

**SABAH DEVELOPMENT BANK BERHAD**  
(Incorporated in Malaysia)  
**AND ITS SUBSIDIARIES**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

**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 subsidiaries are as disclosed in Note 22 to the financial statements.

There have been no significant changes in the nature of the principal activities of the Company and of its subsidiaries 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 June 11, 2011.

**2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS**

The financial statements of the Group and of the Company have been prepared in accordance with Financial Reporting Standards and the provisions of the Companies Act, 1965 in Malaysia.

In the current financial year, the Group and the Company have adopted all the new and revised Standards and IC Interpretations ("IC Int.") issued by the Malaysian Accounting Standards Board ("MASB") that are relevant to its operations and effective for annual periods beginning on or after January 1, 2010 as follows:

FRS 7      Financial Instruments: Disclosures  
FRS 101    Presentation of Financial Statements (revised)  
FRS 139    Financial Instruments: Recognition and Measurement

Improvements to FRSs issued in 2009

IC Int. 9    Reassessment of Embedded Derivatives  
IC Int. 9    Reassessment of Embedded Derivatives (Amendments relating to embedded derivatives)

The adoption of these new and revised Standards and IC Interpretations has not affected the amounts reported on the financial statements of the Group and of the Company except for those Standards and IC Interpretations as set out in section 2.1.1 and section 2.1.2.

## 2.1 Standards and IC Interpretations in issue but not yet effective

At the date of authorisation for issue of these financial statements, the new and revised Standards and IC Interpretations which were in issue but not yet effective and not early adopted by the Group and the Company are as listed below.

FRS 1	First-time Adoption of Financial Reporting Standards (revised) <sup>1</sup>
FRS 1	First-time Adoption of Financial Reporting Standards (Amendments relating to limited exemption from Comparative FRS Disclosures for First-time Adopters) <sup>2</sup>
FRS 1	First-time Adoption of Financial Reporting Standards (Amendments relating to additional exemptions for first-time adopters) <sup>2</sup>
FRS 2	Share-based Payments (Amendments relating to scope of FRS 2 and revised FRS 3) <sup>1</sup>
FRS 2	Share-based Payment (Amendments relating to group cash-settled share-based payment transactions) <sup>2</sup>
FRS 3	Business Combinations (revised) <sup>1</sup>
FRS 5	Non-current Assets Held for Sale and Discontinued Operations (Amendments relating to plan to sell controlling interest in a subsidiary) <sup>1</sup>
FRS 7	Financial Instruments: Disclosures (Amendments relating to improving disclosures about financial instruments) <sup>2</sup>
FRS 124	Related Party Disclosures (revised) <sup>3</sup>
FRS 127	Consolidated and Separate Financial Statements (revised) <sup>1</sup>
FRS 128	Investments in Associates (revised) <sup>1</sup>
FRS 132	Financial Instruments: Presentation (Amendments relating to classification of rights issue) <sup>4</sup>
FRS 138	Intangible Assets (Amendments relating to additional consequential amendments arising from revised FRS 3) <sup>1</sup>
FRS 139	Financial Instruments: Recognition and Measurement (Amendments relating to additional consequential amendments arising from revised FRS 3 and revised FRS 127) <sup>1</sup> .

### Improvements to FRSs 2010<sup>2</sup>

IC Int. 4	Determining whether an Arrangement contains a Lease <sup>2</sup>
IC Int. 9	Reassessment of Embedded Derivatives (Amendments relating to additional consequential amendments arising from revised FRS 3) <sup>1</sup>
IC Int. 12	Service Concession Arrangements <sup>1</sup>
IC Int. 14	FRS 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction (Amendments relating to prepayments of a minimum funding requirement) <sup>7</sup>
IC Int. 15	Agreements for the Construction of Real Estate <sup>5</sup>
IC Int. 16	Hedges of a Net Investment in a Foreign Operation <sup>1</sup>
IC Int. 17	Distributions of Non-cash Assets to Owners <sup>1</sup>
IC Int. 18	Transfers of Assets from Customers <sup>6</sup>
IC Int. 19	Extinguishing Financial Liabilities with Equity Instruments <sup>7</sup>

<sup>1</sup> Effective for annual periods beginning on or after July 1, 2010

<sup>2</sup> Effective for annual periods beginning on or after January 1, 2011

<sup>3</sup> Effective for annual periods beginning on or after January 1, 2012

<sup>4</sup> Effective for annual periods beginning on or after March 1, 2010

<sup>5</sup> Original effective date of July 1, 2009 deferred to January 1, 2012 via amendment issued by MASB on August 30, 2010

<sup>6</sup> Applied prospectively to transfers of assets from customers received on or after January 1, 2011

<sup>7</sup> Effective for annual periods beginning on or after July 1, 2011

The directors anticipate that the abovementioned Standards and IC Interpretations will be adopted in the annual financial statements of the Group and of the Company when they become effective and that the adoption of these Standards and IC Interpretations will have no material impact on the financial statements of the Group and of the Company in the period of initial application.

### **2.1.1 Standards affecting presentation and disclosure**

#### **FRS 7 - Financial Instruments: Disclosures**

FRS 7 and the consequential amendment to FRS 101 *Presentation of Financial Statements* require disclosure of information about the significance of financial instruments for the Group's and the Company's financial position and performance, the nature and extent of risks arising from financial instruments, and the objectives, policies and processes for managing capital.

Comparative disclosures have not been presented upon initial adoption of this Standard as the Group and the Company have availed themselves of the transitional provision in this Standard.

#### **FRS 101 - Presentation of Financial Statements (revised)**

FRS 101 has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements. However, a third statement of financial position at January 1, 2009 has not been presented by the Group and the Company because the Group and the Company have not applied any new accounting policies retrospectively during the year.

### **2.1.2 Standards affecting the reported results or financial position**

#### **FRS 139 - Financial Instruments: Recognition and measurement**

The Group and the Company have adopted FRS 139 prospectively on January 1, 2010 in accordance with the transitional provisions in FRS 139. On that date, financial assets were classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. Financial liabilities were either classified as financial liabilities at fair value through profit or loss or other financial liabilities (i.e. those financial liabilities which are not held for trading or designated as at fair value through profit or loss upon initial recognition). The accounting policies for financial assets and financial liabilities are as disclosed in Note 3.

All financial assets and financial liabilities of the Group and of the Company within the scope of FRS 139 are recognised and re-measured accordingly, with the related adjustments of RM21,862,000 and RM20,914,000 respectively taken to opening retained earnings as of January 1, 2010 as disclosed in Note 40.

As the change in accounting policies has been applied prospectively, the change has had no impact on amounts reported for 2009 or prior periods.

### 3. **SIGNIFICANT ACCOUNTING POLICIES**

#### (a) **Basis of Accounting**

The financial statements of the Group and of the Company have been prepared under the historical cost convention except for the revaluation of certain financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange of assets.

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.

#### (b) **Subsidiaries and Basis of Consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company and its subsidiaries. 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 subsidiaries acquired or disposed of during the financial year are included in the consolidated statement of comprehensive income 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 subsidiaries 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.

Non-controlling interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling 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'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.

#### **Subsidiaries**

Investments in subsidiaries which are eliminated on consolidation, are stated at cost less impairment losses, if any, in the Company's separate financial statements.

(c) **Business Combinations**

The acquisition of subsidiaries 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 non-controlling 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.

(d) **Investment in Associates**

An associate 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 associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

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

(e) **Interest Income**

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

(f) **Income Recognition**

Interest income is recognised when it is probable that the economic benefit will flow to the Group and the Company and the amount of revenue can be measured reliably.

Interest income is recognised on a time proportion basis that takes into account the principal outstanding and the effective interest rate applicable which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition. 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 subsidiaries, securities held-for-trading, securities available-for-sale and securities held-to-maturity and is recognised when the shareholders' rights to receive payment is established provided that it is probable that the economic benefits will flow to the Group and the Company and the amount of revenue can be measured reliably.

Rental income, pertaining to a direct and an indirect subsidiary, is accrued on a time basis by reference to the agreements entered into.

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

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

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

Sale of goods, pertaining to an indirect subsidiary, is recognised net of sales taxes and discount upon transfer of risks and rewards. Revenue from rental of hotel rooms, sales of food and beverage and other related income is recognised on an accrual basis while revenue from services is recognised net of service taxes and discount as and when the services are performed.

(g) **Interest Expense Recognition**

Interest expenses on deposits and borrowings are recognised in the statement of comprehensive income on the accrual basis using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating the interest expense over the relevant period.

(h) **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 (“RM”), which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

Transactions in currencies other than functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

(i) **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 statements of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group’s and the Company’s liability for current tax are calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary 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. Deferred tax liabilities are generally recognised for all taxable temporary differences. 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 taxable profits will be available against which those deductible temporary differences, unused tax losses and unused tax credits can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of 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 the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

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

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 they relate to income taxes levied by the same taxation authority and the Group and the Company intend to settle their current tax assets and liabilities on a net basis.

#### Current and Deferred Tax for the Period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

#### (j) **Project Expenditure**

Project expenditure, pertaining to one of the indirect subsidiaries, 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 period of the Concession.

(k) **Construction Contract**

Where the outcome of a construction contract pertaining to an indirect subsidiary can be estimated reliably, contract revenue and contract costs are recognised by reference to the stage of completion of the contract activity at the end of reporting period, 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 the amount can be measured reliably and its receipt is considered probable.

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.

(l) **Property, Plant and Equipment**

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

Freehold land is not depreciated.

The initial costs of kitchen equipment which comprise china glass, cutlery, linen and kitchen utensils are capitalised, subsequent replacements are recognised in the statements of comprehensive income as and when incurred.

Depreciation other than freehold land and kitchen equipment is recognised so as to write off the cost of assets less their residual values 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.

The annual depreciation rates are as follows:

Hotel building	2%
Leasehold improvements	10% - 25%
Motor vehicles	20% - 25%
Office equipment and furniture	10% - 25%
Computer equipment	10% - 25%
Plant and equipment	5% - 25%
Kitchen equipment	10%

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.

(m) **Investment Properties**

Investment properties pertaining to an indirect subsidiary 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.

Investment properties, which are property interest held under an operating lease, are carried at fair value in accordance with FRS 140 *Investment Properties* to reflect market conditions at the end of the reporting period. Gains or losses arising from changes in the fair values of the investment properties are recognised in profit or loss in the period in which they arise.

A property interest under an operating lease is classified and accounted for as an investment property-by-property basis when the subsidiary 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.

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 period in which they arise.

(n) **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 non-current 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.

(o) **Intangible Assets**

Franchise fee pertaining to a direct subsidiary 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 the end of each reporting period, 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, on the same basis as intangible assets that are acquired separately.

(p) **Properties Held for Resale**

Properties held for resale pertaining to subsidiaries 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.

(q) **Leasing**

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.

The Group as lessee

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 statements of financial position 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 expenses are recognised immediately in 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.

(r) **Financial Instruments**

Financial instruments are recognised in the statement of financial position when, and only when, the Group and the Company become a party to the contractual provisions of the financial instruments.

Where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, such financial assets are recognised and derecognised on trade date.

Financial instruments are initially measured at fair value, plus transaction costs except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective Interest Method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial Assets at FVTPL

Financial assets are classified as at FVTPL when the financial assets is either held for trading or it is designated as at FVTPL.

A financial assets is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and FRS 139 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other operating income or other operating expenses' line items in the statements of comprehensive income.

#### Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

#### AFS Financial Assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at FVTPL. All AFS assets are measured at fair value at the end of the reporting period. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of the reporting period.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

#### Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

#### Impairment of Financial Assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as loan, advances and financing and trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period as well as observable changes in national or local economic conditions that correlate with default on receivables.

For loans, advances and financing which are collectively assessed, the Company has applied the transitional arrangement issued by BNM via its guideline on Classification and Impairment Provisions for Loans/Financing, whereby collective assessment impairment allowance is maintained at 1.67% of total outstanding loans, net of individual assessment impairment allowance.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loan, advances and financing and trade

receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

#### Derecognition of Financial Assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

#### (s) **Impairment of Tangible Assets**

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets 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 estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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.

Where an impairment loss subsequent reverses, the carrying amount of the asset (or cash-generating unit) is increased 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.

(t) **Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs of Islamic Gold Dinar and Silver Dirham pertaining to a direct subsidiary and chemicals and spare parts pertaining to an indirect subsidiary are determined on the first-in, first-out method which comprise the original purchase price plus cost incurred in bringing the inventories to their present location. Costs of food and beverages and stationery and general supplies pertaining to another indirect subsidiary are determined on the weighted average basis which comprise the original purchase price plus cost incurred in bringing the inventories to their present location. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and cost necessary to make the sale.

(u) **Non-current Investments**

Non-current investments in Islamic Gold Dinar, pertaining to a direct subsidiary and non-current investments in transferable corporate club membership, pertaining to an indirect subsidiary, 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.

(v) **Provisions**

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

Provisions are measured at the directors' best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where the effect of time value of money is material, the amount of the provision is determined by discounting expected future cash flows, using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the liability.

At the end of each reporting period, provisions are reviewed by the directors and adjusted to reflect the current best estimate. Provision is reversed if it is no longer probable that the Group and the Company will be required to settle the obligation.

(w) **Financial liabilities and equity instruments issued by the Group and the Company**

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

#### Equity instrument

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group and the Company are recognised at the proceeds received, net of direct issue costs.

#### Compound instruments

The component parts of compound instruments issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured.

#### Financial guarantee contract liabilities

Financial guarantee contract liabilities are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with FRS 137 *Provisions, Contingent Liabilities and Contingent Assets*; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the income recognition policies.

#### Financial Liabilities

Financial liabilities are classified as either financial liabilities at "FVTPL" or "other financial liabilities".

#### Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or

- on initial recognition it is part of a portfolio of identified financial instruments that the Group and the Company manage together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's and the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and *FRS 139 Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other operating income' or 'other operating expenses' line items in the statements of comprehensive income.

#### Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

#### Derecognition of financial liabilities

The Group and the Company derecognise financial liabilities when, and only when, the Group's and the Company's obligations are discharged, cancelled or they expire.

#### (x) **Derivative financial instruments**

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate. Further details of derivative financial instruments are disclosed in Note 33.

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately.

A derivative with a positive fair value is recognised as a financial asset; a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a noncurrent liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

#### Embedded Derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

An embedded derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and it is not expected to be realised or settled within 12 months. Other embedded derivatives are presented as current assets or current liabilities.

### (y) **Employee Benefits**

#### (i) **Short-Term Benefits**

Wages, salaries, paid annual leaves, bonuses and social contributions are recognised in the year in which the associated services are rendered by employees of the Group and the Company. Short-term accumulating compensated absences such as paid annual leave are recognised when services rendered by the employees that increase their entitlement to future compensated absences. Short-term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

#### (ii) **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.

#### (iii) **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 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.

### (z) **Critical Accounting Judgements and Key Sources of Estimation Uncertainty**

In the application of the Group's and the Company's accounting policies, which are described in Note 3, the directors are 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 end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Deferred Tax Assets

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, advances and financing and trade receivables are made based on estimated 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 the end of the reporting period.

(aa) **Statements of Cash Flows**

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

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>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>

Loans, advances and financing	141,263	105,324	170,619	131,690
Money at call and deposit placements with financial institutions	1,867	2,863	1,616	1,581
Non-current asset held for sale (Note 20)	1,351	1,350	1,351	1,350
Available-for-sale financial investments	328	-	328	-
Other investments	2,386	-	2,386	-
Other income	24,620	23,555	722	44
	<u>171,815</u>	<u>133,092</u>	<u>177,022</u>	<u>134,665</u>
Of which, interest income earned on impaired loans, advances and financing	<u>11,596</u>	<u>-</u>	<u>11,596</u>	<u>-</u>

Included in other income of the Group is an amount of RM23,887,000 (2009: RM23,512,000) receivable from the holding entity, Sabah State Government, by a subsidiary for the purpose of reimbursing the finance costs incurred by the said subsidiary.

Included in interest income of the Group and of the Company in 2010 is effective interest income amounting to RM13,749,318 and RM16,143,075 respectively.

#### 5. INTEREST EXPENSE

	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Deposits from customers	42,135	23,124	42,289	23,124
Long-term borrowings	36,675	37,952	36,675	37,953
Short-term borrowings	12,215	14,295	12,215	13,843
Bank overdraft	-	155	-	-
Bank guarantee	-	22	-	-
Leasing and hire-purchase	-*	1	-	-
Others	-	959	-	-
	<u>91,025</u>	<u>76,508</u>	<u>91,179</u>	<u>74,920</u>

\*Denotes amount less than RM1,000.

#### 6. OTHER OPERATING INCOME

	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>

Fee income:				
Commissions	16,034	4,928	15,690	4,317
Fund management services fees	3,921	21	-	-
Other fee income	153	2,521	1,377	2,542
	<u>20,108</u>	<u>7,470</u>	<u>17,067</u>	<u>6,859</u>
Income from financial instruments:				
Gain arising on financial assets held-for-trading:				
Net gain on disposals/Redemptions	361	1,317	361	1,317
Gross dividend income	286	511	286	511
Unrealised gain on revaluation of financial assets held-for-trading	279	-	279	-
	<u>926</u>	<u>1,828</u>	<u>926</u>	<u>1,828</u>
Gross dividend income from available-for-sale financial investments	<u>288</u>	<u>360</u>	<u>288</u>	<u>360</u>
Other income:				
Tax-exempt dividend income from a subsidiary	-	-	-	40,000
Sale of bulk water and services rendered to holding entity, Sabah State Government (Note 26)	60,669	75,922	-	-
Hotel income:				
Room revenue	4,164	5,165	-	-
Food and beverage	3,859	3,457	-	-
Miscellaneous services	374	477	-	-
Waiver of revolving credit and term loan interest	-	1,930	-	-
Rental income	54	54	-	-
Realised gain on foreign exchange	3	6	3	6
Gain on disposal of property, plant and equipment	69	2	3	2
Allowance for doubtful debts on amount due from associate no longer required	511	-	511	-
Others	3,493	3,456	3,145	3,324
	<u>73,196</u>	<u>90,469</u>	<u>3,662</u>	<u>43,332</u>
Total	<u>94,518</u>	<u>100,127</u>	<u>21,943</u>	<u>52,379</u>

Included in other income of the Group and of the Company of RM3,493,000 (2009: RM3,456,000) and RM3,145,000 (2009: RM3,324,000) respectively is interest receivable from the holding entity of RM2,609,000 (2009: RM2,174,000) given by the holding entity 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 as mentioned in Note 19.

## 7. OTHER OPERATING EXPENSES

	The Group		The Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Staff costs	14,496	13,816	6,108	5,850
Personnel costs	1,566	1,860	1,566	1,860
Establishment costs	3,116	2,881	1,042	1,748
Marketing expenses	588	635	588	634
Direct cost and administrative and other overhead expenses	36,302	34,643	3,949	3,816
	<u>56,068</u>	<u>53,835</u>	<u>13,253</u>	<u>13,908</u>

The above expenditure includes the following statutory disclosure items:

Amortisation of project expenditure (Note 24)	4,454	4,454	-	-
Depreciation and amortisation expenses:				
Depreciation of property, plant and equipment (Note 25)	2,279	2,009	296	967
Amortisation of prepaid lease payments (Note 21)	117	117	26	26
Directors' remuneration (Note 8)	4,047	2,342	1,749	1,383
Rental of premises payable to:				
Holding entity, Sabah State Government (Note 26)	503	503	453	453
Third parties	127	140	15	15
Provision for retirement gratuities	379	653	379	653
Loss arising on financial liabilities designated as FVTPL	312	-	312	-

	The Group		The Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000

Loss arising from sale/redemption of:

Financial assets held-for-trading	-	977	-	977
Financial investments held-to-maturity	-	212	-	212
Impairment loss on trade receivables	52	53	-	-
Realised loss on foreign exchange	-	11	-	11
Audit fees				
Auditors of the Company:				
Current year	74	64	65	55
Underprovision in prior year	10	-	10	-
Other auditors	68	62	-	-
Non-audit fees:				
Other member firm of auditors of the Company	251	-	251	-
Impairment loss recognised on franchise fee	-	51	-	-
Bad debts written off	11	3	11	3
Rental of equipment	4	1	4	1
Property, plant and equipment written off	-*	-	-*	-*
Loss on disposal of property, plant and equipment	-*	-	-*	-

\*Denotes amount less than RM1,000.

Included in staff costs of the Group and of the Company are contributions to Employees' Provident Fund amounting to RM1,603,000 (2009: RM1,523,000) and RM778,000 (2009: RM742,000) respectively.

## 8. DIRECTORS' REMUNERATION

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

	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Directors of the Company:				
Fees:				
Non-executive directors	215	184	215	184
Other emoluments:				
Executive director	1,184	1,039	1,184	1,039
Non-executive directors	350	160	350	160
	<u>1,749</u>	<u>1,383</u>	<u>1,749</u>	<u>1,383</u>
Directors of the subsidiaries:				
Fees:				
Non-executive directors	269	216	-	-
Other emoluments:				
Executive director	2,021	678	-	-
Non-executive directors	8	65	-	-
	<u>2,298</u>	<u>959</u>	<u>-</u>	<u>-</u>
	<u>4,047</u>	<u>2,342</u>	<u>1,749</u>	<u>1,383</u>

Included in other emoluments of the executive director of the Group and of the Company are Employees' Provident Fund contributions of RM469,927 (2009: RM204,663) and RM141,495 (2009: RM126,570) respectively made by the Group and the Company.

The estimated monetary value of benefits-in-kind received or receivable by the directors from the Group and the Company amounted to RM45,318 (2009: RM27,317) and RM41,318 (2009: RM20,817) respectively.

