

**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, Karamuning, 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 May 22, 2008.

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

During the financial year, the Group and the Company have adopted FRS 117 *Leases* and FRS 124 *Related Party Disclosures* which are effective for annual reporting periods beginning on or after October 1, 2006. The adoption of these standards does not result in substantial changes to the Group's and the Company's accounting policies and does not have any financial effect on the results of the Group and of the Company for the current and prior financial years except as follows:

**FRS 117: Leases**

The adoption of the revised FRS 117 *Leases* has resulted in retrospective change in the accounting policy relating to the classification of leasehold land. If the title to the land is not expected to pass to the Group or the Company by the end of the lease term, any up-front payments made on entering into or acquiring a leasehold land are accounted for as prepaid lease payments and are amortised on a straight-line basis over the lease term. In prior years, leasehold land was classified as property, plant and equipment and was stated in the balance sheet at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Upon the adoption of the revised FRS 117, the unamortised carrying amount of leasehold land is now classified as a separate item in the balance sheets as prepaid lease payments.

The change has no significant impact on the income statements for the current and prior years other than the change in presentation in the balance sheets as mentioned above.

At the date of authorisation for issue of these financial statements, the following Financial Reporting Standards (FRS), Amendment to FRS and Interpretations were in issue but not yet effective:

Amendment to FRS 121	<i>The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation</i>
FRS 107	<i>Cash Flow Statement</i>
FRS 111	<i>Construction Contracts</i>
FRS 112	<i>Income Taxes</i>
FRS 118	<i>Revenue</i>
FRS 119	<i>Employee Benefits</i>
FRS 120	<i>Accounting for Government Grants and Disclosure of Government Assistance</i>
FRS 126	<i>Accounting and Reporting by Retirement Benefit Plans</i>
FRS 129	<i>Financial Reporting in Hyperinflationary Economies</i>
FRS 134	<i>Interim Financial Reporting</i>
FRS 137	<i>Provisions, Contingent Liabilities and Contingent Assets</i>
FRS 139	<i>Financial Instruments: Recognition and Measurement</i>
IC Interpretation 1	<i>Changes in Existing Decommissioning, Restoration and Similar Liabilities</i>
IC Interpretation 2	<i>Members' Share in Co-operative Entities and Similar Instruments</i>
IC Interpretation 5	<i>Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</i>
IC Interpretation 6	<i>Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment</i>
IC Interpretation 7	<i>Applying the Restatement Approach under FRS 129<sup>2004</sup> Financial Reporting in Hyperinflationary Economies</i>
IC Interpretation 8	<i>Scope of FRS 2</i>

The above FRS, Amendment to FRS and Interpretations shall apply to annual periods beginning on or after July 1, 2007 except for the following renamed FRS which have the same effective dates as their original Standards, i.e., annual periods beginning on or after January 1, 2003:

- (a) FRS 119 *Employee Benefits*, which supersedes FRS 119<sup>2004</sup> *Employee Benefits*;
- (b) FRS 126 *Accounting and Reporting by Retirement Benefit Plans*, which supersedes FRS 126<sup>2004</sup> *Accounting and Reporting by Retirement Benefit Plans*; and
- (c) FRS 129 *Financial Reporting in Hyperinflationary Economies*, which supersedes FRS 129<sup>2004</sup> *Financial Reporting in Hyperinflationary Economies*.

The effective date of FRS 139 is yet to be determined by the Malaysian Accounting Standards Board ("MASB"). This new standard establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items.

The impact of applying FRS 139 *Financial Instruments: Recognition and Measurement* on the financial statements upon first adoption of these standards as required by paragraph 30(6) of FRS 108 *Accounting Policies, Changes in accounting Estimates and Errors* are not required to be disclosed by virtue of exemptions provided under paragraph 103AB of FRS 139.

The directors anticipate that the adoption of the other FRS, Amendment to FRS and Interpretations in future periods will have no material financial effect on the financial statements of the Group and of the Company.

### 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 business combination 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 recognised 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) **Investment in Associated Companies**

An associated company is an entity over which the Group 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 and assets and liabilities of associated companies are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associated companies 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 companies, 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 recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associated company.

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 a time proportion basis that takes into account the principal outstanding and the effective interest rate applicable over the period to maturity, when it is determined that such income will accrue to the Group and to the Company. 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.

Fund management services fees pertaining to a subsidiary company, is recognised upon performance of services.

Insurance commissions received and receivable, pertaining to a subsidiary company, is recognised at the prescribed rates on gross premiums received.

Sale of bulk water to the Sabah State Government, pertaining to an indirect subsidiary company, 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.

Sale of Islamic Gold Dinar and Silver Dirham, pertaining to a direct subsidiary company, is recognised net of sales taxes upon transfer of significant risks and rewards of ownership to the buyer. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

**(h) Interest Expense Recognition**

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

(i) **Foreign Currencies**

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 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.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated 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 substantially enacted by the balance sheet date.

Deferred tax

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.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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 substantially 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.

Deferred tax assets and liabilities of a group entity are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the entity intends to settle its current tax assets and liabilities on a net basis.

**(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 ten years.

**(l) Construction Contract**

Where the outcome of a construction contract pertaining to an indirect subsidiary company can be estimated reliably, contract revenue and contract costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variation in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

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.

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:

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 to earn rental income or for capital appreciation or for both. Such properties were measured initially at cost, including transaction costs.

In previous financial year, subsequent to initial recognition, investment properties were stated at cost less any accumulated impairment losses. No amortisation was 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.

In 2006, the investment properties, which are property interest held under an operating lease, have been carried at fair value in accordance with FRS 140 to reflect market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of the investment properties are included in the income statements when they arise.

A property interest under an operating lease is classified and accounted for as an investment property-by-property basis when the subsidiary company holds it to earn rentals or for capital appreciation or both. Any such property interest under an operating lease classified as an investment property is carried at fair value.

The effects of the change in accounting policy on the financial statements of the Group for the current and prior financial years as mentioned above are shown in Note 44.

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 reported at cost less 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 useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The estimated useful life and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets with indefinite useful lives are not amortised but are 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 useful 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 are stated at the lower of cost and net realisable value. Cost represents the purchase consideration at which the properties were acquired. Net realisable values represent open market value of the properties held.

(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 Tangible and Intangible Assets Excluding Goodwill**

At each balance sheet date, the Group and the Company review the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. 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.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequent reserves, the carrying amount of the asset (or cash-generating unit) is increase to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(v) **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out method. The costs of Islamic Gold Dinar and Silver Dirham pertaining to a direct subsidiary company and chemicals and spare parts pertaining to an indirect subsidiary company comprises the original purchase price plus cost incurred in bringing the inventories to their present location. Net realisable value represents the estimated selling price in the ordinary course of business less selling and distribution costs.

(w) **Allowance for Losses on Loans and Financing**

Specific allowances are made for losses on loans 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 in Islamic Gold Dinar, pertaining to a direct subsidiary company and non-current investments in transferable corporate club membership, pertaining to 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 benefits 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. No actuarial valuation has been conducted on the retirement benefits provision as the directors consider the amount to be insignificant to the Company.

(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.

(i) **Critical Judgements in Applying Accounting Policies**

In the process of applying the Group's accounting policies, the management is of the opinion that there is no instance of application of judgements which is expected to have a significant effect on the amounts recognised in the financial statements, apart from those estimations described below.

(ii) **Key Sources of Estimation Uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of Property, Plant and Equipment

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 cashflows. The carrying amount of property, plant and equipment at the balance sheet date is disclosed in Note 25.

Deferred Tax Assets (Note 28)

Deferred tax assets are recognised for all unutilised tax losses to the extent that it is probable that future taxable profit will be available against which the unutilised tax losses can be utilised. Significant management judgement is required to determine that 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.

Loans, Advances and Financing and Trade Receivables

Allowance for losses on loans and financing on loans, advances and financing and trade receivables are made based on estimates possible losses which may arise from non-collection of certain receivable accounts. Significant management judgement is required to determine the adequacy of the allowance for losses on loans and financing to cover any losses which may be incurred from uncollectible accounts on outstanding loan, advances and financing and trade receivables as of the balance sheet date.

