

**FRONTKEN**

**Frontken Corporation Berhad**  
(651020-T)



**2012**  
ANNUAL REPORT



**Frontken Corporation Berhad**  
(651020-T)

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## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### **NG WAI PIN**

Chairman / Managing Director

#### **DR TAY KIANG MENG**

Executive Director / Chief Scientist

#### **DATO' HAJI JOHAR BIN MURAT @ MURAD**

Independent Non-Executive Director

#### **AARON SIM KWEE LEIN**

Senior Independent Non-Executive Director

#### **JORG HELMUT HOHNLOSER**

Non-Independent Non-Executive Director

#### **TIMO FABIAN SEEBERGER**

Alternate to Jorg Helmut Hohnloser

### AUDIT COMMITTEE

Dato' Haji Johar Bin Murat @ Murad (Chairman)

Aaron Sim Kwee Lein

Jorg Helmut Hohnloser

### NOMINATION COMMITTEE

Dato' Haji Johar Bin Murat @ Murad (Chairman)

Aaron Sim Kwee Lein

Jorg Helmut Hohnloser

### REMUNERATION COMMITTEE

Ng Wai Pin (Chairman)

Dato' Haji Johar Bin Murat @ Murad

Aaron Sim Kwee Lein

### COMPANY SECRETARIES

Mah Li Chen (MAICSA 7022751)

Cynthia Gloria Louis (MAICSA 7008306)

Chew Mei Ling (MAICSA 7019175)

### REGISTERED OFFICE

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Selangor Darul Ehsan

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### HEAD OFFICE

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Tel: (03) 7968 3312

Fax: (03) 7968 3316

Email: fcb@frontken.com

Website: www.frontken.com

### INVESTOR RELATIONS

Eric Hee

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Fax: (03) 7968 3316

Email: erichee@frontken.com

### SHARE REGISTRAR

Tricor Investor Services Sdn Bhd

Level 17, The Gardens North Tower

Mid Valley City, Lingkaran Syed Putra

59200 Kuala Lumpur

Tel: (03) 2264 3883

Fax: (03) 2282 1886

### AUDITORS

Crowe Horwath (AF 1018)

Chartered Accountants

Level 16 Tower C

Megan Avenue II

12 Jalan Yap Kwan Seng

50450 Kuala Lumpur

Tel: (03) 2788 9999

Fax: (03) 2788 9998

### STOCK EXCHANGE LISTING

Main Market of Bursa Malaysia Securities Berhad

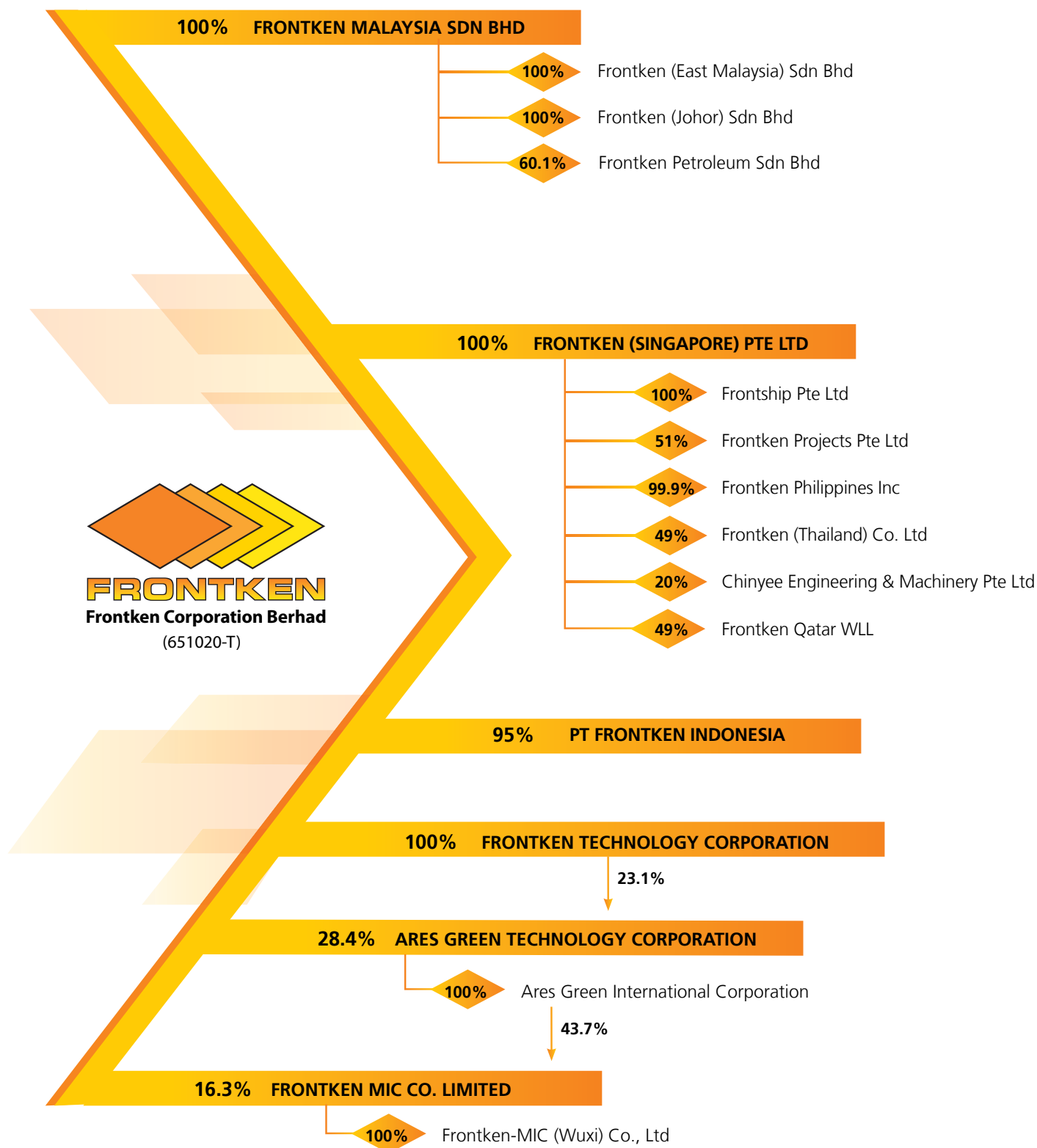
Stock Name: FRONTKN

Stock Code: 0128

Reuters Code: 0128.KL

Bloomberg Code: FRCB MK

## CORPORATE STRUCTURE (as at 21 May 2013)



## OUR VISION

To be a continuing improving leader in performance excellence in advanced surface metamorphosis engineering and technology.

## OUR MISSION

To delight our customers with complete satisfaction which includes not only the most competitive price and fastest delivery time but also the highest technical performance and reliability for all our services and products.



## OUR PROFILE

Frontken Corporation Berhad, listed on the Main Market of Bursa Malaysia of Bursa Malaysia Securities Berhad, has since inception in 1996, established itself as a leading service provider of surface metamorphosis engineering in the Asia Pacific region. The Group's comprehensive range of services increases the efficiency and extends the lifespan of machinery and equipment, therefore improving the customer's cost effectiveness in machinery operation and maintenance.

The Group utilizes numerous thermal spray coating methods to improve the operational efficiency of various turnkey industries, including the oil and gas, petrochemical, power generation, semiconductor and electronics manufacturing sectors. The Group also undertakes research and development in advanced materials and surface engineering technology to produce new and improved coatings for use in the protection against material degradation and to improve the productivity of industrial processes.

To date, the Group's customer portfolio comprises key players in the oil and gas, power generation, petrochemical and semiconductor industries in mainly Singapore, Malaysia and other countries such as the Philippines, Indonesia, China, Thailand, Myanmar, Vietnam, Taiwan, Japan and Germany.

The Group, together with its associates, has established a significant presence in Singapore, Malaysia, Taiwan, China, Thailand, Philippines and Indonesia.



## OUR SERVICES

### Mechanical Restoration & Overhaul

Assessment, assembly, balancing, recovery and upgrading works on industrial rotating/non-rotating equipment such as pumps, valves, turbines and compressors, diesel engines and generators, motors and more.



### Coating, Hardfacing & Plating

Protection, lifetime extension, performance and efficiency improvements via advanced surface engineering technologies such as thermal spray coating, PTA overlay, electroless plating and dry-film lubrication.



### Precision Manufacturing

Quality fabrication and mass-production via aerospace standard manufacturing facility. Complementary activities include re-engineering, prototyping, assembly and integration.



### Machining & Grinding

Comprehensive range of large capacity machining lathes for turning, boring and grinding of huge cylindrical components such as crankshafts and piston rods.



### Plant Engineering & Construction

Structural, mechanical and piping, electrical, instrumentation and control, equipment maintenance and overhaul, testing and commissioning for process and chemical facilities.



### Precision Cleaning

Decontamination of newly manufactured parts, routine recycling and kit management of semiconductor manufacturing components.



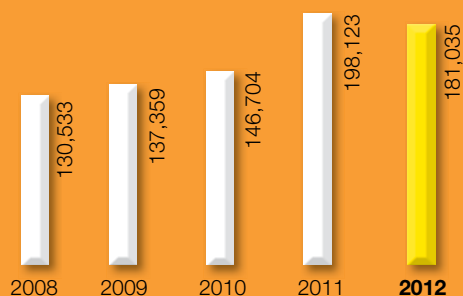
### Green Technology & Outdoor Media

Energy sustenance and conservation technologies such as LED lightings, displays panels, solar panels and outdoor media.

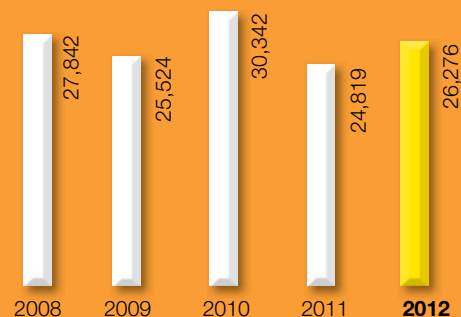


## FINANCIAL HIGHLIGHTS

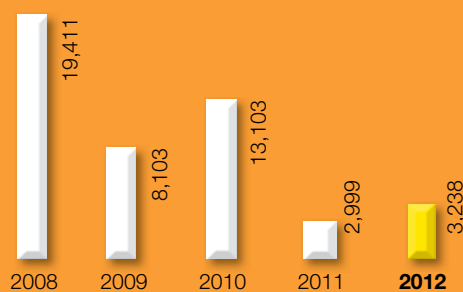
**REVENUE (RM'000)**



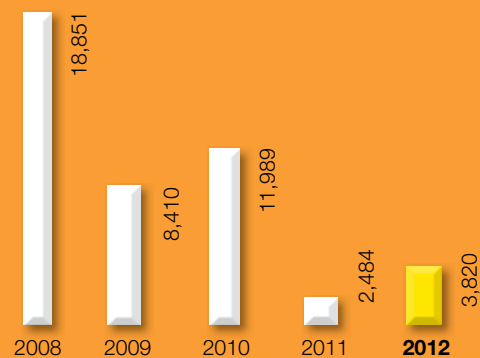
**EBITDA# (RM'000)**



**PBT\* (RM'000)**



**NET PROFIT (RM'000)**



# EBITDA: Earnings before interest, tax, depreciation and amortisation

\* PBT: Profit before tax

### SEGMENTAL REVENUE – BY CUSTOMER LOCATION (RM'000)

	2008	2009	2010	2011	2012
Singapore	59,409	56,494	66,501	66,295	64,053
Malaysia	61,293	74,532	68,966	61,447	45,835
Taiwan	-	-	-	51,430	49,689
Others	9,851	6,333	11,237	18,951	21,458
<b>Total</b>	<b>130,553</b>	<b>137,359</b>	<b>146,704</b>	<b>198,123</b>	<b>181,035</b>

### SEGMENTAL REVENUE – BY INDUSTRY (RM'000)

	2008	2009	2010	2011	2012
Oil & Gas	48,686	43,639	39,336	26,965	21,963
Power Generation	15,533	22,208	33,528	22,810	22,174
Semiconductor	42,819	45,426	41,177	99,853	90,636
General*	23,515	26,086	32,663	48,495	46,262
<b>Total</b>	<b>130,553</b>	<b>137,359</b>	<b>146,704</b>	<b>198,123</b>	<b>181,035</b>

\* Comprises aerospace, marine, steel, cement, wood processing, pulp & paper, printing, agriculture, industrial manufacturing, food, construction and other sectors

## FINANCIAL HIGHLIGHTS

### SUMMARISED GROUP BALANCE SHEETS

AS AT 31 DEC (RM'000)	2008	2009	2010	2011	2012
Non-Current Assets	164,473	168,234	211,563	214,177	183,606
Current Assets	75,906	66,762	121,628	119,411	130,572
<b>Total Assets</b>	<b>240,379</b>	<b>234,996</b>	<b>333,191</b>	<b>333,588</b>	<b>314,178</b>
Share Capital	69,977	72,243	101,141	101,141	101,141
Reserves	51,689	63,105	75,102	78,131	83,752
Shareholders' Equity	121,666	135,348	176,243	179,272	184,893
Non-Controlling Interests	652	182	25,902	27,890	28,116
<b>Total Equity</b>	<b>122,318</b>	<b>135,530</b>	<b>202,145</b>	<b>207,162</b>	<b>213,009</b>
Non-Current Liabilities	48,758	43,651	62,572	55,614	32,095
Current Liabilities	69,303	55,815	68,474	70,812	69,074
Total Liabilities	118,061	99,466	131,046	126,426	101,169
<b>Total Equity and Liabilities</b>	<b>240,379</b>	<b>234,996</b>	<b>333,191</b>	<b>333,588</b>	<b>314,178</b>

### SUMMARISED GROUP CASH FLOWS

YEAR ENDED 31 DEC (RM'000)	2008	2009	2010	2011	2012
Net Cash Flows From Operating Activities	25,769	23,278	20,919	24,587	16,043
Net Cash Flows (For)/From Investing Activities	(15,288)	(2,085)	(23,487)	(18,351)	17,461
Net Cash Flows From/(For) Financing Activities	(18,890)	(16,869)	25,217	(14,771)	(16,946)
Net (Decrease)/Increase in Cash and Cash Equivalents	(8,409)	4,324	22,649	(8,535)	16,558
Effect of exchange differences	73	282	134	257	208
Cash and Cash Equivalents at Beginning of Year	13,917	5,581	10,187	32,970	24,692
<b>Cash and Cash Equivalents at End of Year</b>	<b>5,581</b>	<b>10,187</b>	<b>32,970</b>	<b>24,692</b>	<b>41,458</b>

### FINANCIAL ANALYSIS

(RM'000)	2008	2009	2010	2011	2012
Turnover growth	23.9%	5.2%	6.8%	35.0%	-8.6%
Profit Before Tax Growth	182.6%	-58.3%	61.7%	-77.1%	8.0%
Net Profit Growth	370.6%	-55.4%	42.6%	-79.3%	53.8%
Pre-tax Profit Margin	14.9%	5.9%	8.9%	1.5%	1.8%
Net Profit Margin	14.4%	6.1%	8.2%	1.3%	2.1%
Gearing Ratio (Net of cash) (times)	0.5	0.4	0.3	0.3	0.1
Return on Average Shareholders' Equity	17.2%	6.5%	7.7%	1.4%	2.1%
Return on Average Total Assets	8.4%	3.5%	4.2%	0.7%	1.2%
Earnings Per Share (Sen)					
- Basic	#2.7	1.2	^1.3	0.3	0.4
- Diluted	n/a	n/a	1.0	@n/a	@n/a
Dividend Per Share (Sen)	-	-	0.1	0.1	-

# Computed based on weighted average number of shares which had been adjusted to incorporate the effect of the bonus issue implemented in 2008

^ Computed based on weighted average number of shares which had been adjusted to incorporate the effect of the rights issue implemented in 2010

@ The diluted earnings per share was not presented as the average market value of the ordinary shares of the Company is lower than the exercise price for the outstanding warrants and any exercise of warrants would be antidilutive.



## CHAIRMAN'S STATEMENT

### DEAR SHAREHOLDERS

On behalf of the Board of Directors of Frontken Corporation Berhad, I present to you the Annual Report and the Audited Financial Statements for the financial year ended 31 December 2012.

#### Year 2012 in perspective

In my last statement, I mentioned that our focus for year 2012 and beyond would be on improving execution and preserving our financial strength. We understand that we would not be able to secure long-term success if we do not meet our financial targets and deliver acceptable levels of return to our stakeholders.

Global uncertainties continued to plague the markets. The Malaysian front surprisingly remained resilient. The growth was driven by strong domestic demand, with impressive albeit slightly slower year-on-year growth in private consumption and private and public investment outlays. The net exports had meanwhile contracted further due to the deterioration in external demand for manufactured goods and commodities.

For us, 2012 had been a challenging year for the Group. Group sales in 2012 were down 9% to RM181 million (2011: RM198 million) mainly due to lower revenue from its operations in Singapore, Malaysia and Taiwan but profit before tax was up 8% at RM3.2 million from RM2.9 million in 2011. This was due to a gain of RM5.5 million on disposal of Metall-Treat Industries Pte Ltd (MTI), our wholly owned subsidiary. The disposal of MTI was in line with the Group's ongoing strategy to rationalise its investments to allow the Group to consolidate and deploy its resources more efficiently, improve operational efficiencies and reduce operating costs. In addition, the proceeds from the disposal also strengthened the Group's liquidity and cash position allowing it financial flexibility to pursue its growth plans.

In line with market softening, the revenue from Malaysia was down 28.5% and the other markets cumulatively also reduced by 2.2%. However, reported basic earnings per share were up 34.2% to 0.38 sen.

The shareholders' funds increased by 3% to RM184.9 million as compared to RM179.3 million in the previous year mainly due to the increase in reserves. The Group's net asset per share remained the same at 21 sen.

On the regional front, Singapore continued to remain as our main market notwithstanding the fact that the revenue was marginally lower at RM87 million. Our Singapore's operations accounted for approximately 45.8% of our overall business, slightly higher from last year's 44.3%. Taiwan market accounted for 27.6% of our business which was also affected with a slight decline of revenue by 3.4% to RM50.0 million as compared to RM51.8 million in 2011. Although the major contributors recorded a down trend, it was comforting to note that the rest of our operations in countries like the Philippines, China and Indonesia recorded an improvement in revenue. The Philippines, China and Indonesia ended the year with revenue of RM10.8 million, RM2.3 million and RM1.5 million respectively.

## CHAIRMAN'S STATEMENT (CONT'D)

### Year 2012 in perspective (CONT'D)

During the year, the Group generated RM16 million cash flows from operations and it has utilised RM11.8 million to acquire property, plant and equipment. The cash and cash equivalents amassed for the year was RM41.5 million. The shareholders' equity increased to RM185 million. The healthy shareholders' equity was partly attributed to the proceeds from the disposal of MTI of RM22.1 million.

The Group's revenue for the current quarter and twelve (12) months ended 31 December 2012 ("FY2012") decreased by approximately RM5.1 million (9.9%) and RM17.1 million (8.6%) respectively mainly due to lower revenue from its operations in Singapore, Malaysia and Taiwan.

The higher revenue from Singapore for the preceding corresponding period was due to more service works from its power generation division from customers' planned outages which did not happen this year. The lower revenue from Malaysia and Taiwan were mainly due to slow down in the customers' production capacity coupled with competitive pricing in the respective local markets, leading to lower unit selling price.

Against the same period last year, the profit before tax ("PBT") for FY2012 increased from RM3.0 million to RM3.2 million. Excluding the gain on disposal of investments in MTI, a wholly owned subsidiary, of RM5.5 million, the Group's PBT would have decreased by 174.6%. This was mainly caused by lower margin from certain trading activities coupled with losses from a few of its new business units namely the ones in Melaka, Kuching and Indonesia that only commenced operations in the fourth quarter of 2011 and in the first quarter of 2012 and also the relocation of our plant in Johor.

The PBT for the current quarter as compared to the corresponding quarter in 2011 increased to RM3.8 million from a loss before tax of RM3.3 million in the corresponding quarter in 2011. Excluding the gain on disposal on investments in MTI of RM5.5 million, the loss before tax for the current quarter would have been RM1.7 million.

### Analysing our business

The markets have been challenging over the years. The uncertain global economy coupled with the sluggish demands have impacted our revenues greatly. We will continue to look for opportunities to grow our business and explore new markets. Our growth strategy would be to enhance our service level, to create opportunities for growth, increase efficiencies with the view to keeping cost low and to focus on increasing our customers base.

In 2012, we saw a decline in our business especially from our major subsidiaries where the market conditions in each country has impacted the way we do our business. We will continue to review our business model to find opportunities to increase our revenues.

We will be consolidating our position and prioritising our efforts to focus on increasing revenue and bottom line from our main contributing countries. In looking back at 2012, we find ourselves trying to rise above the challenges of yet another difficult year of business uncertainties and slow consumer spending.

Against such backdrop, our focus in 2013 would be to deliver quality services and increase efficiencies which would in turn keep our growth and profits afloat. Times were hard in 2012. Rest assured that our efforts have not been affected by the slowdown. We will continue to keep track of our new business units in Melaka, Kuching and Indonesia.

We strive to deliver long-term value to our shareholders. For that, we have taken serious steps to keep looking out for business opportunities that bode well with our current activities. We accept changes in the way we do business in order to stay ahead of competition and to have a good grip of our long term sustainable growth without losing sight of our vision and mission.

Our ultimate objective is to enhance shareholders' value. We expect the uncertainties of 2012 to continue in 2013. We will continue to leverage on our regional spread and networking to steer our business forward.

In February 2013, it was most unfortunate that we had to announce the financial irregularities of one of our wholly owned subsidiaries and the appointment of Crowe Horwath to carry out a special investigative audit. Following the report, the Company had taken further measures to safeguard its assets and interest. The total potential impact will be about RM8.87 million, which have been provided for in the accounts for the past six financial years beginning from 2006. As the accounting irregularities happened in the past and full provision

## CHAIRMAN'S STATEMENT (CONT'D)

### Analysing our business (CONT'D)

had been made for the financial year ended 31 December 2012, there will not be any financial or operational impact on the Company. In the event that the same is recovered, the earnings would be adjusted accordingly by the amount received during that year.

We remain committed to overcome the obstacles by focusing on our key revenues and controlling costs.

### Keeping cost low and getting liquidity flowing

The results of 2012 continued to remind us of the need to continue to conserve our resources and to focus on growth even during these trying times. We were fortunate to have a management team that was able to face the turbulence with great professionalism and commitment. We will continue to innovate and fine tune our business strategies and model so that we may remain competitive.

We would abide by our strategy of operational efficiencies, organic growth and incremental in customers base to expand our business and keep the liquidity in.

### Outlook for 2013

We are still cautious on the economic outlook as the domestic and overseas markets continue to be uncertain. However, under the guidance of the Board, and with a good strategy, I believe we are well positioned to capitalise on growth opportunities in the coming year to the benefit of our stakeholders.

For the year 2013, we will continue with our strategy to build on Frontken's stable platform by accelerating and intensifying the execution of our strategy. The market outlook remained to be challenging for this year and beyond. We are taking action to mitigate the macro headwinds to deliver cost reductions and Group synergies. We will continue to work on the growth of our current businesses and renew our focus on operational performance.

We will up the pace of our execution further in the year ahead. We hope that this should deliver short-term earnings growth with significant acceleration once economic conditions improve.

In my last statement, I have said that growth would be partly dependent upon market conditions and it is fair to say that the economic environment and the industry remain challenging. We will continue to seek to maximise our profitability, to manage the decline in lower revenue and to manage costs with care.

We approach 2013 carefully knowing what to expect in a turbulent economy. We remain positive of our core activities while keeping tabs on our new business units. We will continue to seek diligently opportunities that can add value to our businesses.

As we weather the storm that would come our way, the Board would not be recommending any final dividend for the year ended 2012 as we need to conserve our cash for future expansion and investing activities.

### Appreciation

I would like to thank all my colleagues for their tremendous hard work which has been the driving force behind our performance despite the challenging business environment.

I also wish to thank our shareholders for their continued patience, trust and loyalty during this difficult phase. In addition, our thanks to our valued customers, bankers, suppliers and business associates for their continuing support and confidence.

Lastly, my heartfelt thanks go to my fellow board members for their commitment and guidance to the Group.

Sincerely,

NG WAI PIN  
Chairman/Managing Director

## FINANCIAL REVIEW

### RESULTS OF OPERATIONS

in RM'000

REVENUE				EBITDA			
2011	198,123	↓	9%	2011	24,819	↑	6%
2012	181,035			2012	26,276		
NET PROFIT				EBITDA MARGIN as a % of revenue			
2011	2,484	↑	54%	2011	12.5	↑	2%
2012	3,820			2012	14.5		

### REVENUE

Reported revenue for the Group for the financial year ended 31 December 2012 amounted to RM181.0 million, as against RM198.1 million in the previous year. The Group revenue for 2012 of RM181.0 million decreased in comparison with the previous year.

REVENUE (by customer location)	2012		2011		% change in revenue
	RM'000	%	RM'000	%	
Singapore	64,053	36	66,295	33	-3%
Taiwan	49,689	27	51,430	26	-3%
Malaysia	45,835	25	61,447	31	-25%
Philippines	10,932	6	9,320	5	17%
Others	10,526	6	9,631	5	9%
<b>Total</b>	<b>181,035</b>	<b>100</b>	<b>198,123</b>	<b>100</b>	<b>-9%</b>

An analysis of revenue by customer location shows a double digit growth in Philippines while the growth in Malaysia, Singapore and Taiwan had declined. Revenue from Malaysia fell by RM15.6 million to RM45.8 million as a result of slowdown in customers' production activities due to weak market demand. Likewise, slight decline was felt in Singapore and Taiwan.

The growth in Philippines was due to higher demand for its service works as a result of higher number of outages works in its power generation division. In comparison with previous year, Taiwan market is now the second largest revenue contributor to the Group, accounting for 27% of total group revenue in 2012. This market is expected to be continued benefited from growing economic relationship with China and liberalisation of Cross-Strait Investment restrictions

## FINANCIAL REVIEW (CONT'D)

### EARNINGS

Earnings before interest, tax, depreciation and amortization ("EBITDA") of the Group for 2012 increased to RM26.3 million from RM24.8 million the year before. As a percentage of revenue, EBITDA increased by 6% was due mainly to increase in other income as a result of gain on disposal of a subsidiary, coupled with lower sub-contracting, material and staff costs which decreased by RM11.1 million or 9% compared to the year before. The lower operating expenses in year 2012 was attributable to the management's efforts in cost management. Likewise, the share of losses of associates was RM367,407 for the year 2012 compared to a share of profit of RM18,304 in year 2011.

The reversal of deferred tax that was overprovided in prior years had a positive impact on net profit for 2012. Meanwhile, the depreciation and amortization of RM20.2 million in 2012 was higher than last year of RM19.0 million.

As a results of the factors discussed above, the consolidated net profit attributable to shareholders of the Company for the financial year ended 31 December 2012 was RM3.8 million, an increase from last year of RM2.5 million. This translated to basic earnings per share in 2012 of 0.38 sen based on a lower weighted number of shares of 1,009,573,358 compared to 0.25 sen against 1,010,922,408 shares in 2011.

### CASH FLOWS

in RM'000

NET DEBT				WORKING CAPITAL			
2011	53,623		52%	2011	48,599		27%
2012	25,988			2012	61,498		
FREE CASH FLOW				CAPITAL EXPENDITURE			
2011	5,475		111%	2011	23,206		38%
2012	11,563			2012	14,335		

Despite higher net profit in 2012, operating activities in 2011 generated higher net cash of RM24.6 million, compared to net cash from operating activities of RM16.0 million in 2012. The decrease in operating cash flow was due to increase in current year working capital balances as a result of repayment of payables and improved collection of receivables during the year.

Net cash generated from investment activities in 2012 was RM17.5 million, compared to net cash used of RM18.4 million in 2011. The improvement in cash flow from investment activities was due mainly to lower capital expenditure in property, plant and equipment and proceeds from disposal of a subsidiary in 2012. The Group also received proceeds from divestment of equipment and machinery of RM7.3 million in 2012. The net proceeds from disposal was partly utilised for the repayment of loan and as a result, the Group net debt was reduced from RM53.7 million to RM26.0 million in 2012.

The Group has cash and cash equivalent at the end of 2012 of RM41.5 million, compared to RM24.7 million at the end of 2011. Despite the significant improvement in cash and cash equivalent, the Group will continue to exercise prudence in cash flow management while conserving the cash for future expansion and investing activities.

## FINANCIAL REVIEW (CONT'D)

### FINANCIAL POSITION

The Group's shareholders' fund improved from RM179.3 million as at 31 December 2011 to RM184.9 million as at 31 December 2012 mainly from profit generated in 2012, due mainly to gain from disposal of a subsidiary and management's effort in cost management.

Total assets of the Group of RM314.2 million as at 31 December 2012 as compared to RM333.6 million as at 31 December 2011. Total group liabilities of RM101.2 as at 31 December 2012 were RM25.3 million or 20% lower than the previous year mainly due to repayment of borrowings. Group borrowings were reduced to RM67.4 million as at end of 31 December 2012 from RM80.0 million last year. Net gearing at year's end of 0.1 times of equity remains within the range that we consider to be appropriate.

53% of the total Group borrowings at the end of 2012 is repayable within one year with the balance spread over 2 to 8 years. Singapore Dollar borrowings represented 50% of total borrowings whilst borrowings denominated in Taiwan Dollars and Ringgit Malaysia made up 34% and 16% of total borrowings respectively. Foreign currency borrowings were drawn to hedge against the Group's overseas investments and receivables, which were denominated in foreign currencies.



