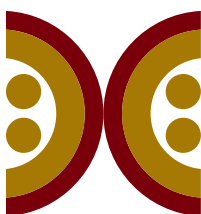


STRICTLY PRIVATE & CONFIDENTIAL

Serial No:



SABAH DEVELOPMENT BANK BERHAD
(Company No. 34638-W)

INFORMATION MEMORANDUM

PROPOSED RM500.0 MILLION NOMINAL VALUE COMMERCIAL PAPERS (“CPs”) PROGRAMME (“CP PROGRAMME”) AND RM1,000.0 MILLION NOMINAL VALUE MEDIUM TERM NOTES (“MTNs”) PROGRAMME (“MTN PROGRAMME”) WITH THE AGGREGATE OUTSTANDING CPs AND/OR MTNs NOT EXCEEDING RM1,000.0 MILLION IN NOMINAL VALUE

JOINT PRINCIPAL ADVISERS, JOINT LEAD ARRANGERS AND JOINT LEAD MANAGERS



AmInvestment Bank

AMINVESTMENT BANK BERHAD
(Company No. 23742-V)



CIMB INVESTMENT BANK BERHAD
(Company No. 18417-M)

This Information Memorandum is dated 3 March 2008

IMPORTANT NOTICE

THE PROPOSED RM500.0 MILLION NOMINAL VALUE COMMERCIAL PAPERS (“CPs”) PROGRAMME (“CP PROGRAMME”) AND RM1,000.0 MILLION NOMINAL VALUE MEDIUM TERM NOTES (“MTNs”) PROGRAMME (“MTN PROGRAMME”) WITH THE AGGREGATE OUTSTANDING CPs AND/OR MTNs NOT EXCEEDING RM1,000.0 MILLION IN NOMINAL VALUE AT ANY POINT IN TIME (COLLECTIVELY KNOWN AS THE “PROGRAMMES”) BY SABAH DEVELOPMENT BANK BERHAD (COMPANY NO. 34638-W) (THE “ISSUER” OR “SDB”), SHALL NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY NOR MAY THIS INFORMATION MEMORANDUM AND ITS CONTENTS OR ANY DOCUMENTS OR OTHER MATERIALS IN CONNECTION THEREWITH BE DISTRIBUTED IN MALAYSIA OTHER THAN TO CATEGORIES OF PERSONS (“QUALIFIED PERSON”):

- I. IN RELATION TO ISSUANCE OF NOTES, TO WHOM AN ISSUE OF, OR AN OFFER OR INVITATION TO SUBSCRIBE THE NOTES WOULD FALL WITHIN (A) SCHEDULE 6 OR SECTION 229(1)(b); (B) SCHEDULE 7 OR SECTION 230(1)(b); AND (C) SCHEDULE 9 OR SECTION 257(3) OF THE CAPITAL MARKETS AND SERVICES ACT, 2007 AS AMENDED FROM TIME TO TIME (“CMSA”); AND**
- II. IN RELATION TO SECONDARY TRADING OF THE NOTES, TO WHOM AN OFFER OR INVITATION TO PURCHASE THE NOTES WOULD FALL WITHIN (A) SCHEDULE 6 OR SECTION 229(1)(b); AND (B) SCHEDULE 9 OR SECTION 257(3) OF THE CMSA.**

Responsibility Statements

This Information Memorandum has been approved by the directors of the Issuer and the Issuer accepts full responsibility for the accuracy of the information contained in this Information Memorandum. The Issuer, after having made all reasonable enquiries, confirms that all information contained in this Information Memorandum is true and correct in all material respects, that there is no omission of a material fact which would make the information contained in this Information Memorandum, in the light of the circumstances under which it is provided, misleading, and that the opinions and intentions expressed in the information contained in this Information Memorandum are honestly held. Enquiries have been made by the Issuer to ascertain all material facts have been disclosed and to verify the accuracy of all such information and statements. In this context, the Issuer accepts full responsibility for such information contained in this Information Memorandum.

Important Notice and General Statement of Disclaimer

This Information Memorandum is being furnished on a private and confidential basis solely for the purpose of enabling prospective investors to consider the purchase of the Notes.

It is a condition to the first issuance that the CPs and the MTNs are assigned a rating of P1 and AA1, respectively from RAM Rating Services Berhad. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the rating agency.

None of the information or data contained in this Information Memorandum has been independently verified by AmInvestment Bank Bhd (Company No. 23742-V) and CIMB Investment Bank Berhad (Company No. 18417-M) as joint lead arrangers and joint lead managers (the “**Joint Lead Arrangers/Joint Lead Managers**”). Accordingly, no representation, warranty or undertaking, express or implied, is given or assumed by the Joint Lead Arrangers/Joint Lead Managers as to the authenticity, origin, validity, accuracy or completeness of such information and data or that the information or data remains unchanged in any respect after the relevant date shown in this Information Memorandum. The Joint Lead Arrangers/Joint Lead Managers have not accepted and will not accept any responsibility for the information and data contained in this Information Memorandum or otherwise in relation to the Notes and shall not be liable for any consequences of reliance on any of the information or data in this Information Memorandum, except as provided by Malaysian laws.

The information in this Information Memorandum supersedes all other information and material previously supplied (if any) to the recipients. By taking possession of this Information Memorandum, the recipients are acknowledging and agreeing and are deemed to have acknowledged and agreed that they will not rely on any previous information supplied. No person is authorised to give any information or data or to make any representation or warranty other than as contained in this Information Memorandum and, if given or made, any such information, data, representation or warranty must not be relied upon as having been authorised by the Issuer, the Joint Lead Arrangers/Joint Lead Managers or any other person.

This Information Memorandum has not been and will not be made to comply with the laws of any jurisdiction other than Malaysia (“**Foreign Jurisdiction**”), and has not been and will not be lodged, registered or approved pursuant to or under any legislation of (or with or by any regulatory authorities or other relevant bodies of) any Foreign Jurisdiction and it does not constitute an issue, offer or sale of, or an invitation to subscribe or purchase the Notes or any other securities of any kind by any party in any Foreign Jurisdiction.

This Information Memorandum is not and is not intended to be a prospectus. Unless otherwise specified in this Information Memorandum, the information contained in this Information Memorandum is current as at the date hereof.

The distribution or possession of this Information Memorandum in or from certain jurisdictions may be restricted or prohibited by law. Each recipient is required to seek appropriate professional advice regarding, and to observe, any such restriction or prohibition. Neither the Issuer nor the Joint Lead Arrangers/Joint Lead Managers accepts any responsibility or liability to any person in relation to the distribution or possession of this Information Memorandum in or from any such Foreign Jurisdiction.

By accepting delivery of this Information Memorandum, each recipient agrees to the terms upon which this Information Memorandum is provided to such recipient as set out in this Information Memorandum, and further agrees and confirms that (a) it will keep confidential all of such information and data, (b) it is lawful for the recipient to subscribe for or purchase the Notes under all jurisdictions to which the recipient is subject, (c) the recipient has complied with all applicable laws in connection with such subscription or purchase of the Notes, (d) the Issuer, the Joint Lead Arrangers/Joint Lead Managers and their respective directors, officers, employees and professional advisers are not and will not be in breach of the laws of any jurisdiction to which the recipient is subject as a result of such subscription or purchase of the Notes, and they shall not have any responsibility or liability in the event that such subscription or purchase of the Notes is or shall become unlawful, unenforceable, voidable or void, (e) it is aware that the Notes can only be offered, sold, transferred or otherwise disposed of directly or indirectly in accordance with the relevant selling restrictions and all applicable laws, (f) it has sufficient knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of subscribing or purchasing the Notes, and is able and is prepared to bear the economic and financial risks of investing in or holding the Notes, (g) it is subscribing or accepting the Notes for its own account, and (h) it is a Qualified Person. Each recipient is solely responsible for seeking all appropriate expert advice as to the laws of all jurisdictions to which it is subject. For the avoidance of doubt, this Information Memorandum shall not constitute an offer or invitation to subscribe or purchase the Notes in relation to any recipient who does not fall within item (h) above.

This Information Memorandum or any document delivered under or in relation to the issue, offer and sale of the Notes is not, and should not be construed as, a recommendation by the Issuer and/or the Joint Lead Arrangers/Joint Lead Managers to subscribe or purchase the Notes. This Information Memorandum is not a substitute for, and should not be regarded as, an independent evaluation and analysis and does not purport to be all-inclusive. Each recipient should perform and is deemed to have made its own independent investigation and analysis of the Issuer, the Notes and all other relevant matters, and each recipient should consult its own professional advisers. All information and statements herein are subject to the detailed provisions of the respective agreements referred to herein and are qualified in their entirety by reference to such documents.

Neither the delivery of this Information Memorandum nor the offering, sale or delivery of any Notes shall in any circumstance imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Notes is correct as of any time subsequent to the date indicated in the document containing the same. The Joint Lead Arrangers/Joint Lead Managers expressly do not undertake to review the financial condition or affairs of the Issuer during the tenor of the Notes or to advise any investor of the Notes of any information coming to their attention.

Certain statements, information, estimates and reports in this Information Memorandum are based on historical data, which may not be reflective of the future, and others are forward-looking in nature and are subject to risks and uncertainties, including, amongst others, discussions on the Issuer's business strategy and expectation concerning its position in the Malaysian economy, future operations, growth prospects and industry prospects. While the Board of Directors of the Issuer believes that these forward-looking

statements are reasonable, these statements are nevertheless subject to known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to differ materially from the future results, performance or achievements expressed or implied in such forward looking statements. In light of all this, the inclusion of forward-looking statements in this Information Memorandum should not be regarded as a representation or warranty by the Issuer that the plans and objectives of the Issuer will be achieved.

This Information Memorandum includes certain historical information, estimates, or reports thereon derived from sources mentioned in this Information Memorandum and other parties with respect to the Malaysian economy, the material businesses which the Issuer operates and certain other matters. Such information, estimates, or reports have been included solely for illustrative purposes. No representation or warranty is made as to the accuracy or completeness of any information, estimates and/or reports thereon derived from such sources or from other third party sources.

Acknowledgement

The Issuer hereby acknowledges that it has authorised the Joint Lead Arrangers/Joint Lead Managers to circulate or distribute this Information Memorandum on its behalf in respect of or in connection with the proposed offer or invitation to subscribe for and issue of, the Notes to prospective investors and that no further evidence of authorisation is required.

Statements of Disclaimer by the Securities Commission

In accordance with the CMSA, a copy of this Information Memorandum will be deposited with the Securities Commission ("SC"), which takes no responsibility for its contents.

The issue, offer or invitation in relation to the Notes in this Information Memorandum or otherwise are subject to the fulfilment of various conditions precedent including without limitation the applicable approval of the SC.

The SC has approved the issuance of the Notes vide its letter dated 22 February 2008. The approval of the SC is not an indication that the SC recommends the subscription or purchase of the Notes nor that the SC assumes any responsibility or liabilities for any non-disclosure of information or the accuracy of statements made or opinion expressed in this Information Memorandum.

The SC shall not be liable for any non-disclosure on the part of the Issuer and assumes no responsibility for the correctness of any statements made or opinions or reports expressed in this Information Memorandum.

EACH NOTE ISSUE WILL CARRY DIFFERENT RISKS AND ALL INVESTORS SHOULD EVALUATE EACH NOTE ISSUE ON ITS OWN MERITS. INVESTORS SHOULD RELY ON THEIR OWN EVALUATION TO ASSESS THE MERITS AND RISKS OF THE INVESTMENT.

IT IS RECOMMENDED THAT PROSPECTIVE INVESTORS CONSULT THEIR FINANCIAL, LEGAL AND OTHER ADVISERS BEFORE PURCHASING OR ACQUIRING OR SUBSCRIBING FOR THE NOTES.

Documents Incorporated by Reference

The following documents published or issued from time to time after the date hereof shall be read together with this Information Memorandum and be deemed to be incorporated in, and to form part of, this Information Memorandum:

- (a) the most recently published audited consolidated and non-consolidated annual financial statements and, if published later, the most recently published interim consolidated and non-consolidated financial statements (if any) of the Issuer; and
- (b) all supplements or amendments to this Information Memorandum circulated by the Issuer, if any, save that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Information Memorandum to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Information Memorandum.

The Issuer will provide, without charge, to each person to whom a copy of this Information Memorandum has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to the Issuer at its office set out at the end of this Information Memorandum.

To the recipient of this Information Memorandum:

This Information Memorandum and its contents are strictly confidential and are made strictly on the basis that they will remain confidential. Accordingly, this Information Memorandum and its contents, or any information, which is made available in connection with any further enquiries, must be held in complete confidence.

This Information Memorandum is submitted to prospective investors specifically in reference to the Notes and may not be reproduced or used, in whole or in part, for any purpose, nor furnished to any person other than those to whom copies have been sent by the Joint Lead Arrangers/Joint Lead Managers.

In the event that there is any contravention of this confidentiality undertaking or there is reasonable likelihood that this confidentiality undertaking may be contravened, the Issuer may, at its discretion, apply for any remedy available to the Issuer whether at law or equity, including without limitation, injunctions. The Issuer is entitled to fully recover from the contravening party all costs, expenses and losses incurred and/or suffered in

this regard. For the avoidance of doubt, it is hereby deemed that this confidentiality undertaking shall be imposed upon the recipient, the recipient's professional advisors, directors, employees and any other persons who may receive this Information Memorandum (or any part of it) from the recipient.

The recipient must return this Information Memorandum and all reproductions whether in whole or in part and any other information in connection therewith to the Joint Lead Arrangers/Joint Lead Managers promptly upon the Joint Lead Arrangers/Joint Lead Managers' request.

- the rest of this page is intentionally left blank -

TABLE OF CONTENTS

DEFINITIONS	ix
1 EXECUTIVE SUMMARY	1
1.1 BACKGROUND OF SDB.....	1
1.2 INFORMATION ON THE PROGRAMMES	1
1.3 PROPOSED UTILISATION OF PROCEEDS.....	1
1.4 RATING	2
1.5 SOURCES OF REPAYMENT	2
1.6 LETTER OF SUPPORT	2
2 TERMS AND CONDITIONS OF NOTES ISSUE	4
2.1 PRINCIPAL TERMS AND CONDITIONS	4
3 INFORMATION ON THE SDB GROUP.....	24
3.1 HISTORY AND BACKGROUND.....	24
3.2 CORPORATE PROFILE	24
3.3 BOARD OF DIRECTORS AND THE MANAGEMENT	25
3.4 ORGANISATION STRUCTURE	31
3.5 GROUP CORPORATE STRUCTURE	32
3.6 FINANCIAL INFORMATION	32
3.7 SUBSIDIARIES	33
4 BUSINESS OVERVIEW	37
4.1 BUSINESS OF A DEVELOPMENT FINANCIAL INSTITUTION.....	37
4.2 WATER-RELATED BUSINESS.....	44
4.3 OTHER BUSINESS	45
5 FINANCIAL INFORMATION OF SDB	47
5.1 HISTORICAL FINANCIAL INFORMATION OF SDB.....	47
5.2 SOURCES OF FUNDS	48
6 THE ECONOMY	50
6.1 OVERVIEW OF THE MALAYSIAN ECONOMY	50
6.2 DEVELOPMENT FINANCIAL INSTITUTIONS	52
6.3 OVERVIEW OF MALAYSIAN ECONOMY FOR 2008	53
7 THE STATE OF SABAH	54
7.1 BACKGROUND INFORMATION	54
7.2 CONSIDERATIONS FOR DOING BUSINESS IN SABAH.....	55
7.3 REVIEW OF SABAH'S MAJOR ECONOMIC INDICATORS.....	56
7.4 ECONOMIC DIRECTION	62

8	RISKS AND INVESTMENT CONSIDERATIONS	70
8.1	RATING OF THE NOTES.....	70
8.2	MARKET RISK	70
8.3	NOTES ARE UNSECURED	70
8.4	SENSITIVITY TO ECONOMIC AND POLITICAL RISKS IN MALAYSIA AND SABAH.....	70
8.5	RISKS RELATING TO BUSINESS OF FINANCIAL INSTITUTION	71
8.6	WATER-RELATED BUSINESS	74
8.7	BANKING INDUSTRY COMPETITION	75
8.8	OPERATIONS ARE SUBJECT TO REGULATORY CHANGES.....	75
8.9	CONTROL BY SHAREHOLDER AND DEPENDENCY ON KEY MANAGEMENT	75
8.10	LETTER OF SUPPORT	76
8.11	FORWARD LOOKING STATEMENTS	76
8.12	EXTRACTS OF INFORMATION	77
9	OTHER INFORMATION	78
9.1	MATERIAL CONTRACTS	78
9.2	MATERIAL LITIGATION	79

APPENDIX

APPENDIX I -	Audited Financial Statements of Sabah Development Bank Berhad for the financial year ended 31 December 2006 and the unaudited management accounts of Sabah Development Bank Berhad for the financial year ended 31 December 2007
--------------	--

DEFINITIONS

In this Information Memorandum, except where the context otherwise requires, the following words and expressions shall have the following meanings:

3Q	:	Third quarter.
Act	:	Companies Act, 1965 (as amended).
AmInvestment Bank	:	AmInvestment Bank Berhad (Company No. 23742-V).
BAFIA	:	Banking and Financial Institutions Act, 1989 (as amended).
BNM	:	Bank Negara Malaysia.
CIMB	:	CIMB Investment Bank Berhad (Company No. 18417-M).
CMSA	:	Capital Markets and Services Act, 2007 (as amended).
CP Programme	:	RM500.0 Million Nominal Value Commercial Papers Programme subject to the Programme Limit.
CPs	:	Commercial Papers.
Corporate Dynamics	:	Corporate Dynamics Sdn Bhd (Company No. 253235-A).
DFI	:	Development financial institution.
DFIA	:	Development Financial Institutions Act, 2002 (as amended).
E&E	:	Electrical and electronics.
EPF	:	Employees Provident Fund.
FAST Rules	:	Rules on Fully Automated System for Issuing/Tendering dated July 2005 issued by BNM.
FYE	:	Financial Year Ended.
GDP	:	Gross Domestic Product.

GNP	:	Gross National Product.
Group / SDB Group	:	SDB and its Subsidiary Companies.
ICT	:	Information and Communications Technology.
Jetama	:	Jetama Sdn Bhd (Company No. 170775-A).
Joint Lead Arrangers / Joint Lead Managers	:	AmlInvestment Bank and CIMB.
KKIP	:	Kota Kinabalu Industrial Park.
KK Water	:	Kota Kinabalu Water Sdn Bhd (Company No. 30156-V).
KK Water Group	:	KK Water, Jetama and Corporate Dynamics.
MTN Programme	:	RM1,000.0 Million Nominal Value Medium Term Notes Programme subject to the Programme Limit.
MTNs	:	Medium Term Notes.
Notes	:	CPs and/or MTNs issued under the Programmes.
NPL	:	Non performing loan.
OPR	:	Overnight policy rate.
PAT	:	Profit after tax.
PDS	:	Private debt securities.
PPP	:	Purchasing Power Parity.
Programmes	:	Collectively, the CP Programme and the MTN Programme.
Programme Limit	:	RM1,000.0 million in nominal value subject to the aggregate outstanding CPs and/or MTNs not exceeding RM1,000.0 million in nominal value at any point in time.
R&D	:	Research and development.

RAM	:	RAM Rating Services Berhad (Company No. 763588-T).
Rating Agency	:	RAM.
RM and sen	:	Ringgit Malaysia and sen respectively.
Sabah Gold	:	Sabah Gold Traders Sdn Bhd (Company No. 738290-W).
Sabah State Government	:	The State Government of Sabah.
SC	:	Securities Commission.
SDB / Issuer / Company	:	Sabah Development Bank Berhad (Company No. 34638-W).
SDB Asset Management	:	SDB Asset Management Sdn Bhd (Company No. 357216-W).
SD Nominees	:	Sabah Development Nominees (Tempatan) Sdn Bhd (Company No. 047780-K).
Sedia Usaha	:	Sedia Usaha Sdn Bhd (Company No. 135016-W).
Subsidiary Companies	:	The subsidiary companies of SDB, and shall include: (a) Sedia Usaha; (b) SD Nominees; (c) KK Water; (d) Jetama; (e) Corporate Dynamics; (f) Sabah Gold; (g) SDB Asset Management, and all future subsidiaries of SDB.
State	:	The State of Sabah.
US	:	United States of America.

1 EXECUTIVE SUMMARY

1.1 Background of SDB

SDB is wholly-owned by the Sabah State Government and functions as a DFI. As a DFI, SDB operates as a "scheduled institution" under the BAFIA.

SDB was incorporated under the name of "Bank Pembangunan Sabah Berhad" on 9 August 1977 as a public limited company under the Act. The following year, it changed its name to the present name and was granted with specific consent from the Federal Ministry of Finance to use the word 'Bank' in its name.

1.2 Information on the Programmes

The Programmes comprise the issuance of Notes under 2 programmes:

- a. a RM500.0 million nominal value CP Programme; and
- b. a RM1,000.0 million nominal value MTN Programme.