## 9. ALLOWANCE FOR IMPAIRMENT LOSSES ON LOANS AND FINANCING

	<b>The Group and the Company</b>	
	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>
Allowance for impairment losses on loans and financing:		
Individual impairment:		
Made during the financial year	1,511	-
Written back during the financial year	(896)	-
Collective impairment:		
Made during the financial year	8,238	-
Written back during the financial year	(1,893)	-
Specific allowance:		
Made during the financial year	-	36,688
Written back during the financial year	-	(2,768)
General allowance:		
Made during the financial year	-	5,034
Written back during the financial year	-	(981)
Bad debts recovered	-	(5)
	<u>6,960</u>	<u>37,968</u>

## 10. (ALLOWANCE)/WRITE-BACK OF ALLOWANCE FOR IMPAIRMENT LOSSES ON OTHER FINANCIAL ASSETS

	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Write-back of allowance for diminution in value of financial assets held-for- trading	-	4,374	-	4,374
Allowance for diminution in value of financial investments available-for-sale	-	(243)	-	(243)
Impairment loss on financial investments available-for-sale	(971)	-	(297)	-
Reversal of impairment losses recognised on financial investments available-for-sale	240	-	240	-
	<u>(731)</u>	<u>4,131</u>	<u>(57)</u>	<u>4,131</u>

## 11. INCOME TAX EXPENSE

	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Estimated tax payable:				
Current year	(32,586)	(14,009)	(24,091)	(1,733)
Deferred tax:				
Current year	2,172	(15,676)	1,659	(4,630)
Over/(Under)provision in prior years:				
Current tax	276	23	278	47
Deferred tax (Notes 28 and 36)	325	(3,195)	(21)	(735)
Section 108 shortfall	(32)	-	-	-
	<u>(29,845)</u>	<u>(32,857)</u>	<u>(22,175)</u>	<u>(7,051)</u>

	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Deferred tax:				
Transfer from/to:				
Deferred tax assets (Note 28)	1,638	(22,155)	1,638	(5,365)
Deferred tax liabilities (Note 36)	859	3,284	-	-
	<u>2,497</u>	<u>(18,871)</u>	<u>1,638</u>	<u>(5,365)</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:

	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Profit before tax	<u>112,055</u>	<u>116,520</u>	<u>88,022</u>	<u>64,860</u>
Tax at the applicable tax rates of 25% (2009: 25%)	(28,014)	(29,130)	(22,005)	(16,215)
Tax effects of expenses that are not deductible in determining taxable profit	(1,426)	(466)	(202)	(148)
Tax effects of income not subject to tax	453	1	237	10,000
Utilisation of tax losses and unabsorbed capital allowances carryforward previously not recognised	262	-	-	-
Deferred tax assets not recognised during the year	(881)	(141)	-	-
Net effect of changes in tax rates	-	51	-	-
Over/(Under)provision in prior years:				
Current tax	276	23	278	47
Deferred tax	325	(3,195)	(21)	(735)
Overprovision of current tax expense	(1,985)	-	(1,985)	-
Effects of adoption of FRS 139 on retained earnings as of January 1, 2010 not subject to tax	1,523	-	1,523	-
Section 108 shortfall	(31)	-	-	-
Others	(347)	-	-	-
	<u>(29,845)</u>	<u>(32,857)</u>	<u>(22,175)</u>	<u>(7,051)</u>

As of December 31, 2010, the Group and the Company have tax-exempt income of RM444,633 (2009: RM767,599) and RM436,719 (2009: RM759,177) respectively arising from exempt dividend received and the chargeable income on which tax payable was waived in 1999 in accordance with the Income Tax (Amendment) Act, 1999. The said amounts, which have been agreed by the tax authorities, are 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>2010</b>	<b>2009</b>
Profit for the year attributable to ordinary shareholder (RM'000)	<u>RM82,346</u>	<u>RM83,680</u>
Number of ordinary shares in issue as of December 31	<u>430,000,000</u>	<u>430,000,000</u>
Basic earnings per ordinary share	<u>19.15 sen</u>	<u>19.46 sen</u>

## 13. CASH AND SHORT-TERM FUNDS

	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Cash and bank balances with banks and other financial institutions	30,407	366,778	8,348	358,062
Money at call and deposit placements with financial institutions maturing within one month	<u>46,580</u>	<u>463,388</u>	<u>46,580</u>	<u>463,388</u>
	<u><u>76,987</u></u>	<u><u>830,166</u></u>	<u><u>54,928</u></u>	<u><u>821,450</u></u>

The average effective interest rates are as follows:

	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Bank balances	1.2	1.1	1.2	1.1
Money at call	<u>2.6</u>	<u>1.7</u>	<u>2.6</u>	<u>1.7</u>

## 14. DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Licensed banks	11,373	16,678	1,000	3,003
Other financial institutions	<u>469</u>	<u>99</u>	<u>-</u>	<u>-</u>
	<u>11,842</u>	<u>16,777</u>	<u>1,000</u>	<u>3,003</u>

Included in deposits and placements of the Group are amounts totalling RM1,237,000 (2009: RM1,211,000) pledged to secure bank guarantee facilities granted to a direct and two indirect subsidiaries.

The average effective interest rate of the deposits and placements of the Group and of the Company is 2.52% (2009: 2.36%) and 2.68% (2009: 2.41%) per annum respectively.

Deposits and placements of the Group and of the Company have a maturity of 5 days to 365 days (2009: 31 days to 365 days) and 31 days to 365 days (2009: 31 days to 365 days) respectively.

#### 15. FINANCIAL ASSETS HELD-FOR-TRADING

	<b>The Group and the Company</b>
	<b>2010</b>
	<b>RM'000</b>
At FVTPL:	
Shares, quoted in Malaysia	<u>7,723</u>
	<b>The Group and the Company</b>
	<b>2009</b>
	<b>RM'000</b>
At cost:	
Quoted securities outside Malaysia:	
Shares	2,557
Quoted securities in Malaysia:	
Shares	21,038
Unit trusts	16,189
	39,784
Less: Allowance for diminution in value of:	
Shares:	
Quoted outside Malaysia	(30)
Quoted in Malaysia	(8,008)
Unit trusts	(5,018)
	<u>(13,056)</u>
	<u>26,728</u>

**The Group and the Company**

	<b>2009</b> <b>RM'000</b>
Market value:	
Shares:	
Quoted outside Malaysia	2,847
Quoted in Malaysia	12,818
Unit trusts	<u>11,178</u>
	<u>26,843</u>

## 16. FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	<b>The Group</b> <b>2010</b> <b>RM'000</b>	<b>The Company</b> <b>2010</b> <b>RM'000</b>
At fair value:		
Irredeemable convertible unsecured loan stocks, quoted in Malaysia	5,572	5,572
Irredeemable convertible bonds, quoted in Malaysia	196	196
Quoted shares in Malaysia	1,909	1,909
Unit trust, quoted in Malaysia	2,199	2,199
Unquoted shares in Malaysia	909	909
Investment in Fund Manager	19,609	19,609
Transferable corporate club membership	<u>200</u>	<u>-</u>
	<u>30,594</u>	<u>30,394</u>
	<b>The Group and the Company</b> <b>2009</b> <b>RM'000</b>	<b>2009</b> <b>RM'000</b>
At cost:		
Unquoted securities in Malaysia:		
Venture capital fund	5,764	5,764
Shares	<u>5,646</u>	<u>5,646</u>
	11,410	11,410
Less: Allowance for diminution in value of:		
Venture capital fund	(4,856)	(4,856)
Shares	<u>(5,579)</u>	<u>(5,579)</u>
	<u>(10,435)</u>	<u>(10,435)</u>
	<u>975</u>	<u>975</u>

17. FINANCIAL INVESTMENTS HELD-TO-MATURITY

<b>The Group and the Company 2009 RM'000</b>	
At cost:	
Money market instruments:	
Mudharabah placements	19,587
Quoted securities in Malaysia:	
Irredeemable convertible unsecured loan stocks	11,145
Irredeemable convertible bonds	409
	11,554
Unquoted securities in Malaysia:	
Redeemable convertible secured loan stocks	39,716
Redeemable secured loan stocks	16,330
	56,046
Floating rate negotiable instrument of deposit	500
	87,687
Less: Allowance for diminution in value of unquoted redeemable convertible secured loan stocks	(20,451)
	67,236
Market value:	
Quoted securities in Malaysia:	
Irredeemable convertible unsecured loan stocks	5,572
Irredeemable convertible bond	204
	5,776

The maturity structure of money market instruments is as follows:

<b>The Group and the Company 2009 RM'000</b>	
Maturing within one year	19,587

The maturity structure of quoted securities is as follows:

<b>The Group and the Company 2009 RM'000</b>	
Three years to five years	11,554

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

	<b>The Group and the Company 2009 RM'000</b>
Overdue or maturing within one year	56,046
One year to three years	<u>-</u>
	<u>56,046</u>

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

	<b>The Group and the Company 2009 RM'000</b>
One year to three years	<u>500</u>

#### 18. LOANS, ADVANCES AND FINANCING

	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Revolving credits	506,668	760,845	970,103	1,203,051
Term loans	1,858,216	1,426,933	1,858,216	1,426,933
Short-term advances	16,478	62,505	21,722	68,171
Staff loans	918	1,117	918	1,117
Other loans	<u>42,821</u>	<u>53,641</u>	<u>42,822</u>	<u>53,641</u>
	2,425,101	2,305,041	2,893,781	2,752,913
Unearned income	<u>(10)</u>	<u>(17)</u>	<u>(10)</u>	<u>(17)</u>
Gross loans, advances and financing	2,425,091	2,305,024	2,893,771	2,752,896
Less:				
Allowance for losses on loans and financing	-	(680,318)	-	(680,318)
Allowance for impairment:				
Individual	(297,278)	-	(297,278)	-
Collective	<u>(42,167)</u>	<u>-</u>	<u>(42,167)</u>	<u>-</u>
Net loans, advances and financing	<u>2,085,646</u>	<u>1,624,706</u>	<u>2,554,326</u>	<u>2,072,578</u>

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

	<b>The Company</b>	
	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>
Revolving credits	463,435	442,216
Short-term advances	<u>5,244</u>	<u>5,666</u>

The average interest rate for revolving credits granted to the direct and indirect subsidiaries is 7.46% (2009: 6.00%) 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>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Maturing within one year	1,590,085	1,441,627	2,058,765	1,889,499
One year to three years	519,739	496,743	519,739	496,743
Three years to five years	180,392	224,426	180,392	224,426
Over five years	<u>134,875</u>	<u>142,228</u>	<u>134,875</u>	<u>142,228</u>
	<u><u>2,425,091</u></u>	<u><u>2,305,024</u></u>	<u><u>2,893,771</u></u>	<u><u>2,752,896</u></u>

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

	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Real estate and construction	1,047,951	993,491	1,047,951	993,491
Infrastructure construction	394,907	435,833	394,907	435,833
Manufacturing	357,508	418,728	357,508	418,728
Finance, insurance and business services	14,165	16,522	14,165	16,522
Agriculture, mining and quarrying	94,726	103,012	94,726	103,012
General commerce	51,654	40,719	51,654	40,719
Housing	556	704	556	705
Others	<u>463,624</u>	<u>296,015</u>	<u>932,304</u>	<u>743,886</u>
	<u><u>2,425,091</u></u>	<u><u>2,305,024</u></u>	<u><u>2,893,771</u></u>	<u><u>2,752,896</u></u>

Analysis of gross loans, advances and financing:

**The Group**

**The Company**

	<b>2010</b> <b>RM'000</b>	<b>2009</b> <b>RM'000</b>	<b>2010</b> <b>RM'000</b>	<b>2009</b> <b>RM'000</b>
Neither past due nor impaired	1,491,076	1,221,464	1,573,867	1,280,305
Past due but not impaired	494,861	342,626	880,750	731,657
Impaired	439,154	740,934	439,154	740,934
Gross loans, advances and financing	<u>2,425,091</u>	<u>2,305,024</u>	<u>2,893,771</u>	<u>2,752,896</u>

Loans, advances and financing which are past due but not impaired are as follows:

