富佳木業有限公司
# FOCUS LUMBER BERHAD
(Company No. 188710-V)

Enriching Quality *Lifestyle*

Annual Report 2013

# CONTENTS

**Focus Lumber Berhad** (188710-V)
Annual Report 2013

# About Us

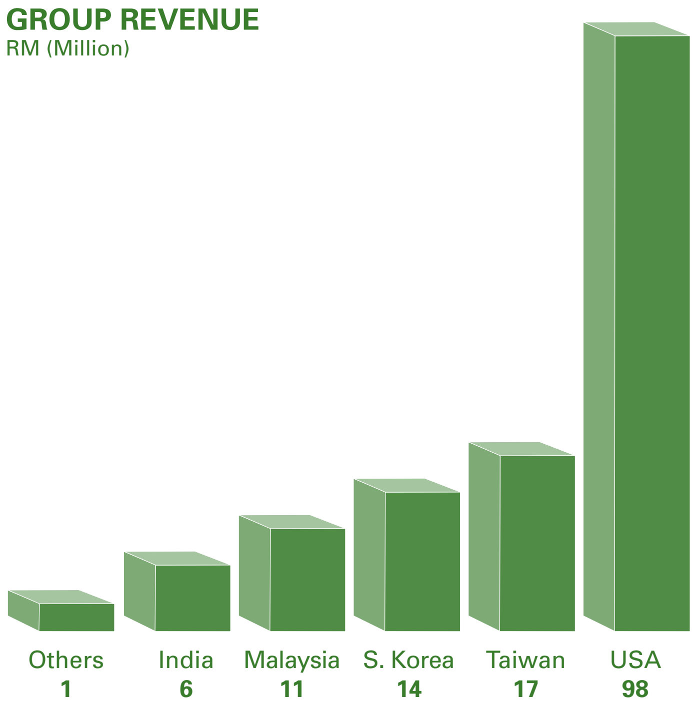
**Focus Lumber Berhad** specialize in the manufacturing and sale of plywood, veneer and laminated veneer lumber (LVL). The Company started from a Sendirian Berhad in the early 90's and has succeeded to list on the Main Market of Bursa Malaysia Securities Berhad on 28 April 2011.

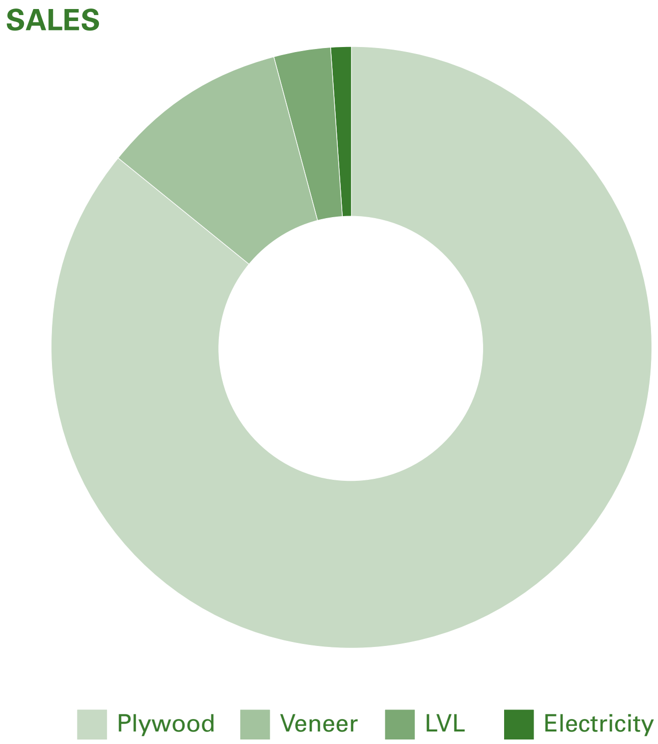
Over the years, our Group has invested in advanced machineries to enhance the efficiency of our manufacturing process. Hence, our Group is able to blend our management's technical know-how with ability in operating the advance machineries to produce quality products. Hence our Group is now capable of the followings:-

- Integrating different type of timber logs to produce plywood which has reduced the restriction in the use of only certain types of timber logs;
- Better production efficiency which increase the recovery logs resulting in lower production cost;
- Use of smaller logs (which are lower in cost) in the manufacturing operation which has resulted in lower cost of raw material and broaden the source of log supply for its production;
- Producing plywood with low content of formaldehyde;
- Our Group adopts the following standards in our plywood manufacturing:-
  - The product standard for imported wood veneer and platform (IHPA ¨C 2000) ¨C by the International Wood Products Association, US ("IHPA"); and
  - Export standard specification of Japanese plywood.

For the Financial Year Ended 31 December 2013, the export markets contributed approximately 93% of our total revenue while the remaining 7% was contributed by the domestic market.

# Financial Highlights



# Corporate Information

## BOARD OF DIRECTORS

**Aznam Bin Mansor**
Chairman / Independent Non-Executive Director

**Lin Hao Wen**
Managing Director

**Lin Lieh Ming**
Executive Director

**Yang Sen**
Executive Director

**Wong Yoke Nyen**
Independent Non-Executive Director

**Ng Tian Meng**
Independent Non-Executive Director

## AUDIT COMMITTEE
Wong Yoke Nyen (Chairman)
Aznam Bin Mansor (Member)
Ng Tian Meng (Member)

## REMUNERATION COMMITTEE
Ng Tian Meng (Chairman)
Wong Yoke Nyen (Member)
Lin Hao Wen (Member)

## NOMINATION COMMITTEE
Aznam Bin Mansor (Chairman)
Wong Yoke Nyen (Member)
Ng Tian Meng (Member)

## COMPANY SECRETARIES
Wong Wai Foong (MAICSA 7001358)
Wong Peir Chyun (MAICSA 7018710)

## REGISTERED OFFICE AND FACTORY
Mile 3, Jalan Masak, Kampung Ulu Patikang
Locked Bag 13 SM-88, 89009 Keningau, Sabah
Tel No. : 087-335457/335458/334761/334766
Fax No. : 087-335459
Email : focuskgu@hotmail.com

## AUDITORS
Ernst & Young (AF: 0039)
Suite 1-10-W1, 10th Floor
CPS Tower, Centre Point Sabah
No.1, Jalan Centre Point
88000 Kota Kinabalu, Sabah

## BRANCH OFFICE
Lot No. 12A, Jalan Teluk Likas
P O Box No. 576, 88856 Kota Kinabalu, Sabah
Tel No. : 088-393255/393257/393258
Fax No. : 088-393169
Email : focuskk@focuslumber.com.my

## PRINCIPAL BANKERS
AmIslamic Bank Berhad
Agro Bank (Malaysia) Berhad
CIMB Bank Berhad
OCBC Bank (Malaysia) Berhad
Public Bank Berhad
RHB Bank Berhad

## SHARE REGISTRAR
Tricor Investor Services Sdn Bhd
Level 17, The Gardens North Tower
Mid Valley City, Lingkaran Syed Putra
59200 Kuala Lumpur
Tel No. : (03) 2264 3883
Fax No. : (03) 2282 1886

## STOCK EXCHANGE LISITING
Main Market of Bursa Malaysia Securities Berhad

## STOCK NAME / CODE
FLBHD / 5197

## WEBSITE
www.focuslumber.com.my

# Corporate Structure

Our existing corporate Group structure is as follows:-

**Focus Lumber Berhad**
(188710-V)

**100%**

**Untung Ria Sdn Bhd**
(434316-V)

Untung Ria Sdn Bhd ("Untung Ria") is principally involved in the generation and sale of electricity. Untung Ria reuses bulk waste to generate biomass energy to supply electricity to our Group's operations.

# Directors' Profile

**AZNAM BIN MANSOR**
Malaysian, aged 56
Chairman/ Independent Non-Executive Director

Aznam Bin Mansor, our Chairman and Independent Non-Executive Director, was appointed to our Board on 24 November 2010. He is a member of the Audit Committee and Chairman of Nomination Committee.

He is an Advocate and Solicitor by profession having been admitted as a Barrister at Law of Lincoln's Inn in 1984 and admitted and enrolled as an Advocate and Solicitor of the High Court of Malaya in 1986. Upon his admission to the Malaysian Bar, he commenced his legal practice and he has been a partner of his present legal practice, Lee Hishammudin Allen & Gledhill since 1993. Currently, he is the Independent Non-Executive Chairman and a member of the Audit, Remuneration and Nomination Committee of Mikro MSC Berhad, Benalec Holdings Berhad and Sentoria Group Berhad. In addition, he is a Non-Executive Director of Knusford Bhd.

He has no family relationship with any Director and/or major shareholder of the Company.

**LIN HAO WEN**
Taiwanese, aged 36
Managing Director

Lin Hao Wen, our Managing Director, was appointed to our Board on 14 July 2009. He is also a member of the Remuneration Committee.

He graduated from Yuan-Ze University, Taiwan with a Bachelor of Computer Science in 2001 and subsequently pursued his Master in Business Administration (Major in Supply Chain Management) in Eastern Michigan University, USA. He graduated in 2006 and started his career with our Group in 2007 as Assistant to the Managing Director overseeing the business operation in the area of production and marketing. Subsequently, on 1 March 2013, he was appointed as the Managing Director of the Company and as a member of the Remuneration Committee.

He is the son of Mr. Lin Fong Ming and the brother of Mr. Lin Hao Yu, both of them are major shareholders of the Company.

**LIN LIEH MING**
Taiwanese, aged 56
Executive Director

Lin Lieh Ming, our Executive Director, was appointed to our Board on 14 July 2009.

He has more than 20 years of experience in the marketing industry. He joined our Group as the Head of Purchasing Department in 2003 where he was in charge of purchasing and managing supplies for our Group's operations. Prior to joining our Group, he was the manager of the Accounts and Marketing Department in Zhong Hua Telecom, a Taiwanese Government owned corporation, for 25 years.

He is the nephew of Mr. Lu Chin Ting, a major shareholder of the Company.

**YANG SEN**
Taiwanese, aged 43
Executive Director

Yang Sen, our Executive Director, was appointed to our Board on 21 July, 2011.

He holds a Bachelor Degree in International Trade from Ming Chuang University, Taiwan in 1994. Prior to joining our Group, he was a Marketing Manager in a veneer manufacturing company in Cambodia for 5 years. In 2000, he joined our Group as the Sales and Marketing Manager and was promoted to the position of Head of Sales and Marketing Department in 2009.

He is the son of Mr. Yang Chien Chih and the brothers of Mr. Yang Wei Szu and Mr. Yang Hsi Hsien, all of them are major shareholders of the Company.

# Directors' Profile

**WONG YOKE NYEN**
Malaysian, aged 55
Independent Non-Executive Director

Wong Yoke Nyen, our Independent Non-Executive Director, was appointed to our Board on 24 November 2010. He is the Audit Committee Chairman, member of Nomination and Remuneration Committees.

He earned his Bachelor Degree in Accountancy from City of London Polytechnic, United Kingdom. He is also a graduate of the Wharton Advance Management Program from the Wharton Business School of the University of Pennsylvania, USA.

In 1981, he started his career in Baker Rooke, a firm of chartered accountants in London where he gained wide experience and exposure in the areas of auditing, accountancy, and management consultancy work. In 1983, he joined Aseambankers Malaysia Berhad (now known as Maybank Investment Bank Berhad). He is a seasoned investment banker with more than 20 years of dedicated corporate finance and investment banking experience. He was the Executive Vice President cum Head of Corporate Finance Division in Aseambankers Malaysia Berhad.

In 2004, he started WYNCORP Advisory Sdn Bhd, a private company licensed to provide investment advisory services. He is currently the Managing Director of WYNCORP Advisory Sdn Bhd. He is also an Independent Non-Executive Director of New Hoong Fatt Holdings Berhad, XiDeLang Holdings Limited, Benalec Holdings Berhad and Sentoria Group Berhad.

He has no family relationship with any Director and/or major shareholder of the Company.

**NG TIAN MENG**
Malaysian, aged 59
Independent Non-Executive Director

Ng Tian Meng, our Independent Non-Executive Director, was appointed to our Board on 24 November 2010. He is the Chairman of Remuneration Committee and member of Audit and Nomination Committees.

He has approximately 30 years of experience in the electrical engineering field involving engineering consultancy, project management, operation, maintenance, testing and commissioning. He started his engineering career and worked in Malayawata Steel Berhad as an Electrical Engineer between May 1981 and July 1983. Subsequently, he worked in several companies involved in the steel, engineering, brewery and camera manufacturing businesses. Currently, he is the Managing Director of Jurutera Perunding M & E NTM (S) Sdn Bhd and NTM Engineering Services Sdn Bhd.

Apart from his extensive working experience, he obtained his Council for National Academic Award Bachelor of Science (Major In Electrical and Electronic Engineering) from Robert Gordon Institute of Technology, Scotland in 1980. He is a corporate member of the Institution of Engineers Malaysia, the Institute of Engineers Australia and the Institute of Electrical Engineers United Kingdom. In addition, he is also a Professional Engineer registered with the Board under the Institution of Engineers, Australia and a Chartered Engineer registered with the Engineering Council, United kingdom.

He has no family relationship with any Director and/or major shareholder of the Company.

None of the Directors has:

- any conviction for offences within the past 10 years other than traffic offences; and
- Any conflict of interest with the Company.

# Chairman's Statement

**Dear Valued Shareholders,**

On behalf of the Board of Directors of **FOCUS LUMBER BERHAD**, it is my pleasure once again to present to you the Annual Report of the Group for the financial year ended 31 December 2013.

Looking back, 2013 has been a challenging year especially for the global timber market. I am glad to report that despite the challenges in the current year under review, the Group continued to achieve positive results.

## OPERATION REVIEW

### Plywood

As in the financial year ("FY") 2013, US market remains as our major market which in aggregate accounts for about 66.4% of our sales, an increase of 9.6% year on year ("YoY") whereas other region such as the emerging markets which had slowdown due to the economic downturn. The average selling price of our plywood was increased by 6.3% YoY mainly due to the weakening of ringgit against USD which favours exporters. The overall plywood sales for the FY 2013 contributed about 91% to the total revenue of the Group. Despite the uncertainties in the global market and the continued challenges of the inflated costing elements, the Group plans to increase its production yield through continuing efforts on allocating more resources in the production of plywood markets which provide better margin based on certain specifications.

### Veneer

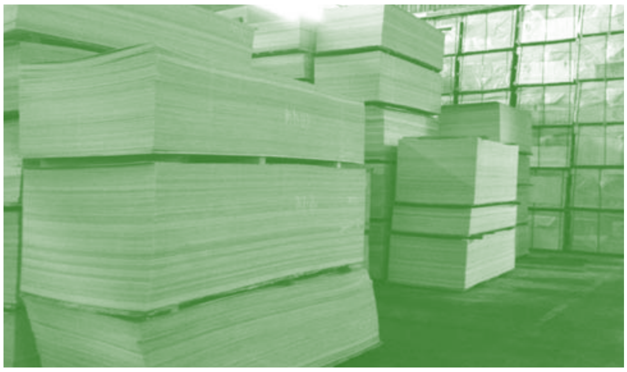
The Group recorded an increase of about 54% in its veneer sales as compare to the preceding year which in aggregate accounts for about 7.7% of our sales, an increase of 2.2% as compare to the previous year.

### Laminated Veneer Lumber (LVL)

The Group recorded slight increase of about 0.15% in its LVL sales as compare to the preceding year which in aggregate accounts for about 1.25% of the total revenue in the FY2013.

### Electricity

Electricity remains the same as compared to the previous year which accounts for about 0.07% of the Group's revenue in the FY2013.



## FINANCIAL PERFORMANCE

For the year under review, the Group recorded revenue of RM147.21 million, an increase of 10.9% against the previous year performance of RM132.80 million. The increase in sales was contributed by a better production yield in the FY2013, which was an increase of 14.4% YoY. Profit before taxation was RM15.35 million, an increase of 83.2% to the previous year of RM8.38 million whilst the net profit after taxation of RM15.14 million represented an increase of 30.5% YoY. This translated to earnings per share of 14.7 sen. The overall improvement in the financial performance was mainly due to the weakening of ringgit against USD which favours our export sale and the result of a better production yield.

Equity attributable to owners of the Company grew from RM115.88 million in the previous year to RM122.76 million in FY 2013 while return on equity for the year under review was 12.7%.

The Group anticipates an increase in its production volume in the next FY in order to minimise the negative impact of the inflated costing elements especially the log costs.

With the strengthening of the USD against the ringgit, the Group's margin improved since our exports are mainly denominated in USD. The US economy is stable and the demand for plywood has been growing gradually.

# CHAIRMAN'S STATEMENT

## CORPORATE SOCIAL RESPONSIBILITY

The Group acknowledges the importance of Corporate Social Responsibility (CSR) and has practiced its CSR towards the four approaches, i.e. the workplace, environment, community and the stakeholders which are also in line with the Corporate Social Responsibility Framework issued by Bursa Malaysia Securities Berhad. Just to name a few, the Group has taken the initiatives towards the following:-

1. Promoting a work-life balance among its employees through organising recreational activities such as sports events, Labour Day Feast, etc;

2. Maintaining a safe clean and healthy working environment through strengthening safety awareness and facilities such as fire prevention program and improved rescue facilities etc;

3. Conducting cleaning events and beautifying gardens and landscaping within the compound of the premises;

4. Investing in building human capital through learning and capability development;

5. Reaching out to the societal needs through donations and sponsorship for charitable events and festive seasons;

6. Recycling of wood waste for biomass power generation;

7. Carrying out a Lacey Compliance Verification (LCV) Program in affirming the legality of sourced forest products used in the manufacture of our products which will give high confidence to our customers under the requirement of the Lacey Act for the US market; and

8. Paying dividend is part of our commitment to enhancing shareholders value. The Group has declared and paid to the shareholders the following dividends from FY2011 to FY2013:-

    - Interim tax exempt (single-tier) dividend for FY2011: 6 sen per ordinary share of RM0.50 each;
    - Interim tax exempt (single-tier) dividend for FY2012: 6 sen per ordinary share of RM0.50 each; and
    - Interim tax exempt (single-tier) dividend for FY2013: 8 sen per ordinary share of RM0.50 each.

## STRATEGIES AND PROSPECTS

Going forward, despite concerns on the continued challenges from the impacts of the implementation of the Minimum Wages System by the Malaysian Government, the escalating production costs especially the logs costs and the uncertainties in the global economy in the year ahead, the Group remains cautiously optimistic about its 2014 prospects. Yields are expected to show improvements throughout 2014 compared to 2013 with the strategies and implementation of various plans to improve productivity and reduce costs efficiently and effectively.

Given the stabilizing US economy, the strengthening of US currency against the ringgit and the uncompromised determination of our people toward a continuing improvement of operational efficiency, the Group's prospect continues to be favourable.

With a healthy balance sheet, solid operating fundamentals and strong leadership of the Board, our Managing Director and Management Team, I am confident that the Group will continue to deliver growth and sustainable shareholders returns in the year ahead.

## APPRECIATION

On behalf of the Board of Directors, I would like to express our appreciation to all our valued customers, suppliers, business associates, bankers and regulatory authorities for their assistance and continued support. We will continue to uphold your trust and confidence in the Company and the Group.

Lastly, I wish to thank my fellow board members, dedicated Management Team and employees for your commitment throughout the year. The Group's continuous growth is the result of the untiring efforts and loyalty of the entire team. I am sure the team will continue to contribute their best to bring the Group to greater successes.

Above all, my special thanks to our valued shareholders for your trust and confidence in us, and we look forward to performing our best in return to your investment in us.

**Aznam bin Mansor**
Chairman

# Statement on Corporate Governance

The Board of Directors ("the Board") of Focus Lumber Berhad ("FLBHD") acknowledges the importance of the Principles and Best Practices as set out in the Malaysian Code on Corporate Governance 2012 ("the Code") and is committed to adhering the highest standards of Corporate Governance ("CG Guide") throughout the Group.

The following statement outlines the corporate governance principles and best practices duly adopted by the Group during the financial year ended 31 December 2013:-

## (A) BOARD OF DIRECTORS

- **Roles and Responsibilities of the Board**

  The Board is collectively responsible for the overall conduct of the Group's business and takes full responsibility for the performance of the Company and the Group. The members of the Board exercise due diligence and care in discharging their responsibilities to ensure that high ethical standards are applied, through compliance with relevant rules and regulations, directives and guidelines in addition to adopting the best practices in the Code and CG Guide, and act in the best interest of major as well as minority shareholders of FLBHD.

