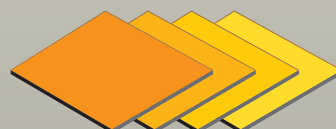


# TOTAL INTEGRATED ENGINEERING SOLUTIONS

ANNUAL REPORT  
2013



[www.frontken.com](http://www.frontken.com)



**FRONTKEN**  
前研科技集团

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



FRONTKEN CORPORATION  
BERHAD (651020-T)

ANNUAL REPORT 2013

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## CORPORATE INFORMATION

### BOARD OF DIRECTORS

---

**NG WAI PIN**

*Chairman / Managing Director*

**DR TAY KIANG MENG**

*Executive Director / Chief Scientist*

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

*Independent Non-Executive Director*

**AARON SIM KWEE LEIN**

*Senior Independent Non-Executive Director*

**DR JORG HELMUT HOHNLOSER**

*Non-Independent Non-Executive Director*

**TIMO FABIAN SEEBERGER**

*Alternate to Dr Jorg Helmut Hohnloser*

### AUDIT COMMITTEE

---

Dato' Haji Johar Bin Murat @ Murad (*Chairman*)  
Aaron Sim Kwee Lein  
Dr Jorg Helmut Hohnloser

### NOMINATION COMMITTEE

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Dato' Haji Johar Bin Murat @ Murad (*Chairman*)  
Aaron Sim Kwee Lein  
Dr 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)  
Wong Wei Fong (MAICSA 7006751)

### REGISTERED OFFICE

---

B-11-10 Level 11  
Megan Avenue II  
Jalan Yap Kwan Seng  
50450 Kuala Lumpur  
Tel: (03) 2166 9718  
Fax: (03) 2166 9728

### HEAD OFFICE

---

Suite 301, Block F  
Pusat Dagangan Phileo Damansara 1  
No. 9 Jalan 16/11, Off Jalan Damansara  
46350 Petaling Jaya, Selangor  
Tel: (03) 7968 3312  
Fax: (03) 7968 3316  
Email: fcb@frontken.com  
Website: www.frontken.com

### INVESTOR RELATIONS

---

Eric Hee  
Tel : (03) 7968 3312  
Fax: (03) 7968 3316  
Email: erichee@frontken.com

### SHARE REGISTRAR

---

Tricor Investor Services Sdn Bhd  
Level 17, The Gardens North Tower  
Mid Valley City, Lingkaran Syed Putra  
59200 Kuala Lumpur  
Tel: (03) 2264 3883  
Fax: (03) 2282 1886

### AUDITORS

---

Crowe Horwath (AF 1018)  
Chartered Accountants  
Level 16 Tower C  
Megan Avenue II  
12 Jalan Yap Kwan Seng  
50450 Kuala Lumpur  
Tel: (03) 2788 9999  
Fax: (03) 2788 9998

### STOCK EXCHANGE LISTING

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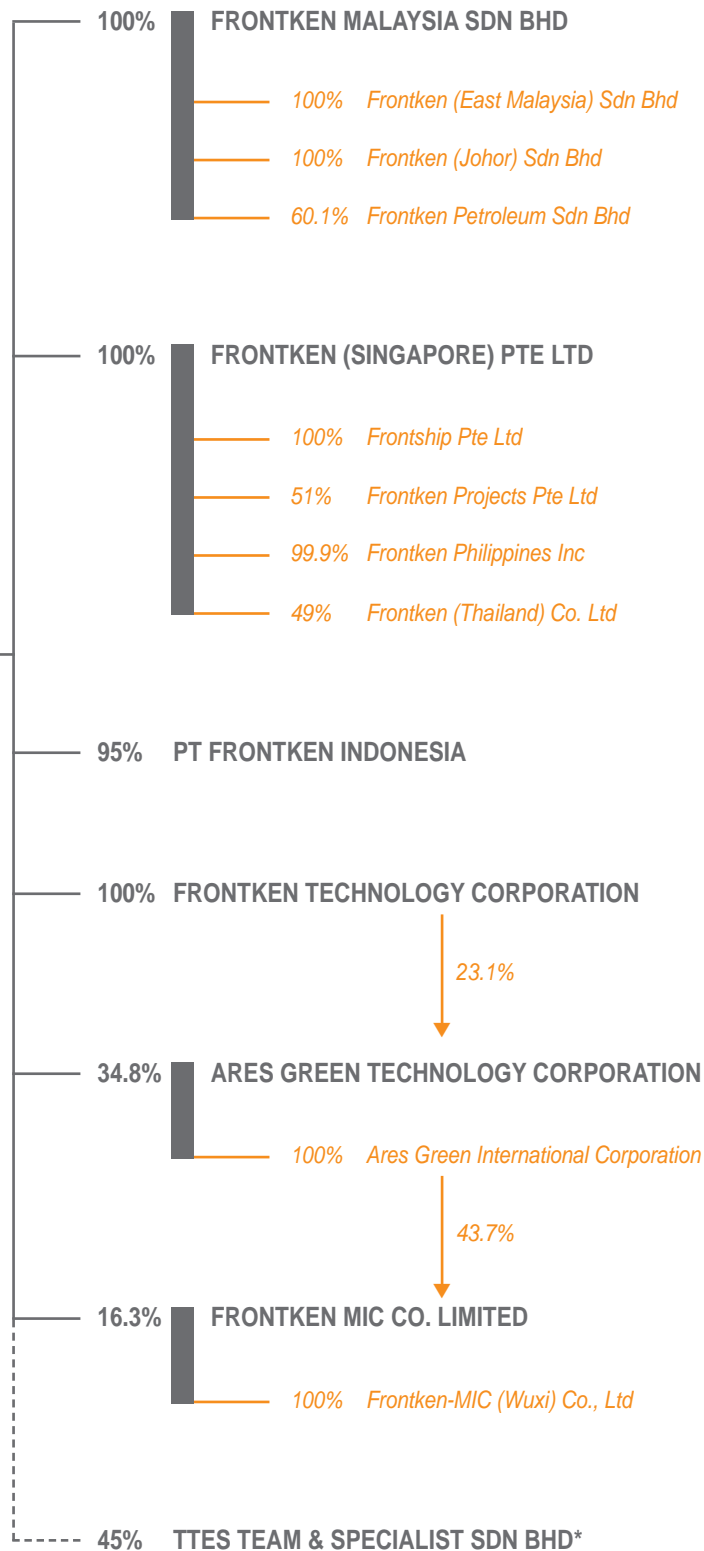
Main Market of Bursa Malaysia Securities Berhad  
Stock Name: FRONTKN  
Stock Code: 0128  
Reuters Code: 0128.KL  
Bloomberg Code: FRCB MK

# GROUP CORPORATE STRUCTURE

AS AT 20 MAY 2014



**FRONTKEN**  
 FRONTKEN  
 CORPORATION  
 BERHAD (651020-T)



\* Pending completion

## OUR VISION, MISSION AND PROFILE

<p><b>OUR VISION</b></p>	<p>To be a continuing improving leader in performance excellence in advanced surface metamorphosis engineering and technology.</p>
<p><b>OUR MISSION</b></p>	<p>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.</p>
<p><b>OUR PROFILE</b></p> 	<p>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.</p> <p>The Group utilizes numerous thermal spray coating methods to improve the operational efficiency of various turnkey industries, including the oil and gas, petrochemical, power generation, semiconductor and electronics manufacturing sectors. The Group also undertakes research and development in advanced materials and surface engineering technology to produce new and improved coatings for use in the protection against material degradation and to improve the productivity of industrial processes.</p> <p>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.</p> <p>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.</p>

## OUR SERVICES

### 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.

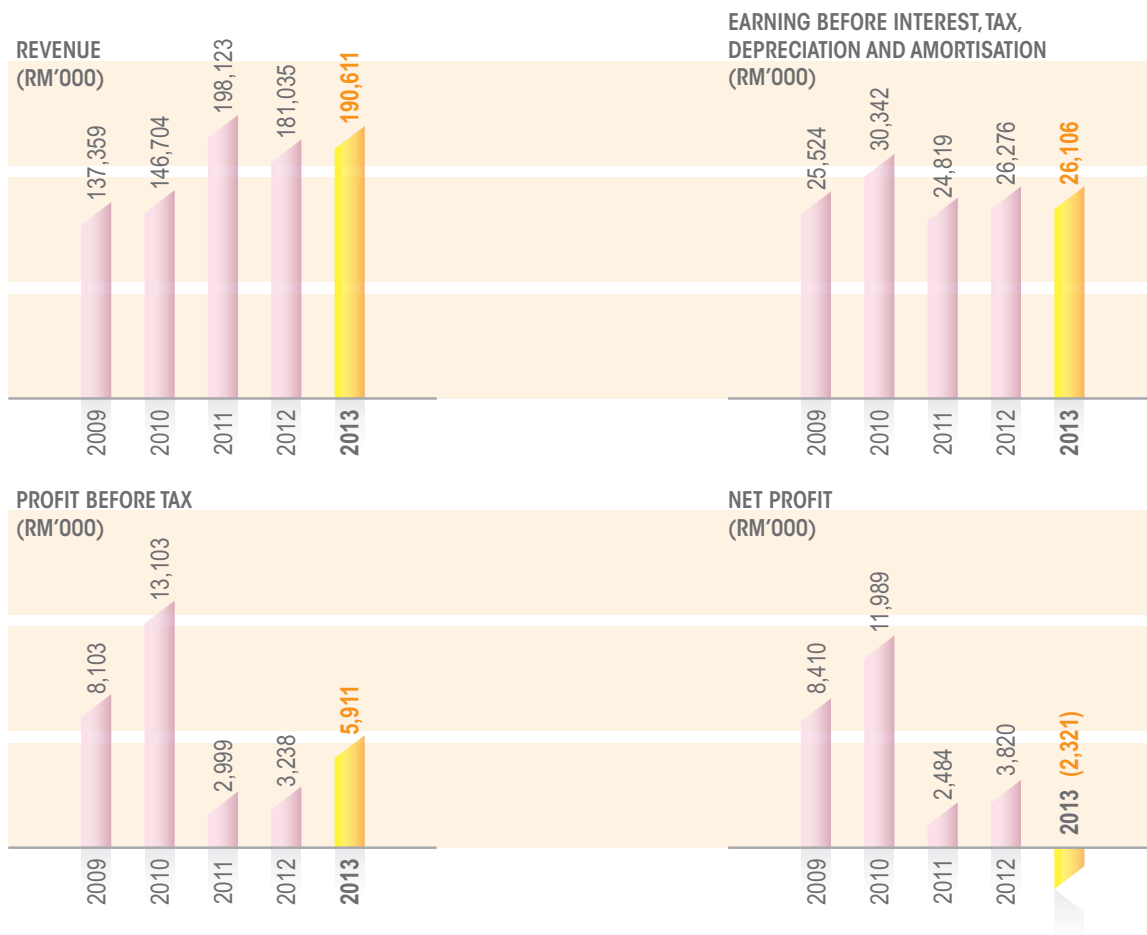
#### **Precision cleaning**

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



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

	2009	2010	2011	2012	2013
Singapore	56,494	66,501	66,295	64,053	59,481
Malaysia	74,532	68,966	61,447	45,835	43,600
Taiwan	–	–	51,430	49,689	63,992
Others	6,333	11,237	18,951	21,458	23,538
<b>Total</b>	<b>137,359</b>	<b>146,704</b>	<b>198,123</b>	<b>181,035</b>	<b>190,611</b>

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

	2009	2010	2011	2012	2013
Oil & Gas	43,639	39,336	26,965	21,963	18,153
Power Generation	22,208	33,528	22,810	22,174	17,365
Semiconductor	45,426	41,177	99,853	90,636	107,344
General*	26,086	32,663	48,495	46,262	47,749
<b>Total</b>	<b>137,359</b>	<b>146,704</b>	<b>198,123</b>	<b>181,035</b>	<b>190,611</b>

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

## Financial Highlights (cont'd)

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

	2009	2010	2011	2012	2013
Non-Current Assets	168,234	211,563	214,177	183,606	171,779
Current Assets	66,762	121,628	119,411	131,016	130,379
<b>Total Assets</b>	<b>234,996</b>	<b>333,191</b>	<b>333,588</b>	<b>314,622</b>	<b>302,158</b>
Share Capital	72,243	101,141	101,141	101,141	101,141
Reserves	63,105	75,102	78,131	83,752	85,162
Shareholders' Equity	135,348	176,243	179,272	184,893	186,303
Non-Controlling Interests	182	25,902	27,890	28,116	27,924
<b>Total Equity</b>	<b>135,530</b>	<b>202,145</b>	<b>207,162</b>	<b>213,009</b>	<b>214,227</b>
Non-Current Liabilities	43,651	62,572	55,614	32,095	29,484
Current Liabilities	55,815	68,474	70,812	69,518	58,447
<b>Total Liabilities</b>	<b>99,466</b>	<b>131,046</b>	<b>126,426</b>	<b>101,613</b>	<b>87,931</b>
<b>Total Equity and Liabilities</b>	<b>234,996</b>	<b>333,191</b>	<b>333,588</b>	<b>314,622</b>	<b>302,158</b>

