

**Sabah Development Bank Berhad - 34638-W  
(Incorporated in Malaysia)**

**Notes to the financial statements  
For the financial year ended 31 December 2012**

**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 10<sup>th</sup> 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 25 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 Malaysian Financial Reporting Standards (“MFRS”), International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia.

For the periods up to and including the financial year ended 31 December 2011, the Group and of the Company prepared their financial statements in accordance with Financial Reporting Standards (“FRS”).

These financial statements, for the financial year ended 31 December 2012 are the Group and of the Company’s first MFRS annual financial statements. MFRS 1 *First time Adoption of Malaysian Financial Reporting Standards* (“MFRS 1”) has been applied. The date of transition to MFRS is 1 January 2011.

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.

**Notes to the financial statements  
For the financial year ended 31 December 2012**

**2. Summary of significant accounting policies (continued)**

**2.2 First-time adoption of MFRS**

The transition from FRS to MFRS and the adoption of Amendments to MFRS 1 have not had a material impact on the statement of comprehensive income, statement of financial position and statement of cash flows except as discussed in Note 2.3 below.

**2.3 Significant accounting policies and application of MFRS 1**

The audited financial statements of the Group and of the Company for the financial year ended 31 December 2011 were prepared in accordance with FRS. Except for certain differences, the requirements under FRS and MFRS are similar.

The significant accounting policies adopted in preparing these financial statements are consistent with those of the audited financial statements for the financial year ended 31 December 2011 except as discussed below:

**(a) Business combination**

MFRS 1 provides the option to apply MFRS 3 *Business Combinations*, prospectively from the date of transition or from a specific date prior to the date of transition. This provides relief from full retrospective application of MFRS 3 which would require restatement of all business combinations prior to the date of transition.

*Acquisition before date of transition*

The Group has elected to apply MFRS 3 prospectively from the date of transition. In respect of acquisitions prior to the date of transition,

- (i) the classification of former business combinations under FRS is maintained;
- (ii) there is no re-measurement of original fair values determined at the time of business combination (date of acquisition); and
- (iii) the carrying amount of goodwill recognised under FRS is not adjusted.

**(b) Service concession arrangements**

MFRS 1 provides the option to apply the transitional provisions in IC Interpretation 12 *Service Concession Arrangements*.

The Group has elected to apply the transitional provisions as it is impracticable for the Group to apply IC Interpretation 12 retrospectively and the Group has recognised financial assets and intangible assets that existed at the start of the earliest period presented (1 January 2011), used the previous carrying amounts of those financial and intangible assets (however previously classified) as their carrying amounts as at that date, and tested financial and intangible assets recognised at that date for impairment. There was no impairment recognised.

**Notes to the financial statements  
For the financial year ended 31 December 2012**

**2. Summary of significant accounting policies (continued)**

**2.3 Significant accounting policies and application of MFRS 1 (continued)**

**(c) Estimates**

The estimates at 1 January 2011 and at 31 December 2011 were consistent with those made for the same dates in accordance with FRS. The estimates used by the Group to present these amounts in accordance with MFRS reflect conditions at 1 January 2011, the date of transition to MFRS and as of 31 December 2011.

**(d) Associate**

An associate is an entity, not being a subsidiary or a joint venture, in which the Group has significant influence.

In 2001, the Company had made payment of RM38,652,080 to the State Government of Sabah for the investment in 38,652,080 ordinary shares of Progressive Insurance Berhad. The State Government of Sabah invested on the Company's behalf in 38.7% equity interest in Progressive Insurance Berhad and became the registered shareholder of 38,652,080 ordinary shares of Progressive Insurance Berhad. The payment for investment in Progressive Insurance Berhad has been accounted for as other assets under FRS.

Since 2001, the State Government of Sabah has made payments to the Company for dividends received from Progressive Insurance Berhad (as the registered shareholder) in respect of the 38,652,080 ordinary shares and the Company has nominated several representatives to the Board of Progressive Insurance Berhad. As such, the directors are of the opinion that the Company has significant influence over Progressive Insurance Berhad with the power to participate in the financial and operating policy decisions of Progressive Insurance Berhad since the investment in 2001. Upon transition to MFRS, in accordance with the requirements of MFRS 128 Investments in Associates and Joint Ventures, the investment in Progressive Insurance Berhad should be accounted for as an associate.

The change in accounting of the Company's investment in Progressive Insurance Berhad has been applied retrospectively, and comparatives have been restated.

Notes to the financial statements  
For the financial year ended 31 December 2012

2. Summary of significant accounting policies (continued)

2.3 Significant accounting policies and application of MFRS 1 (continued)

The reconciliations of equity and total comprehensive income for comparative year and of equity at the date of transition reported under FRS to those reported for the year and at the date of transition under MFRS are provided below:

(i) Reconciliation of equity as at 1 January 2011

	FRS as at 1 January 2011 RM'000	Note 2(d) Associate RM'000	MFRS as at 1 January 2011 RM'000
<b>Group Assets</b>			
Cash and short term funds	30,407		30,407
Deposits and placements with financial institutions	78,580		78,580
Securities held-for-trading	30,034		30,034
Securities available-for-sale	8,283		8,283
Loans, advances and financing	2,085,646		2,085,646
Derivative assets	-		-
Other assets	574,769	(38,652)	536,117
Income tax refundable	6,582		6,582
Properties held-for-sale	51,405		51,405
Investment properties	20,484		20,484
Investments in subsidiaries	-		-
Investments in associates	*	63,251	63,251
Intangible asset	97,996		97,996
Property, plant and equipment	54,537		54,537
Deferred tax assets	12,115		12,115
<b>Total Assets</b>	<u>3,050,838</u>		<u>3,075,437</u>
<b>Total Liabilities</b>	<u>2,557,601</u>		<u>2,557,601</u>
<b>Equity attributable to owner of the Company</b>			
Share capital	430,000		430,000
Fair value adjustment reserve	2,205	1,784	3,989
Retained earnings	61,144	22,815	83,959
	<u>493,349</u>		<u>517,948</u>
Non-controlling interests	(112)		(112)
<b>Total equity</b>	<u>493,237</u>		<u>517,836</u>
<b>Total equities and liabilities</b>	<u>3,050,838</u>		<u>3,075,437</u>

\* Denotes amount less than RM1,000.

Notes to the financial statements  
For the financial year ended 31 December 2012

2. Summary of significant accounting policies (continued)

2.3 Significant accounting policies and application of MFRS 1 (continued)

(i) Reconciliation of equity as at 1 January 2011 (continued)

<b>Company</b>	<b>FRS as at 1 January 2011 RM'000</b>	<b>Note 2(d) Associate RM'000</b>	<b>MFRS as at 1 January 2011 RM'000</b>
<b>Assets</b>			
Cash and short term funds	8,348		8,348
Deposits and placements with financial institutions	67,738		67,738
Securities held-for-trading	30,034		30,034
Securities available-for-sale	8,083		8,083
Loans, advances and financing	2,554,326		2,554,326
Derivative assets	-		-
Other assets	409,724	(38,652)	371,072
Income tax refundable	906		906
Properties held-for-sale	50,998		50,998
Investment properties	1,946		1,946
Investments in subsidiaries	9,273		9,273
Investments in associates	*	38,652	38,652
Intangible asset	-		-
Property, plant and equipment	199		199
Deferred tax assets	11,608		11,608
<b>Total Assets</b>	<b>3,153,183</b>		<b>3,153,183</b>
<b>Total Liabilities</b>	<b>2,554,269</b>		<b>2,554,269</b>
<b>Equity attributable to owner of the Company</b>			
Share capital	430,000		430,000
Fair value adjustment reserve	2,107		2,107
Retained earnings	166,807		166,807
	598,914		598,914
Non-controlling interests	-		-
	598,914		598,914
<b>Total equity and liabilities</b>	<b>3,153,183</b>		<b>3,153,183</b>

\* Denotes amount less than RM1,000.

Notes to the financial statements  
For the financial year ended 31 December 2012

2. Summary of significant accounting policies (continued)

2.3 Significant accounting policies and application of MFRS 1 (continued)

(ii) Reconciliation of equity as at 31 December 2011

<b>Group</b>	<b>FRS as at 31 December 2011 RM'000</b>	<b>Note 2(d) Associate RM'000</b>	<b>MFRS as at 31 December 2011 RM'000</b>
<b>Assets</b>			
Cash and short term funds	13,797		13,797
Deposits and placements with financial institutions	75,176		75,176
Securities held-for-trading	26,756		26,756
Securities available-for-sale	8,054		8,054
Loans, advances and financing	2,277,372		2,277,372
Derivative assets	8		8
Other assets	670,515	(38,652)	631,863
Income tax refundable	5,527		5,527
Properties held-for-sale	50,998		50,998
Investment properties	20,293		20,293
Investments in subsidiaries	-		-
Investments in associates	*	65,180	65,180
Intangible asset	93,542		93,542
Property, plant and equipment	11,804		11,804
Deferred tax assets	14,305		14,305
<b>Total Assets</b>	<b>3,268,147</b>		<b>3,294,675</b>
<b>Total Liabilities</b>	<b>2,685,554</b>		<b>2,685,554</b>
<b>Equity attributable to owner of the Company</b>			
Share capital	430,000		430,000
Fair value adjustment reserve	(2,207)	652	(1,555)
Retained earnings	154,916	25,876	180,792
	582,709		609,237
Non-controlling interests	(116)		(116)
<b>Total equity</b>	<b>582,593</b>		<b>609,121</b>
<b>Total equities and liabilities</b>	<b>3,268,147</b>		<b>3,294,675</b>

\* Denotes amount less than RM1,000.

Notes to the financial statements  
For the financial year ended 31 December 2012

2. Summary of significant accounting policies (continued)

2.3 Significant accounting policies and application of MFRS 1 (continued)

(ii) Reconciliation of equity as at 31 December 2011 (continued)

Company	FRS as at 31 December 2011 RM'000	Note 2(d) Associate RM'000	MFRS as at 31 December 2011 RM'000
<b>Assets</b>			
Cash and short term funds	7,605		7,605
Deposits and placements with financial institutions	59,308		59,308
Securities held-for-trading	26,756		26,756
Securities available-for-sale	7,854		7,854
Loans, advances and financing	2,771,453		2,771,453
Derivative assets	8		8
Other assets	403,048	(38,652)	364,396
Income tax refundable	18		18
Properties held-for-sale	50,998		50,998
Investment properties	1,919		1,919
Investments in subsidiaries	12,452		12,452
Investments in associates	*	38,652	38,652
Intangible asset	-		-
Property, plant and equipment	1,069		1,069
Deferred tax assets	13,151		13,151
<b>Total Assets</b>	<u>3,355,639</u>		<u>3,355,639</u>
<b>Total Liabilities</b>	<u>2,687,929</u>		<u>2,687,929</u>
<b>Equity attributable to owner of the Company</b>			
Share capital	430,000		430,000
Fair value adjustment reserve	(2,305)		(2,305)
Retained earnings	240,015		240,015
	<u>667,710</u>		<u>667,710</u>
Non-controlling interests	-		-
<b>Total equity</b>	<u>667,710</u>		<u>667,710</u>
<b>Total equities and liabilities</b>	<u>3,355,639</u>		<u>3,355,639</u>

\* Denotes amount less than RM1,000.

