



**KPS Consortium Bhd** (143816-V)

**2009**  
**ANNUAL REPORT**

# Table of Contents

2•	Notice of Annual General Meeting
4•	Corporate Information
6•	Profile of the Board of Directors
8•	Corporate Governance Statement
16•	Other Information Required Pursuant to Part A, Appendix 9C of the BMSB Listing Requirements
17•	Audit Committee
21•	Statement on Internal Control
23•	Chairman/Group Managing Director's Statement
25•	Financial Statements
26•	Directors' Report
30•	Statement by Directors
30•	Statutory Declaration
31•	Independent Auditors' Report
33•	Balance Sheets
35•	Income Statements
36•	Statements of Changes in Equity
37•	Cash Flow Statements
40•	Notes to the Financial Statements
86•	List of Properties
90•	Shareholdings Structure
93•	eDividend
Enclosed•	Proxy Form

## Notice of Annual General Meeting

**KPS CONSORTIUM BERHAD**  
(Company No. 143816-V)  
Incorporated in Malaysia

NOTICE IS HEREBY GIVEN THAT the Twenty Fourth Annual General Meeting of the Company will be held at Klang Executive Club, Persiaran Bukit Raja 2, Bandar Baru Klang, 41150 Klang, Selangor Darul Ehsan on Saturday, 26 June 2010 at 11.00 am for the following purposes:-

### AGENDA

#### AS ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the financial year ended 31 December 2009 together with the Reports of the Directors and Auditors thereon. (Please refer to Note 1).

2. To re-elect the following Director retiring in accordance with Article 80 of the Company's Articles of Association:-

Mr. Lau Fook Meng

**Resolution 1**

3. To approve the payment of Directors' fee for the financial year ended 31 December 2009.

**Resolution 2**

4. To re-appoint Messrs SJ Grant Thornton as Auditors of the Company and to hold office until the conclusion of the next Annual General Meeting and to authorise the Directors to fix the Auditors' remuneration.

**Resolution 3**

#### AS SPECIAL BUSINESS

To consider and, if thought fit, to pass the following resolution:-

##### 5. ORDINARY RESOLUTION

- **AUTHORITY TO ISSUE SHARES PURSUANT TO SECTION 132D OF THE COMPANIES ACT, 1965**

"THAT pursuant to Section 132D of the Companies Act, 1965, and subject to the approval from other relevant governmental/regulatory authorities, the Directors be and are hereby empowered to issue shares in the Company from time to time and upon such terms and conditions and for such purposes as the Directors may deem fit provided that the aggregate number of shares issued pursuant to this resolution does not exceed 10% of the issued capital of the Company at the date of this Annual General Meeting and that such authority shall continue in force until the conclusion of the next annual general meeting of the Company."

**Resolution 4**

6. To transact any other business which may properly be transacted at an Annual General Meeting for which due notice shall have been given.

## Notice of Annual General Meeting (cont'd.)

By order of the Board

**LIM SECK WAH (MAICSA 0799845)**  
**M. CHANDRASEGARAN A/L S.MURUGASU (MAICSA 0781031)**  
Company Secretaries

Selangor Darul Ehsan

Dated this 4<sup>th</sup> day of June 2010

### NOTES:-

1. *The Agenda No. 1 is meant for discussion only as the Company's Articles of Association provides that the audited financial statements are to be laid in the general meeting only which does not require a formal approval of shareholders. Hence, is not put forward for voting.*
2. *A member shall be entitled to appoint more than one (1) proxy to attend and vote in his place. A proxy needs not be a member of the Company and the provision of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.*
3. *Where a member appoints more than one (1) proxy, the appointments shall be invalid unless he specifies the proportions of his holdings to be represented by each proxy.*
4. *Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint at least one (1) proxy in respect of each securities account it holds with ordinary shares of the company standing to the credit of the said securities account.*
5. *If the appointer is a corporation, the proxy form must be executed under its Common Seal or under the hand of its attorney.*
6. *The instrument appointing a proxy and the power of attorney, if any, under which it is signed or a certified copy thereof must be deposited at the Company's Registered Office, Lot 765, Jalan Haji Sirat Off Jalan Meru, 42100 Klang, Selangor Darul Ehsan not less than 48 hours before the time set for holding the Meeting or any adjournment thereof.*
7. *Explanatory notes on the Special Business*

- 7.1 *The proposed Resolution 4 is primarily to give flexibility to the Board of Directors to issue and allot shares at any time in their absolute discretion and for such purposes as they consider would be in the interest of the Company without convening a general meeting. This authority, unless revoked or varied at a general meeting, will expire at the conclusion of the next annual general meeting of the Company.*

*The Company continues to consider opportunities to broaden its earnings potential. If any of the expansion/diversification proposals involves the issue of new shares, the Directors, under certain circumstance when the opportunity arises, would have to convene a general meeting to approve the issue of new shares even though the number involved may be less than 10% of the issued capital.*

*In order to avoid any delay and costs involved in convening a general meeting to approve such issue of shares, it is thus considered appropriate that the Directors be empowered to issue shares in the Company, up to any amount not exceeding in total 10% of the issued share capital of the Company for the time being, for such purposes. The renewed authority for allotment of shares will provide flexibility to the Company for the allotment of shares for the purpose of funding future investment, working capital and/or acquisitions.*

*No shares have been issued and allotted by the Company since obtaining the said authority from its shareholders at the last Annual General Meeting held on 27 June 2009.*

## Corporate Information

<b>BOARD OF DIRECTORS</b> <b>Directors</b>	Koh Poh Seng <b>Chairman/Group Managing Director</b>  Lau Fook Meng Executive Director  Faun Chee Yarn Independent and Non-Executive Director  Tan Kong Ang Independent and Non-Executive Director  Lim Choon Liat Independent and Non-Executive Director
<b>COMPANY SECRETARIES</b>	Lim Seck Wah (MAICSA 0799845) M. Chandrasegaran a/l S.Murugasu (MAICSA 0781031)
<b>STOCK EXCHANGE LISTING</b>	Bursa Malaysia Securities Berhad, Main Market Stock code: 9121
<b>AUDIT COMMITTEE</b> <b>Chairman</b>  <b>Member</b>	Faun Chee Yarn  Tan Kong Ang Lim Choon Liat
<b>NOMINATION COMMITTEE</b> <b>Chairman</b>  <b>Member</b>	Faun Chee Yarn  Tan Kong Ang Lim Choon Liat
<b>REMUNERATION COMMITTEE</b> <b>Chairman</b>  <b>Member</b>	Faun Chee Yarn  Koh Poh Seng Tan Kong Ang Lim Choon Liat

## Corporate Information (cont'd.)

<b>REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS</b>	Lot 765, Jalan Haji Sirat Off Jalan Meru, 42100 Klang, Selangor Tel: (603) 3291 5566 Fax: (603) 3291 4489
<b>REGISTRAR</b>	Mega Corporate Services Sdn Bhd Level 15-2, Faber Imperial Court Jalan Sultan Ismail 50250 Kuala Lumpur Tel: (603) 2692 4271 Fax: (603) 2732 5388
<b>AUDITORS</b>	SJ Grant Thornton (Member of Grant Thornton International Ltd) Level 11, Faber Imperial Court Jalan Sultan Ismail 50250 Kuala Lumpur Tel: (603) 2692 4022 Fax: (603) 2732 5119
<b>PRINCIPAL BANKERS</b>	AmBank (Malaysia) Berhad Malayan Banking Berhad HSBC Bank Malaysia Berhad
<b>SOLICITORS</b>	Messrs Soo Thien Ming & Nashrah Rhiza & Richard, Advocates & Associates HS Lee & Co.
<b>WEBSITE</b>	<a href="http://www.kpscb.com.my">http://www.kpscb.com.my</a>
<b>E-MAIL ADDRESS</b>	<a href="mailto:enquiry@kpscb.com.my">enquiry@kpscb.com.my</a>



## Profile of The Board of Directors

The Board of Directors of KPS Consortium Berhad ("KPSCB" or "the Company") comprising the Chairman/ Group Managing Director, one (1) Executive Director and three (3) Independent Non-Executive Directors.

The Board meets quarterly and additional Board Meetings are held as and when required. The Board met four (4) times during the financial year ended 31 December 2009.

Particulars of the Directors are as follows:

**KOH POH SENG**, Malaysian, age 54, is the founder and Managing Director of KPS Plywood Sdn Bhd ("KPSP") and was appointed as the Chairman and Group Managing Director of KPS Consortium Berhad ("KPSCB") on 18 September 2002. He has more than twenty years of experience in trading of plywood and wood related products. In 1990, KPSP was set up by Mr Koh to undertake the business of trading in plywood. KPSP ventured into the trading of cement and steel bars since 1998.

Presently, Mr Koh is also a director of various other private companies, whereby their principal activities are that of construction and timber.

He is a member of the Remuneration Committee.

**LAU FOOK MENG**, Malaysian, age 58, was appointed Executive Director of KPSCB on 19 September 2002. He is a chartered accountant who has obtained his Fellowship from the Institute of Chartered Accountant of England & Wales. Upon graduation, he joined Asiatic Development Bhd in 1981 as an Accountant until 1983. In 1984, he joined Unico Holdings Bhd as the Group Accountant and left in 1992. From 1993 to 2002, he was the General Manager of Nichmurni Sdn Bhd. Currently, he is a Director of OCI Berhad.

**FAUN CHEE YARN**, Malaysian, age 50, was appointed as an Independent and Non-Executive Director of KPSCB on 1 November 2008. He is a Fellow Member of the Malaysian Institute of Accountants and certified member of the Financial Planning Association of Malaysia.

