1. Corporate information

Sabah Development Bank Berhad ("the Company") is a public limited liability company incorporated and domiciled in Malaysia. The Company is granted consent in writing by the Minister of Finance to incorporate the word 'Bank' into its name. The Company is a scheduled institution under the Banking and Financial Institutions Act, 1989 and is a development financial institution.

The registered office of the Company is situated at 10th Floor, SDB Tower, Wisma Tun Fuad Stephens, Kilometre 2.4, Jalan Tuaran, 88300 Kota Kinabalu, Sabah, Malaysia.

The Company is a wholly-owned subsidiary of the State Government of Sabah.

The principal activity of the Company is the provision of finance for development projects. The principal activities of the subsidiaries are stated in Note 24 to the financial statements.

There have been no significant changes in the nature of the principal activities during the financial year.

2. Summary of significant accounting policies

2.1 Basis of preparation

The financial statements of the Group and of the Company have been prepared in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia. At the beginning of the current financial year, the Group and the Company adopted new and revised FRS which are mandatory for financial periods beginning on or after 1 January 2011 as described fully in Note 2.2.

The financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below.

The financial statements are presented in Ringgit Malaysia (RM) and all values are rounded to the nearest thousand (RM'000) except when otherwise indicated.

The financial statements incorporate all activities relating to the Islamic banking which have been undertaken by the Group. Islamic banking activities refer generally to the acceptance of deposits, granting of financing and dealing in Islamic Securities under the Shariah principles.

2.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

On 1 January 2011, the Company adopted the following new and amended FRS and IC Interpretation mandatory for annual financial periods beginning on or after 1 January 2011.

2. Summary of significant accounting policies (continued)

2.2 Changes in accounting policies (continued)

Description	**Effective for annual periods beginning on or after**
FRS 1 *First-time Adoption of Financial Reporting Standards*	1 July 2010
Amendments to FRS 2 *Share-based Payment*	1 July 2010
FRS 3 *Business Combinations*	1 July 2010
Amendments to FRS 5 *Non-current Assets Held for Sale and Discontinued Operations*	1 July 2010
Amendments to FRS 127 *Consolidated and Separate Financial Statements*	1 July 2010
Amendments to FRS 138 *Intangible Assets*	1 July 2010
Amendments to IC Interpretation 9 *Reassessment of Embedded Derivatives*	1 July 2010
IC Interpretation 12 *Service Concession Arrangements*	1 July 2010
IC Interpretation 16 *Hedges of a Net Investment in a Foreign Operation*	1 July 2010
IC Interpretation 17 *Distributions of Non-cash Assets to Owners*	1 July 2010
Amendments to FRS 132: Classification of Rights Issues	1 March 2010
IC Interpretation 18 *Transfer of Assets from Customers*	1 January 2011
Amendments to FRS 7: *Improving Disclosures about Financial Instruments*	1 January 2011
Amendments to FRS 1: *Limited Exemption for First-time Adopters*	1 January 2011
Amendment to FRS 1: *Additional Exemptions for First-time Adopters*	1 January 2011
IC Interpretation 4 *Determining whether an Arrangement contains a Lease*	1 January 2011
Improvements to FRS issued in 2010	1 January 2011

Adoption of the above standards and interpretations did not have any significant effect on the financial performance and position of the Group and the Company except for those discussed below:

<u>Revised FRS 3 Business Combinations and Amendments to FRS 127 Consolidated and Separate Financial Statements</u>

The revised standards are effective for annual periods beginning on or after 1 July 2010. The revised FRS 3 introduces a number of changes in accounting for business combinations occurring after 1 July 2010. These changes impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

2. Summary of significant accounting policies (continued)

2.2 Changes in accounting policies (continued)

Revised FRS 3 Business Combinations and Amendments to FRS 127 Consolidated and Separate Financial Statements (continued)

The revised FRS 3 continues to apply the acquisition method to business combinations but with some significant changes. All payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

The amendments to FRS 127 require that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will they give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

Amendments to FRS 7: Improving Disclosures about Financial Instruments

The amended standard requires enhanced disclosure about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy (Level 1, Level 2 and Level 3), by class, for all financial instruments recognised at fair value. A reconciliation between the beginning and ending balance for Level 3 fair value measurements is required. Any significant transfers between levels of the fair value hierarchy and the reasons for those transfers need to be disclosed. The amendments also clarify the requirements for liquidity risk disclosures with respect to assets used for liquidity management. The fair value measurement disclosures are presented in Note 39. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 40.

IC Interpretation 12 Service Concession Arrangements

This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. The adoption of this interpretation will result in recognition of revenue relating to construction or upgrade services. The Group has elected not to apply this change in accounting policy retrospectively as it is impracticable to do so. The Group has recognised intangible asset that existed at 1 January 2010 as water concession rights using the carrying amount of the intangible asset (which was previously classified as project expenditure) as its carrying amount as at that date. The Group has tested the intangible asset recognised at 1 January 2010 for impairment and there was no impairment loss being recognised.

2. Summary of significant accounting policies (continued)

2.3 Standards issued but not yet effective

On 19 November 2011, the Malaysian Accounting Standards Board (MASB) issued a new MASB approved accounting framework, the Malaysian Financial Reporting Standards (MFRS Framework).

The MFRS Framework is to be applied by all Entities Other Than Private Entities for annual periods beginning on or after 1 January 2012, with the exception of entities that are within the scope of MFRS 141 Agriculture (MFRS 141) and IC Interpretation 15 Agreements for Construction of Real Estate (IC 15), including its parent, significant investor and venturer.

The Group will be required to prepare financial statements using the MFRS Framework in its first MFRS financial statements for the year ending 31 December 2012. In presenting its first MFRS financial statements, the Group will be required to restate the comparative financial statements to amounts reflecting the application of MFRS Framework. The majority of the adjustments required on transition will be made, retrospectively, against opening retained earnings.

The Group has not completed its assessment of the financial effects of the differences between Financial Reporting Standards and accounting standards under the MFRS Framework. Accordingly, the consolidated financial performance and financial position as disclosed in the financial statements for the year ended 31 December 2011 could be different if prepared under the MFRS Framework.

The Group considers that it is expected to be in a position to fully comply with the requirements of the MFRS Framework for the financial year ending 31 December 2012.

2.4 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the reporting date. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Acquisitions of subsidiaries are accounted for by applying the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

2. Summary of significant accounting policies (continued)

2.4 Basis of consolidation (continued)

In business combinations achieved in stages, previously held equity interests in the acquiree are re-measured to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

The Group elects for each individual business combination, whether non-controlling interest in the acquiree (if any) is recognised on the acquisition date at fair value, or at the non-controlling interest's proportionate share of the acquiree net identifiable assets.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill in the statement of financial position. In instances where the latter amount exceeds the former, the excess is recognised as a gain on bargain purchase in profit or loss on the acquisition date.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

2.5 Transactions with non-controlling interests

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Company, and is presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to owners of the Company.

Changes in the Company owners' ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the parent.

2. Summary of significant accounting policies (continued)

2.6 Foreign currency

a) Functional and presentation currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Ringgit Malaysia (RM), which is also the Company's functional currency.

b) Foreign currency transactions

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items denominated in foreign currencies measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are recognised in profit or loss except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operations, which are recognised initially in other comprehensive income and accumulated under foreign currency translation reserve in equity. The foreign currency translation reserve is reclassified from equity to profit or loss of the Group on disposal of the foreign operation.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the period except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in equity. Exchange differences arising from such non-monetary items are also recognised directly in equity.

2.7 Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

2. Summary of significant accounting policies (continued)

2.7 Property, plant and equipment (continued)

Subsequent to recognition, plant and equipment and furniture and fixtures are measured at cost less accumulated depreciation and accumulated impairment losses. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repairs and maintenance costs are recognised in profit or loss as incurred.

Freehold land has an unlimited useful life and therefore is not depreciated. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

- Leasehold land: remaining lease terms
- Hotel building: 50 years
- Leasehold improvements and office renovation: 4 to 10 years
- Motor vehicles: 4 to 5 years
- Office equipment and furniture: 4 to 10 years
- Computer equipment: 4 to10 years
- Plant and equipment: 4 to 20 years
- Kitchen equipment: 10 years

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The residual value, useful life and depreciation method are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in the profit or loss in the year the asset is derecognised.

2.8 Investment properties

Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment losses. The depreciation policy for investment properties is in accordance with that for depreciable property, plant and equipment as described in Note 2.7.

2. Summary of significant accounting policies (continued)

2.8 Investment properties (continued)

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

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 gain or loss on the retirement or disposal of an investment property is recognised in profit or loss in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. For a transfer from owner-occupied property to investment property, the property is accounted for in accordance with the accounting policy for property, plant and equipment set out in Note 2.7 up to the date of change in use.

2.9 Non-current assets held-for-sale

Non-current assets are classified as held-for-sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition subject only to terms that are usual and customary.

Immediately before classification as held-for-sale, the measurement of the non-current assets is brought up-to-date in accordance with applicable FRSs. Then, on initial classification as held-for-sale, non-current assets (other than the investment properties, deferred tax assets and financial assets) are measured in accordance to FRS5 that is at the lower of carrying amount and fair value less costs to sell. Any differences are included in profit or loss.

2.10 Intangible assets

Intangible assets acquired separately are measured initially at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial acquisition, intangible assets are measured at cost less any accumulated amortisation and accumulated impairment losses.

2. Summary of significant accounting policies (continued)

2.10 Intangible assets (continued)

Intangible assets with finite useful lives are amortised over the estimated useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss.

Intangible assets with indefinite useful lives or not yet available for use are tested for impairment annually, or more frequently if the events and circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether the useful life assessment continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

Water concession rights

Water concession rights were acquired in business combinations and are amortised on a straight line basis over the useful life of the concession period.

2.11 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment assessment for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units ("CGU")).

In assessing value in use, the estimated future cash flows expected to be generated by the asset 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. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated to reduce the carrying amount of the assets in the unit or groups of units on a pro-rata basis.

2. Summary of significant accounting policies (continued)

2.11 Impairment of non-financial assets (continued)

Impairment losses are recognised in profit or loss.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss .

2.12 Subsidiaries

A subsidiary is an entity over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities.

In the Company's separate financial statements, investment in subsidiaries are accounted for at cost less impairment losses.

2.13 Associates

An associate is an entity, not being a subsidiary or a joint venture, in which the Group has significant influence. An associate is equity accounted for from the date the Group obtains significant influence until the date the Group ceases to have significant influence over the associate.

The Group's investments in associates are accounted for using the equity method. Under the equity method, the investment in associates is measured in the statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associates. Goodwill relating to associates is included in the carrying amount of the investment. Any excess of the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the Group's share of the associate's profit or loss for the period in which the investment is acquired.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

2. Summary of significant accounting policies (continued)

2.13 Associates (continued)

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in profit or loss.

