

MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)
EXPLANATORY NOTES FOR FINANCIAL QUARTER ENDED 31 DECEMBER 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.

On 1 January 2007, the Group adopted the following FRSs mandatory for financial periods beginning on or after 1 January 2007:

- FRS 6 Exploration for and Evaluation of Mineral Resources (FRS 6 is not relevant to the Group's operation)
- FRS 107 Cash Flow Statements
- FRS 111 Construction Contracts
- FRS 112 Income Taxes
- FRS 117 Leases
- FRS 118 Revenue
- FRS 119 Employee Benefits
- FRS 120 Accounting for Government Grants and Disclosure of Government Assistance

- Amendment to FRS 121, The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation

- FRS 124 Related Party Disclosures
- FRS 126 Accounting and Reporting by Retirement Benefits Plan
- FRS 129 Financial Reporting in Hyperinflationary Economics
- FRS 134 Interim Financial Reporting
- FRS 137 Provisions, Contingent Liabilities and Contingent Assets

- IC Interpretation 1, Changes in Existing Decommissioning, Restoration and Similar Liabilities
- IC Interpretation 2, Member's Shares in Co-operative Entities and Similar Instruments
- IC Interpretation 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IC Interpretation 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
- IC Interpretation 7, Applying the Restatement Approach under FRS 129₂₀₀₄ Financial Reporting in Hyperinflationary Economics
- IC Interpretation 8, Scope of FRS 2

The Group has chosen not to early adopt FRS 139, Financial Instruments: Recognition and Measurement, for which MASB has yet to announce the effective date of the standard.

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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 23,156,000 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	23,156,000	23,156,000
At 31 December 2007	361,102,727	361,102,727

A7. Dividend Paid**(i) Dividend on Redeemable Convertible Preference Shares ("RCPS")**

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

(ii) Dividend on Ordinary shares

First and final dividend in respect of the financial year ended 31 December 2006 of 3% less 27% taxation on 338,245,927 ordinary shares of RM1.00 each, amounted to RM7,407,586.05 paid on 2 July 2007.

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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 31 Dec 07							
External sales	94,844	3,446	84	3,976	-	3,810	106,160
Intersegment sales	2,654	-	1,263	-	-	(3,917)	-
Total revenue	<u>97,498</u>	<u>3,446</u>	<u>1,347</u>	<u>3,976</u>	-	<u>(107)</u>	<u>106,160</u>
Segment results	12,951	2,486	(2,278)	(488)	73	5,402	18,146
Unallocated income (net of cost)							-
Profit from operations							<u>18,146</u>
3 months ended 31 Dec 06							
External sales	58,736	364	99	1,326	-	3,426	63,951
Intersegment sales	2,662	-	1,289	-	-	(3,951)	-
Total revenue	<u>61,398</u>	<u>364</u>	<u>1,388</u>	<u>1,326</u>	-	<u>(525)</u>	<u>63,951</u>
Segment result	1,313	(5,327)	(2,056)	(1,484)	(52)	8,860	1,254
Unallocated income (net of cost)							-
Profit from operations							<u>1,254</u>
12 months ended 31 Dec 07							
External sales	330,191	5,201	380	8,521	-	14,531	358,824
Intersegment sales	13,753	-	5,125	-	-	(18,878)	-
Total revenue	<u>343,944</u>	<u>5,201</u>	<u>5,505</u>	<u>8,521</u>	-	<u>(4,347)</u>	<u>358,824</u>
Segment results	41,964	(15,327)	(1,335)	(3,403)	(83)	21,460	43,276
Unallocated income (net of cost)							-
Profit from operations							<u>43,276</u>
12 months ended 31 Dec 06							
External sales	265,008	10,489	433	4,062	-	13,067	293,059
Intersegment sales	10,021	-	5,206	-	-	(15,227)	-
Total revenue	<u>275,029</u>	<u>10,489</u>	<u>5,639</u>	<u>4,062</u>	-	<u>(2,160)</u>	<u>293,059</u>
Segment result	29,961	(20,807)	(7,997)	(5,310)	(79)	34,641	30,409
Unallocated income (net of cost)							-
Profit from operations							<u>30,409</u>

A9. Valuation of Property, Plant and Equipment

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

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.

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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 14 July 2008 to 17 July 2008.

- (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.

The Plaintiff has appealed against the said decision to Court of Appeal and is now pending for Hearing.

- (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.

The Plaintiff has been wound 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.

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

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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. Case Management has now been fixed on 18 March 2008 to enable parties to finalise the Statement of Agreed Facts and Issues to be Tried.

- (v) 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. The Court has fixed for Hearing on 19 March 2008 to hear the notice of change in solicitors.

- (vi) 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.

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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. The Court has fixed 22 April 2008 to hear the matter to enable parties to the skeletal submission.

- (vii) A former Borrower of the Company has instituted a civil suit against the Company. 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 RM16.1 million, general damages together with interest, costs and such other relief that the Court deems fit and reasonable.

The Company solicitors have entered appearance in Court on 31 July 2007 and Statement of Defence was filed on 17 August 2007. They also issued a letter to the Plaintiff's solicitors on 27 August 2007 for further and better particulars which the Company's solicitors have yet to receive their response on the same.

