

MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)
EXPLANATORY NOTES FOR FINANCIAL QUARTER ENDED 30 JUNE 2007

FRS 134 – DISCLOSURE REQUIREMENTS PER PARAGRAPH 16

A1. Accounting Policies and Method of Computation

The interim report is prepared in accordance with FRS 134, Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad, and should be read in conjunction with the Group's financial statements for the financial year ended 31 December 2006.

The same accounting policies and methods of computation are followed in the interim financial statements as compared with the financial statements for the year ended 31 December 2006.

A2. Audit Report of Preceding Financial Year Ended 31 December 2006

The audit report on the financial statements of the preceding year was not qualified.

A3. Seasonality and Cyclicity of Operation

The Group's operations have not been affected by any seasonal or cyclical factors.

A4. Exceptional or Unusual Items

There were no items of exceptional or unusual nature that affect the assets, liabilities, equity, net income or cash flows of the Group in the current financial year.

A5. Changes in Estimates of Amounts Reported Previously

There were no changes in estimates of amounts reported in prior financial years that may have a material effect in the current financial year.

A6. Debts and Equity Securities

Other than the issuance of 299,200 new ordinary shares of RM1.00 each at RM1.00 per new share pursuant to the Company's Employee Share Option Scheme ("ESOS"), there were no issuance and repayment of debt and equity securities, share buy backs, share cancellations, shares held as treasury shares and resale of treasury shares for the current financial year.

	No of ordinary shares of RM1.00 each	RM
At 1 January 2007	337,946,727	337,946,727
Issued at RM1.00 per share pursuant to ESOS	299,200	299,200
At 30 June 2007	338,245,927	338,245,927

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A7. Dividend Paid

Dividend of 4% less tax of 27% on 165,000,000 Redeemable Convertible Preference Shares for the year ended 31 December 2006, amounted to RM4.818 million were paid on 28 February 2007.

A8. Segmental Information on Revenue and Results

Segmental reporting is not analysed by geographical locations due to the fact that the Group's activities are pre-dominantly in Malaysia.

	Financing RM'000	Property Development RM'000	Letting of Real Property RM 000	Hotel Operations RM 000	Others RM'000	Eliminations RM'000	Consolidated RM'000
3 months ended 30 Jun 07							
External sales	80,985	341	102	1,557	-	3,572	86,557
Intersegment sales	2,562	-	1,295	-	-	(3,857)	-
Total revenue	83,547	341	1,397	1,557	-	(285)	86,557
Segment results	14,898	(6,524)	(2,079)	(876)	(48)	9,429	14,800
Unallocated income (net of cost)							-
Profit from operations							14,800
3 months ended 30 Jun 06							
External sales	66,865	8,902	118	1,062	-	3,212	80,159
Intersegment sales	2,434	-	1,309	-	-	(3,743)	-
Total revenue	69,299	8,902	1,427	1,062	-	(531)	80,159
Segment result	13,550	(4,148)	(2,198)	(717)	(24)	8,739	15,202
Unallocated income (net of cost)							-
Profit from operations							15,202
6 months ended 30 Jun 07							
External sales	156,051	341	199	2,844	-	7,012	166,447
Intersegment sales	5,183	-	2,598	-	-	(7,781)	-
Total revenue	161,234	341	2,797	2,844	-	(769)	166,447
Segment results	20,272	(12,557)	3,251	(2,035)	(105)	10,816	19,642
Unallocated income (net of cost)							-
Profit from operations							19,642
6 months ended 30 Jun 06							
External sales	126,458	10,125	235	1,720	-	6,304	144,842
Intersegment sales	4,760	-	2,608	-	-	(7,368)	-
Total revenue	131,218	10,125	2,843	1,720	-	(1,064)	144,842
Segment result	17,574	(9,510)	(3,837)	(2,355)	(95)	16,878	18,655
Unallocated income (net of cost)							-
Profit from operations							18,655

A9. Valuation of Property, Plant and Equipment

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

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A10. Subsequent Events

As at the date of this report, there were no material events occurring subsequent to the end of the current financial year that have not been reflected in the financial statements for the current financial year.

