

Company No. 025457-V

**BORNEO HOUSING MORTGAGE FINANCE
BERHAD**

(Company No. 025457-V)
(Incorporated in Malaysia)

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**
(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, 2008.

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 associated companies are as disclosed in Note 11 to the Financial Statements.

There have been no significant changes in the nature of the principal activities of the Company and its associated companies 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:

	The Economic Entity RM	The Company RM
Profit before tax	26,540,208	26,294,387
Income tax expense	<u>(7,112,949)</u>	<u>(7,112,949)</u>
Profit for the year	<u>19,427,259</u>	<u>19,181,438</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.

DIVIDENDS

An interim dividend of 73 sen gross per ordinary share, less 27% tax, amounting to RM67,000,116 was declared in respect of the previous financial year. As of December 31, 2008, RM53,346,747 of the said dividend has not been paid.

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

RESERVES AND PROVISIONS

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

ISSUE OF SHARES AND DEBENTURES

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 FINANCIAL INFORMATION

Before the income statements and the balance sheets 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 as 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 financial year in which this report is made..

DIRECTORS

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

Tan Sri Datuk Amar 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 (appointed on 4.6.2009)
Datuk Godfrey Gregory Joifol (appointed as alternate director to Datuk Sukarti Bin Haji Wakiman on 21.1.2009)
Ismail @ Awang Ismail Bin Saimin (alternate director to Dato' Haji Abdul Rahman Bin Abdul Ghani and appointed as alternate director to Bahari Bin Hassan on 20.11.2008; Resigned on 1.6.2009)
Bahari Bin Hassan (resigned on 1.6.2009)
Datuk John Maluda @ Wanji (resigned as alternate director to Datuk Sukarti Bin Haji Wakiman on 11.11.2008)

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

Tuan Haji Zainal Abidin Bin Hassan 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 amount of remunerations 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 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.

Company No. 025457-V

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,

TAN SRI DATUK AMAR HAJI ABDUL AZIZ BIN HUSAIN

DATO' HAJI ABDUL RAHMAN BIN ABDUL GHANI

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 balance sheets as of December 31, 2008, and the income statement, statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 7 to 41.

Directors' Responsibility for the Financial Statements

The directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with the Financial Reporting Standards and the Companies Act, 1965 in Malaysia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 and fair presentation of the financial statements 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 the 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, 2008 and of the financial performance and cash flows of the Economic Entity and of the Company 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 Companies Act, 1965 to be kept by the Company have been properly kept in accordance with the provisions of the Companies Act, 1965.

DELOITTE KASSIMCHAN
AF 0080
Chartered Accountants

PHUAH LAI HOCK
Partner - 2557/08/09(J)
Chartered Accountant

June 18, 2009

BORNEO HOUSING MORTGAGE FINANCE BERHAD
(Incorporated in Malaysia)

INCOME STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

	Note	The Economic Entity		The Company	
		2008 RM	2007 RM	2008 RM	2007 RM
Interest income		56,869,626	57,859,401	56,869,626	57,859,401
Interest expense		<u>(20,969,718)</u>	<u>(21,814,803)</u>	<u>(20,969,718)</u>	<u>(21,814,803)</u>
Net interest income		35,899,908	36,044,598	35,899,908	36,044,598
Allowance for doubtful debts		<u>(2,496,000)</u>	<u>(67,000)</u>	<u>(2,496,000)</u>	<u>(67,000)</u>
Operating profit		33,403,908	35,977,598	33,403,908	35,977,598
Investment revenue	4	1,178,889	1,327,999	1,178,889	2,127,999
Other gains and losses	5	1,574,189	1,935,974	1,574,189	1,935,974
Share of profits of associated companies		245,821	586,544	-	-
Employee benefits expense	7	<u>(6,816,196)</u>	<u>(8,230,597)</u>	<u>(6,816,196)</u>	<u>(8,230,597)</u>
Depreciation and amortisation expense	7	<u>(330,293)</u>	<u>(379,580)</u>	<u>(330,293)</u>	<u>(379,580)</u>
Finance costs	6	<u>(60,727)</u>	<u>(181,827)</u>	<u>(60,727)</u>	<u>(181,827)</u>
Other expenses		<u>(2,655,383)</u>	<u>(3,802,886)</u>	<u>(2,655,383)</u>	<u>(3,802,886)</u>
Profit before tax	7	26,540,208	27,233,225	26,294,387	27,446,681
Income tax expense	8	<u>(7,112,949)</u>	<u>(7,159,814)</u>	<u>(7,112,949)</u>	<u>(7,375,814)</u>
Profit for the year		<u>19,427,259</u>	<u>20,073,411</u>	<u>19,181,438</u>	<u>20,070,867</u>
Attributable to:					
Equity holders of the Company		<u>19,427,259</u>	<u>20,073,411</u>	<u>19,181,438</u>	<u>20,070,867</u>

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

BORNEO HOUSING MORTGAGE FINANCE BERHAD
(Incorporated in Malaysia)

BALANCE SHEETS
AS OF DECEMBER 31, 2008

	Note	The Economic Entity		The Company	
		2008	2007	2008	2007
		RM	RM	RM	RM
ASSETS					
Non-Current Assets					
Property, plant and equipment	9	2,864,477	3,075,798	2,864,477	3,075,798
Prepaid lease payment	10	5,779,797	5,786,284	5,779,797	5,786,284
Investment in associated companies	11	6,116,850	5,871,029	4,000,000	4,000,000
Mortgage loan receivables - non-current portion	12	611,655,308	614,103,747	611,655,308	614,103,747
Deferred tax assets	13	1,753,109	1,702,304	1,753,109	1,702,304
Total Non-Current Assets		<u>628,169,541</u>	<u>630,539,162</u>	<u>626,052,691</u>	<u>628,668,133</u>
Current Assets					
Mortgage loan receivables - current portion	12	119,830,829	141,314,093	119,830,829	141,314,093
Other receivables and deposits	14	3,152,336	9,395,204	3,152,336	9,395,204
Properties held for resale	15	68,411,743	70,071,743	68,411,743	70,071,743
Cash and bank balances	16	31,350,351	21,126,490	31,350,351	21,126,490
Total Current Assets		<u>222,745,259</u>	<u>241,907,530</u>	<u>222,745,259</u>	<u>241,907,530</u>
TOTAL ASSETS		<u><u>850,914,800</u></u>	<u><u>872,446,692</u></u>	<u><u>848,797,950</u></u>	<u><u>870,575,663</u></u>