Notes to the financial statements  
For the financial year ended 31 December 2012

2. Summary of significant accounting policies (continued)

2.3 Significant accounting policies and application of MFRS 1 (continued)

(iii) Reconciliation of total comprehensive income for the year ended 31 December 2011

Group	FRS 31 December 2011 RM'000	Note 2(d) Associate RM'000	MFRS 31 December 2011 RM'000
<b>Operating profit</b>	119,719		119,719
Share of results of associates	-	3,061	3,061
Profit before tax	<u>119,719</u>		<u>122,780</u>
Income tax expense	(25,951)		(25,951)
<b>Profit net of tax</b>	<u>93,768</u>		<u>96,829</u>
<b>Other comprehensive income for the year</b>			
- Net gain on securities available-for-sale	(4,412)		(4,412)
- Share of other comprehensive income of associates	-	(1,132)	(1,132)
<b>Other comprehensive income for the year, net of tax</b>	<u>(4,412)</u>		<u>(5,544)</u>
<b>Total comprehensive income for the year</b>	<u>89,356</u>		<u>91,285</u>



**Notes to the financial statements  
For the financial year ended 31 December 2012**

**2. Summary of significant accounting policies (continued)**

**2.4 Standards issued but not yet effective**

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Group's and the Company's financial statements are disclosed below. The Group and the Company intend to adopt these standards, if applicable, when they become effective.

<b>Description</b>	<b>Effective for annual periods beginning on or after</b>
MFRS 101 Presentation of Items of Other Comprehensive Income (Amendments to MFRS 101)	1 July 2012
Amendments to MFRS 101: Presentation of Financial Statements (Annual Improvements 2009-2011 Cycle)	1 January 2013
MFRS 3 Business Combinations (IFRS 3 Business Combinations issued by IASB in March 2004)	1 January 2013
MFRS 10 Consolidated Financial Statements	1 January 2013
MFRS 11 Joint Arrangements	1 January 2013
MFRS 12 Disclosure of interests in Other Entities	1 January 2013
MFRS 13 Fair Value Measurement	1 January 2013
MFRS 119 Employee Benefits	1 January 2013
MFRS 127 Separate Financial Statements	1 January 2013
MFRS 128 Investment in Associate and Joint Ventures	1 January 2013
MFRS 127 Consolidated and Separate Financial Statements (IAS 27 as revised by IASB in December 2003)	1 January 2013
Amendment to IC Interpretation 2 Members' Shares in Co-operative Entities and Similar Instruments (Annual Improvements 2009-2011 Cycle)	1 January 2013
IC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine	1 January 2013
Amendments to MFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013
Amendments to MFRS 1: First-time Adoption of Malaysian Financial Reporting Standards – Government Loans	1 January 2013
Amendments to MFRS 1: First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2009-2011 Cycle)	1 January 2013
Amendments to MFRS 116: Property, Plant and Equipment (Annual Improvements 2009-2011 Cycle)	1 January 2013
Amendments to MFRS 132: Financial Instruments: Presentation (Annual Improvements 2009-2011 Cycle)	1 January 2013
Amendments to MFRS 134: Interim Financial Reporting (Annual Improvements 2009-2011 Cycle)	1 January 2013
Amendments to MFRS 10: Consolidated Financial Statements: Transition Guidance	1 January 2013

**Notes to the financial statements  
For the financial year ended 31 December 2012**

**2 Summary of significant accounting policies (continued)**

**2.4 Standards issued but not yet effective (continued)**

<b>Description</b>	<b>Effective for annual periods beginning on or after</b>
Amendments to MFRS 11: Joint Arrangements: Transition Guidance	1 January 2013
Amendments to MFRS 12: Disclosure of Interests in Other Entities: Transition Guidance	1 January 2013
Amendments to MFRS 132: Offsetting Financial Assets and Financial Liabilities	1 January 2014
Amendments to MFRS 10, MFRS 12 and MFRS 127: Investment Entities	1 January 2014
MFRS 9 Financial Instruments	1 January 2015

The directors expect that the adoption of the above standards and interpretations will have material impact on the financial statements in the period of initial application except as discussed below:

**MFRS 10 Consolidated Financial Statements**

MFRS 10 replaces part of MFRS 127 Consolidated and Separate Financial Statements that deals with consolidated financial statements and IC Interpretation 112 Consolidation – Special Purpose Entities.

Under MFRS 10, an investor controls an investee when (a) the investor has power over an investee, (b) the investor has exposure, or rights, to variable returns from its involvement with the investee, and (c) the investor has ability to use its power over the investee to affect the amount of the investor's returns. Under MFRS 127 Consolidated and Separate Financial Statements, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

MFRS 10 includes detailed guidance to explain when an investor has control over the investee. MFRS 10 requires the investor to take into account all relevant facts and circumstances.

**MFRS 12 Disclosures of Interests in Other Entities**

MFRS 12 includes all disclosure requirements for interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are required. This standard affects disclosures only and has no impact on the Group's financial position or performance.

**Notes to the financial statements  
For the financial year ended 31 December 2012**

**2. Summary of significant accounting policies (continued)**

**2.4 Standards issued but not yet effective (continued)**

MFRS 127 Separate Financial Statements

As a consequence of the new MFRS 11 and MFRS 12, MFRS 128 is limited to accounting for subsidiaries, jointly controlled entities and associates in separate financial statements.

MFRS 128 Investment in Associates and Joint Ventures

As a consequence of the new MFRS 11 and MFRS 12, MFRS 128 is renamed as MFRS 128 Investments in Associates and Joint Ventures. This new standard describes the application of the equity method to investments in joint ventures in addition to associates.

MFRS 13 Fair Value Measurement

MFRS 13 establishes a single source of guidance under MFRS for all fair value measurements. MFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under MFRS when fair value is required or permitted.

Upon adoption of MFRS 13, the Group will take into consideration the highest and best use of certain properties in measuring the fair value of such properties. The adoption of MFRS 13 is expected to result in higher fair value of certain properties of the Group.

MFRS 3 Business Combinations (IFRS 3 Business Combinations issued by IASB in March 2004) and MFRS 127 Consolidated and Separate Financial Statements (IAS 27 as revised by IASB in December 2003)

An entity shall apply these earlier versions of MFRS 3 and MFRS 127 only if the entity has elected to do so as allowed in MFRS 10 Consolidated Financial Statements. The adoptions of these standards are not expected to have any significant impact to the Group and the Company.

Amendments to MFRS 101: Presentation of Financial Statements ( Annual Improvements 2009-2011 Cycle)

The amendments to MFRS 101 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, exchange differences on translation of foreign operations and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affects presentation only and has no impact on the Group's financial position and performance.

**Notes to the financial statements  
For the financial year ended 31 December 2012**

**2. Summary of significant accounting policies (continued)**

**2.4 Standards issued but not yet effective (continued)**

MFRS 9 Financial Instruments: Classification and Measurement

MFRS 9 reflects the first phase of the work on the replacement of MFRS 139 Financial Instruments: Recognition and Measurement and applies to classification and measurement of financial assets and financial liabilities as defined in MFRS 139 Financial Instruments: Recognition and Measurement. The adoption of the first phase of MFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

**2.5 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.

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.

**Notes to the financial statements  
For the financial year ended 31 December 2012**

**2. Summary of significant accounting policies (continued)**

**2.6 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.

**2.7 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.

**Notes to the financial statements  
For the financial year ended 31 December 2012**

**2. Summary of significant accounting policies (continued)**

**2.7 Foreign currency (continued)**

**b) Foreign currency transactions (continued)**

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.

**2.8 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.

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 to 10 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.

**Notes to the financial statements  
For the financial year ended 31 December 2012**

**2. Summary of significant accounting policies (continued)**

**2.9 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 2.8.

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 2.8 up to the date of change in use.

**2.10 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.

**2.11 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.

**Notes to the financial statements  
For the financial year ended 31 December 2012**

**2. Summary of significant accounting policies (continued)**

**2.11 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.

**2.12 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.



**Notes to the financial statements  
For the financial year ended 31 December 2012**

**2. Summary of significant accounting policies (continued)**

**2.12 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 .

**2.13 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, investments in subsidiaries are accounted for at cost less impairment losses.

**2.14 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.

**Notes to the financial statements  
For the financial year ended 31 December 2012**

**2. Summary of significant accounting policies (continued)**

**2.14 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.

**2.15 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.

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.

**Notes to the financial statements  
For the financial year ended 31 December 2012**

**2. Summary of significant accounting policies (continued)**

**2.15 Financial assets (continued)**

**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.

**Notes to the financial statements  
For the financial year ended 31 December 2012**

**2. Summary of significant accounting policies (continued)**

**2.15 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.

**Notes to the financial statements  
For the financial year ended 31 December 2012**

**2. Summary of significant accounting policies (continued)**

**2.15 Financial assets (continued)**

**Reclassification of financial assets**

The Group and the Company 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 Company 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 Company 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.

**2.16 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.

**Notes to the financial statements  
For the financial year ended 31 December 2012**

**2. Summary of significant accounting policies (continued)**

**2.16 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.

**2.17 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.

**Notes to the financial statements  
For the financial year ended 31 December 2012**

**2. Summary of significant accounting policies (continued)**

**2.18 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.

**2.19 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.

**2.20 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 MFRS 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.

**Notes to the financial statements  
For the financial year ended 31 December 2012**

**2. Summary of significant accounting policies (continued)**

**2.20 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.

**2.21 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.



**Notes to the financial statements  
For the financial year ended 31 December 2012**

**2. Summary of significant accounting policies (continued)**

**2.21 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.

**2.22 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.

**2.23 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.

**Notes to the financial statements  
For the financial year ended 31 December 2012**

**2. Summary of significant accounting policies (continued)**

**2.23 Employee benefits (continued)**

**c) Defined benefit plan**

The Company operates a unfunded defined benefit retirement plan. The benefit plan becomes 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.

**2.24 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).

**Notes to the financial statements  
For the financial year ended 31 December 2012**

**2. Summary of significant accounting policies (continued)**

**2.25 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.

**Notes to the financial statements  
For the financial year ended 31 December 2012**

**2. Summary of significant accounting policies (continued)**

**2.25 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.

**2.26 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.

**Notes to the financial statements  
For the financial year ended 31 December 2012**

**2. Summary of significant accounting policies (continued)**

**2.26 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.

**Notes to the financial statements  
For the financial year ended 31 December 2012**

**2. Summary of significant accounting policies (continued)**

**2.26 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.

**2.27 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.

**2.28 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.

**Notes to the financial statements  
For the financial year ended 31 December 2012**

**2. Summary of significant accounting policies (continued)**

**2.29 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.

**2.30 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 2012, the amount of impairment loss recognised for securities available-for-sale was RM909,000 (2011: nil).

**Notes to the financial statements  
For the financial year ended 31 December 2012**

**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 and 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 whose 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 investments in subsidiaries and interest in associates**

The Group assesses whether there is any indication that investments 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 investments 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.