## DIRECTORS' PROFILE

### NG WAI PIN

#### Chairman / Managing Director

- Aged 47, Malaysian
- Appointed to the Board on 10 April 2006
- Member of Remuneration Committee

Ng Wai Pin, formerly a Senior Independent Non-Executive Director of Frontken Corporation Berhad ("FCB"), was re-designated as the Chairman / Managing Director of the Company on 19 January 2012. He holds a Bachelor of Laws degree from the University of Auckland in 1988 and was practising as a barrister and solicitor in a leading legal firm in New Zealand for a number of years before returning to Malaysia where he joined Shook Lin & Bok, a legal firm in Kuala Lumpur. He was admitted as an Advocate and Solicitor of the High Court of Malaya in 1993 and later became a Director and Chief Executive Officer of a company listed on Bursa Malaysia Securities Berhad with regional operations, before returning to private practice in law. From September 2005 to February 2009, he was the Chief Operating Officer of a company listed on Singapore Exchange Limited and was seconded as the Chief Executive Officer of a company listed on the Australian Stock Exchange. Mr Ng is also the Deputy Chairman of Ares Green Technology Corporation, a subsidiary of FCB, listed on the Gre Tai Securities Market in Taiwan. He also sits on the board of two companies listed on Bursa Malaysia Securities Berhad, namely Euro Holdings Berhad and BSL Corporation Berhad.

He has no family relationship with any other Directors or major shareholders of the Company. He has not been convicted of any offences within the past ten years. He has no conflict of interest with the Company.

### DR TAY KIANG MENG

#### Executive Director / Chief Scientist

- Aged 48, Singaporean
- Appointed to the Board on 10 April 2006

Dr Tay Kiang Meng holds a Bachelor of Engineering (First Class Honours) in Manufacturing Systems Engineering from University of Portsmouth, and a Master of Science in Advanced Manufacturing Systems and a PhD in Engineering from Brunel University, United Kingdom.

He is responsible for research and development leading the Group's technology roadmap, spearheading research and development ("R&D") activities, formalising the Group's quality systems, developing critical manufacturing technologies for FCB's semiconductor technology and advanced materials engineering, and exploring new technology opportunities for the Group. He has more than 20 years of professional experiences in technology development, R&D, and has led some of the most significant technology innovations in semiconductor-related manufacturing technology and advanced materials engineering.

An engineer and scientist by training, Dr Tay began his professional R&D experience with research think tank, Gintic Institute of Manufacturing Technology, Singapore. Dr Tay has received honours and awards in many of his academic, research and technology development work.

Dr Tay also sits on the board of the FCB's subsidiary, Ares Green Technology Corporation, as its Chairman. He has no family relationship with any other Directors or major shareholders of the Company. He has not been convicted of any offences within the past ten years. He has no conflict of interest with the Company.

## DIRECTORS' PROFILE (CONT'D)

### DATO' HAJI JOHAR BIN MURAT @ MURAD

#### Independent Non-Executive Director

- Aged 66, Malaysian
- Appointed to the Board on 10 April 2006
- Chairman of Audit Committee and Nomination Committee, Member of Remuneration Committee

Dato' Haji Johar Bin Murat @ Murad graduated with a Bachelor degree in Malay Studies from Universiti Malaya in 1971. He has worked in various government agencies, such as the Ministry of Science, Technology & Environment, the Ministry of Finance, the Ministry of Public Enterprises (now known as Ministry of Entrepreneur and Co-operative Development) and Economic Planning Unit of Prime Minister's Department. During his tenure of service in the Ministry of Finance (1996 – 2000), he was a director of the following organisations:

- Yayasan Tun Razak (Tun Razak foundation)
- Perbadanan Kemajuan Negeri Selangor (Selangor State Economic Development Corporation)
- Majlis Sukan Negara Malaysia (National Sports Council)
- Lembaga Pembangunan Labuan (Labuan Development Authority)
- Syarikat MKIC Malaysia (Malaysia Equity Investment of Malaysia)
- Jawatankuasa Pengurusan Hutan Serantau (Regional Forestry Management Committee)
- Majlis Penyelidikan dan Kemajuan Sains Negara (National Council of Science and Research Development)

When he was the Deputy Secretary General (Operations) of the Ministry of Science, Technology & Environment from 2000 to 2003, Dato' Haji Johar was also an Alternate Director of Lembaga Pengarah Technology Park Malaysia, MIMOS Berhad, SIRIM Berhad, Malaysian Agriculture Research and Development Institute, Malaysia Technology Development Corporation, Composite Technology Research Malaysia Sdn Bhd, Malaysia Design Council and National Science Centre. He was also the Chairman of Audit Committee of MIMOS Berhad and a member of the Board of Tender for MIMOS Berhad and SIRIM Berhad. Currently, he sits on the board of Furniweb Industrial Products Berhad and several other private companies. He has no family relationship with any other Directors or major shareholders of the Company. He has not been convicted of any offences within the past ten years. He has no conflict of interest with the Company.

### AARON SIM KWEE LEIN

#### Senior Independent Non-Executive Director

- Aged 47, Malaysian
- Appointed to the Board on 27 August 2009
- Member of Audit Committee, Nomination Committee and Remuneration Committee

Aaron Sim Kwee Lein was identified as the Senior Independent Non-Executive Director of FCB on 20 February 2012. He is a Fellow member of the Chartered Association of Certified Accountants (UK), a Chartered Accountant of the Malaysian Institute of Accountant, a member of CPA Australia and a Chartered Member of the Institute of Internal Auditors Malaysia. He commenced his career with an international accounting firm and gained professional exposure in stock-broking, trading, manufacturing and construction concerns. Thereafter, he joined a listed company on the Main Board of Bursa Malaysia Securities Berhad as an Internal Auditor where he was engaged in audit work of stock-broking, manufacturing, retail and distribution concerns. In addition, he was also involved in due diligence, operational rationalisation and strategic planning work of corporate acquisitions. Subsequently, he joined a food retail franchise chain company as the Finance & Administrative Manager before becoming the Deputy General Manager of Corporate Strategies and Affairs of a glove manufacturing company. Mr Sim also sits on the board of Freight Management Holdings Bhd and Excel Force MSC Berhad.

He has no family relationship with any other Directors or major shareholders of the Company. He has not been convicted of any offences within the past ten years. He has no conflict of interest with the Company.

## DIRECTORS' PROFILE (CONT'D)

### JORG HELMUT HOHNLOSER

#### **Non-Independent Non-Executive Director**

- Aged 55, German
- Appointed to the Board on 20 February 2012
- Member of Audit Committee and Nomination Committee

Jorg Helmut Hohnloser received his M.D. from the University of Ulm, Germany and PhD (Medical Informatics) from the University of Munich, Germany. He has 25 years of working experience in the medical field, including research and teaching, and was involved in the development of medical IT systems. In 2000, he took over the management of Cleanpart GmbH and built the company from a single-location operation in Germany to a group with 12 locations in Germany, France and USA. Cleanpart GmbH was founded in 1998 and is principally involved in the cleaning and refurbishment of recyclable components from production systems in the semiconductor and related industries.

Mr Hohnloser also sits on the board of the FCB's subsidiary, Ares Green Technology Corporation. He has no family relationship with any other Directors or major shareholders of the Company. He has not been convicted of any offences within the past ten years. He has no conflict of interest with the Company.

### TIMO FABIAN SEEBERGER

#### **Alternate to Jorg Helmut Hohnloser**

- Aged 35, German
- Appointed to the Board on 20 February 2012

Timo Fabian Seeberger holds a Master of Technical Business Administration (Dipl. Kfm. Techn.) from the University of Stuttgart, Germany. He joined a privately-owned international group of companies, which render services for high-tech industries, as a Controller in 2005. He assumed his current position as the Chief Financial Officer of the group and the group's largest subsidiary, Cleanpart GmbH, in 2009. He has extensive experience in financial planning, management and reporting, financial modelling and information technology system.

He has no family relationship with any other Directors or major shareholders of the Company. He has not been convicted of any offences within the past ten years. He has no conflict of interest with the Company.

## CORPORATE SUSTAINABILITY STATEMENT

Frontken Corporation Berhad is committed to conduct its business with ethics and integrity. Our employees are our assets and they are aware of our expectations. We take positive steps in cultivating sustainability as part of our work culture.

### Health and safety

We have 902 employees in 6 countries covering Malaysia, Singapore, Philippines, China, Indonesia and Taiwan. We have a prominent role to play to ensure health and safety of our employees. We communicate with our employees the importance of health and safety through continuous education and awareness programme. The health and safety aspects also extend to our customers and subcontractors to ensure an accident and injury free working environment.

### Workplace

In our Group, we have a diverse employee population in terms of age, gender, race and religion. We have policies and processes in place to cultivate respect for each other and to work in harmony. We believe that a successful company is driven by the acceptance of the diversity and tolerance of the policies and processes which would contribute to our sustainability.

We also believe in attracting and retaining talents in our company. With that, our focus would be on building a workforce of diverse background, creating a harmonious workplace, building partnerships with the communities projects and creating value for our products in the market place through our brand and services.

### Ethical conduct and legal compliance

We place importance of ethical conduct and legal compliance in our work culture. Since we are operating in different countries, our top management has an oversight role of reviewing the operation and compliances matters. We encourage our employees to share their expectations and recommendations of appropriate practices in the respective places of operations in creating better rapport and making new leaders.

### Environment

Our continued success depends on our effort in sustaining our environment. We continue to listen and play our part in sustaining a healthy environment. We try to reduce our usage of energy, fuel, water and materials to maintain our minimal impact on the environment. We continue to explore ways to have energy savings lights and machines as well as minimizing the water usage while maintaining a high level of sanitation. We would reduce fuel usage and emissions through proper training and optimization of deliveries.

Having fulfilling customer's demand, we have always work closely with customers to develop functional solutions that will create awareness of addressing green issues with prolonging the life-span of their parts by improving processes through recycling and refurbishing. It has always been our practice to ensure all our operating units complying strictly to environmental legislations and to assert strict control thus minimizing the impact on the environment.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are required by the Companies Act, 1965 to prepare financial statements which give a true and fair view of the state of affairs of the Group and of the Company as at the end of each financial year and of the results and cash flows of the Group and of the Company for the financial year then ended. The directors ensure that suitable accounting policies have been used and applied consistently, and that reasonable and prudent judgments and estimates have been made, in the preparation of the financial statements. The directors also ensure that applicable approved accounting standards have been followed. The directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy the financial position of the Group and of the Company and to enable them to ensure that the financial statements comply with the Companies Act, 1965.

# CORPORATE GOVERNANCE STATEMENT

The Board of Frontken Corporation Berhad (the “Company”) recognises the importance of adopting high standards of corporate governance in the Company in order to safeguard stakeholders’ interests as well as enhancing shareholders’ value. The Directors consider corporate governance to be synonymous with four key concepts, namely transparency, accountability, integrity as well as corporate performance.

This corporate governance statement (“Statement”) sets out how the Company has applied the 8 Principles of the Malaysian Code on Corporate Governance 2012 (“MCCG 2012”) and observed the 26 Recommendations supporting the Principles during the financial year following the release of the MCCG 2012 by the Securities Commission in late March 2012. Where a specific Recommendation of the MCCG 2012 has not been observed during the financial year under review, the non-observation, including the reasons thereof and, where appropriate, the alternative practice, if any, is mentioned in this Statement.

## **Principle 1 – Establish clear roles and responsibilities**

### **1.1 Board should establish clear functions reserved for Board and Management**

To enhance accountability, the Board has established clear functions reserved for the Board and those delegated to Management. There is a formal schedule of matters reserved to the Board for its deliberation and decision to ensure the direction and control of the Company are in its hands. Key matters reserved for the Board include, inter-alia, the approval of annual budgets, quarterly and annual financial statements for announcement, investment and divestiture, as well as monitoring of the Group’s financial and operating performance. Such delineation of roles is clearly set out in the Board Charter (“Charter”), which serves as a reference point for Board activities.

The Charter, which is reviewed annually by the Board to ensure its relevance with prevailing requirements, provides guidance for Directors and Management regarding the responsibilities of the Board, its Committees and Management; the requirements of Directors in carrying out their stewardship role and in discharging their duties towards the Company; as well as boardroom activities. As at the end of the financial year under review, the Board Charter had not been made publicly available. Nonetheless, steps will be taken to upload the salient features of the Charter on the Company’s website at [www.frontken.com](http://www.frontken.com) in line with Recommendation 1.7 of the MCCG 2012.

To assist the Board in fulfilling its duties and responsibilities, the Board has established the Audit Committee, Nomination Committee and Remuneration Committee. Each committee is tasked with specific functions to operate within its terms of reference, which are included in the Charter. The ultimate responsibility for decision making, however, lies with the Board.

### **1.2 Board should establish clear roles and responsibilities in discharging its fiduciary and leadership functions**

#### Reviewing and adopting a strategic plan for the Company

The Board reviewed the strategic plan of the Company tabled by Management at its meeting. The strategic plan would cover the performance targets and long term plans of the Company. It is expected that on an annual basis, Management would table an annual budget for the new financial year. In addition, for any new business ventures, a proper and well researched meeting paper would be required for tabling at the Board meeting so that the matter could be deliberated and decided without delay.

The Executive Chairman would lead the discussion on the strategic plans for the Company. The Board is satisfied with the strategic plan of the Company as presented by the Executive Chairman. The Board would continue to review the strategic plan to ensure its implementation.

#### Overseeing the conduct of the Company’s business

The Executive Chairman leads the Board and also takes on a hands-on role in the Company’s day-to-day management. He is supported by an Executive Director and a management team in managing the Company’s business. The Board’s role is to oversee the performance of management to determine whether the business is properly managed. The Board gets updates from Management at the quarterly Board meeting when reviewing the unaudited quarterly results and annual audited financial statements. During such meetings, the Board participated actively in the discussion of the performance of the Company.

The performance of the Executive Chairman and Executive Director is reviewed annually by the Remuneration Committee in accordance with its terms of reference. The assessment process is based on the remuneration framework for the Executive Directors.

## CORPORATE GOVERNANCE STATEMENT (CONT'D)

### Principle 1 – Establish clear roles and responsibilities (CONT'D)

#### 1.2 Board should establish clear roles and responsibilities in discharging its fiduciary and leadership functions (CONT'D)

##### Identifying principal risks and ensuring the implementation of appropriate internal controls and mitigation measures

The Company engaged an external service provider to assist the Board in establishing an Enterprise Risk Management framework for the Group, formalizing, amongst others, the processes to identify, evaluate, control, report and monitor significant business risks faced by the Group. The Board has approved the Enterprise Risk Management Framework for adoption across the Group. The Board, via its Audit Committee reviews the outcome of risk assessment, including the implementation of appropriate internal controls and mitigation measures to address the risks identified.

Further details of the Enterprise Risk Management Framework are set out in the Internal Control Statement on pages 30 to 31 of this Annual Report.

##### Succession planning

The Board views succession planning as important for business continuity. It is acknowledged that with succession planning, the key job vacancies created due to retirement and resignation would be filled quickly and without any business interruption. To ensure its success, the Board has adopted a succession plan to ensure that there are programmes in place to provide for the orderly succession of senior management.

##### Overseeing the development and implementation of a shareholder communications policy for the Company

The Company's interactive website contained an Investor Relations section where the shareholders could communicate with the Board through the designated Investor Relations officer. The Board has also identified a Senior Independent Director to whom the shareholders can communicate with on matters regarding the Company.

##### Reviewing the adequacy and the integrity of the management information and internal controls system of the Company

The Board acknowledges the importance of the adequacy and integrity of the information and internal controls system of the Company. Details of the Group's internal control system are set out in the Internal Control Statement on pages 30 to 31 of this Annual Report.

#### 1.3 Formalise ethical standards through code of conduct and ensure its compliance

The Company does not have a Code of Conduct at this moment. The Board understands the importance of having a Code of Conduct for the Directors and employees. The Board shall look into the development of a Code of Conduct during this financial year and once completed, a summary of the Code of Conduct shall be published in the Company's website.

Meanwhile, the Board has in place a Whistle Blowing Policies and Procedures for the employees to raise genuine concerns about possible improprieties in matters of financial reporting, compliance, malpractices and unethical business conduct within the Group.

#### 1.4 Ensure the Company's strategy promote sustainability

The Board recognises the need for the Company's strategy to include sustainability on the operations. A sustainability process would help the Company to set goals, measure its performance and manage changes in its business. The effort would continue to be monitored by the Board in helping to shape the Company's strategy and policy and ultimately to improve the overall performance.

The details of the sustainability efforts are set out in the Corporate Sustainability Statement in this Annual Report.



## CORPORATE GOVERNANCE STATEMENT (CONT'D)

### Principle 1 – Establish clear roles and responsibilities (CONT'D)

#### 1.5 Procedures to allow Directors access to information and advice

The Company's Board Charter provided a procedure to access to information and independent advice by the Board and Committees. Management is required to supply the Board and Committees with information in a form, timeframe and quality that enables them to effectively discharge their duties. The Directors are provided with copies of the Board paper prior to each meeting to give the Directors sufficient time to evaluate the proposals and if necessary, to request additional information necessary in discharging their duties effectively. The Board has a formal schedule of matters specifically reserved to it for decision, and has clearly defined delegation of responsibilities to committees of the Board and to management including appropriate limits of authority. The Directors are entitled to request and receive such additional information as they consider necessary to support informed decision-making. A Director may seek independent legal, financial or other advice as they consider necessary at the expense of the Company as a full Board or in their individual capacity, in the furtherance of their duties.

#### 1.6 Ensure Board is supported by suitably qualified and competent Company Secretaries

The Company Secretaries of the Company are suitably qualified and competent to support the Board. The Board is regularly updated by the Company Secretaries on the latest regulatory updates. During the financial year, the Board was briefed by the Company Secretaries on the Corporate Disclosure Guide, the amendments to the listing requirements and Malaysian Code on Corporate Governance 2012.

The Board has access to the advice and services of the Company Secretaries who are responsible for ensuring that the established procedures and relevant statutes and regulations are complied with.

#### 1.7 Formalise periodically review and make public the Board Charter

A copy of the Board Charter is published in the Company's website. The Board Charter sets out the composition of the Board, duties and responsibilities on matters relating to strategy and planning, human resource, remuneration, capital management and financial reporting, performance monitoring, risk management, audit and compliance and board processes and policies, Committees, Chairman of the Board, independence of Directors, access to information and independent advice, dealings in securities, orientation and continuing education and Board assessment.

The Board reviews the Board Charter on an annual basis to be consistent with the relevant regulatory requirements.

### Principle 2 – Strengthen composition

#### 2.1 Establish a Nomination Committee comprising exclusively non-executive directors, with majority independent

The composition of the Nomination Committee comprises exclusively Non-Executive Directors with a majority of Independent Directors. The Nomination Committee met three times in year 2012 to deliberate matters within its terms of reference.

The Board has identified a Senior Independent Director who is a member of the Nomination Committee to deal with any concerns from the shareholders. Mr. Aaron Sim Kwee Lein was appointed the Senior Independent Director on 20 February 2012 in place of Mr Ng Wai Pin who was redesignated as the Chairman and Managing Director of the Company. The Board appointed a member of the Nomination Committee instead of the Chairman of the Nomination Committee as the Senior Independent Director as during the restructuring of the Nomination Committee in year 2012, the Board agreed that Mr. Aaron Sim Kwee Lein was suitable to hold this position at that time.

## CORPORATE GOVERNANCE STATEMENT (CONT'D)

### Principle 2 – Strengthen composition (CONT'D)

#### 2.2 Nomination Committee should develop, maintain and review criteria for recruitment process and annual assessment of directors

The Nomination Committee is responsible for reviewing the proposed candidate based on the selection criteria expected of a director and makes recommendation to the Board if the proposed candidate is found to be suitable. The decision on new appointment of directors rests with the Board after considering the recommendation of the Nomination Committee.

The Board has also entrusted the Nomination Committee with the responsibility for carrying out evaluation of board effectiveness in the areas of composition, roles and responsibilities, and whether the respective Board Committees effectively discharge their functions and duties in accordance with their terms of reference. The assessment of Board members takes into account the ability of each member to give material input at meetings and demonstrate high level of professionalism and integrity in decision making process. The Nomination Committee annually reviews the composition of the Board to ensure that the Board has the appropriate mix of expertise and experience, and collectively possesses the necessary core competencies for effective functioning and informed decision-making.

The Board through the delegation of its authority to the Nomination Committee, has used its best efforts to ensure that Directors appointed to the Board possess the background, experience, knowledge and skills critical to the Group's business and that each Director with his special contributions brings to the Board an independent and objective perspective to enable balanced and well-considered decisions to be made. As part of the learning process for new Directors, the Nomination Committee arranges induction sessions for these Directors to meet with the respective Heads of Departments to understand the business of the Group.

The Nomination Committee conducted an annual assessment of the Board as whole and individually of the required mix of skills and experience and other qualities, including core competencies which Non-Executive Directors should bring to the Board and the effectiveness of the Board of Directors as a whole, the Board Committees and contribution of each individual Director, including Independent Non-Executive Directors and CEO. It also conducted an assessment of the Directors who are subject to retirement at the forthcoming annual general meeting in accordance with the Articles of Association of the Company.

The Nomination Committee takes part in the recruitment of new Directors upon receiving a nomination for new Directors. The review process would entail the assessment of the candidates' background, experience, knowledge and skills critical to the Group's business. Upon the evaluation of the candidates, the Nomination Committee shall report to the Board of its findings and recommendations. The Board would base on the recommendations of the Nomination Committee to proceed to approve or decline the appointment of the candidates as the new Directors of the Company.

For any requisition of nomination by the shareholders, the Nomination Committee would also perform the same review process. However, if the requisition is by way of sections 144 or 145 of the Companies Act, 1965, the Nomination Committee would still carry out its duties if permitted by the requisitionists.

The Board currently consists of 5 members of which none is a female Director. The Board is satisfied with the contribution of each member of the Board through the annual assessment by the Nomination Committee. In the event of a vacancy in the Board, the Nomination Committee has been tasked to include the recruitment of female Directors. The Board would endeavour to recruit a female Director and has set itself to meet the Prime Minister's call of having 30% women's representation at boardroom level by year 2016.

The attendance of the Board Committee members for the financial year ended 31 December 2012:-

Directors	Audit Committee	Nomination Committee	Remuneration Committee
Ng Wai Pin	N/A	N/A	3/3
Dato' Haji Johar bin Murat @ Murad	7/7	3/3	3/3
Aaron Sim Kwee Lein	7/7	3/3	2/2
Jorg Helmut Hohnloser	3/7	0/1	N/A

## CORPORATE GOVERNANCE STATEMENT (CONT'D)

### Principle 2 – Strengthen composition (CONT'D)

#### 2.3 Board should establish formal and transparent remuneration policies and procedures to attract and retain directors

The composition of the Remuneration Committee comprises a majority of Independent Directors. The Remuneration Committee met three times in year 2012 to deliberate matters within its terms of reference.

The Remuneration Committee is responsible for reviewing the remuneration of Directors and senior management to ensure that they are at sufficiently competitive levels and recommending to the Board the remuneration of the directors and senior management. The Company has adopted the objectives as recommended by the MCG to determine the remuneration of the Directors so as to ensure that the Company attracts and retains directors of the quality needed to manage the business of the Group respectively.

The Remuneration Committee had performed its duty to assess annually the remuneration package of its Executive Directors and Senior Management.

The Board recommends the Directors' fees payable to the Directors on a yearly basis to the shareholders for approval at the annual general meeting in line with the provision of its Articles of Association.

The aggregate remuneration of the directors for the financial year ended 31 December 2012 is as follows:

	Executive Directors RM'000	Non-Executive Directors RM'000
Salaries	2,098	-
Fees	3	125
Bonuses	-	-
Other emoluments	73	-
	<b>2,174</b>	<b>125</b>

The number of Directors whose remuneration falls within the respective bands is as follows:

	Executive Directors	Non-Executive Directors
Below RM50,000	-	4
RM200,001 to RM250,000	1	-
RM900,001 to RM950,000	1	-
RM1,200,001 to RM1,250,000	1	-
	<b>3</b>	<b>4</b>

The MCG recommends detailed disclosure to be made for each director's remuneration. The Board has chosen to disclose the remuneration in bands pursuant to the Listing Requirements, as separate and detailed disclosure of individual directors' remuneration will not add significantly to the understanding and evaluation of the Company's governance.

### Principle 3 – Reinforce independence

#### 3.1 Board should undertake an assessment of its independent directors annually

On an annual basis, the Board through the Nomination Committee assesses the Independent Directors. The Nomination Committee has in place an evaluation process and would report to the Board on its findings. The Board is satisfied with the assessment carried out of the Independent Directors.

#### 3.2 Tenure of independent director should not exceed cumulative term of 9 years. Upon completion of tenure, independent director can continue serving but as non-executive director

The Board does not have any Independent Directors who have served the Board exceeding the tenure of 9 years. Dato' Haji Johar bin Murat @ Murad is currently the longest serving Independent Director amongst the rest of the Independent Directors. He has in cumulative 7 years of service.

The Board notes the recommendations of MCG and shall address the matter when the time arises.

## CORPORATE GOVERNANCE STATEMENT (CONT'D)

### Principle 3 – Reinforce independence (CONT'D)

#### 3.3 Must justify and seek shareholders' approval in retaining independent directors (serving more than 9 years)

This section is not applicable to the Company in view of section 3.2 above.

#### 3.4 Positions of Chairman and Chief Executive Officer to be held by different individuals

The Board remains mindful of the dual role held by Mr. Ng Wai Pin as the Executive Chairman and Managing Director and that the position of the Chairman should be a Non-Executive Director. However, the Board is of the view that there is no concentration of power and authority, and that no one individual has unfettered powers of decision. Furthermore, there are sufficient Independent Directors on the Board who are individuals of calibre, credibility and are free from any business or other relationship which could materially interfere with the exercise of their independent judgment. These Independent Directors are capable of exercising independent judgment to ensure fair and objective deliberations at Board meetings.

#### 3.5 Board must comprise a majority of independent directors if Chairman is not an independent director

The Board has an Executive Chairman and understands that where the Chairman is not an Independent Director, the Board must comprise a majority of Independent Directors. As the size of the Board is small, the Board is satisfied that the composition of the Board meets with the minimum requirements of the Main Market Listing Requirements and that there is a balance of power at Board level.

### Principle 4 – Foster commitment

#### 4.1 Board should set expectations on time commitment for its members and protocols for accepting new directorships

The Board on an annual basis would agree on the meeting dates for the whole year so that each member of the Board is able to plan his schedule accordingly. This helps to ensure that the Board is committed to meet when the time arises.

The Board has also set a guideline on the acceptance of new directorships by the members of the Board. Any Director intending to take any new directorships should notify the Chairman of the Company first prior to accepting the new directorships and also to confirm his commitment that the new directorships would not impair his time commitment with the Company.

The attendance record of the Board for the financial year ended 31 December 2012 is set out below:-

Directors	Designations	Attendance %
Ng Wai Pin	Executive Chairman and Managing Director	9/9
Dr Tay Kiang Meng	Executive Director / Chief Scientist	9/9
Dato' Haji Johar bin Murat @ Murad	Independent Non-Executive Director	9/9
Aaron Sim Kwee Lein	Independent Non-Executive Director	9/9
Jorg Helmut Hohnloser	Non-Independent Non-Executive Director	6/8*

*\* Mr Timo attended 2 out of 8 Board Meetings on behalf of Mr Jorg Helmut Hohnloser*

Based on the above, all the Directors of the Company have attended more than 50% of the attendance required by the Main Market Listing Requirements.

#### 4.2 Board should ensure members have access to appropriate continuing education programme

The Board encourages its members to enrol in appropriate continuing education programme to equip them to serve the interests of the Company.

The Directors were updated on an ongoing basis by way of circulars on matters relating to changes to the Listing Requirements. Courses and forums attended by the directors during the year are as follows:

## CORPORATE GOVERNANCE STATEMENT (CONT'D)

### Principle 4 – Foster commitment (CONT'D)

#### 4.2 Board should ensure members have access to appropriate continuing education programme (CONT'D)

Ng Wai Pin	<ul style="list-style-type: none"> <li>Advocacy Sessions on Disclosure For Chief Executive Officers (“CEOs”) and Chief Financial Officers (“CFOs”)</li> <li>Semicon West Conference</li> <li>Key Amendments to Listing Requirements 2011 and Corporate Disclosure Guide</li> </ul>
Dr Tay Kiang Meng	<ul style="list-style-type: none"> <li>Semicon Singapore Conference</li> <li>Semicon West Conference</li> </ul>
Dato’ Haji Johar bin Murat @ Murad	<ul style="list-style-type: none"> <li>Achieving and Increasing Boardroom Effectiveness and Performance</li> </ul>
Aaron Sim Kwee Lien	<ul style="list-style-type: none"> <li>Withholding Tax and Cross Borders Transactions</li> <li>Strategic Influencing</li> </ul>
Timo Fabien Seeberger	<ul style="list-style-type: none"> <li>Mandatory Accreditation Programme for Directors of Public Listed Companies</li> </ul>
Jorg Helmut Hohnloser	<ul style="list-style-type: none"> <li>Mandatory Accreditation Programme for Directors of Public Listed Companies</li> </ul>

### Principle 5 – Uphold integrity in financial reporting

#### 5.1 Audit Committee should ensure financial statements comply with applicable financial reporting standards

The Board through the Audit Committee endeavours to provide and present a balanced and meaningful assessment of the Group’s financial performance and prospects to shareholders, primarily through the annual reports, quarterly announcements of the Group’s results and other price-sensitive public reports. The Board is assisted by the Audit Committee in overseeing the Group’s financial reporting processes and the accuracy, consistency and appropriateness of the use and application of accounting policies and standards, as well as the reasonableness and prudence in making estimates, statements and explanations.

On a yearly basis, the Audit Committee would meet with the External Auditors to go through the Audit Planning Memorandum prior to the commencement of the audit. In addition, the Audit Committee would also meet with the External Auditors to discuss with the External Auditors on their report to the Audit Committee following the completion of their audit. The External Auditors would share with the Audit Committee on any significant issues on the financial statements and regulatory updates. The Audit Committee would obtain the confirmation of the External Auditors with regard to the Company’s compliance with the applicable financial reporting standards.