(Forward)

	Note	The Economic Entity		The Company	
		2008 RM	2007 RM	2008 RM	2007 RM
EQUITY AND LIABILITIES					
Capital and Reserves					
Share capital	17	126,420,084	126,420,084	126,420,084	126,420,084
Reserves	18	<u>137,718,838</u>	<u>118,291,579</u>	<u>135,601,988</u>	<u>116,420,550</u>
Total Equity		<u>264,138,922</u>	<u>244,711,663</u>	<u>262,022,072</u>	<u>242,840,634</u>
Non-Current Liabilities					
Deposits from customers - non-current portion	19	<u>4,158,112</u>	<u>11,730,265</u>	<u>4,158,112</u>	<u>11,730,265</u>
Total Non-Current Liabilities		<u>4,158,112</u>	<u>11,730,265</u>	<u>4,158,112</u>	<u>11,730,265</u>
Current Liabilities					
Deposits from customers - current portion	19	477,811,800	492,622,135	477,811,800	492,622,135
Other payables	20	95,981,063	113,842,170	95,981,063	113,842,170
Provisions	21	1,789,787	2,171,271	1,789,787	2,171,271
Interest payable		4,698,088	4,902,342	4,698,088	4,902,342
Bank overdrafts	22	772,721	1,165,949	772,721	1,165,949
Tax liabilities		<u>1,564,307</u>	<u>1,300,897</u>	<u>1,564,307</u>	<u>1,300,897</u>
Total Current Liabilities		<u>582,617,766</u>	<u>616,004,764</u>	<u>582,617,766</u>	<u>616,004,764</u>
Total Liabilities		<u>586,775,878</u>	<u>627,735,029</u>	<u>586,775,878</u>	<u>627,735,029</u>
TOTAL EQUITY AND LIABILITIES					
		<u>850,914,800</u>	<u>872,446,692</u>	<u>848,797,950</u>	<u>870,575,663</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, 2008**

	Note	Share Capital RM	Non-distributable Reserves - Preference Shares Redemption Reserves RM	Distributable Reserves General Reserve RM	Retained Earnings RM	Shareholders' Equity RM
The Economic Entity						
Balance as of January 1, 2007		126,420,084	28,000,000	122,000,000	28,871,653	305,291,737
Total recognised income and expense:						
Profit for the year		-	-	-	20,073,411	20,073,411
Transfer from retained earnings to general reserve		-	-	6,500,000	(6,500,000)	-
Dividend	23	-	-	(67,000,116)	(13,653,369)	(80,653,485)
Balance as of December 31, 2007		<u>126,420,084</u>	<u>28,000,000</u>	<u>61,499,884</u>	<u>28,791,695</u>	<u>244,711,663</u>
Balance as of January 1, 2008		126,420,084	28,000,000	61,499,884	28,791,695	244,711,663
Total recognised income and expense:						
Profit for the year		-	-	-	19,427,259	19,427,259
Transfer from retained earnings to general reserve		-	-	6,500,000	(6,500,000)	-
Balance as of December 31, 2008		<u>126,420,084</u>	<u>28,000,000</u>	<u>67,999,884</u>	<u>41,718,954</u>	<u>264,138,922</u>

	Note	Share Capital RM	Non-distributable Reserves - Preference Shares Redemption Reserves RM	Distributable Reserves General Reserve RM	Retained Earnings RM	Shareholders' Equity RM
The Company						
Balance as of January 1, 2007		126,420,084	28,000,000	122,000,000	27,003,168	303,423,252
Total recognised income and expense:						
Profit for the year		-	-	-	20,070,867	20,070,867
Transfer from retained earnings to general reserve		-	-	6,500,000	(6,500,000)	-
Dividend	23	-	-	(67,000,116)	(13,653,369)	(80,653,485)
Balance as of December 31, 2007		<u>126,420,084</u>	<u>28,000,000</u>	<u>61,499,884</u>	<u>26,920,666</u>	<u>242,840,634</u>
Balance as of January 1, 2008		126,420,084	28,000,000	61,499,884	26,920,666	242,840,634
Total recognised income and expense:						
Profit for the year		-	-	-	19,181,438	19,181,438
Transfer from retained earnings to general reserve		-	-	6,500,000	(6,500,000)	-
Balance as of December 31, 2008		<u>126,420,084</u>	<u>28,000,000</u>	<u>67,999,884</u>	<u>39,602,104</u>	<u>262,022,072</u>

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

BORNEO HOUSING MORTGAGE FINANCE BERHAD
(Incorporated in Malaysia)

CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2008

	The Economic Entity	
	2008	2007
	RM	RM
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the year	19,427,259	20,073,411
Adjustments for:		
Income tax expense recognised in profit or loss	7,112,949	7,159,814
Allowance for/(Write-back of):		
Doubtful debts	2,496,000	67,000
Impairment in value of properties held for resale	(121,288)	16,781
Depreciation and amortisation of non-current assets	330,293	379,580
Provision for gratuities and retrenchments	213,361	247,813
Finance costs recognised in profit or loss	60,727	181,827
Investment revenue recognised in profit or loss	(1,081,134)	(978,657)
Provision for employee benefits expense written back	(680,000)	-
Share of profits of associated companies	(245,821)	(586,544)
Loss/(Gain) on disposal of:		
Properties held for resale	230,908	439,310
Property, plant and equipment	(35,000)	(248,137)
	27,708,254	26,752,198
Movements in Working Capital:		
(Increase)/Decrease in:		
Mortgage loan receivables	21,435,703	8,286,433
Other receivables and deposits	6,564,812	(3,250,450)
Properties held for resale	-	(1,406,800)
Increase/(Decrease) in:		
Deposits from customers	(22,382,488)	(23,723,848)
Other payables	(3,527,738)	5,125,667
Interest payable	(204,254)	(551,990)
	29,594,289	11,231,210
Cash Generated From Operations		
Income tax paid	(6,900,344)	(6,781,181)
Interest paid	(60,727)	(181,827)
Gratuities paid	(594,845)	(61,189)
	22,038,373	4,207,013
Net Cash From Operating Activities		