  The Board has the overall responsibility for the strategic direction, formulation of objectives and strategies, establishment of policies and procedures, and execution and monitoring of the business activities of the Group, risk management, succession planning, developing and implementing investors relations and reviewing internal controls.

  The authority for implementing the Board's policies is delegated to the Managing Director within the limits authorized by the Board. The Directors bring to the Board considerable knowledge, a wealth of business and professional experience relevant to the Company in the pursuit of its business objectives.

  The Group has put in place a Board Charter that sets out, among others, the roles of the Board, division of responsibilities between the Chairman and the Managing Director, structures of the Board Committees, procedures for the conduct of meetings, conflict of interest, etc. More information on the Board Charter can be found on the Company's website.

- **Board Composition and Balance**

  Under the Company's Articles of Association, the number of Directors shall be not less than two (2). As at the date of this Statement, there are six (6) members of the Board, comprising three (3) Independent Non-Executive Directors, two (2) Executive Directors and one (1) Managing Director, the composition of which is in compliance with Paragraph 15.02 of the Main Market Listing Requirements ("Listing Requirements") of Bursa Malaysia Securities Berhad ("Bursa Securities").

  The composition of the Board fairly reflects the interest of the significant shareholders, without compromising the interest of the minority shareholders.

  The presence of Independent Non-Executive Directors on the Board, not only act as a caretaker of the minority shareholders but also fulfills a pivotal role in corporate accountability. The Board places great importance on the balance of its Independent Non-Executive Directors since they serve as an essential source of impartial and professional guidance to protect the interest of the shareholders.

  The composition of the Board is fairly balanced and mix in view of skills and experiences which add value in governing the strategic direction of the Group.

  The Board recognizes the value of female member on the Board and has adopted a Gender Diversity Policy and this policy is disclosed in the Company's website.

  A brief description of the background of each Director is stated on the Directors' Profiles in the pages 6 to 7 of this Annual Report.

# Statement on Corporate Governance

## (A) BOARD OF DIRECTORS (CONT'D)

*Senior Independent Non-Executive Director*

The Board has identified Encik Aznam Bin Mansor as the Senior Independent Non-Executive Director to whom concerns of shareholders and stakeholders may be conveyed.

- **Board Meetings and Supply of Information**

The Board is scheduled to meet quarterly with additional meetings to be convened when urgent matter need to be discussed and approved in between these scheduled meetings. Notices of meetings are given to the Board members in sufficient time prior to the meetings in order for them to be present. Whenever necessary, senior management or external advisors are also invited to attend the Board and Board Committee meetings to provide further clarity on agenda items being discussed to enable the Board and/or Board Committees to arrive at a considered and informed decision.

The Board has held five (5) Board Meetings during the financial year and the attendance record is as follows:-

| Directors | Total Number of Meetings Attended in 2013 |
|---|---|
| Aznam Bin Mansor | 3/5 |
| Lin Hao Wen | 5/5 |
| Lin Lieh Ming | 5/5 |
| Ng Tian Meng | 5/5 |
| Wong Yoke Nyen | 5/5 |
| Yang Sen | 5/5 |

The Board regularly reviews reports on progress against financial objectives, business development and also receive regular reports and presentations on strategy and updates, risks profiles and material litigation. Regular reports are also provided by Board Committees on their deliberations and recommendations.

The agenda and supporting papers are distributed in advance for all Board and Board Committee meetings to allow time for appropriate review to facilitate full discussion at the meetings. Board meeting agendas and Board meeting papers which include, among others, comprehensive management reports, minutes of meetings, project or investment proposals and supporting documents are targeted for dissemination to the Directors at least seven (7) days prior to Board meetings. However, papers that are deemed urgent may still be submitted to the Company Secretary to be tabled to the Board at the Board Meeting, subject to the approval of the Chairman and the Managing Director. Presentations to the Board are prepared and delivered in a manner that ensures a clear and adequate presentation of the object matter.

All issues raised, discussions, deliberations, decisions and conclusions including dissenting views made at Board meetings along with clear actions to be taken by responsible parties are recorded in the minutes. Where the Board is considering a matter in which a Director has interest, the relevant Director immediately discloses the interest and abstains from participating in any discussion or decision making on the subject matter.

The Board is constantly advised and updated on statutory and regulatory requirements pertaining to their duties and responsibilities. As and when the need arises, the Directors are also provided with ad-hoc reports, information papers and relevant training where necessary to ensure they are appraised on key business, operational, corporate, legal, regulatory and industry matters.

The Board has complete and unrestricted access to the advice and services of the appointed Company Secretary to enable them to discharge their duties effectively. The appointment of company secretaries is based on the capability and proficiency determined by the Board.

Authority is also given to the Board to seek independent professional advice, if necessary, at the Company's expense from time to time in the performance of their duties. All Board Committees also have access to independent professional advice on the same basis.

# Statement on Corporate Governance

## (A) BOARD OF DIRECTORS (CONT'D)

- ***Board Performance Evaluation***

A formal evaluation of the Board's effectiveness assessment has been developed as part of FLBHD Board's annual activities to assess not only the Board's performance but also brings to light improvement areas and remedial actions on the Board's administration and process.

The annual performance evaluation of the Board was primarily based on the answers to a detailed questionnaire which took into consideration the principles as enunciated in the CG Guide and the Code. The questionnaire is endorsed by the Nomination Committee and approved by the Board before it is distributed to all the respective Board members.

- **Appointment to the Board**

The nominees to the Board are first considered by the Nomination Committee, taking into consideration the various skills, competencies, experience and other qualities required before they are recommended to the Board. The Nomination Committee assesses the suitability of candidates, taking into account the required mix of skills, knowledge, expertise and experience, professionalism, integrity, competencies and other qualities, before recommending their appointment to the Board for approval.

- **Re-election of Directors**

In accordance with the Articles of Association of the Company, one-third (1/3) of the Board, shall retire from office by rotation and be eligible for re-election at each Annual General Meeting ("AGM"). The Directors to retire in every year shall be those who have been longest in office since their last re-election or appointment and all Directors (including the Managing Director) shall retire at least once in every three (3) years. Newly appointed Directors during the year must offer themselves to the shareholders for re-election at the first AGM following their appointment.

Directors who are of or over the age of seventy (70) years old are required to retire from office at every AGM and may offer themselves for re-appointment to hold office until the conclusion of the next AGM in accordance with Section 129(6) of the Companies Act, 1965. None of the Company's Director has reached the age of seventy (70) years old.

- **Directors' Training**

All Directors of the Company had attended and successfully completed the Mandatory Accreditation Programme (MAP) as required by the Listing Requirements of Bursa Securities. The Directors are encouraged to attend continuous education programmes, talks, seminars, workshops and conferences to further enhance their knowledge and to ensure Directors keep abreast with new developments in the business environment and enhance their skills and knowledge.

During the financial year 2013, the Directors have attended the following training programmes to further enhance their knowledge to enable them to discharge their duties and responsibilities more effectively:

| Directors | Name of Conferences, Seminars and Training Programmes | Date |
|---|---|---|
| Aznam Bin Mansor | • Limited Liability Partnership<br>• Risk Management Forum Embracing Risks for Long-Term Corporate Success – Boosting Your Risk Governance<br>• Risk Management Best Practice<br>• Wealth Creation & Preservation Turning Possibility Into Reality | 13 March 2013<br>4 June 2013<br><br>10 June 2013<br>1 October 2013 |

# STATEMENT ON CORPORATE GOVERNANCE

## (A) BOARD OF DIRECTORS (CONT'D)

- **Directors' Training (Cont'd)**

| Directors | Name of Conferences, Seminars and Training Programmes | Date |
|---|---|---|
| Lin Hao Wen | • Nominating Committee Program by ICLIF Leadership & Governance<br>• Advisory Sessions On Corporate Disclosures for Directors of Listed Issuers at Bursa Malaysia Berhad | 14 May 2013<br>21 August 2013 |
| Lin Lieh Ming | • Advisory Sessions On Corporate Disclosures for Directors of Listed Issuers at Bursa Malaysia Berhad | 21 August 2013 |
| Yang Sen | • Advisory Sessions On Corporate Disclosures for Directors of Listed Issuers at Bursa Malaysia Berhad | 21 August 2013 |
| Wong Yoke Nyen | • Investment and Trading Strategies for ETFs and REITs<br>• Board Oversight Responsibilities for Merger and Acquisition – Passion Beyond Numbers<br>• Related Party Transaction – Doing It Right For Results<br>• Understanding & Interpreting Financial Statements<br>• Audit Committee Seminar 2013<br>• Risk and Return and Modern Portfolio Theory<br>• IFRS Masterclass 2013<br>• Budget 2014 Tax Seminar – Moving Ahead Regionally<br>• Risk Management & Internal Control : Workshop for Audit Committee Members | 6 April 2013<br>18 April 2013<br>9 May 2013<br>18 May 2013<br>4 June 2013<br>5 June 2013<br>12 July 2013<br>7 November 2013<br>2 December 2013 |
| Ng Tian Meng | • Nominating Committee Program by ICLIF Leadership & Governance | 14 May 2013 |

- **Code of Conduct and Ethics, Whistleblowing Policy and Sustainability Policy**

In line with the recommendations of the Code, the Board has established the Code of Conduct and Ethics, Whistleblowing Policy and Sustainability Policy on 11 April 2013.

The Code of Conduct and Ethics describes the behaviour expected of our employees and how they relate to our Business Principles and core values whilst the Whistleblowing Policy is designed to create a positive environment in which employees can raise genuine concerns without fear of recrimination and enable prompt corrective action to be taken where appropriate.

The full details of the Code of Conduct and Ethics and Whistleblowing Policy can be viewed at the Company's website.

The Company's Sustainability Policy has been outlined in page 24 of this Annual Report.

- **Board Committees**

The Board delegates certain of its governance responsibilities to the following Board Committees, which operate within clearly defined Terms of References, primarily to assist the Board in discharging its responsibilities. The Chairman of the various committees will report to the Board the outcome of the respective committee meetings and such reports are incorporated in the minutes of the Board meeting.

*(a) Audit Committee*

The Audit Committee ("AC") is authorized by the Board to investigate any activities within its Terms of Reference and has unrestricted access to both the internal and external auditors and members of the senior management of the Group. The composition of the AC and the activities carried out by the AC are summarised in the AC Report as stated on pages 25 to 27 of this Annual Report.

The full details of the Terms of Reference of the AC are published in the Company's website.

# STATEMENT ON CORPORATE GOVERNANCE

## (A) BOARD OF DIRECTORS (CONT'D)

- **Board Committees (Cont'd)**

*(b) Nomination Committee*

The Nomination Committee ("NC") comprises entirely Independent Non-Executive Directors, of which complied with the recommendations under the Code as follows:

- Aznam Bin Mansor – Chairman
- Ng Tian Meng – Member
- Wong Yoke Nyen – Member

The Chairman of the NC is the Senior Independent Director of the Company which is in compliance with Recommendation 2.1 of the Code.

The NC meets at least once a year. During the financial year ended 31 December 2013, the NC held one (1) meeting to discuss the following matters:

- review and evaluation of the appointment of Managing Director of the Company to fill up the vacancy due to the resignation of the former Managing Director;

- review and evaluate the appointment of Senior Independent Non-Executive Director of the Company;

- recommend the appointment of the member of the Remuneration Committee;

- carrying out assessment on the contribution and performance of each individual Director and this includes assessment on the independence of the Independent Directors as well as review the trainings attended by each individual Director. The Board is satisfied with the contribution and performance of each individual Director. The Independent Directors complies with the criteria of Independence based on the Listing Requirements of Bursa Securities; and

- recommend and form the Risk Management Committee within the Company.

The detail of the attendance record of the NC meeting is as follows:

| Members | Total Number of Meeting Attended in 2013 |
|---|---|
| Aznam Bin Mansor | 1/1 |
| Ng Tian Meng | 1/1 |
| Wong Yoke Nyen | 1/1 |

The NC is empowered by the Board through its Terms of Reference to carry out the following functions:-

i) To assess and recommend to the Board, the candidates for all directorships to be filled by the shareholders or the Board, in consideration of the candidates:

- skills, knowledge, expertise and experience;
- professionalism;
- integrity;
- ability to discharge such responsibilities/functions as expected from Independent Non-Executive Directors, when carrying out evaluation of candidates for the position of Independent Non-Executive Directors; and
- time commitment;

# Statement on Corporate Governance

## (A) BOARD OF DIRECTORS (CONT'D)

- **Board Committees (Cont'd)**

*(b) Nomination Committee (Cont'd)*

ii) To consider, in making its recommendations, candidates for directorships proposed by the Managing Director/Chief Executive Officer and, within the bounds of practicability, by any other senior executive or any Director or shareholder;

iii) To recommend to the Board, the Directors to fill the seats on Board Committees;

iv) To assess annually the effectiveness of the Board as a whole, the Committees of the Board and the contribution of each existing individual Director and thereafter, recommend its findings to the Board;

v) To review training programs for the Board and ensure that all Directors undergo appropriate induction programs and receive continuous training;

vi) To review annually the required mix of skills and experience and other qualities, including core competencies which Non-Executive Directors should bring to the Board and thereafter, recommend its findings to the Board;

vii) To develop the criteria for recruitment process and to assess the independence of Independent Non-Executive Directors annually, especially on those who has served for more than nine (9) years;

viii) To apply the process as determined by the Board, for assessing the effectives of the Board as a whole, the Committees of the Board, and for assessing the contribution of each individual Director, including Independent Non-Executive Directors, as well as the Chief Executive Officer where all assessments and evaluations carried out by the Committee in the discharge of all its functions should be properly documented;

ix) To review Board's succession plans; and

x) To facilitate achievement of Board gender diversity policies and targets and review the Gender Diversity Policy from time to time.

The full details of the NC's Terms of Reference are published in the Company's website.

*(c) Remuneration Committee*

The Remuneration Committee ("RC") comprised the following members:-

- Ng Tian Meng – Chairman / Independent Non-Executive Director
- Wong Yoke Nyen – Member / Independent Non-Executive Director
- Lin Hao Wen – Member / Managing Director

The RC held two (2) meetings during the financial year ended 31 December 2013. The details of the attendance at meeting are as follows:

| Members | Total Number of Meetings Attended in 2013 |
|---|---|
| Ng Tian Meng | 2/2 |
| Wong Yoke Nyen | 2/2 |
| Lin Hao Wen (Appointed on 1 March 2013) | 1/1 |

The primary purpose of the RC is to assist the Board in fulfilling its oversight responsibility to shareholders by ensuring that the Company has coherent remuneration policies that fairly and responsibly reward individuals having regard to performance, the risk management framework, the law and the highest standards of governance.

# Statement on Corporate Governance

## (A) BOARD OF DIRECTORS (CONT'D)

- **Board Committees (Cont'd)**

*(c) Remuneration Committee (Cont'd)*

The RC is responsible for recommending to the Board the remuneration of the Executive Directors in all its forms drawing from outside advice as necessary and the Executive Directors shall play no part in the decisions on their own remuneration.

Determination of remuneration packages of the Independent Non-Executive Directors, including Independent Non-Executive Chairman, shall be determined by the Board as a whole and the individuals concerned should abstain from discussing their own remuneration.

The Group complies with Recommendation 2.3 of the Code as it has a Remuneration Policy and Procedure to provide a framework for remuneration paid to the members of the Board and Management Team of the Company.

The Remuneration Policy recognises the need for the Company to attract, motivate and retain qualified members of the Board and Management Team as well as to align the interests of the Board with the interests of the Company's shareholders.

The remuneration of the Board and Management Team shall be designed to support the strategic goals of the Company and to promote value creation for the benefit of the shareholders of the Company.

The Remuneration Policy embodies the following principles:

- Providing fair, consistent and competitive rewards to attract and retain high calibre executives.
- Motivating the Company's Directors and executives to achieve superior performance.
- A remuneration framework that incorporates both short and long term incentives linked to Company performance and total shareholder return.
- Building a partnership between the Company and its Directors and Management Team by encouraging share ownership in the Company by the Directors and Management Team.

The full details of the RC's Terms of Reference are published in the Company's website.

Remuneration Procedure

The Board establishes the RC and it operates under a Terms of Reference approved by the Board. The RC oversees the remuneration arrangements for Directors and Management Team of the Company within this Policy.

The RC assesses the appropriateness of Directors and Management Team remuneration on an annual basis by reference to the principles of this Policy, overall employment market conditions, scope of work and the Company's financial position.

The RC recommends remuneration for the Directors and Management Team to the Board for approval.

# Statement on Corporate Governance

## (A) BOARD OF DIRECTORS (CONT'D)

- **Board Committees (Cont'd)**

*(c) Remuneration Committee (Cont'd)*

Remuneration of the Board

The Independent Non-Executive Directors' remuneration package reflects the experience, expertise and level of responsibilities undertaken by the Independent Non-Executive Directors.

The basic salaries of the Executive Directors are fixed and any revision to the basic salary will be reviewed and recommended by the RC and approved by the Board, taking into account the individual performance, the inflation price index, and information from independent sources on the rates of salary for similar positions in other comparable companies. The Group operates a bonus scheme for all employees, including the Executive Directors. Bonuses payable to the Executive Directors are reviewed by the RC and approved by the Board. The Executive Directors are not entitled to annual fees.

Directors' Remuneration

The details of the Directors' remuneration of the Company for the financial year ended 31 December 2013 are provided below:-

| | Executive Directors RM | Non-Executive Directors RM | Total RM |
|---|---|---|---|
| Salaries and other emoluments | 567,000 | - | 567,000 |
| Directors' fee | - | 198,000 | 198,000 |
| Meeting Allowance | 18,000 | 16,000 | 34,000 |
| | 585,000 | 214,000 | 799,000 |

The total Directors' remuneration analysed in the band of RM50,000 for the financial year 2013 are as follows:

| Band of Remuneration | No. of Directors | |
|---|---|---|
| | Executive Directors | Non-Executive Directors |
| RM50,001 to RM100,000 | - | 3 |
| RM100,001 to RM150,000 | - | - |
| RM150,001 to RM200,000 | 2 | - |
| RM200,001 to RM250,000 | 1 | - |
| **TOTAL** | **3** | **3** |

*(d) Risk Management Committee*

The Risk Management Committee ("RMC") was established on 11 April 2013 to assist the Board in performing its duties and responsibilities in overseeing the risk management issues of the Company.

Under its Terms and Reference, the RMC shall comprise at least three (3) members and the members of the committee shall be appointed by the Board on the recommendation of the AC. The current RMC comprised the following members:-

- Lin Hao Wen – Chairman / Managing Director
- Yang Sen – Member / Executive Director
- Yong Siew Kyun @ Rose – Member / Senior Management Personnel

# Statement on Corporate Governance

## (A) BOARD OF DIRECTORS (CONT'D)

- **Board Committees (Cont'd)**

*(d) Risk Management Committee (Cont'd)*

The scope and functions of the RMC are as set out below:

(i) To advise the AC on the Company's overall risk appetite, tolerance and strategy, taking account of the current and prospective macroeconomic and financial environment;

(ii) To make recommendations to the AC on priority risk areas and the appropriate action required;

(iii) To monitor and ensure the Risk Management Policy is implemented effectively;

(iv) To ensure that adequate organisational systems are in place for implementing, monitoring and reviewing assurances on controls;

(v) To oversee identification and implementation of the risk management action plan and risk registers; and

(vi) To inform any serious untoward incidents and ensure that follow up actions plans are developed.

The RMC receives summary reports from respective risk owners on their review of risks and the progress on updating of their risk register. The RMC reports to the AC directly.

The full details of the RMC's Terms of Reference are published in the Company's website.

## (B) COMPANY SECRETARY

The Company Secretary is responsible for advising the Board on issues relating to corporate compliance with the relevant laws, rules, procedures and regulations affecting the Board and the Group, as well as best practices of governance. He/She is also responsible for advising Directors of their obligations and duties to disclose their interest in securities, disclosure of any conflict of interest in a transaction involving the Bank, prohibition on dealing in securities and restrictions on disclosure of price-sensitive information. All Directors have access to the advice and services of the Company Secretary.

## (C) INSIDER TRADING

In line with the Listing Requirements and the relevant provisions of the Capital Markets and Services Act 2007, Directors, key management personnel and principal officers of the Company and the Group are prohibited from trading in securities or any kind of property based on price sensitive information and knowledge, which have not been publicly announced. Notices on the closed period for trading in the Company's shares are circulated to Directors, key management personnel and principal officers who are deemed to be privy to any price sensitive information and knowledge, in advance of whenever the closed period is applicable.

# Statement on Corporate Governance

## (D) CONFLICT OF INTEREST

Members of the Board are required to make a declaration to that effect at the Board meeting in the event that they have interests in proposals being considered by the Board, including where such interest arises through close family members, in line with various statutory requirements on the disclosure of Director's interest.