#### 5.2 Audit Committee should have policies and procedures to assess suitability and independence of external auditors

The Audit Committee has in place an assessment of the External Auditors and would assess them on an annual basis and report to the Board its recommendation for the reappointment of the External Auditors at the annual general meeting.

In addition, the Audit Committee has in place a policy with regard to the provision of non-audit services by the External Auditors. During the financial year ended 31 December 2012, the non-audit services rendered by the External Auditors were RM85,000. The amount of fees incurred were RM80,000.

The External Auditors had provided a written assurance to the Audit Committee that they were independent throughout the conduct of the audit engagement in accordance with the terms of all relevant professional and regulatory requirements.

### Principle 6 – Recognise and manage risks

#### 6.1 Board should establish a sound framework to manage risks

The Board had established a sound framework to identify and management significant risks faced by the Group. Such a framework also includes pertinent risk management policies and guidelines to provide structured guidance to personnel across the Group in addressing risk management. The risk appetite of the Group is articulated via the use of risk parameters in the framework, covering financial and non-financial metrics, to assess the likelihood of risks occurring and the impact thereof should the risks crystallise. Internal controls deployed by Management are linked to, and mitigate, the business risks identified.

## CORPORATE GOVERNANCE STATEMENT (CONT'D)

### Principle 6 – Recognise and manage risks (CONT'D)

#### 6.1 Board should establish a sound framework to manage risks (CONT'D)

The Audit Committee works with the Internal Auditors to ensure that the Internal Audit Annual Plan encompasses the audit of the essential services and the follow up on the audits. The Internal Auditors are also required to perform periodic testing of the internal control systems to ensure that the system is robust.

Further details of the Enterprise Risk Management framework and the system of internal control of the Group are set out in the Internal Control Statement on pages 30 to 31 of this Annual Report.

#### 6.2 Board should establish an internal audit function which reports directly to Audit Committee

The Group outsources its internal audit function to an independent professional firm, with the objective for conducting systematic testing and assessment of the Group's internal control system based on an internal audit plan approved by the Audit Committee. Its responsibilities include providing independent and objective reports on the state of internal controls of the significant operating units in the Group to the Audit Committee, with recommendations for improvement to the control procedures, so that remedial actions can be taken in relation to weaknesses noted in the systems.

During the financial year, the internal auditors carried out review of selected key processes of the Company and certain significant subsidiaries, covering high-level internal control framework, financial management, risk management, procurement and inventory management. The total costs incurred by the Company for the internal audit function of the Group in year 2012 amounted to approximately RM38,000.

Details of the internal control system are set out in the Internal Control Statement on pages 30 to 31 of this Annual Report.

### Principle 7 – Ensure timely and high quality disclosure

#### 7.1 Ensure Company has appropriate disclosure policies and procedures

The Board has set an internal Corporate Disclosure Policy in compliance with the disclosure requirements as set out in the Main Market Listing Requirements.

The Board delegated the authority to the Executive Chairman of the Company to ensure that Corporate Disclosure Policy is being adhered to by senior management and Company Secretaries in respect to disclosure obligations.

#### 7.2 Encourage Company to leverage on information technology for effective dissemination of information

The Company's website has a section dedicated to shareholders under Investor Relations where shareholders can check on the latest announcements of the Company, press release, media news, share and warrant prices and also to contact the designated person on investor relations matters. The shareholders are also encouraged to subscribe for any news alert of the Company.

### Principle 8 – Strengthen relationship between Company and shareholders

#### 8.1 Take reasonable steps to encourage shareholder participation at general meetings

The Board encourages the attendance of the shareholders at the Company's annual general meeting. The notice period of the annual general meeting is given to the shareholders slightly longer than the minimum of 21 clear days. With a slightly longer time, the shareholders are provided with ample time to review the annual report, to appoint proxies and to collate questions to be asked at the annual general meeting.

For this year, the Board has also proposed for the amendment of its Articles of Association in line with the recommendation to adopt electronic voting to facilitate greater shareholder participation in the future general meetings.



## **CORPORATE GOVERNANCE STATEMENT (CONT'D)**

### **Principle 8 – Strengthen relationship between Company and shareholders (CONT'D)**

#### **8.2 Board should encourage poll voting**

At the commencement of the annual general meeting after the calling of the meeting to order, the Chairman would remind the shareholders, proxies and corporate representatives on their rights to demand for a poll in accordance with the provisions of the Articles of Association of the Company for any resolutions. The Chairman is also aware that he could demand for a poll for substantive resolution to be tabled at the shareholders' meetings.

The Company's share registrar is well equipped to facilitate the conduct a poll should the need arises.

#### **8.3 Board should promote effective communication and proactive engagements with shareholders**

Shareholders' meetings are important events for the Board to meet the shareholders. The Chairman would allot sufficient time to encourage the shareholders, proxies and the corporate representatives to ask questions pertaining to the matters tabled at the general meetings. The senior management and External Auditors are present at the shareholders' meetings to answer any query that the shareholders, proxies and corporate representatives may ask.

This statement is made in accordance with the resolution of the Board dated 23 April 2013.

# AUDIT COMMITTEE REPORT

## A. COMPOSITION AND ATTENDANCE

The members of the Audit Committee ("AC") are as follows :-

### Chairman of AC

Dato' Haji Johar bin Murat @ Murad (re-designated as Chairman of AC on 19 January 2012)	Independent Non-Executive Director
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Ng Wai Pin (resigned as Chairman of AC on 19 January 2012)	Chairman / Managing Director
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### Members of AC

Aaron Sim Kwee Lein	Senior Independent Non-Executive Director
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Jorg Helmut Hohnloser (appointed a member of AC on 20 February 2012)	Non-Independent Non-Executive Director
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Dato' Sri Ibrahim Bin Mahmud (appointed a member of AC on 19 January 2012; deceased on 2 February 2012)	-
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Mr Aaron Sim Kwee Lein, a member of the AC is a Fellow member of the Chartered Association of Certified Accountants (UK), a Chartered Accountant of the Malaysian Institute of Accountant, a member of CPA Australia and a Chartered Member of the Institute of Internal Auditors Malaysia.

The composition of the AC, the Independent Chairman and the qualification of the Chairman meet the Main Market listing requirements.

The Board through the Nomination Committee assesses the members of the AC on an annual basis and once in every three year would assess the effectiveness of the AC and each its members to determine whether the AC and members have carried out their duties in accordance with their Terms of Reference.

The meeting attendance is provided in the Corporate Governance Statement.

## B. MEETINGS

There were seven meetings held in year 2012. During those meetings, the AC held two private sessions with the External Auditors without the presence of the Executive Directors and management. During the private sessions, the AC enquired on the co-operation extended by Management in the course of their audit, the supply of information to facilitate the provision of the information and matters to be brought to the attention of the AC.

The meetings of the AC are planned ahead so that the members can make the necessary arrangement to attend the meetings. The notice for the AC's meetings is served at least one week before each meeting and the meeting papers would be sent to each member to provide them time to read.

At each Board meeting, the Chairman of the AC would brief the Board pertaining to the matters discussed during the AC's meeting held earlier. A copy of the minutes of the AC is circulated to the Board for notation.

## AUDIT COMMITTEE REPORT (CONT'D)

### C. FUNCTIONS AND DUTIES

The functions and duties of the AC are as follows:

1. To review the following and report the same to the Board:
  - (a) The nomination of external auditors;
  - (b) The adequacy of existing external auditors audit arrangements, with particular emphasis on the scope and quality of the audit;
  - (c) The effectiveness and adequacy of the scope, functions, competency and resources of the internal audit functions and that it has the necessary authority to carry out its work;
  - (d) The internal audit programme and the results of the internal audit processes, and where necessary, ensure that appropriate actions are taken on the recommendations of the internal auditors;
  - (e) Any appraisal or assessment of the performance of members of the internal audit function and approve any appointment or termination of internal auditors;
  - (f) The effectiveness of the internal controls and management information systems;
  - (g) The financial statements of the Company with both the external auditors and management;
  - (h) The external auditors' audit report;
  - (i) Any management letter sent by the external auditors to the Company and the management's response to such letter;
  - (j) Any letter of resignation from the Company's external auditors;
  - (k) The quarterly and year end financial statements of the Group;
  - (l) The assistance given by the employees of the Company to the external Auditors;
  - (m) To discuss problems and reservations arising from the interim and final audits, and any matter the external auditors may wish to discuss (in the absence of management where necessary);
  - (n) All areas of significant financial risk and arrangements in place to contain those risks to acceptable levels; and
  - (o) All related party transactions and potential conflict of interests situations that may arise within the Company or Group.
2. To consider the appointment of the external auditors, the audit fee and any questions of resignation or dismissal and on whether there is a reason (supported by grounds) to believe that the Company's external auditors are not suitable for re-appointment.
3. To carry out 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.
4. The Committee's actions shall be reported to the Board with such recommendations as the Committee deems appropriate.
5. To report to Bursa Malaysia Securities Berhad on any matter reported by it to the Board of the Company which has not been satisfactorily resolved resulting in a breach of the Listing Requirements.

### D. AUTHORITY

The AC shall have the authority to:-

1. Investigate any matter within its terms of reference;
2. Have the resources which are required to perform its duties;
3. Have full and unrestricted access to an information which it requires in the course of performing its duties;
4. Have direct communication channels with the internal and external auditors;
5. Obtain independent/external professional or other advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary; and
6. Convene meetings with the external auditors, the internal auditors or both, excluding the attendance of other directors and employees of the Company, whenever deemed necessary.

## AUDIT COMMITTEE REPORT (CONT'D)

### E. SUMMARY OF ACTIVITIES DURING THE FINANCIAL YEAR

The principal activities undertaken by the AC during the financial year are summarised as follows :-

1. Reviewed the unaudited quarterly and year-end financial statements prior to recommending the same for the Board's approval, focusing particularly on significant and unusual events and compliance with accounting standards and other legal requirements;
2. Reviewed the appointment of the external and internal auditors, their independence and effectiveness, and their fees;
3. Reviewed of the external auditors' audit planning memorandum comprising their scope of audit, key audit areas, audit approach and timetable;
4. Met with the external auditors twice during the year without the presence of the executive directors and management and to review the audit report and discuss relevant issues and obtain feedbacks;
5. Reviewed of the external auditors' management letter and recommendations regarding opportunities for improvement to internal controls based on observations made in the course of the audit;
6. Reviewed of the adequacy of the scope, functions, competency and resources of the internal audit function, and that it has the necessary authority to carry out its work;
7. Reviewed of the scope and results of the internal audit procedures as well as management's response to recommendations for improvement, and evaluation of adequacy of the internal control system based on the reports from the internal auditors;
8. Reviewed of the related party transactions within the Group;
9. Reviewed of the Group's financial and accounting policies and practices; and
10. Evaluation of the performance of the external auditors' function based on timeliness, competency, adequacy of resources to achieve the agreed scope of audit, and assistance given by the employees of the Group to the external auditors before recommending the re-appointment of external auditors to the Board.

### F. INTERNAL AUDIT FUNCTION

The Group outsourced its internal audit function to an independent internal audit function to an independent internal audit service provider. The principal role of the internal audit is to undertake such systematic reviews of the internal control systems within the Group in accordance with internal audit plan, so as to provide reasonable assurance that such systems are adequate and functioning as intended. Its responsibilities include provision of independent and objective reports on the state of internal controls of the various operating units within the Group to the AC and provide recommendations for the improvement of the control procedures, so that remedial actions can be taken in relation to weaknesses noted in the systems and controls of the respective operating units.

During the financial year, the internal auditors carried out review of selected key processes of the Company and certain subsidiaries, covering high-level internal control framework, financial management, risk management, procurement and inventory management. The internal audit was based on scope of work which was approved by the AC. The total costs incurred by the Company for the internal audit function of the Group in 2012 amounted to approximately RM38,000.

# RISK MANAGEMENT AND INTERNAL CONTROL STATEMENT

## Introduction

The Board of Directors is committed to maintaining a sound system of risk management and internal control in the Group and is pleased to provide the following Internal Control Statement (the "Statement"), which outlines the nature and scope of risk management and internal control system in the Group during the financial year ended 31 December 2012. For the purpose of disclosure, this Statement takes into consideration the "Statement on Risk Management and Internal Controls - Guidelines for Directors of Listed Issuers", a publication of Bursa Malaysia Securities Berhad ("Bursa") which provides guidance to Boards on the issuance of Internal Control Statement pursuant to Paragraph 15.26(b) of Bursa's Listing Requirements.

## Board Responsibility

The Board acknowledges its overall responsibility for the Group's system of internal control and risk management to safeguard shareholders' investment and the Group's assets as well as reviewing its adequacy and integrity. The Board is mindful of its principal responsibilities as outlined in the Malaysian Code on Corporate Governance 2012, which include the following:

- identifying principal risks and ensuring the implementation of appropriate controls and mitigation measures; and
- reviewing the adequacy and the integrity of the management information and internal controls system of the Company.

The system of internal control covers not only financial controls but operational and compliance controls and risk management procedures. In view of the limitations inherent in any system of risk management and internal control, the system is designed to manage, rather than to eliminate, the risk of failure to achieve the Group's business and corporate objectives. The system can therefore only provide reasonable, but not absolute assurance, against any material misstatement, financial loss or fraudulent practice.

The Board has formalized in writing an on-going process for identifying, evaluating and managing the significant risks faced by the Group. The Board, through its Audit Committee, reviews the results of this process, including mitigating measures taken by Management to address areas of key risks as identified. This process has been in place for the financial year under review and up to the date of approval of this Statement for inclusion in the Annual Report of the Company.

## Risk Management

Risk management is firmly embedded in the Group's key processes through its Enterprise Risk Management framework, in line with Recommendation 6.1 of the Malaysian Code on

Corporate Governance ("MCCG 2012"). This framework includes a risk management process which is on-going and results in the compilation of specific risk profiles of key business units or subsidiaries in the Group. The individual risks in the profile are scored for their likelihood of occurrence and the impact thereof based on risk parameters established for each key business unit or subsidiary. The risk parameters on the likelihood of risk occurrence and impact thereof essentially articulate the Board's risk appetite. The risk responses and internal controls that Management has taken and/or is taking are documented in the minutes of the Audit Committee meetings. For each of the risks identified, a risk owner has been identified to ensure appropriate risk response actions are carried out. To streamline the risk management processes, the Board has formalized in writing pertinent risk management policies and guidelines to be adopted by business units across the Group.

## Internal Control

The Group has an established organisational structure with clearly defined lines of responsibilities and appropriate levels of delegation and authority. It maintains clear reporting lines and segregation of duties for major operational functions such as sales, receipts, purchases, payment, capital expenditure and investments. The procedures for the major operating functions are subject to review and improvements to reflect the changing risks or resolve operational deficiencies. A process of hierarchical reporting is established which provides a documented and auditable trail of accountability.

Annual budgetary exercise is carried out, requiring all business units in the Group to prepare financial budgets. The Group budget is then presented to the Board for comments and approval. Quarterly review of the Group's performance against budget with any major variances is carried out and deliberated at Board meetings. Management meetings at operational level are conducted to review financial performance against business plans and monitor the respective business unit's performance against budget.

Significant changes in business development are reported to the Board at its scheduled meetings. This oversight review enables the Board to control and evaluate the business performance to enable the Group to achieve its corporate objectives. Internal policies and procedures pertaining to business processes are in place for application across the Group. These policies and procedures serve as a guide to ensure compliance with internal controls and applicable laws and regulations.

Where there are any areas of concern on the reliability and integrity of financial information of any business unit, special audits are commissioned to assist the Board in fulfilling its oversight responsibilities.

## RISK MANAGEMENT AND INTERNAL CONTROL STATEMENT (CONT'D)

### Internal Audit Function

The internal audit function is outsourced to an independent professional firm, which adopts the International Professional Practices Framework ("IPPF") in carrying out internal audit assignments on the Group. The IPPF encapsulates, amongst others, the attribute and performance standards for internal auditing promulgated by the Institute of Internal Auditors, Incorporated, a global professional body for internal auditors. The Audit Committee reviews the work of the internal audit function, its observations and recommendations to ensure that it obtains the necessary level of assurance with respect to the adequacy and effectiveness of risk management and internal controls. The internal audit function reviews the Group's system of internal controls and reports its observations, including Management's response and action plans thereof, directly to the Audit Committee. The internal audit function also follows up and reports to the Audit Committee the status of implementation by Management on the recommendations highlighted in its internal audit reports. Further details of the internal audit activities are provided in the Audit Committee Report. The cost incurred on the outsourced internal audit function for the financial year under review amounted to approximately RM38,000.

The Group's external auditors, in the course of their statutory audit, carry out a review of the Company's system of internal controls to the extent of their planned reliance as laid out in their audit plan. Any significant weaknesses identified during the reviews together, with the improvement measures to strengthen the internal controls, are reported to the Audit Committee. The Audit Committee reviews the issues reported by the internal and external auditors, as well as actions taken by Management to address the areas of concern, and evaluates the adequacy and effectiveness of the Group's risk management and internal control system.

### Event subsequent to the financial year end

The Board made an announcement to Bursa in February 2013 when it became aware of certain financial irregularities where internal controls were allegedly overridden intentionally by an officer of a subsidiary, resulting in, amongst others, payments made by the subsidiary concerned to suppliers which did not reflect the actual purchases made. As mentioned in the announcement to the regulator, the impact from the irregularity has been reflected in the financial statements of the Group in past years. Having evaluated the root causes which apparently led to the irregularities, the Board has taken pertinent measures to tighten the Group's internal control system by strengthening its mandate on cheque signatories and revising the existing limits of authority to require another officer to approve purchases exceeding a prescribed threshold. These additional measures are aimed to enhance the approval process without impeding the entire workflow of activities.

### Board's comments on the adequacy and effectiveness of the Group's risk management and internal control system

The Board, through its Audit Committee, has reviewed the adequacy and effectiveness of the system risk management and internal controls, and that relevant actions have been or are being taken, as the case may be, to remedy the internal control weaknesses identified from the review.

The Board is of the view that the system of risk management and internal controls in place for the financial year under review is sound and sufficient to safeguard shareholders' investment and the Group's assets, except for the effects on the financial irregularities mentioned in the preceding paragraphs for which remedial measures have been taken by the Board to strengthen the system of internal controls. The Board is also cognizant of the fact that the Group's system of risk management and internal controls must continuously evolve to meet the changing and challenging business environment the Group operates in. Therefore, the Board will put in place appropriate action plans to strengthen the system of internal controls, as appropriate.

Pursuant to Paragraph 15.23 of the Listing Requirements, the external auditors have reviewed this Statement for inclusion in the Annual Report for the year ended 31 December 2012 and reported to the Board that nothing has come to their attention that causes them to believe that this Statement is inconsistent with their understanding of the process adopted by the Board in reviewing the adequacy and integrity of the system of internal controls.

This Statement is made in accordance with the resolution of the Board of Directors dated 23 April 2013.

## ADDITIONAL DISCLOSURE

### 1. Share Buy-back

At the Eighth Annual General Meeting held on 21 June 2012, the shareholders of the Company granted authority to the Company to purchase its own shares provided that the aggregate number of shares purchased shall not exceed 10% of the total issued and paid-up share capital of the Company at the time of purchase.

The monthly breakdown of the shares purchased by the Company and retained as treasury shares during the financial year are set about below:

Month	No. of Shares	Nominal Value Per Share (RM)	Total Consideration (RM)	Purchase Price Per Share (RM)		
				Highest	Lowest	Average
February 2012	1,000	0.10	161	0.120	0.120	0.120
August 2012	1,000	0.10	136	0.095	0.095	0.095

As at 31 December 2012, the Company held 1,835,600 repurchased or treasury shares out of its total issued and paid-up share capital of 1,011,408,160 ordinary shares of RM 0.10 each. Such treasury shares were held at a carrying amount of RM194,860. There was no resale or cancellation of treasury shares during the financial year.

### 2. Options, Warrants or Convertible Securities

For the financial year ended 31 December 2012, there was no exercise of warrants. The Company has not issued any options or convertible securities during the financial year.

### 3. Depository Receipt

During the financial year, the Company did not sponsor any Depository Receipt.

### 4. Sanction and/or Penalties

There were no sanctions and/or penalties imposed on the Company and its subsidiaries, directors or management by the relevant regulatory bodies during the financial year.

### 5. Non-Audit Fees

During the financial year, the non-audit fees incurred by the Company to our external auditors, or a firm or company affiliated to the external auditors for the financial year ended 31 December 2012 amounted to RM80,000.

### 6. Variation in Results

There was no material variation between the interim financial reports previously announced on the 4th Quarter results and the audited financial results for the financial year ended 31 December 2012.

### 7. Profit Guarantee

During the financial year, there was no profit guarantee issued or received by the Company.

## ADDITIONAL DISCLOSURE (CONT'D)

### 8. Material Contract

There was no material contracts entered into by the Company and its subsidiaries involving the interest of the Directors and/or major shareholders of the Company, either still subsisting at the end of the financial year, or which were entered into since the end of the previous financial year.

### 9. Corporate Social Responsibility

Our Group acknowledged the importance of Corporate Social Responsibility ("CSR") in our business practices. Our CSR platform touches upon responsible business practices, environmental stewardship and education stewardship.

We run our operations in line with our values, applicable laws and regulations and with integrity. We believe in empowering people close to the actions to take ownership and responsibility, and instill a culture that values honesty, integrity and transparency alongside innovation and continuous improvement. To that end, we launched our whistle-blowing policy in 2011 to strengthen our corporate governance practices and provide employees with accessible avenue to report in good faith suspected fraud, corruption, dishonest practices or other similar matters.

As well as meeting our customers' needs, our business activities are directed towards addressing environmental aspiration. We work alongside our customers to develop effective solutions that will help them address green issues by reducing the life-cycle impact of their equipment and improving processes through recycling, reusing, repairing, refurbishing and re-manufacturing their equipment.

We integrate health, safety and environment (HSE) considerations into all aspects of our business operations and processes as far as practicable and provide constant training and monitoring to ensure the safety and overall well-being of our people. We implement and progressively certify the plants' Occupational Safety and Health Management System in accordance with OHSAS 18001:2007 with the aim of preventing accidents, injuries, occupational illness and pollution, and conserving natural resources.

In line with the increasing global awareness for environmental protection, we require all our business to operate in an environmentally responsible manner. Our approach is to ensure strict adherence to environmental legislation governing treatment of plant effluents and waste water, and maintain strict control to minimize the adverse impact on the environment. Our facilities are accorded ISO 14001:2004 certification and we encourage all our operating subsidiaries to adopt an environmental management system to manage their environmental performance.

Delivering outstanding performance requires exceptional people. At Frontken, we aim to create a culture of lifelong learning, driven by a training and development programme to support continual self-improvement and help our people achieve their potential. We sponsor students to compete in events to create a culture where students not only emulate leaders in science, technology and engineering, but also realize the potential within them to someday be one of those pioneers.

From a community prospective, we continue to support and promote education and training in the regions where we operate, seeking to improve the future prospects of both future leaders of the world and our workforce, we extended support to Singapore's Institute of Technical Education by providing its students with skills and knowledge, as well as exposure in global business trends and developments and different work practices cultural environments at our service plants in Singapore, Malaysia and China. We also encourage employees' involvement in efforts to help local communities.

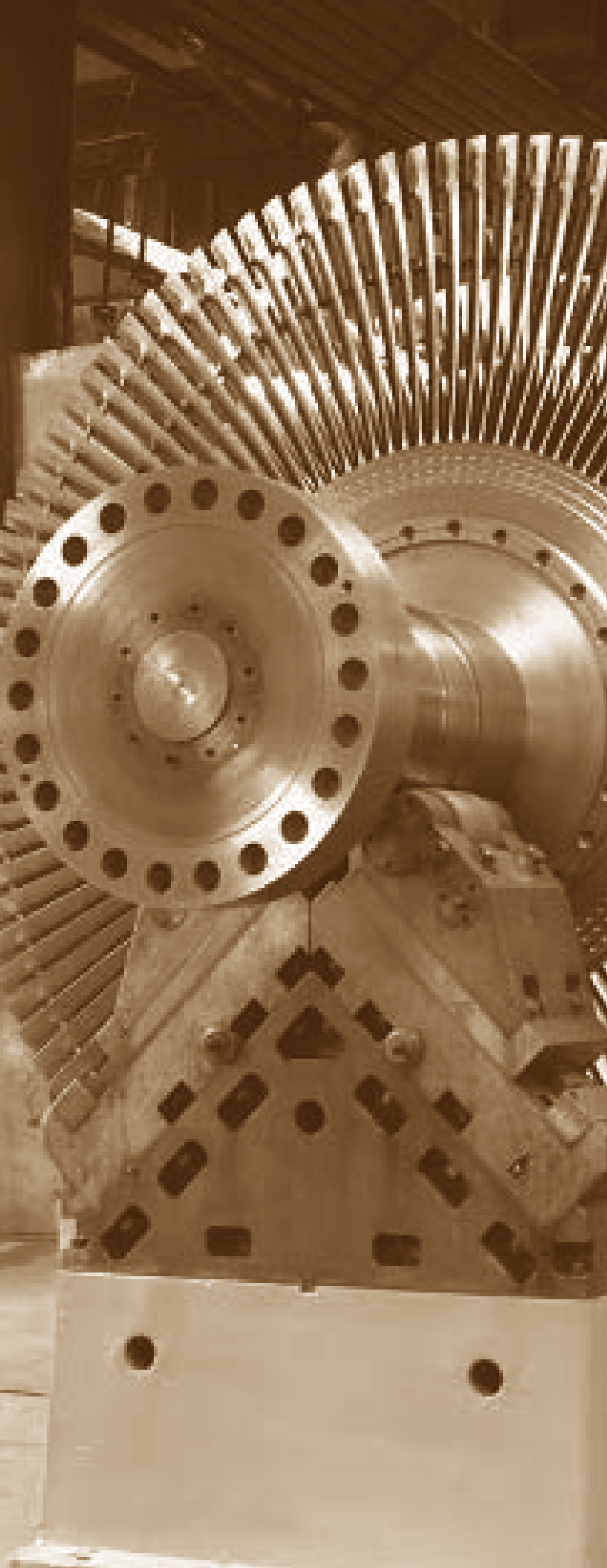


## ADDITIONAL DISCLOSURE (CONT'D)

### 10. Recurrent Related Party Transactions ("RRPT")

Details of the RRPT during the financial year ended 31 December 2012 are as follows:

Companies within the Group	Transacting parties	Interested parties/relationship	Nature of transactions	RM'000
Frontken (Singapore) Pte Ltd ("FS") and Metall-Treat Industries Pte Ltd	Chinyee Engineering & Machinery Pte Ltd ("Chinyee")	Wong Hua Choon, a Director and substantial shareholder of FCB within the past 6 months (up to 18 January 2012), is also substantial shareholder in Chinyee.	(a) Sales to Chinyee	464
			(b) Purchase from Chinyee	2,197
				<u>2,661</u>
Frontken (East Malaysia) Sdn Bhd ("FEM")	AMT Engineering Sdn Bhd ("AMT")	Sia Chiok Meng, a Director and major shareholder of AMT & A&I	(a) Sales to AMT	43
			(b) Purchase from AMT	10
	A & I Engine Rebuilders Sdn Bhd ("A&I")		(c) Rental payable to AMT	72
			(d) Sales to A&I	4
				<u>129</u>
Frontken-MIC(Wuxi) Co.Ltd ("FMIC-W")	MIC-Tech (Wuxi) Co.Ltd ("MIC-Tech")	Marketch International Corporation, the ultimate holding company of MIC-Tech, is a deemed substantial shareholder of FMIC-W	(a) Sales by FMIC-W to MIC-Tech	14
			(b) Rental payable to MIC-Tech	496
				<u>510</u>



# FINANCIAL STATEMENTS

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# DIRECTORS' REPORT

The directors of **FRONTKEN CORPORATION BERHAD** have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the financial year ended 31 December 2012.

## PRINCIPAL ACTIVITIES

The principal activities of the Company are that of investment holding and provision of management services to its subsidiaries.

The principal activities of the subsidiaries are disclosed in Note 12 to the financial statements.

There have been no significant changes in the nature of these activities during the financial year.

## SIGNIFICANT EVENTS

The significant events during the financial year are disclosed in Note 31 to the financial statements.

## FINANCIAL RESULTS

	The Group RM	The Company RM
Profit after taxation for the financial year	4,175,169	1,604,358
<b>Attributable to:</b>		
Owners of the Company	3,820,496	1,604,358
Non-controlling interests	354,673	-
	4,175,169	1,604,358

## DIVIDENDS

No dividend has been paid or declared by the Company since the end of the previous financial year. The directors do not recommend the payment of any dividends in respect of the current financial year.

## RESERVES AND PROVISIONS

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

## ISSUES OF SHARES AND DEBENTURES

During the financial year,

- (a) there were no changes in the authorised and issued and paid-up share capital of the Company; and
- (b) there were no issues of debentures by the Company.

## DIRECTORS' REPORT (CONT'D)

### TREASURY SHARES

During the financial year, the Company repurchased 2,000 of its issued ordinary shares from the open market at an average price of RM0.149 per share. The total consideration paid for the repurchase including transaction costs amounted to RM298. The shares repurchased are being held as treasury shares in accordance with Section 67A of the Companies Act 1965 and are presented as a deduction from total equity.

As at 31 December 2012, the Company held 1,835,600 treasury shares at a carrying amount of RM194,860.

### OPTIONS GRANTED OVER UNISSUED SHARES

#### Warrants

The Company had issued 288,973,760 Warrants which were listed on Bursa Malaysia Securities Berhad on 16 March 2010 pursuant to the rights issue on the basis of two Warrants for every two Rights Shares subscribed.