The financial statements of the associates are prepared as of the same reporting date as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

In the Company's separate financial statements, investment in associates are stated at cost less impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

2.14 Financial assets

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

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

The Group and the Company determine the classification of their financial assets at initial recognition, and the categories include financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets.

a) Financial assets at fair value through profit or loss

Financial assets are classified as financial assets at fair value through profit or loss if they are held for trading or are designated as such upon initial recognition. Financial assets held for trading are financial assets acquired principally for the purpose of selling in near term.

2. Summary of significant accounting policies (continued)

2.14 Financial assets (continued)

a) Financial assets at fair value through profit or loss (continued)

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value are recognised in profit or loss. Net gains or net losses on financial assets at fair value through profit or loss do not include exchange differences, interest and dividend income. Exchange differences, interest and dividend income on financial assets at fair value through profit or loss are recognised separately in profit or loss.

b) Loans and receivables

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

c) Held-to-maturity investments

Financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold the investment to maturity.

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the held-to-maturity investments are derecognised or impaired, and through the amortisation process.

d) Available-for-sale financial assets

Available-for-sale financial assets are financial assets that are designated as available for sale or are not classified in any of the three preceding categories.

After initial recognition, available-for-sale financial assets are measured at fair value. Any gains or losses from changes in fair value of the financial assets are recognised in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised. Interest income calculated using the effective interest method is recognised in profit or loss. Dividends on an available-for-sale equity instrument are recognised in profit or loss when the Group and the Company's right to receive payment is established.

2. Summary of significant accounting policies (continued)

2.14 Financial assets (continued)

d) Available-for-sale financial assets (continued)

Investments in equity instruments whose fair value cannot be reliably measured are measured at cost less impairment loss.

Derecognition
A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired or when:

- The Group transfers the contractual rights to receive the cash flows of the financial asset; or

- The Group retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in a “past-through” arrangement; or

- The Group has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option on the transferred asset, the extent of the Group’s continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option on an asset measured at fair value, the extent of the Group’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Date of recognition
Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned. All regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e., the date that the Group and the Company commit to purchase or sell the asset.

2. Summary of significant accounting policies (continued)

2.14 Financial assets (continued)

Reclassification of financial assets

The Group and the Bank may choose to reclassify non-derivative assets out from the held-for-trading category, in rare circumstances, where the financial assets are no longer held for the purpose of selling or repurchasing in the short term. In addition, the Group and the Bank may also choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Group and the Bank have the intention and ability to hold the financial asset for the foreseeable future or until maturity.

Reclassifications are made at fair value as at the reclassification date, whereby the fair value becomes the new cost or amortised cost, as applicable. Any fair value gains or losses previously recognised in the income statement are not reversed.

2.15 Impairment of financial assets

The Group and the Company assess at each reporting date whether there is any objective evidence that a financial asset is impaired.

a) Financial assets carried at amortised cost

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group and the Company consider factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. For certain categories of financial assets, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis based on similar risk characteristics. Objective evidence of impairment for a portfolio of financial assets could include the Group's and the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio over the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

If any such evidence exists, the amount of impairment loss is measured as 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 impairment loss is recognised in profit or loss.

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 receivable becomes uncollectible, it is written off against the allowance account.

2. Summary of significant accounting policies (continued)

2.15 Impairment of financial assets (continued)

a) Financial assets carried at amortised cost (continued)

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 to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

b) Unquoted equity securities carried at cost

If there is objective evidence (such as significant adverse changes in the business environment where the issuer operates, probability of insolvency or significant financial difficulties of the issuer) that an impairment loss on financial assets carried at cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

c) Available-for-sale financial assets

Significant or prolonged decline in fair value below cost, significant financial difficulties of the issuer or obligor, and the disappearance of an active trading market are considerations to determine whether there is objective evidence that investment securities classified as available-for-sale financial assets are impaired.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to profit or loss.

Impairment losses on available-for-sale equity investments are not reversed in profit or loss in the subsequent periods. Increase in fair value, if any, subsequent to impairment loss is recognised in other comprehensive income. For available-for-sale debt investments, impairment losses are subsequently reversed in profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss in profit or loss.

2.16 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value.

2. Summary of significant accounting policies (continued)

2.17 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost incurred in bringing the inventories to their present location and condition comprise purchase costs on the first in first out basis.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.18 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2.19 Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

Financial liabilities, within the scope of FRS 139, 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 instrument. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities held for trading include derivatives entered into by the Group and the Company that do not meet the hedge accounting criteria. Derivative liabilities are initially measured at fair value and subsequently stated at fair value, with any resultant gains or losses recognised in profit or loss. Net gains or losses on derivatives include exchange differences.

2. Summary of significant accounting policies (continued)

2.19 Financial liabilities (continued)

a) Financial liabilities at fair value through profit or loss (continued)

The Group and the Company have not designated any financial liabilities as at fair value through profit or loss.

b) Other financial liabilities

The Group’s and the Company's other financial liabilities include deposits from customers, borrowings, payables and other liabilities.

Deposits from customers are stated at placement values.

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Payables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

Other liabilities are stated at cost which is the fair value of the consideration expected to be paid in the future for goods and services received.

For other financial liabilities, gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

Derecognition

A financial liability is derecognised when the obligation under the liability is extinguished. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

2.20 Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due.

2. Summary of significant accounting policies (continued)

2.20 Financial guarantee contracts (continued)

Financial guarantee contracts are recognised initially as a liability at fair value, net of transaction costs. Subsequent to initial recognition, financial guarantee contracts are recognised as income in profit or loss over the period of the guarantee. If the debtor fails to make payment relating to financial guarantee contract when it is due and the Group, as the issuer, is required to reimburse the holder for the associated loss, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount initially recognised less cumulative amortisation.

2.21 Borrowing costs

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period they are incurred. Borrowing costs consist of interest and other costs that the Group and the Company incurred in connection with the borrowing of funds.

2.22 Employee benefits

a) Defined contribution plans

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. The Malaysian companies in the Group make contributions to the Employee Provident Fund in Malaysia, a defined contribution pension scheme. Contributions to defined contribution pension schemes are recognised as an expense in the period in which the related service is performed.

b) Employee leave entitlement

Employee entitlements to annual leave are recognised as a liability when they accrue to the employees. The estimated liability for leave is recognised for services rendered by employees up to the reporting date.

2. Summary of significant accounting policies (continued)

2.22 Employee benefits (continued)

c) Defined benefit plan

The Company operates a unfunded defined benefit retirement plan. The benefit plan become vested after ten years of service. The costs of defined benefit plan are determined based on employees' basic salary and the number of completed years of service. No actuarial valuation has been conducted on the defined benefit plan as the directors consider the discounting effects of defined benefit obligations and any actuarial gains or losses to be insignificant to the Company.

2.23 Leases

a) As lessee

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss. Contingent rents, if any, are charged as expenses in the periods in which they are incurred.

Leased assets are depreciated over the estimated useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life and the lease term.

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

b) As lessor

Leases where the Group retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. The accounting policy for rental income is set out in Note 2.24(f).

2. Summary of significant accounting policies (continued)

2.24 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received or receivable.

a) Interest income

For all financial assets measured at amortised cost and interest/profit-bearing financial assets classified as held-for-trading and available-for-sale, interest income for all interest-bearing financial assets are recognised within "interest income" in the income statement using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Interest on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

b) Income from Islamic Banking business

Income from Islamic Banking business is recognised on an accrual basis in accordance with the principles of Shariah.

c) Fee and other income

Loan arrangement, management and participation fees are recognised upfront upon entering into contractual arrangement.

d) Guarantee fee

Guarantee fee is recognised as income upon issuance of guarantees.

e) Dividend income

Dividend income is recognised when the Group's right to receive payment is established.

f) Rental income

Rental income is accounted for on a straight-line basis over the lease terms. The aggregate costs of incentives provided to lessees are recognised as a reduction of rental income over the lease term on a straight-line basis.

2. Summary of significant accounting policies (continued)

2.24 Revenue (continued)

g) Fund management service fees

Fund management service fees are recognised when services are rendered.

h) Insurance commissions

Insurance commissions received and receivable are recognised at the prescribed rates on gross premiums received.

i) Sale of goods

Revenue from sale of bulks water and Islamic Gold Dinar and Silver Dirham is recognised upon the transfer of significant risk and rewards of ownership of the goods to the customer. 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.

2.25 Income taxes

a) Current tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity.

b) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2. Summary of significant accounting policies (continued)

2.25 Income taxes (continued)

b) Deferred tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and the deferred tax liabilities relate to the same taxable entity and the same taxation authority.

2. Summary of significant accounting policies (continued)

2.25 Income taxes (continued)

c) Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- where the sales tax incurred in a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statements of financial position.

2.26 Share capital and share issuance expenses

An equity instrument is any contract that evidences a residual interest in the assets of the Group and the Company after deducting all of its liabilities. Ordinary shares are equity instruments.

Ordinary shares are recorded at the proceeds received, net of directly attributable incremental transaction costs. Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

2.27 Derivative financial instruments

The Company uses and trades derivatives such as interest rate swap to manage its exposure to interest rate.

Derivative instruments are initially recognised at fair value, which is normally zero or negligible at inception for non-option derivatives and equivalent to the market premium paid or received for purchased or written options. The derivatives are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions and valuation techniques that include discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of any derivatives that do not qualify for hedge accounting are recognised immediately in the profit or loss.

2. Summary of significant accounting policies (continued)

2.28 Embedded derivatives

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract and the host contract is not itself held-for-trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in the profit or loss.

2.29 Contingencies

A contingent liability or asset is a possible obligation or asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future event(s) not wholly within the control of the Group.

Contingent liabilities and assets are not recognised in the statements of financial position of the Group.

3. Significant accounting judgements and estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

3.1 Judgements made in applying accounting policies

In the process of applying the Group's accounting policies, the management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Impairment of available-for-sale investments

The Group reviews its financial assets classified as available-for-sale investments at each reporting date to assess whether they are impaired. The Group also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost.

The determination of what is "significant" or "prolonged" requires judgment. In making this judgement, the Group evaluates, among other factors, historical share price movements and the duration and extent to which the fair value of an investment is less than its cost.

For the financial year ended 31 December 2011, there was no impairment loss recognised for available-for-sale financial assets (2010: nil).

3. Significant accounting judgements and estimates (continued)

3.2 Key sources of estimation uncertainty

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

a) Impairment losses on loans, advances and financing

The Group reviews its individually significant loans, advances and financing at each statement of financial position date to assess whether an impairment loss should be recorded in the profit or loss. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Group makes judgements about the borrower's or the customer's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, result in future changes to the allowances.