(Forward)

	Note	The Economic Entity	
		2008 RM	2007 RM
CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES			
Proceeds from disposal of:			
Properties held for resale		1,550,380	10,272,613
Property, plant and equipment		35,000	93,055
Prepaid lease payment		-	526,214
Interest received		759,190	978,657
Purchase of property, plant and equipment		<u>(112,485)</u>	<u>(420,082)</u>
Net Cash From Investing Activities		<u>2,232,085</u>	<u>11,450,457</u>
CASH FLOWS USED IN FINANCING ACTIVITIES			
Dividend paid		<u>(13,653,369)</u>	<u>(13,653,369)</u>
Net Cash Used In Financing Activities		<u>(13,653,369)</u>	<u>(13,653,369)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		10,617,089	2,004,101
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		<u>19,960,541</u>	<u>17,956,440</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	25	<u><u>30,577,630</u></u>	<u><u>19,960,541</u></u>

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

BORNEO HOUSING MORTGAGE FINANCE BERHAD
(Incorporated in Malaysia)

CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2008

	The Company	
	2008	2007
	RM	RM
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the year	19,181,438	20,070,867
Adjustments for:		
Income tax expense recognised in profit or loss	7,112,949	7,375,814
Allowance for/(Write-back of):		
Doubtful debts	2,496,000	67,000
Impairment in value of properties held for resale	(121,288)	16,781
Finance costs recognised in profit or loss	60,727	181,827
Depreciation and amortisation of non-current assets	330,293	379,580
Provision for gratuities and retrenchments	213,361	247,813
Investment revenue recognised in profit or loss	(1,081,134)	(978,657)
Provision for employee benefits expense written back	(680,000)	-
Loss/(Gain) on disposal of:		
Properties held for resale	230,908	439,310
Property, plant and equipment	(35,000)	(248,137)
	<u>27,708,254</u>	<u>27,552,198</u>
Movements in Working Capital:		
(Increase)/Decrease in:		
Mortgage loan receivables	21,435,703	8,286,433
Other receivables and deposits	6,564,812	(4,050,450)
Properties held for resale	-	(1,406,800)
Increase/(Decrease) in:		
Deposits from customers	(22,382,488)	(23,723,848)
Other payables	(3,527,738)	5,125,667
Interest payable	(204,254)	(551,990)
	<u>29,594,289</u>	<u>11,231,210</u>
Cash Generated From Operations	29,594,289	11,231,210
Income tax paid	(6,900,344)	(6,781,181)
Interest paid	(60,727)	(181,827)
Gratuities paid	(594,845)	(61,189)
	<u>22,038,373</u>	<u>4,207,013</u>
Net Cash From Operating Activities	<u>22,038,373</u>	<u>4,207,013</u>

(Forward)

	Note	The Company	
		2008	2007
		RM	RM
CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES			
Proceeds from disposal of:			
Properties held for resale		1,550,380	10,272,613
Property, plant and equipment		35,000	93,055
Prepaid lease payment		-	526,214
Interest received		759,190	978,657
Purchase of property, plant and equipment		<u>(112,485)</u>	<u>(420,082)</u>
Net Cash From Investing Activities		<u>2,232,085</u>	<u>11,450,457</u>
CASH FLOWS USED IN FINANCING ACTIVITIES			
Dividend paid		<u>(13,653,369)</u>	<u>(13,653,369)</u>
Net Cash Used In Financing Activities		<u>(13,653,369)</u>	<u>(13,653,369)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		10,617,089	2,004,101
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		<u>19,960,541</u>	<u>17,956,440</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	25	<u><u>30,577,630</u></u>	<u><u>19,960,541</u></u>

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

BORNEO HOUSING MORTGAGE FINANCE BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

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 associated companies are as disclosed in Note 11.

There have been no significant changes in the nature of the principal activities of the Company and its associated companies 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 Karamunsing, 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 June 18, 2009.

2. ADOPTION OF NEW AND REVISED FINANCIAL REPORTING STANDARDS

During the financial year, the Economic Entity and the Company have adopted all of the new Financial Reporting Standards ("FRS") which are relevant to their operations and effective for annual reporting periods beginning on or after July 1, 2007 as follows.

- | | |
|---|---|
| • FRS 107 <i>Cash Flow Statement</i> | Effective for annual periods beginning on or after July 1, 2007 |
| • FRS 112 <i>Income Taxes</i> | Effective for annual periods beginning on or after July 1, 2007 |
| • FRS 118 <i>Revenue</i> | Effective for annual periods beginning on or after July 1, 2007 |
| • FRS 137 <i>Provisions, Contingent Liabilities and Contingent Assets</i> | Effective for annual periods beginning on or after July 1, 2007 |

The adoption of these new FRS does not have any significant effects on the financial statements of the Economic Entity and of the Company.

Standards and Interpretations in issue but not yet effective

At the date of authorisation for issue of these financial statements, the following FRS, amendments to FRS and IC Interpretations were in issue but not yet effective:

FRS 1	<i>First-time Adoption of Financial Reporting Standards (Amendments relating to cost of an investment in a subsidiary, jointly controlled entity or associate)</i>
FRS 2	<i>Share-based Payment (Amendments relating to vesting conditions and cancellations)</i>
FRS 4	<i>Insurance Contracts</i>
FRS 7	<i>Financial Instruments: Disclosures</i>
FRS 8	<i>Operating Segments</i>
FRS 123	<i>Borrowing Costs (Revised)</i>
FRS 127	<i>Consolidated and Separate Financial Statements (Amendments relating to cost of an investment in a subsidiary, jointly controlled entity or associate)</i>
FRS 139	<i>Financial Instruments: Recognition and Measurement</i>
IC Interpretation 9	<i>Reassessment of Embedded Derivatives</i>
IC Interpretation 10	<i>Interim Financial Reporting and Impairment</i>
IC Interpretation 11	<i>FRS 2 – Group and Treasury Share Transactions</i>
IC Interpretation 13	<i>Customer Loyalty Programmes</i>
IC Interpretation 14	<i>FRS 119 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction</i>

Consequential amendments were also made to various FRS as a result of these new/revised FRS.