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

	2009	2010	2011	2012	2013
Net Cash Flows From Operating Activities	23,278	20,919	24,587	16,043	36,681
Net Cash Flows (For)/From Investing Activities	(2,085)	(23,487)	(18,351)	17,461	(7,984)
Net Cash Flows (For)/From Financing Activities	(16,869)	25,217	(14,771)	(16,946)	(34,105)
Net Increase/(Decrease) in Cash and Cash Equivalents	4,324	22,649	(8,535)	16,558	(5,408)
Effect of exchange differences	282	134	257	208	1,062
Cash and Cash Equivalents at Beginning of Year	5,581	10,187	32,970	24,692	41,458
Cash and Cash Equivalents at End of Year	10,187	32,970	24,692	41,458	37,112

### FINANCIAL ANALYSIS (RM'000)

	2009	2010	2011	2012	2013
Turnover growth	5.2%	6.8%	35.0%	-8.6%	5.3%
Profit Before Tax Growth	-58.3%	61.7%	-77.1%	8.0%	82.5%
Net Profit Growth	-55.4%	42.6%	-79.3%	53.8%	-160.8%
Pre-tax Profit Margin	5.9%	8.9%	1.5%	1.8%	3.1%
Net Profit Margin	6.1%	8.2%	1.3%	2.1%	-1.2%
Gearing Ratio (Net of cash) (times)	0.4	0.3	0.3	0.1	0.0
Return on Average Shareholders' Equity	6.5%	7.7%	1.4%	2.1%	-1.3%
Return on Average Total Assets	3.5%	4.2%	0.7%	1.2%	-0.8%
Loss/Earnings Per Share (Sen)					
- Basic	1.2	^1.3	0.3	0.4	-0.2
- Diluted	n/a	1.0	n/a	n/a	n/a

<sup>^</sup> 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



**On behalf of the Board of Directors of Frontken Corporation Berhad, I present to you the Annual Report and the Audited Financial Statements for the financial year ended 31 December 2013.**

### YEAR 2013 IN PERSPECTIVE

I have mentioned in my last statement that for year 2013, we would approach it carefully knowing what to expect in an uncertain economy. We continued our strategy to build a stable platform by accelerating and intensifying the execution of our strategy.

In year 2013, we continued to respond diligently to the challenging domestic and foreign markets conditions, by addressing our resources and rescaling some loss making activities while we continue to improve on the profitable businesses. This has helped us to align our businesses in the respective markets and continued to develop and strengthen our positions for growth opportunities.

The turbulence in the markets both domestic and foreign have continued to affect our business in year 2013. However, we managed to stay on track and improved our revenue to RM190.6 million (2012 : 181.0 million). The increase in our revenue was mainly driven by our subsidiary in Taiwan in line with the robust semiconductor business there. Consequently, our Profit Before Tax also improved by RM2.7 million to RM5.9 million (2012 : RM3.2 million) partly due to lower operating expenses as a result of management's efforts in cost control combined with improving results from our relatively new business units located in Kuching and Melaka.

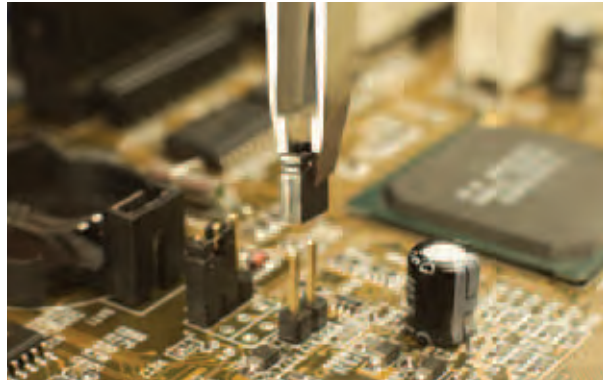
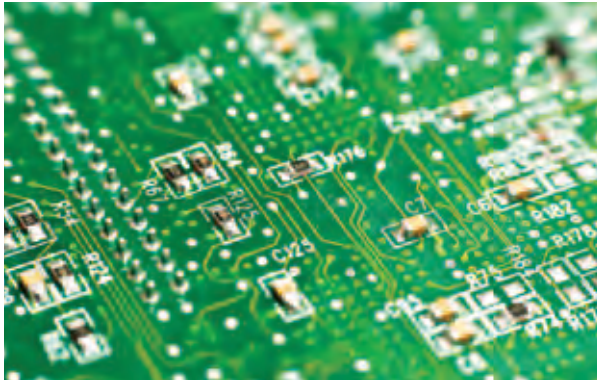
The Malaysian market continued to be challenging as can be seen from the marginal improvement in revenue to RM33.6 million (2012 : RM33.5 million) due to lower sales in the semiconductor industry which experienced a slowdown. The operating Malaysian entities are Frontken Malaysia Sdn Bhd, Frontken (Johor) Sdn Bhd and Frontken (East Malaysia) Sdn Bhd.

The shareholders' funds increased by RM1.4 million from RM184.9 million in year 2012 to RM186.3 million in year 2013 mainly due to the improvement in the reserves. The Group's net asset per share remained the same at 21 sen.

On the regional front, we encountered a marginal drop in business in our operations in Singapore. The revenue from Singapore reduced to RM74.1 million from RM83.0 million partly due to the disposal of Metall-Treat Industries Pte Ltd ("MTI"), a wholly owned subsidiary, on 6 December 2012, coupled with deferment of outages by its power generation customers and a one off trading sales in the preceding corresponding period. If we were to exclude the revenue from MTI and the one off



## Chairman's Statement (cont'd)



trading sales in 2012 then the revenue in 2013 would have improved by RM4 million. However, the revenue from Taiwan increased from RM50.0 million to RM65.3 million, an improvement of 30% from year 2012 mainly due to the positive growth of the semiconductor business. Our Philippines' operations also saw an improvement to its revenue from RM10.8 million to RM13.3 million following the growth in its cleaning business for the solar industry. It was comforting to note that there was continued improvement, albeit marginally, from our operation in Indonesia of RM1.7 million (2012 : RM1.5 million). We anticipate further growth from this unit now that it has obtained the necessary licence from SKK Migas, Indonesia enabling us to participate in repair and services works for the oil and gas industry.

During the year, our Group generated RM36.7 million cash flows from our operations and out of which we utilised RM5.3 million to acquire property, plant and equipment and RM3.7 million for additional investment in a subsidiary. The cash and cash equivalent amassed for the year was RM37.1 million.

Our Group's revenue for the 12 months ended 31 December 2013 increased by approximately RM9.6 million (5.3%) mainly due to the improved contribution from our operations in the Philippines and Taiwan.

### ANALYSING OUR BUSINESS

The markets continued to challenge us for year 2013 just like the past years. In spite of difficult market and the uncertainties of recovery in the region, we were able to improve on our revenue marginally. We will continue to strategise and focus on our strengths to overcome the challenges by enhancing our services, increasing our efficiencies and reducing costs.

Our business had been affected by the slowdown and deferment of projects by our customers due to scale back of new or proposed expansion in light of the uncertainties of the economy. As such, we will continue to consolidate our business and prioritise our efforts to focus on revenue and bottom-line.



## Chairman's Statement (cont'd)



In the year 2014, our priority will be to continue to focus our attention on the quality of our services and efficiencies so as to maintain our competitiveness. As always, we strive to deliver long-term value to our stakeholders. Over the years, we had taken serious steps to continue looking for business opportunities that bode well and synergise with our current activities. The recent acquisition of a strategic 45% stake in TTES Team & Specialist Sdn. Bhd. ("TTES") is the result of that.

TTES has a license with Petronas for it to supply and provide services to Petronas. It is principally engaged in the business of turbo machinery technical engineering services and rotating equipment engineering, maintenance and technical support services for various types of industrial gas turbines and the driven equipment such as general maintenance on gas turbines, pumps, compressors, high speed industrial gearboxes and turbo generators, field performance analysis of gas turbines and compressors, vibration diagnostics/analysis, surveillance, system integration and installation and gas compressor overhauls.



With the encouraging outlook for the oil and gas industry in Malaysia following the implementation of the Economic Transformation Programme ("ETP"), which aims to make Malaysia the number one Asian Hub for oil field services, the above acquisition provides an attractive opportunity for us to mark our involvement in the promising oil and gas industry in Malaysia. This acquisition will enable us to tap further into the existing client base of TTES in the oil and gas industry.

By being part of our Group, TTES will also be able to tap onto our presence and infrastructure in the region with the view of growing its existing business. This synergistic relationship is expected to contribute positively to our future earnings.

### KEEPING COST LOW AND GETTING LIQUIDITY FLOWING

We continue to keep tabs on our financials by conserving our resources and focusing on growth in the challenging business environment. Our management team possesses great professionalism and commitment to keeping cost low. We will continue to innovate and fine tune our business strategies and model so that we may remain competitive.

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

## Chairman's Statement (cont'd)

### OUTLOOK FOR 2014

Our Group remain cautious on the economic outlook as the domestic and overseas markets continue to be challenging. With the continual support and guidance of the Board and management, matched with a good business strategy, we would be in a better position to seize the growth opportunities for the overall benefits of everyone.

The Group anticipates that the overall business conditions in 2014 will continue to be challenging but encouraging amidst subdued global economic conditions and slower growth in the regional economies. This has also resulted in an increase in pressure from customers for price reduction. Nevertheless, the Group believes with the right marketing approach, our business prospect will remain positive and encouraging barring unforeseen circumstances. In order to remain competitive, we embarked on a series of improvement measures including improving our cost base, enhanced our cross selling for greater operational synergies and implementing best practice margin management and sourcing strategy to deliver better value propositions to our customers. We will continue to adopt these measures in 2014.

Key priorities for the year would be to grow our business and at the same time improve on our costing to protect our earnings, exercise prudence in liquidity management, disciplined execution of strategy whilst continuing to focus on the fundamentals of our business.

We will continue to speed up our execution plan in facing potential adversities in the years ahead. We certainly hope that this situation would only be temporary until the economy improves in the near future. We remain positive of our core activities while keeping a watchful eye on our new business units. We strive to achieve value added projects that will drive our businesses to new heights.

Based on the continuous challenges faced by our Group, your Board would not be recommending any final dividend for the year ended 2013 as we still need to conserve our cash for future expansion and investing activities.



### APPRECIATION

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

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

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

Sincerely

**NG WAI PIN**  
Chairman

## MANAGEMENT DISCUSSION AND ANALYSIS

### OVERVIEW

Our Group is the industry leader in surface metamorphosis and surface treatment solutions and possesses unique combination of surface and mechanical engineering capabilities for servicing and machining mission critical equipment and its components.

We have our presence today in Malaysia, Singapore, Thailand, Philippines, Taiwan, China, Myanmar and Indonesia; with a combined workforce of 804 employees, 17 service facilities in 7 countries and are certified with, amongst others, ISO 9001:2008, ISO 14001:2004, OHSAS 18001:2007 and BS OHSAS 18001:2007.

We are backed by solid infrastructures, capabilities, technologies and know-how having served a very wide spectrum of industries ranging from oil and gas, refineries, marine and offshore, power generation to semiconductors/hard-disk manufacturing support services, renewable energy and many more.

Our core expertise is in the application of specialised surface engineering solutions and improvements of coatings quality for specific industrial applications through materials research and modification of micro structural surface properties. Thermal spray coating technologies - the flagship technology of Frontken's surface engineering capabilities, enable deposition of virtually any material onto surfaces for increased performance, protection, lifetime extension and other highly specialized functions.

Our Group has an established reputation and foundation for quality, prompt delivery and reliable service in this industry and also has proven track records in providing mission critical surface metamorphosis engineering projects that are rapidly architected, engineered and delivered with speed and reliability, as well as demonstrated the engineering capabilities, financial resources and human capital in completing projects of any size given by the customers.

From the performance of our businesses in year 2013, the challenges facing each business in each country has prompted each business unit to strategise to improve based on the conditions of each market. We will have to relook at our business models and improve or innovate the way we conduct our business in the world today. Our growth strategy has always been the same i.e. to continue to enhance our service level, to create opportunities for growth, increase efficiencies with the view to keeping cost low and to focus on increasing our customers' base by adding value to the works we performed.

For year 2013, we saw a decline in our Singapore business where the revenue from this region reduced to RM74 million from RM83 million mainly due to the disposal of a wholly owned subsidiary in December 2013, coupled with deferment of outages by our power generation customers and a one off trading sales in the preceding corresponding period. Our customers were not able to secure fully the intended projects due to the cutting down of jobs of their own customers. This has impacted our business which hinges on the demands of our customers. Throughout 2013, there have been recurring smaller jobs to ease the business. On this note, we have re-strategised ourselves by focusing our attention on our batch production activities while waiting for the turnaround of our customers.

