

*Annual
Report*
2012

**NEGRI SEMBILAN
OIL PALMS BERHAD**

(Company No. 592-D)

(Incorporated in Malaysia)

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FINANCIAL HIGHLIGHTS AND FINANCIAL CALENDAR**FINANCIAL HIGHLIGHTS - GROUP**

	2012	2011
	RM'000	RM'000
Revenue	85,349	113,165
Profit before tax	15,197	54,241
Income tax expense	(2,628)	(13,087)
Profit net of tax	12,569	41,154
Profit net of tax attributable to owners of the parent	10,148	33,318
Profit net of tax attributable to non-controlling interest	2,421	7,836
Dividends	15,269	22,114
Issued and paid-up share capital	70,202	70,202
Equity attributable to owners of the parent	376,599	377,343
Earnings per stock unit		
- Basic	14.46 sen	47.46 sen
- Diluted	14.46 sen	47.46 sen
Dividends		
- First interim dividend	10 % less 25% taxation	18 % less 25% taxation
- Second interim dividend	14 % less 25% taxation	24 % less 25% taxation
- Special dividend	5 % less 25% taxation	-
Dividend cover (times)	0.66	1.51
Net assets per stock unit attributable to owners of the parent	RM5.36	RM5.38

FINANCIAL CALENDAR

Financial year	1 January 2012 to 31 December 2012
Announcement of results	
First financial quarter ended 31 March 2012	25 May 2012
Second financial quarter ended 30 June 2012	23 August 2012
Third financial quarter ended 30 September 2012	30 November 2012
Fourth financial quarter ended 31 December 2012	28 February 2013
Dividends payment	
First interim and special	29 June 2012
Second interim	31 December 2012
Despatch of 2012 Annual Report	4 June 2013
Eighty First Annual General Meeting	26 June 2013

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Eighty First Annual General Meeting of the Company will be held at the Conference Room, Suite 2B-3A-3, Block 2B, Level 3A, Plaza Sentral, Jalan Stesen Sentral 5, Kuala Lumpur Sentral, 50470 Kuala Lumpur on Wednesday, 26 June 2013 at 10.30 am for the following purposes: -

1. To receive and adopt the Directors' Report and the Financial Statements for the financial year ended 31 December 2012 and the Independent Auditors' Report thereon. (Resolution 1)
2. To increase the directors' fees for the financial year ended 31 December 2012 to RM372,000 and to authorise the directors to divide such fees in the proportions and manner to be determined by them. (Resolution 2)
3. To re-elect the following directors retiring under Article 94 of the Articles of Association of the Company: -
 - (i) Mr Gho Lian Chin (Resolution 3)
 - (ii) Mr Goh Wei Lei (Resolution 4)
4. To re-appoint the following directors pursuant to Section 129(6) of the Companies Act, 1965: -
 - (i) Mr Goh Eng Chew (Resolution 5)
 - (ii) Mr Wong Aun Phui (Resolution 6)
 - (iii) Dato' Ong Bok Lim (Resolution 7)
 - (iv) Mr Goh Pock Ai (Resolution 8)
5. To re-appoint auditors and authorise the directors to fix their remuneration. (Resolution 9)
6. As special business, to consider and if thought fit, pass the following resolutions: -
 - 6.1 Proposed renewal of shareholders' mandate for the Company and its subsidiaries to enter into recurrent related party transactions of a revenue or trading nature with related parties (Resolution 10 & 11)
 - 6.2 Proposed amendments to articles of association (Resolution 12)

The text of the above resolutions together with the details of the proposed renewal of shareholders' mandate for the Company and its subsidiaries to enter into recurrent related party transactions of a revenue or trading nature with related parties and proposed amendments to articles of association are set out in the Circular to Shareholders dated 4 June 2013.

 - 6.3 To retain the following directors as Independent Non-Executive Directors of the Company: -
 - (i) Mr Sio Sit Po (Resolution 13)
 - (ii) Dato' Ong Bok Lim (Resolution 14)
 - (iii) Mr Keong Choon Keat (Resolution 15)
7. To transact any other ordinary business of the Company of which proper notice shall have been given to the Company.

By Order of the Board

Gan Kok Tiong
Company Secretary

Kuala Lumpur
4 June 2013

NOTES:

1. A depositor shall not be regarded as a member entitled to attend this Meeting and to speak and vote thereat unless his/her name appears in the Record of Depositors as at 19 June 2013 (which is not less than 3 market days before the date of this Meeting) issued by Bursa Depository Sdn Bhd ("Bursa Depository") upon request by the Company in accordance with the rules of the Bursa Depository.
2. A member entitled to attend and vote at this Meeting may appoint a proxy to attend and vote in his stead. A proxy need not be a member of the Company.
3. If the member is a corporation, the Form of Proxy must be executed under its common seal or under the hand of a person duly authorised in writing.
4. The Form of Proxy must be deposited at the Registered Office, Suite 2B-3A-2, Block 2B, Level 3A, Plaza Sentral, Jalan Stesen Sentral 5, Kuala Lumpur Sentral, 50470 Kuala Lumpur not less than 48 hours before the time fixed for the Meeting or any adjournment thereof.
5. For Items 6.1 and 6.2, further information are set out in the Circular to Shareholders dated 4 June 2013 which is despatched together with the 2012 Annual Report.
6. Resolutions proposed under item 6.3, based on the satisfactory outcome of the review of the Nomination Committee, if passed, will enable Mr Sio Sit Po, Dato' Ong Bok Lim and Mr Keong Choon Keat, who have served as Independent Non-Executive Directors of the Company for more than 9 years as at the date of this Notice, to continue to serve in this capacity. The profile of Mr Sio Sit Po, Dato' Ong Bok Lim and Mr Keong Choon Keat are set out in page 6 of the Annual Report.

STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

Further details of directors who are standing for re-election and re-appointment at the Eighty First Annual General Meeting:-

- (a) Gho Lian Chin - Retiring pursuant to Article 94 of the Articles of Association
Refer to page 7 for further details and pages 84 and 85 for his shareholdings in the Company and the subsidiaries.
- (b) Goh Wei Lei - Retiring pursuant to Article 94 of the Articles of Association
Refer to page 5 for further details and pages 84 and 85 for his shareholdings in the Company and the subsidiaries.
- (c) Goh Eng Chew - Retiring pursuant to Section 129 of the Companies Act, 1965
Refer to page 5 for further details and pages 84 and 85 for his shareholdings in the Company and the subsidiaries.
- (d) Wong Aun Phui - Retiring pursuant to Section 129 of the Companies Act, 1965
Refer to page 5 for further details and pages 84 and 85 for his shareholdings in the Company and the subsidiaries.
- (e) Dato' Ong Bok Lim - Retiring pursuant to Section 129 of the Companies Act, 1965
Refer to page 6 for further details and pages 84 and 85 for his shareholdings in the Company and the subsidiaries.
- (f) Goh Pock Ai - Retiring pursuant to Section 129 of the Companies Act, 1965
Refer to page 5 for further details and pages 84 and 85 for his shareholdings in the Company and the subsidiaries.

CORPORATE INFORMATION

BOARD OF DIRECTORS

**Executive Chairman
(Non-Independent)**

Goh Eng Chew

**Executive Directors
(Non-Independent)**

Goh Pock Ai
Wong Aun Phui
Goh Wei Lei

**Non-Executive Directors
(Independent)**

Sio Sit Po
Dato' Ong Bok Lim
Keong Choon Keat
Gho Eng Liong

**Non-Executive Directors
(Non-Independent)**

Goh Yeok Beng
Gho Lian Chin
Goh Tju Kiang @ Gho Tju Kiang @ Gho Tju Kiong

Alternate Director

Gho Bun Tjin (alternate to Gho Lian Chin)

AUDIT COMMITTEE

**Chairman
Members**

Keong Choon Keat
Dato' Ong Bok Lim
Sio Sit Po

NOMINATION COMMITTEE & REMUNERATION COMMITTEE

**Chairman
Members**

Gho Lian Chin
Dato' Ong Bok Lim
Keong Choon Keat
Gho Eng Liong

COMPANY SECRETARY

Gan Kok Tiong B.Commerce (Accounting)(Hons.), CA(M), CPA

REGISTERED OFFICE

Suite 2B-3A-2
Block 2B, Level 3A, Plaza Sentral
Jalan Stesen Sentral 5, Kuala Lumpur Sentral, 50470 Kuala Lumpur
Telephone: 03-2261 4633
Fax: 03-2261 4733

AUDITORS

Ernst & Young
Chartered Accountants
Level 23A Menara Milenium
Jalan Damanlela
Pusat Bandar Damansara
50490 Kuala Lumpur

SHARE REGISTRAR AND MANAGING AGENT

Sin Thye Management Sdn Bhd
Suite 2B-3A-2
Block 2B, Level 3A, Plaza Sentral
Jalan Stesen Sentral 5, Kuala Lumpur Sentral, 50470 Kuala Lumpur
Telephone: 03-2261 4633
Fax: 03-2261 4733

LEGAL FORM AND DOMICILE

Public Limited Liability Company
Incorporated and Domiciled in Malaysia

WEBSITE

www.nsop.com.my

STOCK EXCHANGE LISTING

Main Market of Bursa Malaysia Securities Berhad

PROFILE OF DIRECTORS

Goh Eng Chew (Executive Chairman)

81-year-old Mr Goh, a Singaporean, has more than forty years of plantation and financial experience. Appointed to the Board on 17 July 1968. He later served as Chairman from 17 December 1994. He was appointed as the Executive Chairman on 20 December 2000. He had been Chairman of a licensed commercial bank, a licensed finance company and a real estate company, all of which were formerly listed in Singapore. He is also the Executive Chairman of Chin Teck Plantations Berhad. Other public companies in which he heads the Board are Eng Thye Plantations Berhad, Timor Oil Palm Plantation Berhad and Tiong Thye Company Berhad, the major shareholder of the Company. He is deemed interested in certain related party transactions as disclosed on page 89 of the Annual Report. He has had no convictions for any offences within the past ten years. He is the brother of Goh Pock Ai and Goh Tju Kiang @ Gho Tju Kiang @ Gho Tju Kiong and the father of Goh Wei Lei.

Number of Board meetings attended during the financial year ended 31 December 2012: 4 out of 4

Goh Pock Ai (Senior Executive Director)

72 years of age, Singaporean. Appointed to the Board on 15 May 1971. He later served as Senior Executive Director from 1 June 2008. He has vast experience and extensive knowledge in oil palm plantation and property development. Other public companies in which he is a director are Chin Teck Plantations Berhad, Eng Thye Plantations Berhad, Timor Oil Palm Plantation Berhad and Tiong Thye Company Berhad, the major shareholder of the Company. He is deemed interested in certain related party transactions as disclosed on page 89 of the Annual Report. He has had no convictions for any offences within the past ten years. He is the brother of Goh Eng Chew and Goh Tju Kiang @ Gho Tju Kiang @ Gho Tju Kiong.

Number of Board meetings attended during the financial year ended 31 December 2012: 4 out of 4

Wong Aun Phui (Executive Director)

91 years of age, Malaysian. Has more than fifty years of plantation and banking experience. Appointed to the Board on 15 July 1968. He was conferred Senior Cambridge Certificate by Cambridge University. He had served as Assistant Managing Director of Malayan Banking Berhad, Managing Director of Pan Malayan Finance Limited and Adviser of Bank Bumiputra Malaysia Berhad (now known as CIMB Bank Berhad). Formerly, Chairman of Bandar Raya Development Berhad. Other public companies in which he is a director are Chin Teck Plantations Berhad, Eng Thye Plantations Berhad, Timor Oil Palm Plantation Berhad and Pan Malaysia Corporation Berhad. He is deemed interested in certain related party transactions as disclosed on page 89 of the Annual Report. He does not have any family relationship with any director and/or major shareholder of the Company. He has had no convictions for any offences within the past ten years.

Number of Board meetings attended during the financial year ended 31 December 2012: 4 out of 4

Goh Wei Lei (Executive Director)

44 years of age, Singaporean. He was first appointed as an alternate director on 29 March 1994. He ceased as alternate director on 12 March 1996 and was appointed as a director on that date. He was later appointed as Executive Director on 1 June 2008. Holds a Bachelor of Science from the Oregon State University, USA. He has vast experience and extensive knowledge in oil palm plantation and property development. Other public companies in which he is a director are Chin Teck Plantations Berhad, Eng Thye Plantations Berhad, Timor Oil Palm Plantation Berhad and Tiong Thye Company Berhad, the major shareholder of the Company. He is deemed interested in certain related party transactions as disclosed on page 89 of the Annual Report. He has had no convictions for any offences within the past ten years. He is the son of Goh Eng Chew.