**(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**

	<b>The Group</b>		<b>The Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
Loans, advances and financing	88,785,174	64,522,026	115,800,462	87,644,413
Non-current asset held for sale	2,100,000	-	2,100,000	-
Money at call and deposit placements with financial institutions	1,251,396	2,633,593	1,180,647	2,628,043
Securities held-for-trading	443,978	792,668	443,978	792,668
Securities held-to-maturity	630,020	629,531	630,020	629,531
Others	861,210	1,589,474	758,674	1,409,924
	<u>94,071,778</u>	<u>70,167,292</u>	<u>120,913,781</u>	<u>93,104,579</u>

5. **INTEREST EXPENSE**

	<b>The Group</b>		<b>The Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
Deposits from customers	20,752,829	18,497,689	20,752,829	18,497,689
Long-term borrowings	34,956,197	19,129,041	34,956,197	19,129,041
Short-term borrowings	9,988,032	14,174,117	9,988,032	14,174,117
Overdue accounts:				
Current year	808,290	2,081,983	-	-
Overprovision in prior years	(7,637,401)	-	-	-
Bank guarantee	21,600	21,600	-	-
Leasing and hire-purchase	3,910	11,526	-	-
Others	5,846	24,736	-	-
	<u>58,899,303</u>	<u>53,940,692</u>	<u>65,697,058</u>	<u>51,800,847</u>

## 6. OTHER OPERATING INCOME

	The Group		The Company	
	2007 RM	2006 RM	2007 RM	2006 RM
Fee income:				
Commission	3,598,556	1,909,875	3,307,892	1,794,228
Fund management services fees	23,383	15,355	-	-
Other fee income	5,462,116	3,733,590	5,462,116	3,733,590
	<u>9,084,055</u>	<u>5,658,820</u>	<u>8,770,008</u>	<u>5,527,818</u>
Investment income:				
Gain arising from sale/ redemption of securities:				
Held-for-trading	2,595,858	18,076	2,595,858	18,076
Available-for-sale	1,730,947	57,600	1,730,947	57,600
Held-to-maturity	920,137	-	920,137	-
Gain on disposal of properties held for resale	-	78,100	-	-
	<u>5,246,942</u>	<u>153,776</u>	<u>5,246,942</u>	<u>75,676</u>
Gross dividends:				
Securities held-for-trading	604,031	335,400	604,031	335,400
Subsidiary company	-	-	230,000,000	45,000,000
	<u>604,031</u>	<u>335,400</u>	<u>230,604,031</u>	<u>45,335,400</u>
Other income:				
Sale of bulk water and services rendered to Sabah State Government (Note 26)	96,249,802	96,043,896	-	-
Gain on disposal of property, plant and equipment	133,500	146,401	9,605	87,774
Realised gain on foreign exchange	36,952	32,219	36,952	32,219
Rental income	28,800	83,143	-	-
Sale of Islamic Gold Dinar and Silver Dirham	928	-	-	-
Other non-operating income	3,354,794	2,757,008	3,243,477	2,579,437
	<u>99,804,776</u>	<u>99,062,667</u>	<u>3,290,034</u>	<u>2,699,430</u>
Total	<u>114,739,804</u>	<u>105,210,663</u>	<u>247,911,015</u>	<u>53,638,324</u>

Included in other non-operating income of the Group and of the Company is an amount of RM2,898,906 (2006: RM2,316,584) 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 19.

## 7. OTHER OPERATING EXPENSES

	The Group		The Company	
	2007 RM	2006 RM	2007 RM	2006 RM
Staff costs	10,665,608	9,362,570	5,187,222	4,835,027
Personnel costs	1,152,107	1,208,643	1,152,107	1,208,643
Establishment costs	2,726,182	2,053,787	1,750,603	1,593,498
Marketing expenses	372,722	469,922	372,722	469,922
Direct cost and administrative and other overhead expenses	<u>48,157,589</u>	<u>55,034,492</u>	<u>3,445,141</u>	<u>3,163,115</u>
	<u>63,074,208</u>	<u>68,129,414</u>	<u>11,907,795</u>	<u>11,270,205</u>

The above expenditure includes the following statutory disclosure items:

Amortisation of project expenditures (Note 24)	26,718,000	27,247,489	-	-
Depreciation and amortisation expenses:				
Depreciation of property, plant and equipment (Note 25)	1,961,105	1,312,898	1,045,020	919,423
Amortisation of prepaid lease payment (Note 21)	92,853	66,814	26,039	-
Directors' remunerations (Note 8)	1,956,133	1,705,358	1,211,957	1,096,030
Rental of premises payable to:				
Sabah State Government (Note 26)	502,768	502,768	452,768	452,768
Others	147,711	146,011	14,620	14,620
Provisions for:				
Retirement gratuities	320,629	355,140	320,629	355,140
Rectification works	-	2,630,000	-	-
Structural repair	-	2,400,000	-	-
Loss arising from sale of securities held-for- trading	188,590	-	188,590	-
Realised loss on foreign exchange	69,121	-	69,121	-

	<b>The Group</b>		<b>The Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
Fees payable to external auditors:				
Auditors of the Company:				
Current	59,300	58,500	50,000	50,000
Overprovision in prior year	-	(4,000)	-	(4,000)
Other auditors:				
Current	39,934	39,868	-	-
Underprovision in prior year	-	2,050	-	-
Property, plant and equipment written off	1,296	1,816	-	-
Loss on disposal of property, plant and equipment	<u>60</u>	<u>-</u>	<u>60</u>	<u>-</u>

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 RM1,253,538 (2006: RM1,116,256) and RM659,903 (2006: RM610,642) respectively.

8. **DIRECTORS' REMUNERATION**

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

	<b>The Group</b>		<b>The Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
Directors of the Company:				
Fees - Non-executive directors	183,000	176,000	183,000	176,000
Other emoluments:				
Executive director	878,377	776,301	878,377	776,301
Non-executive directors	<u>150,580</u>	<u>143,729</u>	<u>150,580</u>	<u>143,729</u>
	1,211,957	1,096,030	1,211,957	1,096,030
Directors of the subsidiary companies:				
Fees - Non-executive directors	214,000	120,000	-	-
Other emoluments:				
Executive director	466,676	417,328	-	-
Non-executive directors	<u>63,500</u>	<u>72,000</u>	-	-
	<u>744,176</u>	<u>609,328</u>	-	-
	<u>1,956,133</u>	<u>1,705,358</u>	<u>1,211,957</u>	<u>1,096,030</u>

Included in other emoluments of the executive director of the Company are Employees' Provident Fund contributions of RM105,750 (2006: RM93,474) 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 RM25,291 (2006: RM18,840).

## 9. ALLOWANCE FOR LOSSES ON LOANS AND FINANCING

	<b>The Group and the Company</b>	
	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>
Allowance for losses on loans and financing:		
Specific allowance		
- made during the financial year	7,629,241	13,521,052
- written back during the financial year	-	(15,000,425)
General allowances made during the financial year	4,959,188	4,534,527
Bad debts recovered	<u>(1,538,773)</u>	<u>(100,962)</u>
	<u>11,049,656</u>	<u>2,954,192</u>

## 10. WRITE-BACK OF ALLOWANCE FOR DIMINUTION IN VALUE

	<b>The Group and the Company</b>	
	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>
Write-back of allowance for diminution in value of:		
Securities held-for-trading	2,793,051	2,304,031
Securities available-for-sale	1,033,959	763,159
Allowance for diminution in value of:		
Securities held-for-trading	(3,404,633)	(2,073,612)
Securities available-for-sale	<u>(368,792)</u>	<u>-</u>
	<u>53,585</u>	<u>993,578</u>

## 11. INCOME TAX EXPENSE

	The Group		The Company	
	2007 RM	2006 RM	2007 RM	2006 RM
Current tax expense	(12,997,111)	(767,883)	(62,152,180)	-
Deferred tax expense (Notes 28 and 35)	(7,670,562)	(15,777,964)	(13,532,000)	(24,532,000)
Over/(Under)provision in prior years:				
Current tax expense	(11,871,230)	88,099	(12,630,711)	57,360
Deferred tax expense (Notes 28 and 35)	10,176,058	561,000	10,176,000	561,000
	<u>(22,362,845)</u>	<u>(15,896,748)</u>	<u>(78,138,891)</u>	<u>(23,913,640)</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	
	2007 RM	2006 RM	2007 RM	2006 RM
Profit before tax	<u>76,494,484</u>	<u>52,291,288</u>	<u>280,876,356</u>	<u>82,835,862</u>
Tax at the applicable tax rates of 20% and 27% (2006: 20% and 28%)	(21,492,137)	(15,720,354)	(75,836,616)	(23,194,041)
Tax effects of expenses that are not deductible in determining taxable profit	(610,398)	(2,150,655)	(412,263)	(152,264)
Tax effects of income not subject to tax	93,477	164,040	43,814	164,040
Utilisation of previously unrecognised tax losses	-	8,975	-	-
Deferred tax assets not recognised during the year	(81,495)	(169,383)	-	-
Net effect of changes in tax rates	1,419,376	1,304,265	519,700	(1,367,000)
Over/(Under)provision in prior years:				
Current tax expense	(11,871,230)	88,099	(12,630,711)	57,360
Deferred tax expense	10,176,058	561,000	10,176,000	561,000
Others	3,504	17,265	1,185	17,265
	<u>(22,362,845)</u>	<u>(15,896,748)</u>	<u>(78,138,891)</u>	<u>(23,913,640)</u>

As of December 31, 2007, the Group and the Company have tax-exempt income of RM235,628 (2006: RM221,880) and RM227,206 (2006: RM214,966) 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.

