BIBLIOGRAPHIC INFORMATION

Title	Political Business in Sarawak: Productive or Lumpen Capitalist?
Source	http://phuakl.tripod.com/pssm/conference/day27.doc
Author 1	Andrew Aeria
Author 2	NA
Author 3	NA
Publication/Conference	4th International Malaysian Studies Conference; 3-5 August 2004, Universiti Kebangsaan Malaysia, Bangi
Edition	NA
Document Type	Article
CPI Primary Subject	East Malaysia
CPI Secondary Subject	Sarawak; Political Economy ; ;
Geographic Terms	Sarawak;

Abstract

This paper shall thus examine and discuss a few key corporate groupings in Sarawak with close links either to the previous or current political leadership of the state and how they have managed to promote economic growth and development via industrialisation.

Political Business in Sarawak: Productive or Lumpen Capitalist?

Andrew Aeria*
Faculty of Social Sciences
University Malaysia Sarawak
aeria@fss.unimas.my

(DRAFT. PLEASE DO NOT QUOTE WITHOUT PERMISSION OF AUTHOR.)

Introduction

It is presently almost axiomatic in Malaysia that politicians are linked to corporate personalities in symbiotic and mutually beneficial relationships. Some politicians are in politics for their personal and family gain, often resorting to the levers and agencies of state to ensure patronage for companies linked to family members, relatives or clients. Other more public-spirited politicians however equally rely upon corporate benefectors to assist them deliver "public goods" to the people as well as for electoral campaign finance.

The advent of the *dirigiste* New Economic Policy (NEP) in the 1970s coupled with later phases of corporatisation and privatisation in the 1990s under the auspices of the National Development Policy (NDP) greatly facilitated the creation of a *nouveau riche* Bumiputera (especially Malay) capitalist and salaried middle-class, many of whom are blood relatives of key policitians or are in a clientele relationship to their political patrons. Additionally, many of these Bumiputera capitalists are also in business together with other non-Bumiputera investors, mainly Chinese capitalists.

In Sarawak, 34 years of the NEP and NDP has seen a proliferation of numerous political-business groupings, many of which have made it into the First and Second Boards of the Kuala Lumpur Stock Exchange (KLSE).[1] Among some of these listed corporations are Cahya Mata Sarawak (Finance), Bank Utama (Finance), RHB Bank (Finance), Jaya Tiasa Holdings (Logging), Subur Tiasa Holdings (Logging), Ekran (Property), Wembley (Investment Holding), Sarawak Concrete Industries (Industry), Sarawak Oil Palms (Plantations), Sarawak Enterprise Corporation (Power Generation), Sateras Resources (Investment Holding), Sugar Bun Corporation

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* Paper presented at the Sarawak Politics Panel of the Fourth Malaysia Studies Conference, UKM, Bangi; 3-5 August 2004. This paper is a very preliminary presentation of some ideas of a work in progress by the author.
[1] Presently known as the *Bursa Malaysia*.

(Food Retailing), Encorp (Investment Holding), Kim Hin Industries (Industrial Manufacturing), and KKB Engineering (Industrial Manufacturing), and Hock Seng Lee (Engineering and Construction).

Given the relative obscurity of Sarawak in the political-corporate world, little is known about the character of such political-business groupings especially in terms of their links with powerful politicians and the specific corporate strategies that they have employed so as to ensure corporate success. Still less is known about how productive they are in terms of creating value and contributing towards development on the basis of the following concepts:

a) **Sustainable development –** current aggregate stocks of natural resources should be managed over time in such a way that future generations inherit an equal amount of wealth (or stocks of assets) as the present generation did so the potential to generate welfare is not permitted to fall below current levels. In other words, substituting man-made wealth for natural environmental assets thus maintaining a constant total capital stock (Pearce, et.al 1989); and
b) **Development via industrialisation** *à la* Amsden (1989), namely that corporations engage in "learning" so as to advance late-industrialisation. Among the most important of the criteria as advanced by Amsden is that companies in receipt of state subsidies should accept and meet performance standards as imposed by the state. As Amsden notes in the Korean case, "where Korea differs from most other late industrialising countries is the discipline its state exercises over private firms" (Amsden, 1989:14).

This paper shall thus examine and discuss a few key corporate groupings in Sarawak with close links either to the previous or current political leadership of the state and how they have managed to promote economic growth and development via industrialisation.

Wealth from Timber Concessions

The earliest attempt to engineer family and clientele wealth in Sarawak using the levers and agencies of state occurred during the tenure of Abdul Rahman Yakub, the third Chief Minister of Sarawak from 1970 – 1981, and Governor of Sarawak until 1986.

When Rahman Yakub became CM, one of his key priorities was the implementation of the NEP which saw the creation of wealth among numerous Bumiputera capitalists. In pursuit of wealth redistribution objectives, numerous timber concessions, traditionally monopolised by the Chinese, were distributed to Bumiputeras many of whom were either his family members, relatives or loyal clients from the Malay-Melanau wing of Parti Pesaka Bumiputera Bersatu (PBB) (Searle 1983; Jawan 1994). Among some of the family members, relatives, business and political associates known to have benefited from this largesse were Rahman Yakub's daughters, Mohamad Kamal Hussain, Salleh Jafaruddin, Mohamad Deli Abdul Rahman, Abang Yusuf Puteh (the then State

Secretary), Linggi Jugah, Wan Madzihi Mahdzar, and a few others (*Peoples' Mirror*, 12.4.87, 13.4.87; Ritchie 1987). The total value of all these timber concessions remains unknown but Abdul Taib Mahmud alleged that Rahman Yakub disbursed 1.25 million hectares of timber concessions worth RM22.5 billion (US$9 billion) to his clients and his family members (*NST*, 10.4.87). Another more conservative estimate put the total value of the concessions given out by Abdul Rahman Yakub alone during his tenure in office to be in the region of US$4.2 billion (*Wall Street Journal*, 22.7.87).[2]

Many of the companies linked to clients of Rahman Yakub that received these timber concessions and financial windfalls have become dormant or have gone into receivership despite the lucrative profits to be found within the logging industry. Few have diversified into other industries raising general questions as to the whereabouts and deployment of the profits from timber concessions.[3]

Part of the reason for the above recipients of timber concessions becoming dormant or going into liquidation or litigation is due to the fact that they, along with a few other companies totalling 27 in number, had their timber concessions abruptly terminated by Chief Minister Abdul Taib Mahmud during and after the Ming Court Affair of March 1987 (*People's Mirror*, 10.3.87; 10.4.87; 28.4.87), allegedly because of "irregularities in the manner of their operations" (*People's Mirror*, 9.5.87). In reality, however, their licenses were terminated because of the conflict between uncle and nephew over access to lucrative timber concessions and government contracts (Jawan, 1994:140).

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[2] It is likely that these figures are slightly exaggerated given that much of it was revealed during a bitter political struggle between Abdul Rahman Yakub and Abdul Taib Mahmud in the mid-1980s.

[3] For example, Shobra Sdn.Bhd. was set up in 1978. It was a direct beneficiary of one timber concession while Taucanet Sdn.Bhd., in which it held shares, held another timber concession. In 1995, it transformed itself into a charity and is now called Amal Shobra Sdn.Bhd. (Amal Shobra company files). Kehutanan Sentiasa Sdn.Bhd. was allocated two timber concessions totalling over 60,000 hectares of timber. It has since been wound-up (Kehutanan Sentiasa company files). Lembahan Mewah Sdn. Bhd. benefited from a timber concession of over 92,000 hectares awarded it in 1981. The company has ceased operations (Lembahan Mewah company files). Baltim Timber Sdn.Bhd. was set up in 1980 and was a concessionaire of over 48,000 hectares of timber. It's timber licence however was cancelled in April 1987 by Chief Minister Abdul Taib Mahmud (*People's Mirror*, 9.5.87). Barbet Sdn.Bhd. received a timber concession of about 68,000 hectares in 1983. One of its shareholders, Barbetta Sdn.Bhd., is today listed as a dormant company, raising doubts about the business vigour of Barbet itself (Barbet company files). Crista Holdings Sdn.Bhd. was a shareholder in three timber companies, namely Keruntum Sdn.Bhd., Maguari Sdn.Bhd. and Syarikat Delapan Sdn.Bhd., which held over 273,000 hectares of timber concessions in the 1980s. Maguari Sdn.Bhd. has since been liquidated (Maguari company files), and Keruntum Sdn.Bhd. brought a suit against the Sarawak government for the termination of its logging concession in 1987 (*Sarawak Tribune*, 12-14 April 2000; 6-9 June 2000). Official records indicate that Syarikat Delapan is still a legal entity but public information does not reveal anything about its operational status. Another company, Kabala Sdn.Bhd., was awarded a timber concession of 1,425 hectares sometime in the 1980s. It has since wound up as a business (Kabala company files).