The aggregate outstanding Notes issued under the Programmes shall not exceed RM1,000.0 million nominal value at any point in time. The tenure of the CP Programme is seven (7) years from the date of first issue under the CP Programme. During that period, SDB may issue CPs with maturities of one (1), two (2), three (3), six (6), nine (9) or twelve (12) months as SDB may select, provided that the CPs mature prior to the expiry of the CP Programme.

The tenure of the MTN Programme is twenty (20) years from the date of first issue under the MTN Programme. During that period, SDB may issue MTNs with maturities of more than one (1) year up to twenty (20) years as SDB may select, provided that the MTNs mature prior to the expiry of the MTN Programme.

The principal terms and conditions of the Programmes are set out under Section 2 of this Information Memorandum.

1.3 Proposed Utilisation of Proceeds

Proceeds from the Programmes shall be utilised by SDB as follows:

No.	Purpose	Amount (RM million)
(i)	to redeem the outstanding notes issued pursuant to SDB's existing RM500.0 million Revolving Underwritten Facility (2001/2008) ("RUF"); and	Up to 500.0 ^a
(ii)	the remaining (if any), to finance the working capital requirements of SDB	Balance amount
	Total	Up to 1,000.0

Note:-

- ^a As at 31 January 2008, the aggregate nominal value of outstanding short-term notes issued under the RUF ("**RUF Notes**") was RM204.0 million. However, pending the completion of the establishment of the Programmes, SDB may continue to issue new RUF Notes up to a maximum limit of RM500.0 million and SDB intends to redeem such RUF Notes on the respective maturity dates up to a maximum amount of RM500.0 million. The RUF will be cancelled upon its expiration on 9 May 2008.

1.4 Rating

RAM, has vide its letter dated 5 February 2008 assigned a final rating of P1 and AA1 for the CPs and MTNs, respectively.

For the first issuance of the Notes, the ratings for the CPs and MTNs shall be at least P1 and AA1 respectively.

For the subsequent issuances of the Notes, the ratings for the CPs and MTNs shall be at least investment grade.

1.5 Sources of Repayment

The expected sources of repayment for the Notes are as follows:

- a. internally generated funds;
- b. refinancing through borrowings;
- c. deposits; and/or
- d. sale proceeds from sale or disposal by the SDB Group of any of its assets, businesses, undertakings or investments.

1.6 Letter of Support

The Notes shall be backed by a Letter of Support dated 1 February 2008 from the Sabah State Government ("**Letter of Support**"). In the Letter of Support, the Sabah State Government confirms that it is aware and approves of the terms and conditions of the Notes. It further confirms that it is the beneficial owner of 100% of the issued share capital of SDB and it shall maintain not less than 100% of the issued share capital of SDB throughout the term of the Programmes.

In the Letter of Support, the Sabah State Government also confirms that it shall at all times ensure that SDB is in a position to meet its liabilities in respect of the Notes throughout the term of the Programmes, for as long as any amount in respect of the Notes remains outstanding and that the Notes are fully supported by the Sabah State Government to the extent set out in the Letter of Support.

The Sabah State Government also confirms that it shall not take any action

which may result in SDB being unable to perform its obligations in respect of the Notes or otherwise, and that it shall at all times in the future ensure, either by equity injection or loan facilities, that SDB is in a position to meet its liabilities in respect of the Notes, throughout the tenure of the Programmes for as long as any amount in respect of the Notes remains outstanding.

It is expressly stated in the Letter of Support that the Sabah State Government agrees that the obligations expressed to be assumed by the Sabah State Government in the Letter of Support shall be legal and valid obligations on it and enforceable in accordance with the terms thereof; and subject to any limitation arising from the law of general applications. It is stated that the Letter of Support is strictly limited to the points above and there is no other expressed or implied undertaking with regards to the Notes or SDB in general.

- the rest of this page is intentionally left blank -

2 TERMS AND CONDITIONS OF NOTES ISSUE

Words and expressions used and defined in this Section 2 shall, in the event of inconsistency with the definition sections of this Information Memorandum, only be applicable for this Section 2.

2.1 Principal Terms and Conditions

Principal Terms and Conditions

- 1 Names of parties involved in the proposed transaction (where applicable)
- (i) *Joint Principal Adviser(s)/ Joint Lead Arranger(s)* : AmInvestment Bank Berhad (“**AmInvestment Bank**”) and CIMB Investment Bank Berhad (“**CIMB**”)
- (ii) *Arranger(s)* : Not applicable
- (iii) *Valuers* : Not applicable
- (iv) *Solicitors* : Messrs Jeff Leong, Poon & Wong
- (v) *Financial Adviser* : Not applicable
- (vi) *Technical Adviser* : Not applicable
- (vii) *Guarantor* : Not applicable
- (viii) *Trustee* : AmTrustee Berhad
- (ix) *Facility Agent* : CIMB
- (x) *Primary Subscribers and amount subscribed (where applicable)* : To be determined prior to issue.
- (xi) *Underwriter(s) and amount underwritten* : **CPs:**

Underwriter(s)	Underwritten Amount
AmInvestment Bank	RM250.0 million nominal value
CIMB	RM250.0 million nominal value

MTNs:

Not applicable.

- (xii) *Central Depository* : Bank Negara Malaysia (“**BNM**”)
- (xiii) *Paying Agent* : BNM
- (xiv) *Reporting Accountant* : Not applicable
- (xv) *Others (please specify)* : Joint Lead Managers : AmInvestment Bank and CIMB

Joint Bookrunners : AmInvestment Bank and CIMB (if the MTNs (as defined below) are issued on a book running basis)

Auditor : Deloitte KassimChan

Tender Panel Members (“**TPMs**”) : Persons to whom an issue of, or an offer or invitation to subscribe, the CPs (as defined below) is made would fall within Schedule 6 or Section 229(1)(b) of the Capital Markets and Services Act 2007 (“**CMSA**”) and Schedule 7 or Section 230(1)(b) of CMSA and would fall within Schedule 9 or Section 257(3) of the CMSA as amended from time to time.

- 2 *Facility Description* : A commercial papers (“**CPs**”) issuance programme and a medium term notes (“**MTNs**”) issuance programme (“**CP Programme**” and “**MTN Programme**” respectively and collectively, the “**Programmes**”).

- 3 *Issue Size (RM)* : (i) The outstanding nominal value of the CPs issued under the CP Programme at any point in time shall not exceed RM500.0 million; and
- (ii) The outstanding nominal value of the MTNs issued under the MTN Programme at any point in time shall not exceed RM1,000.0 million.

subject to the aggregate outstanding nominal value of the CPs and/or the MTNs (collectively, the “**Notes**”) issued under the Programmes at any point in time shall not exceed RM1,000.0 million.

- 4 *Issue Price* : **CPs**

The CPs shall be issued at a discount and the issue price shall be calculated in accordance with

the Rules on Fully Automated System for Issuing/Tendering ("**FAST**") issued by Bank Negara Malaysia ("**BNM**"), as amended or substituted from time to time ("**FAST Rules**").

MTNs

The MTNs shall be issued at par or at a discount and the issue price shall be calculated in accordance with the FAST Rules.

5 *Tenor of the Facility
/Issue*

: **CP Programme**

Seven (7) years from the date of the first issue under the CP Programme.

MTN Programme

Twenty (20) years from the date of the first issue under the MTN Programme.

CPs

One (1), two (2), three (3), six (6), nine (9) or twelve (12) months as the Issuer may select, provided that the CPs mature prior to the expiry of the CP Programme.

MTNs

More than one (1) year up to twenty (20) years as the Issuer may select, provided that the MTNs mature prior to the expiry of the MTN Programme.

6 *Coupon/Interest rate (%)
(please specify)*

: **CPs**

Not applicable.

MTNs

The MTNs may be issued with or without coupon. The coupon rate(s) for the MTNs (if applicable) shall be determined at the point of issuance of the respective MTNs.

7 *Coupon/Interest
Payment frequency and
basis*

: **CPs**

Not applicable as the CPs shall be issued on a zero-coupon basis.

MTNs

Not applicable for MTNs issued without coupons.

In the case of MTNs issued with coupons, semi-annual or such other period as the Issuer and the Joint Lead Managers may agree, if applicable.

In the case of MTNs with coupons, the coupons shall be calculated on the basis of the actual number of days elapsed and 365 days basis (Actual/365).

- | | | | |
|----|---|---|--|
| 8 | <i>Yield to Maturity (%)</i> | : | The yield to maturity of the Notes shall be determined at the point of each respective issue date. |
| 9 | <i>Security /Collateral (if any)</i> | : | None |
| 10 | <i>Details on utilisation of proceeds</i> | : | <p>The issue proceeds from the Notes shall be utilised for the following purposes:-</p> <ul style="list-style-type: none"> a. Up to RM500.0 million to redeem the outstanding notes issued pursuant to its existing RM500.0 million Revolving Underwritten Facility (2001/2008) (“RUF”) ^a; and b. the remaining (if any), to finance the working capital requirements of SDB. <p>Note:</p> <ul style="list-style-type: none"> ^a As at 31 January 2008, the aggregate nominal value of outstanding short-term notes issued under the RUF (“RUF Notes”) was RM204.0 million. However, pending the completion of the establishment of the Programmes, SDB may continue to issue new RUF Notes up to a maximum limit of RM500.0 million and SDB intends to redeem such RUF Notes on the respective maturity dates up to a maximum amount of RM500.0 million. The RUF will be cancelled upon its expiration on 9 May 2008. |
| 11 | <i>Sinking Fund (if any)</i> | : | Not applicable |
| 12 | <i>Rating</i> | | |
| | <i>Credit Rating Assigned</i> | : | Final rating of AA1 and P1 for the MTNs and CPs, respectively. |

- Name of Rating Agency* : RAM Rating Services Berhad ("**RAM**")
- 13 *Form and Denomination* : The Notes shall be issued in accordance with (1) the "**Code of Conduct and Market Practices for the Malaysian Corporate Bond Market**" issued by the Institut Peniaga Bon Malaysia and approved by BNM ("**IPBM Code**") and (2) the "**Rules on the Scripless Securities**" under the Real Time Electronic Transfer of Funds and Securities ("**RENTAS**") system issued by BNM and (3) FAST Rules, or their replacement thereof (collectively the "**Codes of Conduct**") applicable from time to time. The RENTAS Rules shall prevail to the extent of any inconsistency between the RENTAS Rules and the IPBM Code. Each tranche of the Notes shall be represented by a global certificate to be deposited with BNM, and is exchanged for definitive bearer form only in certain limited circumstances. The denomination of the Notes shall be RM1,000 or in multiples of RM1,000 at the time of issuance.
- 14 *Mode of Issue* : **CPs**
Via competitive tender, direct placement on a best efforts basis or on a bought deal basis.
MTNs
Via bookrunning or direct placement on a best efforts basis or on a bought deal basis.
- 15 *Selling Restrictions* : **Selling Restrictions at Issuance**
The Notes may only be offered, sold, transferred or otherwise disposed directly or indirectly to a person to whom an offer or invitation to subscribe the Notes may be made and to whom the Notes are issued would fall within Schedule 6 or Section 229(1)(b) of the CMSA and Schedule 7 or Section 230(1)(b) of the CMSA and would fall within Schedule 9 or Section 257(3) of the CMSA.
Selling Restrictions Thereafter
The Notes may only be offered, sold, transferred or otherwise disposed directly or indirectly to a person to whom an offer or invitation to purchase the Notes would fall within Schedule 6 or Section

- 229(1)(b) of the CMSA and would fall within Schedule 9 or Section 257(3) of the CMSA.
- 16 *Listing Status* : The Notes will not be listed on Bursa Malaysia Securities Berhad or any other stock exchange.
- 17 *Minimum Level of Subscription (RM or %)* : **CPs**
Not applicable as the CPs will be fully underwritten.
- MTNs**
The minimum level of subscription for each issue that is not issued on a direct placement or bought deal basis (which shall be fully subscribed) shall be 5% of the nominal value of a particular issue.
- 18 *Other regulatory approvals required in relation to the issue, offer or invitation and whether or not obtained (please specify)* : Nil.
- 19 *Conditions Precedent* : Conditions precedent to the Notes shall include customary conditions precedent for transactions of this nature shall apply, including, but not limited to, the following:
- i. the transaction documents have been signed and, where applicable, stamped and presented for registration;
 - ii. certified true copies of the Certificate of Incorporation, and the Memorandum and Articles of Association, of the Issuer;
 - iii. certified true copies of the latest Forms 24 and 49 of the Issuer;
 - iv. certified true copy of a board resolution of the Issuer authorising, among others, the execution of the transaction documents;
 - v. a list of the Issuer's authorised signatories and their respective specimen signatures;
 - vi. a report of the relevant company search of the Issuer;
 - vii. a report of the relevant winding up search or the relevant statutory declaration of the Issuer;

- viii. receipt of the letter of support referred to in paragraph 23.4 below;
- ix. receipt of the SC's approval;
- x. satisfactory due diligence as required under the SC's Guidelines on the Offering of Private Debt Securities in respect of the submission to the SC and the establishment of the Notes (including the preparation of the Information Memorandum(s)), which is acceptable to the Joint Lead Managers and the legal counsel of the Joint Lead Managers;
- xi. evidence that the minimum ratings of the MTNs and CPs are AA1 (or its equivalent) and P1 (or its equivalent), respectively;
- xii. the Joint Lead Managers have received from their legal counsel a favourable legal opinion addressed to them and the Trustee advising with respect to, among others, the legality, validity and enforceability of the transaction documents and a confirmation addressed to the Joint Lead Managers that all the conditions precedent have been fulfilled;
- xiii. evidence that all transaction fees, costs and expenses have been paid in full; and
- xiv. such other conditions precedent as may be advised by the legal counsel of the Joint Lead Managers and mutually agreed by the Issuer.

20 *Representations and Warranties*

: Customary representations and warranties for Notes issue of this nature as agreed between the Issuer and the Joint Lead Managers, including but not limited to the following:

- (a) the Issuer (and each of its Material Subsidiaries) is a company with limited liability duly incorporated and validly existing under the laws of Malaysia, has full power to carry on its business and to own its property and assets;

For the purposes set out herein, a “**Material Subsidiary**” shall be any subsidiary of the Issuer which contributes ten (10)% or more of the consolidated earnings before interest and tax of the Issuer or which makes up ten (10)% or more of the consolidated net tangible assets of the Issuer, as reflected in its latest

annual consolidated audited financial statements, and “**Material Subsidiaries**” shall be construed accordingly.

- (b) the memorandum and articles of association of the Issuer incorporate provisions which authorise, and all necessary corporate and other relevant actions have been taken to authorise, and all relevant consents and approvals of any administrative, governmental or other authority or body in Malaysia have been duly obtained and are in full force and effect which are required to authorise, the Issuer to execute and deliver and perform the transactions contemplated in the transaction documents in accordance with their terms;
- (c) neither the execution and delivery of any of the transaction documents nor the performance of any of the transactions contemplated by the transaction documents did or does as at the date this representation and warranty is made or repeated (a) contravene or constitute a default under any provision contained in any agreement, instrument, law, ordinance, decree, judgment, order, rule, regulation, licence, permit or consent by which the Issuer or any of its assets is bound or which is applicable to the Issuer or any of its assets, (b) cause any limitation on the Issuer or the powers of its directors, whether imposed by or contained in its memorandum and articles of association or in any agreement, instrument, law, ordinance, decree, order, rule, regulation, judgment or otherwise, to be exceeded, or (c) cause the creation or imposition of any security interest or restriction of any nature on any of the Issuer's assets;
- (d) it has not taken any corporate action and no other steps have been taken or legal proceedings been started or threatened against it or any Material Subsidiaries for its winding-up, dissolution, administration or re-organisation or for the appointment of a receiver, administrator, administrative receiver, trustee or similar officer of it or any of its assets or revenues;
- (e) the information supplied by the Issuer or on its behalf and with the knowledge of the Issuer,

in connection with the transaction documents is true, complete and accurate in all material respects and it is not aware of any material facts or circumstances that would make such information untrue or misleading;

- (f) the Issuer's obligations under the transaction documents will at all times rank at least pari passu in all respects with all its other unsecured and unsubordinated obligations, except those obligations which may be preferred solely by operation of law;
- (g) the financial statements of the Issuer and its subsidiaries are prepared in accordance with accounting principles and practices generally accepted in Malaysia and together with the notes thereto present a true and fair view of the financial position and operations of the Issuer and its subsidiaries as at 31 December 2006 and for the period then ended, and have been prepared, examined, reported on and approved in accordance with all procedures required by the Issuer's and its subsidiaries' Memorandum and Articles of Association and/or the laws of Malaysia and audited and certified by a firm of qualified independent chartered accountants acceptable to the Joint Lead Managers;
- (h) in any proceedings taken in Malaysia in relation to the transaction documents, the Issuer will not be entitled to claim for itself or any of its assets, immunity from any suits, execution, attachment or other legal process;
- (i) each of the transaction documents is or will when executed and/or issued, as the case may be, be in full force and effect and constitutes, or will when executed or issued, as the case may be, constitute, valid and legally binding obligations of the Issuer enforceable in accordance with its terms and will not: (i) conflict with any agreement, charge, assignment, bond or other instrument to which it is a party or which is binding upon it or any of its assets; (ii) conflict with its constitutive documents and rules and regulations or cause any limitation placed on it or the powers of its directors to be exceeded; or (iii) conflict with any applicable

law, regulation or official or judicial order; and

- (j) any other representations and warranties as advised by the legal counsel of the Joint Lead Managers and mutually agreed with the Issuer.

21 *Events of Default*

: Customary events of default shall apply and shall include, but are not limited to the following:

- (a) The Issuer fails to pay any amount due from it under any of the transaction documents on the due date or, if so payable, on demand.
- (b) Any representation or warranty made or given by the Issuer under the transaction documents or which is contained in any certificate, document or statement furnished at any time pursuant to the terms of the Notes and/or any of the transaction documents proves to have been incorrect or misleading in any material respect on or as of the date made or given or deemed made or given, and in the case of a failure which in the opinion of the Trustee is capable of being remedied, the Issuer does not remedy the failure within a period of thirty (30) business days after the Issuer became aware or having been notified by the Trustee of the failure.
- (c) The Issuer fails to observe or perform its obligations under any of the transaction documents or the Notes or under any undertaking or arrangement entered into in connection therewith other than an obligation of the type referred to in paragraph (a) above, and in the case of a failure which in the opinion of the Trustee is capable of being remedied, the Issuer does not remedy the failure within a period of thirty (30) business days after the Issuer became aware or having been notified by the Trustee of the failure.
- (d) There has been a breach by the Issuer of any obligation under any of the Issuer's existing contractual obligations which may materially and adversely affect the Issuer's ability to perform its obligations under the transaction documents and, if in the opinion of the Trustee is capable of being remedied,

the Issuer does not remedy the breach within a period of fourteen (14) business days after the Issuer became aware or having been notified by the Trustee of the failure.

- (e) Any indebtedness for borrowed moneys of the Issuer becomes due or payable or capable of being declared due or payable prior to its stated maturity or any guarantee or similar obligations of the Issuer is not discharged at maturity or when called or any security created to secure such indebtedness becomes enforceable.
- (f) An encumbrancer takes possession of, or a trustee, receiver, receiver and manager or similar officer is appointed in respect of the whole or part of the business or assets of the Issuer which has a Material Adverse Effect (as defined herein), or distress, legal process, sequestration or any form of execution is levied or enforced or sued out against the Issuer.
- (g) The Issuer fails to satisfy any judgement passed against it by any court of competent jurisdiction and no appeal against such judgement or no application for a stay of execution has been made to any appropriate appellate court within the time prescribed by law or such appeal or application for a stay of execution has been dismissed.
- (h) Any step is taken for the winding up, dissolution or liquidation of the Issuer or a resolution is passed for the winding up of the Issuer or a petition for winding up is presented against the Issuer and the Issuer has not taken any action in good faith to set aside such petition within thirty (30) days from the date of service of such winding up petition or a winding up order has been made against the Issuer.
- (i) The Issuer convenes a meeting of its creditors or proposes or makes any arrangement including any scheme of arrangement or composition or begins negotiations with its creditors, or takes any proceedings or other steps, with a view to a rescheduling or deferral of all or any part of

its indebtedness or a moratorium is agreed or declared by a court of competent jurisdiction in respect of or affecting all or any part of its indebtedness or any assignment for the benefit of its creditors (other than for the purposes of and followed by a reconstruction previously approved in writing by the Trustee, unless during or following such reconstruction the Issuer becomes or is declared to be insolvent) or where a scheme of arrangement under Section 176 of the Companies Act 1965 has been instituted against the Issuer.

