

**BORNEO HOUSING MORTGAGE FINANCE BERHAD**  
(Company No. 025457-V)  
(Incorporated in Malaysia)

**REPORT OF THE DIRECTORS  
AND FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED  
DECEMBER 31, 2010**  
(In Ringgit Malaysia)

**BORNEO HOUSING MORTGAGE FINANCE BERHAD**  
(Incorporated in Malaysia)

**FINANCIAL STATEMENTS**

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**BORNEO HOUSING MORTGAGE FINANCE BERHAD**

(Incorporated in Malaysia)

**DIRECTORS' REPORT**

The directors of **BORNEO HOUSING MORTGAGE FINANCE BERHAD** have pleasure in submitting their report and the audited financial statements of the Economic Entity and of the Company for the financial year ended December 31, 2010.

**PRINCIPAL ACTIVITIES**

The Company, a financial institution with the primary objective of promoting home ownership, is principally engaged in providing end finance to house owners and other property owners and bridging finance to developers.

The principal activities of the associates are as disclosed in Note 13 to the Financial Statements.

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

**RESULTS OF OPERATIONS**

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

	<b>The Economic Entity RM</b>	<b>The Company RM</b>
<b>Profit before tax</b>	26,377,295	25,655,021
<b>Income tax expense</b>	<u>(11,226,069)</u>	<u>(11,226,069)</u>
<b>Profit for the year</b>	<u>15,151,226</u>	<u>14,428,952</u>

In the opinion of the directors, the results of operations of the Economic Entity 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 2 to the Financial Statements.

**DIVIDENDS**

Since the end of the previous financial year, a final dividend of RM19,031,672 for the financial year ended December 31, 2009 was declared by the shareholders at the Annual General Meeting held on May 19, 2010. The amount consists of tax-exempt dividend of RM17,942,499 and RM1,452,231, less tax, which amounted to RM1,089,173.

The directors do not recommend any dividend payment in respect of the current 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**

The Company has not issued any new shares or 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 STATUTORY INFORMATION**

Before the statements of comprehensive income and statements of financial position of the Economic Entity 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 the making of allowance for doubtful debts and had satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; 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 for bad debts or the amount of allowance for doubtful debts in the financial statements of the Economic Entity and of the Company inadequate to any substantial extent; or
- (b) which would render the values attributed to current assets in the financial statements of the Economic Entity and of the Company misleading; or
- (c) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Economic Entity and of the Company misleading or inappropriate; or
- (d) not otherwise dealt with in this report or financial statements which would render any amount stated in the financial statements of the Economic Entity and of the Company misleading.

At the date of this report, there does not exist:

- (a) any charge on the assets of the Economic Entity and of the Company which has arisen since the end of the financial year which secures the liability of any other person; or
- (b) any contingent liability of the Economic Entity and of the Company which has arisen since the end of the financial year.

No contingent or other liability has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the directors, will or may substantially affect the ability of the Economic Entity and of the Company to meet their obligations as and when they fall due.

In the opinion of the directors, no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of operations of the Economic Entity and of the Company for the succeeding financial year.

## **DIRECTORS**

The following directors served on the Board of the Company since the date of the last report:

Tan Sri Datuk Amar (Dr) Haji Abdul Aziz Bin Husain

Dato Sri Ahmad Tarmizi Bin Hj. Sulaiman

Dato' Haji Abdul Rahman Bin Abdul Ghani

Datuk Sukarti Bin Haji Wakiman

Tuan Haji Zainal Abidin Bin Hassan

Datu Junaidi Bin Hj. Reduan (appointed as a director on 23.2.2011; alternate director to Dato Sri Ahmad Tarmizi Bin Hj. Sulaiman)

Datuk Godfrey Gregory Joitol (alternate director to Datuk Sukarti Bin Haji Wakiman)

Rudy Jaglul (appointed as alternate director to Dato' Haji Abdul Rahman Bin Abdul Ghani on 30.7.2010; resigned on 29.4.2011)

Faridah Binti Jaafar (appointed as alternate director to Tuan Haji Zainal Abidin Bin Hassan on 13.9.2010)

In accordance with Article 80 of the Company's Articles of Association, Tan Sri Datuk Amar (Dr) Haji Abdul Aziz Bin Husain and Dato' Haji Abdul Rahman Bin Abdul Ghani retire by rotation and, Tan Sri Datuk Amar (Dr) Haji Abdul Aziz Bin Husain, being eligible, offers himself for re-election.

Datu Junaidi Bin Hj. Reduan who was appointed to the Board since the last Annual General Meeting, retires under Article 77 of the Company's Articles of Association and, being eligible, offers himself for re-election.

## **DIRECTORS' INTERESTS**

None of the directors held shares or had beneficial interests in the shares of the Company during the financial year.

### **DIRECTORS' BENEFITS**

Since the end of the previous financial year, none of the directors of the Company has received or become entitled to receive any benefit (other than the benefit included in the aggregate of emoluments received or due and receivable by directors as disclosed in the financial statements) by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

During and at the end of the financial year, no arrangement subsisted to which the Company was a party whereby directors of the Company might acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

### **AUDITORS**

The auditors, Messrs. Deloitte KassimChan, have indicated their willingness to continue in office.

Signed on behalf of the Board  
in accordance with a resolution of the Directors,

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**TAN SRI DATUK AMAR (DR) HAJI ABDUL AZIZ BIN HUSAIN**

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**DATUK SUKARTI BIN HAJI WAKIMAN**

Kota Kinabalu,

**INDEPENDENT AUDITORS' REPORT  
TO THE MEMBERS OF BORNEO HOUSING MORTGAGE FINANCE BERHAD**  
(Incorporated in Malaysia)

**Report on the Financial Statements**

We have audited the financial statements of Borneo Housing Mortgage Finance Berhad and of the Economic Entity, which comprise the statements of financial position as of December 31, 2010, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 7 to 55.

**Directors' Responsibility for the Financial Statements**

The directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility towards any other person for the contents of this report.

We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Economic Entity and of the Company as of December 31, 2010 and of their financial performance and cash flows for the year then ended.

### **Report on Other Legal and Regulatory Requirements**

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion, the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

**DELOITTE KASSIMCHAN**  
**AF 0080**  
**Chartered Accountants**

**TEO CHEW HIONG**  
**Partner - 2451/04/13(J/PH)**  
**Chartered Accountant**

**BORNEO HOUSING MORTGAGE FINANCE BERHAD**  
(Incorporated in Malaysia)

**STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

	Note(s)	The Economic Entity		The Company	
		2010 RM	2009 RM	2010 RM	2009 RM
Interest income	4	43,197,927	54,836,045	43,197,927	54,836,045
Interest expense	5	(12,648,791)	(17,337,302)	(12,648,791)	(17,337,302)
Net interest income		30,549,136	37,498,743	30,549,136	37,498,743
Allowance for:	14, 16				
Impairment		(4,321,564)	-	(4,321,564)	-
Doubtful debts		-	(2,215,000)	-	(2,215,000)
Operating profit		26,227,572	35,283,743	26,227,572	35,283,743
Investment revenue	6	1,102,391	900,595	1,102,391	1,500,595
Other gains and losses	7	9,704,617	1,914,425	9,704,617	1,914,425
Share of profits of associates	13	722,274	329,166	-	-
Employee benefits expense	9	(7,515,031)	(7,419,560)	(7,515,031)	(7,419,560)
Depreciation and amortisation expense	9	(268,608)	(322,561)	(268,608)	(322,561)
Finance costs	8	(70,902)	(32,718)	(70,902)	(32,718)
Other expenses	9	(3,525,018)	(2,856,939)	(3,525,018)	(2,856,939)
Profit before tax	9	26,377,295	27,796,151	25,655,021	28,066,985
Income tax expense	10	(11,226,069)	(6,908,916)	(11,226,069)	(7,058,916)
<b>Profit for the year</b>		15,151,226	20,887,235	14,428,952	21,008,069
Other comprehensive income		-	-	-	-
<b>Total comprehensive income for the year</b>		15,151,226	20,887,235	14,428,952	21,008,069
<b>Profit attributable to Owners of the Economic Entity/Company</b>		15,151,226	20,887,235	14,428,952	21,008,069
<b>Total comprehensive income attributable to Owners of the Economic Entity/Company</b>		15,151,226	20,887,235	14,428,952	21,008,069

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

**BORNEO HOUSING MORTGAGE FINANCE BERHAD**  
(Incorporated in Malaysia)

**STATEMENTS OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2010**

	Note	The Economic Entity		The Company	
		2010	2009	2010	2009
		RM	RM	RM	RM
<b>ASSETS</b>					
<b>Non-Current Assets</b>					
Property, plant and equipment	11	2,619,338	2,838,514	2,619,338	2,838,514
Prepaid lease payment	12	5,766,823	5,773,310	5,766,823	5,773,310
Investment in associates	13	6,718,290	5,996,016	4,000,000	4,000,000
Mortgage loan receivables - non-current portion	14	653,237,901	592,204,545	653,237,901	592,204,545
Deferred tax assets	15	-	1,979,892	-	1,979,892
Other receivable	16	62,070,284	-	62,070,284	-
Total Non-Current Assets		<u>730,412,636</u>	<u>608,792,277</u>	<u>727,694,346</u>	<u>606,796,261</u>
<b>Current Assets</b>					
Mortgage loan receivables - current portion	14	108,123,954	114,238,080	108,123,954	114,238,080
Other receivables and deposits	16	1,777,945	2,193,928	1,777,945	2,193,928
Properties held for resale	17	277,290	67,987,857	277,290	67,987,857
Cash and bank balances	18	17,024,210	40,788,146	17,024,210	40,788,146
Total Current Assets		<u>127,203,399</u>	<u>225,208,011</u>	<u>127,203,399</u>	<u>225,208,011</u>
<b>TOTAL ASSETS</b>		<u><u>857,616,035</u></u>	<u><u>834,000,288</u></u>	<u><u>854,897,745</u></u>	<u><u>832,004,272</u></u>