Number of Board meetings attended during the financial year ended 31 December 2012: 4 out of 4

PROFILE OF DIRECTORS

Sio Sit Po (Independent Non-Executive Director)

64 years of age, Singaporean. He was first appointed as an alternate director on 16 June 1995 and ceased as alternate director on 10 January 1997. Subsequently, he was appointed as a director on 3 February 1997. He is a member of the Audit Committee. Holds a Bachelor of Science (Hons) from the Nanyang University, Singapore. Worked in a licensed commercial bank listed in Singapore since graduation till 1999. Other public companies in which he is a director are Chin Teck Plantations Berhad and Eng Thye Plantations Berhad. He is deemed interested in certain related party transactions as disclosed on page 89 of the Annual Report. He does not have any family relationship with any director and/or major shareholder of the Company. He has had no convictions for any offences within the past ten years.

Number of Board meetings attended during the financial year ended 31 December 2012: 4 out of 4

Dato' Ong Bok Lim (Independent Non-Executive Director)

75 years of age, Malaysian. Appointed to the Board on 31 May 1997. He is a member of the Audit Committee, Nomination Committee and Remuneration Committee. He has vast experience and knowledge in the oil palm plantation industry. He is also a director of Eng Thye Plantations Berhad. He does not have any family relationship with any director and/or major shareholder of the Company nor any conflict of interest with the Company. He has had no convictions for any offences within the past ten years.

Number of Board meetings attended during the financial year ended 31 December 2012: 4 out of 4

Keong Choon Keat (Independent Non-Executive Director)

68 years of age, Malaysian. Appointed to the Board on 21 May 2001. He is the Chairman of the Audit Committee and a member of the Nomination Committee and Remuneration Committee. He is a member of the Malaysian Institute of Accountants and the Malaysian Institute of Certified Public Accountants and a fellow member of the Institute of Chartered Accountants in England and Wales. Attached to Bristol Myers & Company Ltd, England as an Accountant in 1968 and left to join Malaysian Tobacco Company Bhd as an Accountant in 1969. From 1974 to 1999, he was attached to UMW Holdings Bhd where he held various management positions from General Manager to Director, Group Accounts before being promoted to the position of an Executive Director in 1988. Upon retirement in 1999, he joined a consultancy firm providing outplacement and career management consultancy services in Malaysia. Other public companies in which he is a director are JT International Berhad, Chin Teck Plantations Berhad and Crest Builder Holdings Berhad. He does not have any family relationship with any director and/or major shareholder of the Company nor any conflict of interest with the Company. He has had no convictions for any offences within the past ten years.

Number of Board meetings attended during the financial year ended 31 December 2012: 4 out of 4

Gho Eng Liong (Independent Non-Executive Director)

53 years of age, Malaysian. Appointed to the Board on 25 November 2011. He is a member of the Nomination Committee and Remuneration Committee. Holds a Bachelor of Science, Mechanical Engineering, from The Pennsylvania State University, State College, Pennsylvania, USA. Since graduation, he worked as Project Development Engineer with National Iron & Steel Mills, Singapore, as Section Head, Mechanical Maintenance with Matsushita Denshi, Singapore, as Manufacturing Engineer with General Motors, Singapore, as Packaging Development Engineer with AT&T Microelectronics, Singapore and as Sales Manager with Kestronics (S) Pte Ltd. Presently, he is managing his own business. Other public company in which he is a director is Eng Thye Plantations Berhad. He does not have any family relationship with any director and/or major shareholder of the Company nor any conflict of interest with the Company. He has had no convictions for any offences within the past ten years.

Number of Board meetings attended during the financial year ended 31 December 2012: 4 out of 4

PROFILE OF DIRECTORS

Goh Yeok Beng (Non-Independent Non-Executive Director)

64 years of age, Singaporean. Appointed to the Board on 4 August 1982. He has vast experience and extensive knowledge in the oil palm plantation industry and rubber industry. Other public companies in which he is a director are Chin Teck Plantations Berhad, Timor Oil Palm Plantation Berhad (Executive Director) and Tiong Thye Company Berhad, the major shareholder of the Company. He is deemed interested in certain related party transactions as disclosed on page 89 of the Annual Report. He has had no convictions for any offences within the past ten years.

Number of Board meetings attended during the financial year ended 31 December 2012: 4 out of 4

Gho Lian Chin (Non-Independent Non-Executive Director)

65 years of age, Singaporean. Appointed to the Board on 13 July 1995. Holds a Bachelor of Science from the University of Melbourne, Australia. He is the Chairman of the Nomination Committee and Remuneration Committee. He worked in a licensed commercial bank listed in Singapore as its representative in a foreign country. Subsequently, he was engaged to manage the property division of the bank. He was also formerly a director of a licensed finance company and a real estate company both of which were listed in Singapore. He has extensive experience and knowledge in the rubber industry. Other public companies in which he is a director are Chin Teck Plantations Berhad, Eng Thye Plantations Berhad, Timor Oil Palm Plantation Berhad and Tiong Thye Company Berhad, the major shareholder of the Company. He is deemed interested in certain related party transactions as disclosed on page 89 of the Annual Report. He has had no convictions for any offences within the past ten years. He is the brother of Gho Bun Tjin.

Number of Board meetings attended during the financial year ended 31 December 2012: 4 out of 4

Goh Tju Kiang @ Gho Tju Kiang @ Gho Tju Kiong (Non-Independent Non-Executive Director)

66 years of age, Singaporean. He was first appointed as an alternate director on 22 April 1978. He ceased as alternate director on 29 December 1994 and was appointed as a director on that date. He later resigned as director on 29 February 1996. Subsequently, he was appointed as a director on 28 February 2006. Holds a Bachelor of Business from South Australian Institute of Technology. He has vast experience and extensive knowledge in banking and finance. Attached to DBS Bank Ltd as Senior Officer from 1973 to 1974 and left to join Tat Lee Bank Ltd from 1974 to 1998, during which time he held various positions; credit officer, sub-manager, manager, senior manager, executive director, deputy president and president (from 1995 to 1998). Other public companies in which he is a director are Chin Teck Plantations Berhad, Timor Oil Palm Plantation Berhad (alternate director) and Tiong Thye Company Berhad, the major shareholder of the Company. He is deemed interested in certain related party transactions as disclosed on page 89 of the Annual Report. He has had no convictions for any offences within the past ten years. He is the brother of Goh Eng Chew and Goh Pock Ai.

