segment is provided as the Group operates predominantly in Malaysia.

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40. FINANCIAL INSTRUMENTS**(i) Credit risk**

As at balance sheet date, the Group and the Company have no significant concentration of credit risk. The maximum exposures to credit risk are represented by the carrying amounts of the financial assets in the balance sheets.

(ii) Fair values

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

	Group		Company	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
As at 31 December 2006				
Unquoted investments	5,266	*	-	-
Amounts owing by subsidiary companies	-	-	376,345	#
Amounts owing to subsidiary companies	-	-	15,974	#
As at 31 December 2005				
Unquoted investments	9,545	*	-	-
Amounts owing by subsidiary companies	-	-	407,536	#
Amounts owing to subsidiary companies	-	-	14,570	#

* It is not practicable to estimate the fair value of investment in subsidiary companies and unquoted investments. This is principally due to the lack of quoted market prices and the inability to estimate fair value without incurring excessive costs. However, the directors believe that the carrying amounts represent the recoverable values. These investments are carried at their original cost less allowance for diminution in value.

It is not practicable to estimate the fair values of amounts owing by/to subsidiary companies. This is principally due to the lack of fixed repayment term and the inability to estimate fair value without incurring excessive costs. However, the directors do not anticipate the carrying amounts recorded at the balance sheet date to be significantly different from the values that would eventually be settled or received.

The following methods and assumptions are used to determine the fair value of financial instruments:-

- The carrying amounts of other financial assets and liabilities maturing within 12 months approximate their fair values due to the relatively short term maturity of these financial instruments.
- The fair values of quoted investments are their quoted market prices at the balance sheet date.
- The fair values of the financial liabilities are estimated by discounting future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

41. SIGNIFICANT RELATED PARTY DISCLOSURES**(i) Identities of related parties**

The relationship between the Group and related parties other than those disclosed elsewhere in the financial statement, are as follows:-

Identities of related parties	Relations with the Group
Datuk Amar James Wong Kim Min	A person whom is a director of a subsidiary company
JP Performance Motorsport Sdn. Bhd.	A corporation in which a director of the holding company has financial interest
T.H. Foo & Associates	A firm in which a director of a subsidiary company has financial interest
ESSO Agency Limbang	An enterprise which a director of a subsidiary company has financial interest

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41. SIGNIFICANT RELATED PARTY DISCLOSURES (cont'd)

(ii) Significant related party transactions

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Directors' remuneration payable by:-				
- the company:-				
- fees	160	160	160	160
- other emoluments	56	55	56	55
- the subsidiary companies:-				
- fees	264	240	-	-
- other emoluments	2,549	5,063	-	-
Amount payable to Datuk Amar James Wong Kim Min by a subsidiary company as employee	792	792	-	-
Professional fees paid to T.H. Foo & Associates	300	300	-	-
Promotion expenses paid to JP Performance Motorsport Sdn. Bhd.	100	-	-	-
Purchase of fuel and lubricants from Esso Agency Limbang	4,801	2,930	-	-

The Directors of the Company are of the opinion that the transactions have been transacted in the normal course of business and have been established under negotiated terms except for the long service award of RM2,850,000 and Directors' emoluments paid in 2005 to those directors who have served the Company continuously for more than 8 years and in the capacity of the Chairman and was made on the basis of RM150,000 for every year of their service as directors.

42. COMMITMENTS

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Capital expenditure in respect of purchase of :-				
Property, plant and equipment:-				
Contracted but not provided for	6,991	4,626	-	-
Authorised but not contracted for	6,982	10,359	-	-
	13,973	14,985	-	-
Investment:-				
Contracted but not provided for	2,317	3,203	-	803
Other commitments under joint venture agreement	18,900 *	18,900 *	-	-

*As disclosed in Note 44(II)(a) to the financial statements, the Group had on 5 May 2005 entered into a joint venture agreement with Aset Budi Sdn. Bhd. to jointly develop three parcels of freehold land under a joint venture company, Zahari Holdings Sdn.Bhd. Pursuant to the joint venture agreement, in the event that the joint venture company sells a total of less than 50% of the proposed development units within 2 years from the date of sales launch, the Group is required to purchase the remaining 70% of the total ordinary shares held by Aset Budi Sdn.Bhd. in the joint venture company for an estimated initial investment capital of RM18,900,000. Subsequent to the financial year end, both parties expressed their desire to terminate the said joint venture agreement which is currently pending the execution of the Revocation and Termination Agreement.