(Forward)

	Note	The Economic Entity		The Company	
		2010 RM	2009 RM	2010 RM	2009 RM
<b>EQUITY AND LIABILITIES</b>					
<b>Capital and Reserves</b>					
Share capital	19	126,420,084	126,420,084	126,420,084	126,420,084
Reserves	20	<u>246,289,527</u>	<u>158,606,073</u>	<u>243,571,237</u>	<u>156,610,057</u>
Total Equity		<u>372,709,611</u>	<u>285,026,157</u>	<u>369,991,321</u>	<u>283,030,141</u>
<b>Non-Current Liabilities</b>					
Deposits from customers - non-current portion	21	<u>2,872,220</u>	<u>1,859,983</u>	<u>2,872,220</u>	<u>1,859,983</u>
<b>Current Liabilities</b>					
Deposits from customers - current portion	21	367,036,306	445,660,035	367,036,306	445,660,035
Other payables	22	88,359,489	94,141,202	88,359,489	94,141,202
Provisions	23	1,551,006	1,803,890	1,551,006	1,803,890
Interest payable		2,388,268	3,252,432	2,388,268	3,252,432
Bank borrowings	24	19,560,317	754,819	19,560,317	754,819
Tax liabilities		<u>3,138,818</u>	<u>1,501,770</u>	<u>3,138,818</u>	<u>1,501,770</u>
Total Current Liabilities		<u>482,034,204</u>	<u>547,114,148</u>	<u>482,034,204</u>	<u>547,114,148</u>
Total Liabilities		<u>484,906,424</u>	<u>548,974,131</u>	<u>484,906,424</u>	<u>548,974,131</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><u>857,616,035</u></u>	<u><u>834,000,288</u></u>	<u><u>854,897,745</u></u>	<u><u>832,004,272</u></u>

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

**BORNEO HOUSING MORTGAGE FINANCE BERHAD**

(Incorporated in Malaysia)

**STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<b>Share Capital RM</b>	<b>Non-distributable Reserves - Preference Shares Redemption Reserves RM</b>	<b>Distributable Reserves General Reserve RM</b>	<b>Retained Earnings RM</b>	<b>Total RM</b>
<b>The Economic Entity</b>					
<b>Balance as of January 1, 2009</b>	126,420,084	28,000,000	67,999,884	41,718,954	264,138,922
Profit for the year	-	-	-	20,887,235	20,887,235
Other comprehensive income for the year	-	-	-	-	-
Total comprehensive income for the year	-	-	-	20,887,235	20,887,235
Transfer from retained earnings to general reserve	-	-	7,000,000	(7,000,000)	-
<b>Balance as of December 31, 2009</b>	<u>126,420,084</u>	<u>28,000,000</u>	<u>74,999,884</u>	<u>55,606,189</u>	<u>285,026,157</u>

(Forward)

	Note	Share Capital RM	Non-distributable Reserves - Preference Shares Redemption Reserves RM	Distributable Reserves General Reserve RM	Retained Earnings RM	Total RM
<b>The Economic Entity</b>						
<b>Balance as of January 1, 2010</b>						
As previously stated		126,420,084	28,000,000	74,999,884	55,606,189	285,026,157
Effects of adoption of FRS 139	26	-	-	-	92,374,997	92,374,997
<b>As restated</b>		126,420,084	28,000,000	74,999,884	147,981,186	377,401,154
Dividend	28	-	-	-	(19,031,672)	(19,031,672)
Profit for the year		-	-	-	15,151,226	15,151,226
Other comprehensive income for the year		-	-	-	-	-
Total comprehensive income for the year		-	-	-	15,151,226	15,151,226
Effects of adoption of FRS 139 - deemed distribution		-	-	-	(811,097)	(811,097)
Transfer from retained earnings to general reserve		-	-	8,000,000	(8,000,000)	-
<b>Balance as of December 31, 2010</b>		<u>126,420,084</u>	<u>28,000,000</u>	<u>82,999,884</u>	<u>135,289,643</u>	<u>372,709,611</u>

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

	<b>Share Capital RM</b>	<b>Non-distributable Reserves - Preference Shares Redemption Reserves RM</b>	<b>Distributable Reserves General Reserve RM</b>	<b>Retained Earnings RM</b>	<b>Total RM</b>
<b>The Company</b>					
<b>Balance as of January 1, 2009</b>	126,420,084	28,000,000	67,999,884	39,602,104	262,022,072
Profit for the year	-	-	-	21,008,069	21,008,069
Other comprehensive income for the year	-	-	-	-	-
Total comprehensive income for the year	-	-	-	21,008,069	21,008,069
Transfer from retained earnings to general reserve	-	-	7,000,000	(7,000,000)	-
<b>Balance as of December 31, 2009</b>	<u>126,420,084</u>	<u>28,000,000</u>	<u>74,999,884</u>	<u>53,610,173</u>	<u>283,030,141</u>

(Forward)

	Note	Share Capital RM	Non-distributable Reserves - Preference Shares Redemption Reserves RM	Distributable Reserves General Reserve RM	Retained Earnings RM	Total RM
<b>The Company</b>						
<b>Balance as of January 1, 2010</b>						
As previously stated		126,420,084	28,000,000	74,999,884	53,610,173	283,030,141
Effects of adoption of FRS 139	26	-	-	-	92,374,997	92,374,997
<b>As restated</b>		126,420,084	28,000,000	74,999,884	145,985,170	375,405,138
Dividend	28	-	-	-	(19,031,672)	(19,031,672)
Profit for the year		-	-	-	14,428,952	14,428,952
Other comprehensive income for the year		-	-	-	-	-
Total comprehensive income for the year		-	-	-	14,428,952	14,428,952
Effects of adoption of FRS 139 - deemed distribution		-	-	-	(811,097)	(811,097)
Transfer from retained earnings to general reserve		-	-	8,000,000	(8,000,000)	-
<b>Balance as of December 31, 2010</b>		<u>126,420,084</u>	<u>28,000,000</u>	<u>82,999,884</u>	<u>132,571,353</u>	<u>369,991,321</u>

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

**BORNEO HOUSING MORTGAGE FINANCE BERHAD**  
(Incorporated in Malaysia)

**STATEMENTS OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

	<b>The Economic Entity</b>	
	<b>2010</b>	<b>2009</b>
	<b>RM</b>	<b>RM</b>
<b>CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES</b>		
Profit for the year	15,151,226	20,887,235
Adjustments for:		
Income tax expense recognised in profit or loss	11,226,069	6,908,916
Allowance for:		
Impairment on mortgage loan receivables and other assets	4,321,564	-
Doubtful debts	-	2,215,000
Depreciation and amortisation of non-current assets	268,608	322,561
Provision for gratuities and retrenchments	87,947	98,344
Finance costs recognised in profit or loss	70,902	32,718
Loss/(Gain) on disposal of:		
Properties held for resale	(8,677,996)	134,831
Property, plant and equipment	816	(702)
Interest income on fixed deposits, other receivables and staff loans	(1,095,791)	(857,045)
Net unrealised loss/(gain) on financial instruments:		
Mortgage loan receivables	(7,208,832)	-
Other receivable	7,984,166	-
Deposits from customers	(148,903)	-
Share of profits of associates	(722,274)	(329,166)
Write-back of:		
Allowance for doubtful debts	-	(684,000)
Impairment in value of properties held for resale	-	(66,743)
	21,257,502	28,661,949
<b>Movements in Working Capital:</b>		
(Increase)/Decrease in:		
Mortgage loan receivables	44,061,755	24,427,512
Other receivables and deposits	(1,599,654)	43,408
Properties held for resale	-	(436,114)
Increase/(Decrease) in:		
Deposits from customers	(79,549,312)	(34,449,894)
Other payables	(7,575,392)	12,263,508
Interest payable	(910,232)	(1,445,656)
Cash Generated From/(Used In) Operations	(24,315,333)	29,064,713

(Forward)

	<b>Note</b>	<b>The Economic Entity</b>	
		<b>2010</b>	<b>2009</b>
		<b>RM</b>	<b>RM</b>
Income tax paid		(7,609,129)	(7,198,236)
Interest paid		(70,902)	(32,718)
Gratuities paid		(340,831)	(84,241)
		<u>(32,336,195)</u>	<u>21,749,518</u>
<b>Net Cash From/(Used In) Operating Activities</b>			
<b>CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES</b>			
Proceeds from disposal of:			
Properties held for resale		6,368,100	791,912
Property, plant and equipment		528	1,635
Interest received		1,095,791	857,045
Purchase of property, plant and equipment		(44,289)	(291,044)
		<u>7,420,130</u>	<u>1,359,548</u>
<b>Net Cash From Investing Activities</b>			
<b>CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES</b>			
Proceeds from bank borrowing		5,000,000	-
Dividend paid		(17,653,369)	(13,653,369)
		<u>(12,653,369)</u>	<u>(13,653,369)</u>
<b>Net Cash Used In Financing Activities</b>			
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		(37,569,434)	9,455,697
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<u>40,033,327</u>	<u>30,577,630</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		27 <u><u>2,463,893</u></u>	<u><u>40,033,327</u></u>

