**Notes:**

(1) The following table presents the effect of accounting policy changes and reclassification that have not been presented within the above historical consolidated financial information. The effects of the change in accounting policy and reclassification on the above historical consolidated financial statements and on TMI Group's audited consolidated balance sheet as described in notes (2) and (3) below are as follows:

| | As previously stated | Reclassification (See Note 3) | Effect of change in policy (See Note 2) | As restated |
|---|---|---|---|---|
| | RM million | RM million | RM million | RM million |
| Balance sheet as of December 31, 2005 | | | | |
| Tax recoverable | - | 0.3 | - | 0.3 |
| Trade and other receivables | 470.6 | (0.3) | - | 470.3 |
| Property, plant and equipment | 4,361.3 | - | (180.1) | 4,181.2 |
| Prepaid lease payments | - | - | 180.1 | 180.1 |
| Balance sheet as of December 31, 2006 | | | | |
| Tax recoverable | - | 0.3 | - | 0.3 |
| Trade and other receivables | 625.0 | (0.3) | - | 624.7 |
| Property, plant and equipment | 6,456.2 | - | (253.2) | 6,203.0 |
| Prepaid lease payments | - | - | 253.2 | 253.2 |

(2) With the adoption in fiscal 2007 of FRS 117, "Leases", with effect from fiscal 2007, an adjustment of the fiscal 2005 and 2006 financial data was necessary. Prior to January 1, 2007, lease of land and buildings held for own use was classified as property, plant and equipment and was stated at cost less accumulated depreciation and impairment loss. FRS 117 requires that lease of land and buildings are classified as operating or finance leases in the same way as leases of other assets. The land and building elements of a lease of land and buildings are considered separately for the purposes of lease classification. Consequent to the change in accounting policies arising from the adoption of FRS 117, TMI Group had reclassified upfront payments of leasehold land as prepaid lease payments. These payments are amortised on a straight-line basis over the remaining lease period.

(3) In fiscal year 2007, TMI Group had reviewed and changed the presentation of balances from tax recoverable for the fiscal year 2005 and 2006. This balance which was previously included in trade and other receivables is now presented separately on the face of the balance sheet.

### 8.2.3 Consolidated cash flow statements of TMI Group

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2005 | 2006 | 2007 |
| | RM million | RM million | RM million |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Receipts from customers | 1,561.2 | 4,111.8 | 4,862.1 |
| Payments to suppliers and employees | (650.7) | (1,945.9) | (2,253.8) |
| Payment of finance cost | (29.9) | (202.0) | (411.0) |
| Payment of income taxes | (2.6) | (4.1) | (10.6) |
| Tax refund | 0.6 | - | - |
| Total cash flows from operating activities | 878.6 | 1,959.8 | 2,186.7 |
| **CASH FLOWS USED IN INVESTING ACTIVITIES** | | | |
| Disposal of property, plant and equipment | 2.7 | 2.8 | 4.0 |
| Purchase of property, plant and equipment | (1,480.9) | (3,074.4) | (4,266.5) |
| Payment of intangible asset (telecommunications and spectrum license) | - | (184.5) | (0.6) |
| Disposal of long term investments | - | 155.6 | - |
| Disposal of subsidiaries (net of cash disposed) | 185.2 | - | - |
| Acquisition of subsidiaries (net of cash acquired) | (2,750.6) | (36.7) | - |
| Partial disposal of a subsidiary | 2.1 | 3.5 | 280.4 |
| Additional investment in subsidiaries | (3.4) | (252.8) | (394.1) |
| Investment in a jointly-controlled entity | - | (659.4) | - |
| Acquisition of associates | - | (146.9) | - |
| Interest received | 31.3 | 50.2 | 33.4 |
| Loans to employees | (0.3) | (0.2) | * |
| Total cash flows used in investing activities | (4,013.9) | (4,142.8) | (4,343.4) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from rights/ESOS share issuance | 140.9 | 15.1 | 76.0 |
| Proceeds from borrowings | 774.4 | 2,222.7 | 2,602.2 |
| Repayment of borrowings | (71.2) | (1,145.6) | (846.3) |
| Dividends paid to minority interests | (10.5) | (22.5) | (27.7) |
| Net advance from holding company | 2,838.9 | 762.4 | 465.5 |
| Total cash flows from financing activities | 3,672.5 | 1,832.1 | 2,269.7 |
| Net increase/(decrease) in cash and cash equivalents | 537.2 | (350.9) | 113.0 |
| Effect of exchange rate changes | (14.8) | (43.2) | (39.3) |
| Cash and cash equivalents at beginning of the financial year | 399.5 | 921.9 | 527.8 |
| Cash and cash equivalents at end of the financial year | 921.9 | 527.8 | 601.5 |
| Cash and cash equivalents at end of the financial year comprises of: | | | |
| Cash and bank balances | 933.7 | 539.5 | 679.7 |
| *less:* | | | |
| Deposits pledged | (9.8) | (7.9) | (76.1) |
| Bank overdraft | (2.0) | (3.8) | (2.1) |
| Cash and cash equivalents at end of the financial year | 921.9 | 527.8 | 601.5 |

*= not meaningful

**Notes:**

(1) The following table presents the effect of accounting policy changes that have not been presented within the above historical consolidated financial information. The effects of the change in accounting policy on the above historical consolidated financial statements and on TMI Group's audited consolidated cash flows as described in note 2 below are as follows:

| | As previously stated | Effect of change in policy (See Note 2) | As restated |
|---|---|---|---|
| | RM million | RM million | RM million |
| Cash flow statement for the year ended December 31, 2005 | | | |
| Purchase of property, plant and equipment | (1,480.9) | 16.5 | (1,464.4) |
| Payment to suppliers and employees | (650.7) | (16.5) | (667.2) |
| Cash flows from operating activities | 878.6 | (16.5) | 862.1 |
| Cash flows used in investing activities | (4,013.9) | 16.5 | (3,997.4) |

| | As previously stated | Effect of change in policy (See Note 2) | As restated |
|---|---|---|---|
| | RM million | RM million | RM million |
| Cash flow statement for the year ended December 31, 2006 | | | |
| Purchase of property, plant and equipment | (3,074.4) | 106.0 | (2,968.4) |
| Payment to suppliers and employees | (1,945.9) | (106.0) | (2,051.9) |
| Cash flows from operating activities | 1,959.8 | (106.0) | 1,853.8 |
| Cash flows used in investing activities | (4,142.8) | 106.0 | (4,036.8) |

(2) With the adoption in fiscal 2007 of FRS 117, "Leases", with effect from fiscal 2007, an adjustment of the fiscal 2005 and 2006 financial data was necessary. Prior to January 1, 2007, lease of land and buildings held for own use was classified as property, plant and equipment and was stated at cost less accumulated depreciation and impairment loss. FRS 117 requires that lease of land and buildings are classified as operating or finance leases in the same way as leases of other assets. The land and building elements of a lease of land and buildings are considered separately for the purposes of lease classification. Consequent to the change in accounting policies arising from the adoption of FRS 117, TMI Group had reclassified upfront payments of leasehold land as prepaid lease payments. These payments are amortised on a straight-line basis over the remaining lease period.

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## 8.3 HISTORICAL CONSOLIDATED FINANCIAL INFORMATION OF CELCOM GROUP

*The following historical financial information as of and for the 3 fiscal years ended December 31, 2007 has been derived from the audited consolidated financial statements of Celcom Group. The historical financial information is qualified in its entirety by reference to, and should be read in conjunction with Celcom Group's audited consolidated financial statements and related notes thereto for the 3 fiscal years ended December 31, 2007.*

*You should read the following historical consolidated financial information in conjunction with Celcom Group's audited consolidated financial statements and the related notes, the Accountants' Report and "Section 9 – Management's discussion and analysis of financial condition and results of operations".*

### 8.3.1 Consolidated income statements of Celcom Group

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2005 | 2006 | 2007 |
| | RM million | RM million | RM million |
| Revenue | 4,495.6 | 4,526.0 | 5,127.0 |
| Operating expenses: | | | |
| Depreciation of property, plant and equipment | (864.2) | (808.0) | (855.0) |
| Allowance for impairment losses (net of reversal) | (72.9) | 3.0 | (57.4) |
| Provision for a claim | (915.1) | - | - |
| Other operating expenses | (2,563.8) | (2,587.1) | (2,851.1) |
| | (4,416.0) | (3,392.1) | (3,763.5) |
| Other income | 13.6 | 16.1 | 29.6 |
| Profit from operations | 93.2 | 1,150.0 | 1,393.1 |
| | | | |
| Finance income | 60.5 | 55.8 | 47.1 |
| Finance cost | (92.3) | (67.7) | (35.0) |
| Net finance cost | (31.8) | (11.9) | 12.1 |
| Associated companies: | | | |
| Share of results of associated companies (net of taxation) | (4.5)# | (8.5) | 5.1 |
| Gain on disposal of associated companies | 7.0 | 16.6 | - |
| Profit before taxation | 63.9 | 1,146.2 | 1,410.3 |
| Taxation | (257.6) | (325.9) | (351.6) |
| (Loss)/Profit after taxation | (193.7) | 820.3 | 1,058.7 |
| | | | |
| Attributable to: | | | |
| Equity holders of Celcom | (194.3) | 816.4 | 1,051.6 |
| Minority interests | 0.6 | 3.9 | 7.1 |
| Net (loss)/profit for the year | (193.7) | 820.3 | 1,058.7 |
| | | | |
| Weighted average number of ordinary shares in issue (million) | 2,488.2 | 2,259.0 | 1,579.0 |
| Basic (loss)/earnings per share (sen) | (7.8) | 36.1 | 66.6 |
| Adjusted EBITDA[1] | 1,133.1 | 1,957.0 | 2,274.8 |

# 8. PROFORMA AND HISTORICAL FINANCIAL INFORMATION *(cont'd)*

**Notes:**

\# In 2005, Celcom Group's share of results of associates was not disclosed net of taxation. See note (5) below.

(1) Adjusted EBITDA is not a uniformly or legally defined financial measure. We define adjusted EBITDA as net profit/(loss) before taxation, interest expense/(income) and other finance cost, depreciation, impairment, other expense/(income), share of results of associates and jointly-controlled entities and foreign exchange gain/(loss). Adjusted EBITDA is presented because we believe it is a widely accepted financial indicator on an entity's ability to incur and service debt. You should not consider the adjusted EBITDA as an alternative to net income or income from operations, or as an indicator of our operating performance or other combined operations or cash flow data prepared in accordance with generally accepted accounting principles, or an alternative to cash flows as a measure of liquidity or any measures of performance derived in accordance with Malaysian GAAP. The computation of adjusted EBITDA herein may differ from similarly titled computations of other companies. Adjusted EBITDA is not a measure of financial performance under Malaysian GAAP and should not be considered as an alternative to net cash provided by operating activities or as a measure of liquidity or an alternative to net income as indicators of our operating performance or any measures of performance derived in accordance with Malaysian GAAP.

The following table reconciles our definition of adjusted EBITDA to our profit after taxation for the financial years indicated:

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2005 | 2006 | 2007 |
| | RM million | RM million | RM million |
| (Loss)/profit after taxation | (193.7) | 820.3 | 1,058.7 |
| *plus*: | | | |
| Taxation | 257.6 | 325.9 | 351.6 |
| Depreciation, amortisation and impairment | 1,046.5 | 805.0 | 912.8 |
| *less*: | | | |
| Finance income | (60.5) | (55.8) | (47.1) |
| Share of results of associated companies | 4.5 | 8.5 | (5.1) |
| Other income | (13.6) | (16.1) | (29.6) |
| *plus*: | | | |
| Finance cost | 92.3 | 67.7 | 35.0 |
| Foreign exchange loss/(gain) | - | 1.5 | (1.5) |
| Adjusted EBITDA | 1,133.1 | 1,957.0 | 2,274.8 |

(2) The following table presents the effect of accounting policy changes that have not been presented within the above historical consolidated financial information. The effects of the change in accounting policies on the above historical consolidated financial statements and on Celcom Group's audited consolidated income statements as described in notes (3) to (7) below are as follows:

| | As previously stated | Effect of change in accounting policies (See Note 3 to 7) | As restated |
|---|---|---|---|
| | RM million | RM million | RM million |
| Income statement for the year ended December 31, 2005 | | | |
| Depreciation of property, plant and equipment | (864.2) | 0.4 | (863.8) |
| Allowance for impairment losses | (72.9) | 16.2 | (56.7) |
| Other operating expenses | (2,563.7) | (24.8) | (2,588.5) |
| Profit from operations | 93.2 | (8.2) | 85.0 |
| Share of results of associated companies (net of taxation)# | - | (4.5) | (4.5) |
| Profit before taxation | 63.9 | (8.2) | 55.7 |
| Taxation – associated companies | * | * | - |
| Loss after taxation | (193.7) | (8.2) | (201.9) |
| Loss attributable to equity holders of Celcom | (194.3) | (8.2) | (202.5) |
| Income statement for the year ended December 31, 2006 | | | |
| Depreciation of property, plant and equipment | 808.0 | (0.4) | 807.6 |
| Other operating expenses | 2,587.1 | 0.4 | 2,587.5 |

*= not meaningful

(3) With the adoption in fiscal 2007 of FRS 117 "Leases" with effect from fiscal 2007, an adjustment of the fiscal 2005 and 2006 financial data was necessary. Prior to January 1, 2007, lease of land and buildings held for own use was classified as property, plant and equipment and was stated at cost less accumulated depreciation and impairment loss. FRS 117 requires that lease of land and buildings are classified as operating or finance leases in the same way as leases of other assets. The land and building elements of a lease of land and buildings are considered separately for the purposes of lease classification. Consequent to the change in accounting policies arising from the adoption of FRS 117, Celcom Group had reclassified upfront payments of leasehold land as prepaid lease payments. These payments are amortised on a straight-line basis over the remaining lease period. Impairment loss on prepaid lease payments which was previously included under allowance for impairment is now presented with other operating expenses.

(4) With the adoption in fiscal 2006 of FRS 140 "Investment Property", with effect from fiscal year 2006, an adjustment of the fiscal 2005 financial data was necessary. The adoption of FRS 140 "Investment Property" has resulted in a change in accounting policy for investment properties. The definition of investment properties under FRS 140 has resulted in identification of assets of the Celcom Group that meet the definition of investment property. These properties are now classified into a separate asset category on the balance sheet. Previously, investment properties were included in property, plant and equipment. Depreciation on investment property which was previously included under other operating expenses is now presented with depreciation of property, plant and equipment. Investment properties are measured at cost less accumulated depreciation and impairment losses in accordance with FRS 116, "Property, Plant and Equipment" requirements. This change in policy has been applied retrospectively.

(5) With the adoption in fiscal 2006 of FRS 101 "Presentation of Financial Statements" the presentation of minority interest for Celcom Group had been affected. In the consolidated balance sheet, minority interest is now presented within equity, separately from parent shareholders' equity. Profit or loss in the consolidated income statement as well as total income and expenses for the year recognised directly in equity are now allocated between minority interests and equity holders of the parent. In addition to that, under FRS 101 "Presentation of Financial Statements", Celcom Group's share of results of associates is now shown net of taxation.

(6) With the adoption in fiscal 2006 of FRS 2 "Share-based Payment" with effect from fiscal 2006, an adjustment of the fiscal 2005 financial data was necessary. The adoption of FRS 2 "Share-based Payment" had resulted in a change in the accounting policy for share-based payments. In the previous years, the provision of the share options to employees did not result in a charge to the income statement. Upon adoption of FRS 2 "Share-based Payment", Celcom Group recognises the fair value of such share options as an expense in the income statement over the vesting period of the grant with a corresponding increase in equity. The accounting policy has been applied retrospectively with comparatives restated in respect of options granted to employees after December 31, 2004 and which had not vested at the beginning of the period. Profit after taxation and retained earnings for fiscal 2005 were reduced by RM1.7 million.

(7) The goodwill balance as of December 31, 2005 arising from the acquisition of Celcom Mobile had been restated due to the overstatement of the unutilised capital allowance existing at acquisition date. The impact of the restatement was to increase the goodwill balance as of December 31, 2005 by RM45.5 million (net of accumulated amortisation of RM19.5 million) and decrease the deferred tax assets, net loss after taxation for the fiscal 2005 and retained earnings as of January 1, 2005 by RM65.0 million, RM6.5 million and RM13.0 million respectively.