Any interested Directors would abstain from deliberations and decision of the Board on the subject proposal and, where appropriate, excuse themselves from being present in the deliberations.

## (E) INVESTORS RELATIONS

***Dialogue between the Company and Investors***

The Board recognizes the importance of an effective communications channel between the Board, stakeholders, institutional investors and the investing public at large, both in Malaysia and internationally, with the objective of providing a clear and complete picture of the Group's performance and position as much as possible.

In this respect, the Company is committed to keeping the shareholders and investors informed of the Group's business and corporate developments. Such information is disseminated via the Group's annual reports, circulars to shareholders, quarterly financial results and the various prescribed announcements made to Bursa Securities from time to time in the Bursa Securities' website at www.bursamalaysia.com or via the Company's website. Information that is price sensitive or may be regarded as undisclosed material information about the Group is not disclosed to any party until it is already in the public domain through proper disclosure.

***General Meetings***

The Group's AGM and Extraordinary General Meetings (EGM) represent the primary platforms for direct two-way dialogue and communication between the shareholders, Board and Management of the Group. Shareholders are notified of the meeting and provided with a copy of the Company's annual report at least twenty one (21) days before the meeting. They are encouraged and will be given sufficient opportunity to enquire about the Group's activities and prospects as well as to communicate their expectations and concerns. Shareholders are encouraged to participate in the open question and answer session on the resolutions to be proposed or about the Group's operations in general. Shareholders who are unable to attend are allowed to appoint proxies in accordance with the Company's Articles of Association to attend and vote on their behalf. The Chairman and Board members are in attendance to respond to the shareholders' queries and to provide clarification on the queries.

The external auditors are also present to provide professional and independent clarification on issues and concerns raised by the shareholders during the meeting.

The Board also encourages shareholders to participate, speak and vote at general meetings as well as the right to demand poll voting in the general meetings. However, so far the Company had not conducted any poll voting as there was no contentious issue raised at the meeting.

# Statement on Corporate Governance

## (F) ACCOUNTABILITY AND AUDIT

***Financial Reporting and Disclosure***

The Board aims to provide and present a clear, balanced and comprehensive view of the Group's financial performance and prospects, primarily through the annual audited financial statements, quarterly announcements of results and the annual report as well as corporate announcement on significant developments affecting the Company in accordance with the Listing Requirements. The AC assists the Board in scrutinizing information for disclosure to ensure accuracy and completeness and oversee the Group's financial reporting processes and the quality of its financial reporting.

***Risk Management and Internal Control***

The Board acknowledges its responsibility for maintaining a sound risk management framework and internal control system, which provides reasonable assessment of effective and efficient operations, internal financial controls and compliance with laws and regulations as well as with internal procedures and guidelines. The internal control system also aims at identifying and managing any risks that the Company may encounter in pursuit of its business objectives.

The Statement on Risk Management and Internal Control which provides an overview of the states of internal control within the Group is disclosed on pages 28 to 32 of this Annual Report.

***Relationship with External Auditors***

The Company's transparent and professional relationship with the external auditors is primarily maintained through the AC and the Board. The key features underlying the AC's relationship with both internal auditors and the external auditors are detailed in the AC Report of this Annual Report at pages 25 to 27. The AC is of the opinion that the external auditors are independent with respect to the Group, within the meaning of the provisions of the By-Laws on Professional Independence of the Malaysian Institute of Accountants. In addition, to the best of the AC's knowledge, the AC is not aware of any non-audit services that had compromised the external auditors' independence.

## (G) DIRECTORS' RESPONSIBILITY STATEMENT IN RESPECT OF FINANCIAL STATEMENTS

The Directors are required by the Companies Act, 1965 to prepare the financial statements for each financial year so as to give a true and fair view of the state of affairs of the Group and the Company as at end of the financial year and of results and cash flow of the Group and the Company for the financial year then ended.

In preparing the financial statements, the Directors have taken the necessary steps and actions as follows:-

- Adopted suitable accounting policies and applied them consistently;
- Made judgments and estimates that are prudent and reasonable;
- Complied with the applicable approved Financial Reporting Standards in Malaysia and the provisions of the Companies Act, 1965; and
- Prepared the financial statements on a going concern basis.

The Directors have the responsibility in ensuring that the Company keeps accounting records which discloses with reasonable accuracy the financial position of the Group and the Company and which enable them to ensure that the financial statements comply with the Companies Act, 1965, Listing Requirements of Bursa Securities and are prepared in accordance with the applicable approved accounting standard.

The Directors have the overall responsibilities for taking such steps are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

# STATEMENT ON CORPORATE GOVERNANCE

## (H) COMPLIANCE STATEMENT

The Board considers that the Group has substantially complied with the Best Practices of the Code throughout the financial year ended 31 December 2013.

## (I) ADDITIONAL COMPLIANCE INFORMATION

The following is presented in compliance with the Listing Requirements of Bursa Securities:

**1. Utilisation of Proceeds raised from Corporate Proposal**

There were no proceeds raised from any corporate proposal during the financial year ended 31 December 2013.

**2. Non-audit Fees Payable to External Auditors**

The amount of non-audit fees paid to the external auditors for the financial year ended 31 December 2013 amounted to RM23,170.00 for corporate tax compliance and advisory services rendered.

**3. Sanctions and/or Penalties**

No sanctions and/or penalties have been imposed by any regulatory bodies on the Company or its subsidiary, the Directors or Management of the Company or its subsidiary.

**4. Material Contracts**

There were no material contracts subsisting or entered into by the Company and its subsidiary involving any Directors or substantial shareholders of the Company or any persons connected to a Director or major shareholder of the Company during the financial year.

**5. Variation of Results**

There were no variation of 10% or more between the audited results for the financial year 2013 and the unaudited results previously announced by the Company.

No profit estimates, forecast or projection was announced or published by the Group.

**6. Recurrent Related Party Transactions (RRPTs)**

RRPTs entered into the Company and the Group are disclosed under Note 25 to the Financial Statements on page 73 .

**7. Share Buy-Back**

The Company did not undertake any share buy back exercise during the financial year 2013.

**8. Options or Convertible Securities**

No options or convertible securities were issued during the financial year 2013.

**9. Depository Receipt Programme**

The Company did not sponsor any Depository Receipt Programme during the financial year 2013.

**10. Profit Guarantee**

There was no profit guarantee given or received by the Company during the financial year.

# Gender Diversity Policy

The Board is pleased to set out below its approach to boardroom diversity as recommended by the Malaysian Code on Corporate Governance 2012.

## POLICY

The Company is committed to actively managing diversity as a means of enhancing the Company's performance by recognising and utilising the contribution of diverse skills and talent from its directors, officers and employees.

Diversity involves recognising and valuing the unique contribution people can make because of their individual background and different skills, experiences and perspectives, including persons with co-existing domestic responsibilities. Diversity may result from a range of factors including age, gender, ethnicity, cultural background or other personal factors. The Company values the differences between its people and the contribution these differences make to the Company.

### 1. Role of the Board

It is the responsibility of the Board to foster an environment where:

(a) Individual differences are respected.
(b) The ability to contribute and access employment opportunities is based on performance, skill and merit.
(c) Inappropriate attitudes, behaviours and stereotypes are confronted and eliminated.

### 2. Objectives

The Company encourages diversity in employment, and in the composition of its Board, as a means of ensuring the Company has an appropriate mix of skills and talent to conduct its business and achieve the Company's goals.

Specifically, the Company will provide equal opportunities in respect to employment and employment conditions, including:

(a) Hiring: The Board will ensure appropriate selection criteria based on diverse skills, experience and perspectives is used when hiring new staff, including Board members. Job specifications, advertisements, application forms and contracts will not contain any direct or inferred discrimination. The Board is empowered to engage professional consultants to assist in the hiring process by presenting diverse candidates to the Company for consideration.

(b) Training: All internal and external training opportunities will be based on merit and in light of Company and individual needs. The Board will consider senior management training and executive mentoring programs to develop skills and experience to prepare employees for senior management and Board positions.

(c) Career Advancement: All decisions associated with career advancement, including promotions, transfers, and other assignments, will meet the Company's needs and be determined on skill and merit.

### 3. Achieving Diversity

The Company will focus on the participation of women on its Board and within senior management.

However, the Company will not rush into identifying women to be included in its Board and senior management as the person selected must be able to contribute positively to the Company. The Nomination Committee has been tasked by the Board to continuously look for people with diverse skills and talent that can contribute to the Company.

# Gender Diversity Policy

## 4. Work Environment

The Company will ensure that all officers, employees and contractors have access to a work environment that is free from harassment. The Company will not permit unwanted conduct based on an officer, employee or contractor's personal circumstances or characteristics.

The Board and senior managers are required to ensure that the work environment is harassment free, and to ensure that complainants or reports of sexual, racial or other harassment are treated seriously, confidentially, and sympathetically by the Company.

## 5. Reporting Responsibility

It is the responsibility of all directors, officers and employees to comply with the Company's Gender Diversity Policy and report violations or suspected violations in accordance with this Gender Diversity Policy.

Any breach of compliance with this Gender Diversity Policy to be reported directly to the Chairman of the Board or the Audit Committee Chairman.

The contact details of the Chairman of the Board and Audit Committee Chairman where concerns can be raised by the employee are as follow:

| | |
|---|---|
| Chairman of the Board | Audit Committee Chairman |
| Email: am@lh-ag.com | Email: nyen@wyncorp.com.my |

Anyone breaching this Diversity Policy may be subject to disciplinary action, including termination.

## 6. Summary of Diversity Policy

The Board has adopted a Diversity Policy which describes the Company's commitment to ensuring a diverse mix of skills and talent exists amongst its directors, officers and employees, to enhance Company performance. The Diversity Policy addresses equal opportunities in the hiring, training and career advancement of directors, officers and employees. The Board is responsible for monitoring Company performance in meeting the Diversity Policy requirements.

# Sustainability Policy

The Group recognises the importance of sustainability development to businesses and is committed to ensure attention is given to environmental, social and governance aspects as an integral part of its business operations. The Group practices its Sustainability Policy on the following approach:-

## 1. The Workplace

The Group has the responsibility to provide and maintain a safe and healthy working environment for all its employees. Regular inspections and upgrades were carried out to ensure canteen cleanliness, kitchen and sewerage facilities were well maintained. Food hygienic standards are applied to ensure safety and health in the workplace. Recreation activities are organised, such as football and badminton tournaments and festive celebrations for employees and management staff to participate and interact. The establishment of a Safety and Health Committee for its manufacturing facilities is to ensure a safe and conducive working environment for its employees.

## 2. The Environment

The Group is committed to reduce environmental impact of its operation and firmly believes in adopting waste management and recycling programs such as the wood waste of which generated from the manufacturing process are used as material for the biomass power plant for regeneration of electricity supply for its operation. We are also committed to be in compliance with the relevant laws relating to sustainable forestry, emission standards and plant effluent management.

## 3. The Community

The Group has been contributing to the community by donating to the needy and contributing to the charitable events organised by the governmental and private organisation.

## 4. The Stakeholders

The Group will continue with its focus to enhance and maximise its shareholders' value. The Group believes in enhancing the relationship with all stakeholders including shareholders, regulatory authorities, business associates, bankers and suppliers.

# Audit Committee Report

## 1. CONSTITUTION

The Audit Committee was established to assist the Board to ensure that internal and external audit functions of the Group are properly conducted, and that recommendations are being appropriately implemented.

**MEMBERS**

The Audit Committee comprises the following members:-

Wong Yoke Nyen
*Chairman, Independent Non-Executive Director*

Aznam Bin Mansor
*Member, Independent Non-Executive Director*

Ng Tian Meng
*Member, Independent Non-Executive Director*

## 2. MEETINGS OF THE COMMITTEE

During the financial year ended 31 December 2013, five (5) Audit Committee Meetings were held and the details of attendance of the meetings are as follows:-

| Name | Total Meetings attended by Directors | Percentage Attendance |
|---|---|---|
| Wong Yoke Nyen | 5/5 | 100% |
| Aznam Bin Mansor | 3/5 | 60% |
| Ng Tian Meng | 5/5 | 100% |

The representatives of the external auditors, internal auditors and other officers of the Group were also invited to attend and brief the members on specific issues during the Audit Committee Meeting.

## 3. SUMMARY OF TERMS OF REFERENCE OF THE AUDIT COMMITTEE

### 3.1 Duties and Responsibilities of Audit committee

The main duties and responsibilities of the Audit Committee shall be:-

(1) to consider the appointment of the external auditors, the audit fee and any question of resignation or dismissal;

(2) to discuss with the external auditor before the audit commence, the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved;

(3) to review the quarterly and year-end financial statements of the Company and Group, focusing particularly on:-

(a) any change in accounting policies and practices;

(b) significant adjustments arising from the audits;

(c) the going concern assumption; and

(d) compliance with accounting standards and other legal requirements;

# Audit Committee Report

## 3. SUMMARY OF TERMS OF REFERENCE OF THE AUDIT COMMITTEE (CONT'D)

### 3.1 Duties and Responsibilities of Audit committee (Cont'd)

(4) to discuss problems and reservations arising from the interim and final audits, and any matter the auditor may wish to discuss (in the absence of Management where necessary);

(5) to review the external auditors' management letter and Management's responses;

(6) to perform the following, in relation to the internal audit function:-

(a) review the adequacy of the scope, functions, resources and competency of the internal audit function, and that it has the necessary authority to carry out its work;

(b) review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit function;

(c) review any appraisal or assessment of the performance of members of the internal audit function;

(d) approve any appointment or termination of senior staff members of the internal audit function; and

(e) take cognizance of resignations of internal audit staff members and provide the resigning staff member an opportunity to submit his reasons for resigning;

(7) to consider any related party transactions that may arise within the Company or Group;

(8) provide an opinion or view on the effectiveness of the related system of risk management and internal control in managing the significant risks, including exception reporting on significant risk management and control failures or weaknesses, which have a material impact on the Company's financial position;

(9) to consider the major findings of internal investigations and management's response;

(10) to review and monitor the suitability of the external auditor;

(11) to carry out an annual review of the performance of the external auditor, including assessment of independence of external auditor in the performance of their obligations as external auditors; and

(12) to consider other topics as defined by the Board.

### 3.2 Rights of the Audit Committee

In performing of its duties and responsibilities, the Audit Committee shall:-

(1) have the authority to 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 any information pertaining to the Company;

(4) have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity;

(5) be able to obtain independent professional or other advice at the expense of the Company and to invite outsiders with relevant experience and expertise to attend the Audit Committee meetings (if required) and to brief the Audit Committee; and

(6) be able to 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

## 4. SUMMARY OF ACTIVITIES OF THE AUDIT COMMITTEE

The main activities carried out by the Audit Committee during the financial year ended 31 December 2013 were as follows:-

a. Reviewed the unaudited quarterly financial results of the Company and Group before recommending to the Board for consideration and approval;

b. Reviewed the external auditors' scope of work and audit plan for the financial year ended 31 December 2013;

c. Reviewed with the internal auditor, the internal audit plans, the internal audit reports, their evaluation of the internal control system and the follow-up on the audit findings;

d. Reviewed related party transactions entered into by the Group and the Company to ensure that such transactions were undertaken in line with the Group's normal commercial terms and the internal control procedures with regards to such transaction are sufficient;

e. Review of the audited financial statements before recommending for the Board of Directors' approval; and

f. Recommended to the Board on the members to be appointed for Risk Management Committee.

## 5. INTERNAL AUDIT FUNCTIONS

The Audit Committee is aware that an independent and adequately resourced internal audit function is essential to assist in ensuring an effective and adequate internal control system in compliance to the Main Market Listing Requirements of Bursa Malaysia Securities Berhad under Paragraph 9.25(1), Part A (30) of Appendix 9C.

The Group's internal audit function is outsourced to a professional internal audit service provider and this ensures that the outsourced internal auditor is independent as it has no involvement in the operations of the Group. The outsourced internal auditor reports directly to the Audit Committee.

The Audit Committee has full and direct access to internal auditors, reviews the reports on all audits performed and monitors its performance. The Audit Committee also in its framework reviews the adequacy of the scope, functions, competency and resources of the outsourced internal audit functions.

The outsourced internal auditor carried out internal audits on various operation units within the Group based on a risk-based audit plan approved by the Audit Committee. Based on these audits, the outsourced internal auditors provided the Audit Committee with periodic reports highlighting observations, recommendations and management action plans to improve the system of internal control.

During the financial period, a summary of activities carried out by the outsourced internal auditor include:-

- Developing the internal audit plan for year 2013.
- Performed internal audit review on the Human Resource, Enterprise Risk Management, Finance and Accounts of the Group.
- Issued reports on the results of the internal audit review, identifying weaknesses with suggested recommendations for improvements to Management for further action to improve the system of internal control.
- Conducted follow up reviews to ensure that action plans are properly and appropriately implemented by Management in accordance with the agreed time frame.
- Attended Audit Committee's meetings to table and discuss the audit reports.

During the year, the Audit Committee has met four (4) times to carry out its responsibility in reviewing the internal audit function and to assure itself on the soundness of internal control system. The costs incurred for the outsourced internal audit function in respect of the financial year ended 31 December 2013 amounted to RM47,149.40.

# Statement on Risk Management and Internal Control

## INTRODUCTION

Pursuant to Paragraph 15.26 (b) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the Board of Directors ("the Board") of listed companies is required to include in their annual report, a "statement about the state of internal controls of the listed issuers as a group". Accordingly, the Board is pleased to present the Statement on Risk Management and Internal Control ("the Statement") which is in accordance with the guidelines mentioned in the "Statement on Risk Management and Internal Control (Guidelines for Directors of Listed Issuers)" which outlines the risk management and internal control system of the Group during the financial year under review.

## BOARD'S RESPONSIBILITY

The Board acknowledges its responsibility for ensuring the adequacy and effectiveness of the Group's risk management and internal control system. This includes the establishment of an appropriate control environment and risk management framework, processes and structures and continually reviewing the adequacy and integrity of the said systems to safeguard shareholders' investment and the Group's assets.

Whilst acknowledging its responsibilities, the Board is aware of the limitations that are inherent in any systems of internal control and risk management where such systems being designed to manage, rather than eliminate, the risks that may impede the achievement of the Group's business objectives. Accordingly, it can only provide a reasonable, but not absolute assurance against material misstatement or losses, fraud or breaches of laws or regulations.

Management is responsible for assisting the Board in implementing the processes for identifying, evaluating, monitoring and reporting risks and internal controls throughout the period. The Board is assisted by the Audit Committee to oversee the implementation of a system of risk management and internal controls. The Risk Management Committee (RMC) is established to assist the Board in overseeing the risk management issues of the Group and to report to the Audit Committee directly on the Group's overall co-ordination of risk management activity and ensuring that the necessary processes are in place.

The Board is responsible for setting the business direction and for overseeing the conduct of the Group's operations through various Board Committees. This represents the main platform by which the Group's performance, risks and conduct are monitored. The Group monitors the effectiveness of the internal control system by a continuous process of improving the internal control system through periodic internal audit reviews. The process is regularly reviewed by the Audit Committee and the outcome of the review is reported to the Board.

For the financial year under review, the Board has received assurance from the Managing Director and Management Team that the Group's risk management and internal control system is operating adequately and effectively, in all material aspects, based on the risk management and internal control system of the Group.

The Board is of the view that the Group's risk management and internal control framework and systems is in place for the financial year under review and up to the date of issuance of the financial statements for identifying, evaluating and managing significant risks faced or potentially to be encountered by the Group.