Loans and advances that have been assessed individually and found not to be impaired an all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but who effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratios etc.), concentration of risks and relevant economic data.

b) Impairment of investment in subsidiaries and interest in associates

The Group assesses whether there is any indication that an investment in subsidiaries and interest in associates may be impaired at each reporting date.

If indicators are present, these assets are subject to impairment review. The impairment review comprises a comparison of the carrying amount of the investment and the investment's estimated recoverable amount.

Judgments made by management in the process of applying the Group's accounting policies in respect of investment in subsidiaries and interest in associates are as follows:

i) The Group determines whether its investments are impaired following certain indications of impairment such as, amongst others, prolonged shortfall between market value and carrying amount, significant changes with adverse effects on the investment and deteriorating financial performance of the investment due to observed changes and fundamentals.

3. Significant accounting judgements and estimates (continued)

3.2 Key sources of estimation uncertainty (continued)

b) Impairment of investments in subsidiaries and associates (continued)

ii) Depending on their nature and the industries in which the investments relate to, judgments are made by management to select suitable methods of valuation such as, amongst others, discounted cash flow, realisable net asset value and sector average price-earning ratio methods.

Once a suitable method of valuation is selected, management makes certain assumptions concerning the future to estimate the recoverable amount of the investment. These assumptions and other key sources of estimation uncertainty at the reporting date, may have a significant risk of causing a material adjustment to the carrying amounts of the investments within the next financial year. Depending on the specific individual investment, assumptions made by management may include, amongst others, assumptions on expected future cash flows, revenue growth, discount rate used for purposes of discounting future cash flows which incorporates the relevant risks, and expected future outcome of certain past events.

Sensitivity to changes in assumptions

Management believes that no reasonably expected possible change in the key assumptions described above would cause the carrying amounts of the investments to materially exceed their recoverable amounts.

4. Interest income

	Group		Company	
	2011	**2010**	**2011**	**2010**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Loans, advances and financing	192,675	141,263	198,578	170,619
Money at call, and deposits and placements with financial institutions	1,396	1,867	1,121	1,616
Other loans and receivables	2,648	2,714	2,648	2,714
Other interest income	605	25,971	605	2,073
	197,324	171,815	202,952	177,022

5. Interest expense

	Group		Company	
	2011	**2010**	**2011**	**2010**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Deposits from customers	42,666	42,135	42,805	42,289
Borrowings	60,420	48,890	60,420	48,890
Total interest expense	103,086	91,025	103,225	91,179

6. Other income

	Group 2011 RM'000	Group 2010 RM'000	Company 2011 RM'000	Company 2010 RM'000
Fee income:				
Commissions	13,682	16,034	13,245	15,690
Fund management services fees	2,340	3,921	-	-
Other fee income	52	153	3,661	1,377
	16,074	20,108	16,906	17,067
Income from financial instruments:				
Gain arising on securities held-for-trading:				
Net gain on disposals	4,452	361	4,452	361
Gross dividend income	1,025	286	1,025	286
Unrealised (loss)/gain on revaluation of financial securities held-for-trading	(10)	279	(10)	279
	5,467	926	5,467	926
(Loss)/gain arising on securities available-for-sale:				
Gross dividend income	-	288	-	288
Net loss on disposals	(248)	-	(248)	-
	(248)	288	(248)	288
Other income:				
Sale of bulk water and services rendered to holding entity, Sabah State Government (Note 34)	61,377	60,669	-	-
Hotel income:				
Room revenue	4,281	4,164	-	-
Food and beverage	4,052	3,859	-	-
Miscellaneous services	10	374	-	-
Rental income	54	54	-	-
Realised gain on foreign exchange	3	3	3	3
Gain on disposal of investment property	271	-	-	-
Gain on disposal of property, plant and equipment	90	69	18	3
Gain on deemed disposal of subsidiary	6,052	-	-	-
Allowance for doubtful debts on amount due from associate no longer required	-	511	-	511
Others	628	3,493	16	3,145
	76,818	73,196	37	3,662
	98,111	94,518	22,162	21,943

7. Other expenses

	Group 2011 RM'000	Group 2010 RM'000	Company 2011 RM'000	Company 2010 RM'000
Staff costs	21,248	16,011	13,131	8,858
Establishment costs	1,017	1,042	1,017	1,042
Marketing expenses	564	588	564	588
Direct cost, administrative and other overhead expense	35,895	38,115	1,897	2,453
Net loss on derivative financial instruments	827	312	827	312
	59,551	56,068	17,436	13,253

8. Allowance for impairment losses on loans, advances and financing

	Group and Company 2011 RM'000	Group and Company 2010 RM'000
Allowance for impairment losses on loans, advances and financing:		
Individual impairment:		
Charge during the financial year	29,203	1,511
Reversal during the financial year	-	(896)
Collective impairment:		
Charge during the financial year	-	8,238
Reversal during the financial year	(18,491)	(1,893)
	10,712	6,960

9. Allowance for impairment losses on other financial assets

	Group 2011 RM'000	Group 2010 RM'000	Company 2011 RM'000	Company 2010 RM'000
Impairment loss on securities held for trading	4,801	971	4,801	297
Reversal of impairment losses recognised on securities held for trading	(1,647)	(240)	(1,647)	(240)
	3,154	731	3,154	57

10. Profit before tax

The following items have been included in arriving at profit before tax:

	Group		Company	
	2011	**2010**	**2011**	**2010**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Amortisation of water concession rights (Note 26)	4,454	4,454	-	-
Auditors' remuneration:				
- Current year	150	142	65	65
- Under provision in respect of previous year	-	10	-	10
Bad debts (recovered)/written off	(10)	11	(10)	11
Depreciation of investment properties (Note 23)	191	93	27	27
Depreciation of property, plant and equipment (Note 27)	2,975	2,303	277	296
Employee benefits expense (Note 11)	21,248	16,011	13,131	8,858
Impairment loss on trade receivables	114	52	-	-
Non- executive directors' remuneration (Note 12)	911	837	635	565
Rental of premises payable to:				
Holding entity (Note 36)	433	503	433	453
Third parties	143	127	15	15
Rental of equipment	4	4	4	4

11. Employee benefits expense

	Group		Company	
	2011	**2010**	**2011**	**2010**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Wages and salaries	13,954	12,178	7,687	6,261
EPF contributions	1,841	1,628	1,114	920
Defined benefit obligations	2,883	379	2,883	379
Other benefits and expenses	2,570	1,826	1,447	1,298
	21,248	16,011	13,131	8,858

Included in employee benefits expense of the Group and the Company are executive directors' remuneration amounting to RM3,120,000 (2010: RM3,204,000) and RM2,334,000 (2010: RM1,184,000) respectively.

12. Directors' remuneration

The details of remuneration receivable by directors by directors of the Company and its subsidiaries during the year are as follows:

	Group		Company	
	2011	**2010**	**2011**	**2010**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Executive:				
Salaries and other emoluments	2,454	2,751	1,741	984
EPF contributions	321	395	248	142
Retirement gratuity	345	58	345	58
	3,120	3,204	2,334	1,184
Non-executive:				
Fee	443	442	174	174
Other emoluments	468	395	461	391
	911	837	635	565
	4,031	4,041	2,969	1,749

13. Income tax expense

Major components of income tax expense

The major components of income tax expense for the years ended 31 December 2011 and 2010 are:

	Group		Company	
	2011	**2010**	**2011**	**2010**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Statement of comprehensive income:				
Current income tax:				
- Malaysian income tax	32,769	32,586	24,602	24,091
- Over provision in respect of previous years	(5,396)	(276)	(5,661)	(278)
	27,373	32,310	18,941	23,813
Deferred income tax (Note 28):				
- Origination and reversal of temporary differences	12,462	(2,172)	12,881	(1,659)
- (Over)/under provision in respect of previous years	(13,884)	(325)	(13,656)	21
	(1,422)	(2,497)	(775)	(1,638)
Section 108 shortfall	-	32	-	-
Income tax expense recognised in profit or loss	25,951	29,845	18,166	22,175

13. Income tax expense (continued)

Reconciliation between tax expense and accounting profit

The reconciliation between tax expense and the product of accounting profit multiplied by the applicable corporate tax rate for the years ended 31 December 2011 and 2010 are as follows:

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Profit before tax	119,719	112,055	91,374	88,022
Tax at Malaysian statutory tax rate of 25% (2010: 25%)	29,930	28,014	22,843	22,005
Adjustments:				
Non-deductible expenses	17,380	2,235	15,163	664
Income not subject to taxation	(2,046)	(453)	(523)	(237)
Benefits from previously unrecognised tax losses and capital allowances	(33)	(262)	-	-
Deferred tax assets not recognised during the year	-	881	-	-
(Over)/under provision in respect of previous year:				
- Current tax	(5,396)	(276)	(5,661)	(278)
- Deferred tax	(13,884)	(325)	(13,656)	21
Section 108 shortfall	-	31	-	-
Income tax expense recognised in profit or loss	25,951	29,845	18,166	22,175

14. Earnings per share

Basic earnings per share amounts are calculated by dividing profit for the year, net of tax, attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the financial year.

14. Earnings per share (continued)

The following tables reflect the profit and share data used in the computation of basic and diluted earnings per share for the years ended 31 December:

	Group	
	2011 RM'000	**2010 RM'000**
Profit net of tax attributable to owner of the Company	93,772	82,346

	Numbers of shares '000	**Numbers of shares (restated) '000**
Weighted average number of ordinary shares for basic earnings per share computation	430,000	388,904
Weighted average number of ordinary shares for diluted earnings per share computation	430,000	430,000

15. Cash and short-term funds

	Group		Company	
	2011 RM'000	**2010 (restated) RM'000**	**2011 RM'000**	**2010 (restated) RM'000**
Cash and bank balances with banks and other financial institutions	8,797	30,407	2,605	8,348
Money at call	5,000	-	5,000	-
	13,797	30,407	7,605	8,348

Cash at banks and money at call earns interest at rates based on daily bank deposit rates.

For the purpose of the statements of cash flows, cash and cash equivalents comprise the following at the reporting date:

	Group		Company	
	2011 RM'000	**2010 (restated) RM'000**	**2011 RM'000**	**2010 (restated) RM'000**
Cash and bank balances with financial institutions	13,797	30,407	7,605	8,348
Deposits and placements with financial institutions maturing within one month (Note 16)	42,117	51,780	30,617	46,580
	55,914	82,187	38,222	54,928

16. Deposits and placements with financial institutions

	Group		Company	
	2011 RM'000	**2010 (restated) RM'000**	**2011 RM'000**	**2010 (restated) RM'000**
Financial institutions:				
Deposits and placements maturing within one month	42,117	51,780	30,617	46,580
Deposits and placements maturing one month or more	11,338	5,405	7,740	1,000
Mudharabah placements	20,951	20,158	20,951	20,158
Deposits and placements pledged with financial institutions for banking facilities	770	1,237	-	-
	75,176	78,580	59,308	67,738

Short-term deposits and placements are made for varying periods of between one day and three months depending on the cash requirements of the Group and the Company, and earns interest at the respective short-term deposit and placement rates.