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**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**

	<b>Group</b>		<b>Company</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Loans, advances and financing	220,836	192,675	224,501	198,578
Money at call, and deposits and placements with financial institutions	1,404	1,396	1,298	1,121
Other loans and receivables	1,389	2,648	1,389	2,648
Other interest income	302	605	302	605
	<u>223,931</u>	<u>197,324</u>	<u>227,490</u>	<u>202,952</u>

**5. Interest expense**

Deposits from customers	42,022	42,666	42,353	42,805
Borrowings	73,755	60,420	73,755	60,420
Total interest expense	<u>115,777</u>	<u>103,086</u>	<u>116,108</u>	<u>103,225</u>

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**6. Other income**

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
<b>Fee income:</b>				
Commissions	9,958	13,682	9,477	13,245
Fund management services fees	15	52	-	-
Other fee income	4,212	2,340	4,212	3,661
	<u>14,185</u>	<u>16,074</u>	<u>13,689</u>	<u>16,906</u>
<b>Income from financial instruments:</b>				
Gain arising on securities held-for-trading:				
Net gain on disposals	1,934	4,452	1,934	4,452
Investment income	24	-	24	-
Gross dividend income	1,370	1,025	1,370	1,025
Unrealised fair value gain/(loss) on securities held-for-trading	1,416	(10)	1,416	(10)
	<u>4,744</u>	<u>5,467</u>	<u>4,744</u>	<u>5,467</u>
Loss arising on securities available-for-sale:				
Net loss on disposals	(1,373)	(248)	(1,373)	(248)
Gross dividend income	1,148	-	-	-
	<u>(225)</u>	<u>(248)</u>	<u>(1,373)</u>	<u>(248)</u>
Net gain on derivative financial instruments	<u>336</u>	<u>-</u>	<u>336</u>	<u>-</u>
<b>Other income:</b>				
Sale of bulk water and services rendered to holding entity, Sabah State Government	60,846	61,377	-	-
Late payment penalty interest	27,404	-	-	-
Hotel income:				
Room revenue	-	4,281	-	-
Food and beverage	-	4,052	-	-
Miscellaneous services	-	10	-	-
Rental income	54	54	-	-
Dividend income from subsidiary	-	-	150,000	-
Dividend income from associate	-	-	1,469	-
Realised gain on foreign exchange	-	3	-	3
Gain on disposal of investment property	-	271	-	-
Gain on disposal of property, plant and equipment	117	90	65	18
Gain on deemed disposal of subsidiary	-	6,052	-	-
Reversal of impairment loss on trade receivable	40,000	-	-	-
Others	434	628	48	16
	<u>128,855</u>	<u>76,818</u>	<u>151,582</u>	<u>37</u>
	<u>147,895</u>	<u>98,111</u>	<u>168,978</u>	<u>22,162</u>

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**7. Other expenses**

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Employee benefits expense	18,743	21,248	10,646	13,131
Establishment costs	1,035	1,017	1,035	1,017
Marketing expenses	463	564	463	564
Direct cost, administrative and other overhead expense	28,742	35,895	3,124	1,897
Net loss on derivative financial instruments	-	827	-	827
	<u>48,983</u>	<u>59,551</u>	<u>15,268</u>	<u>17,436</u>

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

	Group and Company	
	2012 RM'000	2011 RM'000
Individual impairment:		
Charge during the financial year	76,662	29,203
Reversal during the financial year	(681)	-
Collective impairment:		
Charge during the financial year	11,631	-
Reversal during the financial year	-	(18,491)
	<u>87,612</u>	<u>10,712</u>

**9. Allowance for impairment losses on other financial assets**

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Impairment loss on other loans and receivables	-	4,801	-	4,801
Reversal of impairment losses recognised on securities held-for-trading	-	(1,647)	-	(1,647)
Impairment losses on securities available-for-sale (at cost less impairment loss)	909	-	909	-
	<u>909</u>	<u>3,154</u>	<u>909</u>	<u>3,154</u>

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**10. Profit before tax**

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

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Amortisation of water concession rights (Note 27)	4,455	4,454	-	-
Auditors' remuneration:				
- Current year	264	150	195	65
- Under provision in respect of previous year	4	-	5	-
Bad debts (recovered)/written off		(10)	-	(10)
Depreciation of investment properties (Note 24)	247	191	26	27
Depreciation of property, plant and equipment (Note 28)	1,614	2,975	282	277
Employee benefits expense (Note 11)	18,883	21,248	10,646	13,131
Impairment loss on trade receivables	-	114	-	-
Non- executive directors' remuneration (Note 12)	994	911	722	635
Rental of premises payable to:				
Holding entity (Note 37)	483	503	433	433
Third parties	151	143	15	15
Rental of equipment	9	4	5	4
	<u>18,883</u>	<u>21,248</u>	<u>10,646</u>	<u>13,131</u>

**11. Employee benefits expense**

Wages and salaries	13,604	13,954	7,290	7,687
EPF and social security contributions	2,032	1,841	1,123	1,114
Defined benefit obligations	685	2,883	685	2,883
Other benefits and expenses	2,562	2,570	1,548	1,447
	<u>18,883</u>	<u>21,248</u>	<u>10,646</u>	<u>13,131</u>

Included in employee benefits expense of the Group and the Company are executive directors' remuneration amounting to RM2,547,000 (2011: RM3,120,000) and RM1,825,000 (2011: RM2,334,000) respectively.

**Notes to the financial statements  
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**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	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Executive:				
Salaries and other emoluments	1,572	2,454	953	1,741
EPF and social security contributions	238	321	135	248
Retirement gratuity	737	345	737	345
	<u>2,547</u>	<u>3,120</u>	<u>1,825</u>	<u>2,334</u>
Non-executive:				
Fee	436	443	168	174
Other emoluments	558	468	554	461
	<u>994</u>	<u>911</u>	<u>722</u>	<u>635</u>
	<u>3,541</u>	<u>4,031</u>	<u>2,547</u>	<u>2,969</u>

**13. Income tax expense**

**Major components of income tax expense**

The major components of income tax expense for the years ended 31 December 2012 and 2011 are:

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
<b>Statement of comprehensive income:</b>				
Current income tax:				
- Malaysian income tax	33,498	32,769	10,436	24,602
- Over provision in respect of previous years	(1,420)	(5,396)	(1,394)	(5,661)
	<u>32,078</u>	<u>27,373</u>	<u>9,042</u>	<u>18,941</u>
Deferred income tax (Note 29):				
- Origination and reversal of temporary differences	(1,805)	12,462	(3,375)	12,881
- Over provision in respect of previous years	(3,357)	(13,884)	(3,357)	(13,656)
	<u>(5,162)</u>	<u>(1,422)</u>	<u>(6,732)</u>	<u>(775)</u>
Income tax expense recognised in profit or loss	<u>26,916</u>	<u>25,951</u>	<u>2,310</u>	<u>18,166</u>

**Notes to the financial statements  
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**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 2012 and 2011 are as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>RM'000</b>	<b>(restated) RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Profit before tax	<u>125,210</u>	<u>122,780</u>	<u>177,347</u>	<u>91,374</u>
Tax at Malaysian statutory tax rate of 25% (2011: 25%)	31,303	30,695	44,337	22,843
Adjustments:				
Non-deductible expenses	2,223	17,380	580	15,163
Income not subject to taxation	(464)	(2,046)	(37,856)	(523)
Benefits from previously unrecognised tax losses and capital allowances	-	(33)	-	-
Deferred tax assets not recognised during the year	103	-	-	-
(Over)/under provision in respect of previous year:				
- Current tax	(1,420)	(5,396)	(1,394)	(5,661)
- Deferred tax	(3,357)	(13,884)	(3,357)	(13,656)
Share of results of associates	<u>(1,472)</u>	<u>(765)</u>	<u>-</u>	<u>-</u>
Income tax expense recognised in profit or loss	<u>26,916</u>	<u>25,951</u>	<u>2,310</u>	<u>18,166</u>

**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.

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**14. Earnings per share (continued)**

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

	<b>Group</b>	
	<b>2012 RM'000</b>	<b>2011 RM'000</b>
Profit net of tax attributable to owner of the Company	98,294	96,833
	<b>Numbers of shares '000</b>	<b>Numbers of shares '000</b>
Weighted average number of ordinary shares for basic earnings per share computation	430,191	430,000

**15. Cash and short-term funds**

	<b>Group</b>			<b>Company</b>		
	<b>2012 RM'000</b>	<b>2011 RM'000</b>	<b>As at 1.1.2011 RM'000</b>	<b>2012 RM'000</b>	<b>2011 RM'000</b>	<b>As at 1.1.2011 RM'000</b>
Cash and bank balances with banks and other financial institutions	67,736	8,797	30,407	58,571	2,605	8,348
Money at call	5,000	5,000	-	5,000	5,000	-
	72,736	13,797	30,407	63,571	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:

	<b>Group</b>			<b>Company</b>		
	<b>2012 RM'000</b>	<b>2011 RM'000</b>	<b>As at 1.1.2011 RM'000</b>	<b>2012 RM'000</b>	<b>2011 RM'000</b>	<b>As at 1.1.2011 RM'000</b>
Cash and bank balances with financial institutions	72,736	13,797	30,407	63,571	7,605	8,348
Deposits and placements with financial institutions maturing within one month (Note 16)	61,738	42,117	51,780	24,174	30,617	46,580
	134,474	55,914	82,187	87,745	38,222	54,928

Notes to the financial statements  
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16. Deposits and placements with financial institutions

	Group			Company		
	2012 RM'000	2011 RM'000	As at 1.1.2011 RM'000	2012 RM'000	2011 RM'000	As at 1.1.2011 RM'000
<b>Financial institutions:</b>						
Deposits and placements maturing within one month	61,738	42,117	51,780	24,174	30,617	46,580
Deposits and placements maturing one month or more	1,030	11,338	5,405	1,030	7,740	1,000
Mudharabah placements	21,714	20,951	20,158	21,714	20,951	20,158
Deposits and placements pledged with financial institutions for banking facilities	794	770	1,237	-	-	-
	<u>85,276</u>	<u>75,176</u>	<u>78,580</u>	<u>46,918</u>	<u>59,308</u>	<u>67,738</u>

Deposits and placements are made for varying periods of between one day and one year 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 2.8% (2011: 3.1%, 1 January 2011: 2.5%) and 3.2% (2011: 3.2%, 1 January 2011: 2.7%) per annum respectively.