# Statement on Risk Management and Internal Control

## RISK MANAGEMENT FRAMEWORK

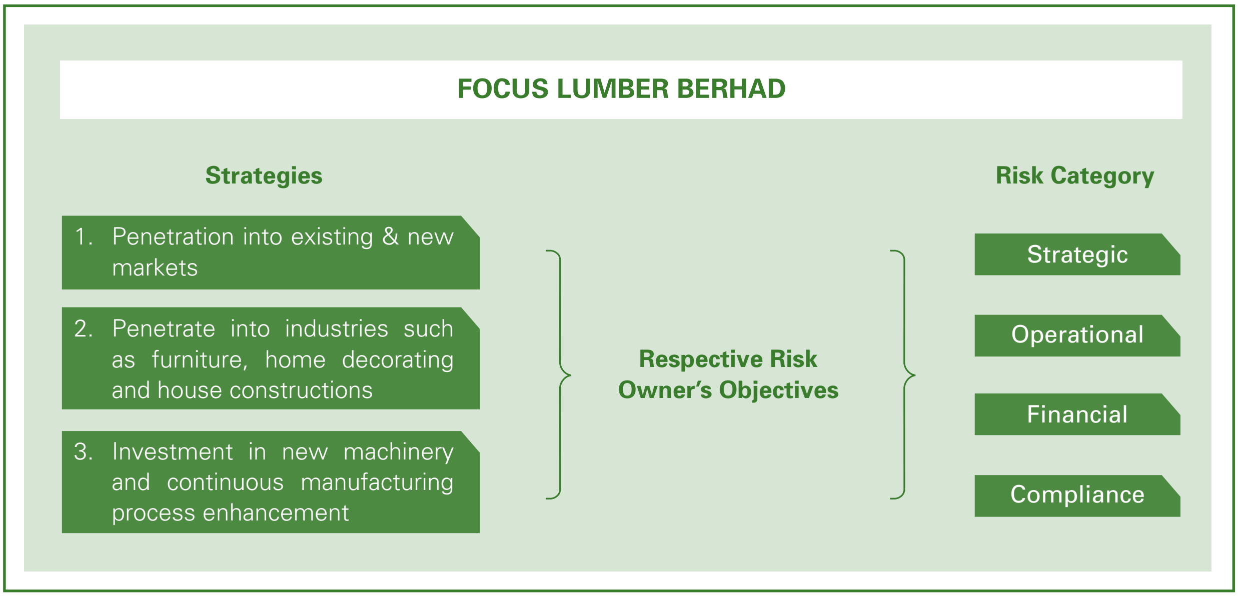
The Board firmly believes that an effective risk management is critical to the Group's continued profitability and the enhancement of shareholder value. Therefore, the Board has put in place a formal enterprise risk management framework that allows a more structured and focused approach to identify, evaluate, monitor and report the principal risks that affect the achievement of the Group's business objectives.

The framework is continually monitored to ensure it is responsive to the changes in the business environment.

The RMC shall meet at least two (2) times a year at appropriate times and otherwise as required, to review risks that affect the achievement of the Group's business objectives. The RMC submits its report on the key risks facing the Group to the Audit Committee half-yearly. In the event of significant risks being identified, it will be reported to the Audit Committee immediately.

- **Risk Management Process**

  The risk management process starts with the identification of all risks affecting the Company's achievement of its vision and mission and the linkage between risk management and its objectives can be illustrated below:




The risks identified remain the foundation in developing a risk profile and an action plan to assist the Board and Management to adequately respond to these risks. All the risks identified are maintained in Risk Register to facilitate monitoring from time to time.

# Statement on Risk Management and Internal Control

## AUDIT COMMITTEE

The Audit Committee supports the Board's oversight function on risk management and internal control through the following:

- Ensuring an effective risk management process and management of key business risks in accordance with the Group's tolerance of risks.
- Assessing the effectiveness of the Group's internal control system vis-à-vis the risks, control environment and compliance requirements.
- Ensuring an appropriate whistleblowing process is in place.

The Audit Committee deliberates on the abovementioned to assess the state of the Group's management of risks and internal controls and management actions on the control issues identified on a half-yearly basis. The internal control recommendations by the internal auditors and the external auditors are followed-up and reported to the Audit Committee to monitor the implementation of preventive and corrective actions to mitigate related risks.

## CONTROL ENVIRONMENT

In striving to operate a sound system of risk management and internal control that drives the Group towards achieving its goals, the Board has put in place an organisation structure with formally defined lines of responsibility and delegation of authority.

The daily running of business is entrusted to the Managing Director, Executive Directors and Management Team. This close-to-operations management style enables timely identification and reporting of significant matters.

In order to inculcate a standard of ethical behaviour for Directors and employees of the Group, a Code of Conduct and Code of Ethics have been established and communicated to all Directors and employees of the Group.

## INTERNAL CONTROL

The Group has established its internal control structure and is committed to providing the fundamental discipline on risk management and control. These internal control structures apply to all of the Group's investments. The Group has continuously been undertaking efforts to enhance its internal control structures within the Group.

The key elements of the Group's internal control structures are as follows:

- **Code of Conduct and Practice**

The Group's practice is guided by the Code of Conduct and Ethics, which sets out the principles to guide employees in carrying out their duties and responsibilities to the highest standards of personal and corporate integrity. The Group's Code of Conduct and Ethics covers such as compliance with respective local laws and regulations, integrity, conduct in the work place, business conduct, protection of the Group's assets, confidentiality, conflict of interest and fair dealing practices.

Major decisions that require the approval of the Board are only made after detailed appraisal and review. Proposals for major capital expenditure and new investment by the Group are reviewed and approved by the Board.

Standard operating procedures are established to ensure operations undertaken by staff are properly guided for complete and accurate reporting.

# Statement on Risk Management and Internal Control

## INTERNAL CONTROL (CONT'D)

- **Whistleblowing Policy and Procedures**

As the Group expects the highest standards of integrity, probity, transparency and accountability from all employees to preserve and protect the Group's interests and reputation, the Group takes a serious view of any acts of wrong doing by any of its employees.

The Board has approved a Whistleblowing Policy to allow employees to raise concerns without fear of reprisals on possible improprieties in matters of financial reporting, compliance and other malpractices at the earliest opportunity, and in an appropriate way. Under the Group's Whistleblowing Policy, the employee should immediately report any malpractice that exists in the work place to his/ her manager. However, if the employee feels reluctant to do so, the employee has an option to either report it to the Chairman of the Board or the Audit Committee Chairman.

Full details of the Group's Code of Conduct and Ethics and Whistleblowing Policy are published in the Company website.

- **Information and Communication**

The Audit Committee holds meetings to deliberate on the findings and recommendations for improvement by the internal auditor on the state of the internal control system and reports to the Board. The Audit Committee also reviews and deliberates on any matters relating to internal control highlighted by the external auditors in the course of their statutory audit of the financial statements of the Group.

Quarterly performance reports provide Management and the Board with information on financial performance and key business indicators.

- **On-Going Monitoring**

Periodic reviews of adequacy and integrity of selected areas of internal control system are carried out by the internal audit function and results of such reviews are reported to the Audit Committee. The internal audit function thereby provides independent assurance on the areas reviewed by the internal audit function to the Board on the effectiveness of the Group's internal control system.

- **Internal Audit Function**

Pursuant to Paragraph 9.25(1), Part A(30) of Appendix 9C of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the Board is pleased to set out below its internal audit function.

The Group's internal audit function is outsourced to a professional internal audit service provider and this ensures that the outsourced internal auditor is independent as it has no involvement in the operations of the Group. The outsourced internal auditor reports directly to the Audit Committee.

The Group's internal audit plays a pivotal role in improving the effectiveness of risk management, control and governance processes of the Group's operations through its recommendations for improvement in internal controls and consulting services on related matters. Built into the audit process is also a process of follow-up of the implementation of recommendations of major issues reported to the Audit Committee to ensure improvement actions are taken. Based on the follow-up conducted during the year, actions have been taken towards improvements in the related areas.

# Statement on Risk Management and Internal Control

## INTERNAL CONTROL (CONT'D)

- **Internal Audit Function (Cont'd)**

During the financial period, a summary of activities carried out by the outsourced internal auditor include:

- Developing the internal audit plan for year 2013.
- Performed internal audit review on the area of Human Resource, Enterprise Risk Management, Finance and Accounts.
- Issued reports on the results of the internal audit review, identifying weaknesses with suggested recommendations for improvements to management for further action to improve the system of internal control.
- Attended Audit Committee's meetings to table and discuss the audit reports.
- Followed-up on the implementation of corrective action plans agreed by Management.

During the year, the Audit Committee has met four (4) times to carry out its responsibility in reviewing the internal audit function and to assure itself on the soundness of internal control system. The costs incurred for the outsourced internal audit function in respect of the financial year ended 31 December 2013 amounted to RM47,149.40.

## REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

As required by Paragraph 15.23 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the external auditors have reviewed the Statement. Their review was performed in accordance with Recommended Practice Guide (RPG) 5: Guidance for Auditors on the Review of Directors' Statement on Internal Control, issued by the Malaysian Institute of Accountants. Based on their review, the external auditors have 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 the Board has adopted in the review of the adequacy and integrity of internal control of the Group. RPG 5 does not require the external auditors to, and they did not, consider whether this Statement covers all risk and controls, or to form an opinion on the effectiveness of the risk management and internal control systems of the Group.

## CONCLUSION

Based on the processes taken through the Board and its Committees during the financial year under review and up to the date of issuance of the financial statements and assurance provided by the Group's Managing Director and Management Team, the Board is of the view that the risk management and internal control system as described in this Statement is operating adequately and effectively, in all material aspects, to mitigate the Group's major risks. There were no material losses that have arisen from any inadequacy or failure of the Group's system of internal control which required additional disclosure in the financial statements. There is continual focus on measures to protect shareholder value and business sustainability.

This Statement is made in accordance with a resolution of the Board of Directors dated 10 April, 2014.

# Financial Statements

**Focus Lumber Berhad** (188710-V)
Annual Report 2013

# Directors' Report

The directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2013.

## PRINCIPAL ACTIVITIES

The principal activities of the Company are the manufacturing and sale of plywood, veneer, laminated veneer lumber, and investment holding.

The principal activities of the subsidiary are the generation and sale of electricity.

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

## RESULTS

| | Group RM | Company RM |
|---|---|---|
| Profit net of tax | 15,135,940 | 17,244,464 |

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

In the opinion of the directors, the results of the operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

## DIVIDENDS

The amounts of dividends paid by the Company since 31 December 2012 were as follows:

| | RM |
|---|---|
| In respect of the financial year ended 31 December 2012: | |
| Interim tax exempt (single-tier) dividend of 12%, on 103,200,000 ordinary shares of RM0.50 each, declared on 19 November 2012 and paid on 4 February 2013 | 6,192,000 |
| In respect of the financial year ended 31 December 2013: | |
| Interim tax exempt (single-tier) dividend of 16%, on 103,200,000 ordinary shares of RM0.50 each, declared on 16 December 2013 and paid on 16 January 2014 | 8,256,000 |
| | 14,448,000 |

# DIRECTORS' REPORT

## DIRECTORS

The names of the directors of the Company in office since the date of the last report and at the date of this report are:

Aznam Bin Mansor
Lin Hao Wen
Lin Lieh Ming
Yang Sen
Wong Yoke Nyen
Ng Tian Meng

## DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company was a party, whereby the directors might acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors or the fixed salary of a full-time employee of the Company as shown in Note 9 to the financial statements) by reason of a contract made by the Company or a related corporation with any 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 as disclosed in Note 25 to the financial statements.

## DIRECTORS' INTERESTS

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

| | Number of ordinary shares of RM0.50 each | | | | |
|---|---|---|---|---|---|
| | 1.1.2013 | Acquired | Sold | 31.12.2013 | |
| **Direct interest:** | | | | | |
| *Ordinary shares of the Company* | | | | | |
| Lin Hao Wen | 6,313,550 | - | - | 6,313,550 | |
| Lin Lieh Ming | 5,050,840 | - | - | 5,050,840 | |
| Yang Sen | 3,156,776 | - | - | 3,156,776 | |
| **Indirect interest:** | | | | | |
| *Ordinary shares of the Company* | | | | | |
| Lin Hao Wen | 12,627,100 | - | - | 12,627,100 | @ |
| Yang Sen | 9,470,328 | - | - | 9,470,328 | @ |

@ Interest by virtue of shares held by close family members

By virtue of Lin Hao Wen's interests in shares of the Company under Section 6A of the Companies Act, 1965, he is deemed to have interests in shares of the subsidiary of the Company to the extent that Company has an interest.

None of the other directors in office at the end of the financial year had any interest in shares in the Company or its related corporation during the financial year.

# DIRECTORS' REPORT

## OTHER STATUTORY INFORMATION

a) Before the statements of comprehensive income and statements of financial position of the Group and of the Company were made out, the directors took reasonable steps:

   i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that there were no known bad debts and that no provision for doubtful debts was necessary; and

   ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

b) At the date of this report, the directors are not aware of any circumstances which would render:

   i) it necessary to write off any bad debts or to make any provision for doubtful debts in respect of the financial statements of the Group and of the Company; and

   ii) the values attributed to current assets in the financial statements of the Group and of the Company misleading.

c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.

d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.

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

   i) any charge on the assets of the Group or of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or

   ii) any contingent liability of the Group or of the Company which has arisen since the end of the financial year.

f) In the opinion of the directors:

   i) 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 will or may affect the ability of the Group or of the Company to meet their obligations when they fall due; and

   ii) 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 or of the Company for the financial year in which this report is made.

## INDEPENDENT AUDITORS

The auditors, Ernst & Young, have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the directors dated 10 April 2014.

**Lin Hao Wen** **Lin Lieh Ming**

# Statement by Directors

PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965

We, Lin Hao Wen and Lin Lieh Ming, being two of the directors of Focus Lumber Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 40 to 84 give a true and fair view of the financial position of the Group and of the Company as at 31 December 2013 and of their financial performance and the cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

The information set out in Note 33 to the financial statements have been prepared in accordance with the 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.

Signed on behalf of the Board in accordance with a resolution of the directors dated 10 April 2014.

**Lin Hao Wen**

**Lin Lieh Ming**

# Statutory Declaration

PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965

I, Lin Hao Wen, being the Director primarily responsible for the financial management of Focus Lumber Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 40 to 85 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by
the abovenamed Lin Hao Wen
at Kota Kinabalu in the State of Sabah
on 10 April 2014

**Lin Hao Wen**

Before me,

# Independent Auditors' Report

TO THE MEMBERS OF FOCUS LUMBER BERHAD
(Incorporated in Malaysia)

## REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Focus Lumber Berhad, which comprise the statements of financial position as at 31 December 2013 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 year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 40 to 84.

*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 judgment, 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 the 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 at 31 December 2013 and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

# INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF FOCUS LUMBER BERHAD
(Incorporated 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 subsidiary have been properly kept in accordance with the provisions of the Act.

b) We are satisfied that the financial statements of the subsidiary that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

c) The auditors' report on the financial statements of the subsidiary was not subject to any qualification and did not include any comment required to be made under Section 174(3) of the Act.

## OTHER REPORTING RESPONSIBILITIES

The supplementary information set out in Note 33 on page 85 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

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.

**Ernst & Young**
AF: 0039
Chartered Accountants

**Chau Nam Kong**
3096/12/15(J)
Chartered Accountant

Kota Kinabalu, Malaysia
10 April 2014

# Statements of Comprehensive Income

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

| | Note | Group | | Company | |
|---|---|---|---|---|---|
| | | 2013<br>RM | 2012<br>RM | 2013<br>RM | 2012<br>RM |
| **Revenue** | 4 | **147,208,017** | 132,803,282 | **147,104,503** | 132,703,533 |
| Cost of sales | | **(111,824,740)** | (102,216,987) | **(113,193,899)** | (103,806,648) |
| **Gross profit** | | **35,383,277** | 30,586,295 | **33,910,604** | 28,896,885 |
| **Other items of income** | | | | | |
| Interest income | 5 | **518,817** | 386,620 | **518,817** | 386,620 |
| Other income | 6 | **3,325,143** | 365,271 | **6,385,143** | 425,271 |
| **Other items of expense** | | | | | |
| Administrative expenses | | **(3,867,290)** | (5,475,295) | **(3,745,709)** | (5,369,178) |
| Selling and distribution costs | | **(18,576,982)** | (17,245,995) | **(18,576,982)** | (17,245,995) |
| Other expenses | | **(1,434,569)** | (232,848) | **(1,434,569)** | (232,848) |
| **Profit before tax** | 7 | **15,348,396** | 8,384,048 | **17,057,304** | 6,860,755 |
| Income tax expense | 10 | **(212,456)** | 3,216,178 | **187,160** | 3,601,612 |
| **Profit net of tax** | | **15,135,940** | 11,600,226 | **17,244,464** | 10,462,367 |
| **Other comprehensive income for the year, net of tax** | | **-** | - | **-** | - |
| **Total comprehensive income for the year** | | **15,135,940** | 11,600,226 | **17,244,464** | 10,462,367 |
| **Profit attributable to:** | | | | | |
| Owners of the Company | | **15,135,940** | 11,600,226 | **17,244,464** | 10,462,367 |
| **Earnings per ordinary share attributable to owners of the Company (sen per share):** | | | | | |
| Basic | 11 | **14.67** | 11.24 | | |
| Diluted | 11 | **14.67** | 11.24 | | |

The accompanying accounting policies and explanatory information form an integral part of the financial statements.

# Statements of Financial Position

AS AT 31 DECEMBER 2013

| | Note | Group 2013 RM | Group 2012 RM | Company 2013 RM | Company 2012 RM |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 12 | **35,945,113** | 38,830,187 | **21,790,401** | 23,092,445 |
| Investment properties | 13 | **2,789,079** | 2,871,110 | **2,789,079** | 2,871,110 |
| Investment in a subsidiary | 14 | **-** | - | **5,000,000** | 5,000,000 |
| Other investments | 15 | **1,149,040** | 1,149,040 | **1,149,040** | 1,149,040 |
| Deferred tax assets | 16 | **2,517,352** | 2,916,968 | **-** | - |
| | | **42,400,584** | 45,767,305 | **30,728,520** | 32,112,595 |
| **Current assets** | | | | | |
| Inventories | 17 | **22,303,855** | 18,413,364 | **22,303,855** | 18,413,364 |
| Trade and other receivables | 18 | **12,320,521** | 8,560,604 | **12,299,225** | 8,462,957 |
| Prepaid operating expenses | | **136,142** | 79,939 | **136,112** | 79,939 |
| Income tax refundable | | **1,642,200** | 1,309,611 | **1,642,200** | 1,309,611 |
| Cash and bank balances | 19 | **62,877,603** | 57,536,491 | **62,789,948** | 57,316,096 |
| | | **99,280,321** | 85,900,009 | **99,171,340** | 85,581,967 |
| **Total assets** | | **141,680,905** | 131,667,314 | **129,899,860** | 117,694,562 |
| **Equity and liabilities** | | | | | |
| **Current liabilities** | | | | | |
| Trade and other payables | 21 | **7,769,284** | 7,235,907 | **11,299,454** | 10,682,894 |
| Derivatives | 22 | **783,469** | - | **783,469** | - |
| Dividends payable | | **8,256,000** | 6,192,000 | **8,256,000** | 6,192,000 |
| | | **16,808,753** | 13,427,907 | **20,338,923** | 16,874,894 |
| **Net current assets** | | **82,471,568** | 72,472,102 | **78,832,417** | 68,707,073 |
| **Non-current liability** | | | | | |
| Deferred tax liabilities | 16 | **2,115,027** | 2,362,222 | **2,115,027** | 2,362,222 |
| **Total liabilities** | | **18,923,780** | 15,790,129 | **22,453,950** | 19,237,116 |
| **Net assets** | | **122,757,125** | 115,877,185 | **107,445,910** | 98,457,446 |
| **Equity attributable to the owners of the Company** | | | | | |
| Share capital | 23 | **51,600,000** | 51,600,000 | **51,600,000** | 51,600,000 |
| Share premium | 23 | **883,420** | 883,420 | **883,420** | 883,420 |
| Retained earnings | 24 | **70,273,705** | 63,393,765 | **54,962,490** | 45,974,026 |
| **Total equity** | | **122,757,125** | 115,877,185 | **107,445,910** | 98,457,446 |
| **Total equity and liabilities** | | **141,680,905** | 131,667,314 | **129,899,860** | 117,694,562 |

The accompanying accounting policies and explanatory information form an integral part of the financial statements.