However, executive action provides only a partial explanation for the pattern of corporate bankruptcies, liquidations, windings-up and dormancies among timber concessionaires linked to Rahman Yakub. Inexplicably, despite the lucrative nature of timber concessions and despite the fact that many proprietors of companies in receipt of concessions became “instant bumiputera millionaires” (Alli Kawi 1988), official annual returns of many of the above timber companies, including others not listed, indicate that many were either loss-making concerns or only declared small profits.

Given that Rahman Yakub, his family as well as many of his clients have long been recognised as being very wealthy, and given the World Bank’s opinion that the timber industry in Malaysia has long been beset by “problems of excessive profitability” (World Bank, 1991:iii) due to “evident income tax evasion” (World Bank, 1991:76) and windfall rents arising out of pervasive and “substantial under-invoicing” of log prices (World Bank, 1991:77), it is not implausible that many of these timber companies practised “creative accounting”, a phenomenon wherein “accountants use their knowledge of accounting rules to manipulate the figures reported in the accounts of a business” (Amat, Blake and Dowds 1999). A fact confirmed when the Inland Revenue Department conducted a series of public raids upon major timber companies in Sarawak for tax evasion (*AWSJ*, 21.2.94).

In contrast, Rimbunan Hijau (RH) set up by the Tiong Family as a logging contractor in 1975, has long had close links with the Sarawak United People’s Party (SUPP), in which family members have consistently served as either members of parliament or as senators. It is one of the largest and most diversified businesses in Malaysia today with an “estimated annual turnover exceeding US$1 billion, comprising about 10,000 employees in Malaysia alone with thousands more overseas. The RH Group continues to expand and diversify. Since its establishment, it has built up extensive experience in logging, sawmilling, export of logs and sawntimber and downstream processing activities, ranging from plywood to medium density fibreboard and particleboard. Rimbunan Hijau Group is also a pioneer in supporting Sarawak's emphasis on downstream activities. In 1985, it established the state's first large scale plywood mill under Rimbunan Hijau Plywood Sdn. Bhd. The Group is also the major shareholder of Jaya Tiasa Holdings Bhd and Subur Tiasa Holdings Bhd, the public listed companies on the Kuala Lumpur Stock Exchange with market capitalisation of about more than RM 2 billion and the largest plywood, veneer and particleboard producer in Malaysia.In addition to its operations in Malaysia, Rimbunan Hijau Group has expanded internationally to Papua New Guinea, New Zealand, Australia, China, Hong Kong, Singapore, Gabon, Rusia, Congo, Equatorial Guinea & British Guyana. The Group has substantial timber operations in Papua New Guinea; interest in pine forest concessions, sawmill & salmon rearing farm in New Zealand, and is also heavily involved in reforestation programs in all the countries that operates in. It also has interests in timber processing plants in both Shanghai and Dalian in China. The Group's interests in newspaper publishing include: Sin Chew Daily, the leading Chinese language national daily in Malaysia; The National, an

English national language daily in Papua New Guinea; Ming Pao Holdings Ltd., a leading Chinese language daily in Hong Kong; and Guang Ming Ribao, a Penang-based Chinese Daily" (Malaysian German Chamber of Commerce and Industry, *undated*).

Nonetheless, for all its corporate achievements, RH Group has consistently come under severe criticism by environmental groups both local and international for its destructive logging practices, its gross disrespect for the lands and lives of indigenous peoples, disregard for the law, human rights abuses and corrupt practices (Greenpeace 2004).

Wealth from Industry – A Tale of Three Different Companies

The Case of Sarawak Motor Industries (SMI)

Sarawak Motor Industries (SMI) was set up as a private limited company in May 1973.
It began operations in April 1974 as a State Economic Development Corporation (SEDC) government enterprise assembling completely-knocked-down Hino trucks as part of the government's efforts to promote and accelerate industrialisation in Sarawak under the NEP. Despite difficult early years, SMI's fortunes improved when in 1979 SEDC announced that an SMI subsidiary BMW Concessionaires (M) Sdn.Bhd. was to assemble luxury BMW 320 series cars and import for sale other BMW models under a joint-venture agreement between SMI (60%) and Continental Motors (M) Sdn.Bhd. (40%) (*Berita SEDC*, 1979). The early 1980s soon proved to be very successful years for SMI with rising production (4722 units in 1980). With its diverse range of production models,[4] SMI had become by 1983, the largest specialist commercial motor assembly plant in Malaysia (*The Assembler*, January 1983). It was also a diversified and profitable corporate group, having 15 subsidiary companies with interests in the marketing and distribution of motor vehicles; timber extraction with six concessions totalling 60,703 hectares; and property investment and development. It also held a land bank of 7.66 hectares in Kuching for housing and commercial development purposes. The financial status of the SMI group was as per Table 1 below.

Table 1: Financial Status of SMI Sdn.Bhd., 1980-1987 (RM million)

Year	**1980**	**1981**	**1982**	**1984 (*)**	**1985**	**1986**	**1987**
Turnover	97.1	141.2	178.9	198.3	189.5	115.2	39.3
Profit/(Loss) after tax	8.47	6.27	1.92	0.438	1.19	(19.05)	(7.89)

[4] Apart from assembling HINO trucks and the BMW 320 Series luxury cars, SMI was also assembling Mitsubishis, Toyotas and Skodas (*The Assembler* 1981; 1983).

Retained Profit/(Loss)	6.12	6.56	n.a.	n.a.	n.a.	n.a.	n.a.

Source*: Company Records, Sarawak Motor Industries*

(*) Note: There are no accounts for 1983 since there was a change in SMI's financial year from December to March between 1983 and 1984. Hence the accounts for 1984 are over a period of 15 months.

Between 1974 and 1981, SMI's corporate policy and management was tightly controlled and its operations closely monitored by SEDC since SEDC was the majority shareholder in SMI (*People's Mirror*, 10.4.87). At the end of the 1980 financial year, SEDC's financial interests in SMI stood at RM19.26 million. SMI was also the most profitable company within SEDC's stable of companies returning a profit of RM4.01 million for the year (SEDC 1982).

In 1981, Abdul Rahman Yakub, directed SEDC to divest its remaining 54% equity in SMI under the auspices of the NEP (*People's Mirror*, 10.4.87) to interests linked to his daughter, Norlia Abdul Rahman (*People's Mirror*, 16.4.87). SEDC's remaining shareholdings in SMI were disposed of by 1982 for RM6,376,967 meaning that Norlia Abdul Rahman and her business associates received substantial rents from the SEDC, not to mention inheriting a healthy and profitable company. Furthermore, SEDC continued to support SMI financially by providing it an interest-free "unsecured term loan amounting to RM11.5 million and its guarantees to bankers to cover the overdraft and other credit facilities amounting to RM11.75 million" (SEDC 1983).

In February 1983, publicly listed Synthetic Resins (Malaysia) Berhad announced that it had entered into an agreement with SMI to acquire 83.3% of its entire share capital via a share swap (Synthetic Resins Malaysia Berhad, 23.2.83; Amanah-Chase Merchant Bank 1984). Synthetic Resins subsequently acquired the remaining share capital of SMI in April 1984 making SMI a wholly-owned subsidiary of the company. The share swap was in effect a reverse takeover of Synthetic Resins by the majority vendors of SMI since after the acquisition; the director-shareholders of SMI became substantial shareholders in Synthetic Resins, owning 42% of the entire share capital of Synthetic Resins (*People's Mirror*, 14.4.87). Prior to the acquisition, the substantial owners of Synthetic Resins were Pegi Malaysia Bhd., the investment vehicle of Abdul Ghafar Baba, an UMNO vice-president at that time with whom Rahman Yakub had excellent relations; and Serapi Holdings then owned by Rahman Yakub's family (55% equity) and his business associates, namely Mohamad Kamal Hussain, Deli Abdul Rahman, Zainuddin Satem, and Mohamad Sepawie Jahar (Sateras Holdings company files). Kamal Hussain was also the Managing Director of Synthetic Resins at the time of the acquisition. Both Mohamad Kamal Hussain and Zainuddin Satem who were directors of Synthetic Resins[5] also held interests in SMI.

[5] Synthetic Resins was subsequently re-named Sateras Resources.