17. Securities held-for-trading

	Group and Company		
	2012 RM'000	2011 RM'000	As at 1.1.2011 RM'000
At fair value:			
Shares, warrants and loan stocks, quoted in Malaysia	29,450	23,612	26,637
Shares, quoted outside Malaysia	6,104	3,144	3,397
	<u>35,554</u>	<u>26,756</u>	<u>30,034</u>



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**18. Securities available-for-sale**

	Group			Company		
	2012 RM'000	2011 RM'000	As at 1.1.2011 RM'000	2012 RM'000	2011 RM'000	As at 1.1.2011 RM'000
<b>At fair value:</b>						
Shares, quoted in Malaysia	98,302	1,877	1,909	1,887	1,877	1,909
Unit trust, quoted in Malaysia	2,547	5,068	5,265	2,547	5,068	5,265
Transferable corporate club membership	200	200	200	-	-	-
	<u>101,049</u>	<u>7,145</u>	<u>7,374</u>	<u>4,434</u>	<u>6,945</u>	<u>7,174</u>
<b>At cost less Impairment loss:</b>						
Unquoted shares in Malaysia	-	909	909	-	909	909
	<u>101,049</u>	<u>8,054</u>	<u>8,283</u>	<u>4,434</u>	<u>7,854</u>	<u>8,083</u>

**19. Securities held-to-maturity**

	Group and Company		
	2012 RM'000	2011 RM'000	As at 1.1.2011 RM'000
Unquoted securities in Malaysia:			
Redeemable cumulative convertible preference shares	34,000	-	-
	<u>34,000</u>	<u>-</u>	<u>-</u>

The maturity structure of securities held-to-maturity is as follows:

	Group and Company		
	2012 RM'000	2011 RM'000	As at 1.1.2011 RM'000
Three years to five years	34,000	-	-
	<u>34,000</u>	<u>-</u>	<u>-</u>

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**20. Loans, advances and financing**

	Group			Company		
	2012 RM'000	2011 RM'000	As at 1.1.2011 RM'000	2012 RM'000	2011 RM'000	As at 1.1.2011 RM'000
Revolving credits	595,431	509,575	506,668	1,110,418	998,426	970,103
Short-term advances	136,787	48,616	37,577	142,453	53,846	42,822
Term loans	2,239,953	1,948,506	1,858,216	2,336,561	1,948,506	1,858,216
Other loans	21,780	22,519	21,722	21,780	22,519	21,722
Staff loans	613	753	918	613	753	918
	<u>2,994,564</u>	<u>2,529,969</u>	<u>2,425,101</u>	<u>3,611,825</u>	<u>3,024,050</u>	<u>2,893,781</u>
Unearned income	(6)	(8)	(10)	(6)	(8)	(10)
Gross loans, advances and financing	2,994,558	2,529,961	2,425,091	3,611,819	3,024,042	2,893,771
Less:						
Allowance for impairment:						
Individual	(304,883)	(228,913)	(297,278)	(304,883)	(228,913)	(297,278)
Collective	<u>(35,307)</u>	<u>(23,676)</u>	<u>(42,167)</u>	<u>(35,307)</u>	<u>(23,676)</u>	<u>(42,167)</u>
Net loans, advances and financing	<u>2,654,368</u>	<u>2,277,372</u>	<u>2,085,646</u>	<u>3,271,629</u>	<u>2,771,453</u>	<u>2,554,326</u>

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

	Company		
	2012 RM'000	2011 RM'000	As at 1.1.2011 RM'000
Revolving credits	514,987	488,851	463,435
Short-term advances	5,666	5,230	5,245
Other loans	-	-	-
Term loan	<u>96,608</u>	<u>-</u>	<u>-</u>

The weighted average effective interest rate for revolving credits financing granted to the subsidiaries as at 31 December 2012 is 6.1% (2011: 6.1%, 1 January 2011: 7.5%) 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.

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**20. Loans, advances and financing (continued)**

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

	Group			Company		
	2012 RM'000	2011 RM'000	As at 1.1.2011 RM'000	2012 RM'000	2011 RM'000	As at 1.1.2011 RM'000
Real estate and construction	1,862,981	1,543,970	1,402,205	1,863,151	1,543,970	1,402,205
Manufacturing	250,565	358,797	340,479	253,493	359,085	340,768
Finance, insurance and business services	126,682	124,743	155,911	205,360	201,107	228,998
Agriculture, mining and quarrying	297,864	168,469	122,634	297,864	168,469	122,634
Education, health and others	196,162	166,404	201,299	208,668	178,397	213,284
Electricity, gas and water supply	50,723	58,277	56,823	477,094	463,713	440,142
Wholesale & retail trade, restaurants	12	205	539	12	205	539
Transport, storage and communication	39,921	31,796	41,118	39,921	31,796	41,118
Others	169,648	77,300	104,083	266,256	77,300	104,083
Gross loans, advances and financing	<u>2,994,558</u>	<u>2,529,961</u>	<u>2,425,091</u>	<u>3,611,819</u>	<u>3,024,042</u>	<u>2,893,771</u>

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

	Group			Company		
	2012 RM'000	2011 RM'000	As at 1.1.2011 RM'000	2012 RM'000	2011 RM'000	As at 1.1.2011 RM'000
Maturing within one year	1,782,396	1,674,731	1,590,085	2,399,657	2,168,812	2,058,765
One year to three years	834,488	574,264	519,739	834,488	574,264	519,739
Three years to five years	210,478	176,613	180,392	210,478	176,613	180,392
Over five years	167,196	104,353	134,875	167,196	104,353	134,875
	<u>2,994,558</u>	<u>2,529,961</u>	<u>2,425,091</u>	<u>3,611,819</u>	<u>3,024,042</u>	<u>2,893,771</u>

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**20. Loans, advances and financing (continued)**

c) Analysis of gross loans, advances and financing:

	Collectively impaired			Individually impaired			Total		
	2012 RM'000	2011 RM'000	As at 1.1.2011 RM'000	2012 RM'000	2011 RM'000	As at 1.1.2011 RM'000	2012 RM'000	2011 RM'000	As at 1.1.2011 RM'000
<b>Group</b>									
Loans, advances and financing	2,518,503	2,212,596	2,063,556	476,055	317,365	361,535	2,994,558	2,529,961	2,425,091
Less: allowance for impairment	(35,307)	(23,676)	(42,167)	(304,883)	(228,913)	(297,278)	(340,190)	(252,589)	(339,445)
	<u>2,483,196</u>	<u>2,188,920</u>	<u>2,021,389</u>	<u>171,172</u>	<u>88,452</u>	<u>64,257</u>	<u>2,654,368</u>	<u>2,277,372</u>	<u>2,085,646</u>
<b>Company</b>									
Loans, advances and financing	3,135,764	2,706,677	2,532,236	476,055	317,365	361,535	3,611,819	3,024,042	2,893,771
Less: allowance for impairment	(35,307)	(23,676)	(42,167)	(304,883)	(228,913)	(297,278)	(340,190)	(252,589)	(339,445)
	<u>3,100,457</u>	<u>2,683,001</u>	<u>2,490,069</u>	<u>171,172</u>	<u>88,452</u>	<u>64,257</u>	<u>3,271,629</u>	<u>2,771,453</u>	<u>2,554,326</u>

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**20. Loans, advances and financing (continued)**

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

	<b>Group and Company</b>		
	<b>2012</b>	<b>2011</b>	<b>As at</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>1.1.2011</b>
			<b>RM'000</b>
<u>Collective impairment</u>			
At 1 January	23,676	42,167	35,822
Charge for the year	11,631	-	8,238
Reversal of impairment losses	-	(18,491)	(1,893)
At 31 December	<u>35,307</u>	<u>23,676</u>	<u>42,167</u>
<u>Individual impairment</u>			
At 1 January	228,913	297,278	296,673
Charge for the year	76,662	29,203	1,511
Written off	-	(28,072)	-
Reversal of impairment losses	(692)	(69,496)	(906)
At 31 December	<u>304,883</u>	<u>228,913</u>	<u>297,278</u>

**21. Derivate financial instruments**

**Non-hedging derivatives:**

**Current**

Derivative asset:

Forward currency contract

(notional amount of USD310,000)

<u>-</u>	<u>8</u>	<u>-</u>
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Derivative liability:

Interest rate collar

<u>862</u>	<u>1,922</u>	<u>1,087</u>
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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 profit of RM336,000 (2011: loss of RM827,000, 1 January 2011: loss of 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 40.

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**22. Other assets**

	Group			Company		
	2012 RM'000	2011 RM'000	As at 1.1.2011 RM'000	2012 RM'000	2011 RM'000	As at 1.1.2011 RM'000
Loans and receivables:						
- Trade receivables	525,459	435,661	414,023	-	-	-
- Amount receivable from the State Government of Sabah	107,365	109,734	88,065	-	-	4,264
- Interest receivable	1,866	1,602	318	1,850	1,480	302
- Other receivables	2,686	2,608	2,285	1	7	291
- Dividend receivable	1,469	-	-	1,469	-	-
- Deposits	603	882	1,097	174	174	174
- Amount receivable from Karamusing Hotel Sdn. Bhd.	49,678	49,298	-	-	-	-
- Redeemable convertible secured loan stocks and redeemable secured loan stocks	24,810	23,856	27,204	24,810	23,856	27,204
Amounts due from subsidiaries	-	-	-	488,192	338,242	338,423
	<u>713,936</u>	<u>623,641</u>	<u>532,992</u>	<u>516,496</u>	<u>363,759</u>	<u>370,658</u>
Inventories	1,644	1,538	1,890	-	-	-
Prepaid operating expenses	1,281	1,282	1,235	635	637	414
Other investment	5,402	5,402	-	-	-	-
	<u>722,263</u>	<u>631,863</u>	<u>536,117</u>	<u>517,131</u>	<u>364,396</u>	<u>371,072</u>

**a) Trade receivables**

	Group		
	2012 RM'000	2011 RM'000	As at 1.1.2011 RM'000
Trade receivables	606,459	556,661	535,359
Less: Allowance for impairment	(81,000)	(121,000)	(121,336)
	<u>525,459</u>	<u>435,661</u>	<u>414,023</u>

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**22. Other assets (continued)**

**a) Trade receivables (continued)**

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 RM525,168,000 (2011: RM435,650,000, 1 January 2011: 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.

Other trade receivables are generally on 30 to 90 day terms (2011: 30 to 90 day terms, 1 January 2011: 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:

	<b>Group</b>		
	<b>2012</b>	<b>2011</b>	<b>As at</b>
	<b>RM000</b>	<b>RM000</b>	<b>1.1.2011</b>
			<b>RM'000</b>
Neither past due nor impaired	67,861	16,754	11,450
1 to 30 days past due not impaired	6	6,728	2,943
31 to 60 days past due not impaired	2	5,582	2,604
61 to 90 days past due not impaired	2	5,831	2,636
More than 91 days past due not impaired	358,738	329,916	322,992
	<u>358,748</u>	<u>348,057</u>	<u>331,175</u>
Impaired	179,850	191,850	192,734
	<u>606,459</u>	<u>556,661</u>	<u>535,359</u>

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 RM12,000 (2011: nil, 1 January 2011: 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.