# In 2005, Celcom Group's share of results of associates was not disclosed net of taxation. See note (5) above.

## 8.3.2 Consolidated balance sheets of Celcom Group

| | As of December 31, | | |
|---|---|---|---|
| | 2005 | 2006 | 2007 |
| | RM million | RM million | RM million |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 3,956.9 | 4,127.8 | 3,924.6 |
| Investment property | - | - | 2.0 |
| Prepaid lease payments | - | - | 24.9 |
| Investments in associated companies | 52.0 | 14.4 | 22.0 |
| Goodwill | 71.6 | 118.6 | 118.6 |
| Deferred tax assets | 190.5 | - | 3.6 |
| | 4,271.0 | 4,260.8 | 4,095.7 |
| **CURRENT ASSETS** | | | |
| Inventories | 16.9 | 19.3 | 15.3 |
| Trade and other receivables | 287.3 | 326.1 | 345.9 |
| Marketable securities | 1.1 | 1.7 | 1.7 |
| Tax recoverable | 26.5 | 0.7 | 100.5 |
| Cash and bank balances | 2,295.4 | 1,201.1 | 1,296.0 |
| | 2,627.2 | 1,548.9 | 1,759.4 |
| **CURRENT LIABILITIES** | | | |
| Short term borrowings | 421.4 | 521.3 | 204.0 |
| Trade and other payables | 2,688.4 | 1,837.8 | 2,064.7 |
| Taxation | 18.4 | 94.9 | 77.9 |
| | 3,128.2 | 2,454.0 | 2,346.6 |
| Net current liabilities | (501.0) | (905.1) | (587.2) |
| | 3,770.0 | 3,355.7 | 3,508.5 |
| **FINANCED BY** | | | |
| Share capital | 2,357.2 | 1,767.9 | 1,237.5 |
| Reserves | 124.9 | 809.4 | 1,661.1 |
| Capital and reserves attributable to equity holders of Celcom | 2,482.1 | 2,577.3 | 2,898.6 |
| Minority interests | 5.3 | 33.1 | 40.2 |
| | 2,487.4 | 2,610.4 | 2,938.8 |
| **NON-CURRENT LIABILITIES** | | | |
| Long term borrowings | 717.6 | 225.2 | 21.9 |
| Deferred tax liabilities | 500.0 | 440.0 | 453.6 |
| Provision for liabilities | 65.0 | 64.5 | 80.9 |
| Deferred income | - | 15.6 | 13.3 |
| | 1,282.6 | 745.3 | 569.7 |
| | 3,770.0 | 3,355.7 | 3,508.5 |

## 8. PROFORMA AND HISTORICAL FINANCIAL INFORMATION *(cont'd)*

**Notes:**

(1) The following table presents the effect of accounting policy changes and reclassification that have not been presented within the above historical consolidated financial information. The effects of the change in accounting policy and reclassification on the above historical consolidated financial statements and on Celcom Group's audited consolidated balance sheet as described in notes (2) to (7) below are as follows:

| | As previously stated | Reclassifications (See Note 7) | Effect of change in accounting policies (See Note 2 to 6) | As restated |
|---|---|---|---|---|
| | RM million | RM million | RM million | RM million |
| As of December 31, 2005 | | | | |
| Property, plant and equipment | 3,956.9 | - | (27.8) | 3,929.1 |
| Investment property | - | - | 2.1 | 2.1 |
| Prepaid lease payments | - | - | 25.7 | 25.7 |
| Goodwill | 71.6 | - | 45.5 | 117.1 |
| Deferred tax assets | 190.5 | - | (65.0) | 125.5 |
| Reserves | 124.9 | - | (19.5) | 105.4 |
| Deferred income | - | 12.2 | - | 12.2 |
| Total non-current liabilities | 1,282.6 | 12.2 | - | 1,294.8 |
| Trade and other payables | 2,688.4 | (12.2) | - | 2,676.2 |
| Total current liabilities | 3,128.2 | (12.2) | - | 3,116.0 |
| As of December 31, 2006 | | | | |
| Property, plant and equipment | 4,127.8 | - | (27.3) | 4,100.5 |
| Investment property | - | - | 2.0 | 2.0 |
| Prepaid lease payments | - | - | 25.3 | 25.3 |

(2) With the adoption in fiscal 2007 of FRS 117, "Leases", with effect from fiscal 2007, an adjustment of the fiscal 2005 and 2006 financial data was necessary. Prior to January 1, 2007, lease of land and buildings held for own use was classified as property, plant and equipment and was stated at cost less accumulated depreciation and impairment loss. FRS 117 requires that lease of land and buildings are classified as operating or finance leases in the same way as leases of other assets. The land and building elements of a lease of land and buildings are considered separately for the purposes of lease classification. Consequent to the change in accounting policies arising from the adoption of FRS 117, Celcom Group had reclassified upfront payments of leasehold land as prepaid lease payments. These payments are amortised on a straight-line basis over the remaining lease period. Impairment loss on prepaid lease payments which was previously included under allowance for impairment is now presented with other operating expenses.

(3) With the adoption in fiscal 2006 of FRS 140, "Investment Property", with effect from fiscal 2006, an adjustment of the fiscal 2005 financial data was necessary. The adoption of FRS 140 "Investment Property" had resulted in a change in accounting policy for investment properties. The definition of investment properties under FRS 140 had resulted in identification of assets of the Celcom Group that meet the definition of investment property. These properties are now classified into a separate asset category on the balance sheet. Previously, investment properties were included in property, plant and equipment. Investment properties are measured at cost less accumulated depreciation and impairment losses in accordance with FRS 116, "Property, Plant and Equipment" requirements. This change in policy has been applied retrospectively.

(4) With the adoption in fiscal 2006 of FRS 101, "Presentation of Financial Statements", the presentation of minority interest for Celcom Group had been affected. In the consolidated balance sheet, minority interest is now presented within equity, separately from parent shareholders' equity. Profit or loss in the consolidated income statement as well as total income and expenses for the year recognised directly in equity are now allocated between minority interests and equity holders of the parent. In addition to that, under FRS 101, "Presentation of Financial Statements", Celcom Group's share of results of associates is now shown net of taxation.

(5) With the adoption in fiscal 2006 of FRS 2, "Share-based Payment", with effect from fiscal 2006, an adjustment of the fiscal 2005 financial data was necessary. The adoption of FRS 2 "Share-based Payment" had resulted in a change in the accounting policy for share-based payments. In the previous years, the provision of the share options to employees did not result in a charge to the income statement. Upon adoption of FRS 2, "Share-based Payment", Celcom Group recognises the fair value of such share options as an expense in the income statement over the vesting period of the grant with a corresponding increase in equity. The accounting policy has been applied retrospectively with comparatives restated in respect of options granted to employees after December 31, 2004 and which had not vested at the beginning of the period. Profit after taxation and retained earnings for fiscal 2005 were reduced by RM1.7 million.

(6) The goodwill balance as of December 31, 2005 arising from the acquisition of Celcom Mobile had been restated due to the overstatement of the unutilised capital allowance existing at acquisition date. The impact of the restatement was to increase the goodwill balance as of December 31, 2005 by RM45.5 million (net of accumulated amortisation of RM19.5 million) and decrease the deferred tax assets, net loss after taxation for the fiscal 2005 and retained earnings as of January 1, 2005 by RM65.0 million, RM6.5 million and RM13.0 million respectively.

(7) For fiscal year ended December 31, 2006, certain comparatives have been reclassified to conform to current year's presentation of deferred income.

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## 8.3.3 Consolidated cash flow statements of Celcom Group

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2005 | 2006 | 2007 |
| | RM million | RM million | RM million |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit before taxation | 63.9 | 1,146.1 | 1,410.3 |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | 864.2 | 808.0 | 855.0 |
| Depreciation of investment property | - | - | * |
| Allowance for doubtful debts (net of recoveries) | 149.4 | 72.6 | 64.3 |
| Amortisation of goodwill | 109.4 | - | - |
| Diminution/(appreciation) in quoted investment | 0.4 | (0.6) | * |
| Share of results of associated companies (net of taxation) | 4.5# | 8.5 | (5.1) |
| Gain on disposal of property, plant and equipment | (3.9) | (1.3) | (0.4) |
| Gain on disposal of an associated company | (7.0) | (16.6) | - |
| Allowance for impairment losses (net of reversal) | 72.9 | (3.0) | 57.4 |
| Provision for a claim | 915.1 | - | - |
| ESOS expenses | - | 6.8 | (0.2) |
| Asset written off | - | 0.1 | * |
| Finance cost | 92.3 | 67.7 | 35.0 |
| Finance income | (60.5) | (55.8) | (47.1) |
| Amortisation of prepaid lease payments | - | - | 0.4 |
| | 2,200.7 | 2,032.5 | 2,369.6 |
| (Increase)/decrease in inventories | 1.5 | (2.4) | 4.0 |
| Increase in receivables | (57.6) | (85.1) | (87.4) |
| Increase/(decrease) in payables | 324.8 | (819.8) | 338.0 |
| Decrease in balances with associated companies | (15.5) | (1.1) | - |
| Increase/(decrease) in balances with ultimate holding company | 17.0 | (105.9) | (95.9) |
| Cash generated from operations | 2,470.9 | 1,018.2 | 2,528.3 |
| Interest and profit on Islamic Private Debt Securities paid | (97.3) | (78.8) | (44.7) |
| Taxes paid | (120.1) | (157.2) | (458.6) |
| Net cash generated from operating activities | 2,253.5 | 782.2 | 2,025.0 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Additional investment in a subsidiary/associated company | - | (15.3) | (2.4) |
| Interest received | 60.5 | 50.9 | 48.3 |
| Purchase of property, plant and equipment | (732.7) | (857.1) | (732.6) |
| Proceeds from disposal of property, plant and equipment | 41.1 | 27.8 | 9.7 |
| Payment of dismantling cost | - | - | (0.9) |
| Proceeds from disposal of an associated company | - | 22.1 | - |
| Net cash used in investing activities | (631.1) | (771.6) | (677.9) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Repayment of hire purchase and finance lease | (7.7) | (7.6) | (6.4) |
| Repayment of equipment supplied | - | - | (6.9) |
| Drawdown of borrowings | - | 10.0 | 5.0 |
| Drawdown of hire purchase | - | 6.5 | - |
| Repayment of borrowings | (347.5) | (413.8) | (513.8) |
| Capital repayment | (1,000.0) | (700.0) | (730.1) |
| Net cash used in financing activities | (1,355.2) | (1,104.9) | (1,252.2) |
| Net increase/(decrease) in cash and cash equivalents | 267.2 | (1,094.3) | 94.9 |
| Cash and cash equivalents at beginning of the year | 2,028.2 | 2,295.4 | 1,201.1 |
| Cash and cash equivalents at end of the year | 2,295.4 | 1,201.1 | 1,296.0 |

*= not meaningful

**Notes:**

(1) The following table presents the effect of accounting policy changes that have not been presented within the above historical consolidated financial information. The effects of the change in accounting policies and reclassification on the above historical consolidated financial statements and on Celcom Group's audited consolidated cash flows as described in notes (2) to (6) below are as follows:

| | As previously stated | Reclassification (See Note 6) | Effect of change in accounting policies (See Note 2 to 5) | As restated |
|---|---|---|---|---|
| | RM million | RM million | RM million | RM million |
| Cash flow statement for the year ended December 31, 2005 | | | | |
| Profit before taxation | 63.9 | - | (8.2) | 55.7 |
| Depreciation of property, plant and equipment | 864.2 | - | (0.3) | 863.9 |
| Depreciation of investment property | - | - | * | * |
| Amortisation of prepaid lease payments | - | - | 0.3 | 0.3 |
| Amortisation of goodwill | 109.4 | - | 6.5 | 115.9 |
| Share of results of associated companies (net of taxation)[#] | - | - | 4.5 | 4.5 |
| Impairment loss on prepaid lease payments | - | - | 16.3 | 16.3 |
| Allowance for impairment losses | 72.9 | - | (16.3) | 56.6 |
| ESOS expense | - | - | 1.7 | 1.7 |
| Cash flow statement for the year ended December 31, 2006 | | | | |
| Depreciation of property, plant and equipment | 808.0 | - | (0.4) | 807.6 |
| Depreciation of investment property | - | - | * | * |
| Amortisation of prepaid lease payments | - | - | 0.4 | 0.4 |
| Purchase of property, plant and equipment | (857.1) | 6.5 | - | (850.6) |
| Net cash used in investing activities | (771.6) | 6.5 | - | (765.1) |
| Drawdown of hire purchase | 6.5 | (6.5) | - | - |
| Net cash used in financing activities | (1,104.9) | (6.5) | - | (1,111.4) |

*= not meaningful

(2) With the adoption in fiscal 2007 of FRS 117 "Leases" with effect from fiscal 2007, an adjustment of the fiscal 2005 and 2006 financial data was necessary. Prior to January 1, 2007, lease of land and buildings held for own use was classified as property, plant and equipment and was stated at cost less accumulated depreciation and impairment loss. FRS 117 requires that lease of land and buildings are classified as operating or finance leases in the same way as leases of other assets. The land and building elements of a lease of land and buildings are considered separately for the purposes of lease classification. Consequent to the change in accounting policies arising from the adoption of FRS 117, Celcom Group had reclassified upfront payments of leasehold land as prepaid lease payments. These payments are amortised on a straight-line basis over the remaining lease period.

(3) With the adoption in fiscal 2006 of FRS 140 "Investment Property" with effect from fiscal 2006, an adjustment of the fiscal 2005 financial data was necessary. The adoption of FRS 140 "Investment Property" had resulted in a change in accounting policy for investment properties. The definition of investment properties under FRS 140 has resulted in identification of assets of Celcom Group that meet the definition of investment property. These properties are now classified into a separate asset category on the balance sheet. Previously, investment properties were included in property, plant and equipment. Depreciation on investment property which was previously included under other operating expenses is now presented with depreciation of property, plant and equipment. Investment properties are measured at cost less accumulated depreciation and impairment losses in accordance with FRS 116 "Property, Plant and Equipment" requirements. This change in policy has been applied retrospectively.

(4) With the adoption in fiscal 2006 of FRS 2 "Share-based Payment" with effect from fiscal 2006, an adjustment of the fiscal 2005 financial data was necessary. The adoption of FRS 2 "Share-based Payment" had resulted in a change in the accounting policy for share-based payments. In the previous years, the provision of the share options to employees did not result in a charge to the income statement. Upon adoption of FRS 2, "Share-based Payment", Celcom Group recognises the fair value of such share options as an expense in the income statement over the vesting period of the grant with a corresponding increase in equity. The accounting policy has been applied retrospectively with comparatives restated in respect of options granted to employees after December 31, 2004 and which had not vested at the beginning of the period. Profit after taxation and retained earnings for fiscal 2005 were reduced by RM1.7 million.

(5) The goodwill balance as of December 31, 2005 arising from the acquisition of Celcom Mobile had been restated due to the overstatement of the unutilised capital allowance existing at acquisition date. The impact of the restatement was to increase the goodwill balance as of December 31, 2005 by RM45.5 million (net of accumulated amortisation of RM19.5 million) and decrease the deferred tax assets, net loss after taxation for the fiscal 2005 and retained earnings as of January 1, 2005 by RM65.0 million, RM6.5 million and RM13.0 million respectively.

(6) With the adoption in fiscal 2006 of FRS 101 "Presentation of Financial Statements", Celcom Group's share of results of associates is now shown net of taxation.

(7) During the financial year ended December 31, 2007, Celcom Group had reviewed the presentation of drawdown of hire purchase balance amounting to RM6.5 million for the financial year ended December 31, 2006. This balance, which was previously included in cash flows from financing activities, is now presented, as net of purchase of property, plant and equipment under cash flows from investing activities to better reflect the nature of the transaction.

\# In 2005, Celcom Group's share of results of associates was not disclosed net of taxation. See note (6) above.

# 9. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our Post Restructuring Proforma and Post Acquisition Proforma financial information for the 3 fiscal years ended December 31, 2005, 2006 and 2007 set out under "Section 8.1 – Proforma consolidated financial information" together with the notes, assumptions and bases for the preparation of our Post Restructuring Proforma and Post Acquisition Proforma financial information, as well as TMI Group's and Celcom Group's respective consolidated financial statements and the related notes thereto, and the Accountants' Report. TMI Group's and Celcom Group's historical financial position and results of operations taken together may not be representative of the future combined results of operations or financial condition of our Group.*

*Except as otherwise indicated, statistical and certain other information relating to the mobile telecommunications industry and contained in this section is based on or derived from data prepared by Frost & Sullivan. The information has not been independently verified by us or any other person. Much of the available information is based on best estimates and should therefore be regarded as indicative only and treated with the appropriate caution.*

*This discussion and analysis contains forward-looking statements that involve risks and uncertainties and reflect our current views with respect to future events and financial performance. Our actual results may differ significantly from those stated in such forward-looking statements. Factors that might cause future results to differ significantly from those stated in the forward-looking statements include, but are not limited to, those discussed below and elsewhere in this document, particularly in "Forward-looking statements" and "Section 4 – Risk factors".*

## 9.1 OVERVIEW

With the completion of the Pre-Listing Restructuring and Acquisition, our Group will be a regional mobile telecommunications provider, with operations principally in Malaysia, Indonesia, Sri Lanka, Bangladesh and Cambodia. The Pre-Listing Restructuring will combine the operations of the TMI Group and substantially all of the operations of the Celcom Group. Following the Pre-Listing Restructuring and Acquisition, our mobile telecommunications business will be centred in 3 key operating subsidiaries, the Celcom Group (operating in Malaysia), XL (operating in Indonesia) and Dialog (operating in Sri Lanka). In fiscal 2007, the Celcom Group had operating revenues of RM5,127.0 million and the TMI Group had operating revenues of RM4,953.9 million, of which XL and Dialog contributed RM3,011.1 million and RM1,062.8 million, respectively. We also have a 70.0% shareholding interest in TMIB, a mobile telecommunications operator in Bangladesh, and wholly-own TMIC, a mobile telecommunications operator in Cambodia. In addition, we have strategic mobile and non-mobile telecommunications operations and investments in India, Singapore, Iran, Pakistan and Thailand.

Our Company was incorporated as a private limited company in Malaysia in June 1992. On December 12, 2007, our Company was converted into a public company. Prior to the Pre-Listing Restructuring, both our Company and Celcom are wholly-owned subsidiaries of TM, while XL, Dialog, TMIB and TMIC are subsidiaries of our Company. Pursuant to the Pre-Listing Restructuring, amongst other things, our Company will acquire all of the issued shares in Celcom and will acquire from TM a 51% economic benefit in SunShare. TM will also distribute its entire holding of shares in our Company to TM's shareholders on the basis of 1 Share for every TM Share held by such shareholders of TM. See "Section 5 – Pre-Listing Restructuring and Acquisition". These transactions will be considered to be a restructuring of companies under common control and will be accounted for using the pooling of interests method of accounting. Accordingly, our Company's financial statements from fiscal 2007 will be presented on a combined basis.

Pursuant to the Acquisition, amongst other things, our Group will increase our ownership of XL from 67.0% to 83.8% and increase our economic benefit of SunShare from 51.0% to 100.0% (and our ownership of ordinary shares in SunShare from 80% to 100%) through the acquisition of additional shares of both XL and SunShare.

Our Post Restructuring Proforma consolidated income statement illustrates the effects of the Pre-Listing Restructuring, assuming that the Pre-Listing Restructuring had been completed on January 1, 2005 and that our proforma group had been in existence throughout the fiscal years presented, but does not illustrate the effects of the Acquisition. Our Post Acquisition Proforma consolidated income statement illustrates the effects of both the Pre-Listing Restructuring and Acquisition, assuming that the Acquisition had been completed on January 1, 2007 and that our Group (including our additional interests in XL and SunShare) had been in existence since January 1, 2007. However our Post Restructuring Proforma and Post Acquisition Proforma financial information are based on preliminary estimates and assumptions set out in the notes thereto and may not reflect what our historical financial condition and results of operations would have been if we had operated as a separate group of companies, instead of as part of the TM Group. See "Section 4.1.22 – The proforma consolidated financial information included herein may not reflect actual results".