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

**BORNEO HOUSING MORTGAGE FINANCE BERHAD**  
(Incorporated in Malaysia)

**STATEMENTS OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

	<b>The Company</b>	
	<b>2010</b>	<b>2009</b>
	<b>RM</b>	<b>RM</b>
<b>CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES</b>		
Profit for the year	14,428,952	21,008,069
Adjustments for:		
Income tax expense recognised in profit or loss	11,226,069	7,058,916
Allowance for:		
Impairment on mortgage loan receivables and other assets	4,321,564	-
Doubtful debts	-	2,215,000
Depreciation and amortisation of non-current assets	268,608	322,561
Loss/(Gain) on disposal of:		
Properties held for resale	(8,677,996)	134,831
Property, plant and equipment	816	(702)
Interest income on fixed deposits, other receivables and staff loans	(1,095,791)	(1,457,045)
Provision for gratuities and retrenchments	87,947	98,344
Finance costs recognised in profit or loss	70,902	32,718
Net unrealised loss/(gain) on financial instruments:		
Mortgage loan receivables	(7,208,832)	-
Other receivable	7,984,166	-
Deposits from customers	(148,903)	-
Write-back of:		
Allowance for doubtful debts	-	(684,000)
Impairment in value of properties held for resale	-	(66,743)
	21,257,502	28,661,949
Movements in Working Capital:		
(Increase)/Decrease in:		
Mortgage loan receivables	44,061,755	24,427,512
Other receivables and deposits	(1,599,654)	43,408
Properties held for resale	-	(436,114)
Increase/(Decrease) in:		
Deposits from customers	(79,549,312)	(34,449,894)
Other payables	(7,575,392)	12,263,508
Interest payable	(910,232)	(1,445,656)
	(24,315,333)	29,064,713
Cash Generated From/(Used In) Operations	(24,315,333)	29,064,713

(Forward)

	<b>The Company</b>	
<b>Note</b>	<b>2010</b>	<b>2009</b>
	<b>RM</b>	<b>RM</b>
Income tax paid	(7,609,129)	(7,198,236)
Interest paid	(70,902)	(32,718)
Gratuities paid	(340,831)	(84,241)
Net Cash From/(Used In) Operating Activities	<u>(32,336,195)</u>	<u>21,749,518</u>
<b>CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES</b>		
Proceeds from disposal of:		
Properties held for resale	6,368,100	791,912
Property, plant and equipment	528	1,635
Interest received	1,095,791	857,045
Purchase of property, plant and equipment	(44,289)	(291,044)
Net Cash From Investing Activities	<u>7,420,130</u>	<u>1,359,548</u>
<b>CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES</b>		
Proceeds from bank borrowing	5,000,000	-
Dividend paid	(17,653,369)	(13,653,369)
Net Cash Used In Financing Activities	<u>(12,653,369)</u>	<u>(13,653,369)</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(37,569,434)</b>	<b>9,455,697</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b><u>40,033,327</u></b>	<b><u>30,577,630</u></b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>27 <u><u>2,463,893</u></u></b>	<b><u><u>40,033,327</u></u></b>

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

**BORNEO HOUSING MORTGAGE FINANCE BERHAD**

(Incorporated in Malaysia)

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

**1. GENERAL INFORMATION**

The Company is a public limited liability company, incorporated and domiciled in Malaysia.

The Company, a financial institution with the primary objective of promoting home ownership, is principally engaged in providing end finance to house owners and other property owners and bridging finance to developers.

The principal activities of the associates are as disclosed in Note 13.

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

The registered office of the Company is located at Lot 2667, Block 10, Kuching Central Land District, Twin Tower Centre, 3rd Mile, Jalan Rock, 93200 Kuching, Sarawak, Malaysia.

The principal places of business of the Company are located at 10th and 11th Floors, Block A, Kompleks Karamuning, 88300 Kota Kinabalu, Sabah, Malaysia and Lot 2667, Block 10, Kuching Central Land District, Twin Tower Centre, 3rd Mile, Jalan Rock, 93200 Kuching, Sarawak, Malaysia.

The financial statements of the Company were authorised for issue by the Board of Directors in accordance with a resolution of the directors on \_\_\_\_\_.

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

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

**2.1 Adoption of new and revised Financial Reporting Standards**

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

FRS 7 Financial Instruments: Disclosures  
FRS 101 Presentation of Financial Statements (revised)  
FRS 139 Financial Instruments: Recognition and Measurement  
Improvements to FRSs issued in 2009

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

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

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

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

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

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

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

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

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

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

All financial assets and financial liabilities within the scope of FRS 139 are recognised and re-measured accordingly, with the related adjustments of RM92,374,997 taken to opening retained earnings as of January 1, 2010 as disclosed in Note 26.

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

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

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

FRS 1	First-time Adoption of Financial Reporting Standards (revised) <sup>1</sup>
FRS 1	First-time Adoption of Financial Reporting Standards (Amendments relating to limited exemption from Comparative FRS Disclosures for First-time Adopters) <sup>2</sup>
FRS 1	First-time Adoption of Financial Reporting Standards (Amendments relating to additional exemptions for first-time adopters) <sup>2</sup>
FRS 2	Share-based Payment (Amendments relating to group cash-settled share-based payment transactions) <sup>2</sup>
FRS 3	Business Combinations (revised) <sup>1</sup>
FRS 7	Financial Instruments: Disclosures (Amendments relating to improving disclosures about financial instruments) <sup>2</sup>
FRS 124	Related Party Disclosures (revised) <sup>3</sup>
FRS 127	Consolidated and Separate Financial Statements (revised) <sup>1</sup>
FRS 132	Financial Instruments: Presentation (Amendments relating to classification of rights issue) <sup>4</sup>
FRS 139	Financial Instruments: Recognition and Measurement (Amendments relating to additional consequential amendments arising from revised FRS 3 and revised FRS 127) <sup>1</sup> .
	Improvements to FRSs 2010 <sup>2</sup>
IC Int. 4	Determining whether an Arrangement contains a Lease <sup>2</sup>
IC Int. 12	Service Concession Arrangements <sup>1</sup>
IC Int. 14	FRS 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction (Amendments relating to prepayments of a minimum funding requirement) <sup>7</sup>
IC Int. 15	Agreements for the Construction of Real Estate <sup>5</sup>
IC Int. 16	Hedges of a Net Investment in a Foreign Operation <sup>1</sup>
IC Int. 17	Distributions of Non-cash Assets to Owners <sup>1</sup>
IC Int. 18	Transfers of Assets from Customers <sup>6</sup>
IC Int. 19	Extinguishing Financial Liabilities with Equity Instruments <sup>7</sup>

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

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

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

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

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

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

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

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

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

#### **Basis of Accounting**

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

The principal accounting policies are set out below.

#### **Revenue Recognition and Interest Expense Recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. In addition, the following specific income recognition criteria must also be met:

- (i) Interest income and expenses are recognised in the statement of comprehensive income on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest/financing income or expense over the relevant period.
- (ii) Dividend income from investments is recognised when the shareholder's rights to receive payment has been established.
- (iii) Revenue from the sale of the Company's properties held for sale is recognised upon transfer of significant risks and rewards of ownership to the buyer.
- (iv) Rental income is accrued on a time basis by reference to the agreements entered into.
- (v) Guarantee fees are recognised as income based on time apportionment and is measured at the fair value of the consideration received or receivable.
- (vi) Fee income such as the managing agency fee, project management fee and insurance commission are generally recognised on an accrual basis when the services have been rendered.

## **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

### Current Tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

### Deferred Tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available against which those deductible temporary differences, unused tax losses and unused tax credits can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) or other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

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

### Current and Deferred Tax for the Period

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

## **Property, Plant and Equipment**

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

Depreciation is recognised so as to write off the cost of the assets less their residual values over their useful lives, using the straight-line method on the following bases:

Office buildings	2%
Motor vehicles	15%
Furniture and fittings	12.5% to 20%
Office equipment	12.5% to 33.33%
Office renovation	20%

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

## **Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

### The Company as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

### The Company as lessee

Assets held under finance leases are initially recognised as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised directly to profit or loss. Contingent rentals arising under finance leases are recognised as an expense in the period in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

### **Investment in Associates**

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the financial statements of the Economic Entity using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with FRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*. Under the equity method, an investment in an associate is initially recognised in the statement of financial position of the Economic Entity at cost and adjusted thereafter to recognise the Company's share of the profit or loss and other comprehensive income of the associate. When the Company's share of losses of an associate exceeds the Company's interest in that associate (which includes any long-term interests that, in substance, form part of the of the Company's net investment in the associate), the Company discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Investment in associates is stated at costs less impairment losses, if any, in the Company's separate financial statements.