After SEDC disposed of its SMI shares, Mohamad Kamal Hussain and Norlia Abdul Rahman were appointed Executive Directors of SMI (Synthetic Resins, 23.2.83; *People's Mirror*, 24.3.87). In doing so, they displaced SMI's experienced and technically competent senior management team. With declining sales and in the face of a general recession in the mid-1980s, SMI was unable to maintain its profitability. Retrenchments were instituted and production lines closed down. The timber licenses of SMI's timber subsidiaries expired and were not renewed in July 1986, as a result of the bitter contest over resources between Abdul Rahman Yakub and the Chief Minister, Abdul Taib Mahmud. In 1986, the Kuching Assembly plant was shut down and SMI's operations moved to Kuala Lumpur. In December 1986, SMI (through its subsidiary) lost its franchise to assemble and market luxury BMW cars. It also lost its Hino and Toyota franchises (Sateras Resources, 11.7.88). Losses increased beginning 1986 while group turnover slumped badly soon after. By 1988, SMI's accumulated losses for the group as a whole had risen to RM51.46 million.

In April 1986, SMI defaulted on its repayments on its on-lending loan from SEDC of RM11.75 million and attempted to negotiate a scheme to repay SEDC via the assignment of two plots of land to the SEDC as well as a new repayment scheme (SEDC 1986). SEDC instead initiated legal proceedings against SMI for the recovery of the outstanding monies of the on-lend loan.[6] In 1988, Sateras Resources, the ultimate holding company of SMI, sold its entire stake in SMI to UFP Holdings, a company owned by Mohamad Kamal Hussain for a mere RM38,000 (*Business Times*, 5.2.88).

Subsequent weak management and poor strategic investment decisions soon deepened Sateras Resources financial woes such that by October 2003, it faced the threat of being delisted from the KLSE owing to it not being a going concern (*The Edge*, 31.10.03).

The Case of Cahya Mata Sarawak (CMS)

Cahya Mata Sarawak (CMS), a company majority-owned by Abdul Taib Mahmud's family, is one of Malaysia's leading public listed corporations with numerous subsidiary and associate companies and a group annual turnover of about RM1.4 billion in 2002. The first company from Sarawak to be listed on the KLSE, it is the acknowledged market leader in the financial and infrastructure sectors in the state. It is widely regarded as "one of the major forces behind Sarawak's rapid economic development and an increasingly important contributor to the overall Malaysian economy" (CMS, 1997:3). Until recently, it controlled four monopolies in Sarawak, namely the monopoly on the production of cement, steel, agency services for log export shipments, and stock-brokerage services, and has regularly secured a majority of large public infrastructure projects.

[6] However, this suit was withdrawn as Bank Utama (another company then owned by Rahman Yakub's family and business associates) had earlier obtained an injunction against SMI's BMW stocks for outstanding loans.

Incorporated in October 1974 as a "manufacturer and wholesaler of ordinary portland cement", Cement Manufacturers Sarawak[7] was a joint-venture of the Sarawak Economic Development Corporation (SEDC) and the Sabah Economic Development Corporation (SEDCO), set up to drive industrial development and restructure society under the NEP in the two East Malaysian states.

CMS has long been a profitable company. From 1992, CMS profits increased substantially before sustaining stunning losses associated with the Asian Crisis in 1997/98. CMS's share price on the KLSE moved in tandem, rising from RM8.30 in July 1993 to an all-time high of RM31.00 in March 1997 before collapsing dramatically to RM1.61 by November 1997 (CMS 1998a). Its share price presently languishes at RM1.68 (*Borneo Post*, 31.7.04).

The rapid growth and transformation of CMS since the 1990s has been nothing short of phenomenal, and is due to two main factors, namely the privatisation and restructuring of CMS from a State-owned public-listed company into a private sector public-listed conglomerate owned by the Mahmud family, and the huge amount of rents CMS secured for itself and its subsidiary companies from 1992 through political patronage.

Beginning in the early 1990s, a series of privatisations and complicated corporate re-structurings led to the privatisation of key SEDC enterprises to CMS, and subsequently the privatisation of CMS itself, but under the pretext of corporate acquisitions. In July 1993, CMS purchased major stakes in three highly profitable SEDC subsidiaries for RM117.4 million (*The Star*, 23.7.93), namely PPES Quarry (51%), Steel Industries Sarawak (60%), and PCMS (55%) (CMS 1994). This purchase was funded by a RM50 million cash payment and the issue of 13.48 million CMS shares valued at RM5.00/per share (RM67.4 million) to SEDC (CMS 1994). However, considering that all three SEDC companies held a total of RM30.94 million in cumulative retained profits (CMS 1994), this privatisation exercise of SEDC subsidiaries was very beneficial to CMS. This cash hoard proved helpful, allowing CMS to acquire three other companies owned by the Mahmud family (Syrakusa Sdn.Bhd., Concordance Sdn.Bhd. and Achipelago Shipping) via cash and share swaps, which resulted in CMS being 'privatised' to the Mahmud family via a reverse takeover.

This series of acquisitions saw the Mahmud family gain control of CMS, consolidating the cement business of CMS, the financial and brokerage services of Bank Utama and Sarawak Securities, and the shipping interests of Achipelago Shipping. CMS the publicly-owned cement producer became CMS the private-sector diversified conglomerate encompassing stock broking; road construction, maintenance and water supply; quarry operations; premix manufacturing; manufacture of steel bars and wire mesh; trading and group

[7] As it was then called. It changed its name in June 1996.

product marketing; manufacture and sale of cement; and investment holding (*The Star*, 4.10.94). This consolidation made it the unrivalled infrastructure and financial conglomerate in Sarawak and one of the major players in the KLSE (CMS 1996a; CMS 1996b).

The Mahmud family greatly benefited from this series of privatisations of profitable State enterprises. Taib Mahmud's control over the levers of power and resources in Sarawak saw the SEDC privatise profitable state enterprises to his family. Similarly, his position of favour with the federal government meant that his family received various rents, principally a stock broker licence (to Sarawak Securities, a subsidiary of Syarakusa) that became a lucrative monopoly and waivers on mandatory general share offers. Taib Mahmud's powerful political position also meant that the companies linked to his family easily raised loans from the capital market.

The CMS takeover reflects the politics of recent NEP/NDP-style privatisation exercises in Malaysia, which tend to favour the hiving off of profitable public enterprises instead of loss-making ones as rents to well-connected individuals in the private sector. Apart from cultivating cronyism and promoting rent-seeking, such privatisations deprive the state sector of lucrative sources of income and *inter alia* end up raising the tax burden of ordinary taxpayers (Jomo 1995).

During the privatisation and restructuring of CMS, numerous public-funded infrastructure projects were channelled to CMS. These projects helped CMS maintain an extremely healthy cash flow and high annual turnover. They bolstered its restructuring efforts, hiked up the share price of CMS and helped CMS raise funds easily from banks and other money markets. Appendix 1 shows a partial list of construction[8] projects and their value secured by CMS between 1990-1998.[9] What is notable about these infrastructure projects is that most of them were secured via negotiated tender from the Sarawak government and its agencies without going through a process of competitive tenders. Not only were many public sector projects channelled towards CMS but CMS also actively undertook a process of seeking out profitable public sector jobs like the maintenance of federal and state roads by the Sarawak Public Works Department estimated at between RM300-RM500 annually, and negotiated for their being transferred to CMS on a turnkey basis (*Malaysian Business*, 16.9.97). Most of these rents were assigned to CMS via PPES Works (an SEDC associate company) by the state government and bureaucracy dominated by Taib Mahmud.[10] Many were justified on the basis that they were contracts implemented by SEDC and its subsidiaries, long the main contractor of public sector contracts and projects. Unspoken was the fact that SEDC by virtue of owning approximately 8.5% equity in CMS (as of June 1997) and 49% equity in PPES Works (through its 49% shareholding of Sara Kuari

[8] Construction is the cornerstone of CMS activities and the area in which CMS feels it has most contributed towards development in Sarawak (CMS 1998b).
[9] This list is at best a partial one for two reasons. Firstly, a lack of public information on the true extent of CMS construction and other development projects secured from various government agencies since 1990. Secondly, the dearth of information about financial arrangements, if any, which have benefited companies within the financial services division of the CMS group.
[10] CMS secured these projects on account of its "close links with Sarawak's Chief Minister Tan Sri Abdul Taib Mahmud" (*The Edge*, 7.4.97).

Sdn.Bhd.), actually functioned as a conduit of public projects to CMS which owns 51% of the share capital of PPES Works. CMS presently has a healthy infrastructure current order book valued at some RM1 billion (CMS Annual Report 2003).

Although PPES Works implements some construction projects itself having its own expert engineering/construction staff and equipment, nonetheless, a substantial amount of all public infrastructure projects secured by PPES Works have consistently been sub-contracted to other CMS subsidiaries or other external companies like Hock Seng Lee Berhad. PPES Works then takes a commission off the contract price.