## 9.2 FACTORS AFFECTING OUR RESULTS OF OPERATIONS

The factors affecting the results of operations of our Group going forward are expected to be substantially similar to those affecting the TMI Group and the Celcom Group historically. The mobile telecommunications business is significantly influenced by changes in the operators' competitive and regulatory environments. The TMI Group's and the Celcom Group's results of operations are affected by such changes, including the number of subscribers, the churn rate of subscribers, ARPU levels, the amount and cost of financing of capital expenditures, the level and structure of tariffs, interconnection arrangements and leases of transmission capacity. In each of the countries in which the TMI Group and the Celcom Group operate, various government regulations and policies regarding the mobile telecommunications industry also have significant impact on the TMI Group's and the Celcom Group's operations and financial performance. Amongst other things, such regulations and policies may impact tariffs and taxation structures, terms for interconnection, required technology and equipment standards, licensing, spectrum allocation and foreign shareholding restrictions. Furthermore, various other factors external to the TMI Group and the Celcom Group and the telecommunications industry, including the economic and financial condition in the countries in which they operate, would also affect their financial performance. See "Section 4 – Risk factors", "Section 10 – Industry and economy overview" and "Section 11.19 – Regulations and licenses".

The TMI Group's and the Celcom Group's financial condition and results of operations have been, and those of our Group will continue to be, affected by, amongst other things, the principal factors set out below.

### 9.2.1 Competition

The market for mobile telecommunications services in South and Southeast Asia is highly competitive. See "Section 11 – Business" for a discussion of our key competition. Our Group's ability to operate profitably will depend upon our ability to compete successfully with existing and new competitors. Increasing competition in the key countries in which we operate and intend to grow our business in the future, including Malaysia, Indonesia, Sri Lanka, Bangladesh and Cambodia, has had, and is expected to continue to have, a significant impact on our Group's performance, financial condition and results of operations. Mobile service providers compete for subscribers in a number of different areas including price, the services and products offered, the technical quality of the mobile system, network coverage and capacity, and subscriber service. In addition, the wireless telecommunications industry in Malaysia, Indonesia, Sri Lanka, Bangladesh and Cambodia are experiencing technological changes, evolving industry standards, deregulation and changes in subscribers' preferences. Competition in these countries may increase as a result of the entry of new competitors, foreign investment in existing competitors and the development of new technologies, products and services. Increased competition from existing and new operators has resulted in, and is expected to continue to result in, higher subscriber acquisition costs and greater price competition, with operators lowering monthly access fees and tariffs, providing substantial handset subsidies and offering more attractive product and service packages, resulting in a higher churn rate and lower ARPU.

The following table sets out information for each of the markets in which we have principal operations in, as to the total mobile market penetration, our market share, our number of subscribers, the percentage of our subscribers who are prepaid and postpaid, our ARPU, our average monthly churn rate of subscribers and our chargeable average monthly MOU per subscriber, where available:

| | As of/Year ended December 31, | | |
|---|---|---|---|
| | 2005 | 2006 | 2007 |
| ***The Celcom Group (Malaysia)*** | | | |
| Malaysian mobile penetration[(1)] | 74.7% | 73.0% | 85.9% |
| Market share[(2)] | 35.1% | 31.2% | 30.9% |
| Number of subscribers ('000) | 6,858 | 6,079 | 7,202 |
| Percentage of subscribers that are prepaid | 83.7% | 79.8% | 82.2% |
| Percentage of subscribers that are postpaid | 16.3% | 20.2% | 17.8% |
| ARPU (RM per month): | | | |
| Prepaid | 46 | 39 | 52 |
| Postpaid | 122 | 108 | 111 |
| Blended | 61 | 51 | 63 |
| Average monthly churn rate (%): | | | |
| Prepaid | 3.5% | 7.1% | 2.6% |
| Postpaid | 2.4% | 2.1% | 1.8% |
| Average monthly MOU per subscriber: | | | |
| Prepaid | -[(3)] | 139 | 147 |
| Postpaid | -[(3)] | 380 | 388 |
| ***XL (Indonesia)*** | | | |
| Indonesian mobile penetration[(1)] | 19.1% | 25.9% | 37.3% |
| Market share[(2)] | 15.1% | 15.0% | 16.6% |
| Number of subscribers ('000) | 6,978 | 9,528 | 15,469 |
| Percentage of subscribers that are prepaid | 97.5% | 95.9% | 96.9% |
| Percentage of subscribers that are postpaid | 2.5% | 4.1% | 3.1% |
| ARPU (IDR '000 per month): | | | |
| Prepaid | 50 | 42 | 43 |
| Postpaid | 251 | 172 | 155 |
| Blended | 54 | 46 | 47 |
| Average monthly churn rate (%): | | | |
| Prepaid | 5.6% | 12.2% | 13.5% |
| Postpaid | 0.3% | 2.9% | 4.8% |
| Average monthly MOU per subscriber: | | | |
| Prepaid | 54 | 56 | 97 |
| Postpaid | 327 | 223 | 202 |

## 9. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(cont'd)*

| | As of/Year ended December 31, | | |
|---|---|---|---|
| | 2005 | 2006 | 2007 |
| ***Dialog (Sri Lanka)*** | | | |
| Sri Lankan mobile penetration(1) | 16.4% | 26.1% | 38.1% |
| Market share(2) | 63.1% | 57.4% | 53.4% |
| Number of subscribers ('000) | 2,123 | 3,105 | 4,259 |
| Percentage of subscribers that are prepaid | 79.2% | 84.4% | 86.6% |
| Percentage of subscribers that are postpaid | 20.8% | 15.6% | 13.4% |
| ARPU (SLR per month): | | | |
| Prepaid | 426 | 432 | 412 |
| Postpaid | 1,635 | 1,682 | 1,688 |
| Blended | 697 | 658 | 590 |
| Average monthly churn rate (%): | | | |
| Prepaid | 0.1% | 0.2% | 0.1% |
| Postpaid | 3.3% | 3.4% | 3.1% |
| Average monthly MOU per subscriber(4): | | | |
| Blended | 269 | 221 | 212 |
| ***TMIB (Bangladesh)*** | | | |
| Bangladeshi mobile penetration(1) | 6.7% | 14.4% | 23.4% |
| Market share(2) | 31.6% | 27.1% | 20.4% |
| Number of subscribers ('000) | 3,052 | 5,762 | 7,183 |
| Percentage of subscribers that are prepaid | 97.1% | 97.4% | 98.3% |
| Percentage of subscribers that are postpaid | 2.9% | 2.6% | 1.7% |
| ARPU (BDT per month): | | | |
| Prepaid | 408 | 299 | 234 |
| Postpaid | 1,755 | 1,485 | 1,094 |
| Blended | 498 | 342 | 261 |
| Average monthly MOU per subscriber(5): | | | |
| Prepaid | 69 | 119 | 118 |
| Postpaid | 481 | 648 | 456 |
| ***TMIC (Cambodia)*** | | | |
| Cambodian mobile penetration(1) | 8.4% | 11.4% | 17.3% |
| Market share(2) | 13.9% | 14.5% | 12.7% |
| Number of subscribers ('000) | 158 | 229 | 311 |
| Percentage of subscribers that are prepaid | 98.7% | 99.1% | 99.0% |
| Percentage of subscribers that are postpaid | 1.3% | 0.9% | 1.0% |
| ARPU (USD per month): | | | |
| Prepaid | 14.0 | 13.5 | 12.6 |
| Postpaid | 44.6 | 43.5 | 39.9 |
| Blended | 14.2 | 13.9 | 12.8 |
| Average postpaid monthly churn rate (%) | 1.1% | 0.8% | 0.2% |
| Average monthly MOU per subscriber: | | | |
| Prepaid | 98 | 124 | 195 |
| Postpaid | 188 | 237 | 354 |

**Notes:**

(1) Figures are extracted from the report prepared by Frost & Sullivan.

(2) Computed as our respective subsidiary's estimate of its total number of subscribers divided by the number of mobile subscribers in the applicable market as extracted from the report prepared by Frost & Sullivan. TMIB's internal estimate of number of subscribers in Bangladesh is 10.5 million for fiscal 2005, resulting in its market share of 29.1%.

(3) The decline in prepaid subscribers as of December 31, 2006 compared with December 31, 2005 was largely due to the termination of many prepaid subscribers with the enforcement of prepaid registration by the MCMC, pursuant to which all prepaid subscribers in Malaysia who were not registered by December 29, 2006 were automatically terminated. This regulation affected all mobile operators in Malaysia. Due to this exercise, the churn rate for prepaid subscribers increased to 7.1% for 2006. The churn rate excluding terminated numbers was 5.5% for 2006. The churn rate is still higher compared to previous years due to the Celcom Group's redefinition of a "subscriber" to include only active and revenue contributing subscribers.

(4) Dialog's blended average monthly MOU per subscriber comprises both chargeable and non-chargeable MOU.

(5) TMIB does not have comprehensive incoming MOU data (calls originating from other operators) in fiscal 2005 and 2006.

The competitive environment in the principal countries in which we operate has had and is expected to continue to have the following effects:

- *Celcom Group (Malaysia).* Malaysia's mobile telecommunications market had a fairly high level of mobile penetration of 85.9% as of December 31, 2007, up from 73.0% as of December 31, 2006 and 74.7% as of December 31, 2005. The level of mobile penetration dropped to 73.0% as of December 31, 2006 as a result of the enforcement of a new MCMC requirement of subscriber registration that resulted in all prepaid subscribers in Malaysia who were not registered by December 29, 2006 being automatically terminated. As a result, the fiscal 2006 data may be unrepresentative of trends in the market. As of December 31, 2007, prepaid subscribers comprised 82.2% of the Celcom Group's subscribers and postpaid subscribers comprised the remaining 17.8% of the Celcom Group's subscribers.

  The Celcom Group experienced a decline in subscriber market share from 35.1% in fiscal 2005 to 31.2% in fiscal 2006, which we believe was primarily attributable to management's ongoing efforts to focus on revenue market share instead of subscriber market share and the Celcom Group's redefinition of a "subscriber" for its data measurement and reporting purposes to include only active and revenue contributing subscribers. Between fiscal 2006 and fiscal 2007, the Celcom Group's market share was stable. However, it is anticipated that the Government of Malaysia will introduce mobile number portability in August 2008, which will allow subscribers in Malaysia to change operators while retaining their number, making it much easier for subscribers to switch from one telecommunications provider to another. We expect this to result in increased competition in the short term as operators attempt to attract subscribers from their competitors, resulting in pricing pressures, increased marketing expenses and a possible loss of market share if the Celcom Group fails to successfully keep existing subscribers and attract sufficient new subscribers. In addition, we anticipate competition to intensify as a result of one of the Celcom Group's primary competitors, DiGi, having recently obtained approval from the MCMC for the transfer, subject to certain conditions, of a license to operate a 3G network from TdC to DiGi.

  The Celcom Group's ARPU decreased from RM46 per month in fiscal 2005 to RM39 per month in fiscal 2006 for its prepaid subscribers and from RM122 per month in fiscal 2005 to RM108 per month in fiscal 2006 for its postpaid subscribers. This is consistent with the trend of decreasing ARPU in mobile telecommunications markets. The Celcom Group's ARPU increased slightly in fiscal 2007 to RM52 per month for prepaid subscribers, but the increase in ARPU for prepaid subscribers was principally due to the enforcement of the new MCMC requirement of subscriber registration that began in fiscal 2006 and eliminated some low-use subscribers that tended to bring down measured ARPU. Going forward, we anticipate that ARPU will decrease. ARPU in fiscal 2007 for postpaid subscribers was relatively flat at RM111 per month compared to the previous fiscal year. We expect ARPU for postpaid subscribers to decrease moderately in the future.

  The Celcom Group's average monthly churn rate has decreased from 3.5% in fiscal 2005 to 2.6% in fiscal 2007 for prepaid subscribers and from 2.4% in fiscal 2005 to 1.8% in fiscal 2007 for postpaid subscribers. The Celcom Group experienced a spike in average monthly churn rate to 7.1% in fiscal 2006 for prepaid subscribers, which was attributable to the enforcement of the new MCMC requirement of subscriber registration that began in fiscal 2006. However, if the introduction of mobile number portability in Malaysia goes forward as planned, we anticipate that the Celcom Group's churn rate may increase as one of the hurdles for mobile subscribers to switch between mobile service providers would be reduced.

  The average monthly MOU by the Celcom Group's subscribers increased slightly between fiscal 2006 and fiscal 2007 (data for fiscal 2005 is unavailable). We expect the average monthly MOU to level off and remain relatively stable.

- *XL (Indonesia)*. Indonesia is a developing mobile telecommunications market, with a moderate but increasing level of mobile penetration. The level of mobile penetration increased from 19.1% as of December 31, 2005 to 25.9% as of December 31, 2006 and to 37.3% as of December 31, 2007, and according to Frost & Sullivan is expected to continue to experience robust growth. As of December 31, 2007, prepaid subscribers comprised 96.9% of XL's subscribers and postpaid subscribers comprised the remaining 3.1% of XL's subscribers.

  XL's subscriber market share has been stable, increasing slightly from 15.0% in fiscal 2006 to 16.6% in fiscal 2007. If the market continues to experience robust growth as is expected, XL will have to continue to increase its number of subscribers in order to maintain its subscriber market share.

  XL's ARPU for prepaid subscribers decreased from IDR50,000 per month in fiscal 2005 to IDR42,000 per month in fiscal 2006, and then was almost flat at IDR43,000 per month in fiscal 2007. We believe the stable ARPU for prepaid subscribers between fiscal 2006 and fiscal 2007 was in part due to the success of XL's "Rupiah 1" promotion to stimulate usage, which began in July 2007. XL's ARPU for postpaid subscribers decreased from IDR251,000 per month in fiscal 2005 to IDR172,000 per month in fiscal 2006 and IDR155,000 per month in fiscal 2007. We expect ARPU for both prepaid and postpaid subscribers to continue to deteriorate in the future notwithstanding the short term stabilisation in ARPU for prepaid subscribers in fiscal 2007.

  XL's average monthly churn rate has significantly increased from 5.6% in fiscal 2005 to 12.2% in fiscal 2006 and 13.5% in fiscal 2007 for prepaid subscribers and from 0.3% in fiscal 2005 to 2.9% in fiscal 2006 and 4.8% in fiscal 2007 for postpaid subscribers. We believe the increase in, as well as the very high level of, the churn rate for prepaid subscribers is due to very aggressive competition with respect to the pricing of starter packs (usually comprised of a SIM card and a reload voucher), and we expect this competition and the churn rate for prepaid subscribers to continue to increase in the future. We believe that the increase in the churn rate for postpaid subscribers is in part due to XL's focus on higher quality subscribers that has caused lower quality subscribers to churn, and in part due to the considerable competition.

  XL's average monthly MOU per prepaid subscriber has increased from 54 in fiscal 2005 to 56 in fiscal 2006 and 97 in fiscal 2007. We believe the significant increase between fiscal 2006 and fiscal 2007 was a result of XL's "Rupiah 1" promotion to stimulate usage which began in July 2007. Meanwhile the average monthly MOU per postpaid subscriber has decreased from 327 in fiscal 2005 to 223 in fiscal 2006 and 202 in fiscal 2007 due to increased penetration of the postpaid market which has resulted in a higher proportion of lower usage new subscribers.

- *Dialog (Sri Lanka)*. Sri Lanka is a developing mobile telecommunications market, with a moderate but increasing level of mobile penetration. The level of mobile penetration increased from 16.4% as of December 31, 2005 to 26.1% as of December 31, 2006 and to 38.1% as of December 31, 2007, and is expected by Frost & Sullivan to continue to experience significant growth. As of December 31, 2007, prepaid subscribers comprised 86.6% of Dialog's subscribers and postpaid subscribers comprised the remaining 13.4% of Dialog's subscribers, and we believe the current trend in the market is towards the prepaid services.

  Dialog's subscriber market share has been declining from 63.1% in fiscal 2005 to 57.4% in fiscal 2006 and 53.4% in fiscal 2007 as a result of aggressive competition. Competition is expected to increase, including as a result of the entrance of Bharti Airtel into the market, and Dialog's subscriber market share may continue to decline as a result of that competition. If the market continues to experience significant growth as we expect, Dialog will have to continue to increase its number of subscribers in order to maintain its subscriber market share.

Dialog's ARPU for prepaid subscribers decreased from SLR426 per month in fiscal 2005 to SLR412 per month in fiscal 2007 while ARPU for postpaid subscribers increased slightly over the last 3 fiscal years. The increase in ARPU for postpaid subscribers was due to an increase in the average monthly MOU per subscriber despite declining tariffs resulting from intense price competition. We believe that ARPU for prepaid subscribers will decrease in the future, and ARPU on a blended basis will continue to decrease due to the trend in the market towards prepaid services which have significantly lower ARPU compared to postpaid services.

Dialog's average monthly churn rate has remained steady from fiscal 2005 through fiscal 2007, with fiscal 2007 churn rate of 0.1% for prepaid subscribers and 3.1% for postpaid subscribers. There have been discussions in Sri Lanka as to the possible adoption of mobile number portability regulations. If such regulations were approved, we would anticipate that the churn rate would increase.

- *TMIB (Bangladesh).* Bangladesh is a developing mobile telecommunications market, with a low but increasing level of mobile penetration. The level of mobile penetration increased from 6.7% as of December 31, 2005 to 14.4% as of December 31, 2006 and to 23.4% as of December 31, 2007, and is expected by Frost & Sullivan to continue to experience significant growth. As of December 31, 2007, prepaid subscribers comprised 98.3% of TMIB's subscribers and postpaid subscribers comprised the remaining 1.7% of TMIB's subscribers, and we expect prepaid services to continue to comprise substantially all of the market.

  TMIB's subscriber market share has been declining from 31.6% in fiscal 2005 to 27.1% in fiscal 2006 and 20.4% in fiscal 2007 as a result of very aggressive price competition, particularly from Banglalink. ARPU has also been decreasing as a result of that competition. Due to the aggressive price competition, TMIB may suffer a further decline in its market share and we expect ARPU for both prepaid and postpaid subscribers to continue to decline.