Number of Board meeting attended during the financial year ended 31 December 2012: 4 out of 4

Gho Bun Tjin (alternate to Gho Lian Chin)

63 years of age, Singaporean. He was first appointed as an alternate director on 29 June 1979 and ceased as alternate director on 21 June 1995. Subsequently, he was appointed as alternate director of Gho Lian Chin on 8 September 1995. Holds a Bachelor of Science from the University of Waterloo, Canada. He worked for a short period in a licensed commercial bank listed in Singapore. He is now working in a commercial company overseeing the general management. Other public companies in which he is an alternate director are Chin Teck Plantations Berhad, Eng Thye Plantations Berhad, Timor Oil Palm Plantation Berhad and Tiong Thye Company Berhad, the major shareholder of the Company. He is deemed interested in certain related party transactions as disclosed on page 89 of the Annual Report. He has had no convictions for any offences within the past ten years. He is the brother of Gho Lian Chin.

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of Negri Sembilan Oil Palms Berhad, I take great pleasure in presenting the Annual Report and the Audited Financial Statements of the Group and of the Company for the financial year ended 31 December 2012.

During the financial year under review, the average selling price of crude palm oil decreased. Since the end of the financial year under review, it has weakened further due to high levels of inventory. The authorities have taken the initiative to address this extremely high level of inventory in the country in order to normalise the inventory situation and stabilise prices.

Financial and operation review of the Group

Revenue of the Group for the financial year 2012 decreased by 24.58% to RM85,349,164 from RM113,164,789 in the previous financial year mainly due to decreases in the average selling prices of ffb, crude palm oil and palm kernel when compared with those of the previous financial year.

Fair value of biological assets in the financial year under review decreased by RM17,400,000.

There was an overall profit of RM830,236 in share of results of associates due mainly to profit contributed by an associate engaged in trading in stocks and shares.

The positive contribution from a jointly controlled entity was mainly due to an increase in the fair value of its biological assets.

Overall, profit after tax of the Group decreased by 69.46% to RM12,568,341 from RM41,152,497 and correspondingly, earnings per stock unit decreased to 14.45 sen from 47.46 sen.

However, excluding the decrease in fair value of biological assets, profit after tax of the Group decreased by 42.37% to RM25,618,341 from RM44,452,497.

Production of ffb decreased by 6.62% to 123,244 m/t. Purchases of ffb also decreased by 27.68% to 12,021 m/t. Correspondingly, production of crude palm oil decreased by 10.28% to 19,934 m/t and production of palm kernel also decreased by 9.37% to 5,340 m/t.

The decrease in the production of ffb is due to cyclical factors as well as the replanting of old and low yield palms.

During the financial year under review, an additional 294 hectares of old and low yield palms were replanted. Replanting of approximately 335 hectares of old and low yield palms will take place during the financial year ending 31 December 2013.

Dividends

Total gross dividends of 29% in respect of the financial year ended 31 December 2012 were paid during the financial year, i.e. a first interim dividend of 10% less 25% taxation and a special dividend of 5% less 25% taxation were paid on 29 June 2012, and a second interim dividend of 14% less 25% taxation was paid on 31 December 2012. The total dividend payments for the financial year under review decreased by 30.95% to RM15,268,926 from RM22,113,618

In view of the payment of the interim and special dividends, the Board do not recommend the payment of a final dividend in respect of the financial year ended 31 December 2012.

Joint venture on oil palm plantation in Indonesia

As at 31 December 2012, approximately 2,653 hectares of land have been planted of which 702 hectares have attained maturity and the remaining 1,951 hectares are immature.

Recurrent related party transactions

The Company announced on 17 May 2013 that it proposes to seek the approval of shareholders for the proposed renewal of the shareholders' mandate for the Group to enter into recurrent related party transactions of a revenue or trading nature at the forthcoming Annual General Meeting. A separate Circular to Shareholders, the purpose of which is to provide information on the proposed renewal of shareholders' mandate and to seek the approval for the ordinary resolutions pertaining to the proposed renewal of shareholders' mandate is enclosed together with the Annual Report.

CHAIRMAN'S STATEMENT

Proposed Amendments to the Articles of Association of the Company

On 17 May 2013, the Company also announced that it proposes to amend its Articles of Association. A separate Circular to Shareholders, the purpose of which is to provide information on the proposed amendments to the Articles of Association and to seek the approval for the special resolution pertaining to the proposed amendments to the Articles of Association, is enclosed together with the Annual Report.

Outlook for Year 2013

Since the end of the previous financial year, the selling prices of ffb, crude palm oil and palm kernel have weakened and should the selling prices remain weak, the financial performance for financial year 2013 will be affected.

Appreciation

On behalf of the Board of Directors, I would like to thank the management and staff for their diligence and commitment. Our suppliers and customers also deserve our thanks for their understanding and support. Lastly, I would like to thank our shareholders for their patience and support.

Goh Eng Chew
Executive Chairman

23 May 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

Description of business

Negri Sembilan Oil Palms Berhad ('Company') was incorporated on 30 March 1928.

The principal activities of the Company are the cultivation of oil palms and sale of fresh fruit bunches and investment holding.

The subsidiaries of the Company are Eng Thye Plantations Berhad (83.3% owned) and Timor Oil Palm Plantation Berhad (58.0% owned). The principal activities of the subsidiaries are the cultivation of oil palms and production and sale of crude palm oil and palm kernel and investment holding.

The Group currently has four estates, namely, Ladang Senama, Ladang Ibam, Ladang Guia and Ladang Maran with a total land bank of approximately 7,683 hectares.

The Group also owns two mills with a total milling capacity of 40 m/t per hour.

Through joint ventures, the Group also has interests in oil palm plantation in Indonesia.

Financial review

Revenue of the Group for the financial year 2012 decreased by 24.58% to RM85,349,164 from RM113,164,789 in the previous financial year.

This is mainly due to decreases in the average selling prices of ffb, crude palm oil and palm kernel when compared with those of the previous financial year.