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22. 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		
	2012 RM'000	2011 RM'000	As at 1.1.2011 RM'000	2012 RM'000	2011 RM'000	As at 1.1.2011 RM'000	2012 RM'000	2011 RM'000	As at 1.1.2011 RM'000
<b>Group</b>									
Trade receivables - nominal amounts	-	-	884	179,850	191,850	191,850	179,850	191,850	192,734
Less: Allowances for impairment	-	-	(336)	(81,000)	(121,000)	(121,000)	(81,000)	(121,000)	(121,336)
		-	548	98,850	70,850	70,850	98,850	70,850	71,398



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**22. Other assets (continued)**

**a) Trade receivables (continued)**

Movement in the allowance accounts:

	<b>Group</b>		
	<b>2012</b>	<b>2011</b>	<b>As at</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>1.1.2011</b>
			<b>RM'000</b>
At 1 January	121,000	121,336	121,284
Charge for the year	-	114	52
Reversal of impairment loss	(40,000)	-	-
Deemed disposal of subsidiary	-	(450)	-
At 31 December	<u>81,000</u>	<u>121,000</u>	<u>121,336</u>

Trade receivables that are individually determined to be impaired at the reporting date relate to debtors that are late on payments.

**b) Inventories**

	<b>Group</b>		
	<b>2012</b>	<b>2011</b>	<b>As at</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>1.1.2011</b>
			<b>RM'000</b>
<b>Cost</b>			
Chemicals	898	760	933
Spare parts	140	172	151
Food and beverage	-	-	108
Stationery and general supplies	-	-	40
Islamic Gold Dinar	5	5	5
	<u>1,043</u>	<u>937</u>	<u>1,237</u>
<b>Net realisable value</b>			
Spare parts	601	601	653
	<u>1,644</u>	<u>1,538</u>	<u>1,890</u>

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22. Other assets (continued)

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

	Group and Company		
	2012 RM'000	2011 RM'000	As at 1.1.2011 RM'000
Nominal amounts	32,659	32,659	33,396
Cumulative interest income recognised in profit or loss	3,144	2,190	2,386
Less: Allowance for impairment	(10,993)	(10,993)	(8,578)
	<u>24,810</u>	<u>23,856</u>	<u>27,204</u>

Movement in the allowance account:

	Group and Company	
	2012 RM'000	2011 RM'000
At 1 January	10,993	8,578
Charge for the year	-	2,415
At 31 December	<u>10,993</u>	<u>10,993</u>

d) Amounts due from subsidiaries

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

e) Other investment

This represents the investment in Karamunsing Hotel Sdn. Bhd..

23. Properties held-for-sale

	Group			Company		
	2012 RM'000	2011 RM'000	As at 1.1.2011 RM'000	2012 RM'000	2011 RM'000	As at 1.1.2011 RM'000
Long-term leasehold land	<u>50,998</u>	<u>50,998</u>	<u>51,405</u>	<u>50,998</u>	<u>50,998</u>	<u>50,998</u>

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 deliver the possession of the said land upon full settlement of the consideration. As at 31 December 2012, the purchaser has paid amounts totaling RM47,000,000 (2011: RM45,000,000, 1 January 2011: RM40,000,000). The balance unpaid sum amounting to RM8,000,000 (2011: RM10,000,000, 1 January 2011: 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 2014.

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24. Investment properties

	Freehold land RM'000	Long term leasehold land RM'000	Total RM'000
<b>Group</b>			
<b>At cost</b>			
<b>At 1 January 2011</b>	5,927	15,397	21,324
Addition	-	-	-
<b>At 31 December 2011 and 1 January 2012</b>	5,927	15,397	21,324
Addition	-	2,929	2,929
<b>At 31 December 2012</b>	5,927	18,326	24,253
<b>Accumulated depreciation and impairment</b>			
<b>At 1 January 2011</b>	-	840	840
Depreciation for the year	-	191	191
<b>At 31 December 2011 and 1 January 2012</b>	-	1,031	1,031
Depreciation for the year	-	247	247
<b>At 31 December 2012</b>	-	1,278	1,278
<b>Net carrying amount</b>			
At 1 January 2011	5,927	14,557	20,484
At 31 December 2011	5,927	14,366	20,293
At 31 December 2012	5,927	17,048	22,975

**Notes to the financial statements  
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**24. Investment properties (continued)**

<b>Company</b>	<b>Long term leasehold land RM'000</b>	<b>Total RM'000</b>
<b>At cost</b>		
<b>At 1 January 2011 and 31 December 2011/ 1 January 2012 and 31 December 2012</b>	2,050	2,050
<b>Accumulated depreciation</b>		
<b>At 1 January 2011</b>	104	104
Depreciation for the year	27	27
<b>At 31 December 2011 and 1 January 2012</b>	131	131
Depreciation for the year	26	26
<b>At 31 December 2012</b>	157	157
<b>Net carrying amount</b>		
At 1 January 2011	1,946	1,946
At 31 December 2011	1,919	1,919
At 31 December 2012	1,893	1,893

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 RM5,927,000 (2011: RM5,927,000, 1 January 2011: RM5,927,000) 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 1 January 2011, there was a parcel of long term leasehold land with a carrying amount of RM7,000,000 was in the process of being registered in the name of the subsidiary.

As of 31 December 2012, the land title of a parcel of long term leasehold land of the Company with net carrying amount of RM188,000 (2011: RM188,000, 1 January 2011: RM188,000) is yet to be registered in the name of Company as the said land was pending sub-division of master title.

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**25. Investments in subsidiaries**

	<b>Company</b>		<b>As at</b>
	<b>2012</b>	<b>2011</b>	<b>1.1.2011</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Unquoted shares – at costs	4,438	4,438	4,420
Discounts on loans to a subsidiary	7,074	8,014	4,853
	<u>11,512</u>	<u>12,452</u>	<u>9,273</u>

<b>Name</b>	<b>Country of incorporation</b>	<b>Proportion (%) of ownership interest</b>		<b>Principal activities</b>
		<b>2012</b>	<b>2011</b>	
		<b>%</b>	<b>%</b>	
<b><i>Held by the Company</i></b>				
Sedia Usaha Sdn. Bhd.	Malaysia	100	100	Investment and property holding
Sabah Development Nominees (Tempatan) Sdn. Bhd.	Malaysia	100	100	Nominee services and insurance agency
SDB Asset Management Sdn. Bhd.	Malaysia	100	100	Management fund services
Sabah Gold Traders Sdn. Bhd.	Malaysia	80	80	Trading of gold dinar and silver dirham
Ekuiti Yakinjaya Sdn. Bhd.	Malaysia	100	-	Investment holding
<b><i>Held through Sedia Usaha Sdn. Bhd.</i></b>				
Kota Kinabalu Water Sdn. Bhd.	Malaysia	100	100	Investment holding
<b><i>Held through Kota Kinabalu Water Sdn. Bhd.</i></b>				
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.

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**26. Investments in associates**

	Group			Company		
	2012 RM'000	2011 RM'000	As at 1.1.2011 RM'000	2012 RM'000	2011 RM'000	As at 1.1.2011 RM'000
Unquoted shares, at costs	39,552	39,552	39,552	39,552	39,552	39,552
Share of post-acquisition reserves	30,399	25,628	23,699	-	-	-
Less: Accumulated impairment losses	-	-	-	(900)	(900)	(900)
	<u>69,951</u>	<u>65,180</u>	<u>63,251</u>	<u>38,652</u>	<u>38,652</u>	<u>38,652</u>

Name	Country of incorporation	Proportion of ownership interest		Principal activities
		2012 %	2011 %	
<b>Held by the Company</b>				
Asal Baru Sdn. Bhd.^	Malaysia	33.33	33.33	Property management and related services
Progressive Insurance Berhad*	Malaysia	38.65	38.65	Underwriting of all classes of general insurance business

^ Audited by a firm other than Ernst & Young

\* Audited by Ernst & Young, Malaysia.

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 RM97,000 (2011: RM233,000, 1 January 2011: RM334,000), of which RM136,000 (2011: RM104,000, 1 January 2011: RM119,000) 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:

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**26. Investments in associates (continued)**

	<b>Group</b>		
	<b>2012</b>	<b>2011</b>	<b>As at</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>1.1.2011</b>
			<b>RM'000</b>
<b>Assets and liabilities</b>			
Total assets	502,128	1,889	1,728
Total liabilities	<u>321,442</u>	<u>2,587</u>	<u>2,730</u>
	<b>Group</b>		
	<b>2012</b>	<b>2011</b>	<b>As at</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>1.1.2011</b>
			<b>RM'000</b>
<b>Results</b>			
Revenue	174,214	1,334	1343
Profit for the year	15,643	304	356
Other comprehensive income for the year	(42)	-	-
Total comprehensive income for the year	<u>15,601</u>	<u>311</u>	<u>-</u>

**27. Intangible asset**

	<b>Group</b>		
	<b>2012</b>	<b>2011</b>	<b>As at</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>1.1.2011</b>
			<b>RM'000</b>
<b>Water concession rights, at cost</b>			
At 1 January	214,846	214,846	214,846
Additions	<u>1,070</u>	<u>-</u>	<u>-</u>
At 31 December	<u>215,916</u>	<u>214,846</u>	<u>214,846</u>
Accumulated amortisation:			
At 1 January	121,304	116,850	112,396
Amortisation for the year (Note 10)	<u>4,455</u>	<u>4,454</u>	<u>4,454</u>
At 31 December	<u>125,759</u>	<u>121,304</u>	<u>116,850</u>
	<u>90,157</u>	<u>93,542</u>	<u>97,996</u>

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.

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**27. Intangible asset (continued)**

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 concession period has been extended for a further twenty years from the existing concession that ends on 4 June 2013.



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**28. Property, plant and equipment**

Group	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
<b>Cost:</b>									
<b>At 1 January 2011</b>	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)
<b>At 31 December 2011</b>	-	-	2,123	5,711	2,319	1,087	15,064	-	26,304
Additions	-	-	-	226	115	33	413	-	787
Disposals	-	-	-	(632)	(47)	-	-	-	(679)
<b>At 31 December 2012</b>	-	-	2,123	5,305	2,387	1,120	15,477	-	26,412
<b>Accumulated depreciation:</b>									
<b>At 1 January 2011</b>	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)
<b>At 31 December 2011</b>	-	-	2,084	3,436	2,189	965	5,826	-	14,500
Depreciation charge for the year (Note 10)	-	-	16	627	57	60	854	-	1,614
Disposals	-	-	-	(632)	(46)	-	-	-	(678)
<b>At 31 December 2012</b>	-	-	2,100	3,431	2,200	1,025	6,680	-	15,436
<b>Net carrying amount:</b>									
<b>At 1 January 2011</b>	1,659	41,088	58	785	816	140	7,683	2,308	54,537
<b>At 31 December 2011</b>	-	-	39	2,275	130	122	9,238	-	11,804
<b>At 31 December 2012</b>	-	-	23	1,874	187	95	8,797	-	10,976

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28. 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
<b>Company</b>					
<b>Cost:</b>					
<b>At 1 January 2011</b>	2,042	1,105	1,426	905	5,478
Reclassification	-	-	(13)	13	-
Additions	-	1,089	19	39	1,147
Disposals	-	(252)	(5)	(34)	(291)
<b>At 31 December 2011</b>	2,042	1,942	1,427	923	6,334
Additions	-	-	57	27	84
Disposals	-	(414)	(45)	-	(459)
<b>At 31 December 2012</b>	2,042	1,528	1,439	950	5,959
<b>Accumulated depreciation:</b>					
<b>At 1 January 2011</b>	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)
<b>At 31 December 2011</b>	2,041	994	1,398	832	5,265
Depreciation charge for the year (Note 10)	-	218	18	46	282
Disposals	-	(414)	(45)	-	(459)
<b>At 31 December 2012</b>	2,041	798	1,371	878	5,088
<b>Net carrying amount:</b>					
At 1 January 2011	1	60	23	115	199
At 31 December 2011	1	948	29	91	1,069
At 31 December 2012	1	730	68	72	871