The Warrants are constituted by a Deed Poll dated 22 January 2010 executed by the Company. Each Warrant entitles the registered holder during the exercise period to subscribe for one new ordinary share at the exercise price of RM0.18 per Warrant, subject to adjustment in accordance with the provisions of the Deed Poll. The Warrants not exercised at the date of maturity will thereafter lapse and cease to be valid for any purpose.

The summary of the movements of Warrants is as follows:

Issue date	Expiry date	Balance as of 1.1.2012	<u>Number of Warrants</u>		Balance as of 31.12.2012
			Granted	Exercised	
11.3.2010	10.3.2015	288,973,760	-	-	288,973,760

The ordinary shares to be issued upon the exercise of Warrants shall rank pari passu in all respects with the existing issued ordinary shares of the Company except that they shall not be entitled to any dividends, rights, allotments and/or other distributions, the entitlement date of which is prior to the date of allotment of the new shares arising from the exercise of Warrants.

### OTHER FINANCIAL INFORMATION

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

- to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for impairment losses on receivables, and had satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for impairment losses on receivables; and
- to ensure that any current assets other than debts which were unlikely to realise their book values in the ordinary course of business had been written down to their estimated realisable values.

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

- which would cause the amount written off for bad debts or the amount of allowance for impairment losses on receivables in the financial statements of the Group and of the Company to be inadequate to any substantial extent; or
- which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading; or
- 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; or
- not otherwise dealt with in this report or financial statements which would render any amount stated in the financial statements of the Group and of the Company misleading.

## DIRECTORS' REPORT (CONT'D)

### OTHER FINANCIAL INFORMATION (Cont'd)

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.

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

In the opinion of the directors, no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group and of the Company for the succeeding financial year other than those mentioned in Note 32 to the financial statements.

### DIRECTORS

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

Ng Wai Pin  
Dr. Tay Kiang Meng  
Dato' Haji Johar Bin Murat @ Murat  
Aaron Sim Kwee Lein  
Jorg Helmut Hohnloser  
Timo Fabian Seeberger (Alternate to Jorg Helmut Hohnloser)

### DIRECTORS' INTERESTS

According to the register of directors' shareholdings, the interests of directors holding office at the end of the financial year in shares in the Company and its related corporations during the financial year are as follows:

	Number of ordinary shares of RM0.10 each			
	Balance as of 1.1.2012	Bought	Sold	Balance as of 31.12.2012
<b>Shares in the Company</b>				
<b>Direct Interest</b>				
Dr. Tay Kiang Meng	9,404,808	-	-	9,404,808

	Number of ordinary shares of RM0.10 each			
	Balance as of 20.2.2012	Bought	Sold	Balance as of 31.12.2012
<b>Shares in the Company</b>				
<b>Direct Interest</b>				
Jorg Helmut Hohnloser	290,991,473	-	-	290,991,473

### Shares in subsidiary companies

#### Ares Green Technology Corporation ("AGTC")

<b>Direct Interest</b>				
Jorg Helmut Hohnloser	2,031,000	-	-	2,031,000

## DIRECTORS' REPORT (CONT'D)

### DIRECTORS' INTERESTS (Cont'd)

DIRECTORS' INTERESTS (CONT'D)		Number of warrants 2010/2015		
	Balance as of 1.1.2012	Bought	Sold	Balance as of 31.12.2012
<b>Warrants in the Company</b>				
<b>Direct Interest</b>				
Dr. Tay Kiang Meng	1,187,088	-	-	1,187,088

By virtue of the above directors' interests in the shares of the Company, they are deemed to have interests in the shares of the subsidiaries to the extent the directors have their interests.

The other directors holding office at the end of the financial year had no interests in the shares of the Company or of its related corporations during the financial year.

### DIRECTORS' BENEFITS

Since the end of the previous financial year, no director has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by directors as shown in the financial statements, or the fixed salary of a full-time employee of the Company) by reason of a contract made by the Company or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest except for any benefits which may be deemed to arise from transactions entered into in the ordinary course of business with companies in which a director has substantial financial interests as disclosed in Note 18 to the financial statements.

Neither during nor at the end of the financial year was the Group or the Company a party to any arrangements whose object is to enable the directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

### SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

The significant events during the financial year are disclosed in Note 31 to the financial statements.

### SUBSEQUENT EVENT AFTER THE FINANCIAL YEAR

The subsequent event after the financial year is disclosed in Note 32 to the financial statements.

### AUDITORS

The auditors, Messrs. Crowe Horwath, have expressed their willingness to continue in office.

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

\_\_\_\_\_  
NG WAI PIN

\_\_\_\_\_  
DR. TAY KIANG MENG

24 April 2013

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FRONTKEN CORPORATION BERHAD**

We have audited the financial statements of Frontken Corporation Berhad, which comprise the statements of financial position as at 31 December 2012 of the Group and of the Company, and the statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 42 to 99.

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

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. 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 about 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 entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

### *Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company as of 31 December 2012 and of their financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia.

### *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 subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.
- (b) We have considered the financial statements and the auditors' reports of all the subsidiaries of which we have not acted as auditors, which are indicated in Note 12 to the financial statements.
- (c) We are satisfied that the financial statements of the subsidiaries 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.
- (d) The audit reports on the financial statements of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FRONTKEN CORPORATION BERHAD (CONT'D)

### Other Reporting Responsibilities

The supplementary information set out in Note 33 on page 100 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

### Other Matters

1. As stated in Note 2 to the financial statements, Frontken Corporation Berhad adopted Malaysian Financial Reporting Standards on 1 January 2012 with a transition date of 1 January 2011. These standards were applied retrospectively by directors to the comparative information in these financial statements, including the statements of financial position as at 31 December 2011 and 1 January 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year ended 31 December 2011 and related disclosures. We were not engaged to report on the comparative information and it is unaudited. Our responsibilities as part of our audit of the financial statements of the Group and of the Company for the financial year ended 31 December 2012 have, in these circumstances, included obtaining sufficient appropriate audit evidence that the opening balances as at 1 January 2012 do not contain misstatements that materially affect the financial position as of 31 December 2012 and financial performance and cash flows for the financial year then ended.
2. 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.

**Crowe Horwath**  
Firm No : AF 1018  
Chartered Accountants

**Ngiam Mia Teck**  
Approval No : 3000/07/14 (J)  
Chartered Accountant

Kuala Lumpur  
24 April 2013



## STATEMENTS OF COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

	Note	The Group 2012 RM	2011 RM	The Company 2012 RM	2011 RM
Revenue	5	181,034,515	198,122,512	2,716,969	3,567,752
Cost of sales		(140,455,211)	(147,697,408)	-	-
Gross profit		40,579,304	50,425,104	2,716,969	3,567,752
Other income		10,602,742	3,480,608	1,209,455	1,110,063
Administrative expenses		(33,684,972)	(36,915,853)	(2,106,833)	(2,317,822)
Other expenses		(11,021,161)	(11,205,716)	(126,636)	(373,125)
Finance costs	6	(2,870,381)	(2,803,413)	(88,597)	(87,482)
Share of results in associates		(367,407)	18,304	-	-
<b>Profit before tax</b>	7	3,238,125	2,999,034	1,604,358	1,899,386
Income tax expense	8	937,044	485,042	-	-
<b>Profit after tax</b>		4,175,169	3,484,076	1,604,358	1,899,386
<b>Other comprehensive income/(expenses)</b>					
Foreign currency translation		1,946,822	1,657,137	-	-
Actuarial losses		(147,982)	-	-	-
Share of revaluation reserve of associates		-	22,432	-	-
<b>Total comprehensive income</b>		5,974,009	5,163,645	1,604,358	1,899,386
<b>Profit after tax attributable to:</b>					
Owners of the Company		3,820,496	2,484,403	1,604,358	1,899,386
Non-controlling interests		354,673	999,673	-	-
		4,175,169	3,484,076	1,604,358	1,899,386
<b>Total comprehensive income attributable to:</b>					
Owners of the Company		5,604,044	4,234,824	1,604,358	1,899,386
Non-controlling interests		369,965	928,821	-	-
		5,974,009	5,163,645	1,604,358	1,899,386
<b>Earnings per ordinary share attributable to owners of the Company</b>					
Basic (sen)	9	0.38	0.25		
Diluted (sen)	9	N/A	N/A		

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

## STATEMENTS OF FINANCIAL POSITION AS OF 31 DECEMBER 2012

	Note	31.12.2012 RM	The Group 31.12.2011 RM	1.1.2011 RM	31.12.2012 RM	The Company 31.12.2011 RM	1.1.2011 RM
<b>ASSETS</b>							
<b>Non-Current Assets</b>							
Property, plant and equipment	10	153,534,383	180,968,975	178,405,029	113,133	153,475	190,014
Investments in subsidiaries	12	-	-	-	68,858,347	68,381,335	68,192,335
Investments in associates	13	4,236,106	4,631,070	4,494,255	-	-	-
Goodwill on consolidation	14	25,394,265	28,381,127	28,311,674	-	-	-
Deferred tax assets	15	440,887	195,695	352,360	-	-	-
<b>Total Non-Current Assets</b>		<b>183,605,641</b>	<b>214,176,867</b>	<b>211,563,318</b>	<b>68,971,480</b>	<b>68,534,810</b>	<b>68,382,349</b>
<b>Current Assets</b>							
Inventories	16	11,187,634	11,373,617	10,431,408	-	-	-
Amount due from contract customers	17	500,737	177,178	-	-	-	-
Trade receivables	18	68,282,720	70,264,668	67,337,237	-	-	-
Other receivables, deposits and prepaid expenses	18	5,483,123	6,528,458	5,125,566	25,817	31,360	27,841
Amount owing by subsidiaries	19	-	-	-	46,045,356	47,361,789	45,680,029
Amount owing by associates	13	2,117,634	4,150,474	4,534,039	-	-	-
Tax recoverable		462,342	555,121	-	-	-	-
Fixed deposits with licensed banks		3,170,992	3,736,804	12,684,190	2,500,000	3,000,000	12,000,000
Cash and bank balances		38,286,539	22,624,605	21,515,759	923,923	590,926	1,474,363
		<b>129,491,721</b>	<b>119,410,925</b>	<b>121,628,199</b>	<b>49,495,096</b>	<b>50,984,075</b>	<b>59,182,233</b>
Asset held for sale	11	1,080,834	-	-	-	-	-
<b>Total Current Assets</b>		<b>130,572,555</b>	<b>119,410,925</b>	<b>121,628,199</b>	<b>49,495,096</b>	<b>50,984,075</b>	<b>59,182,233</b>
<b>Total Assets</b>		<b>314,178,196</b>	<b>333,587,792</b>	<b>333,191,517</b>	<b>118,466,576</b>	<b>119,518,885</b>	<b>127,564,582</b>

## STATEMENTS OF FINANCIAL POSITION AS OF 31 DECEMBER 2012 (CONT'D)

	Note	31.12.2012 RM	The Group 31.12.2011 RM	1.1.2011 RM	31.12.2012 RM	The Company 31.12.2011 RM	1.1.2011 RM
<b>EQUITY AND LIABILITIES</b>							
<b>Equity</b>							
Share capital	20	101,140,816	101,140,816	101,140,816	101,140,816	101,140,816	101,140,816
Reserves	21	83,751,635	78,131,354	75,102,500	11,742,260	10,138,200	9,444,784
Equity attributable to owners of the parent		184,892,451	179,272,170	176,243,316	112,883,076	111,279,016	110,585,600
Non-controlling interests		28,116,325	27,889,661	25,901,844	-	-	-
<b>Total Equity</b>		213,008,776	207,161,831	202,145,160	112,883,076	111,279,016	110,585,600
<b>Non-Current Liabilities</b>							
Term loans	22	28,452,301	46,952,130	48,314,340	-	-	-
Hire purchase payables	23	3,279,963	5,912,221	9,867,784	-	-	-
Deferred tax liabilities	15	363,290	2,749,731	4,389,835	-	-	-
<b>Total Non-Current Liabilities</b>		32,095,554	55,614,082	62,571,959	-	-	-
<b>Current Liabilities</b>							
Trade payables	24	15,113,249	22,689,940	20,502,454	-	-	-
Other payables and accrued expenses	24	17,522,730	18,633,635	16,264,903	207,438	183,678	310,144
Amount owing to subsidiaries	19	-	-	-	5,376,062	8,056,191	16,668,838
Amount owing to associates	13	-	1,500,199	-	-	-	-
Bank overdrafts	25	-	1,669,621	1,230,283	-	-	-
Bank borrowings	25	32,779,245	20,010,407	22,132,228	-	-	-
Hire purchase payables	23	2,933,722	5,439,809	7,249,505	-	-	-
Tax liabilities		724,920	868,268	1,095,025	-	-	-
<b>Total Current Liabilities</b>		69,073,866	70,811,879	68,474,398	5,583,500	8,239,869	16,978,982
<b>Total Liabilities</b>		101,169,420	126,425,961	131,046,357	5,583,500	8,239,869	16,978,982
<b>Total Equity and Liabilities</b>		314,178,196	333,587,792	333,191,517	118,466,576	119,518,885	127,564,582

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

## STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

The Group	Non-distributable					Distributable				Total RM
	Share capital RM	Share premium RM	Treasury shares RM	Foreign currency translation reserve RM	Warrant reserve RM	Statutory reserve RM	Retained earnings RM	Attributable to owners of the Company RM	Non- controlling interests RM	
Balance as of 1 January 2011	101,140,816	9,336,705	-	2,486,027	882,976	-	62,396,792	176,243,316	25,901,844	202,145,160
Other comprehensive income recognised for the financial year, net of tax:										
- foreign currency translation	-	-	-	1,727,989	-	-	-	1,727,989	(70,852)	1,657,137
- share of associate's revaluation reserve	-	-	-	-	-	-	22,432	22,432	-	22,432
Profit after tax for the financial year	-	-	-	-	-	-	2,484,403	2,484,403	999,673	3,484,076
Total comprehensive income for the financial year	-	-	-	1,727,989	-	-	2,506,835	4,234,824	928,821	5,163,645
Contributions by and distributions to owners of the Company:										
-Acquisition of subsidiary	-	-	-	-	-	-	-	-	700,910	700,910
-Dividends: (Note 27)										
- by the Company	-	-	-	-	-	-	(1,011,408)	(1,011,408)	-	(1,011,408)
- by subsidiaries to non- controlling interests	-	-	-	-	-	-	-	-	(361,000)	(361,000)
-Transfer to statutory reserve	-	-	-	-	-	197,997	(197,997)	-	-	-
-Issue of shares by subsidiary	-	-	-	-	-	-	-	-	719,086	719,086
-Purchase of treasury shares	-	-	(194,562)	-	-	-	-	(194,562)	-	(194,562)
Balance as of 31 December 2011	101,140,816	9,336,705	(194,562)	4,214,016	882,976	197,997	63,694,222	179,272,170	27,889,661	207,161,831

## STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012 (CONT'D)

The Group	Non-distributable					Distributable					Total RM
	Share capital RM	Share premium RM	Treasury shares RM	Foreign currency translation reserve RM	Warrant reserve RM	Statutory reserve RM	Retained earnings RM	Attributable to owners of the Company RM	Non- controlling interests RM		
Balance as of 1 January 2012	101,140,816	9,336,705	(194,562)	4,214,016	882,976	197,997	63,694,222	179,272,170	27,889,661	207,161,831	
Other comprehensive income recognised for the financial year, net of tax:											
- defined benefit plan actuarial losses	-	-	-	-	-	(76,196)	-	(76,196)	(71,786)	(147,982)	
- foreign currency translation	-	-	-	1,859,744	-	-	-	1,859,744	87,078	1,946,822	
Profit after tax for the financial year	-	-	-	-	-	-	3,820,496	3,820,496	354,673	4,175,169	
Total comprehensive income for the financial year	-	-	-	1,859,744	-	(76,196)	3,820,496	5,604,044	369,965	5,974,009	
Contributions by and distributions to owners of the Company:											
-Dividends:											
- by subsidiaries to non- controlling interests	-	-	-	-	-	-	-	-	(435,918)	(435,918)	
-Transfer to statutory reserve	-	-	-	-	-	248,701	(248,701)	-	-	-	
-Issue of shares by subsidiary	-	-	-	-	-	-	-	-	786,164	786,164	
-Purchase of treasury shares	-	-	(298)	-	-	-	-	(298)	-	(298)	
-Changes in ownership interests in a subsidiary	-	-	-	-	-	-	16,535	16,535	(493,547)	(477,012)	
Balance as of 31 December 2012	101,140,816	9,336,705	(194,860)	6,073,760	882,976	370,502	67,282,552	184,892,451	28,116,325	213,008,776	

## STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012 (CONT'D)

The Company	Non-distributable				Distributable (Accumulated losses)/ Retained earnings	Total RM
	Share capital RM	Share premium RM	Treasury shares RM	Warrant reserve RM	RM	
Balance as of 1 January 2011	101,140,816	9,336,705	-	882,976	(774,897)	110,585,600
Profit after taxation/ Total comprehensive income for the financial year	-	-	-	-	1,899,386	1,899,386
Contribution by and distributions to owners of the Company:						
-Dividend paid (Note 27)	-	-	-	-	(1,011,408)	(1,011,408)
-Purchase of treasury shares	-	-	(194,562)	-	-	(194,562)
Balance as of 31 December 2011	101,140,816	9,336,705	(194,562)	882,976	113,081	111,279,016
Balance as of 1 January 2012	101,140,816	9,336,705	(194,562)	882,976	113,081	111,279,016
Profit after taxation/ Total comprehensive income for the financial year	-	-	-	-	1,604,358	1,604,358
Contribution by and distributions to owners of the Company:						
-Purchase of treasury shares	-	-	(298)	-	-	(298)
Balance as of 31 December 2012	101,140,816	9,336,705	(194,860)	882,976	1,717,439	112,883,076

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

## STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2012

	The Group		The Company	
	2012 RM	2011 RM	2012 RM	2011 RM
<b>CASH FLOWS FROM/ (FOR) OPERATING ACTIVITIES</b>				
Profit before taxation	3,238,125	2,999,034	1,604,358	1,899,386
Adjustments for:				
Depreciation of property, plant and equipment	20,167,949	19,017,408	41,142	45,252
Interest expense	2,706,107	2,803,413	88,597	87,482
Impairment loss on fair value adjustment	164,274	-	-	-
Unrealised loss on foreign exchange	1,076,048	241,546	327,158	273,226
Allowance for impairment losses on receivables	1,072,499	2,110,975	-	-
Inventories written off	-	1,222,104	-	-
Bad debts written off	1,700	180,018	-	-
Property, plant and equipment written off	1,212,255	174,514	-	-
Share of results in associates	367,407	(18,304)	-	-
Interest income	(140,408)	(181,653)	(1,195,555)	(1,110,063)
Gain on disposal of property, plant and equipment	(387,867)	(228,259)	-	-
Writeback of allowance for impairment losses on trade receivables	(1,849,113)	(1,822,080)	-	-
Gain on disposal of subsidiary	(5,477,371)	-	-	-
Gain on disposal of investment in associate	(22,597)	-	-	-
Gain on dilution on investment in subsidiary	(103,879)	(86,100)	-	-
Dividend income from subsidiaries	-	-	(2,716,969)	(3,567,752)
Operating Profit/(Loss) Before Working Capital Changes	22,025,129	26,412,616	(1,851,269)	(2,372,469)
(Increase)/Decrease in:				
Inventories	88,341	(2,014,197)	-	-
Amount due from contract customers	323,558	(177,178)	-	-
Trade receivables	970,555	(2,453,578)	-	-
Other receivables and prepaid expenses	730,988	(1,297,409)	5,543	(3,519)
Amount owing by associates	2,075,990	417,141	-	-
Increase/(Decrease) in:				
Trade payables	(7,050,489)	1,903,445	-	-
Other payables and accrued expenses	(486,631)	2,222,230	23,759	(126,465)
Amount owing to associates	(1,536,688)	1,500,199	-	-
Amount owing to a director	7,627	(54,573)	-	-
Cash Generated From/(For) Operations	17,148,380	26,458,696	(1,821,967)	(2,502,453)
Taxes paid	(1,105,757)	(1,871,405)	-	-
Net Cash From/(For) Operating Activities	16,042,623	24,587,291	(1,821,967)	(2,502,453)

## STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2012 (CONT'D)

	Note	The Group		The Company	
		2012 RM	2011 RM	2012 RM	2011 RM
<b>CASH FLOWS FROM/(FOR) INVESTING ACTIVITIES</b>					
Decrease/(Increase) in amount owing by subsidiaries		-	-	1,316,432	(1,681,761)
Purchase of property, plant and equipment	(11,769,220)	(22,488,433)	(800)	(8,713)	
Dividend received from subsidiaries	-	-	2,716,969	3,567,752	
Acquisition of subsidiaries (Note 12)	(477,012)	579,998	(477,012)	(189,000)	
Proceeds from disposal of property, plant and equipment	7,289,353	3,376,208	-	-	
Proceeds from disposal of subsidiary (Note 12)	22,127,552	-	-	-	
Proceeds from disposal of associate	150,000	-	-	-	
Interest received	140,408	181,653	1,195,555	1,110,063	
Net Cash From/(For) Investing Activities		17,461,081	(18,350,574)	4,751,144	2,798,341
<b>CASH FLOWS (FOR)/FROM FINANCING ACTIVITIES</b>					
Decrease in amount owing to subsidiaries	-	-	(3,007,438)	(8,885,790)	
Treasury shares acquired	(298)	(194,562)	(298)	(194,562)	
Issue of shares by subsidiary to non-controlling interest	890,043	805,186	-	-	
Repayment of term loans	(18,772,557)	(19,995,764)	-	-	
Interest paid	(2,706,107)	(2,803,413)	(88,597)	(87,482)	
Dividend paid	-	(1,011,408)	-	(1,011,408)	
Dividend paid by a subsidiary to non-controlling interest	(435,918)	(361,000)	-	-	
Drawdown of term loans	11,998,040	15,608,759	-	-	
Payment of hire purchase payables	(7,918,781)	(6,819,185)	-	-	
Net Cash (For)/From Financing Activities		(16,945,578)	(14,771,387)	(3,096,333)	(10,179,242)
<b>NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS</b>					
Effect of exchange rate changes		16,558,126	(8,534,670)	(167,156)	(9,883,354)
		207,617	256,792	153	(83)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>					
		24,691,788	32,969,666	3,590,926	13,474,363
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>					
	26	41,457,531	24,691,788	3,423,923	3,590,926

Note : During the financial year, the Group and the Company acquired property, plant and equipment at an aggregate cost of RM14,335,410 and RM800 (2011 : RM23,206,149 and RM8,713), respectively, of which RM2,566,190 and NIL (2011 : RM717,716 and NIL), respectively, was acquired under hire-purchase arrangements.

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



# NOTES TO THE FINANCIAL STATEMENTS

## 1. GENERAL INFORMATION

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and listed on the Main Market of Bursa Malaysia Securities Berhad.

The principal activity of the Company is that of investment holding and provision of management services to its subsidiaries.

The principal activities of the subsidiaries are disclosed in Note 12.

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

The registered office of the Company is located at Unit 621, 6th Floor, Block A, Kelana Centre Point, No. 3, Jalan SS7/19, Kelana Jaya, 47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia.

The principal place of business of the Company is located at Suite 301, Block F, Pusat Dagangan Phileo Damansara 1, No. 9, Jalan 16/11, Off Jalan Damansara, 46350 Petaling Jaya, Selangor Darul Ehsan, Malaysia.

The financial statements of the Group and of the Company have been authorised by the Board of Directors for issuance on 24 April 2013.

## 2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the Group are prepared under the historical cost convention and modified to include other bases of valuation as disclosed in other sections under significant accounting policies, and in compliance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia.

The accounting policies set out in Note 3 have been applied in preparing the financial statements of the Group for the financial year ended 31 December 2012, the comparative information presented in these financial statements and in the preparation of the opening MFRS statement of financial position at 1 January 2011 (the Group's date of transition to MFRSs).

These are the Group's first set of financial statements prepared in accordance with MFRSs, which are also in line with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Group has not applied in advance the following accounting standards and interpretations (including the consequential amendments) that have been issued by the Malaysian Accounting Standards Board (MASB) but are not yet effective for the current financial year:-

<b>MFRSs and IC Interpretations (Including The Consequential Amendments)</b>	<b>Effective Date</b>
MFRS 9 Financial Instruments	1 January 2015
MFRS 10 Consolidated Financial Statements	1 January 2013
MFRS 11 Joint Arrangements	1 January 2013
MFRS 12 Disclosure of Interests in Other Entities	1 January 2013
MFRS 13 Fair Value Measurement	1 January 2013
MFRS 127 Separate Financial Statements	1 January 2013
MFRS 128 Investments in Associates and Joint Ventures	1 January 2013

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONT'D)

<b>MFRSs and IC Interpretations (Including The Consequential Amendments)</b>	<b>Effective Date</b>
Amendments to MFRS 1: Government Loans	1 January 2013
Amendments to MFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013
Amendments to MFRS 9: Mandatory Effective Date of MFRS 9 and Transition Disclosures	1 January 2015
Amendments to MFRS 10, MFRS 11 and MFRS 12: Transition Guidance	1 January 2013
Amendments to MFRS 10, MFRS 12 and MFRS 127: Investment Entities	1 January 2014
Amendments to MFRS 101: Presentation of Items of Other Comprehensive Income	1 July 2012
Amendments to MFRS 132: Offsetting Financial Assets and Financial Liabilities	1 January 2014
IC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine	1 January 2013
Annual Improvements to MFRSs 2009 – 2011 Cycle	1 January 2013

The above accounting standards and interpretations (including the consequential amendments) are not relevant to the Group's operations except as follows:-

- (i) MFRS 9 replaces the parts of MFRS 139 that relate to the classification and measurement of financial instruments. MFRS 9 divides all financial assets into 2 categories – those measured at amortised cost and those measured at fair value, based on the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instruments. For financial liabilities, the standard retains most of the MFRS 139 requirement. An entity choosing to measure a financial liability at fair value will present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income rather than within profit or loss. Accordingly, there will be no financial impact on the financial statements of the Company upon its initial application.
- (ii) MFRS 13 defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. The scope of MFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other MFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in MFRS 13 are more extensive than those required in the current standards and therefore there will be no financial impact on the financial statements of the Company upon its initial application but may impact its future disclosures.
- (iii) The amendments to MFRS 7 (Disclosures – Offsetting Financial Assets and Financial Liabilities) require disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. There will be no financial impact on the financial statements of the Company upon its initial application but may impact its future disclosure.
- (iv) The Annual Improvements to MFRSs 2009 – 2012 Cycle contain amendments to MFRS 1, MFRS 101, MFRS 116, MFRS 132 and MFRS 134. These amendments are expected to have no material impact on the financial statements of the Company upon their initial application.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### Critical Accounting Estimates And Judgements

Estimates and judgements are continually evaluated by the directors and management and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and judgements that affect the application of the Group's accounting policies and disclosures, and have a significant risk of causing a material adjustment to the carrying amounts of assets, liabilities, income and expenses are discussed below:

#### (i) Impairment of Goodwill

Goodwill is tested for impairment annually and at other times when such indicators exists. This requires management to estimate the expected future cash flows of the cash-generating unit to which goodwill is allocated and to apply a suitable discount rate in order to determine the present value of those cash flows. The future cash flows are most sensitive to budgeted gross margins, growth rates estimated and discount rate used. If the expectation is different from the estimation, such difference will impact the carrying value of goodwill.

#### (ii) Contract Customers

The Group recognises contract customers in the profit or loss by using the stage of percentage-of-completion method, which is the standard for similar industries.

The stage of completion is determined by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. Estimated losses are recognised in full when determined. Contract costs estimates are reviewed and revised periodically as work progresses and as variation orders are approved.

Significant judgement is required in determining the stage of completion, the extent of the contract costs incurred, the estimated total contract revenue and costs as well as the recoverability of the project undertaken. In making the judgement, the Group evaluates based on past experience and by relying on the work of specialists. If the Group is unable to make reasonably dependable estimates, the Group would not recognise any profit before a contract is completed, but would recognise a loss as soon as the loss becomes evident.

Adjustments based on the percentage-of-completion method are reflected in contract revenue in the reporting period. To the extent that these adjustments result in a reduction or elimination of previously reported amount due from contract customers and contract revenue and costs, the Group recognises a charge or credit against current earnings and amounts in prior periods, if any, are not restated.

#### (iii) Depreciation of Property, Plant and Equipment

The estimates for the residual values, useful lives and related depreciation charges for the property and equipment are based on commercial factors which could change significantly as a result of technical innovations and competitors' actions in response to the market conditions.

The Group anticipates that the residual values of its property, plant and equipment will be insignificant. As a result, residual values are not being taken into consideration for the computation of the depreciable amount.

Changes in the expected level of usage and technological development could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

#### (iv) Income Taxes

There are certain transactions and computations for which the ultimate tax determination may be different from the initial estimate. The Group recognises tax liabilities based on its understanding of the prevailing tax laws and estimates of whether such taxes will be due in the ordinary course of business. Where the final 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 year in which such determination is made.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

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

#### Critical Accounting Estimates And Judgements (Cont'd)

(v) Impairment of Non-financial Assets

When the recoverable amount of an asset is determined based on the estimate of the value-in-use of the cash-generating unit to which the asset is allocated, the management is required to make an estimate of the expected future cash flows from the cash-generating unit and also to apply a suitable discount rate in order to determine the present value of those cash flows.

(vi) Impairment of Trade and Other Receivables

An impairment loss is recognised when there is objective evidence that a financial asset is impaired. Management specifically reviews its loans and receivables financial assets and analyses historical bad debts, customer concentrations, customer creditworthiness, current economic trends and changes in the customer payment terms when making a judgment to evaluate the adequacy of the allowance for impairment losses. Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. If the expectation is different from the estimation, such difference will impact the carrying value of receivables.