- (j) Where there is a revocation, withholding or modification of any license, authorisation, approval or consent which in the opinion of the Trustee may materially and adversely impairs or prejudices the ability of the Issuer to comply with the terms and conditions of the Notes or the transaction documents.
- (k) The Issuer is deemed unable to pay any of its debts within Section 218(2) of the Companies Act 1965 or becomes unable to pay any of its debts as they fall due or suspend or threaten to suspend making payments with respect to all or any class of its debts.
- (l) The Issuer changes or threatens to change the nature or scope of a substantial part its business, or suspends or threatens to suspend or cease or threatens to cease the operation of a substantial part of its business which it now conducts directly or indirectly and such change or suspension or cessation in the opinion of the Trustee would have a Material Adverse Effect.
- (m) At any time any of the provisions of the transaction documents is or becomes illegal, void, voidable or unenforceable.
- (n) The Issuer repudiates any of the transaction documents or the Issuer does or causes to be done any act or thing evidencing an intention to repudiate any of the transaction documents.
- (o) Any of the assets, undertakings, rights or revenue of the Issuer are seized,

nationalised, expropriated or compulsorily acquired by or under the authority of any governmental body which in the opinion of the Trustee would have a Material Adverse Effect on the Issuer save and except where such seizure, nationalisation, expropriation or acquisition relates to:

- (i) water business; or
- (ii) its equity interest in Progressive Insurance Bhd.
- (p) The State Government of Sabah ceases to be the sole shareholder of the Issuer.
- (q) Any event or events has or have occurred or a situation exists which in the opinion of the Trustee would have a Material Adverse Effect.
- (r) Such other event as may be advised by the legal counsel of the Joint Lead Managers and mutually agreed with the Issuer.

For the purposes of this Principal Terms and Conditions, Material Adverse Effect means: (1) any material adverse effect on the business or condition (financial or otherwise) or results of the operations of the Issuer; (2) any material adverse effect on the ability of the Issuer to perform any of its obligations under any of the transaction documents or (3) any material adverse effect on the rights of or benefits available to the Trustee and/or the Noteholders under any provisions of the transaction documents.

Upon the occurrence of an Event of Default, the Trustee may, at its discretion or upon the Noteholders' instructions, declare that an Event of Default has occurred and that payments under the Notes are due and payable.

22 *Principal terms and conditions for warrants (where applicable)* : Not applicable.

23 *Other principal terms and conditions for the issue*

23.1 *Information Covenants* : To include but not limited to the following:

- (i) The Issuer shall provide to the Trustee at least on an annual basis, a certificate confirming that it has complied with all its obligations under the transaction documents and the terms and conditions of the Notes and that there does not exist or had not existed, from the date the Notes were issued or the date of the last certificate, as the case may be, any event of default, and if such is not the case, to specify the same.
- (ii) The Issuer shall deliver to the Trustee the following:
 - (a) as soon as they become available (and in any event within one hundred and eighty (180) days after the end of each of its financial years) copies of its consolidated financial statements for that year which shall contain the income statements and balance sheets of the Issuer and which are audited and certified without qualification by a firm of qualified independent chartered accountants acceptable to the Trustee;
 - (b) as soon as they become available (and in any event within ninety (90) days after the end of the first half of its financial year) copies of its unaudited half yearly consolidated financial statements for that period which shall contain the income statements and balance sheets of the Issuer which are duly certified by any one of its directors;
 - (c) promptly, such additional financial or other information relating to the Issuer's business and its operations as the Trustee may from time to time reasonably request; and
 - (d) promptly, all notices or other documents received by the Issuer from any of its shareholders or its creditors which contents may materially and adversely affect the interests of the Noteholders, and a copy of all

documents dispatched by the Issuer to its shareholders (or any class of them) in their capacity as shareholders or its creditors generally at the same time as these documents are dispatched to these shareholders or creditors.

- (iii) The Issuer shall promptly notify the Trustee of any change in its board of directors and/or shareholders.
- (iv) The Issuer shall promptly notify the Trustee of any change in its condition (financial or otherwise) and of any litigation or other proceedings of any nature whatsoever being threatened or initiated against the Issuer before any court or tribunal or administrative agency which would have a Material Adverse Effect.
- (v) The Issuer shall promptly give notice to the Trustee of the occurrence of any event of default or any event which, upon the giving of notice and/or lapse of time and/or the issue of a certificate and/or the fulfilment of the relevant requirement as contemplated under the relevant transaction document would constitute an event of default ("**Potential Event of Default**") forthwith upon becoming aware thereof, and it shall take all reasonable steps and/or such other steps as may reasonably be requested by the Trustee to remedy and/or mitigate the effect of the event of default or the Potential Event of Default.
- (vi) Any other covenants as advised by the legal counsel of the Joint Lead Managers and mutually agreed with the Issuer.

23.2 *Positive Undertakings* : To include but not limited to the following:

- (i) The Issuer shall maintain in full force and effect all relevant authorisations, consents, rights, licences, approvals and permits (governmental and otherwise) and will promptly obtain any further authorisations, consents, rights, licences, approvals and permits (governmental and otherwise) which is or may become necessary to enable it to own its assets, to carry on its business or for the Issuer to enter into or perform its

obligations under the transaction documents or to ensure the validity, enforceability, admissibility in evidence of the obligations of the Issuer or the priority or rights of the financiers under the transaction documents and the Issuer shall comply with the same.

- (ii) The Issuer shall at all times on demand execute all such further documents and do all such further acts reasonably necessary at any time or times to give further effect to the terms and conditions of the transaction documents.
- (iii) The Issuer shall exercise reasonable diligence in carrying out its business and affairs in a proper and efficient manner and in accordance with sound financial and commercial standards and practices
- (iv) The Issuer shall promptly perform and carry out all its obligations under all the transaction documents (including but not limited to redeeming the Notes on the relevant maturity date(s) or any other date on which the Notes are due and payable) and ensure that it shall immediately notify the Trustee in the event that the Issuer is unable to fulfil or comply with any of the provisions of the transaction documents.
- (v) The Issuer shall prepare its financial statements on a basis consistently applied in accordance with approved accounting standards in Malaysia and those financial statements shall give a true and fair view of the results of the operations of the Issuer for the period to which the financial statements are made up and shall disclose or provide against all liabilities (actual or contingent) of the Issuer.
- (vi) The Issuer shall promptly comply with all applicable provisions of the CMSA and/or the notes, circulars, conditions or guidelines issued by SC from time to time.
- (vii) Such other undertakings as may be advised by the legal counsel of the Joint Lead Managers and mutually agreed with the Issuer.

23.3 *Negative Undertakings* : To include but not limited to the following:

- (i) The Issuer shall not create or permit to subsist any mortgage, charge, pledge or other security interest over the whole or any part of its undertakings, assets, property or revenues, present or future, to secure any borrowings or indebtedness with the exception of liens arising by operation of law and in the ordinary course of business;
- (ii) The Issuer shall not add, delete, amend or substitute its memorandum or articles of association in a manner inconsistent with the provisions of the transaction documents.
- (iii) The Issuer shall not reduce or in any way whatsoever alter except increase, its authorised or paid-up share capital whether by varying the amount, structure or value thereof or the rights attached thereto or by converting any of its share capital into stock, or by consolidating, dividing or sub-dividing all or any of its shares.
- (iv) The Issuer shall not dispose of the whole or any substantial part of its assets save and except any disposal:
 - a. in the ordinary course of business; or
 - b. which relate to water business; or
 - c. of its equity interest in Progressive Insurance Bhd.

For the purpose of this Principal Terms and Conditions, “**substantial**” means five (5)% or more of the net tangible asset of the Issuer as reflected in its latest annual consolidated audited financial statements in aggregate in any financial year.

- (v) The Issuer shall not obtain or permit to exist any loans or advances from its shareholder (excluding any monies placed with the Issuer by its shareholder as deposits) unless these loans and advances:
 - a. are subordinated to the Notes; or
 - b. are loans, advances, grants or funds given or made for its on-lending for specific purposes as stipulated by its

shareholder.

- (vi) the Issuer shall not make any loans or advances or guarantee or grant any credit to any of its directors, shareholders or related companies or any company or person or firm or organisation save and except:
 - (i) in the ordinary course of business on commercial terms and on the basis of arm's length transaction; or
 - (ii) where the loan or advance is made in favour of or where the guarantee is made for the benefit of any of its subsidiaries.
- (vii) The Issuer shall not use the proceeds from the Notes for any purpose other than that disclosed in this Principal Terms and Conditions;
- (viii) Such other undertakings as may be advised by the legal counsel of the Joint Lead Managers and mutually agreed with the Issuer.

- 23.4 *Letter of Support* : The Notes shall be supported via the Letter of Support from the State Government of Sabah dated 1 February 2008.
- 23.5 *Redemption* : Unless previously purchased and cancelled, the Issuer shall redeem the Notes at their face value on the relevant maturity date.
- 23.6 *Repurchase and Cancellation* : The Issuer or its related corporations (within the meaning of the Companies Act 1965) may, at any time, purchase the Notes on the open market or by private treaty at any price subject to:
 - (i) any of the Notes so purchased by the Issuer or its subsidiaries shall be cancelled and cannot be reissued;
 - (ii) any of the Notes purchased by the Issuer's related corporations (within the meaning of the Companies Act 1965) (other than its subsidiaries) need not be cancelled but will not entitled such related corporations to vote at any meetings of the Noteholders and will not be deemed to be outstanding for the purpose of determining the total votes exercisable by the Noteholders whenever such determination is required under the

Trust Deed.

- 23.7 *Availability* : Upon completion of documentation and, unless waived by the Joint Lead Managers, compliance of all conditions precedent and other applicable conditions to the satisfaction of the Joint Lead Managers.
- 23.8 *Default Interest* : In the event of overdue payments of any amounts due under the Notes, the Issuer shall pay additional interest on such overdue amounts at the rate of interest of one per centum (1.0%) per annum above the prevailing rate on the amounts outstanding and unpaid calculated from the relevant due date up to the date of full payment and such default interest shall accrue for the number of days such payment is overdue on the basis of a year of three hundred and sixty five (365) days.
- 23.9 *Taxation* : All payments by the Issuer shall be made without withholding or deductions for or on account of any present or future tax, duty or charge of whatsoever nature imposed or levied by or on behalf of Malaysia, or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law whereby the Issuer shall not be required to gross up for any such deductions or withholdings.
- 23.10 *Transaction Documents* : To include but not be limited to the following:
- (a) Programme Agreement;
 - (b) Trust Deed;
 - (c) Depository and Paying Agency Agreement; and
 - (d) such other documentation as advised by the legal counsel of the Joint Lead Managers.
- 23.11 *Governing Laws* : Laws of Malaysia
- 23.12 *Jurisdiction* : The Issuer shall unconditionally and irrevocably submit to the non-exclusive jurisdictions of the courts of Malaysia.

23.13 *Status* : The Notes shall constitute direct, unsecured and unconditional obligations of the Issuer ranking pari passu without any preference or priority amongst themselves and all other present and future unsecured and unsubordinated obligations of the Issuer except those obligations as may be preferred by law.

- the rest of this page is intentionally left blank -

3 INFORMATION ON THE SDB GROUP

3.1 History and Background

SDB was incorporated under the name of “Bank Pembangunan Sabah Berhad” on 9 August 1977 as a public limited company under the Act. It changed its name the following year to the present name and was granted with specific consent from the Federal Ministry of Finance to use the word ‘Bank’ in its name.

SDB was first incorporated with a paid-up capital of RM2.00 comprising 2 ordinary shares of RM1.00 each. As at 31 January 2008, SDB has a paid-up capital of RM430,000,000 comprising 380,000,000 ordinary shares of RM1.00 each and 50,000,000 redeemable convertible non-cumulative preference shares of RM1.00 each.

SDB is wholly-owned by the Sabah State Government. SDB’s principal activity is financing development projects and acts as a financial intermediary for the Sabah State Government. Notwithstanding its function as a DFI, SDB operates as a "scheduled institution" under the BAFIA.

In 1996, SDB was privatized when it was acquired by a Sabah-based management company, Suria Capital Holdings Berhad. However in 1999, SDB was reacquired by the Sabah State Government to enable SDB to be revived as an active financial intermediary of the Sabah State Government.

3.2 Corporate Profile

3.2.1 Company Name

Sabah Development Bank Berhad (Company No. 34638-W)

3.2.2 Registered Address

10th Floor, SDB Tower, Wisma Tun Fuad Stephens, Kilometre 2.4, Jalan Tuaran, 88300 Kota Kinabalu

3.2.3 Date and Place of Incorporation

9 August 1977, Malaysia

3.2.4 Principal Activities

SDB’s principal activity is financing development projects and acts as a financial intermediary of the Sabah State Government.

As part of its role as the financial intermediary of the Sabah State Government, SDB also holds strategic investments in several subsidiaries, which are not financial institution-related.

3.2.5 Share Capital and Shareholding Structure as at 31 January 2008

Type	No. of Shares	Par Value per Share (RM)	Amount (RM)
Authorised			
- Ordinary Shares	380,000,000	1.00	380,000,000
- Preference Shares	50,000,000	1.00	50,000,000
Issued and Paid-up			
- Ordinary Shares	380,000,000	1.00	380,000,000
- Preference Shares	50,000,000	1.00	50,000,000

3.3 Board of Directors and the Management

The particulars of the Directors of SDB and their shareholdings in the Company as at 31 January 2008 are as follows:

Name	Designation	No. of Shares Held			
		Direct	%	Indirect	%
Mr Siau Wui Kee	Chairman	Nil	-	Nil	-
Datuk Lim Siong Eng	Managing Director/ Chief Executive Officer	Nil	-	Nil	-
Datuk Hj Abdillah @ Abdullah Bin Hassan @ S. Hassan	Director	Nil	-	Nil	-
Datuk Dr. Mohamed Fowzi Hassan Bin Mohamed Razi	Director	Nil	-	Nil	-
Mr Kevin How Kow	Director	Nil	-	Nil	-
Datuk Yusoff @ Hunter Bin Mohamed Kasim	Director	Nil	-	Nil	-

The management team of SDB comprises:

Name	Designation
Mr Chaw Zie Shiang	Assistant General Manager, Banking Division III
Mr Francis Dayah @ Gisol	Senior Manager, Risk Management Division
En Abdul Rajak @ Razak Bin Sidik @ Sidek	Senior Manager, Internal Audit Division
Ms Amy Tan	Assistant General Manager, Human Resource, Legal and Secretarial Division
Ms Chiang Gik King @ Rose	Senior Manager, Finance and Administration Division

3.3.1 Profile of Directors

As at 31 January 2008, the directors of SDB and their respective profiles are as follows:

Mr. Siau Wui Kee

Chairman

Mr. Siau Wui Kee, aged 64, is the Chairman of SDB. He obtained a Bachelor of Commerce and Administration degree majoring in Economics and Business Administration in 1968 and Bachelor of Commerce and Administration (Hons.) in Economics and Accountancy in 1969 from Victoria University of Wellington, New Zealand. He began his career in 1970, first with the Sabah State Government at the State Ministry of Finance and later, with the Ministry of Industrial Development. In 1973, he joined the banking sector as a Trainee Officer with Standard Chartered Bank ("SCB"). After serving for about 26 years in SCB, he retired as a Senior Manager, Corporate and Institutional Banking in 1999. Currently, he also serves as a director of Progressive Insurance Berhad.

Datuk Lim Siong Eng

Managing Director/Chief Executive Officer

Datuk Lim Siong Eng, aged 55, is the Managing Director/Chief Executive Officer of SDB, a position he held since joining SDB on 1 September 2001. He holds a Diploma in Management and is a member of Malaysian Institute of Management. He has vast experience in the banking and finance industry holding responsible positions in various capacities. He started his career with Public Finance Berhad in Malacca in 1973. Later in 1977, he joined Malayan United Finance Berhad ("MUF") as Credit Controller. In 1982, he left MUF to join Supreme

Finance Berhad ("SFB") as Branch Manager in Malacca. Two years later, he was transferred to Ipoh Branch of SFB where for his good work he was awarded in 1991 the Ahli Mahkota Perak (AMP) by the Sultan of Perak. In November 1991 he joined City Finance Berhad ("CFB"), Kota Kinabalu as Senior Deputy General Manager to turn the company around. He was made General Manager of CFB in 1992 and was further promoted to the position of Director/CEO in 1995. In 2001, he was made Deputy Chief Operating Officer of Individual Banking in charge of Deposit Development and Head of Credit Card Department when CFB merged with EON Finance Berhad. His latest achievement was the conferment of the Panglima Gemilang Darjah Kinabalu (PGDK) which carries the title 'Datuk' by His Excellency, the Sabah Head of State on 27 October 2007. Two years ago, he was conferred the Ahli Setia Darjah Kinabalu (ASDK).

Datuk Haji Abdillah @ Abdullah Bin Hassan @ S. Hassan

Director

Datuk Haji Abdillah @ Abdullah Bin Hassan @ S. Hassan, aged 59, is a Director of SDB. He graduated with Bachelor of Arts (Hons.) degree in Anthropology/Sociology from University of Malaya. He started his career in 1974 with the Sabah Civil Service as an Administrative Officer and in 1977 he became the District Officer in Kudat. In 1980, he was appointed as the Permanent Secretary of the State Ministry of Culture, Youth & Sports. Four years later he held the post of Secretary of Internal Affairs & Research Division of the Chief Minister's Department before being appointed as the Director of the State's Public Service Department in 1994. Datuk Haji Abdillah also served as the Deputy State Secretary and subsequently as the Permanent Secretary to the State Ministry of Finance until his retirement at the end of 2005.

Datuk Dr. Mohamed Fowzi Hassan Bin Mohamed Razi

Director

Datuk Dr. Mohamed Fowzi Hassan Bin Mohamed Razi, aged 54, is a Director of SDB. He holds a Bachelor degree in Economics from the University of Adelaide, Australia and an MBA and MSc (Finance) from the University of Strathclyde, United Kingdom. In 1991, he received his PhD in Economics from the University of Exeter, United Kingdom. He is a member of the Malaysian Institute of Accountants, the Malaysian Institute of Management; and a Fellow of the CPA Australia and Chartered Institute of Management (UK). Datuk Dr. Mohamed. Fowzi started his career in the Sabah State Civil Service as an accountant in 1979 and was subsequently appointed the State Treasurer in 1994 and in 1996, the Permanent Secretary of the State Ministry of Finance. Datuk Dr. Mohamed Fowzi has served in several other key

appointments as the Chief Executive Officer (“CEO”)/Executive Director of Sabah Bank Berhad (now known as Alliance Bank Malaysia Bhd), CEO of Innoprise Corporation Sdn Bhd and General Manager, Korporasi Kemajuan Perikanan & Nelayan Sabah. His current appointment which took effect from 1 August 2006 is as Director, Economic Planning Unit, Sabah. His association with SDB started in 1984 when he was seconded from the State Civil Service to become the Senior Operations Manager of SDB. Later in 1998, he was once again seconded to SDB to become the Executive Director. He has been on SDB’s Board of Directors since 1995.

Mr. Kevin How Kow

Director

Mr. Kevin How Kow, aged 60, is a Director of SDB. He is a member of the Malaysian Institute of Accountants, the Malaysian Institute of Certified Public Accountants and a fellow member of the Institute of Certified Public Accountants of Singapore and the Institute of Chartered Accountants in England & Wales. He started his career in Malaysia with Ernst & Young (“EY”) and was made partner in 1984, as a partner-in-charge of the office of EY at Tawau, in later years as a partner-in-charge of the offices of EY at Sandakan, the State of Sarawak and the State of Sabah and Federal Territory Labuan until his retirement at the end of 2003. He is also a Director of Cahya Mata Sarawak Berhad, CMS I-Systems Group Berhad, UBG Berhad, K&N Kenanga Holdings Berhad, Kenanga Investment Bank Berhad and Saham Sabah Bhd.

Datuk Yusoff @ Hunter Bin Mohamed Kasim

Director

Datuk Yusoff @ Hunter Bin Mohamed Kasim, aged 58, joined SDB as a Director effective 15 May 2006. He joined the civil service since 1979, serving various departments in different capacities as follows: Assistant Director, Economic Planning Unit, Chief Minister’s Department (1979 to 1982); District Officer, Beaufort (1982 to 1984); Principal Assistant Director (Training Office), Chief Minister’s Department (1984 to 1988); Principal Assistant Director, Establishment Division, Chief Minister’s Department (1988 to 1989); Deputy Permanent Secretary, Ministry of Industrial Development (1989 to 1994); Deputy Director, Establishment Office, Chief Minister’s Department (1994); Under Secretary (Budget), Ministry of Finance (1994 to April 2000); Deputy Permanent Secretary (I), Ministry of Finance (May 2000 to 31 December 2005); Acting Permanent Secretary, Ministry of Finance (3 January 2006 until 9 March 2006); Permanent Secretary, Ministry of Finance (10 March 2006 until todate). Datuk Yusoff @ Hunter Bin Mohamed Kasim sits as a Director of various government-linked companies and government

agencies, among which are Malaysia Airline System Berhad, Saham Sabah Bhd, Sabah Electricity Sdn Bhd, Sabah Land Development Board and Sabah Economic Development Corporation. Datuk Yusoff @ Hunter Bin Mohamed Kasim is also active in the community services as currently he serves as the President, Persatuan Masyarakat Brunei Sabah and also as the Yang di Pertua, Sabah Scouts Council.