For example, the RM200 million Sarawak River Regulation Scheme projects was secured by PPES Works but the largest and most technically sophisticated package was sub-contracted to Daelim Industrial Co. Ltd. (a South Korean company) and Hock Peng Furniture & General Contractors Sdn.Bhd. (a local Chinese company) (*The Star*, 30.1.95; 12.5.95; 27.5.95). Similarly, PPES Works secured the Mulu airstrip and runway upgrade/extension project and the Kuching Airport runway resurfacing project but sub-contracted both to its subsidiary, PPES Premix. (*The Star*, 16.10.95; 8.1.96; 13.3.96). PPES Roads, a subsidiary of PPES Works, also sub-contracted at least three jobs to Hock Seng Lee, namely the Sarikei/Serdeng/Pulau Beruit/Tebang Road, the Kuching-Kota Samarahan Expressway Stage 1 and the Kuap River and Setutong River bridge projects (HSL 1996; Kenanga Morgan Grenfell Research 1996). This middleman role undoubtedly enhanced the profits of PPES Works and CMS. But they did so at the expense of PPES Works and CMS improving its technical capabilities. Nonetheless, this strategy served patronage purposes of distributing infrastructure sub-contracts to other political and corporate clients favoured by Abdul Taib Mahmud.

In 1996, CMS expanded its steel and cement production capacities in response to a massive economic boom in the construction sector[11] and in anticipation of further lucrative projects, especially the Bakun Dam mega-project costing an estimated RM15 billion (INSAN 1996).[12] CMS's new steel and cement plants were financed by large short and long-term loans from both local and international offshore money markets.

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[11] Growth in the volatile construction sector in Malaysia went on a roller-coaster ride of 19.5% (1990) to 11% (1993), rising to 17.3% in 1995 and then falling back to 9% (1996 & 1997). As a share of Malaysia's GDP, the sector grew from 3.6% (1990) to 4.5% (1996) (Mayban Securities Research 1996). See also Merril Lynch (1997) and O.S.K. Research (1997), which give good overviews of the Malaysian steel sector. For the cement sector, see KAF Seagroatt and Campbell (1995), SBC Warburg (1995), and SBB Securities Research (1997).

[12] Taib Mahmud staunchly backed this project, citing it will provide safe and cheap power for use in Sarawak as well as for sale to the peninsular via an underwater submarine cable. In his opinion, it has obvious socio-economic benefits since nearly RM300 million has been paid out to about 10,000 people to resettle them in new 'economically viable communities'. Said Taib, "We are hoping that with plantations developing around the resettlement area and the growth of a new township, the people living in scattered and isolated pockets in one of the most inaccessible areas of Sarawak will benefit from a planned and modern

Alas, CMS did not anticipate the Asian Crisis of 1997/1998. In March 1999, CMS declared a huge pre-tax loss of RM439.4 million for the year ending December 1998, a reverse of RM670.7 million (270%) from 1997 (CMS 1998b). This was mainly due to severe losses in CMS's banking and financial services sector arising from non-performing loans (20.1%) given its subsidiary, Utama Banking Group's (UBG) over-exposure in the volatile property, construction and stock-broking sectors along with inexperienced credit risk management systems, and weak credit policies and procedures (RAM 1999; UBG 1998). By October 1999, the total debt burden of CMS was estimated officially at RM787.33 million (RAM 1999).[13] Given the continued impact of the Asian Crisis, CMS bonds were downgraded (RAM 1999) reflecting serious concerns about CMS's deteriorating financial performance and doubtful debt repayment capacity. To make matters worse, demand in the construction sector remained weak leaving CMS with massive excess capacity in its new steel and cement plants (RAM 1999).

In financial services, CMS's lucrative Sarawak Securities did not seem to have in place robust management and audit controls. At the end of 1998, Sarawak Securities was in technical breach of a debt facility agreement by RM4.1 million to other financially troubled companies within the CMS group (RAM, 1999:10). In May 1999, a major financial scandal engulfed Sarawak Securities when certain irregularities amounting to approximately RM56 million were discovered (*The Star*, 7.5.99; RAM 1999). Investor business confidence in Sarawak Securities was deeply affected. Sarawak Securities' chief executive officer Benny Ng, its share margin manager Winnie Leong, a margin clerk and an administrative supervisor were subsequently charged in court for fraud (*ST*, 4.7.00; 8.7.00). Surprisingly, Sarawak Securities was not penalised by the relevant federal government agencies entrusted with regulatory oversight of the securities industry.[14] Instead, at the height of the scandal, the Kuala Lumpur Stock Exchange (KLSE), voiced an opinion that despite the irregularities and the on-going independent audit investigation, Sarawak Securities was "fully in compliance with its financial requirements" (*The Star*, 7.5.99).

CMS cumulative debts and financial troubles at the turn of the new millenium meant that the mega-dam Bakun project,[15] despite being an unnecessary project (INSAN 1996; *The Economist*, 18.11.00),[16] took on an added importance for two reasons. A large portion of

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economy. […].. the local people will not only experience a new and economically beneficial way of life but also, at the same time, will be able to preserve their culture and environment." (Chan, 1998:39).

[13] Though I calculate the figure to be about RM1.2 billion (CMS 1998b).

[14] An independent audit review was undertaken in May 1999 to investigate the irregularities in Sarawak Securities. The Securities Commission and the Minister of Finance had the legal authority to impose punitive measures against Sarawak Securities under Sections 27 (2) (b) (ii) (G) and 27 (3) of the Securities Industry Act 1983 (Legal Research Board 1998).

[15] See Gomez and Jomo (1997) for a good historical summary of the Bakun dam.

CMS debt was secured by way of pledges of securities as collateral, the share price of which was tied directly to the terms of its debt.[17] CMS's share price dropped below RM3.00 beginning November 1997 and has languished there since. When the revival of Bakun was announced in June 1999 (*NST*, 8.6.99),[18] Bakun became an overnight confidence boost to CMS[19] and strengthened the financial status of its majority owners as well as numerous other shareholders. But Bakun was more than just that. Since Prime Minister Mahathir, UMNO and the federal BN were at that time fighting desperately for their political lives with an impending general election (eventually held in November 1999) in the face of an unprecedented collapse of Malay support, Bakun was a major lifeline thrown at a very crucial time to close ally Chief Minister Taib Mahmud (and *ipso facto* to the Mahmud family, other client businesses having dealings with CMS, as well as to ordinary CMS shareholders in Sarawak). This lifeline ensured the Sarawak BN delivered all its 28 parliamentary seats to the off-set federal BN's losses of UMNO seats. These seats assisted Dr. Mahathir in maintaining his critical two-thirds majority control in parliament.

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[16] Even without Bakun, Sarawak will have an installed electricity reserve capacity of 25% in 2005 (Malaysia 2001).

[17] Such a charge normally requires that the borrower execute a "memorandum of deposit of shares" or a "memorandum of charge on shares" to the lender. Under such an arrangement, the borrower while retaining absolute beneficial owner rights over the charged or mortgaged securities, nevertheless grants various discretionary rights to the lender over the mortgaged securities in exchange for the loan or financial facility. Among others, these are the right to effect sale and disposal of the said securities to realise the repayment of the loan including interest; the right to all dividends, interests, stocks shares etc. which may be offered in respect to the mortgaged securities which the lender may apply towards the discharge of the loan; the right to custody and possession of the securities, etc. Furthermore, if the price of the securities falls below a certain price and the sale of securities cannot realise the repayment of the loan including interest in full, then the borrower has to pay the lender the difference between the amount due and the amount so realised including any interest incurred during the period of repayment. On the part of the lender, there is the risk that if a share in the open market dips below its minimum agreed price under the terms of the loan agreement, the lender is left holding paper rather than valuable shares. Thus the real possibility of lender banks having to sell the mortgaged shares as well as call in their loans from the borrower to avoid rising non-performing loans. On the other hand, revitalised share prices not only restore banking sector confidence in borrowers but may also allow lender banks to re-finance loans if borrowers require further funds.

[18] On 7 June 1999, the share price of CMS was RM2.50 with a mere 27 lots done (*NST*, 8.6.99). With the announcement of Bakun's revival on June 8, the share price of CMS jumped to a high of RM2.90 with 336 lots done (*NST*, 9.6.99). On June 9, CMS shares traded at a high of RM3.10 with 2168 lots done (*NST*, 10.6.99). On June 10, CMS shares traded at a high of RM3.24 with 1569 lots done (*NST*, 11.6.99). Thus, within three days of the announcement, CMS share price jumped 74 sen with 4070 lots traded. On June 11, it continued to rise and traded at RM3.50. But by November 2000, it was being traded within a more normal range of RM2.71 and RM2.73.