The average effective interest rate of the Group and of the Company is 3.1% (2010: 2.5%) and 3.2% (2010: 2.7%) per annum respectively.

17. Securities held-for-trading

	Group and Company	
	2011 RM'000	**2010 (restated) RM'000**
At fair value:		
Shares, warrants and loan stocks, quoted in Malaysia	23,612	26,637
Shares, quoted outside Malaysia	3,144	3,397
Total securities held-for-trading	26,756	30,034

18. Securities available-for-sale

	Group		Company	
	2011 RM'000	**2010 (restated) RM'000**	**2011 RM'000**	**2010 (restated) RM'000**
At fair value:				
Shares, quoted in Malaysia	1,877	1,909	1,877	1,909
Unit trust, quoted in Malaysia	5,068	5,265	5,068	5,265
Transferable corporate club membership	200	200	-	-
	7,145	7,374	6,945	7,174
At cost less impairment losses:				
Unquoted shares in Malaysia	909	909	909	909
Total securities available-for-sale	8,054	8,283	7,854	8,083

19. Loans, advances and financing

	Group		Company	
	2011 RM'000	**2010 RM'000**	**2011 RM'000**	**2010 RM'000**
Revolving credits	509,575	506,668	998,426	970,103
Short-term advances	48,616	37,577	53,846	42,822
Term loans	1,948,506	1,858,216	1,948,506	1,858,216
Other loans	22,519	21,722	22,519	21,722
Staff loans	753	918	753	918
	2,529,969	2,425,101	3,024,050	2,893,781
Unearned income	(8)	(10)	(8)	(10)
Gross loans, advances and financing	2,529,961	2,425,091	3,024,042	2,893,771
Less:				
Allowance for impairment:				
Individual	(228,913)	(297,278)	(228,913)	(297,278)
Collective	(23,676)	(42,167)	(23,676)	(42,167)
Net loans, advances and financing	2,277,372	2,085,646	2,771,453	2,554,326

19. Loans, advances and financing (continued)

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

	Company	
	2011 RM'000	2010 RM'000
Revolving credits	488,851	463,435
Short-term advances	5,230	5,245

The weighted average effective interest rate for revolving credits financing granted to the subsidiaries as at 31 December 2011 is 6.07% (2010: 7.46%) 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.

a) Loans, advances and financing analysed by their economic purposes are as follows:

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Real estate and construction	1,543,970	1,402,205	1,543,970	1,402,205
Manufacturing	358,797	340,479	359,085	340,768
Finance, insurance and business services	124,743	155,911	201,107	228,998
Agriculture, mining and quarrying	168,469	122,634	168,469	122,634
Education, health and others	166,404	201,299	178,397	213,284
Electricity, gas and water supply	58,277	56,823	463,713	440,142
Wholesale & retail trade, restaurants	205	539	205	539
Transport, storage and communication	31,796	41,118	31,796	41,118
Others	77,300	104,083	77,300	104,083
Gross loans, advances and financing	2,529,961	2,425,091	3,024,042	2,893,771

19. Loans, advances and financing (continued)

b) The maturity structure of gross loans, advances and financing are as follows:

	Group 2011 RM'000	Group 2010 RM'000	Company 2011 RM'000	Company 2010 RM'000
Maturing within one year	1,674,731	1,590,085	2,168,812	2,058,765
One year to three years	574,264	519,739	574,264	519,739
Three years to five years	176,613	180,392	176,613	180,392
Over five years	104,353	134,875	104,353	134,875
	2,529,961	2,425,091	3,024,042	2,893,771

c) Analysis of gross loans, advances and financing:

	Collectively impaired 2011 RM'000	Collectively impaired 2010 RM'000	Individually impaired 2011 RM'000	Individually impaired 2010 RM'000	Total 2011 RM'000	Total 2010 RM'000
Group						
Loans, advances and financing	2,212,596	2,063,556	317,365	361,535	2,529,961	2,425,091
Less: allowance for impairment	(23,676)	(42,167)	(228,913)	(297,278)	(252,589)	(339,445)
	2,188,920	2,021,389	88,452	64,257	2,277,372	2,085,646
Company						
Loans, advances and financing	2,706,677	2,532,236	317,365	361,535	3,024,042	2,893,771
Less: allowance for impairment	(23,676)	(42,167)	(228,913)	(297,278)	(252,589)	(339,445)
	2,683,001	2,490,069	88,452	64,257	2,771,453	2,554,326

19. Loans, advances and financing (continued)

d) Movements in allowance for impairment of loans, advances and financing are as follows:

	Group and Company 2011 RM'000	2010 RM'000
Collective impairment		
At 1 January	42,167	35,822
Charge for the year	-	8,238
Reversal of impairment losses	(18,491)	(1,893)
At 31 December	23,676	42,167
Individual impairment		
At 1 January	297,278	296,673
Charge for the year	29,203	1,511
Written off	(28,072)	-
Reversal of impairment losses	(69,496)	(906)
At 31 December	228,913	297,278

20. Derivate financial instruments

	Group and Company 2011 RM'000	2010 RM'000
Non-hedging derivatives:		
Current		
Derivative asset:		
Forward currency contract (notional amount of USD310,000)	8	-
Derivative liability:		
Interest rate collar	1,922	1,087

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.

These contracts are not designated as cash flow or fair value hedges. Such derivatives do not qualify for hedge accounting.

During the financial year, the Group recognised a loss of RM827,000 (2010: RM312,000) arising from fair value changes of derivatives instruments. The fair value changes are mainly attributable to changes in foreign exchange spot and forward rate and interest rate. The method and assumptions applied in determining the fair values of derivatives are disclosed in Note 39.

21. Other assets

	Group 2011 RM'000	Group 2010 (restated) RM'000	Company 2011 RM'000	Company 2010 (restated) RM'000
Loans and receivables:				
- Trade receivables	435,661	414,023	-	-
- Amount receivable from the State Government of Sabah	79,734	58,065	-	4,264
- Penalty interest recoverable from the State Government of Sabah	30,000	30,000	-	-
- Interest receivable	1,602	318	1,480	302
- Other receivables	2,608	2,285	7	291
- Deposits	882	1,097	174	174
- Amount receivable from Karamusing Hotel Sdn. Bhd.	49,298	-	-	-
- Redeemable convertible secured loan stocks and redeemable secured loan stocks	23,856	27,204	23,856	27,204
Amounts due from subsidiaries	-	-	338,242	338,423
	623,641	532,992	363,759	370,658
Inventories	1,538	1,890	-	-
Prepaid operating expenses	1,282	1,235	637	414
Payment for investment in Progressive Insurance Berhad	38,652	38,652	38,652	38,652
Other investment	5,402	-	-	-
	670,515	574,769	403,048	409,724

a) Trade receivables

	Group 2011 RM'000	Group 2010 RM'000
Trade receivables	556,661	535,359
Less: Allowance for impairment	(121,000)	(121,336)
	435,661	414,023

At the reporting date, included in the Group's trade receivables is an amount due from the State Government of Sabah for the purchase of bulk water amounting to RM435,650,000 (2010: RM412,684,000), 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.

21. Other assets (continued)

a) Trade receivables (continued)

Other trade receivables are generally on 30 to 90 day terms (2010: 30 to 90 day terms).

Trade receivables are recognised at their original invoice amounts which represent their fair values on initial recognition.

Ageing analysis of trade receivables
The ageing analysis of the Group's trade receivables is as follows:

	Group 2011 RM000	Group 2010 RM000
Neither past due nor impaired	11	434
1 to 30 days past due not impaired	-	223
31 to 60 days past due not impaired	-	123
61 to 90 days past due not impaired	-	-
More than 91 days past due not impaired	-	11
	-	357
Impaired	435,650	413,232
	435,661	414,023

Receivables that are neither past due nor impaired
Trade receivables that are neither past due nor impaired are creditworthy debtors with good payment records with the Group.

None of the Group's trade receivables that are neither past due nor impaired have been renegotiated during the financial year.

Receivables that are past due but not impaired
The Group has trade receivables amounting to nil (2010: RM357,000) that are past due at the reporting date but not impaired.

At the reporting date, the receivables that are past due but not impaired are unsecured in nature.

21. Other assets (continued)

a) Trade receivables (continued)

Receivables that are impaired
The Group's and the Company's trade receivables that are impaired at the reporting date and the movement of the allowance accounts used to record the impairment are as follows:

	Collectively impaired		Individually impaired		Total	
	2011 RM'000	**2010 RM'000**	**2011 RM'000**	**2010 RM'000**	**2011 RM'000**	**2010 RM'000**
Group						
Trade receivables - nominal amounts	-	884	556,650	533,684	556,650	534,568
Less: Allowances for impairment	-	(336)	(121,000)	(121,000)	(121,000)	(121,336)
	-	548	435,650	412,684	435,650	413,232

Movement in the allowance accounts:

	Group	
	2011 RM'000	**2010 RM'000**
At 1 January	121,336	121,284
Charge for the year	114	52
Deemed disposal of subsidiary	(450)	-
At 31 December	121,000	121,336

Trade receivables that are individually determined to be impaired at the reporting date relate to debtors that are in significant financial difficulties and have defaulted on payments. These receivables are not secured by any collateral or credit enhancements.

b) Amount receivable from the State Government of Sabah

This represents fair value of penalty interest receivable from the State Government of Sabah recognised upon acquisition of subsidiaries in 2005.

21. Other assets (continued)

c) Inventories

	Group 2011 RM'000	Group 2010 RM'000
Cost		
Chemicals	760	933
Spare parts	172	151
Food and beverage	-	108
Stationery and general supplies	-	40
Islamic Gold Dinar	5	5
	937	1,237
Net realisable value		
Spare parts	601	653
	1,538	1,890

e) Redeemable convertible secured loan stocks and redeemable secured loan stocks

	Group and Company 2011 RM'000	Group and Company 2010 RM'000
Nominal amounts	32,659	33,396
Less: Allowance for impairment	(8,803)	(6,192)
	23,856	27,204

Movement in the allowance accounts:

	2011 RM'000	2010 RM'000
At 1 January	6,192	8,578
Charge for the year	2,611	(2,386)
At 31 December	8,803	6,192

e) Payment for investment in Progressive Insurance Berhad

This represents payment made to the State Government of Sabah for the investement in 38.7% equity interest in Progressive Insurance Berhad.

f) Amounts due from subsidiaries

These amounts are unsecured, non-interest bearing and are repayable upon demand.

g) Other investment

This represents the investment in Karamunsing Hotel Sdn. Bhd. (Note 24).