3.3.2 Profile of Senior Management Team

As at 31 January 2008, the senior management of SDB and their respective profiles are as follows:

Mr. Chaw Zie Shiang
Assistant General Manager, Banking Division III

Mr. Chaw, aged 56, is the Assistant General Manager of the Banking Division III of SDB, which deals with Corporate Planning, Advisory Services and Corporate Loans. He holds a Bachelor of Science in Chemical Engineering from Strathclyde University and a Post-Graduate Diploma in Management Studies from Middlesex Polytechnic, United Kingdom. He joined SDB as an Assistant Officer in 1982. Since then, he held several responsible positions in Corporate Loans and Advisory Services. He was promoted progressively to the rank of Manager in 1993, to Senior Manager in July 2000 and recently to Assistant General Manager, with effect from 1 July 2006. Besides Banking Division III, he also oversees the Loans Supervision Division of SDB.

Mr. Francis Dayah @ Gisol
Senior Manager, Risk Management Division

Mr. Francis Dayah, aged 52, is the Senior Manager of the Risk Management Division of SDB. He graduated from Universiti Kebangsaan Malaysia with a Bachelor of Science in Physics and Masters in Business Administration from University of Durham, United Kingdom. He also holds a Certificate in Personnel Management from the Malaysian Institute of Personnel Management. Upon graduation, he worked as an Assistant Industrial Development Officer with the Department of Industrial Development, Sabah. He joined SDB in 1982 as an Assistant Officer and served with the Loans Division. He also served in the Operations Divisions and headed various divisions such as the Administration & Personnel and Internal Audit. He has been a Senior Manager since 1994.

En. Abdul Razak @ Razak Bin Sidik @ Sidek
Senior Manager, Internal Audit Division

En. Abdul Razak, aged 48, is the Senior Manager of the Internal Audit Division of SDB. He obtained a Bachelor of Arts (Hons) in Accounting from the University of Kent at Canterbury, United Kingdom in 1986 and a Diploma in Banking Studies from Mara Institute of Technology in 1982. He is also a Certified Financial Planner licensed by the Financial Planning Association of Malaysia. He joined SDB in 1983 as an Assistant Officer. His previous postings within SDB were in Loans, Venture Capital and Properties and Interest-Free Banking Divisions. In 1990, he was seconded to Tetap Bakti Sdn Bhd, an aquaculture-based company wholly-owned by SDB, as Finance Manager cum Project Co-ordinator for 3½ years and later in 1995 to Warisan Harta Sabah Sdn Bhd, an investment holding company wholly-owned by the Sabah State Government as Senior Manager (Business Development & Investment) for about a year. He has been serving as a Senior Manager in SDB since 1994 and as Head of Internal Audit Division since February 2000.

Ms. Amy Tan
Assistant General Manager, Human Resource, Legal and Secretarial Division

Ms. Amy Tan, aged 55, is the Assistant General Manager of Human Resource, Legal and Secretarial Division of SDB. She graduated from the University of Singapore with a Degree in Business Administration. She started her career with Tong Bee Finance (M) Berhad (now known as CIMB Bank Berhad) in 1978 as an Officer assigned to conduct feasibility studies for the opening of new branches. Within a couple of months, she was given the privilege of being a pioneer staff of the Personnel and Training function. By 1980, she was managing the department. In 1983, she left for a group of companies where she was given the task of pioneering the Human Resource Department. In 1988, she joined KUMB Finance Berhad (now known as AmBank Berhad), with the similar task of heading and pioneering the Human Resource Department. Subsequently, in 1993, Ms. Tan joined City Finance Bhd ("CFB") as Senior Manager of Personnel and Training. She was also appointed as the Company Secretary in 1995. By 2001, owing to CFB's merger with EON Bank Group, she was granted a new portfolio as Head of Compensation, Group Human Resources. She joined SDB in December 2001 as the Senior Manager of Human Resource, Legal and Secretarial Division of SDB. She has been in the present position of Assistant General Manager since 1 July 2006.

- the rest of this page is intentionally left blank -

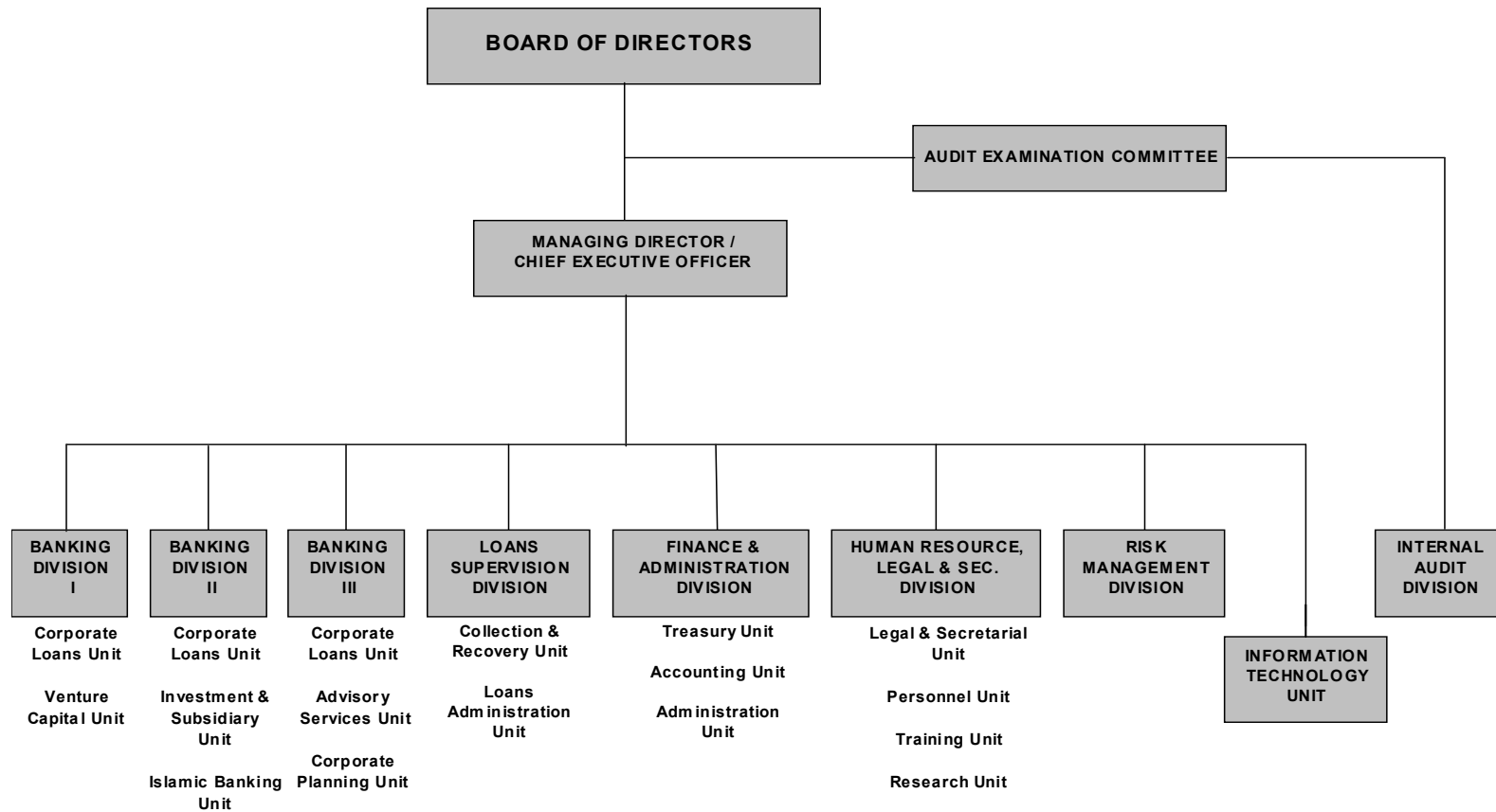
Ms. Chiang Gik King @ Rose
Senior Manager, Finance and Administration

Ms. Rose Chiang, aged 51, is the Senior Manager of Finance and Administration Division of SDB. She holds a Diploma in Accountancy from Mara Institute of Technology and a Certificate in Training and Development from the Institute of Training and Development, United Kingdom. Her past working experiences have been with Koperasi Serbaguna SANYA as an Accounting Officer in 1978 and later with Sabah Marketing Corporation Sdn Bhd as an Audit Assistant. She joined SDB in 1982 as an Assistant Officer to the Accounting & Operations Division. She was promoted to the post of Senior Officer attached to the Training Department of SDB in 1984. She was the Manager of the Training Department before she was assigned to the present Division in November 1998. She was promoted to the position of Senior Manager on 1 January 2003.

- the rest of this page is intentionally left blank -

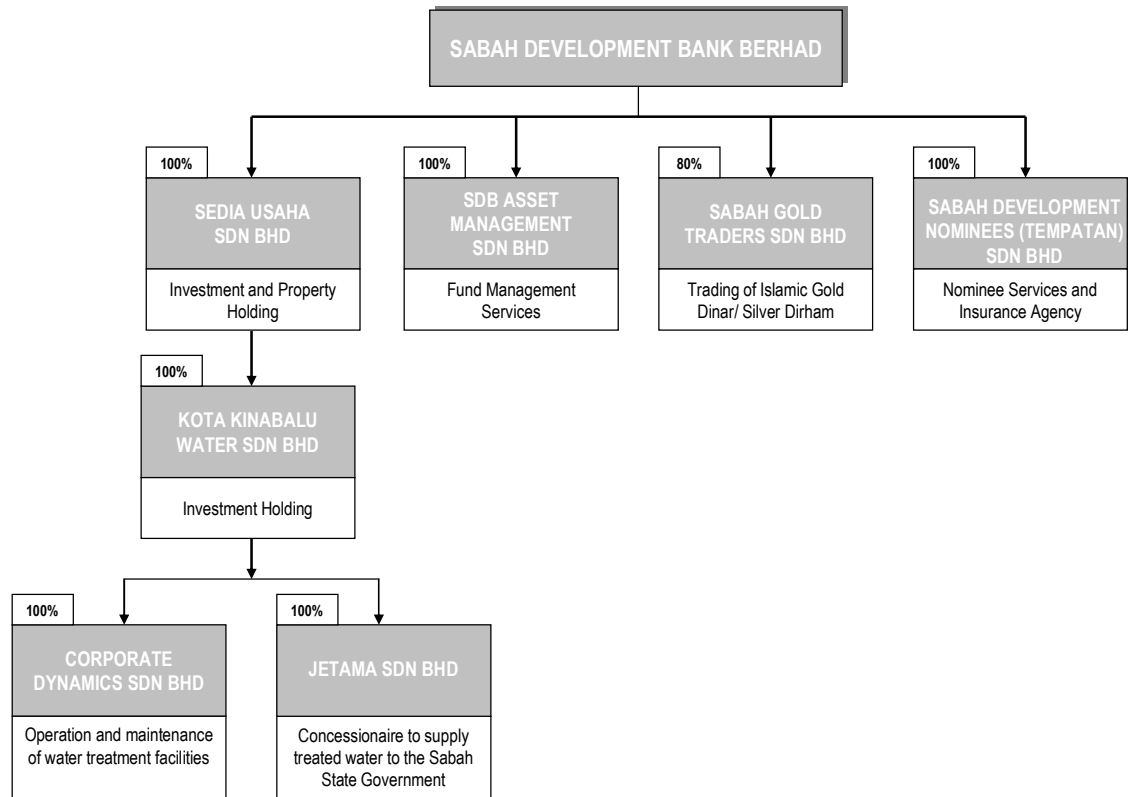
3.4 Organisation Structure

The organisation structure of SDB as at 31 January 2008 is as follows:



3.5 Group Corporate Structure

The SDB Group structure as at 31 January 2008 is as follows:



3.6 Financial Information

The summarized audited financial statements of SDB at the company level for FYE 31 December 2003 to 2006 and the summarized unaudited management accounts of SDB at the company level for the FYE 31 December 2007 are set out in Section 5.1 of this Information Memorandum. SDB's audited financial statements for the FYE 31 December 2006 and unaudited management accounts of SDB for the FYE 31 December 2007 are attached as Appendix I.

- the rest of this page is intentionally left blank -

3.7 Subsidiaries

The list of SDB's subsidiaries as at 31 January 2008, all of which are incorporated in Malaysia, is as follows:

Name of company	Date of incorporation	Issued and paid-up share capital	Effective equity interest (%)	Principal activities
Sedia Usaha Sdn Bhd	8 February 1985	2 ordinary shares of RM1.00 each	100	Investment and property holding.
Sabah Development Nominees (Tempatan) Sdn Bhd	22 May 1979	10,000 ordinary shares of RM1.00 each	100	Nominee services and insurance agency.
SDB Asset Management Sdn Bhd	29 August 1995	4,730,000 ordinary shares of RM1.00 each	100	Fund management services.
Sabah Gold Traders Sdn Bhd	20 June 2006	100,000 ordinary shares of RM1.00 each	80	Trading of Islamic Gold Dinar and Silver Dirham.
Subsidiary of Sedia Usaha				
Kota Kinabalu Water Sdn Bhd	7 September 1964	3,750,000 ordinary shares of RM1.00 each	100	Investment holding.
Subsidiaries of KK Water				
Jetama Sdn Bhd	31 May 1988	1,000,000 ordinary shares of RM1.00 each 900,000 redeemable preference shares of RM1.00 each	100	Concessionaire to supply treated water to the Sabah State Government.

Name of company	Date of incorporation	Issued and paid-up share capital	Effective equity interest (%)	Principal activities
Corporate Dynamics Sdn Bhd	23 November 1992	100,000 ordinary shares of RM1.00 each	100	Operation and maintenance of water treatment facilities.

3.7.1 **Sedia Usaha Sdn Bhd**

Sedia Usaha was incorporated on 8 February 1985 as Sabah Leasing Sdn Bhd before it assumed its current name on 4 March 1992.

Sedia Usaha has an issued and paid-up share capital of 2 ordinary shares of RM1.00 each.

Sedia Usaha is an investment holding company, with 100% ownership in KK Water. It also holds immovable properties, which were acquired by Sedia Usaha in the course of foreclosure proceedings instituted by SDB over the properties as part of SDB's enforcement proceedings against defaulting borrowers and/or chargors, as investment. Sedia Usaha intends to dispose any or all of the immovable properties in the future.

3.7.2 **Kota Kinabalu Water Sdn Bhd**

KK Water was incorporated on 7 September 1964 as Hume Sabah Limited before its name was changed to Hume Sabah Sdn Bhd on 9 July 1969. The company assumed its current name on 16 October 2000.

KK Water is a wholly-owned subsidiary of Sedia Usaha and is an investment holding company for SDB's water concessionaire, Jetama and operator, Corporate Dynamics.

KK Water has an issued and paid-up share capital of 3,750,000 ordinary shares of RM1.00 each.

3.7.3 **Jetama Sdn Bhd**

Jetama was incorporated on 31 May 1988. Jetama is wholly-owned by KK Water.

Jetama is a water concessionaire for Kota Kinabalu area. Jetama's core activities are to operate, maintain and manage the existing water production facilities, as well as to construct and subsequently operate, maintain and manage new dams, water treatment facilities, and transmission facilities in return for its exclusive concession to supply treated water to the Sabah State Government.

Jetama has an issued and paid-up share capital of 1,000,000 ordinary shares of RM1.00 each and 900,000 redeemable preference shares of RM1.00 each.

Jetama was awarded the water concession under a Privatisation cum Concession Agreement (“**PCCA**”). The PCCA was entered into on 9 December 1992 between Jetama and the Sabah State Government and supplemented by an Addendum dated 21 October 1997.

3.7.4 Corporate Dynamics Sdn Bhd

Corporate Dynamics was incorporated on 23 November 1992. It is a wholly-owned subsidiary of KK Water and is the operator of the water treatment plants under Jetama’s water concession.

Corporate Dynamics has an issued and paid-up share capital of 100,000 ordinary shares of RM1.00 each.

3.7.5 SDB Asset Management Sdn Bhd

SDB Asset Management was incorporated on 29 August 1995 under the name of SDB Asset Management Sdn Bhd before changing its name to Suria Asset Management Sdn Bhd on 16 February 1998. The company assumed its current name on 19 December 2006.

SDB Asset Management has an issued and paid-up share capital of 4,730,000 ordinary shares of RM1.00 each.

SDB Asset Management is a licensed fund manager company.

3.7.6 Sabah Gold Traders Sdn Bhd

Sabah Gold was incorporated on 20 June 2006. SDB holds 80% of the issued and paid-up share capital of Sabah Gold.

Sabah Gold has an issued and paid-up share capital of 100,000 ordinary shares of RM1.00 each.

Sabah Gold specialises in the trading of Islamic Gold Dinar and Silver Dirham, as well as the promotion of business participation in Islamic Hybrid Instruments and Takaful Hybrid Instruments.

3.7.7 Sabah Development Nominees (Tempatan) Sdn Bhd

SD Nominees was incorporated on 22 May 1979 as Sabah Development (Nominees) Sdn Bhd before it assumed its current name on 1 August 1997.

SD Nominees has an issued and paid-up share capital of 10,000 ordinary shares of RM1.00 each.

SD Nominees operates mainly in nominee services and as an appointed insurance agent for Progressive Insurance Berhad.

- the rest of this page is intentionally left blank -

4 BUSINESS OVERVIEW

4.1 Business of a Development Financial Institution

4.1.1 General

As a "scheduled institution" under the BAFIA, SDB functions as a DFI and a financial intermediary of the Sabah State Government and to serve as a catalyst for investment, for development of entrepreneurship and management expertise in Sabah. Towards this end, SDB endeavours to work in line with the policies of the Sabah State Government and the Federal Government.

One of the major sources of revenue of the Sabah State Government is sales tax from crude palm oil. As such, it is part of the Sabah State Government's objective to focus on the development of the agricultural sector, particularly in the cultivation of oil-palm. The other sectors identified by the Sabah State Government for development are tourism and manufacturing.

As a DFI, SDB serves as the Sabah State Government's financial intermediary by providing financing to viable companies which are involved in the above 3 identified sectors in Sabah. To facilitate and assist the development of these 3 sectors as well as the overall economy of Sabah, the Sabah State Government has initiated various infrastructure projects including road, water, port facilities and airport expansion, and other development projects including the revival of Sandakan town, oil-palm cultivation and some low-cost housing projects. SDB serves to facilitate the provision of funding for these projects. In addition, the recently launched Sabah Development Corridor offers extensive and extended opportunities for SDB to play a continued vibrant role as the Sabah State Government's financial intermediary.

4.1.2 Business Strategy

In serving as a financial intermediary for the Sabah State Government to facilitate the development of Sabah as stated above, it is also SDB's goal to maximize its shareholder's value. It employs the following strategies to achieve its objectives:

- building a sound financial structure within the SDB Group;
- building a sound organisational structure through employing and retaining high level of management expertise;
- establishing favourable relationship with other financial institutions to enhance its effectiveness;
- management of credit risk by maintaining prudent credit policies;
- management of operating expenses to improve financial performance;
- increasing low-cost interest-bearing deposits/borrowings with expanded treasury management capabilities.

4.1.3 Business

SDB conducts its operations out of its corporate office in Kota Kinabalu, Sabah and does not have any branches or other offices.

Loan Approval and Review. SDB's loan approval policies provide for various stages of review, approval, implementation and evaluation and can be generally summarised as follows:

- a. Identification and Preparation: SDB has to identify the area of project which is considered feasible by examining all its aspects, particularly its technical, managerial, economic and financial arrangements.
- b. Appraisal/ Evaluation: The appraisal would be carried out by SDB. It involves:-
 - the examination of the economic, financial and technical requirements of the project and the likelihood of them being realised;
 - the levels and types of risks involved and the mitigation methods employed;
 - the determination of what feature and condition would be necessary to ensure the success of the project; and
 - the provision of basis for the decision in supporting the approval of the loan.
- c. Negotiation and Approval: Following appraisal, negotiation with the borrower will proceed leading to the formalised agreement detailing the terms agreed by SDB and the borrower. A detailed work out on the loan disbursement would also be carried out.
- d. Implementation and Supervision: During the implementation of the project by the borrower, SDB will carry out appropriate supervision to ensure that the project is likely to achieve the objectives for which the loan was made. SDB will also review the periodic progress reports on the project submitted by the borrower to SDB, and make "supervision mission" on the project to review progress and that funds will be spent in the manner agreed upon.
- e. Evaluation: Upon the full disbursement of the loan, SDB will evaluate the result of the project.

Lending Limits. Although SDB is not a licensed bank or financial institution regulated under the BAFIA, SDB has been generally guided by BNM's GP5 Guidelines on the credit limit of a single customer. In addition, SDB apply differing limits based on the type of loan and the nature of the borrower, including the borrower's other loan relationships with SDB.

Credit Risks. The principal economic risk associated with each category of loans that SDB makes is the creditworthiness of the borrower. Borrower's creditworthiness is affected by general economic conditions and the strength of the relevant business market segment.