He has many years of experiences in private sector as an Auditor, Accountant, Finance Manager and General Manager in various sectors including software, insurance agency, recycling and vehicle fleet management. He was the Finance Manager of a renowned recycling company in Malaysia before re-designated as Financial Controller since 2009.

He is a Chairman of the Audit Committee, Nomination Committee and Remuneration Committee.

## Profile of The Board of Directors (cont'd.)

**TAN KONG ANG**, Malaysian, age 50, was appointed as an Independent and Non-Executive Director of KPSCB on 26 May 2009. He is a Member of Chartered Institute of Marketing UK for more than 20 years.

He is a professional manager with more than 26 years of working experiences in sale, marketing, purchasing, operation, administration and management. He possesses extensive working experiences in the textile industry, electrical and electronic, agencies house, wholesaler, retailer, distributor, oil and gas, hardware, building material, chemical, steel industry, financial products, life and general insurance organizations.

He is a member of the Audit Committee, Nomination Committee and Remuneration Committee.

**LIM CHOON LIAT**, Malaysian, age 49, was appointed as an Independent and Non-Executive Director of KPSCB on 26 May 2009. He obtained Bachelor of Science (Forestry) from Faculty of Forestry, University Pertanian Malaysia, Serdang, Selangor Darul Ehsan.

Between 1986 and 1991, he worked as a Technical Training Officer at Malaysian Timber Industry Board (MTIB), Ministry of Primary Industries. He organized technical training courses at national level for the Malaysian furniture industries/timber industrialist, in the area of furniture production technology, furniture finishing, furniture design, furniture marketing and technical aspects of timber i.e. preservation of timber, kiln drying of timber, identification of timber and grading of timber.

Between 1991 and 1995, he was appointed as the Executive Director in Furnicom Machinery Sdn Bhd, Camycom Sdn Bhd and Camycom Engineering Sdn Bhd.

From 1995 to present, he is the Managing Director for Bonaprimo Resources Sdn Bhd, a Woodworking Machinery business as well as consultancy services for the furniture industries. He is also an Associate Senior Consultant of Sage Forestry & Timber Consultants Sdn Bhd. He is involved in providing consultancy services for Pengurusan Danaharta, in assessing the assets of failed furniture companies with non performing loans and in the Study for MIDA - A study of the Impact of AFTA and AIA on the Wood/Cane/Bamboo-based Industry in Malaysia.

He is a member of the Audit Committee, Nomination Committee and Remuneration Committee.

### *Note:*

*All the above-named Directors of the Company have no family relationship with the other directors or substantial shareholders of the Company; and have not been convicted of any criminal offences (other than ordinary traffic offences, if any) and do not have any conflict of interest of the Company.*



## Corporate Governance Statement

The Board of Directors fully acknowledges the importance of good corporate governance and is taking steps to evaluate the status of the corporate governance practices adopted by the Group as tabulated below and its compliance with the code of best practices as set out in Part 1 and Part 2 of the Malaysian Code on Corporate Governance pursuant to Paragraph 15.25 of the Listing Requirements of the Bursa Malaysia Securities Berhad ("BMSB") throughout the financial year from 1 January 2009 to 31 December 2009. The Board will continually evaluate the status of the Group's corporate governance practices and procedures to ensure conformance and enhance performance in pursuit of its commitment to the highest standards of corporate governance.

### 1.0 Board of Directors

#### 1.1 Board Composition and Balance

The Board currently has five (5) members, comprising the Chairman/ Group Managing Director, one (1) Executive Director and three (3) Independent Non-Executive Directors. The Company is in compliance with Paragraph 15.02 of the BMSB Listing Requirements whereby one-third of its Board members are independent directors. The profile of each Director is presented separately in the Annual Report.

All Board members participate fully in decisions making on the key issues involving the Group. The Chairman/ Group Managing Director has primary responsibilities for managing the Group's day-to-day operations and together with the Executive Director and Non-Executive Directors to ensure that the strategies proposed by the management are fully discussed and examined, and take into account the long term interests of the various stakeholders including shareholders, employees, clients, suppliers and the various communities in which the Group conducts its business.

The Board is assured of a balanced and independent view at all Board deliberations largely due to the presence of its Non-Executive Directors who are independent from Management and major shareholders of the Company. The Independent Directors are also free from any business or other relationships that could materially interfere with the exercise of their independent judgment. Together with the Chairman/ Group Managing Director and Executive Director who have intimate knowledge of the Company's and Group's business, the Board is constituted of individuals who are committed to business integrity and professionalism in all its activities.

As part of its commitment, the Board supports the highest standards of corporate governance and the development of the best practices for the Group.

In addition to the role of guidance by the Non-Executive Directors, each Director brings independent judgment to bear on issues of strategy, performance, resources and standard of conduct.

#### 1.2 Duties and Responsibilities of the Board

The Board retains full and effective control of the Company and the Group. This includes responsibility for determining the Group's overall strategic direction as well as development and control of the Group. The Group Managing Director also undertakes the role of the Chairman. Despite that the roles are combined, there is a strong independent element on the Board as there are adequate number of independent directors who are particularly important as they provide unbiased and independent views, advice and judgment.

## Corporate Governance Statement (cont'd.)

### 1.3 Board Meetings and Supply of Information

Four (4) Board Meetings were held during the financial year ended 31 December 2009 and the details of attendance of each director are set out below:

Name of Directors	Total Number of Meetings Attended
Mr Koh Poh Seng	4/4
Mr Lau Fook Meng	4/4
Mr Faun Chee Yarn	4/4
Mr Tan Kong Ang (appointed on 26/5/09)	3/3
Mr Lim Choon Liat (appointed on 26/5/09)	3/3
Mr Lee Whay Hoong (resigned on 26/5/09)	1/1

The Board Meetings were held at No.3, Jalan BK 1/10, Bandar Kinrara Industrial Centre, 47100 Puchong, Selangor.

The date and time of the meetings held were as follows:

Date	Time
27 February 2009	11.30 am
28 May 2009	12.30 pm
28 August 2009	10.30 am
21 November 2009	11.30 am

All Directors have complied with the minimum attendance at Board meetings as stipulated in the Listing Requirements of the BMSB during the financial period.

The agenda and Board papers for each item as well as minutes of previous meetings are duly served to all Board members few days before the Board meetings to give Directors time to review and study and thus, to deliberate on the issues to be raised at the Board meetings.

In arriving at any decision on recommendations by the Management, thorough deliberation and discussion by the Board is a pre-requisite. All proceedings of the Board Meetings are minuted and signed by the Chairman of the meeting in accordance with the provision of Section 156 of the Companies Act, 1965.

The Board is kept updated on the Company and Group's activities and its operations on a regular basis. The directors also have access to reports on the Group's activities, both financial and operational.

All directors have access to the advice and services of the Company Secretary who is responsible for ensuring that board procedures are followed and the Board may also take independence advice, at the Company's expense, in the furtherance of their duties if so required. The Board also has unlimited access to all information with regard to the activities of the Company.

## Corporate Governance Statement (cont'd.)

### 1.4 Directors' Training

The Board as a whole ensures that it appoints only individuals of sufficient caliber, knowledge and experience to fulfill the duties of a Director appropriately. The Board of Directors is aware of the importance of continuously pursuing for the relevant seminars/ training programmes to equip themselves to discharge their duties diligently.

The new appointed Directors, Mr. Tan Kong Ang and Mr. Lim Choon Liat have respectively attended the Mandatory Accreditation Programme (MAP) on 23 June 2009 and 24 June 2009.

The Board members have attended the continuous education programme for the financial year 2009. Training programmes and seminars attended by the Directors during the financial year are as follows:

#### *Mr Koh Poh Seng*

- Implementing Business Plan Strategies

#### *Mr Lau Fook Meng*

- FRS Updates 2009
- Technical Briefing – Main Market Listing Requirements
- Mind Mapping for Quick Action – MIA
- Budget 2010 Tax Proposals

#### *Mr Faun Chee Yarn*

- FRS Updates 2009
- Technical Briefing- Main Market Listing Requirements
- Budget 2010 Tax Proposals
- Making Sense of the Auditors Report and Its Impact

#### *Mr Tan Kong Ang*

- Implementing Business Plan Strategies

#### *Mr Lim Choon Liat*

- Risk Management Best Practises

### 1.5 Appointments to the Board

The appointment of any additional Director is made as and when it is deemed necessary by the existing Board with due consideration given to the mix of expertise and experience required for an effective Board.

The Nomination Committee is empowered by the Board and its terms of reference to consider and evaluate the appointment of new Directors and Directors to Board Committees of the Company. The Nomination Committee will recommend the candidates to the Board for the appointment. The Nomination Committee also keeps under review the Board structure, size and composition and the mix of skills and core competencies required for the Board to discharge its duties effectively. In addition, the Nomination Committee will deliberate on Board succession plan as and when appropriate. The Nomination Committee will also assess the effectiveness of the Board as a whole, the Committees of the Board and the contribution of each individual Director on at least an annual basis.

## Corporate Governance Statement (cont'd.)

The Nomination Committee comprises the following:-

- a. Mr Faun Chee Yarn (Chairman)
- b. Mr Tan Kong Ang
- c. Mr Lim Choon Liat

### 1.6 Retirement and Re-election

In accordance with the Articles of Association of the Company, at least one-third of the Directors shall retire by rotation at each Annual General Meeting and can offer themselves for re-election at the Annual General Meeting ("AGM"). Directors who are appointed by the Board to fill casual vacancies or as additional directors during the financial year are subject to re-election by shareholders at the next AGM following their appointment. All Directors shall retire from office at least once in every three years, but shall be eligible for re-election.