[19] Taib Mahmud said cement sales in Sarawak was expected to pick up with the revival of several major infrastructure projects in the state (*The Star*, 21.6.99). At the height of the slump in 1998, CMS's old steel mill in Kuching, with a capacity of 70,000 tonnes per year, only managed a utilisation rate of 57% (RAM 1999). Commissioning of the new CMS steel plant in September 1999 with a production capacity of 300,000 tonnes/year required Bakun for its commercial viability. With a 2400 MW capacity, Bakun would require an estimated 85,000 tonnes of steel during its construction over a period of seven years, or about 44% of total steel demand of all major construction and development projects in the major regions of Sarawak for projects between the years 1998 – 2003 (SISB Information Memorandum, 1999:Appendix XI). Comparatively, total steel consumption by major projects (excluding new projects) from these major regions would amount to approximately 195,000 tonnes over the same period (ibid).

Secondly, given CMS monopoly control in the cement, steel and infrastructure sectors, main sub-contractors like Hock Seng Lee Sdn.Bhd. and other trading companies like Shin Yang Trading Sdn.Bhd., Borneo Corporation Sdn.Bhd. and Pan Sarawak Company Sdn.Bhd. (RAM 1999)[20] depend heavily upon CMS. These companies are politically well-connected and benefit from CMS patronage, whether in terms of construction sub-contracts or wholesale dealerships. In turn, they parcel out contracts to other sub-contractors and dealers. Indeed, up to 32 native companies set up under the auspices of the government's Bakun Hydro-electric Development Committee, many with lesser native politicians as their shareholders, were expected to benefit from the numerous sub-contracts that was to flow from the revived Bakun project (*Malaysiakini*, 13.3.2001). As of 2004, Bakun is still on the cards, albeit scaled back to RM4.5 billion (*Malaysiakini*, 26.7.04). In July 2004, CMS announced that its wholly-owned subsidiary, CMS Energy Sdn Bhd, jointly with Special Triumph Sdn Bhd and Posco Machinery & Engineering Co. Ltd had been awarded a RM129.9 million contract for the design and execution of the Hydraulic Steel Structure Package (Package 8) for the Bakun Hydroelectric Project by Sime Engineering Sdn Bhd., subject to approval by main contractor, Malaysia-China Hydro Joint Venture. CMS Energy was to hold 51% of the said contract. Posco Machinery & Engineering Co. Ltd is a company incorporated in South Korea (CMS Corporate Announcement, 2.7.04).

Within CMS, the overall group financial picture has also since improved with CMS registering group net profits of RM111.6 million, RM 48.4 million and RM23.6 million for the years 2001, 2002 and 2003 (CMS Annual Reports, various issues). See Table 2 for an overview of CMS Group turnover and profits.

The Case of Hock Seng Lee (HSL)

Hock Seng Lee (HSL) is a civil engineering company with over 30 years specialist experience in land reclamation, dredging and coastal protection works. Originally set up as a partnership by three brothers of the Yu/Yii family, it was later incorporated in 1979 as a RM3.00 company. In its early days, the partnership was a successful Chinese family-run one-barge operation. It has since evolved

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[20] Originally into logging, Shin Yang is owned by the Ling family of Miri. Together with Pelita Holdings Sdn.Bhd., a corporatised agency of the Sarawak government, Shin Yang owns publicly-listed Sarawak Oil Palms Bhd. Pan Sarawak Company is owned by Tai Sing Chii, a board member of Bank Utama and Ding Jack Sung, a timber tycoon whose family is linked to Arip and Tufail Mahmud via his brother Ting Check Sii and Sanyan Sdn.Bhd.. There is no reference to Borneo Corporation in public records. It is likely that RAM (1999) is referring to Borneo Development Corporation, a property and construction private company wholly owned by the Sarawak Government (BDC company files).

into a major public-listed company on the KLSE[21] with expertise in fully integrated marine engineering and construction. With a market turnover of RM138.3 million in 1998 (2003: RM287.5 million), HSL is mainly involved in transforming large tracts of peat swampland into "modern housing and industrial estates, tourist resorts, commercial centres, international sea ports and highways" (HSL Corporate Brochure, undated) apart from also being "involved in the shipping business with a fleet of 55 vessels, tug-boats and barges to transport logs, sand machinery and building materials in Sarawak" (*The Star*, 24.10.95). HSL holds Class A licences from the *Pusat Khidmat Kontraktor* and the Public Works Department enabling it to participate in any civil engineering project of any size and all land reclamation works, road works and earthworks projects (*The Star*, 24.10.95; HSL 1996). Though not as large as CMS, HSL is nonetheless well established within its niche market and has ventured aggressively into other areas of construction and property development. It has since become Sarawak's largest builder of roads. With an impressive record of bidding successfully for numerous major contracts, especially over the last six years, its corporate motto, "Building your future today" adorns most major project signboards. HSL has consistently made profits. Between 1999 and 2003, HSL's after tax profits were RM16.36 million (1999), RM6.6 million (2000), RM7.48 million (2001), RM12.17 million (2002), and RM20.7 million (2003) (HSL Annual Report 2003).

The secret to HSL spectacular growth is rooted in its superlative political contacts, in this case, the family members of Abdul Taib Mahmud. Until 1994, the shareholdings of HSL remained wholly a family concern. In November 1994, HSL made a bonus share issue, which it capitalised out of unappropriated profits. Of over four million shares issued for otherwise than in cash, 10.9% of the shares were allotted to six members of the Mahmud family and two others.[22] The Mahmud bloc subsequently increased their shareholdings during the year until they held 13.5% of the company as of June 1995. In April 1996, HSL undertook a corporate restructuring exercise designed to ensure the Yu/Yii family retained control of the company even after its public listing. A bonus and rights issue was made to HSL's shareholders to increase HSL's paid up capital in anticipation of its public listing. By this time, the Mahmud bloc held 6.75 million shares (13.5%), HSL Enterprise held 25.5 million shares (51%), while the Yu/Yii brothers individually owned the remaining 17.75 million shares (35.5%), giving the Yu/Yii family 86.5% ownership of HSL.

In May 1996, HSL went public. Both reserved institutional placements and an initial public offering (IPO) took place. Interestingly, the Mahmud family bloc gained most of the shares on offer despite the IPO being over-subscribed 77.6 times. Of the shares reserved

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[21] To an extent, HSL is still family-run since the Yu/Yii family hold a controlling 55% share of HSL directly via their own shareholdings and indirectly via the family holding company, HSL Enterprise Sdn.Bhd. Management is also very family-dominated. The board of directors is fully composed of family members except for three Bumiputera members, namely Mohamad Taha Ariffin (ex-deputy State Secretary), Idris Buang and Mohd Nadzir Mahmud, both lawyers. A previous Bumiputera Director of HSL in the late 1990s was Hasmi Hasnan, another senior state civil servant who was once Director of the Sarawak Land and Survey Department.

[22] It is unclear how these two others are linked to the Mahmud family. Thus, for ease of reference, I refer to all eight individuals as the "Mahmud bloc".

for institutional Bumiputera investors, Permodalan Nasional Berhad received 5.25 million shares, Amanah Saham Sarawak received 2.5 million[23] while Zaleha bin Bujang received 500,000 shares. Of the shares reserved for members of the public, the Mahmud bloc received a total of 5.85 million shares (91%) (*NST*, 23.6.99), giving the Mahmud bloc a total share of 26.2% in HSL after the IPO.[24]

After its public listing, HSL's share price soared over the course of the next few months and peaked at RM54.50 in 1998 giving shareholders a capital gain of over 17 times its listing price before falling back during the Asian Crisis.[25] It presently trades at RM2.98 per share (*BP*, 31.7.04).

In other words, the Mahmud bloc were not only recipients of bonus shares and preferential access to IPO shares, they also benefited from a large pay-off of share dividends on HSL stock for the year ended December 1996 when dividends totalling RM4.857 were paid out on each share. This meant that the Mahmud bloc received a cash windfall of about RM3.28 million as share dividends at the end of 1995. This money more than amply covered their subsequent purchase of shares during the rights issue of 1996, which amounted to approximately RM3.02 million. Then, there was the capital gains windfall, which occurred when HSL shares soared skyward in the months after its public listing.[26]

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[23] The share allocations to PNB and ASSAR were made pursuant to the Public Listing Offer under the rules for eligible Bumiputera investors approved by the Ministry of International Trade and Industry (MITI). PNB is the BN federal government's NEP/NDP investment arm aimed at increasing Bumiputera ownership of the economy via stock ownership. ASSAR was set up as a commercial investment trust fund by the Sarawak government in 1993 and is run as a commercial operation.

[24] This result raises serious questions about issues of transparency and fairness in the IPO held in May 1996, which supposedly was an exercise in random selection. Such practices are however not unique to Malaysia. In December 2000, in order to overcome IPO favouritism, the US Securities and Exchange Commission initiated an inquiry into the behaviour of underwriters who awarded "IPO shares in return for a promise that, if the shares did well after the IPO, the client would give the underwriter a slice of the profits by making extra trades in other shares to generate an agreed amount of commissions" (*The Economist*, 23.12.2000).