SDB will give equal priority to private, government or semi-government projects. The general loan policy of SDB can be defined as the profitable employment of funds at rates which are fair and just to SDB, its shareholder and its borrowers, and in compliance with the requirements of all regulatory bodies. SDB's general loan policies can be listed as follows:

- a. A courteous and professional service will be extended to every loan applicant, and every effort is made to ensure that loans and other assistance will promote constructive economic growth, and in particular to the priority sectors of the economy as may be defined from time to time by the government.
- b. However, SDB will only finance projects which are economically feasible and financially viable, and will not subsidize enterprises or projects.
- c. SDB will, where and possible, offer technical assistance and advice to its borrowers on matters of project planning, organization and finance.
- d. Whenever SDB considers it necessary to increase capital resources for operations, it will endeavor to raise funds on the best possible terms locally or abroad.
- e. In this regard, SDB will endeavor to creatively package appropriate financing for its customers whilst exercising sound judgment in protecting both its and that customers' interest and at the same time, create proper pricing through rates and fees, fair to the customers and providing an adequate profit.
- f. In line with the BNM's regulation on Single Customer Limit, total commitments, as determined by shareholding, to a single group of companies shall not normally exceed 25% of the aggregate of SDB's paid-up capital and unimpaired reserves. Any single large loan, including participation in syndicated loan, shall not exceed 15% of SDB's paid-up capital and unimpaired reserves.
- g. However, SDB may participate in loan syndication as a manager or co-manager provided SDB's underwriting commitment does not exceed 15% of its paid-up capital and unimpaired reserves and management is reasonably satisfied that the project will attract a sufficient response so that the figure of 15% will not be exceeded. Syndication of amounts in excess of which will only be accepted on a "best effort" basis. Specific exceptions may be allowed in the case of statutory and/or government bodies.

- h. Concentration of commitment in companies, products or types of industries is to be avoided.
- i. Term loans normally should not exceed 10 years and repayments are to be tailored to the borrower's ability to repay with front end grace period not exceeding five years. Extension may be allowed to major prime borrowers where longer maturities do not present a servicing problem or when government support is involved.
- j. All loans must be supported by primary and secondary sources of repayment with agreements that will effectively accelerate the credit if borrowers' ability to repay is eroded.
- k. SDB will not normally make loans which are subordinated to other creditors of the borrower.
- l. No loans will be allowed for the sole purpose of improving the outward appearance of the borrower's financial statements.
- m. No loans will be allowed which are speculative or inflationary in nature or for the purpose of unfriendly acquisitions.
- n. Stocks and shares as primary security for loans must be readily marketable.
- o. It is not SDB's policy to become retail oriented but it is prepared to offer all forms of banking services permitted by law and Bank Negara Malaysia, particularly to government and semi-government enterprises. For this purpose, and to avoid a large number of small loans, the minimum lending limit is RM250,000.00, although lesser amounts may be approved by SDB if circumstances warrant.
- p. Whilst SDB does not normally finance more than 60% of any particular project cost, exceptions may be made in the case of development projects. The 60% guideline shall not apply for cases of expansion where overall gearing is less than 60:40 or the credit being supported by acceptable bank guarantee or other security(ies) of equal quality.
- q. SDB will at all times be prepared to consider any legitimate proposals provided that they comply with the principal objectives of SDB.
- r. In short, SDB's scope of financing includes Agricultural Financing, Export Financing, Import Financing (issuance of Letters of Credit), Project Loans, Ship Financing, Small Business Loans (Minority Loans), Syndicate Lending, Term Loans, Working Capital Loans and Loans Secured by Securities.

Investments. In addition to loans, SDB also makes investments in Malaysian Government Securities, venture capital companies and deposit instruments issued by other financial institutions. SDB also holds shares in some private companies in line with the directives of the Sabah State Government and instruments in some companies as a result of previous restructuring arrangements made with defaulting borrowers.

Deposits. Being a scheduled institution under BAFIA, SDB only accepts deposits from governments and their related agencies.

Financial Risk Management. SDB's risk management objective and policy is to ensure sound risk control, through risks identification and recommendation of strategies to manage and mitigate losses. SDB uses an Enterprise-Wide Corporate Risk Scorecard Management System to assist in the management of risk.

SDB's Risk Management Division will prepare a monthly report to be tabled at the monthly Risk Management Committee Meeting and thereafter, the report will be presented to the Management Committee Meeting and Board of Directors Meeting.

The Risk Management Division monitors the following financial risks:

- a. Interest rate risk- The Issuer's exposure to risk for changes in interest rates, relates primarily to interest-bearing financial liabilities. The Issuer's policy is to manage its 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 Issuer's interest-bearing financial liabilities are hedged by interest-bearing financial assets, such as commercial loans (short-term and long-term), money market placements and fixed deposit placements.
- b. Credit risk - The Issuer's policy is to manage its credit risk through the application of good credit approvals, credit limits, monitoring procedures and credit assessment.
- c. Liquidity risk- The Issuer monitors and maintains 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 Issuer actively manages its cash flow projection to ensure collection on loans and asset-maturities are adequate to meet the SDB's debt serving commitments and/or any other funding requirements.
- d. Cash flow risk- The Issuer reviews its cash flow position regularly to manage its exposure to fluctuations in future cash flows associated with its monetary financial instruments.

SDB's Risk Management System is subject to annual audit by its internal auditors.

Employees. As of 31 January 2008, SDB had 84 full-time employees.

Market Area and Competition. SDB's lending activities are primarily in the State of Sabah. Presently, SDB generally focuses approximately 80% of its lending activities in Sabah, and the remaining in Peninsular Malaysia.

The banking business is highly competitive and the profitability of SDB depends principally upon SDB's ability to compete in its market area.

By virtue of it being wholly owned by the Sabah State Government, SDB plays a prominent role in lending activities to the Sabah State Government and its related agencies or statutory bodies, and projects undertaken or promoted by them.

4.1.4 Lending Activities

Lending activities of SDB increased further, with loans outstanding growing by 24% to RM1.54 billion as at end 2007 (end 2006: RM1.24 billion) to account for 68% of total assets. The increase was mainly attributed to strong growth in loans extended to the construction and manufacturing sectors. In terms of composition, 36% of total loans outstanding were extended to the real estate sector, while 22.8% and 12.6% were to the construction and manufacturing sectors, respectively. During the year, total loans approved declined to RM739.8 million and total loan disbursed rose further to RM686.61 million (2006: RM985.4 million and RM659.51 million, respectively).

While gross NPLs reduced to RM210.28 million (2006: RM211.87 million), the gross NPL ratio improved slightly to 25.95% (2006: 28.84%) owing to the larger loan base. 69.16% of the NPLs were loans to the manufacturing and real estate sectors. On a net basis, the net NPL ratio was at 1.77% (2006: 0.78%).

Borrowings from financial institutions as well as deposits from the Government and Government-controlled business enterprises continued to be the main sources of funds for SDB. Together, these contributed to RM1.57 billion (2006: RM1.36 billion).

4.1.5 Regulations on SDB as a Financial Intermediary

SDB functions as a DFI and operates as a "scheduled institution" under the BAFIA. Nevertheless, SDB is presently not subject to extensive government regulation, supervision and examination under BAFIA.

Though SDB is reported as a DFI in the BNM Annual Report, it has yet to be regulated under the DFIA. It may in time be regulated under the DFIA and it will be then subject to the various requirements and restrictions on

a DFI under the DFIA. These requirements and restrictions include matters relating to:

- appointment and disqualification of chief executive officer and directors;
- disclosure of director's interests;
- acquisition of shares, change in control and transfer of business in a DFI;
- establishment or acquisition of a subsidiary;
- carrying on of business;
- granting of credit facilities and single customer limit;
- control of credit limit;
- investment in assets;
- payment of dividend; and
- maintenance of liquid assets, capital funds and reserve funds.

4.1.6 Capital Adequacy

Although SDB is not regulated as a licenced institution under the BAFIA, SDB has been complying with the risk-weighted capital adequacy ratio ("**RWCAR**") required by BNM.

In addition, SDB has also been complying with the Market Risk Capital Adequacy Framework ("**MRCAR**") issued by BNM in September 2004 for implementation by licensed banks and financial institutions, which were required to incorporate their market risk positions into the RWCAR and comply with the minimum RWCAR by the second quarter of 2005.

Under this framework, only interest rate risk and equity risk in the trading book are included, while for foreign exchange risk, both trading and banking book positions are incorporated.

The minimum guideline for the RWCAR is 8%. As at 31 December 2007, SDB's RWCAR was 24.94%.

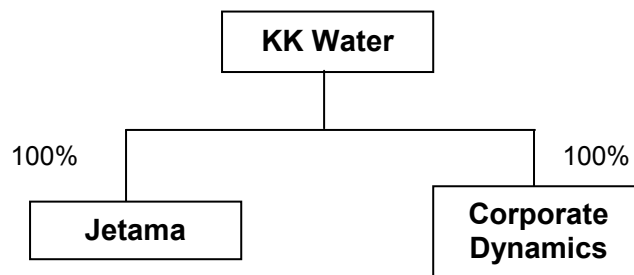
4.1.7 Monetary Policies

The results of SDB's operation are significantly affected by the credit policies of the monetary authorities, particularly BNM. The instruments of monetary policy employed by BNM include changes in interest rates, and changes in reserve requirements against bank deposits.

4.2 Water-Related Business

4.2.1 General

The water-related business within the SDB Group is held under Jetama, being the concessionaire and Corporate Dynamics, being the operator. Both Jetama and Corporate Dynamics are wholly-owned subsidiaries of KK Water. The KK Water Group structure is as follows:



Jetama is one of the 3 water production concessionaires in Sabah and is the only water concessionaire in the Kota Kinabalu region. The other 2 concessions are held by Timatch Sdn Bhd (in respect of water production in Tawau and Sandakan) and Lahad Datu Water Supply Sdn Bhd (in respect of water production in Lahad Datu, Semporna, Kunak and Pulau Bum Bum).

Meanwhile, Corporate Dynamics is engaged specifically to provide maintenance, operation and technical support to Jetama.

SDB completed its acquisition of 100% shareholding in the KK Water Group in 2005 through its subsidiary, Sedia Usaha, as part of its effort to assist the Sabah State Government to manage the water concession. As at FYE 2007, the KK Water Group contributed approximately 42% of the PAT to the SDB Group. SDB may accept any offer to sell the KK Water Group or the water-related business at the right price.

4.2.2 Business Activities

The principal activities of the KK Water Group are primarily undertaken by Jetama, which was awarded under a Privatisation Cum Concession Agreement dated 9 December 1992 supplemented by an Addendum dated 21 October 1997 (collectively, the "**PCCA**") by the Sabah State Government for:

- a. the operation, maintenance and management of Kasigui WTP, Telibong WTP, Gaya Park PS, Papar WTP, Tamparuli WTP, Tuaran WTP, Kota Raya PS, transmission mains and 15 reservoirs;

- b. the construction of the Moyog Treatment and Transmission Facilities Phases I and II, the completed Phases I and II Works ("**New Facilities**") and their subsequent operation maintenance and management of the New Facilities; and
- c. the operation and maintenance Moyog Treatment and Transmission Facilities Phase III,

and to supply in bulk treated water to the Sabah State Government for downstream distribution for a period of twenty (20) years from 5 June 1993.

The operation, maintenance and management of the facilities are carried out by Corporate Dynamics under the Operation and Maintenance Agreement dated 7 June 1993 ("**OMA**") supplemented by Addendum dated 21 October 1997 between Jetama and Lyonnaise Des Eaux-Dumex which agreement was novated to Corporate Dynamics under the OMA Novation Agreement dated 3 January 2005.

4.2.3 **Water Industry Policies**

SDB believes that it is unlikely that there will be any change in the policy of the Sabah State Government concerning water production, at least not before the expiry of the PCCA on 4 June 2013.

SDB further believes that any change in policy by the Federal Government concerning the water production industry will not affect the State of Sabah. The Water Services Industry Act 2006 which has been passed by the parliament does not apply to the State.

Based on the performance of this subsidiary thus far, SDB is hopeful Jetama would be able to secure an extension of the PCCA upon the expiry of the concession period.

4.3 **Other Business**

4.3.1 **Asset Management Business**

SDB Asset Management is an asset management company licensed under Section 58 of the CMSA to provide fund management services. SDB Asset Management, operating under the flagship of the Sabah State Government (as SDB is wholly-owned by the Ministry of Finance) provides its services primarily to the Sabah State Government and its agencies, institutional clients and high net-worth individuals.

SDB Asset Management offers investment capabilities across all major markets and asset classes (traditional and alternative) designed for private high net-worth clients, financial intermediaries and institutional investors with investment portfolios ranging from equities, bonds, money markets instrument and structured fund.

4.3.2 **Gold Trading Business**

Sabah Gold carries out the business of a Wakala (representative or agent) in the State under a franchise business concept, to trade in Gold Dinar and Silver Dirham and promote participation in the Islamic Hybrid Instrument and any other products promoted by IGD Practice Sdn Bhd from time to time.

The present shareholders of Sabah Gold are SDB (80%) and IGD Practice Sdn Bhd (20%). Financially, Sabah Gold's operation is supported by its shareholders.

- the rest of this page is intentionally left blank -

5 FINANCIAL INFORMATION OF SDB

5.1 Historical Financial Information of SDB

The summarized audited financial statements of SDB at the company level for FYE 31 December 2003 to 31 December 2006 and the summarized unaudited management accounts of SDB at the company level for the FYE 31 December 2007 are as follows:

	FYE 31.12.2003	FYE 31.12.2004	FYE 31.12.2005	FYE 31.12.2006	Unaudited Management Accounts for the FYE 31.12.2007
	RM '000	RM '000	RM '000	RM '000	RM '000
Revenue	74,661	71,490	159,463	148,861	364,671
Expenditure	(63,228)	(66,946)	(150,175)	(66,025)	(90,019)
Profit Before Tax	11,433	4,544	9,288	82,836	274,652
Income Tax Credit/(Expense)	0	64,280	(3,390)	(23,914)	(74)
Profit For the Year	11,433	68,824	5,898	58,922	274,578
Accumulated Losses as of 1 January	(260,749)	(264,316)	(195,492)	(254,594)	(228,072)
Interim Dividend	0	0	0	(32,400)	0
Final Dividend	(15,000)	0	(65,000)	0	(105,850)
Accumulated Losses as of 31 December	(264,316)	(195,492)	(254,594)	(228,072)	(59,344)
Issued and Paid-Up Capital:					
- Ordinary Shares	300,000	315,000	315,000	380,000	380,000
- Preference Shares	50,000	50,000	50,000	50,000	50,000
Gross Dividend Rate	6.944%	0.00	28.66%	11.84 sen	N1
Loan, Advances and Financing	759,447	932,312	996,172	1,248,323	1,553,130
Total Assets	1,148,829	1,433,742	1,515,553	1,767,385	2,257,187
Shareholders' Funds / Total Equity	228,913	312,738	253,636	345,158	513,886

N1: RM50,000,000.00 Redeemable Convertible Non-Cumulative Preference Shares @ 3% gross and RM380,000,000.00 ordinary shares @ 37.7632% gross.

5.2 Sources of Funds

SDB is a “scheduled institution” under the BAFIA. However, SDB does not have access to the inter-bank market nor is it allowed to accept deposits except from institutions listed under the First Schedule of BAFIA i.e. Government, Government bodies and Government-related entities.

Historically, SDB relied primarily on the Sabah State Government’s support to finance its activities. Government funding was in the form of short to medium-term deposits from the Sabah State Government and state agencies of Sabah. Nevertheless, SDB has also solicited some long-term working capital funds from both the domestic and offshore markets.

Currently, SDB’s short-term, medium-term and long-term funding come from the following sources:

Facility	Facility Amount (RM ‘000)	Facility Expiry	Amount Outstanding as at 31 January 2008 (RM ‘000)
<u>Short-Term (12 months & below)</u>			
1. Revolving Credit from Public Bank Bhd (“PBB”)	30,000	subject to annual renewal	30,000
2. Revolving Credit from PBB	40,000	subject to annual renewal	40,000
3. Revolving Credit from PBB	50,000	subject to annual renewal	50,000
4. Revolving Credit and Letter of Credit Facilities from Alliance Bank Malaysia Berhad	100,000	subject to annual review	100,000
			220,000
<u>Medium-Term (>12 months but ≤ 5 years)</u>			
1. Fixed Rate Term Loan (3 years) from CIMB Bank Berhad	100,000	21.12.2010	100,000

Facility	Facility Amount (RM '000)	Facility Expiry	Amount Outstanding as at 31 January 2008 (RM '000)
2. RM500.0 Million Fixed Rate Bonds			
- RM120.0 Million for 3 years	120,000	10.07.2009	120,000
- RM380.0 Million for 5 years	380,000	11.07.2011	380,000
			600,000
<u>Long-Term (>5 years)</u>			
1. RM500.0 Million Revolving Underwriting Facility (2001/2008) arranged by MIDF Amanah Investment Bank Berhad (vested from Amanah Short Deposits Berhad)	500,000	09.05.2008	204,000
2. Term Loan (6 years) from CIMB Bank Berhad (vested from Bumiputra-Commerce Bank Berhad)	100,000	26.08.2010	100,000
			304,000
TOTAL			1,124,000

- the rest of this page is intentionally left blank -

6 THE ECONOMY

The information contained in this Section has been extracted from various sources respectively listed below.

6.1 Overview of the Malaysian Economy

Strong GDP growth in the fourth quarter

The Malaysian economy registered a strong growth in the fourth quarter of 2007. Robust domestic demand, driven by strong private consumption spending and investment activities, raised real gross domestic product (GDP) growth to 7.3%. This was reinforced by increased in public sector spending. On the supply side, growth was broad based with strong growth recorded in all economic sectors. For the whole year, real GDP expanded by 6.3%.

The manufacturing sector expanded by 5.6% (3Q: 3.3%), reflecting strong expansion in the domestic-oriented industries. Production of domestic oriented industries grew by 11.1% (3Q: 4.6%) underpinned by the strong performance in transport equipment, food and beverages, and construction related industries. Similarly, production of export-oriented industries performed better during the quarter, supported by an improvement in the E&E sector, particularly computers and parts.

The services sector continued to be the main impetus to GDP growth, expanding by 9.1%. The wholesale and retail trade, accommodation and restaurant; as well as finance, insurance, real estate and business services sub-sectors continued to register double-digit growth. Growth in the construction sector was sustained at 4.7% in the fourth quarter supported by activities in the civil engineering and non-residential sub-sectors.

Agriculture and mining sectors recorded robust performance during the fourth quarter. Output in the agriculture sector increased by 6.9% (3Q: 0.7%) following the expansion in crude palm oil output due to recovery in yields. This was supported by higher output of livestock. In the mining sector, the increase in crude oil output of 7.2% was mainly driven by the increased production in the Kikeh deepwater oil fields. The production of natural gas, however, continued to decline due to lower external demand.

Domestic demand remained strong in the fourth quarter expanding by 9.8% (3Q: 12.6%), on the strength of private sector activities, while the increased public sector spending continued to support growth. Private consumption expenditure grew by 11.1% supported by high disposable income due to strong commodity prices, salary increment in the public sector and stable employment market. The nationwide year-end sales had also encouraged consumer spending. Gross fixed capital formation continued to increase by 11.0% (3Q: 13.5%). Private investment indicators, namely loans approved and disbursed to the manufacturing and construction sectors as well as imports of capital goods indicated increased capital spending by the private sector. Similarly, higher disbursement for development expenditure by the Federal Government was

channelled towards agriculture and rural economic activities, improving public utilities and transportation infrastructure as well as for the provisions of education and health services.

The headline inflation rate, as measured by the change in the Consumer Price Index (CPI) increased to 2.2% in the final quarter of 2007 (3Q: 1.8%), due mainly to higher prices in the food and non-alcoholic beverages category and to a lesser extent, in the restaurants and hotels, and miscellaneous goods and services categories.

Monetary policy remained supportive of economic activity

The Overnight Policy Rate (OPR) remained at 3.50% throughout the fourth quarter of 2007, consistent with the medium term outlook of relative price stability and sustainable economic growth.

Concurrently, interbank rates for all maturities were relatively stable during the quarter. In terms of lending rates, the average base lending rate (BLR) remained unchanged during the quarter, while the average lending rate (ALR) softened slightly at end-December. Deposit rates remained unchanged.

Financing to the private sector continued to increase in the fourth quarter. On a net basis, banking system loans and PDS outstanding expanded at a combined annual rate of 8.3% at the end of the fourth quarter. Banking system loans outstanding increased at an annual growth rate of 8.6% at the end of the fourth quarter, with loans outstanding to businesses and households expanding at annual growth rates of 10.4% and 7.3% respectively. Loan applications, approvals and disbursements remained high across the business and household sectors.

M3, or broad money, increased at an annual rate of 9.5% at the end of the fourth quarter. The increase reflected net trade and portfolio inflows during the quarter, and increased Government spending.