Average selling prices per tonne:-

	Financial year		+/-
	2012	2011	
	RM	RM	
Fresh fruit bunches	554	672	-17.56
Crude palm oil	3,005	3,296	-8.83
Palm kernel	1,703	2,520	-32.42

Overall operating expenses increased by 1.64% to RM61,280,343 from RM60,289,991.

Interest income increased by 7.16% to RM2,704,637 from RM2,523,981.

Dividend income decreased by 16.89% to RM1,697,135 from RM2,041,991.

Other income increased by 69.46% to RM1,839,221 from RM1,045,356 mainly due to an amount of net fair value gain on available-for-sale investment securities transferred from equity upon disposal of RM1,030,632.

There was a decrease of RM17,400,000 in the fair value of biological assets.

An overall profit of RM830,236 in share of results of associates was due mainly to profit contributed by an associate engaged in trading in stocks and shares.

The positive contribution from a jointly controlled entity was mainly due to an increase in the fair value of its biological assets.

The effective tax rate is 17.29% which is lower than the statutory tax rate due mainly to the effect of share of results of associates and a jointly controlled entity and certain income which are not assessable for income tax purpose.

Overall, profit after tax of the Group decreased by 69.46% to RM12,568,341 from RM41,152,497 and correspondingly, earnings per stock unit decreased to 14.45 sen from 47.46 sen.

However, excluding the decrease in fair value of biological assets, profit after tax of the Group decreased by 42.37% to RM25,618,341 from RM44,452,497.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial review (cont'd.)

Cash and bank balances increased by 3.65% to RM129,902,710 mainly due to positive net cash flows generated from operating activities.

In line with a lower profit net of tax attributable to owners of the Company, the amount of dividend paid is also lower i.e a decrease of 30.95% to RM15,268,926 from RM22,113,618. However, the dividend payout ratio increased to 150.48% from 66.37%.

The Group did not have any borrowings in the financial year 2012 and its strategy in the current financial year, which was unchanged from previous financial year, was to maintain a debt free capital structure and to pay steady amount of dividends to shareholders.

Shareholders' equity decreased by 0.20% to RM376,598,084 or RM5.36 per stock unit, due mainly to a decrease in retained profits as a result of a dividend payout ratio of 150.48%.

Operational review

During the financial year 2012, the total average planted area was 7,170 hectares of which 85.16% or 6,106 hectares are mature area and 14.84% or 1,064 hectares are immature area.

	Hectares	%
Age in years		
Mature area		
Above 25	339	4.73%
21 – 25	2,354	32.83%
16 – 20	1,121	15.63%
11 – 15	1,052	14.67%
6 – 10	1,106	15.43%
Below 6	134	1.87%
	<u>6,106</u>	<u>85.16%</u>
Immature	<u>1,064</u>	<u>14.84%</u>
	<u>7,170</u>	<u>100.00%</u>

During the financial year 2012, an additional 294 hectares of old and low yield palms were replanted.

Replanting of approximately 335 hectares of old and low yield palms will take place during the financial year 2013.

The Group has a replanting schedule covering a period of ten years and this schedule is reviewed quarterly which will ensure progressive replanting on a yearly basis. At each review, prevailing conditions and circumstances are taken into consideration to determine the replanting programme.

Production of ffb decreased by 6.62% to 123,244 m/t. Purchases of ffb also decreased by 27.68% to 12,021 m/t. Correspondingly, production of crude palm oil decreased by 10.28% to 19,934 m/t and production of palm kernel also decreased by 9.37% to 5,340 m/t.

The decrease in the production of ffb is due to cyclical factors as well as the replanting of old and low yield palms.

Annual ffb yield per hectare is 20.18 m/t.

The mills processed 105,280 m/t of ffb during the financial year 2012. The overall average oil and kernel extraction rates of the mills are 18.93% and 5.07% respectively.

The Group faces shortage of labour in Malaysia. Measures such as improving incentives and welfare are being considered to attract workers. Furthermore, the Group is also considering to recruit foreign workers from various sources rather than depending on a single source.

The Group has also taken measures to plant better yielding seedlings during its replanting programme.

Good agriculture and milling practices are constantly being implemented with the aim to improve productivity and efficiency.

In an effort to optimise the utilisation of land, the Group is studying the possibility and feasibility of planting other cash-crops in areas that are not suitable for planting of oil palms.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Prospects

Since the end of the previous financial year, the selling prices of ffb, crude palm oil and palm kernel have weakened and should the selling prices remain weak, the financial performance for financial year 2013 will be affected.

The Group remains optimistic about the long term prospects of palm oil business. Palm oil is one of the vital oils in meeting the world's dietary and energy requirements. Besides its nutritional values, palm oil is widely available and affordable. Palm oil also has vast potential as a renewable energy source. Hence, the global demand for palm products should continue to grow.

STATEMENT ON CORPORATE GOVERNANCE

The Board of Directors is committed to ensure that a high standard of corporate governance is practised throughout the Group in discharging its responsibilities to protect and enhance shareholders' value and the financial performance of the Group.

The Board of Directors continuously evaluate the status of the Group's corporate governance practices and procedures with a view to adopt and implement the principles and recommendations as set put in the Malaysian Code on Corporate Governance 2012 ('Code') wherever applicable in the best interests of the shareholders of the Company.

The Board considers that it has generally applied the principles and recommendation of the Code to the extent described in this statement.

1. Board of Directors

Board Charter

The Board has formulated and adopted a charter ('Board Charter') which set out a specific functions inter-alia the following:-

- Board composition
- Duties and responsibilities of the Board
- Duties and responsibilities of the management
- Board committees – Audit Committee, Nomination Committee and Remuneration Committee
- Board meetings
- Supply of information
- Code of conduct
- Directors' training
- Directors' remuneration
- Shareholders and other communication
- Financial reporting
- Social responsibilities

The Board Charter are reviewed periodically to ensure their relevance and compliance and is accessible through the Company's website.

Board Responsibilities

The Board retains full and effective control of the Company and is responsible for the overall performance of the Company. It focuses mainly on strategies, performance and critical business issues and is responsible for the following: -

- Group's strategic plans
- Conduct of the Group's business
- Principal risks identification and their management
- Succession planning for senior management
- Shareholders communication policy
- Group's internal control system and management information system

Composition of the Board

The Board currently consists of eleven directors: -

- An Executive Chairman
- Three Executive Directors
- Four Independent Non-Executive Directors
- Three Non-Independent Non-Executive Directors

There is an alternate director on the Board.