22. Properties held-for-sale

	Group		Company	
	2011 RM'000	**2010 (restated) RM'000**	**2011 RM'000**	**2010 RM'000**
Long-term leasehold land	50,998	51,405	50,998	50,998

The Company has entered into a Sale and Purchase Agreement with a purchaser to dispose of a parcel of long term leasehold land of the Company for a consideration of RM55,000,000. The Company would delivery the vacant possession of the said land upon full settlement of the consideration. As at 31 December 2011, the purchaser has paid amounts totaling RM45,000,000 (2010: RM40,000,000).The balance unpaid sum amounting to RM10,000,000 (2010: 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 2013.

Included in the Group's long term leasehold land held for sale as at 31 December 2010 was an amount of RM407,000 relating to a parcel of land which was subsequently disposed of in 2011.

23. Investment properties

	Freehold land RM'000	**Long term leasehold land RM'000**	**Total RM'000**
Group			
At cost			
At 1 January 2010	5,927	29,804	35,731
Reclassified as held for sale	-	(407)	(407)
At 31 December 2010 and 1 January 2011	5,927	29,397	35,324
Addition	-	-	-
At 31 December 2011	5,927	29,397	35,324
Accumulated depreciation and impairment			
At 1 January 2010	-	14,747	14,747
Depreciation for the year	-	93	93
At 31 December 2010 and 1 January 2011	-	14,840	14,840
Depreciation for the year	-	191	191
At 31 December 2011	-	15,031	15,031

23. Investment properties (continued)

	Freehold land RM'000	Long term leasehold land RM'000	Total RM'000
Net carrying amount			
At 31 December 2010	5,927	14,557	20,484
At 31 December 2011	5,927	14,366	20,293

	Long term leasehold land RM'000	Total RM'000
Company		
At cost		
At 1 January 2010 and 31 December 2010/ 1 January 2011 and 31 December 2011	2,050	2,050
Accumulated depreciation		
At 1 January 2010	77	77
Depreciation for the year	27	27
At 31 December 2010 and 1 January 2011	104	104
Depreciation for the year	27	27
At 31 December 2011	131	131
Net carrying amount		
At 31 December 2010	1,946	1,946
At 31 December 2011	1,919	1,919

These mainly represent properties acquired by the Group at public auctions conducted in connection with foreclosure proceedings initiated by the Company in its loan recovery exercise. The Group intends to dispose of these properties in due course.

Seven parcels of freehold land with a total carrying amount of RM5,927,202 (2010: RM5,927,202) are registered in the name of a director of the Group and a third party who are holding them in trust for the Group.

As of 31 December 2011, a parcel of long term leasehold land with a carrying amount of RM6,902,777 (2010: RM7,000,000) is in the process of being registered in the name of the subsidiary.

23. Investment properties (continued)

As of 31 December 2011, the land title of a parcel of long term leasehold land of the Company with net carrying amount of RM188,000 (2010: RM188,000) is yet to be registered in the name of Company as the said land was pending sub-division of master title.

24. Investment in subsidiaries

	Company 2011 RM'000	Company 2010 RM'000
Unquoted shares – at costs	4,438	4,420
Discounts on loans to a subsidiary	8,014	4,853
	12,452	9,273

Name	Country of incorporation	Proportion (%) of ownership interest 2011 %	2010 %	Principal activities
Held by the Company				
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
Held through Sedia Usaha Sdn. Bhd.				
Kota Kinabalu Water Sdn. Bhd.	Malaysia	100	100	Investment holding
Karamunsing Hotel Sdn. Bhd.	Malaysia	-	100	Hotel business

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24. Investment in subsidiaries (continued)

Name	Country of incorporation	Proportion (%) of ownership interest 2011	2010	Principal activities
Held through Kota Kinabalu Water Sdn. Bhd.				
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

All of the above subsidiaries are audited by Ernst & Young, Malaysia

Deemed disposal of a subsidiary

A subsidiary, Sedia Usaha Sdn. Bhd. has entered into the Option to Purchase Shares Agreement with Tung Fong Hotel (SDK) Sdn. Bhd. ("Tung Fong") on 2 September 2011. Based on the agreement, the subsidiary is granting an option to Tung Fong for the purchase of the entire equity interest in its subsidiary, Karamunsing Hotel Sdn. Bhd., which comprise 41,500,000 ordinary shares of RM1 each for a consideration of RM54 million. Shareholders' advances made by the subsidiary to the subsidiary shall be deemed to be wholly satisfied upon completion. Tung Fong may exercise the option by written notice within five years from the date of the agreement. Pursuant to the Option to Purchase Shares Agreement, Tung Fung was appointed as the operator of the subsidiary's hotel with complete and full control in the operation, direction and management of its business by the execution of the Hotel Management Agreement on 2 September 2011 between Tung Fong and the subsidiary. As such, the subsidiary has been deemed disposed of. The investment is then classified as other investment (Note 21(g)).

The deemed disposal had the following effects on the financial position of the Group as at the end of the year:

	2011 RM'000	2010 RM'000
Property, plant and equipment	44,856	45,612
Inventories	125	147
Trade and other receivables	2,334	1,776
Cash and bank balances	2,477	2,713
Trade and other payables	(50,442)	(46,720)
Net (liabilities)/assets disposed	(650)	3,528
Total disposal proceeds	(5,402)	
Gain on disposal to the Group	(6,052)	

24. Investment in subsidiaries (continued)

	2011 RM'000
Disposal proceeds settled by:	
Total consideration as per agreement	54,000
Less: Amount due from Karamunsing Hotel Sdn. Bhd. to Sedia Usaha Sdn. Bhd.	(48,598)
Cash consideration	5,402
Cash inflow arising on disposals:	
Cash consideration to be received upon exercise of option	5,402
Cash and cash equivalents of subsidiary deemed disposed	(2,477)
Net cash inflow on deemed disposal	2,925

25. Investment in associates

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Unquoted shares, at costs	900	900	900	900
Share of post-acquisition reserves	(900)	(900)	-	-
Less: Accumulated impairment losses	-	-	(900)	(900)
	-*	-*	-*	-*

* Denotes amount less than RM1,000.

Name	Country of incorporation	Proportion of ownership interest 2011 %	Proportion of ownership interest 2010 %	Principal activities
Held by the Company				
Asal Baru Sdn. Bhd.^	Malaysia	33.33	33.33	Property management and related services

^ Audited by a firm other than Ernst & Young

The Group has not recognised losses relating to Asal Baru Sdn. Bhd. where its share of losses exceeds the Group's interest in this associate. The Group's cumulative share of unrecognised losses at the reporting date was RM1,130,000 (2010: RM1,234,000), of which RM104,000 (2010: 119,000) was the share of current year's profit. The Group has no obligation in respect of these losses.

The summarised financial information of the associate, not adjusted for the proportion of ownership interest held by the Group, is as follows:

25. Investment in associates (continued)

	2011 RM'000	2010 RM'000
Assets and liabilities		
Total assets	1,771	1,728
Total liabilities	2,462	2,730
Results		
Revenue	1,380	1,343
Profit for the year	311	356

26. Intangible asset

	Group	
	2011 RM'000	2010 RM'000
Water concession rights, at cost		
At 1 January/31 December	214,846	214,846
Accumulated amortisation:		
At 1 January	116,850	112,396
Amortisation for the year (Note 7)	4,454	4,454
At 31 December	121,304	116,850
	93,542	97,996

Water concession rights are in respect of the service concession arrangement entered by a subsidiary, Jetama Sdn. Bhd., with the State Government of Sabah.

The subsidiary has been awarded a Concession for a period of 20 years from 5 June 1993. This Concession entails the operation, maintenance and management of the existing water production facilities owned by the State Government of Sabah 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 State Government of Sabah within the designated Concession Area.

At the end of the Concession period, the subsidiary's rights over the plant and equipment installed and constructed will be relinquished and returned to the State Government of Sabah at nominal value. The length of the concession period is 20 years.

The concession period has been extended for a further twenty years from the existing concession that ends on 4 June 2013; the supplement agreement for the extension is pending signature.

27. Property, plant and equipment

	Leasehold land RM'000	Hotel building RM'000	Leasehold improvements and office renovation RM'000	Motor vehicles RM'000	Office equipment and furniture RM'000	Computer equipment RM'000	Plant and equipment RM'000	Kitchen equipment RM'000	Total RM'000
Group									
Cost:									
At 1 January 2010	1,732	42,000	2,123	4,056	7,573	1,159	12,552	2,281	73,476
Additions	-	8	3	562	159	37	447	33	1,249
Disposals	-	-	-	(300)	(94)	(134)	(210)	-	(738)
At 31 December 2010	1,732	42,008	2,126	4,318	7,638	1,062	12,789	2,314	73,987
Additions	-	213		2,077	410	59	2,275	64	5,098
Disposals	-	-	-	(416)	(7)	(34)	-	-	(457)
Disposal of subsidiary	(1,732)	(42,221)	(3)	(268)	(5,722)	-	-	(2,378)	(52,324)
At 31 December 2011	-	-	2,123	5,711	2,319	1,087	15,064	-	26,304
Accumulated depreciation:									
At 1 January 2010	49	-	2,016	3,421	6,686	944	4,768	1	17,885
Depreciation charge for the year (Note 10)	24	920	52	412	230	112	548	5	2,303
Disposals	-	-	-	(300)	(94)	(134)	(210)	-	(738)
At 31 December 2010	73	920	2,068	3,533	6,822	922	5,106	6	19,450
Depreciation charge for the year (Note 10)	24	924	16	519	231	77	720	464	2,975
Disposals	-	-	-	(416)	(7)	(34)	-	-	(457)
Disposal of subsidiary	(97)	(1,844)	-	(200)	(4,857)	-	-	(470)	(7,468)
At 31 December 2011	-	-	2,084	3,436	2,189	965	5,826	-	14,500

27. Property, plant and equipment (continued)

	Leasehold land RM'000	Hotel building RM'000	Leasehold improvements and office renovation RM'000	Motor vehicles RM'000	Office equipment and furniture RM'000	Computer equipment RM'000	Plant and equipment RM'000	Kitchen equipment RM'000	Total RM'000
Group (continued)									
Net carrying amount:									
At 31 December 2010	1,659	41,088	58	785	816	140	7,683	2,308	54,537
At 31 December 2011	-	-	39	2,275	130	122	9,238	-	11,804

27. Property, plant and equipment (continued)

	Leasehold improvements RM'000	Motor vehicles RM'000	Office equipment and furniture RM'000	Computer equipment RM'000	Total RM'000
Company					
Cost:					
At 1 January 2010	2,042	1,105	1,434	1,010	5,591
Additions	-	-	10	30	40
Disposals	-	-	(18)	(135)	(153)
At 31 December 2010	2,042	1,105	1,426	905	5,478
Reclassification	-	-	(13)	13	-
Additions	-	1,089	19	39	1,147
Disposals	-	(252)	(5)	(34)	(291)
At 31 December 2011	2,042	1,942	1,427	923	6,334
Accumulated depreciation:					
At 1 January 2010	2,005	911	1,397	823	5,136
Depreciation charge for the year (Note 10)	36	134	24	102	296
Disposals	-	-	(18)	(135)	(153)
At 31 December 2010	2,041	1,045	1,403	790	5,279
Reclassification	-	-	(13)	13	-
Depreciation charge for the year (Note 10)	-	201	13	63	277
Disposals	-	(252)	(5)	(34)	(291)
At 31 December 2011	2,041	994	1,398	832	5,265
Net carrying amount:					
At 31 December 2010	1	60	23	115	199
At 31 December 2011	1	948	29	91	1,069