A11. Changes in the Composition of the Group

There were no major changes in the composition of the Group for the current financial year.

A12. Contingent Liabilities

- (i) In two (2) civil suits brought against the Company, a contractor appointed by one of the Company's borrowers is claiming damages amounting to RM2.54 million for an alleged breach of contract. The suits were filed in the High Court at Kuala Lumpur as well as in the High Court at Kota Bahru.

The Court has dismissed the contractor's application for Summary Judgment. Both suits have since been consolidated and will be heard in the High Court at Kuala Lumpur.

The matter is now fixed for Trial on 19 November 2007 to 23 November 2007.

- (ii) Upon default by a borrower, the Company has proceeded with foreclosure proceedings to foreclose the property provided by a third party chargor as security for the facilities granted to the borrower. In turn the third party chargor has proceeded with a legal suit against the Company for an alleged breach of the terms relating to the Charge. The matter was fixed for Decision on 9 May 2007 whereby the Plaintiff's claim was dismissed and MBSB's counter claim was allowed with cost.
- (iii) In a civil suit brought against the Company, a borrower is claiming damages amounting to RM134.4 million for the alleged breach of the Loan Agreement. This matter is now further fixed for case management on 26 July 2007.

The Plaintiff is in the process of wounding up and no sanction was obtained by the Plaintiff's solicitors to re-present the Plaintiff. The case was strike out on 27 June 2007 due to non-attendance of all parties. MBSB's solicitors were informed of the striking out by the Court's interpreter two days later when it was about to process MBSB's application for Security for Cost against the plaintiff. As of now, there is no action by the Plaintiff against MBSB which is pending in the High Court.

- (iv) Upon the winding up of an unrelated company, the creditor of the said unrelated company has named a subsidiary of the Company ("the Company's subsidiary") as well as 3 other defendants as co-conspirators in a scheme to sell off a major asset of the unrelated company and thereafter allowing the said unrelated company to be wound up in order to defeat the said creditor's claim for payment from the unrelated company amounting to RM4.8 million for goods sold and delivered.

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In the said suit, the creditor claims that by virtue of such conspiracy all the defendants including the Company's subsidiary are deemed to be constructive trustees of the creditor and are either jointly or severally liable to account to the said creditor for the amount of RM4.8 million. The Company's subsidiary has to date filed an Application to Strike Out the creditor's suit. The said Application was dismissed by High Court on 1 December 2005. The Company's subsidiary has to date filed a Notice of Appeal to the Court of Appeal against the said decision. The Court of Appeal has yet to fix a date for the Hearing of the Company's appeal.

In the meantime, Case Management for this matter has been further fixed by the Court on 28 September 2006 due to change of solicitors by the Plaintiff. However, during the case management date on 19 October 2006, the Plaintiff's solicitors had informed the Court that they would like to discharge themselves from acting for the Plaintiff. Case Management has been further fixed on 11 June 2007. Case Management was postponed to 25 September 2007 for parties to finalise Bundle of Documents as well as the Agreed Facts and Issues to be tried.

- (v) A borrower of the Company has instituted a civil suit against the Company and its subsidiary for an alleged breach of the terms of a Joint Venture Agreement entered into by the borrower, the Company and the said subsidiary. The borrower has sought for judgment in the sum of RM52.007 million being loss of profits from the project contemplated under Joint Venture Agreement, the sum of RM0.015 million being part payment for the purchase of several parcels of project land and the sum of RM4.391 million being the compensation paid by the State Government directly to the Company for the acquisition of a portion of the project land, damages for losses suffered by the Plaintiff as a result of claims made by third parties, consultants and contractors involved in the Joint Venture Project, damages for loss of reputation, interests and costs.

The Courts had on 28 September 2005 struck out the Borrower's suit against the Company. The Plaintiff had filed application to set aside the Order dated 28 September 2005. On 4 December 2006, the application was dismissed with costs. The Plaintiff filed a Notice of Appeal to the Judge in Chambers and Pre-trial Case Management Notice. Notice of Appeal to the Judge in Chambers was fixed on 24 April 2007. Subsequently, it was fixed on 18 June 2007 for Mention and later postponed to 24 September 2007 pending settlement.

