

SABAH DEVELOPMENT BANK BERHAD
(Incorporated in Malaysia)
AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company, which is incorporated as a public company, is granted consent in writing by the Minister of Finance to incorporate the word 'Bank' into its name.

The Company is principally involved in the provision of finance for development projects. The principal activities of the subsidiary companies are as disclosed in Note 22.

There have been no significant changes in the nature of the principal activities of the Company and its subsidiary companies during the financial year.

The Company, which is a scheduled institution under the Banking and Financial Institutions Act, 1989 and a development financial institution, is a limited liability public company incorporated and domiciled in Malaysia.

The registered office and principal place of business of the Company are located at 10th Floor, SDB Tower, Wisma Tun Fuad Stephens, Km 2.4, Jalan Tuaran, Karamunsing, 88300 Kota Kinabalu, Sabah, Malaysia.

The financial statements of the Group and of the Company were authorised for issue by the Board of Directors in accordance with a resolution of the directors on June 11, 2007.

2. ADOPTION OF NEW AND REVISED FINANCIAL REPORTING STANDARDS (FRS)

In 2005, the Group early adopted the following new and revised FRS which are effective for annual periods beginning on or after January 1, 2006:

FRS 3 Business Combinations
FRS 136 Impairment of Assets
FRS 138 Intangible Assets

The early adoption of the new and revised FRS in 2005 has resulted in changes in the Group's accounting policies and the effects on the changes are as follows:

In accordance with these new FRS, goodwill acquired in a business combination is carried at cost less any accumulated impairment losses and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired. Any impairment loss is recognised in profit or loss and subsequent reversal is not allowed. As of December 31, 2004, the Group had no goodwill. Accordingly, the change in accounting policy had no significant impact on the Group's financial statements in 2005.

Under FRS 3, any excess of the Group's interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities recognised over the cost of the business combination (previously referred to as "negative goodwill") is recognised immediately in profit or loss after reassessment. As of December 31, 2004, the Group had no "negative goodwill". Accordingly, the change in accounting policy had no significant impact on the Group's financial statements in 2005.

In addition, the finite useful lives of other intangible assets are assessed at the individual asset level and these intangible assets are stated at cost less accumulated amortisation and impairment losses, if any.

During the financial year, other than FRS 3, FRS 136 and FRS 138 which the Group has early adopted in 2005, the Group and the Company have adopted all of the new and revised FRS and Interpretations issued by the Malaysian Accounting Standards Board ("MASB") that are relevant to their operations and effective for annual periods beginning on or after January 1, 2006. The adoption of these new and revised FRS and Interpretations does not have any significant effects on the financial statements of the Group and of the Company except for the effects of the change in accounting policies resulting from the adoption of FRS 5 and FRS 140 which are as disclosed in Note 44.

At the date of authorisation of issue of these financial statements, the following FRS, amendments to FRS and Interpretations were in issue but not yet effective:

- FRS 117 *Leases* Effective for annual periods beginning on or after October 1, 2006
- FRS 124 *Related Party Disclosures* Effective for annual periods beginning on or after October 1, 2006
- FRS 139 *Financial Instruments: Recognition and Measurement* Effective date to be announced by MASB
- FRS 6 *Exploration for and Evaluation of Mineral Resources* Effective for annual periods beginning on or after January 1, 2007
- Amendment to FRS 119²⁰⁰⁴ *Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures* Effective for annual periods beginning on or after January 1, 2007
- Amendment to FRS 121 *The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation* Effective for annual periods beginning on or after July 1, 2007
- IC Interpretation 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* Effective for annual periods beginning on or after July 1, 2007
- IC Interpretation 2 *Members' Share in Corporative Entities and Similar Instruments* Effective for annual periods beginning on or after July 1, 2007

- IC Interpretation 5 *Rights to Interest Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* Effective for annual periods beginning on or after July 1, 2007
- IC Interpretation 6 *Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment* Effective for annual periods beginning on or after July 1, 2007
- IC Interpretation 7 *Applying the Restatement Approach under FRS 129²⁰⁰⁴ Financial Reporting in Hyperinflationary Economies* Effective for annual periods beginning on or after July 1, 2007
- IC Interpretation 8 *Scope of FRS 2* Effective for annual periods beginning on or after July 1, 2007

The directors anticipate that the adoption of these FRS, amendments to FRS and Interpretations, other than FRS 117 and FRS 139, in future periods will have no material impact on the financial statements of the Group and of the Company.

The impact of applying FRS 117 *Leases* and FRS 139 *Financial Instruments: Recognition and Measurement* on the financial statements upon first adoption of these standards as required by paragraph 30(b) of FRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors* are not required to be disclosed by virtue of exemptions provided under paragraph 67B of FRS 117 and paragraph 103AB of FRS 139 respectively.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance

The financial statements of the Group and of the Company have been prepared in accordance with the provisions of the Companies Act, 1965 and the applicable MASB approved accounting standards in Malaysia.

(b) Basis of Preparation

The financial statements of the Group and of the Company have been prepared under the historical cost convention unless otherwise indicated in the accounting policies stated below. The financial statements of the Group and of the Company incorporate all activities relating to the Islamic Banking business which have been undertaken by the Company. Islamic Banking business refers generally to the acceptance of deposits and granting of financing under the principles of Syariah.

(c) **Basis of Consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiary companies). Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiary companies acquired or disposed of during the financial year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiary companies to bring their accounting policies to be in line with those used by other members of the Group.

All significant intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Minority interests in the net assets (excluding goodwill) of consolidated subsidiary companies are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary company's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

(d) **Business Combinations**

The acquisition of subsidiary companies is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under FRS 3 *Business Combinations* are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

(e) **Associated Companies**

An associated company is an entity over which the Group holds not less than 20% of the voting rights as long-term investment and has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results of associated companies are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associated company are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associated company, less any impairment in the value of individual investment. Losses of an associated company in excess of the Group's interest in that associated company (which includes any long-term interests that, in substance, form part of the Group's net investment in the associated company) are not recognised.

Where a group entity transacts with an associated company, the Group's profits and losses are eliminated to the extent of the Group's interest in the relevant associated company.

(f) **Interest Income**

Interest income represents mainly income earned on loans, advances and financing and deposits placements with financial institutions.

(g) **Income Recognition**

Interest income is recognised on an accrual basis. Where an account is classified as non-performing, recognition of interest income is suspended until it is realised on a cash basis. Customers' accounts are classified as non-performing when repayments are in arrears for six months or more and where there is no confirmed scheme of repayment.

Interest income on overdue accounts is recognised on a cash basis.

Income from Islamic Banking business is recognised on a cash basis in accordance with the principles of Syariah.

Loan arrangement, management and participation fees are recognised upfront as income on contractual arrangement. Guarantee fee is recognised as income upon issuance of guarantees.

Dividend income represents gross dividends from investments in subsidiary companies, securities held-for-trading and securities held-to-maturity and is recognised when the shareholder's rights to receive payment is established.

Rental income, pertaining to a subsidiary company, is accrued on a time basis by reference to the agreements entered into.

Sale of bulk water to the Sabah State Government is recognised based on the quantity of treated water purchased by the Sabah State Government and at a fixed monthly fee in accordance with the Privatisation Cum Concession Agreement.

(h) **Interest Expense Recognition**

Interest expenses on deposits and borrowings are recognised on an accrual basis.

(i) **Foreign Currency**

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Ringgit Malaysia, which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

Transactions in currencies other than the Company's functional currency are converted into Ringgit Malaysia at exchange rates prevailing at the transaction dates or, where settlement has not yet been made at the end of the financial year, the assets and liabilities are converted at the approximate exchange rates prevailing at that date. All foreign exchange gains or losses are taken up in the income statements.

(j) **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available against which those deductible temporary differences, unused tax losses and unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) or other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

(k) Project Expenditure

Project expenditures relating to one of the indirect subsidiary companies represent direct costs including interest costs incurred during the construction work in relation to the water project and the rehabilitation programme. Rehabilitation costs and construction costs incurred on completed sections of the project are reported at cost less accumulated amortisation and accumulated impairment loss, if any. Amortisation is charged on a straight-line basis over the remaining period of the Concession.

Project expenditure and rehabilitation project expenditure pertaining to another indirect subsidiary company are stated at cost less reimbursements received. Cost comprises expenditure incurred on rehabilitation, replacement and improvement works to the existing water works owned by the Sabah State Government. These expenditures are amortised over eight to ten years.

(l) Construction Contract

Where the outcome of a construction contract pertaining to an indirect subsidiary company can be reliably estimated, contract revenue and contract costs are recognised as revenue and expenses respectively by using the percentage of completion method. The stage of completion is measured by reference to the proportion of contract costs incurred for work performed to date to the estimated total contract costs.

Where the outcome of a construction contract cannot be reliably estimated, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When the total of costs incurred on construction contract plus recognised profits (less recognised losses), exceeds progress billings, the balance is classified as amount due from customers on contracts. When progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is classified as amount due to customers on contracts.

(m) Property, Plant and Equipment

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

Depreciation is charged so as to write off the cost over their estimated useful lives using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate being accounted for on a prospective basis.

Capital work-in-progress is not depreciated. Certain long leasehold land with lease period of 999 years pertaining to a subsidiary and long leasehold land of the Company which has not been put into use are not depreciated as in the opinion of the directors, the effect of not depreciating the assets on the financial statements of the Group and of the Company is not material.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

The annual depreciation rates are as follows:

Long leasehold land	1.136% (over the remaining period of the lease)
Leasehold improvements	10% - 50%
Motor vehicles	20% - 25%
Office equipment and furniture	10% - 25%
Computer equipment	10% - 25%
Plant and equipment	20% - 25%

(n) Investment Properties

Investment properties pertaining to an indirect subsidiary company are properties which are held either to earn rental income or for capital appreciation or for both. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less any accumulated impairment losses.

No amortisation is provided for the investment property with an unexpired term of more than 50 years. The effect of the non-amortisation of the investment property on the financial statements is immaterial.

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

(o) Non-current Assets Held for Sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

(p) Intangible Assets

Franchise fee pertaining to a direct subsidiary company and intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the estimated economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Intangible assets with indefinite useful lives are not amortised but tested for impairment annually or more frequently if the events or changes in circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is also reviewed annually to determine whether the useful life assessment continues to be supportable.

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, if any on the same basis as intangible assets acquired separately.

(q) Properties Held for Resale

Properties held for resale pertaining to subsidiary companies, which comprise foreclosed properties, are stated at the lower of cost and fair value.

(r) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(s) **Repurchase Agreements**

Securities purchased under resale agreements, stated at cost, are securities which the Company purchased with a commitment to resell at future dates with maturity period of less than 30 days from the date of acquisition. The commitment to resell the securities is reflected as an asset in the balance sheets.

(t) **Securities**

The Group classifies its securities portfolio into securities held-for-trading, securities available-for-sale and securities held-to-maturity. Classification of the securities is determined at the time of initial recognition.

(i) **Securities held-for-trading**

Securities held-for-trading are securities acquired principally for the purpose of selling or repurchasing in the near term or is part of a portfolio of identified securities that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Shares held-for-trading are stated at the lower of cost and market value, determined on an aggregate portfolio basis. Other securities held-for-trading are stated at cost less allowance for diminution in value of investment.

(ii) **Securities available-for-sale**

Securities available-for-sale are securities that are not classified as held-for-trading or held-to-maturity. Securities available-for-sale are stated at cost less allowance for diminution in value of investment.

(iii) **Securities held-to-maturity**

Securities held-to-maturity are securities with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. Securities held-to-maturity are stated at cost. An allowance for diminution in value of investment is made when the directors are of the opinion that there is a diminution in their values, which is other than temporary.