As at 28 February 2008, 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

**12 months
ended
31/12/2007
RM'000**

Acquisition

Renovation Buildings	388
Furniture & Equipment	497
Motor vehicles	76
Computer hardware/software	401
	<u>1,362</u>

Disposal

Furniture & Equipment	11
Computer hardware/software	15
	<u>26</u>

A14. Significant Related Party Transactions

	4th Quarter		Cumulative	
	Current Quarter 31/12/2007 RM'000	Preceding Quarter 30/09/2007 RM'000	Current Year To Date 31/12/2007 RM'000	Preceding Year To Date 31/12/2006 RM'000
Transactions with Employees Provident Fund Board, the ultimate holding body				
Interest on debenture loans	1,952	2,055	8,566	9,964
Rental paid	96	76	324	299
Agency fees received	<u>(2)</u>	<u>(3)</u>	<u>(13)</u>	<u>(21)</u>

A15. Capital Commitments

As at 31 December 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	473
• Approved but not contracted for	6,012
	<u>6,485</u>

A16. Impairment Loss

The Group has recognised an impairment loss on property, plant and equipment of approximately RM107,000.

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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 RM18.146 million for the current quarter was higher than the preceding quarter of RM5.488 million. This was mainly due to higher net interest income from Islamic and conventional operations and lower operating expenses, partly set off by higher allowance for losses on loans and financing.

B2. Review of Performance

The Group's profit before taxation for the year ended 31 December 2007 of RM43.276 million was higher than the previous year's of RM30.409 million. This was mainly due to higher net interest income from Islamic and conventional operations and higher other operating income, partly set off by higher operating expenses and allowance for losses on loans and financing.

B3. Prospect

Barring unforeseen circumstances, the Group is expected to remain profitable for the next quarter of the financial year ending 31 December 2008. 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 ending 31 December 2007.

B5. Taxation

	4th Quarter		Cumulative	
	Current Quarter 31/12/2007 RM'000	Preceeding Quarter 30/09/2007 RM'000	Current Year To Date 31/12/2007 RM'000	Preceeding Year To Date 31/12/2006 RM'000
Income tax				
Deferred taxation	(10,019)	(18)	(10,074)	(10,074)
Real Property Gain Tax	-	4	8	191
	<u>(10,019)</u>	<u>(14)</u>	<u>(10,066)</u>	<u>(9,883)</u>

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 continuing improvement in profitability of the Company.

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

There was no sale of unquoted investments. The gain on disposal of properties for the current financial year amounted to RM7.769 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 31 December 2007 are as follows:

	At cost and nominal value 31.12.2007 RM'000	At carrying amount 31.12.2007 RM'000	At market value 31.12.2007 RM'000
Quoted shares	1,294	532	532
Quoted warrants	106	32	32
	<u>1,400</u>	<u>564</u>	<u>564</u>

B8. Status of Corporate Proposals

No corporate proposals were announced.

B9. Borrowings and Debts

Borrowings and debts securities of the Group as at 31 December 2007 are as follows:

	RM'000
Short term borrowings	
Secured	50,005
Unsecured	<u>591,013</u>
	<u>641,018</u>
Long term borrowings	
Secured	100,014
Unsecured	<u>-</u>
	<u>100,014</u>
Total	<u>741,032</u>

All borrowings and debts securities are denominated in Ringgit Malaysia.

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B10. Off Balance Sheet Financial Instruments

The Group does not have any off balance sheet financial instruments

B11. Material Litigation

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

B12. Dividends Declared

The Board of Directors has recommended a first and final dividend of 4% less 26% income tax (2.96 sen per share) amounting to approximately RM10.689 million for the financial year ended 31 December 2007, for the approval of the Company's shareholders at the forthcoming Annual General Meeting. This is computed based on the issued and paid-up share capital of 361,102,727 ordinary shares of RM1.00 each as at 31 December 2007.

The entitlement and payment dates in respect of this proposed dividend will be announced at a later date.

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.

	4th Quarter		Cumulative	
	Current Quarter 31/12/2007 RM'000	Preceding Quarter 30/09/2007 RM'000	Current Year to Date 31/12/2007 RM'000	Preceding Year to Date 31/12/2006 RM'000
Net profit attributable to shareholders	28,165	5,378	53,218	40,182
Weighted average number of ordinary shares in issue	344,803	338,249	344,803	337,859
Basic earnings per share (sen)	8.17	1.59	15.43	11.89

(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 year 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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	4th Quarter		Cumulative	
	Current Quarter	Preceding Quarter	Current Year to Date	Preceding Year to Date
	31/12/2007 RM'000	30/09/2007 RM'000	31/12/2007 RM'000	31/12/2006 RM'000
Net profit attributable to shareholders	28,165	5,378	53,218	40,182
After tax effect of finance cost on RCPS	132	132	527	527
After tax effect of finance cost on ESOS	264	30	369	35
Adjusted net profit attributable to shareholders	<u>28,561</u>	<u>5,540</u>	<u>54,114</u>	<u>40,744</u>
Weighted average of number of shares in issue ('000)	344,803	338,249	344,803	337,859
Effect of dilution:				
RCPS	330,000	330,000	330,000	330,000
ESOS	3,938	2,201	9,110	874
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	<u>678,741</u>	<u>670,450</u>	<u>683,913</u>	<u>668,733</u>
Diluted earnings per share (sen)	<u>4.21</u>	<u>0.83</u>	<u>7.91</u>	<u>6.09</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 28 February 2008.

BY ORDER OF THE BOARD

Huzaifah Zainuddin
Company Secretary
Kuala Lumpur
28 February 2008