### 1.7 Relationship of the Board to Management

#### • Quality of Information

Information plays a key role in the Board's decision-making and in setting up the policies and strategies of the Company. The Board has unrestricted access to timely and accurate information, which is not only confined to qualitative and quantitative information, but also to other information deemed suitable such as customer satisfaction, products and services quality, market share and market reaction and macro economic performance.

#### • Access to information

Prior to the board meetings, all Directors receive an agenda and Board Papers containing information relevant to the business of the meeting including information on major financial, operational and corporate matters relating to the activities and performance of the Group. This is issued in sufficient time to enable Directors to obtain further explanation, where necessary, in order to be properly informed before the meeting.

All Board members have unlimited access to the financial information. They get the advice from the Company Secretary, Auditors, legal advisor or any other resources, be it from the organization or externally.

#### • Use of Board Committees

As appropriate, the Board has delegated certain responsibilities to Board Committees that operate within clearly defined terms of reference. The Committees are as follows:

- a. Audit Committee
- b. Remuneration Committee
- c. Nomination Committee

All the above Committees have written terms of reference and operating procedures. Each of the committees has the authority to examine particular issues and report to the Board with their recommendations. The ultimate decision on all matters lies with the Board.

### 1.8 The relationship between the Board and the shareholders

The principal forum for dialogue with shareholders is the AGM, during which shareholders are encouraged to participate and pose questions to the Board regarding operational and financial information. The AGM also allows shareholders an opportunity to interact directly with the Board and seek first-hand information on the above matters. Extraordinary General Meetings are held as and when shareholders' approvals are required on specific matters and shareholders are notified of such meetings requirements.

## Corporate Governance Statement (cont'd.)

### 2.0 Directors' Remuneration

#### 2.1 The Level and Make-Up of Remuneration

The remuneration of the Directors of the Company and for the financial year ended 31 December 2009 is set out below:

- (i) Aggregate remuneration of Directors with categorisation into appropriate components:

	Executive Director (RM)	Non-Executive Directors (RM)	Total (RM)
Fees	60,000	60,000	60,000
Salary & other emoluments	108,000	-	108,000
Total	168,000	60,000	168,000

- (ii) Number of Directors whose remuneration falls into the following bands:

Range of Remuneration	Executive Director	Non-Executive Directors	Total
Below RM50,000	1	4	5
RM50,001 to RM100,000	1	-	1
RM100,001 to RM150,000	-	-	-

There is no contract of service between any Directors and the Company or its subsidiary Companies.

#### 2.2 Procedure

In compliance with the Listing Requirements of the BMSB, the Board has established a Remuneration Committee comprising Independent Non-Executive Directors and the Chairman/Group Managing Director. The Committee's primary responsibility is to recommend to the Board, the remuneration of Directors. In the case of Executive Directors, the component parts of remuneration are structured to link rewards to corporate and individual performance. In the case of Non-Executive Directors, the level of remuneration reflects the experience and level of responsibilities undertaken by the particular non-executive concerned.

However, the final decision on remuneration for Directors is a matter for the Board as a whole and individual directors are required to abstain from discussion of their own remuneration. The members of the Remuneration Committee are as follows:

- Mr Faun Chee Yarn (Chairman)
- Mr Koh Poh Seng
- Mr Tan Kong Ang
- Mr Lim Choon Liat

## Corporate Governance Statement (cont'd.)

### 3.0 Shareholders

#### 3.1 Dialogue between the Company and Investors

The Group values dialogue with investors as a mean of effective communication that enables the Board to convey information about the Group's performance, corporate strategy and other matters affecting shareholders' interests.

The AGM is the principal forum for dialogue with individual shareholders. It is a crucial mechanism in shareholder communication for the Company. At the Company's AGM, shareholders have direct access to the Board and are given the opportunity to ask questions during the open questions and answers session prior to moving for approval of the Company's Audited Financial Statements and Directors' Report for the financial year and other businesses (if applicable). The shareholders are encouraged to ask questions both about the resolutions being proposed or about the Group's operations in general.

The Chairman/ Group Managing Director also addresses the shareholders on the review of the Group's operations for the financial year and outlines the prospects of the Group for the new financial year.

The Board is also committed to ensure that shareholders are well informed of major developments of the Company and the Group and the information is also communicated to them through the following channels:-

- a. the Annual Report;
- b. various disclosures and announcements made to the BMSB including the quarterly results and annual results; and
- c. the Company's website [www.kpscb.com.my](http://www.kpscb.com.my) through which shareholders and the public in general can gain access to the latest corporate and product information of the Group.

#### 3.2 Annual General Meeting ("AGM")

Notice of AGM and annual reports are sent out to shareholders at least 21 days before the date of the meeting.

At the AGM, the Board also provides opportunities for shareholders to raise questions pertaining to the business activities of the Group. Directors and senior management staff are available to provide responses to shareholders' questions during these meetings.

For the re-election of Directors, the Board will ensure that full information is disclosed through the notice of meeting regarding Directors who are retiring and who are willing to serve if re-elected.

Each item of special business included in the notice of meeting will be accompanied by an explanatory statement for the proposed resolution to facilitate full understanding and evaluation of issues involved.

## Corporate Governance Statement (cont'd.)

### 4.0 Accountability And Audit

#### 4.1 Financial Reporting

The Board is aware of its responsibilities to shareholders and the requirement to present a balanced and comprehensive assessment of the Group's financial position, by means of the annual and quarterly reports and other published information. In this regard, the Board is primarily responsible for the preparation of a financial statement to present a fair and balanced report of the financial state of affairs of the Group.

Before releasing to the Bursa Malaysia Securities Berhad, the quarterly financial results are reviewed by the Audit Committee and approved by the Board of Directors. The details of the Company and the Group's financial positions are included in the Financial Statements section of the Annual Report.

#### 4.2 Internal Control

The Directors acknowledge their responsibilities for the internal control system in the Company and the Group, covering not only financial controls but also controls relating to operational, compliance and risk management. The system of internal controls involves each key business unit and its management, including the Board, and is designed to meet the business units' particular needs, and to manage the risks to which they are exposed. The system, by its nature, can only provide reasonable and not absolute assurance against material misstatement, loss or fraud. The concept of reasonable assurance recognises the costing aspect, whereby the cost of control procedures is not to exceed the expected benefits.

The Board recognises that risks cannot be fully eliminated. As such, the systems, processes and procedures being put in place are aimed at minimizing and managing them. Ongoing reviews are continuously being carried out to ensure that the effectiveness, adequacy and integrity of the system of internal controls in safeguarding the Company's assets.

#### 4.3 Audit Committee

The Audit Committee meets periodically with senior financial management staff and the external auditors to review the Company's and the Group's financial reporting, the nature and scope of audit reviews, and the effectiveness of the systems of internal control and compliance.

The terms of reference of the Audit Committee have recently been revised to conform to the Listing Requirements of the BMSB. The terms of reference and activities of the Audit Committee during the financial year ended 31 December 2009 are provided separately in this Annual Report.

#### 4.4 Relationship with Auditors

The Company's external auditors, SJ Grant Thornton report to members of the Company on their findings which are included as part of the Company's financial reports with respect to each year's audit on the statutory financial statements. In doing so, the Company has established a transparent arrangement with the auditors to meet their professional requirements. From time to time, the auditors highlight to the Audit Committee and Board of Directors on matters that require the Board's attention.



## Corporate Governance Statement (cont'd.)

### 5.0 Statement On The Extent Of Compliance With The Best Practices In Corporate Governance Set Out In Part 2 Of The Malaysian Code On Corporate Governance

Save as disclosed below, the Group has substantially complied with the Best Practices of the Code throughout the financial year:

- a) The Board does not have a formal schedule of matters specifically reserved to it for decision. However, it has been the practice for the Board to deliberate on matters that involve overall Group strategy and direction, acquisition and divestment policy, approval of major capital expenditure, consideration of significant financial matters and the review of the financial and operating performance of the Group.

The Board has not developed position descriptions for the Board and the Group Chief Executive Officer. This is mainly due to the current set-up of the Board and the various Board Committees that are in place which is suffice to facilitate the smooth functioning of the Group.

- b) The Board, through various management committees, has been able to identify business risks and ensure the implementation of appropriate measures to manage these risks. Nevertheless, the Board is of the view that a more structured risk management process would need to be established to better identify, monitor and manage the business risks affecting the Group.

### 6.0 Directors' Responsibility Statement On Annual Audited Accounts

The Board of Directors is required under Paragraph 15.26(a) of the Listing Requirements of the BMSB to issue a statement explaining their responsibility in the preparation of the annual financial statements.

The Directors are required by the Companies Act, 1965 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year and of the profit and loss of the Company and of the Group for the financial year.

In preparing those financial statements, the Directors are required to:-

- a) use appropriate accounting policies and consistently apply them;
- b) make judgements and estimates that are reasonable and prudent; and
- c) state whether applicable accounting standards have been followed, subject to any material departures being disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records, which disclose, with reasonable accuracy at any time, the financial position of the Company and of the Group and to enable them to ensure that the accounts comply with the Companies Act, 1965. The Directors had also ensured that proper internal controls had been implemented.

The Directors are satisfied that in preparing the financial statements of the Group for the financial year ended 31 December 2009, the Group has used the appropriate accounting policies and applied them consistently and prudently. The Directors are of the opinion that all relevant approved accounting standards have been followed and confirm that the financial statements have been prepared on a going concern basis.