(u) **Impairment of Assets**

At each balance sheet date, the Group and the Company review the carrying amounts of assets (other than goodwill, inventories, assets arising from construction contracts, deferred tax assets and financial assets which are dealt with in their respective policies) to determine if there is any indication that those assets may be impaired. If any such indication exists, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group and the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the income statements, unless the asset is carried at revalued amount, in which case, the impairment loss is treated as a revaluation decrease.

An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. A reversal is recognised in the income statements, unless it reverses an impairment loss on revalued assets, in which case, the reversal is treated as a revaluation increase.

(v) **Inventories**

Inventories, pertaining to an indirect subsidiary company, are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method and comprises the original purchase price plus cost incurred in bringing the inventories to their present condition and location. Net realisable value is the estimated selling price less all estimated costs of completion and costs necessary to make the sale.

(w) **Allowance for Bad and Doubtful Debts and Financing**

Specific allowances are made for bad and doubtful debts and financing which have been individually reviewed and specifically identified as doubtful.

A general allowance based on a set percentage of the loan and financing portfolio net of specific allowance and interest-in-suspense is also made. This percentage is reviewed annually and an adjustment is made to the overall general allowance, if necessary.

An uncollectible loan and financing or portion of a loan and financing classified as bad is written off when in the judgement of the management, there is no prospect of recovery after taking into consideration the realisable value of collateral.

(x) **Receivables**

Receivables other than loans, advances and financing are reduced by the appropriate allowances for estimated irrecoverable amounts. Allowance for doubtful debts is made based on estimates of possible losses which may arise from non-collection of certain receivable accounts.

(y) **Non-current Investments**

Non-current investments, pertaining to a direct subsidiary company and an indirect subsidiary company, are stated at cost less impairment losses. On disposal of an investment, the difference between net disposal proceeds and its carrying amount is recognised in profit or loss.

(z) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(aa) Liabilities

Liabilities are recognised when there is a contractual obligation to deliver cash or another financial asset to another entity. Deposits from customers are stated at placement values and adjusted for accrued interest. Other liabilities are stated at cost.

(bb) Employee Benefits

(i) Defined Contribution Plan

The Group and the Company are required by law to make monthly contributions to the Employees' Provident Fund ("EPF"), a statutory defined contribution plan for all their eligible employees based on certain prescribed rates of the employees' salaries. The Group's and the Company's contributions to EPF are disclosed separately. The employees' contributions to EPF are included in salaries and wages.

(ii) Retirement Gratuities Scheme

The Company has a non-contributory unfunded retirement gratuities scheme for its employees. Retirement gratuities are payable to employees of the Company who have been in service for at least ten years and who have reached retirement age or upon resignation. Provision for retirement gratuities is made based on eligible employees' basic salary and the number of completed years of service.

(cc) Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

- (i) Deferred tax assets (Note 28) - deferred tax assets are recognised for all utilised tax losses to the extent that it is probable that future taxable profit will be available against which the tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.
- (ii) Determining whether property, plant and equipment value is impaired requires an estimation of the value of the property, plant and equipment in use. This requires the Group to estimate the future cashflows expected from the property, plant and equipment and an appropriate discount rate in order to calculate the present value of the future cash flows. The carrying amount of property, plant and equipment at the balance sheet date is disclosed in Note 25.

(dd) Cash Flow Statements

The Group and the Company adopt the indirect method in the preparation of the cash flow statements.

Cash equivalents are short-term, highly liquid investments with maturities of three months or less from the date of acquisition and are readily convertible to cash with insignificant risks of changes in value.

4. INTEREST INCOME

	The Group		The Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Loans, advances and financing	64,522,026	52,041,877	87,644,413	67,404,924
Money at call and deposit placements with financial institutions	2,633,593	4,814,053	2,628,043	4,811,344
Securities held-for-trading	792,668	574,160	792,668	574,160
Securities held-to-maturity	629,531	629,531	629,531	629,531
Others	1,589,474	502,583	1,409,924	121,929
	<u>70,167,292</u>	<u>58,562,204</u>	<u>93,104,579</u>	<u>73,541,888</u>

5. INTEREST EXPENSE

	The Group		The Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Deposits from customers	18,497,689	15,959,314	18,497,689	15,959,314
Long-term borrowings	19,129,041	17,899,392	19,129,041	17,899,392
Short-term borrowings	14,174,117	10,509,603	14,174,117	12,591,213
Overdue accounts	2,081,983	2,771,274	-	-
Bank guarantee	21,600	22,938	-	-
Leasing and hire-purchase	11,526	19,731	-	-
Others	24,736	-	-	-
	<u>53,940,692</u>	<u>47,182,252</u>	<u>51,800,847</u>	<u>46,449,919</u>

6. OTHER OPERATING INCOME

	The Group		The Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Fee income:				
Commission	1,909,875	712,980	1,794,228	712,980
Other fee income	3,748,945	2,630,958	3,733,590	2,630,958
	<u>5,658,820</u>	<u>3,343,938</u>	<u>5,527,818</u>	<u>3,343,938</u>
Investment income:				
Gain arising from sale/ redemption of securities:				
Held-for-trading	18,076	37,721	18,076	37,721
Available-for-sale	57,600	2,995,000	57,600	2,995,000
Gain on disposal of properties held for resale	78,100	228,723	-	-
	<u>153,776</u>	<u>3,261,444</u>	<u>75,676</u>	<u>3,032,721</u>
Gross dividends:				
Securities held-for-trading	335,400	350,366	335,400	350,366
Subsidiary company	-	-	45,000,000	108,000,000
	<u>335,400</u>	<u>350,366</u>	<u>45,335,400</u>	<u>108,350,366</u>
Other income:				
Sale of bulk water to Sabah State Government	96,043,896	96,252,058	-	-
Gain on disposal of property, plant and equipment	146,401	48,036	87,774	47,337
Rental income	83,143	54,000	-	-
Realised gain on foreign exchange	32,219	15,015	32,219	15,015
Dividend tax credits	-	34,055,980	-	-
Other non-operating income	2,757,008	2,207,110	2,579,437	2,145,901
	<u>99,062,667</u>	<u>132,632,199</u>	<u>2,699,430</u>	<u>2,208,253</u>
	<u>105,210,663</u>	<u>139,587,947</u>	<u>53,638,324</u>	<u>116,935,278</u>

Included in other non-operating income of the Group and of the Company is an amount of RM2,316,584 (2005: RM1,932,604) given by the Sabah State Government in consideration for the prepayment of RM38,652,080 made by the Company for the proposed acquisition of 38.7% equity interest in an insurance company, which has since not materialised as mentioned in Note 20.

7. OTHER OPERATING EXPENSES

	The Group		The Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Staff costs	9,362,570	9,335,531	4,835,027	4,321,100
Personnel costs	1,208,643	978,014	1,208,643	978,014
Establishment costs	2,053,787	1,211,263	1,593,498	848,568
Marketing expenses	469,922	332,702	469,922	332,702
Direct cost and administrative and other overhead expenses	55,034,492	49,748,579	3,163,115	1,709,539
	<u>68,129,414</u>	<u>61,606,089</u>	<u>11,270,205</u>	<u>8,189,923</u>

The above expenditure includes the following statutory disclosure items:

Amortisation of project expenditures (Note 24)	27,247,489	27,258,090	-	-
Directors' remunerations (Note 8)	1,705,358	1,418,626	1,096,030	954,501
Depreciation of property, plant and equipment	1,379,712	594,921	919,423	232,226
Rental of premises payable to:				
Sabah State				
Government	502,768	463,919	452,768	413,919
Others	146,011	136,664	14,620	14,620
Provisions for:				
Rectification works	2,630,000	3,000,000	-	-
Structural repair	2,400,000	-	-	-
Retirement gratuities	355,140	218,643	355,140	218,643
Foreseeable losses	-	3,000,000	-	-
Fees payable to external auditors:				
Auditors of the Company:				
Current	58,500	58,800	50,000	54,000
Overprovision in prior year	(4,000)	-	(4,000)	-
Other auditors:				
Current	39,868	35,848	-	-
Underprovision in prior year	2,050	-	-	-
Property, plant and equipment written off	1,816	1,815	-	-
Bad debts written off	-	41,378	-	-

Included in staff costs of the Group and of the Company are contributions of the Group and of the Company to Employees' Provident Fund amounting to RM1,116,256 (2005: RM1,045,567) and RM610,642 (2005: RM544,282) respectively.

8. DIRECTORS' REMUNERATION

This represents remuneration in aggregate for all directors charged to the income statements for the year.

	The Group		The Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Directors of the Company:				
Fees - Non-executive directors	176,000	159,500	176,000	159,500
Other emoluments:				
Executive director	776,301	684,173	776,301	684,173
Non-executive directors	143,729	110,828	143,729	110,828
	<u>1,096,030</u>	<u>954,501</u>	<u>1,096,030</u>	<u>954,501</u>
Directors of the subsidiary companies:				
Fees - Non-executive directors	120,000	150,000	-	-
Other emoluments:				
Executive director	417,328	294,125	-	-
Non-executive directors	72,000	20,000	-	-
	<u>609,328</u>	<u>464,125</u>	<u>-</u>	<u>-</u>
	<u>1,705,358</u>	<u>1,418,626</u>	<u>1,096,030</u>	<u>954,501</u>

Included in other emoluments of the executive director of the Company are Employees' Provident Fund contributions of RM93,474 (2005: RM81,172) made by the Company.

The estimated monetary value of benefits-in-kind received or receivable by the directors otherwise than in cash from the Group and the Company amounted to RM18,840 and RM18,840 (2005: RM35,059 and RM34,063) respectively.

9. ALLOWANCE FOR LOSSES ON LOANS AND FINANCING

	The Group and the Company	
	2006	2005
	RM	RM
Allowance for bad and doubtful debts and financing:		
Specific allowance		
- made during the financial year	13,521,052	94,477,361
- written back during the financial year	(15,000,425)	-
General allowance		
- made during the financial year	5,020,644	2,329,917
- written back during the financial year	(486,117)	(1,229,599)
Bad debts		
- written off	-	2,039
- recovered	(100,962)	(39,894)
	<u>2,954,192</u>	<u>95,539,824</u>

10. WRITE-BACK OF ALLOWANCE/(ALLOWANCE) FOR DIMINUTION IN VALUE

	The Group		The Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
Allowance for diminution in value of:				
Securities held-for-trading	(2,073,612)	(16,407,706)	(2,073,612)	(16,407,706)
Securities available-for-sale	-	(1,797,118)	-	(1,797,118)
Securities held-to-maturity	-	(13,248,365)	-	(13,248,365)
Write-back of allowance for diminution in value of:				
Securities held-for-trading	2,304,031	-	2,304,031	-
Securities available-for-sale	763,159	-	763,159	-
Write-down of investment property	-	(14,000,000)	-	-
	<u>993,578</u>	<u>(45,453,189)</u>	<u>993,578</u>	<u>(31,453,189)</u>

11. NET CREDITS ARISING FROM ACQUISITION OF SUBSIDIARY COMPANIES

This, arising from the acquisition of two new subsidiary companies in 2005 as mentioned in Note 22, consists of the following:

	The Group	
	2006 RM	2005 RM
Excess of net fair values of identifiable assets and liabilities over cost of subsidiary companies acquired during the year	-	115,016,729
Fair value adjustment attributable to the initial 35% equity interest acquired in prior year	-	(37,380,000)
Excess of book values of identifiable assets and liabilities over cost of 20% minority interest acquired during the year	-	<u>35,540,246</u>
Net	<u>-</u>	<u>113,176,975</u>

As disclosed in Note 2, the Group early adopted FRS 3 *Business Combinations* in accounting for acquisitions of the subsidiary companies in 2005. The excess of the Group's interest in the net fair values of the acquirees' identifiable assets, liabilities and contingent liabilities recognised over the cost of acquisition as detailed in Note 22 of RM115,016,729 has been reassessed and recognised in profit or loss in accordance with the provisions of FRS 3.