# Statements of Changes in Equity

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

| | Note | Equity, total RM | ← Non-distributable Share capital RM | → Share premium RM | Distributable Retained earnings RM |
|---|---|---|---|---|---|
| **Group** | | | | | |
| **Opening balance at 1 January 2013** | | 115,877,185 | 51,600,000 | 883,420 | 63,393,765 |
| **Total comprehensive income** | | 15,135,940 | - | - | 15,135,940 |
| **Transactions with owners** | | | | | |
| Dividends on ordinary shares | 31 | (8,256,000) | - | - | (8,256,000) |
| Total transactions with owners | | (8,256,000) | - | - | (8,256,000) |
| **Closing balance at 31 December 2013** | | 122,757,125 | 51,600,000 | 883,420 | 70,273,705 |
| **Opening balance at 1 January 2012** | | 110,468,959 | 51,600,000 | 883,420 | 57,985,539 |
| **Total comprehensive income** | | 11,600,226 | - | - | 11,600,226 |
| **Transactions with owners** | | | | | |
| Dividends on ordinary shares | 31 | (6,192,000) | - | - | (6,192,000) |
| Total transactions with owners | | (6,192,000) | - | - | (6,192,000) |
| **Closing balance at 31 December 2012** | | 115,877,185 | 51,600,000 | 883,420 | 63,393,765 |
| **Company** | | | | | |
| **Opening balance at 1 January 2013** | | 98,457,446 | 51,600,000 | 883,420 | 45,974,026 |
| **Total comprehensive income** | | 17,244,464 | - | - | 17,244,464 |
| **Transactions with owners** | | | | | |
| Dividends on ordinary shares | 31 | (8,256,000) | - | - | (8,256,000) |
| Total transactions with owners | | (8,256,000) | - | - | (8,256,000) |
| **Closing balance at 31 December 2013** | | 107,445,910 | 51,600,000 | 883,420 | 54,962,490 |
| **Opening balance at 1 January 2012** | | 94,187,079 | 51,600,000 | 883,420 | 41,703,659 |
| **Total comprehensive income** | | 10,462,367 | - | - | 10,462,367 |
| **Transactions with owners** | | | | | |
| Dividends on ordinary shares | 31 | (6,192,000) | - | - | (6,192,000) |
| Total transactions with owners | | (6,192,000) | - | - | (6,192,000) |
| **Closing balance at 31 December 2012** | | 98,457,446 | 51,600,000 | 883,420 | 45,974,026 |

The accompanying accounting policies and explanatory information form an integral part of the financial statements.

# STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 RM | 2012 RM | 2013 RM | 2012 RM |
| **Operating activities** | | | | |
| Profit before tax | **15,348,396** | 8,384,048 | **17,057,304** | 6,860,755 |
| Adjustments for: | | | | |
| Depreciation of investment properties | **82,031** | 54,790 | **82,031** | 54,790 |
| Depreciation of property, plant and equipment | **4,862,903** | 4,834,894 | **3,010,953** | 3,005,322 |
| Dividend income | **-** | - | **(3,000,000)** | - |
| Gain on disposal of plant and machinery | **-** | (65,562) | **-** | (65,562) |
| Interest income | **(518,817)** | (386,620) | **(518,817)** | (386,620) |
| Plant and equipment scrapped | **-** | 2 | **-** | 2 |
| Net fair value loss on derivatives - unrealised | **783,469** | - | **783,469** | - |
| Foreign exchange gain - unrealised | **(162,648)** | - | **(162,648)** | - |
| Total adjustments | **5,046,938** | 4,437,504 | **194,988** | 2,607,932 |
| **Operating cash flows before changes in working capital** | **20,395,334** | 12,821,552 | **17,252,292** | 9,468,687 |
| Changes in working capital | | | | |
| (Increase)/decrease in inventories | **(3,890,491)** | 8,249,902 | **(3,890,491)** | 8,249,902 |
| (Increase)/decrease in receivables | **(3,653,472)** | 244,502 | **(3,729,793)** | 315,852 |
| Increase in payables | **533,377** | 779,248 | **616,560** | 3,584,416 |
| Total changes in working capital | **(7,010,586)** | 9,273,652 | **(7,003,724)** | 12,150,170 |
| **Cash flows from operations** | **13,384,748** | 22,095,204 | **10,248,568** | 21,618,857 |
| Interest received | **211,441** | 105,073 | **211,441** | 105,073 |
| Income tax paid | **(392,624)** | (1,108,600) | **(392,624)** | (1,108,600) |
| Income tax refunded | **-** | 7,268,564 | **-** | 7,268,564 |
| **Net cash flows generated from operating activities** | **13,203,565** | 28,360,241 | **10,067,385** | 27,883,894 |

# Statements of Cash Flows

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 RM | 2012 RM | 2013 RM | 2012 RM |
| **Investing activities** | | | | |
| Dividend received | **-** | - | **3,000,000** | - |
| Placement in short-term deposits | **(119,804)** | (2,757,528) | **(119,804)** | (2,757,528) |
| Interest received | **307,376** | 281,547 | **307,376** | 281,547 |
| Withdrawal of structured investment | **-** | 2,600,000 | **-** | 2,600,000 |
| Proceeds from disposal of plant and equipment | **-** | 100,000 | **-** | 100,000 |
| Purchase of property, plant and equipment | **(1,977,829)** | (1,432,282) | **(1,708,909)** | (1,102,546) |
| **Net cash flows (used in)/generated from investing activities** | **(1,790,257)** | (1,208,263) | **1,478,663** | (878,527) |
| **Financing activity** | | | | |
| Dividends paid on ordinary shares | **(6,192,000)** | (6,192,000) | **(6,192,000)** | (6,192,000) |
| **Net cash flows used in financing activity** | **(6,192,000)** | (6,192,000) | **(6,192,000)** | (6,192,000) |
| **Net increase in cash and cash equivalents** | **5,221,308** | 20,959,978 | **5,354,048** | 20,813,367 |
| **Cash and cash equivalents at 1 January** | **54,711,353** | 33,751,375 | **54,490,958** | 33,677,591 |
| **Cash and cash equivalents at 31 December** | **59,932,661** | 54,711,353 | **59,845,006** | 54,490,958 |

The accompanying accounting policies and explanatory information form an integral part of the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

## 1. CORPORATE INFORMATION

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the Main Market of Bursa Malaysia Securities Berhad. The registered office of the Company is located at Mile 3, Jalan Masak, Kampung Ulu Patikang, Locked Bag 13 SM-88, 89009 Keningau, Sabah.

The principal activities of the Company are the manufacturing and sale of plywood, veneer, laminated veneer lumber, and investment holding.

The principal activities of the subsidiary are generation and sale of electricity.

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

The financial statements of the Group have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

The financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below.

The financial statements are presented in Ringgit Malaysia (RM).

### 2.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

On 1 January 2013, the Group and the Company adopted the following new and amended MFRS and IC Interpretations mandatory for annual financial periods beginning on or after 1 January 2013.

| Description | Effective for annual periods beginning on or after |
|---|---|
| Amendments to MFRS 101: Presentation of Items of Other Comprehensive Income | 1 July 2012 |
| MFRS 3 Business Combinations (IFRS 3 Business Combinations issued by IASB in March 2004) | 1 January 2013 |
| MFRS 127 Consolidated and Separate Financial Statements (IAS 27 revised by IASB in December 2003) | 1 January 2013 |
| 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 119 Employee Benefits (IAS 19 as amended by IASB in June 2011) | 1 January 2013 |
| MFRS 127 Separate Financial Statements (IAS 27 as amended by IASB in May 2011) | 1 January 2013 |
| MFRS 128 Investment in Associate and Joint Ventures (IAS 28 as amended by IASB in May 2011) | 1 January 2013 |
| IC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine | 1 January 2013 |
| Amendments to MFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities | 1 January 2013 |
| Annual Improvements 2009-2011 Cycle | 1 January 2013 |
| Amendments to MFRS 1: Government Loans | 1 January 2013 |
| Amendments to MFRS 10, MFRS 11 and MFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance | 1 January 2013 |

Adoption of the above standards and interpretations did not have any effect on the financial performance or position of the Group and the Company.

# NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.3 Standards issued but not yet effective

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Group's and the Company's financial statements are disclosed below. The Group and the Company intend to adopt these standards, if applicable, when they become effective.

| Description | Effective for annual periods beginning on or after |
|---|---|
| Amendments to MFRS 132: Offsetting Financial Assets and Financial Liabilities | 1 January 2014 |
| Amendments to MFRS 10, MFRS 12 and MFRS 127: Investment Entities | 1 January 2014 |
| Amendments to MFRS 136 Recoverable Amount Disclosures for Non-Financial Assets | 1 January 2014 |
| Amendments to MFRS 139 Novation of Derivatives and Continuation of Hedge Accounting | 1 January 2014 |
| IC Interpretation 21 Levies | 1 January 2014 |
| Amendments to MFRS 119: Defined Benefit Plans: Employee Contributions | 1 July 2014 |
| Annual Improvements to MFRSs 2010–2012 Cycle | 1 July 2014 |
| Annual Improvements to MFRSs 2011–2013 Cycle | 1 July 2014 |
| MFRS 9 Financial Instruments (IFRS 9 issued by IASB in November 2009) | To be announced |
| MFRS 9 Financial Instruments (IFRS 9 issued by IASB in October 2010) | To be announced |
| MFRS 9 Financial Instruments: Hedge Accounting and amendments to MFRS 9, MFRS 7 and MFRS 139 | To be announced |

The directors expect that the adoption of the above standards and interpretations will have no material impact on the financial statements in the period of initial application except as discussed below:

<u>MFRS 9 Financial Instruments</u>

MFRS 9 reflects the first phase of work on the replacement of MFRS 139 and applies to classification and measurement of financial assets and financial liabilities as defined in MFRS 139. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to MFRS 9: Mandatory Effective Date of MFRS 9 and Transition Disclosures, issued in March 2012, moved the mandatory effective date to 1 January 2015. Subsequently, on 14 February 2014, it was announced that the new effective date will be decided when the project is closer to completion. The adoption of the first phase of MFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of the Group's financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

<u>Amendments to MFRS 139: Novation of Derivatives and Continuation of Hedge Accounting</u>

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The Group has not novated its derivatives during the current period. However, these amendments would be considered for future novation.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.4 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the reporting date. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied for like transactions and events in similar circumstances.

The Company controls an investee if and only if the Company has all the following:

a) Power over the investee (i.e existing rights that give it the current ability to direct the relevant activities of the investee);

b) Exposure, or rights, to variable returns from its investment with the investee; and

c) The ability to use its power over the investee to affect its returns.

When the Company has less than a majority of the voting rights of an investee, the Company considers the following in assessing whether or not the Company's voting rights in an investee are sufficient to give it power over the investee:

a) The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;

b) Potential voting rights held by the Company, other vote holders or other parties;

c) Rights arising from other contractual arrangements; and

d) Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Subsidiaries are consolidated when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Losses within a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. The resulting difference is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets and liabilities of the subsidiary and any non-controlling interest, is recognised in profit or loss. The subsidiary's cumulative gain or loss which has been recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss or where applicable, transferred directly to retained earnings. The fair value of any investment retained in the former subsidiary at the date control is lost is regarded as the cost on initial recognition of the investment.

# NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.5 Transactions with non-controlling interests

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Company.

Changes in the Company owners' ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

### 2.6 Foreign currency

#### a) Functional and presentation currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Ringgit Malaysia (RM), which is also the Company's functional currency.

#### b) Foreign currency transactions

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiary and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value are translated using the exchange rates at the date when the fair value was measured.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are recognised in profit or loss except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operations, which are recognised initially in other comprehensive income and accumulated under foreign currency translation reserve in equity. The foreign currency translation reserve is reclassified from equity to profit or loss of the Group on disposal of the foreign operation.

### 2.7 Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. Subsequent to recognition, property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The costs includes the cost of replacing part of the property, plant and equipment and borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying property, plant and equipment. The accounting policy for borrowing costs is set out in Note 2.17. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

When significant parts of plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.7 Property, plant and equipment (Cont'd)

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

- Leasehold land: Remaining lease periods
- Factory and office buildings: 20 to 40 years
- Motor vehicles: 4 years
- Heavy equipment: 5 years
- Plant and machinery: 15 years
- Furniture, fittings, office equipment and renovation: 5 years

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The residual value, useful life and depreciation method are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on de-recognition of the asset is included in the profit or loss in the year the asset is derecognised.

### 2.8 Investment properties

Investment properties are properties that are either owned by the Group or leased under a finance lease that are held to earn rentals or for capital appreciation or both rather than for use in the production or supply of goods or services, or for administrative purposes, or in the ordinary course of business. Investment properties comprise completed investment properties and properties that are being constructed or developed for future use as investment properties. Properties held under operating leases are classified as investment properties when the definition of investment property is met.

Investment properties are initially measured at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met.

Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment losses. The depreciation policy for investment properties is in accordance with that for depreciable property, plant and equipment as described in Note 2.7.

Investment properties are derecognised when either they have been disposed off or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognised in profit or loss in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. For a transfer from owner-occupied property to investment property, the property is accounted for in accordance with the accounting policy for property, plant and equipment set out in Note 2.7 up to the date of change in use.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.9 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment assessment for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets.

Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account, if available. If no such transaction can be identified, an appropriate valuation model is used.

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's CGU to which the individual assets are allocated. These budgets and forecast calculation are generally covering a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in profit or loss.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exist, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss.

### 2.10 Subsidiary

A subsidiary is an entity over which the Group has all the following:

- power over the investee (i.e existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its investment with the investee; and
- the ability to use its power over the investee to affect its returns.

In the Company's separate financial statements, investments in subsidiaries are accounted for at cost less impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.11 Financial assets

**Initial recognition and measurement**

Financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial assets at initial recognition.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

**Subsequent measurement**

The subsequent measurement of financial assets depends on their classification as follows:

**a) Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss include financial assets held for trading or are designated as such upon initial recognition. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the group that are not designated as hedging instruments in hedge relationship as defined by MFRS 39. Derivatives, including separate embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value are recognised in profit or loss. Net gains or net losses on financial assets at fair value through profit or loss do not include exchange differences, interest and dividend income.

Financial assets at fair value through profit or loss could be presented as current or non-current. Financial assets that are held primarily for trading purposes are presented as current whereas financial assets that are not held primarily for trading purposes are presented as current or non-current based on the settlement date.

**b) Loans and receivables**

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

Loans and receivables are classified as current assets, except for those having maturity dates later than 12 months after the reporting date which are classified as non-current.

**c) Held-to-maturity investments**

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold the investment to maturity.

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the held-to-maturity investments are derecognised or impaired, and through the amortisation process.

Held-to-maturity investments are classified as non-current assets, except for those having maturity within 12 months after the reporting date which are classified as current.

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.11 Financial assets (Cont'd)

**Subsequent measurement (Cont'd)**

**d) Available-for-sale financial assets**

Available-for-sale financial assets include equity and debt securities. Equity investments classified as available-for-sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial assets are subsequently measured at fair value. Any gains or losses from changes in fair value of the financial assets are recognised in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised.

Investments in equity instruments whose fair value cannot be reliably measured are measured at cost less impairment loss.

**De-recognition**

A financial asset is de-recognised when the contractual right to receive cash flows from the asset has expired. On de-recognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

**Regular way purchase or sale of financial asset**

All regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e., the date that the Group commit to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned.

### 2.12 Impairment of financial assets

The Group assess at each reporting date whether there is any objective evidence that a financial asset is impaired.

**Financial assets carried at amortised cost**

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss 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. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in profit or loss.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.12 Impairment of financial assets (Cont'd)

**Financial assets carried at amortised cost (Cont'd)**

When the asset becomes uncollectible, the carrying amount of impaired financial asset is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account are written off against the carrying value of the financial asset.

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group consider factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

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 to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

### 2.13 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value and have a short maturity of generally within three months when acquired. These also include bank overdrafts that form an integral part of the Group's cash management.

### 2.14 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs incurred in bringing the inventories to their present location and condition are accounted for as follows:

- Raw materials: purchase costs on weighted average basis.

- Finished goods and work in progress: costs of raw materials, direct labour, other direct costs and appropriate proportions of manufacturing overheads based on normal operating capacity. These costs are determined using the weighted average basis.

Where necessary, allowance is provided for damaged, obsolete and slow moving items to adjust the carrying value of inventories to the lower of cost net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

### 2.15 Provisions

Provisions are recognised when the Group has a present obligation (legal and constructive) as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be made estimated reliably.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost.

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.16 Financial liabilities

**Initial recognition and measurement**

Financial liabilities are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs.

**Subsequent measurement**

The measurement of financial liabilities depends on their classification as follows:

**a) Financial liabilities at fair value through profit or loss**

Financial liabilities at fair value through profit or loss include financial liabilities held for trading. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value of the financial liabilities are recognised in profit or loss.

The Group has not designated any financial liabilities upon initial recognition at fair value through profit or loss.

**b) Financial liabilities at amortised cost**

After initial recognition, financial liabilities that are not carried at fair value through profit or loss are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

**De-recognition**

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

### 2.17 Borrowing costs

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period they are incurred. Borrowing costs consist of interest and other costs that the Group incurred in connection with the borrowing of funds.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.18 Employee benefits

**Defined contribution plans**

The Malaysian companies in the Group make contributions to the Employee Provident Fund ("EPF") in Malaysia, a defined contribution pension scheme. Contributions to defined contribution pension schemes are recognised as an expense in the period in which the related service is performed.

### 2.19 Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

**a) As lessee**

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss. Contingent rents, if any, are charged as expenses in the periods in which they are incurred.

Leased assets are depreciated over the estimated useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life and the lease term.

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

**b) As lessor**

Leases where the Group retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. The accounting policy for rental income is set out in Note 2.20(c).

Contingent rents are recognised as revenue in the period in which they are earned.

### 2.20 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is made.  Revenue is measured at the fair value of consideration received or receivable taking into account contractually defined terms of payment and excluding taxes or duty. The Group assess its revenue arrangements to determine if it is acting as principal or agent. The following specific recognition criteria must also be met before revenue is recognised:

**a) Sales of goods**

Revenue relating to sales of plywood, veneer, and laminated veneer lumber is recognised at net of sales discounts upon the transfer of significant risks and rewards of ownership of goods to the customer.

**b) Sale of electricity**

Revenue relating to sale of electricity is recognised upon consumption by the consumers.

# NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.20 Revenue (Cont'd)

#### c) Rental income

Rental income is accounted for on a straight-line basis over the lease term.

#### d) Dividend income

Dividend income is recognised when the Group's right to receive payment is established.

#### e) Interest income

Interest is recognised on an accrual basis using the effective interest method.

### 2.21 Income taxes

#### a) Current income tax

Current income tax assets and liabilities for current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Current income taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

#### b) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investment in subsidiary, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investment in subsidiary, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which temporary differences can be utilised.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.21 Income taxes (Cont'd)

#### b) Deferred tax (Cont'd)

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

Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

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

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 transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination in adjusted against goodwill on acquisition.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### 2.22 Segment reporting

For management purposes, the Group is organised into operating segments based on their products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers report directly to the management of the Company who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 30, including the factors used to identify the reportable segments and the measurement basis of segment information.

### 2.23 Share capital and share issuance expenses

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Ordinary shares are equity instruments.

Ordinary shares are recorded at the proceeds received, net of directly attributable incremental transaction costs. Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

### 2.24 Contingencies

A contingent liability is:

a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or

# Notes to the Financial Statements
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.24 Contingencies (Cont'd)

A contingent liability is (Cont'd):

b) a present obligation that arises from past events but is not recognised because:

i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

ii) The amount of the obligation cannot be measured with sufficient reliability.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent liabilities and assets are not recognised in the statements of financial position of the Group.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

### Key sources of estimation uncertainty

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

#### a) Useful lives of plant and machinery

The cost of plant and machinery for the manufacture of plywood, veneer, laminated veneer lumber, and power utility are depreciated on a straight-line basis over the assets' estimated economic useful lives. Management estimates the useful lives of these plant and machinery to be within 15 to 20 years for timber industry, and 5 to 20 years for power utility industry. These are the common life expectancies applied in the timber and power utility industries. Changes in the expected level of usage could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised. The carrying amount of the Group's plant and machinery at the reporting date is disclosed in Note 12. A 5% difference in the expected useful lives of these assets from management's estimates would result in approximately 1.6% (2012: 2.1%) variance in the Group's profit for the year.

#### b) Deferred tax assets

Deferred tax assets are recognised for unrealised net fair value losses on derivatives, unutilised tax losses, unutilised investment tax allowances and unabsorbed capital allowances to the extent that it is probable that taxable profit will be available against which the investment tax allowances and capital allowances can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The total carrying value of recognised unrealised net fair value losses on derivatives, unutilised tax losses, unutilised investment tax allowances and unabsorbed capital allowances of the Group was RM28,007,966 (2012: RM29,680,948).