- *TMIC (Cambodia).* Cambodia is a developing mobile telecommunications market, with a low but increasing level of mobile penetration. The level of mobile penetration increased from 8.4% as of December 31, 2005 to 11.4% as of December 31, 2006 and to 17.3% as of December 31, 2007, and is expected by Frost & Sullivan to continue to experience significant growth. As of December 31, 2007, prepaid subscribers comprised 99.0% of TMIC's subscribers and postpaid subscribers comprised the remaining 1.0% of TMIC's subscribers, and we expect prepaid services to continue to comprise substantially all of the market.

  TMIC's subscriber market share has been relatively stable and was 12.7% in fiscal 2007. ARPU has been decreasing, and we expect it to continue to decline.

In order to minimise the impact of increased competition on their financial position and results of operations, the TMI Group's and the Celcom Group's key strategies have been, and our key strategies will continue to be, to increase the emphasis on organic growth in the existing country operations, pursue selective acquisitions and partnerships in mobile telecommunications markets in South and Southeast Asia, further improve operational synergies and efficiencies, and attract and retain a high quality workforce. We believe that these strategies will continue to be effective. However, there can be no assurance that these or other strategies will prove effective in avoiding the adverse effects of greater competition. It is also not difficult for our competitors to adopt similar strategies.

For a description of the competition we face in the various mobile telecommunications markets in which we operate and the potential effects of such competition on our business and financial results, see "Section 4.1.1 – We face increasing competition in Malaysia, Indonesia, Sri Lanka, Bangladesh and Cambodia and in the other markets in which we operate" and "Section 11 – Business".

### 9.2.2 Government regulation and tariffs

Our operating subsidiaries and associates are subject to regulations that may restrict our business activities in the various mobile telecommunications markets in which we operate. See "Section 11.19 – Regulations and licenses".

Rates and tariffs for mobile services are deregulated and fully liberalised in Malaysia and mobile operators in Malaysia are able to set any rates for their services. However, certain of the countries in which the TMI Group operates are not fully liberalised. In Indonesia, operators are required to set their mobile prices based on certain evolving price formulae. In Bangladesh, an interim regulatory directive has currently set certain price ranges for mobile tariffs but it is uncertain if this will continue or if the price ranges will change upon implementation of final regulations. In Sri Lanka, while mobile tariffs are not generally regulated, tariff rates require regulatory approval and there are no published benchmarks.

Interconnection charges between operators in Malaysia, Indonesia and Sri Lanka are charged on a cost-based arrangement. In Cambodia, such charges are based on rates set by the regulatory authority. In Indonesia, new, lower interconnection tariffs are set to be effective in April 2008 and we anticipate further reductions in interconnection tariffs will continue to occur in the Indonesian market. Further, in Malaysia and Indonesia, mobile telecommunications network and service providers are subject to USO under which they are required to participate in the provision of telecommunications facilities and infrastructure in areas designated as USO areas by the authorities. In Malaysia, the principle of "pay or play" applies so operators such as the Celcom Group which choose to provide services to designated USO areas will be compensated for losses incurred, from a USO fund to which all operators will be required to contribute. The Celcom Group is required to contribute 6.0% of its annual weighted designated revenues, less any allowable deductions, to such fund unless the MCMC by written notification decides to reduce the contribution based on the MCMC's assessment from time to time of the funds required to fulfil the universal service targets, the ability of the licensees to meet the obligation, the amount available in the USO fund and such other matters as may be relevant. In Indonesia, all telecommunications network operators and service providers are required to contribute 0.75% of gross revenues (with due consideration for bad debts and interconnection charges) for USO development, and a proposal to increase the contribution rate to 1.25% has been made but has not become effective. In Sri Lanka, there is a universal access policy that delineates the right of all citizens of Sri Lanka to have access to all sources of information and means of communication which should be reasonably affordable to all classes. Furthermore, the USO has been encapsulated in some licenses, such as WLL licenses. As such, the regulators in Sri Lanka are focused on trying to establish an explicit USO policy. See "Section 11.19 – Regulations and licenses".

### 9.2.3 New acquisitions and licenses

In recent years, the TMI Group has expanded, and our Group, as part of the Pre-Listing Restructuring and Acquisition, will be expanding our operations organically or through the acquisition of interests in third party mobile telecommunications operators in key markets, particularly India, which represents one of Asia's fastest growing mobile markets. The TMI Group and the Celcom Group have also expanded through the acquisition of new telecommunications licenses and/or spectrum. The start-up of newly licensed operations and the acquisition of spectrum and any subsequent integration of newly acquired operations generally entail significant capital and operating expenditures, including license fees and spectrum fees, cash consideration paid or debt incurred in connection with acquisitions, purchase of new equipment, build-out and maintenance of networks, marketing of new products and services and the addition of new employees. If successful, new operations and acquisitions may also lead to significant subscriber and revenue growth. Accordingly, new operations and acquisitions affect the comparability of the results of our operations for different periods. See "Section 11.4 – History and background". Going forward, we expect to continue with expansion plans which will be funded using our usual sources of funding and potentially issuance of equity and equity-linked securities.

### 9.2.4 Trends in our industry and markets

In more developed markets, such as Malaysia where subscriber penetration is close to 100%, subscriber and traffic growth and tariff decline rates have generally started to stabilise. However, we believe there remain opportunities for further revenue growth in these markets as a result of the introduction of new services and technologies, such as data transmission and 3G mobile telecommunications service. In less developed markets such as Sri Lanka, Bangladesh and Cambodia, where the proportion of mobile telecommunications subscribers to the general population remains relatively low, the number of our subscribers and their usage volume has grown rapidly in recent years, contributing to higher turnover. However, the effect of growing competition amongst existing telecommunications operators has resulted in the decline in tariff levels and increases in subscriber acquisition costs. As prevailing conditions in the various markets in which we operate differ significantly and are subject to influences and developments within and across markets, it is difficult for us to predict overall trends in our operating performance.

### 9.2.5 Changes in political climate and economic conditions in the countries in which we operate

As most of our Group's operating revenues and expenses following the Pre-Listing Restructuring and Acquisition will continue to be derived from and relate to our operations in Malaysia, Indonesia and Sri Lanka, our financial condition and results of operations are expected to continue to be (as those of the TMI Group and the Celcom Group have been) affected by fluctuations in economic conditions as well as political developments in these countries. In the past, events such as the Asian economic crisis in 1997 have had an adverse effect on the economies of Malaysia, Indonesia and Sri Lanka, amongst others, and as a result, on the TMI Group's and the Celcom Group's financial condition and results of operations. We believe that our business and financial performance in the future will continue to be affected to some extent by political and economic conditions in Malaysia, Indonesia and Sri Lanka, as well as any other countries in which we operate. See "Section 4.3.1 – Political, economic and social developments in Malaysia and other Asian countries may adversely affect our Group".

### 9.2.6 Capital expenditures

The mobile telecommunications business is capital intensive in nature. The TMI Group and the Celcom Group have expanded and improved, and will continue to expand and improve, their network coverage and infrastructure. This has involved and will involve substantial capital expenditures. The TMI Group made capital expenditures of RM1,443.4 million in fiscal 2005, RM3,005.0 million in fiscal 2006 and RM3,645.6 million in fiscal 2007, and the Celcom Group made capital expenditures of RM938.8 million in fiscal 2005, RM858.2 million in fiscal 2006 and RM745.7 million in fiscal 2007. Such expenditures were incurred on projects related to the expansion and improvement of TMI Group's and Celcom Group's telecommunications networks and supporting systems infrastructure. Our planned capital expenditures are RM4,570.2 million in fiscal 2008, and we expect a similar level of capital expenditures in fiscal 2009.

We will need additional capital resources to develop our mobile telecommunications infrastructure and update our technology to remain competitive in the markets in which we operate. While we believe we will be able to obtain the additional financing we will require, we cannot assure you that additional financing will be available to us on commercially acceptable terms, or at all. See "Section 9.4.3(v) – The TMI Group's liquidity and capital resources – Capital expenditures", "Section 9.5.3(v) – The Celcom Group's liquidity and capital resources – Capital expenditures" and "Section 9.6 – Planned capital expenditures".

### 9.2.7 Foreign exchange volatility

A significant portion of our revenues will not be denominated in Ringgit Malaysia as 2 of our main operating subsidiaries after the Pre-Listing Restructuring and Acquisition, namely XL and Dialog, operate in Indonesia and Sri Lanka, respectively. As has been the case for the TMI Group, we will also be entitled to dividends in various currencies other than Ringgit Malaysia through our investments in India, Singapore, Iran and Thailand. As a result, any appreciation or depreciation in any of these currencies, in particular, the IDR or the SLR, against the Ringgit Malaysia, would affect our revenues and profitability. The TMI Group's long term debt obligations are substantially denominated in USD. In addition, most of the capital expenditures incurred by the TMI Group's operating companies are denominated in USD or denominated in local currencies that are affected by international USD prices. Any appreciation of the USD against the local currencies in the countries in which we operate would increase the costs of our capital expenditures in Ringgit Malaysia terms and result in a corresponding increase in our depreciation costs. See "Section 4.3.4 – Depreciation of the currencies in which we conduct operations and exchange rate fluctuations as well as changes in fiscal policies in the countries in which we operate may adversely affect our Group".

### 9.2.8 Dividends from subsidiaries

Our Company's cash flows and ability to pay dividends following the Pre-Listing Restructuring and Acquisition may be affected by the dividend policies of our subsidiaries, particularly publicly traded subsidiaries such as XL and Dialog, and any changes in such policies. XL's current dividend policy targets a dividend distribution of 15.0% to 20.0% of the previous year's net income after taxation after adjusting for unrealised foreign exchange gain/(loss), though the actual amount of dividend depends on several factors including XL's financial condition and cash availability and prevailing regulations. Dialog's current dividend policy targets a dividend distribution of 40.0% to 60.0% of Dialog's annual profit after taxation, subject to Dialog's cash flow and debt service requirements, debt retirement opportunities and availability of taxation credits or taxation exempt income to transfer the dividend payments. In both instances, the dividend policy may be changed at the discretion of the relevant subsidiary's board. Our Company's cash flows and ability to pay dividends are also expected to be affected by withholding taxes that must be paid on dividends paid by subsidiaries, as required in the jurisdiction in which our subsidiaries operate. Currently, the withholding taxation rates on dividends paid by our subsidiaries are generally 20.0% or less.

## 9.3 CRITICAL ACCOUNTING POLICIES

The financial statements of TMI Group and Celcom Group are prepared in accordance with Malaysian GAAP. TMI Group and Celcom Group apply accounting policies that their managements believe best reflect underlying business and economic events, consistent with Malaysian GAAP. TMI Group's and Celcom Group's accounting policies are similar and are expected to be similar to those which will be applied by our Group following the Pre-Listing Restructuring and Acquisition. In accounting for certain transactions and operations, TMI Group's and Celcom Group's management establish policies for the recognition of revenue and expenses, some of which require them to develop estimates and expectations regarding future events, including estimates for the useful lives of assets. The assumptions underlying these policies may be subjective in nature. The ability to effectively and accurately establish, monitor and adjust these standards may have a material impact on the accuracy and quality of the financial information reported by TMI Group and Celcom Group. It is important to understand the underlying assumptions and policies adopted by TMI Group and Celcom Group when analysing the financial condition and results of operations set out in this section. The management of TMI Group and Celcom Group base their estimates and judgment on historical experience and various other assumptions that they believe are reasonable under the circumstances. Actual results may differ significantly from these estimates and judgments under different assumptions or conditions. The following sets out certain critical accounting policies adopted by both TMI Group and Celcom Group, which are also expected to be adopted by our Group.

### 9.3.1 Revenue recognition

Operating revenue comprises the fair value of the consideration received or receivables for the sale of products and rendering of services net of returns, duties, sales discounts and sales taxes paid, after eliminating sales within the group. Operating revenue is recognised or accrued at the time of the provision of the products or services.

For prepaid services, revenue from the sale of prepaid starter packs, which consist principally of prepaid SIM cards, are deferred and recognised as revenue based on the actual use of the cards net of service taxes and discounts. We continue to defer any amounts not recognised as revenue up to the time of expiration of the prepaid airtime, after which such amounts will be recognised as revenue. The TMI Group's and the Celcom Group's deferred revenue balances as at December 31, 2007 were RM211.9 million and RM270.4 million, respectively. The deferred amount is included in trade and other payables in the balance sheet.

Revenues for the use of our networks by postpaid subscribers, including charges for airtime, local interconnection, domestic long distance, international long distance and roaming, are recognised based on actual traffic volume net of rebates/discounts.

### 9.3.2 Allowance for doubtful debts

Trade receivables are carried at the invoice amount less an allowance for doubtful debts. The allowance is established when there is objective evidence that the TMI Group or the Celcom Group will not be able to collect all amounts due according to the original terms of receivables. An allowance for doubtful debts is based on a review of all outstanding amounts as at the balance sheet date, which includes reviewing the payment histories and future expectations of subscriber payments, historical write-off patterns and the aging of trade receivable balances. Bad debts are written off when identified.

### 9.3.3 Property, plant and equipment and depreciation

As of December 31, 2007, the TMI Group and the Celcom Group had property, plant and equipment with a net book value of approximately RM8,398.8 million and RM3,924.6 million, respectively. In accounting for property, plant and equipment, the TMI Group and the Celcom Group must make estimates about the expected useful lives of the assets, as well as considering the potential existence of impairment based on the fair value of the assets and the cash flows generated thereby.

The following table shows a breakdown of the principal categories of property, plant and equipment, together with information about estimated useful lives of each category:

| | |
|---|---|
| Buildings | 5 – 50 years |
| Telecommunication network | 3 – 20 years |
| Movable plant and equipment | 5 – 8 years |
| Computer support systems | 3 – 5 years |
| Furniture, fittings, office equipment, motor vehicle and renovation (Celcom Group only) | 3 – 10 years |

The TMI Group and the Celcom Group review annually the estimated useful lives of property, plant and equipment based on factors such as business plan and strategies, expected level of usage and future technological developments. Our results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the estimated useful lives of property, plant and equipment would increase recorded depreciation and decrease the net book value of the property, plant and equipment. Generally, these adjustments are accounted for on a prospective basis through depreciation expense as required by Malaysian GAAP.

Freehold land and capital work-in-progress are not depreciated. Depreciation is provided on all other categories of property, plant and equipment on a straight-line basis which reflects the estimated useful lives of the assets.

The Celcom Group applies the transitional provisions of International Accounting Standards, No. 16 (Revised) "Property, Plant and Equipment", as adopted by the Malaysian Accounting Standards Board, which allows land and buildings to be stated at their previous years' valuations less depreciation. Accordingly, these valuations have not been updated. Surpluses arising on revaluation are credited to revaluation reserve. Any deficit arising from revaluation is charged against the revaluation reserve to the extent of a previous surplus held in the revaluation reserve for the same asset. In all other cases, a decrease in carrying amount is charged to income statement.

The TMI Group and the Celcom Group review property, plant and equipment to determine whether there is any indication of impairment. Factors that would indicate potential impairment may include, but are not limited to, significant decreases in the market value of the assets, significant changes in an asset's physical condition, and operating losses or cash flow deficits associated with the use of the asset or a group of assets (known as income generating units).

### 9.3.4 Intangible assets

***License***

As of December 31, 2007, the TMI Group's intangible asset (excluding goodwill) balance amounted to RM150.3 million. This consisted primarily of part of the acquisition of the 3G spectrum license granted to XL. The TMI Group has applied judgment in determining the treatment of annual fees payable over 10 years in respect of the 3G spectrum license granted to XL. This fee is charged to TMI Group's consolidated income statement when incurred based on management's judgment that future annual fees will no longer be payable upon the decision by XL to return the license. TMI Group considers the annual payment to be usage fees based on interpretation of the license conditions and written confirmation from the Directorate General of Post and Telecommunication, Indonesia, as well as assessment of XL's 3G's operations. The annual fees are therefore not considered part of the acquisition cost of the license. Should regulations and conditions with regards to the payment of annual fees be amended in the future such that payment of the remaining annual fees cannot be avoided upon XL surrendering the license, our Group will have to recognise an intangible asset and a corresponding liability at the present value of remaining annual fees at that time.

The TMI Group reviews the license to determine whether there is any indication of impairment. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value-in-use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there is separately identifiable cash flows (cash-generating units). Assets that suffered impairment are reviewed for possible reversal at each reporting date.

***Goodwill***

As of December 31, 2007, the TMI Group's and the Celcom Group's goodwill balances amounted to RM3,236.8 million and RM118.6 million, respectively. The TMI Group and the Celcom Group undertake an annual test for impairment of the subsidiaries in which the goodwill arose from. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value-in-use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there is separately identifiable cash flows (cash-generating units).

For the Celcom Group, the value-in-use calculations apply a discounted cash flow model using cash flow projections based on financial forecasts and projections approved by management covering a 5-year period. Cash flows beyond the fifth year are projected based on management projected growth rates taking into consideration past performance and its expectations for the market development. The terminal growth rates used do not exceed the long term average growth rate of the industry and are consistent with projections included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the cash-generating units. The discount rates applied to the cash flow forecasts and projections are derived from the cost of capital plus a reasonable risk premium at the date of the assessment of the respective cash-generating units. Changing the assumptions selected by management, in particular the discount rate and growth rate assumptions used in the cash flow forecasts and projections, could significantly affect the Celcom Group's result.

For the TMI Group, goodwill arising on the acquisition of the subsidiary in Indonesia amounts to RM3,121.1 million. The value-in-use calculations apply a discounted cash flow model using cash flow projections based on forecasts and projections approved by management. In respect of the subsidiary in Indonesia, the cash flow projection covers a 10-year period for the cellular business in Indonesia. These forecasts and projections reflect management's expectation of revenue growth, operating costs and margins for each cash-generating unit based on past experience. Cash flows beyond the tenth year for the cellular business in Indonesia are extrapolated using estimated terminal growth rates. These rates have been determined with regards to projected growth rates for the respective markets in which the cash-generating units participate and are not expected to exceed the long term average growth rates for those markets. The value-in-use calculation for the TMI Group's cash-generating unit in Indonesia reflects the low penetration of mobile telecommunications in that country and the expectation of strong revenue growth throughout the 10-year plan. Discount rates applied to the cash flow forecasts and projections are derived from the cash-generating units' pre-tax weighted average cost of capital plus a reasonable risk premium at the date of the assessment of the respective cash-generating units. Changing the assumptions selected by management, in particular the discount rate assumptions used in the discounted cash flow model, could significantly affect the TMI Group's results.