12. INCOME TAX EXPENSE

	The Group		The Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Current tax expense	(767,883)	(20,714,665)	-	-
Deferred tax income/ (expense) (Notes 28 and 35)	(15,777,964)	2,794,064	(24,532,000)	(3,390,000)
Overprovision in prior years:				
Current tax expense	88,099	74,829	57,360	-
Deferred tax expense (Note 28)	<u>561,000</u>	<u>-</u>	<u>561,000</u>	<u>-</u>
	<u>(15,896,748)</u>	<u>(17,845,772)</u>	<u>(23,913,640)</u>	<u>(3,390,000)</u>

A numerical reconciliation of income tax expense at the applicable income tax rates to income tax expense at the effective income tax rate is as follows:

	The Group		The Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Profit before tax	<u>52,291,288</u>	<u>61,989,910</u>	<u>82,835,862</u>	<u>9,288,448</u>
Tax at the applicable tax rates of 20% and 28%	(15,720,354)	(11,118,715)	(23,194,041)	(2,600,765)
Tax effects of expenses that are not deductible in determining taxable profit	(2,150,655)	(6,205,297)	(152,264)	(141,883)
Tax effects of income not subject to tax	164,040	10,380	164,040	10,380
Utilisation of previously unrecognised tax losses	8,975	42,428	-	-
Deferred tax assets not recognised during the year	(169,383)	-	-	-
Net effect of changes in tax rates	1,304,265	-	(1,367,000)	-
Overprovision in prior years:				
Current tax expense	88,099	74,829	57,360	-
Deferred tax expense	561,000	-	561,000	-
Others	<u>17,265</u>	<u>(649,397)</u>	<u>17,265</u>	<u>(657,732)</u>
	<u>(15,896,748)</u>	<u>(17,845,772)</u>	<u>(23,913,640)</u>	<u>(3,390,000)</u>

As of December 31, 2006, the Group and the Company have tax-exempt income of RM221,880 (2005: RM214,580) and RM214,966 (2005: RM207,666) respectively arising from exempt dividend received and the chargeable income the tax payable on which was waived in 1999 in accordance with the Income Tax (Amendment) Act, 1999. The said amount, which has been agreed by the tax authorities, is available to frank the distribution of tax-exempt dividends to the shareholder of the Company and to the Company.

13. BASIC EARNINGS PER ORDINARY SHARE

	The Group	
	2006	2005
Profit for the year attributable to ordinary shareholder	<u>RM36,389,084</u>	<u>RM39,402,138</u>
Number of ordinary shares in issue as of January 1	365,000,000	365,000,000
Effect of new issue during the year	<u>5,416,667</u>	<u>-</u>
Weighted average number of ordinary shares in issue	<u>370,416,667</u>	<u>365,000,000</u>
Basic earnings per ordinary share	<u>9.82 sen</u>	<u>10.80 sen</u>

14. CASH AND SHORT-TERM FUNDS

	The Group		The Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Cash and bank balances with banks and other financial institutions	12,152,496	13,159,512	7,954,404	11,263,628
Money at call and deposit placements with financial institutions maturing within one month	<u>3,570,433</u>	<u>67,103,373</u>	<u>3,570,433</u>	<u>67,103,373</u>
	<u>15,722,929</u>	<u>80,262,885</u>	<u>11,524,837</u>	<u>78,367,001</u>

The average effective interest rates are as follows:

	The Group		The Company	
	2006 %	2005 %	2006 %	2005 %
Bank balances	1.9	1.9	1.9	1.9
Money at call	<u>3.3</u>	<u>2.8</u>	<u>3.3</u>	<u>2.8</u>

15. DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

	The Group		The Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Licensed banks	9,050,000	51,967,181	5,200,000	36,597,214
Licensed finance companies	-	1,078,395	-	1,078,395
Other financial institutions	<u>7,423,778</u>	<u>14,765,335</u>	<u>7,000,000</u>	<u>14,677,173</u>
	<u>16,473,778</u>	<u>67,810,911</u>	<u>12,200,000</u>	<u>52,352,782</u>

Included in deposits and placements of the Group are amounts totalling RM1,182,943 (2005: RM1,415,866) pledged to secure bank guarantee facilities granted to two indirect subsidiary companies.

The average effective interest rate of the Group and of the Company is 3.23% (2005: 3.25%) and 3.60% (2005: 3.60%) per annum respectively.

Deposits and placements of the Group and of the Company have an average maturity of 224 days (2005: 226 days).

16. SECURITIES HELD-FOR-TRADING

	The Group and the Company	
	2006	2005
	RM	RM
At cost		
Quoted securities in Malaysia:		
Shares	25,773,200	23,946,433
Unit trusts	5,649,992	5,649,992
Redeemable convertible unsecured loan stocks	2,254,065	2,254,065
Irredeemable convertible unsecured loan stocks	5,871,452	5,871,452
Warrants	2,346	2,346
	39,551,055	37,724,288
Less: Allowance for diminution in value of:		
Shares	(12,947,356)	(13,302,951)
Unit trusts	(4,243,020)	(4,289,847)
Redeemable convertible unsecured loan stocks	(157,785)	(676,219)
Irredeemable convertible unsecured loan stocks	(2,955,278)	(2,265,192)
Warrants	(352)	-
	(20,303,791)	(20,534,209)
	19,247,264	17,190,079
Market value:		
Shares	13,853,278	11,050,929
Unit trusts	1,406,972	1,360,145
Redeemable convertible unsecured loan stocks	2,096,280	1,577,845
Irredeemable convertible unsecured loan stocks	2,922,864	3,606,259
Warrants	1,995	2,698
	20,281,389	17,597,876

17. SECURITIES AVAILABLE-FOR-SALE

	The Group and the Company	
	2006	2005
	RM	RM
At cost		
Quoted securities in Malaysia:		
Irredeemable convertible unsecured loan stocks	2,461,806	2,461,806
Unquoted securities in Malaysia:		
Venture capital fund	11,094,605	11,174,605
Shares	<u>3,266,700</u>	<u>3,200,000</u>
	16,823,111	16,836,411
Less: Allowance for diminution in value of:		
Irredeemable convertible unsecured loan stocks	(1,033,959)	(1,797,118)
Venture capital fund	(4,613,000)	(4,613,000)
Shares	<u>(3,200,000)</u>	<u>(3,200,000)</u>
	(8,846,959)	(9,610,118)
	<u>7,976,152</u>	<u>7,226,293</u>
Market value:		
Irredeemable convertible unsecured loan stocks	<u>1,427,847</u>	<u>664,688</u>

Investment in venture capital company, Pengurusan EMGC Sdn. Bhd. in which the Company holds more than 20% equity interest has not been classified as investment in associated companies as in the opinion of the directors, the Company is not in a position to exercise significant influence through management participation.

18. SECURITIES HELD-TO-MATURITY

	The Group and the Company	
	2006	2005
	RM	RM
At cost		
Money market instruments:		
Malaysian Government Securities	7,000,000	7,000,000
Mudharabah placements	17,559,538	14,393,158
Unquoted securities in Malaysia:		
Redeemable convertible secured loan stocks	51,558,653	54,312,685
Redeemable convertible unsecured loan stocks	4,208,503	4,208,503
Redeemable secured loan stocks	16,329,722	16,329,722
Redeemable exchangeable secured loan stocks	8,926,000	8,926,000
	<u>105,582,416</u>	<u>105,170,068</u>
Less: Allowance for diminution in value of redeemable convertible secured loan stocks	<u>(20,450,880)</u>	<u>(20,450,880)</u>
	<u>85,131,536</u>	<u>84,719,188</u>
Market value:		
Money market instruments:		
Malaysian Government Securities	<u>7,354,900</u>	<u>7,565,600</u>

The maturity structure of money market instruments is as follows:

	The Group and the Company	
	2006	2005
	RM	RM
Maturing within one year	17,559,538	14,393,158
Two years to five years	7,000,000	7,000,000
	<u>24,559,538</u>	<u>21,393,158</u>

Redeemable loan stocks, which are redeemable upon maturity, have the following maturity structure:

	The Group and the Company	
	2006	2005
	RM	RM
Overdue or maturing within one year	21,303,000	22,542,667
One year to three years	13,871,503	13,871,503
Three years to five years	45,848,375	47,362,740
	<u>81,022,878</u>	<u>83,776,910</u>

19. LOANS, ADVANCES AND FINANCING

	The Group		The Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Revolving credits	598,087,921	610,378,613	909,117,392	883,657,457
Term loans	772,608,133	550,497,202	772,608,133	550,497,202
Short-term advances	151,511,788	126,547,281	157,178,045	132,213,538
Staff loans	1,491,543	1,683,014	1,491,543	1,683,014
Other loans	71,940,287	71,649,815	71,940,287	71,649,815
	<u>1,595,639,672</u>	<u>1,360,755,925</u>	<u>1,912,335,400</u>	<u>1,639,701,026</u>
Unearned income	<u>(50,676)</u>	<u>(434,993)</u>	<u>(50,676)</u>	<u>(434,993)</u>
Gross loans, advances and financing	1,595,588,996	1,360,320,932	1,912,284,724	1,639,266,033
Less:				
Allowance for bad and doubtful debts and financing	<u>(663,961,721)</u>	<u>(643,093,944)</u>	<u>(663,961,721)</u>	<u>(643,093,944)</u>
Net loans, advances and financing	<u>931,627,275</u>	<u>717,226,988</u>	<u>1,248,323,003</u>	<u>996,172,089</u>

Included in loans, advances and financing of the Company are the following outstanding amounts due from direct and indirect subsidiary companies:

	The Company	
	2006 RM	2005 RM
Revolving credits	311,030,394	273,278,844
Short-term advances	<u>5,666,257</u>	<u>5,666,257</u>

The average interest rate for revolving credits granted to the direct and indirect subsidiary companies is 8.50% (2005: 8.55%) per annum while the short-term advances are interest-free. The revolving credits and short-term advances are unsecured and repayable within the next 12 months.

(i) The maturity structure of gross loans, advances and financing is as follows:

	The Group		The Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Maturing within one year	1,234,291,638	1,131,948,465	1,550,987,366	1,410,893,566
One year to three years	265,581,653	129,369,895	265,581,653	129,369,895
Three years to five years	35,523,225	36,716,204	35,523,225	36,716,204
Over five years	<u>60,192,480</u>	<u>62,286,368</u>	<u>60,192,480</u>	<u>62,286,368</u>
	<u>1,595,588,996</u>	<u>1,360,320,932</u>	<u>1,912,284,724</u>	<u>1,639,266,033</u>

(ii) Gross loans, advances and financing analysed by their economic purposes are as follows:

	The Group		The Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Real estate and construction	641,863,131	587,950,440	641,863,131	587,950,440
Infrastructure construction	348,662,339	96,685,409	348,662,339	169,726,943
Manufacturing	192,715,150	159,019,679	192,715,150	159,019,679
Finance, insurance and business services	114,336,754	109,091,276	114,336,754	109,091,276
Agriculture, mining and quarrying	54,874,061	107,779,296	54,874,061	107,779,296
General commerce	35,959,455	35,144,314	35,959,455	35,144,314
Housing	942,375	1,100,078	942,375	1,100,078
Others	<u>206,235,731</u>	<u>263,550,440</u>	<u>522,931,459</u>	<u>469,454,007</u>
	<u>1,595,588,996</u>	<u>1,360,320,932</u>	<u>1,912,284,724</u>	<u>1,639,266,033</u>

20. OTHER ASSETS

	The Group		The Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Non-current investments in:				
Islamic Gold Dinar	673,589	-	-	-
Transferable corporate club membership	101,780	101,780	-	-
Investment property	816,000	816,000	-	-
Interest receivables	312,946	1,284,071	312,946	1,283,690
Properties held for resale	5,506,212	2,521,102	-	-
Receivables, deposits and prepayments	<u>443,750,692</u>	<u>359,873,424</u>	<u>204,255,188</u>	<u>158,231,343</u>
	<u>451,161,219</u>	<u>364,596,377</u>	<u>204,568,134</u>	<u>159,515,033</u>

As of December 31, 2006, non-current investment in Islamic Gold Dinar has a market value of RM663,393.