## Other Information Required Pursuant to Part A, Appendix 9C of the BMSB Listing Requirements

In conformance with the Bursa Malaysia Securities Berhad Listing Requirements, the following information is provided:

- **Utilisation of Proceeds**  
No proceeds were raised from any corporate proposal during the financial year.
- **Share buybacks**  
During the financial year, there were no share buybacks by the Company.
- **Option, Warrants and Convertible Securities**  
The Company has not issued any options, warrants or convertible securities during the financial year.
- **American Depositary Receipt (“ADR”) / Global Depositary Receipt (“GDR”)**  
During the financial year, the Company did not sponsor any ADR or GDR programme.
- **Sanctions and/or Penalties**  
There were no sanctions and/or penalties imposed on the Company and its subsidiaries, Directors or management staff by the relevant regulatory bodies during the financial year.
- **Non-Audit Fee**  
There was no non-audit fee payable to the external auditors by the Company and its subsidiaries for the financial year ended 31 December 2009.
- **Variance from Profit Forecast or Unaudited Results Previously Made**  
There were no variances exceeding 10% from the unaudited results previously released by the Company.
- **Profit Guarantee**  
During the financial year, there were no profit guarantees given by the Company.
- **Material Contracts**  
There were no material contracts (not being contracts entered into in the ordinary course of business) subsisting as at or entered into since the end of the previous financial year, by the Company or its subsidiaries, which involved the interests of the Directors and major shareholders.
- **Revaluation of landed properties**  
The Group does not have a revaluation policy for its landed properties.
- **Recurrent related party transactions of a revenue nature**  
There were no recurrent related party transactions of a revenue nature during the year.
- **Corporate Social Responsibility**  
The Group looks after the welfare of the employees such as providing lodging and food for the employees. The Group heeds the save the environment by involving in recycling of papers for the production of jumbo toilet rolls and serviette. The factories preserve environment and nature by make good use of waste wood, oil palm waste (bio-slab) and sawdust.

The Group emphasizes on Environment, Health and Safety and provides safety measurements to the factory members.

### 1. Members

The current members of the Committee and their respective designations are as follows:

- Mr Faun Chee Yarn  
Chairman / Independent and Non-Executive Director
- Mr Tan Kong Ang  
Member / Independent and Non-Executive Director
- Mr Lim Choon Liat  
Member / Independent and Non-Executive Director

The Audit Committee consists of three (3) members all of whom are Independent Non-Executive directors. The Company has complied with Paragraph 15.09(1)(b) of Bursa Malaysia Securities Berhad's Listing Requirements, which requires the Audit Committee members must be non-executive directors, with a majority of them being independent directors.

### 2. Terms of Reference

The terms of reference of the Audit Committee had been revised to conform to the Listing Requirements of the BMSB.

#### *Composition*

The Audit Committee shall be appointed from among their members and should consist of no fewer than three (3) members and must be all Non-Executive Directors of whom the majority must be Independent Directors.

At least one (1) member of the Committee:-

- i) must be a member of the Malaysian Institute of Accountants ("MIA"); or
- ii) if he is not a member of the MIA, he must have at least 3 years' working experience and:-
  - he must have passed the examinations specified in Part 1 of the 1st Schedule of the Accountants Act 1968; or
  - he must be a member of one of the associations of accountants specified in Part II of the 1<sup>st</sup> Schedule of the Accountants Act 1967
  - fulfils such other requirements as prescribed or approved by the Exchange.

No alternate director shall be appointed as a member of the Committee.

The Chairman of the Committee shall be an Independent Non-Executive Director appointed by the Board.

In the event of any vacancy in the Audit Committee resulting in the number of members being reduced to below three, the Company must fill the vacancy within three (3) months.

The terms of office and performance of the Audit Committee and each of its members shall be reviewed by the Board at least once every three (3) years.

## Audit Committee (cont'd.)

### 3. Audit Committee Meetings Attendance

The Audit Committee had conducted four (4) meetings for the financial year ended 31 December 2009. Details of attendance of the Audit Committee members during this financial period are set out as below:

Name of Committee Member	No. of meetings attended/held during member's tenure
Mr Lau Fook Meng (Resigned on 26/2/2009)	1/1
Mr Lee Whay Hoong (Resigned on 26/5/2009)	1/1
Mr Faun Chee Yarn	4/4
Mr Tan Kong Ang (Appointed on 26/5/2009)	3/3
Mr Lim Choon Liat (Appointed on 26/5/2009)	3/3

### 4. Activities Of The Audit Committee

The principal activities undertaken by the Audit Committee during the financial period were summarized as follows:

- Reviewed the quarterly financial results and announcements for the financial quarters prior to the Board of Directors for consideration and approval;
- Reviewed the audited financial statements for the financial year ended 31 December 2009;
- Reviewed the external auditors' reports for the financial year ended 31 December 2009 in relation to audit and accounting issues arising from the audit;
- Reviewed the external auditors' audit plan for the year ended 31 December 2009;
- Considered the nomination of external auditors for recommendation to the Board for reappointment;
- Reviewed the internal audit plan, findings, reports and management implementation of audit recommendations;
- Reviewed the disclosure statements on Corporate Governance, Audit Committee Report and the Statement on Internal Control and recommended to the Board for adoption;
- Deliberated the disclosure requirements for corporate social responsibility and identified the management action plan.

### 5. Internal Audit Function

The internal audit function is essential in assisting the Audit Committee in reviewing the state of the system of internal control maintained by the management.

The Company outsourced its internal audit function to an internal audit consulting company. The audit team members are independent of the activities audited by them. The internal auditors review and assess the Group's system of internal control and report to the Committee functionally.

The Committee approves the annual internal audit plan before the commencement of the internal audit reviews for each financial year. During the financial year, the internal auditors conducted reviews on the operations of the Group and presented their reports to the Audit Committee. Areas of improvement identified were communicated to the management for further action.

### 6. Authority

The Committee is authorised by the Board:-

- (i) To investigate any matter within its terms of reference;
- (ii) To have the resources which are required to perform its duties;
- (iii) To have full and unrestricted access to any information pertaining to the Company;
- (iv) To have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity (if any);
- (v) To obtain independent professional or other advice; and
- (vi) To convene meetings with the external auditors, the internal auditors or both excluding the attendance of other directors and employees, whenever deemed necessary.

### 7. Functions

The functions of the Committee are as follows:-

- (a) The Committee shall review, appraise and report to the Board on:
  - the discussion with the external auditors, prior to the commencement of audit, the audit plan which states the nature and scope of the audit and to ensure co-ordination of audit where more than one audit firm is involved;
  - the review with the external auditors, his evaluation of the system of internal controls, his management letter and management's response;
  - the discussion of problems and reservations arising from the external audits, the audit report and any matters the external auditors may wish to discuss;
  - the assistance given by the employees of the Group to the external and internal auditors;
  - any related party transaction and conflict of interest situation that may arise within the Group or Company, including any transaction, procedure or course of conduct that raises questions of management integrity.
- (b) To review where appropriate whether there is a reason to believe that the Group's external auditors is not suitable for re-appointment;
- (c) To consider any question of resignation or dismissal of the external auditors;
- (d) To review quarterly reporting and year end financial statements of the Group before submission to the Board, focusing particularly on:-
  - changes in or implementation of major accounting policy;
  - significant adjustments arising from the audit;
  - the going concern assumption; and
  - compliance with accounting standards and other legal requirements.

## Audit Committee (cont'd.)

### 7. Functions (cont'd.)

- (e) To review the following in respect of internal audit function:-
- Adequacy of the scope, functions, competency and resources of the Internal Audit Department and that it has the necessary authority to carry out its work;
  - Internal audit programmes;
  - The major findings of internal audit investigations and management's responses, and ensure that appropriate actions are taken on the recommendations of the Internal Audit Department;
  - Appraisal or assessments of the performance of the senior staff of the Internal Audit Department;
  - Approval of any appointment or termination of senior staff member of the Internal Audit Department;
  - Resignations of senior internal audit staff members and providing the resigning staff member an opportunity to submit his/her reason for resignation;
- (f) To consider the major findings of internal audit investigations and management's response;
- (g) To recommend the nomination and appointment of external auditors as well as the audit fee;
- (h) To promptly report any matters resulting in breach of the Bursa Securities Listing Requirements to the Board. Where the Committee is of the opinion that such matter reported by it to the Board has not been satisfactorily resolved, the Committee shall promptly report such matter to Bursa Securities; and
- (i) Any other function that may be mutually agreed upon by the Committee and the Board, which would be beneficial to the Company and ensure the effective discharge of the Committee's duties and responsibilities.

#### ***Attendance At Meetings***

The Committee shall meet at least four (4) times a year and such additional meetings as the Chairman shall decide in order to fulfill its duties. In addition, the Chairman may call a meeting of the Audit Committee if a request is made by any committee member, any Executive Director, or the external auditors.

In order to form a quorum, the majority of members present must be independent directors.

#### ***Frequency Of Meetings***

Meetings shall be held not less than four (4) times a year to review the quarterly results and year-end financial statements. Other meetings may be held as and when required.

## Statement on Internal Control

It is a requirement of the Malaysian Code of Corporate Governance that the Board of Directors should maintain a sound system of internal controls to safeguard shareholders' investments and the Group's assets.

