



Frontken Corporation Berhad (651020-T)



Annual Report 2011

Frontken Corporation Berhad (651020-T)
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ANNUAL
REPORT
2011

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PROXY FORM	ENCLOSED

CORPORATE INFORMATION

BOARD OF DIRECTORS

NG WAI PIN

Chairman / Managing Director

DR TAY KIANG MENG

Executive Director / Chief Scientist

DATO' HAJI JOHAR BIN MURAT @ MURAD

Independent Non-Executive Director

AARON SIM KWEE LEIN

Senior Independent Non-Executive Director

JORG HELMUT HOHNLOSER

Non-Independent Non-Executive Director

TIMO FABIAN SEEBERGER

Alternate to Jorg Helmut Hohnloser

AUDIT COMMITTEE

Dato' Haji Johar Bin Murat @ Murad (Chairman)

Aaron Sim Kwee Lein

Jorg Helmut Hohnloser

NOMINATION COMMITTEE

Dato' Haji Johar Bin Murat @ Murad (Chairman)

Aaron Sim Kwee Lein

Jorg Helmut Hohnloser

REMUNERATION COMMITTEE

Ng Wai Pin (Chairman)

Dato' Haji Johar Bin Murat @ Murad

Aaron Sim Kwee Lein

COMPANY SECRETARIES

Mah Li Chen (MAICSA 7022751)

Cynthia Gloria Louis (MAICSA 7008306)

Chew Mei Ling (MAICSA 7019175)

REGISTERED OFFICE

17-2, Jalan Solaris 3

Solaris Mont' Kiara

50480 Kuala Lumpur

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Fax: (03) 7880 8699

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Email: fcb@frontken.com

Website: www.frontken.com

SHARE REGISTRAR

Tricor Investor Services Sdn Bhd

Level 17, The Gardens North Tower

Mid Valley City, Lingkaran Syed Putra

59200 Kuala Lumpur

Tel: (03) 2264 3883

Fax: (03) 2282 1886

AUDITORS

Crowe Horwath (AF 1018)

Chartered Accountants

Level 16 Tower C

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12 Jalan Yap Kwan Seng

50450 Kuala Lumpur

Tel: (03) 2788 9999

Fax: (03) 2788 9998

STOCK EXCHANGE LISTING

Main Market of Bursa Malaysia Securities Berhad

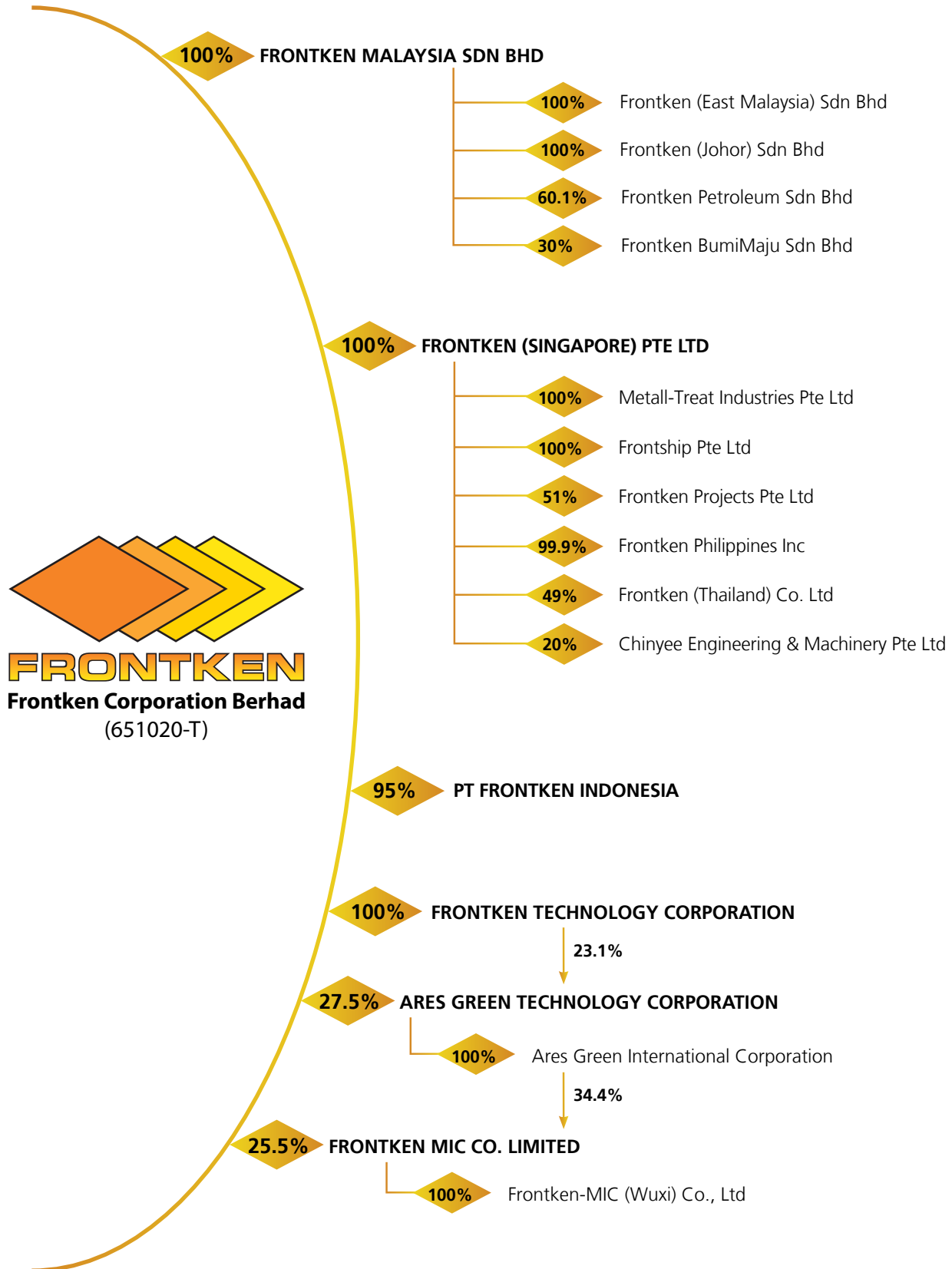
Stock Code: FRONTKN

Stock No: 0128

Reuters Code: 0128.KL

Bloomberg Code: FRCB MK

CORPORATE STRUCTURE (as at 21 May 2012)





OUR VISION

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

OUR MISSION

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

OUR PROFILE

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

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

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

The Group, together with its associates, has established a significant presence in Singapore, Malaysia, Taiwan, China, Thailand, the Philippines and Indonesia. Furthermore, over the years, the Group has established an international network of representatives – spanning from Brunei and Myanmar to Nigeria and Pakistan – to market the Group's specialized services worldwide.

OUR SERVICES

Mechanical Restoration & Overhaul

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



Coating, Hardfacing & Plating

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



Precision Manufacturing

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



Machining & Grinding

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



Plant Engineering & Construction

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



Precision Cleaning

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



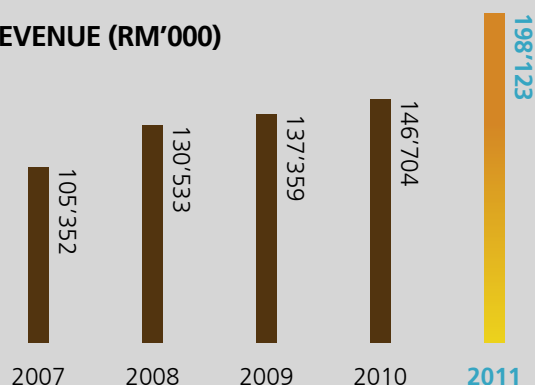
Green Technology & Outdoor Media

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

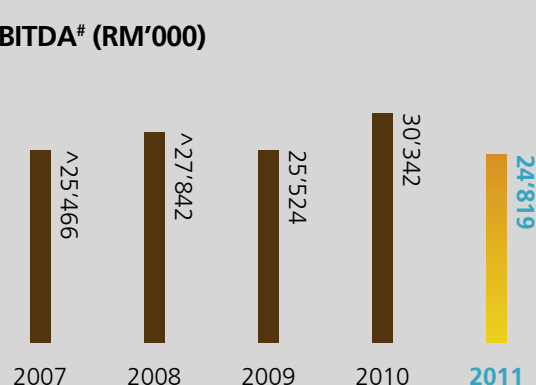


FINANCIAL HIGHLIGHTS

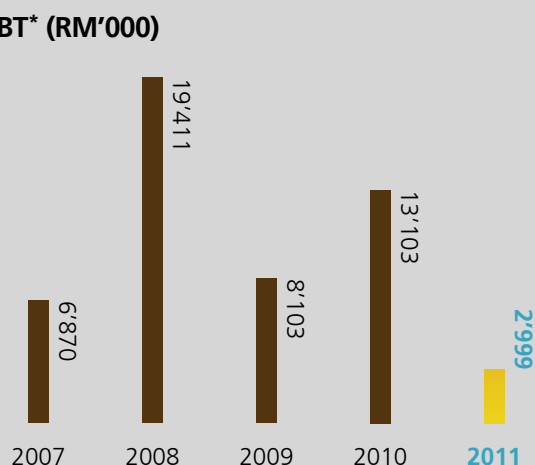
REVENUE (RM'000)



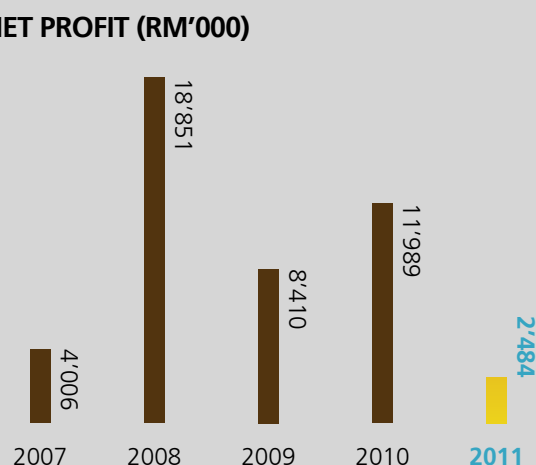
EBITDA# (RM'000)



PBT* (RM'000)



NET PROFIT (RM'000)



EBITDA: Earnings before interest, tax, depreciation and amortisation

^ EBITDA for FY2007 and FY2008 had been adjusted for one-off income / expenses from fire and flood incidents in 2007

* PBT: Profit before tax

SEGMENTAL REVENUE – BY CUSTOMER LOCATION (RM'000)

	2007	2008	2009	2010	2011
Singapore	49'966	59'409	56'494	66'501	66'295
Malaysia	52'010	61'293	74'532	68'966	61'447
Taiwan	-	-	-	-	51'430
Others	3'376	9'851	6'333	11'237	18'951
Total	105'352	130'553	137'359	146'704	198'123

SEGMENTAL REVENUE – BY INDUSTRY (RM'000)

	2007	2008	2009	2010	2011
Oil & Gas	32'092	48'686	43'639	39'336	26'965
Power Generation	20'104	15'533	22'208	33'528	22'810
Semiconductor	35'437	42'819	45'426	41'177	99'853
General*	17'719	23'515	26'086	32'663	48'495
Total	105'352	130'553	137'359	146'704	198'123

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

FINANCIAL HIGHLIGHTS

SUMMARISED GROUP BALANCE SHEETS AS AT 31 DEC (RM'000)

	2010	2011
Non-Current Assets	211'563	214'177
Current Assets	121'628	119'411
Total Assets	333'191	333'588
Share Capital	101'141	101'141
Reserves	75'102	78'131
Shareholders' Equity	176'243	179'272
Non-Controlling Interests	25'902	27'890
Total Equity	202'145	207'162
Non-Current Liabilities	62'572	55'614
Current Liabilities	68'474	70'812
Total Liabilities	131'046	126'426
Total Equity and Liabilities	333'191	333'588

SUMMARISED GROUP CASH FLOWS YEAR ENDED 31 DEC (RM'000)

	2010	2011
Net Cash Flows From Operating Activities	20'919	24'587
Net Cash Flows for Investing Activities	(23'487)	(18'351)
Net Cash Flows From/(For) Financing Activities	25'217	(14'771)
Net Increase/(Decrease) in Cash and Cash Equivalents	22'649	(8'535)
Effect of exchange differences	134	257
Cash and Cash Equivalents at Beginning of Year	10'187	32'970
Cash and Cash Equivalents at End of Year	32'970	24'692

FINANCIAL ANALYSIS (RM'000)

	2007	2008	2009	2010	2011
Turnover growth	16.7%	23.9%	5.2%	6.8%	35.0%
Profit Before Tax Growth	-50.8%	182.6%	-58.3%	61.7%	-77.1%
Net Profit Growth	-61.9%	370.6%	-55.4%	42.6%	-79.3%
Pre-tax Profit Margin	6.5%	14.9%	5.9%	8.9%	1.5%
Net Profit Margin	3.8%	14.4%	6.1%	8.2%	1.3%
Gearing Ratio (Net of cash) (times)	0.6	0.5	0.4	0.3	0.3
Return on Average Shareholders' Equity	4.5%	17.2%	6.5%	7.7%	1.4%
Return on Average Total Assets	2.3%	8.4%	3.5%	4.2%	0.7%
Earnings Per Share (Sen)					
- Basic	#0.6	#2.7	1.2	^1.3	0.3
- Diluted	n/a	n/a	n/a	1.0	0.2

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

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

CHAIRMAN'S STATEMENT



NG WAI PIN
Chairman / Managing Director

DEAR SHAREHOLDERS

2011 was, without a doubt, a watershed year for Frontken. The positive trend that marked the first quarter of 2011 was reversed in the quarters that followed and we ended the year on a decidedly low note. It goes without saying that we are disappointed with the significant drop in profitability, but we are determined to improve to make our business stronger. To that end, our focus for 2012 and beyond will be on improving execution and preserving our financial strength.

THE YEAR THAT WAS

Global uncertainties and natural disasters prevailed for most of 2011, weighing down the growth momentum of the global economy. While the prognosis is that the global economy will not fall into another recession in 2012, five years after the 2008 financial crisis, growth during the year will nonetheless be sluggish.

Against this backdrop, the Malaysia economy recorded moderated growth of 5.1% in 2011 (2010: 7.2%) driven by expansion in domestic activities and firm regional demand. In a more challenging external environment, the economy is expected to grow at between 4% and 5% in 2012, with domestic demand continuing to be the anchor for growth.

On the foreign front, the Singapore economy grew by 4.9% in 2011 (2010: 14.8%), with slowdown in growth seen across all major sectors. Full year 2012 economic growth has been estimated to be between 1.0% and 3.0% as a result of subdued global economic conditions, which could potentially be derailed by any debt default in the Eurozone or a sharp rise in oil prices.

In Taiwan, where exports have traditionally been the major growth engine making up almost 70% of the gross domestic product ("GDP"), real GDP grew by 4.0% in 2011. However, economic growth is forecast to slow down to approximately 3.4% in 2012 due to decline in private investment after a significant drop in export orders amidst continuing global economic uncertainties.

CHAIRMAN'S STATEMENT (CONT'D)

OUR RESULTS AT A GLANCE

2011 was a stark and unwelcome contrast to 2010. After a robust ending to 2010 and a buoyant double-digit growth in the first quarter of 2011, revenue on a like-for-like basis plummeted below the 2010 level for the remaining three quarters of the year, exacerbated by spiralling costs. To say that we are disappointed with our financial performance would be an understatement, yet the profit, albeit meagre, would not have been achieved had we not taken countermeasures to reduce our cost base and tackle increasing margin pressure. As the year progressed, we saw a levelling off in the decline in revenue and gained some ground towards the end of 2011.

Reported group revenue for fiscal 2011 was 35.0% higher year-on-year, at RM198.1 million. Stripping out the revenue contribution from Taiwan's Ares Green Technology Corporation ("AGTC"), which became our subsidiary following our acquisition of an additional 8.5% stake in the company in December 2010, group revenue in 2011 of RM146.7 million was broadly unchanged compared with the previous year.

The softening in revenue was most keenly felt in the oil and gas sector, with a 31.5% decline to RM27.0 million from RM39.3 million in 2010. The oil and gas sector contributed 13.6% to the group's revenue in 2011. The downtrend was echoed in the power generation sector, which saw revenue reduced by 32.0% to RM22.8 million from RM33.5 million the year before, and accounting for only 11.5% of the overall revenue in 2011. The significantly lower demand in the power generation sector was partly due to deferment by customers of long-term investment decision as a reaction to uncertain expectations for the future.

All is not lost, however, as the revenue contraction in these sectors was compensated by more than two-fold surge in revenue in the semiconductor sector. Semiconductor revenue for fiscal 2011 bucked the trend, topping RM99.9 million and contributing 50.4% to total group revenue. Even after excluding the revenue from the acquired Taiwan subsidiary of RM51.8 million, semiconductor revenue on a like-for-like basis still registered a noteworthy organic growth of 16.7%, surpassing the prior year revenue by RM6.9 million. The resiliency of the industry is a direct reflection of the pervasiveness of semiconductor innovations and their applications in almost every aspect of the modern society.

From a regional perspective, Singapore remained as the Group's main market notwithstanding that the revenue was broadly unchanged at RM66.3 million, representing 33.5% of the now larger revenue base. Meanwhile, revenue from our Malaysia-based customers slipped back in a second consecutive year by 10.9% to RM61.4 million.

Over in the Philippines, although the economy suffered more than its ASEAN neighbours in 2011, our revenue from the local customers maintained its course for growth, rising by 59.1% to RM9.3 million driven mainly by higher revenue from rehabilitation work on power plants in the country. With a surge in investment in the power generation and distribution industries, the country now has one of the most liberalised power sectors in Southeast Asia and looks set to undergo a period of modernisation and expansion. Equally heartening was our performance in Taiwan, which emerged as the Group's third largest market, trailing Singapore and Malaysia, with revenue of RM51.4 million in 2011. This key market now accounts for 26.0% of total group revenue, benefiting largely from growing economic relationship with China and the progressive easing of cross-Strait investment restrictions.

While our top line growth in fiscal 2011 gave us a reason to smile, the same cannot be said for our earnings before interest, tax, depreciation and amortisation ("EBITDA"). We closed the year with an EBITDA of RM24.8 million, or 18.2% lower than that in 2010. As a percentage of sales, EBITDA declined to 12.5% from 20.7% the previous year, impacted primarily by massive upsurge in labour and sub-contracting cost, as well as overheads and salaries, in anticipation of revenue growth that did not materialise. On a comparable basis, these costs escalated by RM11.7 million and RM4.0 million respectively and their negative effects were only partially offset by lower materials cost. During the year, the Group also recorded charges of RM2.1 million as a result of allowance for impairment loss on receivables. Reflecting the deterioration in EBITDA, the Group posted a net profit of RM2.5 million for fiscal 2011 - a far cry from the RM12.0 million achieved in 2010.

CHAIRMAN'S STATEMENT (CONT'D)

During the year, the Group generated RM24.6 million cash flows from operations, invested RM23.2 million in capital expenditure on property, plant and equipment, paid an interim dividend of RM1.0 million and pared down borrowings by RM26.8 million. We finished the year with cash and cash equivalents of RM24.7 million and increased our shareholders' equity marginally to RM179.3 million from RM176.2 million the year before. Net gearing at year's end of 0.3 times continues to remain within the range that we consider to be appropriate.

MANAGING COSTS AND IMPROVING LIQUIDITY

The results in fiscal 2011 have inspired us more than ever to refresh our thinking about the way we do business in a rapidly changing marketplace. For many years, we have invested significantly to expand or build new facilities to increase capacity ahead of anticipated growth, leading to either underutilised capacity in a softer market or lower than expected benefits from our capital spending.

Likewise in 2011, we continued to invest in new facilities around the region to strengthen our foothold and safeguard our market share. These investments included new semiconductor facilities in Melaka and Kuching in Malaysia, and an engineering plant with coating and blowout preventer repair and calibration service capabilities in Jakarta, Indonesia. In Singapore, we invested in a new building to fulfil prerequisites for an extension of the lease of the site by the local statutory agency.

We recognise that with our growth aspiration, we need a reorientation of our approach to achieve our goal. To that end, our new strategic agenda calls for emphasis on functional excellence balanced by a disciplined approach to cash management. Capital spending will henceforth be prioritised and modulated in response to market conditions, and at the same time allowing us to move forward on our accelerated growth ambition, while still delivering appropriate levels of cash in our business. In simple terms, generating more free cash and growing our profitability will be our order of the day.

We are gathering pace on a series of improvement measures that we had put in place since the end of 2011 to steer the Group back to a position of strengthened profitability. As well as cutting our cost base and right-sizing our workforce into a leaner organisation, we are improving cross selling for greater operational synergies, and implementing best practice margin management and sourcing strategy in our supply chain to help us deliver better value propositions to our customers.

Alongside these measures, we are driving 'results and accountability' agenda across all our business units and where there is little prospect of improvement in investment returns for the foreseeable future, we will realign our business to provide headroom for growth opportunities, profitability and leadership in other selected priority markets. Above all, we are reassessing our investments with the aim of focusing on fewer activities, so that we can concentrate our resources on those market segments where we have a competitive edge and can achieve sustainable, above-average financial returns. The end goal is to generate stronger growth in earnings while providing the financial wherewithal for investment in our future and, more importantly, stable if not growing dividends to our shareholders.

That said, where it supports our goal and overall strategy, we will supplement our organic growth with selective value-enhancing acquisitions and partnerships. We see investment opportunities aplenty in all areas of our business, but it is naturally important that our expansion takes place with maintained profitability and our investments prioritised to yield justified returns. Any such investment, we assure you, will meet our rigorous financial criteria.

There is still much remaining to be done and it is by no means a quick fix. However, I can assure you that we are working with grim determination to meet all these challenges and are optimistic about our ability to improve in these areas and navigate the Group back on a growth path. The long-term future of our Group holds as much promise as ever because of the inherent size and strength of the markets we serve, the innovation and efficiency of the solutions we bring to our customers, and the dedication and passion of the people we employ. Furthermore, the scope, scale and depth of our core business across diverse markets and geographical spread has served us well in coping with varying economic landscapes and enabling us to act quickly on various opportunities in each market.

Whilst our cost reduction and improvement programmes are integral to setting the stage for our long term growth, we recognise that sustainable improvement is predicated upon corporate culture of excellence and integrity. At Frontken, each of us has a responsibility for upholding the Group's reputation as an ethical, reliable, and honest business. Our employees know that we do not tolerate unethical practices in any facet of our business and they are never to engage in conduct that would undermine the reputation of the Group, their peers or themselves.