28. Deferred tax

Deferred income tax as at 31 December relates to the following:

	As at 1 January 2010 RM'000	Recognised in profit or loss RM'000	As at 31 December 2010 RM'000	Recognised in profit or loss RM'000	Recognised in equity RM'000	As at 31 December 2011 RM'000
Group						
Deferred tax liabilities:						
Intangible	(21,530)	943	(20,587)	944	-	(19,643)
Property, plant and equipment	(1,572)	(84)	(1,656)	(297)	-	(1,953)
	(23,102)	859	(22,243)	647	-	(21,596)
Deferred tax assets:						
Loans, advances and financing	8,955	1,587	10,542	(4,623)	-	5,919
Held-for-trading securities	-	-	-	991	-	991
Available-for-sale securities	-	-	-	2,721	768	3,489
Derivative financial instruments	-	-	-	478	-	478
Other receivables	22,750	-	22,750	-	-	22,750
Property, plant and equipment	43	(8)	35	(29)	-	6
Other liabilities	-	-	-	627	-	627
Defined benefit obligations	972	59	1,031	610	-	1,641
	32,720	1,638	34,358	775	768	35,901
	9,618	2,497	12,115	1,422	768	14,305

28. Deferred tax (continued)

Deferred income tax as at 31 December relates to the following:

	As at 1 January 2010 RM'000	Recognised in profit or loss RM'000	As at 31 December 2010 RM'000	Recognised in profit or loss RM'000	Recognised in equity RM'000	As at 31 December 2011 RM'000
Company						
Deferred tax assets:						
Loans, advances and financing	8,955	1,587	10,542	(4,623)	-	5,919
Property, plant and equipment	43	(8)	35	(29)	-	6
Held-for-trading securities	-	-	-	991	-	991
Available-for-sale securities	-	-	-	2,721	768	3,489
Derivative financial instruments	-	-	-	478	-	478
Other liabilities	-	-	-	627	-	627
Defined benefit obligations	972	59	1,031	610	-	1,641
	9,970	1,638	11,608	775	768	13,151

28. Deferred tax (continued)

Presented after appropriate offsetting as follows:

	Group		Company	
	2011 RM'000	**2010 (restated) RM'000**	**2011 RM'000**	**2010 (restated) RM'000**
Deferred tax assets	16,221	13,741	13,151	11,608
Deferred tax liabilities	(1,916)	(1,626)	-	-
	14,305	12,115	13,151	11,608
Unutilised tax losses and unabsorbed capital allowances	2,101	50,548	-	-
Temporary differences arising from property, plant and equipment	-	(17,980)	-	-
	2,101	32,568	-	-

Unrecognised temporary differences
At the reporting date, the Group has unutilised tax losses and unabsorbed capital allowances that are available for offset against future taxable profits of the companies in which the losses arose, for which no deferred tax assets are recognised due to uncertainty of its recoverability.

The availability of unused tax losses and unabsorbed capital allowances for offsetting against future taxable profits of the respective subsidiaries are subject to no substantial changes in shareholdings of those subsidiaries under the Income Tax Act, 1967 and guidelines issued by the tax authority.

29. Deposits from customers

	Group		Company	
	2011	**2010**	**2011**	**2010**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Fixed deposits	1,071,542	1,147,172	1,080,787	1,152,780

The maturity structure of fixed deposits is as follows:

	Group		Company	
	2011	**2010**	**2011**	**2010**
	RM'000	**RM'000**	**RM'000**	**RM'000**
One year or less	521,542	597,172	530,787	602,780
More than one year	550,000	550,000	550,000	550,000
	1,071,542	1,147,172	1,080,787	1,152,780

The deposits are sourced from the following types of customers:

	Group		Company	
	2011	**2010**	**2011**	**2010**
	RM'000	**RM'000**	**RM'000**	**RM'000**
State Government of Sabah	980,018	1,060,018	980,018	1,060,018
Government-owned enterprises	71,364	67,723	71,364	67,723
Statutory authorities	18,871	18,343	18,871	18,343
Subsidiaries	-	-	9,245	5,608
Associate	1,289	1,088	1,289	1,088
	1,071,542	1,147,172	1,080,787	1,152,780

30. Borrowings

	Group and Company 2011 RM'000	2010 RM'000
Unsecured:		
Non-current		
Medium Term Notes:		
- Y2011 CP/MTN Programmes	420,000	-
- Y2008 CP/MTN Programmes	360,000	60,000
	780,000	60,000
Current		
Medium Term Notes - Y2008 CP/MTN Programmes	290,000	290,000
Commercial Papers – Y2008 CP/MTN Programme	350,000	360,000
Revolving credits	93,000	197,000
RM 5-year bonds	-	380,000
	733,000	1,227,000
Total borrowings	1,513,000	1,287,000

<u>RM1,000 million MTN Programme (within line, RM500 million CP Programme ("Y2008 CP/MTN Programme")</u>

In February 2008, the Company established a RM500 million nominal value Commercial Papers ("CP") Programme and RM1,000 million nominal value Medium Term Notes ("MTN") Programme with the aggregate outstanding of CP and/or MTN not exceeding RM1,000 million in nominal value at any point in time. Under these programme, the Company may from time to time issue notes in series or tranches, denominated in RM.

As at 31 December 2011, the MTN issued under this programme due from 2012 to 2018 (2010: 2012 to 2018) and bear fixed interest rates ranging from 3.88% to 5.25% (2010: 3.90% to 5.25%) per annum.

As at 31 December 2011, these CP bear interest at rates ranging from 3.41% to 3.60% (2010: 3.09% to 3.25%) per annum and have maturity period of less than one month (2010: less than one month).

30. Borrowings (continued)

RM1,000 million MTN Programme (within line, RM1,000 million CP Programme) ("Y2011 CP/MTN Programme")

In January 2011, the Company established a RM1,000 million nominal value Commercial Papers Programme and RM1,000 million nominal value MTN Programme with the aggregate outstanding of CP and/or MTN not exceeding RM1,000 million in nominal value at any point in time. Under these programmes, the Company may from time to time issue notes in series or tranches, denominated in RM.

During the financial year, the Company issued RM420 million MTN under this programme.

As at 31 December 2011, MTN issued under this programme due from 2016 to 2018 and bear interest ranging from 4.43% to 4.75% per annum.

Revolving credits
As at 31 December 2011, revolving credits facilities bear interest at 3.32% (2010: 2.75%). The revolving credits facilities have maturity of less than one month (2010: less than one month).

RM380 million Non-convertible Redeemable Unsecured Fixed Rate Bonds
The bonds, which bore interest at 6.2% were redeemed by the Company upon the maturity during the financial year.

31. Other liabilities

	Group		Company	
	2011 RM'000	2010 (restated) RM'000	2011 RM'000	2010 RM'000
Amount due to holding entity	407	32,594	407	32,594
Amount due to subsidiary	-	-	350	-
Amounts due to directors	379	879	-	-
Amount due to minority shareholder	115	115	-	-
Trade payables	2,356	2,809	-	-
Interest payable	30,344	27,907	30,344	27,907
Other payables	3,378	6,270	433	3,469
Deposits	46,564	42,999	46,555	42,956
Accrued expenses	4,030	4,295	2,924	2,351
	87,573	117,868	81,013	109,277

a) Amounts due to related parties
These amounts are unsecured, non-interest bearing and are repayable upon demand.

b) Trade payables
These amounts are non-interest bearing. Trade payables are normally settled on 30-day to 60-day terms (2010: 30-day to 60-day) terms.

c) Other payables
Other payables are non-interest bearing. Other payables are normally settled on 30-day to 60-day (2010: 30-day to 60-day) terms.

d) Deposits
Included in deposits of the Group and of the Company is an amount of RM45,000,000 (2010: RM40,000,000) which represents deposits received from the purchaser of the long term leasehold land of the Company (Note 22).

e) Accrued expenses
Included in accrued expenses of the Group and of the Company are vacation and outfit allowances for directors of RM1,069,000 (2010: RM832,000).

32. Defined benefit obligations

	Group and Company 2011 RM'000	2010 RM'000
At 1 January	4,123	3,802
Current service costs	2,883	379
Benefits paid	(442)	(58)
At 31 December	6,564	4,123

The Company operates a unfunded defined benefit retirement plan. The benefit plan become vested after ten years of service. The costs of defined benefit plan are determined based on employees' basic salary and the number of completed years of service. No actuarial valuation has been conducted on the defined benefit plan as the directors consider the discounting effects of defined benefit obligations and any actuarial gains or losses to be insignificant to the Company.

33. Share capital

	Number of ordinary shares of RM1 each		Amount	
	2011	**2010**	**2011**	**2010**
	'000	**'000**	**RM'000**	**RM'000**
Issued and fully paid				
At 1 January	430,000	380,000	430,000	380,000
Exercise of conversion option of RCNCPS	-	50,000	-	50,000
At 31 December	430,000	430,000	430,000	430,000
Authorised				
At 1 January	430,000	380,000	430,000	380,000
Created during the year	-	50,000	-	50,000
At 31 December	430,000	430,000	430,000	430,000

	Number of 3% RCNCPS of RM1 each		Amount	
	2011	**2010**	**2011**	**2010**
	'000	**'000**	**RM'000**	**RM'000**
Issued and fully paid				
At 1 January	-	50,000	-	50,000
Exercise of conversion option	-	(50,000)	-	(50,000)
At 31 December		-	-	-
Authorised				
At 1 January	-	50,000	-	50,000
Exercise of conversion option	-	(50,000)	-	(50,000)
At 31 December	-	-	-	-

In previous financial year, the shareholder of the Company converted the 50,000,000 3% redeemable convertible non-cumulative preference shares ("RCNCPS") of RM1 each to 50,000,000 ordinary shares of RM1 each. The new ordinary shares rank in all respects pari passu in all respects with the existing ordinary shares of the Company.

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions and rank equally with regard to the Company residual assets.

34. Fair value adjustment reserve

	Group		Company	
	2011 RM'000	**2010 RM'000**	**2011 RM'000**	**2010 RM'000**
At 1 January				
Other comprehensive income:	2,205	24	2,107	24
Available-for-sales financial assets:				
(Loss)/gain on fair value changes	(5,428)	2,181	(5,428)	2,083
Transfer to profit or loss upon disposal	248	-	248	-
Income tax relating to components of other comprehensive income	768	-	768	-
At 31 December	(2,207)	2,205	(2,305)	2,107

Fair value adjustment reserve represents the cumulative fair value changes, net of tax, of available-for-sale financial assets until they are disposed of or impaired.