#### c) Impairment of loans and receivables

The Group assesses at each reporting date whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

# NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

## 4. REVENUE

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 RM | 2012 RM | 2013 RM | 2012 RM |
| Sale of veneer | **11,359,387** | 7,375,325 | **11,359,387** | 7,375,325 |
| Sale of plywood | **133,902,291** | 123,864,674 | **133,902,291** | 123,864,674 |
| Sale of laminated veneer lumber | **1,842,825** | 1,463,534 | **1,842,825** | 1,463,534 |
| Sale of electricity | **103,514** | 99,749 | **-** | - |
| | **147,208,017** | 132,803,282 | **147,104,503** | 132,703,533 |

## 5. INTEREST INCOME

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 RM | 2012 RM | 2013 RM | 2012 RM |
| Interest income from: | | | | |
| Fixed deposits | **276,576** | 157,157 | **276,576** | 157,157 |
| Structured investment | **30,800** | 124,390 | **30,800** | 124,390 |
| Foreign currency account | **73,336** | 60,414 | **73,336** | 60,414 |
| Current account | **138,105** | 44,659 | **138,105** | 44,659 |
| | **518,817** | 386,620 | **518,817** | 386,620 |

## 6. OTHER INCOME

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 RM | 2012 RM | 2013 RM | 2012 RM |
| Bad debts recovered | **300** | 6,000 | **300** | 6,000 |
| Dividend income | **-** | - | **3,000,000** | - |
| Insurance claims | **790** | 69,867 | **790** | 69,867 |
| Gain on disposal of plant and machinery | **-** | 65,562 | **-** | 65,562 |
| Net gain on foreign exchange | **2,423,181** | 50,287 | **2,423,181** | 50,287 |
| Rental income from land | **21,000** | 18,000 | **81,000** | 78,000 |
| Rental income from investment properties | **216,000** | 112,000 | **216,000** | 112,000 |
| Sundry income | **663,872** | 43,555 | **663,872** | 43,555 |
| | **3,325,143** | 365,271 | **6,385,143** | 425,271 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

## 7. PROFIT BEFORE TAX

The following amounts have been included in arriving at profit before tax:

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 RM | 2012 RM | 2013 RM | 2012 RM |
| Employee benefits expense | **16,073,408** | 11,758,318 | **15,277,026** | 11,131,462 |
| Auditors' remuneration: | | | | |
| - statutory audit | **80,000** | 78,000 | **70,000** | 68,000 |
| - other services | **23,170** | 140,148 | **17,170** | 134,148 |
| Depreciation of investment properties | **82,031** | 54,790 | **82,031** | 54,790 |
| Depreciation of property, plant and equipment | **4,862,903** | 4,834,894 | **3,010,953** | 3,005,322 |
| Direct operating expenses arising from investment properties | | | | |
| - rental generating properties | **95,040** | 79,200 | **95,040** | 79,200 |
| Non-executive directors' remuneration | **214,000** | 253,500 | **214,000** | 253,500 |
| Net fair value loss on derivatives | | | | |
| - unrealised | **783,469** | - | **783,469** | - |
| - realised | **651,100** | - | **651,100** | - |
| Plant and equipment scrapped | **-** | 2 | **-** | 2 |
| Foreign exchange losses - unrealised | **-** | 232,848 | **-** | 232,848 |
| Rental of land | **28,300** | 28,217 | **28,300** | 28,217 |
| Rental of office premise | **156,000** | 104,000 | **156,000** | 104,000 |
| Rental of parking lots and office equipment | **2,331** | 9,947 | **2,331** | 9,947 |

## 8. EMPLOYEE BENEFITS EXPENSE

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 RM | 2012 RM | 2013 RM | 2012 RM |
| Salaries, wages, bonuses, incentives and allowances | **15,716,657** | 11,452,453 | **14,927,747** | 10,837,530 |
| Defined contribution plan | **311,747** | 270,187 | **305,404** | 259,181 |
| Social security contributions | **45,004** | 35,678 | **43,875** | 34,751 |
| | **16,073,408** | 11,758,318 | **15,277,026** | 11,131,462 |

Included in employee benefits expense of the Group are executive directors' remuneration amounting to RM585,000 (2012: RM772,360) as further disclosed in Note 9.

## 9. DIRECTORS' REMUNERATION

| | Group and Company | |
|---|---|---|
| | **2013** **RM** | **2012** **RM** |
| Executive directors' remuneration: | | |
| Defined contribution plans | **-** | 9,360 |
| Other emoluments | **585,000** | 763,000 |
| Total executive directors' remuneration | **585,000** | 772,360 |
| | | |
| Non-executive directors' remuneration | | |
| Fees | **198,000** | 180,000 |
| Other emoluments | **16,000** | 73,500 |
| Total non-executive directors' remuneration | **214,000** | 253,500 |
| Total directors' remuneration | **799,000** | 1,025,860 |

The number of directors of the Company whose total remuneration during the financial year fell within the following band is analysed below:

| | Number of directors | |
|---|---|---|
| | **2013** | **2012** |
| Executive directors: | | |
| RM50,001 - RM100,000 | **-** | 1 |
| RM100,001 - RM150,000 | **-** | - |
| RM150,001 - RM200,000 | **2** | 3 |
| RM200,001 - RM250,000 | **1** | 1 |
| RM250,001 - RM300,000 | **-** | - |
| | | |
| Non-executive directors: | | |
| RM50,000 - RM100,000 | **3** | 4 |
| RM100,001 - RM150,000 | **-** | - |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

## 10. INCOME TAX EXPENSE

### Major components of income tax expense

Major components of income tax expense for the financial years ended 31 December 2013 and 2012 are:

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 RM | 2012 RM | 2013 RM | 2012 RM |
| **Statements of comprehensive income:** | | | | |
| Current income tax: | | | | |
| - Malaysian income tax | **157,410** | 97,375 | **157,410** | 97,375 |
| - Overprovision in respect of previous years | **(97,375)** | (3,122,139) | **(97,375)** | (3,122,139) |
| | **60,035** | (3,024,764) | **60,035** | (3,024,764) |
| Deferred income tax: | | | | |
| - Origination and reversal of temporary differences | **916,100** | 143,681 | **587,665** | (240,452) |
| - Overprovision in respect of previous years | **(727,715)** | (335,095) | **(727,602)** | (336,396) |
| - Relating to change in tax rate | **(35,964)** | - | **(107,258)** | - |
| | **152,421** | (191,414) | **(247,195)** | (576,848) |
| Income tax expense recognised in profit or loss | **212,456** | (3,216,178) | **(187,160)** | (3,601,612) |

### Reconciliation between tax expense and accounting profit

The reconciliation between tax expense and the product of accounting profit multiplied by the applicable corporate tax rate for the years ended 31 December 2012 and 2013 are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 RM | 2012 RM | 2013 RM | 2012 RM |
| Accounting profit before tax | **15,348,396** | 8,384,048 | **17,057,304** | 6,860,755 |
| Tax at Malaysian statutory tax rate of 25% (2012: 25%) | **3,837,099** | 2,096,012 | **4,264,326** | 1,715,189 |
| Adjustments: | | | | |
| Non-deductible expenses | **129,044** | 161,393 | **123,382** | 158,083 |
| Income not subject to taxation | **(75)** | - | **(750,075)** | - |
| Relating to change in tax rate | **(35,964)** | - | **(107,258)** | - |
| Expenses eligible for double deduction tax incentives | **(2,892,558)** | (2,016,349) | **(2,892,558)** | (2,016,349) |
| Overprovision of current income tax in respect of previous years | **(97,375)** | (3,122,139) | **(97,375)** | (3,122,139) |
| Overprovision of deferred income tax in respect of previous years | **(727,715)** | (335,095) | **(727,602)** | (336,396) |
| Income tax expense recognised in profit or loss | **212,456** | (3,216,178) | **(187,160)** | (3,601,612) |

Domestic income tax is calculated at the Malaysian statutory tax rate of 25% (2012: 25%) of the estimated assessable profit for the year. The Malaysian statutory tax rate will be reduced to 24% effective from year of assessment 2016. The computation of deferred tax as at 31 December 2013 has reflected the effects from reduction of tax rate.

# NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

## 11. EARNINGS PER SHARE

Basic earnings per share amount is calculated by dividing profit for the year, net of tax, attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the financial year.

The Company has no dilutive potential ordinary shares.

The followings reflect the profit and share data used in the computation of basic earnings per share:

| | Group | |
|---|---|---|
| | **2013 RM** | **2012 RM** |
| Profit net of tax attributable to owners of the Company used in the computation of basic earnings per share | **15,135,940** | 11,600,226 |
| | **Number of shares** | **Number of shares** |
| Weighted average number of ordinary shares for basic earnings per share computation | **103,200,000** | 103,200,000 |
| Basic earnings per ordinary share (sen) | **14.67** | 11.24 |

## 12. PROPERTY, PLANT AND EQUIPMENT

| **Group** | **Leasehold land RM** | **Factory and office buildings RM** | **Motor vehicles, heavy equipment, plant and machinery RM** | **Furniture, fittings, office equipment, and renovation RM** | **Total RM** |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| At 1 January 2012 | 700,080 | 11,632,891 | 116,310,670 | 1,389,104 | 130,032,745 |
| Additions | - | 107,595 | 997,896 | 326,791 | 1,432,282 |
| Transfer to investment properties | - | (1,639,950) | - | (370,086) | (2,010,036) |
| Disposals | - | - | (40,519) | - | (40,519) |
| Scrapped | - | - | (121,500) | - | (121,500) |
| At 31 December 2012 and 1 January 2013 | 700,080 | 10,100,536 | 117,146,547 | 1,345,809 | 129,292,972 |
| Additions | - | 2,000 | 1,962,056 | 13,773 | 1,977,829 |
| At 31 December 2013 | 700,080 | 10,102,536 | 119,108,603 | 1,359,582 | 131,270,801 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

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

| Group (Cont'd) | Leasehold land RM | Factory and office buildings RM | Motor vehicles, heavy equipment, plant and machinery RM | Furniture, fittings, office equipment, and renovation RM | Total RM |
|---|---|---|---|---|---|
| **Accumulated depreciation:** | | | | | |
| At 1 January 2012 | 37,842 | 8,153,755 | 76,821,957 | 1,302,603 | 86,316,157 |
| Depreciation charge for the year | 9,461 | 352,137 | 4,409,850 | 63,446 | 4,834,894 |
| Transfer to investment properties | - | (190,607) | - | (370,080) | (560,687) |
| Disposals | - | - | (6,081) | - | (6,081) |
| Scrapped | - | - | (121,498) | - | (121,498) |
| At 31 December 2012 and 1 January 2013 | 47,303 | 8,315,285 | 81,104,228 | 995,969 | 90,462,785 |
| Depreciation charge for the year | 9,461 | 268,011 | 4,494,284 | 91,147 | 4,862,903 |
| At 31 December 2013 | 56,764 | 8,583,296 | 85,598,512 | 1,087,116 | 95,325,688 |
| **Net carrying amount:** | | | | | |
| At 31 December 2012 | 652,777 | 1,785,251 | 36,042,319 | 349,840 | 38,830,187 |
| At 31 December 2013 | 643,316 | 1,519,240 | 33,510,091 | 272,466 | 35,945,113 |

**Company**

| | Leasehold land RM | Factory and office buildings RM | Motor vehicles, heavy equipment, plant and machinery RM | Furniture, fittings, office equipment, and renovation RM | Total RM |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| At 1 January 2012 | 700,080 | 11,632,891 | 88,582,664 | 1,363,552 | 102,279,187 |
| Additions | - | 107,595 | 673,720 | 321,231 | 1,102,546 |
| Transfer to investment properties | - | (1,639,950) | - | (370,086) | (2,010,036) |
| Disposals | - | - | (40,519) | - | (40,519) |
| Scrapped | - | - | (121,500) | - | (121,500) |
| At 31 December 2012 and 1 January 2013 | 700,080 | 10,100,536 | 89,094,365 | 1,314,697 | 101,209,678 |
| Additions | - | 2,000 | 1,695,965 | 10,944 | 1,708,909 |
| At 31 December 2013 | 700,080 | 10,102,536 | 90,790,330 | 1,325,641 | 102,918,587 |

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

| Company (Cont'd) | Leasehold land RM | Factory and office buildings RM | Motor vehicles, heavy equipment, plant and machinery RM | Furniture, fittings, office equipment, and renovation RM | Total RM |
|---|---|---|---|---|---|
| **Accumulated depreciation:** | | | | | |
| At 1 January 2012 | 37,842 | 8,153,755 | 66,323,360 | 1,285,220 | 75,800,177 |
| Depreciation charge for the year | 9,461 | 352,137 | 2,584,296 | 59,428 | 3,005,322 |
| Transfer to investment properties | - | (190,607) | - | (370,080) | (560,687) |
| Disposals | - | - | (6,081) | - | (6,081) |
| Scrapped | - | - | (121,498) | - | (121,498) |
| At 31 December 2012 and 1 January 2013 | 47,303 | 8,315,285 | 68,780,077 | 974,568 | 78,117,233 |
| Depreciation charge for the year | 9,461 | 268,011 | 2,646,499 | 86,982 | 3,010,953 |
| At 31 December 2013 | 56,764 | 8,583,296 | 71,426,576 | 1,061,550 | 81,128,186 |
| **Net carrying amount:** | | | | | |
| At 31 December 2012 | 652,777 | 1,785,251 | 20,314,288 | 340,129 | 23,092,445 |
| At 31 December 2013 | 643,316 | 1,519,240 | 19,363,754 | 264,091 | 21,790,401 |

## 13. INVESTMENT PROPERTIES

| | Group and Company | |
|---|---|---|
| | 2013 RM | 2012 RM |
| **Cost:** | | |
| At 1 January | **3,651,348** | 1,641,312 |
| Transfer from property, plant and equipment | **-** | 2,010,036 |
| At 31 December | **3,651,348** | 3,651,348 |
| **Accumulated depreciation:** | | |
| At 1 January | **780,238** | 164,761 |
| Transfer from property, plant and equipment | **-** | 560,687 |
| Depreciation charge for the year | **82,031** | 54,790 |
| At 31 December | **862,269** | 780,238 |
| **Net carrying amount:** | | |
| At 31 December | **2,789,079** | 2,871,110 |

The strata title to the investment properties is being processed by the relevant authority.

The Directors estimate the fair value of the investment properties to be approximately RM4,476,158 (2012: RM4,263,008). The fair value of investment properties was based on recent prices of similar properties. No valuation by independent professional valuer was carried out.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

## 14. INVESTMENT IN A SUBSIDIARY

| | Company | |
|---|---|---|
| | **2013** | **2012** |
| | **RM** | **RM** |
| **Cost** | | |
| Unquoted shares | **5,000,000** | 5,000,000 |

Details of the subsidiary, which is a private limited company incorporated and domiciled in Malaysia, are as follows:

| Name of subsidiary | Principal activities | Proportion (%) of ownership interest | |
|---|---|---|---|
| | | **2013** | **2012** |
| Untung Ria Sdn. Bhd. * | Generation and sale of electricity. | **100%** | 100% |

* Audited by Ernst & Young, Malaysia.

## 15. OTHER INVESTMENTS

| | Group and Company | |
|---|---|---|
| | **2013** | **2012** |
| | **RM** | **RM** |
| **Non-current** | | |
| **Cost** | | |
| Investment in Golf and Country Club membership | **149,040** | 149,040 |
| Held-to-maturity investment | | |
| - Structured investment | **1,000,000** | 1,000,000 |
| | **1,149,040** | 1,149,040 |

The structured investment is principal protected if held to maturity and upon early termination by the bankers.

The structured investment earns fixed interests as follows:

- Year 1 : 3.08% per annum, plus bonus interest of 2% for the first quarter of the year.

- Year 2 to 5 : 0.34% per annum, plus enhanced interest (3M KLIBOR) of 2.70% per annum for the number of days that the daily 3M KLIBOR is fixed at or below a predefined level throughout year 2 to 5.

The structured investment is pledged as securities for bank overdraft facility.

# NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

## 16. DEFERRED TAX

Deferred income tax as at reporting date relates to the following:

| Group | As at 1 January 2012 RM | Recognised in profit or loss RM | As at 31 December 2012 RM | Recognised in profit or loss RM | As at 31 December 2013 RM |
|---|---|---|---|---|---|
| **Deferred tax liabilities:** | | | | | |
| Property, plant and equipment | (6,767,887) | (97,604) | (6,865,491) | 645,723 | **(6,219,768)** |
| Other items | - | - | - | (206,009) | **(206,009)** |
| | (6,767,887) | (97,604) | (6,865,491) | 439,714 | **(6,425,777)** |
| **Deferred tax assets:** | | | | | |
| Derivatives | - | - | - | 195,867 | **195,867** |
| Unabsorbed capital allowances | 555,360 | 289,018 | 844,378 | (628,739) | **215,639** |
| Unutilised investment tax allowances | 6,575,859 | - | 6,575,859 | (790,223) | **5,785,636** |
| Unutilised tax losses | - | - | - | 630,960 | **630,960** |
| | 7,131,219 | 289,018 | 7,420,237 | (592,135) | **6,828,102** |
| | 363,332 | 191,414 | 554,746 | (152,421) | **402,325** |

| Company | As at 1 January 2012 RM | Recognised in profit or loss RM | As at 31 December 2012 RM | Recognised in profit or loss RM | As at 31 December 2013 RM |
|---|---|---|---|---|---|
| **Deferred tax liabilities:** | | | | | |
| Property, plant and equipment | (2,939,070) | (178,759) | (3,117,829) | 166,345 | **(2,951,484)** |
| Other items | - | - | - | (206,009) | **(206,009)** |
| | (2,939,070) | (178,759) | (3,117,829) | (39,664) | **(3,157,493)** |
| **Deferred tax assets:** | | | | | |
| Derivatives | - | - | - | 195,867 | **195,867** |
| Unabsorbed capital allowances | - | 755,607 | 755,607 | (539,968) | **215,639** |
| Unutilised tax losses | - | - | - | 630,960 | **630,960** |
| | - | 755,607 | 755,607 | 286,859 | **1,042,466** |
| | (2,939,070) | 576,848 | (2,362,222) | 247,195 | **(2,115,027)** |

# NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

## 16. DEFERRED TAX (CONT'D)

| Group | 2013 RM | 2012 RM |
|---|---|---|
| **Presented after appropriate offsetting as follows:** | | |
| Deferred tax assets | **2,517,352** | 2,916,968 |
| Deferred tax liabilities | **(2,115,027)** | (2,362,222) |
| | **402,325** | 554,746 |

**Company**

| | | |
|---|---|---|
| **Presented after appropriate offsetting as follows:** | | |
| Deferred tax assets | **-** | - |
| Deferred tax liabilities | **(2,115,027)** | (2,362,222) |
| | **(2,115,027)** | (2,362,222) |

Unabsorbed capital allowances and unutilised tax losses

At the reporting date, the Group has unabsorbed capital allowances of approximately RM862,554 (2012: RM3,377,509) and unutilised tax losses of approximately RM2,523,842 (2012: Nil) that are available for offset against future taxable profits, subject to no substantial change in shareholdings under the Income Tax Act, 1967 and guidelines issued by the tax authority.

## 17. INVENTORIES

| | Group and Company | |
|---|---|---|
| | 2013 RM | 2012 RM |
| **Cost** | | |
| Raw materials | **516,989** | 1,564,091 |
| Work-in-progress | **4,075,023** | 5,079,051 |
| Finished goods | **15,187,441** | 9,162,725 |
| Consumables | **2,524,402** | 2,607,497 |
| | **22,303,855** | 18,413,364 |

During the year, the amount of inventories recognised as an expense in cost of sales of the Group and the Company was RM113,193,899 (2012: RM103,806,648).

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

## 18. TRADE AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 RM | 2012 RM | 2013 RM | 2012 RM |
| **Current** | | | | |
| **Trade receivables** | | | | |
| Third parties | **10,153,943** | 6,538,212 | **10,132,647** | 6,520,565 |
| **Other receivables** | | | | |
| Deposits for log purchase | **1,355,024** | 659,889 | **1,355,024** | 659,889 |
| Workers recruitment and staff advances | **678,338** | 9,000 | **678,338** | 9,000 |
| Deposits | **112,104** | 251,103 | **112,104** | 171,103 |
| Sundry receivables | **21,112** | 1,102,400 | **21,112** | 1,102,400 |
| | **2,166,578** | 2,022,392 | **2,166,578** | 1,942,392 |
| Less: Allowance for impairment | **-** | - | **-** | - |
| Other receivables, net | **2,166,578** | 2,022,392 | **2,166,578** | 1,942,392 |
| Total trade and other receivables | **12,320,521** | 8,560,604 | **12,299,225** | 8,462,957 |
| Cash and bank balances, and short-term deposits | **62,877,603** | 57,536,491 | **62,789,948** | 57,316,096 |
| Total loans and receivables | **75,198,124** | 66,097,095 | **75,089,173** | 65,779,053 |

### a) Trade receivables

Trade receivables are non-interest bearing and are generally on 30-day (2012: 30-day) terms. They are recognised at their original invoiced amounts which represent their fair values on initial recognition.