Goodwill arising from the acquisition of other subsidiaries of the TMI Group (carrying amount of RM115.7 million) is not material to the overall balance.

### 9.3.5 Income and deferred taxation

Current taxation is determined based on the taxation laws of the countries in which the subsidiaries operate.

As of December 31, 2007, the TMI Group and the Celcom Group had a net deferred taxation liability of RM265.4 million and RM450.0 million, respectively, primarily consisting of property, plant and equipment temporary differences. Each of the TMI Group and the Celcom Group has a significant amount of temporary differences arising from the difference charged and capital allowance claimed on its property, plant and equipment. These temporary taxation differences are provided in full and are recognised as deferred taxation in the consolidated financial statements.

### 9.3.6 Contingent liabilities

There are numerous contingent liabilities in both the TMI Group and the Celcom Group. The management of the TMI Group and the Celcom Group have provided for losses in situations where they have concluded that it is probable that a loss has been or will be incurred and the amount is reasonably estimated. To assist management in forming a view on the litigation cases, external and internal counsels are also consulted. A significant amount of judgment is involved in determining whether a loss is probable and reasonably estimated due to the uncertainty involved in determining the future likelihood of future events and estimating the financial impact of such events. Accordingly, it is possible that upon further development or resolution of a contingent matter, a significant charge could be recorded in a future period relating to an existing contingent matter.

## 9.4 THE TMI GROUP'S MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### 9.4.1 The TMI Group's overview of revenues and costs

**The TMI Group's overview of operating revenues**

The TMI Group's operating revenues increased from RM1,606.4 million in fiscal 2005 to RM4,050.3 million in fiscal 2006, an increase of RM2,443.9 million, or 152.1%, and then increased further to RM4,953.9 million in fiscal 2007, an increase of RM903.6 million, or 22.3%, over fiscal 2006. The significant increase in operating revenues from fiscal 2005 to fiscal 2006 was primarily due to the full year consolidation of XL's revenue in fiscal 2006 of RM2,310.4 million compared to the consolidation of XL's revenues for only 2 months in fiscal 2005 of RM293.6 million. Mobile services have been the principal contributor to the TMI Group's operating revenues, with relatively small contributions to revenue from interconnection services, leased line services, internet and multimedia services and other telecommunication and non-telecommunication services.

***Discussion of principal components of the TMI Group's operating revenues***

The following table sets out the principal components of the TMI Group's operating revenues, in Ringgit Malaysia and also expressed as a percentage of total operating revenues, for the years indicated:

| | For the year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2005 | | 2006 | | 2007 | |
| | (RM in millions, except percentages) | | | | | |
| **Operating Revenue** | | | | | | |
| Prepaid revenue | 873.6 | 54.4% | 2,434.9 | 60.1% | 3,177.3 | 64.1% |
| Postpaid revenue | 421.8 | 26.3% | 658.9 | 16.3% | 670.8 | 13.6% |
| Interconnect revenue | 187.7 | 11.7% | 568.6 | 14.1% | 561.0 | 11.3% |
| International inbound and roaming revenue | 88.9 | 5.5% | 159.9 | 3.9% | 178.1 | 3.6% |
| Others | 34.4 | 2.1% | 228.0 | 5.6% | 366.7 | 7.4% |
| **Total operating revenue** | **1,606.4** | **100.0%** | **4,050.3** | **100.0%** | **4,953.9** | **100.0%** |

The following table indicates the number of subscribers for the TMI Group (including its associates) for the years indicated:

| | As of December 31, | | |
|---|---|---|---|
| | 2005 | 2006 | 2007 |
| | | | (in millions) |
| Prepaid subscribers | 12.7 | 19.1 | 29.3 |
| Postpaid subscribers | 1.1 | 1.6 | 1.7 |
| **Total number of subscribers** | **13.8** | **20.7** | **31.0** |

## 9. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(cont'd)*

The majority of TMI Group's operating revenues comprise revenues derived from the provision of mobile telecommunications services in Indonesia, Sri Lanka and Bangladesh. TMI Group also has subsidiaries and associates in other countries, including Cambodia, India and Singapore. The following table provides a breakdown of the TMI Group's operating revenues from its key markets for the years indicated:

| For the year ended December 31, | XL (Indonesia) | Dialog (Sri Lanka) | TMIB (Bangladesh) | Others | Total |
|---|---|---|---|---|---|
| | | | | (RM in millions) | |
| 2005 | 293.6 | 680.9 | 541.0 | 90.9 | 1,606.4 |
| 2006 | 2,310.4 | 906.7 | 709.6 | 123.6 | 4,050.3 |
| 2007 | 3,011.0 | 1,062.8 | 718.7 | 161.4 | 4,953.9 |

The following table provides a breakdown of the TMI Group's operating profit before finance cost and operating income from its key markets for the years indicated:

| For the year ended December 31, | XL (Indonesia) | Dialog (Sri Lanka) | TMIB (Bangladesh) | Others | Total |
|---|---|---|---|---|---|
| | | | | (RM in millions) | |
| 2005 | 81.6 | 274.5 | 171.7 | (86.9) | 440.9 |
| 2006 | 517.3 | 368.2 | 209.8 | 54.6 | 1,149.9 |
| 2007 | 504.3 | 291.0 | 3.2 | 25.0 | 823.5 |

*Prepaid revenue*

Prepaid revenue consists of revenues from the sale of starter packs and prepaid recharge cards. Revenues from the sale of prepaid starter packs and prepaid recharge cards are deferred and recognised based on the actual use of the cards, net of service taxation/value-added taxation and discounts. Any amounts not recognised are deferred for up to a certain maximum time period (which varies according to the policy of each subsidiary) until the expiration of the prepaid airtime, after which such revenue will be recognised as revenue.

*Postpaid revenue*

Postpaid revenue consists of access fees and airtime revenue, inclusive of connection fees and fees charged for value-added services. Access fees represent monthly fees charged to postpaid subscribers while airtime revenue represents rated call charges for mobile telephony services. Service discounts and incentives are extended to subscribers based on applicable rate plans and the promotional incentives offered. These discounts are accounted for as a reduction in revenue when extended.

*Interconnect, international inbound and roaming revenue*

Interconnect, international inbound and roaming revenue include revenue generated from other carriers and operators for charges on incoming calls terminating on each subsidiaries' network and revenue generated from roaming operators for charges on calls and SMS originated by inbound roamers.

*Others*

Revenues from other operations comprise revenues from fixed line services, leased line services, internet and multimedia services, sale of handsets and accessories and other telecommunication and non-telecommunication services.

### The TMI Group's overview of operating costs

The TMI Group's operating costs have increased from RM1,165.5 million in fiscal 2005 to RM2,900.4 million in fiscal 2006 and RM4,130.4 million in fiscal 2007. Operating costs arise primarily from direct costs of sales, staff costs, maintenance costs, marketing expenses (which includes advertisements and promotions as well as dealers' commissions), other operating costs, depreciation, impairment and amortisation.

***Discussion of principal components of the TMI Group's operating costs***

The following table sets out the principal components of the TMI Group's operating costs, in Ringgit Malaysia and also expressed as a percentage of total operating costs, for the years indicated:

| | For the year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | | 2005 | | 2006 | | 2007 |
| | (RM in millions, except percentages) | | | | | |
| **Operating Costs** | | | | | | |
| Direct costs of sales | 288.6 | 24.8% | 748.3 | 25.8% | 927.6 | 22.4% |
| Staff costs | 101.8 | 8.7% | 290.0 | 10.0% | 337.2 | 8.2% |
| Maintenance | 34.1 | 2.9% | 98.5 | 3.4% | 154.6 | 3.7% |
| Marketing, advertisement and promotion | 196.6 | 16.9% | 406.0 | 14.0% | 552.0 | 13.4% |
| Supplies and inventories | 61.1 | 5.2% | 129.8 | 4.5% | 189.4 | 4.6% |
| Other operating costs | 252.0 | 21.6% | 407.5 | 14.0% | 1,041.0 | 25.2% |
| Depreciation, impairment and amortisation | 231.3 | 19.9% | 820.3 | 28.3% | 928.6 | 22.5% |
| **Total operating costs** | **1,165.5** | **100.0%** | **2,900.4** | **100.0%** | **4,130.4** | **100.0%** |

*Direct costs of sales*

Direct costs of sales include payment for interconnect services to other operators for calls made by the TMI Group's subscribers terminating at such other operators' networks, revenue sharing with third parties (mainly content providers), leased circuit charges, domestic interconnect and international outpayment charges, roaming costs, content costs for internet data services, contribution for USP, outsourcing cost for contact centres, printing and billing, and taxation subsidies for SIM cards.

*Staff costs*

Staff costs consist of salaries and wages, bonuses, allowances, benefits, contributions to the employees' provident fund and expenses for stock options.

*Maintenance costs*

Maintenance costs consist primarily of network and other maintenance costs for TMI Group's network and other equipment.

*Marketing, advertisement and promotion*

Marketing, advertisement and promotion consist primarily of marketing, advertisement and promotion expenditures and dealers/sales commissions paid in respect of the sales of prepaid and postpaid SIM cards.

*Supplies and inventories*

Supplies and inventories consist of the material and packaging costs of SIM cards, starter packs, prepaid cards and recharge cards, cost of fuel and gas consumed at sites, subscriber equipment and office equipment and supplies.

*Other operating costs*

Other operating costs consist of business and other license fees, rent payments for land, buildings, premises and equipment, costs of transportation and travelling, professional and other service charges, other commissions and charges, impairment of goodwill, realised and unrealised foreign exchange gains/(losses), allowance for doubtful debts, amortisation of prepayment of leasehold land rental, penalty/compensation to third parties and utility expenses.

*Depreciation, impairment and amortisation*

The TMI Group's depreciation expense consists primarily of the depreciation of telecommunications network and equipment (including switching and microwave transmission equipment and fiber and trunk networks) and telecommunications plant, property (other than freehold land), and equipment. See "Section 9.3.3 – Property, plant and equipment and depreciation".

The TMI Group's acquired licenses are reflected in its balance sheet at cost. Licenses have finite useful lives and are carried at cost less accumulated amortisation. Amortisation is calculated using a straight-line method, from the effective date of commercialisation of services, subject to impairment, to the end of the assignment period. Licenses are not revalued. XL's 3G spectrum license is reflected in the TMI Group's balance sheet at historical cost and amortised over its estimated useful life of 10 years.

Assets that have an indefinite useful life are not subject to amortisation and are tested for impairment annually, or as and when events or circumstances occur indicating that impairment may exist. Property, plant and equipment and other non-current assets, including intangible assets with definite useful life, are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value-in-use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there is separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered impairment are reviewed for possible reversal at each reporting date.

The impairment loss is charged to the income statement unless it reverses a previous revaluation in which case it is charged to the revaluation surplus. Impairment losses on goodwill are not reversed. In respect of other assets, any subsequent increase in recoverable amount is recognised in the income statement unless it reverses an impairment loss on revalued asset in which case it is taken to revaluation surplus.

**Other operating income**

In addition to the sources of operating revenues discussed above, the TMI Group also realises other income, primarily from the gain on partial disposal of subsidiaries, gain on dilution of subsidiaries, gain on disposal of long term investments and gain on disposal of assets.

**Net finance cost**

TMI Group's net finance cost principally comprises interest on borrowings and interest income on deposits.

**Share of results of jointly-controlled entities**

Jointly-controlled entities are companies, partnerships or other entities over which there is contractually agreed sharing of control by TMI Group with one or more parties where the strategic financial and operational decisions relating to the entity requires unanimous consent of the parties sharing control.

As at December 31, 2007, our Company held an effective interest of 39.2% in Spice through our indirect holding in TMI India via our wholly-owned subsidiary, TMI Mauritius. Under the shareholders' agreement, which our Company and TMI India entered into with the other controlling shareholders of Spice, our Company currently has the right to nominate 3 directors and 1 independent director of Spice, as well as to jointly recommend (together with the other controlling shareholder) the chief executive officer.

**Share of results of associates**

Share of results of associates represents earnings or losses contributed by TMI Group's associates, which are companies, partnerships or other entities over which the TMI Group exercises significant influence but which it does not control, with the TMI Group generally controlling between 20.0% and 50.0% of the voting rights. As of December 31, 2007, the TMI Group's associates were Samart, Samart I-Mobile and MTCE, with the TMI Group holding effective interests therein of 19.0%, 35.6% and 49.0%, respectively.

As of December 31, 2007, the TMI Group directly held a 24.4% equity interest in Samart I-Mobile and an indirect equity interest in Samart I-Mobile of 11.2% by virtue of the TMI Group's direct equity interest in Samart.

**Taxation**

Current taxation expense is determined according to the taxation laws of each jurisdiction in which the TMI Group operates and includes all taxes based upon taxable profits, including withholding taxes payable by foreign subsidiaries on dividends paid to our Company, jointly-controlled entities and associates on distributions of retained earnings to other companies in the TMI Group, and real property gains taxes payable on disposal of properties. Our Company's share of income taxes of jointly-controlled entities and associates are included in its share of results of jointly-controlled entities and associates.

Under an agreement entered into between Dialog and the Board of Investment of Sri Lanka ("BOI"), Dialog is exempt from income taxation for 15 years, commencing either from the year in which Dialog first makes a profit, or in the fifth year subsequent to the start of its commercial operations, whichever is earlier. Dialog commenced commercial operations in 1995 and profits were first recorded for the year ended December 31, 1998. Accordingly, the taxation exemption period commenced on January 1, 1998 and will continue to be in place until December 31, 2012. During such period, any dividends paid by Dialog to non-resident shareholders are also exempt from income taxation. As a result of the exemption granted by the BOI, Dialog's current taxation liability is limited only to interest income earned from fixed and call deposits, which income is subject to taxation at the statutory rate of 33.3%. Following the end of the tax-exempt period, the agreement provides that Dialog will be subject to income taxation at a rate of 2.0% of its turnover for the 15 years following December 31, 2012, after which Dialog would be subject to income taxation at the then prevailing taxation rates.

Under TMIB's current taxation incentives, it is permitted to claim an initial depreciation allowance at the rate of 25.0% of the value of its telecommunication equipment and 10.0% of the value of its passive infrastructure (such as towers and civil mechanical engineering works) in addition to normal capital allowances in the year the relevant asset becomes available for use.

### 9.4.2 The TMI Group's results of operations

The following table shows the breakdown of certain revenue and cost items of the TMI Group's consolidated income statement as a percentage of its operating revenues for the fiscal years indicated:

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2005 | 2006 | 2007 |
| | % | % | % |
| Operating revenue | 100.0 | 100.0 | 100.0 |
| Operating costs | (72.6) | (71.6) | (83.4) |
| Other operating income | 16.4 | 2.5 | 5.1 |
| Operating profit before finance cost | 43.8 | 30.9 | 21.7 |
| | | | |
| Net finance income/(cost) | 0.1 | (3.7) | (8.5) |
| Share of results of jointly-controlled entities (net of taxation) | - | (0.7) | 2.7 |
| Gain on dilution/disposal of equity interest | 5.3 | - | 1.4 |
| Share of results of associates (net of taxation) | 1.1 | 0.7 | 0.5 |
| Profit before taxation | 50.3 | 27.2 | 17.8 |
| Taxation | (6.2) | (6.9) | (2.7) |
| Profit after taxation | 44.1 | 20.3 | 15.1 |
| | | | |
| Attributable to: | | | |
| Equity holders of our Company | 39.6 | 15.6 | 13.8 |
| Minority interests | 4.5 | 4.7 | 1.3 |
| Profit for the year | 44.1 | 20.3 | 15.1 |

**Fiscal 2007 compared to fiscal 2006**

***Operating revenues***

The TMI Group's operating revenues for fiscal 2007 increased by RM903.6 million, or 22.3%, from RM4,050.3 million in fiscal 2006 to RM4,953.9 million in fiscal 2007, primarily due to a 30.5% increase in revenue from prepaid services. Operating revenues increased in fiscal 2007 across all revenue components, except for interconnection revenue, despite a number of industry-related challenges in Indonesia, Sri Lanka and Bangladesh.

Of the TMI Group's total operating revenues for fiscal 2007, 60.8% was from Indonesia, 21.4% was from Sri Lanka, 14.5% was from Bangladesh, and 3.3% was from other regions, compared to 57.0% for Indonesia, 22.4% from Sri Lanka, 17.5% from Bangladesh and 3.1% from other regions for fiscal 2006. The key components contributing to the movement in operating revenues are as follows:

*Prepaid revenue.* Revenue from prepaid services, which accounted for 64.1% of the TMI Group's operating revenues for fiscal 2007, increased by RM742.4 million, or 30.5%, to RM3,177.3 million in fiscal 2007 from RM2,434.9 million in fiscal 2006. The increase was primarily attributed to an increase of 37.6% and 33.9% in XL's and Dialog's revenues from prepaid services, respectively. The growth in prepaid revenue at XL was due to a significant increase in its subscriber base and higher MOU of subscribers. Dialog's increased revenue from prepaid services was due to a 40.8% increase in its prepaid subscriber base to 3.7 million as of December 31, 2007 from 2.6 million as of December 31, 2006.

*Postpaid revenue.* Revenue from postpaid services, which accounted for 13.6% of the TMI Group's operating revenues for fiscal 2007, increased slightly by RM11.9 million, or 1.8%, to RM670.8 million in fiscal 2007 from RM658.9 million in fiscal 2006. XL recorded a 20.1% increase in revenue from postpaid services largely as a result of a 24.3% increase in its postpaid subscribers registered in fiscal 2006, which more than offset the reduction in its postpaid ARPU during that period. However, the 20.1% increase in XL's postpaid revenues was largely offset by reductions in postpaid services revenue of 6.0% at Dialog and 16.4% at TMIB. The 16.4% decrease in revenue from postpaid services at TMIB was a result of the market trend away from postpaid services and towards prepaid services. A substantial number of TMIB postpaid subscribers opted under the terms of their contracts to switch to a version of TMIB's prepaid services launched in 2007.