Pursuant to paragraph 15.26(b) of the Main Market Listing Requirements and Statement on Internal Control: Guidance for Directors of Public-Listed Companies, the Board of Directors are pleased to present the Statement on Internal Control of the Group comprising KPS Consortium Berhad and its subsidiaries for the financial year ended 31 December 2009.

### BOARD RESPONSIBILITY

The Board of Directors Board affirms its responsibility in maintaining a sound system of internal control and risk management procedures within the Group and for reviewing its adequacy and integrity. However, the Board recognises that reviewing of the Group's system of internal controls is a concerted and continuing process, designed to manage rather than eliminate the risk of failure to achieve business objectives. Hence, all internal controls can only provide reasonable and not absolute assurance against material misstatement or loss. In striving for continuous improvement, the Board will put in place appropriate action plans, when necessary, to further enhance the Group's systems of internal control.

### INTERNAL CONTROL

The internal controls system is established after considering the overall control environment of the Group. The system is designed to achieve proper balance between risks undertaken and the potential returns to shareholders. The key elements of the Group's system of internal controls are as described below:

- Key responsibilities and lines of accountability within the Group are defined, with clear reporting lines up to the Senior Management of the Group and to the Board of Directors. The Group's delegation of authority sets out the decisions that need to be taken and the appropriate authority levels of Management including matters that require Board approval.
- The Group's management monitors and reviews the financial results and forecasts for all businesses within the Group and formulates action plans for operational and financial performance improvement.
- Key policies and procedures are outlined in the Group. These policies are communicated to management to ensure that the control procedures, including those relating to authorisation, monitoring and reconciliation processes are followed.
- At the Board level, key financial and operating performances of the Group are reviewed. Quarterly, discussions with the management on the progress of business operations and significant issues are held by the Board and internal audit findings and reports are reviewed by the Audit Committee before presenting to the Board.

### INTERNAL AUDIT

The Group had engaged an independent professional services firm to carry out the Internal Audit function. The objective of the internal audit function is to review the adequacy and integrity of the internal control systems of key business units.



## Statement on Internal Control (cont'd.)

The Audit Committee reviews and approves the annual internal audit plan before the Internal Auditors carry out their functions. All audit findings are reported to the Committee and areas of improvement and audit recommendations identified are communicated to the management for further action.

The cost incurred for the internal audit function in respect of the financial year ended 31 December 2009 was RM40,000.

### RISK MANAGEMENT

Risk management practice ensures that significant risks are continuously identified and managed effectively. Currently, the Group relies on the management to assess the key business risks of the Group and to implement measures to assist the Board in discharging its risk management responsibilities.

### CONCLUSION

There is no significant breakdown or weaknesses in the system of internal control of the Group that have resulted material losses incurred by the Group for the financial year ended 31 December 2009. The Board believes that the current review framework and the systems of internal control that has been in place for the year under review are reasonable for the present level of operations. Nonetheless, the Group will continue to take the necessary measures to ensure that the system of internal control is functioning effectively.

The Board of Directors has approved this statement for issuance.

## Chairman/Group Managing Director's Statement

On behalf of the Board of Directors, I am pleased to present the Annual Report and Audited Accounts of the Group and of the Company for the financial year ended 31 December 2009.

### Overview of Group Results

#### Operating Results

For the financial year ended 31 Dec 2009, Group's turnover was RM311.5 million (2008:RM289.7 million). We recorded a pre-tax profit of RM9.4 million as compared to RM6.3 million in the previous year.

At Company level, no turnover in term of dividend income from subsidiaries was recorded.

#### Review of Operations

The Groups performance are explained under the various activity reports below:

##### *Paper Milling*

The Group's tissue mill registered external revenue of RM12.6 million compared with previous year of RM11.1 million. This division registered higher operating profit before tax and finance cost of RM2.6 million as compared to profit of RM2.1 million in year 2008.

##### *Paper Converting and Trading of Woodfree Paper*

This division recorded turnover of RM41.2 million as compared to RM41.3 million previously. This division showed a profit before tax and finance cost of RM0.5 million as compared to a profit of RM1.4 million in the previous year 2008. The lower profit is due to provision for stock impairment RM1.0 million.

##### *Plywood and Building Materials Trading and Timber Manufacturing*

The Plywood and Building Materials Division registered lower turnover of RM233.9 million (2008:RM213.0 million) and operating profit before tax and finance cost of RM6.9 million compared with operating profit of RM4.7 million. Operating profit margin improved for year 2009 compared with year 2008.

The year 2009 Sales were affected in the 4th quarter due to financial crisis and economic recession.

## Chairman/Group Managing Director's Statement (cont'd.)

### Others – trading of paper products and general household products

Turnover for this division was RM23.6 million in year 2009 compared with RM24.0 million for the previous year. This division made a profit before taxation of RM0.87 million compared with RM0.33 million in 2008.

### Dividend

The Board is unable to propose any dividend.

### Outlook and Prospects

The future outlook for most of the divisions are expected to register slightly higher revenue due to the world economic recovery and mitigated by efforts of the Malaysian Government to boost domestic economy. After tax profits should show improvements due to efforts by the Management to control costs and improve operating margins.

### Acknowledgement

The last few years have proven the resilience of the Company and I would like to thank the shareholders for their unwavering support so far.

The Board would like to thank Mr Lee Whay Hoong who resigned on 26 May 2009 respectively for his past contribution to the Group. We wish him every success in his future endeavours.

We owe a similar gratitude to our customers and business associates for their unwavering support throughout the difficult times of the last few years. I would also like to express our appreciation to all Government agencies and regulatory authorities for their assistance and guidance.

Finally and above all, on behalf of the Board, I wish to offer our heartfelt thanks to all our staff for their dedication and loyalty over the past year and their steadfastness and resilience in facing the new challenges.



**Koh Poh Seng**  
Chairman/ Group Managing Director



**KPS CONSORTIUM BERHAD**  
(Incorporated in Malaysia)

# REPORTS AND FINANCIAL STATEMENTS

**31 December 2009**

<b><u>CONTENTS</u></b>	<b><u>PAGES</u></b>
• Directors' Report	26
• Statement by Directors	30
• Statutory Declaration	30
• Independent Auditors' Report	31
• Balance Sheets	33
• Income Statements	35
• Statements of Changes in Equity	36
• Cash Flow Statements	37
• Notes to the Financial Statements	40

## Directors' Report

The Directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2009.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

The principal activities of the subsidiary companies are disclosed in Note 12 to the Financial Statements.

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

### FINANCIAL RESULTS

	Group RM	Company RM
Profit for the financial year	7,422,845	2,354,806
Attributable to:-		
Equity holders of the Company	7,450,477	2,354,806
Minority interests	(27,632)	-
	<u>7,422,845</u>	<u>2,354,806</u>

### DIVIDENDS

There were no dividends paid or declared by the Company since the end of the previous financial year.

### RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year.

### ISSUE OF SHARES AND DEBENTURES

There were no shares or debentures issued during the financial year.

### INFORMATION ON THE FINANCIAL STATEMENTS

Before the financial statements of the Group and of the Company were made out, the Directors took reasonable steps:-

- (a) to ascertain that action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and adequate allowance had been made for doubtful debts; and
- (b) to ensure that any current assets which were unlikely to be realised in the ordinary course of business including their values as shown in the accounting records of the Group and of the Company have been written down to an amount which they might be expected so to realise.

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

- (a) which would render the amounts written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group 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 Group 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 Group and of the Company misleading or inappropriate.

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 affect the ability of the Group and of the Company to meet its obligations as and when they fall due.

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

- (a) any charge on the assets of the Group 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 Group and of the Company which has arisen since the end of the financial year.

### OTHER STATUTORY INFORMATION

The Directors state that:-

At the date of this report, they are not aware of any circumstances not otherwise dealt with in this report or the financial statements which would render any amount stated in the financial statements.

In the opinion of the Directors:-

- (a) the results of operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature; and
- (b) there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of operations of the Group and of the Company for the current financial year in which this report is made.

## Directors' Report (cont'd.)

### DIRECTORS OF THE COMPANY

The Directors in office since the date of the last report are as follows:-

Koh Poh Seng (Chairman/Group Managing Director)  
Lau Fook Meng (Executive Director)  
Faun Chee Yarn (Independent Non-Executive Director)  
Tan Kong Ang (Independent Non-Executive Director) (appointed on 26.5.2009)  
Lim Choon Liat (Independent Non-Executive Director) (appointed on 26.5.2009)  
Lee Whay Hoong (Independent Non-Executive Director) (resigned on 26.5.2009)

In accordance with Article 80 of the Company's Articles of Association, Mr. Lau Fook Meng will retire from the Board at the forthcoming Annual General Meeting and being eligible offer himself for re-election.

According to the Register of Directors' Shareholdings, the interests of Directors in office at the end of the financial year in shares in the Company during the financial year were as follows:-

	Ordinary Shares of RM1 Each			
	At 1.1.2009	Bought	Sold	At 31.12.2009
<b>Direct interest</b>				
Koh Poh Seng	60,614,525	10,000	(34,000)	60,590,525

By virtue of Mr Koh Poh Seng's interest in the Company, he is also deemed to have interest in the shares of all the subsidiary companies to the extent that the Company has an interest under Section 6A of the Companies Act, 1965.

Other than those disclosed above, no other Directors at the end of the financial year held any interest in shares of the Company or its related corporations during the financial year.



## Directors' Report (cont'd.)

## DIRECTORS' BENEFITS

During and at the end of the financial year, no arrangements subsisted to which the Company is a party, with the object or objects of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in the Company or any other body corporate.

Since the end of the previous financial year, no Director has received or become entitled to receive any benefit (other than as disclosed in Note 22 to 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.