CHAIRMAN'S STATEMENT (CONT'D)

OUR PRIORITIES FOR 2012

We entered 2012 acutely aware of the many challenges that lie ahead, but are also confident and clear about our priorities. 2012 is a year in which we will work tirelessly to rebuild a stable platform that will drive revenue and earnings growth for many years to come. Although visibility beyond the short term is still limited, we know that market conditions are likely to remain volatile and the uncertain global economic and geopolitical backdrop will continue to raise challenges throughout 2012 and beyond.

We look to the future with cautious optimism and expect that we will be able to grow our top line this year across our markets. Our bottom line will benefit from this growth even as headwinds remain. To summarise our priorities for the year:

- We will be disciplined in the execution of our strategy, and focused on the fundamentals of our business and on markets that provide good growth prospects.
- Costs will be tightly managed to protect earnings and investment modulated in response to market conditions.
- We will continue to proactively manage the balance sheet and exercise prudence in liquidity management.

Delivering on our plans will take not only discipline, determination and intense focus, but also flexibility and agility to anticipate and respond to the extraordinary changes around us. We are confident we can achieve our goal through our strategy and to assist me in achieving our goal, I have the support of my colleagues around the region who are helping to lead the Group into a future full of possibilities. Together, we are determined to turn the uncertainties in the economic environment into opportunity and use it as an additional drive for change and reinvention as we build the Group that all our people can be proud of.

In light of the Group's immediate focus on cash generation, the Board considers it prudent not to recommend a final dividend payment. It is expected that this suspension will be temporary and that a dividend policy will be formulated in due course to reflect the Group's financial and cash flow positions and the shape of the business following our implementation of the improvement measures.

APPRECIATION

In January 2012, Mr Wong Hua Choon stepped down as the Chairman and Managing Director of Frontken after helming the Group for 16 years. On behalf of the Board, I wish to thank Mr Wong for his valued contributions and wish him well in all that he does in the future. We also offer a very warm welcome to our Non-Executive Director, Mr Jorg Helmut Hohnloser and his alternate, Mr Timo Fabian Seeberger, who joined the Board in February 2012, bringing with them significant relevant experience in areas of the business which will be increasingly important for the Group in the future.

We are deeply saddened by the passing of our Non-Executive Director, Dato' Sri Ibrahim Bin Mahmud, in February 2012 and express our sincere condolences to his family and friends. He will be remembered for his contribution to the Group.

I also wish to thank our shareholders for their continued patience through a difficult time and all my colleagues for their efforts and contributions.

It has been four months now since I assumed the position of Chairman and Managing Director of the Company – a challenge that involves a tremendous amount of responsibility, and one that I'm pleased to accept. It is my honour to lead this team as we prepare to take Frontken into a new era of sustainable growth.

Sincerely,





NG WAI PIN

Chairman / Managing Director

FINANCIAL REVIEW

RESULTS OF OPERATIONS

in RM'000

REVENUE				EBITDA			
2010	146'704		-35%	2010	30'342		-18%
2011	198'123			2011	24'819		
NET PROFIT				EBITDA MARGIN as a % of revenue			
2010	11'989		-79%	2010	20.7		-8.2%
2011	2'484			2011	12.5		

REVENUE

Reported revenue for the Group for the financial year ended 31 December 2011 amounted to RM198.1 million, as against RM146.7 million in the previous year. In comparable terms, after excluding revenue contribution from Ares Green Technology Corporation, in which the Company acquired an additional equity stake of 8.5% in December 2010 to make it a 50.6% subsidiary ("Acquisition"), group revenue for 2011 of RM146.7 million was broadly unchanged in comparison with the previous year.

REVENUE

(by customer location)

	2011		2010		% change in revenue
	RM'000	%	RM'000	%	
Singapore	66'295	33	66'501	45	-0.3%
Malaysia	61'447	31	68'966	47	-10.9%
Taiwan	51'430	26	-	-	n/a
Phillipines	9'320	5	5'859	4	+59.1%
Others	9'631	5	5'378	4	+79.1%
Total	198'123	100	146'704	100	+35.0%

An analysis of revenue by customer location shows the strongest decline in Malaysia. Revenue from this region fell by 10.9% to RM61.4 million.

In Singapore, revenue was 0.3% lower year-on-year partly due to the deferment of long term investment decision by our power generation customers as a reaction to uncertain expectations for the future. The contraction in revenue in these sectors was compensated by double-digit growth in revenue from the semiconductor industry, as well as with revenue from turnkey project-based engineering, construction and maintenance works.

Revenue from the Philippines rose 59.1% year-on-year to RM9.3 million, due mainly to higher demand for rehabilitation work on power plants in the country as a result of an increase in investment in the local power generation and distribution industries in recent years.

FINANCIAL REVIEW (CONT'D)

Revenue from Taiwan of RM51.4 million was consolidated for the first time in 2011 following the Acquisition. This market, which benefited largely from growing economic relationship with China and liberalisation of cross-Strait investment restrictions, is now the third largest revenue contributor to the Group, accounting for 26.0% of total group revenue in 2011.

In comparison with the previous year, the Group's revenue in 2011 was more evenly spread out over three major markets compared to two previously. The balanced geographic spread of revenue is expected to minimise the Group's sensitivity to market fluctuation in any particular sector.

EARNINGS

Earnings before interest, tax, depreciation and amortisation ("EBITDA") of the Group for 2011 declined to RM24.8 million from RM30.3 million the year before. As a percentage of revenue, EBITDA fell to 12.5% from 20.7% in 2010. On a like-for-like basis, excluding the effect of the Acquisition, EBITDA for 2011 was RM18.7 million, representing 12.7% of revenue.

EBITDA was adversely impacted by labour and sub-contracting costs which were RM11.7 million or 32.3% higher than the previous year in comparable terms, together with overhead costs and salaries which increased by RM4.0 million or 13.9% compared to the year before. This was due mainly to the recruitment and training of skilled engineers during the year in anticipation of increased demand which did not materialise. General operating and administrative expenses for 2011 were RM2.1 million or 23.3% higher, excluding items affecting comparability, due primarily to allowance for doubtful debts of RM2.1 million. The increase in these expenses was only partly offset by lower materials cost and finance expense, and higher other income from the write-back of allowance for doubtful debts.

The reversal of deferred tax that was overprovided in prior years had a positive impact on net profit for 2011. Meanwhile, depreciation and amortisation of RM14.9 million in 2011, excluding the impact of the Acquisition, remain comparable to charges of RM14.2 million in 2010.

As a result of the factors discussed above, the consolidated net profit attributable to shareholders of the Company for the financial year ended 31 December 2011 was RM2.5 million, down from RM12.0 million in 2010. This translated to diluted earnings per share in 2011 of 0.2 sen based on a higher weighted number of shares of 1,299,896,168, compared to 1.0 sen against 1,191,126,088 shares in 2010.

CASH FLOWS

in RM'000

NET DEBT

2010	54'594	↓	-2%
2011	53'623		

WORKING CAPITAL

2010	53'154	↓	-9%
2011	48'599		

FREE CASH FLOW

2010	34'357	↓	-61%
2011	13'406		

CAPITAL EXPENDITURE

2010	26'937	↓	-14%
2011	23'206		

FINANCIAL REVIEW (CONT'D)

Despite lower net profit in 2011 compared to 2010, operating activities in 2011 provided higher net cash of RM24.6 million, compared to net cash from operating activities of RM20.9 million in the previous year. The increase in operating cash flow was due to reduction in current year working capital balances, partially offset by a decline in earnings. The reduction in working capital was due to increase in payables and accruals as a result of increased expenditures to support business growth, and improved collection of receivables.

Net cash used in investment activities was RM18.4 million. Outgoings during the year included distribution to shareholders of the Company and minority shareholders of subsidiaries amounting to RM1.4 million and outlay for capital expenditure in property, plant and equipment of RM22.5 million. Meanwhile, the Group received proceeds from divestment of equipment and machinery of RM3.4 million. Free cash outflow was RM13.4 million in 2011 compared to RM34.4 million in the previous year. The lower level of free cash flow was due primarily to lower earnings, as well as higher repayment of borrowings and lower loan drawdown in 2011.

The Group has cash and cash equivalent at the end of 2011 of RM24.7 million, compared to RM33.0 million at the end of 2010. Notwithstanding lower cash balances at the end of 2011, the Group has sufficient available credit facilities in place for its working capital requirements. We believe the cash flows generated from our business are sufficient to support business operations and planned capital expenditures, as well as meet our debt repayments and other financial commitments.

FINANCIAL POSITION

The Group's shareholders' funds improved from RM176.2 million at 31 December 2010 to RM179.3 million at 31 December 2011 mainly from profit generated in 2011, which was offset partially by payment of interim dividend of 0.1 sen per share for fiscal 2011.

Total assets of the Group of RM333.6 million at 31 December 2011 were largely unchanged compared to the previous year-end balance of RM333.2 million. Total group liabilities of RM126.4 million at 31 December 2011 were RM4.6 million or 3.5% lower than the previous year-end mainly due to repayment of borrowings. Group borrowings were reduced to RM80.0 million at the end of 2011 from RM88.8 million at 31 December 2010. Net gearing at year's end of 0.3 times of equity remains within the range that we consider to be appropriate.

33% of total group borrowings at the end of 2011 is repayable within one year with the balance spread over 2 to 14 years. Singapore-Dollar borrowings represented 58.4% of total borrowings whilst borrowings denominated in Taiwan Dollars and Ringgit Malaysia made up 27.5% and 14.1% of total borrowings respectively. Foreign currency borrowings were drawn to hedge against the Group's overseas investments and receivables, which were denominated in foreign currencies.

DIRECTORS' PROFILE

NG WAI PIN

Chairman / Managing Director

- Aged 46, Malaysian
- Appointed to the Board on 10 April 2006
- Chairman of Remuneration Committee

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

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

DR TAY KIANG MENG

Executive Director / Chief Scientist

- Aged 46, Singaporean
- Appointed to the Board on 10 April 2006

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

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

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

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

DIRECTORS' PROFILE (CONT'D)

DATO' HAJI JOHAR BIN MURAT @ MURAD

Independent Non-Executive Director

- Aged 65, Malaysian
- Appointed to the Board on 10 April 2006
- Chairman of Audit Committee and Nomination Committee, Member of Remuneration Committee

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

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

When he was the Deputy Secretary General (Operations) of the Ministry of Science, Technology & Environment from 2000 to 2003, Dato' Haji Johar was also an Alternate Director of Lembaga Pengarah Technology Park Malaysia, MIMOS Berhad, SIRIM Berhad, Malaysian Agriculture Research and Development Institute, Malaysia Technology Development Corporation, Composite Technology Research Malaysia Sdn Bhd, Malaysia Design Council and National Science Centre. He was also the Chairman of Audit Committee of MIMOS Berhad and a member of the Board of Tender for MIMOS Berhad and SIRIM Berhad. Currently, he sits on the board of Furniweb Industrial Products Berhad and several other private companies.

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

AARON SIM KWEE LEIN

Senior Independent Non-Executive Director

- Aged 46, Malaysian
- Appointed to the Board on 27 August 2009
- Member of Audit Committee, Nomination Committee and Remuneration Committee

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

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

DIRECTORS' PROFILE (CONT'D)

JORG HELMUT HOHNLOSER

Non-Independent Non-Executive Director

- Aged 54, German
- Appointed to the Board on 20 February 2012
- Member of Audit Committee and Nomination Committee

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

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

TIMO FABIAN SEEBERGER

Alternate to Jorg Helmut Hohnloser

- Aged 34, German
- Appointed to the Board on 20 February 2012

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

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

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of FCB ("Board") recognises the importance of maintaining good corporate governance as a fundamental part of discharging its responsibilities to protect and enhance shareholders' value. The Board has therefore taken steps, as far as practical, towards compliance with the principles and best practices as set out in the Malaysian Code on Corporate Governance ("Code") and Bursa Malaysia Securities Berhad Main Market Listing Requirements ("Listing Requirements").

The following statement describes how the Company has applied the Principles of Corporate Governance and the extent of compliance with the best practices. Save for the dual role held by the Chairman and the detailed breakdown of the remuneration of each director, the Company has complied with the best practices of the Code.

(A) BOARD OF DIRECTORS

Board Responsibilities

The Group is led and directed by an effective Board consisting of competent individuals with appropriate specialised skills and knowledge to ensure capable management of the Group. The Board is primarily entrusted with the responsibility of charting the direction of the Group and has taken steps to adopt the following specific responsibilities listed by the Code which facilitates the discharge of the Board's stewardship responsibilities.

- Review and adopt strategic plans for the FCB Group;
- Oversee the conduct of the Group's business operations and performance;
- Identify and effectively manage the principal risks affecting the Group;
- Implement succession planning for business continuity;
- Review the adequacy and the integrity of the Group's internal control systems;
- Maintain effective communication with stakeholders and the general public.

Board Balance and Independence

The Board currently has five (5) members, comprising two (2) executive members and three (3) non-executive members. The composition of the independent non-executive directors is in compliance with the minimum prescribed in the Code and the Listing Requirements. A brief profile of each Director is presented on pages 15 to 17 in this Annual Report.

The Board has identified Aaron Sim Kwee Lein as the Senior Independent Non-Executive Director, to whom shareholders may raise their concerns. The Senior Independent Non-Executive Director serves as the point of contact between the independent directors and the Chairman on sensitive issues and acts as a designated contact to whom shareholders' concerns or queries may be raised, as an alternative to the formal channel of communication with shareholders. All correspondence to the Senior Independent Non-Executive Director can be directed to the following address:

Suite 301, Block F, Pusat Dagangan Phileo Damansara I
No. 9, Jalan 16/11, Off Jalan Damansara
46350 Petaling Jaya, Selangor
Malaysia

The Board remains mindful of the dual role held by the Chairman. However, the Board is of the view that there is no concentration of power and authority, and that no one individual has unfettered powers of decision. Furthermore, there are sufficient independent directors on the Board who are individuals of calibre, credibility and are free from any business or other relationship which could materially interfere with the exercise of their independent judgment. These independent directors are capable of exercising independent judgment to ensure fair and objective deliberations at Board meetings.

The Board is satisfied with its existing number and composition, and is of the view that the current Board composition fairly reflects the interests of minority shareholders in the Company. It is also of the view that it has the right mix of skills, experience and strength in qualities which enable the Board to discharge its responsibilities in an effective and competent manner.

To assist in the execution of its responsibilities, the Board has established a number of Board committees, which include the Audit Committee, Nomination Committee and Remuneration Committee. These committees function within clearly defined terms of references and operating procedures which are reviewed on a regular basis.

CORPORATE GOVERNANCE STATEMENT (CONT'D)

(A) BOARD OF DIRECTORS (CONT'D)

Board Meetings and Supply of Information

The Board meets at least once every quarter, with additional meetings to be held if there are matters requiring the Board's attention and decision at the relevant times. Directors who are unable to attend the Board meeting physically are allowed to participate in the deliberations and discussions via telephone-conferencing facility. All proceedings of the Board meetings are minuted which are then circulated to all directors for their perusal prior to confirmation of the minutes at the following Board meeting.

Meeting materials and agenda are delivered to the directors prior to the Board meetings, giving directors sufficient time to evaluate the proposals and if necessary, to request additional information necessary in discharging their duties effectively. The Board has a formal schedule of matters specifically reserved to it for decision, and has clearly defined delegation of responsibilities to committees of the Board and to management including appropriate limits of authority.

The directors have access to all necessary information within the Group and may seek independent professional advice at the Company's expense, whether as a full Board or in their individual capacity, in furtherance of their duties. The directors also have access to the advice and services of the Company Secretaries who are responsible for ensuring that established procedures and relevant statutes and regulations are complied with.

For the financial year ended 31 December 2011, six (6) Board meetings were held and the summary of attendance of each director at the Board meetings held during the financial year under review is as follows:

Directors	Number of Board Meetings	
	Held	Attended
Wong Hua Choon (resigned on 18 January 2012)	6	6
Ng Wai Pin	6	6
Dr Tay Kiang Meng	6	5
Dato' Sri Ibrahim Bin Mahmud (deceased on 2 February 2012)	6	3
Dato' Haji Johar Bin Murat @ Murad	6	6
Aaron Sim Kwee Lein	6	5
Jorg Helmut Hohnloser (appointed on 20 February 2012)	N/A	N/A

Directors' Training

All the directors have attended and completed the Mandatory Accreditation Programme in compliance with the Listing Requirements.

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

Wong Hua Choon (resigned on 18 January 2012)	<ul style="list-style-type: none"> Managing Related Party Transactions and Common Pitfalls in Chapter 10 of Listing Requirements Becoming an Effective Motivational Leader for Organization Success Innovating Change – 4 Leadership Strategies for Transformational Results
Ng Wai Pin	<ul style="list-style-type: none"> Managing Related Party Transactions and Common Pitfalls in Chapter 10 of Listing Requirements Bursa's Powering Business Sustainability, A Guide for Directors Brand Creation with Blue Ocean Strategy
Dr Tay Kiang Meng	<ul style="list-style-type: none"> Managing Related Party Transactions and Common Pitfalls in Chapter 10 of Listing Requirements
Dato' Sri Ibrahim Bin Mahmud (deceased on 2 February 2012)	<ul style="list-style-type: none"> Managing Related Party Transactions and Common Pitfalls in Chapter 10 of Listing Requirements
Dato' Haji Johar Bin Murat @ Murad	<ul style="list-style-type: none"> Managing Related Party Transactions and Common Pitfalls in Chapter 10 of Listing Requirements
Aaron Sim Kwee Lein	<ul style="list-style-type: none"> Managing Related Party Transactions and Common Pitfalls in Chapter 10 of Listing Requirements

CORPORATE GOVERNANCE STATEMENT (CONT'D)

(A) BOARD OF DIRECTORS (CONT'D)

The directors are encouraged to update themselves with changes in guidelines issued by the relevant authorities and to attend such programmes which can complement their services to the Group. In addition, the Company Secretaries also update the Directors on the latest relevant regulatory requirements.

Appointment to the Board

The Nomination Committee ("NC") comprises three (3) members, all of whom are non-executive directors. The members of the NC and their attendance at the meetings held in 2011 are as follows:

		Number of Meetings Attended
Chairman of NC		
Ng Wai Pin (resigned as Chairman of NC on 19 January 2012)	Chairman / Managing Director	2/2
Dato' Haji Johar Bin Murat @ Murad (re-designated as Chairman of NC on 19 January 2012)	Independent Non-Executive Director	2/2
Members of NC		
Aaron Sim Kwee Lein (appointed as a member of NC on 24 August 2010)	Senior Independent Non-Executive Director	2/2
Dato' Sri Ibrahim Bin Mahmud (appointed as a member of NC on 19 January 2012; deceased on 2 February 2012)	-	N/A
Jorg Helmut Hohnloser (appointed as a member of NC on 20 February 2012)	Non-Independent Non-Executive Director	N/A

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

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

The Board through the delegation of its authority to the NC, has used its best efforts to ensure that directors appointed to the board possess the background, experience, knowledge and skills critical to the Group's business and that each director with his special contributions brings to the board an independent and objective perspective to enable balanced and well-considered decisions to be made. The Board is of the view that the current mix of skills and competency of its members are sufficient for the discharge of its responsibilities in an effective manner.

Re-election

The Articles of Association of the Company require that all directors who are appointed by the Board shall retire from office and be subject to re-election by shareholders at the Annual General Meeting after their appointment. Furthermore, at least one-third (1/3) of the Board is subject to retirement and re-election by rotation at least once in every three (3) years. Accordingly, the directors will submit themselves for re-nomination and re-election at regular intervals of at least once every three (3) years.

CORPORATE GOVERNANCE STATEMENT (CONT'D)

(A) BOARD OF DIRECTORS (CONT'D)

Directors' Remuneration

The Remuneration Committee ("RC"), consisting mainly of non-executive directors, comprises the following members:

		Number of Meetings Attended
Chairman of RC		
Ng Wai Pin	Chairman / Managing Director	2/2
Members of RC		
Dato' Haji Johar Bin Murat @ Murad	Independent Non-Executive Director	2/2
Wong Hua Choon (resigned on 18 January 2012)	-	2/2
Dato' Sri Ibrahim Bin Mahmud (appointed as a member of RC on 19 January 2012; deceased on 2 February 2012)	-	N/A
Aaron Sim Kwee Lein (appointed as a member of RC on 20 February 2012)	Senior Independent Non-Executive Director	N/A

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

The remuneration packages of all directors are devised to attract, retain and motivate them, and is reflective of the individual director's experience and responsibilities. The remuneration for executive directors is structured to link rewards to performance and responsibility level. In setting remuneration packages, the RC takes into consideration the pay and employment conditions within the industry and in comparable companies. As for non-executive directors, remuneration is determined by the Board as a whole and the level of remuneration is linked to their level of responsibilities undertaken and contribution to the effective functioning of the Board. The remuneration of each Board member may differ based on their level of expertise, knowledge and experience. None of the directors participates in any way in determining their individual remuneration packages.

The aggregate remuneration of the directors for the financial year ended 31 December 2011 is as follows:

	Executive Directors	Non-Executive Directors
	RM'000	RM'000
Salaries	1'937	-
Fees	8	311
Bonuses	716	-
Other emoluments	77	-
	2,738	311

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

	Executive Directors	Non-Executive Directors
Below RM50,000	-	3
RM200,001 to RM250,000	-	1
RM900,001 to RM950,000	1	-
RM1,800,001 to RM1,850,000	1	-
	2	4

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

CORPORATE GOVERNANCE STATEMENT (CONT'D)

(B) ACCOUNTABILITY AND AUDIT

Audit Committee

The Audit Committee ("AC") currently comprises three (3) members, all of whom are non-executive directors with a majority being independent directors.

The AC has full access to and co-operation of the management and has full discretion to invite any director or executive officer to attend its meetings. To create an environment for open discussion on audit matters, the AC meets with the external auditors without the presence of the management twice a year.

To eliminate duplication of efforts and ensure clear accountabilities, the respective heads of business units are responsible to identify, monitor and manage risks as an integral part of business planning and performance management. The more significant risks (from a probability and impact perspective) are reserved for the AC's and the Board's review and discussion.

Further information on the AC is set out in the Audit Committee Report on pages 24 to 26 in this Annual Report.

Financial Reporting

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

Internal Controls

The Board has overall responsibility of maintaining a system of internal controls, which provides reasonable assurance of effective and efficient operations and compliance with laws and regulations, as well as internal policies and procedures.

The Board recognises that a system of internal controls is designed to manage rather than to eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss and therefore no internal control system will preclude all errors and irregularities.