*Interconnect, international inbound and roaming revenue.* Revenue from interconnection services decreased slightly by RM7.6 million, or 1.3%, from RM568.6 million in fiscal 2006 to RM561.0 million in fiscal 2007. This was primarily due to a reduction in interconnection tariffs, particularly in Indonesia and Bangladesh. Revenue from international inbound and roaming services increased slightly by RM18.2 million, or 11.4%, to RM178.1 million in fiscal 2007 from RM159.9 million in fiscal 2006, primarily due to a 20.8% increase in revenue from international inbound and roaming services at XL due to a wider coverage area of its network, an increase in its subscriber base and the depreciation of the IDR against the USD as the original currency of most of the international roaming was the USD.

*Others.* Revenue from other telecommunication and non-telecommunication services increased by RM138.7 million, or 60.8%, from RM228.0 million in fiscal 2006 to RM366.7 million in fiscal 2007, primarily as a result of an increase in the number of XL's subscribers from its leased line, internet service provider and MPLS businesses. The increase was also driven by Dialog's successful launching of its CDMA WLL Fixed Line and WiMax Broadband Wireless Access Network in fiscal 2007, and by a growing subscriber base for Dialog TV in fiscal 2007, the first year of post-acquisition operations, both of which contributed to an increase in Dialog's other revenue.

In Sri Lanka, although Dialog's revenues were higher in fiscal 2007 than in fiscal 2006, they were adversely impacted by the intermittent disruption of its services in the country's Northern and Eastern provinces of Sri Lanka during the first half of fiscal 2007 and reduced tourist travel to Sri Lanka, thus reducing the potential international roaming revenues. In Bangladesh, TMIB encountered challenges in the area of VoIP regulation and pricing. In Indonesia, with the existence of 11 mobile service providers offering more than 20 products in the market, XL faced intense competition in fiscal 2007.

The strengthening of the Ringgit Malaysia against other local currencies in fiscal 2007 also adversely affected the TMI Group's results. The stronger Ringgit Malaysia in fiscal 2007 resulted in revenues being 7.9% lower than they would have been had the Ringgit Malaysia remained unchanged against the other local currencies during fiscal 2007.

***Operating costs***

Operating costs increased by RM1,230.0 million, or 42.4%, from RM2,900.4 million recorded in fiscal 2006 to RM4,130.4 million in fiscal 2007, as a result of increase in costs across all of the TMI Group's cost components. The TMI Group's costs in fiscal 2007 were adversely affected by the foreign exchange losses predominantly arising from XL's USD-denominated debt, TMIB's recognition of an administrative fine by the local government of Bangladesh of RM72.4 million for revenue loss and the recognition of XL's withholding tax on USD bond interest for the period from 2004 to 2007 (including penalty). Operating costs increased as a percentage of operating revenue from 71.6% in fiscal 2006 to 83.4% in fiscal 2007, primarily as a result of the significant changes in various cost items as discussed below.

*Direct costs of sales.* Direct costs of sales increased by RM179.3 million, or 24.0%, from RM748.3 million in fiscal 2006 to RM927.6 million in fiscal 2007, mainly as a result of higher interconnection charges in line with the expansion of the TMI Group's businesses and increased revenues.

*Staff costs.* Staff costs increased by RM47.2 million, or 16.3%, from RM290.0 million in fiscal 2006 to RM337.2 million in fiscal 2007, primarily as a result of a 22.3% increase in the number of employees of the TMI Group from 6,889 in 2006 to 8,423 in 2007.

*Maintenance.* Maintenance cost increased by RM56.1 million, or 57.0%, from RM98.5 million in fiscal 2006 to RM154.6 million in fiscal 2007. This increase was in line with the network expansions and the increases in the number of BTS across most of the TMI Group's subsidiaries. An additional 5,433 BTS were installed in 2007 by the TMI Group, 71.7% of which were installed by XL.

*Marketing, advertisement and promotion.* Marketing, advertisement and promotion expenses increased by RM146.0 million, or 36.0%, from RM406.0 million in fiscal 2006 to RM552.0 million in fiscal 2007. XL and Dialog registered higher advertising and promotional cost following increased promotions, new pricing strategies, branding activities and changes in their distribution systems. XL, Dialog and TMIB also embarked on aggressive efforts to secure and retain subscribers which resulted in an increase in dealers' commission of RM95.0 million, or 46.2%, from RM205.6 million in fiscal 2006 to RM300.6 million in fiscal 2007.

*Supplies and inventories.* Cost of supplies and inventories increased by RM59.6 million, or 45.9%, from RM129.8 million in fiscal 2006 to RM189.4 million in fiscal 2007. The increase was mainly attributable to the increase in cost of prepaid cards, especially in XL, and rising cost of fuel and gas consumed at sites in most of the countries in which we operate.

*Other operating costs.* Other operating costs increased by RM633.5million, or 155.5%, from RM407.5 million in fiscal 2006 to RM1,041.0 million in fiscal 2007. The increase in other operating costs was in significant part due to a foreign exchange loss of RM133.0 million in fiscal 2007 as compared to a gain of RM117.3 million in 2006, predominantly arising from XL's USD-denominated debt. Over the course of fiscal 2007, the IDR depreciated by 4.4% from IDR9,020 : USD1.00 as of December 31, 2006 to IDR9,419 : USD1.00 as of December 31, 2007. The increase was also in part due to TMIB's recognition of an administrative fine by the local government of Bangladesh of RM72.4 million for revenue loss, a RM21.8 million penalty paid by XL for the withholding tax on USD bond interest for the period of 2004 to 2007 (withholding taxation on the USD bonds interest is recognised as interest expense in net finance cost) and higher business license fees by RM115.8 million in fiscal 2007 mainly resulting from XL's higher frequency fees in fiscal 2007 in line with its 53.7% increase in its number of BTS.

*Depreciation, impairment and amortisation.* Total depreciation increased by RM100.2 million, or 12.5%, from RM802.4 million in fiscal 2006 to RM902.6 million in fiscal 2007, reflecting increased capital expenditures for the expansion of the TMI Group's networks. A significant portion of the increase in depreciation came from TMIB, which had depreciation increase by RM74.1 million, or 73.2%, from RM101.2 million recorded in fiscal 2006 to RM175.3 million in fiscal 2007, as a result of its increased telecommunication equipment and infrastructure. Amortisation of intangible assets increased by RM2.0 million, or 11.4%, from RM17.8 million in fiscal 2006 to RM19.9 million in fiscal 2007, respectively. In fiscal 2007, impairment of property, plant and equipment and write off of property, plant and equipment were RM4.4 million and RM1.7 million, respectively.

***Other operating income***

Other operating income increased from RM103.3 million in fiscal 2006 to RM252.1 million in fiscal 2007. The increase in other operating income was primarily due to a gain of RM234.8 million on the sale by TMIL of shares of Dialog equal to 4.6% of the outstanding shares of Dialog as part of efforts to boost the liquidity of Dialog's shares on the Colombo Stock Exchange. In fiscal 2006, other operating income included a gain of RM77.4 million on the disposal by the TMI Group of its investment in Ghana Telecommunications Company Limited.

***Net finance costs***

Net finance costs increased by RM270.6 million, or 178.3%, from RM151.8 million in fiscal 2006 to RM422.4 million in fiscal 2007. The increase in net finance costs was mainly due to the recognition of XL's withholding tax on USD bonds interest for the period of 2004 to 2007, which amounted to RM116.9 million (the penalty on XL's withholding tax on the USD bonds interest is recognised in other operating cost), an increase in XL's interest expense as a result of new debt issued in fiscal 2007 and the increase in TMIB's net finance cost from RM11.0 million in fiscal 2006 to RM59.5 million in fiscal 2007 due to an increase in its short term borrowings.

In June 2006, XL received its 2004 tax assessment letter from the Directorates General for Taxation ("DGT") on withholding tax ("WHT") applicable to XL's offshore interest at a rate of 10%. XL had submitted an objection letter to the tax authority on its decision, but the objection was subsequently rejected and XL was requested to pay the WHT at a 20% rate. The WHT and its related penalty for the 2004 assessment amounted to RM19.0 million and RM6.8 million respectively. For 2005, the DGT requested XL to pay WHT at a rate of 20%. XL had submitted an objection letter for the 2005 tax assessment as well. For 2006 and 2007, XL voluntarily made the payment for the WHT in August 2007 to prevent potential penalties. In total, XL had recorded a total sum of RM138.7 million covering the WHT of RM116.9 million and penalty of RM21.8 million for the 2004 to 2007 period. However, XL is currently in the process of appealing and re-appealing to the tax court on the 2004 and 2005 assessment results.

***Share of results of jointly-controlled entities***

The share of results in jointly-controlled entities, principally Spice, increased significantly from a loss of RM27.4 million in fiscal 2006 to a gain of RM133.3 million in fiscal 2007. The improved performance at Spice was largely because of a 55.1% increase in its subscriber base (from 2.45 million subscribers as of December 31, 2006 to 3.8 million subscribers as of December 31, 2007), wider population coverage from its increased number of BTS and gains on sales of some of its telecommunication towers. In addition, in fiscal 2007, the TMI Group registered a gain of RM71.3 million on the initial public offering of Spice on the Bombay Stock Exchange Limited.

***Share of results of associates***

The TMI Group's share of results of associates decreased 15.1% from RM28.5 million in fiscal 2006 to RM24.2 million in fiscal 2007, primarily due to the lower profit contribution from Samart in fiscal 2007 of RM11.6 million as compared to RM29.2 million in fiscal 2006. This decrease was partially offset by the increase in the share of results of other associates of the TMI Group in fiscal 2007 as compared to fiscal 2006.

***Profit before taxation***

As a result of the reasons discussed above, the TMI Group's profit before taxation decreased by RM220.5 million, or 20.0%, from RM1,102.5 million in fiscal 2006 to RM882.0 million in fiscal 2007.

***Taxation***

Taxation expenses, comprising taxes on current year income, under or over provision of the previous year and deferred taxation, decreased by RM147.3 million, or 52.3%, from RM281.7 million in 2006 to RM134.4 million in fiscal 2007, mainly due to the lower deferred taxation expenses in TMIB and XL by RM95.4 million and RM50.9 million respectively.

***Profit after taxation***

As a result of the reasons discussed above, the TMI Group's profit after taxation decreased by RM73.2 million, or 8.9%, from RM820.8 million in fiscal 2006 to RM747.6 million in fiscal 2007.

***Minority interests***

Profit attributable to minority interests decreased to RM64.1 million in fiscal 2007 from RM191.5 million in fiscal 2006, primarily as a result of XL's lower profit after taxation of RM59.6 million in fiscal 2007 as compared to RM248.0 million in fiscal 2006 and TMIB's loss after taxation of RM62.9 million in fiscal 2007 as compared to profit after taxation of RM85.9 million in fiscal 2006.

***PATAMI***

As a result of the reasons discussed above, PATAMI increased by RM54.2 million, or 8.6%, from RM629.3 million in fiscal 2006 to RM683.5 million in fiscal 2007.

**Fiscal 2006 compared to fiscal 2005**

***Operating revenues***

The TMI Group's operating revenues for fiscal 2006 increased by RM2,443.9 million, or 152.1%, from RM1,606.4 million in fiscal 2005 to RM4,050.3 million in fiscal 2006, primarily due to the full year consolidation of XL's revenue in fiscal 2006 of RM2,310.4 million compared to the consolidation of XL's revenues for only 2 months in fiscal 2005 of RM293.6 million. Other factors contributing to the increase in operating revenues include:

*Prepaid revenue.* Revenue from prepaid services, which accounted for 60.1% of the TMI Group's operating revenue for fiscal 2006, increased by RM1,561.3 million, or 178.7%, from RM873.6 million in fiscal 2005 to RM2,434.9 million in fiscal 2006. Besides the consolidation of XL's full year results in fiscal 2006, the growth was also attributed to increases in prepaid revenues from Dialog and TMIB. Aggressive promotions and advertising and intensive network rollouts by most of TMI's subsidiaries also enabled the TMI Group to increase its total subscriber base by approximately 50.0% during this period. An increase in subscriber MOU also contributed to the increase in revenue from prepaid services.

*Postpaid revenue.* Revenue from postpaid services, which accounted for 16.3% of the TMI Group's operating revenue for fiscal 2006, increased by RM237.1 million, or 56.2%, from RM421.8 million in fiscal 2005 to RM658.9 million in fiscal 2006. Besides the consolidation of XL's full year results in fiscal 2006, the increase in postpaid revenue was driven mainly by Dialog's improved network coverage and introduction of technology-based products, resulting in an increase in Dialog's number of postpaid subscribers in fiscal 2006.

*Interconnect, international inbound and roaming revenue.* Revenues from interconnection, international inbound and roaming services increased by RM451.9 million, or 163.4%, from RM276.6 million in fiscal 2005 to RM728.5 million in fiscal 2006. In addition to the impact of the consolidation of XL's full year results in 2006, the increase was also partly due to an increase in the number of Dialog's roaming partners which resulted in higher incoming traffic terminating on Dialog's network. The increase in mobile users in Bangladesh generally, as well as TMIB's enlarged subscriber base, also led to an increase in the number of minutes being terminated on TMIB's network, contributing to the TMI Group's higher interconnect, international inbound and roaming revenue in fiscal 2006.

*Others.* Revenue from other telecommunications and non-telecommunications services increased by RM193.6 million, or 562.8%, from RM34.4 million in fiscal 2005 to RM228.0 million in fiscal 2006, as a result of the full year consolidation of XL's results in fiscal 2006 which accounted for an additional RM157.3 million in revenues from such other services. Increases in the number of leased-lines and ISP subscribers of XL's business solutions unit in fiscal 2006 also contributed to the increase in revenue from leased lines and internet services.

***Operating costs***

Operating costs increased by RM1,734.9 million, or 148.9%, from RM1,165.5 million in fiscal 2005 to RM2,900.4 million in fiscal 2006, primarily due to higher direct costs of sales and depreciation, impairment and amortisation expenses. The full year consolidation of XL's results for fiscal 2006 contributed significantly to the increase in operating costs. A breakdown of the movement in the key components of operating costs is set out below:

*Direct costs of sales.* Direct costs of sales increased by RM459.7 million, or 159.3%, from RM288.6 million in fiscal 2005 to RM748.3 million in fiscal 2006, mainly as a result of higher interconnection charges in line with the expansion of the TMI Group's business and increased revenues, including the consolidation of XL's results for the full year in fiscal 2006. The increase in direct costs of sales was also partly attributable to the imposition of new government-imposed levies in Bangladesh for new connections, which resulted in TMIB reporting an approximate 88.2% growth in its direct costs of sales for fiscal 2006.

*Staff costs.* Staff costs increased by RM188.2 million, or 184.9%, from RM101.8 million in fiscal 2005 to RM290.0 million in fiscal 2006. The higher staff costs were mainly due to an increase in the number of employees of the group in line with the growth of the TMI Group's businesses, including the consolidation of XL's results for the full year in fiscal 2006.

*Maintenance.* Maintenance increased by RM64.4 million, or 188.9%, from RM34.1 million in fiscal 2005 to RM98.5 million in fiscal 2006. This was mainly as a result of the expansion of the TMI Group's networks and the addition of 4,546 BTS in fiscal 2006, including the expansions and additions due to the acquisition of XL.

*Marketing, advertisement and promotion.* Advertising and promotion expenses increased by RM121.4 million, or 153.7%, from RM79.0 million in fiscal 2005 to RM200.4 million in fiscal 2006, while dealers commission recorded an increase of RM88.0 million, or 74.8%, from RM117.6 million to RM205.6 million in fiscal 2006 primarily attributable to the consolidation of XL's full year results in fiscal 2006. XL's advertising and promotional expenses and dealers commission for the full year of fiscal 2006 were respectively RM108.1 million and RM114.8 million higher than the 2 months consolidation in fiscal 2005, respectively.

*Supplies and inventories.* Cost of supplies and inventories increased by RM68.7 million, or 112.4%, from RM61.1 million in fiscal 2005 to RM129.8 million in fiscal 2006. This was in significant part due to the increase in cost of prepaid cards by RM52.8 million primarily attributable to the consolidation of XL's full year results in fiscal 2006. Cost of prepaid cards recorded for XL was RM10.0 million and RM49.9 million in fiscal 2005 and 2006, respectively.

*Other operating costs.* Other operating costs increased by RM155.5 million, or 61.7%, from RM252.0 million in fiscal 2005 to RM407.5 million in fiscal 2006. This was mainly attributable to an increase in business license fees, rental charges, utilities and professional fees. XL's business license fees of RM74.3 million accounted for approximately 18.2% of the TMI Group's total other operating costs in fiscal 2006. The increase in other components of other operating costs in fiscal 2006, as discussed above, was partly offset by an unrealised foreign exchange gain, predominantly arising from XL's USD-denominated debt, as a result of a strengthening of the IDR against the USD.

*Depreciation, impairment and amortisation.* Total depreciation charges increased by RM571.1 million, or 246.9%, from RM231.3 million in fiscal 2005 to RM802.4 million in fiscal 2006, primarily due to the consolidation of XL's results for the full year 2006. XL recorded RM574.0 million in depreciation charges in fiscal 2006 as compared to the consolidation of 2 months of XL's depreciation charges in fiscal 2005 of RM73.5 million. Dialog and TMIB also registered higher depreciation charges that were RM22.1 million and RM43.6 million, respectively, higher in fiscal 2006 than in fiscal 2005, in line with their significant capital expenditures for aggressive network expansion. The full year consolidation of XL's results in fiscal 2006 accounted for RM15.9 million of the total amortisation charges of RM17.8 million in fiscal 2006.

***Other operating income***

Other operating income decreased from RM263.0 million in fiscal 2005 to RM103.3 million in fiscal 2006. In fiscal 2005, the TMI Group recorded a RM259.0 million gain on the dilution/partial disposal of its investment in Dialog pursuant to the listing of Dialog on the Colombo Stock Exchange. As a result of the listing of Dialog, TMI's equity interest in Dialog was reduced from 100.0% to 90.1%. In fiscal 2006, other operating income included a gain of RM77.4 million on the disposal by the TMI Group of its investment in Ghana Telecommunications Company Limited.