## AUDITORS

Messrs SJ Grant Thornton have expressed their willingness to continue in office.

On behalf of the Board



KOH POH SENG

## DIRECTORS

benzofullerene

LAU FOOK MENG

Kuala Lumpur  
19 April 2010

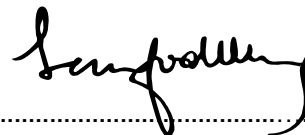
## Statement by Directors

In the opinion of the Directors, the financial statements set out on pages 33 to 85 are 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 Group and of the Company as at 31 December 2009 and of its financial performance and cash flows of the Group and of the Company for the financial year then ended.

On behalf of the Board



KOH POH SENG



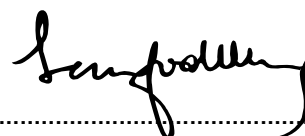
LAU FOOK MENG

Kuala Lumpur  
19 April 2010

## Statutory Declaration

I, Lau Fook Meng, being the Director primarily responsible for the financial management of KPS Consortium Berhad, do solemnly and sincerely declare that to the best of my knowledge and belief, the financial statements set out on pages 33 to 85 are 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.

Subscribed and solemnly declared by )  
the abovenamed at Kuala Lumpur in )  
the Federal Territory this day of )  
19 April 2010 )



LAU FOOK MENG

Before me:

Commissioner for Oaths



16 - Tingkat Bawah Jalan Pudu,  
55100 Kuala Lumpur.

# Independent Auditors' Report

## Report on the Financial Statements

We have audited the financial statements of KPS Consortium Berhad, which comprise the balance sheets as at 31 December 2009 and the income statements, statements of changes in equity and cash flow statements of the Group and of the Company for the financial year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 33 to 85.

### *Directors' Responsibilities for the Financial Statements*

The directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with 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' Responsibilities*

Our responsibility is to express an opinion on these financial statements based on our audit. 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 our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company'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 Company'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 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 Group and of the Company as at 31 December 2009 and of their financial performance and cash flows for the financial year then ended.

## Independent Auditors' Report (cont'd.)

### Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:-

- a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiary companies of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.
- b) We are satisfied that the Financial Statements of the subsidiary companies that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- c) The auditors' reports on the financial statements of the subsidiary companies did not contain any qualification or any adverse comment made under Section 174 (3) of the Act.

### Other Matters

This report is made solely to the members of the Company, 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 to any other person for the content of this report.



**SJ GRANT THORNTON**  
(NO. AF: 0737)  
CHARTERED ACCOUNTANTS



**DATO' N. K. JASANI**  
CHARTERED ACCOUNTANT  
(NO: 708/03/12(J/PH))

Kuala Lumpur  
19 April 2010

## Balance Sheets

as at 31 December 2009

		Group		Company	
	Note	2009 RM	2008 RM	2009 RM	2008 RM
SHARE CAPITAL	5	147,827,158	147,827,158	147,827,158	147,827,158
SHARE PREMIUM		5,400,842	5,400,842	5,400,842	5,400,842
ACCUMULATED LOSSES		(3,148,611)	(10,599,088)	(29,730,849)	(32,085,655)
		150,079,389	142,628,912	123,497,151	121,142,345
MINORITY INTERESTS		25,126	52,758	-	-
Total equity		150,104,515	142,681,670	123,497,151	121,142,345
NON-CURRENT LIABILITIES					
Borrowings	6	-	559,489	-	-
Deferred taxation	7	81,000	88,000	-	-
Finance creditors	8	302,717	210,291	-	-
		150,488,232	143,539,450	123,497,151	121,142,345
<b>REPRESENTED BY:-</b>					
NON-CURRENT ASSETS					
Property, plant and equipment	9	38,039,605	39,291,148	-	-
Prepaid land lease payments	10	2,341,414	2,413,644	-	-
Investment properties	11	4,461,684	4,562,334	-	-
Investment in subsidiary companies	12	-	-	119,646,201	117,204,492
Goodwill on consolidation	13	43,151,039	43,151,039	-	-
Total non-current assets		87,993,742	89,418,165	119,646,201	117,204,492
CURRENT ASSETS					
Inventories	14	32,866,280	29,419,085	-	-
Trade receivables	15	67,388,105	57,907,641	-	-
Other receivables	16	6,684,168	2,623,288	21,042	36,913
Amount due from subsidiary companies	12	-	-	13,574,513	13,949,126
Tax recoverable		25,561	29,309	-	-
Fixed deposits with licensed banks	17	11,846,256	11,154,761	-	-
Cash and bank balances		9,832,245	8,080,800	74,365	19,953
Total current assets		128,642,615	109,214,884	13,669,920	14,005,992

## Balance Sheets

as at 31 December 2009 (cont'd.)

	Note	Group		Company	
		2009 RM	2008 RM	2009 RM	2008 RM
CURRENT LIABILITIES					
Trade payables	18	14,163,756	11,465,410	-	-
Other payables	19	3,255,887	3,904,265	104,430	105,607
Amount due to subsidiary companies	12	-	-	9,714,540	9,962,532
Amount due to a Director	20	-	26,198	-	-
Tax payable		702,762	217,510	-	-
Borrowings	6	48,025,720	39,480,216	-	-
Total current liabilities		66,148,125	55,093,599	9,818,970	10,068,139
NET CURRENT ASSETS		62,494,490	54,121,285	3,850,950	3,937,853
		<u>150,488,232</u>	<u>143,539,450</u>	<u>123,497,151</u>	<u>121,142,345</u>

The accompanying notes form an integral part of the financial statements.

## Income Statements

for the Financial Year Ended 31 December 2009

	Note	Group		Company	
		2009 RM	2008 RM	2009 RM	2008 RM
Revenue	21	311,541,921	289,724,807	-	-
Cost of sales		(282,334,693)	(265,642,812)	-	-
Gross profit		29,207,228	24,081,995	-	-
Other income		3,655,411	2,313,189	4,552,264	-
Distribution costs		(7,237,149)	(6,211,020)	-	-
Administrative expenses		(6,285,886)	(6,414,236)	(204,471)	(187,897)
Finance costs		(1,620,714)	(2,373,065)	-	-
Other expenses		(8,302,247)	(5,040,159)	(1,992,987)	(7,525)
Profit/(loss) before taxation	22	9,416,643	6,356,704	2,354,806	(195,422)
Taxation	23	(1,993,798)	(1,171,790)	-	-
Profit/(loss) for the financial year		7,422,845	5,184,914	2,354,806	(195,422)
Attributable to:-					
Equity holders of the Company		7,450,477	5,180,125	2,354,806	(195,422)
Minority interests		(27,632)	4,789	-	-
		7,422,845	5,184,914	2,354,806	(195,422)
Earnings per share attributable to equity holders of the Company	24	5.25	3.65		

The accompanying notes form an integral part of the financial statements.



## Statements of Changes in Equity

for the Financial Year Ended 31 December 2009

	<----- Attributable to equity holders of the Company ----->					Minority interests RM	Total equity RM
	<----- Non-distributable ----->		Distributable		Total RM		
Group	Share capital RM	Share premium RM	Accumulated losses RM				
Balance at 1 January 2008	147,827,158	5,400,842	(15,779,213)	137,448,787		47,969	137,496,756
Profit for the financial year	-	-	5,180,125	5,180,125		4,789	5,184,914
Balance at 31 December 2008	147,827,158	5,400,842	(10,599,088)	142,628,912		52,758	142,681,670
Profit for the financial year	-	-	7,450,477	7,450,477		(27,632)	7,422,845
Balance at 31 December 2009	147,827,158	5,400,842	(3,148,611)	150,079,389		25,126	150,104,515
<b>Company</b>							
Balance at 1 January 2008	147,827,158	5,400,842	(31,890,233)	121,337,767			
Loss for the financial year	-	-	(195,422)	(195,422)			
Balance at 31 December 2008	147,827,158	5,400,842	(32,085,655)	121,142,345			
Profit for the financial year	-	-	2,354,806	2,354,806			
Balance at 31 December 2009	147,827,158	5,400,842	(29,730,849)	123,497,151			

The accompanying notes form an integral part of the financial statements.

## Cash Flow Statements

for the Financial Year Ended 31 December 2009

	Group		Company	
	2009 RM	2008 RM	2009 RM	2008 RM
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit/(Loss) before taxation	9,416,643	6,356,704	2,354,806	(195,422)
<b>Adjustments for:-</b>				
Amortisation of prepaid land lease payments	72,230	72,228	-	-
Allowance for slow moving inventories	45,126	48,675	-	-
Bad debts written off	2,988,934	325,033	-	-
Depreciation of property, plant and equipment	2,709,949	2,440,873	-	-
Depreciation of investment properties	100,650	94,638	-	-
Loss on disposal of property, plant and equipment	29,815	15,504	-	-
Loss on disposal of other investments	-	8,441	-	-
Interest expenses	1,252,221	2,006,519	-	-
Inventories written off	1,077,945	456,393	-	-
Impairment loss of investment in subsidiaries	-	-	1,982,510	-
Property, plant and equipment written off	390	97,534	-	-
Reversal of investment properties cost	-	11,061	-	-
Allowance for doubtful debts				
- current year	2,946,898	3,926,348	10,476	7,525
- no longer required	(1,525,541)	(827,998)	(128,045)	-
Allowance for slow moving inventories no longer required	(1,110,566)	(187,424)	-	-
Allowance for diminution in value of other investments no longer required	-	(10,220)	-	-
Gain on disposal of property, plant and equipment	(1,672)	(199)	-	-
Interest income	(160,871)	(253,233)	-	-
Impairment loss of investment in subsidiaries no longer required	-	-	(4,424,219)	-
Operating profit/(loss) before working capital changes	17,842,151	14,580,877	(204,472)	(187,897)

## Cash Flow Statements

for the Financial Year Ended 31 December 2009 (cont'd.)