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**29. Deferred tax**

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

	As at 1 January 2011 RM'000	Recognised in profit or loss RM'000	Recognised in equity RM'000	As at 31 December 2011 RM'000	Recognised in profit or loss RM'000	Recognised in equity RM'000	As at 31 December 2012 RM'000
<b>Group</b>							
<b>Deferred tax liabilities:</b>							
Intangible	(20,587)	944	-	(19,643)	944	-	(18,699)
Property, plant and equipment	(1,656)	(297)	-	(1,953)	(14)	-	(1,967)
	<u>(22,243)</u>	<u>647</u>	<u>-</u>	<u>(21,596)</u>	<u>930</u>	<u>-</u>	<u>(20,666)</u>
<b>Deferred tax assets:</b>							
Securities held-for-trading	-	991	-	991	(186)	-	805
Securities available-for-sale	-	2,721	768	3,489	2,392	(438)	5,443
Loans, advances and financing	10,542	(4,623)	-	5,919	3,472	-	9,391
Derivative financial instruments	-	478	-	478	(478)	-	-
Other receivables	22,750	-	-	22,750	(538)	-	22,212
Property, plant and equipment	35	(29)	-	6	(26)	-	(20)
Other liabilities	-	627	-	627	(399)	-	228
Defined benefit obligations	1,031	610	-	1,641	(5)	-	1,636
	<u>34,358</u>	<u>775</u>	<u>768</u>	<u>35,901</u>	<u>4,232</u>	<u>(438)</u>	<u>39,695</u>
	<u>12,115</u>	<u>1,422</u>	<u>768</u>	<u>14,305</u>	<u>5,162</u>	<u>(438)</u>	<u>19,029</u>

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**29. Deferred tax (continued)**

	As at 1 January 2011 RM'000	Recognised in profit or loss RM'000	Recognised in equity RM'000	As at 31 December 2011 RM'000	Recognised in profit or loss RM'000	Recognised in equity RM'000	As at 31 December 2012 RM'000
<b>Company</b>							
<b>Deferred tax assets:</b>							
Securities held-for-trading	-	991	-	991	(186)	-	805
Securities available-for-sale	-	2,721	768	3,489	2,392	(438)	5,443
Loans, advances and financing	10,542	(4,623)	-	5,919	3,472	-	9,391
Derivative financial instruments	-	478	-	478	(478)	-	-
Other assets	-	-	-	-	1,962	-	1,962
Property, plant and equipment	35	(29)	-	6	(26)	-	(20)
Other liabilities	-	627	-	627	(399)	-	228
Defined benefit obligations	1,031	610	-	1,641	(5)	-	1,636
	<b>11,608</b>	<b>775</b>	<b>768</b>	<b>13,151</b>	<b>6,732</b>	<b>(438)</b>	<b>19,445</b>

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**29. Deferred tax (continued)**

Presented after appropriate offsetting as follows:

	Group			Company		
	2012	2011	As at	2012	2011	As at
	RM'000	RM'000	1.1.2011	RM'000	RM'000	1.1.2011
			RM'000			RM'000
Deferred tax assets	20,970	16,221	13,741	19,445	13,151	11,608
Deferred tax liabilities	(1,941)	(1,916)	(1,626)	-	-	-
	<u>19,029</u>	<u>14,305</u>	<u>12,115</u>	<u>19,445</u>	<u>13,151</u>	<u>11,608</u>
Unutilised tax losses and unabsorbed capital allowances	2,567	2,154	50,548	-	-	-
Temporary differences arising from property, plant and equipment	-	-	(17,980)	-	-	-
	<u>2,567</u>	<u>2,154</u>	<u>32,568</u>	<u>-</u>	<u>-</u>	<u>-</u>

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.

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**30. Deposits from customers**

	Group			Company		
	2012 RM'000	2011 RM'000	As at 1.1.2011 RM'000	2012 RM'000	2011 RM'000	As at 1.1.2011 RM'000
Fixed deposits	<u>1,009,374</u>	<u>1,071,542</u>	<u>1,147,172</u>	<u>1,019,624</u>	<u>1,080,787</u>	<u>1,152,780</u>

The maturity structure of fixed deposits is as follows:

	Group			Company		
	2012 RM'000	2011 RM'000	As at 1.1.2011 RM'000	2012 RM'000	2011 RM'000	As at 1.1.2011 RM'000
One year or less	459,374	521,542	597,172	469,624	530,787	602,780
More than one year	<u>550,000</u>	<u>550,000</u>	<u>550,000</u>	<u>550,000</u>	<u>550,000</u>	<u>550,000</u>
	<u>1,009,374</u>	<u>1,071,542</u>	<u>1,147,172</u>	<u>1,019,624</u>	<u>1,080,787</u>	<u>1,152,780</u>

The deposits are sourced from the following types of customers:

	Group			Company		
	2012 RM'000	2011 RM'000	As at 1.1.2011 RM'000	2012 RM'000	2011 RM'000	As at 1.1.2011 RM'000
State Government of Sabah	930,018	980,018	1,060,018	930,018	980,018	1,060,018
Government-owned enterprises	59,527	71,364	67,723	59,527	71,364	67,723
Statutory authorities	18,512	18,871	18,343	18,512	18,871	18,343
Subsidiaries	-	-	-	10,250	9,245	5,608
Associate	<u>1,317</u>	<u>1,289</u>	<u>1,088</u>	<u>1,317</u>	<u>1,289</u>	<u>1,088</u>
	<u>1,009,374</u>	<u>1,071,542</u>	<u>1,147,172</u>	<u>1,019,624</u>	<u>1,080,787</u>	<u>1,152,780</u>

**31. Borrowings**

	Group and Company		
	2012 RM'000	2011 RM'000	As at 1.1.2011 RM'000
<b>Unsecured:</b>			
<b>Non-current</b>			
Medium Term Notes:			
- Y2008 CP/MTN Programmes	360,000	360,000	60,000
- Y2011 CP/MTN Programmes	420,000	420,000	-
- Y2012 CP/MTN Programmes	<u>500,000</u>	<u>-</u>	<u>-</u>
	<u>1,280,000</u>	<u>780,000</u>	<u>60,000</u>

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**31. Borrowings (continued)**

	Group and Company		As at
	2012 RM'000	2011 RM'000	1.1.2011 RM'000
<b>Current</b>			
Medium Term Notes:			
- Y2008 CP/MTN Programmes	-	290,000	290,000
- Y2012 CP/MTN Programmes	110,000	-	-
Commercial Papers:			
- Y2008 CP/MTN Programmes	500,000	350,000	360,000
- Y2011 CP/MTN Programmes	350,000	-	-
Revolving credits	20,000	93,000	197,000
RM 5-year bonds	-	-	380,000
	<u>980,000</u>	<u>733,000</u>	<u>1,227,000</u>
Total borrowings	<u>2,260,000</u>	<u>1,513,000</u>	<u>1,287,000</u>

RM1,000 million CP and/or MTN Programmes (within line, RM500 million CP Programme)  
("Y2008 CP/MTN Programmes")

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 CP/MTN in series or tranches, denominated in RM.

As at 31 December 2012, the MTN issued under this programme due from 2014 to 2018 (2011: 2012 to 2018, 1 January 2011: 2011 to 2018) and bore interest ranging from 4.43% to 5.25% (2011: 3.88% to 5.25%, 1 January 2011: 3.90% to 5.25%) per annum.

As at 31 December 2012, CP issued under this programme bore interest at rates ranging from 3.40% to 3.42% (2011: 3.41% to 3.60%, 1 January 2011: 3.09% to 3.25%) per annum and have maturity period of less than two months.

RM1.0 billion CP and/or MTN Programmes (within line, RM1.0 billion CP Programme)  
("Y2011 CP/MTN Programmes")

In January 2011, the Company established a RM1.0 billion nominal value Commercial Papers Programme and RM1.0 billion nominal value MTN Programme with the aggregate outstanding of CP and/or MTN not exceeding RM1.0 billion in nominal value at any point in time. Under these programmes, the Company may from time to time issue CP/MTN in series or tranches, denominated in RM.

As at 31 December 2012, MTN issued under this programme due from 2016 to 2018 and bore interest ranging from 4.43% to 4.75% (2011: 4.43% to 4.75%) per annum.

As at 31 December 2012, CP issued under this programme bore interest at rates ranging from 3.35% to 3.42% per annum and have maturity period of less than two months.

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**31. Borrowings (continued)**

RM1.0 billion CP and/or MTN Programmes (within line, RM1.0 billion CP Programme)  
("Y2012 CP/MTN Programme")

In July 2012, the Company established a RM1.0 billion nominal value Commercial Papers Programme and RM1.0 billion nominal value MTN Programme with the aggregate outstanding of CP and/or MTN not exceeding RM1.0 billion in nominal value at any point in time. Under these programmes, the Company may from time to time issue CP/MTN in series or tranches, denominated in RM.

During the financial year, the Company issued RM610 million MTN under this programme.

As at 31 December 2012, MTN issued under this programme due from 2013 to 2022 and bore interest ranging from 3.55% to 4.55% per annum.

Revolving credits

As at 31 December 2012, revolving credits facilities bear interest at 3.30% (2011: 3.32%, 1 January 2011: 2.75%). The revolving credits facilities have maturity of 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 previous financial year.

**32. Other liabilities**

	Group			Company		
	2012 RM'000	2011 RM'000	As at 1.1.2011 RM'000	2012 RM'000	2011 RM'000	As at 1.1.2011 RM'000
Amount due to holding entity	1,260	407	32,594	1,260	407	32,594
Amount due to subsidiary	-	-	-	-	350	-
Amounts due to directors	566	379	879	-	-	-
Amount due to minority shareholder	115	115	115	-	-	-
Trade payables	2,419	2,356	2,809	-	-	-
Interest payable	33,513	30,344	27,907	33,671	30,344	27,907
Other payables	2,775	3,378	6,270	651	433	3,469
Deposits	48,341	46,564	42,999	48,332	46,555	42,956
Accrued expenses	4,362	4,030	4,295	2,645	2,924	2,351
	<u>93,351</u>	<u>87,573</u>	<u>117,868</u>	<u>86,559</u>	<u>81,013</u>	<u>109,277</u>



**Notes to the financial statements  
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**32. Other liabilities (continued)**

**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 (2011: 30-day to 60-day, 1 January 2011: 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 (2011: 30-day to 60-day, 1 January 2011: 30-day to 60-day) terms.

**d) Deposits**

Included in deposits of the Group and of the Company is an amount of RM47,000,000 (2011: RM45,000,000, 1 January 2011: 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 RM833,000 (2011: RM1,069,000, 1 January 2011: RM832,000).