The year 2014 will likely look the same for our business in Singapore. Nonetheless, we remained optimistic that once the economy picks up again these customers would be expanding and this will augur well for us. The slowdown will not discourage us but will drive us to fill up the financial gaps with smaller and additional maintenance works to keep us going in year 2014.

Likewise in Malaysia, the business in year 2013 continued to be challenging as we saw marginal improvement in our revenue from RM33.5 million to RM33.6 million due to the lower sales in the Malaysia semiconductor industry. As a positive sign to our Malaysia business, both of our relatively new business units in Kuching and Melaka have delivered better results in year 2013. We will continue to maximise on our strengths in our business with faster delivery of services and focusing on the key areas for our projects that will grow our business. As such, in year 2014, our priority would be to continue to build our business in the focused areas and enhance our services to achieve customers' satisfaction. At the same time, we will maintain discipline in cost management and proactively make the necessary adjustments to match demand.

## Management Discussion And Analysis (cont'd)

In Taiwan, we were pleased with the performance of the business which improved significantly and had assisted in the overall performance of our Group due to the positive growth of the semiconductor business in Taiwan. As we inched forward in Taiwan, we continue to be optimistic of the semiconductor industry which will be a growth area in year 2014. However, we are wary of the fragile recovery in the global economy that may impact our business. We are prepared to face the challenges of year 2014 by continuously evaluating ourselves and changing our business models to be on ready mode when the opportunities come along.

In the Philippines, due to the improvement in our cleaning business for the solar industry, the revenue from the Philippines' business increased from RM10.8 million to RM13.3 million, a 23% increase.

Our Indonesia business unit has obtained the necessary license from SKK Migas to enable us to be involved in repair and service works for the Indonesia oil and gas industry.

### OPERATIONAL CAPABILITIES

We pride ourselves for being the industry leader in surface metamorphosis solutions and that has been our pillar of strength to continue to keep pace with the industry requirements. Our strength also lies in our continuous and conscious needs to maintain a high level of service. In downtime, we strategise and plan by working with our customers for the preparation of any major shutdown works. We hope that these efforts will translate to a reasonable increase of turnover.

Our key industrial products are gas turbine overhauls, turbo machinery repairs, oil field equipment coatings and components manufacturing in the refineries and petrochemical complexes. By concentrating our strengths in capabilities and capacities, we can drive ourselves through higher end thermal spray processes, regional presence and support.

We have the capabilities rooted in our resources and together with our skilled operators, we maintain our operational wellbeing by providing the best to our customers while also keeping our standards at work to deliver well by keeping wastages at bay. We strive to maintain our costs low with each delivery to drive profits up. Our capabilities are also determined by tight coordination of the key personnel and proper planning of the personnel involved to manage costs that may impact the financial performance. We continue to strengthen our relationship with our customers to understand their needs with our sales engineers meeting our customers.

### KEY RISKS

Our business operates in a competitive and challenging environment where the economy cycle would affect our financial performance. Our customers impact the way we do our business. In instances when our customers merge with another customers, the risk of reduction or termination of business will be apparent as with all mergers and acquisitions, the acquirer-dominant effects would flow down to the supplier of services – us. If we are on the acquirer's side, we would anticipate the increase of our business opportunities in view of the growth in the size of our customers. However, if we are on the side of the target company, this could set our business back as in all mergers and acquisitions, through time, there would be standardisation of operations with the acquirer having the upper hand to choose its own suppliers. The need to increase our business to reach a wider customers base regionally may lessen these effects.

In certain area of our business, we are also highly dependent on our single customer. This presents us with great risk because the customer could go under, change their pricing structure or find another partner to do business with, leaving us on the losing end. Most customers keep to their policy of having comparatives quotes which would affect our pricing in securing jobs. The need to diversify would be the key agenda in our yearly plan in addition to continue to upgrade our services to differentiate ourselves.

## Management Discussion And Analysis (cont'd)

The rising costs undermine our bottom line unless the same is matched by higher margin jobs. The cost of manpower, fluctuation of currency exchange and material, all equipment and machinery repair and maintenance cost, transport and travel cost in combination would impact the way we do our business. Risks associated with rising labour costs are valid to a certain extent. In our Company, keeping costs low remain our primary objective. The staff retention and hiring of foreign labour continue to plague our industry as the demand for manpower is high and staff is enticed by the better remuneration packages and benefits offered by competitors or commercial companies while the government policy on foreign workers would impact our resources. This has increase labour cost significantly. Replacement and recruitment for expansion in growth areas are real challenges. The strategies to overcome these are to improve productivities and to relook at our service offerings. We may have to merge or remove areas where we are weak, have low margins and have low growth potential. These risks are further managed by getting the information at the soonest possible time from the end-user and paying particular attention to the scope of work provided by the customer prior to any mobilization. The division ensures that the scopes of work are predetermined and approved by the clients, and if any deviations are identified at any point in the project, these are quoted separately to capture the additional costs and billed back to the clients. Investment in modern and efficient technology could ease the efficiency of our deliverables and reduce manpower.

### PROSPECTS

The Group anticipates that our business units involved in the oil and gas industry would contribute a significant share to the Group revenue in year 2014, taking into consideration the positive contribution from the USD34.5 million ATB project awarded to us in 2013 coupled with the potential incremental contribution to the Group from our recent acquisition of 45% stake in TTES Team & Specialist Sdn. Bhd. ("TTES"). With this acquisition, we will be able to tap further into the existing client base of TTES in the oil and gas industry as it has a license with Petronas for it to supply and provide services to Petronas.

In addition to the revenue stream from the oil and gas industry, there is an expected increase from the power generation sector as well compared to 2013. Other prospects in 2014 would include manpower provision of certified technicians to areas around South East Asia for other projects where support will be provided by the various business units under the Group. There are new opportunities with potential appointment and expanding our work relationship with established customers. We are also working on long term service agreements with our customers that are manufacturers of oil field equipment. We anticipate an increase in the major plants shutdown from our existing clients, and thus expect to see reasonable revenues generated from the major turnaround works.

Nevertheless, we are still cautious of year 2014 as the uncertainties of the domestic and overseas markets could continue to run through the rest of the year. We remained positive of our business and would continue to look for opportunities to grow.

## FINANCIAL REVIEW

### RESULTS OF OPERATIONS in RM'000

REVENUE				EBITDA			
2012	181,035	↑	5%	2012	26,276	↓	1%
2013	190,611			2013	26,106		
NET PROFIT				EBITDA MARGIN as a % of revenue			
2012	3,820	↓	161%	2012	14.5	↓	1%
2013	(2,321)			2013	13.7		

### REVENUE

Reported revenue for the Group for the financial year ended 31 December 2013 amounted to RM190.6 million, as against RM181.0 million in the previous year. The Group revenue for 2013 of RM190.6 million increased in comparison with the previous year.

REVENUE (by customer location)	2013 RM'000	%	2012 RM'000	%	% change in revenue
Taiwan	63,992	34	49,689	27	29
Singapore	59,481	31	64,053	36	-7
Malaysia	43,600	23	45,835	25	-5
Philippines	13,601	7	10,932	6	24
Others	9,937	5	10,526	6	-6
Total	190,611	100	181,035	100	5

An analysis of revenue by customer location shows a double digit growth in Taiwan and Philippines while the growth in Singapore, Malaysia and others had declined by 7%, 5% and 6% respectively. The revenue in Singapore decreased from RM64.1 million to RM59.5 million. Likewise, in Malaysia, the revenue dropped by RM2.2 million to RM43.6 million. On an overall basis, the Group experienced a growth in revenue rate of 5% or an increase of RM9.6 million for year 2013.

The growth in Taiwan was due to the positive growth of the semiconductor business while Philippines experienced growth from the contribution from its cleaning business for the solar industry. The drop in Singapore was due to the disposal of Metall-Treat Industries Pte Ltd, a wholly owned subsidiary in December 2012 coupled with deferment of outages by its power generation customers and a one off trading sales. The slight drop in the activities in Malaysia was due to lower sales in the semiconductor industry which was experiencing a slowdown. Taiwan is our leading country in terms of revenue and has a tremendous potential opportunity.

### EARNINGS

Earnings before interest, tax, depreciation and amortization ("EBITDA") of the Group for 2013 decreased slightly to RM26.1 million from RM26.3 million the year before. As a percentage of revenue, EBITDA decreased by 0.8% and was due to higher sub-contracting costs which increased by RM8.6 million or 71.3% compared to the year before. The share of losses of associates was RM1.3 million for the year 2013 while last year was a share of loss of RM0.4 million. This was mainly due to the losses from Chinyee Engineering & Machinery Pte Ltd.

## Financial Review (cont'd)

The lower finance costs and material costs, lesser depreciation of property, plant and equipment and the net realized gain on foreign exchange had a positive impact on net profit for 2013. The depreciation and amortization of RM18.7 million in 2013 was lower than last year of RM20.2 million. Profit after tax decreased from RM4.2 million to RM0.5 million resulting from provision of deferred taxation.

As a result of the factors discussed above, the consolidated net loss attributable to shareholders of the Company for the financial year ended 31 December 2013 was RM2.3 million, while last year was a consolidated net profit of RM3.8 million. This translated to basic loss per share in 2013 of 0.23 sen compared to basic earnings per share of 0.38 sen in 2012.

### CASH FLOWS in RM'000

NET DEBT				WORKING CAPITAL			
2012	25,988	↓	103%	2012	61,499	↑	17%
2013	(828)			2013	71,932		
FREE CASH FLOW				CAPITAL EXPENDITURE			
2012	11,563	↑	172%	2012	14,335	↓	56%
2013	31,455			2013	6,280		

The net profit has decreased in year 2013 mainly due to the share of loss of an associate and higher income tax expense. The net cash from operating activities was RM36.7 million and RM16.0 million in year 2013 and 2012 respectively. The higher amount of operating cash flow was mainly due to improve in earnings and increase in current year working capital balances.

Net cash used for investment activities in 2013 was RM8.0 million, compared to net cash generated from investment activities in year 2012 was RM17.5 million. The deterioration in cash flow for investment activities in year 2013 was due mainly to the additional investment in subsidiary and proceeds from disposal of a wholly owned subsidiary of RM22.1 million in 2012.

Our Group has cash and cash equivalent at the end of 2013 of RM37.1 million, compared to RM41.5 million at the end of 2012. Notwithstanding lower cash balances at the end of 2013, the Group has sufficient credit facilities in place for its working capital requirements. Our Group will continue to exercise prudence in cash flow management while conserving the cash for future expansion and investing activities.

### FINANCIAL POSITION

Our Group's shareholders' fund improved from RM184.9 million as at 31 December 2012 to RM186.3 million as at 31 December 2013 mainly from the increase in foreign currency translation reserve.

Total assets of our Group decreased from RM314.6 million as at 31 December 2012 to RM302.2 million as at 31 December 2013. Total group liabilities of RM87.9 million as at 31 December 2013 were lower by RM13.7 million or 13% than previous year mainly due to repayment of bank borrowings. Group borrowings were reduced from RM67.4 million in year 2012 to RM36.3 million in year 2013.

29% of the total Group borrowings at the end of 2013 is repayable within one year with the balance spread over 2 to 6 years. Singapore Dollar borrowings represented 45% of total borrowings whilst borrowings denominated in Taiwan Dollars and Ringgit Malaysia made up 33% and 22% of total borrowings respectively. Foreign currency borrowings were drawn to hedge against our Group's overseas investments and receivables which were denominated in foreign currencies.

## BOARD OF DIRECTORS' PROFILE

### NG WAI PIN

*Chairman / Managing Director*

- *Aged 48, 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 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. He 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 the Singapore Exchange Limited and was seconded as the Chief Executive Officer of a company listed on the Australian Stock Exchange. He is also the Deputy Chairman of Ares Green Technology Corporation, a subsidiary of FCB, listed on the Gre Tai Securities Market in Taiwan. He also sits on the board of two companies listed on Bursa Malaysia Securities Berhad, namely Euro Holdings Berhad and BSL Corporation Berhad.

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

### DR TAY KIANG MENG

*Executive Director / Chief Scientist*

- *Aged 49, 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.

## Board Of Directors' Profile (cont'd)

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

*Independent Non-Executive Director*

- *Aged 67, 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 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 48, 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. Thereafter, he has been involved in providing business and financial advisory services. 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.