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43. CONTINGENT LIABILITIES - UNSECURED**(i) Arising from Insurance Business**

A subsidiary company involved in insurance business makes various commitments and incurs certain liabilities on behalf of its customers in the ordinary course of business. No material losses are anticipated as a result of these transactions.

Details of commitments and contingencies are as follows:-

	Group	
	2006 RM'000	2005 RM'000
Performance bonds	1,994	2,496
Advance payment bonds	23	426
Bank guarantee	110	195
	2,127	3,117

(ii) Others

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Guarantees given to banks in connection with facilities granted to a third party	600	600	-	-
Pending litigation and claim by an ex-mining contractor	*	*	-	-
Pending litigation and claims by former employees [Note 45(c)]	1,500	2,500	-	-
Guarantee given on behalf of a Ex-haulage contractor	2,094	1,914	-	-
Corporate guarantee to suppliers	-	50	-	-
	4,194	5,064	-	-

* The details, the amounts involved and the latest decision by the Kuala Lumpur High Court on the litigation and claim and the likely outcome thereof are set out in Note 45(b) to the financial statements.

44. SIGNIFICANT EVENTS**(I) Scheme of Arrangement ("SOA")**

On 21 September 1998, the Company and its subsidiary companies obtained restraining orders from the High Court of Malaya under Section 176 of the Companies Act, 1965 against financial institutions only for the purpose of implementing a proposed SOA to restructure the debts of the Company. These subsidiary companies are:-

- Menara PanGlobal Sdn Bhd
- PanGlobal Properties Sdn Bhd
- Global Minerals (Sarawak) Sdn Bhd
- Limbang Trading (Limbang) Sdn Bhd

An announcement was made to the Bursa Malaysia Securities Berhad on 26 October 1999 on the proposed SOA to restructure the debts. All schemes have been approved by the scheme creditors on 15 May 2000.

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44. SIGNIFICANT EVENTS (cont'd)

(I) Scheme of Arrangement ("SOA") (cont'd)

The SOA except for the proposed private placement and proposed disposal of Menara PanGlobal and PanGlobal Plaza was approved by the Foreign Investment Committee ("FIC") and Bank Negara Malaysia ("BNM") on 21 March 2001 and 12 July 2001 respectively. The Controller of Foreign Exchange ("CFE") and the Securities Commission ("SC") have also granted their approvals to the following SOA on 23 January 2002 and 10 June 2002 respectively.

- a) Proposed Composite Scheme
- b) Proposed Right Issue
- c) Proposed Disposal of PanGlobal Insurance Berhad

Subsequently, the SC has via their letter dated 25 June 2003, approved the extension of deadline to implement the SOA before 10 June 2005. A further extension to 10 June 2006 was granted by the SC on 29 June 2005.

An Extraordinary General Meeting ("EGM") was held on 26 June 2003, and shareholders' approval on the implementation of the SOA was obtained at the said EGM. The High Court of Malaya has also sanctioned the SOA on 12 August 2003.

Total loan stocks comprising RM467,550,866 of redeemable convertible secured loan stocks ("RCSLS") and RM197,088,938 of redeemable convertible unsecured loan stocks ("RCULS") were issued on 9 June 2004 pursuant to the SOA under Section 176 of the Companies Act, 1965.

However, the Board of Directors of the Company ("Board") is of the opinion that the Original Rights Issue cannot be viably implemented in its current form and has obtained a Restraining Order ("RO") on 5 January 2006 for a period of 90 days. The Court has also by order dated 6 April 2006 granted an extension of the RO dated 5 January 2006 for a period of 180 days effective from 6 April 2006, which was further extended to 1 January 2007.

On 9 September 2005, a revised Restructuring Scheme ("RS") was submitted to the SC. This RS was further amended on 6 January 2006 and was subsequently approved by the SC on 6 April 2006. However, at the request of certain Scheme Creditors, the RS was further revised on 18 July 2006, and the SC had on 25 September 2006 approved the further revision.