[25] By November 2000, its shares were trading within a more realistic price range of RM2.84 and RM3.34.

[26] Since HSL's public listing, evidence of the Mahmud bloc's ownership of HSL stock has disappeared from company documents. It is indeterminate whether their shares have been sold for a profit or merely hidden from further public scrutiny via local and international nominee companies. The view within the Sarawak business community however is that the Mahmud bloc continues to own a substantial share of HSL given the company's sterling ability to procure development projects from the state government. Between June 1996 and May 1997, Mahmud family members and others close to them also received 31.5% of shares of HSL Machinery Sdn.Bhd. via a share re-shuffling exercise (HSL Machinery company files). It is indeterminate if these shares were paid for in cash or if they were allotted for free.

All these transactions represented substantial rent-seeking from a business client to a political patron with a view to securing public infrastructure contracts. Such rents are evident when one scrutinises HSL's impressive increase in its turnover, net profit and earnings per share from 1994 onwards (See Table 2). Also impressive is the sudden increase of development projects awarded to HSL from 1993/1994 onwards by the Sarawak state government, public agencies and other companies like CMS. Appendix 2 details a partial list of development construction contracts procured by HSL from all public and private sources between 1991 and 1998. Of their bigger marine and civil engineering construction projects, all of them are located in Sarawak, 60% of which were secured from the public sector (Kenanga Morgan Grenfell 1996). I have estimated that HSL secured approximately RM115.4 million worth of sub-contracts from other private companies (like CMS) who themselves secured contracts/projects from the state government. On its own or in joint ventures with other companies, HSL secured a total of RM3.233 billion worth of projects. A high number of the public sector contracts were secured via negotiated tender including the massive RM3 billion Demak Laut Industrial Park Phase II project which was awarded to a joint-venture comprising HSL and Yakin Imbuh Sdn.Bhd. By December 1998, HSL's projects order book value was RM300 million with a further RM400 million in the bidding stage (HSL, 1998:5). Subsequent diversification into property and housing development has seen HSL's project book order increase to over RM850 million by 2002 (HSL 2003).

An extremely important question however, is whether and to what extent such projects have been developmental in nature and scope. HSL's many projects are mainly civil engineering infrastructure projects like land reclamation, marine engineering, port construction, road building projects, integrated industrial park development, property and housing development, etc. Clearly, apart from physical infrastructure improvements, such projects, like those of CMS, make large contributions towards the overall Sarawak economy via major economic and social linkages and contractual spin-offs.

HSL is technically competent since it undertakes all engineering and construction work itself using in-house skilled labour, site experience and engineering expertise developed over the years. HSL rarely, sub-contracts its major technical jobs to other sub-contractors. If anything, HSL secures sub-contracts of technically sophisticated projects from other less technologically competent firms like CMS. HSL also claims to be a pioneer in the application of sophisticated geo-technical soil drainage and compacting techniques like "suction dredging, hydraulic sand haulage and vertical drain soil improvement techniques". It has invested millions of ringgit to "acquire specialised suction dredgers and hydraulic pumping equipment". It also "claims to be the only Malaysian company to own a RM30 million hydraulic suction dredger"[27] (*The Edge*, 24.3.97). HSL prides itself on its technological expertise, which is on

[27] In a visit to a HSL project site in August 1997 to observe HSL's land reclamation work and the RM30 million hydraulic cutter suction dredger in operation, Dr. Mahathir Mohamad, Prime Minister of Malaysia described HSL's marine engineering technology as "impressive, indigenous and having potential for export regionally" (HSL Corporate Brochure, undated:5). The hydraulic cutter suction dredger is however, a Mark III cutter suction dredger purchased from

par with “the likes of Dutch and Japanese marine engineering specialists” (*The Star*, 13.4.98) with some 30% of its 540 staff holding tertiary and technical degrees (HSL Corporate Brochure, undated). It has “assembled a formidable and comprehensive machinery portfolio and had been turning to locally reconditioned machinery as well as continuing its reliance on local shipyards for its marine fleet renewal” (*The Star*, 12.1.98).

HSL is also involved in reconditioning heavy machinery locally via HIBCO Holdings Sdn.Bhd.[28] HIBCO was the first Malaysian company granted pioneer status by the Malaysian government for the reconditioning of used heavy machinery. HIBCO’s reconditioning work is carried out by wholly-owned subsidiary, Hock Seng Lee Heavy Industries (HSLHI) Sdn.Bhd., which reconditions a broad range of used heavy machinery including hydraulic and mini-excavators, wheel loaders, crawler loaders and tractors, bulldozers, forklifts and industrial equipment like welding sets, air compressors and generators. Besides reconditioning, HSLHI modifies and customises existing machinery to suit the specialised requirements of local industry. HSL also has an active and competent research and development (R&D) unit (*The Star*, 2.9.97). Such activities, arguably, have the potential to contribute positively towards the country’s efforts to cut down imports of new heavy machinery and equipment to reduce the balance of payments deficit while offering tremendous growth potential as the country steps up its industrial programme. An associate company, HSL Machinery (HSLM) Sdn.Bhd. purchases second-hand heavy construction machinery, which it then re-conditions for sale overseas. HSLM is also sole distributor for Hyundai and Volvo heavy construction equipment (*The Star*, 24.10.95; 2.9.97).

Apart from technological competence, HSL is committed to a corporate strategy of mainly relying on its own internally generated finances to fund its growth and expansion and has a conservative policy of keeping borrowings to a minimum. While it has created about 15 charges from local banks totaling RM15.6 million in the past, it has a very impressive track record of repaying all loans promptly, and as of December 1997 had no foreign currency exposure. HSL has consistently maintained either zero or a very low gearing ratio for its operations (*The Star*, 31.5.99). And by relying primarily on local banks for their loans, HSL has reduced financing costs and has avoided foreign exchange fluctuation risks.

Baggermaatschappij Boskalis bv of The Netherlands for Dfl.19.2 million in a corporate decision taken in May 1996 (HSL company files). Critics have noted that there is nothing exceptional about owning and operating such a dredger since dredging technology was developed and has been long available within the alluvial tin mining industry of Peninsular Malaysia. Dredgers were fabricated locally early in the 1900s to meet the demands of the tin mining industry in the Klang and Kinta valleys of then colonial Malaya (R. Rasiah, *pers.comm.*, September 1999).

[28] HIBCO Holdings owns Hock Seng Lee Machinery Sdn.Bhd. and HSL Heavy Industries Sdn.Bhd. and has a 60% equity interest in Kalieng Company Sdn.Bhd. and Zinxian Heavy Machineries Services Sdn.Bhd. (*The Star*, 2.9.97).

In other words, HSL is well poised to contribute to development achievement. Not only does it contribute towards physical infrastructure development but its corporate outlook is also very sound. Indeed, the very structural obstacles that forced it to engage in rent-seeking with the Mahmud family pushed it to perform well since, as a Chinese company, it cannot rely upon State rents in the long run for its profits and growth.

Conclusion

In this paper, I described some key politics-business relationships in Sarawak. Generally, these companies received state rents under the NEP/NDP mainly in the financial, infrastructure and construction industry. While some of the companies may have started out in the extractive timber sector, all expanded into more value-added sectors of the infrastructure, construction and service industries. All have also benefited either from lucrative privatisation deals, state-rents and other preferential financial treatment.

Yet, Norlia Abdul Rahman, the person most responsible for the overall stewardship of Rahman Yakub's corporate wealth, presently operates a modest car import business in Kuching called Ngap Sayot Motors. It is a far cry from the Rahman family's early forays into timber extraction, large-scale car assembly under franchise from top brand names, chemicals manufacture, or into large property development schemes.

In contrast, timber sub-contractor RH Group, despite international condemnation of its weak corporate governance standards, poor human rights record and lamentable social responsibility towards local communities, has managed to transform much of its logging profits into an alternative businesses, namely the print media industry. It is also listed on the KLSE which should, arguably, allow activist investors subject it to scrutiny and improving its corporate behaviour.

Both examples were not disciplined by the state in terms of having performance targets set for them. But in the former, while the wealth and capital created from the transformation of natural resources seemingly was squandered, the latter managed to transform it into more productive forms of capital investment which shows promise in providing a more sustainable form of development within an industrialised society. In part, this was due to RH Group's ability to easily align and re-align itself with powerful politicians. But also, it suggests serious corporate acumen and a long-term view of how best to manage capital in a productive manner.