In the meantime, the Borrower still has an existing suit against the Company's subsidiary. The Borrower has yet to take any further steps in relation to the proceedings against the Company's subsidiary since the filing of the said Company's subsidiary's defence.

- (vi) A borrower of the Company has instituted a civil suit against the Company and its subsidiary for an alleged breach of the terms of an undated Joint Venture Agreement entered into by the borrower, the Company and the said subsidiary. As against the Company, the borrower has sought for damages to be assessed by the Court, a true account status of the loan and a change in the interest rate.

As against the Company's subsidiary, the borrower has sought for damages to be assessed by the Court, specific performance to compel the Company's subsidiary to

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complete the development project mentioned in the said suit within a reasonable time, specific performance to compel the Company's subsidiary to ensure premium payments are made to the authorities for the conditions for the use of the project land mentioned in the said suit is converted buildings for the purpose of housing, interest and costs.

Both the Company and its subsidiary have entered their appearance in Court on 25 January 2005 and 26 January 2005 respectively. The Company and its subsidiary have both filed their Defenses on 18 April 2005. The Borrower has yet to take any further steps in relation to the proceedings since the filing of the said Defenses.

Its subsidiary has later amended its defence in order to include a counterclaim against the Borrower. The Court has ordered Order in terms of its subsidiary's application on 7 June 2006 and case management is yet to be fixed by the Court.

The Company has filed an application to strike out the borrower's claim. However, the claim was dismissed by the Court and the Company's solicitors have proceeded to appeal. The Company's solicitors filed a Notice of Appeal to Judge in Chambers on 2 February 2007.

The parties have come to a settlement and the settlement agreement dated 3rd August, 2007 was duly executed inter alia providing that a judgement be recorded by way of consent between parties. The next hearing date will be held on 22nd August, 2007 to record the terms of the consent judgement.

- (vii) A former borrower of the Company has instituted a civil suit against the Company for an alleged breach of an agreement to grant loan facilities to the former Borrower for their commercial development project. The Company had terminated the said facilities due to the former Borrower's breach of the said agreement and had thereafter sold the loan asset to Pengurusan Danaharta Nasional Berhad. Notwithstanding the same, the former Borrower now alleges that the Company had failed to fully disburse the said facilities pursuant to the terms of the Facility Agreement.

As such, the former Borrower has sought for damages amounting to RM18.011million as at 31 July 2002, interest on a monthly rest basis at the rate of 2% per annum above Malayan Banking Berhad's Base Lending Rate on the sum of RM18.011million from 1 August 2002 until the date of full settlement, penalty interest of 1% per annum on the sum of RM18.011million from 1 August 2002 until the date of full settlement with regard to the liabilities incurred by the former Borrower in relation to the said commercial development project or in the alternative to the abovementioned reliefs, damages amounting to RM18.240million being the total development expenditure incurred by the former Borrower, damages amounting to RM43.311million for loss of profit or alternatively damages to be assessed by the Court as well as costs.

The Company has filed its appearance in Court on 26 July 2005 and had on 5 September 2005 served and filed their Defence against the former Borrower. The former Borrower's solicitors served Summons for Withdrawal as Solicitors on 28 August 2006. Borrower's solicitors had obtained order. This matter is now further

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fixed for Mention on 23 August 2007 to enable the Borrower's solicitors to serve the fair order of withdrawal on Borrower.

- (viii) A former Borrower of the Company has instituted a civil suit against the Company for an alleged breach of loan agreement. The former Borrower alleged that the Company had failed to fully disburse the said facilities pursuant to the terms of the loan agreement.

As such the former Borrower has sought for damages amounting to RM5.0 million or any other sum as determined by the Court, interest at the rate of 8% on the sum of RM5.0 million or any other sum as determined by the Court from the date of the Writs of Summons until the date of full realisation, as well as costs.