## 12. BASIC EARNINGS PER ORDINARY SHARE

	<b>The Group</b>	
	<b>2007</b>	<b>2006</b>
Profit for the year attributable to ordinary shareholder	<u>RM54,116,404</u>	<u>RM36,389,084</u>
Number of ordinary shares in issue as of January 1	430,000,000	365,000,000
Effect of new issue during the year	<u>-</u>	<u>5,416,667</u>
Weighted average number of ordinary shares in issue	<u>430,000,000</u>	<u>370,416,667</u>
Basic earnings per ordinary share	<u>12.58 sen</u>	<u>9.82 sen</u>

## 13. CASH AND SHORT-TERM FUNDS

	<b>The Group</b>		<b>The Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
Cash and bank balances with banks and other financial institutions	17,182,026	12,152,496	10,200,104	7,954,404
Money at call and deposit placements with financial institutions maturing within one month	<u>9,406,874</u>	<u>3,570,433</u>	<u>9,406,874</u>	<u>3,570,433</u>
	<u>26,588,900</u>	<u>15,722,929</u>	<u>19,606,978</u>	<u>11,524,837</u>

The average effective interest rates are as follows:

	<b>The Group</b>		<b>The Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Bank balances	1.9	1.9	1.9	1.9
Money at call	<u>3.1</u>	<u>3.3</u>	<u>3.1</u>	<u>3.3</u>

## 14. DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

	The Group		The Company	
	2007 RM	2006 RM	2007 RM	2006 RM
Licensed banks	6,943,366	9,050,000	1,000,000	5,200,000
Other financial institutions	<u>2,433,515</u>	<u>7,423,778</u>	<u>2,340,000</u>	<u>7,000,000</u>
	<u>9,376,881</u>	<u>16,473,778</u>	<u>3,340,000</u>	<u>12,200,000</u>

Included in deposits and placements of the Group are amounts totalling RM1,192,343 (2006: RM1,182,943) pledged to secure bank guarantee facilities granted to a direct and two indirect subsidiary companies.

The average effective interest rate of the deposits and placements of the Group and of the Company is 3.20% (2006: 3.23%) and 3.78% (2006: 3.60%) per annum respectively.

Deposits and placements of the Group and of the Company have an average maturity of 212 days to 365 days (2006: 224 days to 365 days) respectively.

## 15. SECURITIES HELD-FOR-TRADING

	The Group and the Company	
	2007 RM	2006 RM
<b>At cost</b>		
Quoted securities outside Malaysia:		
Shares	2,087,096	-
Quoted securities in Malaysia:		
Shares	18,642,767	25,773,200
Unit trusts	11,649,992	5,649,992
Irredeemable convertible unsecured loan stocks	3,812,000	5,871,452
Redeemable convertible unsecured loan stocks	-	2,254,065
Warrants	-	2,346
	36,191,855	39,551,055
Less: Allowance for diminution in value of:		
Shares:		
- Quoted outside Malaysia	(317,272)	-
- Quoted in Malaysia	(3,407,131)	(12,947,356)
Unit trusts	(4,730,886)	(4,243,020)
Irredeemable convertible unsecured loan stocks	(3,164,044)	(2,955,278)
Redeemable convertible unsecured loan stocks	-	(157,785)
Warrants	-	(352)
	<u>(11,619,333)</u>	<u>(20,303,791)</u>
	<u>24,572,522</u>	<u>19,247,264</u>

	<b>The Group and the Company</b>	
	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>
Market value:		
Shares:		
- Quoted outside Malaysia	1,793,426	-
- Quoted in Malaysia	17,160,996	13,853,278
Unit trusts	6,919,106	1,406,972
Irredeemable convertible unsecured loan stocks	647,955	2,922,864
Redeemable convertible unsecured loan stocks	-	2,096,280
Warrants	-	72,263
	<u>26,521,483</u>	<u>20,351,657</u>

## 16. SECURITIES AVAILABLE-FOR-SALE

	<b>The Group and the Company</b>	
	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>
<b>At cost</b>		
Unquoted securities in Malaysia:		
Venture capital fund	6,097,625	11,094,605
Shares	5,646,000	3,266,700
Quoted securities in Malaysia:		
Irredeemable convertible unsecured loan stocks	-	2,461,806
	<u>11,743,625</u>	<u>16,823,111</u>
Less: Allowance for diminution in value of:		
Shares	(5,579,300)	(3,200,000)
Venture capital fund	(4,613,000)	(4,613,000)
Irredeemable convertible unsecured loan stocks	-	(1,033,959)
	<u>(10,192,300)</u>	<u>(8,846,959)</u>
	<u>1,551,325</u>	<u>7,976,152</u>
Market value:		
Irredeemable convertible unsecured loan stocks	-	1,427,847

Investment in venture capital company, Pengurusan EMGC Sdn. Bhd., with a carrying amount of RM Nil (2006: RM40,000) 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.

## 17. SECURITIES HELD-TO-MATURITY

	<b>The Group and the Company</b>	
	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>
<b>At cost</b>		
Money market instruments:		
Malaysian Government Securities	7,000,000	7,000,000
Mudharabah placements	18,251,551	17,559,538
	<u>25,251,551</u>	<u>24,559,538</u>
Quoted securities in Malaysia:		
Irredeemable convertible unsecured loan stocks	11,144,822	-
Irredeemable convertible bonds	5,426,732	-
	<u>16,571,554</u>	<u>-</u>
Unquoted securities in Malaysia:		
Redeemable convertible secured loan stocks	48,427,541	51,558,653
Redeemable convertible unsecured loan stocks	4,208,503	4,208,503
Redeemable secured loan stocks	16,329,722	16,329,722
Redeemable exchangeable unsecured loan stocks	5,728,000	8,926,000
	<u>74,693,766</u>	<u>81,022,878</u>
Floating rate negotiable instrument of deposit	<u>500,000</u>	<u>-</u>
	117,016,871	105,582,416
Less: Allowance for diminution in value of unquoted redeemable convertible secured loan stocks	<u>(20,450,880)</u>	<u>(20,450,880)</u>
	<u>96,565,991</u>	<u>85,131,536</u>
<b>Market value:</b>		
Money market instruments:		
Malaysian Government Securities	<u>7,182,700</u>	<u>7,354,900</u>
Quoted securities in Malaysia:		
Irredeemable convertible unsecured loan stocks	6,241,100	-
Irredeemable convertible bond	3,418,841	-
	<u>9,659,941</u>	<u>-</u>

The maturity structure of money market instruments is as follows:

	<b>The Group and the Company</b>	
	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>
Maturing within one year	25,251,551	17,559,538
One year to three years	-	7,000,000
	<u>25,251,551</u>	<u>24,559,538</u>

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

	<b>The Group and the Company</b>	
	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>
Overdue or maturing within one year	31,976,503	21,303,000
One year to three years	-	13,871,503
Three years to five years	42,717,263	45,848,375
	<u>74,693,766</u>	<u>81,022,878</u>

The maturity structure of quoted securities is as follows:

	<b>The Group and the Company</b>	
	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>
Over five years	<u>16,571,554</u>	<u>-</u>

The maturity structure of floating rate negotiable instrument of deposit is as follows:

	<b>The Group and the Company</b>	
	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>
One year to three years	<u>500,000</u>	<u>-</u>

## 18. LOANS, ADVANCES AND FINANCING

	The Group		The Company	
	2007 RM	2006 RM	2007 RM	2006 RM
Revolving credits	629,195,148	598,087,921	1,043,150,916	909,117,392
Term loans	972,677,680	772,608,133	972,677,680	772,608,133
Short-term advances	153,782,787	151,511,788	159,449,044	157,178,045
Staff loans	1,543,378	1,491,543	1,543,378	1,491,543
Other loans	75,514,998	71,940,287	75,514,998	71,940,287
	<u>1,832,713,991</u>	<u>1,595,639,672</u>	<u>2,252,336,016</u>	<u>1,912,335,400</u>
Unearned income	<u>(37,611)</u>	<u>(50,676)</u>	<u>(37,611)</u>	<u>(50,676)</u>
Gross loans, advances and financing	1,832,676,380	1,595,588,996	2,252,298,405	1,912,284,724
Less:				
Allowance for losses on loans and financing	<u>(699,167,905)</u>	<u>(663,961,721)</u>	<u>(699,167,905)</u>	<u>(663,961,721)</u>
Net loans, advances and financing	<u>1,133,508,475</u>	<u>931,627,275</u>	<u>1,553,130,500</u>	<u>1,248,323,003</u>