	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b> <b>RM'000</b>	<b>2009</b> <b>RM'000</b>	<b>2010</b> <b>RM'000</b>	<b>2009</b> <b>RM'000</b>
Less than 1 month	69,248	21,729	427,293	358,079
1 to 2 months	24,399	24,172	32,105	29,853
2 to 3 months	1,622	9,631	9,760	9,631
3 to 6 months	44,481	18,460	56,481	65,460
6 to 12 months	17,544	71,511	17,544	71,511
More than 12 months	337,567	197,123	337,567	197,123
Past due but not impaired	<u>494,861</u>	<u>342,626</u>	<u>880,750</u>	<u>731,657</u>

Movement in allowance for impairment of loans is set out below:

	<b>The Group and the Company</b>	
	<b>2010</b> <b>RM'000</b>	<b>2009</b> <b>RM'000</b>
<b><u>Collective Impairment</u></b>		
At beginning of year:		
As previously stated	-	-
Effects of adoption of FRS 139	35,822	-
As restated	35,822	-
Allowance made during the year	8,238	-
Write-back of allowance during the year	(1,893)	-
At end of year	<u>42,167</u>	<u>-</u>
<b><u>Individual Impairment</u></b>		
At beginning of year:		
As previously stated	-	-
Effects of adoption of FRS 139	296,673	-
As restated	296,673	-
Allowance made during the year	1,511	-
Write-back of allowance during the year	(906)	-
At end of year	<u>297,278</u>	<u>-</u>
	<b>The Group and the Company</b>	
	<b>2010</b> <b>RM'000</b>	<b>2009</b> <b>RM'000</b>

General Allowance

At beginning of year:		
As previously stated	35,822	31,770
Effects of adoption of FRS 139	(35,822)	-
As restated	-	31,770
Allowance made during the year	-	5,034
Write-back of allowance during the year	-	(982)
At end of year	-	35,822

Specific Allowance

At beginning of year:		
As previously stated	230,154	211,297
Effects of adoption of FRS 139	(230,154)	-
As restated	-	211,297
Allowance made during the year	-	36,688
Written-off during the year	-	(15,052)
Write-back of allowance during the year	-	(2,779)
At end of year	-	230,154

Interest-in-suspense

At beginning of year:		
As previously stated	414,342	393,897
Effects of adoption of FRS 139	(414,342)	-
As restated	-	393,897
Allowance made during the year	-	39,386
Write-back of allowance during the year	-	(18,941)
At end of year	-	414,342

## 19. OTHER ASSETS

<b>The Group</b>		<b>The Company</b>	
<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>

	RM'000	RM'000	RM'000	RM'000
Non-current investments in:				
Islamic Gold Dinar	-	674	-	-
Transferable corporate club membership	-	102	-	-
Investment property	816	816	-	-
Interest receivables	318	1,359	302	1,342
Receivables, deposits and prepayments	553,829	517,032	383,124	388,359
Other investments	47,362	-	47,362	-
	<u>602,325</u>	<u>519,983</u>	<u>430,788</u>	<u>389,701</u>

Non-current investment in Islamic Gold Dinar has a net realisable value of RM Nil (2009: RM673,589).

Investment property, pertaining to an indirect subsidiary, 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.

Receivables, deposits and prepayments consist of the following:

	The Group		The Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Trade receivables	414,023	395,584	-	-
Prepayments	39,887	40,409	39,066	39,631
Tax refundable	6,582	14,354	906	7,539
Amount receivable from the Sabah State Government	58,065	31,769	4,264	2,174
Penalty interest recoverable from the Sabah State Government	30,000	30,000	-	-
Other receivables	2,285	1,999	291	375
Inventories	1,890	1,813	-	-
Deposits	1,097	1,087	174	175
Front-end bond interest	-	7	-	7
Dividend receivable	-	10	-	10
Amount due from subsidiaries	-	-	338,423	338,448
	<u>553,829</u>	<u>517,032</u>	<u>383,124</u>	<u>388,359</u>

Trade receivables, pertaining to two indirect subsidiaries, consists of:

The Group	
2010 RM'000	2009 RM'000

Trade receivables	535,359	516,868
Fair value adjustment arising from business combination - net of amount recovered of RM47,000,000 in 2009	(121,000)	(121,000)
Allowance for doubtful debts	<u>(336)</u>	<u>(284)</u>
	<u>414,023</u>	<u>395,584</u>

Trade receivables represent mainly amount due from the holding entity, Sabah State Government, the sole customer of an indirect subsidiary for the sale of bulk water amounting to RM412,684,299 (2009: RM394,646,987) which bears interest at 1.5% above the average of the base lending rate of CIMB Bank Berhad and Malayan Banking Berhad calculated on a daily basis. The credit period granted is 45 days (2009: 45 days.)

For other trade receivables, the average credit period is 30 days. No interest was charged on overdue outstanding balances of these trade receivables. Allowance for doubtful debts is recognised based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position.

Included in trade receivables of the Group are receivables with total carrying amount of RM402,857,000 (2009: RM385,471,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances nor does it have a legal right to offset against any amounts owed by the Group to the counterparty.

Analysis of trade receivables:

	<b>The Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>
Neither past due nor impaired	11,166	10,113
Past due but not impaired	402,857	385,471
Impaired receivables - collectively assessed	336	284
Less: Allowance for impairment	<u>(336)</u>	<u>(284)</u>
	-	-
Total trade receivables, net	<u>414,023</u>	<u>395,584</u>

Trade receivables which are past due but not impaired are as follows:

	<b>The Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>
Less than 1 month	3,074	2,934
1 to 2 months	2,788	2,777
2 to 3 months	2,851	2,709
More than 3 months	394,144	377,051
	<u>402,857</u>	<u>385,471</u>

The Group seeks to maintain strict control over its outstanding trade receivables and has a credit period policy to minimise credit risk. Overdue balances are reviewed regularly by management. The Group has not provided for impairment loss on these trade receivable accounts that are past due as there has not been a significant change in credit quality and the amounts are still considered recoverable.

Movement in the allowance for doubtful debts is as follows:

	<b>The Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>
Balance at beginning of year	284	231
Impairment losses recognised	52	53
Balance at end of year	<u>336</u>	<u>284</u>

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance of doubtful debts.

Trade receivables that are collectively determined to be impaired at the reporting date relate to trade receivables that are in significant difficulties and have defaulted on payments. The Group does not hold any collateral over these balances.

Prepayments of the Group and of the Company comprise mainly an amount of RM38,652,080 (2009: RM38,652,080) being full consideration in respect of the proposed acquisition of 38.7% equity interest in an insurance company from the holding entity, Sabah State Government.

Amount receivable from the holding entity, Sabah State Government amounting to RM4,264,000 (2009: RM2,174,000) represents income receivable from the Sabah State Government in consideration for the prepayment of RM38,652,080 mentioned above.

Penalty interest recoverable from the holding entity, Sabah State Government of RM30,000,000, which arose from business combination in 2005, represents the fair value adjustment on interest-in-suspense pertaining to an indirect subsidiary which would only be recognised in the statements of comprehensive income by the indirect subsidiary upon receipt of the penalty interest.

Inventories pertaining to a direct and an indirect subsidiaries consist of:

	<b>The Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>
Chemicals	933	899
Spare parts	804	757
Food and beverage	108	70
Stationery and general supplies	40	82
Islamic Gold Dinar	5	5
	<u>1,890</u>	<u>1,813</u>

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

Other investments of the Group and of the Company comprise the following:

	<b>The Group and the Company</b>	
	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>
Redeemable convertible secured loan stocks	13,994	-
Redeemable secured loan stocks	13,210	-
Money market instruments	20,158	-
	<u>47,362</u>	<u>-</u>

## 20. NON-CURRENT ASSETS HELD FOR SALE

	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
At cost:				
Freehold land	5,099	5,099	-	-
Long leasehold land	58,405	58,405	50,998	50,998
	<u>63,504</u>	<u>63,504</u>	<u>50,998</u>	<u>50,998</u>

Non-current asset held for sale of the Company 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 amounting to RM55,000,000 by the buyer pursuant to the Sale and Purchase Agreement. In accordance with the terms of the said agreement, deposits totalling RM40,000,000 (2009: RM25,000,000) have been received from the purchaser as of December 31, 2010 as mentioned in Note 34. The balance unpaid sum of RM15,000,000, which bears interest at the average fixed deposit rates of three licensed banks for 12 months fixed deposit placement, is repayable by 2012.

As of December 31, 2010, a parcel of long leasehold land pertaining to the direct subsidiary with a carrying amount of RM7 million is in the process of being registered in the name of the said subsidiary. Six parcels of freehold land with a total carrying amount of RM5,099,202 (2009: RM5,099,202) are registered in the name of a director of the said subsidiary and a third party who are holding them in trust for the said subsidiary.

## 21. PREPAID LEASE PAYMENTS

	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Unamortised prepaid lease payments	8,400	8,517	1,946	1,972
Less: Current portion	<u>(117)</u>	<u>(117)</u>	<u>(26)</u>	<u>(26)</u>
Non-current portion	<u>8,283</u>	<u>8,400</u>	<u>1,920</u>	<u>1,946</u>

The non-current portion will be amortised as follows:

	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
In the second to fifth years inclusive	469	469	104	104
Later than 5 years	<u>7,814</u>	<u>7,931</u>	<u>1,816</u>	<u>1,842</u>
Non-current portion	<u>8,283</u>	<u>8,400</u>	<u>1,920</u>	<u>1,946</u>

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

Prepaid lease payments pertaining to a direct subsidiary relate to two parcels of long 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.

Prepaid lease payments pertaining to an indirect subsidiary relate to the long leasehold land, on which the hotel building is constructed, located at Lorong Kemajuan, Kota Kinabalu, Sabah, Malaysia. The lease will expire in 2078.

As of December 31, 2010, the land title of a parcel of long leasehold land of the Company with a carrying amount of RM190,698 (2009: RM193,023) is yet to be registered in the Company's name pending sub-division of master title.

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

	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
At Cost:				
At beginning and end of year	9,313	9,313	2,050	2,050
Cumulative Amortisation:				
At beginning of year	796	679	78	52
Amortisation for the year (Note 7)	<u>117</u>	<u>117</u>	<u>26</u>	<u>26</u>
At end of year	<u>913</u>	<u>796</u>	<u>104</u>	<u>78</u>
Carrying Amount	<u>8,400</u>	<u>8,517</u>	<u>1,946</u>	<u>1,972</u>

## 22. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2010 RM'000	2009 RM'000
Unquoted shares - at cost	4,420	3,820
Discounts on loans to subsidiary	4,853	-
	<u>9,273</u>	<u>3,820</u>

The subsidiaries are as follows:

Name of Company	Country of Incorporation	Effective Equity Interest		Principal Activities
		2010 %	2009 %	
<b>Direct Subsidiaries</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 Subsidiaries</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
Karamunsing Hotel Sdn. Bhd.*	Malaysia	100	100	Hotel business

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

Kota Kinabalu Water Sdn. Bhd. and Karamunsing Hotel Sdn. Bhd. are wholly-owned subsidiaries of Sedia Usaha Sdn. Bhd.

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

During the financial year, the Company increased its investment in subsidiary, SDB Asset Management Sdn. Bhd. by subscribing for 600,000 additional shares of RM1 each at par for RM600,000.