**33. Defined benefit obligations**

	<b>Group and Company</b>		<b>As at</b>
	<b>2012</b>	<b>2011</b>	<b>1.1.2011</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
At 1 January	6,564	4,123	3,802
Current service costs	814	2,883	379
Benefits paid	(833)	(442)	(58)
At 31 December	<u>6,545</u>	<u>6,564</u>	<u>4,123</u>

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.

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**34. Share capital**

	Number of ordinary shares of RM1 each		Amount	
	2012 '000	2011 '000	2012 RM'000	2011 RM'000
<b>Issued and fully paid-up share capital</b>				
At 1 January	430,000	430,000	430,000	430,000
Issued during the year	<u>70,000</u>	<u>-</u>	<u>70,000</u>	<u>-</u>
At 31 December	<u>500,000</u>	<u>430,000</u>	<u>500,000</u>	<u>430,000</u>
<b>Authorised share capital</b>				
At 1 January	430,000	430,000	430,000	430,000
Created during the year	<u>70,000</u>	<u>-</u>	<u>70,000</u>	<u>-</u>
At 31 December	<u>500,000</u>	<u>430,000</u>	<u>500,000</u>	<u>430,000</u>

The holder of ordinary shares is 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's residual assets.

**Issue of shares**

During the financial year, the Company increased its:

- authorised share capital from RM430,000,000 to RM500,000,000 by the creation of 70,000,000 ordinary shares of RM1 each; and
- issued and paid-up ordinary share capital from RM430,000,000 to RM500,000,000 by an allotment of 70,000,000 ordinary shares of RM1 each at par for cash.

**35. Fair value adjustment reserve**

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.

**36. 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.

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**36. Retained earnings (continue)**

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 2012 and 2011 to distribute cash dividend payments to ordinary shareholdings as defined under the Finance Act 2007. As at 31 December 2012, the Company has sufficient credit in the 108 balance and balance in the tax exempt income account to pay franked dividends amounting to RM70,547,000 out of its retained earnings. If the balance of the retained earnings of RM164,505,000 were to be distributed as dividends, the Company may distribute such dividends under the single tier system. As at 31 December 2011, the Company has sufficient credit in the 108 balance to pay franked dividends out of its entire retained earnings.

As at 31 December 2012, the Company has sufficient balance in the tax exempt income account to pay franked dividends amounting to RM436,000 out of its retained earnings (2011: RM436,000, 1 January 2011: RM436,000).

**37. 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	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Sale of bulk water and services rendered to holding entity	60,841	61,377	-	-
Interest paid to:				
- holding entity	39,123	39,763	39,123	39,763
- subsidiaries	-	-	330	243
- an associate	209	40	209	40
Interest received from subsidiaries	-	-	29,484	29,963
Service fee paid to an associate	127	127	127	127
Rental expense paid to holding entity	483	503	433	433

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	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Short-term employee benefits	3,087	3,937	1,675	2,376
EPF and social security contributions	297	374	135	248
Other short term benefits	767	345	737	345
	<u>4,151</u>	<u>4,656</u>	<u>2,547</u>	<u>2,969</u>

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**38 Lease commitments**

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

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Future minimum lease payments:				
Not later than one year	79	349	-	217
Later than one year and not later than five years	-	159	-	-
	<u>79</u>	<u>508</u>	<u>-</u>	<u>217</u>
Future minimum lease receivable:				
Not later than one year	-	90	-	-
Later than one year and not later than five years	-	-	-	-
	<u>-</u>	<u>90</u>	<u>-</u>	<u>-</u>

**39. 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		
	2012 RM'000	2011 RM'000	As at 1.1.2011 RM'000	2012 RM'000	2011 RM'000	As at 1.1.2011 RM'000
Capital expenditure:						
Approved and contracted for	2,560	3,016	4,233	97	106	112
Approved but not contracted for	13,012	8,432	-	-	-	-
Irrevocable commitments to extend credit with maturity exceeding one year	2,077,651	1,038,002	783,687	2,077,651	1,038,002	783,687
Guarantees issued	<u>275,394</u>	<u>239,666</u>	<u>231,484</u>	<u>275,394</u>	<u>239,666</u>	<u>231,484</u>
	<u>2,368,617</u>	<u>1,289,116</u>	<u>1,019,404</u>	<u>2,353,142</u>	<u>1,277,774</u>	<u>1,015,283</u>

**Notes to the financial statements  
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**40. 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:

	<b>Group</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Assets</b>				
Securities held-for-trading				
- 2012	35,554	-	-	35,554
- 2011	26,756	-	-	26,756
- 1.1.2011	30,034	-	-	30,034
Securities available-for-sale				
- 2012	101,049	-	-	101,049
- 2011	8,054	-	-	8,054
- 1.1.2011	8,283	-	-	8,283
Derivative assets				
- 2012	-	-	-	-
- 2011	-	8	-	8
- 1.1.2011	-	-	-	-
<b>Liabilities</b>				
Derivative liabilities				
- 2012	-	862	-	862
- 2011	-	1,922	-	1,922
- 1.1.2011	-	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 2012 and 2011.

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40. Fair value of financial instruments (continued)

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	2012		2011		As at 1.1.2011	
		Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
<b>Financial assets:</b>							
Securities held-to-maturity	19	34,000	#	-	-	-	-
Redeemable convertible secured loan stocks and redeemable secured loan stocks	22	24,810	#	23,856	#	27,204	#
Borrowings (non-current)	31	1,280,000	1,280,000	780,000	780,000	60,000	60,000

\* Fair value information has not been disclosed for these financial instruments 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:

	<u>Note</u>
Cash and short-term funds	15
Deposits and placements with financial institutions	16
Loans, advances and financing	20
Other assets	22
Deposits from customers	30
Borrowings (current)	31
Other liabilities	32

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.

**Notes to the financial statements  
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**41. 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.

Notes to the financial statements  
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41. Financial risk management objectives and policies (continued)

a) Financial instrument by category

	Group			Company		
	2012	2011	As at	2012	2011	As at
	RM'000	RM'000	1.1.2011	RM'000	RM'000	1.1.2011
			RM'000			RM'000
<b>Financial assets</b>						
<u>Financial assets at fair value through profit or loss:</u>						
- Securities held-for-trading	35,554	26,756	30,034	35,554	26,756	30,034
- Derivative assets	-	8	-	-	8	-
<u>Loans and receivables:</u>						
- Cash and short-term funds	72,736	13,797	30,407	63,571	7,605	8,348
- Deposits and placements with financial institutions	85,276	75,176	78,580	46,918	59,308	67,738
- Loans, advances and financing	2,654,368	2,277,372	2,085,646	3,271,629	2,771,453	2,554,326
- Other assets	713,936	623,641	532,992	516,496	363,759	370,658
<u>Available for sale financial assets</u>						
Securities available-for-sale	101,049	8,054	8,283	4,434	7,854	8,083
<u>Held to maturity financial assets</u>						
Securities held-to-maturity	34,000	-	-	34,000	-	-
<b>Financial liabilities</b>						
<u>Financial liabilities held for trading</u>						
Derivative liabilities	862	1,922	1,087	862	1,922	1,087
<u>Other financial liabilities</u>						
-Deposits from customers	1,009,374	1,071,542	1,147,172	1,019,624	1,080,787	1,152,780
-Borrowings	2,260,000	1,513,000	1,287,000	2,260,000	1,513,000	1,287,000
-Other liabilities	93,351	87,573	117,868	86,559	81,013	109,277



**Notes to the financial statements  
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**41. 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.

Exposure to credit risk

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.

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**41. Financial risk management objectives and policies (continued)**

**b) Credit risk (continued)**

	Group			Company		
	2012	2011	As at	2012	2011	As at
	RM'000	RM'000	1.1.2011	RM'000	RM'000	1.1.2011
			RM			RM
<b>Credit exposures for on-balance sheet assets:</b>						
Cash and short term funds – money at call	72,736	13,797	30,407	63,571	7,605	8,348
Deposits and placements with financial institutions	85,276	75,176	78,580	46,918	59,308	67,738
Securities held-for- trading	35,554	26,756	30,034	35,554	26,756	30,034
Securities held-for sale	101,049	8,054	8,283	4,434	7,854	8,083
Securities held-to-maturity	34,000	-	-	34,000	-	-
Loans, advances and financing	2,654,368	2,277,372	2,085,646	3,271,629	2,771,453	2,554,326
Other assets – loans and receivables	713,936	623,641	532,992	516,496	363,759	370,658
	<u>3,696,919</u>	<u>3,024,796</u>	<u>2,765,942</u>	<u>3,972,602</u>	<u>3,236,735</u>	<u>3,039,187</u>
<b>Credit exposure for off-balance sheet items:</b>						
Irrevocable commitments to extend credit	2,077,651	1,038,002	783,687	2,077,651	1,038,002	783,687
Guarantees issued	275,394	239,666	231,484	275,394	239,666	231,484
	<u>2,353,045</u>	<u>1,277,668</u>	<u>1,015,171</u>	<u>2,353,045</u>	<u>1,277,668</u>	<u>1,015,171</u>
<b>Total maximum credit risk exposure</b>	<u>6,049,964</u>	<u>4,302,464</u>	<u>3,781,113</u>	<u>6,325,647</u>	<u>4,514,403</u>	<u>4,054,358</u>

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 234% (2011: 208%) and 190% (2011: 171%) as at 31 December 2012. The financial effect of collateral held for other financial assets is not significant.

**Notes to the financial statements  
For the financial year ended 31 December 2012**

**41. 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.

Notes to the financial statements  
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41. 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.