STATEMENT ON CORPORATE GOVERNANCE

1. Directors (cont'd.)

Composition of the Board (cont'd.)

The Executive Chairman and Executive Directors have vast experience and extensive knowledge in managing the Group's core business, plantations. The Non-Executive Directors have broad business and commercial experience. The Independent Directors are actively involved in various Board Committees and they provide independent assessment and opinion. .

The Executive Chairman functions both as Chairman of the Board and Executive Director. The Board is mindful of the combined roles but is comfortable that there is no undue risk involved as the Executive Directors will be informed and consulted before the Executive Chairman makes any significant decision and all major matters and issues are referred to the Board for considerations and approvals. The roles and contributions of Independent Directors also provide an element of objectivity, independent judgment and check and balance on the Board. Furthermore, all related party transactions are dealt with in accordance with the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

The Board considers that its complement of the Independent Non-Executive Directors and Non-Independent Non-Executive Directors provides an effective Board with a mix of general management, accounting and finance and business experience and fairly reflects the investment in the Company by shareholders. The Board complies with the Main Market Listing Requirements of Bursa Malaysia Securities Berhad that requires at least two directors or one third of the Board, whichever is higher, to be independent directors.

Besides, the Board believes that the interests of shareholders are best served by the Executive Chairman, who will act in the best interests of the shareholders as a whole since he is representing a major shareholder who has substantial interest in the Company, he is well placed to act on behalf of the shareholders and in their best interests.

All concerns regarding the Company can be conveyed to any one of the Directors. As such, the Board has not appointed a senior Independent Non-Executive Director to whom concerns regarding the Company may be conveyed.

The Board has established Board committees, which operate within the defined terms of reference. These committees are: -

- Audit Committee
- Nomination Committee
- Remuneration Committee

The Report on Audit Committee for the financial year ended 31 December 2012 is set out on pages 22 to 24 of the Annual Report.

Details of the Nomination Committee and Remuneration Committee are set out on pages 15 to 17 of the Annual Report.

The Board of Directors met four times during the financial year ended 31 December 2012. The Executive Chairman and the Executive Directors explained to the Board the rationale of the matters discussed and the implications on the Group. The Directors participated in the discussion and comments were considered before a decision was made.

The Board acknowledges the importance of board diversity, including gender diversity, for it to function effectively. Female representation will be considered when vacancies arise and suitable candidates are identified.

STATEMENT ON CORPORATE GOVERNANCE

1. Directors (cont'd.)

Composition of the Board (cont'd.)

The attendances of the Directors were as follows: -

Name	Number of Meetings Attended
Goh Eng Chew	4
Goh Pock Ai	4
Wong Aun Phui	4
Goh Wei Lei	4
Sio Sit Po	4
Dato' Ong Bok Lim	4
Keong Choon Keat	4
Gho Eng Liong	4
Goh Yeok Beng	4
Gho Lian Chin	4
Goh Tju Kiang @ Gho Tju Kiang @ Gho Tju Kiong	4

Supply of Information

Each Director receives monthly financial statements, which contain information on financial performance and plantation statistics.

Agenda of Board meeting and Board papers for each agenda item are sent to the directors prior to Board meeting. The Board papers include amongst others, quarterly financial results, performance of the estates, financial position of the Group and of the Company, the sales of crude palm oil and palm kernel, the market value of its quoted investments, summary of budget and capital expenditure, proposals for major acquisitions and disposals and corporate issues, if any.

Directors have access to information within the Group. Any comments and suggestions for improvements are directed to the Executive Chairman and/or Executive Directors. Directors may also obtain independent professional advice when necessary.

Directors also have direct access to the services of the Company Secretary.

Appointments to the Board

The Nomination Committee was established on 21 May 2001. The members of the Nomination Committee are as follows: -

Chairman	Gho Lian Chin	- Non-Independent Non-Executive Director
Members	Goh Beng Hwa @ Gho Bin Hoa	- Independent Non-Executive Director
	Dato' Ong Bok Lim	- Independent Non-Executive Director
	Keong Choon Keat	- Independent Non-Executive Director

The duties and functions of the Nomination Committee are: -

- To propose new nominees for the Board and Board Committee
 - Recommend to the Board, candidates for directorships to be filled by the shareholders or the Board;
 - Consider, in making its recommendations, candidates for directorships proposed by the executive directors and, within the bounds of practicability, by any other senior executive or any director or shareholder;
 - Recommend to the Board, directors to fill the seats on Board Committees
- to assess directors, including executive directors, on an on-going basis
- to annually review the required mix of skills and experience and core competencies of non-executive directors, effectiveness of the Board as a whole and the Board Committees

The Directors have direct access to the services of the Company Secretary who is responsible for ensuring that all appointments are properly made and all necessary information is obtained from directors, both for the Company's own records and for the purposes of meeting the requirements of the Companies Act, 1965, Main Market Listing Requirements of Bursa Malaysia Securities Berhad and other regulatory requirements.

One meeting of Nomination Committee were held during the financial year ended 31 December 2012. All members of the Nomination Committee attended the meetings.

STATEMENT ON CORPORATE GOVERNANCE

1. Directors (cont'd.)

Directors' Training

The Board recognises the importance of continuous training for its members. The directors are encouraged to attend various training programmes and seminars.

All Directors are required to attend the training programmes that are prescribed by Bursa Malaysia Securities Berhad from time to time.

All the Directors and alternate director had successfully attended the Mandatory Accreditation Programme ("MAP").