With the assistance of the internal audit function, the AC and the Board review the effectiveness of key internal controls on an ongoing basis, provide their perspective on management control and ensure that the necessary corrective actions are taken within an appropriate timeframe.

The Statement on Internal Controls of the Group set out on page 27 in this Annual Report provides an overview of the Group's approach in maintaining a sound system of internal controls to safeguard shareholders' investment and the Group's assets.

To strengthen corporate governance practices across the Group, the Group had in 2011 adopted a whistle-blowing policy to provide employees with accessible avenue to report on suspected fraud, corruption, dishonest practices or other similar matters. The aim of this policy is to encourage the reporting of such matters in good faith, with the confidence that employees making such reports will, to the extent possible, be protected from reprisal.

Relationship with Auditors

The Board on its own and through the AC maintains a formal and transparent professional relationship with the Group's auditors. For the year under review, the AC had two (2) meetings with the external auditors without the presence of the management, to encourage a greater exchange of independent, frank views and opinions/dialogue between both parties. The roles of the AC in relation to the auditors are described in the Audit Committee Report set out on pages 24 to 26 in this Annual Report.

CORPORATE GOVERNANCE STATEMENT (CONT'D)

(B) ACCOUNTABILITY AND AUDIT (CONT'D)

Directors' Responsibilities in respect of Financial Statements

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

(C) COMMUNICATION WITH SHAREHOLDERS

The Group communicates with its shareholders and investors primarily through timely release of financial results on a quarterly basis and announcements which give the shareholders an overview of the Group's performance and operations. The Company's Annual General Meeting is the principal forum for dialogue with shareholders. The Board provides opportunities for shareholders to raise questions pertaining to issues in the Annual Report, corporate developments in the Group, the resolutions being proposed and the business of the Group in general at every General Meeting of the Company.

Shareholders and members of the public can also obtain information on the Company through the Company's website at www.frontken.com.

AUDIT COMMITTEE REPORT

(A) COMPOSITION

The Audit Committee ("AC") comprises the following members:

Chairman of AC

Ng Wai Pin
(resigned as Chairman of AC on 19 January 2012)

Chairman / Managing Director

Dato' Haji Johar Bin Murat @ Murad
(re-designated as Chairman of AC on 19 January 2012)

Independent Non-Executive Director

Members of AC

Aaron Sim Kwee Lein

Senior Independent Non-Executive Director

Dato' Sri Ibrahim Bin Mahmud
(appointed as a member of AC on 19 January 2012;
deceased on 2 February 2012)

-

Jorg Helmut Hohnloser
(appointed as a member of AC on 20 February 2012)

Non-Independent Non-Executive Director

(B) TERMS OF REFERENCE

Composition

The AC shall be appointed by the Board from amongst its members and shall comprise no fewer than three (3) members, all of whom should be non-executive directors with a majority being independent directors. At least one (1) member must be a member of the Malaysian Institute of Accountants or possess such other qualifications and/or experience as approved by Bursa Malaysia Securities Berhad.

In the event of any vacancy in the AC resulting in the non-compliance with Paragraph 15.09 of the Listing Requirements, the Board shall appoint a new member within three (3) months. The Board will review the term of office and the performance of the AC and each of its members at least once every three (3) years.

Meetings

The AC shall meet at least four (4) times in each financial year and may regulate its own procedure in lieu of convening a formal meeting by means of video or teleconference. The quorum for a meeting shall be the majority of members present, who shall be independent directors. The Company Secretary shall act as secretary of the AC.

The AC may invite any board member or any member of management or any employee of the Company whom the AC thinks fit to attend its meetings, assist and provide pertinent information as necessary. The internal and external auditors have the right to appear at any meetings of the AC and shall appear before the AC when required to do so by the Committee.

Functions and Duties

The functions and duties of the AC are as follows:-

1. To review the following and report the same to the Board:
 - (a) the nomination of external auditors;
 - (b) the adequacy of existing external auditors audit arrangements, with particular emphasis on the scope and quality of the audit;

AUDIT COMMITTEE REPORT (CONT'D)

(B) TERMS OF REFERENCE (CONT'D)

Functions and Duties (Cont'd)

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

Authority

The AC shall have the authority to:-

- (a) investigate any matter within its terms of reference;
- (b) have the resources which are required to perform its duties;
- (c) have full and unrestricted access to any information which it requires in the course of performing its duties;
- (d) have direct communication channels with the internal and external auditors;
- (e) obtain independent/external professional or other advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary; and
- (f) convene meetings with the external auditors, the internal auditors or both, excluding the attendance of other directors and employees of the Company, whenever deemed necessary.

AUDIT COMMITTEE REPORT (CONT'D)

(C) SUMMARY OF THE ACTIVITIES OF THE AUDIT COMMITTEE

During the financial year under review, the AC had five (5) meetings. The details of their attendance at meetings are as follows:

	Number of Meetings Attended
Ng Wai Pin	5/5
Dato' Haji Johar Bin Murat @ Murad	5/5
Aaron Sim Kwee Lein	5/5
Dato' Sri Ibrahim Bin Mahmud	N/A
Jorg Helmut Hohnloser	N/A

The AC carried out its duties as set out in the terms of reference, including:

- (a) review of quarterly and year-end financial statements prior to recommending the same for the Board's approval, focusing particularly on significant and unusual events and compliance with accounting standards and other legal requirements;
- (b) review of the appointment of the external and internal auditors, their independence and effectiveness, and their fees;
- (c) review of the external auditors' Audit Planning Memorandum comprising their scope of audit, key audit areas, audit approach and timetable;
- (d) met with the external auditors twice during the year without the presence of the executive directors and management and to review the audit report and discuss relevant issues and obtain feedbacks;
- (e) review of the external auditors' management letter and recommendations regarding opportunities for improvement to internal controls based on observations made in the course of the audit;
- (f) review of the adequacy of the scope, functions, competency and resources of the internal audit function, and that it has the necessary authority to carry out its work;
- (g) review of the scope and results of the internal audit procedures as well as management's response to recommendations for improvement, and evaluation of the adequacy of the internal control system based on the reports from the internal auditors;
- (h) review of the related party transactions within the Group;
- (i) review of the Group's financial and accounting policies and practices; and
- (j) evaluation of the performance of the external auditors' function based on timeliness, competency, adequacy of resources to achieve the agreed scope of audit, and assistance given by the employees of the Group to the external auditors before recommending the re-appointment of external auditors to the Board.

(D) INTERNAL AUDIT FUNCTION

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

During the financial year, the internal auditors carried out review of selected key processes of the Company and certain subsidiaries, covering high-level internal control framework, financial management, risk management, procurement and inventory management. The internal audit was based on scope of work which was approved by the AC. The total costs incurred by the Company for the internal audit function of the Group in 2011 amounted to approximately RM40,000.

STATEMENT ON INTERNAL CONTROLS

Responsibility

The Board recognises the importance of a sound system of internal controls in the Group and is pleased to present below a status review of the Group's state of internal control. The related principal responsibilities of the Board in relation to internal controls as outlined in the Malaysian Code on Corporate Governance include:

- Identifying principal risks and ensuring the implementation of appropriate control systems to manage these risks;
- Reviewing the adequacy and the integrity of the Group's internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

The Board affirms its overall responsibility and reviews the adequacy and integrity of the system of internal controls to safeguard shareholders' investment and the Group's assets. However, due to the inherent limitations of any system of internal controls, this system is designed to manage, rather than eliminate the risk of failure to achieve the Group's objectives. Accordingly, the system can only provide reasonable but not absolute assurance against material misstatement, loss and fraud.

Internal Controls

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

Annual budgetary exercise is undertaken requiring all business units within the Group to prepare financial budgets. The Group budget is then presented to the Board. Quarterly review of the Group's performance against budgets with any major variances are deliberated by the Board. The Group conducts management meeting to review financial performance against business plans and monitor the respective business unit's performance against budgets.

Significant changes in the business development are reported to the Board during the Board meetings. This oversight review enables the Board to control and evaluate the business performance so as to ensure that the Group is achieving its corporate objectives.

Internal policies and procedures of business processes are in place for application across the Group. These policies and procedures serve as a guide to ensure compliance with internal controls and applicable laws and regulations.

Risk Management

The Board and the management regard risk management as an integral part of the business operations and are continuously identifying, evaluating and managing significant business risks affecting the day-to-day operations of the Group. To further strengthen its risk management practices, the Group is building on existing processes and putting in place formal enterprise risk management policies and procedures to facilitate continuous monitoring and reporting of risk information and action plans. Where there are any areas of concern on the reliability and integrity of financial information of any business unit, special audits are commissioned to assist the Board in fulfilling its oversight responsibilities.

The internal audit function is outsourced to a professional service provider firm. The Audit Committee reviews the work of the internal and external auditors, their findings and recommendations to ensure that it obtains the necessary level of assurance with respect to the adequacy of internal controls. The internal auditors review the Group's system of internal controls and report the internal audit activities conducted within the year to the Audit Committee. The Group's external auditors, in the course of their statutory audit, carry out a review of the Company's system of internal controls to the extent of their planned reliance as laid out in their audit plan. Any significant weaknesses identified during the reviews together with the improvement measures to strengthen the internal controls are reported to the Audit Committee. The Audit Committee reviews the internal control issues identified by the internal and external auditors, as well as the actions taken to rectify the findings, and evaluates the adequacy and effectiveness of the Group's risk management and internal control system.

Conclusion

The Board has reviewed the effectiveness of the system of internal controls and that any necessary actions have been or are being taken to remedy the internal control weaknesses identified from the review. The Board is of the view that the system of internal controls in place for the year under review is sound and sufficient to safeguard the shareholders' investment and the Group's assets. No material losses, contingencies or uncertainties have arisen from any inadequacy or failure of the Group's system of internal controls that would require separate disclosure in the Company's Annual Report.

The Board is also cognizant of the fact that the Group's system of internal controls and risk management practices must continuously evolve to meet the changing and challenging business environment. Therefore, the Board will, when necessary, put in place appropriate action plans to further enhance the system of internal controls.

Pursuant to paragraph 15.23 of the Listing Requirements, the external auditors have reviewed this Statement for inclusion in the Annual Report for the year ended 31 December 2011 and reported to the Board that nothing has come to their attention that causes them to believe that this Statement is inconsistent with their understanding of the process adopted by the Board in reviewing the adequacy and integrity of the system of internal controls.

This Statement is made in accordance with the resolution of the Board of Directors dated 24 April 2012.

ADDITIONAL DISCLOSURE

1. Share Buy-back

At the Seventh Annual General Meeting held on 24 June 2011, the shareholders of the Company granted authority to the Company to purchase its own shares provided that the aggregate number of shares purchased shall not exceed 10% of the total issued and paid-up share capital of the Company at the time of purchase.

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

Month	No. of Shares	Nominal Value Per Share (RM)	Total Consideration (RM)	Purchase Price Per Share (RM)		
				Highest	Lowest	Average
August 2011	10'000	0.10	1'292	0.125	0.125	0.125
September 2011	848'400	0.10	95'037	0.100	0.115	0.108
October 2011	975'200	0.10	98'233	0.100	0.105	0.103

As at 31 December 2011, the Company held 1,833,600 repurchased or treasury shares out of its total issued and paid-up share capital of 1,011,408,160 ordinary shares of RM0.10 each. Such treasury shares were held at a carrying amount of RM194,562. There was no resale or cancellation of treasury shares during the financial year.

2. Options, Warrants or Convertible Securities

For the financial year ended 31 December 2011, there was no exercise of warrants. The Company has not issued any options or convertible securities during the financial year.

3. Depository Receipt

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

4. Sanctions and/or Penalties

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

5. Non-Audit Fees

During the financial year, the non-audit fees paid by the Company to our external auditors, or a firm or company affiliated to the external auditors for the financial year ended 31 December 2011 amounted to RM57,861.

6. Variation in Results

On 25 April 2012, the Company announced a positive variance of RM1.1 million or 80.7% between the audited consolidated profit after tax and non-controlling interests ("PATNCI") of RM2.5 million and the previously announced unaudited PATNCI of RM1.4 million for the financial year ended 31 December 2011. A reconciliation of the difference is as follows:

	Unaudited Results RM'000	Audited Results RM'000	Variance RM'000
Consolidated PATNCI	1'375	2'484	1'109

ADDITIONAL DISCLOSURE (CONT'D)

6. Variation in Results (Cont'd)

The deviation was mainly due to the following:	RM'000
(a) Reversal of allowance for doubtful debts as a result of the settlement of outstanding debt by debtor following the Court's decision (subsequent to the announcement of unaudited results) to award the summary judgment in favour of FCB's subsidiary	1'183
(b) Effect of taxation arising from the reversal of allowance for doubtful debts in (a) above	(73)
(c) Others	(1)
Total deviation	1,109

7. Profit Guarantee

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

8. Material Contract

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

9. Corporate Social Responsibility

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

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

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

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

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

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

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

ADDITIONAL DISCLOSURE (CONT'D)

10. Recurrent Related Party Transactions ("RRPT")

Details of the RRPT during the financial year ended 31 December 2011 are as follows:

Companies within the Group	Transacting parties	Interested parties/relationship	Nature of transactions	RM'000
Frontken (Singapore) Pte Ltd ("FS") and Metall-Treat Industries Pte Ltd	Chinyee Engineering & Machinery Pte Ltd ("Chinyee")	Wong Hua Choon, a Director and substantial shareholder of FCB within the past 6 months (up to 18 January 2012), is also a Director and substantial shareholder of Chinyee.	(a) Sales to Chinyee	980
			(b) Purchases from Chinyee	4'329
				5'309
Frontken (East Malaysia) Sdn Bhd ("FEM")	AMT Engineering Sdn Bhd ("AMT")	Sia Chiok Meng, a Director of FEM, is also a Director and major shareholder of AMT and A&I.	(a) Sales to AMT	53
			(b) Purchases from AMT	13
	A & I Engine Rebuilders Sdn Bhd ("A&I")		(c) Rental payable to AMT	72
			(d) Sales to A&I	3
				141
Frontken-MIC (Wuxi) Co. Ltd ("FMIC-W")	MIC-Tech (Wuxi) Co., Ltd ("MIC-Tech")	Marketch International Corporation, the ultimate holding company of MIC-Tech, is a deemed substantial shareholder of FMIC-W.	(a) Sales by FMIC-W to MIC-Tech	585
			(b) Rental payable to MIC-Tech	494
				1'079

11. Utilisation of Proceeds

The Company raised approximately RM31.8 million from its rights issue of shares with warrant which was completed on 16 March 2010. The proceeds from the rights issue were fully utilised by 31 May 2011 as follows:

Purpose	Proposed Utilisation RM'000	Actual Utilisation RM'000
Repayment of Group's borrowings	15,000	15,000
To finance future investments	8,000	8'000
Working capital	7,787	*8,025
Defraying estimated expenses	1,000	*762
31,787		31,787

* The balance of the proceeds allocated for defraying estimated expenses of RM238,000 was fully utilised for working capital purposes.

FINANCIAL STATEMENTS

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DIRECTORS' REPORT

The directors of **FRONTKEN CORPORATION BERHAD** have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the financial year ended 31 December 2011.

PRINCIPAL ACTIVITIES

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

The principal activities of the subsidiaries are disclosed in Note 11 to the financial statements.

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

SIGNIFICANT EVENTS

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

FINANCIAL RESULTS

	The Group RM	The Company RM
Profit after taxation for the financial year	3,484,076	1,899,386
Attributable to:		
Owners of the Company	2,484,403	1,899,386
Non-controlling interests	999,673	-
	<u>3,484,076</u>	<u>1,899,386</u>

DIVIDENDS

Since the end of the previous financial year, the Company paid an interim single-tier dividend of 0.1 sen (1%) per ordinary share of 10 sen each on 1,011,408,160 shares amounting to RM1,011,408 in respect of the financial year ended 31 December 2011 on 28 June 2011.

The directors do not recommend the payment of further dividends in respect of the current financial year.

RESERVES AND PROVISIONS

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

ISSUES OF SHARES AND DEBENTURES

During the financial year,

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

DIRECTORS' REPORT (CONT'D)

TREASURY SHARES

During the financial year, the Company repurchased 1,833,600 of its issued ordinary shares from the open market at an average price of RM0.106 per share. The total consideration paid for the repurchase including transaction costs was RM194,562. The shares repurchased are being held as treasury shares in accordance with Section 67A of the Companies Act 1965 and are presented as a deduction from total equity.

As at 31 December 2011, the Company held 1,833,600 treasury shares at a carrying amount of RM194,562.

OPTIONS GRANTED OVER UNISSUED SHARES

Warrants

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

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

The summary of the movements of Warrants is as follows:

Issue date	Expiry date	Balance as of 1.1.2011	Number of Warrants		Balance as of 31.12.2011
			Granted	Exercised	
11.3.2010	10.3.2015	288,973,760	-	-	288,973,760

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

OTHER FINANCIAL INFORMATION

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

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

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

- which would cause the amount written off for bad debts or the amount of allowance for impairment losses on receivables in the financial statements of the Group and of the Company to be inadequate to any substantial extent; or
- which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading; or
- which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate; or

DIRECTORS' REPORT (CONT'D)

OTHER FINANCIAL INFORMATION (Cont'd)

- (d) not otherwise dealt with in this report or financial statements which would render any amount stated in the financial statements of the Group and of the Company misleading.

Other than the contingent liabilities as disclosed in Note 29 to the financial statements, at the date of this report, there does not exist:

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

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

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

DIRECTORS

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

Ng Wai Pin
 Dr. Tay Kiang Meng
 Dato' Ibrahim Bin Mahmud (demised on 2 February 2012)
 Dato' Haji Johar Bin Murat @ Murad
 Aaron Sim Kwee Lein
 Wong Hua Choon (resigned on 19 January 2012)
 Jorg Helmut Hohnloser (appointed on 20 February 2012)
 Timo Fabian Seeberger (Alternate to Jorg Helmut Hohnloser) (appointed on 20 February 2012)

DIRECTORS' INTERESTS

The shareholdings in the Company of those who were directors at the end of the financial year, as recorded in the Register of Directors' Shareholdings kept by the Company under Section 134 of the Companies Act, 1965, are as follows:

Shares in the Company	Number of ordinary shares of RM0.10 each			Balance as of 31.12.2011
	Balance as of 1.1.2011	Bought	Sold	
Direct Interests				
Wong Hua Choon	214,660,901	- (178,750,000)		35,910,901
Dr. Tay Kiang Meng	9,404,808	-	-	9,404,808
Indirect Interest				
Wong Hua Choon ¹	23,592,972	-	-	23,592,972

DIRECTORS' REPORT (CONT'D)

DIRECTORS' INTERESTS (Cont'd)

	Balance as of 1.1.2011	Number of warrants 2010/2015		Balance as of 31.12.2011
		Bought	Sold	
Warrants in the Company				
Direct Interests				
Wong Hua Choon	57,617,409	-	(8,342,000)	49,275,409
Dr. Tay Kiang Meng	2,687,088	-	(1,500,000)	1,187,088
Indirect Interest				
Wong Hua Choon ¹	6,740,849	-	-	6,740,849

Note:

¹ Deemed interest by virtue of Section 6A(4) of the Companies Act, 1965 through his interest in Frontken Holdings Pte. Ltd..

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

The other directors did not hold any shares or have any beneficial interests in the shares of the Company or of its related companies during and at the end of the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, none of the directors of the Company has received or become entitled to receive any benefit (other than the benefit included in the aggregate amount of emoluments received or due and receivable by directors as disclosed in the Financial Statements or the fixed salary of a full time employee of the Company) by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest except for any benefit which may be deemed to have arisen by virtue of the transactions as disclosed in Note 18 to the financial statements.

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

AUDITORS

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

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

NG WAI PIN

DR. TAY KIANG MENG

24 April 2012

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FRONTKEN CORPORATION BERHAD

We have audited the financial statements of Frontken Corporation Berhad, which comprise the statements of financial position as at 31 December 2011 of the Group and of the Company, and the statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 38 to 94.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company'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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards and the Companies Act 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as of 31 December 2011 and of their financial performance and cash flows for the financial year then ended.

Report on Other Legal and Regulatory Requirements

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

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.
- (b) We have considered the financial statements and the auditors' reports of the subsidiaries of which we have not acted as auditors, which are indicated in Note 11 to the financial statements.
- (c) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- (d) The audit reports on the financial statements of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

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

Report on Other Legal and Regulatory Requirements (Cont'd)

The supplementary information set out in Note 33 on page 95 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.