In the fourth quarter, gross funds raised were higher at RM46.6 billion. However, after adjusting for large redemptions, net funds raised amounted to RM567 million. The public sector recorded a net redemption of RM5.9 billion, while net funds raised through the PDS market, excluding Cagamas, amounted to RM3.9 billion. Funds raised through the equity market amounted to RM3.8 billion.

The ringgit strengthened against the US dollar during the quarter supported by trade-related inflows and renewed portfolio inflows. For the quarter as a whole, the ringgit exhibited a mixed performance against major currencies and appreciated against most regional currencies. The appreciation of the ringgit has continued into early 2008. Although the downturn in global equity markets and concerns about the impact of a slowdown in US economic growth on the region caused the ringgit to weaken temporarily against the US dollar in mid-January, it subsequently reversed following the 75 basis point cut in the Fed Funds rate by the US Federal Reserve on 22 January, and another 50 basis point cut on 30 January 2008. For the period 1 January to 26 February 2008, the ringgit

appreciated against the US dollar and the euro by 2.9% and 2.3% respectively, but depreciated against the Japanese yen by 0.8%. The ringgit strengthened against most regional currencies, except the Thai baht and the Indonesian rupiah against which the ringgit depreciated by 1.5% and 0.4% respectively.

Banking system continued to exhibit high resilience

The banking sector continued to demonstrate high resilience in the fourth quarter of 2007, supported by strong capitalisation and profitability. The capitalisation of the banking system remained strong with risk-weighted capital ratio (RWCR) and core capital ratio (CCR) of 13% and 9.9% respectively as at end of the final quarter of 2007. The banking system also registered a strong growth of 21% in unaudited pre-tax profit to RM5.2 billion (3Q:RM4.3 billion). The non-performing loans (NPLs) level of the banking system continued to improve, with the total net NPLs based on the 3-month classification declining further by 7.4% to RM20.1 billion (3Q: RM21.7 billion) as at end of the fourth quarter, to account for 3.2% of net total loans (3Q: 3.5%). This was attributed mainly to the sale of NPL and higher reclassifications of NPLs to performing status as well as continued write-offs by banking institutions. The strong balance sheets of banking institutions have positioned the banking system to strongly continue to support future economic activities.

Source: BNM Economic and Financial Developments in Malaysia in the Fourth Quarter of 2007

6.2 Development Financial Institutions

DFIs continue to contribute to the growth of strategic sectors of the economy, such as agriculture, manufacturing and infrastructure. The role of several DFIs has been enhanced in recent years to promote greater access to financing of targeted sectors. Following the approval of a sustainable microfinance institutional framework by the National SME Development Council in August 2006, Bank Simpanan Nasional (BSN) and Bank Kerjasama Rakyat Malaysia Berhad (Bank Rakyat) were mandated in March and April 2007 respectively, to provide commercially-driven microfinance to microenterprises and individuals operating businesses.

Total loans outstanding of DFIs grew 8.1% to RM59.9 billion as at end-June 2007 (end-June 2006: RM55.4 billion). The increase in lending was mainly on account of higher financing for consumption credit, purchase of residential properties and the maritime and infrastructure sectors. Consumption credit extended by Bank Rakyat and BSN rose by 11.8% to RM19.5 billion as at end-June 2007 due to strong consumer demand. Loans to the maritime and infrastructure sectors extended by Bank Pembangunan Malaysia Berhad increased to RM1.5 billion and RM15.6 billion respectively, mainly to finance the shipbuilding industry and utilities sector. Lending to the agriculture sector increased by 3.1% to RM3.7 billion as at end-June 2007, reflecting higher financing by Bank Pertanian Malaysia for agricultural activity such as livestock, agro-based processing, fisheries and production of fertilizers and biodiesel. Financing for SMEs

increased further to RM14.7 billion, accounting for 24.5% of total loans outstanding of the DFIs.

Source: Economic Report 2007/2008

6.3 Overview of Malaysian Economy for 2008

Growth prospects for the global economy remain favourable in 2008. The world economy is projected to expand by 5.2% (2007: 5.2%) supported by broad-based and balanced expansion across the regions. Growth will be led by emerging market and developing countries, in particular, China, India and Russia. The upturn in the US economy and sustained growth in the Euro area will further reinforce the continued expansion in world growth. World trade is expected to grow at a faster pace of 7.4% (2007: 7.1%) underpinned by strong demand for commodities, continued expansion in trade in services and supported by sustained demand for electronics. Inflationary pressures are expected to be manageable, cushioned in part by higher productivity growth, softening US dollar as well as proactive measures taken by major economies to contain inflation.

Despite the positive outlook, several downside risks remain, which could derail the growth momentum of the world economy. These include, among others, lower-than-expected growth of the US economy, prolonged subprime mortgage crisis, widening global imbalances, oil price shocks leading to higher world inflation, geopolitical tensions as well as pandemic diseases. Notwithstanding the external challenges, the Malaysian economy is expected to remain resilient on the back of a well-diversified and broad-based structure as well as strong macroeconomic fundamentals, which have strengthened over the years.

The Malaysian economy is anticipated to strengthen further to 6.0-6.5% in 2008 (2007: 6.0%) with positive contribution from all sectors of the economy. Domestic demand will be the main driver of the economy, while external demand is expected to pick up in tandem with improved prospects in world trade. Private investment and consumption spending are expected to remain robust, while public expenditure continues to expand. Inflation is anticipated to remain low despite strong expansion in the economy as output growth is still below potential level. Coupled with increased productivity, the economy would be able to absorb higher demand expenditure. In line with higher output and firm commodity prices, nominal GNP per capita is expected to rise 6.8% to RM23,864 in 2008 (2007: 7.2%; RM22,345). In terms of PPP, per capita income is expected to increase 6.9% to reach USD14,206 (2007: 13.9%; USD13,289), reflecting improved quality of life of the *rakyat*.

Source: Economic Report 2007/2008

- the rest of this page is intentionally left blank -

7 THE STATE OF SABAH

7.1 Background Information

7.1.1 History

Sabah, formerly known as North Borneo, gained self-government from Britain on 31 August 1963, and on 16 September that year joined the Federation of Malaya, Singapore and Sarawak to form Malaysia (Singapore subsequently seceded in 1965 to become a sovereign nation).

7.1.2 Location

Sabah is the second largest of the 13 states of Malaysia, with a land mass of 73,711 km² and a coastline of nearly 1,450 km. It is strategically located in the middle of South East Asia on the northern tip of the island of Borneo.

7.1.3 Government Machinery

Sabah is governed by the State and Federal Constitution. Under the Federal Constitution are 3 lists, specifying responsibilities of the Federal Government, the State Government or both concurrently. Sabah has a unicameral Legislative Assembly that enacts laws on matters under its jurisdiction such as, land and forestry matters. Members of the State Legislative Assembly are elected every 5 years. The Chief Executive of the Sabah State Government is the Chief Minister who is assisted by 3 deputy Chief Ministers and 7 other cabinet ministers. The state cabinet implements policies drawn up by the legislative assembly through the Civil Service.

7.1.4 Administrative Division

For the purpose of administration, Sabah is divided into 5 divisions (i.e. Kudat Division, West Coast Division, Interior Division, Sandakan Division and Tawau Division) that are further divided into municipalities, districts and sub-districts.

7.1.5 Major City and Towns

The city of Kota Kinabalu, with a population of about 437,500 people (as at 2007) is the State capital and the main administrative and business centre. It is also the gateway to Sabah, being linked by direct flights to the national capital, Kuala Lumpur, and to major cities in Asia.

Sandakan is a major town in the east with a population of about 436,500 people (as at 2007). Its main economic activities are agriculture, wood processing, tourism and fishing. Tawau is another major town located in the south east with a population of 378,000 people (as at 2007).

Minor towns include Kudat (population as at 2007: 83,000), Ranau (85,600), Keningau (184,000), Sipitang (34,100) and Lahad Datu (196,100)

Sources: Department of Industrial Development and Research Sabah and Department of Statistics Malaysia Sabah

7.2 Considerations for Doing Business In Sabah

7.2.1 Political and Social Stability

Being part of the Malaysian framework, Sabah enjoys political and social stability, providing an environment conducive for business. Relating to this, the Sabah State Government's investment policies have remained fairly stable, especially in the emphasis on promoting private sector investment and in encouraging foreign investment into the country. Employee-employer relationship in the country is also excellent, with major employment disputes unheard of.

7.2.2 Business Friendly Government

The Sabah State Government is business-friendly and welcomes foreign investment. Sabah allows foreign companies to own lands. Land ownership is on a leasehold basis. Industrial lands could be held up to a maximum of 99 years. Even "Native Lands", that is lands that can only be owned by the indigenous people of Sabah, can be leased for up to 30 years from their owners to undertake an investment project.

7.2.3 Young, Educated and Trainable Human Resource

Sabah has a young population, providing a vibrant workforce for its industries. About 50.52% of its 3.0636 million people in 2007 are in the age range of 15 - 44 years. The State also has a readily available educated and trainable human resource and produces about 20,000 school leavers with O-Levels education annually. The State also produces about 600 graduates of various disciplines annually. The Sabah State Government also places great emphasis on skills training and has attracted various industrial and skills training institutions to be established in the State.

7.2.4 Modern Infrastructure and Industrial Facilities

Sabah has modern airports and seaports in its major towns. A network of all-weather road links the city of Kota Kinabalu and the major towns in the state, enabling an efficient distribution of goods within Sabah. These are continually being maintained and upgraded. All main towns are supplied with treated water and electricity, the latter being generated by diesel, gas and hydro. Telecommunication facilities are excellent, with numerous services including, inter-alia, International Direct Dial, Integrated Services Digital Network and Leased Circuit.

Sabah also offers a modern industrial park, viz., the KKIP, a self-contained industrial township that is modern and environment-friendly. Other industrial facilities that are being established in Sabah include Integrated Timber Complexes, palm oil industrial clusters, the Sandakan New Growth Centre, the Kudat Industrial Park and the Sipitang Industrial Park. The latter two are meant for heavy and gas based industries.

7.2.5 Strategic Location

Kota Kinabalu, Sabah's capital, is within only about three hours flight to major Asian cities and the availability of direct flights from Kota Kinabalu to these cities makes Sabah easily accessible.

7.2.6 Information Technology

In this era of globalisation, information technology has become a prime source and force used by successful economies to sharpen their competitive edge. Cognisant of this, the Sabah State Government had initiated the move towards an electronic government.

Sources: Department of Industrial Development and Research Sabah and Department of Statistics Malaysia Sabah

7.3 Review of Sabah's Major Economic Indicators

7.3.1 Review of Sabah's Economy

For the economy of Sabah, the external sector will continue to be the main driver. Exports grew by 10% in the first quarter of this year and this growth momentum is expected to continue in 2008 as world trade is forecast to pick up by 7.9% from 7.1% this year. With the world's two fastest growing nations namely China and India as the State's largest export destinations, the State's exports growth will remain robust in the next few years. China, being the State's largest export destination consumed about 20% of the state's total exports of RM6.7 billion in the second quarter of 2007, while India absorbed about 11% (RM1.63 billion). In the second quarter of 2007, the state's trade surplus has already reached about RM2.4 billion. Exports of palm oil alone amounted to RM5.0 billion representing 34.6% of total exports of RM14.4 billion in the second quarter of 2007. Exports of palm oil alone rose to RM8.1 billion, an increase of 14.1% from the year before buoyed by rising palm oil prices. The second highest item exported was crude petroleum valued at RM7.6 billion or 20% of the state's total exports. This was followed by exports of primary timber products, hot briquetted iron, methanol, rubber and cocoa beans.

Apart from export sector, growth will also be supported primarily by private consumption. In the second quarter of 2007, imports of consumption goods including food, beverages, tobacco and vegetable oil

grew by 17.1% to reach RM1.3 billion. The recent hike in civil servants' salaries will further boost domestic consumption and as a result the inflation rate is likely to edge up marginally from the current 2% recorded in the first eight months of this year.

Consistent with favourable growth prospects, investors' sentiments strengthen as reflected by the 12.3% rise in loans extended by all commercial banks in the first half of 2007. Most of these investments were seen in the landed property sector, plantation sector, agro-based industry, wholesale and retail trade, and restaurants and hotels sector, and the construction sector. The landed property sector alone comprised about 28.7% (RM7.0 billion) of the total loans by commercial banks of RM24.4 billion. Commercial loans extended to the wholesale, retail, hotels and restaurants sectors amounted to RM2.9 billion while loans extended to the plantation sector and the agro-based industry sector amounted to RM2.0 billion and RM1.8 billion respectively. The construction sector absorbed RM1.6 billion of the total loans given out in the first half of this year. With the relaxation on foreign ownership on residential house valued above RM250 thousand, the exemption from real property gains tax effective 1 April this year and the EPF relaxation for payment of housing loans effective 1 January 2008, investments into the residential sector is envisaged to escalate.

With improved investment climate, the manufacturing sector has managed to attract more investments this year. In the first half of 2007, approved manufacturing investments amounted to RM2.7 billion as compared to RM632 million for the whole year of 2006. The bulk of the investments were channelled to the bio-diesel, biomass, palm oil and food (seafood) industries.

To support the private sector's initiatives, public investment will focus on provision of basic infrastructure facilities and utilities. At the same time, the government will continue its efforts to reduce poverty and narrow the development gap within the regions in the state. With a total amount of RM839.28 million proposed for development including the additional RM4 billion from the Federal Government for 2008, the pace of project implementation is expected to gather speed. Public investment to support the development of the Sabah Development Corridor and its flagship projects will be given emphasis.

Public consumption is projected to remain firm following anticipated increase in expenditure as part of ongoing efforts to further improve the government delivery system and enhance capacity building for civil servants. On the supply side, the composition of growth is expected to come from the agriculture sector, manufacturing sector, construction sector and the services sector. The services sector continues to be one of the key drivers of growth in 2007 and is expected to expand at a steady pace led by the tourism industry, wholesale and retail trade sector and restaurants and hotels sector. Dominated by the oil palm sector, prospect in the agriculture sector is encouraging. Production of crude palm oil rose by 82,000 tonnes to reach 3.4 million tonnes in the first eight months of

2007 as compared to the same period last year. Prices of oil palm is expected to remain bullish above RM 2 thousand per tonne as prevailing strong demand anticipated from consuming countries. With prices of rubber reaching RM7 per kg, the export volume of rubber grew by 25.3% while the export value achieved a record high of RM488.7 million in 2006 as compared to RM282.9 million in the previous year. The bright outlook in rubber is expected to generate more investment into the rubber plantation sector.

The tourism industry remains upbeat as Sabah is becoming increasingly a popular destination not only for nature and adventure tourism but also for "Meetings, Incentives, Convention and Exhibition (MICE)". In the first nine months of 2007, visitor arrivals into the State had already recorded an increase of 14.4% (1,749,843 visitors) as compared to the same period in 2006. International arrivals grew by 23.4% (640,788 visitors) while domestic arrivals recorded growth of 9.4% (1,079,055 visitors). Demand for hotel rooms has been encouraging as reflected by the steady rise in hotel room rates. Hotel occupancy rate remains high at an average of 72% in the first five months of 2007. And in the first eight months of this year, 578 hotel rooms have been added into the market with the opening of seven new hotels in the state. Currently, there are two new hotel or resorts under construction while eight more hotels have been planned adding about 2,000 more hotel rooms into the market once completed. The wholesale and retail trade sector has also picked up with the opening of more shopping complexes and increases in occupancy rates of the business premises.

As for the manufacturing sector, exports of manufactured goods in 2006 registered a significant growth of 11.4% following stronger demand for timber products. Exports of timber products rose to RM 3 billion in 2006 from RM2.7 billion in 2005. This trend is envisaged to continue as exports of timber products already recorded an increase of 9.3% in the second quarter of 2007 amounting to RM1.6 billion from RM1.5 billion in the same period in 2006.

Construction of residential properties, hotels, commercial shop lots and malls will dominate the landscape of the state particularly Kota Kinabalu City in the next two to five years. In the first half of 2007 alone, 13 residential projects and 21 commercial shop lots projects have commenced in the city. In the industrial sector, the bigger projects under construction are the Palm Oil Industrial Cluster in Lahad Datu and KKIP's Small and Medium Industry (SMI) Ready Build Factories.

The civil engineering sub-sector is expected to pick up further as the state enters into its third year 9MP. Some of the major infrastructure projects include the Karamunsing flyover, Sepulut-Kalabakan Road, Sipitang-Tenom Road, Sandakan Northern Ring Road and upgrading of Sukau-Kinabatangan Road. The huge water supply projects under construction are in Kota Belud, Sandakan, Kudat and Papar. Against a backdrop of improved domestic demand, brisk construction activities and stable

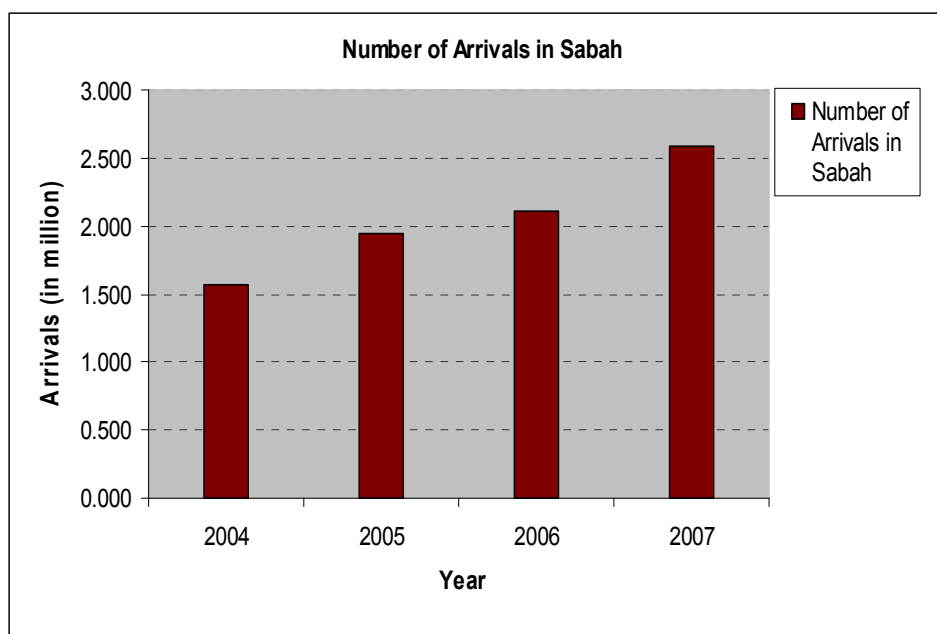
external environment, the state's economy is expected to grow by around 6 per cent in 2007 and 2008.

Source: 2008 Budget Speech by Datuk Seri Panglima Musa Haji Aman, Chief Minister and Minister of Finance at the State Legislative Assembly on 16 November 2007.

7.3.2 Macroeconomic Indicators

Number of Arrivals in Sabah:

Year	2004	2005	2006	2007
Arrivals	1,565,662	1,940,671	2,107,288	2,592,007
% Change	46.75%	23.95%	8.59%	23.00%

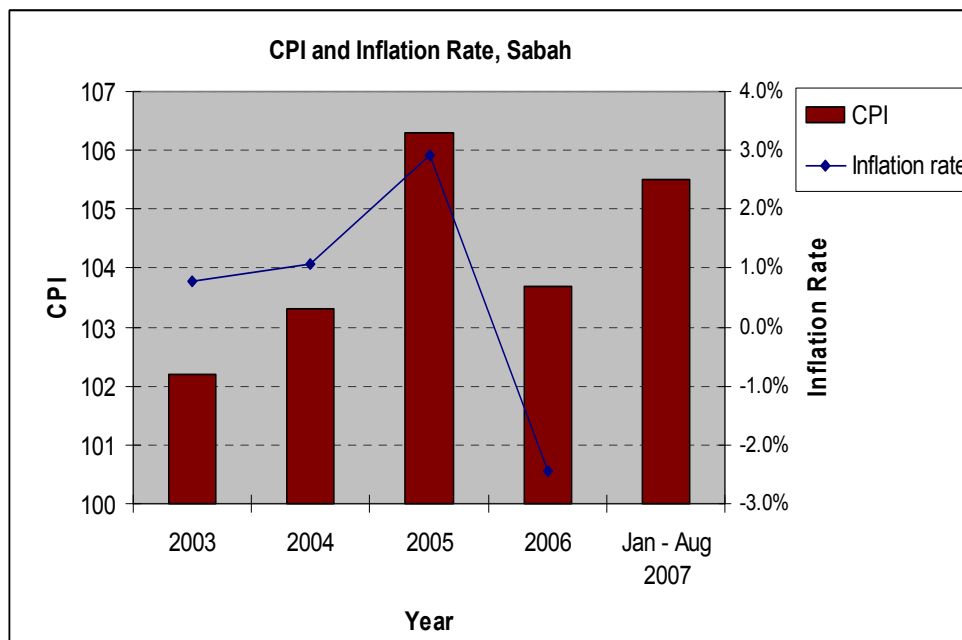


Source: Department of Statistics Malaysia, Sabah

Consumer Price Index ("CPI"):

The average CPI for Sabah is 105.5 (January - August 2007) compared to 103.7 (January - December 2006) with 2005 = 100.