### **Impairment of Tangible Assets**

At the end of each reporting period, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

### **Provisions**

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

### **Financial Instruments**

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

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

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

#### **(a) Financial Assets**

Financial assets of the Company are classified as “loans and receivables”. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

##### **(i) Effective Interest Method**

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

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

(ii) Loans and Receivables

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

(iii) Impairment of Financial Assets

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

Objective evidence of impairment could include:

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

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

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

The carrying amount of the financial asset is reduced by, the impairment loss directly for all financial assets with the exception of mortgage loan receivables and unsecured debtors included under other receivables and deposits account, where the carrying amount is reduced through the use of an allowance account. When a mortgage loan receivable or an unsecured debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

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

(iv) Derecognition of Financial Assets

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

**Mortgage loans and receivables**

(i) Measurement

Upon the adoption of FRS 139, the Company's mortgage loans are initially recognised at fair value, including direct and incremental transaction costs. The difference between the fair value of the loan at inception and contractual loan principal amount, known as the "day-one" gain or loss adjustment is recognised immediately in profit or loss. For floating rate loan, "day-one" adjustment is re-calculated whenever the Company revises its lending rates, subject to the materiality threshold. As for fixed-rate staff loan, "day-one" adjustment is re-calculated whenever the staff obtains additional staff loan for house renovation or other purposes.

Subsequently, the loans are measured at amortised cost using the effective interest method. The effective interest rate ("EIR") is determined and applied to the carrying of the loan on a monthly basis in order to compute the income over the repayment term of the loan.

(ii) Impairment

Upon the adoption of FRS 139, the Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the assets (a "loss event").

The Company defines the possible loss events as follows:

- i. When a borrower defaulted in his monthly repayment for six months or more;
- ii. When a borrower has passed away and has not arranged for mortgage decreasing insurance policy to cover the loan;
- iii. When a borrower has been adjudged bankrupt by other financial institutions;
- iv. When housing developments have been abandoned by the housing developers or have remained uncompleted after a reasonable period of time (normally three years); or
- v. When there is a slump in the property market caused by an economic downturn or affordability crisis, subject to the threshold that the drop in property prices must exceed 10%.

If there is objective evidence that an impairment loss has occurred, the impairment loss should be measured as the difference between the carrying amount and the present value of estimated future cash flows from the sale of the underlying collateral less costs to sell. The carrying amount of the impaired asset is reduced through the use of an allowance account and the amount of impairment loss is recognised immediately in profit or loss.

If, in a subsequent period, the mortgage loans and receivables have been regularised, the impairment loss recognised in the previous year will be reversed by adjusting the allowance account and recognising the same in profit or loss. However, the carrying amount should not be increased to an amount that exceeds what the amortised cost would have been (at the date of the reversal) had the impairment loss not been recognised.

FRS 139 also prescribes that if an entity determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes that asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

For loans which are collectively assessed, the collective impairment allowance is derived by grouping these loans on the basis of similar credit risk characteristics and locality. Future cash flows of each of these groups of loans are estimated on the basis of historical loss experience for such assets and are discounted to present value, using the effective interest rate. The impairment loss allowance is the difference between the present value of the future cash flows and the carrying value of the groups of loans.

**(b) Financial Liabilities and Equity Instruments Issued by the Company**

**(i) Classification as Debt or Equity**

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

**(ii) Equity Instruments**

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

**(iii) Financial Liabilities**

Financial liabilities of the Company are classified into “other financial liabilities” category.

**(iv) Other Financial Liabilities**

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

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

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

(v) **Derecognition of Financial Liabilities**

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

**Properties Held for Resale**

Properties held for resale are foreclosed properties acquired in full or partial satisfaction of debts and are stated at cost less allowance for impairment in value, if any, based on the latest valuation reports from independent professional valuers or in-house valuers. Cost represents the purchase consideration at which the properties were acquired.

**Employee Benefits**

(i) **Short-term Employee Benefits**

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

(ii) **Defined Contribution Plans**

The Company is required by law to make contributions to the Employees' Provident Fund ("EPF"), a post-employment benefit plan. The said contributions are recognised as an expense when employees have rendered service entitling them to the contributions. The Company has no further payment obligations once these contributions have been paid.

**Critical Accounting Judgements and Key Sources of Estimation Uncertainty**

In the application of the Company's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(i) Critical Judgements in Applying Accounting Policies

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

(ii) Key Sources of Estimation Uncertainty

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

Impairment of Property, Plant and Equipment

Determining whether property, plant and equipment value is impaired requires an estimation of the value of the property, plant and equipment in use. This requires the Company to estimate the future cashflows expected from the property, plant and equipment and an appropriate discount rate in order to calculate the present value of the future cashflows. The carrying amount of property, plant and equipment at the end of the reporting period is disclosed in Note 11.

Deferred Tax Assets (Note 15)

Deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which those deductible temporary differences, unused tax losses and unused tax credits can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Mortgage Loan Receivables and Other Receivables

Allowance for impairment on mortgage loan receivables and other receivables are made based on estimated possible losses which may arise from non-collection of certain receivable accounts. Significant management judgement is required to determine the adequacy of the allowance for doubtful debts to cover any losses which may be incurred from uncollectible accounts on outstanding loan and other receivables as of the end of the reporting period.

**Cash Flow Statements**

The Economic Entity and the Company adopt the indirect method in the preparation of the cash flow statements.

Cash equivalents are short-term, highly liquid investments with maturities of three months or less from the date of acquisition and are readily convertible to cash with insignificant risks of changes in value.

4. **INTEREST INCOME**

	<b>The Economic Entity and The Company</b>	
	<b>2010 RM</b>	<b>2009 RM</b>
Mortgage loan receivables:		
End finance	41,879,318	53,045,202
Revolving loans	787,122	1,041,160
Term loans	530,705	745,331
Bridging loans	782	4,352
	<u>43,197,927</u>	<u>54,836,045</u>

5. **INTEREST EXPENSE**

	<b>The Economic Entity and The Company</b>	
	<b>2010 RM</b>	<b>2009 RM</b>
Deposits from:		
Customers	11,229,585	16,007,404
Deposits from Sabah Government Supplementary Housing Loan Fund	1,079,146	1,002,802
Others	340,060	327,096
	<u>12,648,791</u>	<u>17,337,302</u>

6. **INVESTMENT REVENUE**

	<b>The Economic Entity</b>		<b>The Company</b>	
	<b>2010 RM</b>	<b>2009 RM</b>	<b>2010 RM</b>	<b>2009 RM</b>
Interest income on:				
Fixed deposits	986,009	514,202	986,009	514,202
Other receivables and staff loans	109,782	97,515	109,782	97,515
Rental income of properties held for resale	6,600	43,550	6,600	43,550
Income from investment in money market	-	245,328	-	245,328
Gross dividend income from an associate	-	-	-	600,000
	<u>1,102,391</u>	<u>900,595</u>	<u>1,102,391</u>	<u>1,500,595</u>

## 7. OTHER GAINS AND LOSSES

	<b>The Economic Entity and The Company</b>	
	<b>2010</b>	<b>2009</b>
	<b>RM</b>	<b>RM</b>
Gain/(Loss) on disposal of:		
Properties held for resale	8,677,996	(134,831)
Property, plant and equipment	(816)	702
Net unrealised gain/(loss) on financial instruments:		
Mortgage loan receivables	7,208,832	-
Other receivable	(7,984,166)	-
Deposits from customers	148,903	-
Reminder and guarantee fees	337,284	196,620
Commission	506,835	471,627
Agency fees	306,077	302,586
Interest income on other staff loans	104,659	67,383
Bad debts recovered	60,536	104,904
Management fee receivable from an associate	50,000	80,000
Loan processing fees	35,550	45,050
Write-back of:		
Allowance for doubtful debts	-	684,000
Impairment in value of properties held for resale	-	66,743
Others	252,927	29,641
	<u>9,704,617</u>	<u>1,914,425</u>

## 8. FINANCE COSTS

	<b>The Economic Entity and The Company</b>	
	<b>2010</b>	<b>2009</b>
	<b>RM</b>	<b>RM</b>
Interest on bank overdrafts	<u>70,902</u>	<u>32,718</u>

**9. PROFIT BEFORE TAX**

Profit before tax has been arrived at after charging:

	<b>The Economic Entity and The Company</b>	
	<b>2010</b>	<b>2009</b>
	<b>RM</b>	<b>RM</b>
Employee benefits expense:		
Key management personnel:		
Salaries and other emoluments	280,700	317,285
Employees' Provident Fund contributions	42,108	47,013
Other management personnel:		
Employees' Provident Fund contributions	950,220	923,238
Provision for gratuities and retrenchments	87,947	98,344
	<u>268,608</u>	<u>322,561</u>
Depreciation and amortisation expense:		
Depreciation of property, plant and equipment	262,121	316,074
Amortisation of prepaid lease payment	6,487	6,487
	<u>268,608</u>	<u>322,561</u>
Other expenses:		
Non-executive directors' remuneration:		
Fees	133,999	131,951
Other emoluments	42,000	38,671
Rental of premises	124,920	115,020
Audit fee	39,000	39,000
	<u>39,000</u>	<u>39,000</u>