The fallout from the political conflict between Rahman Yakub and Abdul Taib Mahmud contributed towards the decline of the Rahman corporate empire. Whether the patronage and rents accorded the children, business associates and political clients of Rahman Yakub would have proved developmental had they had more time to develop their companies is now moot. Once Rahman Yakub lost power and fell out with his nephew over resource allocation within the context of a resource re-distribution and development programme powered by the State and the politicians who control access to resources, the corporate future of the Rahman group of companies was immediately under threat and it eventually succumbed. What this signifies is that clientelism of the variety in Sarawak is extremely fragile and points towards weaknesses in contractual institutions and the inability of the federal government to enforce such contractual institutions based on the rule of law.

SMI, CMS and HSL all received state rents. However, not all three enjoy similar levels of development achievement. Nor were any of the three even subject to performance standards, the exception perhaps being the ability of each company to deliver on infrastructure contracts as per government contractual stipulations and schedules. But more than that, there has been little discipline imposed by the State.

SMI went bankrupt. CMS has contributed extensively towards physical infrastructure development within Sarawak. But, its rapid expansion on the back of large debt and weak financial procedures saw its profits crash during the Asian Crisis with a concommitant loss in shareholder value and poor returns on investment. CMS remains a huge and successful conglomerate but its share price languishes since many investors fear that it may be going nowhere once the current Chief Minister leaves office. Interestingly, the very reasons that once made CMS attractive to investors has now become a bit of a liability.

HSL in the meantime keeps returning modest profits while exhibiting a more dynamic, self-reliant approach in its corporate strategy. But, being a Chinese company, it too first expended effort in securing rent-seeking opportunities as a guarantee of future profits. That this strategy worked is seen in its extensive list of projects and sub-contracts secured over recent years. In other words, rent-seeking with political patrons has been a key strategy of HSL to overcome structural obstacles like the NEP/NDP which favoured Bumiputera companies over non-Bumiputera corporations (Gomez 1999).

And yet, these same structural obstacles have ensured the present basic difference between CMS and HSL. Being a Chinese family-run company, HSL has been more prudent in its mode of financing its expansion than CMS. Partly, this conservative strategy has had to do with it being a non-Bumiputera company working in an ethnically-based *dirigiste* environment of not having privileged access to capital markets and state rents unlike CMS with its Bumiputera-status and superlative political links. HSL also exhibits more technical prowess when compared to CMS, again testimony to its earlier days of being a non-Bumiputera company that forced it to struggle to deliver a quality service or product if it had wanted to survive a difficult business environment. Unlike para-statals or Bumiputera companies, Chinese companies have gone bankrupt for being economically and technologically inefficient. It is possible that Chinese companies are more conservative in their corporate financial strategies than those of Bumiputera companies that can afford lax growth strategies given their access to easy government funds, cheap credit, public contracts, corporate bailouts and etc. Arguably, this is also the case for the RH Group.

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Lembahan Mewah Sdn.Bhd.
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Sateras Holdings Sdn.Bhd.
Sateras Resources (Malaysia) Berhad
Shobra Sdn.Bhd.
Syrakusa Sdn.Bhd.
Utama Banking Group Bhd./BUMB Holdings Bhd.

TABLES

Table 2: CMS Group Turnover and Profitability, 1987-1992 (RM million)

Details	1987	1988	1989	1990	1991	1992
Turnover	45,043	45,013	51,453	66,857	81,863	91,136
Tax	(2,798)	(3,089)	(3,843)	(4,300)	(2,650)	(4,318)
Annual net profit/(loss)	2,860	4,492	5,257	6,847	4,150	10,157
Cumulative Profit/(Loss)	17,285	5,221	6,962	10,608	12,838	20,479
Earning Per Share (EPS) (cents)	8.9	14	16.4	21.4	13	31.7

Source: *CMS Company Prospectuses and Annual Reports (various issues).*

Table 2: CMS Group Turnover and Profitability, 1993-1998 (RM million)

Details	1993	1994	1995	1996	1997	1998
Turnover	204,454	478,818	507,422	1,159,199	1,552,439	1,483,178
Tax	(27,945)	(33,506)	(26,705)	(78,454)	(82,989)	(5,597)
Annual net profit/(loss)	53,816	77,997	94,017	176,014	148,309	(444,964)
Cumulative Profit/(Loss)	51,399	97,922	158,177	246,418	230,019	13,485
EPS (cents)	59.8	59.43	58.74	80.35	33.15	(64.13)

Source: *CMS Company Prospectuses and Annual Reports (various issues).*

Table 2: CMS Group Turnover and Profitability, 1999-2003 (RM million)

Details	1999	2000	2001	2002	2003
Turnover	1,200,910	1,176,969	1,242,771	1,378,990	1,082,662
Tax	58	49,316	25,777	52,590	41,619
Annual net profit/(loss)	35,879	73,737	85,772	48,412	23,670
Cumulative Profit/(Loss)	(6290)	(6364)	74,284	127,886	132,775
EPS (cents)	n.a.	n.a.	n.a.	n.a.	n.a.

Source: *CMS Company Prospectuses and Annual Reports (various issues).*

Table 3: Turnover, Tax and Profitability Data for HSL, 1991-1998

Year Ended 31st December (RM'000)								
Year	1991	1992	1993	1994	1995	1996	1997	1998
Turnover	20,885	28,291	29,439	53,846	94,836	133,209	169,928	138,289
Gross Profit	6310	7041	7723	20,368	26,007	30,138	33,268	20,539
Net Profit	3999	4716	5153	14,329	18,207	21,631	25,194	14,262
Gross earnings per share	1.26	1.41	1.54	4.07	5.20	0.60 (*)	0.66 (*)	0.41 (*)
Net earnings per share	0.80	0.94	1.03	2.87	3.64	0.43 (*)	0.50 (*)	0.28 (*)

Source: *HSL Company Prospectuses and Annual Reports - various issues.*

(*) Based on HSL's enlarged share capital of 50 million shares. Previous to June 1996, HSL's share capital stood at five million shares only.

Table 3: Turnover, Tax and Profitability Data for HSL, 1999-2003

Year Ended 31st December (RM'000)					
Year	1999	2000	2001	2002	2003
Turnover	151,458	140,704	144,537	189,612	287,526
Gross Profit	16,369	8933	11,203	17,246	29,360
Net Profit	16,368	6631	7480	12,177	20,688
Gross earnings per share	21.82	8.84	9.97	16.31	28.1
Net earnings per share	n.a.	n.a.	n.a.	n.a.	n.a.

Source: *HSL Company Prospectuses and Annual Reports - various issues.*

Appendix 1: A Partial List of Projects and Their Value Secured by CMS, PPES Works Sdn.Bhd. and other CMS Subsidiaries from the Sarawak Government and Negeri Agencies, 1990-1999.

Project	**Contract Value (RM million)**	**Year**
Miri Airport runway resurfacing project	2.75	1993
New Dalat Township	n.a.	1995
New Dalat Hospital	n.a.	1995
Fairway Villa Homes	4.5	1995
Bako Causeway	n.a.	1994/1995
2020 Road	n.a.	
Satok Flyover	27.4	
Palm Road/Ong Kee Hui Road improvement	20	
300-acre Kuching City Extension Project (Pending)	n.a.	
Cumulative value of construction projects	170	1990-1996
Tanjung Manis Water Supply	n.a.	1990-1997
Pasir Pandak Road	n.a.	
Grigat-Selalang Road	n.a.	
Sealing of Ulu Balingian/Batang Oya road	n.a.	
Sungai Sarawak Regulation Scheme	)	1996
Kuching Outer Ring Road	)	
Miri Water Supply Scheme	) 680	
Tubau-Bakun Access Road (Priority Works) Package 1	)	
75.8km Tubau-Bakun Road – Packages 1,2 and 3	200	1996
Istana Road & Matang Road rehabilitation	n.a.	1996
Sarikei/Serdeng/Pulau Bruit/Tebaang Road (Turnkey project)	42	1996
Mulu airstrip and runway upgrade/extension	15	1996
Kuching International Airport runway resurfacing project	8.1	1995/1996

Sources: CMS Annual Reports 1994, 1995, 1996, 1997, 1998; CMS Press Releases (various issues); Business Times; Malaysian Business; The Edge; The Star.

Appendix 1: A Partial List of Projects and Their Value Secured by CMS, PPES Works Sdn.Bhd. and other CMS Subsidiaries from the Sarawak Government and Negeri Agencies, 1990-1999 (cont.).