(vii) Classification of Leasehold Land

The classification of leasehold land as a finance lease or an operating lease requires the use of judgement in determining the extent to which risks and rewards incidental to its ownership lie. Despite the fact that there will be no transfer of ownership by the end of the lease term and that the lease term does not constitute the major part of the indefinite economic life of the land, management considered that the present value of the minimum lease payments approximated to the fair value of the land at the inception of the lease. Accordingly, management judged that the Group has acquired substantially all the risks and rewards incidental to the ownership of the land through a finance lease.

(viii) Fair Value Estimates for Certain Financial Assets and Liabilities

The Group carries certain financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgement. While significant components of fair value measurement were determined using verifiable objective evidence, the amount of changes in fair value would differ if the Group uses different valuation methodologies. Any changes in fair value of these assets and liabilities would affect profit and/or equity.

(ix) Write-down of Inventories

Reviews are made periodically by management on damaged, obsolete and slow-moving inventories. These reviews require judgement and estimates. Possible changes in these estimates could result in revisions to the valuation of inventories.

#### Assets Held For Sale

Assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Upon classification as held for sale, assets or components of a disposal group are not depreciated and are measured at the lower of their carrying amount and fair value less cost to sell. Any differences are recognised in profit or loss.

#### Operating Segments

Operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

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

#### Revenue Recognition

(i) Services

Revenue is recognised upon the rendering of services and when the outcome of the transaction can be estimated reliably. In the event the outcome of the transaction could not be estimated reliably, revenue is recognised to the extent of the expenses incurred that are recoverable.

(ii) Sale of goods

Revenue is recognised upon delivery of goods and customers' acceptance and where applicable, net of returns and trade discounts.

(iii) Contracts

Revenue relating to contracts are accounted for under the percentage of completion method.

(iv) Management fee and interest income

Management fee and interest income are recognised on an accrual basis.

(v) Dividend income

Dividend income from investment is recognised when the right to receive dividend payment is established.

#### Income Taxes

Income tax for the year comprises current and deferred tax.

Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax liabilities are recognised for all taxable temporary differences other than those that arise from goodwill or excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the business combination costs or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. The carrying amounts of deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on the tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same taxation authority.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transactions either in other comprehensive income or directly in equity and deferred tax arising from a business combination is included in the resulting goodwill or excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the business combination costs.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

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

#### Government Grants

Grants from the government are recognised initially as deferred income at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Grants that compensate the Group for expenses incurred are recognised in profit or loss over the periods necessary to match the grants with the related costs which they are intended to compensate on a systematic basis.

Grants that compensate the Group for the cost of an asset are recognised in profit or loss over the expected useful life of the relevant asset on a systematic basis.

#### Borrowing Costs

Borrowing costs, directly attributable to the acquisition and construction of property, plant and equipment are capitalised as part of the cost of those assets, until such time as the assets are ready for their intended use or sale. Capitalisation of borrowing costs is suspended during extended periods in which active development is interrupted.

All other borrowing costs are recognised in profit or loss as expenses in the period in which they incurred.

#### Contract Customers

When the outcome of a contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

#### Employee Benefits

##### (i) Short term employee benefits

Wages, salaries, paid annual leave and sick leave, bonuses and non-monetary benefits are recognised in profit or loss in the period in which the associated services are rendered by employees of the Group.

##### (ii) Defined contribution plans

The Group's contributions to defined contribution plans are recognised in profit or loss in the period to which they relate. Once the contributions have been paid, the Group has no further liability in respect of the defined contribution plans.

##### (iii) Defined benefit plans

The Group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

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

#### Employee Benefits (Cont'd)

##### (iii) Defined benefit plans (Cont'd)

When the benefits of a plan are improved, the portion of the increased benefit relating to the past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

The Group recognises all actuarial gains and losses arising from defined benefit plans in other comprehensive income and all expenses related to defined benefit plans in personnel expenses in profit or loss.

The Group recognises gains and losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, change in the present value of defined benefit obligation and any related actuarial gains and losses and past service cost that had not previously been recognised.

#### Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December 2012.

A subsidiary is defined as a company in which the parent company has the power, directly or indirectly, to exercise control over its financial and operating policies so as to obtain benefits from its activities.

Subsidiaries are consolidated from the date on which control is transferred to the Group up to the effective date on which control ceases, as appropriate.

Intragroup transactions, balances, income and expenses are eliminated on consolidation. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency of accounting policies with those of the Group.

##### (a) Business Combinations

Acquisitions of businesses are accounted for using the acquisition method. Under the acquisition method, the consideration transferred for acquisition of a subsidiary is the fair value of the assets transferred, liabilities incurred and the equity interests issued by the Group at the acquisition date. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs, other than the costs to issue debt or equity securities, are recognised in profit or loss when incurred.

In a business combination achieved in stages, previously held equity interests in the acquiree are remeasured to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

Non-controlling interests in the acquiree may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets at the date of acquisition. The choice of measurement basis is made on a transaction-by-transaction basis.

##### (b) Non-controlling Interests

Non-controlling interests are presented within equity in the consolidated statement of financial position, separately from the equity attributable to owners of the Company. Transactions with non-controlling interests are accounted for as transactions with owners and are recognised directly in equity. Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

At the end of each reporting period, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

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

#### Basis of Consolidation (Cont'd)

##### (c) Acquisitions of Non-controlling Interests

All changes in the parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of consideration paid or received is recognised directly in equity and attributed to owners of the parent.

##### (d) Loss of Control

Upon loss of control of a subsidiary, the profit or loss on disposal is calculated as the difference between:-

- (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest in the former subsidiary; and
- (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the former subsidiary and any non-controlling interests.

Amounts previously recognised in other comprehensive income in relation to the former subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained profits) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investments retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under MFRS 139 or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

#### Intangible Asset

Intangible asset, other than goodwill, that are acquired by the Group, which have finite useful lives, are measured at cost less any accumulated amortisation and any impairment losses.

Amortisation is based on the cost of an asset less its residual value. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. Amortisation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted, if appropriate.

#### Goodwill

Goodwill is measured at cost less accumulated impairment losses, if any. The carrying value of goodwill is reviewed for impairment annually. The impairment value of goodwill is recognised immediately in profit or loss. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Under the acquisition method, any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interests recognised and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities at the date of acquisition is recorded as goodwill.

Where the latter amount exceeds the former, after reassessment, the excess represents a bargain purchase gain and is recognised as a gain in profit or loss.



## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

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

#### Functional and Foreign Currencies

(i) Functional and presentation currency

The individual financial statements of each entity in the Group are presented in the currency of the primary economic environment in which the entity operates, which is the functional currency.

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

(ii) Transactions and balances

Transactions in foreign currencies are converted into the respective functional currencies on initial recognition, using the exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities at the end of the reporting period are translated at the rates ruling as of that date. Non-monetary assets and liabilities are translated using exchange rates that existed when the values were determined. All exchange differences are recognised in profit or loss.

(iii) Foreign operations

Assets and liabilities of foreign operations are translated to RM at the rates of exchange ruling at the end of the reporting period. Revenues and expenses of foreign operations are translated at exchange rates ruling at the dates of the transactions. All exchange differences arising on translation are taken directly to other comprehensive income and accumulated in equity under translation reserve. On disposal of a foreign operation, the cumulative amount recognised in other comprehensive income relating to that particular foreign operation is reclassified from equity to profit or loss.

Goodwill and fair value adjustments arising on the acquisition of foreign operations are treated as assets and liabilities of the foreign operations and are recorded in the functional currency of the foreign operations and translated at the closing rate at the end of the reporting period.

#### Financial Instruments

Financial instruments are recognised in the statements of financial position when the Group has become a party to the contractual provisions of the instruments.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability, are reported as an expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity.

Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

Financial instruments recognised in the statements of financial position are disclosed in the individual policy statement associated with each item.

(i) Financial assets

On initial recognition, financial assets are classified as either financial assets at fair value through profit or loss, financial assets, loans and receivables financial assets, held-to-maturity investments, or available-for-sale financial assets, as appropriate.

- Financial assets at fair value through profit or loss

As at the end of the reporting period, there were no financial assets classified under this category.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

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

#### Financial Instruments (Cont'd)

##### (i) Financial assets (Cont'd)

- Held-to-maturity investments

As at the end of the reporting period, there were no financial assets classified under this category.

- Loans and receivables financial assets

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

- Available-for-sale financial assets

As at the end of the reporting period, there were no financial assets classified under this category.

##### (ii) Financial liabilities

All financial liabilities are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprises financial liabilities that are either held for trading or are designated to eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise. Derivatives are also classified as held for trading unless they are designated as hedges.

##### (iii) Equity instruments

Instruments classified as equity are measured at cost and are not remeasured subsequently.

- Ordinary shares

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from proceeds.

Dividends on ordinary shares are recognised as liabilities when approved for appropriation.

- Treasury Shares

When the Company's own shares recognised as equity are bought back, the amount of the consideration paid, including all costs directly attributable, are recognised as a deduction from equity. Own shares purchased that are not subsequently cancelled are classified as treasury shares and are presented as a deduction from total equity. Where such shares are subsequently sold or reissued, any consideration received, net of any direct costs, is included in equity.

#### Property, Plant and Equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when the cost is incurred and it is probable that the future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. The carrying amount of parts that are replaced is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred. Cost also comprises the initial estimate of dismantling and removing the asset and restoring the site on which it is located for which the Group is obligated to incur when the asset is acquired, if applicable.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

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

#### Property, Plant and Equipment (Cont'd)

Freehold land and capital work-in-progress are not depreciated. Freehold buildings are depreciated on a straight-line basis over 50 years whilst the long leasehold buildings are depreciated over the remaining terms of the lease of 50 years. Depreciation of other property, plant and equipment is computed on the straight-line basis to their residual values at rates based on the estimated useful lives. The principal annual rates used are as follows:

Leasehold land	60 years
Factory and office renovation	10%
Plant and machinery	10% - 20%
Workshop tools	20%
Office equipment	33 1/3%
Furniture and fittings	20% - 33 1/3%
Motor vehicles	14%
Computers	33%

The depreciation method, useful lives and residual values are reviewed, and adjusted if appropriate, at the end of each reporting period to ensure that the amounts, method and periods of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of the property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising from derecognition of the asset is recognised in profit or loss.

#### Investments in Subsidiaries

Investments in subsidiaries are stated at cost in the statement of financial position of the Company, and are reviewed for impairment at the end of the reporting period if events or changes in circumstances indicate that the carrying values may not be recoverable.

On the disposal of the investments in subsidiaries, the difference between the net disposal proceeds and the carrying amount of the investments is recognised in profit or loss.

#### Investments in Associates

An associate is an entity in which the Group has a long-term equity interest and where it exercises significant influence over the financial and operating policies.

The investment in an associate is accounted for in the consolidated statement of financial position using the equity method, based on the financial statements of the associate made up to 31 December 2012. The Group's share of the post-acquisition profits of the associate is included in the consolidated statement of comprehensive income and the Group's interest in the associate is carried in the consolidated statement of financial position at cost plus the Group's share of the post-acquisition retained profits and reserves.

When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation.

Unrealised gains on transactions between the Group and the associate are eliminated to the extent of the Group's interest in the associate. Unrealised losses are eliminated unless cost cannot be recovered.

On the disposal of the investments in associates, the difference between the net disposal proceeds and the carrying amount of the investments is recognised in profit or loss.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

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

#### Impairment

##### (i) Impairment of financial assets

All financial assets (other than those categorised at fair value through profit or loss) are assessed at the end of each reporting period whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. For an equity instrument, a significant or prolonged decline in the fair value below its cost is considered to be objective evidence of impairment.

An impairment loss in respect of held-to-maturity investments and loans and receivables financial assets is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

An impairment loss in respect of available-for-sale financial assets is recognised in profit or loss and is measured as the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the fair value reserve. In addition, the cumulative loss recognised in other comprehensive income and accumulated in equity under fair value reserve, is reclassified from equity to profit or loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. In respect of available-for-sale equity instruments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss made is recognised in other comprehensive income.

##### (ii) Impairment of non-financial assets

The carrying values of assets, other than those to which MFRS 136 - Impairment of Assets does not apply, are reviewed at the end of each reporting period for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. The recoverable amount of the assets is the higher of the assets' fair value less costs to sell and their value in use, which is measured by reference to discounted future cash flow.

An impairment loss is recognised in profit or loss immediately unless the asset is carried at its revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of a previously recognised revaluation surplus for the same asset.

In respect of assets other than goodwill, when there is a change in the estimates used to determine the recoverable amount, a subsequent increase in the recoverable amount of an asset is treated as a reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in profit or loss immediately, unless the asset is carried at its revalued amount. A reversal of an impairment loss on a revalued asset is credited to other comprehensive income. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense in the statements of comprehensive income, a reversal of that impairment loss is recognised as income in the statements of comprehensive income.

#### Assets Under Finance Leases and Hire Purchase

Leases of plant and equipment where substantially all the benefits and risks of ownership are transferred to the Group are classified as finance leases. Plant and equipment acquired under finance lease and hire purchase are capitalised in the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

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

#### Assets Under Finance Leases and Hire Purchase (Cont'd)

Each lease and hire purchase payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding outstanding obligations due under the finance lease and hire purchase after deducting finance charges are included as liabilities in the financial statements.

Finance charges are recognised in profit or loss over the period of the respective lease and hire purchase agreements.

Plant and equipment acquired under finance leases and hire purchase are depreciated over the useful lives of the assets. If there is no reasonable certainty that the ownership will be transferred to the Group, the assets are depreciated over the shorter of the lease terms and their useful lives.

#### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in-first-out basis and comprises the purchase price and incidentals incurred in bringing the inventories to their present location and condition.

Net realisable value represents the estimated selling price less the estimated costs necessary to make the sale.

Where necessary, due allowance is made for all damaged, obsolete and slow-moving items. The Group writes down its obsolete or slow moving inventories based on assessment of the condition and the future demand for the inventories. These inventories are written down when events or changes in circumstances indicate that the carrying amounts may not be recovered.

#### Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand, bank balances, demand deposits, deposits pledged with financial institutions, bank overdrafts and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

#### Provisions

Provisions are recognised when the Group and the Company have a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation, and when a reliable estimate of the amount can be made. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material.

At end of each reporting period, the provisions are reviewed by the directors and adjusted to reflect the current best estimate. The provisions are reversed if it is no longer probable that the Group and the Company will be required to settle the obligation.

#### Contingent Liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

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

#### Related Parties

A party is related to an entity (referred to as the "reporting entity") if:-

- (a) A person or a close member of that person's family is related to a reporting entity if that person:-
  - (i) has control or joint control over the reporting entity;
  - (ii) has significant influence over the reporting entity; or
  - (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- (b) An entity is related to a reporting entity if any of the following conditions applies:-
  - (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a) above.
  - (vii) A person identified in (a)(i) above has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

### 4. OPERATING SEGMENTS

For management purposes, the Group is organised based on the Group's business and geographical segments. The primary format, geographical segments, is based on the Group management and internal reporting structure. Inter-segment pricing is determined based on negotiated terms.

The Group is principally engaged in one business segment which is the provision of engineering services.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

The Group is organised into the following geographical segments:

- Malaysia
- Singapore
- Philippines
- Taiwan
- China
- Indonesia

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 4. OPERATING SEGMENTS

The Group 2012	Malaysia RM	Singapore RM	Philippines RM	Taiwan RM	China RM	Indonesia RM	Elimination RM	Total RM
<b>Revenue</b>								
External sales	33,487,767	82,982,366	10,785,937	50,006,442	2,294,480	1,477,523	-	181,034,515
Inter-segment sales	1,167,124	3,962,009	1,192,121	1,053,276	-	-	(7,374,530)	-
Total revenue	34,654,891	86,944,375	11,978,058	51,059,718	2,294,480	1,477,523	(7,374,530)	181,034,515
<b>Results</b>								
Segment results	(46,636)	2,123,193	2,537,799	2,500,627	(895,242)	(943,837)	(4,417,770)	858,134
Share of results in associates								(367,407)
Interest income								140,408
Gain on disposal of subsidiary								5,477,371
Finance costs								(2,870,381)
Profit before tax								3,238,125
Income tax expense								937,044
Profit after tax								4,175,169

The Group 2012	Malaysia RM	Singapore RM	Philippines RM	Taiwan RM	China RM	Indonesia RM	Qatar RM	Elimination RM	Total RM
<b>Assets</b>									
Investment in associates	-	4,236,106	-	-	-	-	-	-	4,236,106
Tax assets	270,848	191,494	-	439,328	-	1,559	-	-	903,229
Segmental assets	118,083,102	125,985,322	12,929,855	87,120,604	4,130,664	5,544,807	168,190	(44,923,683)	309,038,861
Consolidated total assets									314,178,196
<b>Liabilities</b>									
Tax liabilities	285,000	10,933	211,501	580,776	-	-	-	-	1,088,210
Segment liabilities	49,561,000	46,522,287	6,539,294	61,098,207	698,446	6,649,676	-	(70,987,700)	100,081,210
Consolidated total liabilities									101,169,420
<b>Other Information</b>									
Capital expenditure	5,556,776	4,072,503	89,264	2,041,507	1,058,993	1,516,367	-	-	14,335,410
Depreciation	5,814,835	9,464,286	886,471	3,713,062	82,531	206,764	-	-	20,167,949
Other non-cash items									
-income	1,663,662	-	-	185,451	-	-	-	-	1,849,113
-expenses	748,780	32,460	8,758	418,169	-	28,606	-	-	1,236,773

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 4. OPERATING SEGMENTS (CONT'D)

The Group 2011	Malaysia RM	Singapore RM	Philippines RM	Taiwan RM	China RM	Indonesia RM	Elimination RM	Total RM
<b>Revenue</b>								
External sales	47,987,603	87,753,171	7,812,613	51,782,436	2,022,662	764,027	-	198,122,512
Inter-segment sales	509,091	4,981,992	325,301	953,104	-	-	(6,769,488)	-
Total revenue	48,496,694	92,735,163	8,137,914	52,735,540	2,022,662	764,027	(6,769,488)	198,122,512
<b>Results</b>								
Segment results	6,198,817	2,093,900	860,657	3,412,838	(984,614)	(403,054)	(5,576,054)	5,602,490
Share of results in associates								18,304
Interest income								181,653
Finance costs								(2,803,413)
Profit before tax								2,999,034
Income tax expense								485,042
Profit after taxation								3,484,076

The Group 2011	Malaysia RM	Singapore RM	Philippines RM	Taiwan RM	China RM	Indonesia RM	Qatar RM	Elimination RM	Total RM
<b>Assets</b>									
Investment in associates	75,860	4,555,210	-	-	-	-	-	-	4,631,070
Tax assets	325,937	229,184	-	193,989	-	1,706	-	-	750,816
Segmental assets	131,379,665	143,038,567	10,912,679	84,492,831	2,940,165	4,527,903	174,048	(49,259,952)	328,205,906
Consolidated total assets									333,587,792
<b>Liabilities</b>									
Tax liabilities	383,000	2,562,120	124,725	548,154	-	-	-	-	3,617,999
Segment liabilities	61,946,516	69,416,991	6,963,589	57,363,294	730,315	4,556,984	-	(78,169,727)	122,807,962
Consolidated total liabilities									126,425,961
<b>Other Information</b>									
Capital expenditure	8,293,269	8,628,817	1,322,971	1,349,072	50,695	3,561,325	-	-	23,206,149
Depreciation	5,112,634	9,111,435	636,368	4,086,506	31,676	38,789	-	-	19,017,408
Other non-cash items									
-income	130,554	1,053,030	-	638,496	-	-	-	-	1,822,080
-expenses	1,396,333	1,436,827	11,151	488,768	-	-	-	-	3,333,079



## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 4. OPERATING SEGMENTS (CONT'D)

Other significant non-cash expenses/(income) consists of the following:-

	The Group	
	2012 RM	2011 RM
Inventories written off	-	1,222,104
Allowance for impairment losses	1,072,499	2,110,975
Impairment loss for fair value adjustment	164,274	-
	<u>1,236,773</u>	<u>3,333,079</u>
Writeback of allowance for impairment losses on trade receivables	<u>(1,849,113)</u>	<u>(1,822,080)</u>

### 5. REVENUE

	The Group		The Company	
	2012 RM	2011 RM	2012 RM	2011 RM
Provision of services	153,737,121	168,287,829	-	-
Contract customers	6,337,165	3,321,359	-	-
Sale of goods	20,960,229	26,513,324	-	-
Dividend income from subsidiaries	-	-	2,716,969	3,567,752
	<u>181,034,515</u>	<u>198,122,512</u>	<u>2,716,969</u>	<u>3,567,752</u>

### 6. FINANCE COSTS

	The Group		The Company	
	2012 RM	2011 RM	2012 RM	2011 RM
Interest expense on:				
Term loans	1,363,016	1,490,967	-	-
Hire purchase	861,857	877,932	-	-
Short-term borrowings	294,793	331,495	-	-
Bank overdrafts	186,441	103,019	-	-
	<u>2,706,107</u>	<u>2,803,413</u>	<u>-</u>	<u>-</u>
Impairment loss on fair value adjustment	164,274	-	-	-
Amount owing to subsidiaries	-	-	88,597	87,482
	<u>2,870,381</u>	<u>2,803,413</u>	<u>88,597</u>	<u>87,482</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 7. PROFIT BEFORE TAX

Profit before tax is arrived at after crediting/(charging) the following:

	The Group		The Company	
	2012	2011	2012	2011
	RM	RM	RM	RM
Interest income from:				
Subsidiaries	-	-	1,133,795	972,717
Third parties	140,408	181,653	61,760	137,346
Gain on disposal of property, plant and equipment	387,867	228,259	-	-
Dividend income from subsidiaries	-	-	2,716,969	3,567,752
Writeback of allowance for impairment losses on trade receivables	1,849,113	1,822,080	-	-
Gain on disposal of subsidiary	5,477,371	-	-	-
Gain on disposal of investment in associate	22,597	-	-	-
Gain on dilution on investment in subsidiary	103,879	86,100	-	-
Staff costs	(62,746,173)	(64,941,443)	(813,182)	(929,015)
Depreciation of property, plant and equipment	(20,167,949)	(19,017,408)	(41,142)	(45,252)
Directors' remuneration:				
Fees:				
Non-executive Directors	(124,815)	(310,678)	(124,815)	(177,000)
Salaries and other emoluments:				
Executive Directors	(2,174,242)	(2,738,133)	(136,262)	(72,000)
Gain/(Loss) on foreign exchange - net:				
Unrealised	(1,076,048)	(241,546)	(327,158)	(273,226)
Realised	(118,090)	(521,504)	(50,914)	(202,269)
Auditors' remuneration				
- current year	(613,840)	(505,795)	(74,000)	(64,000)
Property, plant and equipment written off	(1,212,255)	(174,514)	-	-
Impairment loss of fair value adjustment	(164,274)	-	-	-
Allowance for impairment losses on receivables	(1,072,499)	(2,110,975)	-	-
Bad debts written off	(1,700)	(180,018)	-	-

#### (a) Staff costs

Staff costs include salaries, bonuses, contributions to statutory defined contribution plans, defined benefits plan and all other staff related expenses. Contributions to statutory defined contribution plans and defined benefits plan, included in staff costs, made by the Group and by the Company during the financial year are as follows:

	The Group		The Company	
	2012	2011	2012	2011
	RM	RM	RM	RM
Defined contribution plans	4,044,750	4,079,069	92,051	90,958
Defined benefits plan	581,237	382,804	-	-

#### (b) Key management personnel compensation

The remuneration of the members of key management included in staff costs is as follows:

	The Group		The Company	
	2012	2011	2012	2011
	RM	RM	RM	RM
Short-term employee benefits	4,181,424	3,712,084	492,485	446,896

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 7. PROFIT BEFORE TAX (CONT'D)

#### (c) Directors' remuneration

Contributions to provident fund, included in directors' remuneration, made by the Group and Company during the current financial year amounted to RM49,355 (2011: RM77,101) and RM14,326 (2011: NIL) respectively.

The estimated monetary value of benefits-in-kind received and receivable by the directors otherwise than in cash from the Group amounted to RM14,831 (2011: NIL).

### 8. INCOME TAX EXPENSE

	The Group		The Company	
	2012 RM	2011 RM	2012 RM	2011 RM
Estimated tax payable:				
Malaysian:				
- Current year	241,995	378,981	-	-
- Underprovision in prior years	104,288	18,007	-	-
	346,283	396,988	-	-
Foreign:				
- Current year	847,330	757,482	-	-
- Overprovision in prior years	(63,318)	(71,827)	-	-
	784,012	685,655	-	-
	1,130,295	1,082,643	-	-
Deferred tax (Note 15):				
- Current year	(493,060)	(385,495)	-	-
- Overprovision in prior years	(1,574,279)	(1,182,190)	-	-
	(2,067,339)	(1,567,685)	-	-
	(937,044)	(485,042)	-	-

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

	The Group		The Company	
	2012 RM	2011 RM	2012 RM	2011 RM
Profit before tax	3,238,125	2,999,034	1,604,358	1,899,386
Tax at the applicable tax rate of 25% (2011 : 25%)	809,531	749,759	401,089	474,846
Effect of different tax rates of other tax jurisdictions	(1,433,479)	(371,241)	-	-
Tax effects of:				
Non-deductible expenses	1,838,048	1,282,564	278,153	417,092
Income not subject to tax	(930,060)	-	(679,242)	(891,938)
Utilisation of deferred tax asset previously not recognised	(448,971)	(981,582)	-	-
Utilisation of unabsorbed reinvestment allowances	(45,000)	(215,981)	-	-
Tax incentives	(43,723)	(83,332)	-	-
Income tax exemption	(72,219)	(60,815)	-	-
Deferred tax asset not recognised	830,286	436,172	-	-
Under/(Over)provision in prior years				
- Income tax	40,970	(53,820)	-	-
- Deferred tax	(1,574,279)	(1,182,190)	-	-
Effect of share of results in associates	91,852	(4,576)	-	-
Income tax expense	(937,044)	(485,042)	-	-

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 9. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing profit for the year attributable to owners of the Company by the weighted average number of ordinary shares in issue during the financial year.

	The Group	
	2012 RM	2011 RM
Profit for the year attributable to owners of the Company	3,820,496	2,484,403
Number of shares in issue as of January 1	1,011,408,160	1,011,408,160
Effects of:		
Treasury shares acquired	(1,834,802)	(485,752)
Weighted average number of ordinary shares for basic earnings per share computation	1,009,573,358	1,010,922,408
Effects of dilution - warrants	-	-
Weighted average number of ordinary shares for diluted earnings per share computation	1,009,573,358	1,010,922,408
Basic earnings per ordinary share attributable to equity holders of the Company (sen)	0.38	0.25
Diluted earnings per ordinary share attributable to equity holders of the Company (sen)	N/A	N/A

The diluted earnings per share at the end of the reporting period was not presented as the average market value of the ordinary shares of the Company is lower than the exercise price for the outstanding warrants and any exercise of warrants would be antidilutive.