Crowe Horwath

Firm No : AF 1018
Chartered Accountants

Lee Kok Wai

Approval No : 2760/06/12 (J)
Chartered Accountant

Kuala Lumpur
24 April 2012

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	The Group		The Company	
		2011 RM	2010 RM	2011 RM	2010 RM
Revenue	5	198,122,512	146,703,790	3,567,752	4,503,492
Cost of sales		(147,697,408)	(98,609,401)	-	-
Gross profit		50,425,104	48,094,389	3,567,752	4,503,492
Other income		3,480,608	1,032,371	1,110,063	1,902,824
Administrative expenses		(36,915,853)	(26,980,709)	(2,317,822)	(4,249,451)
Other expenses		(11,205,716)	(6,656,469)	(373,125)	(286,734)
Finance costs	6	(2,803,413)	(3,027,312)	(87,482)	(243,075)
Share of results in associates		18,304	641,118	-	-
Profit before tax	7	2,999,034	13,103,388	1,899,386	1,627,056
Income tax expense	8	485,042	(1,000,538)	-	-
Profit after tax		3,484,076	12,102,850	1,899,386	1,627,056
Other comprehensive income/ (expenses)					
Foreign currency translation		1,657,137	(1,227,181)	-	-
Share of revaluation reserve of associates		22,432	-	-	-
Total comprehensive income		5,163,645	10,875,669	1,899,386	1,627,056
Profit after tax attributable to:					
Owners of the Company		2,484,403	11,989,111	1,899,386	1,627,056
Non-controlling interests		999,673	113,739	-	-
		3,484,076	12,102,850	1,899,386	1,627,056
Total comprehensive income attributable to:					
Owners of the Company		4,234,824	10,786,876	1,899,386	1,627,056
Non-controlling interests		928,821	88,793	-	-
		5,163,645	10,875,669	1,899,386	1,627,056
Earnings per ordinary share attributable to owners of the Company					
Basic	9	0.25	1.25		
Diluted	9	0.19	1.01		

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

STATEMENTS OF FINANCIAL POSITION

AS OF 31 DECEMBER 2011

	Note	The Group		The Company	
		2011 RM	2010 RM	2011 RM	2010 RM
ASSETS					
Non-Current Assets					
Property, plant and equipment	10	180,968,975	178,405,029	153,475	190,014
Investments in subsidiaries	11	-	-	68,381,335	68,192,335
Investments in associates	12	4,631,070	4,494,255	-	-
Goodwill on consolidation	13	28,381,127	28,311,674	-	-
Intangible assets	14	-	-	-	-
Deferred tax assets	15	195,695	352,360	-	-
Total Non-Current Assets		214,176,867	211,563,318	68,534,810	68,382,349
Current Assets					
Inventories	16	11,373,617	10,431,408	-	-
Amount due from contract customers	17	177,178	-	-	-
Trade receivables	18	70,264,668	67,337,237	-	-
Other receivables and prepaid expenses	18	6,528,458	5,125,566	31,360	27,841
Amount owing by subsidiaries	19	-	-	47,361,789	45,680,029
Amount owing by associates	12	4,150,474	4,534,039	-	-
Tax recoverable		555,121	-	-	-
Fixed deposits with licensed banks		3,736,804	12,684,190	3,000,000	12,000,000
Cash and bank balances		22,624,605	21,515,759	590,926	1,474,363
Total Current Assets		119,410,925	121,628,199	50,984,075	59,182,233
Total Assets		333,587,792	333,191,517	119,518,885	127,564,582
EQUITY AND LIABILITIES					
Equity					
Share capital	20	101,140,816	101,140,816	101,140,816	101,140,816
Reserves	21	78,131,354	75,102,500	10,138,200	9,444,784
Equity attributable to owners of the Company		179,272,170	176,243,316	111,279,016	110,585,600
Non-controlling interests		27,889,661	25,901,844	-	-
Total Equity		207,161,831	202,145,160	111,279,016	110,585,600
Non-Current Liabilities					
Term loans	22	46,952,130	48,314,340	-	-
Hire purchase payables	23	5,912,221	9,867,784	-	-
Deferred tax liabilities	15	2,749,731	4,389,835	-	-
Total Non-Current Liabilities		55,614,082	62,571,959	-	-

STATEMENTS OF FINANCIAL POSITION AS OF 31 DECEMBER 2011 (CONT'D)

	Note	The Group		The Company	
		2011 RM	2010 RM	2011 RM	2010 RM
Current Liabilities					
Trade payables	24	22,689,940	20,502,454	-	-
Other payables and accrued expenses	24	18,633,635	16,264,903	183,678	310,144
Amount owing to subsidiaries	19	-	-	8,056,191	16,668,838
Amount owing to associates	12	1,500,199	-	-	-
Bank overdrafts	25	1,669,621	1,230,283	-	-
Bank borrowings	25	20,010,407	22,132,228	-	-
Hire purchase payables	23	5,439,809	7,249,505	-	-
Tax liabilities		868,268	1,095,025	-	-
Total Current Liabilities		70,811,879	68,474,398	8,239,869	16,978,982
Total Liabilities		126,425,961	131,046,357	8,239,869	16,978,982
Total Equity and Liabilities		333,587,792	333,191,517	119,518,885	127,564,582

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

STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

The Group	Non-distributable			Distributable		Attributable to owners of the Company RM	Non-controlling interests RM	Total RM
	Share capital RM	Share premium RM	Foreign currency translation reserve RM	Warrant reserve RM	Retained earnings RM			
Balance as of 1 January 2010	72,243,440	7,997,587	3,688,262	-	51,419,091	135,348,380	182,232	135,530,612
Other comprehensive expenses recognised for the financial year, net of tax:								
- foreign currency translation	-	-	(1,202,235)	-	-	(1,202,235)	(24,946)	(1,227,181)
Profit after tax for the financial year	-	-	-	-	11,989,111	11,989,111	113,739	12,102,850
Total comprehensive income for the financial year	-	-	(1,202,235)	-	11,989,111	10,786,876	88,793	10,875,669
Contributions by and distributions to owners of the Company:								
-Dividend paid (Note 27)	-	-	-	-	(1,011,410)	(1,011,410)	-	(1,011,410)
-Acquisition of subsidiary	-	-	-	-	-	-	25,448,223	25,448,223
-Issue of shares by subsidiary	-	-	-	-	-	-	182,596	182,596
-Share issue expenses	-	(667,644)	-	-	-	(667,644)	-	(667,644)
-Issue of ordinary shares (Note 20):								
Rights issue	28,897,376	2,006,762	-	882,976	-	31,787,114	-	31,787,114
Balance as of 31 December 2010	101,140,816	9,336,705	2,486,027	882,976	62,396,792	176,243,316	25,901,844	202,145,160

STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011 (CONT'D)

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

STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011 (CONT'D)

The Company	Non-distributable				Distributable	Total RM
	Share capital RM	Share premium RM	Treasury shares RM	Warrant reserve RM	(Accumulated losses)/ Retained earnings RM	
Balance as of 1 January 2010	72,243,440	7,997,587	-	-	(1,390,543)	78,850,484
Profit after taxation/Total comprehensive income for the financial year	-	-	-	-	1,627,056	1,627,056
Contributions by and distributions to owners of the Company:						
-Dividend paid (Note 27)	-	-	-	-	(1,011,410)	(1,011,410)
-Share issue expenses	-	(667,644)	-	-	-	(667,644)
-Issue of ordinary shares (Note 20):						
Rights issue	28,897,376	2,006,762	-	882,976	-	31,787,114
Balance as of 31 December 2010	101,140,816	9,336,705	-	882,976	(774,897)	110,585,600
Balance as of 1 January 2011	101,140,816	9,336,705	-	882,976	(774,897)	110,585,600
Profit after taxation/ Total comprehensive income for the financial year	-	-	-	-	1,899,386	1,899,386
Contribution by and distributions to owners of the Company:						
-Dividend paid (Note 27)	-	-	-	-	(1,011,408)	(1,011,408)
-Purchase of treasury shares	-	-	(194,562)	-	-	(194,562)
Balance as of 31 December 2011	101,140,816	9,336,705	(194,562)	882,976	113,081	111,279,016

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

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2011

	The Group		The Company	
	2011 RM	2010 RM	2011 RM	2010 RM
CASH FLOWS FROM/ (FOR) OPERATING ACTIVITIES				
Profit before taxation	2,999,034	13,103,388	1,899,386	1,627,056
Adjustments for:				
Depreciation of property, plant and equipment	19,017,408	14,211,559	45,252	47,222
Interest expense	2,803,413	3,027,312	87,482	243,075
Unrealised loss/(gain) on foreign exchange	241,546	125,995	273,226	(434,345)
Allowance for impairment losses on receivables	2,110,975	2,875,742	-	1,512,994
Inventories written off	1,222,104	-	-	-
Bad debts written off	180,018	540	-	-
Property, plant and equipment written off	174,514	24,196	-	-
Impairment loss on investments in subsidiaries	-	-	-	982,665
Impairment of goodwill	-	934,579	-	-
Share of results in associates	(18,304)	(641,118)	-	-
Interest income	(181,653)	(456,563)	(1,110,063)	(1,398,510)
Gain on disposal of property, plant and equipment	(228,259)	(76,736)	-	-
Writeback of allowance for impairment losses on trade receivables	(1,822,080)	-	-	-
Gain on dilution on investment in subsidiary	(86,100)	-	-	-
Dividend income from subsidiaries	-	-	(3,567,752)	(4,397,990)
Dividend income from associate	-	-	-	(105,502)
Operating Profit/(Loss)				
Before Working Capital Changes	26,412,616	33,128,894	(2,372,469)	(1,923,335)
(Increase)/Decrease in:				
Inventories	(2,014,197)	(437,697)	-	-
Amount due from contract customers	(177,178)	-	-	-
Trade receivables	(2,453,578)	(9,294,872)	-	-
Other receivables and prepaid expenses	(1,297,409)	357,806	(3,519)	15,586
Amount owing by associates	417,141	(2,454,733)	-	-
Increase/(Decrease) in:				
Amount due to contract customers	-	(47,202)	-	-
Trade payables	1,903,445	1,874,864	-	-
Other payables and accrued expenses	2,222,230	(1,038,321)	(126,465)	56,891
Amount owing to associates	1,500,199	(117,515)	-	-
Amount owing to a director	(54,573)	29,018	-	-
Cash Generated From/ (For) Operations	26,458,696	22,000,242	(2,502,453)	(1,850,858)
Taxes paid	(1,871,405)	(1,080,946)	-	-
Net Cash From/(For) Operating Activities	24,587,291	20,919,296	(2,502,453)	(1,850,858)

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2011 (CONT'D)

	Note	The Group		The Company	
		2011 RM	2010 RM	2011 RM	2010 RM
CASH FLOWS (FOR)/ FROM INVESTING ACTIVITIES					
Increase in amount owing by subsidiaries		-	-	(1,681,761)	(3,585,424)
Purchase of property, plant and equipment	(22,488,433)		(23,903,130)	(8,713)	(136,481)
Dividend received from subsidiaries		-	-	3,567,752	4,397,990
Dividend received from associates		-	259,202	-	105,502
Acquisition of subsidiaries (Note 11)	579,998		1,898,636	(189,000)	(15,134,319)
Acquisition of minority interest		-	182,596	-	-
Additional investment in subsidiaries		-	-	-	(182,328)
Acquisition of associates		-	(3,504,418)	-	-
Proceeds from disposal of property, plant and equipment	3,376,208		1,123,160	-	-
Interest received	181,653		456,563	1,110,063	1,398,510
Net Cash (For)/From Investing Activities		(18,350,574)	(23,487,391)	2,798,341	(13,136,550)
CASH FLOWS (FOR)/FROM FINANCING ACTIVITIES					
Decrease in amount owing to subsidiaries		-	-	(8,885,790)	(1,604,982)
Proceeds from issuance of shares		-	31,787,114	-	31,787,114
Share issue expenses		-	(667,644)	-	(667,644)
Treasury shares acquired	(194,562)		-	(194,562)	-
Issue of shares by subsidiary to non-controlling interests	805,186		-	-	-
Repayment of term loans	(19,995,764)		(15,372,804)	-	-
Interest paid	(2,803,413)		(3,027,312)	(87,482)	(243,075)
Dividend paid	(1,011,408)		(1,011,410)	(1,011,408)	(1,011,410)
Dividend paid by a subsidiary to non-controlling interests	(361,000)		-	-	-
Drawdown of term loans	15,608,759		21,854,844	-	-
Payment of hire purchase payables	(6,819,185)		(8,346,045)	-	-
Net Cash (For)/From Financing Activities		(14,771,387)	25,216,743	(10,179,242)	28,260,003
NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS					
Effect of exchange rate changes		(8,534,670)	22,648,648	(9,883,354)	13,272,595
		256,792	134,044	(83)	825
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR					
		32,969,666	10,186,974	13,474,363	200,943
CASH AND CASH EQUIVALENTS AT END OF YEAR					
	26	24,691,788	32,969,666	3,590,926	13,474,363

Note : During the financial year, the Group and the Company acquired property, plant and equipment at an aggregate cost of RM23,206,149 and RM8,713 (2010 : RM26,937,087 and RM136,481), respectively, of which RM717,716 and NIL (2010 : RM3,033,957 and NIL), respectively, was acquired under hire-purchase arrangements.

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

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

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

The principal activities of the subsidiaries are disclosed in Note 11.

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

The registered office of the Company is located at 17-2, Jalan Solaris 3, Solaris Mont' Kiara, 50480 Kuala Lumpur, Malaysia.

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

The financial statements of the Group and of the Company have been authorised by the Board of Directors for issuance on 24 April 2012.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

- (a) During the current financial year, the Group has adopted the following new accounting standards and interpretations (including the consequential amendments):-

FRSs and IC Interpretations (including the Consequential Amendments)

FRS 1 (Revised) First-time Adoption of Financial Reporting Standards

FRS 3 (Revised) Business Combinations

FRS 127 (Revised) Consolidated and Separate Financial Statements

Amendments to FRS 1 (Revised): Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters

Amendments to FRS 1 (Revised): Additional Exemptions for First-time Adopters

Amendments to FRS 2: Scope of FRS 2 and FRS 3 (Revised)

Amendments to FRS 2: Group Cash-settled Share-based Payment Transactions

Amendments to FRS 5: Plan to Sell the Controlling Interest in a Subsidiary

Amendments to FRS 7: Improving Disclosures about Financial Instruments

Amendments to FRS 138: Consequential Amendments Arising from FRS 3 (Revised)

IC Interpretation 4 Determining Whether An Arrangement Contains a Lease

IC Interpretation 12 Service Concession Arrangements

IC Interpretation 16 Hedges of a Net Investment in a Foreign Operation

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

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

- (a) During the current financial year, the Group has adopted the following new accounting standards and interpretations (including the consequential amendments) (Cont'd):-

FRSs and IC Interpretations (including the Consequential Amendments)

IC Interpretation 17 Distributions of Non-cash Assets to Owners

IC Interpretation 18 Transfers of Assets from Customers

Amendments to IC Interpretation 9: Scope of IC Interpretation 9 and FRS 3 (Revised)

Annual Improvement to FRSs (2010)

The adoption of the above accounting standards and interpretations (including the consequential amendments) did not have any material impact on the Group's financial statements, other than the following:-

- (i) Amendments to FRS 7 expand the disclosure requirements in respect of fair value measurements and liquidity risk. In particular, the amendments require additional disclosure of fair value measurements by level of a fair value measurement hierarchy, as shown in Note 28(e) to the financial statements. Comparatives are not presented by virtue of the exemption given in the amendments.
- (ii) Annual Improvements to FRSs (2010) contain amendments to 11 accounting standards that result in accounting changes for presentation, recognition or measurement purposes.

The amendments to FRS 101 (Revised) clarify that an entity may choose to present the analysis of the items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. The Group has chosen to present the items of other comprehensive income in the statement of changes in equity.

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

FRSs and IC Interpretations (including the Consequential Amendments)	Effective Date
FRS 9 Financial Instruments	1 January 2015
FRS 10 Consolidated Financial Statements	1 January 2013
FRS 11 Joint Arrangements	1 January 2013
FRS 12 Disclosure of Interests in Other Entities	1 January 2013
FRS 13 Fair Value Measurement	1 January 2013
FRS 119 (Revised) Employee Benefits	1 January 2013
FRS 124 (Revised) Related Party Disclosures	1 January 2012
FRS 127 (2011) Separate Financial Statements	1 January 2013
FRS 128 (2011) Investments in Associates and Joint Ventures	1 January 2013

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

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

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

FRSs and IC Interpretations (including the Consequential Amendments)	Effective Date
Amendments to FRS 1 (Revised): Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	1 January 2012
Amendments to FRS 7: Disclosures – Transfers of Financial Assets	1 January 2012
Amendments to FRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013
Amendments to FRS 9: Mandatory Effective Date of FRS 9 and Transition Disclosures	1 January 2015
Amendments to FRS 101 (Revised): Presentation of Items of Other Comprehensive Income	1 July 2012
Amendments to FRS 112: Recovery of Underlying Assets	1 January 2012
Amendments to FRS 132: Offsetting Financial Assets and Financial Liabilities	1 January 2014
IC Interpretation 15 Agreements for the Construction of Real Estate	Withdrawn on 19 November 2011
IC Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	1 July 2011
IC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine	1 January 2013
Amendments to IC Interpretation 14: Prepayments of a Minimum Funding Requirement	1 July 2011

The Group's next set of financial statements for the annual period beginning on 1 January 2012 will be prepared in accordance with the Malaysian Financial Reporting Standards ("MFRSs") issued by the MASB that will also comply with International Financial Reporting Standards ("IFRSs"). As a result, the Group will not be adopting the above accounting standards and interpretations (including the consequential amendments) that are effective for annual periods beginning on or after 1 January 2012.

- (c) Following the issuance of MFRSs (equivalent to IFRSs) by the MASB on 19 November 2011, the Group will be adopting the new accounting standards in the next financial year. The possible change of the accounting policies is expected to have no material impact on the financial statements of the Group upon their initial application

3. SIGNIFICANT ACCOUNTING POLICIES

Critical Accounting Estimates And Judgements

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

- (i) Impairment of Goodwill

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

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Critical Accounting Estimates And Judgements (Cont'd)

(ii) Contract Customers

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

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

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

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

(iii) Depreciation of Property, Plant and Equipment

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

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

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

(iv) Income Taxes

There are certain transactions and computations for which the ultimate tax determination may be different from the initial estimate. The Group recognises tax liabilities based on its understanding of the prevailing tax laws and estimates of whether such taxes will be due in the ordinary course of business. Where the final outcome of these matters is different from the amounts that were initially recognised, such difference will impact the income tax and deferred tax provisions in the year in which such determination is made.

(v) Impairment of Non-financial Assets

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

(vi) Impairment of Trade and Other Receivables

The policy for allowance for impairment losses of the Group and of the Company is based on the evaluation of collectibility and aging analysis of accounts and on management's estimate. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of the customers with which the Group and the Company deal with were to deteriorate, resulting in an impairment of their ability to make payments, an additional allowance may be required.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Critical Accounting Estimates And Judgements (Cont'd)

(vii) Classification of Leasehold Land

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

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

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

(ix) Write-down of Inventories

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

Operating Segments

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

Revenue Recognition

(i) Services

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

(ii) Sale of goods

Revenue from the sale of goods is recognised upon delivery of products and when the risks and rewards of ownership have passed to the customers.

(iii) Contracts

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

(iv) Management fee and interest income

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

(v) Dividend income

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

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Income Taxes

Income tax for the year comprises current and deferred tax.

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

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

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

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

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

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

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

Government Grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received. Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the statements of financial position and transferred to statements of comprehensive income on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognised as income over the period necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group which no future related costs are recognised in the profit or loss in the period in which they become receivable.

Borrowing Costs

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

All other borrowing costs are charged to the income statement as expenses in the period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Contract Customers

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

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

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

Employee Benefits

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

The Group and the Company make statutory contributions to approved provident funds and contributions are recognised in profit or loss. Once the contributions have been paid, there are no further payment obligations. The approved provident funds are defined contribution plans.

Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December 2011.

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Basis of Consolidation (Cont'd)

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

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

Amounts previously recognised in other comprehensive income in relation to the former subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained profits) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investments retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under FRS 127.

Business combination from 1 January 2011 onwards.

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

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

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

The Group has applied the FRS 3 (Revised) in accounting for business combinations from 1 January 2011 onwards. The change in accounting policy has been applied prospectively in accordance with the transitional provisions provided by the standard.

Business combination before 1 January 2011

All subsidiaries are consolidated using the purchase method. At the date of acquisition, the fair values of the subsidiaries' net assets are determined and these values are reflected in the consolidated financial statements. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination.

Non-controlling interests are initially measured at their share of the fair values of the identifiable assets and liabilities of the acquiree as at the date of acquisition.

Intangible Asset

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Goodwill

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

Business combination from 1 January 2011 onwards.

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

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

Business combination before 1 January 2011.

Under the purchase method, goodwill represents the excess of the fair value of the purchase consideration over the Group's share of the fair values of the identifiable assets, liabilities and contingent liabilities of the subsidiaries at the date of acquisition.

If, after reassessment, the Group's interest in the fair values of the identifiable net assets of the subsidiaries exceeds the cost of the business combinations, the excess is recognised as income immediately in profit or loss.

Functional and Foreign Currencies

(i) Functional and presentation currency

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

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

(ii) Transactions and balances

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

(iii) Foreign operations

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Financial Instruments

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

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

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

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

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

(i) Financial assets

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

- Financial assets at fair value through profit or loss

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

- Held-to-maturity investments

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

- Loans and receivables financial assets

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

- Available-for-sale financial assets

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

(ii) Financial liabilities

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Financial Instruments (Cont'd)

(iii) Equity instruments

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

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

(iv) Treasury Shares

When shares of the Company that have not been cancelled are reacquired, the amount of the consideration paid is recognised directly in equity. Reacquired shares are classified as treasury shares and presented as deduction from total equity. No gain or loss is recognised in profit or loss on the purchase, sale, reissue or cancellation of treasury shares. When treasury shares are reissued by resale, the difference between the sales consideration and the carrying amount is recognised in equity.

Property, Plant and Equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future benefits associated with the item will flow to the Group or to the Company and the cost can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are recognised in profit or loss in the period in which they are incurred.

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

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

At the end of each reporting period, the property, plant and equipment's residual values, useful lives and depreciation methods are reviewed, and the effect of any changes are recognised prospectively.

Gain or loss arising from the disposal of an asset is determined as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognised in the profit or loss.

Investments in Subsidiaries

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Investments in Associates

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

The investment in an associate is accounted for under the equity method, based on the financial statements of the associate made up to 31 December 2011. The Group's share of the post-acquisition profits of the associate is included in the consolidated statement of comprehensive income and the Group's interest in the associate is carried in the consolidated statement of financial position at cost plus the Group's share of the post-acquisition retained profits and reserves.