Investment property, pertaining to an indirect subsidiary company which consists of a parcel of long leasehold land together with a factory building erected thereon, is stated at cost less allowance for impairment loss of RM14,000,000 (2005: RM14,000,000).

Properties held for resale pertaining to a direct subsidiary company consist of the following:

	The Group	
	2006 RM	2005 RM
At cost:		
Freehold land	5,099,202	99,202
Long leasehold land	407,010	-
Factory building	<u>-</u>	<u>2,421,900</u>
	<u>5,506,212</u>	<u>2,521,102</u>

As of December 31, 2006, two parcels of freehold land pertaining to a direct subsidiary company with a total carrying amount of RM99,202 (2005: RM99,202) are in the process of being registered in the name of a third party who would hold them in trust for the direct subsidiary company while the remaining four parcels of freehold land with a total carrying amount of RM5 million (2005: RM Nil) are registered in the name of a third party who hold them in trust for the direct subsidiary company. The long leasehold land which was acquired by the said subsidiary company during the financial year with a total carrying amount of RM407,010 is in the process of being registered in the name of a third party who would hold it in trust for the direct subsidiary company.

Receivables, deposits and prepayments consist of the following:

	The Group		The Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
Trade receivable	304,811,263	237,210,721	-	-
Prepayments	40,663,422	39,362,624	40,112,657	38,891,174
Tax refundable	51,459,941	34,391,188	43,001,165	30,513,395
Penalty interest recoverable from the Sabah State Government	30,000,000	30,000,000	-	-
Amount receivable from the Sabah State Government	13,024,456	8,574,939	10,047,000	7,730,416
Other receivables	1,615,241	7,984,846	102,159	3,096,081
Inventories	1,536,302	1,664,942	-	-
Amount due from subsidiary company	-	-	110,785,263	77,785,000
Deposits	540,597	643,887	175,000	175,000
Front-end bond interest	31,944	40,277	31,944	40,277
Accrued income on non-current investment	17,006	-	-	-
Franchise fee	50,520	-	-	-
	<u>443,750,692</u>	<u>359,873,424</u>	<u>204,255,188</u>	<u>158,231,343</u>

Trade receivable pertaining to an indirect subsidiary company consists of:

	The Group	
	2006	2005
	RM	RM
Trade receivable	472,811,263	405,210,721
Less: Allowance for doubtful debts - fair value adjustment arising from business combination	<u>(168,000,000)</u>	<u>(168,000,000)</u>
	<u>304,811,263</u>	<u>237,210,721</u>

Trade receivable represents amount due from the Sabah State Government, the sole customer of the indirect subsidiary company for sale of bulk water. The credit period granted is 45 days (2005: 45 days.)

Prepayments comprise mainly an amount of RM38,652,080 (2005: RM38,652,080) being full consideration in respect of the proposed acquisition of 38.7% equity interest in an insurance company from the Sabah State Government which has since not materialised.

Penalty interest recoverable for the Sabah State Government, which arose in prior year from business combination, represents the fair value adjustment on interest-in-suspense pertaining to an indirect subsidiary company which would only be recognised in the income statement upon receipt by the indirect subsidiary company.

Included in amount receivable from the Sabah State Government are amounts totalling RM10,047,000 (2005: RM7,730,416) representing cumulative income receivable from the Sabah State Government in consideration for the abovementioned prepayment.

Inventories pertaining to an indirect subsidiary company consist of:

	The Group	
	2006	2005
	RM	RM
Chemicals	751,041	879,681
Spare parts	785,261	785,261
	<u>1,536,302</u>	<u>1,664,942</u>

Amount due from subsidiary company is unsecured, interest-free and has no fixed repayment terms.

Franchise fee represents fee paid by a direct subsidiary company to a corporate shareholder of the direct subsidiary company to operate as a Wakala in the State of Sabah.

21. NON-CURRENT ASSET HELD FOR SALE

Non-current asset held for sale represents a parcel of long leasehold land that is being disposed of. The vacant possession of the said land has yet to be delivered to the buyer pending full settlement of purchase consideration by the buyer pursuant to the Sale and Purchase Agreement. In accordance with the terms of the said agreement, deposits totalling RM1,000,000 have been paid by the buyer as of December 31, 2006.

22. INVESTMENT IN SUBSIDIARY COMPANIES

	The Company	
	2006	2005
	RM	RM
Unquoted shares - at cost	<u>2,570,002</u>	<u>10,002</u>

The subsidiary companies are as follows:

Name of Company	Country of Incorporation	Effective Equity Interest		Principal Activities
		2006 %	2005 %	
Direct Subsidiary Companies				
Sedia Usaha Sdn. Bhd.	Malaysia	100	100	Investment and property holding
Sabah Development Nominees (Tempatan) Sdn. Bhd.	Malaysia	100	100	Nominee services and insurance agency
SDB Asset Management Sdn. Bhd.	Malaysia	100	-	Management fund services
Sabah Gold Traders Sdn. Bhd.*	Malaysia	80	-	Trading of gold dinar and silver dirham

Name of Company	Country of Incorporation	Effective Equity Interest		Principal Activities
		2006 %	2005 %	
Indirect Subsidiary Companies				
Kota Kinabalu Water Sdn. Bhd. *	Malaysia	100	100	Investment holding
Corporate Dynamics Sdn. Bhd.*	Malaysia	100	100	Operation and maintenance of water treatment facilities
Jetama Sdn. Bhd.*	Malaysia	100	100	Concessionaire to supply treated water to the Sabah State Government

*The financial statements of these companies were examined by auditors other than the auditors of the Company.

Kota Kinabalu Water Sdn. Bhd. is a wholly-owned subsidiary company of Sedia Usaha Sdn. Bhd.

Corporate Dynamics Sdn. Bhd. and Jetama Sdn. Bhd. are wholly-owned subsidiary companies of Kota Kinabalu Water Sdn. Bhd.

During the financial year, the Group acquired the following subsidiary companies:

(a) SDB Asset Management Sdn. Bhd.

On November 9, 2005, the Company entered into a Sale and Purchase Agreement with Borneo Samudera Sdn. Bhd., an indirect subsidiary of the Sabah State Government and a third party to acquire 100% equity interest in SDB Asset Management Sdn. Bhd. (formerly known as Suria Asset Management Sdn. Bhd.), a company incorporated in Malaysia, which is involved in providing fund management services. The take over was successfully executed in March 2006.

The cost of acquisition comprised purchase consideration satisfied by cash amounting to RM100,000.

The net liabilities acquired in the transaction, and the excess of cost over the Group's interest in the net fair value of SDB Asset Management Sdn. Bhd.'s identifiable assets and liabilities are as follows:

	Acquiree's Carrying Amount Before Combination RM	Fair Value Adjustments RM	Fair Value RM
Plant and equipment	9,473	-	9,473
Trade receivables	3,782	-	3,782
Other receivables and prepaid expenses	37,889	-	37,889
Pledged fixed deposits	150,000	-	150,000
Cash and bank balances	481	-	481
Other payables and accrued expenses	<u>(282,197)</u>	-	<u>(282,197)</u>
Total net liabilities	<u>(80,572)</u>	-	<u>(80,572)</u>
Goodwill arising from acquisition of subsidiary company			<u>180,572</u>
Total consideration, satisfied by cash			100,000
Cash and cash equivalents of subsidiary company acquired			<u>(150,481)</u>
Net cash inflow arising on acquisition			<u>(50,481)</u>

(b) **Sabah Gold Traders Sdn. Bhd.**

On June 20, 2006, the Company acquired 100% equity interest in Sabah Gold Traders Sdn. Bhd., a company newly incorporated in Malaysia, which is involved in Wakala business. On July 28, 2006, the Company divested 20% of its equity interest to a third party.

In 2005, the Group acquired the following subsidiary companies:

(a) **Corporate Dynamics Sdn. Bhd.**

On January 3, 2005, the Group, through an indirect subsidiary company, Kota Kinabalu Water Sdn. Bhd., acquired 100% equity interest in Corporate Dynamics Sdn. Bhd., a company incorporated in Malaysia, which is involved in the operation and maintenance of water treatment facilities.

The cost of acquisition comprised the following:

	RM
Purchase consideration satisfied by cash	56,000,000
Cost attributable to the acquisition paid in cash	<u>168,000</u>
Total cost of acquisition	<u><u>56,168,000</u></u>

The net assets acquired in the transaction, and the excess of the Group's interest in the net fair value of Corporate Dynamics Sdn. Bhd.'s identifiable assets and liabilities over cost are as follows:

	Acquiree's Carrying Amount Before Combination RM	Fair Value Adjustments RM	Fair Value RM
Plant and equipment	519,859		519,859
Project expenditures	1,069,579	30,000,000	31,069,579
Inventories	1,122,266	-	1,122,266
Trade receivables	86,778,405	8,000,000	94,778,405
Other receivables	979,073	-	979,073
Fixed deposits	6,277,650	-	6,277,650
Cash and bank balances	389,804	-	389,804
Trade payables	(35,183,719)	-	(35,183,719)
Other payables	(1,867,972)	-	(1,867,972)
Borrowings	(292,787)	-	(292,787)
Tax liabilities	(5,579,126)	-	(5,579,126)
Deferred tax liabilities	<u>(24,384)</u>	<u>(2,240,000)</u>	<u>(2,264,384)</u>
Total net assets	<u>54,188,648</u>	<u>35,760,000</u>	89,948,648
Excess of net fair value of identifiable assets and liabilities over cost of business combination			<u>(33,780,648)</u>
Total consideration, satisfied by cash			56,168,000
Cash and cash equivalents of subsidiary company acquired			<u>(6,667,454)</u>
Net cash outflow arising on acquisition			<u><u>49,500,546</u></u>

(b) Jetama Sdn. Bhd.

On January 3, 2005, the Group, through an indirect subsidiary company, Kota Kinabalu Water Sdn. Bhd., acquired an additional 45% equity interest in its associated company Jetama Sdn. Bhd., a company incorporated in Malaysia, which holds a 20-year concession to supply treated water to the Sabah State Government.

The cost of acquisition comprised the following:

	RM
Purchase consideration satisfied by cash on the acquisition of 35% equity interest in prior year	65,000,000
Purchase consideration satisfied by cash on the acquisition of 45% equity interest during 2005	15,428,572
Cost attributable to the acquisition paid in cash during 2005	<u>373,365</u>
Total cost of acquisition	<u>80,801,937</u>

The net assets acquired in the transaction, and the excess of the Group's interest in the net fair value of Jetama Sdn. Bhd.'s identifiable assets and liabilities over cost are as follows:

	Acquiree's Carrying Amount Before Combination RM	Fair Value Adjustments RM	Fair Value RM
Plant and equipment	136,720	-	136,720
Project expenditure	183,701,600	-	183,701,600
Inventories	101,780	-	101,780
Trade receivable	336,535,210	(138,000,000)	198,535,210
Other receivables	3,841,779	-	3,841,779
Due from State Government of Sabah	761,790	-	761,790
Fixed deposits	13,700,000	-	13,700,000
Cash and bank balances	696,417	-	696,417
Trade payables	(87,337,160)	-	(87,337,160)
Other payables	(10,732,287)	(8,000,000)	(18,732,287)
Borrowings	(70,000,000)	-	(70,000,000)
Tax liabilities	(25,170,398)	-	(25,170,398)
Deferred tax liabilities	<u>(50,299,811)</u>	<u>39,200,000</u>	<u>(11,099,811)</u>
Total net assets	<u>295,935,640</u>	<u>(106,800,000)</u>	189,135,640

	Fair Value RM
Less: Minority interests	<u>(37,832,953)</u>
Group share of net assets	151,302,687
Share of post-acquisition results previously equity accounted for	(26,644,669)
Fair value adjustment attributable to the initial 35% equity interest	37,380,000
Excess of net fair value of identifiable assets and liabilities over cost of acquisition of additional 45% equity interest during 2005	<u>(81,236,081)</u>
	80,801,937
Consideration on acquisition of 35% equity interest in prior year	<u>(65,000,000)</u>
Total consideration, satisfied by cash	15,801,937
Cash and cash equivalents of subsidiary company acquired	<u>(14,396,417)</u>
Net cash outflow arising on acquisition	<u>1,405,520</u>

(c) **Minority interests in Jetama Sdn. Bhd.**

On August 24, 2005, the Group, through Kota Kinabalu Water Sdn. Bhd., acquired the remaining 20% minority interests from the Sabah State Government at a purchase consideration of RM7,034,707. The excess of book values of identifiable assets and liabilities over the cost of acquisition amounting to RM35,540,246 is recognised in profit or loss in 2005.