35. Retained earnings

Prior to the year of assessment 2008, Malaysian companies adopted the full imputation system. In accordance with the Finance Act 2007 which was gazetted on 28 December 2007, companies shall not be entitled to deduct tax on dividend paid, credited or distributed to its shareholders, and such dividends will be exempted from tax in the hands of the shareholders ("single tier system"). However, there is a transitional period of six years, expiring on 31 December 2013, to allow companies to pay franked dividends to their shareholders under limited circumstances. Companies also have an irrevocable option to disregard the 108 balance and opt to pay dividends under the single tier system. This change in the tax legislation also provides for the 108 balance to be locked-in as at 31 December 2007 in accordance with Section 39 of the Finance Act 2007.

The Company did not elect for the irrevocable option to disregard the 108 balance. Accordingly, during the transitional period, the Company may utilise the credit in the 108 balance as at 31 December 2011 and 2010 to distribute cash dividend payments to ordinary shareholdings as defined under the Finance Act 2007. As at 31 December 2011 and 2010, the Company has sufficient credit in the 108 balance to pay franked dividends out of its entire retained earnings.

As at 31 December 2011, the Company has sufficient balance in the tax exempt income account to pay franked dividends amounting to RM436,000 out of its retained earnings (2010: RM436,000).

36. Related party transactions

a) Sale and purchase of services

In addition to the related party information disclosed detailed elsewhere in the financial statements, the following significant transactions between the Group and related parties took place at terms agreed between the parties during the financial year:

	Group		Company	
	2011 RM'000	**2010 RM'000**	**2011 RM'000**	**2010 RM'000**
Sale of bulk water and services rendered to holding entity	61,377	60,669	-	-
Interest paid to:				
- holding entity	39,763	39,517	39,763	39,517
- subsidiaries	-	-	243	155
- an associate	40	20	40	20
Interest received from subsidiaries	-	-	29,963	29,356
Other fee income received from a subsidiary	-	-	-	22
Reimbursement of interest incurred by a subsidiary	29,182	23,887	-	-
Other income received from holding entity	-	2,609	-	2,609
Service fee paid to an associate	127	127	127	127
Rental expense paid to holding entity	503	503	433	453

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

b) Compensation of key management personnel

	Group		Company	
	2011 RM'000	**2010 RM'000**	**2011 RM'000**	**2010 RM'000**
Short-term employee benefits	3,937	3,170	2,376	1,549
EPF contributions	374	445	248	141
Other short term benefits	345	58	345	58
Commissions	-	1,116	-	-
	4,656	4,789	2,969	1,748

37 Lease commitments

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

	Group		Company	
	2011 RM'000	**2010 RM'000**	**2011 RM'000**	**2010 RM'000**
Future minimum lease payments:				
Not later than one year	349	537	217	448
Later than one year and not later than five years	159	230	-	217
	508	767	217	665
Future minimum lease receivable:				
Not later than one year	90	158	-	-
Later than one year and not later than five years	-	90	-	-
	90	248	-	-

38. 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:

	Group		Company	
	2011 RM'000	**2010 RM'000**	**2011 RM'000**	**2010 RM'000**
Capital expenditure:				
Approved and contracted for	3,016	4,233	106	112
Approved but not contracted for	8,432	-	-	-
Irrevocable commitments to extend credit with maturity exceeding one year	1,038,002	783,687	1,038,002	783,687
Guarantees issued	239,666	231,484	239,666	231,484
	1,289,116	1,019,404	1,277,774	1,015,283

39. Fair value of financial instruments

A. Fair value of financial instruments that are carried at fair value

The following table show an analysis of financial instrument carried at fair value by level of fair value hierarchy:

	Group			
	Level 1 RM'000	**Level 2 RM'000**	**Level 3 RM'000**	**Total RM'000**
Assets				
Securities held-for-trading				
- 2011	26,756	-	-	26,756
- 2010	30,034	-	-	30,034
Securities available-for-sale				
- 2011	8,054	-	-	8,054
- 2010	8,283	-	-	8,283
Derivative assets				
- 2011	34,810	8	-	34,818
- 2010	38,317	-	-	38,317
Liabilities				
Derivative liabilities				
- 2011	-	1,922	-	1,922
- 2010	-	1,087	-	1,087

Fair value hierarchy

The Group classifies fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy have the following levels:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities,

- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There has been no transfer from Level 1 and Level 2 to Level 3 for the financial years ended 31 December 2011 and 2010.

39. Fair value of financial instruments

B. Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value

	Note	2011 Carrying amount RM'000	2011 Fair value RM'000	2010 Carrying amount RM'000	2010 Fair value RM'000
Financial assets:					
Redeemable convertible secured loan stocks and redeemable secured loan stocks	21	23,856	#	27,204	#
Borrowings (non-current)	30	780,000	780,000	60,000	60,000

* Fair value information has not been disclosed for this financial instrument because fair value cannot be measured reliably.

Determination of fair value

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.

C. Fair value of financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value

The following are classes of financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value:

	Note
Cash and short-term funds	15
Deposits and placements with financial institutions	16
Loans, advances and financing	19
Other assets	21
Deposits from customers	29
Borrowings (current)	30
Other liabilities	31

The carrying amounts of these financial assets and liabilities are reasonable approximation of fair values either due to their short-term nature or that they are floating rate instruments that are re-priced to market interest rates on/or near the reporting date.

40. 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 or mitigate losses and assist the management and the directors to steer the Group and the Company in line with the regulatory requirements in Malaysia.

The Group and the Company are exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk, interest rate risk and market price risk.

The Board of Directors reviews and agrees policies and procedures for the management of these risks, which are executed by the officers appointed by the management. The audit committee provides independent oversight to the effectiveness of the risk management process.

The following sections provide details regarding the Group's and the Company's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

40. Financial risk management objectives and policies (continued)

a) Financial instrument by category

	Group		Company	
	2011 RM'000	**2010 RM'000**	**2011 RM'000**	**2010 RM'000**
Financial assets				
Financial assets at fair value through profit or loss:				
- Securities held-for-trading	26,756	30,034	26,756	30,034
- Derivative assets	8	-	8	-
Loans and receivables:				
- Cash and short-term funds	13,797	30,407	7,605	8,348
- Deposits and placements with financial institutions	75,176	78,580	59,308	67,738
- Loans, advances and financing	2,277,372	2,085,646	2,771,453	2,554,326
Other assets	670,515	574,769	403,049	409,724
Available for sale financial assets				
Securities available-for-sale	8,054	8,283	7,854	8,083
Financial liabilities				
Financial liabilities held for trading				
Derivative liabilities	1,922	1,087	1,922	1,087
Other financial liabilities				
Deposits from customers	1,071,542	1,147,172	1,080,787	1,152,780
Borrowings	1,513,000	1,287,000	1,513,000	1,287,000
Other liabilities	87,573	117,868	81,013	109,277

40. Financial risk management objectives and policies (continued)

b) Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's and the Company's exposure to credit risk arises primarily from lending, trade finance, investments and other credit-related activities undertaken by the Group and the Company. For other financial assets (including investment securities, cash and bank balances, and derivatives), the Group and the Company minimise credit risk by dealing exclusively with high credit rating counterparties.

The Group's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure.

The Group'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.

<u>Exposure to credit risk</u>

At the reporting date, the Group's and the Company's maximum exposure to credit risk is represented by:

- the carrying amount of each class of financial assets recognised in the statements of financial position, including derivatives with positive fair values and
- guarantees issued in favour of customers.

The following analysis represents the Group's and the Company's maximum exposure to credit risk of on-balance sheet financial assets and off-balance sheet exposure, without taking into account of any collateral held or other credit enhancements. For on-balance sheet financial assets, the exposure to credit risk equals their carrying amount. For off-balance sheet exposures, 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 and/or the full amount of the undrawn credit facilities granted to customers.

40. Financial risk management objectives and policies (continued)

b) Credit risk (continued)

	Group		Company	
	2011 RM'000	**2010 RM'000**	**2011 RM'000**	**2010 RM'000**
Credit exposures for on-balance sheet assets:				
Cash and short term funds – money at call	13,797	30,407	7,605	8,348
Deposits and placements with financial institutions	75,176	78,580	59,308	67,738
Securities held-for-trading	26,756	30,034	26,756	30,034
Securities held-for sale	8,054	8,283	7,854	8,083
Loans, advances and financing	2,277,372	2,085,646	2,771,453	2,554,326
Other assets – loans and receivables	623,641	532,992	363,759	370,658
	3,024,796	2,765,942	3,236,735	3,039,187
Credit exposure for off-balance sheet items:				
Irrevocable commitments to extend credit	1,038,002	783,687	1,038,002	783,687
Guarantees issued	239,666	231,484	239,666	231,484
	1,277,668	1,015,171	1,277,668	1,015,171
Total maximum credit risk exposure	4,302,464	3,781,113	4,514,403	4,054,358

The financial effect of collateral (quantification of the extent to which collateral and other credit enhancements mitigate credit risk) held for loans, advances and financing for the Group and the Company is at 208% and 171% as at 31 December 2011. The financial effect of collateral held for other financial assets is not significant.

40. Financial risk management objectives and policies (continued)

b) Credit risk (continued)

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 types 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 vehicles financed

c) Liquidity risk

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's and the Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities.

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.

40. Financial risk management objectives and policies (continued)

c) Liquidity risk (continued)

Analysis of financial instruments by remaining contractual maturities

The table below summarises the maturity profile of the Group's and the Company's financial assets and financial liabilities at the reporting date based on remaining contractual maturities.