Except for FRS 8 which is effective for annual financial statements for periods beginning on or after 1 July 2009, the new/revised FRS, amendments to FRS and IC Interpretations are effective for annual periods beginning on or after January 1, 2010.

Except for FRS 7, FRS 123 (Revised), FRS 127 and FRS 139, the above FRS and IC Interpretations are not expected to be relevant to the operations of the Economic Entity and of the Company. The directors anticipate that FRS 7, FRS 123 (Revised), FRS 127 and FRS 139 will be adopted in the annual financial statements of the Economic Entity and of the Company for the year commencing January 1, 2010 and that the adoption of these new/revised FRS will have no material impact on the financial statements of the Economic Entity and of the Company in the period of initial application except for the following:

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 Economic Entity's and the Company's financial position and performance, the nature and extent of risks arising from financial instruments, and the objectives, policies and processes for managing capital.

By virtue of the exemption provided in paragraph 44AB of FRS 7 and paragraph 103AB of FRS 139, the impact of applying FRS7 and FRS 139 respectively on the Economic Entity's and the Company's financial statements upon initial application of this standard as required by paragraph 30(b) of FRS 108 is not disclosed.

3. **SIGNIFICANT ACCOUNTING POLICIES**

Statement of Compliance

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

Basis of Accounting

The financial statements of the Economic Entity and of the Company have been prepared under the historical cost convention unless stated otherwise in the accounting policies mentioned below.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable at the date of transactions.

Interest income on mortgage loan receivables is recognised on an accrual basis. When instalments are in arrears for six months or more, recognition of interest income is suspended until it is realised on a cash basis.

Interest on fixed deposits and other receivables are recognised on accrual basis.

Dividend income from investments is recognised when the shareholder's rights to receive payment is established.

Rental income is accrued on a time basis by reference to the agreements entered into.

Interest Expense Recognition

Interest expense on deposits and borrowings are recognised on accrual basis.

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 income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes 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 balance sheet date.

Deferred Tax

Deferred tax is recognised on 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 and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that future taxable profits will be available against which those deductible temporary differences can be utilised. Such 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 each balance sheet date 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 balance sheet date. 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 reporting date, 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.

Functional and Presentation Currency

The financial statements of the Economic Entity and of the Company are presented in the currency of the primary economic environment in which the Company operates (its functional currency), which is in Ringgit Malaysia.

Property, Plant and Equipment

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

Depreciation is charged so as to write off the cost of the assets, other than long leasehold land with lease period of 999 years which is not depreciated, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate 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.

The annual depreciation rates are as follows:

Office buildings	2%
Motor vehicles	15%
Furniture and fittings	12.5% to 25%
Office equipment	12.5% to 33.33%
Office renovation	20%

Leases

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.

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 balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Company's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

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

Associated Companies

An associated company 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.

Investment in associated companies is stated at cost less impairment loss in the Company's financial statements.

The results and assets and liabilities of associated companies are incorporated in the financial statements of the Economic Entity using the equity method of accounting. Under the equity method, investments in associated companies are carried in the balance sheet at cost as adjusted for post-acquisition changes in the Company's share of the net assets of the associated company, less any impairment in the value of individual investments. Losses of an associated company in excess of the Company's interest in that associate (which includes any long-term interests that, in substance, form part of the Company's net investment in the associated company) are not recognised, unless the Company has incurred legal or constructive obligations or made payments on behalf of the associated company.

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 associated company 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 the 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.

Where the Company transacts with an associated company of the Company, profits and losses are eliminated to the extent of the Company's interest in the relevant associated company.

Impairment of Assets

At each balance sheet date, the Company reviews the carrying amounts of assets (other than properties held for resale, deferred tax assets and financial assets which are dealt with in their respective policies) to determine if there is any indication that those assets may be impaired. If any such indication exists, the asset's recoverable amount 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, corporate 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.

Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the income statements, unless the asset is carried at revalued amount, in which case, the impairment loss is treated as a revaluation decrease.

An impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount and is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. A reversal is recognised in the income statements, unless it reverses an impairment loss on revalued assets, in which case, the reversal is treated as a revaluation increase.

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 balance sheet date, 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, the 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.

Receivables

Mortgage loan receivables and other receivables are reduced by the appropriate allowances for estimated irrecoverable amounts. Allowance for doubtful debts is made based on estimates of possible losses which may arise from non-collection of certain receivable accounts.

Foreclosed properties

Foreclosed properties are those 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.

Liabilities

Liabilities are recognised when there is a contractual obligation to deliver cash or another financial asset to another entity. Deposits from customers are stated at placement values and adjusted for accrued interest. Other liabilities are stated at cost.

Employee Benefits

(i) Defined Contribution Plans

The Company is required by law to make monthly contributions to the Employees' Provident Fund ("EPF"), a statutory defined contribution plan for all its eligible employees based on certain prescribed rates of the employees' salaries. The Company also made monthly contributions to the Borneo Housing Mortgage Finance Berhad Staff Provident Fund ("SPF") for all its eligible employees based on a certain percentage of the annual salaries and length of service. The Company's contributions to EPF and SPF are disclosed separately. The employees' contributions to EPF and SPF are included in salaries and wages. Contributions to SPF ceased during the year.

(ii) **Gratuity and Retrenchment Fund**

The Company makes contributions to a gratuity and retrenchment fund to provide for the future welfare of eligible long-serving staff upon retirement or retrenchment. The Fund is credited with yearly provision based on staff salaries and length of service. Such contributions were recognised as an expense in the income statement. Contributions to gratuity and retrenchment fund ceased during the year.