The RS was approved by the Scheme Creditors at the Court convened meeting held on 20 November 2006 subject to condition that the RS be completed by 31 March 2007 and was subsequently approved by the shareholders of the Company at the Extraordinary General Meeting held on 22 January 2007.

The approved schemes incorporating all revisions to date comprise the following proposals:-

i) Proposed Capital Reduction

The Company proposes to undertake a capital reduction exercise involving the cancellation of RM0.60 from every existing ordinary share of RM1.00 each in the Company. As at the date of this report, the Company has an issued and paid-up share capital of RM140,130,340 comprising 140,130,340 ordinary shares of RM1.00 each. As a result, the issued and paid-up share capital of the Company will be reduced to RM56,052,136 comprising 140,130,340 ordinary shares of RM0.40 each in the Company ("PGB Shares") giving rise to a credit of RM84,078,204 which will be utilised to reduce the Company's accumulated losses.

ii) Proposed Consolidation

The Company proposed to consolidate the 140,130,340 ordinary shares of RM0.40 each in PGB into 112,104,272 ordinary shares of RM0.50 each in PGB pursuant to Section 62 of the Act.

iii) Proposed Amendments

To facilitate the above proposed Capital reduction and Consolidation of shares, the Company proposed to amend the relevant clauses of its Memorandum and Articles of Association.

iv) Proposed PanGlobal Insurance Berhad ("PGI") Disposal

The Proposed PGI Disposal shall entail the disposal for cash by the Company of up to 99,970,156 PGI Shares representing 99.97% equity interest in PGI for not less than the net tangible assets ("NTA") value of PGI, calculated in proportion to the number of PGI Shares to be disposed of, based on its latest audited financial statements at the time of signing of the agreement for the disposal.

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44. SIGNIFICANT EVENTS (cont'd)**(I) Scheme of Arrangement ("SOA")** (cont'd)**v) Proposed Rights Issue**

The Company proposes to implement a renounceable rights issue of up to 420,391,020 PGB Shares ("Rights Shares") at an issue price of RM0.50 per PGB Share on the basis of fifteen (15) Rights Shares for every four (4) PGB Share held after the Proposed Capital Reduction and Consolidation, to the shareholders of the Company.

The Rights Shares shall, upon allotment and issue, rank pari passu in all respects with existing PGB Shares.

vi) Proposed Loan Stocks Buy-Back and Debts Settlement

The Company proposes to undertake a debt settlement arrangement with all of its creditors with debts exceeding RM1.0 million ("Proposed Debt Settlement Scheme") in the following manner:-

(A) Proposed Debt Settlement with Secured Scheme Creditors

The Proposed Debt Settlement with Secured Scheme Creditors entails the settlement of debts owing to the Company's secured creditors with an outstanding amount exceeding RM1.0 million each ("Secured Scheme Creditors"). The principal amount owing to the Secured Scheme Creditors as at 1 September 2005 is RM467.551 million (i.e. excluding interest accrued from 9 June 2005) comprising the RM467.551 million nominal value RCSLS held by the RCSLS Holders and which shall be settled based on the following terms:-

- (a) Waiver of all interest payment from 9 June 2005 up to and including the completion date and any redemption premium payable;
- (b) For every ascribed estimated realisable value ("ERV") of the debt ("Secured Portion"), the Company shall pay that debt to the extent of the ascribed ERV in full. The ascribed ERV of the respective RCSLS Holders' security amounts to an aggregate of RM122.484 million. The Company shall undertake to settle the Secured Portion of the RCSLS by cash payment of RM1.00 for every RM1.00 nominal value of the relevant Secured Portion of the RCSLS held by each of the RCSLS Holders;
- (c) The shortfall between the total Secured Portion and the outstanding total nominal value of the debt ("Unsecured Portion") shall be settled by cash payment of RM0.40 for every RM1.00 of the Unsecured Portion. The Unsecured Portion of the RCSLS amounts to an aggregate of RM345.067 million. The Company shall undertake to settle the Unsecured Portion of the RCSLS by cash payment of RM0.40 for every RM1.00 nominal value of the RCSLS to the extent of the Unsecured Portion; and
- (d) The RCSLS settlement set out in paragraphs (b) and (c) above shall be by way of cancellation of the RCSLS upon satisfaction of the total cash settlement. Thereafter, all obligations of the Company under the Trust Deed dated 27 April 2004 constituting the RCSLS shall be discharged and the security held by the RCSLS Holders shall be released and/or discharged.