### 10. PROPERTY, PLANT AND EQUIPMENT

The Group	COST							As at 31 December 2011 RM
	As at 1 January 2011 RM	Arising from acquisition of subsidiary RM	Foreign currency translation differences RM	Reclassi- fications RM	Additions RM	Write-offs RM	Disposals RM	
Freehold land	16,596,223	-	(93,402)	-	-	-	-	16,502,821
Freehold buildings	35,950,655	-	(239,932)	100,639	166,807	(56,609)	-	35,921,560
Long leasehold land	3,664,274	-	-	-	-	-	-	3,664,274
Long leasehold buildings	30,002,144	-	558,410	13,810,215	669,300	-	-	45,040,069
Factory and office renovation	17,670,584	-	322,182	-	2,581,365	-	-	20,574,131
Plant and machinery	140,245,852	-	1,625,812	4,086,358	8,881,041	(238,366)	(4,676,405)	149,924,292
Workshop tools	2,220,459	47,112	850	-	325,746	(32,162)	(62,262)	2,499,743
Office equipment	7,904,357	955	132,430	124,537	1,087,374	(97,172)	(399,974)	8,752,507
Furniture and fittings	649,944	-	1,151	929	239,262	(3,982)	(8,870)	878,434
Motor vehicles	6,973,754	-	66,099	-	517,690	-	(333,732)	7,223,811
Computers	2,465,949	4,554	(10,819)	-	231,743	(54,142)	(20,019)	2,617,266
Capital work-in-progress	17,508,921	-	368,969	(18,122,678)	8,505,821	(5,065)	(7,355)	8,248,613
Total	281,853,116	52,621	2,731,750	-	23,206,149	(487,498)	(5,508,617)	301,847,521

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 10. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

The Group	COST								As at 31 December 2012 RM
	As at 1 January 2012 RM	Arising from disposal of subsidiary RM	Foreign currency translation differences RM	Reclassi- fications RM	Transfer to asset held for sale RM	Additions RM	Write-offs RM	Disposals RM	
Freehold land	16,502,821	-	63,893	-	-	-	-	-	16,566,714
Freehold buildings	35,921,560	-	165,131	230,672	-	250,317	-	-	36,567,680
Long leasehold land	3,664,274	-	-	-	-	-	-	-	3,664,274
Long leasehold buildings	45,040,069	(10,943,241)	950,258	-	-	-	(550,950)	-	34,496,136
Factory and office renovation	20,574,131	(2,599,806)	344,367	1,401,493	-	3,133,368	(393,347)	-	22,460,206
Plant and machinery	149,924,292	(6,542,537)	2,015,548	2,367,905	-	6,625,036	(402,145)	(10,682,866)	143,305,233
Workshop tools	2,499,743	-	1,507	-	-	218,748	(271,892)	-	2,448,106
Office equipment	8,752,507	(295,129)	144,257	2,634,664	-	856,048	(607,714)	(11,606)	11,473,027
Furniture and fittings	878,434	-	2,469	11,406	-	32,205	(1,410)	(14,300)	908,804
Motor vehicles	7,223,811	(763,734)	99,362	344,831	-	304,965	-	(1,752,802)	5,456,433
Computers	2,617,266	-	11,176	-	-	160,258	(5,929)	-	2,782,771
Capital work-in- progress	8,248,613	-	(90,116)	(6,990,971)	(1,080,834)	2,754,465	(118,531)	-	2,722,626
Total	301,847,521	(21,144,447)	3,707,852	-	(1,080,834)	14,335,410	(2,351,918)	(12,461,574)	282,852,010

The Group	← ACCUMULATED DEPRECIATION →							
	As at	Arising	Foreign					As at
	1 January	from	currency		Reclassi-	Charge for	Write-offs	December
	2011	acquisition	translation		fications	the year		2011
	RM	of	differences		RM	RM	RM	RM
	RM	subsidiary	RM		RM	RM	RM	RM
Freehold land	-	-	-	-	-	-	-	-
Freehold buildings	9,409,460	-	(55,028)	-	982,606	(52,707)	-	10,284,331
Long leasehold land	235,469	-	-	-	61,967	-	-	297,436
Long leasehold buildings	6,409,619	-	147,381	-	1,009,937	-	-	7,566,937
Factory and office renovation	5,720,939	-	102,393	-	1,507,153	-	-	7,330,485
Plant and machinery	66,347,366	-	741,980	15,245	13,459,243	(122,268)	(1,947,972)	78,493,594
Workshop tools	1,154,480	4,631	170	-	387,709	(21,106)	(21,147)	1,504,737
Office equipment	6,159,464	159	93,733	(15,245)	753,617	(93,801)	(37,233)	6,860,694
Furniture and fittings	432,158	-	1,063	-	124,742	(3,982)	(7,396)	546,585
Motor vehicles	5,380,381	-	58,881	-	526,561	-	(331,190)	5,634,633
Computers	2,198,751	759	(9,419)	-	203,873	(19,120)	(15,730)	2,359,114
Capital work-in-progress	-	-	-	-	-	-	-	-
Total	103,448,087	5,549	1,081,154	-	19,017,408	(312,984)	(2,360,668)	120,878,546

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 10. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

The Group	← ACCUMULATED DEPRECIATION →						NET BOOK VALUE		
	As at 1 January 2012 RM	Arising from disposal of subsidiary RM	Foreign currency translation differences RM	Charge for the year RM	Write-offs RM	Disposals RM	As at 31 December 2012 RM	As at 31 December 2012 RM	As at 31 December 2011 RM
Freehold land	-	-	-	-	-	-	-	16,566,714	16,502,821
Freehold buildings	10,284,331	-	54,726	885,426	-	-	11,224,483	25,343,197	25,637,229
Long leasehold land	297,436	-	-	61,966	-	-	359,402	3,304,872	3,366,838
Long leasehold buildings	7,566,937	(1,732,680)	191,722	1,515,958	(42,427)	-	7,499,510	26,996,626	37,473,132
Factory and office renovation	7,330,485	(876,844)	142,005	1,973,119	(155,035)	-	8,413,730	14,046,476	13,243,646
Plant and machinery	78,493,594	(3,419,811)	1,195,217	13,243,394	(217,067)	(3,969,128)	85,326,199	57,979,034	71,430,698
Workshop tools	1,504,737	-	833	352,073	(255,681)	-	1,601,962	846,144	995,006
Office equipment	6,860,694	(206,345)	132,664	1,335,881	(463,289)	(3,262)	7,656,343	3,816,684	1,891,813
Furniture and fittings	546,585	-	1,654	107,321	(1,410)	(11,678)	642,472	266,332	331,849
Motor vehicles	5,634,633	(605,259)	82,613	525,789	-	(1,576,020)	4,061,756	1,394,677	1,589,178
Computers	2,359,114	-	10,388	167,022	(4,754)	-	2,531,770	251,001	258,152
Capital work-in- progress	-	-	-	-	-	-	-	2,722,626	8,248,613
Total	120,878,546	(6,840,939)	1,811,822	20,167,949	(1,139,663)	(5,560,088)	129,317,627	153,534,383	180,968,975

The Company	← COST →						As at 31 December 2012 RM
	As at 1 January 2011 RM	Additions RM	Write-offs RM	As at 31 December 2011 RM	Additions RM	Write-offs RM	
Office renovation	151,775	-	-	151,775	-	-	151,775
Office equipment	44,524	-	(907)	43,617	-	-	43,617
Furniture and fittings	72,610	2,000	(3,772)	70,838	800	-	71,638
Computers	46,077	6,713	(275)	52,515	-	-	52,515
Total	314,986	8,713	(4,954)	318,745	800	-	319,545

The Company	← ACCUMULATED DEPRECIATION →						NET BOOK VALUE	
	As at 1 January 2011 RM	Charge for the year RM	Write-offs RM	As at 31 December 2011 RM	Charge for the year RM	As at 31 December 2012 RM	As at 31 December 2012 RM	As at 31 December 2011 RM
Office renovation	15,225	15,177	-	30,402	15,178	45,580	106,195	121,373
Office equipment	36,147	4,711	(907)	39,951	3,627	43,578	39	3,666
Furniture and fittings	41,577	15,791	(3,772)	53,596	14,430	68,026	3,612	17,242
Computers	32,023	9,573	(275)	41,321	7,907	49,228	3,287	11,194
Total	124,972	45,252	(4,954)	165,270	41,142	206,412	113,133	153,475

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 10. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

As of 31 December 2012, freehold land and buildings, long leasehold land and buildings and plant and machinery of the Group with a total net book value totalling RM69,727,309 (2011: RM80,472,706) have been charged as collateral to certain banks for term loans and bank borrowings granted to the Group as mentioned in Note 22.

Included in property, plant and equipment of the Group are property, plant and equipment acquired under hire purchase arrangements with net book value totalling RM12,895,602 (2011: RM15,110,735).

### 11. ASSET HELD FOR SALE

During the financial year, the capital work-in-progress (Note 10) is completed and available for immediate sale. The management has the intention to sell its asset and has initiated actions to locate a buyer. The completed capital work-in-progress is classified as asset held for sale.

### 12. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2012 RM	2011 RM
Quoted shares outside Malaysia - at cost	28,432,756	27,955,744
Unquoted shares - at cost	41,408,256	41,408,256
	<hr/>	<hr/>
	69,841,012	69,364,000
	(982,665)	(982,665)
	<hr/>	<hr/>
	68,858,347	68,381,335
	<hr/>	<hr/>
Market value of quoted shares	11,803,678	23,608,046
	<hr/>	<hr/>

Details of the subsidiaries are as follows:

Name of Companies	Country of Incorporation	Effective Equity Interest		Principal Activities
		2012 %	2011 %	
Direct Subsidiaries				
Frontken (Singapore) Pte. Ltd. <sup>1</sup>	Singapore	100	100	Provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes including mechanical and chemical engineering works.
Frontken Technology Corporation <sup>2</sup>	Taiwan	100	100	Provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes including mechanical and chemical engineering works.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 12. INVESTMENTS IN SUBSIDIARIES (CONT'D)

Name of Companies	Country of Incorporation	Effective Equity Interest		Principal Activities
		2012 %	2011 %	
Direct Subsidiaries				
PT Frontken Indonesia <sup>2</sup>	Indonesia	95	95	Provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes including mechanical and chemical engineering works.
Frontken MIC Co. Limited <sup>2</sup>	Hong Kong	38.80	42.93	Investment holding and provision of management services.
Frontken Malaysia Sdn. Bhd. <sup>3</sup>	Malaysia	100	100	Provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes including mechanical and chemical engineering works.
Indirect Subsidiaries				
Metall-Treat Industries Pte. Ltd.	Singapore	-	100	Electroplating and plating of metals and formed products.
Frontken Philippines Inc <sup>2</sup>	Philippines	99.99	99.99	Provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes including mechanical and chemical engineering works.
Frontken (East Malaysia) Sdn. Bhd. <sup>3</sup>	Malaysia	100	100	Provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes including mechanical and chemical engineering works.
Frontken (Johor) Sdn. Bhd. <sup>3</sup>	Malaysia	100	100	Provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes, including mechanical and chemical engineering services.
Frontken-MIC (Wuxi) Co. Ltd. <sup>2</sup>	China	38.80	42.93	Provision of cleaning of specialised equipment for semiconductor devices, integrated circuits and components, and research and development of semiconductor cleaning technology.
Frontken Petroleum Sdn. Bhd. <sup>3</sup>	Malaysia	60.07	60.07	Provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes including mechanical and chemical engineering services.



## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 12. INVESTMENTS IN SUBSIDIARIES (CONT'D)

Name of Companies	Country of Incorporation	Effective Equity Interest		Principal Activities
		2012 %	2011 %	
Indirect Subsidiaries				
Frontship Pte. Ltd. <sup>1</sup>	Singapore	100	100	Procurement of materials, equipment consumable parts and engineering services.
Ares Green Technology Corporation <sup>2</sup>	Taiwan	51.49	50.58	Provision of surface treatment and advanced precision cleaning for the TFT - LCD (Thin Film Transistor - Liquid Crystal Display) and semi-conductor industries.
Ares Green International Corporation <sup>2</sup>	Samoa	51.49	50.58	Investment holding.
Frontken Projects Pte . Ltd. <sup>1</sup>	Singapore	51	51	General contractors and process and individual plant engineering services.
Frontken Qatar WLL	Qatar	49	49	Dormant.

<sup>1</sup> The financial statements of the subsidiaries are audited by a member firm of Crowe Horwath International.

<sup>2</sup> The financial statements of the subsidiaries are audited by auditors other than the auditors of the Company.

<sup>3</sup> The financial statements of the subsidiaries are audited by Messrs Crowe Horwath.

(i) On 28 May 2012, the Company acquired 300,000 ordinary shares of NT\$10 each representing 0.91% of the issued and paid-up share capital of Ares Green Technology Corporation ("AGTC") for a cash consideration of NT\$4,410,038 (equivalent to RM477,012) including incidental cost. The shares were acquired over the counter on GreTai Securities Market in Taiwan. Following the acquisition, the Group's interest in AGTC increased from 50.58% to 51.49%.

(ii) On 27 June 2012, Frontken MIC Co. Limited ("FMIC"), a subsidiary of the Company, increased its issued and paid-up capital from HKD9,560,072 to HKD14,990,812 by the allotment and issuance of 5,430,740 new ordinary shares of HKD1.00 each at par for cash to MIC-TECH Ventures Asia Pacific Inc. and Ares Green International Corporation ("AGIC").

Pursuant to the above allotment of 5,430,740 new ordinary shares, the Company's effective equity interest in FMIC, held directly by the Company and through AGIC, diluted from 42.93% to 38.80%.

FMIC is considered a subsidiary of the Company as the Company controls the Board of FMIC. The Board of FMIC determines the operating and management policies.

(iii) On 28 September 2012, Frontken (Singapore) Pte. Ltd., a wholly-owned subsidiary of the Company, entered into an agreement to dispose of 2,929,082 ordinary shares representing its entire 100% equity interest in Metall-Treat Industries Pte Ltd ("MTI") to Malayan Daching Co. Pte. Ltd. for a cash consideration of SGD10,000,000. The disposal was completed on 6 December 2012, whereupon MTI ceased to be a subsidiary of the Company.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 12. INVESTMENTS IN SUBSIDIARIES (CONT'D)

In the current financial year, the details of the assets, liabilities and cash flows arising from the disposal of MTI were as follows:-

	<b>The Group 2012 RM</b>
Property, plant and equipment	14,303,508
Inventories	207,321
Trade and other receivables	1,547,455
Cash and cash equivalents	2,655,258
Trade and other payables	(1,623,196)
Deferred tax	(594,778)
Group's interest in fair value of net identifiable assets	16,495,568
Goodwill	3,060,595
Gain on disposal of subsidiary	5,477,371
Proceeds from disposal	25,033,534
Less: Incidental cost	(250,724)
Less: Cash and cash equivalents in subsidiary disposed	(2,655,258)
Net cash inflow on disposal	(22,127,552)

- (iv) On 15 March 2011, FS subscribed for 306,000 ordinary shares of SGD1 each representing 51% of the issued and paid-up share capital of Frontken Projects Pte. Ltd. ("FPPL") for a cash consideration of SGD306,000.

The details of the assets, liabilities and cash flows arising from the acquisition of FPPL were as follows:-

	<b>The Group 2011 RM</b>
Property, plant and equipment	47,072
Trade and other receivables	95,496
Cash and cash equivalents	1,309,517
Trade and other payables	(21,656)
Less : Non-controlling interest	(700,910)
Group's interest in fair value of net identifiable assets	729,519
Goodwill on additional acquisition	-
Total cost of acquisition	729,519
Less: Cash and cash equivalents in subsidiary acquired	(1,309,517)
Net cash inflow on acquisition	(579,998)

### 13. INVESTMENTS IN ASSOCIATES

	<b>The Group</b>		<b>The Company</b>	
	<b>2012 RM</b>	<b>2011 RM</b>	<b>2012 RM</b>	<b>2011 RM</b>
Unquoted shares				
- at cost	4,577,697	4,721,197	-	-
Share of post-acquisition results	(489,392)	(138,081)	-	-
Foreign currency translation differences	147,801	47,954	-	-
	4,236,106	4,631,070	-	-

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 13. INVESTMENTS IN ASSOCIATES (CONT'D)

The summarised financial information of the associates is as follows:

	The Group	
	2012 RM	2011 RM
Current assets	9,749,609	11,560,633
Non-current assets	32,731,145	20,615,948
Current liabilities	(24,726,038)	(11,924,078)
Non-current liabilities	(1,862,359)	(2,456,874)
Net Assets	15,892,357	17,795,629
Revenue	23,879,518	20,791,037
(Loss)/Profit for the year	(2,038,549)	164,351
Group's share of results for the year	(367,407)	40,736

Details of the associates are as follows:

Name of Companies	Country of Incorporation	Effective Equity Interest		Principal Activities
		2012 %	2011 %	
Indirect Associates				
Frontken (Thailand) Co., Ltd	Thailand	49	49	Provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes including mechanical and chemical engineering works.
Daya Bumimaju Sdn. Bhd. (formerly known as FrontkenBumiMaju Sdn. Bhd.)	Malaysia	-	30	Trading in machineries, machine parts and equipment and providing engineering services.
Chinyee Engineering & Machinery Pte. Ltd.	Singapore	20	20	Provider of structural components, assemblies and kits to the aerospace and technology industries.

On 9 May 2012, Frontken Malaysia Sdn. Bhd., a wholly-owned subsidiary of the Company, entered into an agreement to dispose of 150,000 ordinary shares of RM1.00 each, representing its entire 30% equity interest in Daya Bumimaju Sdn. Bhd. (formerly known as Frontken Bumimaju Sdn. Bhd.) for a cash consideration of RM150,000. The disposal was completed on 31 July 2012.

#### Amounts owing by/to associates

	The Group	
	2012 RM	2011 RM
Amount owing by associates		
- Trade	1,742,028	3,082,161
- Non-trade	375,606	1,068,313
	2,117,634	4,150,474
Amount owing to associates		
- Trade	-	1,500,199

The normal trade credit terms granted to an associate range from 30 to 90 days.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 13. INVESTMENTS IN ASSOCIATES (CONT'D)

Significant transactions undertaken with associates during the financial year are as follows:

	The Group	
	2012 RM	2011 RM
Chinyee Engineering & Machinery Pte. Ltd.		
Sales	812,588	980,067
Purchases	2,324,092	4,329,157

### 14. GOODWILL ON CONSOLIDATION

	The Group	
	2012 RM	2011 RM
At beginning of year	28,381,127	28,311,674
Arising from disposal of subsidiary	(3,060,595)	-
Foreign currency translation differences	73,733	69,453
At end of year	25,394,265	28,381,127

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating unit ("CGU") that is expected to benefit from that business combination. The carrying amount of the goodwill had been allocated as follows:

	The Group	
	2012 RM	2011 RM
Metall-Treat Industries Pte. Ltd.	-	2,986,862
Frontken (East Malaysia) Sdn. Bhd.	805,812	805,812
Ares Green Technology Corporation	24,588,453	24,588,453
	25,394,265	28,381,127

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amount of the CGU is determined from value in use calculation. The key assumptions for the value in use calculation are those regarding the discount rates, growth rates and expected changes to pricing and direct costs during the period.

	Discount Rate	
	2012 %	2011 %
Growth rate	0.0 to 10.0	0.0 to 10.0
Pre-tax discount rate	7.80	8.45

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 14. GOODWILL ON CONSOLIDATION (CONT'D)

The calculation of value in use for CGU are most sensitive to the following assumptions:

- |                           |  |
|---------------------------|--|
| (i) Budgeted gross margin | Management determines budgeted gross margin based on past performance and its expectations of market development.  |
| (ii) Growth rate          | The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market. These calculations use pre-tax cash flow projections based on financial budgets approved by management and extrapolated cash flows for a three-year period based on growth rates consistent with the long-term average growth rate for the industry. |
| (iii) Discount rate       | Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risk specific to the CGU. The rate used to discount the forecasted cash flows reflects specific risks and expected returns relating to the industry.  |

The management believes that no reasonable change in the above key assumptions would cause the carrying amount of the goodwill to exceed its recoverable amounts.

### 15. DEFERRED TAX ASSETS/LIABILITIES

	The Group	
	2012 RM	2011 RM
<u>Deferred tax assets</u>		
At beginning of year	195,695	352,360
Transfer from profit or loss (Note 8)	242,492	(152,890)
Foreign currency translation differences	2,700	(3,775)
At end of year	440,887	195,695
<u>Deferred tax liabilities</u>		
At beginning of year	2,749,731	4,389,835
Transfer from profit or loss (Note 8)	(1,824,847)	(1,720,575)
Disposal of subsidiary	(594,778)	-
Foreign currency translation differences	33,184	80,471
At end of year	363,290	2,749,731

The net deferred tax liabilities and assets are in respect of the tax effects of the following:

	The Group Deferred Tax (Asset)/Liability	
	2012 RM	2011 RM
Temporary differences arising from property, plant and equipment	283,441	2,663,341
Others	(361,038)	(109,305)
	(77,597)	2,554,036

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 15. DEFERRED TAX ASSETS/LIABILITIES (CONT'D)

As mentioned in Note 3, the tax effects of deductible temporary differences, unused tax losses and unused tax credits which would give rise to deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. As of 31 December 2012, the estimated amount of net deferred tax assets, calculated at the current tax rate which has not been recognised in the financial statements of the Group due to uncertainty of its realisation, is as follows:

	Deferred Tax Asset The Group	
	2012 RM	2011 RM
Unabsorbed tax losses	2,048,282	1,127,544
Unabsorbed capital allowances	587,590	386,500
Temporary differences arising from property, plant and equipment	(640,000)	(46,000)
Unutilised reinvestment allowances	576,000	621,000
Others	87,000	-
	<u>2,658,872</u>	<u>2,089,044</u>

The unabsorbed tax losses and capital allowances are subject to the agreement of the tax authorities.

### 16. INVENTORIES

	The Group	
	2012 RM	2011 RM
At cost:-		
Raw materials	5,277,000	5,650,769
Work-in-progress	3,574,820	3,962,379
Finished goods	2,335,814	1,760,469
	<u>11,187,634</u>	<u>11,373,617</u>

None of the inventories is carried at net realisable value.

### 17. AMOUNT DUE FROM CONTRACT CUSTOMERS

	The Group	
	2012 RM	2011 RM
Contract costs incurred plus recognised profits	5,290,150	3,435,249
Less: Progress billings	(4,789,413)	(3,258,071)
	<u>500,737</u>	<u>177,178</u>
Presented as:		
Amount due from contract customers	<u>500,737</u>	<u>177,178</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 18. TRADE RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAID EXPENSES

Trade receivables of the Group comprise amounts outstanding for the provision of services and sale of goods. The credit periods granted to the customers range from 30 to 90 days (2011: 30 to 90 days).

	The Group	
	2012 RM	2011 RM
Trade receivables	70,350,346	73,569,344
Allowance for impairment losses	(2,067,626)	(3,304,676)
	<u>68,282,720</u>	<u>70,264,668</u>

Movement in allowance for impairment losses on trade receivables is as follows:

	The Group	
	2012 RM	2011 RM
At 1 January	3,304,676	4,014,962
Allowance for impairment losses	1,072,499	2,110,975
Write-back of allowance for impairment losses	(1,849,113)	(1,822,080)
Written off as bad debts	(468,238)	(1,001,003)
Exchange difference	7,802	1,822
	<u>2,067,626</u>	<u>3,304,676</u>

Included in trade receivables of the Group are the following amounts owing from the related parties:

	The Group	
	2012 RM	2011 RM
A& I Engine Rebuilders Sdn. Bhd.	1,170	770
AMT Engineering Sdn. Bhd.	5,939	44,458
	<u>7,109</u>	<u>45,228</u>

The said amount, which arose mainly from trade transactions, is unsecured, interest-free and repayable on demand. The amount owing is to be settled in cash.

The related parties and their relationships with the Group are as follows:

Name of related parties	Relationship
Chinyee Engineering & Machinery Pte. Ltd.	An associate company.
A& I Engine Rebuilders Sdn. Bhd.	A company in which Sia Chiok Meng, a director of a subsidiary, is also a director and has a financial interest.
AMT Engineering Sdn. Bhd.	A company in which Sia Chiok Meng, a director of a subsidiary, is also a director and has a financial interest.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 18. TRADE RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAID EXPENSES (CONT'D)

Significant transactions undertaken with related parties during the financial year are as follows:

	The Group	
	2012 RM	2011 RM
<b>Chinyee Engineering &amp; Machinery Pte. Ltd.</b>		
Sales	812,588	980,067
Purchases	2,324,092	4,329,157
<b>A&amp; I Engine Rebuilders Sdn. Bhd.</b>		
Sales	4,205	2,830
<b>AMT Engineering Sdn. Bhd.</b>		
Sales	43,285	53,184
Purchases	10,138	12,799
Rental expense	72,000	72,000

Other receivables, deposits and prepaid expenses consist of:

	The Group		The Company	
	2012 RM	2011 RM	2012 RM	2011 RM
Other receivables	3,722,878	2,690,185	2,854	921
Allowance for impairment losses	(1,006,445)	(1,006,445)	-	-
Deposits	2,716,433	1,683,740	2,854	921
Prepayments	1,305,941	2,590,052	3,720	1,344
	1,460,749	2,254,666	19,243	29,095
	5,483,123	6,528,458	25,817	31,360

Included in prepayments are employee benefits as detailed below:

	The Group	
	2012 RM	2011 RM
Fair value of plan assets	4,079,822	3,878,897
Present value of plan obligations	(3,680,528)	(2,864,430)
	399,294	1,014,467

The Group contributes to a defined benefit plan that provides retirement benefits for employees upon retirement based on the following:-

- 2 months average salary for each year for the first 15 years of working; and
- 1 month average salary for each year subsequent to 15 years of working.

A maximum entitlement for a retired employee is 45 months average salary. The average salary of a retired employee is calculated based on the average 6 months' salary prior to his retirement date.



## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 18. TRADE RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAID EXPENSES (CONT'D)

Plan assets comprise:

	The Group	
	2012 RM	2011 RM
Cash at bank	954,270	925,893
Short-term investments	426,341	295,184
Debentures	448,780	444,134
Fixed income investments	655,219	627,993
Equity securities	1,562,163	1,580,651
Others	33,049	5,042
	<u>4,079,822</u>	<u>3,878,897</u>

The Group accrued employee benefits expenses based on the actuarial valuation performed by an independent actuary adopting the Projected Unit Credit With Service Increment method, with the following principal actuarial assumptions:

	The Group	
	2012	2011
i) Mortality rate		
- below 25	0.00029	0.00029
- between age 25 to 30	0.00068	0.00068
- between age 30 to 35	0.00090	0.00090
- between age 35 to 40	0.00133	0.00133
- between age 40 to 45	0.00197	0.00197
- between age 45 to 50	0.00303	0.00303
- between age 50 to 55	0.00448	0.00448
- between age 55 to 60	0.00664	0.00664
- between age 60 to 65	0.01026	0.01026
ii) Retirement age	65	65
iii) Disability rate (per annum)	10% of mortality rate	10% of mortality rate
iv) Discount rate (per annum)	1.63%	2.00%
v) Expected return on plan assets	1.88%	2.00%
vi) Expected rate of salary increases (per annum)	<u>3.0%</u>	<u>3.5%</u>

Movement in the present value of defined benefit obligations:

	The Group	
	2012 RM	2011 RM
At 1 January	2,864,430	2,906,278
Current service costs and interest	660,274	382,804
Actuarial losses in other comprehensive income	113,696	-
Others	23,288	(408,043)
Exchange difference	18,840	(16,609)
	<u>3,680,528</u>	<u>2,864,430</u>
At 31 December		

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 18. TRADE RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAID EXPENSES (CONT'D)

Movement in the fair value of plan assets:

	The Group	
	2012 RM	2011 RM
At 1 January	3,878,897	3,713,042
Expected return on plan assets	79,037	-
Actuarial losses in other comprehensive income	(34,286)	-
Contribution paid into the plan	143,022	594,118
Others	(5,622)	(407,985)
Exchange difference	18,774	(20,278)
At 31 December	4,079,822	3,878,897

Expenses recognised in profit or loss:

	The Group	
	2012 RM	2011 RM
Current service costs and interests	660,274	382,804
Expected return on plan assets	(79,037)	-
Net benefit expense	581,237	382,804

Actuarial gains and losses recognised directly in other comprehensive income:

	The Group	
	2012 RM	2011 RM
Recognised during the year	147,982	-

### 19. AMOUNTS OWING BY/TO SUBSIDIARIES

	The Company	
	2012 RM	2011 RM
Amount owing by:-		
Advances	41,423,789	39,834,269
Non-trade balances	6,134,561	9,040,514
	47,558,350	48,874,783
Allowance for impairment losses	(1,512,994)	(1,512,994)
	46,045,356	47,361,789
Amount owing to:-		
Advances	2,570,106	2,920,220
Non-trade balances	2,805,956	5,135,971
	5,376,062	8,056,191

The amounts owing by/to the subsidiaries arose mainly from unsecured advances and payments made on behalf. The amount arising from unsecured advances bear interest at 3% to 4.5% (2011: 3%) per annum and is repayable on demand whilst the amount arising from payments made on behalf is interest-free.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 20. SHARE CAPITAL

	The Group and The Company			
	2012	2011	2012	2011
	Number of shares		RM	RM
Ordinary shares of RM0.10 each :				
Authorised				
At beginning/end of year	5,000,000,000	5,000,000,000	500,000,000	500,000,000
Issued and fully paid-up				
At beginning/end of year	1,011,408,160	1,011,408,160	101,140,816	101,140,816

### 21. RESERVES

	The Group		The Company	
	2012	2011	2012	2011
	RM	RM	RM	RM
Non-distributable:				
Share premium	9,336,705	9,336,705	9,336,705	9,336,705
Treasury shares	(194,860)	(194,562)	(194,860)	(194,562)
Foreign currency translation reserve	6,073,760	4,214,016	-	-
Warrant reserve	882,976	882,976	882,976	882,976
Statutory reserve	370,502	197,997	-	-
Distributable:				
Retained earnings	67,282,552	63,694,222	1,717,439	113,081
	83,751,635	78,131,354	11,742,260	10,138,200

#### Treasury shares

During the financial year, the Company repurchased 2,000 of its issued ordinary shares from the open market at an average price of RM0.149 per share. The total consideration paid for the repurchase including transaction costs was RM298. The total consideration paid for the repurchase were financed by internally generated funds. The shares repurchased are being held as treasury shares in accordance with Section 67A of the Companies Act 1965 and are presented as a deduction from total equity.

As at 31 December 2012, the Company held 1,835,600 treasury shares at a carrying amount of RM194,860.

As at 31 December 2012, the number of outstanding ordinary shares in issue after the set off of 1,835,600 treasury shares held by the Company is 1,009,572,560 ordinary shares of RM0.10 each.

#### Foreign currency translation reserve

Foreign currency translation differences arising from the translation of the financial statements of foreign subsidiaries are taken to the foreign currency translation reserve as described in the significant accounting policies.

#### Warrant reserve

The warrant reserve arose from 288,973,760 free new detachable warrants ("Warrants") which were listed on Bursa Malaysia Securities Berhad on 16 March 2010 pursuant to the rights issue.

#### Statutory reserve

The statutory reserve is maintained by the Group's subsidiary in Taiwan in accordance with the regulations in that country.

#### Retained earnings

The Company has elected for the irrevocable option under the Finance Act 2007 to disregard the Section 108 balance. Following that, the Company will be able to distribute dividends out of its entire retained earnings under the single-tier system.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 22. TERM LOANS

	The Group	
	2012 RM	2011 RM
Principal outstanding	45,713,546	54,249,037
Less: Portion due within one year (Note 25)	(17,261,245)	(7,296,907)
Non-current portion	<u>28,452,301</u>	<u>46,952,130</u>

The non-current portion is repayable as follows:

	The Group	
	2012 RM	2011 RM
Later than one year but not later than five years	24,533,507	37,361,531
Later than five years	3,918,794	9,590,599
	<u>28,452,301</u>	<u>46,952,130</u>

As of 31 December 2012, the Group has the following term loan facilities:

- Two (2011 : Three) term loan facilities totalling RM7,777,380 (2011: RM6,411,927), obtained by a locally incorporated subsidiary, which bear interest at 4.97% (2011: 4.90% to 6.80%) per annum and are repayable in equal monthly instalments over 18 to 80 months (2011: 30 to 74 months);
- Three (2011 : Four) term loan facilities totalling RM13,874,349 (2011: RM17,710,098), obtained by a subsidiary incorporated in Singapore, which bear interest at rates ranging from 1.82% to 2.76% (2011: 1.78% to 2.76%) per annum and are repayable in equal monthly instalments over 3 to 90 months (2011: 2 to 103 months);
- In the previous financial year, the two term loan facilities totalling RM6,964,223, obtained by another subsidiary incorporated in Singapore, which bear interest at rates ranging from 2.56% to 2.65% (2011: 2.40% to 2.69%) per annum were fully repaid during the financial year;
- One (2011: One) term loan facility totalling RM876,050 (2011: RM1,148,069) obtained by another subsidiary incorporated in Singapore, bears interest of 3.75% (2011: 3.75%) per annum and is repayable in equal monthly instalments over 35 months (2011: 47 months); and
- Two (2011: Two) term loan facilities totalling RM23,185,766 (2011: RM22,014,720), obtained by a subsidiary incorporated in Taiwan, which bear interest at rates ranging from 1.68% to 1.82% (2011: 1.67% to 1.82%) per annum and are repayable in 7 to 8 quarterly (2011: 8 quarterly) instalments.