The Company has filed the Statement of Defence on 31 July 2006 and the Borrower has not filed any reply and neither has any steps taken in the proceedings. The Company's application to strike out the Borrower's Writ of Summons has been filed on 24 January 2007. MBSB's solicitors shall revert upon extraction of the sealed copies of the same from Court. The seal copy of the Company's application to strike out the Writ of Summons has been extracted on 7 June 2007 and the Court has fixed 24 July 2007 as the Hearing date. The court has fixed for further Hearing on 26 November 2007 and Counsels for both parties are required to prepare skeletal submissions.

- (ix) A former Borrower of the Company has instituted a civil suit against the Company for an alleged breach of loan agreement. The former Borrower alleges that as a result of the Company terminating the unutilised balance of the Bridging Loan facility, the Plaintiff has suffered losses in the Project in which they were developing.

As such, the former Borrower has sought for damages amounting to RM16,135,808.03, general damages and punitive for the amount to be determined by the Court, interest on the total damages at the rate of 8% per annum on the sum of RM16,135,808.03 million until the date of full settlement, costs and such other relief that the Court deems fit and reasonable.

The Company has filed its appearance in Court on 31 July 2007 and will file the defence on 17 August 2007.

As at 16 August 2007, the Group and the Company have obligations to secure due performance by third parties amounting to RM286 million

The directors after obtaining advice from the Company's solicitors are of the opinion that the Company has reasonably good cases in respect of all the claims against the Company and as such, no provision has been made in the financial statements.

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A13. Acquisition/Disposal of Property, Plant and Equipment

**6 months
ended
30/06/2007
RM'000**

Acquisition

Renovation Buildings	149
Furniture & Equipment	93
Motor vehicles	76
Computer hardware/software	180
	<u>498</u>

Disposal

Furniture & Equipment	4
	<u>4</u>

A14. Significant Related Party Transactions

	2nd Quarter		Cumulative	
	Current Quarter 30/06/2007 RM'000	Preceding Quarter 31/03/2007 RM'000	Current Year To Date 30/06/2007 RM'000	Preceding Year To Date 30/06/2006 RM'000
Transactions with Employees Provident Fund Board, the ultimate holding body				
Interest on debenture loans	2,270	2,322	4,592	5,252
Rental paid	76	76	152	149
Agency fees received	<u>(3)</u>	<u>(4)</u>	<u>(7)</u>	<u>11</u>

A15. Capital Commitments

As at 30 June 2007, there were no commitments for the purchase of property, plant and equipment other than those stated below:

	RM'000
Property, plant and equipment:	
• Approved and contracted for	931
• Approved but not contracted for	6,012
	<u>6,943</u>

A16. Impairment Loss

The Group has recognised a reversal of impairment loss on other investments of RM0.600 million in current period.

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BMSB LISTING REQUIREMENTS – DISCLOSURE REQUIREMENTS AS PART A OF
APPENDIX 9B

B1. Comparison with the Preceding Quarter's Results

The Group's profit before taxation of RM14.800 million for the current quarter was higher than the preceding quarter of RM4.842 million. This was mainly due to increase in net interest income and lower provisions made for loan losses.

B2. Review of Performance

The Group's profit before taxation for the six (6) months ended 30 June 2007 of RM19.642 million was higher than the previous year's corresponding period of RM18.655 million. This was mainly due to higher net interest income and lower provision made for loan losses, which were partly set off by higher other operating expenses.

B3. Prospect

Barring unforeseen circumstances, the Group is expected to maintain its profitability for the financial year ending 31 December 2007. The Group will continue to focus on its core mortgage and related retail businesses whilst emphasising on fee based income and corporate loans recovery.

B4. Variance from Profit Forecast and Profit Guarantee

There was no profit forecast or profit guarantee issued for the financial year ended 31 December 2007.

B5. Taxation

	2nd Quarter		Cumulative	
	Current Quarter 30/06/2007 RM'000	Preceding Quarter 31/03/2007 RM'000	Current Year To Date 30/06/2007 RM'000	Preceding Year To Date 30/06/2006 RM'000
Income tax				
Deferred taxation	(19)	(18)	(37)	(37)
Real Property Gain Tax	4	-	4	191
	(15)	(18)	(33)	154

There is no tax charge for 2007 due to utilisation of unabsorbed tax losses and capital allowances.