**10. INCOME TAX EXPENSE**

	<b>The Economic Entity</b>		<b>The Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
Current tax expense	9,323,818	7,301,770	9,323,818	7,451,770
Deferred tax expense/ (income) (Note 15)	1,979,892	(330,113)	1,979,892	(330,113)
Over-recognition of deferred tax income in prior year (Note 15)	-	103,330	-	103,330
Overprovision of current tax expense in prior year	(77,641)	(166,071)	(77,641)	(166,071)
	<u>11,226,069</u>	<u>6,908,916</u>	<u>11,226,069</u>	<u>7,058,916</u>

A numerical reconciliation of income tax expense at the applicable income tax rate to income tax expense at the effective income tax rate is as follows:

	<b>The Economic Entity</b>		<b>The Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
Profit before tax	<u>26,377,295</u>	<u>27,796,151</u>	<u>25,655,021</u>	<u>28,066,985</u>
Tax at the applicable tax rate of 25% (2009: 25%)	6,594,324	6,949,038	6,413,756	7,016,746
Tax effects of:				
Expenses that are not deductible in determining taxable profit	3,968,313	91,667	3,968,313	91,667
Income not subject to tax	(2,179,725)	(42,002)	(2,179,725)	(42,002)
Share of profits of associates	(180,568)	(82,292)	-	-
Deferred tax assets not recognised during the year	3,101,366	-	3,101,366	-
Over-recognition of deferred tax income in prior year	-	103,330	-	103,330
Overprovision of current tax expense in prior year	(77,641)	(166,071)	(77,641)	(166,071)
Overprovision of current year tax expense	-	55,246	-	55,246
	<u>11,226,069</u>	<u>6,908,916</u>	<u>11,226,069</u>	<u>7,058,916</u>

In 2009, the Company has tax-exempt income amounting to RM17,942,499 arising from the tax payable on chargeable income which was waived in 1999 in accordance with the Income Tax (Amendment) Act, 1999. The tax-exempt income account, which has been agreed by the tax authorities, is available for distribution as tax-exempt dividends to the shareholders of the Company. The said tax-exempt income has been declared as tax-exempt dividend to the shareholders of the Company during the year.

As mentioned in Note 3, the tax effects of deductible temporary differences, unused tax losses and unused tax credits which would give rise to net deferred tax assets are generally recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. As of December 31, 2010, the following estimated deferred tax assets calculated at applicable tax rate, have not been recognised in the financial statements due to uncertainty of their realisation:

	<b>The Economic Entity and The Company</b>	
	<b>2010</b>	<b>2009</b>
	<b>RM</b>	<b>RM</b>
Tax effects of temporary differences arising from:		
Collective impairment on mortgage loan receivables	2,480,798	-
Individual impairment on mortgage loan receivables	46,056	-
Individual impairment on unsecured debtors	223,972	-
Provision for gratuities and retrenchments	387,752	-
Property, plant and equipment	(37,212)	-
	<u>3,101,366</u>	<u>-</u>

## 11. PROPERTY, PLANT AND EQUIPMENT

## The Economic Entity and The Company

	← Cost →				← Accumulated Depreciation →			
	At beginning of year RM	Additions RM	Disposals RM	At end of year RM	At beginning of year RM	Charge for the year RM	Disposals RM	At end of year RM
<b>2010</b>								
Office buildings	4,298,976	-	-	4,298,976	1,977,540	85,980	-	2,063,520
Motor vehicles	837,314	-	-	837,314	577,001	51,979	-	628,980
Furniture and fittings	873,491	1,769	(3,645)	871,615	850,259	7,456	(3,470)	854,245
Office equipment	2,050,573	42,520	(28,060)	2,065,033	1,818,738	115,008	(26,891)	1,906,855
Office renovation	509,158	-	-	509,158	507,460	1,698	-	509,158
<b>Total</b>	<b>8,569,512</b>	<b>44,289</b>	<b>(31,705)</b>	<b>8,582,096</b>	<b>5,730,998</b>	<b>262,121</b>	<b>(30,361)</b>	<b>5,962,758</b>
<b>2009</b>								
Office buildings	4,298,976	-	-	4,298,976	1,891,560	85,980	-	1,977,540
Motor vehicles	689,222	148,092	-	837,314	501,200	75,801	-	577,001
Furniture and fittings	869,040	5,755	(1,304)	873,491	841,346	10,217	(1,304)	850,259
Office equipment	1,970,676	137,197	(57,300)	2,050,573	1,734,693	140,412	(56,367)	1,818,738
Office renovation	509,158	-	-	509,158	503,796	3,664	-	507,460
<b>Total</b>	<b>8,337,072</b>	<b>291,044</b>	<b>(58,604)</b>	<b>8,569,512</b>	<b>5,472,595</b>	<b>316,074</b>	<b>(57,671)</b>	<b>5,730,998</b>

	<b>The Economic Entity and The Company</b>	
	<b>← Carrying Amount →</b>	
	<b>2010</b>	<b>2009</b>
	<b>RM</b>	<b>RM</b>
Office buildings	2,235,456	2,321,436
Motor vehicles	208,334	260,313
Furniture and fittings	17,370	23,232
Office equipment	158,178	231,835
Office renovation	-	1,698
	<u>2,619,338</u>	<u>2,838,514</u>
Total	<u>2,619,338</u>	<u>2,838,514</u>

Included in property, plant and equipment are fully depreciated assets which are still in use, with costs totalling approximately RM3,599,000 (2009: RM3,139,000).

## 12. PREPAID LEASE PAYMENT

	<b>The Economic Entity and The Company</b>	
	<b>2010</b>	<b>2009</b>
	<b>RM</b>	<b>RM</b>
Unamortised prepaid lease payment	5,773,310	5,779,797
Less: Current portion (Note 16)	<u>(6,487)</u>	<u>(6,487)</u>
Non-current portion	<u>5,766,823</u>	<u>5,773,310</u>
The non-current portion will be amortised as follows:		
In the second to fifth years inclusive	25,947	25,947
Later than 5 years	<u>5,740,876</u>	<u>5,747,363</u>
	<u>5,766,823</u>	<u>5,773,310</u>

Prepaid lease payment of the Economic Entity and of the Company relate to the long leasehold land of the Company located at Kompleks Karamuning, Sabah, Malaysia of which strata title has yet to be issued to the Company.

The lease of the master title will expire on January 21, 2901 and prepaid lease payment is currently amortised over the remaining lease period of the master title.

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

	<b>The Economic Entity and The Company</b>	
	<b>2010 RM</b>	<b>2009 RM</b>
At cost:		
At beginning and at end of year	<u>5,799,258</u>	<u>5,799,258</u>
Accumulated amortisation:		
At beginning of year	19,461	12,974
Amortisation for the year	<u>6,487</u>	<u>6,487</u>
At end of year	<u>25,948</u>	<u>19,461</u>
Carrying amount - at end of year	<u><u>5,773,310</u></u>	<u><u>5,779,797</u></u>

### 13. INVESTMENT IN ASSOCIATES

	<b>The Economic Entity</b>		<b>The Company</b>	
	<b>2010 RM</b>	<b>2009 RM</b>	<b>2010 RM</b>	<b>2009 RM</b>
Unquoted shares - at cost	4,000,000	4,000,000	4,000,000	4,000,000
Share of post-acquisition results, net of dividends received	<u>2,718,290</u>	<u>1,996,016</u>	<u>-</u>	<u>-</u>
	<u><u>6,718,290</u></u>	<u><u>5,996,016</u></u>	<u><u>4,000,000</u></u>	<u><u>4,000,000</u></u>

Investment in associates, all incorporated in Malaysia, comprises:

<b>Name of Company</b>	<b>Effective Equity Interest</b>		<b>Principal Activities</b>
	<b>2010</b>	<b>2009</b>	
BHMF Realty Sdn. Bhd.	40%	40%	Property development
Cendana Emas Sdn. Bhd.	40%	40%	Management of apartments

Cendana Emas Sdn. Bhd. is a wholly-owned subsidiary of BHMF Realty Sdn. Bhd.