23. INVESTMENT IN ASSOCIATED COMPANY

	The Group		The Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Unquoted shares				
- At cost	900,000	900,000	900,000	900,000
Share of post-acquisition results	(899,999)	(899,999)	-	-
Less: Accumulated impairment loss	-	-	(899,999)	(899,999)
	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>

The associated company of the Group is as follows:

Name of Company	Country of Incorporation	Percentage of Equity Held		Principal Activities
		2006 %	2005 %	
Direct				
Asal Baru Sdn. Bhd.	Malaysia	33 ¹ / ₃	33 ¹ / ₃	Property management and related services

The Company has not taken up any further share in losses of its investment in Asal Baru Sdn. Bhd. in the consolidated results as the Company's share in losses had been accounted for to the extent of its cost of investment. The summarised information about the associated company based on the latest available audited financial statements as of and for the year ended December 31, 2005 (2005: December 31, 2004) are presented below:

	The Group	
	2006 RM	2005 RM
Total assets	969,569	1,272,779
Total liabilities	3,742,698	3,975,044
Revenue	905,305	948,818
Loss for the year	<u>(70,864)</u>	<u>(84,817)</u>

24. PROJECT EXPENDITURE

	The Group	
	2006	2005
	RM	RM
Carrying amount, at cost	184,771,178	184,771,178
Fair value adjustment arising from business combination in 2005	<u>30,000,000</u>	<u>30,000,000</u>
Fair value at date of acquisition (group cost)	214,771,178	214,771,178
Accumulated amortisation		
At beginning of year	(27,258,090)	-
Amortisation for the year	(27,247,489)	(27,258,090)
At end of year	<u>(54,505,579)</u>	<u>(27,258,090)</u>
	<u>160,265,599</u>	<u>187,513,088</u>

Project expenditure arising from business combination includes the fair value of a 20-year operations agreement of an indirect subsidiary to operate the water treatment facilities which is computed at the date of business combination based on the discounted cash flow method.

Another indirect subsidiary has been awarded a Concession for a period of twenty years from June 5, 1993. This Concession entails the operation, maintenance and management of the existing water production facilities owned by the Sabah State Government and the construction and subsequently the operation, maintenance and management of a dam, new water treatment facilities, transmission facilities and reservoirs in return for an exclusive concession to supply treated water to the Sabah State Government within the designated Concession Area.

At the end of the Concession period, the indirect subsidiary company's rights over the plant and equipment installed and constructed will be relinquished and returned to the Sabah State Government at nominal value.

The bulk of the construction work is carried out on land owned by the Sabah State Government in which the indirect subsidiary company has obtained the exclusive right to occupy, construct upon and use.

25. PROPERTY, PLANT AND EQUIPMENT

2006

The Group	Cost					At end of year RM
	At beginning of year RM	Acquisition of subsidiary companies RM	Additions RM	Disposals RM	Reclassification RM	
Long leasehold land	59,406,348	-	-	-	(50,997,799)	8,408,549
Leasehold improvements	2,572,170	-	153,850	-	-	2,726,020
Motor vehicles	3,795,582	-	428,595	(710,537)	-	3,513,640
Office equipment and furniture	2,035,264	25,939	114,108	(19,362)	-	2,155,949
Computer equipment	1,050,009	125,015	237,359	(79,907)	-	1,332,476
Plant and equipment	2,827,041	-	54,648	(999)	-	2,880,690
Capital work-in-progress	-	-	9,156,029	-	-	9,156,029
Total	71,686,414	150,954	10,144,589	(810,805)	(50,997,799)	30,173,353

The Group	Accumulated Depreciation					At end of year RM
	At beginning of year RM	Acquisition of subsidiary companies RM	Charge for the year RM	Disposals RM	Reclassification RM	
Long leasehold land	401,458	-	66,814	-	-	468,272
Leasehold improvements	731,158	-	473,711	-	-	1,204,869
Motor vehicles	2,406,649	-	426,056	(710,517)	-	2,122,188
Office equipment and furniture	1,129,477	21,385	260,615	(17,941)	-	1,393,536
Computer equipment	813,812	120,096	117,247	(78,826)	-	972,329
Plant and equipment	2,751,994	-	35,269	(117)	-	2,787,146
Capital work-in-progress	-	-	-	-	-	-
Total	8,234,548	141,481	1,379,712	(807,401)	-	8,948,340

2005

The Group	← Cost →					At end of year RM
	At beginning of year RM	Acquisition of subsidiary companies RM	Additions RM	Disposals RM	Reclassification RM	
Long leasehold land	59,406,348	-	-	-	-	59,406,348
Leasehold improvements	628,461	80,286	-	(14,200)	1,877,623	2,572,170
Motor vehicles	863,735	2,100,437	1,130,200	(298,790)	-	3,795,582
Office equipment and furniture	817,228	550,134	162,159	(288,662)	794,405	2,035,264
Computer equipment	1,127,165	282,275	91,591	(378,638)	(72,384)	1,050,009
Plant and equipment	-	2,777,648	49,393	-	-	2,827,041
Capital work-in-progress	1,648,607	-	951,837	(800)	(2,599,644)	-
Total	64,491,544	5,790,780	2,385,180	(981,090)	-	71,686,414

The Group	← Accumulated Depreciation →					At end of year RM
	At beginning of year RM	Acquisition of subsidiary companies RM	Charge for the year RM	Disposals RM	Reclassification RM	
Long leasehold land	334,644	-	66,814	-	-	401,458
Leasehold improvements	628,418	77,206	39,733	(14,199)	-	731,158
Motor vehicles	858,184	1,599,985	247,269	(298,789)	-	2,406,649
Office equipment and furniture	808,447	503,892	54,462	(287,366)	50,042	1,129,477
Computer equipment	853,957	260,357	127,410	(377,870)	(50,042)	813,812
Plant and equipment	-	2,692,761	59,233	-	-	2,751,994
Capital work-in-progress	-	-	-	-	-	-
Total	3,483,650	5,134,201	594,921	(978,224)	-	8,234,548

2006

The Company	← Cost →				At end of year RM
	At beginning of year RM	Additions RM	Disposals RM	Reclassification RM	
Long leasehold land	53,047,476	-	-	(50,997,799)	2,049,677
Leasehold improvements	2,491,884	153,850	-	-	2,645,734
Motor vehicles	978,595	428,595	(301,854)	-	1,105,336
Office equipment and furniture	1,489,002	77,147	(7,513)	-	1,558,636
Computer equipment	759,961	224,727	(40,974)	-	943,714
Total	58,766,918	884,319	(350,341)	(50,997,799)	8,303,097

The Company	← Accumulated Depreciation →				At end of year RM
	At beginning of year RM	Charge for the year RM	Disposals RM	Reclassification RM	
Long leasehold land	-	-	-	-	-
Leasehold improvements	653,336	473,095	-	-	1,126,431
Motor vehicles	595,946	110,612	(301,853)	-	404,705
Office equipment and furniture	658,617	222,558	(7,383)	-	873,792
Computer equipment	548,108	113,158	(40,949)	-	620,317
Total	2,456,007	919,423	(350,185)	-	3,025,245

2005

The Company

	← Cost →				At end of year RM
	At beginning of year RM	Additions RM	Disposals RM	Reclassification RM	
Long leasehold land	53,047,476	-	-	-	53,047,476
Leasehold improvements	628,461	-	(14,200)	1,877,623	2,491,884
Motor vehicles	863,735	413,650	(298,790)	-	978,595
Office equipment and furniture	815,628	117,693	(238,724)	794,405	1,489,002
Computer equipment	1,116,589	77,661	(361,905)	(72,384)	759,961
Capital work-in-progress	1,648,607	951,837	(800)	(2,599,644)	-
Total	58,120,496	1,560,841	(914,419)	-	58,766,918

	← Accumulated Depreciation →				At end of year RM
	At beginning of year RM	Charge for the year RM	Disposals RM	Reclassification RM	
Long leasehold land	-	-	-	-	-
Leasehold improvements	628,418	39,117	(14,199)	-	653,336
Motor vehicles	858,184	36,551	(298,789)	-	595,946
Office equipment and furniture	806,848	40,273	(238,546)	50,042	658,617
Computer equipment	843,700	116,285	(361,835)	(50,042)	548,108
Capital work-in-progress	-	-	-	-	-
Total	3,137,150	232,226	(913,369)	-	2,456,007

	← The Group →		← The Company →	
	Carrying Amount		Carrying Amount	
	2006	2005	2006	2005
	RM	RM	RM	RM
Long leasehold land	7,940,277	59,004,890	2,049,677	53,047,476
Leasehold improvements	1,521,151	1,841,012	1,519,303	1,838,548
Motor vehicles	1,391,452	1,388,933	700,631	382,649
Office equipment and furniture	762,413	905,787	684,844	830,385
Computer equipment	360,147	236,197	323,397	211,853
Plant and machinery	93,544	75,047	-	-
Capital work-in-progress	9,156,029	-	-	-
Total	21,225,013	63,451,866	5,277,852	56,310,911

As of December 31, 2006, the land title of a parcel of long leasehold land of the Company with a carrying amount of RM200,000 (2005: RM200,000) is yet to be registered in the Company's name pending sub-division of master title.

A freehold land pertaining to a direct subsidiary company with a carrying amount of RM828,000 (2005: RM828,000) is registered in the name of a director of the said subsidiary company and a third party holding the land in trust for the said subsidiary company.

As of December 31, 2006, the carrying amount of plant and equipment pertaining to an indirect subsidiary company acquired under hire-purchase and finance lease arrangement amounted to RM208,476 (2005: RM340,779).

As mentioned in Note 44, during the financial year, the long leasehold land with a carrying amount of RM50,997,799 pertaining to the Company has been reclassified as non-current asset held for sale.

Included in property, plant and equipment of the Group and of the Company are fully depreciated assets which are still in use, with costs totalling RM6,679,444 (2005: RM6,742,226) and RM1,950,698 (2005: RM2,099,656) respectively.

26. HOLDING ENTITY AND RELATED PARTY TRANSACTIONS

The Company is wholly owned by the Sabah State Government.