During the financial year ended 31 December 2012, the Directors and alternate director attended the following programmes: -

Name	Training programme	Duration
Goh Eng Chew	Managing talent & succession for business continuity	1/2 day
Goh Pock Ai	Managing talent & succession for business continuity	1/2 day
Wong Aun Phui	Managing talent & succession for business continuity	1/2 day
Goh Wei Lei	Managing talent & succession for business continuity	1/2 day
Sio Sit Po	Managing talent & succession for business continuity	1/2 day
Dato' Ong Bok Lim	Managing talent & succession for business continuity	1/2 day
Keong Choon Keat	Managing talent & succession for business continuity	3 1/2 days
	FRS workshops and industry related training	
Goh Yeok Beng	Managing talent & succession for business continuity	1/2 day
Gho Lian Chin	Managing talent & succession for business continuity	1/2 day
Goh Tju Kiang @	Managing talent & succession for business continuity	1/2 day
Gho Tju Kiang @		
Gho Tju Kiong		
Gho Eng Liong	Managing talent & succession for business continuity	1/2 day
Gho Bun Tjin	Managing talent & succession for business continuity	1/2 day

Re-election of Directors

In accordance with the Articles of Association of the Company, all Directors who are appointed by the Board are subject to re-election by shareholders at the first Annual General Meeting after their appointment.

The Articles of Association of the Company provides that one-third of the Directors, or if their number is not three or a multiple of three, then the number nearest to one third shall retire from office once at least every three years but shall be eligible for re-election.

Directors who are of or over the age of seventy years shall retire pursuant to Section 129 of the Companies Act, 1965 and shall be re-appointed under the provision of Section 129(6) of the said Act annually.

The Company would like to continue to retain Dato' Ong Bok Lim, Sio Sit Po and Keong Choon Keat (who have serve as Independent Directors of the Company for more than nine years), on the Board of Directors as Independent Non-Executive Directors and to hold office until the conclusion of the next Annual General Meeting. The Nomination Committee and the Board are confident and believe that they can be tasked to discharge their duties and responsibilities independently and objectively, notwithstanding their tenure on the Board.

Dato' Ong Bok Lim, Sio Sit Po and Keong Choon Keat have offered themselves for election to act as Independent Non-Executive Directors at the Annual General Meeting on 26 June 2013.

STATEMENT ON CORPORATE GOVERNANCE

2. Directors' Remuneration

It is the Company's policy that the level of Directors' remuneration is sufficient to attract and retain the Directors of the calibre needed to run the Group successfully. In the case of Executive Directors, the component parts of the remuneration are structured to link rewards to corporate and individual performance. In the case of Non-Executive Directors, the level of remuneration reflects the experience and level of responsibilities undertaken by the Non-Executive Directors concerned.

The Remuneration Committee was established on 21 May 2001. The members of the Remuneration Committee are as follows: -

Chairman	Gho Lian Chin	- Non-Independent Non-Executive Director
Members	Goh Beng Hwa @ Gho Bin Hoa	- Independent Non-Executive Director
	Dato' Ong Bok Lim	- Independent Non-Executive Director
	Keong Choon Keat	- Independent Non-Executive Director

The primary duty and responsibility of the Remuneration Committee is to recommend to the Board the remuneration of the Executive Directors and Non-Executive Directors. However, the determination of remuneration packages of directors is a matter for the Board as a whole and individual directors are required to abstain from discussion of their own remuneration.

One meeting of Remuneration Committee was held during the financial year ended 31 December 2012. All members of the Remuneration Committee attended the meeting.

The shareholders at the annual general meeting approve the annual fees payable to the Directors. The Company reimburse reasonable expenses incurred by the Directors in the course of their duties as Directors. The basic salary for each Executive Director takes into account the compensation practices of other comparable companies and the performance of each individual director. Salary will be reviewed annually (although not necessary increased). Appropriate adjustments will be made to reflect performance and increased responsibilities. Executive Directors are entitled to commission, which is dependent on the financial performance of the Company based on an established formula.

To commensurate with the experience and level of responsibilities undertaken by the Directors, the Directors have recommended that their total fees of the Company for the financial year ended 31 December 2012 be increased to RM372,000 from RM247,000 with authority to Directors to divide such fees in the proportions and manner to be determined by them. The previous increase in directors' fees was in financial year ended 31 December 2008.

During the financial year ended 31 December 2012, the Board approved an increase in the monthly salary of the executive directors. The previous increase in the monthly salary of the executive directors was in Year 2008.

The details of the total Group's remuneration receivable by the Executive Directors and Non-Executive Directors of the Company for the financial year ended 31 December 2012 are as follows:-

	No. of Directors	Fees RM	Salaries RM	Commission RM	Other RM	Total RM
Executive Directors	1	82,000	468,000	197,956	24,000	771,956
	1	58,000	336,000	146,755	24,000	564,755
	1	58,000	300,000	128,412	24,000	510,412
	1	58,000	180,000	49,065	24,000	311,065
	4	256,000	1,284,000	522,188	96,000	2,158,188
Non-Executive Directors	1	42,000	144,000	47,927	18,000	251,927
	1	70,000	-	-	33,000	103,000
	1	60,000	-	-	36,000	96,000
	1	56,000	-	-	30,000	86,000
	1	54,000	-	-	27,000	81,000
	1	48,000	-	-	24,000	72,000
	1	26,000	-	-	12,000	38,000
	7	356,000	144,000	47,927	180,000	727,927
	11	612,000	1,428,000	570,115	276,000	2,886,115

STATEMENT ON CORPORATE GOVERNANCE

3. Shareholders

Dialogue between the Company and Investors

The annual and quarterly reports and the various mandatory announcements are the primary modes of communication to report on the Group's financial performance and operations and corporate developments. The annual reports are sent to shareholders. Shareholders and the members of the public can also obtain information on the annual and quarterly reports and the announcements made by accessing the websites of the Company and Bursa Malaysia Securities Berhad. It is not the practice of the Company to organise briefings sessions or investors forums for analysts and fund managers.

Annual General Meeting

The annual general meeting is the principal forum for dialogue with shareholders. Notice of the Annual General Meeting and the Annual Report are despatched to shareholders. Notice of the Annual General Meeting is also published in a leading English newspaper. At the Annual General Meeting, shareholders have direct access to the Directors and are given the opportunity to ask questions during the question and answer session prior to the resolution to receive and adopt the audited annual financial statements and directors' report. Suggestions and comments by shareholders are noted by directors for consideration.

4. Accountability and Audit

Financial Reporting

In presenting the annual and quarterly financial statements to shareholders, the Directors aim to present a balanced and understandable assessment of the Group's position and prospects. The Audit Committee assists the Board in ensuring accuracy, adequacy and completeness of information for disclosure.

The Statement by Directors pursuant to Section 169(15) of the Companies Act, 1965 is set out on page 35 of the Annual Report and the Statement explaining the Directors' responsibility for preparing the annual audited accounts pursuant to paragraph 15.27 (a) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad is set out on page 26 of the Annual Report.