***Net finance costs***

In fiscal 2006, the TMI Group recorded RM151.8 million of net finance expense, as compared to RM1.4 million of net finance income in fiscal 2005. This was mainly attributable to the full year consolidation of XL's results, which accounted for RM126.7 million of the higher net finance costs.

***Share of results of jointly-controlled entities***

The share of losses of RM27.4 million from jointly-controlled entities in fiscal 2006 was primarily as a result of TMI Group's share of losses of Spice, in which TMI Group acquired an equity interest in early 2006.

***Share of results of associates/gains on disposal/dilution of associates***

TMI Group's share of results of associates increased from RM18.3 million in fiscal 2005 to RM28.5 million in fiscal 2006. Share of results of associates in fiscal 2005 included TMI Group's share of XL's losses. TMI Group's share of results of associates in fiscal 2006 was attributable to the share of Samart's profits of RM29.1 million, the share of MTCE's profits of RM2.9 million and the share of losses of Samart I-Mobile of RM3.5 million.

In 2005, TMI Group also recorded a RM82.7 million gain on dilution of XL arising from XL's issuance of new shares at the time of its listing on the Jakarta Stock Exchange.

***Profit before taxation***

As a result of the reasons discussed above, TMI Group's profit before taxation increased by RM294.4 million, or 36.4%, from RM808.1 million in fiscal 2005 to RM1,102.5 million in fiscal 2006.

***Taxation***

Taxation expenses increased by RM182.2 million, or 183.1%, from RM99.5 million in fiscal 2005 to RM281.7 million in fiscal 2006, primarily as a result of an approximate 36.4% growth in profit before taxation in fiscal 2006 and an increase in fiscal 2006 in provisions for deferred taxes of RM265.6 million as compared to RM86.9 million in fiscal 2005.

As of December 31, 2006, XL recognised deferred taxation charges amounting to RM163.2 million mainly arising from the difference between commercial and fiscal depreciation and amortisation, as compared to RM13.9 million recognised in 2005. This was due to the significant purchases of network equipment and installation of BTS in 2006.

***Profit after taxation***

As a result of the reasons discussed above, the TMI Group's profit after taxation increased by RM112.2 million, or 15.8%, from RM708.6 million in fiscal 2005 to RM820.8 million in fiscal 2006.

***Minority interests***

Profit attributable to minority interests increased from RM72.3 million in fiscal 2005 to RM191.5 million in fiscal 2006, primarily as a result of a higher minority interest in XL as a result of the full year consolidation of XL's results in fiscal 2006.

***PATAMI***

As a result of the reasons discussed above, PATAMI decreased by RM7.0 million, or 1.1%, from RM636.3 million in fiscal 2005 to RM629.3 million in fiscal 2006.

### 9.4.3 The TMI Group's liquidity and capital resources

The TMI Group's principal sources of liquidity have been cash from operations, cash advances from TM (our parent company prior to the Pre-Listing Restructuring), short term borrowings under working capital and trade financing facilities, suppliers' credit and long term borrowings. In the last 3 fiscal years, the TMI Group's principal capital requirements have been for the funding of its operations, capital expenditures on network expansion and upgrading, as well as acquisitions of new operations and licenses. We expect that our Group will have similar principal sources of liquidity and funding after completion of the Pre-Listing Restructuring and Acquisition, in addition to our ability to raise funding via the issuance of equity and/or equity-linked securities in our Company after the Listing.

The following table sets out certain information concerning the TMI Group's consolidated cash flows for the years indicated:

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2005 | 2006 | 2007 |
| | | | (RM in millions) |
| Net cash inflows from operating activities | 878.6 | 1,959.8 | 2,186.7 |
| Net cash used in investing activities | (4,013.9) | (4,142.8) | (4,343.4) |
| Net cash from financing activities | 3,672.5 | 1,832.1 | 2,269.7 |
| **Net increase/(decrease) in cash and cash equivalents** | 537.2 | (350.9) | 113.0 |

### (i) Cash flows from operating activities

TMI Group's principal sources of cash flows from operating activities consist of cash flows generated from its subsidiaries' operating activities, mainly receipts from subscribers, partially offset by payments to suppliers and employees. TMI Group's net cash inflows from operating activities were RM878.6 million, RM1,959.8 million and RM2,186.7 million in fiscal 2005, 2006 and 2007, respectively. The increase in net cash inflows from operating activities from fiscal 2005 to fiscal 2007 primarily reflect increased revenues from the TMI Group's telecommunications and interconnection services, principally attributable to the growth in total number of subscribers which, in turn, is in large part due to the acquisition of XL in fiscal 2005.

### (ii) Cash flows used in investing activities

Cash flows used in investing activities were RM4,013.9 million, RM4,142.8 million and RM4,343.4 million in fiscal 2005, 2006 and 2007, respectively. TMI Group's net cash used in investing activities were primarily attributable to capital expenditures, principally the purchase and installation of telecommunications network and equipment to expand the capacity and quality of the TMI Group's subsidiaries' networks, which amounted to RM1,480.9 million, RM3,074.4 million and RM4,266.5 million in fiscal 2005, 2006 and 2007, respectively. The cash outflow in 2005 was also attributable to an investment of RM2,750.6 million (net of cash acquired) relating to the acquisitions of subsidiaries.

### (iii) Cash flows from financing activities

Cash flows generated from financing activities were RM3,672.5 million, RM1,832.1 million and RM2,269.7 million for fiscal 2005, 2006 and 2007, respectively. The cash flows generated during these years were primarily attributable to advances from TM (our parent company prior to the Pre-Listing Restructuring) which amounted to RM2,838.9 million, RM762.4 million and RM465.5 million, in fiscal 2005, 2006 and 2007, respectively, as well as proceeds from borrowings incurred to finance capital expenditures which amounted to RM774.4 million, RM2,222.7 million and RM2,602.2 million, respectively. These were partially offset by the repayment of borrowings.

### (iv) Indebtedness

TMI Group's total indebtedness as of December 31, 2007 and February 29, 2008 are RM4,869.5 million and RM4,756.3 million respectively (all of which are interest-bearing) consisted predominantly of long term borrowings totalling RM3,159.8 million and RM3,533.2 million respectively. The following table sets out a breakdown of TMI Group's consolidated indebtedness as of December 31, 2007:

| | Weighted average rate of finance | Long term | Short term | Total |
|---|---|---|---|---|
| | % | (RM million) | (RM million) | (RM million) |
| **Secured:** | | | | |
| Borrowings from financial institutions | 9.70 | 392.6 | 76.1 | 468.7 |
| Other borrowings[1] | 1.97 | 370.0 | 40.0 | 410.1 |
| **Unsecured:** | | | | |
| Notes and debentures[2] | 8.21 | 1,342.6 | 1,175.0 | 2,517.6 |
| Rated cumulative redeemable preference shares[3] | 18.43 | 137.0 | 15.2 | 152.1 |
| Borrowings from financial institutions | 7.91 | 917.6 | 401.3 | 1,318.9 |
| Bank overdrafts | 19.74 | - | 2.1 | 2.1 |
| **Total borrowings** | | 3,159.8 | 1,709.7 | 4,869.5 |

## 9. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(cont'd)*

**Notes:**

(1) Consists of a RM406.2 million supplier credit that bears 0% interest during the first 2 years and is repayable from 2007 to 2014. This supplier credit is secured by way of fixed charge on property, plant and equipment of TMIB.

(2) Consists of the following notes issued by Excelcomindo Finance Company B.V., a wholly-owned subsidiary of XL: USD250.0 million 7.125% notes due 2013, under which the outstanding debt is RM817.0 million as of December 31, 2007, USD350 million 8.0% notes due 2009, under which the outstanding debt is RM1,175.0 million as of December 31, 2007, and IDR1,500 billion 10.35% notes due 2012, under which the outstanding debt is RM525.6 million as of December 31, 2007. These notes subject XL to certain conditions, including limitations on asset sales and/or leaseback transactions. The USD-denominated notes require that XL maintain a consolidated debt to equity leverage ratio of 4.5, in the case of the notes due 2013, and of 4, in the case of the notes due 2009. The IDR-denominated notes require that XL not incur debt that would cause its debt to adjusted EBITDA ratio to exceed 4.5.

(3) Consists of 5,000 million rated cumulative redeemable preference shares of SLR1 each issued by Dialog.

The following table sets out the TMI Group's gearing ratio for the years indicated:

| | As of December 31, | | |
|---|---|---|---|
| | **2005** | **2006** | **2007** |
| Gearing ratio (times)[1] | 1.01 | 1.06 | 1.29 |

**Note:**

(1) The gearing ratio is the ratio, expressed as a ratio of short term and long term borrowings to total capital and reserves attributable to equity holders of our Company.

The TMI Group's long term borrowings are repayable as follows:

| | As of December 31, 2007 (RM million) |
|---|---|
| After 1 year and up to 5 years | 2,084.7 |
| After 5 years and up to 10 years | 1,075.1 |
| | 3,159.8 |

Significant loan covenants imposed on the TMI Group's loans as of December 31, 2007 are as follows:

| | Covenant ranges |
|---|---|
| Debt/equity ratio | Not exceeding 1.25-2.00:1 |
| Total debt to consolidated adjusted EBITDA ratio | Not exceeding 2.00-5.00:1 |
| Debt/tangible net worth ratio | 2.00:1 at any time |
| Interest coverage ratio | Not be less than 3.00:1 |
| Debt service coverage ratio | Not be less than 1.50:1 |
| Current ratio | Not be less than 1.00:1 |

As of December 31, 2007, the TMI Group's indebtedness was payable in the following currencies:

| | As of December 31, 2007 (RM million) |
|---|---|
| USD | 3,439.4 |
| IDR | 666.4 |
| BDT | 432.6 |
| SLR | 202.3 |
| PKR | 128.8 |
| | 4,869.5 |

There has not been any default by the TMI Group on payments or principal sums for any borrowings from the beginning of fiscal 2007 through the Latest Practicable Date. As of the Latest Practicable Date, the TMI Group is not in breach of any terms and conditions or covenants associated with its credit arrangements or bank loans which could materially affect the TMI Group's financial position or results of operations.

The principal loans held by the TMI Group, and the amounts outstanding thereunder, as of December 31, 2007 were as follows:

***XL***

*USD100.0 million Standard Chartered Bank Indonesia Medium Term Loan Facility*

On January 8, 2007, XL entered into a credit agreement with Standard Chartered Bank Indonesia amounting to USD50.0 million. The facility was subsequently amended on April 8, 2007 and December 26, 2007, increasing the facility to USD100.0 million and changing certain other terms. The facility is available until March 31, 2008, with an automatic extension for an additional period of 6 months unless otherwise amended. The facility has a floating rate of interest at quarterly intervals of 3 months London Interbank Offered Rate ("LIBOR") plus 1.05% margin per annum, and will mature 36 months from each drawdown with bullet repayment in 2010 according to respective drawdown dates. XL made its first drawdown on April 18, 2007 for the full amount available of USD100.0 million.

The facility also includes a bridge loan for the buy-back of existing USD-denominated bonds or repayment of other debt of up to USD110.0 million, which is available until March 31, 2008. The facility has a floating rate of interest of 3 months SIBOR plus 1.25% margin per annum for the first 6 months and quarterly intervals of 3 months SIBOR plus 1.50% margin per annum for the remaining 3 months. The loan will mature 9 months from each drawdown date, but not later than December 31, 2008.

The amount due under this facility as of December 31, 2007 was USD100.0 million, and there is no available capacity to borrow any additional amount.

Under this facility, XL is required to comply with certain conditions, such as XL should not obtain a new debt if it causes the debt to EBITDA ratio to exceed 4.5.

*USD50.0 million Bank Mizuho Indonesia Term Loan Facility*

On January 15, 2007, XL entered into a credit agreement with Bank Mizuho Indonesia amounting to USD50.0 million. The facility was available for drawdown from January 30, 2007 to April 30, 2007. The facility has a floating rate of interest at quarterly intervals of 3 months LIBOR plus 0.95% margin per annum. The loan will mature on January 29, 2010 with bullet repayment.

The amount due under this facility as of December 31, 2007 was USD50.0 million, and there is no available capacity to borrow any additional amount.

*USD50.0 million PT Bank DBS Indonesia Term Loan Facility*

On April 19, 2007, XL entered into a credit agreement with PT Bank DBS Indonesia amounting to USD50.0 million. The facility was available for drawdown until December 30, 2007. The facility has a floating rate of interest at quarterly intervals of 3 months LIBOR plus 1.00% margin per annum. The loan will mature 36 months from the first drawdown date with bullet repayment on April 26, 2010.

The amount due under this facility as of December 31, 2007 was USD50.0 million, and there is no available capacity to borrow any additional amount.

On November 15, 2007, XL signed an amendment to the credit agreement to add another credit facility amounting to IDR700,000,000. The facility is available for drawdown until March 31, 2008. This additional facility has a floating rate of interest at Sertifikat Bank Indonesia rate plus 1.00% margin per annum. The loan will mature 3 years from the first drawdown date. On December 24, 2007, XL signed another amendment to the credit agreement providing that the IDR credit facility amounting to IDR700,000,000 can be drawn down in USD. However, on the ninth month after the first drawdown, XL will be obliged to convert the facility into IDR currency. As of December 31, 2007 the facility has not been drawn down.

*USD30.0 million JPMorgan Chase Bank, National Association Term Loan Facility*

On August 13, 2007, XL entered into a credit agreement with JPMorgan Chase Bank, National Association amounting to USD30.0 million. The facility was available for drawdown until December 31, 2007. Based on the agreement, XL agreed to pay a floating rate of interest at quarterly intervals of 3 months LIBOR plus 1.00% margin per annum. The loan will mature 36 months from the first drawdown date with bullet repayment in 2010 according to respective drawdown dates.

The amount due under this facility as of December 31, 2007 was USD30.0 million, and there is no available capacity to borrow any additional amount.

XL is required to comply with certain conditions, such as XL should not obtain a new debt if it causes the debt to EBITDA ratio to exceed 4.5.

*USD Bonds*

On January 27, 2004, XL's Excelcomindo Finance Company B.V. ("Excelcomindo"), a wholly-owned subsidiary of XL, issued a bond amounting to USD350.0 million valid for 5 years with a coupon of 8%. Interest is payable semi-annually in arrears on January 27 and July 27 of each year commencing July 27, 2004. The notes will mature on January 27, 2009. The amount due under this facility as of December 31, 2007 was USD159.3 million. On January 25, 2008, Excelcomindo completed a buyback of the USD350.0 million bond at a price of 100% of its nominal value.

On January 18, 2006, Excelcomindo issued a second bond amounting to USD250.0 million valid for 7 years with a coupon of 7.125%. Interest is payable semi-annually in arrears on January 18 and July 18 of each year commencing July 18, 2006. The notes will mature on January 18, 2013. The amount due under the notes as of December 31, 2007 was USD250.0 million.

Under the USD250.0 million bond, XL is required to comply with certain conditions, such as limitations on asset sales and/or leaseback transactions, and consolidated leverage ratio not exceeding 4.5.

*IDR1,500 billion Bond*

On April 26, 2007, XL issued an IDR Bond amounting to IDR1,500 billion valid for 5 years with coupon of 10.35%. Interest is payable quarterly in arrears commencing on July 26, 2007. The notes will mature on April 26, 2012.

The amount due under these notes as of December 31, 2007 was IDR1,500 billion.

XL is required to comply with certain conditions, such as limitations on assets sale and/or leaseback transactions, and XL should not obtain another debt which may cause the debt to EBITDA ratio to exceed 4.5.

*Significant subsequent events on XL's principal loans*

(a) On January 7, 2008, XL entered into a foreign currency contract with Standard Chartered Bank to hedge the payment of the quarterly interest of a long term loan in USD amounting to USD97.5 million. Based on the contract commencing on January 7, 2008, XL will pay the interest loan as follows:

| | Creditor | Notional amount | Fixed interest rate | Maturity date of loan principal |
|---|---|---|---|---|
| (i) | JPMorgan Chase Bank | USD15,000,000 | 4.675% | August 30, 2010 |
| (ii) | Standard Chartered Bank | USD30,000,000 | 4.73% | July 26, 2010 |
| (iii) | Standard Chartered Bank | USD10,000,000 | 4.73% | August 9, 2010 |
| (iv) | Standard Chartered Bank | USD10,000,000 | 4.73% | August 16, 2010 |
| (v) | PT Bank DBS Indonesia | USD20,000,000 | 4.635% | April 26, 2010 |
| (vi) | Bank Mizuho Indonesia | USD12,500,000 | 4.575% | January 29, 2010 |

(b) On January 8, 2008, XL terminates one of the forward foreign currency contracts with JPMorgan Securities (S.E.A.) Limited which purpose is to hedge the payment of the long term loan on USD maturing in 2009 amounting to USD25.0 million.

(c) On January 15, 2008, XL withdrew the credit facility from PT Bank DBS Indonesia amounting to IDR700.0 billion.

(d) On January 18, 2008, XL entered into a credit agreement amendment with Standard Chartered Bank as follows:

- to amend the availability period until August 31, 2008 and automatically extend for another 6 months period.

- to add bridging loans facility to retire existing USD bonds and/or other debt amounting to USD110.0 million and maximum IDR1,000.0 billion, can be drawdown in USD and IDR. The facility will be available for drawdown until August 31, 2008, with floating rate of interest at monthly intervals of Sertifikat Bank Indonesia rate plus 1.10% margin per annum.

  On January 22, 2008, XL made drawdown on credit facility with Standard Chartered Bank amounting to IDR1,000.0 billion.

(e) On January 18, 2008, XL signed a credit facility agreement with Hongkong and Shanghai Banking Corporation Limited amounting to USD50.0 million. The facility will be available for drawdown until 6 months from the signing date. Based on the agreement, XL agrees to pay a floating rate of interest at quarterly intervals of SIBOR plus 1.75% margin per annum. The loan will mature 1 year from the first drawdown date. On January 23, 2008, XL made its first drawdown amounting to USD50.0 million.