During the financial year, significant related party transactions are as follows:

	The Group		The Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
Holding entity, Sabah State Government				
Sale of bulk water and services rendered (Note 6)	96,043,896	96,252,058	-	-
Interest payable on deposits	14,319,302	9,929,778	14,319,302	9,929,778
Income receivable (Note 6)	2,316,584	1,932,604	2,316,584	1,932,604
Rental of premises payable (Note 7)	502,768	463,919	452,768	413,919

	The Group		The Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
Direct subsidiary company,				
Sedia Usaha Sdn. Bhd.				
Loan, advances and financing	-	-	14,653,300	9,330,464
Loan interest receivable	-	-	9,348,040	8,234,438
	<u>-</u>	<u>-</u>	<u>14,653,300</u>	<u>9,330,464</u>
Indirect subsidiary companies				
Loan, advances and financing				
Kota Kinabalu Water Sdn. Bhd.	-	-	7,282,563	68,078,567
Jetama Sdn. Bhd.	-	-	-	72,000,000
Corporate Dynamics Sdn. Bhd.	-	-	15,005,528	-
	<u>-</u>	<u>-</u>	<u>15,005,528</u>	<u>-</u>
Loan interest receivable				
Kota Kinabalu Water Sdn. Bhd.	-	-	7,282,563	6,087,567
Jetama Sdn. Bhd.	-	-	6,030,250	1,041,534
Corporate Dynamics Sdn. Bhd.	-	-	461,537	-
	<u>-</u>	<u>-</u>	<u>461,537</u>	<u>-</u>
Associated company,				
Asal Baru Sdn. Bhd.				
Service fee payable	127,386	120,891	127,386	120,891
	<u>127,386</u>	<u>120,891</u>	<u>127,386</u>	<u>120,891</u>

The above related party transactions are negotiated based on terms and conditions agreed between the related parties and the Company.

27. AMOUNT DUE FROM ASSOCIATED COMPANY

	The Group and the Company	
	2006	2005
	RM	RM
Amount due from associated company	511,130	511,130
Less: Allowance for doubtful debts	(511,130)	(511,130)
	<u>-</u>	<u>-</u>

Amount due from associated company represents advances to Asal Baru Sdn. Bhd. The amount is interest-free and has no fixed terms of repayment.

28. DEFERRED TAX ASSETS

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The following amount, determined after appropriate offsetting is shown in the balance sheets:

	The Group		The Company	
	2006 RM	2005 RM	2006 RM	2005 RM
At beginning of year	107,930,000	64,280,000	60,890,000	64,280,000
Transfer to income statements	(24,532,000)	(3,390,000)	(24,532,000)	(3,390,000)
Overprovision of deferred tax expense in prior year	561,000	-	561,000	-
Arising from business combinations	-	47,040,000	-	-
	<u>83,959,000</u>	<u>107,930,000</u>	<u>36,919,000</u>	<u>60,890,000</u>

The net deferred tax assets are in respect of the following:

	Deferred Tax Assets/(Liabilities)			
	The Group		The Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Tax effects of:				
Temporary differences arising from:				
Interest suspended on non-performing loans	9,028,000	9,466,000	9,028,000	9,466,000
Property, plant and equipment	(140,000)	(85,000)	(140,000)	(85,000)
Front-end bond interest	(9,000)	(11,300)	(9,000)	(11,300)
General allowance for doubtful debts	52,823,000	51,777,000	5,783,000	4,737,000
Allowance for diminution in value of:				
Securities held-for-trading	5,482,000	5,607,000	5,482,000	5,607,000
Securities available-for-sale	290,000	514,000	290,000	514,000
Securities held-to-maturity	7,620,000	7,903,000	7,620,000	7,903,000
Provision for retirement gratuities	721,000	653,000	721,000	653,000
Unutilised tax losses	8,144,000	32,106,300	8,144,000	32,106,300
	<u>83,959,000</u>	<u>107,930,000</u>	<u>36,919,000</u>	<u>60,890,000</u>

As mentioned in Note 3(j), the tax effects of temporary differences which would give rise to net deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. As of December 31, 2006, the estimated deferred tax assets of a direct subsidiary company calculated at applicable tax rate which have not been recognised in the financial statements, are as follows:

	The Group	
	2006	2005
	RM	RM
Tax effects of:		
Unutilised tax losses and unabsorbed capital allowances	560,000	-
Temporary differences arising from:		
Property, plant and equipment	(2,400)	-
Properties held for resale	-	22,000
	<u>557,600</u>	<u>22,000</u>

As of December 31, 2006, the said direct subsidiary company has unutilised tax losses and unabsorbed capital allowances totalling about RM2,154,000 (2005: RM Nil) which may be applied to reduce taxable income in future years. Out of the said amount, RM1,599,025 has been agreed by the tax authorities.

Unutilised tax losses of the Company of about RM30,163,000 as of December 31, 2006 (2005: RM116,950,000) are subject to agreement by the tax authorities.

29. DEPOSITS FROM CUSTOMERS

	The Group and the Company	
	2006	2005
	RM	RM
Fixed deposits	<u>560,191,013</u>	<u>539,983,503</u>
(i) The maturity structure of fixed deposits is as follows:		
Due within six months	52,471,219	482,813,003
Six months to one year	<u>507,719,794</u>	<u>57,170,500</u>
	<u>560,191,013</u>	<u>539,983,503</u>
(ii) The deposits are sourced from the following:		
Sabah State Government	450,018,224	400,018,224
Government-owned enterprises	72,424,847	95,957,305
Statutory authorities	<u>37,747,942</u>	<u>44,007,974</u>
	<u>560,191,013</u>	<u>539,983,503</u>

The average effective interest rate of the Group and of the Company is 3.49% (2005: 2.9%) per annum.

30. LONG-TERM BORROWINGS

Long-term borrowings, all pertaining to the Company, are as follows:

The Group and the Company

	Current RM	Non-current RM	Total RM
2006			
Term loans from licensed bank	-	100,000,000	100,000,000
Local currency bonds	-	500,000,000	500,000,000
	<u>-</u>	<u>600,000,000</u>	<u>600,000,000</u>
2005			
Term loans from licensed bank	-	100,000,000	100,000,000

	Facilities	Interest Rates		Repayment Terms	Securities
		Per Annum 2006	2005		
(a)	RM100 million term loan from a local licensed bank	4.55%	3.5%	Repayable by four quarterly instalments of RM25 million each commencing from the 60th month from the date of first drawdown in 2004.	Secured by Letter of Comfort from the Sabah State Government
(b)	RM120 million nominal value 3-year 5.7% Coupon Non-convertible Redeemable Unsecured Fixed Rate Bonds 2006/2009	5.7%	-	Redeemable on the 3rd anniversary from the date of drawdown or may be purchased at any time in the open market or by private treaty at any price.	Secured by Letter of Support from the Sabah State Government
(c)	RM380 million nominal value 5-year 6.2% Coupon Non-convertible Redeemable Unsecured Fixed Rate Bonds 2006/2011	6.2%	-	Redeemable on the 5th anniversary from the date of drawdown or may be purchased at any time in the open market or by private treaty at any price.	Secured by Letter of Support from the Sabah State Government

31. SHORT-TERM BORROWINGS - UNSECURED

Short-term borrowings, all pertaining to the Company, represent revolving credit and revolving underwriting facilities obtained from licensed banks and financial institutions. The borrowings have expiry periods of less than one year and the average borrowing rate is 4.32% (2005: 3.62%) per annum.

32. HIRE-PURCHASE AND FINANCE LEASE PAYABLES

	The Group			
	Minimum Lease Payments		Present value of Minimum Lease payments	
	2006 RM	2005 RM	2006 RM	2005 RM
Amount payable under finance lease:				
Within one year	59,590	148,185	55,680	136,659
In the second to fifth years inclusive	<u>52,110</u>	<u>111,700</u>	<u>48,431</u>	<u>104,111</u>
	111,700	259,885	104,111	240,770
Less: Future finance charges	<u>(7,589)</u>	<u>(19,115)</u>	<u>-</u>	<u>-</u>
Present value of finance lease payable	<u><u>104,111</u></u>	<u><u>240,770</u></u>	104,111	240,770
Less: Amount due within 12 months				
Current portion			<u>(55,680)</u>	<u>(136,659)</u>
Non-current portion			<u><u>48,431</u></u>	<u><u>104,111</u></u>

The non-current portion is repayable as follows:

	The Group	
	2006 RM	2005 RM
Later than 1 year and not later than 2 years	16,341	55,680
Later than 2 years and not later than 5 years	<u>32,090</u>	<u>48,431</u>
	<u><u>48,431</u></u>	<u><u>104,111</u></u>

The hire-purchase and lease liabilities bear interest at rates between 5.64% and 9.89% (2005: 5.64% and 9.89%) per annum.

33. OTHER LIABILITIES

	The Group		The Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Amount due to the Sabah				
State Government	32,400,000	65,000,000	32,400,000	65,000,000
Trade payables	37,312,136	37,348,616	-	-
Interest payables	19,907,450	4,692,030	19,907,450	4,692,030
Other payables	11,376,749	5,039,254	4,514,016	2,752,823
Deposits	1,097,620	2,849,715	1,089,020	1,001,115
Tax liabilities	49,179,722	44,277,022	2,400	2,400
Accrued expenses	1,998,885	2,031,211	1,453,898	1,152,695
	<u>153,272,562</u>	<u>161,237,848</u>	<u>59,366,784</u>	<u>74,601,063</u>

Trade payables pertaining to an indirect subsidiary company comprises amount outstanding for trade purchases. The average credit period granted ranges from 30 days to 90 days (2005: 30 days to 90 days).

Other payables comprise amounts outstanding for ongoing costs. The average credit period for other payables is 30 days (2005: 30 days).

Included in deposits of the Group and of the Company is an amount of RM1,000,000 (2005: RM1,000,000) which represents deposits received from the purchaser of the long leasehold land pertaining to the Company as mentioned in Note 21.

Included in deposits of the Group in 2005 are non-refundable deposits of RM1,840,000 pertaining to a direct subsidiary company which represent deposits and instalments received as of the balance sheet date from the purchaser of a factory building included in properties held for resale under other assets. The ownership and possession of the property will remain with the direct subsidiary company until the consideration has been fully settled. During the financial year, the consideration has been fully settled and as of December 31, 2006, the ownership and possession of the said property are in the process of being transferred to the purchaser.

Included in accrued expenses of the Group and of the Company are vacation and outfit allowance for directors of RM434,737 (2005: RM406,100).

34. PROVISIONS

	Provision for Retirement Gratuities RM	← Subsidiary Companies →			The Group Total RM
		Provision for Foreseeable Losses RM	Provision for Rectification Works RM	Provision for Structural Repair RM	
At beginning of year	2,332,569	4,000,000	6,000,000	-	12,332,569
Additions	355,140	-	2,630,000	2,400,000	5,385,140
Utilised	(18,392)	(4,000,000)	(3,022,928)	-	(7,041,320)
At end of year	<u>2,669,317</u>	<u>-</u>	<u>5,607,072</u>	<u>2,400,000</u>	<u>10,676,389</u>
Analysis of total provisions:					
Current	-	-	5,607,072	2,400,000	8,007,072
Non- current	<u>2,669,317</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,669,317</u>
	<u>2,669,317</u>	<u>-</u>	<u>5,607,072</u>	<u>2,400,000</u>	<u>10,676,389</u>

Provision for Retirement Gratuities

The Company has a non-contributory unfunded retirement gratuities scheme for its employees. Retirement gratuities are payable to employees of the Company who have been in service for at least ten years and who have reached retirement age or upon resignation. Provision for retirement gratuities is made based on eligible employees' basic salary and the number of completed years of service.

Provision for Foreseeable Losses

This is in respect of the estimated additional costs to complete the construction of three reservoirs under a turnkey contract.

Provision for Rectification Works

This is in respect of the cost of rectifying the erosion of the river bank adjoining the water treatment plant.

Provision for Structural Repair

This is in respect of the cost of structural repair of the water treatment plant clarifiers and filters.