Year	2003	2004	2005	2006	Jan - Aug 2007
CPI (2005 = 100)	102.2	103.3	106.3	103.7	105.5
Inflation rate	0.8%	1.1%	2.9%	-2.4%	n.a.



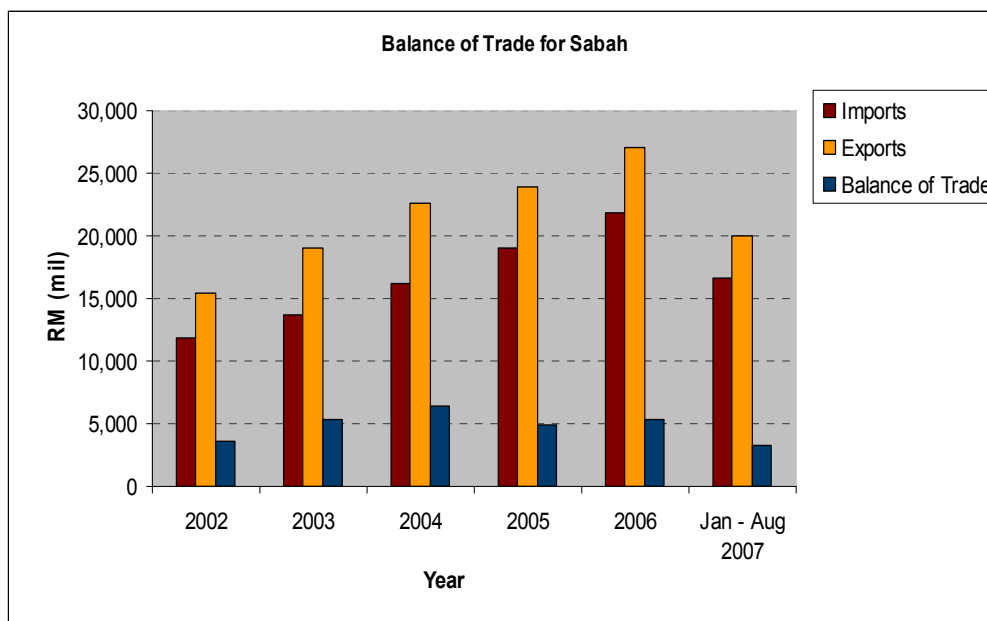
Source: Department of Statistics Malaysia, Sabah

7.3.3 External Trade

Balance of Trade:

Year	2002	2003	2004	2005	2006	Jan - Aug 2007
	RM (mil)	RM (mil)	RM (mil)	RM (mil)	RM (mil)	RM (mil)
Imports	11,870	13,680	16,247	18,975	21,795	16,684
Exports	15,441	19,048	22,644	23,899	27,116	19,948
Balance of Trade	3,571	5,369	6,397	4,924	5,321	3,264

- the rest of this page is intentionally left blank -



Figures for 2005, 2006 and Jan-Aug 2007 are provisional.

Source: Department of Statistics Malaysia, Sabah

Imports by Commodities Sections:

Imports by Commodity Sections - Sabah	2004	2004 (% Share)	2005*	2005 (% Share)	2006*	2006 (% Share)
Food	1,656,123	10.2	1,821,994	9.6	1,851,552	8.5
Beverages and Tobacco	498,515	3.1	453,231	2.4	422,742	1.9
Crude Materials Inedible	510,139	3.1	536,851	2.8	633,720	2.9
Mineral Fuels, Lubricants etc	2,903,246	17.9	4,235,701	22.3	5,521,975	25.3
Animal/vegetable oils and fats	175,210	1.1	135,375	0.7	23,085	0.1
Chemical	2,022,749	12.5	2,012,870	10.6	2,182,284	10.0
Manufactured goods	2,007,732	12.4	2,306,591	12.2	3,267,020	15.0
Machinery and transport equipment	5,015,783	30.9	5,951,810	31.4	6,302,054	28.9
Miscellaneous manufactured articles	1,229,790	7.6	1,283,054	6.8	1,352,342	6.2
Miscellaneous transactions and commodities	227,684	1.4	237,135	1.2	237,902	1.1

*Figures for 2005 and 2006 are provisional.

Source: Department of Statistics Malaysia, Sabah

Exports by Commodity Sections:

Exports by Commodity Sections - Sabah	2004	2004 (% Share)	2005*	2005 (% Share)	2006*	2006 (% Share)
Food	878,573	3.9	867,013	3.6	863,501	3.2
Beverages and Tobacco	75,658	0.3	58,613	0.2	53,038	0.2
Crude Materials Inedible	1,626,773	7.2	2,256,861	9.4	2,362,036	8.7
Mineral Fuels, Lubricants etc	5,402,881	23.9	6,727,112	28.1	8,284,314	30.6
Animal/vegetable oils and fats	8,646,860	38.2	8,318,410	34.8	9,123,984	33.6
Chemical	669,113	3.0	806,820	3.4	1,047,595	3.9
Manufactured goods	3,311,482	14.6	3,070,837	12.8	3,419,128	12.6
Machinery and transport equipment	1,456,329	6.4	1,277,328	5.3	1,490,858	5.5
Miscellaneous manufactured articles	536,501	2.4	465,176	1.9	408,094	1.5
Miscellaneous transactions and commodities	40,161	0.2	50,817	0.2	63,105	0.2

**Figures for 2005 and 2006 are provisional.*

Source: Department of Statistics Malaysia, Sabah

7.4 Economic Direction

The Sabah State Government has a clearly defined and focused economic development policy and priorities. Towards this end there are three areas of economic development focus, which are agriculture, tourism and manufacturing.

7.4.1 Sabah Outline Perspective Plan (1995-2010)

The main thrust of Sabah's economic development is spelt out in its Outline Perspective Plan, 1995-2010 (SOPP). In broad terms, emphasis will be given to the following:

- Enhancing efficiency and productivity of existing industries
- Creating new growth and knowledge-intensive industries
- Developing and enhancing indigenous capacity for sustained growth
- Developing advanced industrial infrastructure
- Enhancing private sector capacity for growth and development
- Ensuring reliable and sustainable raw material supply.
- Promoting development of information technology

Source: Department of Industrial Development and Research Sabah

7.4.2 2008 State Budget

Sabah's Chief Minister Datuk Seri Panglima Musa Haji Aman unveiled on 16 November 2007, the 2008 State Budget of RM2,301.15 million.

The appropriation of the Supply Expenditure for 2008 according to ministries is as follows:

Ministry	RM million	Percentage
Ministry of Finance	721.87	31.37
Ministry of Infrastructure Development	497.07	21.60
Chief Minister's Department	354.97	15.43
Ministry of Agriculture and Food Industry	241.18	10.48
Ministry of Community Development and Consumer Affairs	93.08	4.04
Ministry of Tourism, Culture and Environment	86.40	3.75
Ministry of Rural Development	53.73	2.33
Ministry of Local Government and Housing	73.83	3.20
Ministry of Resource Development and Information Technology	49.44	2.15
Ministry of Youth and Sports	28.67	1.24
Ministry of Industrial Development	8.27	0.35
Expenditure not listed under Ministry	22.74	0.99
Charged Expenditure	69.90	3.04
TOTAL	2,301.15	100.00

Source: 2008 Budget Speech by Datuk Seri Panglima Musa Haji Aman, Chief Minister and Minister of Finance at the State Legislative Assembly on 16 November 2007

7.4.3 Sabah Development Corridor (SDC)

The Sabah Development Corridor (SDC), initiated by the Government to enhance the quality of life of the people by accelerating the growth of Sabah's economy, promoting regional balance and bridging the rural-urban divide while ensuring sustainable management of the state's resources, is part of the five economic corridors inspired by Prime Minister Y.A.B. Dato' Seri Abdullah Haji Ahmad Badawi. It is in line with the key thrusts and objectives of the National Mission launched by the Prime Minister in 2006 and the HalaTuju Pembangunan dan Kemajuan Negeri Sabah, launched in 2004 by Y.A.B. Datuk Seri Panglima Musa Haji Aman, Chief Minister of Sabah, which outlines the direction of the state's development. The theme for the SDC is 'Harnessing Unity in Diversity for Wealth Creation and Social Well-Being'.

It is envisaged that within the SDC's implementation period of 18 years from 2008 to 2025, Sabah could significantly enhance its development across all fronts (social, economic, physical and environmental) by catalysing a virtuous cycle of growth that builds on Sabah's natural strengths.

The SDC programmes are underpinned by three key principles that will guide development in Sabah, namely the need to:

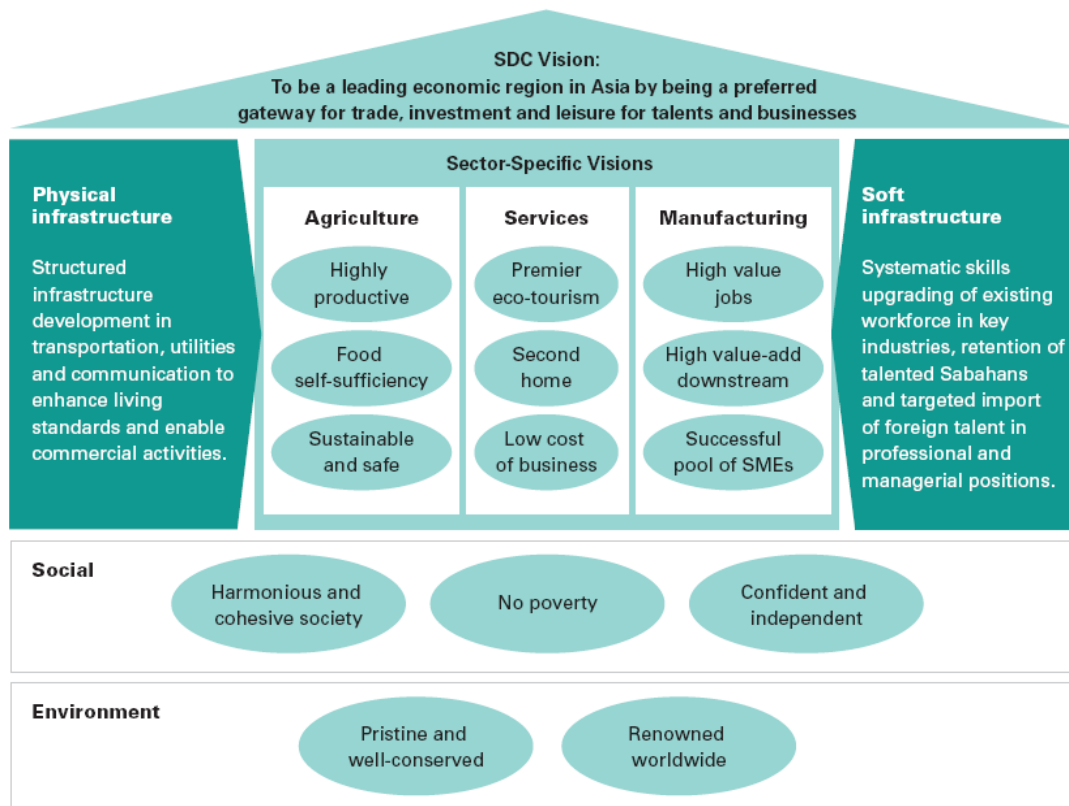
- Capture higher value economic activities
- Promote balanced economic growth with distribution
- Ensure sustainable growth via environmental conservation

The sub-regions and growth centres will be planned systematically to ensure optimum resources allocation and development efforts are well-coordinated. The initial focus is on enhancing Sabah's liveability index and making it a business friendly location via targeted infrastructure upgrading and by lowering the cost of doing business.

By 2025, the SDC initiative aims to triple Sabah's Gross Domestic Product (GDP) per capita, and increase its GDP by four times through the implementation of the prioritized programmes. In total, more than 900,000 new jobs are expected to be generated during the SDC implementation period. Hardcore poverty is targeted to be eliminated by the end of the Ninth Malaysia Plan (9MP) with overall poverty halved from 23% in 2004 to 12% in 2010.

- the rest of this page is intentionally left blank -

Vision and Mission

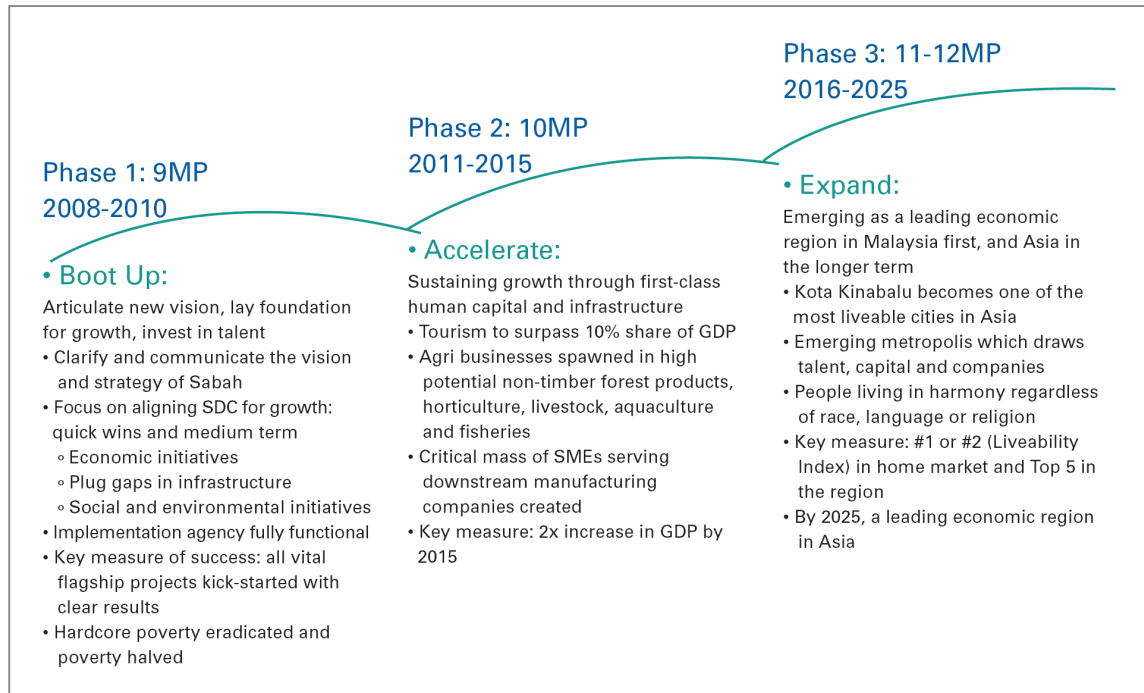


Strategies and Intended Outcomes

The strategy for the SDC initiative is to leverage Sabah's inherent strengths, namely its strategic location, rich resources, as well as cultural and biological diversity to expand and grow high potential economic activities. In line with the HalaTuju, the promoted sectors under the SDC initiative are agriculture, tourism and logistic services, and manufacturing.

A comprehensive set of strategies has been identified to spur growth in the promoted economic areas. Implementation will be over three phases to reflect priority and sequencing of programmes.

Phase 1 (2008-2010) is focused on catalysing future growth via infrastructure as well as high economic impact and poverty eradication projects. Phase 2 (2011-2015) will see Sabah moving towards greater and higher order value-add activities, with the presence of global companies and emergence of a strong base of local small and medium scale enterprises (SMEs). Towards the end of Phase 3 (2016-2025), Sabah will be recognised as an attractive destination for foreign direct investments (FDIs) with strong supporting infrastructure, global companies and a ready pool of knowledge workforce.



Focused execution of the initiatives will make Sabah more competitive and attractive in relation to competitors as a place to do business, for leisure, and to live in. These initiatives are expected to create economic opportunities and improve the quality of life for all Sabahans.

The key outcomes targeted for each economic focus area under the SDC initiative are as follows:

i) Tourism

The tourism strategy is to target high-yield and long stay visitors. It aims to enhance Sabah's position as a premier eco-adventure destination, as well as a high-end second home destination with luxury holiday villas and lifestyle activities. Investors will be courted to anchor new signature tourism products here.

Sustainability is a strong theme for tourism development under the SDC initiative. Involvement of local communities in tourism will be encouraged and supported, especially traditional handicraft development and village homestay.

The targets for the tourism sector by 2025 are to:

- Increase average tourist spending from RM2,517 in 2006 to RM3,383 by 2012 and RM5,364 by 2025
- Increase tourism receipts from RM2.88 billion in 2006 to RM8 billion by 2012 and RM48.5 billion by 2025
- Increase rural community tourism receipts (handicrafts and homestay) from RM1.5 million in 2006 to RM4.5 million by 2012 and RM48 million by 2025

ii) Logistics

The logistics strategy is designed to address the current high cost of doing business in Sabah vis-à-vis other states in Malaysia. The strategies for reducing cost are three-fold:

- Lower freight and logistical costs by progressive review of the Cabotage Policy for shipping, while enhancing the cost competitiveness of ports in Sabah via alliances with other global port operators and shipping liners
- Establish Sapangar Free Zone (SFZ) annexed to Sapangar Bay Container Port (SBCP) by providing attractive incentives to potential investors to set up their manufacturing facilities and distribution centres in SFZ
- Position Sandakan as the regional trading hub in Borneo by expanding the role of Sandakan Integrated Trade Exchange Terminal (SITEXT) to leverage the impending AFTA

The target for the logistics sector is to increase TEUs handled at Sabah Ports from 226,721 in 2006 to 551,100 in 2012 and 1.5 million by 2025.

iii) Agriculture

The agriculture sector in Sabah will focus on increasing overall food self-sufficiency, planting high-value crops for export and assisting in poverty eradication. Programmes to be launched will increase participation from rural communities and agropreneurs in the global supply chain, where productivity is driven via better agronomy practices, application of ICT and biotechnology, and state-sponsored R&D.

Organised planting presently occurs only for key industrial crops such as oil palm, rubber and cocoa while other agricultural activities remain largely fragmented. Therefore, the immediate imperative is to enhance the scale and productivity of other crops, namely commercial and food crops.

Promoted agriculture sub-sectors include aquaculture, deep sea fishing, livestock and horticulture. Collection centres with professional management will be formed to enable the distribution and flow of agricultural produce to end customers and processing centres. Anchor projects include Sabah Agro-Industrial Precinct (SAIP), National Marine Aquaculture Centre, Keningau Integrated Livestock Centre, Seafood Terminal, Permanent Food Production Parks, and upgrading of fish landing sites.

Palm oil will remain as the key commercial crop for Sabah and sustainable practices will be further encouraged and enforcement strengthened, while research and development is intensified to enhance its yield, efficiency and marketability. The Palm Biotech R&D Centre is to

be based at the Sandakan Education Hub. New industrial crops such as jatropha will be promoted.

The current balance of trade for food in Sabah in 2005 is a deficit of RM955 million. Thus within the SDC, emphasis will be placed on food production, especially crops suitable for local conditions, to reduce the reliance of Sabah on foreign food import.

The targets for the agriculture sector by 2025 are to:

- Multiply GDP contribution by 4.1 times from RM4.1 billion to RM17 billion
- Increase total value of exports from RM9.1 billion to RM60 billion
- Reduce negative balance of trade of food by 60% from RM955 million to RM353 million

iv) Manufacturing

The strategy for the manufacturing sector is to attract world-class companies to anchor and accelerate the growth of downstream manufacturing activities, leveraging on Sabah's rich natural resources such as palm oil, oil and gas, minerals and timber as feedstock. The initial focus will be on enhancing enablers such as infrastructure and human capital.

A critical mass of SMEs which will serve not only to support the larger multinationals companies (MNCs) but also to provide an avenue of future growth for Sabah. Through the SME Manufacturing Leaders Programme, companies at different stages of development (from early stage through to expansion stage) will have access to BusinessLink centres established to deliver business advisory services to local SMEs.

Advisory services would cover areas such as operational improvements, match-making with potential buyers, marketing and design for exports and so forth.

Within the manufacturing sector, detailed sub-sectoral studies will be carried out in the following identified high impact areas:

- Oil and gas: to ascertain the viability of generating high-value employment and spin-off activities from the establishment of an integrated gas-based petrochemical complex in Sabah
- Biomass recovery: market feasibility study on trading by-products from agriculture plantations such as palm oil, rubber, and cocoa to provide access to users of these byproducts and at the same time ensure pricing transparency to plantation owners
- Minerals: a detailed study leading to the formulation of a policy which will ensure that minerals are extracted without damaging the flora and fauna and the surrounding environment

It is envisaged that with the successful implementation of these initiatives, Sabah will emerge as one of the leading locations of choice for resource-based manufacturing activities in Asia.