Summarised financial information in respect of the Company's associates is set out below:

	<b>The Economic Entity</b>	
	<b>2010</b>	<b>2009</b>
	<b>RM</b>	<b>RM</b>
Total assets	17,685,262	15,929,035
Total liabilities	<u>(889,538)</u>	<u>(938,996)</u>
Net assets	<u>16,795,724</u>	<u>14,990,039</u>
The Company's share of associates' net assets	<u>6,718,290</u>	<u>5,996,016</u>
Revenue	<u>7,082,000</u>	<u>5,104,000</u>
Profit for the year	<u>1,805,685</u>	<u>822,915</u>
The Company's share of associates' profit for the year	<u>722,274</u>	<u>329,166</u>

#### 14. MORTGAGE LOAN RECEIVABLES

Mortgage loan receivables, which are mainly secured by freehold or leasehold properties, consist of the following:

	<b>The Economic Entity and The Company</b>	
	<b>2010</b>	<b>2009</b>
	<b>RM</b>	<b>RM</b>
Amounts due from borrowers	771,407,172	717,194,913
Allowance for impairment:		
Collective impairment	(422,938)	-
Individual impairment	(9,622,379)	-
Allowance for doubtful debts:		
General allowance	-	(3,536,149)
Specific allowance	<u>-</u>	<u>(7,216,139)</u>
	<u>761,361,855</u>	<u>706,442,625</u>

The maturity structure of mortgage loan receivables is as follows:

	<b>The Economic Entity and The Company</b>	
	<b>2010</b>	<b>2009</b>
	<b>RM</b>	<b>RM</b>
Due within one year	108,123,954	114,238,080
Due after one year	<u>653,237,901</u>	<u>592,204,545</u>
	<u>761,361,855</u>	<u>706,442,625</u>

Analysis of gross loans to customers:

	<b>The Economic Entity and The Company</b>	
	<b>2010</b>	<b>2009</b>
	<b>RM</b>	<b>RM</b>
Neither past due nor impaired	713,687,696	654,976,649
Past due but not impaired	45,787,274	47,841,526
Impaired	<u>11,932,202</u>	<u>14,376,738</u>
	<u>771,407,172</u>	<u>717,194,913</u>

Loans to customers which are past due but not impaired are as follows:

	<b>The Economic Entity and The Company</b>	
	<b>2010</b>	<b>2009</b>
	<b>RM</b>	<b>RM</b>
Less than 3 months	34,405,412	38,209,832
3 to 5 months	<u>11,381,862</u>	<u>9,631,694</u>
	<u>45,787,274</u>	<u>47,841,526</u>

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

	<b>The Economic Entity and The Company</b>	
	<b>2010</b>	<b>2009</b>
	<b>RM</b>	<b>RM</b>
<u>Collective Impairment</u>		
At beginning of the year:		
As previously stated	-	-
Effects of adoption of FRS 139	<u>285,568</u>	<u>-</u>
As restated	285,568	-
Allowance made during the year	<u>137,370</u>	<u>-</u>
At end of year	<u>422,938</u>	<u>-</u>
<u>Individual Impairment</u>		
At beginning of the year:		
As previously stated	-	-
Effects of adoption of FRS 139	<u>7,419,835</u>	<u>-</u>
As restated	7,419,835	-
Allowance made during the year	<u>2,202,544</u>	<u>-</u>
At end of year	<u>9,622,379</u>	<u>-</u>

	<b>The Economic Entity and The Company</b>	
	<b>2010</b>	<b>2009</b>
	<b>RM</b>	<b>RM</b>
<u>General Allowance</u>		
At beginning of the year:		
As previously stated	3,536,149	3,647,280
Effects of adoption of FRS 139	(3,536,149)	-
	<hr/>	<hr/>
As restated	-	3,647,280
Write-back allowance during the year	-	(111,131)
	<hr/>	<hr/>
At end of year	<hr/> <hr/>	<hr/> <hr/>
<u>Specific Allowance</u>		
At beginning of the year:		
As previously stated	7,216,139	6,489,008
Effects of adoption of FRS 139	(7,216,139)	-
	<hr/>	<hr/>
As restated	-	6,489,008
Allowance made during the year	-	1,300,000
Write-back allowance during the year	-	(572,869)
	<hr/>	<hr/>
At end of year	<hr/> <hr/>	<hr/> <hr/>

15. **DEFERRED TAX ASSETS**

	<b>The Economic Entity and The Company</b>	
	<b>2010</b>	<b>2009</b>
	<b>RM</b>	<b>RM</b>
At beginning of year	1,979,892	1,753,109
Transfer from/(to) statements of comprehensive income (Note 10)	(1,979,892)	226,783
	<hr/>	<hr/>
At end of year	<hr/> <hr/>	<hr/> <hr/>

The deferred tax assets recognised in 2009 are in respect of the following:

	<b>The Economic Entity and The Company Deferred Tax Assets/(Liabilities)</b>	
	<b>2010</b>	<b>2009</b>
	<b>RM</b>	<b>RM</b>
Tax effects of temporary differences arising from:		
General allowance for doubtful debts	-	1,584,038
Provision for gratuities and retrenchments	-	450,973
Property, plant and equipment	-	(55,119)
	<hr/>	<hr/>
	<hr/> <hr/>	<hr/> <hr/>

16. **OTHER RECEIVABLES AND DEPOSITS**

Other receivable included in non-current assets amounting to RM62,070,284 represents outstanding proceeds arising from the disposal of properties held for resale which are repayable by three annual unequal instalments from 2012.

Other receivables and deposits included in current assets are as follows:

	<b>The Economic Entity and The Company</b>	
	<b>2010 RM</b>	<b>2009 RM</b>
Unsecured debtors	16,014,651	22,640,513
Allowance for:		
Impairment	(16,014,651)	-
Doubtful debts	-	(22,486,876)
	-	153,637
Staff loans and advances	1,558,153	1,781,608
Other receivables	122,271	162,314
Refundable deposits	91,034	89,882
Prepaid lease payment (Note 12)	6,487	6,487
	<u>1,777,945</u>	<u>2,193,928</u>

Movement in allowance for impairment of unsecured debtors is set out below:

	<b>The Economic Entity and The Company</b>	
	<b>2010 RM</b>	<b>2009 RM</b>
<u>Individual Impairment</u>		
At beginning of the year:		
As previously stated	-	-
Effects of adoption of FRS 139	22,486,876	-
As restated	22,486,876	-
Allowance made during the year	1,981,650	-
Bad debts written off	(8,453,875)	-
At end of year	<u>16,014,651</u>	<u>-</u>
<u>Specific Allowance</u>		
At beginning of the year:		
As previously stated	22,486,876	21,571,876
Effects of adoption of FRS 139	(22,486,876)	-
As restated	-	21,571,876
Allowance made during the year	-	915,000
At end of year	<u>-</u>	<u>22,486,876</u>

17. **PROPERTIES HELD FOR RESALE**

	<b>The Economic Entity and The Company</b>	
	<b>2010</b>	<b>2009</b>
	<b>RM</b>	<b>RM</b>
At cost:		
Residential houses and apartments	277,290	277,290
Long leasehold land	-	67,710,567
	<u>277,290</u>	<u>67,987,857</u>

These properties were acquired by the Company in connection with its loans recovery exercise.

18. **CASH AND BANK BALANCES**

	<b>The Economic Entity and The Company</b>	
	<b>2010</b>	<b>2009</b>
	<b>RM</b>	<b>RM</b>
Fixed deposits with financial institution	16,546,970	33,280,636
Cash on hand and at banks	477,240	7,507,510
	<u>17,024,210</u>	<u>40,788,146</u>

The deposits are placed with licensed banks and a financial institution which is wholly owned by the Sabah State Government. The maturity period ranges from one to twelve months (2009: one to twelve months) and the interest rates range from 2.35% to 2.60% (2009: 1.75% to 2.25%) per annum.

19. **SHARE CAPITAL**

	<b>The Economic Entity and The Company</b>	
	<b>2010 RM</b>	<b>2009 RM</b>
<b>Authorised</b>		
146,000,000 ordinary shares of RM1 each	146,000,000	146,000,000
Redeemable preference shares of RM1 each:		
7% cumulative 'A' shares	2,000,000	2,000,000
8% cumulative 'B' shares	6,000,000	6,000,000
8% cumulative 'C' shares	6,000,000	6,000,000
9% cumulative 'D' shares	6,000,000	6,000,000
9.25% cumulative 'E' shares	9,000,000	9,000,000
Unspecified shares	25,000,000	25,000,000
Total Redeemable Preference Shares	<u>54,000,000</u>	<u>54,000,000</u>
	<u>200,000,000</u>	<u>200,000,000</u>
<b>Issued and fully paid</b>		
126,420,084 ordinary shares of RM1 each	<u>126,420,084</u>	<u>126,420,084</u>

The Company is equally owned by the Sarawak State Government and Warisan Harta Sabah Sdn. Bhd., a company which is wholly owned by the Sabah State Government.

20. **RESERVES**

	<b>The Economic Entity</b>		<b>The Company</b>	
	<b>2010 RM</b>	<b>2009 RM</b>	<b>2010 RM</b>	<b>2009 RM</b>
Non-distributable reserves:				
Preference shares				
redemption reserves	28,000,000	28,000,000	28,000,000	28,000,000
Distributable reserves:				
General reserve	82,999,884	74,999,884	82,999,884	74,999,884
Retained earnings	<u>135,289,643</u>	<u>55,606,189</u>	<u>132,571,353</u>	<u>53,610,173</u>
	<u>246,289,527</u>	<u>158,606,073</u>	<u>243,571,237</u>	<u>156,610,057</u>

### **Preference shares redemption reserves**

Preference shares redemption reserves consist of the following:

	<b>RM</b>
7% cumulative 'A' shares reserve	2,000,000
8% cumulative 'B' shares reserve	6,000,000
8% cumulative 'C' shares reserve	6,000,000
9% cumulative 'D' shares reserve	5,000,000
9.25% cumulative 'E' shares reserve	<u>9,000,000</u>
	<u>28,000,000</u>

The preference shares redemption reserves represent amounts transferred from retained earnings from 1972 to 1986 upon the full redemption of the preference shares and after payment of fixed preferential dividends in amounts as set out in the Articles of Association of the Company. The reserves are not distributable as cash dividends and may only be capitalised by way of bonus shares.

### **Distributable reserves**

#### General reserve

General reserve represents amount set aside out of profits of the Company which shall at the discretion of the directors be applicable for meeting contingencies, repairs or maintenance of any works connected with the business of the Company, for equalising dividends, for special dividend or bonus, or such other purposes for which the profits of the Company may lawfully be applied. The sum may also be employed for investment in securities, other than the shares of the Company.