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 balance sheet date, 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 balance sheet date is disclosed in Note 9.

Deferred Tax Assets (Note 13)

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

Mortgage Loan Receivables and Other Receivables

Allowance for doubtful debts on mortgage loan receivables and other receivables are made based on estimates 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 balance sheet date.

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. INVESTMENT REVENUE

	The Economic Entity		The Company	
	2008 RM	2007 RM	2008 RM	2007 RM
Interest income on:				
Fixed deposits	496,884	610,068	496,884	610,068
Other receivables and staff loans	103,291	74,232	103,291	74,232
Income from investment in money market	480,959	294,357	480,959	294,357
Rental income of properties held for resale	97,755	349,342	97,755	349,342
Gross dividend income from associated company	-	-	-	800,000
	<u>1,178,889</u>	<u>1,327,999</u>	<u>1,178,889</u>	<u>2,127,999</u>

5. OTHER GAINS AND LOSSES

	The Economic Entity and The Company	
	2008 RM	2007 RM
Gain/(Loss) on disposal of:		
Properties held for resale	(230,908)	(439,310)
Property, plant and equipment	35,000	248,137
(Allowance for)/Write-back of impairment in value of properties held for resale	121,288	(16,781)
Reminder and guarantee fees	211,723	884,816
Commission	510,599	503,629
Agency fees	298,750	290,884
Bad debts recovered	340,102	157,062
Management fee receivable from an associated company	78,276	105,146
Loan processing fees	69,300	56,950
Others	140,059	145,441
	<u>1,574,189</u>	<u>1,935,974</u>

6. FINANCE COSTS

	The Economic Entity and The Company	
	2008 RM	2007 RM
Interest on bank overdrafts	<u>60,727</u>	<u>181,827</u>

7. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

	The Economic Entity and The Company	
	2008	2007
	RM	RM
Employee benefits expense:		
Key management personnel:		
Salaries and other emoluments	237,737	204,386
Employees' Provident Fund contributions	<u>28,632</u>	<u>24,612</u>
	266,369	228,998
Others:		
Employees' Provident Fund contributions	771,688	647,110
Staff Provident Fund contributions	253,212	340,753
Provision for gratuities and retrenchments	213,361	247,813
Other employee benefits	<u>5,991,566</u>	<u>6,765,923</u>
	7,496,196	8,230,597
Provision for employee benefits expense written back	<u>(680,000)</u>	<u>-</u>
	<u>6,816,196</u>	<u>8,230,597</u>
Depreciation and amortisation expense:		
Depreciation of property, plant and equipment	323,806	373,093
Amortisation of prepaid lease payment	<u>6,487</u>	<u>6,487</u>
	<u>330,293</u>	<u>379,580</u>
Non-executive directors' remunerations:		
Fees	159,505	157,319
Other emoluments	3,910	11,451
Allowance for doubtful debts	2,496,000	67,000
Rental of premises	111,720	111,720
Audit fee	<u>39,000</u>	<u>34,000</u>

8. INCOME TAX EXPENSE

	The Economic Entity		The Company	
	2008 RM	2007 RM	2008 RM	2007 RM
Current tax expense	6,985,141	7,146,050	6,985,141	7,362,050
Deferred tax income (Note 13)	(127,913)	(38,596)	(127,913)	(38,596)
Underprovision in prior years:				
Current tax expense	178,613	52,360	178,613	52,360
Overprovision in prior years:				
Deferred tax income (Note 13)	77,108	-	77,108	-
	<u>7,112,949</u>	<u>7,159,814</u>	<u>7,112,949</u>	<u>7,375,814</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:

	The Economic Entity		The Company	
	2008 RM	2007 RM	2008 RM	2007 RM
Profit before tax	<u>26,540,208</u>	<u>27,233,225</u>	<u>26,294,387</u>	<u>27,446,681</u>
Tax at the applicable tax rate of 26% (2007: 27%)	6,836,541	7,194,604	6,836,541	7,410,604
Tax effects of:				
Expenses that are not deductible in determining taxable profit	72,528	147,953	72,528	147,953
Income not subject to tax	(125,049)	(148,881)	(125,049)	(148,881)
Deductible expenses on which tax deductions have not been claimed in previous year	-	(95,879)	-	(95,879)
Underprovision in prior years:				
Current tax expense	178,613	52,360	178,613	52,360
Overprovision in prior years:				
Deferred tax income	77,108	-	77,108	-
Effect of difference in tax rate	73,208	1,787	73,208	1,787
Others	-	7,870	-	7,870
	<u>7,112,949</u>	<u>7,159,814</u>	<u>7,112,949</u>	<u>7,375,814</u>

As of December 31, 2008, the Company has tax-exempt income amounting to RM17,942,499 (2007: 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.

9. **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
2008								
Office buildings	4,298,976	-	-	4,298,976	1,805,580	85,980	-	1,891,560
Motor vehicles	1,041,222	-	(352,000)	689,222	786,995	66,205	(352,000)	501,200
Furniture and fittings	857,025	12,270	(255)	869,040	832,049	9,552	(255)	841,346
Office equipment	1,962,030	98,365	(89,719)	1,970,676	1,666,007	158,405	(89,719)	1,734,693
Office renovation	507,308	1,850	-	509,158	500,132	3,664	-	503,796
Total	8,666,561	112,485	(441,974)	8,337,072	5,590,763	323,806	(441,974)	5,472,595
2007								
Office buildings	4,444,576	-	(145,600)	4,298,976	1,774,956	87,438	(56,814)	1,805,580
Motor vehicles	842,974	198,248	-	1,041,222	699,722	87,273	-	786,995
Furniture and fittings	943,009	10,960	(96,944)	857,025	902,132	11,518	(81,601)	832,049
Office equipment	1,808,201	210,874	(57,045)	1,962,030	1,541,164	180,138	(55,295)	1,666,007
Office renovation	535,779	-	(28,471)	507,308	508,606	6,726	(15,200)	500,132
Total	8,574,539	420,082	(328,060)	8,666,561	5,426,580	373,093	(208,910)	5,590,763

	← Carrying Amount →	
	2008	2007
	RM	RM
Office buildings	2,407,416	2,493,396
Motor vehicles	188,022	254,227
Furniture and fittings	27,694	24,976
Office equipment	235,983	296,023
Office renovation	5,362	7,176
	<u>2,864,477</u>	<u>3,075,798</u>
Total	<u>2,864,477</u>	<u>3,075,798</u>

Included in property, plant and equipment are fully depreciated assets which are still in use, with costs totalling approximately RM3,073,000 (2007: RM2,937,000).