The targets for the manufacturing sector by 2025 are to:

- Increase capital investments from RM208 million (2006) to RM2.96 billion by 2025
- Enhance employment in the manufacturing sector from 135,000 to 228,704 by 2025
- Increase proportion of manufacturing workforce with tertiary education from under 10% (2005) to 45% by 2025

Source: Sabah Development Corridor (www.sdc.gov.my)

- the rest of this page is intentionally left blank -

8 RISKS AND INVESTMENT CONSIDERATIONS

In this section, certain risks that may affect SDB and their potential mitigating factors are addressed.

The risks outlined herein do not purport to be comprehensive or cover risk that may be borne by SDB and are not effective substitute for the independent due diligence of the recipients of this Information Memorandum and their own independent evaluation of SDB and its risk profile, which may change over time.

8.1 Rating of the Notes

A rating is not a recommendation to buy, hold or sell the Notes and there can be no assurance that such a rating will not be revised on a periodic review basis by the said rating agency during the tenure of the Notes if circumstances in the future so warrant. Further, such a rating is not a guarantee of repayment or that there will be no default by the Issuer under the Notes. The Issuer does not have an obligation to maintain the rating of the Notes at its present ratings of AA1 for the MTNs and P1 for the CPs.

In the event that the ratings initially assigned to the Notes are subsequently downgraded or withdrawn for any reason, no person or entity will be obligated to provide any additional credit enhancement with respect to the Notes. Any downgrade or withdrawal of the rating will neither constitute an event of default nor an event obliging the Issuer to prepay the Notes. Nonetheless, any downgrade or withdrawal of rating may have an adverse effect on the liquidity and market price of the Notes.

8.2 Market Risk

The Notes comprise a new issue of securities for which there is currently no prior market. There can be no assurance as to the liquidity of any market that may develop for the Notes, the ability of holders to sell their Notes or the prices at which holders may be able to sell their Notes.

8.3 Notes Are Unsecured

All the Notes are unsecured and will accordingly be effectively subordinated to any future secured obligations of SDB to the extent of the collateral securing such obligations.

8.4 Sensitivity to Economic and Political Risks in Malaysia and Sabah

SDB Group's future profitability and growth are expected to be closely linked to the future political and economic situations within Malaysia.

In particular, SDB's business activities are focused mainly in the State of Sabah, Malaysia as approximately 80% of the present total outstanding loans which SDB has extended are to borrowers located in the State of Sabah. SDB's future

growth and profitability is as such inevitably linked to the growth and economic developments of the State of Sabah. Any adverse changes in economic and political conditions of the State of Sabah could materially affect the condition or profitability of SDB.

8.5 Risks relating to Business of Financial Institution

SDB operations are subject to certain risks inherent in the banking industry. SDB provides loans to various sectors of the economy, which includes manufacturing, agriculture, real estate, construction, finance, insurance, trading and other business services. As such, its asset quality will depend on the performance of these sectors.

Some of the business risks inherent in the banking and financial services industry that SDB faces include:

8.5.1 Interest rate risks

One of the main sources of income for SDB is net interest income, which is the difference between the interest income from their interest-bearing assets and interest expense of deposits and other interest-bearing liabilities. Certain factors in the economic conditions including fluctuations in market interest rates, as well as the Malaysian Government's policies and regulations concerning, among others, monetary and fiscal affairs may substantially affect the operations of SDB. These external factors, including changes in domestic and international economic conditions as well as the Malaysian Government's fiscal and monetary policies, are outside the control of SDB and may affect its net interest income.

8.5.2 Direction of lending

If the lending activities of SDB are over concentrated on any one specific economic sector, its business risks may increase. This is because any slow down or any adverse external event affecting any one specific economic sector may have adverse effects in the form of rising non-performing loans, depreciated collateral values and higher charges for loan loss provisions.

SDB's general lending policy is to avoid over-concentration on any particular sector or company, while lending to projects is limited to those considered by SDB as economically feasible and financially viable. However, with its role as a DFI and a financial intermediary of the Sabah State Government, SDB is also expected to finance projects of socio-economic importance. Such projects may not be deemed commercially viable but still viewed as important from the perspective of Sabah's socio-economic development plans. Nonetheless, SDB mitigates the risk of this exposure through securing collateral from the Sabah State Government.

8.5.3 Susceptibility to economic downturn

Economic conditions may affect the operations of SDB as the banking industry is susceptible to economic downturns. Any adverse fluctuations in the economic conditions may have a negative impact on, inter alia, the value of loan collaterals and the repayment patterns of their customers, declining value of properties and other assets or collaterals.

8.5.4 Liquidity risk

There are risks associated to SDB's ability to maintain sufficient liquid funds to meet financial commitments and obligations when they fall due. A portion of the assets of SDB have medium or long term maturities while a substantial part of its funding requirements are met through short to medium term funding sources. As a result, SDB is raising the MTNs to address and mitigate this risk of funding mismatch.

In addition, as a DFI, SDB requires sustained funding sources. Being a scheduled institution under the BAFIA, SDB is not permitted to accept deposits from the general public. SDB's sources of funding are from its shareholders' funds, term deposits from the Sabah State Government, other states and government bodies and borrowings from other banks and the local debt capital market.

As such, it is crucial for SDB to be able to maintain its current sources of funding and to continuously source for new borrowings in order to fund its existing and new loans as well as to repay its borrowings and notes when they fall due.

In the event that SDB is unable to maintain its current sources of funding, there could be a material adverse effect on the business and operations of SDB and on the repayment of the Notes and its other borrowings when they fall due. Historically, SDB has never defaulted in any of its loan repayments.

8.5.5 Credit Risks

SDB faces credit risks in its dealings with their counter parties. Such credit risks will include the risk of its borrowers or other financial intermediaries, not performing its contractual obligations to SDB.

8.5.6 Operational Risks

Operational risks include, disaster-recovery, scenarios related to severe liquidity strain, inadequacies of business procedures and processes, human error, employee fraud, information technology risks and management risks. Any inadequacies or failures to effectively manage its operations may result in a disruption of any of its businesses, financial losses and a loss in reputation.

8.5.7 Legal Proceedings Risks

As part of its ordinary course of business, SDB is involved in bringing legal proceedings as plaintiff to recover any loans against defaulting borrowers. SDB at times faces legal proceedings as defendant brought about by borrowers. There is no assurance that these legal proceedings in which SDB is engaged, either as plaintiff or defendant, will be determined in SDB's favour. Any adverse determination of any of these legal proceedings could have a material and adverse effect on the financial position of the SDB.

8.5.8 Implementation of BASEL II

SDB currently abides by the Basel I Accord, which requires SDB to comply with a minimum 8% RWCAR (see Section 4.1.6 of this Information Memorandum).

In line with BNM's requirement for all licensed banks and financial institutions to adopt the standardised approach defined under Basel II to measure credit risk by January 2008, and to shift to an advanced internal rating-based method by January 2010, it is SDB's intention to gradually similarly adopt Basel II in its implementation of the new capital adequacy standards.

The Basel II is a risk-based system for measuring the amount of capital banks have to set aside in reserve to meet consensus international standards. In essence, Basel II, which focuses on three main pillars — minimum capital requirement, supervisory review process and market discipline — is intended to improve the risk management practices of all compliant banks. What the framework does is stipulate how much capital banks should hold relative to their risks. Basel II is more stringent in that banks are required to apply risk weightages to different classes of assets and loans, unlike Basel I, where the banks' minimum capital adequacy ratio is set at 8%.

The Basel II moves away from flat capital adequacy requirement to a more flexible system that involves minimum capital requirements supervisory review and market discipline. The new system could also yield banks substantial capital savings, allowing reserves to be freed for purposes such as higher dividends.

There can be no assurance that SDB will be able to successfully implement the Basel II. Unforeseen expenses, difficulties, complications and delays could be encountered in connection with such implementation. There can also be no assurance that the implementation of Basel II will not have any adverse effect on the financial position of SDB or will not result in SDB being more susceptible to any changes in circumstances and economic conditions.

8.6 Water-Related Business

The KK Water Group, faces amongst others, the following risks in the water-related business:

8.6.1 Supply of Treated Water: Under the Privatisation cum Concession Agreement (“**PCCA**”), Jetama is required to produce and supply designated quantities of treated water within the time period specified in the PCCA and that complies with the quality standards referred to in the PCCA. Jetama will be liable to pay the penalty charges if it fails to do so.

8.6.2 Termination: The PCCA may be terminated if any of the following events occurs:

- i. Jetama commits, permits or suffers to occur and breach default any obligation and provisions of the PCCA and Jetama continues such default within 60 days after receipt of the notice from the Sabah State Government;
- ii. order or resolution is passed to wind up Jetama or Jetama has a liquidator or receiver appointed in the event of default in loan agreement, and Jetama fails to remedy the same within 30 days.

8.6.3 Collection: Jetama’s cashflows from revenue is mainly a function of prescribed monthly fee, the bulk supply rate and the volume of treated water supplied. Although the PCCA provides that payments by the Sabah State Government shall be made within 30 days from the date of invoice, there is a risk that the collection period could be delayed beyond the agreed 30 day period. As at 22 February 2008, there is a net amount at the Group level due from the Sabah State Government of approximately RM249.65 million which has exceeded the agreed 30-day period. The net amount at the Group level owing due from the Sabah State Government stood at approximately RM257.68 million as at 22 February 2008.

No assurance can be given that any non-recovery or delay in collection beyond that anticipated will not have an adverse effect on the Group.

8.6.4 Operation and maintenance: All aspects of operation and maintenance of the water related business are carried out by Corporate Dynamics. These involve certain risks, such as breakdown in the treatment plant, adverse weather conditions affecting raw water supply (drought or flood), inadvertent supply of water unfit for consumption, severe water pollution, inadequate supply of chemicals needed for treating water, continuous power breakdown, failure of plants, machinery, equipment or computer, damages caused by escaping water, labour disputes, sabotage and catastrophic events such as earthquakes, fires or similar events. These risks have the potential to significantly affect revenues or significantly increase operating costs, thereby affecting the economic viability of the KK Water Group.

- 8.6.5 **Divestment:** There is no assurance that the water related business will be maintained within the SDB Group. The Sabah State Government may require SDB to transfer out its interest in the KK Water Group. Further as mentioned in Section 4.2.1, SDB may accept any offer to sell the KK Water Group or the water-related business at the right price.

8.7 Banking Industry Competition

The banking business is highly competitive. SDB will compete as a financial intermediary with numerous other lenders and deposit-takers, including other commercial banks, investment banks, Islamic banks, mutual funds, insurance companies and DFI, all of which are actively soliciting business in regions which SDB is operating its business, and many of which have greater resources than will be available to SDB. In addition, as a result of the Malaysian Government's liberalisation of the financial services industry policy in line with meeting the objectives of the General Agreement on Trade and Services (1993) and ASEAN Framework Agreement on Services (1995), it is anticipated that the level of competition will increase.

However, with approximately 80% of its lending concentrated to the Sabah State Government and its related agencies bodies or projects undertaken in Sabah, SDB believes that at present it is not significantly subject to competitive commercial lending.

8.8 Operations Are Subject To Regulatory Changes

SDB functions as a DFI and presently operates as a "scheduled institution" under the BAFIA. Unlike a licensed institution, SDB is presently not subject to extensive government regulation, supervision and examination under BAFIA. However, the Minister of Finance may declare certain provisions regulating a licensed institution under the BAFIA to apply to a scheduled institution. Any declaration made by the Minister to that effect could have a significant impact on SDB and its operations.

In addition, SDB may in time be regulated under the DFIA. The DFIA contains certain requirements and restrictions on a DFI (see Section 4.1.5 – Regulations on SDB as a Financial Intermediary).

In addition, the results of operations of SDB will be affected by credit policies of monetary authorities, particularly Bank Negara Malaysia. There can be no assurance that the effect of actions by monetary and fiscal authorities will not have an adverse effect on the deposit levels, loan demand or the business and earnings of SDB.

8.9 Control by Shareholder and Dependency on Key Management

The Sabah State Government holds 100% of SDB's issued and paid-up capital and will be able to elect SDB's entire Board of Directors. The continued performance of the SDB Group will largely depend on the abilities and continued efforts of its existing Directors and Senior Management as well as the ability of SDB to attract and/or retain qualified personnel.

8.10 Letter of Support

Under the Letter of Support, the Sabah State Government assures that it shall at all times ensure that the Issuer is in a position to meet its liabilities in respect of the Notes throughout the terms of the Programmes, for as long as any amount in respect of the Notes remains outstanding. The Sabah State Government also shall at all times in the future ensure, either by equity injection or loan facilities that the Issuer is in a position to meet its liabilities in respect of the Notes throughout the tenures of the Programmes, for as long as any amount in respect of the Notes remains outstanding.

It is also stated under the Letter of Support that the obligations expressed to be assumed by the Sabah State Government in the Letter of Support shall be legal and valid obligations binding on the Sabah State Government and enforceable in accordance with the terms thereof, and subject to any limitation arising from the general application of the law. Notwithstanding, the Letter of Support does not constitute a guarantee by the Sabah State Government of SDB's obligations under the Notes.

8.11 Forward Looking Statements

Certain statements in this Information Memorandum are based on historical data, which may not be reflective of future results, and others are forward looking in nature, which are subject to uncertainties and contingencies. These statements may be accompanied by words such as "believe," "estimate," "project," "expect," "anticipate" or "predict," that convey the uncertainty of future events or outcomes. All forward-looking statements are based on estimates and assumptions made by SDB, and although believed to be reasonable, are subject to known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to differ materially from the future results, performance or achievements expressed or implied in such forward-looking statements. Such factors include, inter alia, general economic and business conditions, competition, the impact of new laws and regulations affecting SDB and the industry, changes in interest rates, changes in foreign exchange rates, inclement weather and environmental changes.

In the light of these and other uncertainties, the inclusion of a forward-looking statement in this Information Memorandum should not be regarded as a representation or warranty by SDB or its advisers that the plans and the objectives of SDB will be achieved. Investors should, therefore not place undue reliance on any forward-looking information.

8.12 Extracts of Information

Sections 6 and 7 of this Information Memorandum contain information relating to Malaysia in general and the State of Sabah. This information has been extracted from external sources.

Whilst SDB is not aware of any information which will make the extracted information in the context of this Information Memorandum inaccurate, or which will result in any omission of material information, SDB is in no position to verify the accuracy of this extracted information or any omission of material information. Investors are advised to conduct independent enquiries.

- the rest of this page is intentionally left blank -

9 OTHER INFORMATION

9.1 Material Contracts

Save for the following, there are no other material contracts (not being contracts entered into in the ordinary course of business) which have been entered into by SDB Group within the 2 years preceding the date of this Information Memorandum.

9.1.1 SDB

- a. Sale and Purchase Agreement dated 18 March 2005 between SDB and Makamewah Sdn Bhd ("MSB") whereby SDB has agreed to sell and MSB has agreed to purchase a vacant land described as Town Lease No 017539810 measuring 4.240 hectares in the District of Kota Kinabalu for the purchase consideration of RM55,000,000 payable by MSB in five installments within six years from date of this Agreement. Currently, MSB has completed payment of the second installment of purchase consideration.
- b. Investment Management Agreement dated 13 March 2007 between SDB and SDB Asset Management whereupon SDB appoints SDB Asset Management to provide investment management services in buying and selling marketable securities ("Portfolio") for the remuneration fee of 0.5% per annum based on market value of the Portfolio commencing from 13 March 2007 to 12 March 2008 (term of which is renewable).
- c. ISDA Master Agreement dated 12 February 2007 between SDB and CIMB Bank Berhad ("CIMB") governing the Malaysian Ringgit Interest Rate Collar swap transaction between CIMB and SDB effective from 10 July 2011 and expiring on 10 July 2013, where CIMB is the floating rate payer and SDB is the fixed rate payer.

9.1.2 Corporate Dynamics

Contract document for the Design, Supply, Installation and Commissioning of Obermeyer Spillway Gates dated 10 April 2006 between Corporate Dynamics and Sam McCoy Engineering Sdn Bhd ("Contractor") whereby the Contractor is appointed to design, supply, install and commission the Obermeyer Spillway Gates at Babagon Dam, Penampang Sabah ("Works"). The consideration of the construction and completion of the Works and making good of any defects whatsoever to the Works is RM8.2 million. The terms of payment are as follows:

- i. 20% down payment upon receipt of confirm order (in lieu of secured deposit by way of bank guarantee for the same amount

which shall be released upon completion of gates installation works);

- ii. 30% upon factory inspection and approval of fabricated gates at a factory based in Malaysia. Payment shall be released upon the furnishing of a factory inspection certificate;
- iii. 35% upon factory inspection and approval of air bladders at a factory based in the US and the said payment shall be released upon the furnishing of a factory inspection certificate;
- iv. 10% progressive monthly claim for civil and gates installation work; and
- v. 5% to be released upon successful testing and commissioning (in lieu of bank guarantee for the same amount valid for a period of 180 days from date of commissioning).

The Works shall be completed in 9 months' time from the date of the contract. The Contractor shall pay liquidated and ascertained damages at the rate of RM1,500.00 per day up to a maximum of RM90,000.00 for non-completion.

The Works have since been completed by the Contractor and all items of equipment were successfully tested and delivered to Corporate Dynamics on 12 September 2007 following Corporate Dynamics' full settlement of the consideration for the Works. The late delivery was due to the delay in installation work by the Contractor as a result of force majeure i.e. unfavorable weather conditions. As such, no payment of liquidated and ascertained damages was payable by the Contractor to Corporate Dynamics.

9.2 Material Litigation

SDB is not engaged in any material litigation (other than in its ordinary course of business) either as plaintiff or defendant and the board of directors of SDB is not aware of any proceedings pending or threatened against SDB or any facts likely to give rise to any proceedings which might materially affect the position and business of SDB.

- the rest of this page is intentionally left blank -

APPENDIX I

AUDITED FINANCIAL STATEMENTS OF SABAH DEVELOPMENT BANK BERHAD
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 AND THE UNAUDITED
MANAGEMENT ACCOUNTS OF SABAH DEVELOPMENT BANK BERHAD FOR THE
FINANCIAL YEAR ENDED 31 DECEMBER 2007

SABAH DEVELOPMENT BANK BERHAD
(Company No. 34638-W)
(Incorporated in Malaysia)
AND ITS SUBSIDIARY COMPANIES

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(In Ringgit Malaysia)

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

FINANCIAL STATEMENTS

CONTENTS	PAGE(S)
Directors' report	1 - 4
Report of the auditors	5 - 6
Income statements	7
Balance sheets	8 - 9
Statements of changes in equity	10 - 12
Consolidated cash flow statement	13 - 15
Cash flow statement	16 - 17
Notes to the financial statements	18 - 82
Statement by directors	83
Declaration by the director primarily responsible for the financial management of the Company	83

SABAH DEVELOPMENT BANK BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT

The directors of **SABAH DEVELOPMENT BANK BERHAD** have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the financial year ended December 31, 2006.

PRINCIPAL ACTIVITIES

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

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

RESULTS OF OPERATIONS

The results of the operations of the Group and of the Company for the financial year are as follows:

	The Group RM	The Company RM
Profit before tax	52,291,288	82,835,862
Income tax expense	<u>(15,896,748)</u>	<u>(23,913,640)</u>
Profit for the year	<u>36,394,540</u>	<u>58,922,222</u>
Attributable to:		
Equity holders of the Company	36,389,084	58,922,222
Minority interests	<u>5,456</u>	<u>-</u>
	<u>36,394,540</u>	<u>58,922,222</u>

In the opinion of the directors, the results of the operations of the Group and of the Company during the financial year have not been substantially affected by any item, transaction or event of a material and unusual nature other than the changes in accounting policies as disclosed in Note 44 to the financial statements.

DIVIDENDS

A final dividend of 28.66 sen gross per ordinary share, less tax, amounting to RM65,000,000 proposed in respect of the previous financial year on the ordinary shares in issue in 2004 and dealt with in the 2004 directors' report was declared by the shareholder at the Annual General Meeting held on June 30, 2005 and paid by the Company during the financial year.

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

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

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year other than those disclosed in the financial statements.

ISSUE OF SHARES AND DEBENTURES

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

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

The Company has not issued any debentures during the financial year.

SHARE OPTIONS

No options have been granted by the Company to any parties during the financial year to take up unissued shares of the Company.

No shares have been issued during the financial year by virtue of the exercise of any option to take up unissued shares of the Company. As of the end of the financial year, there were no unissued shares of the Company under options.

OTHER FINANCIAL INFORMATION

Before the income statements and the balance sheets of the Group and of the Company were made out, the directors took reasonable steps:

- (a) to ascertain that proper action had been taken in relation to the writing off of bad debts and financing and the making of allowance for bad and doubtful debts and financing and had satisfied themselves that all known bad debts and financing had been written off and that adequate allowance had been made for bad and doubtful debts and financing; and
- (b) to ensure that any current assets which were unlikely to realise their book values in the ordinary course of business had been written down to their estimated realisable values.

At the date of this report, the directors are not aware of any circumstances:

- (a) which would render the amount written off as bad debts and financing, or the amount of allowance for bad and doubtful debts and financing in the financial statements of the Group and of the Company inadequate to any substantial extent; or