	Note	Group		Company	
		2009 RM	2008 RM	2009 RM	2008 RM
Changes in working capital:-					
Inventories		(3,459,700)	(1,009,814)	-	-
Receivables		(17,951,635)	13,310,412	15,871	(44,438)
Payables		1,993,213	(875,196)	(1,177)	28,176
Subsidiary companies		-	-	244,190	199,421
Bill payables		8,752,451	(18,869,892)	-	-
Directors		(26,198)	26,198	-	-
Cash generated from/(used in) operations		7,150,282	7,162,585	54,412	(4,738)
Interest paid		(1,252,221)	(2,006,519)	-	-
Interest received		160,871	253,233	-	-
Taxes paid		(1,511,798)	(897,172)	-	-
Net cash from/(used in) operating activities		4,547,134	4,512,127	54,412	(4,738)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase of property, plant and equipment	A	(1,110,375)	(4,997,289)	-	-
Purchase of investment properties		-	(580,894)	-	-
Proceeds from disposal of property, plant and equipment		96,467	19,199	-	-
Proceeds from disposal of other investments		-	3,583	-	-
Net cash used in investing activities		(1,013,908)	(5,555,401)	-	-
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Drawdown of term loan		-	498,788	-	-
Repayment of term loan		(766,436)	(813,418)	-	-
Repayment of finance creditors		(323,850)	(202,721)	-	-
Net cash used in financing activities		(1,090,286)	(517,351)	-	-

## Cash Flow Statements

for the Financial Year Ended 31 December 2009 (cont'd.)

		Group		Company	
	Note	2009 RM	2008 RM	2009 RM	2008 RM
<b>CASH AND CASH EQUIVALENTS</b>					
Net increase/(decrease)		2,442,940	(1,560,625)	54,412	(4,738)
Brought forward		19,235,561	20,796,186	19,953	24,691
Carried forward	B	21,678,501	19,235,561	74,365	19,953

### NOTES TO THE CASH FLOW STATEMENTS

#### A. PROPERTY, PLANT AND EQUIPMENT

During the financial year, the Group acquired property, plant and equipment properties with an aggregate cost of RM1,583,406 (2008: RM5,292,289) of which RM473,031 (2008: RM295,000) was acquired by means of hire purchase. Cash payments of RM1,110,375 (2008: RM4,997,289) were made by the Group to purchase the property, plant and equipment.

#### B. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the cash flow statements comprise the following balance sheets items:-

		Group		Company	
		2009 RM	2008 RM	2009 RM	2008 RM
Cash and bank balances		9,832,245	8,080,800	74,365	19,953
Fixed deposits with licensed banks		11,846,256	11,154,761	-	-
		21,678,501	19,235,561	74,365	19,953

As disclosed in Note 17 to the Financial Statements, the fixed deposits with licensed banks have been pledged to banks for banking facilities granted to the Group and hence, are not available for general use.

The accompanying notes form an integral part of the financial statements.

# Notes to the Financial Statements

31 December 2009

## 1. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the Group and of the Company have been prepared in accordance with the Companies Act, 1965 in Malaysia and Financial Reporting Standards issued by Malaysian Accounting Standards Board ("MASB").

## 2. FINANCIAL RISK MANAGEMENT POLICIES

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's businesses whilst managing its risks. The Group operates within policies that are approved by the Board and the Group's policy is not to engage in speculative transactions.

The main areas of financial risks faced by the Group and the policy in respect of the major areas of treasury activity are set out as follows:

### 2.1 Foreign Currency Risk

The Group is exposed to foreign currency risk as a result of its normal operating activities, both external and intra-Group where the currency denomination differs from the local currency, Ringgit Malaysia (RM). The Group's and the Company policy is to minimise the exposure of foreign currency risk to transaction risk by matching local currency income against local currency costs.

### 2.2 Credit Risk

The credit risk is controlled by the application of credit approvals, limits and monitoring procedures. An internal credit review is conducted if the credit risk is material.

### 2.3 Market Risk

For key product purchases, the Group establishes floating and fixed price levels that the Group and the Company's considers acceptable and enters into physical supply agreements, where necessary, to achieve these levels. The Group does not face significant exposure from the risk from changes in price level.

### 2.4 Liquidity and Cash Flow Risks

The Group seeks to achieve a balance between certainty of funding even in difficult times for the markets or the Group and a flexible, cost-effective borrowing structure. This is to ensure that at the minimum, all projected net borrowing needs are covered by committed facilities. Also, the objective for debt maturity is to ensure that the amount of debt maturing in any one year is not beyond the Group's means to repay and refinance.

### 2.5 Interest Rate Risk

The Group's exposure to interest rate risk for changes in interest rates primarily to investment portfolio in fixed deposits and cash equivalents with financial institution. The Group manages its interest rate risks by placing such balances on varying maturities and interest rate terms.

The Group's debts include bank overdrafts, short-term and long-term borrowings. The Group's interest rate management objective is to manage the interest expenses consistent with maintaining an acceptable level of exposure to interest rate fluctuation. In order to achieve this objective, the Group targets a mix of fixed and floating debt based on assessment of its existing exposure and desired interest rate profile.

## Notes to the Financial Statements

31 December 2009 (cont'd.)

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### 3.1 Accounting convention

The financial statements of the Group and of the Company are prepared under the historical cost convention, unless otherwise indicated in the summary of the significant accounting policies.

The financial statements are presented in Ringgit Malaysia (RM) which is the Group's and the Company's functional currency.

#### 3.2 Adoption of Revised Financial Reporting Standards ("FRSs")

The following are the standards and IC Interpretations that are not yet effective and have not been early adopted by the Group and the Company:-

- |                             |   |
|-----------------------------|---|
| (1) Amendments to FRS 1     | - First-time Adoption of Financial Reporting Standards. Amendments relating to cost of an investment in a subsidiary, jointly controlled entity or associate  |
| (2) FRS 1 (#)               | - First-time Adoption of Financial Reporting Standards  |
| (3) Amendments to FRS 1 (*) | - Limited Exemption from Comparative FRS 7 Disclosures for First-Time Adopters. Amendment relating to transition provisions for first time adopter  |
| (4) Amendments to FRS 2     | - Share Based Payment. Amendments relating to vesting conditions and cancellations  |
| (5) Amendments to FRS 2 (#) | - Share Based Payment. Amendments Relating to the scope of the standard   |
| (6) FRS 3 (#)               | - Business Combinations   |
| (7) FRS 4                   | - Insurance Contracts   |
| (8) Amendment to FRS 5      | - Non-current Assets Held for Sale and Discontinued Operations. Amendment relating to disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations |
| (9) Amendments to FRS 5 (#) | - Non-current Assets Held for Sale and Discontinued Operations. Amendment relating to the inclusion of non-current assets as held for distribution to owners in the standard                        |
| (10) FRS 7                  | - Financial Instruments: Disclosures  |
| (11) Amendment to FRS 7     | - Financial Instruments: Disclosures. Amendment relating to financial assets  |
| (12) Amendment to FRS 7 (*) | - Improving Disclosures about Financial Instruments. Amendments relating to the fair value measurement using fair value hierarchy and disclosure of liquidity risk                                  |

## Notes to the Financial Statements

31 December 2009 (cont'd.)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

#### 3.2 Adoption of Revised Financial Reporting Standards ("FRSs") (cont'd.)

The following are the standards and IC Interpretations that are not yet effective and have not been early adopted by the Group and the Company (cont'd.):

- |                            |   |
|----------------------------|---|
| (13) FRS 8                 | - Operating Segments  |
| (14) Amendment to FRS 8    | - Operating Segments. Amendment relating to disclosure information about segment assets   |
| (15) FRS 101               | - Presentation of Financial Statements (Revised)  |
| (16) Amendment to FRS 107  | - Statements of Cash Flows. Amendment relating to classification of expenditures on unrecognised assets   |
| (17) Amendment to FRS 108  | - Accounting Policies, Changes in Accounting Estimates and Errors. Amendment relating to selection and application of accounting policies                         |
| (18) Amendments to FRS 110 | - Events After the Reporting Period. Amendment relating to reason for dividend not recognised as a liability at the end of the reporting period                   |
| (19) Amendment to FRS 116  | - Property, Plant and Equipment. Amendment relating to derecognition of asset   |
| (20) Amendment to FRS 117  | - Leases. Amendment relating to classification of leases  |
| (21) Amendment to FRS 118  | - Revenue. Amendment relating to Appendix of this standard and recognition and measurement  |
| (22) Amendment to FRS 119  | - Employee Benefits. Amendment relating to definition, curtailment and settlements  |
| (23) Amendment to FRS 120  | - Accounting for Government Grants and Disclosure of Government Assistance. Amendment relating to definition and government loan at below-market rate of interest |
| (24) FRS 123               | - Borrowing Costs   |
| (25) Amendments to FRS 123 | - Borrowing Costs. Amendment relating to exclusion of incidental cost to borrowing  |
| (26) Amendments to FRS 127 | - Consolidated and Separate Financial Statements. Amendments relating to cost of an investment in a subsidiary, jointly controlled entity or associate            |
| (27) FRS 127 (#)           | - Consolidated and Separate Financial Statements.   |
| (28) Amendment to FRS 128  | - Investments in Associates. Amendment relating to impairment losses in application of the equity method and the scope of this standard                           |