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

Impairment

(i) Impairment of financial assets

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

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

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

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

(ii) Impairment of non-financial assets

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Assets Under Finance Leases and Hire Purchase

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

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

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

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

Inventories

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

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

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

Cash and Cash Equivalents

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

Related Parties

A party is related to an entity if:-

- (i) directly, or indirectly through one or more intermediaries, the party:-
 - controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);
 - has an interest in the entity that gives it significant influence over the entity; or
 - has joint control over the entity;
- (ii) the party is an associate of the entity;
- (iii) the party is a joint venture in which the entity is a venturer;
- (iv) the party is a member of the key management personnel of the entity or its parent;
- (v) the party is a close member of the family of any individual referred to in (i) or (iv);
- (vi) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or
- (vii) the party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

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

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Provisions

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

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

Contingent Liabilities

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

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

4. OPERATING SEGMENTS

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

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

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

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

The Group is organised into the following geographical segments:

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

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

4. OPERATING SEGMENTS (CONT'D)

The Group 2011	Malaysia RM	Singapore RM	Philippines RM	Taiwan RM	China RM	Indonesia RM	Elimination RM	Total RM
Revenue								
External sales	47,987,603	87,753,171	7,812,613	51,782,436	2,022,662	764,027	-	198,122,512
Inter-segment sales	509,091	4,981,992	325,301	953,104	-	-	(6,769,488)	-
Total revenue	48,496,694	92,735,163	8,137,914	52,735,540	2,022,662	764,027	(6,769,488)	198,122,512
Results								
Segment results	6,198,817	2,093,900	860,657	3,412,838	(984,614)	(403,054)	(5,576,054)	5,602,490
Share of results in associates								18,304
Interest income								181,653
Finance costs								(2,803,413)
Profit before tax								2,999,034
Income tax expense								485,042
Profit after tax								3,484,076
Assets								
Investment in associates	75,860	4,555,210	-	-	-	-	-	4,631,070
Tax assets	325,937	229,184	-	193,989	-	1,706	-	750,816
Segmental assets	131,379,665	143,038,567	10,912,679	84,492,831	2,940,165	4,527,903	174,048	(49,259,952)
Consolidated total assets								333,587,792
Liabilities								
Tax liabilities	383,000	2,562,120	124,725	548,154	-	-	-	3,617,999
Segment liabilities	61,946,516	69,416,991	6,963,589	57,363,294	730,315	4,556,984	(78,169,727)	122,807,962
Consolidated total liabilities								126,425,961
Other Information								
Capital expenditure	8,293,269	8,628,817	1,322,971	1,349,072	50,695	3,561,325	-	23,206,149
Depreciation	5,112,634	9,111,435	636,368	4,086,506	31,676	38,789	-	19,017,408
Other non-cash items								
-income	130,554	1,053,030	-	638,496	-	-	-	1,822,080
-expenses	1,396,333	1,436,827	11,151	488,768	-	-	-	3,333,079

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

4. OPERATING SEGMENTS (CONT'D)

The Group 2010	Malaysia RM	Singapore RM	Philippines RM	Taiwan RM	China RM	Indonesia RM	Elimination RM	Total RM
Revenue								
External sales	46,540,539	91,401,207	5,859,162	-	2,290,080	612,802	-	146,703,790
Inter-segment sales	2,190,974	7,723,044	2,826,762	-	-	-	(12,740,780)	-
Total revenue	48,731,513	99,124,251	8,685,924	-	2,290,080	612,802	(12,740,780)	146,703,790
Results								
Segment results	3,114,791	12,670,530	2,171,757	36,973	270,774	(419,862)	(2,811,944)	15,033,019
Share of results in associates								641,118
Interest income								456,563
Finance costs								(3,027,312)
Profit before tax								13,103,388
Income tax expense								(1,000,538)
Profit after taxation								12,102,850
Assets								
Investment in associates	52,938	4,441,317	-	-	-	-	-	4,494,255
Segmental assets	130,586,678	151,988,650	11,839,162	109,754,580	1,801,328	1,643,134	(78,916,270)	328,697,262
Consolidated total assets								333,191,517
Liabilities								
Tax liabilities	124,820	3,877,053	190,865	1,292,122	-	-	-	5,484,860
Segment liabilities	64,493,503	77,518,389	7,832,561	56,969,766	940,649	1,178,430	(83,371,801)	125,561,497
Consolidated total liabilities								131,046,357
Other Information								
Capital expenditure	5,485,025	17,078,652	4,311,268	-	60,594	1,548	-	26,937,087
Depreciation	4,746,485	9,068,934	358,140	-	28,210	9,790	-	14,211,559
Other non-cash item	1,999,338	837,687	38,717	-	-	-	-	2,875,742

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

	The Group	
	2011 RM	2010 RM
Inventories written off	1,222,104	-
Allowance for impairment losses	2,110,975	2,875,742
	3,333,079	2,875,742
Writeback of allowance for impairment losses on trade receivables	(1,822,080)	-

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

5. REVENUE

	The Group		The Company	
	2011 RM	2010 RM	2011 RM	2010 RM
Provision of services	168,287,829	125,519,500	-	-
Contract customers	3,321,359	-	-	-
Sale of goods	26,513,324	21,184,290	-	-
Dividend income from subsidiaries	-	-	3,567,752	4,397,990
Dividend income from associates	-	-	-	105,502
	<u>198,122,512</u>	<u>146,703,790</u>	<u>3,567,752</u>	<u>4,503,492</u>

6. FINANCE COSTS

	The Group		The Company	
	2011 RM	2010 RM	2011 RM	2010 RM
Interest expense on:				
Term loans	1,490,967	1,318,780	-	-
Hire purchase	877,932	1,550,712	-	-
Short-term borrowings	331,495	40,275	-	-
Bank overdrafts	103,019	117,545	-	-
Amount owing to subsidiaries	-	-	87,482	243,075
	<u>2,803,413</u>	<u>3,027,312</u>	<u>87,482</u>	<u>243,075</u>

7. PROFIT BEFORE TAX

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

	The Group		The Company	
	2011 RM	2010 RM	2011 RM	2010 RM
Interest income from:				
Subsidiaries	-	-	972,717	990,209
Third parties	181,653	456,563	137,346	408,301
Gain on disposal of property, plant and equipment	228,259	76,736	-	-
Dividend income from:				
Subsidiaries	-	-	3,567,752	4,397,990
Associate	-	-	-	105,502
Writeback of allowance for impairment losses on trade receivables	1,822,080	-	-	-
Staff costs	(64,941,443)	(43,722,128)	(929,015)	(836,989)
Depreciation of property, plant and equipment	(19,017,408)	(14,211,559)	(45,252)	(47,222)
Research and development expenditure	(1,714,281)	(2,416,111)	-	-
Directors' remuneration:				
Fees:				
Non-executive Directors	(310,678)	(149,600)	(177,000)	(149,600)
Salaries and other emoluments:				
Executive Directors	(2,738,133)	(2,179,283)	(72,000)	(72,000)
Non-Executive Directors	-	(4,240)	-	-
Gain/(Loss) on foreign exchange - net:				
Unrealised	(241,546)	(125,995)	(273,226)	434,345
Realised	(521,504)	(194,893)	(202,269)	68,553

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

7. PROFIT BEFORE TAX (CONT'D)

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

	The Group		The Company	
	2011 RM	2010 RM	2011 RM	2010 RM
Auditors' remuneration				
- current year	(505,795)	(260,535)	(64,000)	(54,000)
- underprovision in the previous financial year	-	(21,110)	-	-
Property, plant and equipment written off	(174,514)	(24,196)	-	-
Impairment of goodwill	-	(934,579)	-	-
Impairment loss on investments in subsidiaries	-	-	-	(982,665)
Allowance for impairment losses on receivables	(2,110,975)	(2,875,742)	-	(1,512,994)
Bad debts written off	(180,018)	(540)	-	-

(a) Staff costs

Staff costs include salaries, bonuses, contributions to statutory defined contribution plans and all other staff related expenses. Contributions to statutory defined contribution plans, included in staff costs, made by the Group and by the Company during the financial year amounted to RM4,461,873 (2010: RM2,919,779) and RM90,958 (2010: RM83,382) respectively.

(b) Key management personnel compensation

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

	The Group		The Company	
	2011 RM	2010 RM	2011 RM	2010 RM
Short-term employee benefits	3,712,084	3,689,865	446,896	435,050

(c) Directors' remuneration

Contributions to provident fund, included in directors' remuneration, made by the Group during the current financial year amounted to RM77,101 (2010: RM53,708).

8. INCOME TAX EXPENSE

	The Group		The Company	
	2011 RM	2010 RM	2011 RM	2010 RM
Estimated tax payable:				
Malaysian:				
- Current year	378,981	315,000	-	-
- Under/(Over)provision in prior years	18,007	(32,450)	-	-
	396,988	282,550	-	-
Foreign:				
- Current year	757,482	317,061	-	-
- Overprovision in prior years	(71,827)	(114,807)	-	-
	685,655	202,254	-	-
	1,082,643	484,804	-	-
Deferred tax (Note 15):				
- Current year	(385,495)	555,514	-	-
- Overprovision in prior years	(1,182,190)	(39,780)	-	-
	(1,567,685)	515,734	-	-
	(485,042)	1,000,538	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

8. INCOME TAX EXPENSE (CONT'D)

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

	The Group		The Company	
	2011 RM	2010 RM	2011 RM	2010 RM
Profit before tax	2,999,034	13,103,388	1,899,386	1,627,056
Tax at the applicable tax rate of 25% (2010 : 25%)	749,759	3,275,847	474,846	406,764
Effect of different tax rates of other tax jurisdictions	(371,241)	(1,293,589)	-	-
Tax effects of:				
Non-deductible expenses	1,282,564	1,213,092	417,092	719,539
Income not subject to tax	-	(206,702)	(891,938)	(1,126,303)
Utilisation of deferred tax asset previously not recognised	(981,582)	(320,355)	-	-
Utilisation of unabsorbed reinvestment allowances	(215,981)	(315,425)	-	-
Tax incentives	(83,332)	(1,286,886)	-	-
Income tax exemption	(60,815)	(57,872)	-	-
Deferred tax asset not recognised	436,172	243,760	-	-
Overprovision in prior years				
- Income tax	(53,820)	(147,257)	-	-
- Deferred tax	(1,182,190)	(39,780)	-	-
Effect of share of results in associates	(4,576)	(64,295)	-	-
Income tax expense	(485,042)	1,000,538	-	-

9. EARNINGS PER SHARE

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

	The Group	
	2011 RM	2010 RM
Profit for the year attributable to owners of the Company	2,484,403	11,989,111
Number of shares in issue as of January 1	1,011,408,160	722,434,400
Effects of:		
Rights issue	-	234,345,844
Treasury shares acquired	(485,752)	-
Weighted average number of ordinary shares for basic earnings per share computation	1,010,922,408	956,780,244
Effects of dilution - warrants	288,973,760	234,345,844
Weighted average number of ordinary shares for diluted earnings per share computation	1,299,896,168	1,191,126,088
Basic earnings per ordinary share attributable to equity holders of the Company (sen)	0.25	1.25
Diluted earnings per ordinary share attributable to equity holders of the Company (sen)	0.19	1.01

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

10. PROPERTY, PLANT AND EQUIPMENT

The Group	COST							
	As at 1 January 2010 RM	Arising from acquisition of subsidiary RM	Foreign currency translation differences RM	Transfer to stock and reclassifications RM	Additions RM	Write-offs RM	Disposals RM	As at 31 December 2010 RM
Freehold land	3,052,875	13,543,348	-	-	-	-	-	16,596,223
Freehold buildings	1,160,451	34,790,204	-	-	-	-	-	35,950,655
Long leasehold land	3,664,274	-	-	-	-	-	-	3,664,274
Long leasehold buildings	30,534,993	-	(532,849)	-	-	-	-	30,002,144
Factory and office renovation	17,528,798	-	(271,485)	293,002	280,784	-	(160,515)	17,670,584
Plant and machinery	99,574,268	31,006,450	(1,593,199)	4,817,247	8,107,808	(32,739)	(1,633,983)	140,245,852
Workshop tools	2,057,127	-	-	37,687	680,228	(580)	(554,003)	2,220,459
Office equipment	6,069,047	1,305,062	(122,777)	265,768	403,425	(5,715)	(10,453)	7,904,357
Furniture and fittings	514,776	-	(230)	1,590	135,736	(1,928)	-	649,944
Motor vehicles	4,682,300	2,152,706	(73,936)	23,620	312,211	-	(123,147)	6,973,754
Computers	629,296	1,770,479	(1,823)	-	95,071	(19,240)	(7,834)	2,465,949
Capital work-in-progress	5,851,016	147,568	(122,997)	(5,288,490)	16,921,824	-	-	17,508,921
Total	175,319,221	84,715,817	(2,719,296)	150,424	26,937,087	(60,202)	(2,489,935)	281,853,116

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

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

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

The Group	ACCUMULATED DEPRECIATION						As at 31 December 2010 RM
	As at 1 January 2010 RM	Arising from acquisition of subsidiary RM	Foreign currency translation differences RM	Charge for the year RM	Write-offs RM	Disposals RM	
Freehold land	-	-	-	-	-	-	-
Freehold buildings	159,359	9,226,892	-	23,209	-	-	9,409,460
Long leasehold land	173,502	-	-	61,967	-	-	235,469
Long leasehold buildings	5,660,780	-	(112,690)	861,529	-	-	6,409,619
Factory and office renovation	4,481,532	-	(64,684)	1,338,746	-	(34,655)	5,720,939
Plant and machinery	38,637,709	19,582,173	(599,630)	9,795,078	(9,246)	(1,058,718)	66,347,366
Workshop tools	1,023,879	-	-	368,390	(232)	(237,557)	1,154,480
Office equipment	4,070,912	1,180,688	(68,364)	984,026	(5,363)	(2,435)	6,159,464
Furniture and fittings	339,173	-	(87)	95,000	(1,928)	-	432,158
Motor vehicles	3,327,787	1,624,257	(55,114)	590,915	-	(107,464)	5,380,381
Computers	472,903	1,655,998	(930)	92,699	(19,237)	(2,682)	2,198,751
Capital work-in-progress	-	-	-	-	-	-	-
Total	58,347,536	33,270,008	(901,499)	14,211,559	(36,006)	(1,443,511)	103,448,087

The Group	ACCUMULATED DEPRECIATION						NET BOOK VALUE			
	As at 1 January 2011 RM	Arising from acquisition of subsidiary RM	Foreign currency translation differences RM	Reclassi- fications RM	Charge for the year RM	Write-offs RM	Disposals RM	As at 31 December 2011 RM	As at 31 December 2011 RM	As at 31 December 2010 RM
Freehold land	-	-	-	-	-	-	-	-	16,502,821	16,596,223
Freehold buildings	9,409,460	-	(55,028)	-	982,606	(52,707)	-	10,284,331	25,637,229	26,541,195
Long leasehold land	235,469	-	-	-	61,967	-	-	297,436	3,366,838	3,428,805
Long leasehold buildings	6,409,619	-	147,381	-	1,009,937	-	-	7,566,937	37,473,132	23,592,525
Factory and office renovation	5,720,939	-	102,393	-	1,507,153	-	-	7,330,485	13,243,646	11,949,645
Plant and machinery	66,347,366	-	741,980	15,245	13,459,243	(122,268)	(1,947,972)	78,493,594	71,430,698	73,898,486
Workshop tools	1,154,480	4,631	170	-	387,709	(21,106)	(21,147)	1,504,737	995,006	1,065,979
Office equipment	6,159,464	159	93,733	(15,245)	753,617	(93,801)	(37,233)	6,860,694	1,891,813	1,744,893
Furniture and fittings	432,158	-	1,063	-	124,742	(3,982)	(7,396)	546,585	331,849	217,786
Motor vehicles	5,380,381	-	58,881	-	526,561	-	(331,190)	5,634,633	1,589,178	1,593,373
Computers	2,198,751	759	(9,419)	-	203,873	(19,120)	(15,730)	2,359,114	258,152	267,198
Capital work-in- progress	-	-	-	-	-	-	-	-	8,248,613	17,508,921
Total	103,448,087	5,549	1,081,154	-	19,017,408	(312,984)	(2,360,668)	120,878,546	180,968,975	178,405,029

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

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

The Company	COST							
	As at 1 January 2010 RM	Additions RM	Write-offs RM	Reclassi- fications RM	As at 31 December 2010 RM	Additions RM	Write-offs RM	As at 31 December 2011 RM
	Office renovation	-	81,775	-	70,000	151,775	-	-
Office equipment	38,235	6,289	-	-	44,524	-	(907)	43,617
Furniture and fittings	30,005	42,605	-	-	72,610	2,000	(3,772)	70,838
Computers	42,420	5,812	(2,155)	-	46,077	6,713	(275)	52,515
Capital work-in-progress	70,000	-	-	(70,000)	-	-	-	-
Total	180,660	136,481	(2,155)	-	314,986	8,713	(4,954)	318,745

The Company	ACCUMULATED DEPRECIATION						NET BOOK VALUE		
	As at 1 January 2010 RM	Charge for the year RM	Write-offs RM	As at 31 December 2010 RM	Charge for the year RM	Write-offs RM	As at 31 December 2011 RM	As at 31 December 2011 RM	As at 31 December 2010 RM
	Office renovation	-	15,225	-	15,225	15,177	-	30,402	121,373
Office equipment	31,093	5,054	-	36,147	4,711	(907)	39,951	3,666	8,377
Furniture and fittings	22,157	19,420	-	41,577	15,791	(3,772)	53,596	17,242	31,033
Computers	26,655	7,523	(2,155)	32,023	9,573	(275)	41,321	11,194	14,054
Capital work-in-progress	-	-	-	-	-	-	-	-	-
Total	79,905	47,222	(2,155)	124,972	45,252	(4,954)	165,270	153,475	190,014

As of 31 December 2011, freehold land and buildings, long leasehold land and buildings and plant and machinery of the Group with total net book value totalling RM80,472,706 (2010: RM68,138,947) have been charged as collateral to certain banks for term loans and bank borrowings granted to the Group as mentioned in Note 22.

Included in property, plant and equipment of the Group are property, plant and equipment acquired under hire purchase arrangements with net book value totalling RM15,110,735 (2010: RM28,376,700).

11. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2011 RM	2010 RM
Quoted shares outside Malaysia- at cost	27,955,744	27,955,744
Unquoted shares - at cost	41,408,256	41,219,256
	69,364,000	69,175,000
Impairment of investments in subsidiaries	(982,665)	(982,665)
	68,381,335	68,192,335
Market value of quoted shares	23,608,046	26,297,545

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

11. INVESTMENTS IN SUBSIDIARIES (CONT'D)

Details of the subsidiaries are as follows:

Name of Companies	Country of Incorporation	Effective Equity Interest		Principal Activities
		2011 %	2010 %	
Direct Subsidiaries				
Frontken (Singapore) Pte. Ltd. ¹	Singapore	100	100	Provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes including mechanical and chemical engineering works.
Direct Subsidiaries				
Frontken Technology Corporation ²	Taiwan	100	100	Provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes including mechanical and chemical engineering works.
PT Frontken Indonesia ²	Indonesia	95	95	Provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes including mechanical and chemical engineering works.
Frontken MIC Co. Limited ²	Hong Kong	42.93	50	Investment holding and provision of management services.
Frontken Malaysia Sdn. Bhd. ³	Malaysia	100	100	Provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes including mechanical and chemical engineering works.
Indirect Subsidiaries				
Metall-Treat Industries Pte. Ltd. ¹	Singapore	100	100	Electroplating and plating of metals and formed products.
Frontken Philippines Inc ²	Philippines	99.99	99.99	Provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes including mechanical and chemical engineering works.
Indirect Subsidiaries				
Frontken (East Malaysia) Sdn. Bhd. ³	Malaysia	100	100	Provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes including mechanical and chemical engineering works.
Frontken (Johor) Sdn. Bhd. ³	Malaysia	100	100	Provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes, including mechanical and chemical engineering services.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

11. INVESTMENTS IN SUBSIDIARIES (CONT'D)

Details of the subsidiaries are as follows: (Cont'd)

Name of Companies	Country of Incorporation	Effective Equity Interest		Principal Activities
		2011 %	2010 %	
Indirect Subsidiaries				
Frontken-MIC (Wuxi) Co. Ltd. ²	China	42.93	50	Provision of cleaning of specialised equipment for semiconductor devices, integrated circuits and components, and research and development of semiconductor cleaning technology.
Frontken Petroleum Sdn. Bhd. ³	Malaysia	60.07	60.07	Provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes including mechanical and chemical engineering services.
Frontship Pte. Ltd. ¹	Singapore	100	100	Procurement of materials, equipment consumable parts and engineering services.
Indirect Subsidiaries				
Ares Green Technology Corporation ²	Taiwan	50.58	50.58	Provision of surface treatment and advanced precision cleaning for the TFT - LCD (Thin Film Transistor - Liquid Crystal display) and semiconductor industries.
Ares Green International Corporation ²	Samoa	50.58	50.58	Investment holding.
Frontken Projects Pte . Ltd. ¹	Singapore	51	-	General contractors and process and individual plant engineering services.
Frontken Qatar WLL	Qatar	49	-	Dormant.

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

2 The financial statements of the subsidiaries are audited by auditors other than the auditors of the Company.

3 The financial statements of the subsidiaries are audited by Messrs Crowe Horwath.

- (i) On 30 May 2011, Frontken (Singapore) Pte. Ltd. ("FS") subscribed for 98 shares of QR1000 each representing 49% of the issued and paid-up share capital of Frontken Qatar WLL ("FQWLL") for a cash consideration of SGD34,652. FQWLL is considered a subsidiary of FS as it has control of the Board of FQWLL. The Board of FQWLL determines the operating and management policies.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

11. INVESTMENTS IN SUBSIDIARIES (CONT'D)

- (ii) On 7 January 2011, Frontken MIC Co. Limited ("FMIC"), a subsidiary of the Company, increased its issued and paid-up capital from HKD3,950,000 to HKD4,882,772 by the allotment and issuance of 932,772 new ordinary shares of HKD1.00 each at par for cash to its existing shareholders.

Pursuant to the above increase in share capital, the Company subscribed for 466,386 new ordinary shares of HKD1.00 each for a cash consideration of HKD466,386 (RM189,000). The shareholding of the Company in FMIC remained at approximately 50% after the increase in share capital.

On 2 September 2011, FMIC increased its issued and paid-up capital from HKD4,882,772 to HKD9,560,072 by the allotment and issuance of 4,677,300 new ordinary shares of HKD1.00 each at par for cash to MIC-TECH Ventures Asia Pacific Inc. and Ares Green International Corporation ("AGIC").

Pursuant to the above allotment of 4,677,300 new ordinary shares, the Company's effective equity interest in FMIC, held directly by the Company and through AGIC, diluted from 50% to 42.93%.

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

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

The effects of the acquisition of FPPL on the financial results of the Group during the financial year are as follows:

	The Group 2011 RM
Revenue	3,321,359
Cost of sales	(2,254,794)
	<hr/>
Gross profit	1,066,565
Less: Operating expenses	(557,582)
	<hr/>
Less : Minority interest	508,983 (249,402)
	<hr/>
Increase in net profit of the Group	259,581
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In the current financial year, the details of the assets, liabilities and cash flows arising from the acquisition of FPPL were as follows:-

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

11. INVESTMENTS IN SUBSIDIARIES (CONT'D)

- (iv) On 10 December 2010, the Company acquired 2,802,500 ordinary shares of NT\$10 each representing 8.5% of the issued and paid-up share capital of Ares Green Technology Corporation ("AGTC") for a cash consideration of NT\$47,674,541 (including incidental costs). The shares were acquired over the counter on GreTai Securities Market in Taiwan. Following the acquisition, the Group's interest in AGTC increased from 42.11% to 50.58% and AGTC became a subsidiary of the Company.

The acquisition, at the end of year 2010, has no impact to the Group's profit after tax for the year ended 31 December 2010. If the combination had taken place at the beginning of the financial year 2010, the Group's profit after tax for year 2010 would have been RM13,022,140 and revenue would have been RM194,317,950.