35. DEFERRED TAX LIABILITIES

	The Group	
	2006	2005
	RM	RM
At beginning of year	54,220,131	-
Transfer to income statement	(8,754,036)	(6,184,064)
Acquisitions of subsidiary companies	-	50,324,195
Arising from business combination	-	10,080,000
	<u>45,466,095</u>	<u>54,220,131</u>

The deferred tax liabilities are in respect of the following:

	The Group	
	2006	2005
	RM	RM
Tax effects of temporary differences arising from:		
Property, plant and equipment	68,671	72,589
Project expenditure	35,317,538	44,067,701
Penalty interest recoverable	10,080,000	10,080,000
Others	(114)	(159)
	<u>45,466,095</u>	<u>54,220,131</u>

36. SHARE CAPITAL

	The Group and the Company	
	2006	2005
	RM	RM
Authorised		
380,000,000 ordinary shares of RM1 each (2005: 315,000,000 ordinary shares of RM1 each)	380,000,000	315,000,000
50,000,000 3% redeemable convertible non-cumulative preference shares of RM1 each	<u>50,000,000</u>	<u>50,000,000</u>
	<u>430,000,000</u>	<u>365,000,000</u>
Issued and fully paid		
At beginning of year		
Ordinary shares of RM1 each	315,000,000	315,000,000
3% redeemable convertible non-cumulative preference shares of RM1 each	<u>50,000,000</u>	<u>50,000,000</u>
	365,000,000	365,000,000
Issued during the year		
Ordinary shares of RM1 each	<u>65,000,000</u>	<u>-</u>
At end of year		
Ordinary shares of RM1 each	380,000,000	315,000,000
3% redeemable convertible non-cumulative preference shares of RM1 each	<u>50,000,000</u>	<u>50,000,000</u>
	<u>430,000,000</u>	<u>365,000,000</u>

The 3% redeemable convertible non-cumulative preference shares carry the following principal rights:

- (a) right to receive out of the retained profits of the Company and subject to the availability of Section 108 tax credit, a non-cumulative preferential dividend at the rate of 3% per annum on the capital for the time being paid up on such shares. Subject to the foregoing, dividends will be payable annually commencing from the issuance date of the redeemable convertible non-cumulative preference shares;
- (b) right in a winding-up to a return of all capital paid up thereon and subject to (a) above, the payment of any of the said non-cumulative preferential dividend payable and the repayment of capital in priority to the ordinary shares in the Company but to no further or other right to share in surplus assets;

- (c) right to receive notice of and attend all general meetings of the Company but with no right to vote at such meetings except as may be provided under the Companies Act, 1965 (the Act);
- (d) the holder of any of these preference shares may by notice in writing left, together with the certificate for the shares therein referred to at the Company's office not earlier than one (1) year upon the issuance of these preference shares or such later date as the directors may agree, elect to convert each of the preference shares specified in such notice into one ordinary share of nominal value RM1.00 whereupon such shares shall from the date of the notice become ordinary shares and shall rank in all respects pari passu with the ordinary shares of the Company, and shall cease to have any preference or priority as abovementioned, and a new certificate shall be issued to the holder thereof free of charge within seven (7) days from the date of conversion;
- (e) subject to the Act and notwithstanding any provisions that may be contained therein, the rights and privileges of the holders of the preference shares shall not be altered except with the consent of the holder of not less than three-fourths of such preference shares; and
- (f) the Company may at any time give notice to the registered holders thereof of its intention to redeem so much of the preference shares. Such notice shall be in writing and shall fix the time and place for such redemption, whereupon the registered holders of such shares shall be bound to deliver up to the Company the certificates thereof for cancellation, and the Company shall pay to them the redemption monies payable in respect of such shares. This power of redemption may be exercised by the Board acting on behalf of the Company upon the giving of seven (7) clear days' notice of the proposed redemption to the holders of such redeemable preference shares.

As approved by the shareholder at the Extraordinary General Meeting held on December 28, 2006, the Company increased the authorised share capital from RM365,000,000 divided into 315,000,000 ordinary shares of RM1 each and 50,000,000 redeemable convertible non-cumulative preference shares of RM1 each to RM430,000,000 divided into 380,000,000 ordinary shares of RM1 each and 50,000,000 redeemable convertible non-cumulative preference shares of RM1 each by the creation of 65,000,000 new ordinary shares of RM1 each.

As approved by the directors on December 28, 2006, the issued and paid-up share capital of the Company was increased from RM365,000,000 divided into 315,000,000 ordinary shares of RM1 each and 50,000,000 redeemable convertible non-cumulative preference shares of RM1 each to RM430,000,000 divided into 380,000,000 ordinary shares of RM1 each and 50,000,000 redeemable convertible non-cumulative preference shares of RM1 each by an allotment of 65,000,000 ordinary shares of RM1 each at par for cash to the Sabah State Government. The new ordinary shares issued rank pari passu with the then existing ordinary shares of the Company.

37. RESERVES

	The Group		The Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Non-distributable reserve:				
Capital redemption reserve	50,000,000	50,000,000	50,000,000	50,000,000
Distributable reserves:				
General reserve	93,230,000	93,230,000	93,230,000	93,230,000
Accumulated losses	(216,528,061)	(220,517,145)	(228,071,534)	(254,593,756)
	<u>(123,298,061)</u>	<u>(127,287,145)</u>	<u>(134,841,534)</u>	<u>(161,363,756)</u>
	<u>(73,298,061)</u>	<u>(77,287,145)</u>	<u>(84,841,534)</u>	<u>(111,363,756)</u>

Capital Redemption Reserve

Capital redemption reserve is in respect of the redemption of redeemable convertible non-cumulative preference shares. The amount transferred to the capital redemption reserve was made pursuant to Section 61 of the Companies Act, 1965.

Distributable Reserves

General reserve represents the cumulative amounts transferred from unappropriated profit or from the net profit in prior years, as approved by the Board of Directors of the Company, after declaration of dividend for the purpose of setting aside funds for the long-term use of the Company.

As of December 31, 2006, the Company has estimated tax credits totalling about RM61,758,000 (2005: RM74,346,000) to frank the payment of cash dividends.

38. **DIVIDENDS**

	The Group and the Company	
	2006	2005
	RM	RM
Interim dividend declared - 11.84 sen, less tax (2005: Nil)	32,400,000	-
Final dividend declared - 28.66 sen, less tax, for 2004	-	65,000,000

An interim dividend of 11.84 sen gross per ordinary share, less tax, amounting to RM32,400,000 in respect of the current financial year was declared by the directors during the financial year.

A final dividend of 28.66 sen gross per ordinary share, less tax, amounting to RM65,000,000 proposed in respect of the financial year ended December 31, 2004 on the ordinary shares in issue in 2004 was declared by the shareholder in 2005.

The directors do not recommend the payment of any final dividend in respect of the current financial year.

39. **FINANCIAL INSTRUMENTS**

Financial instruments are contracts that give rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

Financial Risk Management Objectives and Policies

The Group's and the Company's risk management objectives and policies are to provide adequate emphasis to sound risk control, identify risks and recommend strategies to manage/mitigate losses and assist the management and the directors to steer the Group and the Company in line with the regulatory requirements in Malaysia.

(i) **Interest rate risk**

The Group's and the Company's exposure to risk for changes in interest rates, relates primarily to interest-bearing financial assets and financial liabilities. The Group's and the Company's policy is to manage their interest cost by maintaining a mix of fixed and floating rate borrowings and by spreading out the timing of interest rate fixing. In addition, the Group's and the Company's interest-bearing financial liabilities are hedged by interest-bearing financial assets, such as commercial loans (short-term and long-term), money market placements and fixed deposit placements.

(ii) **Market risk**

The Group's and the Company's market risk is 'associated' with the potential loss in the Group's and the Company's investment in quoted securities resulting from the changes in the prices of the securities traded on Bursa Malaysia.

Market risk is monitored through the market risk management system with the establishment of relevant overseeing committees as part of the overall risk management of the Group and the Company.

(iii) **Credit risk**

The Group's and the Company's policy is to manage their credit risk through the application of good credit approvals, credit limits, monitoring procedures and credit assessment.

(iv) **Liquidity risk**

The Group and the Company monitor and maintain sufficient liquidity and the availability of funding through liquid funding placements and an adequate amount of committed credit facilities from both the domestic banks and the capital markets. In addition, the Group and the Company actively manage their cash flow projections to ensure collection on loans and asset-maturities are adequate to meet the Group's and the Company's debt-serving commitments and/or any other funding requirements.

(v) **Cash flow risk**

The Group and the Company review their cash flow position regularly to manage their exposure to fluctuations in future cash flows associated with their monetary financial instruments.

Financial Assets

The Group's and the Company's principal financial assets are cash and short-term funds, securities purchased under resale agreement, deposits and placements with financial institutions, securities held-for-trading, securities available-for-sale, securities held-to-maturity, loans, advances and financing, other assets and non-current asset held for sale.

The accounting policies applicable to the major financial assets are as disclosed in Note 3.

Financial Liabilities and Equity Instruments

Debts and equity instruments are classified as either liabilities or equity in accordance with the substance of the contractual arrangement. Financial instruments issued which carry a right to convert into equity that is dependent on the outcome of uncertainties beyond the control of the Group and of the Company and the holder of instrument are classified as liabilities except where the possibility of non-conversion is remote.

Significant financial liabilities of the Group and of the Company include deposits from customers, local currency bonds, term loans from licensed banks, hire-purchase and finance lease payables and other liabilities.

Deposits from customers are recorded at the proceeds received. Local currency bonds and term loans from licensed banks are recorded at the proceeds received net of direct issue costs. Finance charges, including premium payable on settlement or redemption, are accounted for on accrual basis.

Equity instruments are recorded at the proceeds received.

Credit Risk

The financial instruments which potentially subject the Group and the Company to credit risk are loans, advances and financing and deposits and placements with financial institutions. Credit risk is the potential loss arising from any failure by the Group's and the Company's customers or counterparties to fulfill their obligations as and when these obligations fall due. These obligations may arise from lending, trade finance, investments and other credit-related activities undertaken by the Group and the Company.

The directors are responsible for assessing credit risk recommended by the management. They are also responsible for providing directions and timely guidance on lending to different economic sectors and industries.

In general, the Group and the Company monitor the levels of credit risk they undertake through regular review by the management, with independent oversight of their credit concentration and portfolio quality by the directors.

In respect of their lending-related activities, the management regularly reviews the amount of risk accepted in relation to one borrower or groups of borrowers, economic sectors and industry segments, types of acceptable security, level of non-performing loans and adequacy of provisioning requirements.

Exposure to credit risk is also managed in part by obtaining collateral or right to call for collateral when certain exposure thresholds are exceeded, the right to terminate transactions upon the occurrence of unfavourable events, the right to reset the terms of transactions after specified time periods or upon the occurrence of unfavourable events, and entering into netting agreements with counterparties that permit the Group and the Company to offset receivables and payables with such counterparties.