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

	The Company	
	2007 RM	2006 RM
Revolving credits	413,955,768	311,030,394
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 8.47% (2006: 8.50%) 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:

	<b>The Group</b>		<b>The Company</b>	
	<b>2007 RM</b>	<b>2006 RM</b>	<b>2007 RM</b>	<b>2006 RM</b>
Maturing within one year	1,452,661,978	1,234,291,638	1,872,284,003	1,550,987,366
One year to three years	220,525,010	265,581,653	220,525,010	265,581,653
Three years to five years	77,233,603	35,523,225	77,233,603	35,523,225
Over five years	82,255,789	60,192,480	82,255,789	60,192,480
	<u>1,832,676,380</u>	<u>1,595,588,996</u>	<u>2,252,298,405</u>	<u>1,912,284,724</u>

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

	<b>The Group</b>		<b>The Company</b>	
	<b>2007 RM</b>	<b>2006 RM</b>	<b>2007 RM</b>	<b>2006 RM</b>
Real estate and construction	892,135,204	641,863,131	892,135,204	641,863,131
Infrastructure construction	233,945,885	348,662,339	233,945,885	348,662,339
Manufacturing	274,522,781	192,715,150	274,522,781	192,715,150
Finance, insurance and business services	97,627,252	114,336,754	97,627,252	114,336,754
Agriculture, mining and quarrying	97,707,643	54,874,061	97,707,643	54,874,061
General commerce	32,681,063	35,959,455	32,681,063	35,959,455
Housing	975,141	942,375	975,141	942,375
Others	203,081,411	206,235,731	622,703,436	522,931,459
	<u>1,832,676,380</u>	<u>1,595,588,996</u>	<u>2,252,298,405</u>	<u>1,912,284,724</u>

## 19. OTHER ASSETS

	The Group		The Company	
	2007 RM	2006 RM	2007 RM	2006 RM
Non-current investments in:				
Islamic Gold Dinar	673,589	673,589	-	-
Transferable corporate club membership	101,780	101,780	-	-
Investment property	816,000	816,000	-	-
Interest receivables	523,903	312,946	495,750	312,946
Properties held for resale	5,506,212	5,506,212	-	-
Receivables, deposits and prepayments	<u>477,806,572</u>	<u>443,750,692</u>	<u>360,012,478</u>	<u>204,255,188</u>
	<u>485,428,056</u>	<u>451,161,219</u>	<u>360,508,228</u>	<u>204,568,134</u>

Non-current investment in Islamic Gold Dinar has a net realisable value of RM673,589 (2006: RM673,589).

Investment property, pertaining to an indirect subsidiary company, consists of a parcel of long leasehold land together with a factory building erected thereon, is held under lease term and carried at fair value as of December 31, 2007. The investment property was stated at cost less accumulated impairment loss of RM14,000,000 in 2006.

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

	The Group	
	2007 RM	2006 RM
At cost:		
Freehold land	5,099,202	5,099,202
Long leasehold land	<u>407,010</u>	<u>407,010</u>
	<u>5,506,212</u>	<u>5,506,212</u>

As of December 31, 2007, four parcels of freehold land pertaining to a direct subsidiary company with a carrying amount of RM5 million (2006: RM5 million) is registered in the name of a director of the said subsidiary company and a third party who are holding them in trust for the said subsidiary company while the remaining two parcels of freehold land with a total carrying amount of RM99,202 (2006: RM99,202) are registered in the name of a director of the said subsidiary company and third party who are holding them in trust for the said subsidiary company.

Receivables, deposits and prepayments consist of the following:

	<b>The Group</b>		<b>The Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
Trade receivable	342,995,174	304,811,263	-	-
Prepayments	40,484,630	40,663,422	39,901,425	40,112,657
Tax refundable	41,565,000	51,459,941	30,434,575	43,001,165
Penalty interest recoverable from the Sabah State Government	30,000,000	30,000,000	-	-
Amount receivable from the Sabah State Government	17,521,879	13,024,456	12,945,906	10,047,000
Deposits	2,279,105	540,597	173,692	175,000
Inventories	1,420,118	1,536,302	-	-
Other receivables	1,411,869	1,615,241	156,773	102,159
Franchise fee	50,520	50,520	-	-
Dividend receivable	37,423	-	37,423	-
Front-end bond interest	23,611	31,944	23,611	31,944
Accrued income on non-current investment in Islamic Gold Dinar	17,243	17,006	-	-
Amount due from subsidiary company	-	-	276,339,073	110,785,263
	<u>477,806,572</u>	<u>443,750,692</u>	<u>360,012,478</u>	<u>204,255,188</u>

Trade receivable pertaining to an indirect subsidiary company consists of:

	<b>The Group</b>	
	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>
Trade receivable	510,995,174	472,811,263
Less: Allowance for doubtful debts - fair value adjustment arising from business combination	<u>(168,000,000)</u>	<u>(168,000,000)</u>
	<u>342,995,174</u>	<u>304,811,263</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 (2006: 45 days.)

Prepayments of the Group and of the Company comprise mainly an amount of RM38,652,080 (2006: 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 from business combination in 2005, represents the fair value adjustment on interest-in-suspense pertaining to an indirect subsidiary company which would only be recognised in the income statement by the indirect subsidiary company upon receipt of the penalty interest.

Included in amount receivable from the Sabah State Government are amounts totalling RM12,945,906 (2006: RM10,047,000) representing cumulative income receivable from the Sabah State Government in consideration for the prepayment of RM38,652,080 mentioned above.

Inventories pertaining to a direct and an indirect subsidiary company consist of:

	<b>The Group</b>	
	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>
Chemicals	500,985	751,041
Spare parts	914,100	785,261
Islamic Gold Dinar	5,033	-
	<u>1,420,118</u>	<u>1,536,302</u>

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.

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

## 20. 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 RM6,000,000 (2006: RM1,000,000) have been received from the purchaser as of December 31, 2007 as mentioned in Note 33.

## 21. PREPAID LEASE PAYMENTS

	<b>The Group</b>		<b>The Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
Unamortised prepaid lease payments	7,019,424	7,112,277	2,023,638	2,049,677
Less: Current portion	<u>(92,853)</u>	<u>(92,853)</u>	<u>(26,039)</u>	<u>(26,039)</u>
Non-current portion	<u>6,926,571</u>	<u>7,019,424</u>	<u>1,997,599</u>	<u>2,023,638</u>

The non-current portion will be amortised as follows:

	<b>The Group</b>		<b>The Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
In the second to fifth years inclusive	371,414	371,414	104,158	104,158
Later than 5 years	<u>6,555,157</u>	<u>6,648,010</u>	<u>1,893,441</u>	<u>1,919,480</u>
Non-current portion	<u>6,926,571</u>	<u>7,019,424</u>	<u>1,997,599</u>	<u>2,023,638</u>

Prepaid lease payments of the Company relate to two parcels of short leasehold land of the Company located at Pinosuk Plateau, Kundasan, Sabah, Malaysia and Taman Victoria Phase 2, Tuaran, Sabah, Malaysia. The two leases will expire in 2092 and 2084 respectively.

As of December 31, 2007, the land title of a parcel of long leasehold land of the Company with a carrying amount of RM200,000 (2006: RM200,000) is yet to be registered in the Company's name pending sub-division of master title.

Prepaid lease payments pertaining to a direct subsidiary company relate to two parcels of short leasehold land of the Company located at Kg. Gaggarak, Federal Territory of Labuan, Malaysia and Kg. Sungei Bedaun, Federal Territory of Labuan, Malaysia. Both leases will expire in 2082.