## Board Of Directors' Profile (cont'd)

### DR JORG HELMUT HOHNLOSER

*Non-Independent Non-Executive Director*

- *Aged 56, German*
- *Appointed to the Board on 20 February 2012*
- *Member of Audit Committee and Nomination Committee*

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

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

### TIMO FABIAN SEEBERGER

*Alternate to Dr Jorg Helmut Hohnloser*

- *Aged 36, German*
- *Appointed to the Board on 20 February 2012*

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

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

## CORPORATE SUSTAINABILITY STATEMENT

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

### HEALTH AND SAFETY

We have 804 employees in 6 countries covering Malaysia, Singapore, Philippines, China, Indonesia and Taiwan. We have a prominent role to play to ensure health and safety of our employees. We communicate with our employees the importance of health and safety through continuous education and awareness programme. The health and safety aspects also extend to our customers and subcontractors to ensure an accident and injury free working environment.

### WORKPLACE

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

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

### ETHICAL CONDUCT AND LEGAL COMPLIANCE

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

### ENVIRONMENT

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

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

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

## CORPORATE GOVERNANCE STATEMENT

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

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

### PRINCIPLE 1 – ESTABLISH CLEAR ROLES AND RESPONSIBILITIES

#### 1.1 The Board should establish clear functions reserved for the Board and those delegated to Management

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

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

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

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

The strategic initiatives of the Board are deliberated at its scheduled meetings where the goals of the Group are also discussed and formalised, culminating in the development of a comprehensive Group budget for the Board’s approval. Resources are identified and allocated accordingly towards meeting such goals and objectives. In addition, for any new business ventures, a proper and well researched meeting paper is required for tabling at the Board meeting so that the matter can be deliberated and decided without delay.

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

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

## Corporate Governance Statement (cont'd)

### **PRINCIPLE 1 – ESTABLISH CLEAR ROLES AND RESPONSIBILITIES (cont'd)**

#### **1.2 Board should establish clear roles and responsibilities in discharging its fiduciary and leadership functions (cont'd)**

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

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

Further details of the Enterprise Risk Management Framework are set out in the Internal Control Statement in this Annual Report.

##### **Succession planning**

The Board views succession planning as important for business continuity. Key positions which are vacated due to retirement and/or resignation are filled quickly to avoid business interruption. The issue of succession planning is deliberated at Board meetings such that pertinent actions are taken to provide for the orderly succession of senior management.

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

The Company has, on its interactive website, a dedicated Investor Relations section where shareholders can communicate with the Board through the designated Investor Relations officer. The Board has also identified a Senior Independent Director, namely Mr. Aaron Sim Kwee Lein to whom the concerns of stakeholders and shareholders pertaining to the Company may be conveyed.

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

The Board acknowledges the importance of the adequacy and integrity of the information and internal controls system of the Company. Details of the Group's internal control system, including how the Board reviews its adequacy and operating effectiveness, are set out in the Internal Control Statement in this Annual Report.

#### **1.3 The Board should formalise ethical standards through a code of conduct and ensure its compliance**

The Company has in place a Code of Conduct for its Directors and employees. The Board has taken steps to upload a summary of the Code of Conduct on the Company's website.

The Board also has in place Whistle Blowing Policies and Procedures for employees to raise genuine concerns, without fear of reprisal, about possible improprieties on matters pertaining to financial reporting, compliance, malpractices and unethical business conduct within the Group.

#### **1.4 The Board should ensure that the Company's strategies promote sustainability**

The Board considers sustainability in its business operations. As such, it recognises the need for the Company to address sustainability in its business strategy, taking into consideration the governance, social and environmental aspects. The Corporate Sustainability Statement in this Annual Report provides further details on how efforts on sustainability are taken by the Board and Management.

## Corporate Governance Statement (cont'd)

### PRINCIPLE 1 – ESTABLISH CLEAR ROLES AND RESPONSIBILITIES (cont'd)

#### 1.5 The Board should have procedures to allow its members access to information and advice

The Board Charter provides a procedure for Directors to access information and independent advice in the discharge of their stewardship role, for example a Director may seek independent legal, financial or other advice as they consider necessary at the expense of the Company as a full Board or in their individual capacity, in the furtherance of their duties. Management is required to supply the Board and Committees with information in a form, timeframe and quality that enables the Directors to effectively discharge their duties. The Directors are provided with Board papers prior to each meeting to evaluate the proposals and, if necessary, to request for additional information.

#### 1.6 The Board should ensure it is supported by a suitably qualified and competent company secretary

The Company Secretaries of the Company are suitably qualified and competent to support the Board. The Board is regularly updated by the Company Secretaries on the latest regulatory updates. During the financial year, the Board was briefed by the Company Secretaries on the amendments to the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

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

#### 1.7 The Board should formalise, periodically review and make public its board charter

The Board Charter, which has been uploaded on the Company's website at [www.frontken.com](http://www.frontken.com), sets out the composition of the Board, duties and responsibilities on matters relating to strategy and planning, human resource, remuneration, capital management and financial reporting, performance monitoring, risk management, audit and compliance and board processes and policies, Board Committees, Chairman of the Board, independence of Directors, access to information and independent advice, dealings in securities, orientation and continuing education and Board assessment. The Board reviews the Board Charter on an annual basis to be consistent with the relevant regulatory requirements.

### PRINCIPLE 2 – STRENGTHEN COMPOSITION

#### 2.1 The Board should establish a Nominating Committee which should comprise exclusively non-executive directors, a majority of whom must be independent

The Nomination Committee comprises exclusively Non-Executive Directors with a majority of Independent Directors. The Nomination Committee met twice during the financial year under review to deliberate matters within its terms of reference.

The terms of reference of the Nomination Committee provide that the Nomination Committee shall be appointed by the Board and shall consist of not less than two (2) members, comprising exclusively non-executive Directors, the majority of whom shall be independent Directors. The terms of reference of the Nomination Committee also outline the responsibilities and duties in relation to the selection and assessment of new and existing directors.

## Corporate Governance Statement (cont'd)

### PRINCIPLE 2 – STRENGTHEN COMPOSITION (cont'd)

#### 2.2 The Nominating Committee should develop, maintain and review the criteria to be used in the recruitment process and annual assessment of Directors

The Nomination Committee is responsible for assessing proposed candidates based on selection criteria expected of a Director and makes recommendation to the Board if the proposed candidates are found to be suitable. The decision on new appointment of Directors rests with the Board after considering the recommendation of the Nomination Committee.

The Nomination Committee is also responsible for carrying out an assessment of Board's effectiveness in terms of its composition, roles and responsibilities, and whether the Board Committees discharge their functions and duties in accordance with the terms of reference entrusted by the Board. The assessment of the Board takes into account the character, competence, experience, integrity and time availability of each Director as well as their ability to provide pertinent input at meetings and demonstrate high level of professionalism in decision making process. The Nomination Committee annually reviews the composition of the Board to ensure that the Board has the appropriate mix of expertise and experience, and collectively possesses the necessary core competencies for effective functioning and informed decision-making.

Insofar as Board diversity is concerned, the Board does not intend to set out any specific policy on targets for women Director. The Board believes that the on-boarding process of Directors should not be based on any gender discrimination. As such, the evaluation of suitable candidates is solely based on the candidates' competency, character, time availability, integrity and experience in meeting the needs of the Company, including, where appropriate, the ability of the candidates to act as Independent Non-Executive Directors, as the case may be.

During the financial year under review, the Nomination Committee assessed the effectiveness of the Board, as a whole, Board Committees and contribution of each individual Director, including those Directors who are subject to retirement at the forthcoming Annual General Meeting in accordance with the Articles of Association of the Company.

Details of attendance of the Board Committee members for the financial year ended 31 December 2013 are as follows:

Directors	Audit Committee	Nomination Committee	Remuneration Committee
Ng Wai Pin	N/A	N/A	1/1
Dato' Haji Johar bin Murat @ Murad	5/5	2/2	1/1
Aaron Sim Kwee Lein	5/5	2/2	1/1
Dr Jorg Helmut Hohnloser	3/5	1/2	N/A

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

The Remuneration Committee, which comprises three (3) Directors, a majority of whom are Independent Directors, met once during the financial year under review to deliberate matters within its terms of reference. Its key function is to ensure that the Company is able to attract and retain Directors of the calibre and quality required to manage the business of the Group.

## Corporate Governance Statement (cont'd)

### PRINCIPLE 2 – STRENGTHEN COMPOSITION (cont'd)

#### 2.3 The Board should establish formal and transparent remuneration policies and procedures to attract and retain directors (cont'd)

As such, the Remuneration Committee is tasked to review the remuneration of Directors and Senior Management to ensure that they are remunerated at competitive levels in relation to the achievement of goals and the performance of the Group. The remuneration packages of the Executive Directors and Senior Management are then recommended to the Board for approval.

The Board recommends the fees payable to Directors on a yearly basis to the shareholders for approval at the Annual General Meeting in line with the provision of its Articles of Association.

The aggregate remuneration of the directors for the financial year ended 31 December 2013 is as follows:

	Executive Directors RM'000	Non-Executive Directors RM'000
Salaries	2,395	–
Fees	30	130
Bonuses	62	–
Other emoluments	168	–
	2,655	130

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

	Executive Directors	Non-Executive Directors
Below RM50,000	–	2
RM50,001 to RM100,000	–	1
RM1,050,001 to RM1,100,000	1	–
RM1,550,001 to RM1,600,000	1	–
	2	3

### PRINCIPLE 3 – REINFORCE INDEPENDENCE

#### 3.1 The Board should undertake an assessment of its Independent Directors annually

On an annual basis, the Board through the Nomination Committee assesses the Independent Directors, adopting the criteria as set out in the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, and reports to the Board the outcome of its findings.

#### 3.2 & 3.3 Tenure of independent director exceeding cumulative term of 9 years and must justify and seek shareholders' approval in retaining independent Directors (serving more than 9 years)

The Board does not have any Independent Director who has served the Board more than 9 years at the end of the financial year under review.

## Corporate Governance Statement (cont'd)

### PRINCIPLE 3 – REINFORCE INDEPENDENCE (cont'd)

#### 3.4 The positions of Chairman and Chief Executive Officer should be held by different individuals and the Chairman must be a non-executive member of the Board

The Board is mindful of the dual role held by Mr. Ng Wai Pin as the Executive Chairman and Managing Director which deviates from the Recommendation of the MCCG 2012. The Board is of the view that there is no concentration of power and authority, and that no one individual has unfettered powers for decision making. Furthermore, there are sufficient independent Directors on the Board who are individuals of calibre, credibility and are free from any business or other relationship which could materially interfere with the exercise of their independent judgment. These Independent Directors are capable of exercising independent judgment to ensure fair and objective deliberations at Board meetings.

#### 3.5 Board must comprise a majority of independent Directors if Chairman is not an independent Director

As the size of the Board is small, the Board is of the view that the composition of the Board meets with the minimum requirements of the Main Market Listing Requirements. Moreover, the non-executive Directors, which consist of the majority of Board members, provide a check in the balance of power vested in the Executive Chairman.

### PRINCIPLE 4 – FOSTER COMMITMENT

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

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

The Board has also established a guideline on the acceptance of new directorship by Board members. Any Director intending to take on new directorship is required to notify the Board Chairman before accepting the new directorship and also to confirm his commitment that the new directorship will not impair his time commitment to the Company.