The term loans and bank borrowings as mentioned in Note 25 are secured by:-

- legal charges over certain freehold land and buildings of the Group as disclosed in Note 10;
- legal charges over the long leasehold land and buildings of the Group as disclosed in Note 10;
- corporate guarantees of the Company; and
- fixed deposits totalling RM549,183.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 23. HIRE PURCHASE PAYABLES

	The Group	
	2012 RM	2011 RM
Total outstanding	6,887,436	12,698,022
Less: Interest-in-suspense	(673,751)	(1,345,992)
	<hr/>	<hr/>
Present value of payments	6,213,685	11,352,030
Less: Amount due within 12 months (included under current liabilities)	(2,933,722)	(5,439,809)
	<hr/>	<hr/>
Non-current portion	3,279,963	5,912,221
	<hr/>	<hr/>

The non-current portion is payable as follows:

	The Group	
	2012 RM	2011 RM
Later than one year but not later than five years	3,279,963	5,912,221
	<hr/>	<hr/>

It is the Group's policy to acquire certain of its plant and equipment under hire purchase arrangements. The average term of the hire purchase is about 1 to 7 years (2011: 2 to 10 years). The interest rates implicit in the hire purchase obligations range from 3.76% to 7.86% (2011: 0.44% to 8.21%) per annum.

The Group's hire purchase payables are secured by the financial institutions' charge over the assets under hire purchase as disclosed in Note 10.

### 24. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED EXPENSES

Trade payables of the Group comprise amounts outstanding for trade purchases. The credit periods granted to the Group and the Company for trade purchases range from 30 to 90 days (2011: 30 to 90 days).

Other payables and accrued expenses consist of:

	The Group		The Company	
	2012 RM	2011 RM	2012 RM	2011 RM
Other payables	8,447,987	8,066,388	62,502	7,260
Accrued expenses	9,074,743	10,567,247	144,936	176,418
	<hr/>	<hr/>	<hr/>	<hr/>
	17,522,730	18,633,635	207,438	183,678
	<hr/>	<hr/>	<hr/>	<hr/>

### 25. BANK BORROWINGS

	The Group	
	2012 RM	2011 RM
Short-term borrowings	15,518,000	12,713,500
Term loans - current portion (Note 22)	17,261,245	7,296,907
	<hr/>	<hr/>
	32,779,245	20,010,407
Bank overdrafts (Note 26)	-	1,669,621
	<hr/>	<hr/>
	32,779,245	21,680,028
	<hr/>	<hr/>

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 25. BANK BORROWINGS (CONT'D)

As of 31 December 2011, the Group has bank overdrafts amounting to RM1,669,621 obtained from licensed banks which bore an effective interest rate of 7.85% per annum.

The short-term borrowings represent money market loan and revolving credit facilities obtained by two subsidiaries incorporated in Singapore and Malaysia which are rolled over every month and three months respectively. The money market loan and revolving credit facilities bear effective interest rates of 2.07% (2011 : 2.07% to 2.57%) per annum and 4.97% (2011: 5.09% to 5.12%) per annum respectively.

The security for the bank borrowings are disclosed in Note 22.

### 26. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the statements of cash flows comprise the following amounts:

	The Group		The Company	
	2012 RM	2011 RM	2012 RM	2011 RM
Fixed deposits with licensed banks	3,170,992	3,736,804	2,500,000	3,000,000
Cash and bank balances	38,286,539	22,624,605	923,923	590,926
	41,457,531	26,361,409	3,423,923	3,590,926
Less: Bank overdrafts (Note 25)	-	(1,669,621)	-	-
	41,457,531	24,691,788	3,423,923	3,590,926

Fixed deposits with licensed banks earn effective interest ranging from 0.25% to 3.15% (2011: 0.45% to 3.15%) per annum. The fixed deposits have average maturity periods ranging from 8 to 365 (2011: 15 to 365) days.

The fixed deposits of the Group amounting to RM549,183 (2011: RM368,054) are pledged to licensed banks as security for banking facilities granted to the Group.

### 27. DIVIDEND PAID

	The Group/ The Company	
	2012 RM	2011 RM
Interim single-tier dividend of 0.1 sen (1%) per ordinary share in respect of the current financial year	-	1,011,408

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

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 28. FINANCIAL INSTRUMENTS

The Group's activities are exposed to a variety of market risks (including foreign currency risk, interest rate risk and equity price risk), credit risk and liquidity risk. The Group's overall financial risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

#### (a) Financial Risk Management Policies

The Group's policies in respect of the major areas of treasury activity are as follows:-

##### (i) Foreign currency risk

The Group is exposed to foreign currency risk on transactions and balances that are denominated in foreign currencies. The currencies giving rise to this risk are primarily United States Dollar and Singapore Dollar. Foreign currency risk is monitored closely on an ongoing basis to ensure that the net exposure is at an acceptable level.

The Group's exposure to foreign currency is as follows:-

The Group 2012	Singapore Dollar RM	Ringgit Malaysia RM	United States Dollar RM	Philippine Peso RM	New Taiwan Dollar RM	Others* RM	Total RM
<u>Financial assets</u>							
Trade receivables	17,799,792	13,723,069	8,420,485	1,248,148	25,692,639	1,398,587	68,282,720
Other receivables and deposits	1,258,443	1,258,247	106,120	599,969	588,665	210,930	4,022,374
Amount owing by associates	2,096,196	-	21,438	-	-	-	2,117,634
Fixed deposits with licensed banks	416,395	2,586,069	-	-	168,528	-	3,170,992
Cash and bank balances	18,860,564	6,160,598	1,117,268	486,905	9,850,930	1,810,274	38,286,539
	40,431,390	23,727,983	9,665,311	2,335,022	36,300,762	3,419,791	115,880,259
<u>Financial liabilities</u>							
Trade payables	4,534,287	1,407,258	1,351,377	980,077	6,269,185	571,065	15,113,249
Other payables	7,529,904	3,393,899	125,115	197,924	5,868,714	407,174	17,522,730
Bank borrowings	29,768,399	8,277,381	-	-	23,185,766	-	61,231,546
Hire purchase payables	3,796,181	2,417,504	-	-	-	-	6,213,685
	45,628,771	15,496,042	1,476,492	1,178,001	35,323,665	978,239	100,081,210
Net financial (liabilities)/assets	(5,197,381)	8,231,941	8,188,819	1,157,021	977,097	2,441,552	15,799,049
Less: Net financial liabilities/(assets) denominated in the respective entities' functional currencies	6,160,535	(8,231,941)	(3,725)	(1,157,021)	(949,900)	(2,441,552)	(6,623,604)
Currency exposure	963,154	-	8,185,094	-	27,197	-	9,175,445

\* Denominated in Chinese Renminbi, Indonesian Rupiah and Qatari Riyal.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 28. FINANCIAL INSTRUMENTS (CONT'D)

(a) Financial Risk Management Policies (Cont'd)

(i) Foreign currency risk (Cont'd)

The Group 2011	Singapore Dollar RM	Ringgit Malaysia RM	United States Dollar RM	Philippine Peso RM	New Taiwan Dollar RM	Others* RM	Total RM
<u>Financial assets</u>							
Trade receivables	16,394,304	22,072,583	3,472,344	1,760,439	25,470,005	1,094,993	70,264,668
Other receivables and deposits	1,487,767	1,444,592	65,313	538,539	365,364	372,217	4,273,792
Amount owing by associates	1,725,731	2,402,473	22,270	-	-	-	4,150,474
Fixed deposits with licensed banks	404,694	3,248,244	-	-	83,866	-	3,736,804
Cash and bank balances	8,162,034	5,130,804	2,177,267	73,536	5,279,270	1,801,694	22,624,605
	28,174,530	34,298,696	5,737,194	2,372,514	31,198,505	3,268,904	105,050,343
<u>Financial liabilities</u>							
Trade payables	10,025,746	4,726,289	791,913	513,457	6,089,826	542,709	22,689,940
Other payables	9,883,750	3,482,759	1,300	563,411	4,064,835	637,580	18,633,635
Amount owing to associates	1,500,199	-	-	-	-	-	1,500,199
Bank overdrafts	-	1,669,621	-	-	-	-	1,669,621
Bank borrowings	38,035,890	6,911,927	-	-	22,014,720	-	66,962,537
Hire purchase payables	8,678,963	2,673,067	-	-	-	-	11,352,030
	68,124,548	19,463,663	793,213	1,076,868	32,169,381	1,180,289	122,807,962
Net financial (liabilities)/assets	(39,950,018)	14,835,033	4,943,981	1,295,646	(970,876)	2,088,615	(17,757,619)
Less: Net financial liabilities/(assets) denominated in the respective entities' functional currencies	38,743,506	(14,835,033)	(2,105)	(1,295,646)	995,347	(2,089,980)	21,516,089
Currency exposure	(1,206,512)	-	4,941,876	-	24,471	(1,365)	3,758,470

\* Denominated in Chinese Renminbi, Euro, Indonesian Rupiah and Qatari Riyal.



## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 28. FINANCIAL INSTRUMENTS (CONT'D)

(a) Financial Risk Management Policies (Cont'd)

(i) Foreign currency risk (Cont'd)

The Company 2012	Singapore Dollar RM	Ringgit Malaysia RM	Indonesian Rupiah RM	New Taiwan Dollar RM	Total RM
<u>Financial assets</u>					
Other receivables and prepaid expenses	-	6,574	-	-	6,574
Amount owing by subsidiaries	-	43,761,263	2,284,093	-	46,045,356
Fixed deposits with licensed banks	-	2,500,000	-	-	2,500,000
Cash and bank balances	-	896,726	-	27,197	923,923
	-	47,164,563	2,284,093	27,197	49,475,853
<u>Financial liabilities</u>					
Other payables	-	207,438	-	-	207,438
Amount owing to subsidiaries	5,334,398	41,664	-	-	5,376,062
	5,334,398	249,102	-	-	5,583,500
Net financial (liabilities)/assets	(5,334,398)	46,915,461	2,284,093	27,197	43,892,353
Less: Net financial assets denominated in the entity's functional currency	-	(46,915,461)	-	-	(46,915,461)
Currency exposure	(5,334,398)	-	2,284,093	27,197	(3,023,108)
<b>2011</b>					
<u>Financial assets</u>					
Other receivables and deposits	-	2,265	-	-	2,265
Amount owing by subsidiaries	-	45,840,896	1,520,893	-	47,361,789
Fixed deposits with licensed banks	-	3,000,000	-	-	3,000,000
Cash and bank balances	-	566,456	-	24,470	590,926
	-	49,409,617	1,520,893	24,470	50,954,980
<u>Financial liabilities</u>					
Other payables	-	183,678	-	-	183,678
Amount owing to subsidiaries	8,014,526	41,665	-	-	8,056,191
	8,014,526	225,343	-	-	8,239,869
Net financial (liabilities)/assets	(8,014,526)	49,184,274	1,520,893	24,470	42,715,111
Less: Net financial assets denominated in the entity's functional currency	-	(49,184,274)	-	-	(49,184,274)
Currency exposure	(8,014,526)	-	1,520,893	24,470	(6,469,163)

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 28. FINANCIAL INSTRUMENTS (CONT'D)

(a) Financial Risk Management Policies (Cont'd)

(i) Foreign currency risk (Cont'd)

Foreign currency risk sensitivity analysis

The following table details the sensitivity analysis on profit after taxation to a reasonably possible change in the foreign currencies as at the end of the reporting period, with all other variables held constant:-

	The Group		The Company	
	2012	2011	2012	2011
	Increase/ (Decrease)	Increase/ (Decrease)	Increase/ (Decrease)	Increase/ (Decrease)
	RM	RM	RM	RM
<b>Effects on profit after taxation/equity</b>				
Singapore Dollar:-				
- strengthened by 5%	48,158	(60,326)	(266,720)	(400,726)
- weakened by 5%	(48,158)	60,326	266,720	400,726
New Taiwan Dollar				
- strengthened by 5%	1,360	1,224	1,360	1,224
- weakened by 5%	(1,360)	(1,224)	(1,360)	(1,224)
United States Dollar				
- strengthened by 5%	409,255	247,094	-	-
- weakened by 5%	(409,255)	(247,094)	-	-
Indonesian Rupiah				
- strengthened by 5%	-	-	114,205	76,045
- weakened by 5%	-	-	(114,205)	(76,045)

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to interest rate risk arises mainly from interest-bearing financial assets and liabilities. The Group's policy is to obtain the most favourable interest rates available. Any surplus funds of the Group will be placed with licensed financial institutions to generate interest income.

Information relating to the Company's exposure to the interest rate risk of the financial liabilities is disclosed in Note 28(a)(v) to the financial statements.

Interest rate risk sensitivity analysis

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, a 100 basis points strengthening in the interest rate as at the end of the reporting period would have decreased profit after taxation by RM535,326 (2011 : RM595,766). A 100 basis points weakening would have had an equal but opposite effect on the profit after taxation. This assumes that all other variables remain constant.

(iii) Equity price risk

The Group does not have any investment that is exposed to equity price risk.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 28. FINANCIAL INSTRUMENTS (CONT'D)

#### (a) Financial Risk Management Policies (Cont'd)

##### (iv) Credit risk

The Group's exposure to credit risk, or the risk of counterparties defaulting, arises mainly from receivables. The Group manages its exposure to credit risk by the application of credit approvals, credit limits and monitoring procedures on an ongoing basis.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of the trade and other receivables as appropriate. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. Impairment is estimated by management based on prior experience and the current economic environment.

##### Credit risk concentration profile

The Group's major concentration of credit risk relates to the amounts owing by twenty nine (29) customers which constituted approximately 59% of its trade receivables as at the end of the reporting period.

##### Exposure to credit risk

As the Group does not hold any collateral, the maximum exposure to credit risk is represented by the carrying amount of the financial assets as at the end of the reporting period.

##### Ageing analysis

The ageing of the Group's trade receivables as at end of the reporting period was:-

	<b>Gross Amount RM</b>	<b>Individual Impairment RM</b>	<b>Collective Impairment RM</b>	<b>Carrying Value RM</b>
<b>The Group 2012</b>				
Not past due	54,302,490	-	-	54,302,490
Past due:-				
- Less than 1 month	5,092,273	-	-	5,092,273
- 1 to 9 months	7,670,954	-	(478,748)	7,192,206
- over 9 months	3,284,629	(1,368,546)	(220,332)	1,695,751
	<u>70,350,346</u>	<u>(1,368,546)</u>	<u>(699,080)</u>	<u>68,282,720</u>
<b>2011</b>				
Not past due	54,367,140	-	-	54,367,140
Past due:-				
- Less than 1 month	5,013,113	-	-	5,013,113
- 1 to 9 months	9,008,968	-	(463,993)	8,544,975
- over 9 months	5,180,123	(2,721,173)	(119,510)	2,339,440
	<u>73,569,344</u>	<u>(2,721,173)</u>	<u>(583,503)</u>	<u>70,264,668</u>

At the end of the reporting period, trade receivables that are individually impaired are those which have defaulted on payments. These receivables are not secured by any collateral or credit enhancement.

The collective impairment allowance is determined based on estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 28. FINANCIAL INSTRUMENTS (CONT'D)

(a) Financial Risk Management Policies (Cont'd)

(iv) Credit risk (Cont'd)

Trade receivables that are past due but not impaired

The Group believes that no impairment allowance is necessary in respect of these trade receivables. They are substantially companies with good collection track record and no recent history of default.

Trade receivables that are neither past due nor impaired

A significant portion of trade receivables that are neither past due nor impaired are regular customers that have been transacting with the Group. The Group uses ageing analysis to monitor the credit quality of the trade receivables.

(v) Liquidity risk

Liquidity risk arises mainly from general funding and business activities. The Group practises prudent risk management by maintaining sufficient cash balances and the availability of funding through certain committed credit facilities.

The following table sets out the maturity profile of the financial liabilities as at the end of the reporting period based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on the rates at the end of the reporting period):-

The Group	Weighted average effective rate %	Carrying amount RM	Contractual undiscounted cash flows RM	Within 1 year RM	1 – 5 years RM	Over 5 years RM
<b>2012</b>						
Hire purchase payables	3.76 - 7.86	6,213,685	6,887,436	3,319,556	3,567,880	-
Term loans	1.68 - 4.97	45,713,546	48,270,445	18,200,776	24,626,546	5,443,123
Short-term borrowings	2.07 - 4.97	15,518,000	15,518,000	15,518,000	-	-
Trade payables	-	15,113,249	15,113,249	15,113,249	-	-
Other payables	-	17,522,730	17,522,730	17,522,730	-	-
		100,081,210	103,311,860	69,674,311	28,194,426	5,443,123
<b>2011</b>						
Hire purchase payables	0.44 - 8.21	11,352,030	12,698,022	6,201,959	6,496,063	-
Term loans	1.67 - 6.80	54,249,037	57,030,974	8,379,746	39,697,275	8,953,953
Short-term borrowings	2.07 - 5.12	12,713,500	12,713,500	12,713,500	-	-
Bank overdrafts	7.85	1,669,621	1,669,621	1,669,621	-	-
Trade payables	-	22,689,940	22,689,940	22,689,940	-	-
Other payables	-	18,633,635	18,633,635	18,633,635	-	-
Amount owing to associates	-	1,500,199	1,500,199	1,500,199	-	-
		122,807,962	126,935,891	71,788,600	46,193,338	8,953,953

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 28. FINANCIAL INSTRUMENTS (CONT'D)

(a) Financial Risk Management Policies (Cont'd)

(v) Liquidity risk (Cont'd)

The Company 2012	Weighted average effective rate %	Carrying amount RM	Contractual undiscounted cash flows RM	Within 1 year RM	1 – 5 years RM	Over 5 years RM
Other payables	-	207,438	207,438	207,438	-	-
Amount owing to subsidiaries						
- interest bearing	3.00	2,570,106	2,570,106	-	2,570,106	-
- interest free	-	2,805,956	2,805,956	2,805,956	-	-
		5,583,500	5,583,500	3,013,394	2,570,106	-
<b>2011</b>						
Other payables	-	183,678	183,678	183,678	-	-
Amount owing to subsidiaries						
- interest bearing	3.00	2,929,220	3,185,056	-	3,185,056	-
- interest free	-	5,135,971	5,135,971	5,135,971	-	-
		8,248,869	8,504,705	5,319,649	3,185,056	-

(b) Capital Risk Management

The Group manages its capital to ensure that entities within the Group will be able to maintain an optimal capital structure so as to support their businesses and maximise shareholders' value. To achieve this objective, the Group may make adjustments to the capital structure in view of changes in economic conditions, such as adjusting the amount of dividend payment, return of capital to shareholders or issue new shares.

The Group manages its capital based on debt-to-equity ratio. The Group's strategies were unchanged from the previous financial year. The debt-to-equity ratio is calculated as net debt divided by total equity. Net debt is calculated as external borrowings less cash and cash equivalents.

There was no change in the Group's approach to capital management during the financial year.

The debt-to-equity ratio of the Group as at the end of the reporting period was as follows:-

	The Group	
	2012 RM	2011 RM
Bank borrowings	61,231,546	66,962,537
Hire purchase payables	6,213,685	11,352,030
Bank overdrafts	-	1,669,621
	67,445,231	79,984,188
Less : Fixed deposits with licensed banks	(3,170,992)	(3,736,804)
Less : Cash and bank balances	(38,286,539)	(22,624,605)
Net debt	25,987,700	53,622,779
Total equity (excludes non-controlling interest)	184,892,451	179,272,170
Debt-to-equity ratio	0.1	0.3

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 28. FINANCIAL INSTRUMENTS (CONT'D)

#### (b) Capital Risk Management (Cont'd)

Under the requirement of Bursa Malaysia Practice Note No. 17/2005, the Company is required to maintain a consolidated shareholders' equity (total equity attributable to owners of the Company) equal to or not less than the 25% of the issued and paid-up share capital (excluding treasury shares) and such shareholders' equity is not less than RM40 million. The Company has complied with this requirement.

#### (c) Classification of Financial Instruments

	The Group		The Company	
	2012 RM	2011 RM	2012 RM	2011 RM
<b>Financial Assets</b>				
<u>Loans and receivables financial assets</u>				
Trade receivables	68,282,720	70,264,668	-	-
Other receivables and deposits	4,022,374	4,273,792	6,574	2,265
Amount owing by subsidiaries	-	-	46,045,356	47,361,789
Amount owing by associates	2,117,634	4,150,474	-	-
Fixed deposits with licensed banks	3,170,992	3,736,804	2,500,000	3,000,000
Cash and bank balances	38,286,539	22,624,605	923,923	590,926
	<u>115,880,259</u>	<u>105,050,343</u>	<u>49,475,853</u>	<u>50,954,980</u>
<b>Financial liabilities</b>				
<u>Other financial liabilities</u>				
Trade payables	15,113,249	22,689,940	-	-
Other payables and accrued expenses	17,522,730	18,633,635	207,438	183,678
Amount owing to subsidiaries	-	-	5,376,062	8,056,191
Amount owing to associate	-	1,500,199	-	-
Bank overdrafts	-	1,669,621	-	-
Bank borrowings	61,231,546	66,962,537	-	-
Hire purchase payables	6,213,685	11,352,030	-	-
	<u>100,081,210</u>	<u>122,807,962</u>	<u>5,583,500</u>	<u>8,239,869</u>

#### (d) Fair Values of Financial Instruments

The carrying amounts of the financial assets and financial liabilities reported in the financial statements approximated their fair values except for the following:-

	2012		2011	
	Carrying Amount RM	Fair Value RM	Carrying Amount RM	Fair Value RM
<b>The Group</b>				
<b>Financial liabilities</b>				
Hire purchase payables	6,213,685	5,903,915	11,352,030	10,767,841

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 28. FINANCIAL INSTRUMENTS (CONT'D)

(d) Fair Values of Financial Instruments (Cont'd)

The following summarises the methods used in determined the fair value of the financial instruments:-

- (i) The financial assets and financial liabilities maturity within the next 12 months approximated their fair values due to the relatively short-term maturity of the financial instruments.
- (ii) The fair value of quoted investments is estimated based on their quoted closing bid prices at the end of the reporting period.
- (iii) The fair value of hire purchase payables is determined by discounting the relevant cash flows using current interest rates for similar instruments as at the end of the reporting period.
- (iv) The carrying amounts of term loans approximated their fair values as these instruments bear interest at variable rates.

(e) Fair Value Hierarchy

As at 31 December 2012, there were no financial instruments carried at fair values.

### 29. CONTINGENT LIABILITIES

	The Group	
	2012 RM	2011 RM
Performance guarantees	-	1,353,556

The Company provided corporate guarantees to banks and financial institutions to secure banking facilities and leasing of equipment provided to certain subsidiaries amounting to RM42,930,454 (2011 : RM43,476,546).

### 30. COMMITMENTS

(i) Operating lease commitments

	The Group	
	2012 RM	2011 RM
Non-cancellable future minimum lease payments		
Not later than one year	1,659,210	3,589,335
Between one year and five years	3,049,345	11,762,854
Later than five years	10,497,990	17,627,993
	15,206,545	32,980,182

The Group has various operating lease agreements for equipment, offices and other facilities. Most leases contain renewable options. Lease terms do not contain restrictions on the Group's activities concerning dividends, additional debt or further leasing.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 30. COMMITMENTS (CONT'D)

- (ii) Capital commitments

As of 31 December the Group has the following capital commitments:

	The Group	
	2012 RM	2011 RM
Approved and contracted for: Property, plant and equipment	225,714	3,214,847

### 31. SIGNIFICANT EVENTS

- (i) On 4 January 2012, applications were filed by Frontken Malaysia Sdn Bhd ("FMSB"), a subsidiary of the Company, for summary judgment against Petra Resources Sdn Bhd ("PRSB").

On 7 March 2012, summary judgment was entered against PRSB for one of the applications, and the Court ordered PRSB to pay FMSB the sum of RM1,481,478.57, interest at the rate of 1.5% on a monthly basis from 29 July 2011 until the date of full and final settlement, and costs of RM5,000.

On the same date, PRSB and FMSB entered into a consent judgment whereby PRSB shall pay FMSB its principal claim of RM1,639,801, together with a sum of RM50,000, in 4 equal monthly instalments of RM422,450.25 commencing 30 April 2012.

On 3 May 2012, FMSB filed a Summons in Chambers to strike out PRSB's counter claims.

On 22 June 2012, PRSB withdrew one of its counterclaim of RM3,328,227.85 against FMSB, and FMSB had withdrawn its striking-out application, both with no order as to costs.

The Striking Out Application for the remaining counterclaim was heard by the Learned Judge on 25 July 2012 and on 10 August 2012 decision was allowed with costs of RM2,000.

- (ii) On 9 May 2012, FMSB entered into an agreement to dispose of 150,000 ordinary shares of RM1.00 each, representing its entire 30% equity interest in Daya Bumimaju Sdn. Bhd. (formerly known as Frontken Bumimaju Sdn. Bhd.) for a total cash consideration of RM150,000. The disposal was completed on 31 July 2012, whereupon Daya Bumimaju Sdn. Bhd. (formerly known as Frontken BumiMaju Sdn. Bhd.) ceases to be an associated company of FCB.
- (iii) On 28 May 2012, the Company acquired 300,000 ordinary shares of NT\$10 each representing 0.91% of the issued and paid-up share capital of Ares Green Technology Corporation ("AGTC") for a total cash consideration of NT\$4,410,038 (including incidental costs). The shares were acquired over the counter on GreTai Securities Market in Taiwan. Following the acquisition, the Group's interest in AGTC increased from 50.58% to 51.49%.
- (iv) On 17 June 2012, a fire incident had occurred at the plant of FMSB at Kulim Hi-Tech Park. The incident has no impact on the operations of FMSB as FMSB has sufficient capacity to meet all customer deliveries on schedule.

The net book value of the assets damaged by the fire amounting to RM564,550 was written off during the financial year. The insurance compensation received and recognised as other income during the financial year amounted to RM1,260,804.

- (v) On 27 June 2012, Frontken MIC Co. Limited ("FMIC"), a subsidiary of the Company, increased its issued and paid-up capital from HKD9,560,072 to HKD14,990,812 by the allotment and issuance of 5,430,740 new ordinary shares of HKD1.00 each at par for cash to MIC-TECH Ventures Asia Pacific Inc. and Ares Green International Corporation ("AGIC").

Pursuant to the above allotment of 5,430,740 new ordinary shares, the Company's effective equity interest in FMIC, held directly by the Company and through AGIC, diluted from 42.93% to 38.80%.

FMIC is considered a subsidiary of the Company as the Company controls the Board of FMIC. The Board of FMIC determines the operating and management policies.



## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 31. SIGNIFICANT EVENTS (CONT'D)

- (vi) On 28 September 2012, Frontken (Singapore) Pte. Ltd., a wholly-owned subsidiary of the Company, entered into an agreement to dispose of 2,929,082 ordinary shares representing its entire 100% equity interest in Metall-Treat Industries Pte Ltd ("MTI") to Malayan Daching Co. Pte. Ltd. for a cash consideration of SGD10,000,000. The disposal was completed on 6 December 2012, whereupon MTI ceased to be a subsidiary of the Company.
- (vii) On 25 August 2010, Frontken Petroleum Sdn. Bhd. ("FPSB"), a subsidiary of the Company, served, via its solicitors, a Writ of Summons together with a Statement of Claims on SGL Carbon Sdn. Bhd. ("SGL").

Under the said Writ of Summons, FPSB claimed for a sum of RM1,541,807.20, being revised outstanding debts due from SGL in relation to work performed by FPSB as set out in the ensuing paragraph. In addition, FPSB also claimed for interest, costs and such further or other reliefs or orders as the Court deems fit.

In February 2009, SGL awarded FPSB the order for busbar welding for an agreed contract sum of RM2.5 million and RM1.4 million for scope 1 and scope 2 respectively. FPSB duly completed a substantial part of the work and the remaining work was stopped in or around August 2009 upon mutual agreement/consent. Various invoices were issued for progress payments, with a sum of RM1,577,007.20 remaining due and owing from SGL. SGL refused to make payments and claimed for a set-off of the sum for delay or late completion of the contract and defective works. The outstanding sum was reduced by FPSB to RM1,541,807.20 out of goodwill after considering the allegations raised by SGL. However, SGL failed, refused and/or neglected to settle the revised outstanding sum.

On 4 October 2010, SGL filed a defence and counterclaim via its solicitors on FPSB. In the said defence, SGL denied the Statement of Claims and prayed that the claims be dismissed with costs. Further, SGL alleged that FPSB had breached the terms and conditions of the letter of award and its related agreements resulting in SGL suffering loss and damage, and therefore, counterclaimed against FPSB for special damages in the sum of RM1,617,633.09, general damages and/or liquidated damages in the sum of RM8,894,485.88 as at 6 September 2010 and still continuing, and interest at the rate of 8% per annum on daily rests from the date of filing of the counterclaim until full settlement.

At the mediation on 1 November 2012, the parties were unable to agree on the terms of settlement and the parties will proceed to trial. The Court had fixed the matter for trial on 19 August 2013 to 21 August 2013 and case management on 12 August 2013.