Project	**Contract Value (RM million)**	**Year**
43.3km Lundu/Sempadi/Selang coastal road	65	1997
Site clearance, sand filling, construction of earth bunds and earth drains at Sama Jaya Free Industrial Zone (Phase IV – Stage 1)	34	1997
Two pieces of land (2,103 hectares) alienated to CMS for Projek Bandar Samariang housing and township development. Joint venture with Employees Provident Fund.	n.a.	1997
Negeri-wide road construction and maintenance projects	300 - 500	1997
950 meter berth at Bintulu Port	210	1997
Supply of large box culverts for Bakun Access Road Project	n.a.	1997
Road pavement contract for the Sarikei/Serdeng/Pulau Bruit/Tebaang Road	n.a.	1998
Managing and expediting of supply contracts to the Sarawak Negeri government by PPES Trading Sdn. Bhd.	n.a.	1998
Oya Mosque	n.a.	n.a.
PPES Works contracts in hand	1,000	1998
First Stretch (11 km.) Bakun Road linking Tubau, Bintulu with proposed Bakun dam project	n.a.	1998
Sarawak River Regulation Scheme and Barrage Project	150	
Miri Water Supply Third Expansion Scheme Phase II – Raw Water Transfer System from Sg. Bakong to Sg. Liku	80	1998
Supply, Delivery, Installation and Commissioning of Plant and Equipment for the Batu Kitang Water Treatment Plant (Module 6)	21.34	1998
1.5km Tanjung Manis Airport, Sarikei	38.6	1999

Sources: CMS Annual Reports 1994, 1995, 1996, 1997, 1998; CMS Press Releases (various issues); Business Times; Malaysian Business; The Edge; The Star.

Appendix 2: A Partial List of Development Projects and their Value Secured by HSL, 1989-1999

No.	Project	Client	Contract Value (RM million)	Year of Project Commencement and Completion
1	Site clearance, land reclamation and infrastructural works, Sejingkat Industrial Estate Phase I & II*	Min. of Industrial Development	8.3	1989 – 1991
2	Supply and transportation of sea sand to Sebangan-Sebuyau road	Public Works Department	3.47	1990 – 1991
3	Site clearance, land reclamation and infrastructural works, Sejingkat Industrial Estate Phase III*	Min. of Industrial Development	25.13	1990 – 1993
4	Infrastructural engineering works and Hatchery for Kuala Santubong Marine Prawn Farm	PPES (Akua)	3.61	1990 – 1993
5	Construction and completion of infrastructure works to Demak Baru Resettlement Scheme (Phase II)	Dewan Bandaraya Kuching Utara	3.98	1991 – 1993
6	Sandfilling for the construction of Universiti Malaysia Sarawak	Woodhouse Sdn.Bhd.	2.04	1993 – 1993
7	Construction and completion of Batu Kawa-Tondong Road	Mechunma Sdn.Bhd.	4.3	1993 – 1994
8	Construction and completion of Fairway Villas Phase II, Kuching – Bulk earthworks and lake	Sarawak Economic Development Corporation	3.81	1993 – 1994
9	Site clearance, land reclamation and infrastructural works, Sejingkat Industrial Estate Phase IV*	Min. of Industrial Development	36.01	1993 – 1995
10	Site preparation works for New Kuching Deepwater Port	Kuching Port Authority	26.21	1994 – 1995
11	Site clearance, land reclamation and infrastructural works, Muara Tabuan Free Industrial Zone, Phase II #	IJM Coporation Bhd.	11.6	1994 – 1995
12	Construction and completion of farm roads and drain crossings for Mid Samarahan Block 1	See Yong & Son Construction Sdn.Bhd.	14.4	1994 – 1996
13	Construction and completion of the bulk earth works for Medan Raya Development, Petra Jaya	Dewan Bandaraya Kuching Utara	10.83	1994 – 1996
14	Construction and completion of site clearance, sand filling and infrastructure, Sarikei Light Industrial Estate	IJM Corporation Bhd (Min. of Industrial Development)	16.31	1994 – 1996

Source: *Company prospectuses, Registrar of Companies; various news reports; Kenanga Morgan Grenfell Research 1996.*
Notes: (*) Presently known as Demak Laut Industrial Estate; (#) Presently Sama Jaya Free Industrial Zone

Appendix 2: A Partial List of Development Projects and Their Value Secured by HSL, 1989-1999 (cont.)

15	Site clearance, land filling and infrastructure works, Muara Tabuan Free Industrial Zone Phase III	Min. of Industrial Development	24.0	1995 – 1996
16	Reclamation works for the Lok Kawi Resort (Sabah)	Sundovan Corporation Sdn.Bhd.	17.6	1995-1996
17	Construction and completion of Kuching-Samarahan Expressway, Stage 1	PPES Roads Sdn.Bhd.	5.4	1995 – 1996
18	Kuching – Kota Samarahan Expressway – Sg. Kuap and Sg. Setutong bridges	PPES Roads Sdn.Bhd.	16.95	1995 – 1997
19	Construction and completion of Tanjong Manis Port for Rejang Port Authority	Soon Hup Construction Co. (Rejang Port Authority)	9.6	1995 – 1997
20	New Kuching Deepwater Port, Senari	Kuching Port Authority (22.04% Joint venture with Nishimatsu Corporation and Kumpulan Construction)	160 (22% share = 35.4)	1995 – 1998
21	Infrastructure works for Demak Baru Resettlement Scheme Phases III & IV	Dewan Bandaraya Kuching Utara	8.96	1996 – 1997
22	External works for new Outdoor Stadium, Petra Jaya	Nishimatsu Construction (M) Sdn.Bhd.	6.0	1996 – 1997
23	Construction and completion of Sarikei/Serdeng/Pulau Beruit/Tebang Road	PPES Roads Sdn.Bhd.	14.4	1996 – 1998
24	Infrastructure works for Tebedu New Township, Phase II	Land & Custody Development Authority	6.2	1996 – 1998
25	Sejingkat Low Cost Housing project	Dynaku Sdn.Bhd.	51.2	1996 – 1999
26	Bakun Hydroelectric Dam Access Road	n.a.	n.a.	n.a.
27	Access road for container wharf and buildings for container terminal, Bintulu Port.	Bintulu Port Sdn.Bhd.	27.7	n.a.
28	Mambong Road	n.a.	n.a.	n.a.
29	Pending Sejingkat Road (Isthmus section)	n.a.	n.a.	n.a.
30	Site clearing, sand filling and infrastructural works, Sama Jaya Free Industrial Zone	n.a.	n.a.	n.a.
31	Coastal roads in Lundu, Spaoh, Bintulu and Sejingkat	n.a.	n.a.	n.a.
32	Marine sand extraction, sandfilling and site improvement works, Bandar Samariang Phase 1	n.a.	45.9	n.a.

Source: *Company prospectuses, Registrar of Companies; various news reports; Kenanga Morgan Grenfell Research 1996.*
Notes: (*) Presently known as Demak Laut Industrial Estate; (#) Presently Sama Jaya Free Industrial Zone

Appendix 2: A Partial List of Development Projects and Their Value Secured by HSL, 1991-1998 (cont.)

33	Further site clearing sand filling and infrastructural works, Kota Samarahan Industrial Estate	n.a.	n.a.	n.a.
34	Coastal and feeder roads and infrastructure works for Kasuma Resort, Kuching	n.a.	n.a.	n.a.
35	Low cost housing, Bandar Samariang Phase 2	n.a.	20.4	n.a.
36	Nibong-Tada Road Phase II	n.a.	n.a.	n.a.
37	Sibu and Tanjong Manis Airport civil works	n.a.	44.5	n.a.
38	Construction and completion of Road and Drainage System, Medan Raya Development, Petra Jaya	Dewan Bandaraya Kuching Utara	34.8	n.a.
39	Road works in Lundu-Sampadi, Samarahan, Sri Aman, Sarikei and Bintulu	n.a.	n.a.	n.a.
40	Demak Laut Industrial Park Phase II (Land reclamation and New Township)	Yakin Imbuh Sdn.Bhd.	3,000	n.a.
41	Water supply extension project, Kuching	n.a.	n.a.	n.a.
42	New refuse tipping site, Sibu	n.a.	n.a.	n.a.
43	Coastal protection works, Samarahan	n.a.	n.a.	n.a.
44	Sand filling and seawall construction, Damai Beach Resort	n.a.	n.a.	n.a.
45	Kulupu Jula Durin Road	Public Works Department	n.a.	n.a.
46	Bakong – Meradong Road	Public Works Department	n.a.	n.a.
47	Sebangan – Sibuyau Road	Public Works Department	n.a.	n.a.
48	Pasir Pandak Road	Public Works Department	n.a.	n.a.
49	Access Road and Bridge Works, Bakun Resettlement Scheme	n.a.	28.0	n.a.
50	Oxidisation Pond, Tanjong Batu, Bintulu	n.a.	n.a.	n.a.

Source: *Company prospectuses, Registrar of Companies; various news reports; Kenanga Morgan Grenfell Research 1996.*
Notes: (*) Presently known as Demak Laut Industrial Estate; (#) Presently Sama Jaya Free Industrial Zone