Fair Values

The carrying amounts and the estimated fair values of the Group's and the Company's financial instruments as of December 31, 2006 are as follows:

2006	Note	The Group		The Company	
		Carrying Amount RM	Fair Value RM	Carrying Amount RM	Fair Value RM
Financial Assets					
Cash and short-term funds	14	15,722,929	15,722,929	11,524,837	11,524,837
Securities purchased under resale agreement		82,650,000	82,650,000	82,650,000	82,650,000
Deposits and placements with financial institutions	15	16,473,778	16,473,778	12,200,000	12,200,000
Securities held-for-trading	16	19,247,264	20,351,657	19,247,264	20,351,657
Securities available-for-sale*	17	7,976,152	6,881,746	7,976,152	6,881,746
Securities held-to-maturity**	18	85,131,536	85,486,436	85,131,536	85,486,436
Loans, advances and financing	19	931,627,275	954,216,072	1,248,323,003	1,270,912,724
Other assets	20	451,161,219	451,151,023	204,568,134	204,568,134
Non-current asset held for sale	21	<u>50,997,799</u>	<u>55,000,000</u>	<u>50,997,799</u>	<u>55,000,000</u>
Financial Liabilities					
Deposits from customers	29	560,191,013	560,191,013	560,191,013	560,191,013
Borrowings:					
Long-term	30	600,000,000	602,023,663	600,000,000	602,023,663
Short-term	31	200,000,000	200,000,000	200,000,000	200,000,000
Hire-purchase and finance lease payables	32	104,111	111,700	-	-
Other liabilities	33	<u>153,272,562</u>	<u>153,272,562</u>	<u>59,366,784</u>	<u>59,366,784</u>

2005	Note	The Group		The Company	
		Carrying Amount RM	Fair Value RM	Carrying Amount RM	Fair Value RM
Financial Assets					
Cash and short-term funds	14	80,262,885	80,262,885	78,367,001	78,367,001
Securities purchased under resale agreement		2,800,000	2,800,000	2,800,000	2,800,000
Deposits and placements with financial institutions	15	67,810,911	67,810,911	52,352,782	52,352,782
Securities held-for-trading	16	17,190,079	17,686,363	17,190,079	17,686,363
Securities available-for-sale*	17	7,226,293	6,143,373	7,226,293	6,143,373
Securities held-to-maturity**	18	84,719,188	85,284,788	84,719,188	85,284,788
Loans, advances and financing	19	717,226,988	735,765,620	996,172,089	1,014,710,741
Other assets	20	<u>364,596,377</u>	<u>364,596,377</u>	<u>159,515,033</u>	<u>159,515,033</u>
Financial Liabilities					
Deposits from customers	29	539,983,503	539,983,503	539,983,503	539,983,503
Borrowings:					
Long-term	30	100,000,000	101,974,936	100,000,000	101,974,936
Short-term	31	545,000,000	545,000,000	545,000,000	545,000,000
Hire-purchase and finance lease payables	32	240,770	259,885	-	-
Other liabilities	33	<u>161,237,848</u>	<u>161,237,848</u>	<u>74,601,063</u>	<u>74,601,063</u>

* It is not practical to estimate the fair value of investments in unquoted shares of venture capital companies. As at the end of the financial year, based on the latest audited financial statements, the Group's and the Company's share of the net tangible assets of investments in the unquoted shares of venture capital companies amounted to RM905,593 (2005: RM4,110,771).

**For investment in redeemable loan stocks, the directors are of the opinion that the carrying amounts approximate the fair values as they are redeemable at par.

(i) **Cash and short-term funds and other assets**

The carrying amounts represent reasonable estimates of the fair values because of their short-term tenure.

(ii) **Securities purchased under resale agreements**

The fair value of securities purchased under resale agreements is estimated to be its carrying amount due to its short-term tenure.

(iii) **Deposits and placements with financial institutions**

The fair values of deposits and placements with remaining maturities of less than one year are estimated to approximate their carrying amounts at the balance sheet date.

There were no deposits and placements with remaining maturities of more than one year as of the end of the financial year.

(iv) **Quoted securities held-for-trading and available-for-sale**

The fair values are based on the market price at the balance sheet date.

(v) **Loans, advances and financing**

The fair values of loans with remaining maturities of less than one year are estimated to approximate their carrying amounts. For loans with maturities of more than one year, the fair values are estimated based on expected future cash flows of contractual instalment payments and discounted at prevailing rates at the balance sheet date offered for similar loans to new borrowers with similar credit profiles, where applicable. In respect of non-performing loans, the fair values are deemed to approximate the carrying amounts, net of interest-in-suspense and specific allowance for doubtful debts and financing.

(vi) **Non-current asset held for sale**

The fair value is based on its selling price.

(vii) **Deposits from customers**

The fair values of fixed deposits with remaining maturities of less than one year are estimated to approximate their carrying amounts at the balance sheet date.

There were no fixed deposits with remaining maturities of more than one year as of the end of the financial year.

(viii) **Long-term borrowings**

The fair values of long-term borrowings with remaining maturities of less than one year are estimated to approximate their carrying amounts.

The fair values of term loans are estimated using discounted cash flow analysis based on current borrowing rates of similar types of borrowing arrangements.

(ix) **Short-term borrowings, hire-purchase and finance lease payables and other liabilities**

The carrying amounts approximate fair values because of the short maturity of these instruments.

40. **CASH AND CASH EQUIVALENTS**

	The Group		The Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
Cash and short-term funds (Note 14)	15,722,929	80,262,885	11,524,837	78,367,001
Deposits and placements with financial institutions (Note 15)	<u>16,473,778</u>	<u>67,810,911</u>	<u>12,200,000</u>	<u>52,352,782</u>
	32,196,707	148,073,796	23,724,837	130,719,783
Less: Deposits pledged to banks	<u>(1,182,943)</u>	<u>(1,415,866)</u>	-	-
	<u><u>31,013,764</u></u>	<u><u>146,657,930</u></u>	<u><u>23,724,837</u></u>	<u><u>130,719,783</u></u>

41. **LEASE COMMITMENTS**

As at the end of the financial year, lease commitments pertaining to the Company in respect of rental of premises are as follows:

	Future Minimum Lease Payments	
	2006	2005
	RM	RM
Financial years ending December 31,		
2006	-	217,756
2007	447,512	-
2008	447,512	-
2009	<u>212,757</u>	-
	<u><u>1,107,781</u></u>	<u><u>217,756</u></u>

42. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Company makes various commitments and incurs certain contingent liabilities with legal recourse to their customers. No material losses are anticipated as a result of these transactions.

The commitments and contingencies constitute the following:

	The Group		The Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
Capital expenditure:				
Approved and contracted for	837,248	284,615	189,438	284,615
Approved but not contracted for	806,161	-	-	-
Irrevocable commitments to extend credit with maturity exceeding one year	527,799,570	379,636,710	527,799,570	379,636,710
Guarantees issued	<u>206,408,715</u>	<u>55,073,187</u>	<u>206,408,715</u>	<u>55,073,187</u>
	<u>735,851,694</u>	<u>434,994,512</u>	<u>734,397,723</u>	<u>434,994,512</u>

43. CONTINGENT LIABILITIES - UNSECURED

As of December 31, 2006, the Group and the Company are contingently liable in respect of claims by customers for breach of contracts totalling RM306,616 (2005: RM306,616). The directors are of the opinion that there are no legal merits to the claims.

44. **CHANGES IN ACCOUNTING POLICIES AND COMPARATIVE FIGURES**(i) *FRS 5 Non-Current Asset Held for Sale*

The adoption of FRS 5 has resulted in a change in the accounting policy for non-current asset held for sale pertaining to the Company with a carrying amount of RM50,997,799 which was previously accounted for as part of property, plant and equipment. Under FRS 5, non-current asset held for sale is presented separately from other assets in the balance sheet. This asset is measured at the lower of its carrying amount and fair value less costs to sell. However, there is no impact as a result of adopting this FRS except for the reclassification.

(ii) *FRS 140 Investment Property*

The adoption of FRS 140 *Investment Property* by an indirect subsidiary company has resulted in change in the accounting policy for investment property which was previously accounted for as properties held for resale. Under FRS 140, investment property is a property held to earn rentals or for capital appreciation or both. However, there is no impact as a result of adopting the cost model on the effective date of FRS 140. The following comparative amounts as of December 31, 2005 have been reclassified to conform with current year's presentation.

	As Previously Stated RM	Adjustments RM	As Restated RM
Property held for resale	816,000	(816,000)	-
Investment property	-	816,000	816,000
	<u> </u>	<u> </u>	<u> </u>

(iii) *Comparative Figures*

The following comparative amounts as of December 31, 2005 have been reclassified to conform with the current year's presentation in the balance sheets.

	As Previously Stated RM	Reclassifications RM	As Reclassified RM
Dealing securities	3,789,649	(3,789,649)	-
Investment securities	105,345,911	(105,345,911)	-
Securities held-for-trading	-	17,190,079	17,190,079
Securities available-for-sale	-	7,226,293	7,226,293
Securities held-to-maturity	-	84,719,188	84,719,188
	<u> </u>	<u> </u>	<u> </u>

45. **ISLAMIC BANKING BUSINESS**

The results for the financial year ended December 31, 2006 and the state of affairs at that date under the Islamic Banking business of the Company included in the financial statements of the Group and of the Company are summarised as follows:

Income Statement for the Year Ended December 31, 2006

	Note	The Group and the Company	
		2006	2005
		RM	RM
Income	(a)	966,627	439,244
Write-back for bad and doubtful debts and financing	(b)	<u>158,068</u>	<u>4,420</u>
Total Income		1,124,695	443,664
Other income/(expense)		<u>(70)</u>	<u>474</u>
Profit for the year		1,124,625	444,138
Unappropriated profit brought forward		<u>5,187,950</u>	<u>4,743,812</u>
Unappropriated profit carried forward	(c)	<u><u>6,312,575</u></u>	<u><u>5,187,950</u></u>

The accompanying Notes form an integral part of the Financial Statements.

Balance Sheet as of December 31, 2006

	Note	The Group and the Company 2006 RM	2005 RM
ASSETS			
Cash and short-term funds	(d)	28,363	13,027
Securities held-to-maturity	(e)	17,559,538	14,393,158
Financing assets	(f)	<u>348,261</u>	<u>2,402,216</u>
Total Assets		<u>17,936,162</u>	<u>16,808,401</u>
LIABILITIES AND ISLAMIC BANKING FUNDS			
Other liabilities	(g)	<u>3,136</u>	<u>-</u>
Total Liabilities		3,136	-
Islamic Banking Funds	(c)	<u>17,933,026</u>	<u>16,808,401</u>
Total Liabilities and Islamic Banking Funds		<u>17,936,162</u>	<u>16,808,401</u>

The accompanying Notes form an integral part of the Financial Statements.

Notes to the Financial Statements**(a) INCOME**

	2006	2005
	RM	RM
Income derived from investment of funds allocated:		
Income from financing	384,316	52,947
Mudharabah placements	497,380	386,297
Income from penalty on overdue instalment	84,931	
	<u>966,627</u>	<u>439,244</u>

(b) WRITE-BACK OF BAD AND DOUBTFUL DEBTS AND FINANCING

	2006	2005
	RM	RM
Allowance for bad and doubtful debts and financing:		
General allowance written back during the financial year	57,395	4,420
Specific allowance written back during the financial year	100,673	-
	<u>158,068</u>	<u>4,420</u>

(c) ISLAMIC BANKING FUNDS

	2006	2005
	RM	RM
Funds allocated	11,620,451	11,620,451
Unappropriated profit	6,312,575	5,187,950
	<u>17,933,026</u>	<u>16,808,401</u>

(d) CASH AND SHORT-TERM FUNDS

	2006	2005
	RM	RM
Cash and bank balances with banks and other financial institutions	28,363	13,027

(e) SECURITIES HELD-TO-MATURITY

	2006	2005
	RM	RM
Money market instrument:		
Mudharabah placements	17,559,538	14,393,158

(f) FINANCING ASSETS

	2006 RM	2005 RM
Term financing	1,074,179	3,670,519
Unearned income	<u>(50,676)</u>	<u>(434,993)</u>
Gross financing assets	1,023,503	3,235,526
Less:		
General allowance for bad and doubtful debts and financing	(5,539)	(40,798)
Specific allowance for bad and doubtful debts and financing	<u>(669,703)</u>	<u>(792,512)</u>
Net financing assets	<u>348,261</u>	<u>2,402,216</u>

(i) Gross financing assets analysed by concepts are as follows:

	2006 RM	2005 RM
Al-Bai' Bithaman Ajil	<u>1,023,503</u>	<u>3,235,526</u>

(ii) The maturity structure of gross financing assets is as follows:

	2006 RM	2005 RM
One year to three years	-	2,892,674
Over five years	<u>1,023,503</u>	<u>342,852</u>
	<u>1,023,503</u>	<u>3,235,526</u>

(iii) Gross financing assets analysed by their economic purposes are as follows:

	2006 RM	2005 RM
Housing	714,773	342,852
Others	<u>308,730</u>	<u>2,892,674</u>
	<u>1,023,503</u>	<u>3,235,526</u>

(g) OTHER LIABILITIES

	2006 RM	2005 RM
Other payables	<u>3,136</u>	<u>-</u>