10. PREPAID LEASE PAYMENT

	The Economic Entity and The Company	
	2008	2007
	RM	RM
Unamortised prepaid lease payment	5,786,284	5,792,771
Less: Current portion (Note 14)	<u>(6,487)</u>	<u>(6,487)</u>
Non-current portion	<u>5,779,797</u>	<u>5,786,284</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>5,753,850</u>	<u>5,760,337</u>
	<u>5,779,797</u>	<u>5,786,284</u>

Prepaid lease payment of the Economic Entity and the Company relate to the long leasehold land of the Company located at Kompleks Karamuning, Sabah, Malaysia. The lease will expire on January 21, 2901.

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

	2008	2007
	RM	RM
At cost:		
At beginning of year	5,799,258	6,051,240
Disposal during the year	<u>-</u>	<u>(251,982)</u>
At end of year	5,799,258	5,799,258
Cumulative amortisation:		
At beginning of year	6,487	-
Amortisation for the year	<u>6,487</u>	<u>6,487</u>
At end of year	<u>12,974</u>	<u>6,487</u>
Unamortised Prepaid Lease Payment:		
At end of year	<u>5,786,284</u>	<u>5,792,771</u>
At beginning of year	<u>5,792,771</u>	<u>6,051,240</u>

The titles to the long leasehold land with a total carrying amount of RM5,786,284 (2007: RM5,792,771) are expected to be registered in the Company's name upon receipt of the respective strata titles from the relevant authorities.

11. INVESTMENT IN ASSOCIATED COMPANIES

	The Economic Entity		The Company	
	2008	2007	2008	2007
	RM	RM	RM	RM
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>2,116,850</u>	<u>1,871,029</u>	<u>-</u>	<u>-</u>
	<u>6,116,850</u>	<u>5,871,029</u>	<u>4,000,000</u>	<u>4,000,000</u>

Investment in associated companies, all incorporated in Malaysia, comprises:

Name of Company	Effective Equity Interest		Principal Activities
	2008	2007	
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 Economic Entity's associates is set out below:

	The Economic Entity	
	2008	2007
	RM	RM
Total assets	15,626,779	16,525,639
Total liabilities	<u>(334,655)</u>	<u>(1,848,068)</u>
Net assets	<u>15,292,124</u>	<u>14,677,571</u>
The Economic Entity's share of associates' net assets	<u>6,116,850</u>	<u>5,871,029</u>
Revenue	<u>3,997,840</u>	<u>5,326,316</u>
Profit for the year	<u>614,553</u>	<u>1,466,359</u>
The Economic Entity's share of associates' profit for the year	<u>245,821</u>	<u>586,544</u>

12. MORTGAGE LOAN RECEIVABLES

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

	The Economic Entity and The Company	
	2008	2007
	RM	RM
Amounts due from borrowers	741,622,426	771,471,201
Allowance for doubtful debts	<u>(10,136,289)</u>	<u>(16,053,361)</u>
	<u>731,486,137</u>	<u>755,417,840</u>

The maturity structure of mortgage loan receivables is as follows:

	The Economic Entity and The Company	
	2008	2007
	RM	RM
Due within one year	119,830,829	141,314,093
Due after one year	<u>611,655,308</u>	<u>614,103,747</u>
	<u>731,486,137</u>	<u>755,417,840</u>

Included in mortgage loan receivables as of December 31, 2008 are amounts totalling RM357,290 (2007: RM164,366) representing secured mortgage loans granted to two directors of the Company in the ordinary course of business. The loans to the directors bear interest rate at 8.00% (2007: 7.25% to 8.00%) per annum and the related interest income received and receivable for the financial year amounted to RM21,939 (2007: RM14,647).

13. DEFERRED TAX ASSETS

	The Economic Entity and The Company	
	2008	2007
	RM	RM
At beginning of year	1,702,304	1,663,708
Transfer from income statement (Note 8)	50,805	38,596
	<u>1,753,109</u>	<u>1,702,304</u>

The deferred tax assets are in respect of the following:

	The Economic Entity and The Company Deferred Tax Assets/(Liabilities)	
	2008	2007
	RM	RM
Tax effects of temporary differences arising from:		
General allowance for doubtful debts	1,286,820	977,925
Provision for gratuities and retrenchments	447,447	564,530
Provision for software development cost	-	177,190
Allowance for impairment in value of properties held for resale	16,686	48,888
Provision for staff welfare fund	-	804
Property, plant and equipment	2,156	(67,033)
	<u>1,753,109</u>	<u>1,702,304</u>

14. OTHER RECEIVABLES AND DEPOSITS

Other receivables and deposits consist of:

	The Economic Entity and The Company	
	2008	2007
	RM	RM
Other receivables	22,533,816	21,561,179
Allowance for doubtful debts	(21,882,304)	(14,892,472)
	651,512	6,668,707
Staff loans and advances	2,404,841	2,627,441
Refundable deposits	89,496	92,569
Prepaid lease payment (Note 10)	6,487	6,487
	<u>3,152,336</u>	<u>9,395,204</u>

Other receivables comprise mainly unsecured balances of mortgage loan receivables amounted to RM22,050,464 (2007: RM15,064,056) which were previously secured by

properties which had been auctioned off by the Company and amount receivable from disposal of properties held for resale amounted to RM53,620 (2007: RM5,891,766).