(The above is referred to as "Proposed Debt Settlement with Secured Scheme Creditors")

(B) Proposed Debt Settlement with Unsecured Scheme Creditors

The Proposed Debt Settlement with Unsecured Scheme Creditors entails the settlement of debts owing to the Company's unsecured creditors with an outstanding amount exceeding RM1.0 million each ("Unsecured Scheme Creditors"). The principal amount owing to the Unsecured Scheme Creditors as at 1 September 2005 is approximately RM201.576 million (i.e. excluding interest accrued from 9 June 2005, if any) which comprises the following:-

- (a) RM197.089 million nominal value RCULS held by the RCULS Holders;
and
- (b) RM4.487 million* owing to PGB's unsecured creditors with an outstanding amount of at least RM1.0 million each (other than the RCULS Holders) ("Other Unsecured Scheme Creditors")

* The abovesaid debt was crystallised and recorded as liabilities in the accounts of PGB on 1 September 2005. As such, it is deemed not to have accrued any interest on or prior to 1 September 2005.

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31 December 2006 (cont'd)

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44. SIGNIFICANT EVENTS (cont'd)

(I) Scheme of Arrangement ("SOA") (cont'd)

(B) Proposed Debt Settlement with Unsecured Scheme Creditors (cont'd)

which shall be settled based on the following terms:-

- (a) Waiver of all interest payment from 9 June 2005 up to and including the completion date and any redemption premium payable;
- (b) The Company shall make a cash payment of RM0.40 for every RM1.00 of the principal amount of the debt.

In relation to the Other Unsecured Scheme Creditors, this would entail an estimated waiver of an aggregate amount of RM2.693 million of their debts and the settlement of an estimated aggregate amount of RM1.795 million in cash; and

- (c) Thereafter, all obligations of the Company in connection with its debt to the Unsecured Scheme Creditors shall be extinguished.

In connection with the RCULS, this means that the RCULS would be cancelled upon satisfaction of the total cash settlement set out in paragraph (b). Thereafter, all obligations of the Company under the Trust Deed dated 27 April 2004 constituting the RCULS shall be discharged. Upon the cash settlement set out in paragraph (b) above, the Other Unsecured Scheme Creditors shall unconditionally release and discharge the Company in full from all obligations and liabilities (including indemnities, undertaking and/or debenture instruments, if any) and where applicable, withdraw and/or discontinue all legal proceedings whatsoever with no order as to cost against the Company in their capacity as defendant or respondent with no liberty to file afresh.

(The above is referred to as "Proposed Debt Settlement with Unsecured Scheme Creditors")

vii) Proposed Issuance of Warrants

(a) Proposed Issuance of Warrants to Scheme Creditors

As compensation for the discount given by the Secured Scheme Creditors and Unsecured Scheme Creditors (collectively, the "Scheme Creditors") under the Proposed Debt Settlement with Secured Scheme Creditors and Proposed Debt Settlement with Unsecured Scheme Creditors respectively, PGB proposes to issue 69,807,468 free Warrants to the Scheme Creditors on the basis of:-

- (i) 12.5 Warrants for every RM100 nominal value of the Unsecured Portion of the RCSLS; and
- (ii) 12.5 Warrants for every RM100 debt owed to the Unsecured Scheme Creditors as at 1 September 2005.

(b) Proposed Issuance of Additional Warrants

In order to ensure that there are at least 100 Warrant holders, each holding at least 100 Warrants to meet the spread requirement for the listing of and quotation for the Warrants on the Main Board of Bursa Securities, PGB proposes to implement an additional issuance of 10,000 free Warrants to 100 selected holders.

The indicative terms of the Warrants to be issued pursuant to the proposed Issuance of additional warrants are identical to the terms of the Warrants set out in (a) above.

viii) Utilisation of Proceeds

In view of the above revision, the total indicative proceeds of RM360.196 million from the Proposed Rights Issue and Proposed PGI Disposal is expected to be utilised for the following:-

- (a) RM341.141 million to be utilised for the cash settlement under the Proposed Debt Settlement Scheme; and
- (b) The balance proceeds of RM19.055 million shall be utilised to finance the working capital requirements of the Group and to defray expenses incidental to the Proposed Restructuring Scheme.