Movement in discount on loans to subsidiary is set out below:

	<b>The Company</b>	
	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>
At beginning of year:		
As previously stated	-	-
Effects of adoption of FRS 139	2,389	-
	<hr/>	<hr/>
At restated	2,389	-
Discounts on loans arising during the year	2,464	-
	<hr/>	<hr/>
At end of year	4,853	-
	<hr/>	<hr/>

During the current and prior years, the company granted interest-free loans to its subsidiary. Prior to January 1, 2010, these loans were recorded at cost in the Company's financial statements. Upon the adoption of FRS 139, the interest-free loans are recorded initially at a fair value that is lower than cost. The difference between the fair value and cost of the loans is recognised as an additional investment in the subsidiary. Subsequent to the initial recognition, the loans are measured at amortised cost. As of December 31, 2010, the Company has remeasured such loans at their fair value adjustments on initial recognition amounted to RM4,853,000.

### 23. INVESTMENT IN ASSOCIATE

	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Unquoted shares				
- At cost	900	900	900	900
Share of post-acquisition results	(900)	(900)	-	-
Less: Accumulated impairment loss	-	-	(900)	(900)
	<hr/>	<hr/>	<hr/>	<hr/>
	-*	-*	-*	-*
	<hr/>	<hr/>	<hr/>	<hr/>

\*Denotes amount less than RM1,000.

The associate of the Group and of the Company is as follows:

<b>Name of Company</b>	<b>Country of Incorporation</b>	<b>Percentage of Equity Held</b>		<b>Principal Activities</b>
		<b>2010</b>	<b>2009</b>	
		<b>%</b>	<b>%</b>	
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 associate based on the latest available audited financial statements for the year ended December 31, 2009 (2009: December 31, 2008) are presented below:

	<b>The Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>
Total assets	1,913	1,503
Total liabilities	3,271	3,250
Revenue	1,335	1,360
Profit for the year	<u>394</u>	<u>340</u>

#### 24. PROJECT EXPENDITURE

	<b>The Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>
Carrying amount, at cost	184,846	184,771
Fair value adjustment arising from business combination in 2005	<u>30,000</u>	<u>30,000</u>
Fair value at date of acquisition (group cost)	214,846	214,771
Addition during the year	<u>-</u>	<u>75</u>
Carrying amount at end of year	214,846	214,846
Accumulated amortisation:		
At beginning of year	(112,396)	(107,942)
Amortisation for the year (Note 7)	(4,454)	(4,454)
At end of year	<u>(116,850)</u>	<u>(112,396)</u>
	<u>97,996</u>	<u>102,450</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.

The indirect subsidiary has been awarded a Concession for a period of 20 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's rights over the plant and equipment installed and constructed will be relinquished and returned to the Sabah State Government at nominal value. The length of the concession period is 20 years.

In 2009, the indirect subsidiary was awarded an extension of a further twenty years from the existing concession that ends on June 4, 2013.

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

25. **PROPERTY, PLANT AND EQUIPMENT**

**2010**

<b>The Group</b>	<b>Cost</b>				<b>Accumulated Depreciation</b>			
	<b>At beginning of year RM'000</b>	<b>Additions RM'000</b>	<b>Disposals/ Write-off RM'000</b>	<b>At end of year RM'000</b>	<b>At beginning of year RM'000</b>	<b>Charge for the year RM'000</b>	<b>Disposals/ Write-off RM'000</b>	<b>At end of year RM'000</b>
Freehold land	828	-	-	828	-	-	-	-
Hotel building	42,000	8	-	42,008	-	920	-	920
Leasehold improvements	2,123	3	-	2,126	2,016	52	-	2,068
Motor vehicles	4,056	562	(300)	4,318	3,421	412	(300)	3,533
Office equipment and furniture	7,573	159	(94)	7,638	6,686	230	(94)	6,822
Computer equipment	1,159	37	(134)	1,062	944	112	(134)	922
Plant and equipment	12,552	447	(210)	12,789	4,768	548	(210)	5,106
Kitchen equipment	2,281	33	-	2,314	1	5	-	6
<b>Total</b>	<b>72,572</b>	<b>1,249</b>	<b>(738)</b>	<b>73,083</b>	<b>17,836</b>	<b>2,279</b>	<b>(738)</b>	<b>19,377</b>

2009

The Group	← Cost →				← Accumulated Depreciation →			
	At beginning of year RM'000	Additions RM'000	Disposals/ Write-off RM'000	At end of year RM'000	At beginning of year RM'000	Charge for the year RM'000	Disposals/ Write-off RM'000	At end of year RM'000
Freehold land	828	-	-	828	-	-	-	-
Hotel building	42,000	-	-	42,000	-	-	-	-
Leasehold improvements	2,122	81	(80)	2,123	1,615	481	(80)	2,016
Motor vehicles	3,918	138	-	4,056	2,943	478	-	3,421
Office equipment and furniture	7,403	274	(104)	7,573	6,396	393	(103)	6,686
Computer equipment	1,094	65	-	1,159	814	130	-	944
Plant and equipment	12,500	52	-	12,552	4,242	526	-	4,768
Kitchen equipment	2,252	29	-	2,281	-	1	-	1
<b>Total</b>	<b>72,117</b>	<b>639</b>	<b>(184)</b>	<b>72,572</b>	<b>16,010</b>	<b>2,009</b>	<b>(183)</b>	<b>17,836</b>

**2010**

	← Cost →				← Accumulated Depreciation →			
	At beginning of year RM'000	Additions RM'000	Disposals RM'000	At end of year RM'000	At beginning of year RM'000	Charge for the year RM'000	Disposals RM'000	At end of year RM'000
<b>The Company</b>								
Leasehold improvements	2,042	-	-	2,042	2,005	36	-	2,041
Motor vehicles	1,105	-	-	1,105	911	134	-	1,045
Office equipment and furniture	1,434	10	(18)	1,426	1,397	24	(18)	1,403
Computer equipment	1,010	30	(135)	905	823	102	(135)	790
<b>Total</b>	<b>5,591</b>	<b>40</b>	<b>(153)</b>	<b>5,478</b>	<b>5,136</b>	<b>296</b>	<b>(153)</b>	<b>5,279</b>

**2009**

	← Cost →				← Accumulated Depreciation →			
	At beginning of year RM'000	Additions RM'000	Disposals RM'000	At end of year RM'000	At beginning of year RM'000	Charge for the year RM'000	Disposals RM'000	At end of year RM'000
<b>The Company</b>								
Leasehold improvements	2,042	-	-	2,042	1,535	470	-	2,005
Motor vehicles	1,105	-	-	1,105	742	169	-	911
Office equipment and furniture	1,499	11	(76)	1,434	1,265	208	(76)	1,397
Computer equipment	948	62	-	1,010	703	120	-	823
<b>Total</b>	<b>5,594</b>	<b>73</b>	<b>(76)</b>	<b>5,591</b>	<b>4,245</b>	<b>967</b>	<b>(76)</b>	<b>5,136</b>

	← The Group →		← The Company →	
	Carrying Amount		Carrying Amount	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Freehold land	828	828	-	-
Hotel building	41,088	42,000	-	-
Leasehold improvements	58	107	1	37
Motor vehicles	785	635	60	194
Office equipment and furniture	816	887	23	37
Computer equipment	140	215	115	187
Plant and equipment	7,683	7,784	-	-
Kitchen equipment	2,308	2,280	-	-
<b>Total</b>	<b>53,706</b>	<b>54,736</b>	<b>199</b>	<b>455</b>

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

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 RM13,252,857 (2009: RM12,017,819) and RM4,713,907 (2009: RM3,995,663) respectively.

## 26. HOLDING ENTITY AND RELATED PARTY TRANSACTIONS

The Company is wholly owned by the Sabah State Government which is also the ultimate holding company.

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

	The Group		The Company	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
<b>Holding entity, Sabah State Government</b>				
Sale of bulk water and services rendered (Note 6)	60,669	75,922	-	-
Interest payable on deposits	39,517	19,058	39,517	19,058
Reimbursement of interest incurred by a subsidiary (Note 4)	23,887	23,512	-	-
Income receivable (Note 6)	2,609	2,174	2,609	2,174
Rental of premises payable (Note 7)	503	503	453	453
<b>Direct subsidiary</b>				
<b>SDB Asset Management Sdn. Bhd.</b>				
Management fee	-	-	-	35

**The Group**

**The Company**

	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
<b>Direct and Indirect subsidiaries</b>				
<b>Loan, advances and financing</b>				
Corporate Dynamics Sdn. Bhd.	-	-	16,353	4,053
<b>Loan interest receivable</b>				
Jetama Sdn. Bhd.	-	-	22,884	22,553
Corporate Dynamics Sdn. Bhd.	-	-	1,015	970
Karamunsing Hotel Sdn. Bhd.	-	-	3,063	1,885
Sedia Usaha Sdn. Bhd.	-	-	2,394	-
<b>Interest payable on deposits</b>				
Kota Kinabalu Water Sdn. Bhd.	-	-	103	27
Sabah Development Nominees (Tempatan) Sdn. Bhd.	-	-	22	6
Karamunsing Hotel Sdn. Bhd.	-	-	30	-
<b>Other fee income</b>				
Corporate Dynamics Sdn. Bhd.	-	-	22	-
<b>Associate, Asal Baru Sdn. Bhd</b>				
Service fee payable	127	127	127	127
Interest payable on deposit	20	17	20	17

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

## 27. AMOUNT DUE FROM ASSOCIATE

	<b>The Group and the Company</b>	
	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>
Amount due from associate	-	511
Less: Allowance for doubtful debts	-	(511)
	-	-

Amount due from associate in 2009 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 statements of financial position:

	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
At beginning of year:				
As previously stated	55,670	77,825	25,420	30,785
Effects of adoption of FRS 139	(15,450)	-	(15,450)	-
As restated	40,220	77,825	9,970	30,785
Transfer to statements of comprehensive income (Note 11)	1,638	(22,155)	1,638	(5,365)
At end of year	<u>41,858</u>	<u>55,670</u>	<u>11,608</u>	<u>25,420</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>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Tax effects of:				
Temporary differences arising from:				
General allowance for doubtful debts	40,792	39,205	10,542	8,955
Interest suspended on non-performing loans	-	4,824	-	4,824
Allowance for diminution in value of:				
Securities held-for-trading	-	2,905	-	2,905
Securities available-for-sale	-	2,609	-	2,609
Securities held-to-maturity	-	5,113	-	5,113
Property, plant and equipment	35	43	35	43
Front-end bond interest	-	(2)	-	(2)
Provision for retirement gratuities	1,031	972	1,031	972
Others	-	1	-	1
	<u>41,858</u>	<u>55,670</u>	<u>11,608</u>	<u>25,420</u>

As mentioned in Note 3(i), 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, 2010, the estimated net deferred tax assets of two direct subsidiaries and one indirect subsidiary 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/ (Liabilities)</b>	
	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM000</b>
Tax effects of:		
Unutilised tax losses and unabsorbed capital allowances	12,637	11,989
Temporary differences arising from property, plant and equipment	<u>(4,495)</u>	<u>(4,248)</u>
	<u>8,142</u>	<u>7,741</u>

As of December 31, 2010, the said two direct subsidiaries and one indirect subsidiary have unutilised tax losses and unabsorbed capital allowances totalling about RM50,548,063 (2009: RM47,957,000) which may be applied to reduce taxable income in future years. Out of the said amount, RM1,599,025 (2009: RM1,599,025) has been agreed by the tax authorities.