Ageing analysis of trade receivables

The ageing analysis of trade receivables is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 RM | 2012 RM | 2013 RM | 2012 RM |
| Neither past due nor impaired | **10,143,067** | 6,529,206 | **10,132,647** | 6,520,565 |
| 1 to 30 days past due not impaired | **10,876** | 9,006 | **-** | - |
| 31 to 60 days past due not impaired | **-** | - | **-** | - |
| 61 to 90 days past due not impaired | **-** | - | **-** | - |
| More than 91 days past due not impaired | **-** | - | **-** | - |
| | **10,876** | 9,006 | **-** | - |
| Impaired | **-** | - | **-** | - |
| | **10,153,943** | 6,538,212 | **10,132,647** | 6,520,565 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

## 18. TRADE AND OTHER RECEIVABLES (CONT'D)

### a) Trade receivables (Cont'd)

Receivables that are neither past due nor impaired

Trade receivables that are neither past due nor impaired are creditworthy debtors with good payment records with the Group.

None of the Group's trade receivables that are neither past due nor impaired has been renegotiated during the financial year.

Receivables that are past due but not impaired

The Group has trade receivables amounting to RM10,876 (2012: RM9,006) that are past due at the reporting date but not impaired. These receivables are unsecured in nature.

### b) Deposits for log purchase

The amounts are unsecured, non-interest bearing and to be recovered through future supply of log timbers.

## 19. CASH AND BANK BALANCES

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 RM** | **2012 RM** | **2013 RM** | **2012 RM** |
| Cash on hand and at bank | **44,452,182** | 54,352,339 | **44,364,527** | 54,131,944 |
| Short-term deposits with licensed banks | **18,425,421** | 3,184,152 | **18,425,421** | 3,184,152 |
| Cash and bank balances | **62,877,603** | 57,536,491 | **62,789,948** | 57,316,096 |
| Less: Short-term deposits pledged to licensed banks for bank facilities | **(2,944,942)** | (2,825,138) | **(2,944,942)** | (2,825,138) |
| Cash and cash equivalents | **59,932,661** | 54,711,353 | **59,845,006** | 54,490,958 |

Short term deposits are made for varying periods of between 1 month and 3 months (2012: 1 month and 2 months) depending on the immediate cash requirement of the Group. Short term and other deposits earn interest at the respective deposit rates. The weighted average effective interest rate as at 31 December 2013 for the Group was 3.2% (2012: 2.78%) per annum.

## 20. BORROWINGS

Bank overdraft facility of RM3,500,000 was obtained but not utilised as at the end of the financial year.

The overdraft facility is secured by the following:

i) certain fixed deposit and long-term structured investments of the Company;

ii) joint and several guarantees by certain directors of the Company; and

iii) negative pledge on all assets of the Company.

## 21. TRADE AND OTHER PAYABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 RM** | **2012 RM** | **2013 RM** | **2012 RM** |
| **Current** | | | | |
| **Trade payables** | | | | |
| Third parties | **5,642,644** | 5,312,397 | **5,616,789** | 5,180,473 |
| Amount due to a subsidiary | **-** | - | **3,589,164** | 3,596,066 |
| | **5,642,644** | 5,312,397 | **9,205,953** | 8,776,539 |
| **Other payables** | | | | |
| Accruals | **1,293,543** | 954,748 | **1,267,743** | 938,748 |
| Deposits received | **36,000** | 19,000 | **36,000** | 19,000 |
| Advance from customers | **14,660** | 611,380 | **14,660** | 611,380 |
| Sundry payables | **782,437** | 338,382 | **775,098** | 337,227 |
| | **2,126,640** | 1,923,510 | **2,093,501** | 1,906,355 |
| Total trade and other payables | **7,769,284** | 7,235,907 | **11,299,454** | 10,682,894 |
| Add: Loans and borrowings | **-** | - | **-** | - |
| Total financial liabilities carried at amortised cost | **7,769,284** | 7,235,907 | **11,299,454** | 10,682,894 |

**a) Trade payables**

These amounts are non-interest bearing. Trade payables are normally settled on 30 to 60 days (2012: 30 to 60 days) terms.

**b) Sundry payables**

These amounts are non-interest bearing. Sundry payables are generally for a period of 30 to 60 days (2012: 30 to 60 days) terms.

# NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

## 22. DERIVATIVES

| | Group and Company | | |
|---|---|---|---|
| | Contract/ Notional Amount RM | Assets RM | Liabilities RM |
| **2013** | | | |
| **Non-hedging derivatives:** | | | |
| **Current:** | | | |
| Forward currency contracts | **38,655,850** | **-** | **783,469** |
| **2012** | | | |
| **Non-hedging derivatives:** | | | |
| **Current:** | | | |
| Forward currency contracts | - | - | - |

The Group uses forward currency contracts to manage some of the transaction exposure. These contracts are not designated as cash flow or fair value hedges and are entered into for periods consistent with currency transaction exposure and fair value changes exposure. Such derivatives do not qualify for hedge accounting.

During the financial year, the Group recognised a loss of RM783,469 (2012: Nil) arising from fair value changes of derivative liabilities. The fair value changes are attributable to changes in foreign exchange spot and forward rate. The method and assumptions applied in determining the fair values of derivatives are disclosed in Note 27.

## 23. SHARE CAPITAL AND SHARE PREMIUM

| | Group and Company | | | |
|---|---|---|---|---|
| | Number of ordinary shares of RM0.50 each | | Amount | |
| | 2013 | 2012 | 2013 RM | 2012 RM |
| **Issued and fully paid** | | | | |
| At 1 January and 31 December | **103,200,000** | 103,200,000 | **51,600,000** | 51,600,000 |
| **Authorised share capital** | | | | |
| At 1 January and 31 December | **300,000,000** | 300,000,000 | **150,000,000** | 150,000,000 |

| | Group and Company | |
|---|---|---|
| | 2013 RM | 2012 RM |
| **Share premium** | | |
| At 1 January and 31 December | **883,420** | 883,420 |

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions and ranked equally with regard to the Company's residual assets.

# NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

## 24. RETAINED EARNINGS

The Company may distribute single-tier dividends out of its entire retained earnings as at 31 December 2013 and 31 December 2012 under the single tier system.

## 25. Related party transactions

### a) Sale and purchase of goods and services

In addition to the related party information disclosed elsewhere in the financial statements, the following significant transactions between the Group and related parties took place at terms agreed between the parties during the financial year:

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 RM** | **2012 RM** | **2013 RM** | **2012 RM** |
| Dividend from subsidiary | **-** | - | **(3,000,000)** | - |
| Purchase of electricity from subsidiary | **-** | - | **4,844,212** | 4,644,988 |
| Purchase from a company related to a former director | **-** | 357,284 | **-** | 357,284 |
| Rental income received from subsidiary | **-** | - | **60,000** | 60,000 |
| Rental of office paid to a director | **156,000** | 104,000 | **156,000** | 104,000 |
| Sales to a director | **-** | (2,700) | **-** | (2,700) |

<u>Company related to a former director of the Company:</u>

In the previous financial year, the Group purchased edging tapes from Sabarina Corporation Sdn. Bhd., a company in which a former director of the Company has interest.

### b) Compensation of key management personnel

The remuneration of directors and other members of key management during the financial year was as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 RM** | **2012 RM** | **2013 RM** | **2012 RM** |
| Short-term employee benefits | **1,310,231** | 1,384,500 | **1,232,231** | 1,306,500 |
| Defined contribution plan | **14,780** | 23,220 | **14,780** | 23,220 |
| | **1,325,011** | 1,407,720 | **1,247,011** | 1,329,720 |

Included in the total remuneration of key management personnel are:

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 RM** | **2012 RM** | **2013 RM** | **2012 RM** |
| Directors' remuneration | **799,000** | 1,025,860 | **799,000** | 1,025,860 |

# NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

## 26. CAPITAL COMMITMENTS

Capital commitments as at the reporting date are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 RM | 2012 RM | 2013 RM | 2012 RM |
| Approved and contracted for: | | | | |
| Acquisition of machinery | - | 279,000 | - | 279,000 |
| Approved but not provided for: | | | | |
| Acquisition of machinery | **1,319,874** | 186,091 | **1,319,874** | - |

## 27. FAIR VALUE OF FINANCIAL INSTRUMENTS

### a) Fair value assets and liabilities

The Group categories fair value measurements using a fair value hierarchy that is dependent on the valuation inputs used as follows:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date,

- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

- Level 3 - Unobservable inputs for the asset or liability.

Fair value measurements that use inputs of different hierarchy levels are categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

### b) Liabilities measured at fair value

The following table shows an analysis of liabilities carried at fair value by level of fair value hierarchy:

| | Group and Company | | | |
|---|---|---|---|---|
| | Quoted prices in active market for identical instruments (Level 1) RM | Significant observable inputs other than quoted prices (Level 2) RM | Significant unobservable inputs (Level 3) RM | Total RM |
| **Recurring fair value measurements** | | | | |
| **Financial liabilities at fair value through profit and loss** | | | | |
| Derivatives | | | | |
| -2013 | - | 783,469 | - | 783,469 |
| -2012 | - | - | - | - |

## 27. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D)

### c) Level 2 fair value measurements

The following is a description of the valuation techniques and inputs used in fair value measurement for liabilities that are categorised within Level 2 of the fair value hierarchy:

Derivatives

Forward currency contracts are valued using a valuation technique with market observable inputs. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and forward rate curves.

There has been no transfer from Level 1 and Level 2 to Level 3 for the financial years ended 31 December 2013 and 2012.

### d) Financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value

The following are classes of financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value:

| | Note |
|---|---|
| Other investments (non-current) | |
| - Structured investment | 15 |
| Trade and other receivables (current) | 18 |
| Trade and other payables (current) | 21 |

The carrying amount of other investment is reasonable approximations of fair value due to the insignificant impact of discounting.

The carrying amounts of trade and other receivables and payables are reasonable approximation of fair values due to their short-term nature.

### e) Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value

| | | Group and Company | | | |
|---|---|---|---|---|---|
| | | 2013 | | 2012 | |
| | Note | Carrying amount RM | Fair value RM | Carrying amount RM | Fair value RM |
| **Financial assets:** | | | | | |
| Other investment (non-current) | | | | | |
| - Golf & Country Club membership | 15 | **149,040** | **200,000** | 149,040 | 200,000 |

Fair value of Golf & Country Club membership was based on recent prices of golf membership of the same golf and country club.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

## 28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group and the Company are exposed to financial risks arising from their operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk, interest rate risk and foreign currency risk.

The Board of Directors reviews and agrees policies and procedures for the management of these risks. The Audit Committee provides independent oversight to the effectiveness of the risk management process.

It is, and has been throughout the current and previous financial years, the Group's policy that no trading in derivatives for speculative purposes shall be undertaken. The Group does not apply hedge accounting.

The following sections provide details regarding the Group's and Company's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

There has been no change to the Group's exposure to these financial risks or the manner in which it manages and measures the risks.

### a) Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty defaults on its obligations. The Group's and the Company's exposure to credit risk arises primarily from trade and other receivables. For other financial assets (including investment securities, and cash and bank balances), the Group minimise credit risk by dealing exclusively with high credit rating counterparties.

The Group's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

Exposure to credit risk

At the reporting date, the Group's and the Company's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the statements of financial position.

Information regarding credit enhancements for trade and other receivables is disclosed in Note 18.

Credit risk concentration profile

The Group determines concentrations of credit risk by monitoring the country and industry sector profile of its trade receivables on an ongoing basis. The credit risk concentration profiles of the trade receivables at the reporting date are as follows:

| | Group | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| | RM | % of total | RM | % of total |
| **By country:** | | | | |
| USA | **9,079,550** | **89** | 5,031,757 | 77 |
| India | **-** | **-** | 248,316 | 4 |
| Korea | **564,221** | **6** | 549,570 | 8 |
| Taiwan | **488,876** | **5** | 690,922 | 11 |
| Malaysia | **21,296** | **<1** | 17,647 | <1 |
| | **10,153,943** | **100** | 6,538,212 | 100 |

## 28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

### a) Credit risk (Cont'd)

Credit risk concentration profile (Cont'd)

| | Company | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| | RM | % of total | RM | % of total |
| **By country:** | | | | |
| USA | **9,079,550** | **90** | 5,031,757 | 77 |
| India | **-** | **-** | 248,316 | 4 |
| Korea | **564,221** | **5** | 549,570 | 8 |
| Taiwan | **488,876** | **5** | 690,922 | 11 |
| | **10,132,647** | **100** | 6,520,565 | 100 |

Financial assets that are neither past due nor impaired

Trade receivables that are neither past due nor impaired are with creditworthy debtors with good payments record with the Group. Cash and short-term deposits that are neither past due nor impaired are placed with or entered into with reputable financial institutions with high credit ratings and no history of default.

### b) Liquidity risk

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's and the Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities.

# NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

## 28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

### b) Liquidity risk (Cont'd)

**Analysis of financial instruments by remaining contractual maturities**

The table below summarises the maturity profile of the Group's and the Company's financial assets and liabilities at end of the reporting date based on contractual undiscounted repayment obligations.

| | 2013 | | | | 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | On demand or within one year | One to five years | Over five years | Total | On demand or within one year | One to five years | Over five years | Total |
| **Group** | **RM** | **RM** | **RM** | **RM** | **RM** | **RM** | **RM** | **RM** |
| **Financial assets:** | | | | | | | | |
| Other investment | **30,800** | **1,015,273** | **-** | **1,046,073** | 30,800 | 1,046,073 | - | 1,076,873 |
| Trade and other receivables | **12,320,521** | **-** | **-** | **12,320,521** | 8,560,604 | - | - | 8,560,604 |
| Cash and bank balances | **62,877,603** | **-** | **-** | **62,877,603** | 57,536,491 | - | - | 57,536,491 |
| Total undiscounted financial assets | **75,228,924** | **1,015,273** | **-** | **76,244,197** | 66,127,895 | 1,046,073 | - | 67,173,968 |
| **Financial liabilities:** | | | | | | | | |
| Trade and other payables | **7,769,284** | **-** | **-** | **7,769,284** | 7,235,907 | - | - | 7,235,907 |
| Derivatives - settled net | **783,469** | **-** | **-** | **783,469** | - | - | - | - |
| Dividends payable | **8,256,000** | **-** | **-** | **8,256,000** | 6,192,000 | - | - | 6,192,000 |
| Total undiscounted financial liabilities | **16,808,753** | **-** | **-** | **16,808,753** | 13,427,907 | - | - | 13,427,907 |
| Total net undiscounted financial assets | **58,420,171** | **1,015,273** | **-** | **59,435,444** | 52,699,988 | 1,046,073 | - | 53,746,061 |

## 28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

### b) Liquidity risk (Cont'd)

| | 2013 | | | | 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| **Company** | **On demand or within one year RM** | **One to five years RM** | **Over five years RM** | **Total RM** | **On demand or within one year RM** | **One to five years RM** | **Over five years RM** | **Total RM** |
| **Financial assets:** | | | | | | | | |
| Other investment | **30,800** | **1,015,273** | **-** | **1,046,073** | 30,800 | 1,046,073 | - | 1,076,873 |
| Trade and other receivables | **12,299,225** | **-** | **-** | **12,299,225** | 8,462,957 | - | - | 8,462,957 |
| Cash and bank balances | **62,789,948** | **-** | **-** | **62,789,948** | 57,316,096 | - | - | 57,316,096 |
| Total undiscounted financial assets | **75,119,973** | **1,015,273** | **-** | **76,135,246** | 65,809,853 | 1,046,073 | - | 66,855,926 |
| **Financial liabilities:** | | | | | | | | |
| Trade and other payables | **11,299,454** | **-** | **-** | **11,299,454** | 10,682,894 | - | - | 10,682,894 |
| Derivatives - settled net | **783,469** | **-** | **-** | **783,469** | - | - | - | - |
| Dividends payable | **8,256,000** | **-** | **-** | **8,256,000** | 6,192,000 | - | - | 6,192,000 |
| Total undiscounted financial liabilities | **20,338,923** | **-** | **-** | **20,338,923** | 16,874,894 | - | - | 16,874,894 |
| Total net undiscounted financial assets | **54,781,050** | **1,015,273** | **-** | **55,796,323** | 48,934,959 | 1,046,073 | - | 49,981,032 |

# NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

## 28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

### c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in market interest rates.

The investments in financial assets are mainly short-term in nature and have been mostly placed in fixed deposits.

### d) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group has transactional currency exposures arising from sales, and purchase of plant and machinery that are denominated a currency other than in RM. The foreign currency in which these transactions are denominated is mainly US Dollars ("USD").

Approximately 93% (2012: 91%) of the Group's sales are denominated in foreign currencies whilst almost 81% (2012: 76%) of the Group's trade receivables are denominated in foreign currencies.

The Group also holds cash and cash equivalents denominated in foreign currencies for working capital purposes. At the reporting date, such foreign currency balances (mainly in USD) amount to RM33,659,174 (2012: RM44,876,948) for the Group.

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity of the Group's profit net of tax to a reasonably possible change in the USD exchange rates against the functional currency of the Group entities, with all other variables held constant.

| | Change in currency rate | Increase in profit net of tax | | | |
|---|---|---|---|---|---|
| | | Group | | Company | |
| | | 2013 RM | 2012 RM | 2013 RM | 2012 RM |
| USD/RM | +5% | **168,893** | 1,927,407 | **168,893** | 1,927,407 |

A 5% decrease in the currency rate shown above would have resulted in an equivalent, but opposite effect to profit net of tax, with all other variables held constant.

## 29. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2013 and 31 December 2012.

## 30. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services, and has two reportable operating segments as follows:

i. The manufacturing segment is business of manufacturing and sale of plywood, veneer and laminated veneer lumber.

ii. The electricity segment is the business of generation and sale of electricity.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

# NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

## 30. SEGMENT INFORMATION (CONT'D)

The following table provides an analysis of the Group's revenue, results, assets, liabilities and other information by business segment:

| | Manufacturing | | Electricity | | Adjustments and eliminations | | Note | Per consolidated financial statements | |
|---|---|---|---|---|---|---|---|---|---|
| | 2013 RM | 2012 RM | 2013 RM | 2012 RM | 2013 RM | 2012 RM | | 2013 RM | 2012 RM |
| **Revenue:** | | | | | | | | | |
| External customers | **147,104,503** | 132,703,533 | **103,514** | 99,749 | **-** | - | | **147,208,017** | 132,803,282 |
| Inter-segment | **-** | - | **4,844,212** | 4,644,988 | **(4,844,212)** | (4,644,988) | A | **-** | - |
| Total revenue | **147,104,503** | 132,703,533 | **4,947,726** | 4,744,737 | **(4,844,212)** | (4,644,988) | | **147,208,017** | 132,803,282 |
| **Results:** | | | | | | | | | |
| Interest income | **488,017** | 262,230 | **-** | - | **30,800** | 124,390 | B | **518,817** | 386,620 |
| Depreciation and amortisation | **3,010,953** | 3,005,322 | **1,851,950** | 1,829,572 | **82,031** | 54,790 | C | **4,944,934** | 4,889,684 |
| Segment profit | **17,057,304** | 6,860,755 | **1,291,092** | 1,523,293 | **(3,000,000)** | - | A | **15,348,396** | 8,384,048 |
| **Assets:** | | | | | | | | | |
| Additions to non-current assets | **1,708,909** | 1,102,546 | **268,920** | 329,736 | **-** | - | D | **1,977,829** | 1,432,282 |
| Segment assets | **120,961,741** | 108,674,412 | **14,263,693** | 16,055,784 | **6,455,471** | 6,937,118 | E | **141,680,905** | 131,667,314 |
| **Segment liabilities** | **8,493,759** | 7,086,827 | **58,994** | 149,080 | **10,371,027** | 8,554,222 | F | **18,923,780** | 15,790,129 |

## 30. SEGMENT INFORMATION (CONT'D)

**Note** **Nature of adjustments and eliminations to arrive at amounts reported in the consolidated financial statements**

A Inter-segment revenues are eliminated on consolidation.