Details of the Directors' attendance at Board meetings for the financial year ended 31 December 2013 are set out below:

Directors	Designations	Attendance	%
Ng Wai Pin	Executive Chairman and Managing Director	5/5	100
Dr Tay Kiang Meng	Executive Director / Chief Scientist	5/5	100
Dato' Haji Johar bin Murat @ Murad	Independent Non-Executive Director	5/5	100
Aaron Sim Kwee Lein	Independent Non-Executive Director	5/5	100
Dr Jorg Helmut Hohnloser	Non-Independent Non-Executive Director	3/5	60

Mr Timo Fabian Seeberger, the Alternate Director to Dr Jorg Helmut Hohnloser, attended all the five (5) Board meetings by invitation

## Corporate Governance Statement (cont'd)

### PRINCIPLE 4 – FOSTER COMMITMENT (cont'd)

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

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

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

Ng Wai Pin	<ul style="list-style-type: none"> <li>Malaysian Code on Corporate Governance 2012 &amp; Updates on listing requirements of Bursa Malaysia Securities Berhad</li> <li>Singapore semicon. Semicon Materials Market Outlook - Semi industry outlook: growth or consolidation</li> <li>Managing Uncertainties and Aligning Risks (Morison AAC Corporate Solutions Sdn Bhd)</li> <li>Bursa Malaysia's Advocacy Sessions on Corporate Disclosure for Directors</li> <li>Risk Management and Internal Control as part of Ecosystem of Good Governance</li> </ul>
Dr Tay Kiang Meng	<ul style="list-style-type: none"> <li>Singapore semicon. Semicon Materials Market Outlook - Semi industry outlook: growth or consolidation</li> <li>Malaysian Code on Corporate Governance 2012 &amp; Updates on listing requirements of Bursa Malaysia Securities Berhad</li> </ul>
Dato' Haji Johar bin Murat @ Murad	<ul style="list-style-type: none"> <li>Bursa Malaysia's Advocacy Sessions on Corporate Disclosure for Directors</li> <li>Malaysian Code on Corporate Governance 2012 &amp; Updates on listing requirements of Bursa Malaysia Securities Berhad</li> </ul>
Aaron Sim Kwee Lien	<ul style="list-style-type: none"> <li>Risk management &amp; internal control workshops</li> <li>Bursa Malaysia's Advocacy Sessions on Corporate Disclosure for Directors</li> <li>Malaysian Code on Corporate Governance 2012 &amp; Updates on listing requirements of Bursa Malaysia Securities Berhad</li> </ul>
Dr Jorg Helmut Hohnloser	<ul style="list-style-type: none"> <li>Printed Electronics Europe 2013, Annual Conference and Tradeshow, Berlin ICC</li> <li>Cleaning Management Services, CMS 2013 International Trade Fair and Congress</li> <li>CeBit 2013 Trade Fair</li> </ul>
Timo Fabian Seeberger	<ul style="list-style-type: none"> <li>Hannover Trade Fair</li> <li>CeBit 2013 Trade Fair</li> </ul>

## Corporate Governance Statement (cont'd)

### **PRINCIPLE 5 – UPHOLD INTEGRITY IN FINANCIAL REPORTING**

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

The Board, through the Audit Committee, endeavours to provide and present a balanced and meaningful assessment of the Group's financial performance and prospects to shareholders, primarily through the Annual Reports and quarterly announcements of the Group's results to the regulators. The Board is assisted by the Audit Committee in overseeing the Group's financial reporting process and the accuracy, consistency and appropriateness of the use and application of accounting policies and standards.

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

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

The Audit Committee assesses the performance of the External Auditors on an annual basis and reports to the Board its recommendation for the reappointment of the External Auditors at the Annual General Meeting.

In addition, the Audit Committee has in place a policy on the provision of non-audit services by the External Auditors. During the financial year ended 31 December 2013, the fees for non-audit services rendered by the External Auditors to the Group amounted to approximately RM15,000.

The External Auditors had provided a written assurance to the Audit Committee that they were independent throughout the conduct of the audit engagement based on the independence criteria of relevant professional and regulatory requirements.

### **PRINCIPLE 6 – RECOGNISE AND MANAGE RISKS**

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

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

The Audit Committee works with the Internal Auditors to ensure that the Internal Audit Annual Plan encompasses the audit of areas with higher vulnerability. The Internal Auditors are also required to perform periodic testing of the internal control systems to ensure that the system is robust, including follow-up on the status of Management's implementation of action plans to address issues raised by the Internal Auditors.

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

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

The Group outsources its internal audit function to an independent professional firm, with the objective of conducting systematic testing and assessment of the Group's internal control system based on an internal audit plan approved by the Audit Committee. Its responsibilities include providing independent and objective reports on the state of internal controls of the significant operating units in the Group to the Audit Committee, with recommendations for improvement to the control procedures, so that remedial actions can be taken in relation to weaknesses noted in the system. In carrying out its work, the internal audit function deployed standards promulgated by the International Professional Practices Framework of the Institute of Internal Auditors, a global professional body for internal auditors.

## Corporate Governance Statement (cont'd)

### **PRINCIPLE 7 – ENSURE TIMELY AND HIGH QUALITY DISCLOSURE**

#### **7.1 The Board should ensure Company has appropriate disclosure policies and procedures**

The Board has established an internal Corporate Disclosure Policy in compliance with the disclosure requirements as set out in the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

The Board delegated the authority to the Executive Chairman of the Company to ensure that the Corporate Disclosure Policy is adhered to by Senior Management and the Company Secretaries with respect to disclosure obligations.

#### **7.2 The Board should encourage the Company to leverage on information technology for effective dissemination of information**

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

### **PRINCIPLE 8 – STRENGTHEN RELATIONSHIP BETWEEN COMPANY AND SHAREHOLDERS**

#### **8.1 The Board should take reasonable steps to encourage shareholder participation at general meetings**

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

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

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

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

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

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

This statement is made in accordance with the resolution of the Board dated 22 April 2014.

# STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

## INTRODUCTION

Paragraph 15.26 (b) of the Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa”) stipulates that a listed issuer must ensure that its board of directors makes a statement (“Statement on Risk Management and Internal Control” or “Statement”) about the state of risk management and internal control of the listed issuer as a group. Accordingly, the Board of Directors (the “Board”) is pleased to provide the Statement, which outlines the nature and scope of the risk management and internal control system in the Group (comprising the Company and its subsidiaries) for the financial year ended 31 December 2013 and up to the date of approval of this Statement for inclusion in the Annual Report of the Company. For the purpose of disclosure, this Statement takes into consideration the “Statement on Risk Management and Internal Controls - Guidelines for Directors of Listed Issuers”, a publication of Bursa which provides guidance to boards on the issuance of the Statement on Risk Management and Internal Controls.

## BOARD RESPONSIBILITY

The Board acknowledges its overall responsibility for the Group’s system of risk management and internal control to safeguard shareholders’ investment and the Group’s assets as well as reviewing its adequacy and integrity. The Board is mindful of the need to establish clear roles and responsibilities in discharging its fiduciary and leadership functions in line with Recommendation 1.2 of the Malaysian Code on Corporate Governance 2012 (“MCCG 2012”). Accordingly, the Board is aware that its principal responsibilities, as outlined in the Commentaries of the same Recommendation of the MCCG 2012, include, inter-alia, the following:

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

The Group’s risk management and internal control system addresses strategic, operational, financial and compliance risks as well as the associated internal controls deployed by Management to mitigate the risks. In view of the limitations inherent in any system of risk management and internal control, the system is designed to manage, rather than to eliminate, the risk of failure to achieve the Group’s business and corporate objectives. The system can therefore only provide reasonable, but not absolute assurance, against any material misstatement, financial loss or fraudulent practice.

In line with Recommendation 6.1 of the MCCG 2012, the Board has formalized an Enterprise Risk Management (“ERM”) framework that provides policies and procedures to address risk management activities of the Group in a structured manner to safeguard shareholders’ investment and the Group’s assets. Based on this framework, the Board has established an on-going process for identifying, evaluating and managing the significant risks faced by the Group. The Board, through its Audit Committee, reviews the results of this process, including mitigating measures taken by Management to address areas of key risks as identified. This process has been in place for the financial year under review and up to the date of approval of this Statement for inclusion in the Annual Report of the Company.

## RISK MANAGEMENT FRAMEWORK

Risk management is firmly embedded in the Group’s key business processes through its ERM framework. To streamline the risk management processes and activities, the Board has also formalized in writing pertinent risk management policies and guidelines for adoption by business units across the Group. The ERM framework embodies a risk management process which results in the compilation of specific risk profiles of key business units and subsidiaries in the Group by Risk Management Units (RMUs”). The individual risks in the profile are scored for their likelihood of occurrence and the impact thereof based on risk parameters established for each key business unit or subsidiary. The risk parameters take into consideration financial and non-financial metrics in measuring risks in terms of likelihood of risk occurrence and the impact thereof – this essentially articulates the Board’s risk appetite. The risk responses and internal controls that Management has taken and/or is taking are reported by the RMUs to the Audit Committee and the outcome is documented in the minutes of the Audit Committee meetings. For each of the risks identified, a risk owner is identified to ensure appropriate actions are taken to mitigate the risk.

## Statement On Risk Management And Internal Control (cont'd)

### INTERNAL CONTROL SYSTEM

The key features of the Group's internal control system are as follows:

- the Group has established an organization structure with clearly defined lines of responsibilities and appropriate levels of delegation and authority, including financial limits of authority. The organization structure sets out clear reporting lines and segregation of duties for major operational functions like operations, sales and collections, procurement and payment, human resource, capital expenditure, research and development and investments. The 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 carried out, requiring all business units and subsidiaries in the Group to prepare financial budgets which are then consolidated into a Group budget, presented to the Board for comments and approval. Quarterly review of the Group's performance against budget is carried out at Board meetings where explanations on significant variances are furnished by Management. Management meetings at operational level are conducted to review financial performance against business plans and monitor the respective business unit's performance against budget;
- significant changes in business development are reported to the Board at scheduled meetings. This oversight review enables the Board to evaluate and monitor the Group's business performance to enable the Group to achieve its corporate objectives;
- internal policies and procedures pertaining to business processes have been formalized for application across the Group. These policies and procedures serve as a guide to ensure compliance with internal controls and applicable laws and regulations;
- where issues arise that affect the reliability and integrity of financial information of any business unit, special audits are commissioned to assist the Board in fulfilling its oversight responsibilities.

### INTERNAL AUDIT FUNCTION

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

The 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 observations raised by the internal and external auditors, as well as actions taken by Management to address the areas of concern, and evaluates the adequacy and effectiveness of the Group's risk management and internal control system. The Audit Committee reports to the Board the outcome of its engagement with the internal and external auditors concerning the adequacy and operating effectiveness of the Group's system of risk management and internal control, including actions taken or are being taken by Management to remedy any significant weaknesses noted.

## Statement On Risk Management And Internal Control (cont'd)

### **SIGNIFICANT MATTER ON RISK MANAGEMENT AND INTERNAL CONTROL DURING THE FINANCIAL YEAR UNDER REVIEW**

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

### **BOARD'S COMMENTS ON THE ADEQUACY AND EFFECTIVENESS OF THE GROUP'S RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM**

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

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

### **ASSURANCE BY THE CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER ON THE ADEQUACY AND EFFECTIVENESS OF THE RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM**

The Board has received assurance in writing from the Chief Executive Officer and Chief Financial Officer stating that the Group's risk management and internal control system is operating adequately and effectively, in all material aspects, except for those financial irregularities as mentioned in the previous paragraphs of this Statement where pertinent remedial measures have been taken by the Board to strengthen 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 2013 and reported to the Board that nothing has come to their attention that causes them to believe that the Internal Control Statement intended to be included in the annual report is not prepared, in all material respects, in accordance with the disclosures required by paragraphs 41 and 42 of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issues to be set out, nor is factually inaccurate.

This Statement is made in accordance with the resolution of the Board of Directors dated 22 April 2014.

## AUDIT COMMITTEE REPORT

### A. COMPOSITION AND ATTENDANCE

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

#### Chairman of Committee

Dato' Haji Johar bin Murat @ Murad

Independent Non-Executive Director

#### Members of Committee

Aaron Sim Kwee Lein

Senior Independent Non-Executive Director

Dr Jorg Helmut Hohnloser

Non-Independent Non-Executive Director

Mr Aaron Sim Kwee Lein is a Fellow member of the Chartered Association of Certified Accountants (UK), a Chartered Accountant of the Malaysian Institute of Accountant, a member of CPA Australia and a Chartered Member of the Institute of Internal Auditors Malaysia.

The Board, through the Nomination Committee, assesses the performance of the Committee on an annual basis and once in every three (3) years assesses the effectiveness of the Committee and each its members to determine whether the Committee and members have carried out their duties in accordance with their Terms of Reference.

The meeting attendance of the Committee members is provided in the Corporate Governance Statement in this Annual Report.

### B. MEETINGS

There were five (5) meetings held during the financial year under review. During those meetings, the Committee held two (2) private sessions with the External Auditors without the presence of the Executive Directors and Management. During the private sessions, the Committee enquired into the co-operation extended by Management in the course of the audit, the supply of information to facilitate the provision of information and matters to be brought to the attention of the Committee.

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

At each Board meeting, the Committee Chairman briefs the Board pertaining to matters discussed at the Committee meeting held earlier. A copy of the minutes of the Committee meeting is circulated to the Board for notation.

## Audit Committee Report (cont'd)

### C. FUNCTIONS AND DUTIES

The functions and duties of the Committee are as follows:

1. To review the following and report the same to the Board:
  - (a) The nomination of external auditors;
  - (b) The adequacy of existing external auditors' audit arrangements, with particular emphasis on the scope and quality of the audit;
  - (c) The effectiveness and adequacy of the scope, functions, competency and resources of the internal audit function and that it has the necessary authority to carry out its work;
  - (d) The internal audit programme, results of the internal audit and 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 control 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 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 employees of the Company to the external auditors;
  - (m) To discuss problems and reservations arising from the interim and final audits, and any matter the external auditors may wish to discuss (in the absence of Management, where necessary);
  - (n) All areas of significant financial risk and arrangements in place to contain those risks to acceptable levels; and
  - (o) All related party transactions and potential conflict of interest 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 whether there is a reason (supported by grounds) to believe that the Company's external auditors are not suitable for re-appointment;
3. To carry out any other function that may be mutually agreed upon by the Committee and the Board, which is 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; and
5. To report to Bursa Malaysia Securities Berhad on any matter reported by it to the Board of the Company which has not been satisfactorily resolved resulting in a breach of the Listing Requirements.