The movements in prepaid lease payment during the financial year are as follows:

	<b>The Group</b>		<b>The Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
At Cost:				
At beginning of year	7,580,549	-	2,049,677	-
Effect of change in accounting policy	<u>-</u>	<u>7,580,549</u>	<u>-</u>	<u>2,049,677</u>
Restated balance at beginning and end of year	<u>7,580,549</u>	<u>7,580,549</u>	<u>2,049,677</u>	<u>2,049,677</u>
Cumulative Amortisation:				
At beginning of year	468,272	-	-	-
Effect of change in accounting policy	<u>-</u>	<u>401,458</u>	<u>-</u>	<u>-</u>
Restated balance at beginning of year	468,272	401,458	-	-
Amortisation for the year (Note 7)	<u>92,853</u>	<u>66,814</u>	<u>26,039</u>	<u>-</u>
At end of year	<u>561,125</u>	<u>468,272</u>	<u>26,039</u>	<u>-</u>
Unamortised prepaid lease payments:				
At end of year	<u>7,019,424</u>	<u>7,112,277</u>	<u>2,023,638</u>	<u>2,049,677</u>
At beginning of year (restated) (Note 44)	<u>7,112,277</u>	<u>7,179,091</u>	<u>2,049,677</u>	<u>2,049,677</u>

## 22. INVESTMENT IN SUBSIDIARY COMPANIES

	<b>The Company</b>	
	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>
Unquoted shares - at cost	<u>2,920,002</u>	<u>2,570,002</u>

The subsidiary companies are as follows:

<b>Name of Company</b>	<b>Country of Incorporation</b>	<b>Effective Equity Interest</b>		<b>Principal Activities</b>
		<b>2007</b>	<b>2006</b>	
		<b>%</b>	<b>%</b>	
<b>Direct Subsidiary Companies</b>				
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	100	Management fund services
Sabah Gold Traders Sdn. Bhd.*	Malaysia	80	80	Trading of gold dinar and silver dirham
<b>Indirect Subsidiary Companies</b>				
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.

In 2006, 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:

	<b>Acquiree's Carrying Amount Before Combination RM</b>	<b>Fair Value Adjustments RM</b>	<b>Fair Value RM</b>
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	(282,197)	-	(282,197)
Total net liabilities	<u>(80,572)</u>	<u>-</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.

## 23. INVESTMENT IN ASSOCIATED COMPANY

	The Group		The Company	
	2007 RM	2006 RM	2007 RM	2006 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
		2007 %	2006 %	
Asal Baru Sdn. Bhd.	Malaysia	33 <sup>1</sup> / <sub>3</sub>	33 <sup>1</sup> / <sub>3</sub>	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, 2006 (2006: December 31, 2005) are presented below:

	The Group	
	2007 RM	2006 RM
Total assets	939,187	969,569
Total liabilities	3,380,970	3,742,698
Revenue	1,302,711	905,305
Profit/(Loss) for the year	<u>331,346</u>	<u>(70,864)</u>

## 24. PROJECT EXPENDITURE

	<b>The Group</b>	
	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>
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	(54,505,579)	(27,258,090)
Amortisation for the year (Note 7)	(26,718,000)	(27,247,489)
At end of year	<u>(81,223,579)</u>	<u>(54,505,579)</u>
	<u>133,547,599</u>	<u>160,265,599</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.

An 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

2007

The Group	Cost				At end of year RM
	At beginning of year RM	Additions RM	Disposals/ Write-off RM	Reclassification RM	
Freehold land	828,000	-	-	-	828,000
Leasehold improvements	2,726,020	6,070	(609,741)	-	2,122,349
Motor vehicles	3,513,640	435,026	(412,061)	(57,000)	3,479,605
Office equipment and furniture	2,155,949	45,271	(81,031)	279,016	2,399,205
Computer equipment	1,332,476	116,517	(100,099)	(279,472)	1,069,422
Plant and equipment	2,880,690	19,667	(1,620)	9,501,811	12,400,548
Capital work-in-progress	9,156,029	1,364,966	-	(9,444,355)	1,076,640
<b>Total</b>	<b>22,592,804</b>	<b>1,987,517</b>	<b>(1,204,552)</b>	<b>-</b>	<b>23,375,769</b>
The Group	Accumulated Depreciation				At end of year RM
	At beginning of year RM	Charge for the year RM	Disposals/ Write-off RM	Reclassification RM	
Freehold land	-	-	-	-	-
Leasehold improvements	1,204,869	509,625	(609,702)	-	1,104,792
Motor vehicles	2,122,188	495,915	(412,047)	-	2,206,056
Office equipment and furniture	1,393,536	276,811	(81,015)	255,234	1,844,566
Computer equipment	972,329	134,664	(100,069)	(255,234)	751,690
Plant and equipment	2,787,146	544,090	(324)	-	3,330,912
Capital work-in-progress	-	-	-	-	-
<b>Total</b>	<b>8,480,068</b>	<b>1,961,105</b>	<b>(1,203,157)</b>	<b>-</b>	<b>9,238,016</b>

2006

The Group	← Cost →							
	At beginning of year RM	Effect of change in accounting policy (Note 44) RM	Restated balance at beginning of year RM	Acquisition of subsidiary companies RM	Additions RM	Disposals RM	Reclassification RM	At end of year RM
Freehold land	828,000	-	828,000	-	-	-	-	828,000
Long leasehold land	58,578,348	(7,580,549)	50,997,799	-	-	-	(50,997,799)	-
Leasehold improvements	2,572,170	-	2,572,170	-	153,850	-	-	2,726,020
Motor vehicles	3,795,582	-	3,795,582	-	428,595	(710,537)	-	3,513,640
Office equipment and furniture	2,035,264	-	2,035,264	25,939	114,108	(19,362)	-	2,155,949
Computer equipment	1,050,009	-	1,050,009	125,015	237,359	(79,907)	-	1,332,476
Plant and equipment	2,827,041	-	2,827,041	-	54,648	(999)	-	2,880,690
Capital work-in-progress	-	-	-	-	9,156,029	-	-	9,156,029
<b>Total</b>	<b>71,686,414</b>	<b>(7,580,549)</b>	<b>64,105,865</b>	<b>150,954</b>	<b>10,144,589</b>	<b>(810,805)</b>	<b>(50,997,799)</b>	<b>22,592,804</b>

2006

The Group	← Accumulated Depreciation →							At end of year RM
	At beginning of year RM	Effect of change in accounting policy (Note 44) RM	Restated balance at beginning of year RM	Acquisition of subsidiary companies RM	Additions RM	Disposals RM	Reclassification RM	
Freehold land	-	-	-	-	-	-	-	-
Long leasehold land	401,458	(401,458)	-	-	-	-	-	-
Leasehold improvements	731,158	-	731,158	-	473,711	-	-	1,204,869
Motor vehicles	2,406,649	-	2,406,649	-	426,056	(710,517)	-	2,122,188
Office equipment and furniture	1,129,477	-	1,129,477	21,385	260,615	(17,941)	-	1,393,536
Computer equipment	813,812	-	813,812	120,096	117,247	(78,826)	-	972,329
Plant and equipment	2,751,994	-	2,751,994	-	35,269	(117)	-	2,787,146
Capital work-in-progress	-	-	-	-	-	-	-	-
<b>Total</b>	<b>8,234,548</b>	<b>(401,458)</b>	<b>7,833,090</b>	<b>141,481</b>	<b>1,312,898</b>	<b>(807,401)</b>	<b>-</b>	<b>8,480,068</b>

**2007**

<b>The Company</b>	<b>Cost</b>				<b>Accumulated Depreciation</b>			
	<b>At beginning of year RM</b>	<b>Additions RM</b>	<b>Disposals RM</b>	<b>At end of year RM</b>	<b>At beginning of year RM</b>	<b>Charge for the year RM</b>	<b>Disposals RM</b>	<b>At end of year RM</b>
Leasehold improvements	2,645,734	6,070	(609,741)	2,042,063	1,126,431	509,009	(609,702)	1,025,738
Motor vehicles	1,105,336	-	(800)	1,104,536	404,705	169,869	(798)	573,776
Office equipment and furniture	1,558,636	9,449	(80,471)	1,487,614	873,792	238,300	(80,455)	1,031,637
Computer equipment	943,714	88,083	(100,099)	931,698	620,317	127,842	(100,069)	648,090
<b>Total</b>	<b>6,253,420</b>	<b>103,602</b>	<b>(791,111)</b>	<b>5,565,911</b>	<b>3,025,245</b>	<b>1,045,020</b>	<b>(791,024)</b>	<b>3,279,241</b>

2006

The Company	Cost						At end of year RM
	At beginning of year RM	Effect of change in accounting policy (Note 44) RM	Restated balance at beginning of year RM	Additions RM	Disposals RM	Reclassification RM	
Long leasehold land	53,047,476	(2,049,677)	50,997,799	-	-	(50,997,799)	-
Leasehold improvements	2,491,884	-	2,491,884	153,850	-	-	2,645,734
Motor vehicles	978,595	-	978,595	428,595	(301,854)	-	1,105,336
Office equipment and furniture	1,489,002	-	1,489,002	77,147	(7,513)	-	1,558,636
Computer equipment	759,961	-	759,961	224,727	(40,974)	-	943,714
<b>Total</b>	<b>58,766,918</b>	<b>(2,049,677)</b>	<b>56,717,241</b>	<b>884,319</b>	<b>(350,341)</b>	<b>(50,997,799)</b>	<b>6,253,420</b>