B Addition to interest income consist of:

| | 2013 RM | 2012 RM |
|---|---|---|
| Interest from structured investment | **30,800** | 124,390 |

C Addition to depreciation and amortisation consist of:

| | 2013 RM | 2012 RM |
|---|---|---|
| Depreciation of investment properties | **82,031** | 54,790 |

D Additions to non-current assets consist of:

| | 2013 RM | 2012 RM |
|---|---|---|
| Property, plant and equipment | **1,977,829** | 1,432,282 |

E The following items are added to segment assets to arrive at total assets reported in the consolidated statement of financial position:

| | 2013 RM | 2012 RM |
|---|---|---|
| Other investments | **1,149,040** | 1,149,040 |
| Deferred tax assets | **2,517,352** | 2,916,968 |
| Investment properties | **2,789,079** | 2,871,110 |
| | **6,455,471** | 6,937,118 |

F The following items are added to segment liabilities to arrive at total liabilities reported in the consolidated statement of financial position:

| | 2013 RM | 2012 RM |
|---|---|---|
| Deferred tax liabilities | **2,115,027** | 2,362,222 |
| Dividends payable | **8,256,000** | 6,192,000 |
| | **10,371,027** | 8,554,222 |

# NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

## 30. SEGMENT INFORMATION (CONT'D)

Geographical information

Revenue information based on the geographical location of customers is as follows:

| | 2013 RM | 2012 RM |
|---|---|---|
| Canada | **558,613** | 217,222 |
| People's Republic of China | **798,769** | 936,802 |
| Hong Kong | **-** | 780,759 |
| India | **6,089,677** | 8,552,742 |
| Korea | **13,806,818** | 14,898,496 |
| Malaysia | **10,566,361** | 11,066,581 |
| Mexico | **173,041** | - |
| Republic of the Marshall Islands | **89,276** | 162,689 |
| Singapore | **-** | 1,111,680 |
| Taiwan | **17,388,775** | 19,057,062 |
| United Kingdom | **-** | 547,863 |
| USA | **97,736,687** | 75,471,386 |
| | **147,208,017** | 132,803,282 |

## 31. DIVIDENDS

| | Group and Company | |
|---|---|---|
| | 2013 RM | 2012 RM |
| **Recognised during the financial year:** | | |
| Dividends on ordinary shares: | | |
| - Interim tax exempt (single-tier) dividend for 2012: 6 sen per ordinary share of RM0.50 each | **-** | 6,192,000 |
| - Interim tax exempt (single-tier) dividend for 2013: 8 sen per ordinary share of RM0.50 each | **8,256,000** | - |
| | **8,256,000** | 6,192,000 |

## 32. AUTHORISATION OF FINANCIAL STATEMENTS FOR ISSUE

The financial statements for the year ended 31 December 2013 were authorised for issue in accordance with a resolution of the directors on 10 April 2014.

## 33. SUPPLEMENTARY INFORMATION - BREAKDOWN OF RETAINED EARNINGS INTO REALISED AND UNREALISED

The breakdown of the retained earnings of the Group and of the Company as at 31 December 2013 into realised and unrealised profits is presented in accordance with the directive issued by Bursa Malaysia Securities Berhad dated 25 March 2010 and prepared 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.

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 RM** | **2012 RM** | **2013 RM** | **2012 RM** |
| Total retained earnings of the Company and its subsidiary | | | | |
| - Realised | **69,850,812** | 63,091,867 | **57,036,949** | 48,569,096 |
| - Unrealised | **442,893** | 321,898 | **(2,074,459)** | (2,595,070) |
| | **70,293,705** | 63,413,765 | **54,962,490** | 45,974,026 |
| Less: Consolidation adjustments | **(20,000)** | (20,000) | **-** | - |
| Retained earnings as per financial statements | **70,273,705** | 63,393,765 | **54,962,490** | 45,974,026 |

# List of Properties

HELD BY THE GROUP AS AT 31 DECEMBER 2013

| No. | Location | Tenure | Land area and gross built-up area | Approximate age of building | Description and current use | Net book value as at 31 December 2013 | Effective year of purchase |
|---|---|---|---|---|---|---|---|
| 1 | Mile 3, Jalan Masak, Kampung Ulu Patikang, Locked Bag 13 SM-88, 89009 Keningau, Sabah, Malaysia | 99 years lease expiring on 31.12.2081 | Land area<br>94,700 square meters<br>Gross built-up area<br>31,370.47 square meters | 22 years | Industrial land and building | RM1,318,577 | 1991 |
| 2 | 11F, Wisma Perindustrian, Jalan Istiadat, 88400 Likas, Kota Kinabalu, Sabah, Malaysia | 99 years lease expiring on 31.12.2093 | Land area<br>11,610 square meters<br>Gross built-up area<br>990.20 square meters | 16 years | Commercial building | RM2,789,079 | 1997 |

# ANALYSIS OF SHAREHOLDINGS

AS AT 10 APRIL 2014

| | | |
|---|---|---|
| Authorised share capital | : | RM150,000,000.00 |
| Issued and fully paid-up capital | : | RM51,600,000.00 |
| Class of shares | : | Ordinary shares of RM0.50 per share |
| Voting rights of shareholders | : | One vote per ordinary share |

## DISTRIBUTION OF SHAREHOLDINGS AS AT 10 APRIL 2014

| Size of holdings | No. of holders | % | No. of shares | % |
|---|---|---|---|---|
| 1 – 99 | 3 | 0.39 | 76 | 0.00 |
| 100 – 1,000 | 105 | 13.55 | 85,724 | 0.08 |
| 1,001 – 10,000 | 440 | 56.77 | 2,450,400 | 2.37 |
| 10,001 – 100,000 | 191 | 24.65 | 5,547,400 | 5.38 |
| 100,001 – 5,159,999 (*) | 30 | 3.87 | 50,162,168 | 48.61 |
| 5,160,000 and above (**) | 6 | 0.77 | 44,954,232 | 43.56 |
| **Total** | **775** | **100.00** | **103,200,000** | **100.00** |

* Less than 5% of issued shares
** 5% and above of issued shares

## SUBSTANTIAL SHAREHOLDERS AS AT 10 APRIL 2014

| | Direct | | Indirect | |
|---|---|---|---|---|
| | No. of shares | % | No. of shares | % |
| Chen Chun Hsiung | 9,254,324 | 8.97 | - | - |
| Lu Kuan Cheng | 9,203,000 | 8.92 | - | - |
| Lu Chin Ting | 7,576,258 | 7.34 | 4,419,484 (1) | 4.28 |
| Lin Fong Ming | 6,313,550 | 6.12 | 12,627,100 (1) | 12.24 |
| Lin Hao Wen | 6,313,550 | 6.12 | 12,627,100 (2) | 12.24 |
| Lin Hao Yu | 6,313,550 | 6.12 | 12,627,100 (2) | 12.24 |
| Lu Wei Hsu | 4,419,484 | 4.28 | 7,576,258 (2) | 7.34 |
| Lu Wei Sheng | - | - | 11,995,742(2) | 11.62 |
| Yang Chien Chih | 3,156,776 | 3.06 | 9,470,328 (1) | 9.18 |
| Yang Hsi Hsien | 3,156,776 | 3.06 | 9,470,328 (2) | 9.18 |
| Yang Sen | 3,156,776 | 3.06 | 9,470,328 (2) | 9.18 |
| Yang Wei Szu | 3,156,776 | 3.06 | 9,470,328 (2) | 9.18 |

(1) Deemed interest by virtue of shares held by children
(2) Deemed interest by virtue of shares held by close family members

# Analysis of Shareholdings

AS AT 10 APRIL 2014

## DIRECTORS' SHAREHOLDINGS

| | Direct | | Indirect | |
|---|---|---|---|---|
| | No. of shares | % | No. of shares | % |
| Lin Hao Wen | 6,313,550 | 6.12 | 12,627,100 [1] | 12.24 |
| Lin Lieh Ming | 5,050,840 | 4.89 | - | - |
| Yang Sen | 3,156,776 | 3.06 | 9,470,328 [1] | 9.18 |
| Aznam Bin Mansor | - | - | - | - |
| Wong Yoke Nyen | - | - | - | - |
| Ng Tian Meng | - | - | - | - |

(1) Deemed interest by virtue of shares held by close family members

## LIST OF THIRTY LARGEST SHAREHOLDERS AS AT 10 APRIL 2014

| No. | Name of shareholders | No. of shares held | % |
|---|---|---|---|
| 1 | Chen Chun Hsiung | 9,234,324 | 8.95 |
| 2 | RHB Capital Nominees (Asing) Sdn Bhd<br>Lu Kuan Cheng | 9,203,000 | 8.92 |
| 3 | Lu Chin Ting | 7,576,258 | 7.34 |
| 4 | Lin Fong Ming | 6,313,550 | 6.12 |
| 5 | Public Nominees (Asing) Sdn Bhd<br>Pledged Securities Account for Lin Hao Wen (E-KKU/KNG) | 6,313,550 | 6.12 |
| 6 | Public Nominees (Asing) Sdn Bhd<br>Pledged Securities Account for Lin Hao Yu (E-KKU/KNG) | 6,313,550 | 6.12 |
| 7 | Lu Chun-Chien | 5,050,840 | 4.89 |
| 8 | Public Nominees (Asing) Sdn Bhd<br>Pledged Securities Account for Lin Lieh Ming (E-KKU/KNG) | 5,050,840 | 4.89 |
| 9 | Lu Wei Hsu | 4,419,484 | 4.28 |
| 10 | Kuo Chang-Fang | 3,927,800 | 3.81 |
| 11 | Huang Chia-Hsing | 3,766,900 | 3.65 |
| 12 | Public Nominees (Asing) Sdn Bhd<br>Pledged Securities Account for Yang Chien Chih (E-KKU/KNG) | 3,156,776 | 3.06 |
| 13 | Public Nominees (Asing) Sdn Bhd<br>Pledged Securities Account for Yang Hsi Hsien (E-KKU/KNG) | 3,156,776 | 3.06 |
| 14 | Yang Sen | 3,156,776 | 3.06 |
| 15 | Yang Wei Szu | 3,156,776 | 3.06 |
| 16 | Chen Zong-Liang | 3,003,000 | 2.91 |
| 17 | Hsueh Chen Seng | 3,003,000 | 2.91 |
| 18 | Yang Wen-Chia | 3,003,000 | 2.91 |
| 19 | Khoo Hock Leong | 1,180,900 | 1.14 |

# Analysis of Shareholdings
AS AT 10 APRIL 2014

## LIST OF THIRTY LARGEST SHAREHOLDERS AS AT 10 APRIL 2014 (CONT'D)

| No. | Name of shareholders | No. of shares held | % |
|---|---|---|---|
| 20 | Lin Su-Hui | 949,600 | 0.92 |
| 21 | Chang Yung-Sheng | 712,200 | 0.69 |
| 22 | Federlite Holdings Sdn Bhd | 690,800 | 0.67 |
| 23 | HSBC Nominees (Tempatan) Sdn Bhd<br>HSBC (M) Trustee Bhd for AmDividend Income (4983-401) | 507,800 | 0.49 |
| 24 | Maybank Nominees (Tempatan) Sdn Bhd<br>Tan Son Huat | 349,900 | 0.34 |
| 25 | AllianceGroup Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account for Kong Kok Choy (8092812) | 320,000 | 0.31 |
| 26 | Yeoh Soon Cheng | 222,500 | 0.22 |
| 27 | HLIB Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account for Yee Kim Ee (CCTS) | 214,800 | 0.21 |
| 28 | RHB Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account for Lok Meow Tuck | 150,600 | 0.15 |
| 29 | Wong Seow Kwang | 147,100 | 0.14 |
| 30 | AllianceGroup Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account for Tan Oiy Pow (8045795) | 130,000 | 0.13 |
| | | 94,382,400 | 91.47 |

# Notice of Twenty-Fourth Annual General Meeting

**NOTICE IS HEREBY GIVEN THAT** the Twenty-Fourth Annual General Meeting of FOCUS LUMBER BERHAD will be held at Zara's Boutique Hotel, Harbour City, Jalan Pantai Baru, Sembulan, 88100 Kota Kinabalu, Sabah on Monday, 26 May 2014 at 11.00 a.m. to transact the following business:-

## AGENDA

### Ordinary Business

1. To receive the Audited Financial Statements for the financial year ended 31 December 2013 and the Reports of the Directors and Auditors thereon. **(Please refer to Note 2)**

2. To approve the payment of Directors' Fees in respect of the financial year ended 31 December 2013. **(Resolution 1)**

3. To re-elect the following Directors who retire pursuant to Article 67 of the Company's Articles of Association:-

   (i) Ng Tian Meng **(Resolution 2)**

   (ii) Yang Sen **(Resolution 3)**

4. To re-appoint Messrs Ernst & Young as Auditors of the Company and to authorise the Directors to fix their remuneration. **(Resolution 4)**

### Special Business

To consider and, if thought fit, to pass the following resolution, with or without modifications as Ordinary Resolution of the Company:-

5. **Ordinary Resolution**

   **Authority to Issue Shares Pursuant to Section 132D of the Companies Act, 1965**

   "THAT pursuant to Section 132D of the Companies Act, 1965, the Directors of the Company be and are hereby empowered to issue shares in the Company at any time 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 issued pursuant to this resolution does not exceed 10% of the issued share capital of the Company for the time being and that the Directors be and are also empowered to obtain approval for the listing of and quotation for the additional shares so issued on Bursa Malaysia Securities Berhad and that such authority shall continue to be in force until the conclusion of the next Annual General Meeting of the Company unless revoked or varied by the Company at a general meeting." **(Resolution 5)**

6. To consider any other business of which due notice shall be given in accordance with the Companies Act, 1965.

BY ORDER OF THE BOARD
WONG WAI FOONG (MAICSA 7001358)
WONG PEIR CHYUN (MAICSA 7018710)
Secretaries

Kuala Lumpur

Date: 30 April 2014

# Notice of Twenty-Fourth Annual General Meeting

**NOTES:**

**1. Appointment of Proxy**

(a) A member entitled to attend and vote at the meeting is entitled to appoint proxy(ies) (or in case of a corporation, a duly authorised representative) to attend and vote in his stead. A proxy need not be a member of the Company and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.

(b) The instrument appointing a proxy shall be in writing (in the common or usual form) under the hand of the appointor or of his attorney duly authorised in writing or if the appointer is a corporation, either under seal or under the hand of an officer or attorney duly authorised.

(c) A member shall be entitled to appoint not more than two (2) proxies to attend and vote at the same meeting and that where the member appoint two (2) proxies, such appointment shall be invalid unless he specifies the proportions of his shareholdings to be represented by each proxy.

(d) Where a member of the Company is an authorised nominee as defined in the Securities Industry (Central Depositories) Act, 1991 ("SICDA"), it may appoint not more than two (2) proxies in respect of each securities account it holds in ordinary shares of the Company standing to the credit of the said securities account.

(e) Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one (1) securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.

(f) Where the authorised nominee appoints two (2) proxies, or where an exempt authorised nominee appoints two (2) or more proxies, the proportion of shareholdings to be represented by each proxy must be specified in the instrument appointing the proxies.

(g) The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be deposited at the Share Registrar of the Company at Tricor Investor Services Sdn. Bhd. (118401-V) of 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 for holding the meeting or any adjournment thereof.

(h) Only the members whose names appear on the Record of Depositors as at 19 May 2014 shall be entitle to attend and vote at this meeting or appoint proxy(ies) to attend and vote on their behalf.

**2. Audited Financial Statements for the financial year ended 31 December 2013**

The Audited Financial Statements in Agenda 1 is meant for discussion only as the provision of Section 169(1) of the Companies Act, 1965 does not require a formal approval of the shareholders for the Audited Financial Statements. Hence, this Agenda is not put forward for voting.

**3. Ordinary Resolution 2 – Re-election of Director**

The Board had carried out assessment on the contribution and performance as well as the independence of the Independent Director standing for re-election and satisfied that he meets the criteria of independence as prescribed in the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

# Notice of Twenty-Fourth Annual General Meeting

**NOTES (CONT'D):**

**4. Explanatory Note on Special Business**

**Resolution No. 5 - Authority to Issue Shares**

The proposed Resolution No. 5 is proposed for the purpose of granting a renewed general mandate ("General Mandate") and empowering the Directors to issue shares in the Company up to an amount not exceeding in total 10% of the Issued Share Capital of the Company for such purpose as the Directors consider would be in the interest of the Company.

The authority, unless revoked or varied by the Company at a general meeting, will expire at the next Annual General Meeting.

The General Mandate is to provide flexibility to the Company to issue new securities without the need to convene separate general meeting to obtain its shareholders' approval so as to avoid incurring additional cost and time. The purpose of this General Mandate is for possible fund raising exercises including but not limited to further placement of shares for purpose of funding current and/or future investment projects, working capital, repayment of bank borrowings, acquisitions and/or for issuance of shares as settlement of purchase consideration.

As at the date of this notice, the Company did not issue any shares pursuant to the mandate granted to the Directors at the Twenty-Third Annual General Meeting because there were no investment(s), acquisition(s) or working capital that require fund raising activity.

This page has intentionally left blank

This page has intentionally left blank

富佳木業有限公司
FOCUS LUMBER BERHAD
(Company No. 188710-V)

# PROXY FORM

| CDS account no. | No. of shares held |
|---|---|
| | |

I/We ______________________ I.C./Passport/Company No. ______________________

of ______________________

being a member/members of Focus Lumber Berhad hereby appoint ______________________

of ______________________

or failing whom, ______________________ of ______________________

______________________

or failing whom the Chairman as my/our proxy to vote for me/us and on my/our behalf at the Twenty-Fourth Annual General Meeting of the Company, to be held at Zara's Boutique Hotel, Harbour City, Jalan Pantai Baru, Sembulan, 88100 Kota Kinabalu, Sabah on Monday, 26 May 2014 at 11.00 a.m. and, at every adjournment thereof for/against* the resolution(s) to be proposed thereat.

| Item | Agenda | Resolution | For | Against |
|---|---|---|---|---|
| 1. | **Ordinary Business**<br>Receive the Audited Financial Statements for the financial year ended 31 December 2013 together with the Reports of the Directors and Auditors thereon. | | | |
| 2. | Approval on the payment of Directors' Fees in respect of the financial year ended 31 December 2013. | 1 | | |
| 3(i) | Re-election of Ng Tian Meng as Director of the Company pursuant to Article 67 of the Company's Articles of Association. | 2 | | |
| 3(ii) | Re-election of Yang Sen as Director of the Company pursuant to Article 67 of the Company's Articles of Association. | 3 | | |
| 4. | Re-appointment of Messrs Ernst & Young as Auditors of the Company and authorised the Directors to fix their remunerations. | 4 | | |
| 5. | **Special Business**<br>Authority for the Director to issue shares pursuant to Section 132D of the Companies Act, 1965. | 5 | | |

*Please indicate with an "x" in the spaces provided whether you wish your votes to be cast for or against the resolutions. In the absence of specific directions, your proxy will vote or abstain as he thinks fit.*

Dated this ______________ day of ______________ 2014

______________________

Signature/Common Seal of Shareholder(s)

* Strike out whichever in not desired. (Unless otherwise instructed, the proxy may vote as he thinks fit).

**Notes:**

(a) A member entitled to attend and vote at the meeting is entitled to appoint proxy(ies) (or in case of a corporation, a duly authorised representative) to attend and vote in his stead. A proxy need not be a member of the Company and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.

(b) The instrument appointing a proxy shall be in writing (in the common or usual form) under the hand of the appointor or of his attorney duly authorised in writing or if the appointer is a corporation, either under seal or under the hand of an officer or attorney duly authorised.

(c) A member shall be entitled to appoint not more than two (2) proxies to attend and vote at the same meeting and that where the member appoint two (2) proxies, such appointment shall be invalid unless he specifies the proportions of his shareholdings to be represented by each proxy.

(d) Where a member of the Company is an authorised nominee as defined in the Securities Industry (Central Depositories) Act, 1991 ("SICDA"), it may appoint not more than two (2) proxies in respect of each securities account it holds in ordinary shares of the Company standing to the credit of the said securities account.

(e) Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one (1) securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.

(f) Where the authorised nominee appoints two (2) proxies, or where an exempt authorised nominee appoints two (2) or more proxies, the proportion of shareholdings to be represented by each proxy must be specified in the instrument appointing the proxies.

(g) The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be deposited at the Share Registrar of the Company at Tricor Investor Services Sdn. Bhd. (118401-V) of 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 for holding the meeting or any adjournment thereof.

(h) Only the members whose names appear on the Record of Depositors as at 19 May 2014 shall be entitle to attend and vote at this meeting or appoint proxy(ies) to attend and vote on their behalf.

Fold here

AFFIX
STAMP

**The Share Registrar**
**Tricor Investor Services Sdn Bhd (118401-V)**
Level 17, The Gardens North Tower
Mid Valley City, Lingkaran syed Putra
59200 Kuala Lumpur

Fold this flap for sealing

**Focus Lumber Berhad** (188710-V)

Mile 3, Jalan Masak, Kampung Ulu Patikang,
Locked Bag 13 SM-88, 89009 Keningau,
Sabah, Malaysia.
Tel : 087-334761/4/6, 335457/8
Fax : 087-335459
Email : focuskgu@hotmail.com