### D. AUTHORITY

The Committee shall have the authority to:

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

## Audit Committee Report (cont'd)

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

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

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

During the financial year, in respect of the Special Investigation into the alleged financial irregularities, the following were carried out by the Committee:

1. Meeting with Special Investigative Auditor, Messrs Crowe Horwath to discuss at length on their Special Investigative Audit Report and Supplemental Report thereof;
2. Reviewing the findings of Messrs Crowe Horwath;
3. Discussing and evaluating the financial impact and materiality of the accounting irregularities on the financials of the Group and disclosure requirements;
4. Lodging of a police report by the Committee Chairman for and on behalf of the Company in respect of the said matter;
5. Signing of affidavits etc. in respect of the civil suit and Mareva Injunction by the Committee Chairman for and on behalf of the Company in respect of the said matter;
6. Making its recommendations on the course of actions to be taken to the Board; and
7. Following up closely on the development and progress of the litigation and the status of the police investigation with Management.

### F. 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 system within the Group in accordance with internal audit plan, so as to provide assurance that such system is adequate and functioning as intended. Its responsibilities include providing independent and objective reports on the state of internal controls of the various operating units within the Group to the Committee and provide recommendations for the improvement of the control procedures, so that remedial actions can be taken in relation to weaknesses noted in the system and controls of the respective operating units.

During the financial year under review, the internal auditors carried out review of selected key processes of the Company and certain subsidiaries, covering the control environment, financial management, risk management, procurement and inventory management. The internal audit was based on the scope of work which was approved by the Committee. The total costs incurred for the internal audit function of the Group for the financial under review amounted to approximately RM118,000.

## ADDITIONAL DISCLOSURE

### 1. SHARE BUY-BACK

At the Ninth Annual General Meeting held on 27 June 2013, the shareholders of the Company granted authority to the Company to purchase its own shares provided that the aggregate number of shares purchased shall not exceed 10% of the total issued and paid-up share capital of the Company at the time of purchase.

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

Month	No. of Shares	Nominal Value Per Share (RM)	Total Consideration (RM)	Purchase Price Per Share (RM)		
				Highest	Lowest	Average
March 2013	1,000	0.10	106	0.065	0.065	0.065
August 2013	10,000	0.10	761	0.075	0.070	0.072

As at 31 December 2013, the Company held 1,846,600 repurchased or treasury shares out of its total issued and paid-up share capital of 1,011,408,160 ordinary shares of RM 0.10 each. Such treasury shares were held at a carrying amount of RM195,727. 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 2013, there was no exercise of warrants. The Company has not issued any options or convertible securities during the financial year.

### 3. DEPOSITORY RECEIPT

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

### 4. SANCTION AND/OR PENALTIES

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

### 5. NON-AUDIT FEES

During the financial year, the non-audit fees 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 2013 amounted to RM15,000.

### 6. VARIATION IN RESULTS

There was no material variation between the interim financial reports previously announced on the 4th Quarter results and the audited financial results for the financial year ended 31 December 2013.

## Additional Disclosure (cont'd)

### 7. PROFIT GUARANTEE

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

### 8. MATERIAL CONTRACT

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

### 9. CORPORATE SOCIAL RESPONSIBILITY

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

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

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

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

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

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

From a community 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 workforce, we extended support to Singapore's Institute of Technical Education by providing its students with skills and knowledge, as well as exposure in global business trends and developments and different work practices cultural environments at our service plants in Singapore, Malaysia and China. We also encourage employees' involvement in efforts to help local communities.



FRONTKEN CORPORATION  
BERHAD (651020-T)

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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 2013.

### PRINCIPAL ACTIVITIES

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

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

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

### FINANCIAL RESULTS

	<b>The Group RM</b>	<b>The Company RM</b>
Profit after taxation for the financial year	464,679	154,034
<b>Attributable to:</b>		
Owners of the Company	(2,320,798)	154,034
Non-controlling interests	2,785,477	–
	464,679	154,034

### DIVIDEND

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

### RESERVES AND PROVISIONS

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

### ISSUES OF SHARES AND DEBENTURES

During the financial year,

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

## Directors' Report (cont'd)

### TREASURY SHARES

During the financial year, the Company repurchased 11,000 of its issued ordinary shares from the open market at an average price of RM0.071 per share. The total consideration paid for the repurchase including transaction costs amounted to RM867. 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 2013, the Company held 1,846,600 treasury shares at a carrying amount of RM195,727.

### 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 1.1.2013	Number of Warrants		Balance as of 31.12.2013
			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.

## Directors' Report (cont'd)

### OTHER FINANCIAL INFORMATION

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

- (a) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for impairment losses on receivables, and had satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for impairment losses on receivables; and
- (b) 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:

- (a) 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
- (b) which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading; or
- (c) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate; or
- (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.

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 31 to the financial statements.

### DIRECTORS

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

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

## Directors' Report (cont'd)

### DIRECTORS' INTERESTS

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

	Number of ordinary shares of RM0.10 each			Balance as of 31.12.2013
	Balance as of 1.1.2013	Bought	Sold	
<b>Shares in the Company</b>				
<b>Direct Interests</b>				
Dr. Tay Kiang Meng	9,404,808	–	–	9,404,808
Jorg Helmut Hohnloser	290,991,473	–	–	290,991,473
	<b>Balance as of 1.1.2013</b>	<b>Bought</b>	<b>Sold</b>	<b>Balance as of 31.12.2013</b>
<b>Shares in subsidiary companies</b>				
<b>Ares Green Technology Corporation</b>				
<b>Direct Interest</b>				
Jorg Helmut Hohnloser	2,031,000	–	(2,031,000)	–
	<b>Balance as of 1.1.2013</b>	<b>Bought</b>	<b>Sold</b>	<b>Balance as of 31.12.2013</b>
<b>Warrants in the Company</b>				
<b>Direct Interest</b>				
Dr. Tay Kiang Meng	1,187,088	–	–	1,187,088

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

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

## Directors' Report (cont'd)

### **DIRECTORS' BENEFITS**

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

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

### **SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR**

The significant events during the financial year are disclosed in Note 30 to the financial statements.

### **SUBSEQUENT EVENT AFTER THE FINANCIAL YEAR**

The subsequent event after the financial year is disclosed in Note 31 to the financial statements.

### **AUDITORS**

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

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

**NG WAI PIN**

**DR. TAY KIANG MENG**

22 April 2014

## 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 2013 of the Group and of the Company, and the statements of profit or loss and other 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 47 to 123.

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

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

### ***Auditors' Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinion***

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company as of 31 December 2013 and of their financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia.

## Independent Auditors' Report (cont'd)

### REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.
- (b) We have considered the financial statements and the auditors' reports of all the subsidiaries of which we have not acted as auditors, which are indicated in Note 12 to the financial statements.
- (c) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- (d) The audit reports on the financial statements of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

### OTHER REPORTING RESPONSIBILITIES

The supplementary information set out in Note 33 on page 124 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

**NGIAM MIA TECK**  
Approval No : 3000/07/14 (J)  
Chartered Accountant

22 April 2014

Kuala Lumpur

## STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

	Note	The Group		The Company	
		2013 RM	2012 RM	2013 RM	2012 RM
Revenue	5	190,611,437	181,034,515	1,627,847	2,716,969
Cost of sales		(141,848,035)	(140,455,211)	–	–
<b>Gross profit</b>		<b>48,763,402</b>	<b>40,579,304</b>	<b>1,627,847</b>	<b>2,716,969</b>
Other income		2,474,785	10,602,742	633,779	1,209,455
Administrative expenses		(31,477,737)	(33,684,972)	(1,979,384)	(2,106,833)
Other expenses		(11,095,569)	(11,021,161)	(50,385)	(126,636)
Finance costs	6	(1,451,334)	(2,870,381)	(77,823)	(88,597)
Share of results in associates, net of tax		(1,302,740)	(367,407)	–	–
<b>Profit before tax</b>	7	<b>5,910,807</b>	<b>3,238,125</b>	<b>154,034</b>	<b>1,604,358</b>
Income tax expense	8	(5,446,128)	937,044	–	–
<b>Profit after tax</b>		<b>464,679</b>	<b>4,175,169</b>	<b>154,034</b>	<b>1,604,358</b>
<b>Other comprehensive income/(expenses)</b>					
Foreign currency translation		4,990,561	1,946,822	–	–
Actuarial gains/(losses)		86,928	(147,982)	–	–
<b>Total comprehensive income</b>		<b>5,542,168</b>	<b>5,974,009</b>	<b>154,034</b>	<b>1,604,358</b>
<b>Profit/(Loss) after tax attributable to:</b>					
Owners of the Company		(2,320,798)	3,820,496	154,034	1,604,358
Non-controlling interests		2,785,477	354,673	–	–
		464,679	4,175,169	154,034	1,604,358
<b>Total comprehensive income attributable to:</b>					
Owners of the Company		1,326,945	5,604,044	154,034	1,604,358
Non-controlling interests		4,215,223	369,965	–	–
		5,542,168	5,974,009	154,034	1,604,358
<b>(Loss)/Earnings per ordinary share attributable to owners of the Company</b>					
Basic (sen)	9	(0.23)	0.38		
Diluted (sen)	9	N/A	N/A		

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

## STATEMENTS OF FINANCIAL POSITION

AS OF 31 DECEMBER 2013

	Note	The Group		The Company	
		2013 RM	2012 RM	2013 RM	2012 RM
<b>ASSETS</b>					
<b>Non-Current Assets</b>					
Property, plant and equipment	10	144,054,490	153,534,383	97,863	113,133
Investments in subsidiaries	12	–	–	72,600,628	68,858,347
Investments in associates	13	1,665,319	4,236,106	–	–
Goodwill on consolidation	14	25,394,265	25,394,265	–	–
Deferred tax assets	15	665,109	440,887	–	–
<b>Total Non-Current Assets</b>		<b>171,779,183</b>	<b>183,605,641</b>	<b>72,698,491</b>	<b>68,971,480</b>
<b>Current Assets</b>					
Inventories	16	13,657,557	11,187,634	–	–
Amount due from contract customers	17	2,130,236	500,737	–	–
Trade receivables	18	69,762,903	68,726,410	–	–
Other receivables, deposits and prepaid expenses	18	4,653,439	5,483,123	23,571	25,817
Amount owing by subsidiaries	19	–	–	44,959,267	46,045,356
Amount owing by associates	13	1,346,669	2,117,634	–	–
Tax recoverable		345,229	462,342	–	–
Fixed deposits with licensed banks		1,647,742	3,170,992	950,000	2,500,000
Cash and bank balances		35,463,816	38,286,539	267,937	923,923
		129,007,591	129,935,411	46,200,775	49,495,096
Asset held for sale	11	1,371,418	1,080,834	–	–
<b>Total Current Assets</b>		<b>130,379,009</b>	<b>131,016,245</b>	<b>46,200,775</b>	<b>49,495,096</b>
<b>Total Assets</b>		<b>302,158,192</b>	<b>314,621,886</b>	<b>118,899,266</b>	<b>118,466,576</b>

## Statements Of Financial Position (cont'd)

	Note	The Group		The Company	
		2013 RM	2012 RM	2013 RM	2012 RM
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Share capital	20	101,140,816	101,140,816	101,140,816	101,140,816
Reserves	21	85,162,494	83,751,635	11,895,427	11,742,260
Equity attributable to owners of the parent		186,303,310	184,892,451	113,036,243	112,883,076
Non-controlling interests		27,923,736	28,116,325	–	–
<b>Total Equity</b>		<b>214,227,046</b>	<b>213,008,776</b>	<b>113,036,243</b>	<b>112,883,076</b>
<b>Non-Current Liabilities</b>					
Term loans	22	24,129,289	28,452,301	–	–
Hire purchase payables	23	1,701,141	3,279,963	–	–
Deferred tax liabilities	15	3,653,351	363,290	–	–
<b>Total Non-Current Liabilities</b>		<b>29,483,781</b>	<b>32,095,554</b>	<b>–</b>	<b>–</b>
<b>Current Liabilities</b>					
Trade payables	24	21,370,123	15,113,249	–	–
Other payables and accrued expenses	24	25,074,408	17,966,420	168,411	207,438
Amount owing to subsidiaries	19	–	–	5,694,612	5,376,062
Bank borrowings	25	8,321,860	32,779,245	–	–
Hire purchase payables	23	2,131,297	2,933,722	–	–
Tax liabilities		1,549,677	724,920	–	–
<b>Total Current Liabilities</b>		<b>58,447,365</b>	<b>69,517,556</b>	<b>5,863,023</b>	<b>5,583,500</b>
<b>Total Liabilities</b>		<b>87,931,146</b>	<b>101,613,110</b>	<b>5,863,023</b>	<b>5,583,500</b>
<b>Total Equity and Liabilities</b>		<b>302,158,192</b>	<b>314,621,886</b>	<b>118,899,266</b>	<b>118,466,576</b>