The solicitors of FPSB are of the opinion that SGL does not have a valid claim for set-off against the revised outstanding sum and FPSB has a good chance of successfully recovering the same from SGL.

### 32. SUBSEQUENT EVENT AFTER FINANCIAL YEAR

Following the resignation of a senior management personnel of a wholly owned subsidiary in 2012, the Board of Directors of the Company (the "Board") has been made aware that there may be some irregular dealings between the subsidiary and its supplier.

On 1 October 2012, Crowe Horwath was appointed to carry out a special investigative audit. The summary of the irregularities noted by Crowe Horwath vide their report dated 18 February 2013 are as follows:

- (a) Discrepancy in the revenue of up to RM5 million recorded in one of the suppliers' audited financial statements, being substantially less than the costs recorded in the subsidiary's books in relation to purchase of goods/services;
- (b) Non-existent purchases of up to RM2.7 million;
- (c) Non-existent tenancy entered with one of the suppliers;
- (d) Possible misappropriation of the subsidiary's assets such as machines and equipment of the subsidiary by the senior management personnel;

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 32. SUBSEQUENT EVENT AFTER FINANCIAL YEAR (CONT'D)

- (e) Non-existent transactions between one of the suppliers and the subsidiary;
- (f) Override the internal controls and policy and procedures; and
- (g) Misappropriation of funds of the subsidiary by the senior management personnel.

The total potential impact is about RM8.87 million, which had been provided for in the accounts for the six financial years ended 31 December 2006, 2008, 2009, 2010, 2011 and 2012.

As at to-date, the amounts under (c), (e) and (g) above have yet to be ascertained.

Given that these accounting irregularities took place in the past and full provision of the same had been made in the accounts for the financial year ended 31 December 2012, the Board is of the opinion that they have no financial or operational impact on the Company. In the event of any recovery, the earnings would be adjusted accordingly by the same amount recovered during the year.

The Company would amongst others, take the following measures and/or steps to safeguard its assets and interest:-

- (a) Seek legal advice on the possible course of action the Company can take to recover the losses;
- (b) Lodge a police report; and
- (c) Review the current internal control process to ensure that similar transactions will not occur.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 33. RETAINED EARNINGS

	The Group		The Company	
	2012 RM	2011 RM	2012 RM	2011 RM
Total retained earnings of Group and Company				
Realised	87,289,246	79,065,133	2,306,450	(48,037)
Unrealised	(2,941,728)	(3,309,565)	(589,011)	161,118
	84,347,518	75,755,568	1,717,439	113,081
Total share of retained earnings from associates				
Realised	1,418,623	1,806,984	-	-
Unrealised	22,432	22,240	-	-
	1,441,055	1,829,224	-	-
Less: Consolidation adjustments	(18,506,021)	(13,890,570)	-	-
Total retained earnings	67,282,552	63,694,222	1,717,439	113,081

## STATEMENT BY DIRECTORS

We, **NG WAI PIN** and **DR. TAY KIANG MENG**, being two of the directors of **FRONTKEN CORPORATION BERHAD**, state that, in the opinion of the directors, and to the best of our knowledge and belief, the financial statements set out on pages 42 to 99 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the state of affairs of the Group and of the Company at 31 December 2012 and of their results and the cash flows for the financial year ended on that date.

The supplementary information set out in Note 33, which is not part of the financial statements, is prepared in all material respects, in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants and the directive of Bursa Malaysia Securities Berhad.

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

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**NG WAI PIN**

24 April 2013

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**DR. TAY KIANG MENG**

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

I, **HEE KOK HIONG**, being the officer primarily responsible for the financial management of **FRONTKEN CORPORATION BERHAD**, do solemnly and sincerely declare that the financial statements of the Group and of the Company set out on pages 42 to 99 are, to the best of my knowledge and belief, correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

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**HEE KOK HIONG**

Subscribed and solemnly declared by the  
abovenamed **HEE KOK HIONG** at **KUALA  
LUMPUR** this 24th day of April 2013

Before me,

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**YAP LEE CHIN (No. W591)**  
**COMMISSIONER FOR OATHS**

## LIST OF PROPERTIES

Details of the landed properties owned and leased by the Company and its subsidiaries are set out below:

Address	Description/ Existing use	Land area/ Built-up area sq m	Approximate age of building	Tenure	Audited net book value as at 31.12.2012 RM'000	Date of acquisition
<b>Frontken (Singapore) Pte Ltd (FS)</b>						
Pte Lot A12843 (to be known as Pte Lot A21020)	2 factory buildings with mezzanine office and a 4-storey office-cum-factory building	11,154/ 11,213	16 years, 26 years & 2 years	Leasehold expiring on 19.07.2039	18,140	01.08.2001
Bearing postal address: 156A Gul Circle Singapore 629614						
<b>FS</b>						
Pte Lot A22490 (to be known as Pte Lot A1355601)	4-storey factory building to house production facilities and R&D activities	4,877/ 3,147	11 years	Leasehold expiring on 30.04.2026	3,444	18.03.2005
Bearing postal address: 15 Gul Drive Singapore 629466						
<b>Frontken Malaysia Sdn Bhd (FM)</b>						
H.S. (D) 79995 Lot P.T. 14308 (Lot 38206) Mukim Damansara Daerah Petaling Selangor Darul Ehsan	1½ - storey detached factory building to house production facilities	2,023/ 1,006	16 years	Freehold	1,986	17.03.2003
Bearing postal address: Lot 2-46, Jalan Subang Utama 7 Taman Perindustrian Subang Utama Seksyen 22 40300 Shah Alam Selangor Darul Ehsan						
<b>FM</b>						
H.S. (D) 79985 Lot P.T. 14298 (Lot 38196) Mukim Damansara Daerah Petaling Selangor Darul Ehsan	Vacant industrial land	2,177/ -	N/A	Freehold	1,500	04.07.2007
Bearing postal address: Lot 2-47, Jalan Subang Utama 8 Taman Perindustrian Subang Utama Seksyen 22 40300 Shah Alam Selangor Darul Ehsan						

## LIST OF PROPERTIES (CONT'D)

Address	Description/ Existing use	Land area/ Built-up area sq m	Approximate age of building	Tenure	Audited net book value as at 31.12.2012 RM'000	Date of acquisition
<b>FM</b>						
H.S. (D) 40495 & 40609 Lots 12049 & 12063 Mukim 14, Daerah Seberang Perai Tengah Penang	1½ storey semi- detached factory to house production facilities and R&D activities	604/ 597	10 years	Freehold	498	07.07.2003
Bearing postal address: No. 18 Jalan Pala 12 Kawasan Industri Ringan Permatang Tinggi 14100 Bukit Mertajam Penang						
H.S. (D) 40496 & 40610 Lots 12050 & 12064 Mukim 14, Daerah Seberang Perai Tengah Penang	1½ storey semi- detached factory to house production facilities and R&D activities	603/ 541	10 years	Freehold		
Bearing postal address: No. 20 Jalan Pala 12 Kawasan Industri Ringan Permatang Tinggi 14100 Bukit Mertajam Penang						
<b>FM</b>						
H.S. (D) 50571 P.T. No. 1923 Mukim Padang Cina Daerah Kulim Kedah Darul Aman	Single-storey detached factory building to house production facilities and R&D activities	12,141/ 3,299	7 years	Leasehold expiring on 08.05.2066	6,808	23.12.2005
Bearing postal address: P.T. No. 1923, Jalan Hi Tech 2/3 Industrial Zone Phase 1 Kulim Hi-Tech Industrial Park 09000 Kulim Kedah Darul Aman						

## LIST OF PROPERTIES (CONT'D)

Address	Description/ Existing use	Land area/ Built-up area sq m	Approximate age of building	Tenure	Audited net book value as at 31.12.2012 RM'000	Date of acquisition
<b>FM</b>						
H.S. (D) 50571 P.T. No. 1923 Mukim Padang Cina Daerah Kulim Kedah Darul Aman	Vacant industrial land	15,419	N/A	Leasehold expiring on 08.05.2066	1,910	09.11.2007
Bearing postal address: P.T. 1923, Jalan Hi Tech 2/3 Industrial Zone Phase 1 Kulim Hi-Tech Industrial Park 09000 Kulim Kedah Darul Aman						
<b>Ares Green Technology Corporation</b>						
0273-0000, 0276-0000 & 0277-0000	A single-storey factory building and a 2-storey factory building to house production facilities and R&D activities and a 2-storey office building	16,966/ 14,190	13 years	Freehold	37,925	14.06.2004
Bearing postal address: No. 17, Bade Rd. Xinying Dist. Tainan City 73054 Taiwan, R.O.C.						

## SHAREHOLDING STATISTICS AS AT 30 APRIL 2013

Authorised Share Capital	:	RM500,000,000 divided into 5,000,000,000 ordinary shares of RM0.10 each
Issued and Paid-up Share Capital	:	RM101,140,816 comprising 1,011,408,160 ordinary shares of RM0.10 each
Class of shares	:	Ordinary shares of RM0.10 each
Voting rights	:	One vote per share

### DISTRIBUTION OF SHAREHOLDINGS AS AT 30 April 2013

Size of holdings	No. of shareholders	% of shareholders	*No. of shares	*% of issued capital
Less than 100	175	3.7	7,793	~
100 – 1,000	145	3.1	49,302	~
1,001 – 10,000	858	18.2	5,773,669	0.6
10,001 – 100,000	2,639	56.1	123,972,404	12.3
100,001 to less than 5% of issued shares	890	18.9	525,312,395	52.0
5% and above of issued shares	2	~	354,455,997	35.1
Total	4,709	100.0	1,009,571,560	100.0

#### Notes:

~ Negligible

\* Excluding 1,836,600 shares held as treasury shares as at 30 April 2013

### DIRECTORS' SHAREHOLDINGS AS AT 30 April 2013

The shareholdings of the directors of the Company and the number of shares held by them as recorded in the Register of Director Shareholdings at the date of this statement are as follows:

No.	Name	Direct		Indirect	
		No. of shares	%	No. of shares	%
1.	Ng Wai Pin	-	-	-	-
2.	Dr Tay Kiang Meng	9,404,808	0.9	-	-
3.	Dato' Haji Johar Bin Murat @ Murad	-	-	-	-
4.	Aaron Sim Kwee Lein	-	-	-	-
5.	Jorg Helmut Hohnloser	290,991,473	28.8	-	-
6.	Timo Fabian Seeberger	-	-	-	-

#### Note:

\*Excluding 1,836,600 shares held as treasury shares as at 30 April 2013

### SUBSTANTIAL SHAREHOLDERS AS AT 30 APRIL 2013

No.	Name	Direct		Indirect	
		No. of shares	%	No. of shares	%
1.	Jorg Helmut Hohnlser	290,991,473	28.8	-	-
2.	Lembaga Tabung Haji	63,464,524	6.3	-	-

#### Note:

\*Excluding 1,836,600 shares held as treasury shares as at 30 April 2013



## SHAREHOLDING STATISTICS AS AT 30 APRIL 2013 (CONT'D)

### THIRTY LARGEST SHAREHOLDERS AS AT 30 APRIL 2013

No.	Shareholders	No. of shares	*% of issued capital
1	Maybank Securities Nominees (Asing) Sdn Bhd Maybank Kim Eng Securities Pte Ltd For Jorg Helmut Hohnloser	290,991,473	28.82
2	Lembaga Tabung Haji	63,464,524	6.29
3	Cimsec Nominees (Asing) Sdn Bhd Exempt An For CIMB Securities (Singapore) Pte Ltd (Retail Clients)	47,873,626	4.74
4	Kho Chew Swan	17,075,552	1.69
5	HLB Nominees (Asing) Sdn Bhd Pledged Securities Account For Tan Choon Hock (Sin 9967-2)	11,760,000	1.16
6	Mohd Shukri Bin Hitam	9,415,000	0.93
7	Tay Kiang Meng	9,404,808	0.93
8	Fong Pik Na	8,542,730	0.85
9	Sia Kiok K'ng	7,668,900	0.76
10	HDM Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Oh Kim Sun (M14)	7,546,100	0.75
11	Affin Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Chung Kin Chuan (CHU0226C)	7,150,000	0.71
12	TA Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Kho Chai Yam	6,174,000	0.61
13	Public Invest Nominees (Asing) Sdn Bhd Exempt An For Phillip Securities Pte Ltd (Clients)	5,280,020	0.52
14	Chen Swee Ning	5,230,000	0.52
15	Cheah See Han	5,188,500	0.51
16	Lee Mee Huong	5,140,900	0.51
17	Maybank Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Tan Chin Seoh	4,600,000	0.46
18	Lee Swong Koi	4,100,000	0.41
19	Maybank Securities Nominees (Tempatan) Sdn Bhd Lim & Tan Securities Pte Ltd For Chan Chee Ming	3,800,000	0.38
20	RHB Capital Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Melval Holdings Sdn Bhd	3,696,200	0.37
21	RHB Capital Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Sleuths Holdings Sdn Bhd	3,577,600	0.35
22	RHB Capital Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Goldinas Sdn Bhd	3,300,000	0.33
23	Teh Ooi Heong	3,100,000	0.31
24	Tong Fong Realty Sdn. Berhad	3,100,000	0.31
25	JF Apex Nominees (Tempatan) Sdn Bhd Huatai Financial Holdings (HK) Limited For Huatai HK SPC-Huatai Von Malaysia Fund Segregated Portfolio	3,066,600	0.30
26	Eh Chian Liang	3,000,000	0.30
27	HDM Nominees (Asing) Sdn Bhd DBS Vickers Secs (S) Pte Ltd For Foong Kah Choong	2,809,268	0.28
28	JF Apex Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Tan Boon Han	2,744,100	0.27
29	Tiong Chee King	2,711,900	0.27
30	Wong Hua Seh	2,700,000	0.27

**Note:**

\* Excluding 1,836,600 shares held as treasury shares as at 30 April 2013

## WARRANT HOLDING STATISTICS AS AT 30 APRIL 2013

Type of Securities	:	Warrants
Total Warrants issued but not exercised	:	288,973,760
Voting Rights	:	One vote per warrant holder on show of hands or one vote per warrant on a poll in respect of a meeting of warrant holders

### ANALYSIS OF WARRANT HOLDINGS BY RANGE

Size of holdings	No. of warrant holders	% of warrant holders	No. of warrants	% of warrants
Less than 100 warrants	142	6.6	6,839	*
100 – 1,000 warrants	91	4.2	49,988	*
1,001 – 10,000 warrants	466	21.5	2,609,911	0.9
10,001 – 100,000 warrants	930	43.0	47,925,305	16.6
100,001 to less than 5% of warrants	534	24.7	238,381,717	82.5
5% and above of warrants	-	-	-	-
Total	2,163	100.0	288,973,760	100.0

**Note:**

\* Negligible

### DIRECTORS' WARRANT HOLDINGS

None of the directors of the Company holds any Warrant in the Company, directly or indirectly, as at 30 April 2013.

### TOP 30 WARRANT HOLDERS

(As extracted from the Record of Depositors as at 30 April 2013)

No.	Warrant holders	No. of warrants	% of warrants
1	Cimsec Nominees (Asing) Sdn Bhd Exempt An For CIMB Securities (Singapore) Pte Ltd (Retail Clients)	13,221,636	4.58
2	Lum Yin Mui	6,641,100	2.30
3	Affin Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Chung Kin Chuan (CHU0226C)	6,631,900	2.29
4	Kho Chew Swan	4,878,729	1.69
5	HLB Nominees (Asing) Sdn Bhd Pledged Securities Account For Tan Choon Hock (Sin 9967-2)	3,360,000	1.16
6	Kam Kim Chuan	3,151,000	1.09
7	Liew Loo Chon	3,000,000	1.04
8	Cimsec Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Pak Sow Loon (B PTR PCHG-CL)	2,900,000	1.00
9	Lee Mee Huong	2,496,400	0.86
10	Maybank Nominees (Tempatan) Sdn Bhd Yap Poh Aik	2,470,000	0.85

## WARRANT HOLDING STATISTICS AS AT 30 APRIL 2013 (CONT'D)

### TOP 30 WARRANT HOLDERS

(As extracted from the Record of Depositors as at 30 April 2013)

No.	Warrant holders	No. of warrants	% of warrants
11	Cimsec Nominees (Tempatan) Sdn Bhd CIMB Bank For Christopher Lim Kim Teck (MY0135)	2,300,008	0.80
12	AMT Engineering Sdn. Bhd.	2,295,328	0.79
13	Chen Swee Ning	2,204,000	0.76
14	Chew Ti Ming	2,049,000	0.71
15	Saw Chew Yuen	2,000,000	0.69
16	Woon Khoon	1,975,000	0.68
17	Anthony Abang	1,933,600	0.67
18	TA Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Kho Chai Yam	1,764,000	0.61
19	How Cheng Kong	1,665,000	0.58
20	Chan Nyeng Tai	1,626,080	0.56
21	Mohd Jamel Bin Abdul Munin	1,625,780	0.56
22	Tan Tjin Hian	1,565,000	0.54
23	Maybank Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Sia Teng Tho	1,550,000	0.54
24	Alliancegroup Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Wong Kiem Yoong (8090206)	1,501,200	0.52
25	Lim Geyok Chu	1,467,400	0.51
26	Chong Tin Ka	1,400,000	0.48
27	HLIB Nominees (Tempatan) Sdn Bhd Hong Leong Bank Bhd For Tie Tuang Teck	1,400,000	0.48
28	Maybank Securities Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Pek Kiam Kek (Margin)	1,400,000	0.48
29	Public Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Hii Puo Ann (E-BTL)	1,400,000	0.48
30	HLB Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Anthony Wong Chee Hoong	1,380,000	0.48

# NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN THAT** the Ninth Annual General Meeting of the Company will be held at Suite 301, 3rd Floor, Block F, Pusat Dagangan Phileo Damansara I, No. 9, Jalan 16/11, Off Jalan Damansara, 46350 Petaling Jaya, Selangor on Thursday, 27 June 2013 at 11.00 a.m. for the transaction of the following businesses:-

## AGENDA

### As Ordinary Business:-

1. To receive the Audited Financial Statements for the year ended 31 December 2012 together with the Reports of the Directors and the Auditors thereon. (Please refer to Explanatory Note 1)
2. To re-elect the following Directors who retire pursuant Article 74 of the Company's Articles of Association:-
  - (a) Dato' Haji Johar bin Murat @ Murad; and (Ordinary Resolution 1)
  - (b) Mr Aaron Sim Kwee Lein (Ordinary Resolution 2)
3. To approve the payment of Directors' fees of up to RM300,000 for the financial year ending 31 December 2013. (Ordinary Resolution 3)
4. To re-appoint Messrs Crowe Horwath as Auditors of the Company for the financial year ending 31 December 2013 and to authorize the Directors to fix their remuneration. (Ordinary Resolution 4)

### As Special Business:-

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

5. **AUTHORITY TO ISSUE SHARES PURSUANT TO SECTION 132D OF THE COMPANIES ACT, 1965** (Ordinary Resolution 5)
 

"THAT subject always to the Companies Act, 1965 ("Act"), the Memorandum and Articles of Association of the Company and the approvals of Bursa Malaysia Securities Berhad ("Bursa Securities") and the relevant regulatory authorities where such approval is necessary, the Directors be and are hereby empowered, pursuant to Section 132D of the Act, to issue shares of the Company at any time until the conclusion of the next Annual General Meeting ("AGM") and upon such terms and conditions and for such purposes as the Directors may in their absolute discretion deem fit, provided that the aggregate number of shares to be issued does not exceed 10% of the total issued and paid-up share capital of the Company (excluding treasury shares) at the time of issue.

AND THAT the Directors be and are also empowered to obtain the approval for the listing of and quotation for the additional shares so issued on Bursa Securities and that such authority shall continue to be in force until the conclusion of the next AGM of the Company."
6. **PROPOSED RENEWAL OF AUTHORITY FOR THE COMPANY TO PURCHASE ITS OWN SHARES ("PROPOSED RENEWAL OF SHARE BUY-BACK MANDATE")** (Ordinary Resolution 6)
 

"THAT subject to the provisions under the Act, the Memorandum and Articles of Association of the Company, the Listing Requirements and any other applicable laws, rules, regulations and guidelines for the time being in force, the Company be and is hereby authorised to purchase such number of ordinary shares of RM0.10 each in the Company ("Shares") as may be determined by the Directors from time to time through Bursa Securities upon such terms and conditions as the Directors may deem fit and expedient in the interest of the Company provided that the aggregate number of shares purchased pursuant to this resolution shall not exceed 10% of the total issued and paid-up share capital of the Company.

THAT the maximum amount of funds to be allocated for the purpose of purchasing the Shares shall not exceed the aggregate of the retained profits and share premium account of the Company.

## NOTICE OF ANNUAL GENERAL MEETING (CONT'D)

THAT authority be and is hereby given to the Directors to decide at their discretion, as may be permitted and prescribed by the Act and/or any prevailing laws, rules, regulations, orders, guidelines and requirements issued by the relevant authorities for the time being in force to deal with any of the Shares so purchased by the Company in the following manner:

- (i) the Shares so purchased could be cancelled; or
- (ii) the Shares so purchased could be retained as treasury shares for distribution as dividends to the shareholders of the Company and/or be resold through Bursa Securities in accordance with the relevant rules of Bursa Securities and/or to be cancelled subsequently; or
- (iii) combination of (i) and (ii) above.

THAT the authority conferred by this resolution will be effective immediately from the passing of this ordinary resolution and shall continue to be in force until:

- (i) the conclusion of the next AGM of the Company, at which time the said authority would lapse unless by an ordinary resolution passed at that meeting, the authority is renewed, either unconditionally or subject to conditions; or
- (ii) the expiration of the period within which the next AGM is required by law to be held; or
- (iii) the authority is revoked or varied by an ordinary resolution of the shareholders of the Company in a general meeting,

whichever occurs first.

AND THAT the Directors be and are hereby authorised to take such steps as are necessary or expedient to implement or to effect the purchase(s) of the Shares with full power to assent to any conditions, modifications, variations and/or amendments as may be imposed by the relevant authorities and to take such steps as they may deem necessary or expedient in order to implement, finalise and give full effect in relation thereto."

7. **PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF THE COMPANY ("PROPOSED AMENDMENTS")**

(Special Resolution 1)

"THAT the Articles of Association of the Company be and are hereby amended in the form and manner as set out in Appendix I of the Circular to Shareholders dated 3 June 2013.

AND THAT the Board of Directors be and are hereby authorised to do all such acts and things as are necessary and/or expedient in order to give full effect to the Proposed Amendments with full powers to assent to any conditions, modifications and/or amendments as may be required by any relevant authorities."

8. To transact any other business of which due notice shall be given.

BY ORDER OF THE BOARD

Mah Li Chen (MAICSA 7022751)  
Cynthia Gloria Louis (MAICSA 7008306)  
Chew Mei Ling (MAICSA 7019175)  
Company Secretaries

Petaling Jaya  
3 June 2013

## NOTICE OF ANNUAL GENERAL MEETING (CONT'D)

### Notes:-

1. A member entitled to attend and vote at this Meeting is entitled to appoint a proxy/proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.
2. Where a member appoints more than one (1) proxy, the appointment shall be invalid unless he specifies the proportions of his holdings to be represented by each proxy.
3. Where the appointer is a corporation, this form must be executed under its common seal or under the hand of an officer or attorney duly authorised.
4. The instrument appointing a proxy or proxies must be deposited at the office of the Share Registrar of the Company situated at **Level 17, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur** not less than forty-eight (48) hours before the time fixed for convening the Meeting or any adjournment thereof.
5. For the purpose of determining a member who shall be entitled to attend the Ninth AGM, the Company shall request Bursa Malaysia Depository Sdn Bhd to issue a Record of Depositors as at **20 June 2013**. Only a depositor whose name appears on the Record of the Depositor as at **20 June 2013** shall be entitled to attend this Meeting or appoint proxies to attend and/or vote on his/her behalf.

### Explanatory Notes on Ordinary Business:-

#### 1. Item 1 of the Agenda

This Agenda item is meant for discussion only as the provision of Section 169 of the Companies Act, 1965 does not require a formal approval of the shareholders for the Audited Financial Statements. Hence, this item is not put forward to shareholders for voting.

#### 2. Item 2(a) & (b) of the Agenda

The Directors who are standing for re-election at the Ninth AGM of the Company are:-

- (i) Dato' Haji Johar bin Murat @ Murad; and
- (ii) Mr Aaron Sim Kwee Lein.

Further details of the Directors standing for re-election are set out in the Directors' Profile appearing on page 15 of this Annual Report.

### Explanatory Note on Special Business:-

#### 1. Item 5 of the Agenda

The proposed Ordinary Resolution 5, if passed, will empower the Directors from the conclusion of this AGM, to allot and issue up to a maximum of 10% of the total issued and paid-up share capital of the Company (excluding treasury shares) at the time of issue (other than bonus or rights issue) without the need to convene a general meeting and for such purposes as they consider would be in the best interest of the Company. This authority, unless revoked or varied at a general meeting, will expire at the next AGM of the Company. This mandate will provide flexibility to the Company for any possible fund raising activities, including but not limited to placing of shares, for the purpose of funding working capital, future investment project(s) and/or acquisition(s). At this juncture, there is no decision to issue any new share. If there should be a decision to issue any new share after the general mandate is sought, the Company will make an announcement in respect thereof.

The proposed Ordinary Resolution 5 is a renewal of the general mandate for issuance of shares pursuant to Section 132D of the Act. The Company had, at the Eighth AGM held on 21 June 2012, obtained its shareholders' approval for the general mandate for issuance of shares pursuant to Section 132D of the Act. As at the date of this notice, the Company did not issue any share pursuant to the said mandate.

#### 2. Item 6 of the Agenda

The proposed Ordinary Resolution 6, if passed, will give the Directors of the Company the authority to take all such steps as are necessary or expedient to implement, finalise, complete and/or effect the purchase(s) of Shares by the Company as the Directors may deem fit and expedient in the best interest of the Company. This authority will, unless renewed or revoked or varied by the Company at a general meeting, continue to be in force until the conclusion of the next AGM of the Company or the expiry of the period within which the next AGM of the Company following the Ninth AGM is required by the law to be held. Please refer to the Circular to Shareholders dated 3 June 2013 which is despatched together with this Annual Report for more information.

#### 3. Item 7 of the Agenda

The proposed Special Resolution 1, if passed, will enable the Company to amend the Articles of Association to be in line with the Listing Requirements and to facilitate electronic voting.

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**FRONTKEN CORPORATION BERHAD**  
(Company No.: 651020-T)  
(Incorporated in Malaysia under the Companies Act, 1965)

**PROXY FORM**

CDS Account No.
Number of shares held

I/We..... Tel. No:.....  
[Full name in block and NRIC No./Company No.]

of.....  
[Address]

being a member/members of **Frontken Corporation Berhad**, hereby appoint:-

Full Name (in Block)	NRIC / Passport/Company No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

and / or (delete as appropriate)

Full Name (in Block)	NRIC / Passport/Company No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

or failing him, the Chairman of the Meeting as my/our proxy to attend and to vote for me/us and on my/our behalf and, if necessary, to demand for a poll at the Ninth Annual General Meeting of the Company to be held at Suite 301, 3rd Floor, Block F, Pusat Dagangan Phileo Damansara I, No. 9, Jalan 16/11, Off Jalan Damansara, 46350 Petaling Jaya, Selangor on Thursday, 27 June 2013 at 11.00 a.m. or any adjournment thereof, and to vote as indicated below:-

Item	Agenda	Resolution	For	Against
1.	Re-election of Dato' Haji Johar bin Murat @ Murad	Ordinary Resolution 1		
2.	Re-election of Mr Aaron Sim Kwee Lein	Ordinary Resolution 2		
3.	Payment of Directors' fees	Ordinary Resolution 3		
4.	Re-appointment of auditors	Ordinary Resolution 4		
5.	Authority to issue shares	Ordinary Resolution 5		
6.	Proposed Renewal of Share Buy-Back Mandate	Ordinary Resolution 6		
7.	Proposed Amendments to the Articles of Association	Special Resolution 1		

Please indicate with an "X" in the space provided whether you wish your votes to be cast for or against the resolutions. In the absence of specific direction, your proxy may vote or abstain as he thinks fit.

Signed this.....day of June, 2013.

.....  
Signature of Shareholder(s)/Common Seal

Notes:-

- A member entitled to attend and vote at this Meeting is entitled to appoint a proxy/proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.
- Where a member appoints more than one (1) proxy, the appointment shall be invalid unless he specifies the proportions of his holdings to be represented by each proxy.
- Where the appointer is a corporation, this form must be executed under its common seal or under the hand of an officer or attorney duly authorised.
- The instrument appointing a proxy or proxies must be deposited at the office of the Share Registrar of the Company situated at **Level 17, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur** not less than forty-eight (48) hours before the time fixed for convening the Meeting or any adjournment thereof.
- For the purpose of determining a member who shall be entitled to attend the Ninth AGM, the Company shall request Bursa Malaysia Depository Sdn Bhd to issue a Record of Depositors as at **20 June 2013**. Only a depositor whose name appears on the Record of the Depositor as at **20 June 2013** shall be entitled to attend this Meeting or appoint proxies to attend and/or vote on his/her behalf.



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stamp

**FRONTKEN CORPORATION BERHAD** (651020-T)  
c/o TRICOR INVESTOR SERVICES SDN BHD  
Level 17 The Gardens North Tower  
Mid Valley City Lingkaran Syed Putra  
59200 Kuala Lumpur  
MALAYSIA

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**FRONTKEN**

**Frontken Corporation Berhad** (651020-T)

Suite 301, Block F,  
Pusat Dagangan Phileo Damansara I,  
No. 9, Jalan 16/11, Off Jalan Damansara,  
46350 Petaling Jaya, Selangor Darul Ehsan, Malaysia.  
Tel: (03) 7968 3312 Fax: (03) 7968 3316  
Email: fcb@frontken.com

**[www.frontken.com](http://www.frontken.com)**