#### 29. DEPOSITS FROM CUSTOMERS

	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Fixed deposits	<u>1,147,172</u>	<u>1,335,025</u>	<u>1,152,780</u>	<u>1,335,878</u>

The maturity structure of fixed deposits is as follows:

	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Due within six months	473,773	659,604	479,381	660,457
Six months to one year	123,399	125,346	123,399	125,346
After one year	<u>550,000</u>	<u>550,075</u>	<u>550,000</u>	<u>550,075</u>
	<u>1,147,172</u>	<u>1,335,025</u>	<u>1,152,780</u>	<u>1,335,878</u>

The deposits are sourced from the following:

**The Group**

**The Company**

	<b>2010</b> <b>RM'000</b>	<b>2009</b> <b>RM'000</b>	<b>2010</b> <b>RM'000</b>	<b>2009</b> <b>RM'000</b>
Holding entity, Sabah State				
Government	1,060,018	1,190,018	1,060,018	1,190,018
Government-owned enterprises	68,811	128,170	74,419	129,023
Statutory authorities	18,343	16,837	18,343	16,837
	<u>1,147,172</u>	<u>1,335,025</u>	<u>1,152,780</u>	<u>1,335,878</u>

Included in deposits from customers of the Company are amount totalling RM6,696,348 (2009: RM1,865,455) placed by a direct subsidiary, two indirect subsidiaries and an associate.

The average effective interest rate of the Group and of the Company is 2.93% (2009: 2.47%) per annum.

### 30. LONG-TERM BORROWINGS

#### The Group and the Company

	<b>Current</b> <b>RM'000</b>	<b>Non-current</b> <b>RM'000</b>	<b>Total</b> <b>RM'000</b>
<b>2010</b>			
Local currency bonds	380,000	-	380,000
Medium Term Note	290,000	60,000	350,000
	<u>670,000</u>	<u>60,000</u>	<u>730,000</u>
<b>2009</b>			
Term loans from licensed bank	175,000	-	175,000
Local currency bonds	-	380,000	380,000
Medium Term Note	-	60,000	60,000
	<u>175,000</u>	<u>440,000</u>	<u>615,000</u>

	<b>Interest Rates</b>					
	<b>Per Annum</b>				<b>Repayment Terms</b>	<b>Securities</b>
	<b>2010</b>	<b>2009</b>				
<b>Facilities</b>	<b>%</b>	<b>%</b>				
(a) RM100 million 6-year term loan from a local licensed bank	3.56	3.27	Repayable by four quarterly instalments of RM25 million each commencing on November 26, 2009, the 60 <sup>th</sup> month from the date of first drawdown in 2004.	Secured by Letter of Comfort from the Sabah State Government		

	<b>Interest Rates</b>					
	<b>Per Annum</b>				<b>Repayment Terms</b>	<b>Securities</b>
	<b>2010</b>	<b>2009</b>				
<b>Facilities</b>	<b>%</b>	<b>%</b>				

(b)	RM120 million nominal value 3-year 5.7% Coupon Non-convertible Redeemable Unsecured Fixed Rate Bonds 2006/2009	-	5.7	Redeemable on July 10, 2009, the 3 <sup>rd</sup> 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 July 10, 2011, the 5 <sup>th</sup> anniversary of the drawdown date 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 3-year term loan from a local licensed bank	4.52	4.52	Repayable on December 21, 2010, the 3 <sup>rd</sup> anniversary of the first drawdown date.	Secured by Letter of Comfort from the Sabah State Government
(e)	RM1,000 million 20-year Medium Term Notes Programme (“MTN Programme”) (Within line, a 7-year RM500 million CP Programme)	4.10	5.05	Redeemable on respective maturity due dates. All repayments due in respect of the notes shall be made in full without and deduction or withholding unless required by law.	Secured by Letter of Support from the Sabah State Government

The RM120 million nominal value 3-year 5.7% Coupon Non-convertible Redeemable Unsecured Fixed Rate Bonds 2006/2009 as mentioned in (b) above have been redeemed in 2009.

The RM100 million 6-year term loan and RM100 million 3-year term loan from a local licensed bank as mentioned in (a) and (d) above have been fully repaid during the financial year.

### 31. SHORT-TERM BORROWINGS

The Group		The Company	
2010	2009	2010	2009
RM'000	RM'000	RM'000	RM'000

Commercial papers	360,000	440,000	360,000	440,000
Revolving credits	197,000	117,000	197,000	117,000
Short-term advances from licensed bank	-	300,000	-	300,000
	<u>557,000</u>	<u>857,000</u>	<u>557,000</u>	<u>857,000</u>

The average effective interest rates for borrowings are as follows:

	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Revolving credits	2.75	2.72	2.75	2.72
Short-term advances from licensed bank	<u>3.22</u>	<u>3.22</u>	<u>3.22</u>	<u>3.22</u>

The commercial paper consists of:

<b>Facilities</b>	<b>Interest Rates</b>		<b>Repayment Terms</b>	<b>Securities</b>
	<b>Per Annum</b>			
	<b>2010</b>	<b>2009</b>		
	<b>%</b>	<b>%</b>		
RM500 Million 7-year Commercial Papers Programme (“CP Programme”) (Within the 20-year MTN Programme)	2.54 to 3.25	2.34 to 4.25	Redeemable on respective maturity due dates. All repayments due in respect of the notes shall be made in full without and deduction or withholding unless required by law.	Secured by Letter of Support from the Sabah State Government

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>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Amount payable under finance lease:				
Within one year	-	13	-	13
In the second to fifth years inclusive	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	-	13	-	13
Less: Future finance charges	-	-*	-	-
	<u>-</u>	<u>-*</u>	<u>-</u>	<u>-</u>
Present value of finance lease payable	<u>-</u>	<u>13</u>	-	13
Less: Amount due within 12 months - current portion			<u>-</u>	<u>(13)</u>
Non-current portion			<u>-</u>	<u>-</u>

\*Denotes amount less than RM1,000.

In 2009, the hire-purchase and finance lease liabilities have an average effective interest rate of 5.6% per annum.

33. **DERIVATIVE FINANCIAL LIABILITIES**

	<b>The Group and the Company</b>
	<b>2010</b>
	<b>RM'000</b>
At fair value through profit or loss (FVTPL)	
Interest rate collar	<u>1,087</u>

In 2007, the Company entered into a zero premium interest rate collar with a notional amount of RM100 million, an interest rate cap of 5.35% and an interest rate floor of 4.10% to manage interest rate risk.

34. **OTHER LIABILITIES**

	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Amount due to holding entity, the Sabah State Government	32,594	32,400	32,594	32,400
Trade payables	2,809	2,779	-	-
Interest payables	27,907	22,723	27,907	22,724
Other payables	7,264	12,093	3,469	6,669
Deposits	42,999	25,298	42,956	25,290
Tax liabilities	351	55	2	2
Accrued expenses	3,737	3,099	2,351	1,865
Amount due to indirect subsidiary	-	-	-	11,832
	<u>117,661</u>	<u>98,447</u>	<u>109,279</u>	<u>100,782</u>

Amount due to the holding entity, Sabah State Government arose mainly from dividend payable. The amount is unsecured, interest-free and is repayable on demand.

Trade payables pertaining to an indirect subsidiary comprise amount outstanding for trade purchases. The average credit period granted ranges from 30 days to 90 days (2009: 30 days to 90 days).

Other payables comprise amounts outstanding for ongoing costs. The average credit period for other payables is 30 days (2009: 30 days).

Included in other payables of the Group, pertaining to a direct subsidiary and two indirect subsidiaries, are amounts totalling RM879,337 (2009: RM355,311) which represent amount owing to directors of the said direct and indirect subsidiaries. The amounts are unsecured, interest-free and have no fixed terms of repayment.

Included in deposits of the Group and of the Company is an amount of RM40,000,000 (2009: RM25,000,000) 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 allowances for directors of RM837,463 and RM837,463 (2009: RM991,515 and RM646,204) respectively.

Amount due to indirect subsidiary in 2009 comprises mainly payments on behalf. The amount is unsecured, interest-free and has no fixed terms of repayment.

### 35. PROVISIONS

	<b>The Company</b>	<b>Indirect Subsidiary</b>	<b>The Group</b>
	<b>Provision for Retirement Gratuities RM'000</b>	<b>Other Provisions RM'000</b>	<b>Total RM'000</b>
At beginning of year	3,802	875	4,677
Additions	379	-	379
Utilised	(58)	(317)	(375)
	<u>4,123</u>	<u>558</u>	<u>4,681</u>
At end of year	<u>4,123</u>	<u>558</u>	<u>4,681</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.

#### **36. DEFERRED TAX LIABILITIES**

	<b>The Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>
At beginning of year	30,602	33,886
Transfer to statements of comprehensive income (Note 11)	(859)	(3,284)
At end of year	<u>29,743</u>	<u>30,602</u>

The deferred tax liabilities are in respect of the following:

	<b>The Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>
Tax effects of temporary differences arising from:		
Project expenditure	20,587	21,530
Penalty interest recoverable	7,500	7,500
Property, plant and equipment	1,656	1,572
Others	-	-*
	<u>29,743</u>	<u>30,602</u>

\*Denotes amount less than RM1,000.

## 37. SHARE CAPITAL

	<b>The Group and the Company</b>	
	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Authorised</b>		
<b>Ordinary shares</b>		
At beginning of year:		
380,000,000 ordinary shares of RM1 each	380,000	380,000
Reclassified from RCNCPS during the year:		
50,000,000 ordinary shares of RM1 each	<u>50,000</u>	<u>-</u>
At end of year	<u><u>430,000</u></u>	<u><u>380,000</u></u>
<b>Preference shares</b>		
At beginning of year:		
50,000,000 3% redeemable convertible non-cumulative preference shares (RCNCPS) of RM1 each	50,000	50,000
Reclassified to ordinary shares during the year:		
50,000,000 RCNCPS of RM1 each	<u>(50,000)</u>	<u>-</u>
At end of year	<u><u>-</u></u>	<u><u>50,000</u></u>
<b>Issued and fully paid</b>		
<b>Ordinary shares of RM1 each</b>		
At beginning of year	380,000	380,000
Issued during the year:		
Conversion of RCNCPS into ordinary shares	<u>50,000</u>	<u>-</u>
At end of year	<u><u>430,000</u></u>	<u><u>380,000</u></u>
<b>RCNCPS of RM1 each</b>		
At beginning of year	50,000	50,000
Converted into ordinary shares during the year	<u>(50,000)</u>	<u>-</u>
At end of year	<u><u>-</u></u>	<u><u>50,000</u></u>

As approved by the shareholder at the Extraordinary General Meeting of the Company held on October 28, 2010, the 50,000,000 3% redeemable convertible non-cumulative preference shares ("RCNCPS") of RM1 each of the Company have been converted to 50,000,000 ordinary shares of RM1 each.

As approved by the shareholder at the Extraordinary General Meeting of the Company held on October 28, 2010, the issued ordinary share capital of the Company was increased from RM380,000,000 to RM430,000,000 by the issuance of 50,000,000 new ordinary shares of RM1 each at par upon conversion of 50,000,000 3% redeemable convertible non-cumulative preference shares ("RCNCPS") of RM1 each to 50,000,000 ordinary shares of RM1 each.

The 3% RCNCPS carried the following principal rights:

- (a) right to receive out of the reserve 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, 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 holders 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 of Directors of the Company 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.

On October 28, 2010, the entire RCNCPS in issue was converted into ordinary shares based on the conversion ratio of one ordinary share for every RCNCPS held.