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

## STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2013

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

## Statements Of Changes In Equity (cont'd)

	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	
<b>The Group</b>										
Balance as of 1 January 2013	101,140,816	9,336,705	(194,860)	6,073,760	882,976	370,502	67,282,552	184,892,451	28,116,325	213,008,776
Other comprehensive income recognised for the financial year:										
- defined benefit plan actuarial gains	-	-	-	-	-	-	50,349	50,349	36,579	86,928
- foreign currency translation differences	-	-	-	3,597,394	-	-	-	3,597,394	1,393,167	4,990,561
Profit after tax for the financial year	-	-	-	-	-	-	(2,320,798)	(2,320,798)	2,785,477	464,679
Total comprehensive income for the financial year	-	-	-	3,597,394	-	-	(2,270,449)	1,326,945	4,215,223	5,542,168
Contributions by and distributions to owners of the Company:										
- Dividends:										
- by subsidiaries to non-controlling interests	-	-	-	-	-	-	-	-	(409,315)	(409,315)
- Transfer to statutory reserve	-	-	-	-	-	310,202	(310,202)	-	-	-
- Purchase of treasury shares	-	-	(867)	-	-	-	-	(867)	-	(867)
- Loss on winding up of a subsidiary	-	-	-	-	-	-	(85,658)	(85,658)	(85,777)	(171,435)
- Changes in ownership interests in a subsidiary	-	-	-	-	-	-	170,439	170,439	(3,912,720)	(3,742,281)
Balance as of 31 December 2013	101,140,816	9,336,705	(195,727)	9,671,154	882,976	680,704	64,786,682	186,303,310	27,923,736	214,227,046

## Statements Of Changes In Equity (cont'd)

The Company	Non-distributable			Distributable		Total RM
	Share capital RM	Share premium RM	Treasury shares RM	Warrant reserve RM	Retained earnings RM	
Balance as of 1 January 2012	101,140,816	9,336,705	(194,562)	882,976	113,081	111,279,016
Profit after taxation/Total comprehensive income for the financial year	-	-	-	-	1,604,358	1,604,358
Contribution by and distributions to owners of the Company:						
- Purchase of treasury shares	-	-	(298)	-	-	(298)
Balance as of 31 December 2012	101,140,816	9,336,705	(194,860)	882,976	1,717,439	112,883,076
Balance as of 1 January 2013	101,140,816	9,336,705	(194,860)	882,976	1,717,439	112,883,076
Profit after taxation/Total comprehensive income for the financial year	-	-	-	-	154,034	154,034
Contribution by and distributions to owners of the Company:						
- Purchase of treasury shares	-	-	(867)	-	-	(867)
Balance as of 31 December 2013	101,140,816	9,336,705	(195,727)	882,976	1,871,473	113,036,243

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

## STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2013

	The Group		The Company	
	2013 RM	2012 RM	2013 RM	2012 RM
<b>CASH FLOWS FROM/(FOR) OPERATING ACTIVITIES</b>				
Profit before taxation	5,910,807	3,238,125	154,034	1,604,358
Adjustments for:				
Depreciation of property, plant and equipment	18,744,297	20,167,949	20,270	41,142
Interest expense	1,451,334	2,706,107	77,823	88,597
Impairment loss on fair value adjustment	–	164,274	–	–
Unrealised loss on foreign exchange	389,365	1,076,048	598,744	327,158
Allowance for impairment losses on receivables	1,199,949	654,330	–	–
Bad debts written off	1,421,170	1,700	–	–
Property, plant and equipment written off	149,714	1,212,255	–	–
Share of results in associates	1,302,740	367,407	–	–
Loss on disposal of asset held for sale	134,425	–	–	–
Interest income	(170,055)	(140,408)	(631,910)	(1,195,555)
Gain on disposal of property, plant and equipment	(55,727)	(387,867)	–	–
Writeback of allowance for impairment losses on trade receivables	(361,136)	(1,663,662)	–	–
Gain on disposal of subsidiary	–	(5,477,371)	–	–
Gain on disposal of investment in associates	–	(22,597)	–	–
Gain on dilution on investment in subsidiary	–	(103,879)	–	–
Dividend income from subsidiaries	–	–	(1,613,447)	(2,716,969)
Operating Profit/(Loss) Before Working Capital Changes	30,116,883	21,792,411	(1,394,486)	(1,851,269)
(Increase)/Decrease in:				
Inventories	(2,221,540)	88,341	–	–
Amount due from contract customers	(1,629,500)	323,558	–	–
Trade receivables	(2,981,480)	1,092,317	–	–
Other receivables and prepaid expenses	818,463	730,988	2,246	5,543
Amount owing by associates	848,209	2,075,990	–	–
Increase/(Decrease) in:				
Trade payables	6,232,154	(7,050,489)	–	–
Other payables and accrued expenses	7,091,215	(375,675)	(39,026)	23,759
Amount owing to associates	–	(1,536,688)	–	–
Amount owing to a director	(3,286)	7,627	–	–
Cash Generated From/(For) Operations	38,271,118	17,148,380	(1,431,266)	(1,821,967)
Taxes paid	(1,590,281)	(1,105,757)	–	–
Net Cash From/(For) Operating Activities	36,680,837	16,042,623	(1,431,266)	(1,821,967)

## Statements Of Cash Flows (cont'd)

	The Group		The Company	
	2013 RM	2012 RM	2013 RM	2012 RM
<b>CASH FLOWS (FOR)/ FROM INVESTING ACTIVITIES</b>				
Decrease/(Increase) in amount owing by subsidiaries	–	–	1,086,089	1,316,432
Purchase of property, plant and equipment	(5,336,539)	(11,769,220)	(5,000)	(800)
Dividend received from subsidiaries	–	–	1,613,447	2,716,969
Acquisition of subsidiaries (Note 12)	(3,742,281)	(477,012)	(3,742,281)	(477,012)
Loss on winding up of a subsidiary	(171,435)	–	–	–
Proceeds from disposal of property, plant and equipment	110,927	7,289,353	–	–
Proceeds from disposal of asset held for sale	985,834	–	–	–
Proceeds from disposal of subsidiary (Note 12)	–	22,127,552	–	–
Proceeds from disposal of associates	–	150,000	–	–
Interest received	170,055	140,408	631,910	1,195,555
<b>Net Cash (For)/From Investing Activities</b>	<b>(7,983,439)</b>	<b>17,461,081</b>	<b>(415,835)</b>	<b>4,751,144</b>
<b>CASH FLOWS FOR FINANCING ACTIVITIES</b>				
Decrease in amount owing to subsidiaries	–	–	(279,556)	(3,007,438)
Treasury shares acquired	(867)	(298)	(867)	(298)
Issue of shares by subsidiary to minority interest	–	890,043	–	–
Repayment of term loans	(28,780,397)	(18,772,557)	–	–
Interest paid	(1,451,334)	(2,706,107)	(77,823)	(88,597)
Dividend paid by a subsidiary to non-controlling interests	(409,315)	(435,918)	–	–
Drawdown of term loans	–	11,998,040	–	–
Payment of hire purchase payables	(3,463,099)	(7,918,781)	–	–
<b>Net Cash For Financing Activities</b>	<b>(34,105,012)</b>	<b>(16,945,578)</b>	<b>(358,246)</b>	<b>(3,096,333)</b>

## Statements Of Cash Flows (cont'd)

	Note	The Group		The Company	
		2013 RM	2012 RM	2013 RM	2012 RM
<b>NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS</b>		(5,407,614)	16,558,126	(2,205,347)	(167,156)
Effect of exchange rate changes		1,061,641	207,617	(639)	153
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		41,457,531	24,691,788	3,423,923	3,590,926
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	26	37,111,558	41,457,531	1,217,937	3,423,923

Note : During the financial year, the Group and the Company acquired property, plant and equipment at an aggregate cost of RM6,279,920 and RM5,000 (2012 : RM14,335,410 and RM800), respectively, of which RM943,381 and NIL (2012 : RM2,566,190 and NIL), respectively, was acquired under hire-purchase arrangements.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. GENERAL INFORMATION

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

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

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

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

The registered office of the Company is located at B-11-10, Level 11, Megan Avenue II, Jalan Yap Kwan Seng, 50450 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 22 April 2014.

## 2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

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

### **MFRSs and IC Interpretations (Including The Consequential Amendments)**

MFRS 10 Consolidated Financial Statements

MFRS 11 Joint Arrangements

MFRS 12 Disclosure of Interests in Other Entities

MFRS 13 Fair Value Measurement

MFRS 119 (2011) Employee Benefits

MFRS 127 (2011) Separate Financial Statements

MFRS 128 (2011) Investments in Associates and Joint Ventures

Amendments to MFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities

Amendments to MFRS 10, MFRS 11 and MFRS 12: Transition Guidance

Annual Improvements to MFRSs 2009 – 2011 Cycle

The adoption of the above accounting standards and interpretations (including the consequential amendments) did not have any material impact on the Company's financial statements.

## Notes To The Financial Statements (cont'd)

### 2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (cont'd)

- 2.2 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:-

MFRSs and IC Interpretations (Including The Consequential Amendments)	Effective Date
MFRS 9 (2009) Financial Instruments	} To be announced by MASB
MFRS 9 (2010) Financial Instruments	
MFRS 9 Financial Instruments (Hedge Accounting and Amendments to MFRS 7, MFRS 9 and MFRS 139)	
Amendments to MFRS 9 and MFRS 7: Mandatory Effective Date of MFRS 9 and Transition Disclosures	
Amendments to MFRS 10, MFRS 12 and MFRS 127 (2011): Investment Entities	1 January 2014
Amendments to MFRS 119: Defined Benefit Plans – Employee Contributions	1 July 2014
Amendments to MFRS 132: Offsetting Financial Assets and Financial Liabilities	1 January 2014
Amendments to MFRS 136: Recoverable Amount Disclosures for Non-financial Assets	1 January 2014
Amendments to MFRS 139: Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014
IC Interpretation 21 Levies	1 January 2014
Annual Improvements to MFRSs 2010 – 2012 Cycle	1 July 2014
Annual Improvements to MFRSs 2011 – 2013 Cycle	1 July 2014

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

- (i) MFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Subsequently, this MFRS 9 was amended in year 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition (known as MFRS 9 (2010)). Generally, MFRS 9 replaces the parts of MFRS 139 that relate to the classification and measurement of financial instruments. MFRS 9 divides all financial assets into 2 categories – those measured at amortised cost and those measured at fair value, based on the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instruments. For financial liabilities, the standard retains most of the MFRS 139 requirement. An entity choosing to measure a financial liability at fair value will present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income rather than within profit or loss. Accordingly, there will be no financial impact on the financial statements of the Company upon its initial application.

## Notes To The Financial Statements (cont'd)

### 2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (cont'd)

- (ii) The amendments to MFRS 132 provide the application guidance for criteria to offset financial assets and financial liabilities. There will be no financial impacts on the financial statements of the Company upon its initial application.
- (iii) The Annual Improvements to MFRSs 2010 - 2012 Cycle contain amendments to MFRS 2, MFRS 3, MFRS 8, MFRS 13, MFRS 116, MFRS 124 and MFRS 138. There will be no impact on the financial statements except for the amendments to MFRS 116 which will only affect the amount of accumulated depreciation of future revaluations.
- (iv) The Annual Improvements to MFRSs 2011 - 2013 Cycle contain amendments to MFRS 1, MFRS 3, MFRS 13 and MFRS 140. There will be no impact on the financial statements.

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### Critical Accounting Estimates And Judgements

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

#### (i) Impairment of Goodwill

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

#### (ii) Contract Customers

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

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

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

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

## Notes To The Financial Statements (cont'd)

### 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

##### (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

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

##### (vii) Classification of Leasehold Land

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

## Notes To The Financial Statements (cont'd)

### 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

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

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

##### (ix) Write-down of Inventories

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

#### Assets Held For Sale

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

#### Operating Segments

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

#### Revenue Recognition

##### (i) Services

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

##### (ii) Sale of goods

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

##### (iii) Contracts

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

##### (iv) Management fee and interest income

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

##### (v) Dividend income

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

## 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 reporting period 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

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

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

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

## Notes To The Financial Statements (cont'd)

### 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### **Borrowing Costs**

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

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

#### **Contract Customers**

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

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

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

#### **Employee Benefits**

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

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

##### **(ii) Defined contribution plans**

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

##### **(iii) Defined benefit plans**

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

## Notes To The Financial Statements (cont'd)

### 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### Employee Benefits (cont'd)

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

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

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

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

#### Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December 2013.