(f) On January 21, 2008, XL signed a credit facility agreement with ABN Amro Bank N.V. ("ABN Amro") amounting to USD50.0 million. Based on the agreement, XL agrees to pay a floating rate of interest at quarterly intervals of LIBOR plus 1.20% margin per annum. The loan will mature 1 year from the first drawdown date.

(g) On January 22, 2008, XL made drawdown on credit facility with PT Bank Central Asia Tbk. and ABN Amro amounting to IDR600.0 billion and USD50.0 million each.

(h) On January 25, 2008, XL's subsidiary, Excelcomindo Finance Company B.V. completed its buyback of the USD Bond amounting to USD350.0 million at a price of 100% of the nominal value as declared on December 21, 2007.

***Dialog***

*International Finance Corporation ("IFC") Loan of USD50.0 million with stand-by loan of USD20.0 million*

On September 24, 2007, Dialog entered into a USD50.0 million term loan facility with IFC at an interest rate of LIBOR plus 2.125% margin per annum. The loan will mature on June 15, 2015. The loan is repayable in 12 equal semi-annual instalments commencing in December 2009, and matures on June 15, 2015.

The amount due under the loan as of December 31, 2007 was USD25.0 million.

The significant financial covenants are that Dialog must maintain a long term debt to EBITDA ratio below 2.0, a long term debt to equity ratio not greater than 1.25, a debt service coverage ratio greater than 1.2, a current ratio of not less than 1.0 and total short term debt at any given time not to exceed USD15.0 million.

*Rate Cumulative Redeemable Preference Shares of up to SLR5.0 billion*

On October 23, 2007, Dialog entered into an agreement with certain investors, including banks and financial institutions, through which it raised SLR5.0 billion through an issuance of preference shares.

The shares are redeemable at par according to the following schedule:

| Year | Redemption value per share |
|---|---|
| 2008 | 10% |
| 2009 | 15% |
| 2010 | 25% |
| 2011 | 25% |
| 2012 | 25% |

The shares are mandatorily redeemable on May 31, 2012.

The shares pay a dividend on cumulative basis and payable semi-annually, at the prevailing local base lending rate with a discount of 0.9%. The shares have been classified as liabilities and accordingly, dividends on the shares are recognised in the TMI Group's income statement as finance costs.

***TMIB***

*BDT3.0 billion Term Loan Facility arranged by Standard Chartered Bank*

On March 27, 2006, TMIB entered into a BDT3.0 billion term loan facility arranged by Standard Chartered Bank and syndicated with 18 other loans. TMIB agreed to pay interest of 14.0% per annum at quarterly intervals. The loan matures on May 9, 2011 with quarterly repayments beginning February 9, 2007. The amount due under the facility as of December 31, 2007 was BDT2.3 billion.

*Nederlandse Financeirings-Maatschappij Voor Ontwikkelingslanden N.V ("FMO") BDT equivalent of €18.0 million and FMO and DeG-Deutsche Investitions-und Entwicklungsgesellschaft MBH ("FMO-DEG") USD30.0 million Term Facility*

On February 7, 2006, TMIB entered into a BDT equivalent of €18.0 million facility with FMO. The facility has a margin based on an EBITDA cover ratio (margin range: 0%-8.25%) plus 5.0% and has a term of 10 years, including a 2.5 year grace period. The facility is repayable in 16 semi-annual equal instalments starting on July 15, 2008 and ending on January 15, 2016, being the maturity date. The amount due under the facility as of December 31, 2007 was BDT1,547.5 million.

On February 7, 2006, TMIB also entered into a USD30.0 million facility with FMO (USD15.0 million) and DEG (USD15.0 million). These facilities have a floating rate of interest at half yearly intervals of LIBOR plus 2.75% per annum with a term of 7.25 years, including a 2.75 year grace period. The facility is repayable in 10 semi-annual equal instalments starting on October 15, 2008 and ending on April 15, 2013. The amount due under the facility as of December 31, 2007 was USD30.0 million.

*USD60.0 million China Development Bank ("CDB") and Huawei Tech. Investment Co., Limited ("Huawei") Supplier Credit Facility*

On August 20, 2005, TMIB entered into a USD60.0 million supplier credit facility assignment agreement with CDB and Huawei. The facility has a floating rate of interest at semi-annual intervals of LIBOR plus 2.25% margin per annum with a term of 7 years, including a 2 year grace period. The facility will mature on October 8, 2012. The amount due under the facility as of December 31, 2007 was USD56.6 million.

*USD123.3 million CDB and Huawei Supplier Credit Facility*

On August 20, 2005, TMIB entered into a USD123.3 million supplier credit facility assignment agreement with CDB and Huawei. The facility has a floating rate of interest at semi-annual intervals of LIBOR plus 2.25% margin per annum with a term of 7 years, including a 2 year grace period. The facility matures on August 1, 2015. The amount due under the facility as of December 31, 2007 was USD53.8 million.

***Multinet***

*PKR2,400.0 million The HongKong and Shanghai Banking Corporation Limited, Karachi ("HSBC Karachi") Medium Term Facility*

On June 15, 2007, Multinet obtained a loan of PKR2,400.0 million from HSBC Karachi at a mark-up rate of 6 month KIBOR plus 1.85% margin per annum payable on a quarterly basis. The arrangement is secured by way of standby documentary credit issued by The HongKong and Shanghai Banking Corporation Limited Labuan ("HSBC Labuan") for 115% of the medium term facility drawn down (progressively) totalling USD46.0 million and an unconditional, irrevocable hold cover indemnity from HSBC Labuan covering all outstanding amounts under the medium term loan. The amount due under the loan as of December 31, 2007 was PKR2,400.0 million.

## (v) Capital expenditures

***Fiscal 2005 through fiscal 2007***

The TMI Group's capital expenditures in fiscal 2005, 2006 and 2007 were RM1,443.4 million, RM3,005.0 million and RM3,645.6 million, respectively, a substantial portion of which was for telecommunications networks and additions in capital work in progress which is consistent with the TMI Group's expansion drive in the emerging markets. Significant fiscal 2007 capital expenditure was spent on improving XL's network coverage with 3,897 additional BTS built during 2007 which brought XL's population coverage to 90% as of end of fiscal 2007. Dialog made significant capital expenditures towards the development of its Wireless Broadband Services, CDMA WLL and Fiber Optic Infrastructure in addition to its capital expenditures to grow its mobile communications services. The following table sets out our consolidated capital expenditures for each of fiscal 2005, 2006 and 2007:

| | 2005 | 2006 | 2007 |
|---|---|---|---|
| | | (RM in millions) | |
| Telecommunications network | 454.6 | 1,497.0 | 1,668.8 |
| Land | 17.4 | 107.6 | 2.2 |
| Building | 7.1 | 32.7 | 14.9 |
| Office equipment, furniture & fitting, motor vehicle and renovations | 68.4 | 35.4 | 2.7 |
| Computer support system | 24.1 | 11.7 | 49.1 |
| Capital work in progress | 871.8 | 1,320.6 | 1,907.9 |
| **Total capital expenditure** | **1,443.4** | **3,005.0** | **3,645.6** |

These capital expenditures were funded primarily from internally generated funds and external borrowings by the respective subsidiaries.

***Committed capital expenditures***

The TMI Group's future capital expenditures are expected to relate primarily to the expansion of its existing mobile networks, expansion into new markets, the development of new mobile services and upgrading to new mobile technologies. As of December 31, 2007, the TMI Group has committed capital expenditures as follows:

| | As of December 31, 2007 |
|---|---|
| | (RM million) |
| **Property, plant and equipment** | |
| Approved and contracted for | 2,619 |
| Approved but not yet contracted for | 217 |
| **Total** | **2,836** |

### 9.4.4 TMI Group's contingent liabilities

Save as disclosed below and the TMI Group's contingent liabilities for certain legal proceedings as set out in "Section 11.17 – Legal proceedings and disputes", the TMI Group is not aware of any contingent liabilities, which may, upon becoming enforceable, have a material adverse impact on the profits or net assets of the TMI Group.

TMIL executed a blanket counter indemnity in favour of a financial institution in Labuan for standby letters of credit issued by that financial institution to counter guarantee certain facilities of the TMI Group's subsidiaries. As at December 31, 2007, the amount outstanding under all of the facilities was USD26.5 million. The TMI Group does not anticipate any liability on this blanket counter indemnity.

On April 17, 2008, our Company had issued a corporate guarantee in favour of a facility agent of a financial institution in Mumbai, India to support Spice's short term loan facility of INR1,200.0 million.

## 9.5 THE CELCOM GROUP'S MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### 9.5.1 The Celcom Group's overview of revenues and costs

**The Celcom Group's overview of operating revenues**

The Celcom Group's operating revenues increased from RM4,495.6 million in fiscal 2005 to RM4,526.0 million in fiscal 2006, an increase of RM30.4 million, or 0.7%, and then increased further to RM5,127.0 million in fiscal 2007, an increase of RM601.0 million, or 13.3%. Operating revenues were relatively unchanged between fiscal 2005 and fiscal 2006, which was due to an increase in prepaid revenues that was achieved notwithstanding the enforcement of the new MCMC requirement of subscriber registration that began in fiscal 2006 and decreased the number of prepaid subscribers, largely offset by a decrease in postpaid revenues due to aggressive price competition and a decrease in interconnection revenue due to the MCMC's reduction of call termination rates between domestic operators. The 13.3% increase in operating revenues between fiscal 2006 and fiscal 2007 was primarily due to a significant increase in prepaid revenues driven by an increase in the number of prepaid subscribers. Mobile services have been the principal contributor to the Celcom Group's operating revenues, with relatively small contributions to revenue from interconnection services, leased line and transmission services.

***Discussion of principal components of the Celcom Group's operating revenues***

The following table sets out the principal components of the Celcom Group's operating revenues, in Ringgit Malaysia and also expressed as a percentage of total operating revenues, for the years indicated:

| | For the year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2005 | | 2006 | | 2007 | |
| | (RM in millions, except percentages) | | | | | |
| **Operating Revenue** | | | | | | |
| Prepaid revenue | 2,250.6 | 50.1% | 2,512.6 | 55.5% | 2,960.7 | 57.7% |
| Postpaid revenue | 1,381.1 | 30.7% | 1,271.3 | 28.1% | 1,338.5 | 26.1% |
| Interconnect revenue | 578.8 | 12.9% | 424.0 | 9.4% | 478.7 | 9.4% |
| International roaming | 209.5 | 4.6% | 233.5 | 5.1% | 242.6 | 4.7% |
| Others | 75.6 | 1.7% | 84.6 | 1.9% | 106.5 | 2.1% |
| **Total operating revenue** | **4,495.6** | **100.0%** | **4,526.0** | **100.0%** | **5,127.0** | **100.0%** |

The following table indicates the number of subscribers for the Celcom Group for the years indicated:

| | As of December 31, | | |
|---|---|---|---|
| | 2005 | 2006 | 2007 |
| | | | (in millions) |
| Prepaid subscribers | 5.7 | 4.9 | 5.9 |
| Postpaid subscribers | 1.1 | 1.2 | 1.3 |
| **Total number of subscribers** | **6.8** | **6.1** | **7.2** |

*Prepaid revenue*

Prepaid revenue consists of revenues from the sale of starter packs and prepaid recharge cards. Revenues from the sale of prepaid starter packs and prepaid phone cards are deferred and recognised as revenue based on the actual use of the cards, net of service tax/value added tax and discounts. Any amounts not recognised are deferred for up to a certain maximum time period from the expiration of the prepaid airtime, after which such revenue will be recognised as revenue.

*Postpaid revenue*

Postpaid revenue consists of access fees and airtime revenue, inclusive of connection fees and fees charged for value-added services. Access fees represent monthly fees charged to postpaid subscribers while airtime revenue represents rated call charges for mobile telephony services. Service discounts and incentives are extended to subscribers based on applicable rate plans and the promotional incentives offered. These discounts are accounted for as a reduction in revenue when extended.

*Interconnect and roaming revenue*

Interconnect and roaming revenue include revenue generated from other carriers and operators for charges on incoming calls terminating on the Celcom Group's network and revenue generated from roaming operators for charges on calls and SMS originated by inbound roamers.

*Others*

Revenues from other operations represent transmission revenues which mainly comprise revenues from the provision of fiber optic transmission network services and the provision of network transmission-related services.

**The Celcom Group's overview of operating costs**

Celcom Group's operating costs have decreased from RM4,416.0 million in fiscal 2005 to RM3,392.1 million in fiscal 2006, and then increased to RM3,763.5 million in fiscal 2007. Operating costs arise primarily from direct costs of sales, staff costs, marketing expenses (which include advertisements and promotions as well as dealers' commissions), expenses for supplies and materials, other operating costs such as network repair and maintenance, utilities, bad debt expenses, depreciation charges relating to telecommunications assets and amortisation.

***Discussion of principal components of the Celcom Group's operating costs***

The following table sets out the principal components of the Celcom Group's operating costs, in Ringgit Malaysia and also expressed as a percentage of total operating costs, for the years indicated:

| | For the year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2005 | | 2006 | | 2007 | |
| | (RM in millions, except percentages) | | | | | |
| **Operating Costs** | | | | | | |
| Direct costs of sales | 889.1 | 20.1% | 1,000.8 | 29.5% | 1,047.9 | 27.9% |
| Staff costs | 252.8 | 5.7% | 231.0 | 6.8% | 279.1 | 7.4% |
| Maintenance costs | 240.8 | 5.5% | 308.0 | 9.1% | 315.6 | 8.4% |
| Marketing, advertisement and promotion | 471.5 | 10.7% | 475.3 | 14.0% | 515.4 | 13.7% |
| Supplies and materials | 62.2 | 1.4% | 57.9 | 1.7% | 42.0 | 1.1% |
| Other operating costs | 610.9 | 13.8% | 511.1 | 15.1% | 708.5 | 18.8% |
| Depreciation | 864.2 | 19.6% | 808.0 | 23.8% | 855.0 | 22.7% |
| Amortisation | 109.4 | 2.5% | - | - | - | - |
| Provision for a claim | 915.1 | 20.7% | - | - | - | - |
| **Total operating costs** | **4,416.0** | **100.0%** | **3,392.1** | **100.0%** | **3,763.5** | **100.0%** |

*Direct costs of sales*

Direct costs of sales include payment for interconnect services to other operators for calls made by the Celcom Group's subscribers terminating at such other operators' networks, revenue sharing with third parties (mainly content providers), leased line charges, roaming charges paid to overseas mobile telecommunications operators for calls made by the Celcom Group's subscribers using their networks, and contributions to the USO fund.

*Staff costs*

Staff costs consist of salaries and wages, bonuses, allowances, benefits, contributions to the employees' provident fund and expenses for stock options.

*Maintenance costs*

Maintenance costs consist primarily of network and other maintenance costs for the Celcom Group's network and other equipment.

*Marketing, advertisement and promotion*

Marketing, advertisement and promotion consist primarily of marketing, advertising and promotional expenditures and dealers/sales commissions paid in respect of new product registrations as well as the sales of prepaid and postpaid product packages.

*Supplies and materials*

Supplies and materials consist of the material and packaging costs of SIM cards, starter packs, prepaid cards and recharge cards.

*Other operating costs*

Other operating costs primarily consist of impairment of identified network assets, expenses for rental and utilities, costs related to outsourcing of call centre services, legal and professional fees, allowance for doubtful debts and business license as well as apparatus assignment fees.

*Depreciation*

The Celcom Group's depreciation expense consists primarily of the depreciation of telecommunications network and equipment, and non-telecommunications plant, property (other than freehold land), and equipment. See "Section 9.3.3 – Property, plant and equipment and depreciation".

*Amortisation*

Prior to fiscal year 2006, goodwill on the acquisitions of subsidiaries arising on or after January 1, 2003 were included in the Celcom Group's balance sheet at cost less accumulated amortisation. Amortisation is calculated using a straight-line method over the estimated useful lives of the relevant assets. From January 1, 2006, in accordance with FRS 3 "Business Combinations", Celcom Group ceased to amortise goodwill and, instead, goodwill is capitalised and stated at cost less accumulated impairment. The Celcom Group's amortisation costs from fiscal 2006 are charged to operating expenses.

*Provision for a claim*

The provision for claims for fiscal 2005 was RM915.1 million, which mainly comprised damages claimed by DeTeAsia Holding GmbH ("DeTeAsia") for an alleged breach by Celcom of the terms of an amended and restated supplemental agreement dated April 4, 2002 among TRI, DeTeAsia, Celcom and TRIL, amounting to USD232.0 million (approximately RM871.7 million based on the then prevailing exchange rate). The remaining RM43.4 million comprised estimated arbitration costs, legal fees and other related costs and taxation thereon.

On January 27, 2006, Celcom paid USD232.0 million (approximately RM871.7 million based on the then prevailing exchange rate) under an arbitral award in favour of DeTeAsia, and DeTeAsia accordingly withdrew an injunction prohibiting Celcom from removing any of its assets from England and Wales up to the value of USD232.0 million on February 1, 2006 and its application for a Mareva injunction on February 2, 2006. There were no further claims by DeTeAsia pursuant to the arbitration proceeding, except DeTeAsia's solicitors' costs in relation to the injunctive proceeding in England and Wales.

**Other operating income**

The Celcom Group also realises other income, primarily from USO grants, waiver of debts on settlement, insurance claims, stamp duty refunds, penalties charged to content providers for unauthorised activities such as spamming, and long outstanding unidentified collections recognised as other income. Apart from the USO grants, these miscellaneous items are generally non-recurrent or one-off transactions.

**Net finance income/(expenses)**

The Celcom Group's net finance income/(expenses) is principally comprised profits payable on Islamic debt securities, interest expense on borrowings and interest income on deposits.

**Share of results of associated companies**

Share of results of associated companies represents earnings or losses contributed by Celcom Group's associates. As of December 31, 2007, Celcom Group's associated companies were Sacofa and C-Mobile. Celcom has a 20.0% equity interest in Sacofa, a telecommunications infrastructure and services company. Celcom Group has a 49.0% equity interest in C-Mobile, a company incorporated on January 9, 2007 which is setting up a distribution network of dealers and concept retail stores for the Celcom Group's products.