## 38. RESERVES

	The Group		The Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
<b>Non-distributable reserve:</b>				
Investments revaluation reserve	2,205	-	2,107	-
<b>Distributable reserve:</b>				
Retained earnings	<u>61,144</u>	<u>660</u>	<u>166,807</u>	<u>121,874</u>
	<u>63,349</u>	<u>660</u>	<u>168,914</u>	<u>121,874</u>

**Investments revaluation reserve**

Investments revaluation reserve represents accumulated gains and losses arising on the revaluation of available-for-sale financial investments that have been recognised in other comprehensive income, net of amounts reclassified to profit or loss when those assets have been disposed of or are determined to be impaired.

**Capital redemption reserve**

Capital redemption reserve was previously set up intended for the redemption of redeemable convertible non-cumulative preference shares.

As the preference shareholder, Sabah State Government in 2009, indicated its intention to convert all the preference shares into ordinary shares in 2010, the said reserve was no longer required and accordingly, the amount of RM50,000,000 was transferred to retained earnings in 2009.

**General reserve**

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.

In 2009, the amount in general reserve of RM93,230,000 has been transferred to retained earnings as approved by the Board of Directors of the Company.

**Distributable reserves**

As of the end of the reporting period, the Company has not elected for the irrevocable option to disregard the Section 108 tax credits. Accordingly, subject to the agreement of the Inland Revenue Board and based on the tax-exempt account balance as mentioned in Note 11 and the prevailing tax rate applicable to dividends, the total amount of retained earnings of the Company as of December 31, 2010 is available for distribution by way of cash dividends without incurring additional tax liabilities being incurred.

39. **FINANCIAL INSTRUMENTS****Capital risk management**

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2009.

The capital structure of the Group consists of net debt (borrowings as detailed in Notes 30 and 31 offset by cash and short-term funds) and equity of the Group (comprising issued capital, reserves, retained earnings and non-controlling interests as detailed in Notes 37 to 38).

The Group is not subject to any externally imposed capital requirements.

**Significant accounting policies**

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the bases of measurement, and the bases for recognition of income and expenses) for each class of financial asset, financial liability and equity instrument are disclosed in Note 3.

**Categories of financial instruments**

	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Financial assets</b>				
Fair value through profit or loss:				
Financial assets				
held-for-trading	7,723	26,728	7,723	26,728
Held to maturity:				
Financial investments				
held-to-maturity	-	67,236	-	67,236
Loans and receivables:				
Loans, advances and financing	2,085,646	1,624,706	2,554,326	2,072,578
Other assets	553,150	461,808	390,816	342,524
Cash and short-term funds	76,987	830,166	54,928	821,450
Deposits and placements with financial institutions	11,842	16,777	1,000	3,003
Available-for-sale:				
Financial investments				
available-for-sale	30,594	975	30,394	975
<b>Financial liabilities</b>				
Amortised cost:				
Deposit from customers	1,147,172	1,335,025	1,152,780	1,335,878
Long-term borrowings	730,000	615,000	730,000	615,000
Short-term borrowings	557,000	857,000	557,000	857,000
Hire-purchase and finance lease payables	-	13	-	-
Other liabilities	70,574	69,995	63,970	73,625
Derivative instruments				
designated at FVTPL	1,087	-	1,087	-

**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.

*Interest rate sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate assets and liabilities, the analysis is prepared assuming the amount of the asset and liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended December 31, 2010 would increase/decrease by RM1,797,000. This is mainly attributable to the Group's exposure to interest rates on its variable rate loans, advances and financing and borrowings.

(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.

Equity risk refers to the adverse impact of changes in equity prices on equity positions held by the Group and the Company for yield purposes.

Considering that other risk variables remain constant, the table below summarises the impact on the carrying amount of equity positions as at each reporting date should there be a change in equity market prices:

	<b>The Group</b>	
	<b>Change in Equity Market Prices</b>	<b>Sensitivity of Equity</b>
	<b>%</b>	<b>RM'000</b>
2010	+/-20	+/-6,384

(iii) **Credit risk**

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 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.

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.

**Maximum exposure to credit risk**

The following table presents the Group's and the Company's maximum exposure to credit risk of on-balance sheet and off-balance sheet financial instruments, without taking into account of any collateral held or other credit enhancements. For on-balance sheet assets, the exposure to credit risk equals their carrying amount. For contingent liabilities, the maximum exposure to credit risk is the maximum amount that the Group and the Company would have to pay if the obligations of the instruments issued are called upon. For credit commitments, the maximum exposure to credit risk is the full amount of the undrawn credit facilities granted to customers.

	<b>Group</b>	<b>Compan</b>
	<b>2010</b>	<b>y</b>
	<b>Maximum exposure</b>	
	<b>RM'000</b>	<b>RM'000</b>
<b>Credit risk exposures of on-balance sheet assets:</b>		
Cash and short term funds (exclude cash in hand)	76,983	54,924
Deposits and placements with financial institutions	11,842	1,000
Financial assets held-for-trading	7,723	7,723
Financial investments held-for-sale (exclude equity securities)	22,916	22,716
Loans, advances and financing	2,127,813	2,596,493
Other assets	<u>553,150</u>	<u>390,816</u>
	<u>2,800,427</u>	<u>3,073,672</u>
<b>Credit risk exposure of off-balance sheet items:</b>		
Irrevocable commitments to extend credit	783,687	783,687
Guarantees issued	<u>231,484</u>	<u>231,484</u>
	<u>1,015,171</u>	<u>1,015,171</u>
<b>Total maximum credit risk exposure</b>	<u>3,815,598</u>	<u>4,088,843</u>

*Off-balance sheet*

The Group and the Company apply fundamentally the same risk management policies for off-balance sheet risks as well as on-balance sheet risks. In the case of commitments to lend, customers and counterparties will be subject to the same credit management policies as for loans, advances and financing. Collateral may be sought depending on the strength of the counterparty and the nature of the transaction

**Collaterals**

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.

The main type of collateral obtained by the Group and the Company to mitigate credit risk are as follows:

- for construction and real estate loans - charges over the project land being financed
- for share margin financing - pledges over securities from listed exchange
- for other loans - charges over landed properties and other assets
- for staff housing loans - charges over residential properties
- for staff car loans - ownership claims over the vehicles financed

(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.

## Liquidity and interest risk tables

The following tables detail the Group's and the Company's remaining contractual maturity for the non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company may be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Group and the Company may be required to pay.

<b>Group 2010</b>	<b>Weighted average effective interest rate %</b>	<b>Less than 1 month RM'000</b>	<b>1-3 months RM'000</b>	<b>3 months to 1 year RM'000</b>	<b>1-5 years RM'000</b>	<b>5+ years RM'000</b>	<b>Total RM'000</b>
Non-interest bearing	-	15,569	13,565	35,523	-	309	64,966
Variable interest rate instruments	2.99	686,173	140,216	333,391	-	-	1,159,780
Fixed interest rate instruments	4.91	-	-	670,000	580,000	30,000	1,280,000
		<u>701,742</u>	<u>153,781</u>	<u>1,038,914</u>	<u>580,000</u>	<u>30,309</u>	<u>2,504,746</u>

<b>Company 2010</b>	<b>Weighted average effective interest rate %</b>	<b>Less than 1 month RM'000</b>	<b>1-3 months RM'000</b>	<b>3 months to 1 year RM'000</b>	<b>1-5 years RM'000</b>	<b>5+ years RM'000</b>	<b>Total RM'000</b>
Non-interest bearing	-	14,494	10,113	39,169	-	194	63,970
Variable interest rate instruments	2.99	686,173	140,216	333,391	-	-	1,159,780
Fixed interest rate instruments	4.91	-	-	670,000	580,000	30,000	1,280,000
		<u>700,667</u>	<u>150,329</u>	<u>1,042,560</u>	<u>580,000</u>	<u>30,194</u>	<u>2,503,750</u>

The following tables detail the Group's and the Company's expected maturity for the non-derivative financial assets. The tables have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The inclusion of information on non-derivative financial assets is necessary in order to understand the Group's and the Company's liquidity risk management as the liquidity is managed on a net asset and liability basis.

<b>Group</b>	<b>Weighted average effective interest rate %</b>	<b>Less than 1 month RM'000</b>	<b>1-3 months RM'000</b>	<b>3 months to 1 year RM'000</b>	<b>1-5 years RM'000</b>	<b>5+ years RM'000</b>	<b>Total RM'000</b>
2010							
Non-interest bearing	-	23,705	7,327	91,278	32,254	53,511	208,075
Variable interest rate instruments	7.74	976,377	-	291,687	607,154	132,104	2,007,322
Fixed interest rate instruments	3.57	76,052	4,561	58,924	285,322	125,686	550,545
		<u>1,076,134</u>	<u>11,888</u>	<u>441,889</u>	<u>924,730</u>	<u>311,301</u>	<u>2,765,942</u>

<b>Company</b>	<b>Weighted average effective interest rate %</b>	<b>Less than 1 month RM'000</b>	<b>1-3 months RM'000</b>	<b>3 months to 1 year RM'000</b>	<b>1-5 years RM'000</b>	<b>5+ years RM'000</b>	<b>Total RM'000</b>
2010							
Non-interest bearing	-	8,650	291	373,687	32,251	23,311	438,190
Variable interest rate instruments	7.74	976,377	-	729,945	637,575	132,104	2,476,001
Fixed interest rate instruments	3.21	70,852	-	1,000	53,144	-	124,996
		<u>1,055,879</u>	<u>291</u>	<u>1,104,632</u>	<u>722,970</u>	<u>155,415</u>	<u>3,039,187</u>

(v) **Cash flow risk**

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

(vi) **Fair value of financial instruments**

The following table summarises the carrying values and fair values of financial assets and liabilities of the Group and of the Company.

	<b>The Group 2010</b>		<b>The Company 2010</b>	
	<b>Carrying Amount</b>	<b>Fair value</b>	<b>Carrying Amount</b>	<b>Fair value</b>
<b>Financial assets</b>				
Fair value through profit and loss:				
Financial assets held-for-trading	7,723	7,723	7,723	7,723
Held-to-maturity:				
Financial investments held-to-maturity	-	-	-	-
Loans and receivables:				
Loans, advances and financing	2,085,646	2,085,646	2,554,326	2,554,326
Other assets	553,150	553,150	390,816	390,816
Cash and short term funds	76,987	76,987	54,928	54,928
Deposit and placements with Financial institutions	11,842	11,842	1,000	1,000
Available-for-sale:				
Financial investments available-for-sale	30,594	30,594	30,394	30,394
<b>Financial liabilities</b>				
Other financial liabilities:				
Deposits from customers	1,147,172	1,147,172	1,152,780	1,152,780
Long-term borrowings	730,000	730,000	730,000	730,000
Short-term borrowings	557,000	557,000	557,000	557,000
Hire-purchase and finance lease Payables	-	-	-	-
Other liabilities	70,574	70,574	63,970	63,970
Fair value through profit and loss:				
Derivatives financial liabilities	1,087	1,087	1,087	1,087

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction under normal market conditions.

However, certain assets such as loans, deposits and derivatives, fair values are not readily available as there is no open market where these instruments are traded.

The fair values for these instruments are estimated based on the assumptions and techniques below.

These methods are subjective in nature and therefore the fair values presented may not be indicative of the actual realisable value.

**Cash and short-term funds**

The carrying amounts are a reasonable estimate of their fair values because of their short-term nature.

**Deposits and placements with financial institutions**

Deposits and placements of below one year are at carrying amounts while those maturing beyond one year have been valued based on discounted cashflows.