In the financial year ended 31 December 2010, the additional interest acquired and the net cash flows arising from the acquisition of additional interest in the existing associate were as follows:-

	The Group 2010 RM
Property, plant and equipment	51,445,809
Deferred tax asset	202,312
Trade and other receivables	24,909,104
Inventories	1,429,038
Cash and cash equivalents	6,899,220
Trade and other payables	(12,279,709)
Term loans	(21,112,000)
Net assets previously held as investment in associates	(45,633,421)
Goodwill on investments in associates	23,950,939
Less : Minority interest	(25,448,223)
	<hr/>
Group's interest in fair value of net identifiable assets	4,363,069
Goodwill on additional acquisition	637,515
	<hr/>
Total cost of acquisition	5,000,584
Less: Cash and cash equivalents in subsidiary acquired	(6,899,220)
	<hr/>
Net cash inflow on acquisition	(1,898,636)
	<hr/>

12. INVESTMENTS IN ASSOCIATES

	The Group		The Company	
	2011 RM	2010 RM	2011 RM	2010 RM
Unquoted shares				
- at cost	4,721,197	4,721,197	-	-
Share of post-acquisition results	(138,081)	(178,817)	-	-
Foreign currency translation differences	47,954	(48,125)	-	-
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	4,631,070	4,494,255	-	-
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NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

12. INVESTMENTS IN ASSOCIATES (CONT'D)

The summarised financial information of the associates is as follows:

	The Group	
	2011 RM	2010 RM
Current assets	11,560,633	9,907,935
Non-current assets	20,615,948	21,684,497
Current liabilities	(11,924,078)	(12,069,391)
Non-current liabilities	(2,456,874)	(2,049,190)
Net Assets	17,795,629	17,473,851
Revenue	20,791,037	17,836,171
Profit/(Loss) for the year	164,351	(1,620,636)
Group's share of results for the year	40,736	(641,118)

Details of the associates are as follows:

Name of Companies	Country of Incorporation	Effective Equity Interest		Principal Activities
		2011 %	2010 %	
Frontken (Thailand) Co., Ltd	Thailand	49	49	Provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes including mechanical and chemical engineering works.
Frontken BumiMaju Sdn. Bhd.	Malaysia	30	30	Trading in machineries, machine parts and equipment and providing engineering services.
Chinyee Engineering & Machinery Pte. Ltd.	Singapore	20	20	Provider of structural components, assemblies and kits to the aerospace and technology industries.

Amounts owing by/to associates

	The Group	
	2011 RM	2010 RM
Amount owing by associates		
- Trade	3,082,161	4,090,004
- Non-trade	1,068,313	444,035
	4,150,474	4,534,039
Amount owing to associates		
- Trade	1,500,199	-

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

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

12. INVESTMENTS IN ASSOCIATES (CONT'D)

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

	The Group	
	2011 RM	2010 RM
Chinyee Engineering & Machinery Pte. Ltd.		
Sales	980,067	1,521,598
Purchases	4,329,157	3,753,599

13. GOODWILL ON CONSOLIDATION

	The Group	
	2011 RM	2010 RM
At beginning of year	28,311,674	4,724,073
Arising from acquisition of additional equity interest in a subsidiary		
- previously incorporated in investment in associate	-	23,950,939
- additional acquisition	-	637,515
Written off	-	(934,579)
Foreign currency translation differences	69,453	(66,274)
At end of year	28,381,127	28,311,674

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

	The Group	
	2011 RM	2010 RM
Metall-Treat Industries Pte. Ltd.	2,986,861	2,917,408
Frontken (East Malaysia) Sdn. Bhd.	805,812	805,812
Ares Green Technology Corporation	24,588,454	24,588,454
	28,381,127	28,311,674

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

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

	Discount Rate	
	2011 %	2010 %
Growth rate	0.0 to 10.0	5.0
Pre-tax discount rate	8.45	10.30

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

13. GOODWILL ON CONSOLIDATION (CONT'D)

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

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

14. INTANGIBLE ASSETS

	The Group	
	2011	2010
	RM	RM
Licence fees - at cost:		
At beginning and end of year	781,935	781,935
Accumulated amortisation:		
At beginning and end of year	(788,551)	(788,551)
Foreign currency translation differences	6,616	6,616
Net	<u>-</u>	<u>-</u>

15. DEFERRED TAX ASSETS/LIABILITIES

	The Group	
	2011	2010
	RM	RM
<u>Deferred tax assets</u>		
At beginning of year	352,360	-
Transfer from profit or loss (Note 8)	(152,890)	1,967
Acquisition of subsidiary	-	350,668
Foreign currency translation differences	(3,775)	(275)
At end of year	<u>195,695</u>	<u>352,360</u>
<u>Deferred tax liabilities</u>		
At beginning of year	4,389,835	3,789,267
Transfer from profit or loss (Note 8)	(1,720,575)	517,701
Acquisition of subsidiary	-	148,356
Foreign currency translation differences	80,471	(65,489)
At end of year	<u>2,749,731</u>	<u>4,389,835</u>

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

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

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

	The Group	
	2011	2010
	RM	RM
Temporary differences arising from property, plant and equipment	2,663,341	4,263,600
Others	(109,305)	(226,125)
	2,554,036	4,037,475

As mentioned in Note 3, the tax effects of deductible temporary differences, unused tax losses and unused tax credits which would give rise to deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. As of 31 December 2011, the estimated amount of net deferred tax assets, calculated at the current tax rate which has not been recognised in the financial statements of the Group due to uncertainty of its realisation, is as follows:

	Deferred Tax Asset	
	The Group	
	2011	2010
	RM	RM
Unabsorbed tax losses	1,127,544	764,191
Unabsorbed capital allowances	378,750	289,500
Temporary differences arising from property, plant and equipment	(3,000)	392,000
Unutilised reinvestment allowances	848,802	1,079,000
	2,352,096	2,524,691

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

16. INVENTORIES

	The Group	
	2011	2010
	RM	RM
Raw materials	5,650,769	3,792,263
Work-in-progress	3,962,379	4,939,845
Finished goods	1,760,469	1,699,300
	11,373,617	10,431,408

None of the inventories is carried at net realisable value.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

17. AMOUNT DUE FROM CONTRACT CUSTOMERS

	The Group	
	2011 RM	2010 RM
Contract costs incurred plus recognised profits	3,435,249	-
Less: Progress billings	(3,258,071)	-
	177,178	-
Presented as:		
Amount due from contract customers	177,178	-

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

Trade receivables of the Group comprise amounts outstanding for the provision of services and sale of goods. The credit periods granted to the customers range from 30 to 90 days (2010: 30 to 90 days).

	The Group	
	2011 RM	2010 RM
Trade receivables	73,569,344	71,352,199
Allowance for impairment losses	(3,304,676)	(4,014,962)
	70,264,668	67,337,237

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

	The Group	
	2011 RM	2010 RM
At 1 January	4,014,962	821,786
Allowance for impairment losses	2,110,975	1,869,297
Writeback of allowance for impairment losses	(1,822,080)	-
Written off as bad debts	(1,001,003)	-
Acquisition of subsidiary	-	1,317,339
Exchange difference	1,822	6,540
	3,304,676	4,014,962

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

	The Group	
	2011 RM	2010 RM
A& I Engine Rebuilders Sdn. Bhd.	770	1,735
AMT Engineering Sdn. Bhd.	44,458	11,589
	45,228	13,324

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

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

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

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

Name of related parties	Relationship
Chinyee Engineering & Machinery Pte. Ltd.	A company in which Wong Hua Choon and Dr. Tay Kiang Meng, directors of the Company, are also directors and have financial interests.
A& I Engine Rebuilders Sdn. Bhd.	A company in which Sia Chiok Meng, a director of a subsidiary, is also a director and has financial interest.
AMT Engineering Sdn. Bhd.	A company in which Sia Chiok Meng, a director of a subsidiary, is also a director and has financial interest.

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

	The Group	
	2011 RM	2010 RM
Chinyee Engineering & Machinery Pte. Ltd.		
Sales	980,067	1,521,598
Purchases	4,329,157	3,753,599
A& I Engine Rebuilders Sdn. Bhd.		
Sales	2,830	-
AMT Engineering Sdn. Bhd.		
Sales	53,184	30,933
Purchases	12,799	11,995
Rental expense	72,000	36,000

Other receivables, deposits and prepaid expenses consist of:

	The Group		The Company	
	2011 RM	2010 RM	2011 RM	2010 RM
Other receivables	2,690,185	2,920,888	921	-
Allowance for impairment losses	(1,006,445)	(1,006,445)	-	-
	1,683,740	1,914,443	921	-
Deposits	2,590,052	1,600,708	1,344	1,344
Prepayments	2,254,666	1,610,415	29,095	26,497
	6,528,458	5,125,566	31,360	27,841

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

19. AMOUNTS OWING BY/TO SUBSIDIARIES

	The Company	
	2011 RM	2010 RM
Amount owing by:-		
Advances	39,834,269	37,870,971
Non-trade balances	9,040,514	9,322,052
	48,874,783	47,193,023
Allowance for impairment losses	(1,512,994)	(1,512,994)
	47,361,789	45,680,029
Amount owing to:-		
Advances	2,929,220	10,087,810
Non-trade balances	5,135,971	6,581,028
	8,065,191	16,668,838

The amounts owing by/to the subsidiaries arose mainly from unsecured advances and payments made on behalf. The amount arising from unsecured advances bear interest at 3% (2010: 3%) per annum and is repayable on demand whilst the amount arising from payments made on behalf is interest-free.

20. SHARE CAPITAL

	The Group and The Company			
	2011 Number of Shares	2010	2011 RM	2010 RM
Ordinary shares of RM0.10 each :				
Authorised				
At beginning of year	5,000,000,000	1,000,000,000	500,000,000	100,000,000
Created during the year	-	4,000,000,000	-	400,000,000
At end of year	5,000,000,000	5,000,000,000	500,000,000	500,000,000
Issued and fully paid-up				
At beginning of year	1,011,408,160	722,434,400	101,140,816	72,243,440
Issued during the year:				
Rights issue	-	288,973,760	-	28,897,376
At end of year	1,011,408,160	1,011,408,160	101,140,816	101,140,816

21. RESERVES

	The Group		The Company	
	2011 RM	2010 RM	2011 RM	2010 RM
Non-distributable:				
Share premium	9,336,705	9,336,705	9,336,705	9,336,705
Treasury shares	(194,562)	-	(194,562)	-
Foreign currency translation reserve	4,214,016	2,486,027	-	-
Warrant reserve	882,976	882,976	882,976	882,976
Statutory reserve	197,997	-	-	-
Distributable:				
Retained earnings/ (Accumulated losses)	63,694,222	62,396,792	113,081	(774,897)
	78,131,354	75,102,500	10,138,200	9,444,784

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

21. RESERVES (CONT'D)

Share premium

The share premium arose from the following:

	The Group and The Company	
	2011 RM	2010 RM
At beginning of year	9,336,705	7,997,587
Rights issue of 288,973,760 new ordinary shares at a premium of RM0.01 per ordinary share, net of share issue expenses of RM667,644 and a portion of RM882,976 allocated to warrant reserve in 2010	-	1,339,118
At end of year	9,336,705	9,336,705

Treasury shares

During the financial year, the Company repurchased 1,833,600 of its issued ordinary shares from the open market at an average price of RM0.106 per share. The total consideration paid for the repurchase including transaction costs was RM194,562. The total consideration paid for the repurchase were financed by internally generated funds. The shares repurchased are being held as treasury shares in accordance with Section 67A of the Companies Act 1965 and are presented as a deduction from total equity.

As at 31 December 2011, the number of outstanding ordinary shares in issue after the set off of 1,833,600 treasury shares held by the Company is 1,009,574,560 ordinary shares of RM0.10 each.

As at 31 December 2011, the Company held 1,833,600 treasury shares at a carrying amount of RM194,562.

Foreign currency translation reserve

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

Warrant reserve

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

Statutory reserve

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

22. TERM LOANS

	The Group	
	2011 RM	2010 RM
Principal outstanding	54,249,037	56,131,168
Less: Portion due within one year (Note 25)	(7,296,907)	(7,816,828)
Non-current portion	46,952,130	48,314,340

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

22. TERM LOANS (CONT'D)

The non-current portion is repayable as follows:

	The Group	
	2011 RM	2010 RM
Later than one year but not later than five years	37,361,531	42,762,840
Later than five years	9,590,599	5,551,500
	46,952,130	48,314,340

As of 31 December 2011, the Group has the following term loan facilities:

- (a) Three (2010 : Three) term loan facilities totalling RM6,411,927 (2010: RM5,288,953), obtained by a locally incorporated subsidiary, which bear interest ranging from 4.90% to 6.80% (2010: 6.30% to 7.30%) per annum and are repayable in equal monthly instalments over 30 to 74 months (2010: 83 to 86 months and 9 equal fortnightly instalments);
- (b) Four (2010 : Four) term loan facilities totalling RM17,710,098 (2010: RM23,025,300), obtained by a subsidiary incorporated in Singapore, which bear interest at rates ranging from 1.78% to 2.76% (2010: 1.75% to 5.25%) per annum and are repayable in equal monthly instalments over 2 to 103 months (2010: 15 to 109 months);
- (c) Two (2010: One) term loan facilities totalling RM6,964,223 (2010: RM6,704,915), obtained by another subsidiary incorporated in Singapore, which bear interest at rates ranging from 2.40% to 2.69% (2010: 6.25%) per annum and are repayable in equal monthly instalments over 31 to 163 months (2010: 130 months);
- (d) One term loan facility totalling RM1,148,069 obtained by another subsidiary incorporated in Singapore, bears interest of 3.75% per annum and is repayable in equal monthly instalments over 47 months; and
- (e) Two (2010: One) term loan facilities totalling RM22,014,720 (2010: RM21,112,000), obtained by a subsidiary incorporated in Taiwan, which bear interest at rates ranging from 1.67% to 1.82% (2010: 1.45% to 1.48%) per annum and are repayable in 8 quarterly (2010: 8 quarter) instalments.

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

- (a) legal charges over certain freehold land and buildings of the Group as disclosed in Note 10;
- (b) legal charges over the long leasehold land and buildings of the Group as disclosed in Note 10;
- (c) corporate guarantees of the Company; and
- (d) fixed deposits totalling RM368,054.

23. HIRE PURCHASE PAYABLES

	The Group	
	2011 RM	2010 RM
Total outstanding	12,698,022	19,070,267
Less: Interest-in-suspense	(1,345,992)	(1,952,978)
	11,352,030	17,117,289
Present value of payments	11,352,030	17,117,289
Less: Amount due within 12 months (included under current liabilities)	(5,439,809)	(7,249,505)
	5,912,221	9,867,784

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

23. HIRE PURCHASE PAYABLES (CONT'D)

The non-current portion is payable as follows:

	The Group	
	2011 RM	2010 RM
Later than one year but not later than five years	5,912,221	9,867,784

It is the Group's policy to acquire certain of its plant and equipment under hire purchase arrangements. The average term of the hire purchase is about 2 to 10 years (2010: 2 to 10 years). The interest rates implicit in the hire purchase obligations range from 0.44% to 8.21% (2010: 0.38% to 8.55%) per annum.

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

24. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED EXPENSES

Trade payables of the Group comprise amounts outstanding for trade purchases. The credit periods granted to the Group and the Company for trade purchases range from 30 to 90 days (2010: 30 to 90 days).

Other payables and accrued expenses consist of:

	The Group		The Company	
	2011 RM	2010 RM	2011 RM	2010 RM
Other payables	8,066,388	6,200,633	7,260	102,229
Accrued expenses	10,567,247	10,064,270	176,418	207,915
	<u>18,633,635</u>	<u>16,264,903</u>	<u>183,678</u>	<u>310,144</u>

Included in other payables of the Group was an amount owing to a director amounting to NIL (2010 : RM50,232).

25. BANK BORROWINGS

	The Group	
	2011 RM	2010 RM
Short-term borrowings	12,713,500	14,315,400
Term loans - current portion (Note 22)	7,296,907	7,816,828
	<u>20,010,407</u>	<u>22,132,228</u>
Bank overdrafts (Note 26)	1,669,621	1,230,283
	<u>21,680,028</u>	<u>23,362,511</u>

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

25. BANK BORROWINGS (CONT'D)

As of 31 December 2011, the Group has bank overdrafts amounting to RM1,669,621 (2010 : RM1,230,283) obtained from licensed banks which bear an effective interest rate of 7.85% (2010 : 7.55%) per annum.

The short-term borrowings represent money market loan and revolving credit facilities obtained by two subsidiaries incorporated in Singapore and Malaysia which are rolled over every month and three months respectively. The money market loan and revolving credit facilities bear effective interest rates ranging from 2.07% to 2.57% (2010 : 2.07% to 2.57%) per annum and 5.09% to 5.12% respectively.

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

26. CASH AND CASH EQUIVALENTS

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

	The Group		The Company	
	2011 RM	2010 RM	2011 RM	2010 RM
Fixed deposits with licensed banks	3,736,804	12,684,190	3,000,000	12,000,000
Cash and bank balances	22,624,605	21,515,759	590,926	1,474,363
	<hr/>	<hr/>	<hr/>	<hr/>
Less: Bank overdrafts (Note 25)	26,361,409 (1,669,621)	34,199,949 (1,230,283)	3,590,926 -	13,474,363 -
	<hr/>	<hr/>	<hr/>	<hr/>
	24,691,788	32,969,666	3,590,926	13,474,363

Fixed deposits with licensed banks earn effective interest ranging from 0.45% to 3.15% (2010: 0.45% to 2.85%) per annum. The fixed deposits have average maturity periods ranging from 15 to 365 (2010: 365) days.

The fixed deposits of the Group amounting to RM368,054 (2010: RM599,742) are pledged to licensed banks as security for banking facilities granted to the Group.

27. DIVIDEND PAID

	The Group/The Company	
	2011 RM	2010 RM
Interim single-tier dividend of 0.1 sen (1%) per ordinary share in respect of the current financial year	1,011,408	1,011,410

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

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

28. FINANCIAL INSTRUMENTS

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

(a) Financial Risk Management Policies

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

(i) Foreign currency risk

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

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

The Group 2011	Singapore Dollar RM	Ringgit Malaysia RM	United States Dollar RM	Philippine Peso RM	New Taiwan Dollar RM	Others* RM	Total RM
<u>Financial assets</u>							
Amount due from contract customers	177,178	-	-	-	-	-	177,178
Trade receivables	16,394,304	22,072,583	3,472,344	1,760,439	25,470,005	1,094,993	70,264,668
Other receivables and deposits	1,487,767	1,444,592	65,313	538,539	365,364	372,217	4,273,792
Amount owing by associates	1,725,731	2,402,473	22,270	-	-	-	4,150,474
Fixed deposits with licensed banks	404,694	3,248,244	-	-	83,866	-	3,736,804
Cash and bank balances	8,162,034	5,130,804	2,177,267	73,536	5,279,270	1,801,694	22,624,605
	28,351,708	34,298,696	5,737,194	2,372,514	31,198,505	3,268,904	105,227,521
<u>Financial liabilities</u>							
Trade payables	10,025,746	4,726,289	791,913	513,457	6,089,826	542,709	22,689,940
Other payables	9,883,750	3,482,759	1,300	563,411	4,064,835	637,580	18,633,635
Amount owing to associates	1,500,199	-	-	-	-	-	1,500,199
Bank overdrafts	-	1,669,621	-	-	-	-	1,669,621
Bank borrowings	38,035,890	6,911,927	-	-	22,014,720	-	66,962,537
Hire purchase payables	8,678,963	2,673,067	-	-	-	-	11,352,030
	68,124,548	19,463,663	793,213	1,076,868	32,169,381	1,180,289	122,807,962
Net financial (liabilities)/ assets	(39,772,840)	14,835,033	4,943,981	1,295,646	(970,876)	2,088,615	(17,580,441)
Less: Net financial liabilities/(assets) denominated in the respective entities' functional currencies	38,566,328	(14,835,033)	(2,105)	(1,295,646)	995,347	(1,915,932)	21,512,959
Currency exposure	(1,206,512)	-	4,941,876	-	24,471	172,683	3,932,518

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

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

28. FINANCIAL INSTRUMENTS (CONT'D)

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

(i) Foreign currency risk (Cont'd)

The Group 2010	Singapore Dollar RM	Ringgit Malaysia RM	United States Dollar RM	Philippine Peso RM	New Taiwan Dollar RM	Others* RM	Total RM
<u>Financial assets</u>							
Trade receivables	16,145,995	15,766,887	10,414,501	588,458	23,553,170	868,226	67,337,237
Other receivables and deposits	951,038	1,554,704	-	547,089	370,311	92,009	3,515,151
Amount owing by associates	1,423,757	3,110,282	-	-	-	-	4,534,039
Fixed deposits with licensed banks	357,885	12,241,857	-	-	84,448	-	12,684,190
Cash and bank balances	3,993,378	6,959,119	2,729,136	577,880	6,981,294	274,952	21,515,759
	22,872,053	39,632,849	13,143,637	1,713,427	30,989,223	1,235,187	109,586,376
<u>Financial liabilities</u>							
Trade payables	9,405,816	2,458,103	1,290,688	490,042	6,398,521	459,284	20,502,454
Other payables	7,257,364	3,102,073	29,706	435,993	4,780,276	659,491	16,264,903
Bank overdrafts	-	1,230,283	-	-	-	-	1,230,283
Bank borrowings	44,045,615	5,288,953	-	-	21,112,000	-	70,446,568
Hire purchase payables	14,122,610	2,994,679	-	-	-	-	17,117,289
	74,831,405	15,074,091	1,320,394	926,035	32,290,797	1,118,775	125,561,497
Net financial (liabilities)/ assets	(51,959,352)	24,558,758	11,823,243	787,392	(1,301,574)	116,412	(15,975,121)
Less: Net financial liabilities/ (assets) denominated in the respective entities' functional currencies	51,098,762	(25,493,062)	(187,253)	(787,392)	1,453,319	(476,406)	25,607,968
Currency exposure	(860,590)	(934,304)	11,635,990	-	151,745	(359,994)	9,632,847

* Denominated in Chinese Renminbi, Euro, Indonesian Rupiah and Thai Baht.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

28. FINANCIAL INSTRUMENTS (CONT'D)

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

(i) Foreign currency risk (Cont'd)