The proceeds arising from the exercise of the Warrants shall be utilised for the working capital requirements of the Group.

44. SIGNIFICANT EVENTS (cont'd)**(I) Scheme of Arrangement ("SOA")** (cont'd)

On 25 April 2005, Bank Negara Malaysia (BNM) has granted approval for the Company to commence negotiation with OSK Holdings Berhad. However the negotiation was mutually terminated on 26 August 2005 as the parties were unable to come to an agreement with a concrete proposal for BNM's consideration.

On 21 December 2006, BNM has granted another approval for the Company to commence negotiation with AMMB Holdings Berhad and IAG International Pty. Ltd for the disposal of PGI. However, the negotiation was also mutually terminated on 16 February 2007.

Due to the unforeseen relay and failure to secure the expected price for the disposal of PGI after the abovementioned negotiation with the prospective buyers, BNM has on 29 March 2007 given its approval to the Company to commence negotiation with Tokio Marine Asia Pte. Ltd. ("TMA") for the disposal of PGI. The negotiation with TMA is currently at an advanced stage and the directors are confident that the disposal can be concluded within the next few months. In view of the impending disposal of PGI, the Company will be pursuing with the Scheme Creditors and all the relevant authorities to extend the date for the implementation of the approved SOA. The Company has been in contact with all the Scheme Creditors and there is no indication whatsoever that support will be withdrawn.

Further the Company will be applying for a fresh restraining order under Section 176 of the Companies Act, 1965 to enable it to carry out the implementation of the approved SOA without any disruption.

(II) Joint Venture Agreements

(a) On 5 May 2005, PanGlobal Services Sdn Bhd ("PGS"), a wholly owned subsidiary company, entered into a joint venture agreement with Aset Budi Sdn. Bhd. ("Aset") to jointly develop three parcels of freehold land held under Lots 51, 258 and 356, Jalan Perumahan Gurney, Kuala Lumpur under a joint venture company, Zahari Holdings Sdn Bhd. ("Zahari"). Pursuant to the joint venture agreement, in consideration for a total sum of RM3.7 million, PGS agreed to purchase a total of 300,000 issued and paid up ordinary shares representing 30% of the total issued and paid up ordinary shares in the joint venture company. On 30 April 2005, a total of RM2,000,000 has been paid to Aset as the deposit for the purchase of the abovementioned shares. In addition, an amount of RM500,000 has also been given to the Zahari as advance payment pursuant to the joint venture agreement. During current financial year, a further advance of RM82,855 has been given to Zahari. As at 31 December 2006, the share purchase arrangement has not been completed as one of the conditions precedent which requires the Development Order to develop those lands to be obtained, has not been met.

Upon the signing on the above agreement, PGS is appointed to act as the project manager under the execution of a separate Project Management Agreement.

On 17 January 2007, the Development Order has been obtained from the local authority. However, this is beyond the extension period which both joint venture parties mutually agreed for, which is 5 May 2006. Subsequent to the financial year end, both parties expressed their desire to terminate the said joint venture agreement which is currently pending the execution of the Revocation and Termination Agreement.

(b) On 17 June 2005, PanGlobal Properties Sdn. Bhd. ("PGP"), a wholly owned subsidiary company, entered into a novation agreement with the Company and a third party to assign all its rights and obligations under a conditional shares subscription agreement dated 8 October 2004 to the Company for the purchase of 20 ordinary shares of SGD1.00 each in Azzura Resorts Pte. Ltd. ("Azzura") for a cash consideration of RM2,266,000. On 17 June 2005, the share subscription agreement was novated from PGP to the Company. During the financial year, the total issued and paid up ordinary shares of Azzura has increased from SGD100 to SGD1 million as required by Sentosa Development Corporation of Singapore before entering into the tenancy agreement. The shares subscription arrangement was completed in the current financial year.