**Financial assets held-for-trading, financial investments available-for-sale and held-to-maturity**

The estimated fair values are based on quoted and observable market prices at the end of the reporting period. Where such quoted and observable market prices are not available, fair value is estimated using discounted cash flow techniques. Where discounted cash flow technique is used, the estimated future cash flows are discounted based on current market rates for similar instrument at the end of the reporting period.

**Loans advances and financing**

The fair values of fixed rate loans with remaining maturity of less than one year and variable rate loans are estimated to approximate their carrying values. For fixed rate loans with maturities of more than one year, the fair values are estimated based on discounted future cash flows of contractual instalment payments. In respect of non-performing loans, the fair values are deemed to approximate the carrying values, net of individual assessment allowance.

The fair values of variable rate financial instruments and those of a fixed rate nature maturing within 12 months of the date of statement of financial position are assumed to approximate their carrying amounts.

The fair values of financial instruments with no specific maturity (e.g. cash and bank balances, certain deposits from non-bank customers, banks and other financial institutions) are assumed to be the amount payable on demand at the end of the reporting period.

**Other assets and liabilities**

The carrying values less any estimated allowance for financial assets and liabilities included in other assets and other liabilities are assumed to approximate their fair values as these items are not materially sensitive to the shift in market interest rates.

**Deposits from customers**

Deposits from customers are valued at carrying amounts for all amounts on demand and below one year, while deposits over one year have been valued at discounted cash flows.

**Long-term and short-term borrowings**

The fair values of short-term borrowings with remaining maturities of less than one year approximate their carrying values at the end of the reporting period. The fair values of long-term borrowings with remaining maturities of more than one year are estimated based on discounted cash flows using market indicative rates of instruments with similar risk profiles at the end of the reporting period.

**Derivative financial instruments designated at FVTPL**

The fair value of interest rate collar is the estimated amount the Group and the Company would receive or pay to terminate the contracts at the reporting date.

40. **CHANGES IN ACCOUNTING POLICIES**

The Group and the Company have applied the new standard in relation to the financial instruments in accordance with the transitional provisions in FRS 139 by recognising and remeasuring all financing assets and financial liabilities as of January 1, 2010 as appropriate. The related adjustments to the previous carrying amounts are made to the opening retained earnings as appropriate. The effects of the changes are disclosed below:

	← Effects of adoption of FRS 139 →			
	As previousl y reported RM'000	Reclassificatio n RM'000	Recognition and measuremen t RM'000	As restated RM'000
<b>The Group</b>				
<b>Statement of Financial Position</b>				
<b>As of January 1, 2010</b>				
<b>Financial Assets</b>				
Financial assets held-for-trading	26,728	(21,230)	1,182	6,680
Financial investments available-for-sale	975	21,730	(6,930)	15,775
Financial investments held-to-maturity	67,236	(67,236)	-	-
Loans, advances and financing:				
Gross loans, advances and financing	2,305,024	-	(339,111)	1,965,913
Individual impairment	-	-	(296,673)	(296,673)
Collective impairment	-	-	(35,822)	(35,822)
Specific allowance	(230,154)	-	230,154	-
General allowance	(35,822)	-	35,822	-
Interest-in-suspense	(414,342)	-	414,342	-
Other assets	519,983	66,736	(8,578)	578,141
Deferred tax assets	55,670	-	(15,450)	40,220
<b>Financial Liabilities</b>				
Derivative financial liabilities	-	-	(775)	(775)
<b>Statement of Changes in Equity</b>				
<b>For the Year Ended December 31, 2010</b>				
<b>Investments Revaluation Reserve</b>				
Balance as of January 1, 2010	-	-	(24)	(24)
<b>(Retained Earnings)/Accumulated Losses</b>				
Balance as of January 1, 2010	(660)	-	21,862	21,202

	← Effects of adoption of FRS 139 →			
	As previousl y reported RM'000	Reclassificatio n RM'000	Recognition and measuremen t RM'000	As restated RM'000
<b>The Company</b>				
<b>Statement of Financial Position</b>				
<b>As of January 1, 2010</b>				
<b>Financial Assets</b>				
Financial assets held-for-trading	26,728	(21,230)	1,182	6,680
Financial investments available-for-sale	975	21,730	(6,930)	15,775
Financial investments held-to-maturity	67,236	(67,236)	-	-
Loans, advances and financing:				
Gross loans, advances and financing	2,752,896	-	(340,502)	2,412,394
Individual impairment	-	-	(296,673)	(296,673)
Collective impairment	-	-	(35,822)	(35,822)
Specific allowance	(230,154)	-	230,154	-
General allowance	(35,822)	-	35,822	-
Interest-in-suspense	(414,342)	-	414,342	-
Other assets	389,701	66,736	(8,578)	447,859
Investments in subsidiaries	3,820	-	2,339	6,159
Deferred tax assets	25,420	-	(15,450)	9,970
<b>Financial Liabilities</b>				
Derivative financial liabilities	-	-	(775)	(775)
<b>Statement of Changes in Equity</b>				
<b>For the Year Ended December 31, 2010</b>				
<b>Investments Revaluation Reserve</b>				
Balance as of January 1, 2010	-	-	(24)	(24)
<b>Retained Earnings</b>				
Balance as of January 1, 2010	(121,874)	-	20,914	(100,960)

The impact of adoption of FRS 139 on the financial statements of the Group and of the Company for the current year is as follows:

	Increase	
	The Group 2010 RM'000	The Company 2010 RM'000
<b>Statement of Financial Position</b>		
Financial assets held-for-trading	279	279
Financial investments available-for-sale	1,450	2,026
Loans, advances and financing	10,489	10,419
Other assets	881	114
Investments in subsidiaries	-	2,464
Derivative financial liabilities	312	312

Reserves – retained earnings	10,606	12,907
Reserves – investment revaluation reserve	2,181	2,083

	<b>Increase</b>	
	<b>The Group</b>	<b>The Company</b>
	<b>2010</b>	<b>2010</b>
	<b>RM'000</b>	<b>RM'000</b>

**Statement of Comprehensive Income**

Interest income	13,749	16,143
Other operating income	279	279
Other operating expenses	312	312
Allowance for impairment losses on loans and financing	874	874
Allowance for impairment losses on other financial assets	731	57
Profit before tax	12,111	15,179
Income tax expense	1,505	2,272
Profit for the year	10,606	12,907
Other comprehensive income	2,181	2,083
Total comprehensive income for the year	12,787	14,990

**41. CASH AND CASH EQUIVALENTS**

	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Cash and short-term funds	76,987	830,166	54,928	821,450
Deposits and placements with financial institutions	11,842	16,777	1,000	3,003
	88,829	846,943	55,928	824,453
Less: Deposits pledged to banks (Note 14)	(1,237)	(1,211)	-	-
	87,592	845,732	55,928	824,453

**42. LEASE COMMITMENTS**

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

	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Future minimum lease payments:				
Not later than one year	537	448	448	448
Later than one year and not later than five years	230	665	217	665
	767	1,113	665	1,113

43. **COMMITMENTS AND CONTINGENCIES**

In the normal course of business, the Group and the Company make various commitments and incur 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>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Capital expenditure:				
Approved and contracted for	3,822	2,729	112	118
Approved but not contracted for	112	-	-	-
Irrevocable commitments to extend credit with maturity exceeding one year	783,687	728,938	783,687	728,938
Guarantees issued	<u>231,484</u>	<u>630,520</u>	<u>231,484</u>	<u>253,520</u>
	<u>1,019,105</u>	<u>1,362,187</u>	<u>1,015,283</u>	<u>982,576</u>

**44. ISLAMIC BANKING BUSINESS**

The financial performance for the financial year ended December 31, 2010 and the financial position as of 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:

**Statement of Comprehensive Income for the Year Ended December 31, 2010**

	Note	The Group and the Company 2010 RM'000	2009 RM'000
Income	(a)	496	469
Write-back of allowance for impairment losses on loans and financing	(b)	10	12
Total Income		506	481
Other expense		-*	-*
Profit for the year		506	481
Other comprehensive income		-	-
Total comprehensive income for the year		506	481
Retained earnings brought forward		8,125	7,644
Retained earnings carried forward	(c)	8,631	8,125

\*Denotes amount less than RM1,000.

The accompanying Notes form an integral part of the Financial Statements.  
**Statement of Financial Position as of December 31, 2010**

	Note	<b>The Group and the Company 2010 RM'000</b>	<b>2009 RM'000</b>
<b>ASSETS</b>			
Cash and short-term funds	(d)	1	20
Other assets	(e)	20,158	19,587
Financing assets	(f)	93	139
<b>Total Assets</b>		<b>20,252</b>	<b>19,746</b>
<b>LIABILITIES AND ISLAMIC BANKING FUNDS</b>			
<b>Total Liabilities</b>		-	-
<b>Islamic Banking Funds</b>	(c)	20,252	19,746
<b>Total Liabilities and Islamic Banking Funds</b>		<b>20,252</b>	<b>19,746</b>

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

**Notes to the Financial Statements**

(a) **INCOME**

	<b>2010</b> <b>RM'000</b>	<b>2009</b> <b>RM'000</b>
Income derived from investment of funds allocated:		
Mudharabah placements	491	463
Income from financing	5	6
Income from penalty on overdue instalment	-*	-*
	<u>496</u>	<u>469</u>

\*Denotes amount less than RM1,000.

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

	<b>2010</b> <b>RM'000</b>	<b>2009</b> <b>RM'000</b>
Specific allowance written back during the financial year	-	11
General allowance written back during the financial year	-	1
Individual impairment losses written back during the financial year	9	-
Collective impairment losses written back during the financial year	1	-
	<u>10</u>	<u>12</u>

(c) **ISLAMIC BANKING FUNDS**

	<b>2010</b> <b>RM'000</b>	<b>2009</b> <b>RM'000</b>
Funds allocated	11,621	11,621
Retained earnings	<u>8,631</u>	<u>8,125</u>
	<u>20,252</u>	<u>19,746</u>

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

	<b>2010</b> <b>RM'000</b>	<b>2009</b> <b>RM'000</b>
Cash and bank balances with banks and other financial institutions	<u>1</u>	<u>20</u>

(e) **OTHER ASSETS**

	<b>2010</b> <b>RM'000</b>	<b>2009</b> <b>RM'000</b>
Money market instrument: Mudharabah placements	<u>20,158</u>	<u>19,587</u>

(f) **FINANCING ASSETS**

	<b>2010</b> <b>RM'000</b>	<b>2009</b> <b>RM'000</b>
Term financing	735	798
Unearned income	<u>(10)</u>	<u>(17)</u>
Gross financing assets	725	781
Less:		
General allowance for bad and doubtful debts and financing	-	(2)
Specific allowance for bad and doubtful debts and financing	-	(640)
Allowance for impairment losses:		
Individual	(631)	
Collective	<u>(1)</u>	
Net financing assets	<u><u>93</u></u>	<u><u>139</u></u>

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

	<b>2010</b> <b>RM'000</b>	<b>2009</b> <b>RM'000</b>
Al-Bai' Bithaman Ajil	<u>725</u>	<u>781</u>

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

	<b>2010</b> <b>RM'000</b>	<b>2009</b> <b>RM'000</b>
Over five years	<u>725</u>	<u>781</u>

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

	<b>2010</b> <b>RM'000</b>	<b>2009</b> <b>RM'000</b>
Housing	92	139
Others	<u>633</u>	<u>642</u>
	<u><u>725</u></u>	<u><u>781</u></u>