The Company 2011	Singapore Dollar RM	Ringgit Malaysia RM	Indonesian Rupiah RM	New Taiwan Dollar RM	Total RM
<u>Financial assets</u>					
Other receivables and deposits	-	2,265	-	-	2,265
Amount owing by subsidiaries	-	45,840,896	1,520,893	-	47,361,789
Fixed deposits with licensed banks	-	3,000,000	-	-	3,000,000
Cash and bank balances	-	566,456	-	24,470	590,926
	-	49,409,617	1,520,893	24,470	50,954,980
<u>Financial liabilities</u>					
Other payables	-	183,678	-	-	183,678
Amount owing to subsidiaries	8,014,526	41,665	-	-	8,056,191
	8,014,526	225,343	-	-	8,239,869
Net financial (liabilities)/assets	(8,014,526)	49,184,274	1,520,893	24,470	42,715,111
Less: Net financial assets denominated in the entity's functional currency	-	(49,184,274)	-	-	(49,184,274)
Currency exposure	(8,014,526)	-	1,520,893	24,470	(6,469,163)
2010					
<u>Financial assets</u>					
Other receivables and deposits	-	1,344	-	-	1,344
Amount owing by subsidiaries	-	45,680,029	-	-	45,680,029
Fixed deposits with licensed banks	-	12,000,000	-	-	12,000,000
Cash and bank balances	-	1,417,117	-	57,246	1,474,363
	-	59,098,490	-	57,246	59,155,736
<u>Financial liabilities</u>					
Other payables	-	303,810	-	6,334	310,144
Amount owing to subsidiaries	15,533,144	38,123	1,074,717	22,854	16,668,838
	15,533,144	341,933	1,074,717	29,188	16,978,982
Net financial (liabilities)/assets	(15,533,144)	58,756,557	(1,074,717)	28,058	42,176,754
Less: Net financial assets denominated in the entity's functional currency	-	(58,756,557)	-	-	(58,756,557)
Currency exposure	(15,533,144)	-	(1,074,717)	28,058	(16,579,803)

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

28. FINANCIAL INSTRUMENTS (CONT'D)

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

(i) Foreign currency risk (Cont'd)

Foreign currency risk sensitivity analysis

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

	The Group		The Company	
	2011 Increase/ (Decrease) RM	2010 Increase/ (Decrease) RM	2011 Increase/ (Decrease) RM	2010 Increase/ (Decrease) RM
Effects on profit after taxation/equity				
Singapore Dollar:-				
- strengthened by 5%	(60,326)	(43,030)	(400,726)	(776,657)
- weakened by 5%	60,326	43,030	400,726	776,657
United States Dollar				
- strengthened by 5%	(247,094)	(581,800)	-	-
- weakened by 5%	247,094	581,800	-	-
Qatari Riyal				
- strengthened by 5%	8,702	-	-	-
- weakened by 5%	(8,702)	-	-	-
New Taiwan Dollar				
- strengthened by 5%	1,224	7,587	1,224	1,403
- weakened by 5%	(1,224)	(7,587)	(1,224)	(1,403)
Euro				
- strengthened by 5%	(68)	(16,570)	-	-
- weakened by 5%	68	16,570	-	-
Indonesian Rupiah				
- strengthened by 5%	-	(1,013)	76,045	(53,736)
- weakened by 5%	-	1,013	(76,045)	53,736
Thai Baht				
- strengthened by 5%	-	(416)	-	-
- weakened by 5%	-	416	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

28. FINANCIAL INSTRUMENTS (CONT'D)

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

(ii) Interest rate risk

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

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

Interest rate risk sensitivity analysis

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, a 100 basis points strengthening in the interest rate as at the end of the reporting period would have decreased profit after taxation by RM595,766 (2010 : RM550,876). A 100 basis points weakening would have had an equal but opposite effect on the profit after taxation. This assumes that all other variables remain constant.

(iii) Equity price risk

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

(iv) Credit risk

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

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

Credit risk concentration profile

The Group's major concentration of credit risk relates to the amounts owing by thirty one (31) customers which constituted approximately 61% of its trade receivables as at the end of the reporting period.

Exposure to credit risk

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

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

28. FINANCIAL INSTRUMENTS (CONT'D)

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

(iv) Credit risk (Cont'd)

Ageing analysis

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

	Gross Amount RM	Individual Impairment RM	Collective Impairment RM	Carrying Value RM
The Group 2011				
Not past due	54,367,140	-	-	54,367,140
Past due:-				
- Less than 1 month	5,013,113	-	-	5,013,113
- 1 to 9 months	9,008,968	-	(463,993)	8,544,975
- over 9 months	5,180,123	(403,747)	(2,436,936)	2,339,440
	<u>73,569,344</u>	<u>(403,747)</u>	<u>(2,900,929)</u>	<u>70,264,668</u>
2010				
Not past due	52,268,692	-	-	52,268,692
Past due:-				
- Less than 1 month	5,043,772	-	-	5,043,772
- 1 to 9 months	9,579,356	(7,185)	(1,267,128)	8,305,043
- over 9 months	4,460,379	-	(2,740,649)	1,719,730
	<u>71,352,199</u>	<u>(7,185)</u>	<u>(4,007,777)</u>	<u>67,337,237</u>

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

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

Trade receivables that are past due but not impaired

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

Trade receivables that are neither past due nor impaired

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

(v) Liquidity risk

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

28. FINANCIAL INSTRUMENTS (CONT'D)

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

(v) Liquidity risk (Cont'd)

The Group	Weighted average effective rate %	Carrying amount RM	Contractual un- discounted cash flows RM	Within 1 year RM	1 – 5 years RM	Over 5 years RM
2011						
Hire purchase payables	0.44 - 8.21	11,352,030	12,698,022	6,201,959	6,496,063	-
Term loans	1.67 - 6.80	54,249,037	57,030,974	8,379,746	39,697,275	8,953,953
Short-term borrowings	2.07 - 5.12	12,713,500	12,713,500	12,713,500	-	-
Bank overdrafts	7.85	1,669,621	1,669,621	1,669,621	-	-
Trade payables	-	22,689,940	22,689,940	22,689,940	-	-
Other payables	-	18,633,635	18,633,635	18,633,635	-	-
Amount owing to associates	-	1,500,199	1,500,199	1,500,199	-	-
		122,807,962	126,935,891	71,788,600	46,193,338	8,953,953
2010						
Hire purchase payables	0.38 - 8.55	17,117,289	19,070,267	8,053,208	11,017,059	-
Term loans	1.45 - 7.30	56,131,168	58,326,377	8,142,356	46,557,346	3,626,675
Short-term borrowings	2.07 - 2.57	14,315,400	14,315,400	14,315,400	-	-
Bank overdrafts	7.55	1,230,283	1,230,283	1,230,283	-	-
Trade payables	-	20,502,454	20,502,454	20,502,454	-	-
Other payables	-	16,264,903	16,264,903	16,264,903	-	-
		125,561,497	129,709,684	68,508,604	57,574,405	3,626,675
The Company						
2011						
Other payables	-	183,678	183,678	183,678	-	-
Amount owing to subsidiaries						
- interest bearing	3.00	2,929,220	3,185,056	-	3,185,056	-
- interest free	-	5,135,971	5,135,971	5,135,971	-	-
		8,248,869	8,504,705	5,319,649	3,185,056	-
2010						
Other payables	-	310,144	310,144	310,144	-	-
Amount owing to subsidiaries						
- interest bearing	3.00	10,087,810	11,167,819	331,760	10,836,059	-
- interest free	-	6,581,028	6,581,028	6,581,028	-	-
		16,978,982	18,058,991	7,222,932	10,836,059	-

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

28. FINANCIAL INSTRUMENTS (CONT'D)

(b) Capital Risk Management

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

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

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

	The Group	
	2011 RM	2010 RM
Bank borrowings	66,962,537	70,446,568
Hire purchase payables	11,352,030	17,117,289
Bank overdrafts	1,669,621	1,230,283
	<u>79,984,188</u>	<u>88,794,140</u>
Less : Fixed deposits with licensed banks	(3,736,804)	(12,684,190)
Less : Cash and bank balances	(22,624,605)	(21,515,759)
	<u>53,622,779</u>	<u>54,594,191</u>
Net debt	53,622,779	54,594,191
Total equity (excludes non-controlling interest)	179,272,170	176,243,316
	<u>0.3</u>	<u>0.3</u>

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

(c) Classification of Financial Instruments

	The Group		The Company	
	2011 RM	2010 RM	2011 RM	2010 RM
Financial Assets				
<u>Loans and receivables financial assets</u>				
Trade receivables	70,264,668	67,337,237	-	-
Other receivables and deposits	4,273,792	3,515,151	2,265	1,344
Amount owing by subsidiaries	-	-	47,361,789	45,680,029
Amount owing by associates	4,150,474	4,534,039	-	-
Fixed deposits with licensed banks	3,736,804	12,684,190	3,000,000	12,000,000
Cash and bank balances	22,624,605	21,515,759	590,926	1,474,363
	<u>105,050,343</u>	<u>109,586,376</u>	<u>50,954,980</u>	<u>59,155,736</u>

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

28. FINANCIAL INSTRUMENTS (CONT'D)

(c) Classification of Financial Instruments (Cont'd)

	The Group		The Company	
	2011 RM	2010 RM	2011 RM	2010 RM
Financial liabilities				
<u>Other financial liabilities</u>				
Trade payables	22,689,940	20,502,454	-	-
Other payables and accrued expenses	18,633,635	16,264,903	183,678	310,144
Amount owing to subsidiaries	-	-	8,056,191	16,668,838
Amount owing to associate	1,500,199	-	-	-
Bank overdrafts	1,669,621	1,230,283	-	-
Bank borrowings	66,962,537	70,446,568	-	-
Hire purchase payables	11,352,030	17,117,289	-	-
	<u>122,807,962</u>	<u>125,561,497</u>	<u>8,239,869</u>	<u>16,978,982</u>

(d) Fair Values of Financial Instruments

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

The Group	2011		2010	
	Carrying Amount RM	Fair Value RM	Carrying Amount RM	Fair Value RM
Financial liabilities				
Hire purchase payables	11,352,030	10,767,841	17,117,289	17,045,040

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

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

As at 31 December 2011, there were no financial instruments carried at fair values.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

29. CONTINGENT LIABILITIES

	The Group	
	2011 RM	2010 RM
Corporate guarantees issued in favour of a third party	-	1,499,000
Performance guarantees	1,353,556	724,622
	1,353,556	2,223,622

The Company provided corporate guarantees to banks and financial institutions to secure banking facilities and leasing of equipment provided to certain subsidiaries amounting to RM43,476,546 (2010 : RM56,030,062).

30. COMMITMENTS

(i) Operating lease commitments

	The Group	
	2011 RM	2010 RM
Non-cancellable future minimum lease payments		
Not later than one year	3,589,335	3,639,155
Between one year and five years	11,762,854	12,154,563
Later than five years	17,627,993	17,573,115
	32,980,182	33,366,833

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

(ii) Capital commitments

As of 31 December 2011, the Group has the following capital commitments:

	The Group	
	2011 RM	2010 RM
Approved and contracted for:		
Property, plant and equipment	3,214,847	4,406,069

31. SIGNIFICANT EVENTS

- (i) On 7 January 2011, Frontken MIC Co. Limited ("FMIC"), a subsidiary of the Company, increased its issued and paid-up capital from HKD3,950,000 to HKD4,882,772 by the allotment and issuance of 932,772 new ordinary shares of HKD1.00 each at par for cash to its existing shareholders ("Increase in Share Capital").

Pursuant to the Increase in Share Capital, the Company subscribed for 466,386 new ordinary shares of HKD1.00 each for a cash consideration of HKD466,386. The shareholding of the Company in FMIC remained unchanged at approximately 50% after the Increase in Share Capital.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31. SIGNIFICANT EVENTS (CONT'D)

- (i) On 2 September 2011, FMIC increased its issued and paid-up capital from HKD4,882,772 to HKD9,560,072 by the allotment and issuance of 4,677,300 new ordinary shares of HKD1.00 each at par for cash to MIC-TECHVentures Asia Pacific Inc. and Ares Green International Corporation ("AGIC").

Pursuant to the above allotment of 4,677,300 new ordinary shares, the Company's effective equity interest in FMIC, held directly by the Company and through AGIC, diluted from 50% to 42.93%.

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

- (ii) On 15 March 2011, Frontken (Singapore) Pte. Ltd. ("FS"), a subsidiary of the Company, entered into the following agreements:
- (a) Shareholders' Agreement with Giga Group Pte. Ltd. ("GGPL") and Frontken Projects Pte Ltd (formerly known as Giga Projects Pte. Ltd.) ("FPPL") to regulate their rights and obligations as shareholders of FPPL and the conduct of the business of FPPL in accordance with the terms and conditions of the agreement; and
 - (b) Subscription Agreement with FPPL, GGPL, Wong Ah Nei @ Wong Foo Chaw ("WAN") and Teo Keow Seng ("TKS"), whereby FS will subscribe for 306,000 new ordinary shares representing a 51% equity interest of the enlarged share capital of FPPL for a cash consideration of SGD306,000 ("Subscription").

The Subscription was completed on 15 March 2011 and FPPL became a subsidiary of FS.

- (iii) On 30 May 2011, Frontken (Singapore) Pte. Ltd. ("FS") subscribed for 98 shares of QR1000 each representing 49% of the issued and paid-up share capital of Frontken Qatar WLL ("FQWLL") for a cash consideration of SGD34,652. FQWLL is considered a subsidiary of the FS as it has control of the Board of FQWLL. The Board of FQWLL determines the operating and management policies.
- (iv) On 25 August 2010, Frontken Petroleum Sdn. Bhd. ("FPSB"), a subsidiary of the Company, served, via its solicitors, a Writ of Summons together with a Statement of Claims on SGL Carbon Sdn. Bhd. ("SGL").

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

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

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

The matter is now fixed for case management on 26 April 2012.

The solicitors of FPSB are of the opinion that SGL does not have a valid claim for set-off against the revised outstanding sum and FPSB has a good chance of successfully recovering the same from SGL.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31. SIGNIFICANT EVENTS (CONT'D)

- (v) On 17 October 2011, Frontken Malaysia Sdn. Bhd. ("FMSB"), a subsidiary of the Company, served, via its solicitors, Writs of Summons together with Statements of Claims on Petra Resources Sdn Bhd ("PRSB"), demanding for the payment of an aggregate outstanding debt for work done and services rendered by FMSB between 2009 and 2011 amounting to RM3,121,279.57, interest, costs and such further or other reliefs or orders as the Court deems fit.

On 10 November 2011, FMSB received, via its solicitors, Statements of Defence and Counterclaim dated 8 November 2011 from PRSB. In the said defence, PRSB denied the Statements of Claim and stated that FMSB had been duly paid for the services rendered by FMSB to PRSB, and that FMSB was not entitled to the claims against PRSB. Further, PRSB contended that based on misrepresentation by FMSB in relation to an alleged agreement, PRSB had made payments by mistake to FMSB in the combined sum of RM6,656,455.70. PRSB therefore counterclaimed against FMSB for the refund of the said sum, interest at the rate of 8% per annum calculated from the date of judgment until full realisation, costs and such further or other relief as deemed fit and proper by the Court.

32. SUBSEQUENT EVENTS

- (i) On 4 January 2012, applications were filed for summary judgment against PRSB.

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

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

The Court had fixed the counterclaim by PRSB for mention on 27 April 2012.

33. RETAINED EARNINGS/(ACCUMULATED LOSSES)

	The Group		The Company	
	2011 RM	2010 RM	2011 RM	2010 RM
Total retained earnings / (accumulated losses) of Group and Company				
Realised	79,065,133	77,297,769	(48,037)	(1,209,242)
Unrealised	(3,309,565)	(4,163,470)	161,118	434,345
	75,755,568	73,134,299	113,081	(774,897)
Total share of retained earnings from associates				
Realised	1,806,984	2,152,290	-	-
Unrealised	22,240	89,360	-	-
	1,829,224	2,241,650	-	-
Less: Consolidation adjustments	(13,890,570)	(12,979,157)	-	-
Total retained earnings/ (accumulated losses)	63,694,222	62,396,792	113,081	(774,897)

STATEMENT BY DIRECTORS

We, **NG WAI PIN** and **DR. TAY KIANG MENG**, being two of the directors of **FRONTKEN CORPORATION BERHAD** do hereby state that, in the opinion of the directors, the financial statements set out on pages 38 to 94 are drawn up in accordance with the provisions of the Companies Act, 1965 and the Financial Reporting Standards in Malaysia so as to give a true and fair view of the state of affairs of the Group and of the Company as of 31 December 2011 and of their results and the cash flows of the Group and of the Company for the year ended on that date.

The supplementary information set out in Note 33, which is not part of the financial statements, is prepared in all material respects, in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants and the directive of Bursa Malaysia Securities Berhad.

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

NG WAI PIN

DR. TAY KIANG MENG

24 April 2012

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

I, **HEE KOK HIONG**, being the officer primarily responsible for the financial management of **FRONTKEN CORPORATION BERHAD**, do solemnly and sincerely declare that the financial statements of the Group and of the Company set out on pages 38 to 94 are to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

HEE KOK HIONG

Subscribed and solemnly declared by the
abovenamed **HEE KOK HIONG** at **KUALA
LUMPUR** this 24th day of April 2012

Before me,

Datin Hajah Raihela Wanchik (No. W275)
COMMISSIONER FOR OATHS

LIST OF PROPERTIES

Details of the landed properties owned and leased by the Company and its subsidiaries are set out below:

Address	Description/ Existing use	Land area/ Built-up area sq m	Approximate age of building	Tenure	Audited net book value as at 31.12.2011 RM'000	Date of acquisition
Frontken (Singapore)						
Pte Ltd (FS) Pte Lot A12843 (to be known as Pte Lot A21020)	2 factory buildings with mezzanine office and a 4-storey office-cum-factory building	11,154/ 11,213	15 years, 25 years & 1 year	Leasehold expiring on 20.01.2019	18,502	01.08.2001
Bearing postal address: 156A Gul Circle Singapore 629614						
FS						
Pte Lot A22490 (to be known as Pte Lot A1355601)	4-storey factory building to house production facilities and R&D activities	4,877/ 3,147	10 years	Leasehold expiring on 30.04.2026	3,629	18.03.2005
Bearing postal address: 15 Gul Drive Singapore 629466						
Frontken Malaysia						
Sdn Bhd (FM)						
H.S. (D) 79995 Lot P.T. 14308 (Lot 38206) Mukim Damansara Daerah Petaling Selangor Darul Ehsan	1½ -storey detached factory building to house production facilities	2,023/ 1,006	15 years	Freehold	2,003	17.03.2003
Bearing postal address: Lot 2-46, Jalan Subang Utama 7 Taman Perindustrian Subang Utama Seksyen 22 40300 Shah Alam Selangor Darul Ehsan						
FM						
H.S. (D) 79985 Lot P.T. 14298 (Lot 38196) Mukim Damansara Daerah Petaling Selangor Darul Ehsan	Vacant industrial land	2,177/ -	N/A	Freehold	1,500	04.07.2007
Bearing postal address: Lot 2-47, Jalan Subang Utama 8 Taman Perindustrian Subang Utama Seksyen 22 40300 Shah Alam Selangor Darul Ehsan						

LIST OF PROPERTIES (CONT'D)

Address	Description/ Existing use	Land area/ Built-up area sq m	Approximate age of building	Tenure	Audited net book value as at 31.12.2011 RM'000	Date of acquisition	
FM							
H.S. (D) 40495 & 40609 Lots 12049 & 12063 Mukim 14, Daerah Seberang Perai Tengah Penang	1½ storey semi- detached factory to house production facilities and R&D activities	604/ 597	9 years	Freehold	}	}	
Bearing postal address: No. 18 Jalan Pala 12 Kawasan Industri Ringan Permatang Tinggi 14100 Bukit Mertajam Penang							
H.S. (D) 40496 & 40610 Lots 12050 & 12064 Mukim 14, Daerah Seberang Perai Tengah Penang	1½ storey semi- detached factory to house production facilities and R&D activities	603/ 541	9 years	Freehold			505
Bearing postal address: No. 20 Jalan Pala 12 Kawasan Industri Ringan Permatang Tinggi 14100 Bukit Mertajam Penang							
FM							
H.S. (D) 1600 P.T. No. 1923 Mukim Padang Cina Daerah Kulim Kedah Darul Aman	Single-storey detached factory building to house production facilities and R&D activities	12,141/ 3,299	6 years	Leasehold expiring on 09.05.2066	7,448	23.12.2005	
Bearing postal address: Jalan Hi Tech 2/3 Industrial Zone Phase I Kulim Hi-Tech Industrial Park 09000 Kulim Kedah Darul Aman							

LIST OF PROPERTIES (CONT'D)

Address	Description/ Existing use	Land area/ Built-up area sq m	Approximate age of building	Tenure	Audited net book value as at 31.12.2011 RM'000	Date of acquisition
FM						
H.S. (D) 1600 P.T. No. 1923 Mukim Padang Cina Daerah Kulim Kedah Darul Aman	Vacant industrial land	15,419	N/A	Leasehold expiring on 09.05.2066	1,945	09.11.2007
Bearing postal address: Jalan Hi Tech 2/3 Industrial Zone Phase II Kulim Hi-Tech Industrial Park 09000 Kulim Kedah Darul Aman						
Metall-Treat Industries Pte Ltd						
Lots No. MK7-502T (JTC Private Lots A0393400-0 & A0393401-0)	2 single-storey semi- detached factory with mezzanine office to house production facilities	8,620/ 5,607	33 years	Leasehold expiring on 30.06.2038	9,315	27.08.2007
Bearing postal address: No. 28 Gul Avenue Singapore 629668 & No. 30 Gul Avenue Singapore 629670						
Ares Green Technology Corporation						
0273-0000, 0276-0000 & 0277-0000	A single-storey factory building and a 2-storey factory building to house production facilities and R&D activities and a 2-storey office building	16,966/ 14,190	12 years	Freehold	38,133	14.06.2004
Bearing postal address: No. 17, Bade Rd. Xinying Dist. Tainan City 730 Taiwan, R.O.C.						