#### Retained Earnings

In accordance with the Finance Act 2007, the single tier income tax system became effective from the year of assessment 2008. Under this system, tax on a company's profit is a final tax, and dividends paid are exempted from tax in the hands of the shareholders. Unlike the previous full imputation system, the recipient of the dividend would no longer be able to claim any tax credit.

Companies with Section 108 tax credit are given an irrevocable option to disregard the tax credit or to continue to utilise such tax credits until the tax credits are fully utilised or upon the expiry of the 6 year transitional period on December 31, 2013, whichever is earlier. During the transitional period, the Section 108 tax credit will be reduced by any tax credits utilised and any tax paid will not be added to this account.

As of the end of the reporting period, the Company has not elected for the irrevocable option to disregard the Section 108 tax credits. Accordingly, subject to the agreement of the Inland Revenue Board and taking into consideration of the tax-exempt account balance as mentioned in Note 10 and the estimated tax credit and the prevailing tax rate applicable to dividends, the Company can distribute by way of cash dividends of about RM360,000 out of its distributable reserves as of December 31, 2010.

**21. DEPOSITS FROM CUSTOMERS**

	<b>The Economic Entity and The Company</b>	
	<b>2010</b>	<b>2009</b>
	<b>RM</b>	<b>RM</b>
Fixed deposits	367,835,870	445,243,943
Savings deposits	<u>2,072,656</u>	<u>2,276,075</u>
	<u>369,908,526</u>	<u>447,520,018</u>

The deposits are repayable as follows:

	<b>The Economic Entity and The Company</b>	
	<b>2010</b>	<b>2009</b>
	<b>RM</b>	<b>RM</b>
Within one year	367,036,306	445,660,035
After one year	<u>2,872,220</u>	<u>1,859,983</u>
	<u>369,908,526</u>	<u>447,520,018</u>

The deposits are sourced from the following:

	<b>The Economic Entity and The Company</b>	
	<b>2010</b>	<b>2009</b>
	<b>RM</b>	<b>RM</b>
Sarawak State Government	130,482,667	130,000,000
Sabah State Government	42,928,184	50,000,000
Corporate shareholder	40,143,511	86,298,688
State-owned enterprises and financial institution	56,065,640	52,615,561
Other business enterprises and individuals	<u>100,288,524</u>	<u>128,605,769</u>
	<u>369,908,526</u>	<u>447,520,018</u>

The interest rates of the deposits range from 1.50% to 3.90% (2009: 1.50% to 3.25%) per annum.

Included in deposits from customers is a fixed deposit of RM15,592,364 (2009: RM7,177,806) placed by the associate, BHMF Realty Sdn. Bhd.

**22. OTHER PAYABLES**

	<b>The Economic Entity and The Company</b>	
	<b>2010 RM</b>	<b>2009 RM</b>
Amount owing to shareholders	41,071,681	39,693,378
Sabah Government Supplementary Housing Loan Fund	37,573,472	34,840,856
Other payables	6,756,593	14,804,600
Amount owing to associates	1,566,269	3,633,809
Accrued expenses	1,391,474	1,168,559
	<u>88,359,489</u>	<u>94,141,202</u>

The amount due to Sabah Government Supplementary Housing Loan Fund bears interest at 3.00% (2009: 3.00%) per annum while certain other payables bear interest at rates ranging from 2.50% to 7.00% (2009: 2.50% to 7.00%) per annum. The amounts owing are unsecured and have no fixed terms of repayment.

Other payables mainly represent project accounts with developers.

The amount owing to associates represents mainly sales proceeds from development project and management fee received on behalf of the direct associate. The amount is interest-free and has no fixed repayment terms.

**23. PROVISIONS**

Provisions represent provision for gratuities and retrenchments for employees.

	<b>The Economic Entity and The Company</b>	
	<b>2010 RM</b>	<b>2009 RM</b>
At beginning of year	1,803,890	1,789,787
Additions	87,947	98,344
Payments	(340,831)	(84,241)
At end of year	<u>1,551,006</u>	<u>1,803,890</u>

**24. BANK BORROWINGS**

	<b>The Economic Entity and The Company</b>	
	<b>2010</b>	<b>2009</b>
	<b>RM</b>	<b>RM</b>
<b>Current - at amortised cost</b>		
Bank overdrafts (Note 27)	14,560,317	754,819
Revolving credit loan	5,000,000	-
	<u>19,560,317</u>	<u>754,819</u>

The Company's bank overdraft facilities to the extent of RM29,500,000 (2009: RM29,500,000) are unsecured. The bank overdrafts bear interest at rates ranging from 6.30% to 7.30% (2009: 5.55% to 6.55%) per annum.

The Company's revolving credit facility to the extent of RM5,000,000 (2009: RM5,000,000) is unsecured. The revolving credit loan in 2010 bears interest rate at 3.61% per annum.

**25. FINANCIAL INSTRUMENTS****(a) Capital risk management**

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance, and to ensure that the internally imposed capital requirements are complied with.

The capital structure of the Company consists of debt, which includes deposits from customers and bank borrowings disclosed in Notes 21 and 24 respectively, and equity of the Company, which includes issued capital, reserves and retained earnings which are disclosed in Notes 19 and 20 respectively. The Company is required to maintain a borrowing limit (75% of mortgage loans) in order to comply with the requirement under Article 89 of its Articles of Association.

The Company's risk management committee reviews the capital structure on an annual basis. As part of its review, the committee considers the cost of capital and the risks associated with each class of capital. The committee also maintains the borrowing limit within the set range to comply with the requirement imposed by its Articles of Association. Based on recommendations of the committee, the Company will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

The management's strategy remained unchanged from 2009. The Company is in compliance with internally imposed capital requirements for the financial year ended December 31, 2010.

**(b) Significant accounting policies**

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

**(c) Categories of financial instruments**

The following table sets out the financial instruments as at end of the reporting period:

	<b>The Economic Entity and The Company 2010 RM</b>
<b>Financial Assets</b>	
Loans and receivables:	
Cash and bank balances	17,024,210
Mortgage loan receivables	761,361,855
Other receivables and deposits	<u>63,848,229</u>
<b>Financial Liabilities</b>	
Other financial liabilities:	
Deposits from customers	369,908,526
Bank borrowings	19,560,317
Payables and provisions	<u>92,298,763</u>

**(d) Financial risk management policies and objectives**

The Company has documented financial risk management policies. These policies set out the Company's overall business strategies and its risk management philosophy. The Company's overall financial risk management programme seeks to minimise potential adverse effects of financial performance of the Company. The board of directors provides written principles for overall financial risk management and written policies covering specific areas, such as market risk (caused mainly by interest rate risk), credit risk, liquidity and cash flow risk and investing excess cash. Such written policies are reviewed annually by the board of directors and periodic review are undertaken to ensure that the Company's policies guideline are complied with. Risk management is carried out by the respective departments under the policies approved by the board of directors.

The Company does not hold or issue derivative financial instruments to manage its exposure to interest rate or for speculative purposes.

There has been no change to the Company's exposure to these financial risks or the manner in which it manages and measures the risk. Market risk exposures are measured using sensitivity analysis indicated below:

(i) **Market risk management**

Market risk is the risk of potential loss as a result of changes in the intrinsic value of financial instrument caused by the movement in market variables such as interest rates, equity pricing and other related macro-economic factors that will eventually affect the Company's profitability and capital preservation.

The Company's market risk management includes the monitoring of fluctuations in net interest income or investment value due predominantly to changes in interest rates. In managing interest rate risk, the Company intends to maximise net interest income and net interest margin, and minimise the significant volatility in relation to the Company's assets and liabilities.

(ii) **Credit risk management**

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral for the loans granted, as a means of mitigating the risk of financial loss from defaults. Credit exposure is controlled by the counterparty limits that are reviewed and approved by the risk management committee annually.

The Company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Company defines counterparties as having similar characteristics if they are related entities. Concentration of credit risks did not exceed 5% of gross monetary assets at any time during the year. The credit risk on liquid funds (investment in the form of fixed deposits) is limited because the counterparties are banks with high credit-ratings.

The maximum amount the Company could be forced to settle under the financial guarantee contract disclosed in Note 29, if the full guaranteed amount is claimed by the counterparty to the guarantee, is RM21.31 million and such financial guarantees are partially secured by fixed deposits placed with the Company. Based on expectations at the end of the reporting period, the Company considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

The carrying amount of financial assets recorded in the financial statements, grossed up for any allowances for losses, and the exposure to defaults from financial guarantees above, represents the Company's maximum exposure to credit risk without taking account of the value of any collateral obtained.

Loans and advances are required by FRS 7, to be categorised into “neither past due nor impaired”, “past due but not impaired” and “impaired”. Past due loans refer to loans that are overdue for less than six months. Impaired loans are cases whereby the accounts are overdue for six months or more, and for which specific allowances have been made.

(iii) **Liquidity and cash flow risk management**

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Company’s short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowings facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

As of the end of reporting period, the Company has at its disposal undrawn bank overdraft facilities of RM14.94 million and a fixed deposit placement of RM16.55 million totaling RM31.49 million to further reduce liquidity risk. In addition, a significant portion of the payables are fixed deposits placements by shareholders and financial institutions, dividend payable and amount retained in Sabah Government Supplementary Housing Loan Fund (Notes 21 and 22). The directors believe that the shareholders would continue to support the Company by rolling over their fixed deposit placements and that the probability of them withdrawing the deposits is remote. As for the financial institutions, they are required to continue the placement of the fixed deposits with the Company for business reasons.