15. PROPERTIES HELD FOR RESALE

	The Economic Entity and The Company	
	2008	2007
	RM	RM
At cost:		
Long leasehold land	67,274,454	67,274,453
Residential houses and apartments	<u>1,204,032</u>	<u>2,985,321</u>
	68,478,486	70,259,774
Allowance for impairment in value	<u>(66,743)</u>	<u>(188,031)</u>
	<u>68,411,743</u>	<u>70,071,743</u>

These properties were acquired by the Company in connection with its loans recovery exercise. The Company intends to dispose of these properties in due course.

16. CASH AND BANK BALANCES

	The Economic Entity and The Company	
	2008	2007
	RM	RM
Fixed deposits with financial institution	16,316,505	18,404,757
Investment in money market, at cost	12,500,000	1,500,000
Cash on hand and at banks	<u>2,533,846</u>	<u>1,221,733</u>
	<u>31,350,351</u>	<u>21,126,490</u>

The deposits are placed with a financial institution which is wholly owned by the Sabah State Government. The maturity period ranges from one to twelve months (2007: one to twelve months) and the interest rates range from 3.00% to 3.50% (2007: 2.40% to 3.70%) per annum.

17. **SHARE CAPITAL**

	The Economic Entity and The Company	
	2008	2007
	RM	RM
Authorised		
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>
Issued and fully paid		
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.

18. **RESERVES**

	The Economic Entity		The Company	
	2008	2007	2008	2007
	RM	RM	RM	RM
Non-distributable reserves:				
Preference shares				
redemption reserves	28,000,000	28,000,000	28,000,000	28,000,000
Distributable reserves:				
General reserve	67,999,884	61,499,884	67,999,884	61,499,884
Retained earnings	<u>41,718,954</u>	<u>28,791,695</u>	<u>39,602,104</u>	<u>26,920,666</u>
	<u>137,718,838</u>	<u>118,291,579</u>	<u>135,601,988</u>	<u>116,420,550</u>

Preference shares redemption reserves

Preference shares redemption reserves consist of the following:

	RM
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><u>28,000,000</u></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

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 imputation system, the recipient of the dividend would no longer be able to claim any tax credit.

Companies without Section 108 tax credit balance will automatically move to the single tier tax system on January 1, 2008. However, companies with such tax credits are given an irrevocable option to elect for the single tier tax system and disregard the tax credit or to continue to use the tax credits under Section 108 account to frank the payment of cash dividends on ordinary shares for a period of 6 years ending December 31, 2013 or until the tax credits are fully utilised, whichever comes first. During the transitional period, any tax paid will not be added to the Section 108 account and any tax credits utilised will reduce the tax credit balance. All companies will be in the new system on January 1, 2014.

As of the balance sheet date, 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 8 and the estimated tax credit and the prevailing tax rate applicable to dividends, the Company has sufficient tax credits to frank distribution by way of cash dividends of about RM19,000,000 out of its distributable reserves as of December 31, 2008.

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.

19. DEPOSITS FROM CUSTOMERS

	The Economic Entity and The Company	
	2008	2007
	RM	RM
Fixed deposits	479,539,186	501,425,991
Savings deposits	<u>2,430,726</u>	<u>2,926,409</u>
	<u>481,969,912</u>	<u>504,352,400</u>

The deposits are repayable as follows:

	The Economic Entity and The Company	
	2008	2007
	RM	RM
Within one year	477,811,800	492,622,135
After one year	<u>4,158,112</u>	<u>11,730,265</u>
	<u>481,969,912</u>	<u>504,352,400</u>

The deposits are sourced from the following:

	The Economic Entity and The Company	
	2008	2007
	RM	RM
Sarawak State Government	139,000,000	168,110,000
Sabah State Government	60,000,000	60,000,000
Corporate shareholder	66,168,228	55,964,880
State-owned enterprises and financial institution	48,965,198	42,430,059
Other business enterprises	<u>167,836,486</u>	<u>177,847,461</u>
	<u>481,969,912</u>	<u>504,352,400</u>

The interest rates of the deposits range from 2.75% to 7.25% (2007: 2.70% to 7.25%) per annum.

Included in deposits from customers is a fixed deposit of RM4,579,134 (2007: RM1,000,000) placed by the associated company, BHMF Realty Sdn. Bhd.

20. OTHER PAYABLES

Other payables consist of:

	The Economic Entity and The Company	
	2008 RM	2007 RM
Dividend payable	53,346,747	67,000,116
Sabah Government Supplementary Housing Loan Programmes	32,248,784	30,181,848
Other payables	7,486,670	12,992,881
Amount owing to associated companies	1,592,528	1,074,758
Accrued expenses	<u>1,306,334</u>	<u>2,592,567</u>
	<u>95,981,063</u>	<u>113,842,170</u>

The amounts due to Sabah Government Supplementary Housing Loan Programmes bear interest at 3.00% (2007: 3.00%) per annum while certain other payables bear interest at rates ranging from 2.50% to 7.00% (2007: 3.00% 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 associated companies represents mainly sales proceeds from development project and management fee received on behalf of the direct associated company. The amount is interest-free and has no fixed repayment terms.

21. PROVISIONS

Provisions represent provision for gratuities and retrenchments for employees:

	The Economic Entity and The Company	
	2008 RM	2007 RM
At beginning of year	2,171,271	1,984,647
Additions	213,361	247,813
Payments	<u>(594,845)</u>	<u>(61,189)</u>
At end of year	<u>1,789,787</u>	<u>2,171,271</u>

22. BANK OVERDRAFTS

The Company's bank overdraft facilities to the extent of RM29,500,000 (2007: RM31,500,000) are unsecured. The bank overdrafts bear interest at rates ranging from 6.50% to 7.50% (2007: 6.75% to 7.75%) per annum.

23. **DIVIDEND**

	The Economic Entity and The Company	
	2008	2007
	RM	RM
Interim dividend declared:		
73 sen gross per ordinary share, less tax in 2007	-	67,000,116
Final dividend paid:		
15 sen gross per ordinary share, less tax, for 2006	-	13,653,369
	<u>-</u>	<u>80,653,485</u>

An interim dividend of 73 sen gross per ordinary share, less 27% tax, amounting to RM67,000,116 was declared in the previous financial year. As of December 31, 2008, RM53,346,747 of the said dividend has not been paid.