  

The Company	Accumulated Depreciation						At end of year RM
	At beginning of year RM	Effect of change in accounting policy (Note 44) RM	Restated balance at beginning of year RM	Charge for the year RM	Disposals RM	Reclassification RM	
Long leasehold land	-	-	-	-	-	-	-
Leasehold improvements	653,336	-	653,336	473,095	-	-	1,126,431
Motor vehicles	595,946	-	595,946	110,612	(301,853)	-	404,705
Office equipment and furniture	658,617	-	658,617	222,558	(7,383)	-	873,792
Computer equipment	548,108	-	548,108	113,158	(40,949)	-	620,317
<b>Total</b>	<b>2,456,007</b>	<b>-</b>	<b>2,456,007</b>	<b>919,423</b>	<b>(350,185)</b>	<b>-</b>	<b>3,025,245</b>

	← <b>The Group</b> →		← <b>The Company</b> →	
	<b>Carrying Amount</b>		<b>Carrying Amount</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
Freehold land	828,000	828,000	-	-
Leasehold improvements	1,017,557	1,521,151	1,016,325	1,519,303
Motor vehicles	1,273,549	1,391,452	530,760	700,631
Office equipment and furniture	554,639	762,413	455,977	684,844
Computer equipment	317,732	360,147	283,608	323,397
Plant and machinery	9,069,636	93,544	-	-
Capital work-in-progress	1,076,640	9,156,029	-	-
<b>Total</b>	<u>14,137,753</u>	<u>14,112,736</u>	<u>2,286,670</u>	<u>3,228,175</u>

Freehold land pertaining to a direct subsidiary company is registered in the name of a director of the said subsidiary company and a third party who are holding the land in trust for the said subsidiary company.

As of December 31, 2007, the carrying amount of plant and equipment pertaining to an indirect subsidiary company acquired under hire-purchase and finance lease arrangement amounted to RM109,595 (2006: RM208,476).

The long leasehold land of the Group and of the Company have been reclassified to prepaid lease payments upon adoption of FRS 117 *Leases* during the financial year as disclosed in Note 2.

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 RM5,573,396 (2006: RM6,679,444) and RM1,190,684 (2006: RM1,950,698) 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:

	<b>The Group</b>		<b>The Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
<b>Holding entity, Sabah State Government</b>				
Sale of bulk water and services rendered (Note 6)	96,249,802	96,043,896	-	-
Interest payable on deposits	24,422,905	14,319,302	24,422,905	14,319,302
Income receivable (Note 6)	2,898,906	2,316,584	2,898,906	2,316,584
Rental of premises payable (Note 7)	502,768	502,768	452,768	452,768
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Direct subsidiary companies</b>				
<b>SDB Asset Management Sdn. Bhd.</b>				
Management fee	-	-	37,843	-
<b>Sedia Usaha Sdn. Bhd.</b>				
Loan, advances and financing	-	-	12,075,211	14,653,300
Loan interest receivable	-	-	10,375,211	9,348,040
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Indirect subsidiary companies</b>				
<b>Loan, advances and financing</b>				
Kota Kinabalu Water Sdn. Bhd.	-	-	8,026,508	7,282,563
Jetama Sdn. Bhd.	-	-	61,449,170	-
Corporate Dynamics Sdn. Bhd.	-	-	18,448,470	15,005,528
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Loan interest receivable</b>				
Kota Kinabalu Water Sdn. Bhd.	-	-	8,026,508	7,282,563
Jetama Sdn. Bhd.	-	-	6,241,125	6,030,250
Corporate Dynamics Sdn. Bhd.	-	-	2,372,450	461,537
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Associated company, Asal Baru Sdn. Bhd.</b>				
Service fee payable	127,386	127,386	127,386	127,386
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </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**

	<b>The Group and the Company</b>	
	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>
Amount due from associated company	511,130	511,130
Less: Allowance for doubtful debts	<u>(511,130)</u>	<u>(511,130)</u>
	<u><u>-</u></u>	<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:

	<b>The Group</b>		<b>The Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
At beginning of year	83,959,000	107,930,000	36,919,000	60,890,000
Transfer to income statements (Note 11)	(13,532,000)	(24,532,000)	(13,532,000)	(24,532,000)
Overprovision of deferred tax expense in prior year (Note 11)	<u>10,176,000</u>	<u>561,000</u>	<u>10,176,000</u>	<u>561,000</u>
	<u><u>80,603,000</u></u>	<u><u>83,959,000</u></u>	<u><u>33,563,000</u></u>	<u><u>36,919,000</u></u>

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

	<b>Deferred Tax Assets/(Liabilities)</b>			
	<b>The Group</b>		<b>The Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
Tax effects of:				
Temporary differences arising from:				
General allowance for doubtful debts	53,898,000	52,823,000	6,858,000	5,783,000
Interest suspended on non-performing loans	7,939,000	9,028,000	7,939,000	9,028,000
Allowance for diminution in value of:				
Securities held-for-trading	3,021,000	5,482,000	3,021,000	5,482,000
Securities available-for-sale	2,650,000	290,000	2,650,000	290,000
Securities held-to-maturity	5,317,000	7,620,000	5,317,000	7,620,000
Property, plant and equipment	(69,000)	(140,000)	(69,000)	(140,000)
Front-end bond interest	(6,000)	(9,000)	(6,000)	(9,000)
Provision for retirement gratuities	765,000	721,000	765,000	721,000
Unutilised tax losses	7,088,000	8,144,000	7,088,000	8,144,000
	<u>80,603,000</u>	<u>83,959,000</u>	<u>33,563,000</u>	<u>36,919,000</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, 2007, 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:

	<b>The Group</b>	
	<b>Deferred Tax Assets</b>	
	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>
Tax effects of:		
Unutilised tax losses and unabsorbed capital allowances	647,300	560,000
Temporary differences arising from property, plant and equipment	(6,500)	(2,400)
	<u>640,800</u>	<u>557,600</u>

As of December 31, 2007, the said direct subsidiary company has unutilised tax losses and unabsorbed capital allowances totalling about RM2,490,000 (2006: RM2,154,000) which may be applied to reduce taxable income in future years. Out of the said amount, RM1,599,025 (2006: RM1,599,025) has been agreed by the tax authorities.

## 29. DEPOSITS FROM CUSTOMERS

	<b>The Group and the Company</b>	
	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>
Fixed deposits	<u>585,829,258</u>	<u>560,191,013</u>
(i) The maturity structure of fixed deposits is as follows:		
Due within six months	480,476,115	52,471,219
Six months to one year	<u>105,353,143</u>	<u>507,719,794</u>
	<u>585,829,258</u>	<u>560,191,013</u>
(ii) The deposits are sourced from the following:		
Sabah State Government	500,018,225	450,018,224
Government-owned enterprises	40,573,109	72,424,847
Statutory authorities	<u>45,237,924</u>	<u>37,747,942</u>
	<u>585,829,258</u>	<u>560,191,013</u>

The average effective interest rate of the Group and of the Company is 3.58% (2006: 3.49%) per annum.

## 30. LONG-TERM BORROWINGS

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

<b>The Group and the Company</b>	<b>Current</b>	<b>Non-current</b>	<b>Total</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>
<b>2007</b>			
Term loans from licensed bank	-	160,000,000	160,000,000
Local currency bonds	<u>-</u>	<u>500,000,000</u>	<u>500,000,000</u>
	<u>-</u>	<u>660,000,000</u>	<u>660,000,000</u>
<b>2006</b>			
Term loans from licensed bank	-	100,000,000	100,000,000
Local currency bonds	<u>-</u>	<u>500,000,000</u>	<u>500,000,000</u>
	<u>-</u>	<u>600,000,000</u>	<u>600,000,000</u>

	Facilities	Interest Rates		Repayment Terms	Securities
		Per Annum 2007	2006		
(a)	RM100 million term loan from a local licensed bank	4.47%	4.55%	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%	5.7%	Redeemable on the 3rd anniversary from the date of drawdown in 2006 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%	6.2%	Redeemable on the 5th anniversary from the date of drawdown in 2006 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
(d)	RM100 million term loan from a local licensed bank	4.52%	-	Repayable on the 3rd anniversary from the date of first drawdown. As of December 31, 2007, RM60 million has been drawdown.	Secured by Letter of Comfort 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 3.77% (2006: 4.32%) per annum.