Subsidiaries are entities (including structured entities) controlled by the Group. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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

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

##### (a) Business Combinations

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

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

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

## Notes To The Financial Statements (cont'd)

### 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

##### (b) Non-Controlling Interests

Non-controlling interests are presented within equity in the consolidated statement of financial position, separately from the equity attributable to owners of the Company. Profit or loss and each component of other comprehensive income are attributed to the owners of the Company 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.

##### (c) Changes In Ownership Interests In Subsidiaries Without Change of Control

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 of the Group.

##### (d) Loss of Control

Upon the loss of control of a subsidiary, the Group recognises any gain or loss on disposal in profit or loss which 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 in the same manner as would be required if the relevant assets or liabilities were disposed of (i.e. reclassified to profit or loss or transferred directly to retained profits). The fair value of any investments retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under MFRS 139 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

#### 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.

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.

#### 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, financial assets, loans and receivables financial assets, held-to-maturity investments, or available-for-sale financial assets, as appropriate.

- **Financial assets at fair value through profit or loss**

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

- **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

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

- **Ordinary shares**

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

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

- **Treasury Shares**

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

##### (iv) Derecognition

A financial asset or part of it is derecognised when, and only when, the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred to another party without retaining control or substantially all risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged or cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

#### Property, Plant and Equipment

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

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

## Notes To The Financial Statements (cont'd)

### 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

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

Leasehold land	60 years
Factory and office renovation	10%
Plant and machinery	10% - 20%
Workshop tools	20%
Office equipment	33.3% - 80%
Furniture and fittings	20% - 33.3%
Motor vehicles	14%
Computers	33% - 85.7%

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

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

#### Investments in Subsidiaries

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

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

#### Investments in Associates

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

The investment in an associate is accounted for in the consolidated statement of financial position using the equity method, based on the financial statements of the associate made up to 31 December 2013. The Group's share of the post-acquisition profits and other comprehensive income of the associate is included in the consolidated statement of comprehensive income after adjustment if any, to align the accounting policies with those of the Group, from the date that significant influence commences up to the effective date on which significant influence ceases or when the investment is classified as held for sale. 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. The cost of investment includes transaction costs.

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

## Notes To The Financial Statements (cont'd)

### 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### Investments in Associates (cont'd)

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.

When the Group ceases to have significant influence over an associate and the retained interest in the former associate is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as the initial carrying amount of the financial asset in accordance with MFRS 139. Furthermore, the Group also reclassifies its share of the gain or loss previously recognised in other comprehensive income of that associate to profit or loss when the equity method is discontinued. However, the Group will continue to use the equity method if the dilution does not result in a loss of significant influence or when an investment in a joint venture becomes an investment in an associate. Under such changes in ownership interest, the retained investment is not remeasured to fair value but a proportionate share of the amounts previously recognised in other comprehensive income of the associate will be reclassified to profit or loss where appropriate. All dilution gains or losses arising in investments in associates are recognised in profit or loss.

#### 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 financial asset 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.

## Notes To The Financial Statements (cont'd)

### 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### Impairment (cont'd)

##### (ii) Impairment of Non-Financial assets

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

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

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

#### 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 at the lower of the fair value of the leased assets and the present value of the minimum lease payments.

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.

## Notes To The Financial Statements (cont'd)

### 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### 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 with original maturities period three months or less.

#### 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. The unwinding of the discount is recognised as interest expense in profit or loss.

#### 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.

#### Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using a valuation technique. The measurement assumes that the transaction takes place either in the principal market or in the absence of a principal market, in the most advantageous market. For non-financial asset, the fair value measurement takes into account a market's participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial reporting purposes, the fair value measurements are analysed into level 1 to level 3 as follows:-

- Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liability that the entity can access at the measurement date;
- Level 2: Inputs other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3: Inputs are unobservable inputs for the asset or liability.

The transfer of fair value between levels is determined as of the date of the event or change in circumstances that caused the transfer.

## Notes To The Financial Statements (cont'd)

### 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### Related Parties

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

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

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

### 4. OPERATING SEGMENTS

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

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

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

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

The Group is organised into the following geographical segments:

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



## Notes To The Financial Statements (cont'd)

## 4. OPERATING SEGMENTS (cont'd)

The Group 2013	Malaysia RM	Singapore RM	Philippines RM	Taiwan RM	China RM	Indonesia RM	Elimination RM	Total RM
<b>Assets</b>								
Investment in associates	—	1,665,319	—	—	—	—	—	1,665,319
Tax assets	146,750	198,479	—	665,109	—	—	—	1,010,338
Segmental assets	109,683,020	116,325,425	13,559,611	97,569,517	3,595,062	4,476,813	(45,726,913)	299,482,535
Consolidated total assets								302,158,192
<b>Liabilities</b>								
Tax liabilities	207,000	3,166,120	189,447	1,640,461	—	—	—	5,203,028
Segment liabilities	47,444,662	30,917,616	5,685,282	62,443,088	1,047,195	6,954,765	(71,764,490)	82,728,118
Consolidated total liabilities								87,931,146
<b>Other Information</b>								
Capital expenditure	1,564,761	1,082,014	60,995	3,494,583	57,681	19,886	—	6,279,920
Depreciation	5,750,452	8,145,615	973,549	3,421,758	149,615	303,308	—	18,744,297
Other non-cash items								
- income	177,743	39,859	—	143,534	—	—	—	361,136
- expenses	968,508	6,745	—	224,696	—	—	—	1,199,949



## Notes To The Financial Statements (cont'd)

## 4. OPERATING SEGMENTS (cont'd)

The Group 2012	Malaysia RM	Singapore RM	Philippines RM	Taiwan RM	China RM	Indonesia RM	Qatar RM	Elimination RM	Total RM
<b>Assets</b>									
Investment in associates	—	4,236,106	—	—	—	—	—	—	4,236,106
Tax assets	270,848	191,494	—	439,328	—	1,559	—	—	903,229
Segmental assets	118,083,102	125,985,322	12,929,855	87,564,294	4,130,664	5,544,807	168,190	(44,923,683)	309,482,551
Consolidated total assets									314,621,886
<b>Liabilities</b>									
Tax liabilities	285,000	10,933	211,501	580,776	—	—	—	—	1,088,210
Segment liabilities	49,561,000	46,522,287	6,539,294	61,541,897	698,446	6,649,676	—	(70,987,700)	100,524,900
Consolidated total liabilities									101,613,110
<b>Other Information</b>									
Capital expenditure	5,556,776	4,072,503	89,264	2,041,507	1,058,993	1,516,367	—	—	14,335,410
Depreciation	5,814,835	9,464,286	886,471	3,713,062	82,531	206,764	—	—	20,167,949
Other non-cash items									
- income	1,663,662	—	—	—	—	—	—	—	1,663,662
- expenses	748,780	32,460	8,758	—	—	28,606	—	—	818,604

## Notes To The Financial Statements (cont'd)

### 4. OPERATING SEGMENTS (cont'd)

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

	The Group	
	2013 RM	2012 RM
Allowance for impairment losses	1,199,949	654,330
Impairment loss for fair value adjustments	–	164,274
	1,199,949	818,604
Writeback of allowance for impairment losses on trade receivables	(361,136)	(1,663,662)

### 5. REVENUE

	The Group		The Company	
	2013 RM	2012 RM	2013 RM	2012 RM
Provision of services	151,565,176	153,737,121	–	–
Contract customers	25,201,256	6,337,165	–	–
Sale of goods	13,845,005	20,960,229	–	–
Dividend income				
from subsidiaries	–	–	1,613,447	2,716,969
Management fee				
from a subsidiary	–	–	14,400	–
	190,611,437	181,034,515	1,627,847	2,716,969

### 6. FINANCE COSTS

	The Group		The Company	
	2013 RM	2012 RM	2013 RM	2012 RM
Interest expense on:				
Term loans	975,215	1,363,016	–	–
Hire purchase	401,074	861,857	–	–
Short-term borrowings	75,045	294,793	–	–
Bank overdrafts	–	186,441	–	–
	1,451,334	2,706,107	–	–
Impairment loss on fair value adjustment	–	164,274	–	–
Amount owing to subsidiaries	–	–	77,823	88,597
	1,451,334	2,870,381	77,823	88,597

## Notes To The Financial Statements (cont'd)

## 7. PROFIT BEFORE TAX

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

	The Group		The Company	
	2013 RM	2012 RM	2013 RM	2012 RM
Interest income from:				
Subsidiaries	–	–	499,983	1,133,795
Third parties	170,055	140,408	131,927	61,760
Gain on disposal of property, plant and equipment	55,727	387,867	–	–
Dividend income from subsidiaries	–	–	1,613,447	2,716,969
Writeback of allowance for impairment losses on trade receivables	361,136	1,663,662	–	–
Gain on disposal of subsidiary	–	5,477,371	–	–
Gain on disposal of investment in associates	–	22,597	–	–
Gain on dilution on investment in subsidiary	–	103,879	–	–
Staff costs	(62,203,490)	(62,746,173)	(570,791)	(813,182)
Depreciation of property, plant and equipment	(18,744,297)	(20,167,949)	(20,270)	(41,142)
Directors' remuneration:				
Fees:				
Non-executive Directors	(130,398)	(124,815)	(130,398)	(124,815)
Salaries and other emoluments:				
Executive Directors	(2,654,539)	(2,174,242)	(82,679)	(136,262)
Gain/(Loss) on foreign exchange - net:				
Unrealised	(389,365)	(1,076,048)	(598,744)	(327,158)
Realised	165,685	(118,090)	1,869	(50,914)
Auditors' remuneration - current year	(602,187)	(613,840)	(74,000)	(74,000)
Property, plant and equipment written off	(149,714)	(1,212,255)	–	–
Loss on disposal of asset held for sale	(134,425)	–	–	–
Impairment loss of fair value adjustments	–	(164,274)	–	–
Allowance for impairment losses on receivables	(1,199,949)	(654,330)	–	–
Bad debts written off	(1,421,170)	(1,700)	–	–

## Notes To The Financial Statements (cont'd)

### 7. PROFIT BEFORE TAX (cont'd)

#### (a) Staff costs

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

	The Group		The Company	
	2013 RM	2012 RM	2013 RM	2012 RM
Defined contribution plan	3,711,726	4,044,750	67,930	92,051
Defined benefits plan	101,416	581,237	–	–

#### (b) Key management personnel compensation

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

	The Group		The Company	
	2013 RM	2012 RM	2013 RM	2012 RM
Short-term employee benefits	3,393,835	4,181,424	264,589	492,485

#### (c) Directors' remuneration

Contributions to provident fund, included in directors' remuneration, made by the Group and Company during the current financial year amounted to RM150,757 (2012:RM63,681) and RM11,934 (2012: RM14,326) respectively.

The estimated monetary value of benefits-in-kind received and receivable by the directors otherwise than in cash from the Group amounted to RM44,404 (2012: RM14,831).

## Notes To The Financial Statements (cont'd)

## 8. INCOME TAX EXPENSE

	The Group		The Company	
	2013 RM	2012 RM	2013 RM	2012 RM
Estimated tax payable:				
Malaysian:				
- Current year	281,000	241,995	–	–
- Underprovision in prior years	46,028	104,288	–	–
	327,028	346,283	–	–
Foreign:				
- Current year	1,687,774	847,330	–	–
- Under/(Over) provision in prior years	455,904	(63,318)	–	–
	2,143,678	784,012	–	–
	2,470,706	1,130,295	–	–
Deferred tax (Note 15):				
- Current year	94,315	(493,060)	–	–
- Under/(Over) provision in prior years	2,881,107	(1,574,279)	–	–
	2,975,422	(2,067,339)	–	–
	5,446,128	(937,044)	–	–

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	
	2013 RM	2012 RM	2013 RM	2012 RM
Profit before tax	5,910,807	3,238,125	154,034	1,604,358
Tax at the applicable tax rate of 25% (2012 : 25%)	1,477,702	809,531	38,509	401,089
Effect of different tax rates of other tax jurisdictions	(1,244,547)	(1,433,479)	–	–
Tax effects of:				
Non-deductible expenses	1,716,149	1,838,048	364,853	278,153
Income not subject to tax	(188,672)	(930,060)	(403,362)	(679,242)
Utilisation of deferred tax asset previously not recognised	(517,564)	(448,971)	–	–
Utilisation of unabsorbed reinvestment allowances	–	(45,000)	–	–
Tax incentives	(117,247)	(43,723)	–	–
Income tax exemption	(97,838)	(72,219)	–	–
Deferred tax asset not recognised	709,928	830,286	–	–
Under/(Over)provision in prior years				
- Income tax	501,932	40,970	–	–
- Deferred tax	2,881,107	(1,574,279)	–	–
Effect of share of results in associates	325,178	91,852	–	–
Income tax expense	5,446,128	(937,044)	–	–