(III) Deed of Settlement, Deed of Assignments and Sales and Purchase Agreement between Global Minerals (Sarawak) Sdn. Bhd. ("GMS"), PanGlobal Trading Sdn. Bhd. ("PGT") and PanGlobal Berhad ("PGB")

At an Extraordinary General Meeting held on 9 May 2006, the shareholders of GMS had given approval for GMS to enter into the following agreements:

- (a) settlement of inter-company debt between PGB and GMS;
- (b) PGT to assume inter-company debt to PGB; and
- (c) Transfer of the operations, properties and the proceeds and receivables under the coal supply contracts to PGT as an arrangement for the settlement of inter-company debts.

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44. SIGNIFICANT EVENTS (cont'd)

(III) Deed of Settlement, Deed of Assignments and Sales and Purchase Agreement between Global Minerals (Sarawak) Sdn. Bhd. ("GMS"), PanGlobal Trading Sdn. Bhd. ("PGT") and PanGlobal Berhad ("PGB") (cont'd)

The above arrangement have been entered into in accordance with the terms and conditions as stipulated in the Deed of Settlement, Deed of Assignments and Sales and Purchase Agreement dated 15 May 2006 for the transfers and assignment of all rights, title and interest in the 16 parcels of lands and buildings and or structures erected thereon, assets and equipments and the Nanga Tulleh Logging Roads, the proceeds and receivables under the Coal Supply Contracts and rights and benefits under the Coal Supply Contracts to PGT. All the land titles and the carrying amount of the land have been transferred to PGT pursuant to Memorandum of Transfers dated 26 May 2006 during the financial year.

Pursuant to the above arrangement, GMS had transferred its property, plant and equipment with carrying amount of RM16,006,495 as at 31 January 2007 to PGT effective from 1 February 2007. In consideration for the partial settlement of GMS's debt to PGB, GMS has also on 1 February 2007, apart from the above agreements, transferred its prospecting development expenditures, deferred mining fee and consumable stores with a total carrying amount of RM52,371,435 as at 31 January 2007 to PGT.

Further, pursuant to a directors' resolution on 26 June 2006, GMS had on 16 August 2006 entered into a Deed of Assignment and Novation ("Deed") with PGT and Sejingkat Power Corporation Sdn. Bhd. to assign the proceeds and receivables under the Coal Supply Contracts and rights and benefits under the Coal Supply Contracts to PGT.

45. MATERIAL LITIGATION

(a) Taisho Company Sdn Bhd vs PanGlobal Berhad and Toweltech Berhad

A suit was filed by Taisho Company Sdn. Bhd. ("Taisho") against the Company and Toweltech Berhad ("Toweltech") (a former wholly-owned subsidiary of the Company until its disposal on 29 December 1995) in respect of an alleged friendly loan granted by Taisho to the Company and Toweltech. Taisho claimed RM3,688,000 from the Company and RM1,822,000 from Toweltech with interest at 12% per annum from 1 January 1991 until full settlement.

The High Court of Penang had on 16 August 2002 granted a judgement in favour of Taisho awarding them the sum of RM3,688,000 and RM1,822,000 respectively with further interests at 12% per annum on principal sums of RM1,060,000 ("the Company") and RM500,000 ("Toweltech") from 1 January 1991 to 29 May 1991 and interests at 8% per annum from 30 May 1991 until the date of full payment.

On 7 February 2005, the High Court of Penang granted a stay of execution of the judgement dated 16 August 2002 and a further order that the Company pay the sum of RM2,700,000 into the Taisho's solicitors client's account to be held as stakeholder money until determination of the Company's appeal against the said judgement. The Company paid the sum of RM2,700,000 on 14 February 2005.

The Company's appeal to the Court of Appeal was heard on 6 April 2006 and on 11 July 2006 the Company's appeal was dismissed.

The Company then filed a motion to the Federal Court for leave to appeal.

On 28 March 2006, the Federal Court dismissed with cost the Company's Motion for leave to appeal to the Federal Court against the Judgement granted by the High Court on 16 August 2002 and the decision of the Court of Appeal granted on 11 July 2006 which dismissed the Company's appeal.

As the Company has exhausted all avenues of appeal, it follows that the Judgement of the High Court dated 16 August 2002 is now upheld and provision of approximately RM7.4 million has been made accordingly in 2005.