**32. HIRE-PURCHASE AND FINANCE LEASE PAYABLES**

	<b>The Group</b>			
	<b>Minimum Lease Payments</b>		<b>Present Value of Minimum Lease payments</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
Amount payable under finance lease:				
Within one year	19,560	59,590	17,277	55,680
In the second to fifth years inclusive	32,550	52,110	31,154	48,431
	<u>52,110</u>	<u>111,700</u>	48,431	104,111
Less: Future finance charges	<u>(3,679)</u>	<u>(7,589)</u>	<u>-</u>	<u>-</u>
Present value of finance lease payable	<u>48,431</u>	<u>104,111</u>	48,431	104,111
Less: Amount due within 12 months				
Current portion			<u>(17,277)</u>	<u>(55,680)</u>
Non-current portion			<u>31,154</u>	<u>48,431</u>

The non-current portion is repayable as follows:

	<b>The Group</b>	
	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>
Later than 1 year and not later than 2 years	18,278	16,341
Later than 2 years and not later than 5 years	<u>12,876</u>	<u>32,090</u>
	<u>31,154</u>	<u>48,431</u>

The hire-purchase and finance lease liabilities have an average effective interest rate of 7.4% (2006: 7.4%) per annum.

## 33. OTHER LIABILITIES

	<b>The Group</b>		<b>The Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
Amount due to the Sabah				
State Government	138,250,000	32,400,000	138,250,000	32,400,000
Trade payables	2,257,014	37,312,136	-	-
Interest payables	22,073,937	19,907,450	22,073,937	19,907,450
Other payables	10,606,878	11,290,624	4,579,397	4,514,016
Deposits	6,887,570	1,097,620	6,878,970	1,089,020
Tax liabilities	43,043	49,179,722	2,400	2,400
Accrued expenses	2,227,971	2,085,010	1,597,428	1,453,898
	<u>182,346,413</u>	<u>153,272,562</u>	<u>173,382,132</u>	<u>59,366,784</u>

Trade payables pertaining to an indirect subsidiary company comprise amount outstanding for trade purchases. The average credit period granted ranges from 30 days to 90 days (2006: 30 days to 90 days).

Other payables comprise amounts outstanding for ongoing costs. The average credit period for other payables is 30 days (2006: 30 days).

Included in deposits of the Group and of the Company is an amount of RM6,000,000 (2006: RM1,000,000) which represents deposits received from the purchaser of the long leasehold land pertaining to the Company as mentioned in Note 20.

Included in accrued expenses of the Group and of the Company are vacation and outfit allowance for directors of RM671,825 and RM534,489 (2006: RM520,862 and RM434,737) respectively.

## 34. PROVISIONS

	<b>The Company Provision for Retirement Gratuities RM</b>	<b>Indirect Subsidiary Company Provision for Rectification Works RM</b>	<b>Provision for Structural Repair RM</b>	<b>The Group Total RM</b>
At beginning of year	2,669,317	5,607,072	2,400,000	10,676,389
Additions	320,629	-	-	320,629
Utilised	(49,088)	(4,658,780)	(2,097,634)	(6,805,502)
At end of year	<u>2,940,858</u>	<u>948,292</u>	<u>302,366</u>	<u>4,191,516</u>
Analysis of total provisions:				
Current	-	948,292	302,366	1,250,658
Non-current	2,940,858	-	-	2,940,858
	<u>2,940,858</u>	<u>948,292</u>	<u>302,366</u>	<u>4,191,516</u>

**Provision for Retirement Gratuities**

The Company has a non-contributory unfunded retirement benefits 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. No actuarial valuation has been conducted on the retirement benefits provision as the directors consider the amount to be insignificant to the Company.

**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

	<b>The Group</b>	
	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>
At beginning of year	45,466,095	54,220,131
Transfer to income statement (Note 11)	(5,861,438)	(8,754,036)
Overprovision of deferred tax expense in prior year (Note 11)	(58)	-
	<u>39,604,599</u>	<u>45,466,095</u>

The deferred tax liabilities are in respect of the following:

	<b>The Group</b>	
	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>
Tax effects of temporary differences arising from:		
Project expenditure	28,352,370	35,317,538
Penalty interest recoverable	10,080,000	10,080,000
Property, plant and equipment	1,172,317	68,671
Others	(88)	(114)
	<u>39,604,599</u>	<u>45,466,095</u>

## 36. SHARE CAPITAL

	<b>The Group and the Company</b>	
	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>
<b>Authorised</b>		
380,000,000 ordinary shares of RM1 each	380,000,000	380,000,000
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>430,000,000</u>
<b>Issued and fully paid</b>		
At beginning 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>
	430,000,000	365,000,000
Issued during the year		
Ordinary shares of RM1 each	<u>-</u>	<u>65,000,000</u>
At end of year		
Ordinary shares of RM1 each	380,000,000	380,000,000
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>430,000,000</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.

## 37. RESERVES

	The Group		The Company	
	2007 RM	2006 RM	2007 RM	2006 RM
<b>Non-distributable reserve:</b>				
Capital redemption reserve	50,000,000	50,000,000	50,000,000	50,000,000
<b>Distributable reserves:</b>				
General reserve	93,230,000	93,230,000	93,230,000	93,230,000
Accumulated losses	(268,261,657)	(216,528,061)	(131,184,069)	(228,071,534)
	<u>(175,031,657)</u>	<u>(123,298,061)</u>	<u>(37,954,069)</u>	<u>(134,841,534)</u>
	<u>(125,031,657)</u>	<u>(73,298,061)</u>	<u>12,045,931</u>	<u>(84,841,534)</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 retained earnings 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, 2007, the Company has estimated tax credits totalling about RM61,573,000 (2006: RM61,758,000) to frank the payment of cash dividends.

The Malaysian Budget 2008 introduced a single tier company income tax system with effect from the Year of Assessment 2008. As such, the Section 108 tax credit as of December 31, 2007 will be available to the Company until such time the credit is fully utilised or upon expiry of the six-year transitional period on December 31, 2013 whichever is earlier.

38. **DIVIDENDS**

	<b>The Group and the Company</b>	
	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>
Interim ordinary share dividend declared - 37.76 sen, less tax (2006: 11.84 sen, less tax)	104,755,000	32,400,000
Interim preference share dividend declared - 3 sen, less tax, (2006: Nil)	<u>1,095,000</u>	<u>-</u>
	<u>105,850,000</u>	<u>32,400,000</u>

An interim dividend of 37.76 sen per ordinary share, less tax, amounting to RM104,755,000 in respect of the current financial year was declared by the directors during the financial year.

An interim dividend of 3 sen per redeemable convertible non-cumulative preference share, less tax, amounting to RM1,095,000 in respect of the current financial year was declared by the directors during the financial year.

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

39. **FINANCIAL INSTRUMENTS****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, short-term borrowings, hire-purchase and finance lease payables and other liabilities.

Deposits from customers are recorded at the proceeds received. Local currency bonds, term loans from licensed banks and short-term borrowings 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, 2007 are as follows:

2007	Note	The Group		The Company	
		Carrying Amount RM	Fair Value RM	Carrying Amount RM	Fair Value RM
<b>Financial Assets</b>					
Cash and short-term funds	13	26,588,900	26,588,900	19,606,978	19,606,978
Securities purchased under resale agreement		34,131,525	34,131,525	34,131,525	34,131,525
Deposits and placements with financial institutions	14	9,376,881	9,376,881	3,340,000	3,340,000
Securities held-for-trading	15	24,572,522	26,521,483	24,572,522	26,521,483
Securities available-for-sale*	16	1,551,325	1,551,325	1,551,325	1,551,325
Securities held-to-maturity**	17	96,565,991	89,837,079	96,565,991	89,837,079
Loans, advances and financing	18	1,133,508,475	1,159,944,736	1,553,130,500	1,579,566,761
Other assets	19	485,428,056	485,428,056	360,508,228	360,508,228
Non-current asset held for sale	20	<u>50,997,799</u>	<u>55,000,000</u>	<u>50,997,799</u>	<u>55,000,000</u>
<b>Financial Liabilities</b>					
Deposits from customers	29	585,829,258	585,829,258	585,829,258	585,829,258
Borrowings:					
Long-term	30	660,000,000	661,244,111	660,000,000	661,244,111
Short-term	31	321,000,000	321,000,000	321,000,000	321,000,000
Hire-purchase and finance lease payables	32	48,431	52,110	-	-
Other liabilities	33	<u>182,346,413</u>	<u>182,346,413</u>	<u>173,382,132</u>	<u>173,382,132</u>

2006	Note	The Group		The Company	
		Carrying Amount RM	Fair Value RM	Carrying Amount RM	Fair Value RM
<b>Financial Assets</b>					
Cash and short-term funds	13	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	14	16,473,778	16,473,778	12,200,000	12,200,000
Securities held-for-trading	15	19,247,264	20,351,657	19,247,264	20,351,657
Securities available-for-sale*	16	7,976,152	6,881,746	7,976,152	6,881,746
Securities held-to-maturity**	17	85,131,536	85,486,436	85,131,536	85,486,436
Loans, advances and financing	18	931,627,275	954,216,072	1,248,323,003	1,270,912,724
Other assets	19	451,161,219	451,151,023	204,568,134	204,568,134
Non-current asset held for sale	20	<u>50,997,799</u>	<u>55,000,000</u>	<u>50,997,799</u>	<u>55,000,000</u>
<b>Financial Liabilities</b>					
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>

\* 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 RM651,920 (2006: RM905,593).