2012 Group	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
<b>Financial assets:</b>					
Cash and short-term funds	72,736	-	-	-	72,736
Deposits and placements with financial institutions	85,276	-	-	-	85,276
Securities held-for-trading	35,554	-	-	-	35,554
Securities available-for-sale	-	-	-	101,049	101,049
Securities held-to-maturity	-	-	-	34,000	34,000
Loans, advances and financing	1,455,099	825,542	208,277	165,450	2,654,368
Derivative assets	-	-	-	-	-
Other assets	713,936	-	-	-	713,936
	<b>2,362,601</b>	<b>825,542</b>	<b>208,277</b>	<b>300,499</b>	<b>3,696,919</b>
<b>Financial liabilities:</b>					
Other liabilities	46,351	47,000	-	-	93,351
Deposits from customers	459,374	550,000	-	-	1,009,374
Borrowings	980,000	-	770,000	510,000	2,260,000
Derivative liabilities	862	-	-	-	862
	<b>1,486,587</b>	<b>597,000</b>	<b>770,000</b>	<b>510,000</b>	<b>3,363,587</b>
	<b>876,014</b>	<b>228,542</b>	<b>(561,723)</b>	<b>(209,501)</b>	<b>333,332</b>

Notes to the financial statements  
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41. Financial risk management objectives and policies (continued)

c) Liquidity risk (continued)

Analysis of financial instruments by remaining contractual maturities (continued)

	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
<b>2011 Group</b>					
<b>Financial assets:</b>					
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
	<u>1,818,696</u>	<u>678,060</u>	<u>194,567</u>	<u>333,481</u>	<u>3,024,804</u>
<b>Financial liabilities:</b>					
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
Derivatives liabilities	-	1,922	-	-	1,922
	<u>1,295,105</u>	<u>47,592</u>	<u>581,340</u>	<u>750,000</u>	<u>2,674,037</u>
	<u>523,591</u>	<u>630,468</u>	<u>(386,773)</u>	<u>(416,519)</u>	<u>350,767</u>

Notes to the financial statements  
For the financial year ended 31 December 2012

41. Financial risk management objectives and policies (continued)

c) Liquidity risk (continued)

Analysis of financial instruments by remaining contractual maturities (continued)

2012 Company	Less than 1 month RM'000	1-3 months RM'000	3 months to 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
<b>Financial assets:</b>							
Cash and short-term funds	63,571	-	-	-	-	-	63,571
Deposits and placements with financial institutions	24,524	380	22,014	-	-	-	46,918
Securities held-for-trading	35,554	-	-	-	-	-	35,554
Securities available-for-sale	-	-	-	-	-	4,434	4,434
Securities held-to-maturity	-	-	-	-	-	34,000	34,000
Loans, advances and financing	1,185,350	27	886,983	825,543	208,277	165,449	3,271,629
Other assets	516,496	-	-	-	-	-	516,496
	<u>1,825,495</u>	<u>407</u>	<u>908,997</u>	<u>825,543</u>	<u>208,277</u>	<u>203,883</u>	<u>3,972,602</u>
<b>Financial liabilities:</b>							
Other liabilities	9,894	17,307	12,358	47,000	-	-	86,559
Deposits from customers	91,074	35,047	343,503	550,000	-	-	1,019,624
Borrowings	660,000	210,000	110,000	-	770,000	510,000	2,260,000
Derivative liabilities	-	-	862	-	-	-	862
	<u>760,968</u>	<u>262,354</u>	<u>466,723</u>	<u>597,000</u>	<u>770,000</u>	<u>510,000</u>	<u>3,367,045</u>
	<u>1,064,527</u>	<u>(261,947)</u>	<u>442,274</u>	<u>228,543</u>	<u>(561,723)</u>	<u>(306,117)</u>	<u>605,557</u>

Notes to the financial statements  
For the financial year ended 31 December 2012

41. 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	More than 1 and less than 5 years RM'000	More than 2 and less than 5 years RM'000	More than 5 years RM'000	Total RM'000
<b>Company</b>							
<b>Financial assets:</b>							
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	569,456	175,261	103,694	2,771,453
Derivative assets	-	8	-	-	-	-	8
Other assets	363,759	-	-	-	-	-	363,759
	<b>1,516,568</b>	<b>391</b>	<b>863,519</b>	<b>569,456</b>	<b>175,261</b>	<b>111,548</b>	<b>3,236,743</b>
<b>Financial liabilities:</b>							
Other liabilities	11,463	12,677	9,863	45,670	1,340	-	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
	<b>266,687</b>	<b>375,677</b>	<b>655,426</b>	<b>47,592</b>	<b>581,340</b>	<b>750,000</b>	<b>2,676,722</b>
	<b>1,249,881</b>	<b>(375,286)</b>	<b>208,093</b>	<b>521,864</b>	<b>(406,079)</b>	<b>(638,452)</b>	<b>560,021</b>

**Notes to the financial statements  
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**41. 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 RM322,000 (2011: RM591,000) and RM785,000 (2011: RM962,000) 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.



**Notes to the financial statements  
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**41. 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 RM1,333,000 (2011: RM1,003,000) and RM1,333,000 (2011: RM1,003,000) 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 RM4,987,000 (2011: RM260,000) and RM166,000 (2011: RM260,000) higher/lower, arising as a result of an increase/decrease in the fair value of equity instruments classified as available-for-sale.

**42. 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 2011.

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 2012 and 31 December 2011.

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%.

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**42. Capital management (continued)**

	Group			Company		
	2012 RM'000	2011 RM'000	As at 1.1.2011 RM'000	2012 RM'000	2011 RM'000	As at 1.1.2011 RM'000
Debt - borrowings	2,260,000	1,513,000	1,287,000	2,260,000	1,513,000	1,287,000
Capital – total equity	600,174	609,121	517,836	734,061	667,710	598,914
Less: fair value adjustment reserve	(1,204)	1,555	(3,989)	991	2,305	(2,107)
Total capital	<u>598,970</u>	<u>610,676</u>	<u>513,847</u>	<u>735,052</u>	<u>670,015</u>	<u>596,807</u>
Capital and net debt	<u>2,858,970</u>	<u>2,123,676</u>	<u>1,800,847</u>	<u>2,995,052</u>	<u>2,183,015</u>	<u>1,883,807</u>
<b>Gearing ratio</b>	<u>79%</u>	<u>71%</u>	<u>71%</u>	<u>75%</u>	<u>69%</u>	<u>68%</u>

**43. Islamic banking business**

The financial performance for the financial year ended 31 December 2012 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 2012**

	Note	Group and Company	
		2012 RM'000	2011 RM'000
Income	(a)	765	776
Write-back of allowance for impairment losses on loans and financing	(b)	<u>11</u>	<u>11</u>
Total income		<u>776</u>	<u>787</u>
Other expense		-	-
Profit for the year		<u>776</u>	<u>787</u>
Other comprehensive income		-	-
Total comprehensive income for the year		<u>776</u>	<u>787</u>
Retained earnings brought forward		<u>9,418</u>	<u>8,631</u>
Retained earnings carried forward	(c)	<u>10,194</u>	<u>9,418</u>

Notes to the financial statements  
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43. Islamic banking business (continued)

Statement of financial position as of 31 December 2012

	Note	Group and Company		
		2012 RM'000	2011 RM'000	As at 1.1.2011 RM'000
<b>Assets</b>				
Cash and short-term funds	(d)	40	14	1
Deposits and placements with financial institutions	(e)	21,714	20,951	20,158
Financing assets	(f)	61	74	93
<b>Total assets</b>		<u>21,815</u>	<u>21,039</u>	<u>20,252</u>
<b>Islamic banking funds</b>	(c)	<u>21,815</u>	<u>21,039</u>	<u>20,252</u>

a) Income

	Group and Company	
	2012 RM'000	2011 RM'000
Income derived from investment of funds allocated:		
Mudharabah placements	763	772
Income from financing	2	4
	<u>765</u>	<u>776</u>

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

	Group and Company	
	2012 RM'000	2011 RM'000
Individual impairment losses written back during the financial year	11	11
Collective impairment losses written back during the financial year	-	-
	<u>11</u>	<u>11</u>

c) Islamic banking funds

	Group and company		
	2012 RM'000	2011 RM'000	As at 2011 RM'000
Funds allocated	11,621	11,621	11,621
Retained earnings	10,194	9,418	8,631
	<u>21,815</u>	<u>21,039</u>	<u>20,252</u>

Notes to the financial statements  
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43. Islamic banking business (continued)

d) Cash and short-term funds

	Group and Company		
	2012	2011	As at 1.1.2011
	RM'000	RM'000	RM'000
Cash and bank balances with banks and other financial institutions	<u>40</u>	<u>14</u>	<u>1</u>

e) Deposits and placements with financial institutions

	Group and Company		
	2012	2011	As at 1.1.2011
	RM'000	RM'000	RM'000
Money market instrument: Mudharabah placements	<u>21,714</u>	<u>20,951</u>	<u>20,158</u>

f) Financing assets

Term financing	677	702	735
Unearned income	<u>(6)</u>	<u>(8)</u>	<u>(10)</u>
Gross financing assets	<u>671</u>	<u>694</u>	<u>725</u>
Less:			
Allowance for impairment losses:			
Individual	(609)	(619)	(631)
Collective	<u>(1)</u>	<u>(1)</u>	<u>(1)</u>
	<u>(610)</u>	<u>(620)</u>	<u>(632)</u>
Net financing assets	<u>61</u>	<u>74</u>	<u>93</u>

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

	Group and Company		
	2012	2011	As at 1.1.2011
	RM'000	RM'000	RM'000
Al-Bai' Baithaman Ajil	<u>671</u>	<u>694</u>	<u>725</u>

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**43. Islamic banking business (continued)**

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

	<b>Group and Company</b>		
	<b>2012</b>	<b>2011</b>	<b>As at 1.1.2011</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Within one year	613	624	633
Over five years	58	70	92
	<u>671</u>	<u>694</u>	<u>725</u>

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

	<b>Group and Company</b>		
	<b>2012</b>	<b>2011</b>	<b>As at 1.1.2011</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Housing	58	70	92
Others	613	624	633
	<u>671</u>	<u>694</u>	<u>725</u>

**44. Dividends**

	<b>Group and Company</b>	
	<b>2012</b>	<b>2011</b>
	<b>RM'000</b>	<b>RM'000</b>

**Recognised during the financial year:**

Dividends on ordinary shares:

- First interim dividend for 2012: 10.46% less 25% taxation, on 430,000,000 ordinary shares (10.46 sen per ordinary share)	33,750	-
- Second interim dividend for 2012: 21.86% less 25% taxation, on 430,000,000 ordinary shares (21.86 sen per ordinary share)	70,500	-
- Third interim dividend for 2012: 23.49% less 25% taxation, on 430,000,000 ordinary shares (23.49 sen per ordinary share)	75,750	-
	<u>180,000</u>	<u>-</u>

**Notes to the financial statements  
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**45. Event occurring after the reporting date**

On 22 March 2013, a subsidiary of the company, Ekuiti Yakinjaya Sdn. Bhd., completed the acquisition of 100% equity interest in Adamus Avenue Sdn. Bhd. for a purchase consideration of RM3,095,720. In connection with the acquisition, the subsidiary entered into a Share Option Agreement with the vendors and Adamus Avenue Sdn. Bhd. on the even date whereby the subsidiary granted to the vendors an irrevocable option entitling the vendors to jointly subscribe for a certain number of ordinary shares in Adamus Avenue Sdn. Bhd. calculated and determined as set out in the Share Option Agreement during a specified period and subject to the strict compliance of certain conditions as set out in the Share Option Agreement. The period specified is from 1 May 2015 to 30 October 2015, or the date which is 3 months prior to the first submission of the application for listing of the shares in a company which the subsidiary intends to make as a vehicle for public listing to the relevant authorities, whichever is the later.

Adamus Avenue Sdn. Bhd. group of companies ("Adamus Group") is principally involved in the provision of floating oil and gas facility solutions and services, and exploration and production activities in the upstream oil and gas sector. Currently, Adamus Group has 3 contracts to lease floating, production, storage and off loading facility ("FPSO") and a floating, storage and off loading facility ("FSO") to third parties. One of the FPSO is in the conversion phase and is expected to be operational in July 2014 and the other FPSO and FSO are currently in operation.

The Adamus Group also has a Production Sharing Contract with a third party for the Ujung Kulon Exploration and Production Block in Indonesia.

**46. Authorisation of financial statements for issue**

The financial statements for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the directors on 28 May 2013.