SHAREHOLDING STATISTICS AS AT 30 APRIL 2012

Authorised Share Capital	:	RM500,000,000 divided into 5,000,000,000 ordinary shares of RM0.10 each
Issued and Paid-up Share Capital	:	RM101,140,816 comprising 1,011,408,160 ordinary shares of RM0.10 each
Class of Shares	:	Ordinary Shares of RM0.10 each
No. of Shareholders	:	5,027
Voting Rights	:	One vote per share

ANALYSIS OF SHAREHOLDINGS BY RANGE

Holdings	No. of Shareholders	% of Shareholders	*No. of Shares	% of Issued Capital
Less than 100 shares	154	3.1	6,949	~
100 to 1,000 shares	146	2.9	50,702	~
1,001 to 10,000 shares	931	18.5	6,192,569	0.6
10,001 to 100,000 shares	2,937	58.4	135,649,466	13.5
100,001 to less than 5% of issued shares	857	17.1	513,217,877	50.8
5% and above of issued shares	2	~	354,455,997	35.1
Total	5,027	100.0	1,009,573,560	100.0

Notes:

~ Negligible

* Excluding 1,834,600 shares held as treasury shares as at 30 April 2012

SUBSTANTIAL SHAREHOLDERS

The substantial shareholders of the Company and the number of shares held by them as recorded in the Register of Substantial Shareholders at the date of this statement are as follows:

	No. of shares	Direct		Indirect	
		*%	No. of shares	%	
Jorg Helmut Hohnloser	290,991,473	28.8	-	-	
Lembaga Tabung Haji	63,464,524	6.3	-	-	

Note:

* Excluding 1,834,600 shares held as treasury shares as at 30 April 2012

DIRECTORS' SHAREHOLDINGS

The shareholdings of the directors of the Company and the number of shares held by them as recorded in the Register of Directors' Shareholdings at the date of this statement are as follows:

	No. of shares	Direct		Indirect	
		*%	No. of shares	%	
Ng Wai Pin	-	-	-	-	
Dr Tay Kiang Meng	9,404,808	0.9	-	-	
Dato' Haji Johar Bin Murat @ Murad	-	-	-	-	
Aaron Sim Kwee Lein	-	-	-	-	
Jorg Helmut Hohnloser	290,991,473	28.8	-	-	
Timo Fabian Seeberger	-	-	-	-	

Note:

* Excluding 1,834,600 shares held as treasury shares as at 30 April 2012

SHAREHOLDING STATISTICS AS AT 30 APRIL 2012 (CONT'D)

TOP 30 SHAREHOLDERS

(As extracted from the Record of Depositors as at 30 April 2012)

	Name of shareholders	No. of shares	*% of issued capital
1	Maybank Securities Nominees (Asing) Sdn Bhd Kim Eng Securities Pte Ltd For Jorg Helmut Hohnloser	290,991,473	28.82
2	Lembaga Tabung Haji	63,464,524	6.29
3	CIMSEC Nominees (Asing) Sdn Bhd Exempt An For CIMB Securities (Singapore) Pte Ltd (Retail Clients)	47,901,626	4.74
4	Malaysia Nominees (Asing) Sendirian Berhad OCBC Capital Investment (Asia) Limited (00-00215-000)	27,630,400	2.74
5	Kho Chew Swan	17,075,552	1.69
6	HLB Nominees (Asing) Sdn Bhd Melvin Ong Eng Hoe (Cust. Sin 1087)	11,760,000	1.16
7	Tay Kiang Meng	9,404,808	0.93
8	Fong Pik Na	8,542,730	0.85
9	Sia Kiok K'ng	7,668,900	0.76
10	Affin Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Tan Kwee Eng (TAN1125C)	6,600,000	0.65
11	TA Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Kho Chai Yam	6,174,000	0.61
12	Chen Swee Ning	5,230,000	0.52
13	Lee Mee Huong	4,965,900	0.50
14	Cheah See Han	4,888,500	0.48
15	Oh Kim Sun	4,708,400	0.47
16	Maybank Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Tan Chin Seoh	4,600,000	0.46
17	Public Invest Nominees (Asing) Sdn Bhd Exempt An For Phillip Securities Pte Ltd (Clients)	4,566,020	0.45
18	Lee Swong Koi	4,100,000	0.41
19	RHB Capital Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Melval Holdings Sdn Bhd	3,696,200	0.37
20	RHB Capital Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Sleuths Holdings Sdn Bhd	3,577,600	0.35
21	AMT Engineering Sdn. Bhd.	3,324,503	0.33
22	HDM Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Goldinas Sdn Bhd (M14)	3,300,000	0.33
23	HDM Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Oh Kim Sun (M14)	3,298,700	0.33
24	Cheng Ngee Ong	3,175,200	0.31
25	JF Apex Nominees (Tempatan) Sdn Bhd Huatai Financial Holdings (HK) Limited For Huatai HK SPC-Huatai Von Malaysia Fund Segregated Portfolio	3,066,600	0.30
26	HDM Nominees (Asing) Sdn Bhd DBS Vickers Secs (S) Pte Ltd For Foong Kah Choong	2,809,268	0.28
27	Tiong Chee King	2,711,900	0.27
28	Public Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Chee Lai Hock (E-BMM)	2,700,000	0.27
29	Wong Hua Seh	2,700,000	0.27
30	Chong Shi Chai	2,670,867	0.26
		567,303,671	56.20

Note:

* Excluding 1,834,600 shares held as treasury shares as at 30 April 2012

WARRANT HOLDING STATISTICS AS AT 30 APRIL 2012

Type of Securities	:	Warrants
Total Warrants issued but not exercised	:	288,973,760
Voting Rights	:	One vote per warrant holder on show of hands or one vote per warrant on a poll in respect of a meeting of warrant holders

ANALYSIS OF WARRANT HOLDINGS BY RANGE

Holdings	No. of Warrant holders	% of Warrant holders	No. of Warrants	% of Warrants
Less than 100 Warrants	132	5.5	6,361	*
100 to 1,000 Warrants	90	3.8	49,696	*
1,001 to 10,000 Warrants	513	21.5	2,903,111	1.0
10,001 to 100,000 Warrants	1,115	46.8	57,906,268	20.0
100,001 to less than 5% of Warrants	533	22.4	228,108,324	79.0
5% and above of Warrants	-	-	-	-
Total	2,383	100.0	288,973,760	100.0

Note:

* Negligible

DIRECTORS' WARRANT HOLDINGS

None of the directors of the Company holds any Warrant in the Company, directly or indirectly, as at 30 April 2012.

TOP 30 WARRANT HOLDERS

(As extracted from the Record of Depositors as at 30 April 2012)

	Name of Warrant holders	No. of Warrants	% of Warrants
1	CIMSEC Nominees (Asing) Sdn Bhd Exempt An For CIMB Securities (Singapore) Pte Ltd (Retail Clients)	13,221,636	4.58
2	Affin Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Tan Kwee Eng (Tan1125C)	7,135,800	2.47
3	Lum Yin Mui	5,340,000	1.85
4	Kho Chew Swan	4,878,729	1.69
5	HLB Nominees (Asing) Sdn Bhd Melvin Ong Eng Hoe (Cust. Sin 1087)	3,360,000	1.16
6	Liew Loo Chon	3,000,000	1.04
7	Kam Kim Chuan	2,651,000	0.92
8	Lee Mee Huong	2,496,400	0.86
9	CIMSEC Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Pak Sow Loon (B PTR PCHG-CL)	2,400,000	0.83
10	AMT Engineering Sdn. Bhd.	2,295,328	0.79

WARRANT HOLDING STATISTICS AS AT 30 APRIL 2012 (CONT'D)

TOP 30 WARRANT HOLDERS

(As extracted from the Record of Depositors as at 30 April 2012)

	Name of warrant holders	No. of Warrants	% of Warrants
11	Maybank Nominees (Tempatan) Sdn Bhd Yap Poh Aik	2,220,000	0.77
12	Chen Swee Ning	2,204,000	0.76
13	Anthony Abang	1,933,600	0.67
14	Woon Khoon	1,775,000	0.61
15	TA Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Kho Chai Yam	1,764,000	0.61
16	Ng Yan Phay	1,733,600	0.60
17	How Cheng Kong	1,665,000	0.58
18	Mohd Jamel Bin Abdul Munin	1,625,780	0.56
19	Chew Ti Ming	1,549,000	0.54
20	Chang Nyeng Tai	1,526,080	0.53
21	Voon Lee Sze	1,433,000	0.50
22	Chong Tin Ka	1,400,000	0.48
23	HLG Nominee (Tempatan) Sdn Bhd Hong Leong Bank Bhd for Tie Tuang Teck	1,400,000	0.48
24	Lim Siew Wei	1,340,500	0.46
25	HLB Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Anthony Wong Chee Hoong	1,330,000	0.46
26	Maybank Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Sia Teng Tho	1,300,000	0.45
27	Koh Kok Choon	1,250,000	0.43
28	Tay Kiang Meng	1,187,088	0.41
29	Tan Tjin Hian	1,165,000	0.40
30	Maybank Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Ng Tee Loke	1,104,900	0.38
		77,685,441	26.87

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Eighth Annual General Meeting of the Company will be held at Suite 301, 3rd Floor, Block F, Pusat Dagangan Phileo Damansara I, No. 9, Jalan 16/11, Off Jalan Damansara, 46350 Petaling Jaya, Selangor on Thursday, 21 June 2012 at 11.00 a.m. for the transaction of the following business:-

AGENDA

Ordinary Business

1. To receive the Audited Financial Statements for the year ended 31 December 2011 together with the Reports of the Directors and Auditors thereon.
2. To re-elect the following Directors who retire pursuant to the following Articles of the Company's Articles of Association:-

Article 74	Ng Wai Pin	Resolution 1
Article 79	Jorg Helmut Hohnloser	Resolution 2
3. To approve the payment of Directors' fees of up to RM300,000 for the financial year ending 31 December 2012. Resolution 3
4. To re-appoint Messrs Crowe Horwath as Auditors of the Company for the financial year ending 31 December 2012 and to authorise the Directors to fix their remuneration. Resolution 4

Special Business

5. To consider and if thought fit, to pass the following Resolutions as:-

ORDINARY RESOLUTION 1

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

Resolution 5

"THAT subject always to the Companies Act, 1965 ("Act"), the Memorandum and Articles of Association of the Company and the approvals of Bursa Malaysia Securities Berhad ("Bursa Securities") and the relevant regulatory authorities where such approval is necessary, the Directors be and are hereby empowered, pursuant to Section 132D of the Act, to issue shares in the Company at any time until the conclusion of the next Annual General Meeting ("AGM") and upon such terms and conditions and for such purposes as the Directors may in their absolute discretion deem fit, provided that the aggregate numbers of shares to be issued does not exceed 10% of the issued share capital of the Company (excluding treasury shares) at the time of issue.

AND THAT the Directors of the Company be and are also empowered to obtain the approval for the listing of and quotation for the additional shares so issued on Bursa Securities and that such authority shall continue in force until the conclusion of the next AGM of the Company."

ORDINARY RESOLUTION 2

PROPOSED RENEWAL OF SHAREHOLDERS' MANDATE AND PROPOSED NEW SHAREHOLDERS' MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE

Resolution 6

"THAT subject to the Main Market Listing Requirements of Bursa Securities ("Listing Requirements"), approval be and is hereby given to the Company and its subsidiaries to enter into the recurrent transactions of a revenue or trading nature as set out in Section 2.3 of the Circular to Shareholders dated 30 May 2012 with the related parties mentioned therein which are necessary for the Group's day to day operations.

THAT the Company and its subsidiaries be and are hereby authorised to enter into the recurrent transactions with the related parties mentioned therein provided that:

- (a) the transactions are carried out in the ordinary course of business and on normal commercial terms which are not more favourable to the related parties than those generally available to the public and are not to the detriment of the minority shareholders of the Company;
- (b) the disclosure of the aggregate value of the transactions conducted pursuant to the shareholders' mandate during the financial year will be made in the Annual Report for the said financial year.

NOTICE OF ANNUAL GENERAL MEETING (CONT'D)

THAT such approval shall commence immediately upon passing of the resolution and remain in force until:-

- (a) the conclusion of the next AGM of the Company following the general meeting at which the mandate is passed, at which time it will lapse, unless by a resolution passed at the meeting, the authority is renewed; or
- (b) the expiration of the period within which the next AGM after the date it is required to be held pursuant to Section 143(1) of the Act (but shall not extend to such extensions as may be allowed pursuant to Section 143(2) of the Act); or
- (c) revoked or varied by resolution passed by the shareholders in general meeting,

whichever is the earlier.

AND THAT the Directors of the Company be and are hereby authorised to complete and do all such acts and things (including executing all such documents as may be required) as they may consider expedient or necessary to give effect to this resolution."

ORDINARY RESOLUTION 3

PROPOSED RENEWAL OF AUTHORITY FOR THE COMPANY TO PURCHASE ITS OWN SHARES ("PROPOSED RENEWAL OF SHARE BUY-BACK MANDATE")

Resolution 7

"THAT subject to the provisions under the Act, the Memorandum and Articles of Association of the Company, the Listing Requirements and any other applicable laws, rules, regulations and guidelines for the time being in force, the Company be and is hereby authorised to purchase such number of ordinary shares of RM0.10 each in the Company ("Shares") as may be determined by the Directors of the Company from time to time through Bursa Securities upon such terms and conditions as the Directors may deem fit and expedient in the interest of the Company provided that the aggregate number of shares purchased pursuant to this resolution shall not exceed ten per centum (10%) of the total issued and paid-up share capital of the Company.

THAT the maximum amount of funds to be allocated for the purpose of purchasing the Shares shall not exceed the aggregate of the retained profits and share premium account of the Company.

THAT authority be and is hereby given to the Directors of the Company to decide at their discretion, as may be permitted and prescribed by the Act and/or any prevailing laws, rules, regulations, orders, guidelines and requirements issued by the relevant authorities for the time being in force to deal with any of the Shares so purchased by the Company in the following manner:

- (i) the Shares so purchased could be cancelled; or
- (ii) the Shares so purchased could be retained as treasury shares for distribution as dividends to the shareholders of the Company and/or be resold through Bursa Securities in accordance with the relevant rules of Bursa Securities and/or be cancelled subsequently; or
- (iii) combination of (i) and (ii) above.

THAT the authority conferred by this resolution will be effective immediately from the passing of this ordinary resolution and shall continue to be in force until:

- (i) the conclusion of the next AGM of the Company, at which time the said authority would lapse unless by ordinary resolution passed at that meeting, the authority is renewed, either unconditionally or subject to conditions; or
- (ii) the expiration of the period within which the next AGM is required by law to be held; or
- (iii) the authority is revoked or varied by an ordinary resolution of the shareholders of the Company in a general meeting,

whichever occurs first.

NOTICE OF ANNUAL GENERAL MEETING (CONT'D)

AND THAT the Directors of the Company be and are hereby authorised to take such steps as are necessary or expedient to implement or to effect the purchase(s) of the Shares with full power to assent to any conditions, modifications, variations and/or amendments as may be imposed by the relevant authorities and to take such steps as they may deem necessary or expedient in order to implement, finalise and give full effect in relation thereto."

SPECIAL RESOLUTION 1

PROPOSED AMENDMENT TO THE ARTICLES OF ASSOCIATION OF THE COMPANY ("PROPOSED AMENDMENT")

Resolution 8

"THAT the Articles of Association of the Company be and are hereby amended in the form and manner as set out in Appendix I of the Circular to Shareholders dated 30 May 2012;

AND THAT The Board of Directors of the Company be and is hereby authorised to do all such acts and things as are necessary and/or expedient in order to give full effect to the Proposed Amendment with full powers to assent to any conditions, modifications and/or amendments as may be required by any relevant authorities."

6. To transact any other business of which due notice shall have been given.

BY ORDER OF THE BOARD

Mah Li Chen (MAICSA 7022751)
Cynthia Gloria Louis (MAICSA 7008306)
Chew Mei Ling (MAICSA 7019175)
Company Secretaries

Kuala Lumpur
30 May 2012

Notes:

1. The Agenda No.1 is meant for discussion only as the provision of Section 169(1) of the Act does not require a formal approval of shareholders. It is, therefore, not put forward for voting.
2. A member entitled to attend and vote at this Meeting is entitled to appoint a proxy/proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.
3. Where a member appoints more than one proxy, the appointment shall be invalid unless he specifies the proportions of his holdings to be represented by each proxy.
4. Where the appointer is a corporation, this form must be executed under its common seal or under the hand of an officer or attorney duly authorised.
5. The instrument appointing a proxy or proxies must be deposited at the Registered Office of the Company at 17-2, Jalan Solaris 3, Solaris Mont' Kiara, 50480 Kuala Lumpur not less than forty-eight (48) hours before the time fixed for convening the Meeting or any adjournment thereof.
6. For the purpose of determining a member who shall be entitled to attend the Eighth AGM, the Company shall request Bursa Malaysia Depository Sdn Bhd to issue a Record of Depositors as at 14 June 2012. Only a depositor whose name appears on the Record of the Depositor as at 14 June 2012 shall be entitled to attend the said meeting or appoint proxies to attend and/or vote on his/her behalf.

NOTICE OF ANNUAL GENERAL MEETING (CONT'D)

Notes:

7. Explanatory Notes on Special Business:-

- a. The proposed Resolution 5, if passed, will empower the Directors from the conclusion of this AGM, to allot and issue up to a maximum of 10% of the issued share capital of the Company (excluding treasury shares) at the time of issue (other than bonus or rights issue) without the need to convene a general meeting and for such purposes as they consider would be in the best interest of the Company. This authority, unless revoked or varied at a general meeting, will expire at the next AGM of the Company. This mandate will provide flexibility to the Company for any possible fund raising activities, including but not limited to placing of shares, for the purpose of funding working capital, future investment project(s) and/or acquisition(s). At this juncture, there is no decision to issue new shares. If there should be a decision to issue new shares after the general mandate is sought, the Company will make an announcement in respect thereof.

The proposed Resolution 5 is a renewal of the general mandate for issuance of shares pursuant to Section 132D of the Act. The Company had, at the Seventh AGM held on 24 June 2011, obtained its shareholders' approval for the general mandate for issuance of shares pursuant to Section 132D of the Act. As at the date of this notice, the Company did not issue any shares pursuant to this mandate obtained.

- b. The proposed Resolution 6, if passed, will empower the Company and its subsidiaries ("Group") to enter into recurrent related party transactions of a revenue or trading nature which are necessary for the Group's day-to-day operations, subject to the transactions being in the ordinary course of business and on terms which are not more favourable to the related parties than those generally available to the public and are not to the detriment of the minority shareholders of the Company. Please refer to the Circular to Shareholders dated 30 May 2012 which is despatched together with this Annual Report for more information.
- c. The proposed Resolution 7, if passed, will give the Directors of the Company the authority to take all such steps as are necessary or expedient to implement, finalise, complete and/or effect the purchase(s) of Shares by the Company as the Directors may deem fit and expedient in the best interest of the Company. This authority will, unless renewed or revoked or varied by the Company at a general meeting, continue to be in force until the conclusion of the next AGM of the Company or the expiry of the period within which the next AGM of the Company following the Eighth AGM is required by the law to be held. Please refer to the Circular to Shareholders dated 30 May 2012 which is despatched together with this Annual Report for more information.
- d. The proposed Resolution 8, if passed, will enable the Company to amend the Articles of Association to be in line with the Listing Requirements.

STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

The profile of Jorg Helmut Hohnloser, being a Director who is standing for re-election under the proposed Resolution 2, is set out on page 17 of this Annual Report.

The details of his interest in the securities of the Company are set out on pages 100 and 102 of this Annual Report. By virtue of his interest in the shares of the Company, he is deemed to have an interest in the shares of the subsidiaries to the extent of the Company's interest in these subsidiaries. As at 30 April 2012, he has a direct shareholding of 2,031,000 ordinary shares of NT\$10 each representing 6.14% equity interest in Ares Green Technology Corporation, a subsidiary of the Company.



FRONTKEN CORPORATION BERHAD

(Company No.: 651020-T)

(Incorporated in Malaysia under the Companies Act, 1965)

PROXY FORM

Number of shares held

I/We, I.C. or Company No.
(FULL NAME IN CAPITAL LETTERS)

CDS Account No. of
(ADDRESS IN FULL)

being a member/members of FRONTKEN CORPORATION BERHAD ("Company"), hereby appoint

..... I.C. or Company No.
(FULL NAME IN CAPITAL LETTERS) (NEW AND OLD I.C. NO.)

of
(ADDRESS IN FULL)

or failing him/her, I.C. or Company No.
(FULL NAME IN CAPITAL LETTERS) (NEW AND OLD I.C. NO.)

of
(ADDRESS IN FULL)

or the Chairman of the meeting as my/our proxy to vote for me/us on my/our behalf at the Eighth Annual General Meeting of the Company to be held at Suite 301, 3rd Floor, Block F, Pusat Dagangan Phileo Damansara I, No. 9, Jalan 16/11, Off Jalan Damansara, 46350 Petaling Jaya, Selangor on Thursday, 21 June 2012 at 11.00 a.m., or at any adjournment thereof.

My/our proxy is to vote on the Resolutions set out in the Notice of the Meeting as indicated with an "X" in the appropriate space. If no specific direction as to the voting is given, my/our proxy will vote or abstain from voting at his/her discretion.

	Resolutions	For	Against
1	Re-election of Ng Wai Pin		
2	Re-election of Jorg Helmut Hohnloser		
3	Payment of Directors' fees for the financial year ending 31 December 2012		
4	Re-appointment of Messrs Crowe Horwath as Auditors of the Company		
5	Authority to Issue Shares pursuant to Section 132D of the Companies Act, 1965		
6	Proposed Renewal of Shareholders' Mandate and Proposed New Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature		
7	Proposed Renewal of Authority for the Company to Purchase its Own Shares		
8	Proposed Amendment to the Articles of Association of the Company		

Dated this.....day of.....2012

.....
Signature/Common Seal of Appointer

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy/proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.
2. Where the member appoints more than one (1) proxy, the appointment shall be invalid unless he specifies the proportions of his holdings to be represented by each proxy.
3. Where the appointer is a corporation, this form must be executed under its common seal or under the hand of an officer or attorney to be duly authorised.
4. The instrument appointing a proxy shall be deposited at the Registered Office of the Company at 17-2, Jalan Solaris 3, Solaris Mont' Kiara, 50480 Kuala Lumpur, not less than forty-eight (48) hours before the time fixed for convening the meeting or any adjournment thereof.
5. For the purpose of determining a member who shall be entitled to attend the Eighth AGM, the Company shall request Bursa Malaysia Depository Sdn Bhd to issue a Record of Depositors as at 14 June 2012. Only a depositor whose name appears on the Record of the Depositor as at 14 June 2012 shall be entitled to attend the said meeting or appoint proxies to attend and/or vote on his/her behalf.

FOLD THIS FLAP FOR SEALING

FOLD HERE



The Company Secretary
FRONTKEN CORPORATION BERHAD (651020-T)
17-2, Jalan Solaris 3
Solaris Mont' Kiara
50480 Kuala Lumpur

FOLD HERE