\*\*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**

	<b>The Group</b>		<b>The Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
Cash and short-term funds (Note 13)	26,588,900	15,722,929	19,606,978	11,524,837
Deposits and placements with financial institutions (Note 14)	<u>9,376,881</u>	<u>16,473,778</u>	<u>3,340,000</u>	<u>12,200,000</u>
	35,965,781	32,196,707	22,946,978	23,724,837
Less: Deposits pledged to banks	<u>(1,192,343)</u>	<u>(1,182,943)</u>	<u>-</u>	<u>-</u>
	<u><u>34,773,438</u></u>	<u><u>31,013,764</u></u>	<u><u>22,946,978</u></u>	<u><u>23,724,837</u></u>

41. **LEASE COMMITMENTS**

As at the end of the financial year, lease commitments in respect of rental of premises and certain plant and equipment are as follows:

	<b>The Group</b>		<b>The Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
Future minimum lease payments:				
Not later than one year	544,187	571,003	447,512	447,512
Later than one year and not later than five years	<u>260,799</u>	<u>804,984</u>	<u>217,756</u>	<u>665,268</u>
	<u><u>804,986</u></u>	<u><u>1,375,987</u></u>	<u><u>665,268</u></u>	<u><u>1,112,780</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:

	<b>The Group</b>		<b>The Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
Capital expenditure:				
Approved and contracted for	141,300	837,248	141,300	189,438
Approved but not contracted for	5,865,645	806,161	-	-
Irrevocable commitments to extend credit with maturity exceeding one year	850,246,412	527,799,570	850,246,412	527,799,570
Guarantees issued	<u>277,627,648</u>	<u>206,408,715</u>	<u>277,627,648</u>	<u>206,408,715</u>
	<u>1,133,881,005</u>	<u>735,851,694</u>	<u>1,128,015,360</u>	<u>734,397,723</u>

**43. CONTINGENT LIABILITIES - UNSECURED**

As of December 31, 2006, the Group and the Company were contingently liable in respect of claims by customers for breach of contracts totalling RM306,616. The claims have been resolved during the financial year.



## 45. ISLAMIC BANKING BUSINESS

The results for the financial year ended December 31, 2007 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, 2007**

	Note	<b>The Group and the Company</b>	
		<b>2007</b>	<b>2006</b>
		<b>RM</b>	<b>RM</b>
Income	(a)	644,683	966,627
Write-back of allowance for losses on loans and financing	(b)	<u>7,821</u>	<u>158,068</u>
Total Income		652,504	1,124,695
Other expense		<u>(20)</u>	<u>(70)</u>
Profit for the year		652,484	1,124,625
Retained earnings brought forward		<u>6,312,575</u>	<u>5,187,950</u>
Retained earnings carried forward	(c)	<u>6,965,059</u>	<u>6,312,575</u>

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

**Balance Sheet as of December 31, 2007**

	Note	<b>The Group and the Company</b>	
		<b>2007</b>	<b>2006</b>
		<b>RM</b>	<b>RM</b>
<b>ASSETS</b>			
Cash and short-term funds	(d)	44,421	28,363
Securities held-to-maturity	(e)	18,251,552	17,559,538
Financing assets	(f)	<u>289,537</u>	<u>348,261</u>
<b>Total Assets</b>		<u><u>18,585,510</u></u>	<u><u>17,936,162</u></u>
<b>LIABILITIES AND ISLAMIC BANKING FUNDS</b>			
Other liabilities	(g)	<u>-</u>	<u>3,136</u>
<b>Total Liabilities</b>		-	3,136
Islamic Banking Funds	(c)	<u>18,585,510</u>	<u>17,933,026</u>
<b>Total Liabilities and Islamic Banking Funds</b>		<u><u>18,585,510</u></u>	<u><u>17,936,162</u></u>

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

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

	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>
Income derived from investment of funds allocated:		
Mudharabah placements	631,013	497,380
Income from financing	13,066	384,316
Income from penalty on overdue instalment	604	84,931
	<u>644,683</u>	<u>966,627</u>

**(b) WRITE-BACK OF ALLOWANCE FOR LOSSES ON LOANS AND FINANCING**

	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>
Write-back of allowance for losses on loans and financing:		
- Specific allowance written back during the financial year	7,200	100,673
- General allowance written back during the financial year	621	57,395
	<u>7,821</u>	<u>158,068</u>

**(c) ISLAMIC BANKING FUNDS**

	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>
Funds allocated	11,620,451	11,620,451
Retained earnings	<u>6,965,059</u>	<u>6,312,575</u>
	<u>18,585,510</u>	<u>17,933,026</u>

**(d) CASH AND SHORT-TERM FUNDS**

	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>
Cash and bank balances with banks and other financial institutions	<u>44,421</u>	<u>28,363</u>

**(e) SECURITIES HELD-TO-MATURITY**

	<b>2007</b> <b>RM</b>	<b>2006</b> <b>RM</b>
Money market instrument: Mudharabah placements	<u>18,251,552</u>	<u>17,559,538</u>

**(f) FINANCING ASSETS**

	<b>2007</b> <b>RM</b>	<b>2006</b> <b>RM</b>
Term financing	994,569	1,074,179
Unearned income	<u>(37,611)</u>	<u>(50,676)</u>
Gross financing assets	956,958	1,023,503
Less:		
General allowance for bad and doubtful debts and financing	(4,918)	(5,539)
Specific allowance for bad and doubtful debts and financing	<u>(662,503)</u>	<u>(669,703)</u>
Net financing assets	<u>289,537</u>	<u>348,261</u>

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

	<b>2007</b> <b>RM</b>	<b>2006</b> <b>RM</b>
Al-Bai' Bithaman Ajil	<u>956,958</u>	<u>1,023,503</u>

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

	<b>2007</b> <b>RM</b>	<b>2006</b> <b>RM</b>
Over five years	<u>956,958</u>	<u>1,023,503</u>

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

	<b>2007</b> <b>RM</b>	<b>2006</b> <b>RM</b>
Housing	273,340	308,730
Others	<u>683,618</u>	<u>714,773</u>
	<u>956,958</u>	<u>1,023,503</u>

(g) **OTHER LIABILITIES**

	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>
Other payables	-	3,136
	<hr/>	<hr/>

**SABAH DEVELOPMENT BANK BERHAD**  
(Incorporated in Malaysia)

**SCHEDULE OF OVERHEAD EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

	<b>The Company</b>	
	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>
Salaries, allowances and bonus	4,493,443	4,191,251
Directors' remunerations	1,211,957	1,096,030
Depreciation and amortisation expenses:		
Depreciation of property, plant and equipment	1,045,020	919,423
Amortisation of prepaid lease payment	26,039	-
Staff benefits	1,010,357	1,007,170
Commitment fees and other charges	929,311	1,282,009
Legal and professional fees	625,797	426,006
Rental of premises payable to:		
Sabah State Government	452,768	452,768
Others	14,620	14,620
Provision for retirement gratuities - net of write-back	320,629	355,140
Insurance	248,737	206,484
Staff training	222,707	244,055
Loss arising from sale of securities held for trading	188,590	-
Repairs and maintenance	158,130	141,507
Motor vehicle expenses	135,904	118,723
Directors' expenses	84,590	123,723
Stationery and supplies	79,249	91,176
Telephone, facsimile and postage	79,064	83,781
Management fee	75,800	-
Business development and public relations	71,417	109,567
Realised loss on foreign exchange	69,121	-
Travelling and accommodation	64,005	106,052
Membership dues	58,666	58,926
Audit fee:		
Current	50,000	50,000
Overprovision in prior year	-	(4,000)
Quit rent	39,706	44,524
Utilities	39,587	40,624
Bank charges	24,763	-
Advertisement	16,396	5,778
Computer systems development	14,440	24,555
Newspapers and periodicals	12,177	9,554
Donations	3,135	338
Loss on disposal of property, plant and equipment	60	-
Miscellaneous	41,610	70,421
	<u>11,907,795</u>	<u>11,270,205</u>
<b>Total</b>	<u><u>11,907,795</u></u>	<u><u>11,270,205</u></u>

This statement has been included for management use only and does not form part of the audited statutory financial statements of the Company.