## Notes to the Financial Statements

31 December 2009 (cont'd.)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

#### 3.2 Adoption of Revised Financial Reporting Standards ("FRSs") (cont'd.)

The following are the standards and IC Interpretations that are not yet effective and have not been early adopted by the Group and the Company (cont'd.):

(29) Amendment to FRS 129	- Financial Reporting in Hyperinflationary Economies. Amendment relating to changing of terms used
(30) Amendment to FRS 131	- Interests in Joint Ventures. Amendment relating to additional disclosure required for joint venture that does not apply FRS 131
(31) Amendment to FRS 132	- Financial Instruments: Presentation. Amendment relating to puttable financial instruments
(32) Amendment to FRS 132	- Financial Instruments: Presentation. Amendment relating to effective date and transition.
(33) Amendment to FRS 132 (^)	- Financial Instruments: Presentation. Amendments relating to classification of rights issues.
(34) Amendment to FRS 134	- Interim Financial Reporting. Amendment relating to disclosure of earnings per share
(35) Amendment to FRS 136	- Impairment of Assets. Amendment relating to the disclosure of recoverable amount
(36) Amendment to FRS 138	- Intangible Assets. Amendment relating to recognition of an expense
(37) Amendments to FRS 138 (#)	- Intangible Assets. Amendments relating to the revision to FRS 3
(38) FRS 139	- Financial Instruments: Recognition and Measurement
(39) Amendment to FRS 139	- Financial Instruments: Recognition and Measurement. Amendment relating to eligible hedged items, reclassification of financial assets and embedded derivatives
(40) Amendment to FRS 140	- Investment Property. Amendment relating to inability to determine fair value reliably
(41) IC Interpretation 9	- Reassessment of Embedded Derivatives
(42) Amendments to IC Interpretation 9 (#)	- Reassessment of Embedded Derivatives. Amendments relating to the scope of the IC and revision to FRS 3
(43) IC Interpretation 10	- Interim Financial Reporting and Impairment
(44) IC Interpretation 11	- FRS 2 - Group and Treasury Share Transactions
(45) IC Interpretation 12 (#)	- Service Concession Arrangement



## Notes to the Financial Statements

31 December 2009 (cont'd.)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

#### 3.2 Adoption of Revised Financial Reporting Standards ("FRSs") (cont'd.)

The following are the standards and IC Interpretations that are not yet effective and have not been early adopted by the Group and the Company (cont'd.):

- |                               |  |
|-------------------------------|--|
| (46) IC Interpretation 13     | - Customer Loyalty Programmes  |
| (47) IC Interpretation 14     | - FRS 119 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction |
| (48) IC Interpretation 15 (#) | - Agreements for the Construction of Real Estate   |
| (49) IC Interpretation 16 (#) | - Hedges of a Net Investment in a Foreign Operation  |
| (50) IC Interpretation 17 (#) | - Distributions of Non-Cash Assets to Owners   |

All of the above Amendments, IC Interpretations and FRSs will be effective for accounting period beginning on or after 1 January 2010, other than FRS 8, those marked with (^), (#) and (\*) which will be applicable to accounting period beginning on or after 1 July 2009, 1 March 2010, 1 July 2010 and 1 January 2011 respectively. The existing FRS 1, 3, 127 as well as FRS 201<sup>2004</sup> will be withdrawn upon the adoption of the new requirements that take effect on 1 July 2010.

FRS 1, 2, 4, 5, 120, 128, 129 and 131, IC Interpretations 9, 10, 11, 12, 13, 14, 15, 16 and 17 are not expected to be relevant to the operations of the Group and of the Company. The Directors anticipate that the other FRS, amendments to FRS and IC Interpretations will be adopted in the annual financial statements of the Group and of the Company for the financial year commencing 1 January 2010 and that the adoption of these new/revised FRS, amendments to FRS and IC Interpretations will have no material impact on the financial statements of the Group and of the Company in the period for initial application except for the following:-

#### FRS 3 Business Combination

The revised standard continues to apply the acquisition method to business combinations, with some significant changes. All payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice to measure the non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed.

#### 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 Group'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.

#### FRS 8 Operating Segments

FRS 8, which replaces FRS 114<sup>2004</sup> Segment Reporting, requires the identification of operating segments based on internal reports that are regularly reviewed by the Group's chief operating decision maker in order to allocate resources to the segments and to assess their performance. Currently, the Group identifies two sets of segments (business and geographical) using a risks and rewards approach, with the Group's system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments. As a result, following the adoption of FRS 8, the identification of the Group's reportable segments may change.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 3.2 Adoption of Revised Financial Reporting Standards ("FRSs") (cont'd.)

The following are the standards and IC Interpretations that are not yet effective and have not been early adopted by the Group and the Company (cont'd.):

#### FRS 123 Borrowing Costs

FRS 123 eliminates the option available under the previous version of FRS 123 to recognise all borrowing costs immediately as an expense. The Group shall capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

#### FRS 127 - Consolidated and Separate Financial Statements

The revised standard required the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognised in profit or loss. Losses are required to allocate to non-controlling interests, even if it results in the non-controlling interest to be in a deficit position.

#### FRS 139- Financial Instruments: Recognition and Measurement

FRS 139 establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. By virtue of the exemption in paragraph 103AB of FRS 139, the impact on the financial statements upon first adoption of this standard as require by paragraph 30(b) of FRS 108, Accounting Policies, Changes in Accounting Estimates and Errors is not disclosed, if any.

### 3.3 Significant Account Estimates and Judgements

Estimates, assumptions concerning the future and judgements are made in the preparation of the financial statements. They affect the application of the Group's accounting policies and reported amounts of assets, liabilities, income and expenses, and disclosures made. Estimates and underlying assumptions are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual result may differ from these estimates.

#### 3.3.1 Key sources of estimation uncertainty

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

##### **Impairment of goodwill**

The Group determines whether goodwill is impaired at least once annually. This requires the estimation of the value in use of the cash-generating units to which goodwill are allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

## Notes to the Financial Statements

31 December 2009 (cont'd.)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

#### 3.3 Significant Account Estimates and Judgements (cont'd.)

##### 3.3.1 Key sources of estimation uncertainty (cont'd.)

###### **Deferred tax assets**

Deferred tax assets are recognised for all deductible temporary differences, unutilised tax losses, unabsorbed capital allowances and unused tax credits to the extent that it is probable that taxable profit will be available against which all the deductible temporary differences, unutilised tax losses and unabsorbed capital allowances 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.

###### **Income taxes/deferred tax liabilities**

The Group is exposed to income taxes in numerous jurisdictions. Significant judgement is involved in determining the Group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognised tax liabilities based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such difference will impact the income tax and deferred tax provisions in the period in which such determination is made.

###### **Depreciation of property, plant and equipment and investment properties**

Property, plant and equipment are depreciated in a straight-line basis over their useful life. Management estimated the useful life of these assets to be within 3 to 50 years for property, plant and equipment and 50 year for investment properties. Changes in the expected level of usage and technological developments could impact the economic useful life and the residual values of these assets, therefore future depreciation charges could be revised.

###### **Impairment of property, plant and equipment, investment properties, prepaid land lease prepayment and investment in subsidiary companies**

The Group carried out the impairment test based on a variety of estimation including the value-in-use of the cash-generating unit to which the assets are allocated. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from cash-generated unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 3.3 Significant Account Estimates and Judgements (cont'd.)

#### 3.3.2 Critical judgement made in applying accounting policies

The following is the judgement made by management in the process of applying the Group's accounting policies that have the most significant effect on the amounts recognised in the financial statements.

#### **Classification between investment properties and owner-occupied properties**

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

### 3.4 Subsidiary companies

A subsidiary company is a company in which the Group or the Company has the power to exercise control over the financial and operating policies so as to obtain benefits therefrom.

Investment in subsidiary companies is stated at cost. Where an indication of impairment exists, the carrying amount of the subsidiary companies is assessed and written down immediately to their recoverable amount.

### 3.5 Basis of consolidation

The Group financial statements consolidate the audited financial statements of the Company and all of its subsidiary companies, which have been prepared in accordance with the Group's accounting policies.

All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated on consolidation unless cost cannot be recovered.

The financial statements of the Company and its subsidiary companies are all drawn up to the same reporting date.

## Notes to the Financial Statements

31 December 2009 (cont'd.)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

#### 3.5 Basis of consolidation (cont'd.)

Acquisition of subsidiary companies is accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

Any excess of the cost of the business combination over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities represents goodwill. Goodwill is accounted for in accordance with the accounting policy for goodwill stated in Note 3.6.

Minority interests represent the portion of profit or loss and net assets in subsidiary companies not held by the Group. They are presented in the consolidated balance sheet within equity, separately disclosed in the consolidated income statement.

Any excess of the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of business combination is recognised as income on the date of acquisition.

Subsidiary companies are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

The gain or loss on disposal of a subsidiary company is the difference between net disposal proceeds and the Group's share of its net assets together with any unamortised or unimpaired balance of goodwill on acquisition and exchange differences.

#### 3.6 Goodwill

Goodwill represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary company at the date of acquisition.

Goodwill arising on the acquisition of subsidiary companies is presented separately in the balance sheet.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying values may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or group of units. Each unit or group of units to which the goodwill is so allocated:-

- Represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- Is not larger than a segment based on either the Group's primary or the Group's secondary reporting format.