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

24. **FINANCIAL INSTRUMENTS**

Financial instruments are contracts that give rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

Financial Risk Management Objectives and Policies

The operations of the Economic Entity and of the Company are subject to a variety of financial risks, including interest rate risk, credit risk, liquidity risk and cash flow risk. The Economic Entity and the Company have formulated a financial risk management framework whose principal objective is to minimise the Economic Entity's and the Company's exposure to risks and/or costs associated with the financing, investing and operating activities of the Economic Entity and of the Company.

Various risk management policies are approved by the Board for observation in the day-to-day operations for the control and management of the risks associated with financial instruments.

(i) **Interest rate risk**

The Economic Entity and the Company have in place policies to manage the Economic Entity's and the Company's exposure to adverse movement in the level of market prices or interest rates. The Economic Entity and the Company enter into various interest rate risk management transactions for the purpose of reducing net interest costs and to achieve interest rates within predictable, desired ranges.

(ii) **Credit risk**

The Economic Entity and the Company are exposed to credit risk mainly from mortgage loan receivables. The Economic Entity and the Company provide long-term mortgage loans to their customers based upon careful evaluation of the customers' financial condition and on the security of mortgages. The Economic Entity and the Company also ensure that an unusual large amount of loan is not granted to any single customer so as to limit high credit concentration in a particular customer so as to diversify credit risks. The directors are of the opinion that the risk of incurring material losses related to this credit risk is remote.

(iii) **Liquidity risk**

The Economic Entity and the Company practise prudent liquidity risk management to minimise the mismatch of financial assets and liabilities and to maintain sufficient credit facilities for contingent funding requirement of working capital.

(iv) **Cash flow risk**

The Economic Entity and the Company review their cash flow position regularly to manage their exposure to fluctuations in future cash flows associated with its monetary financial instruments.

Financial Assets

The Economic Entity's and the Company's principal financial assets are cash and bank balances, mortgage loan receivable and other receivables and deposits.

The accounting policies applicable to the major financial assets are as disclosed in Note 3.

Financial Liabilities and Equity Instruments

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

Significant financial liabilities include deposits from customers, interest and other payables, amount owing to associated companies and bank overdrafts.

Bank overdrafts are recorded at the proceeds received. Finance charges are accounted for on accrual basis.

Equity instruments are recorded at the proceeds received.

Fair Values

The carrying amounts and the estimated fair values of financial instruments as of December 31, 2008 are as follows:

	Note	The Economic Entity and The Company			
		2008		2007	
		Carrying Amount RM	Fair Value RM	Carrying Amount RM	Fair Value RM
Financial Assets					
Mortgage loan receivables	12	731,486,137	731,486,137	755,417,840	755,417,840
Financial Liabilities					
Deposits from customers	19	<u>481,969,912</u>	<u>481,969,912</u>	<u>504,352,400</u>	<u>504,352,400</u>

Cash and cash equivalents, other receivables and deposits, interest and other payables and bank overdrafts

The fair values of these financial instruments approximate their carrying amounts due to the short maturities of these instruments.

Mortgage loan receivables

The fair values of loans with remaining maturity of less than one year are estimated to approximate their carrying amounts. For loans with maturities of more than one year, the fair values are estimated based on expected future cash flows of contractual instalment payments and discounted at prevailing rates at balance sheet date offered for similar loans to new borrowers with similar credit profiles, where applicable. In respect of loans for which instalments are in arrears for six months or more, the fair values are deemed to approximate the carrying values, net of interest-in-suspense and specific allowance for doubtful debts.

Deposits from customers

The fair values for deposit liabilities payable on demand (savings deposits) or with remaining maturities of less than one year are estimated to approximate their carrying amounts at balance sheet date. The fair values of fixed deposits with remaining maturities of more than one year are estimated based on discounted cash flows using rates currently offered for deposits of similar remaining maturities.

25. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following:

	The Economic Entity and The Company	
	2008 RM	2007 RM
Fixed deposits with financial institution	16,316,505	18,404,757
Investment in money market, at cost	12,500,000	1,500,000
Cash on hand and at banks	2,533,846	1,221,733
Bank overdrafts	<u>(772,721)</u>	<u>(1,165,949)</u>
	<u>30,577,630</u>	<u>19,960,541</u>

26. CONTINGENT LIABILITIES

As of December 31, 2008, the Company was contingently liable to the Controller of Housing, Sabah and certain third parties for guarantees as follows:

	The Company	
	2008 RM	2007 RM
In favour of other third parties	<u>40,115,586</u>	<u>58,280,636</u>

On June 13, 1994, the Company has entered into a Development Agreement with Marion Sdn Bhd, a company incorporated in Malaysia, for a development project on a long leasehold land, being one of the properties held for resale of the Company located at Tuaran, District of Kota Kinabalu, Sabah, Malaysia. In 2002, legal actions have been instituted by the Company against Marion Sdn Bhd for rescission of the Development Agreement as a result of non-fulfillment of the conditions precedent as stipulated in the Development Agreement and the lodgment of a caveat on the said long leasehold land by Marion Sdn Bhd. In 2007, Marion Sdn Bhd has counterclaimed for the damages and costs incurred on the said development project. On March 30, 2009, both parties agreed to withdraw their respective claims on the terms as agreed upon and has filed a Notice of Discontinuance to the High Court to strike out the aforementioned claim and counterclaim respectively.

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 balance sheets and the related statements of income, changes in equity and cash flows are drawn up in accordance with the provisions of the Companies Act, 1965 and the Financial Reporting Standards in Malaysia so as to give a true and fair view of the state of affairs of the Economic Entity and of the Company as of December 31, 2008 and of the results of their businesses 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,

TAN SRI DATUK AMAR HAJI ABDUL AZIZ BIN HUSAIN

DATO' HAJI ABDUL RAHMAN BIN ABDUL GHANI

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 balance sheets and the related statements of income, changes in equity and cash flows 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.

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 2009.

Before me,

COMMISSIONER FOR OATHS