2011	Less than 1 year RM'000	More than 1 and less than 2 years RM'000	More than 2 and less than 5 years RM'000	More than 5 years RM'000	Total RM'000
Group					
Financial assets:					
Cash and short-term funds	13,797	-	-	-	13,797
Deposits and placements with financial institutions	74,406	-	-	770	75,176
Securities held-for-trading	26,756	-	-	-	26,756
Securities available-for-sale	-	-	-	8,054	8,054
Loans, advances and financing	1,430,545	568,392	174,934	103,501	2,277,372
Derivative assets	8	-	-	-	8
Other assets	273,184	109,668	19,633	221,156	623,641
	1,818,696	678,060	194,567	333,481	3,024,804
Financial liabilities:					
Other liabilities	40,563	45,670	1,340	-	87,573
Deposits from customers	521,542	-	550,000	-	1,071,542
Borrowings	733,000	-	30,000	750,000	1,513,000
Derivative liabilities	-	1,922	-	-	1,922
	1,295,105	47,592	581,340	750,000	2,674,037
	523,591	630,468	(386,773)	(416,519)	350,767

40. Financial risk management objectives and policies (continued)

c) Liquidity risk (continued)

Analysis of financial instruments by remaining contractual maturities (continued)

2010	**Less than 1 year RM'000**	**More than 1 and less than 2 years RM'000**	**More than 2 and less than 5 years RM'000**	**More than 5 years RM'000**	**Total RM'000**
Group					
Financial assets:					
Cash and short-term funds	30,407	-	-	-	30,407
Deposits and placements with financial institutions	77,343	-	-	1,237	78,580
Securities held-for-trading	30,034	-	-	-	30,034
Securities available-for-sale	-	-	-	8,283	8,283
Loans, advances and financing	1,269,071	228,469	456,939	131,167	2,085,646
Derivative assets	-	-	-	-	-
Other assets	243,803	109,668	19,633	159,888	532,992
	1,650,658	338,137	476,572	300,575	2,765,942
Financial liabilities:					
Other liabilities	75,965	40,570	1,139	194	117,868
Deposits from customers	597,172	-	550,000	-	1,147,172
Borrowings	1,227,000	-	15,000	45,000	1,287,000
Derivatives liabilities	-	-	1,087	-	1,087
	1,900,137	40,570	567,226	45,194	2,553,127
	(249,479)	297,567	(90,654)	255,381	212,815

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40. Financial risk management objectives and policies (continued)

c) Liquidity risk (continued)

Analysis of financial instruments by remaining contractual maturities (continued)

2011	Less than 1 month RM'000	1-3 months RM'000	3 months to 1 year RM'000	1-5 years RM'000	More than 5 years RM'000	Total RM'000
Company						
Financial assets:						
Cash and short-term funds	7,605	-	-	-	-	7,605
Deposits and placements with financial institutions	37,707	350	21,251	-	-	59,308
Securities held-for-trading	26,756	-	-	-	-	26,756
Securities available-for-sale	-	-	-	-	7,854	7,854
Loans, advances and financing	1,080,741	33	842,268	744,717	103,694	2,771,453
Derivative assets	-	8	-	-	-	8
Other assets	363,759	-	-	-	-	363,759
	1,516,568	391	863,519	744,717	111,548	3,236,743
Financial liabilities:						
Other liabilities	11,463	12,677	9,863	47,010	-	81,013
Deposits from customers	87,224	88,000	355,563	550,000	-	1,080,787
Borrowings	168,000	275,000	290,000	30,000	750,000	1,513,000
Derivative liabilities	-	-	-	1,922	-	1,922
	266,687	375,677	655,426	628,932	750,000	2,676,722
	1,249,881	(375,286)	208,093	115,785	(638,452)	560,021

40. Financial risk management objectives and policies (continued)

c) Liquidity risk (continued)

Analysis of financial instruments by remaining contractual maturities (continued)

2010	**Less than 1 month RM'000**	**1-3 months RM'000**	**3 months to 1 year RM'000**	**1-5 years RM'000**	**More than 5 years RM'000**	**Total RM'000**
Company						
Financial assets:						
Cash and short-term funds	8,348	-	-	-	-	8,348
Deposits and placements with financial institutions	46,930	350	20,458	-	-	67,738
Securities held-for-trading	30,034	-	-	-	-	30,034
Securities available-for-sale	-	-	-	-	8,083	8,083
Loans, advances and financing	1,007,399	31	726,915	688,269	131,712	2,554,326
Derivative assets	-	-	-	-	-	-
Other assets	370,658	-	-	-	-	370,658
	1,463,369	381	747,373	688,269	139,795	3,039,187
Financial liabilities:						
Other liabilities	17,679	10,237	39,458	41,709	194	109,277
Deposits from customers	193,173	76,216	333,391	550,000	-	1,152,780
Borrowings	557,000	-	670,000	15,000	45,000	1,287,000
Derivative liabilities	-	-	-	1,087	-	1,087
	767,852	86,453	1,042,849	607,796	45,194	2,550,144
	695,517	(86,072)	(295,476)	80,473	94,601	489,043

40. Financial risk management objectives and policies (continued)

d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in market interest rates.

The Group's and the Company's exposure to interest rate risk arises primarily from their money at call and deposits and placements with financial institutions, loans, advances and financing, deposits from customers, borrowings and derivative 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 money at call, deposits and placements with financial institutions, deposit from customers and loans, advances and financing.

Sensitivity analysis for interest rate risk

At the reporting date, if interest rates had been 10 basis points higher/lower, with all other variables held constant, the Group's and the Company's profit net of tax would have been RM632,000 (2010: RM345,000) and RM984,000 (2010: RM714,000) higher/lower respectively, arising mainly as a result of the Group's and the Company's exposure to interest rates on their variable rate financial assets and financial liabilities. The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment.

e) Market price risk

Market price risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market prices (other than interest or exchange rates).

The Group and the Company are exposed to equity price risk arising from their investment in quoted equity instruments. The quoted equity instruments in Malaysia are listed on the Bursa Malaysia, whereas the quoted equity instruments outside Malaysia are listed on foreign stock exchanges. These instruments are classified as held for trading and available-for-sale financial assets. The Group does not have exposure to commodity price risk.

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.

40. Financial risk management objectives and policies (continued)

e) Market price risk (continued)

Sensitivity analysis for equity price risk

At the reporting date, if the market prices of the quoted equity instruments had been 5% higher/lower, with all other variables held constant, the Group's and the Company's profit net of tax would have been RM1,338,000 (2010: RM1,502,000) and RM1,338,000 (2010: RM1,502,000) higher/lower respectively, arising mainly as a result of higher/lower fair value gains on held for trading investments in equity instruments, and the Group's and the Company's other reserve in equity would have been RM393,000 (2010: RM404,000) and RM393,000 (2010: RM404,000) higher/lower, arising as a result of an increase/decrease in the fair value of equity instruments classified as available-for-sale.

41. Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value. 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 2010.

The capital structure of the Group consists of net debt (borrowings offset by cash and short-term funds) and equity of the Group (comprising issued capital, reserves, retained earnings and non-controlling interests).

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2011 and 31 December 2010.

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

The Group monitors capital using a gearing ratio, which is debt divided by total capital plus debt. The Group's policy is to keep the gearing ratio between 50% and 100%.

41. Capital management (continued)

	Group		Company	
	2011 RM'000	**2010 RM'000**	**2011 RM'000**	**2010 RM'000**
Debt - borrowings	1,513,000	1,287,000	1,513,000	1,287,000
Capital – total equity	582,593	493,237	667,710	598,914
Less: fair value adjustment reserve	2,207	(2,205)	2,305	(2,107)
Total capital	584,800	491,032	670,015	596,807
Capital and net debt	2,097,800	1,778,032	2,183,015	1,883,807
Gearing ratio	72%	72%	69%	68%

42. Islamic banking business

The financial performance for the financial year ended 31 December 2011 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 31 December 2011

	Note	Group and Company	
		2011 RM'000	**2010 RM'000**
Income	(a)	776	496
Write-back of allowance for impairment losses on loans and financing	(b)	11	10
Total income		787	506
Other expense		-	-
Profit for the year		787	506
Other comprehensive income		-	-
Total comprehensive income for the year		787	506
Retained earnings brought forward		8,631	8,125
Retained earnings carried forward	(c)	9,418	8,631

42. Islamic banking business (continued)

Statement of financial position as of 31 December 2011

	Note	Group and Company 2011 RM'000	2010 RM'000
Assets			
Cash and short-term funds	(d)	14	1
Other assets	(e)	20,951	20,158
Financing assets	(f)	74	93
Total assets		21,039	20,252
Islamic banking funds	(c)	21,039	20,252

a) Income

	2011	2010
Income derived from investment of funds allocated:		
Mudharabah placements	772	491
Income from financing	4	5
Income from penalty on overdue installment	-	-
	776	496

b) Write-back of allowance for impairment losses on loans and financing

	Group and Company 2011 RM'000	2010 RM'000
Individual impairment losses written back during the financial year	11	9
Collective impairment losses written back during the financial year	-	1
	11	10

c) Islamic banking funds

	2011	2010
Funds allocated	11,621	11,621
Retained earnings	9,418	8,631
	21,039	20,252

d) Cash and short-term funds

	2011	2010
Cash and bank balances with banks and other financial institutions	14	1

42. Islamic banking business (continued)

e) Other assets

	Group and Company	
	2011	**2010**
	RM'000	**RM'000**
Money market instrument:		
Mudharabah placements	20,951	20,158

f) Financing assets

Term financing	702	735
Unearned income	(8)	(10)
	694	725
Gross financing assets		
Less:		
Allowance for impairment losses:		
Individual	(619)	(631)
Collective	(1)	(1)
Net financing assets	74	93

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

	Group and Company	
	2011	**2010**
	RM'000	**RM'000**
Al-Bai' Baithaman Ajil	695	725

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

	Group and Company	
	2011	**2010**
	RM'000	**RM'000**
Within one year	624	633
Over five years	71	92
	695	725

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

	Group and Company	
	2011	**2010**
	RM'000	**RM'000**
Housing	71	92
Others	624	633
	695	725

43. Comparatives

The following comparative amounts as at 31 December 2010 have been reclassified to conform with current year's presentation:

	Previously stated RM'000	Increase/ (decrease) RM'000	Restated RM'000
Statement of financial position			
31 December 2010			
Group			
Cash and short term funds	76,987	(46,580)	30,407
Deposits and placements with financial institutions	11,842	66,738	78,580
Securities held-for-trading	7,723	22,311	30,034
Securities available-for-sale	30,594	(22,311)	8,283
Other assets	602,325	(27,556)	574,769
Income tax refundable	-	6,582	6,582
Properties held-for-sale	63,504	(12,099)	51,405
Investment properties	-	20,484	20,484
Prepaid lease payments	8,400	(8,400)	-
Property, plant and equipment	53,706	831	54,537
Deferred tax assets	41,858	(29,743)	12,115
Other liabilities	117,661	207	117,868
Income tax payable	-	351	351
Defined benefit obligations	-	4,123	4,123
Provisions	4,681	(4,681)	-
Deferred tax liabilities	29,743	(29,743)	-
Company			
Cash and short-term funds	54,928	(46,580)	8,348
Deposits and placements with financial Institutions	1,000	66,738	67,738
Securities held-for-trading	7,723	22,311	30,034
Securities available-for-sale	30,394	(22,311)	8,083
Other assets	430,788	(21,064)	409,724
Income tax refundable	-	906	906
Investment properties	-	1,946	1,946
Prepaid lease payments	1,946	(1,946)	-
Other liabilities	109,279	(2)	109,277
Income tax payable	-	2	2
Defined benefit obligations	-	4,123	4,123
Provisions	4,123	(4,123)	-

44. Authorisation of financial statements for issue

The financial statements for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the directors on 24 May 2012.