**Liquidity and interest risk tables**

Financial liabilities

The following table details the Company’s remaining contractual maturity for its non-derivative financial liabilities (including issued financial guarantee contracts). The table below has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date which the Company can be required to pay. The table includes cash flows for both interest and principal.

<b>The Economic Entity and The Company</b>	<b>Weighted average effective interest rate %</b>	<b>On demand or within 1 year RM'000</b>	<b>1 to 5 years RM'000</b>	<b>Total RM'000</b>
<b>2010</b>				
Non-interest bearing:				
Financial guarantee contracts	-	20,268	1,045	21,313
Other liabilities	-	28,143	23,418	51,561
Interest bearing:				
Fixed interest rate instruments	3.07	427,334	2,872	430,206

#### Financial assets

The following table details the expected maturity for non-derivative financial assets. The inclusion of information on non-derivative financial assets is necessary in order to understand the Company's liquidity risk management as the Company's liquidity risk is managed on a net asset and liability basis. The table below has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Company anticipates that the cash flow will occur in a different period.

<b>The Economic Entity and The Company</b>	<b>Weighted average effective interest rate %</b>	<b>On demand or within 1 year RM'000</b>	<b>1 to 5 years RM'000</b>	<b>Above 5 years RM'000</b>	<b>Total RM'000</b>
<b>2010</b>					
Non-interest bearing	-	2,255	62,070	-	64,325
Interest bearing:					
Variable interest rate instruments	6.09	108,124	308,899	344,339	761,362
Fixed interest rate instruments	2.51	16,547	-	-	16,547

**(iv) Interest rate risk management**

A quantitative summary of the Company's interest bearing financial instruments can be found in section (iii) of this note. The Company's policy is to maintain cash equivalents and an appropriate mix of fixed and variable interest rate instruments for operational requirements.

**Interest rate sensitivity analysis**

The sensitivity analysis mentioned below has been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rates as well as fixed rates instruments such as short-term deposits from customers that are subject to fluctuation in interest rates upon their renewal at maturity, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher and all other variables were held constant, the Company's profit for the year ended December 31, 2010 would decrease by RM0.97 million. This is mainly attributable to the Company's exposure to interest rates on its variable interest rate borrowings and fixed deposits placement.

**(e) Fair value of financial assets and financial liabilities**

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair value.

	<b>The Economic Entity and The Company</b>	
	<b>Carrying Amount 2010 RM'000</b>	<b>Fair Value 2010 RM'000</b>
<b>Financial Assets</b>		
Loan and receivables:		
Mortgage loan receivables	761,362	771,381
Other receivable	<u>62,070</u>	<u>61,766</u>
<b>Financial Liabilities</b>		
Other financial liabilities:		
Deposits from customers	<u>369,909</u>	<u>369,759</u>

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices; and
- the fair value of other non-derivative financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

### **Significant assumptions used in determining fair value of financial assets and liabilities**

#### **Mortgage loan receivables**

The fair value is determined by discounting the contractual monthly instalments over the repayment term of the loan at the prevailing market interest rate. For this purpose, the average lending rate for banking institutions quoted by Bank Negara Malaysia is deemed to be synonymous with the market interest rate and is to be applied. However, the carrying amount for loans with remaining maturity of less than 12 months is estimated to approximate its fair value.

#### **Other receivables**

Generally, the carrying amount of these financial instruments approximates its fair value due to the short maturities of these instruments. However, for non-current receivables, the fair value is determined using valuation techniques based on the calculation of the present value of expected future cash flows of the assets. The interest rate used to discount the cash flows was the average lending rate provided by Bank Negara Malaysia.

#### **Deposits from customers**

The Company's fixed deposit rates are comparable to rates offered by commercial banks (Tier 1 rate). However, for certain corporate depositors such as back-to-back fixed deposits arrangement, the rates quoted are lower than prevailing interest rates while for shareholders and staff, the rates are higher. The fair values are determined based on the calculation of the present value of expected future cash flows of the liabilities, using rates offered for deposits of similar maturities.

## 26. CHANGES IN ACCOUNTING POLICIES

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

	<b>The Economic Entity and The Company</b>		
	<b>As previously reported RM</b>	<b>Effects of adoption of FRS 139 RM</b>	<b>As restated RM</b>
<b>Statement of Financial Position</b>			
<b>As of January 1, 2010</b>			
<b>Financial Assets</b>			
Gross mortgage loan receivables	717,194,913	91,065,183	808,260,095
Allowance for doubtful debts:			
General allowance	(3,536,149)	3,536,149	-
Specific allowance	(7,216,139)	7,216,139	-
Allowance for impairment:			
Collective impairment	-	(285,568)	(285,567)
Individual impairment	-	(7,419,835)	(7,419,835)
Net mortgage loan receivables	<u>706,442,625</u>	<u>94,112,068</u>	<u>800,554,693</u>
Other receivables:			
Specific allowance for doubtful debts	(22,486,876)	22,486,876	-
Individual impairment	-	(22,486,876)	(22,486,876)
<b>Financial Liabilities</b>			
Deposits from customers	(447,520,018)	(1,321,694)	(448,841,712)
Other payables	<u>(94,141,202)</u>	<u>(415,377)</u>	<u>(94,556,579)</u>
<b>Statement of Changes in Equity</b>			
<b>For the Year Ended December, 31, 2010</b>			
<b>Retained Earnings</b>			
Balance as of January 1, 2010	<u>(55,606,189)</u>	<u>(92,374,997)</u>	<u>(147,981,186)</u>

## 27. CASH AND CASH EQUIVALENTS

	<b>The Economic Entity and The Company</b>	
	<b>2010 RM</b>	<b>2009 RM</b>
Fixed deposits with financial institution	16,546,970	33,280,636
Cash on hand and at banks	477,240	7,507,510
Bank overdrafts (Note 24)	<u>(14,560,317)</u>	<u>(754,819)</u>
	<u>2,463,893</u>	<u>40,033,327</u>

**28. DIVIDEND**

	<b>The Company</b>	
	<b>2010</b>	<b>2009</b>
	<b>RM</b>	<b>RM</b>
Final dividend in respect of 2009:		
Tax-exempt	17,942,499	-
1,452,231, less tax	<u>1,089,173</u>	<u>-</u>
	<u>19,031,672</u>	<u>-</u>

A final dividend of RM19,031,672 in respect of the financial year ended December 31, 2009 was declared by the shareholders at the Annual General Meeting held on May 19, 2010. The amount consists of tax exempt dividend of RM17,942,499 and RM1,452,231, less tax, which amounted to RM1,089,173.

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

**29. CONTINGENT LIABILITIES**

As of December 31, 2010, the Company was contingently liable to the Controller of Housing, Sabah and certain third parties for guarantees as follows:

	<b>The Company</b>	
	<b>2010</b>	<b>2009</b>
	<b>RM</b>	<b>RM</b>
Guarantees issued	<u>21,313,283</u>	<u>26,912,446</u>

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. These financial guarantees are given to other parties on behalf of customers, mainly as a guarantee for the due performance of the customer's obligations under the Housing Developers (Control and Licensing) Enactment 1978.

Financial guarantees are initially recognised in the financial statements at fair value plus transaction cost on the date a guarantee was given. Subsequent to initial recognition, the Company's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in profit or loss, the fee income earned on a straight-line basis over the respective lives of the guarantees and the best estimate of the expenditure required to settle any financial obligations arising at the end of the reporting period. Any increase in the liability relating to guarantees is taken to profit or loss.

These guarantees are partially secured by fixed deposits placed with the Company.

**BORNEO HOUSING MORTGAGE FINANCE BERHAD**

(Incorporated in Malaysia)

**STATEMENT BY DIRECTORS**

The directors of **BORNEO HOUSING MORTGAGE FINANCE BERHAD** state that, in their opinion, the accompanying financial statements are drawn up in accordance with Financial Reporting Standards and the provisions of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Economic Entity and of the Company as of December 31, 2010 and of the financial performance and cash flows of the Economic Entity and of the Company for the year ended on that date.

Signed in accordance with a resolution of the Directors,

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**TAN SRI DATUK AMAR (DR) HAJI ABDUL AZIZ BIN HUSAIN**

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**DATUK SUKARTI BIN HAJI WAKIMAN**

Kota Kinabalu,

**DECLARATION BY THE OFFICER PRIMARILY RESPONSIBLE FOR  
THE FINANCIAL MANAGEMENT OF THE COMPANY**

I, **ANTHONY SIA MEE HIONG**, the officer primarily responsible for the financial management of **BORNEO HOUSING MORTGAGE FINANCE BERHAD**, do solemnly and sincerely declare that the accompanying financial statements are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

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**ANTHONY SIA MEE HIONG**

Subscribed and solemnly declared by the  
abovenamed **ANTHONY SIA MEE HIONG** at  
**KOTA KINABALU** in the State of **SABAH**  
this     day of                                     2011.

Before me,

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**COMMISSIONER FOR OATHS**

Company No. 025457-V