In a related suit, on 5 April 2005 the Company filed a suit in the High Court of Penang for negligence, breach of duty and fraud against 3 former directors and/or officers of the Company. On 11 May 2006, the High Court ordered that the suit be struck off with costs. The Company has filed an appeal to the Court against the said order. The appeal is set for hearing on 10 May 2007.

In another related suit, two shareholders of Toweltech are suing the Company to indemnify them and Toweltech for the abovementioned judgement of the High Court dated 16 August 2002 in favour of Taisho. On 11 January 2006, the High Court allowed the shareholders of Toweltech's application for Summary Judgement. The Company has filed an appeal against the said decision to the Judge of the High Court and the appeal has been set for hearing on 31 July 2007.

45. MATERIAL LITIGATION (cont'd)**(a) Taisho Company Sdn Bhd vs PanGlobal Berhad and Toweltech Berhad** (cont'd)

In view of the said Judgement Debts, the Company has included Taisho and the shareholders of Toweltech in its Scheme of Arrangement as settlement of substantial debts (incurred other than in the ordinary course of business) due to Major Unsecured Creditors with a qualification to remove them as creditors or to claw back the sums paid to Taisho in the event the cases are eventually decided in favour of the Company.

On 22 January 2007, the Company obtained the approval of its shareholders for the SOA. Furthermore, on 23 January 2007, the Company obtained Court's approval under S176 of the Companies Act 1965 subject that an order was made allowing Taisho to proceed with and recover costs of the Taisho suits separately from the SOA.

As a Creditor under the Revised Scheme of Arrangement, Taisho and the shareholders of Toweltech Berhad will be bound by the terms of the SOA upon implementation of the same.

(b) DML-MRP Resources Sdn. Bhd. vs Global Minerals (Sarawak) Sdn. Bhd.

On a claim by DML-MRP Resources Sdn. Bhd, an ex-mining contractor, against a subsidiary company, Global Minerals (Sarawak) Sdn. Bhd. ("GMS"), an ex-mining contractor, the arbitrator had by the First Interim Award ("Interim Award") dated 27 December 2002, awarded in favour of the ex-mining contractor, a net sum of RM10,266,548 before interest with loss of profit (6 months + 3 years) being reserved at the time of the award. Interest on RM8.5 million was to be calculated at pre-award interest rate of 11.5% per annum from 1 September 1998 till the date of the award and thereafter, at the rate of 8% per annum until date of full payment.

The arbitrator had on 30 April 2003 directed the award for loss of profits arising from repudiation and termination of contract in favour of the ex-mining contractor as follows:-

- (i) The ex-mining contractor was awarded the sum of USD1,500,000 ("Final Award") to be converted and paid in Malaysian Ringgit at the prevailing rate of conversion on 1 February 1998 and to bear interest at the rate of 11.5% per annum as from 1 February 1998 till the date of the Final Award and thereafter at the rate of 8% per annum till date of full payment. This Final Award was based on the limitation of liability prescribed under Clause 12.4 under the contract between GMS and the ex-mining contractor.
- (ii) In the event that the interpretation of the arbitrator on the limitation of liability were to be erroneous, the arbitrator made the First Alternative Final Award in favour of the ex-mining contractor for the sum of RM27,034,103 and to bear interest at the rate of 11.5% per annum as from 1 February 2001 till the date of this award and thereafter at the rate of 8% per annum till date of payment.
- (iii) In the event that the revision of the quantum by deduction of six months of profits under Phase 1 of the contract were to be erroneous, the arbitrator made the Second Alternative Final Award in favour of the ex-mining contractor for the sum of RM29,241,234 and to bear interest at the rate of 11.5% per annum as from 1 February 2001 till the date of this award and thereafter at the rate of 8% per annum till date of payment.

GMS had applied to the Kuala Lumpur High Court to set aside the Interim Award and the Final Award of the arbitrator. However, on 14 April 2006, the Kuala Lumpur High Court dismissed GMS's application to set aside the Interim Award and the Final Award and ruled that the arbitrator may only make a finding with regards to damages on a figure of either RM29,241,234 or RM38,177,105 in respect of the Final Award. GMS is in the process of appealing to the Court of Appeal against both decisions of the High Court given on 14 April 2006.

DML-MRP's application to register both the Interim and Final Awards in the High Court as Judgements are set for hearing on 12 June 2007. The said applications are being resisted by GMS.