Deferred tax assets (in relation to unused tax losses to the extent of the taxable profits expected to be realised in the foreseeable future) was recognised after taking into consideration the improvement in performance for the year.

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B6. Profit/(Loss) on Sale of Unquoted Investments and/or Properties

There was no sale of investments. The gain on disposal of a property for the current financial year amounted to RM5.431 million.

B7. Purchase and Sale of Quoted Securities

There were no dealings in quoted securities for the current financial year. Investments in quoted securities as at 30 June 2007 are as follows:

	At cost and nominal value 30.06.2007 RM'000	At carrying amount 30.06.2007 RM'000	At market value 30.06.2007 RM'000
Quoted shares	1,294	802	802
Quoted warrants	106	64	64
	<u>1,400</u>	<u>866</u>	<u>866</u>

B8. Status of Corporate Proposals

No corporate proposals were announced.

B9. Borrowings and Debts

Borrowings and debts securities as at 30 June 2007 of the Group are as follows:

	RM'000
Short term borrowings	
Secured	<u>50,005</u>
Long term borrowings	
Secured	<u>124,995</u>

All borrowings and debts securities are denominated in Ringgit Malaysia.

B10. Off Balance Sheet Financial Instruments

The Group does not have any off balance sheet financial instruments

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B11. Material Litigation

The details of the pending material litigation are as per note A12 above.

B12. Dividends Declared

A first and final dividend in respect of the financial year ended 31 December 2006 of 3% less 27% taxation was declared at the Annual General Meeting held on 14 June 2007.

No dividend has been declared for the current financial period.

B13. Earnings Per Share

(i) Basic

Basic earning per share is calculated by dividing the net profit attributable to shareholders for the financial period by the weighted average number of ordinary shares in issue during the financial year.

	2nd Quarter		Cumulative	
	Current Quarter 30/06/2007 RM'000	Preceding Quarter 31/03/2007 RM'000	Current Year to Date 30/06/2007 RM'000	Preceding Year to Date 30/06/2006 RM'000
Net profit attributable to shareholders	14,815	4,860	19,675	18,501
Weighted average number of ordinary shares in issue ('000)	337,997	337,974	337,997	337,856
Basic earnings per share (sen)	4.38	1.44	5.82	5.48

(ii) Diluted

For the purpose of calculating diluted earnings per share, the net profit for the financial year and the weighted average number of ordinary shares in issue during the financial period have been adjusted for the dilutive effects of all potential ordinary shares i.e. Redeemable Convertible Preference Shares ("RCPS") and the exercise of Employee Share Option Scheme ("ESOS").

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	2nd Quarter		Cumulative	
	Current Quarter 30/06/2007 RM'000	Preceding Quarter 31/03/2007 RM'000	Current Year to Date 30/06/2007 RM'000	Preceding Year to Date 30/06/2006 RM'000
Net profit attributable to shareholders	14,815	4,860	19,675	18,501
After tax effect of finance cost on RCPS	395	132	527	264
After tax effect of finance cost on ESOS	84	21	105	-
Adjusted net profit attributable to shareholders	<u>15,294</u>	<u>5,013</u>	<u>20,307</u>	<u>18,765</u>
Weighted average of number of shares in issue ('000)	337,997	337,974	337,997	337,856
Effect of dilution:				
RCPS	330,000	330,000	330,000	330,000
ESOS	2,586	2,097	2,586	-
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	<u>670,583</u>	<u>670,071</u>	<u>670,583</u>	<u>667,856</u>
Diluted earnings per share (sen)	<u>2.28</u>	<u>0.75</u>	<u>3.03</u>	<u>2.81</u>

B14. Authorisation For Issue

The interim financial report was authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 16 August 2007.

BY ORDER OF THE BOARD

Huzaifah Zainuddin
Company Secretary
Kuala Lumpur
16 August 2007