As at the date of this report, based on legal advice from GMS's solicitors, the directors are of the opinion that GMS has a reasonable ground to appeal to the Court of Appeal, Putrajaya, against the above-mentioned ruling of the Kuala Lumpur High Court. Accordingly, as the outcome of the matter is still pending, the financial statements do not take into account any adjustment for the likely damages arising from the above litigation and claim.

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45. MATERIAL LITIGATION (cont'd)**(c) Industrial Court Case by 9 former employees of a subsidiary company, PanGlobal Insurance Berhad ("PGI")**

Claims have been filed by 9 former employees of PGI for reinstatement and/or salary in lieu thereof against PGI. The estimated total claims is approximately RM1,500,000. The case is fixed for continued hearing on 18 February 2008 to 20 February 2008.

These cases relate to the retrenchment exercise conducted in 2000 in accordance with the principles of retrenchment as advised by Industrial Relations legal specialists and consultants. The directors are therefore of the opinion that the Group has a strong case to dismiss these claims.

46. CHANGE IN ACCOUNTING POLICY

The change in accounting policy arising from the adoption of FRS 140 Investment property is summarised below:

With effect from 1 January 2006, the Group measures all investment properties at fair value with any change therein recognised in the income statement. In accordance with the transitional provisions, FRS 140 has been applied by adjusting the opening balance of retained earnings at 1 January 2006 and the comparatives have not been restated.

The change in accounting policy had the following impact on the financial statements:

	RM'000
Decrease in opening investment properties	1,894
Increase in opening accumulated losses as at 1 January 2006	<u>1,894</u>

47. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

- (i) On 23 January 2007, the Company has obtained, inter-alia, the order from the Court viz, that the Company's Proposed Restructuring Scheme as set out in the Explanatory Statement to scheme creditors dated 27 October 2006, with the only modification made in relation to Section 9 of the Explanatory Statement to bring forward the completion deadline from 30 June 2007 to 31 March 2007 which had been duly approved by the scheme creditors at the court convened meetings held on 20 November 2006 be confirmed, approved and sanctioned by the Court so as to be binding upon the petitioner and the scheme creditors.
- (ii) On 27 March 2007, the Company has made an application to Bank Negara Malaysia ("BNM") for approval in principle for the Company to commence negotiations with Tokio Marine Asia Pte. Ltd. ("TMA"), pursuant to Section 67 of the Insurance Act, 1996 for the purpose of disposing PGB's entire equity shareholdings of 99.97% interest in PGI. In the event discussions are successful, PGB and TMA will be required to obtain the prior approval of the Minister of Finance, based on the recommendation of BNM, pursuant to the relevant provisions of the Insurance Act 1996, before entering into any agreement to effect the above proposal.
- (iii) On 30 March 2007, the Company announced that, in view of the delay in the approved disposal of a subsidiary company, PanGlobal Insurance Berhad ("PGI"), the approved Restructuring Scheme of the Company would not be completed by the prescribed deadline of 31 March 2007.

However, in view of the latest development in relation to the approved Disposal of PGI, the Board of Directors of PGB will be working closely with the scheme creditors in order to complete the approved Restructuring Scheme in an expeditious manner.

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48. STAFF COSTS

The total staff costs recognised in the income statements are as follows:-

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Salaries, wages and bonus	22,826	21,788	1,245	998
Employees Provident Fund	2,414	2,205	145	115
Social Security Organisation Contributions	300	247	11	5
Directors' emoluments other than fees	2,605	5,118	-	-
Retirement benefit	(235)	158	-	-
Others	176	176	-	-
	28,086	29,692	1,401	1,118

Included in directors' emoluments other than fees is an amount of RM227,952 (2005:RM191,952) in respect of contributions to Employees Provident Fund.

49. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to comply with the current presentation of the financial statements in order to comply with the requirements of the new and revised standards adopted on 1 January 2006.

	Group	
	As restated RM'000	As previously stated RM'000
<u>Balance sheets</u>		
Property, plant and equipment	81,109	95,344
Investment properties	280,845	268,504
Accumulated losses	(622,918)	(621,024)

50. AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

These financial statements were authorised for issue by the Board of Directors on 30 April 2007.