Internal Control

The Directors acknowledge their responsibilities for the Group's system of internal control, which has been designed to meet the Group's particular needs. The system of internal control is designed to manage risks to which the business of the Group is exposed rather than eliminate the risk of failure in achieving business objectives.

The Directors continue to maintain a sound system of internal control to safeguard shareholders' investment and Group's assets.

Internal Audit

The internal audit function has been outsourced to J. S. Lim & Co. with the primary objective to carry out reviews of the business processes as well as the internal control systems to determine if the accounting and internal control system procedures have been complied with as well as to identify recommendations to strengthen the accounting and internal control system so as to foster a strong management control environment.

Relationship with the Auditors

The Company has always maintained a formal and transparent relationship with its auditors.

The role of the Audit Committee in relation to the external auditors is set out in the Report on Audit Committee on pages 22 to 24 of the Annual Report.

STATEMENT ON CORPORATE GOVERNANCE

5. Code of Conduct

The Board has established a code of business conduct ('Code of Conduct') to be complied with by the directors and members of the management. The Code of Conduct is in addition to any other obligations that are imposed on the directors by any applicable rules, laws and regulations.

The Code of Conduct covers the following:-

- Honesty and integrity
- Compliance with laws
- Conflict of interests
- Confidentiality

The Code of Conduct will be reviewed by the Board periodically.

6. Strategies for Sustainability

It is the aspiration of the Board to manage its plantation operations in a socially and environmentally responsible manner.

Sustainable strategies and practices have been outlined for implementation:-

- Zero burning policy
- Effective water management
- Soil enrichment and conservation
- Pest management
- Health and safety at work place
- Human resource development
- Maintaining a debt free capital structure and to pay steady amount of dividends to shareholders

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

The Board of Directors is pleased to present the statement about the risk management and internal control of the Group comprising the Company and its subsidiaries.

Responsibility

The Board has overall responsibility for maintaining an effective and sound system of risk management and internal control and for reviewing its adequacy and recognises that there are inherent limitations to any system of risk management and internal control.

The system of risk management and internal control has been designed to meet the particular needs of the Group and to manage risks, which the Group is exposed to rather than eliminating the risk of failure in achieving business objectives.

In pursuing these objectives, risk management and internal control can only provide reasonable and not absolute assurance against material misstatement or loss. Furthermore, it should be recognised that the cost of managing risk and control procedures should not outweigh or exceed the expected benefits.

Risk Management

Management regularly review, identify, evaluate, monitor and manage the significant risks faced by the Group. In addition, the internal auditors, using a risk-based approach, annually review the operational procedures and processes to ensure the integrity of the management information system.

The Audit Committee chaired by an Independent Non-Executive Director and its members comprising Independent Non-Executive Directors, provide an independent review of the process of the Group for producing financial data, the adequacy, effectiveness and integrity of risk management and the system of internal control.

Key Elements of Internal Control

- **Organisational Structure**

The Group is headed by the Executive Chairman and assisted by three Executive Directors. The Executive Chairman and Executive Directors have many years of experience in managing the Group's core business i.e. plantations.

There is in place an operating structure with clear defined lines of accountability and delegated authority for the estates.

- **Policies Manual**

There is a Policies Manual including Authority Limit to serve as guidance for the operations and personnel of the Group to function within the accepted practices of the Group.

- **Audit Committee and Internal Audit**

The Audit Committee was established with a view to assist the Board in discharging its duties. The internal audit function has the primary objective to carry out a review of the internal control systems to determine if the accounting and internal control procedures have been complied with as well as to identify recommendations to strengthen the accounting and internal control system so as to foster a strong management control environment.

The internal auditors report directly to the Audit Committee. Internal audit reports were prepared by J. S. Lim & Co. and presented to the Audit Committee. The internal audit reports summarised the audit approach, scope, significant audit findings, the overall opinion for the internal control review, management comments on the audit findings and recommendations. The internal audit reports also covered the follow-up by the management on implementation of recommendations in their earlier reports.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

Key Elements of Internal Control (cont'd.)

- **Financial Report**

The Group has in place a reporting mechanism whereby Directors receive monthly financial statements, which contain information on financial performance and plantation statistics.

Periodical meetings of the Board and Audit Committee are held. Quarterly financial results, performance of the estates, financial position of the Group, the market value of its quoted investments, the sales of fresh fruit bunches, crude palm oil and palm kernel, summary of budgets and capital expenditure, plantation statistics and progress of oil palm planting and financial performance of the joint venture on oil palm plantation in Indonesia are presented to the Board at the Board meetings.

- **Estates Visits**

Executive Directors and the Plantation Controller regularly visit the Group's estates to monitor the state of affairs of the estates. During the visits, the estate managers report on the progress and performance of the respective estates and to discuss and resolve estate operational and key management issues.

Other Directors also visit the Group's estates from time to time and their comments and suggestions for improvements are directed to the Executive Chairman and/or Executive Directors.

- **Review of Recurrent Related Party Transactions**

All recurrent related party transactions are dealt with in accordance with the Main Market Listing Requirements of Bursa Malaysia Securities Berhad. The Audit Committee and the Board review the recurrent related party transactions at the respective meetings of the Audit Committee and the Board.

Conclusion

Based on the foregoing as well as the inquiries and information provided, the Board is assured that the risk management process and system of internal control is operating adequately and satisfactory in all material aspects to meet the business objectives of the Group for the year under review and up to the date of approval of this statement.

Review of the Statement by External Auditors

As required by paragraph 15.23 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the external auditors has reviewed this statement for the inclusion in the annual report for the financial year ended 31 December 2012 and reported that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in reviewing the adequacy and integrity of internal controls of the Group.

REPORT ON AUDIT COMMITTEE

The Board of Directors of Negri Sembilan Oil Palms Berhad is pleased to present the report of the Audit Committee for the financial year ended 31 December 2012.

Members of the Audit Committee

The members of the Audit Committee during the financial year ended 31 December 2012 are as follows:-

Chairman	Keong Choon Keat	- Independent Non-Executive Director
Members	Dato' Ong Bok Lim	- Independent Non-Executive Director
	Sio Sit Po	- Independent Non-Executive Director

Terms of Reference

The Terms of Reference of the Audit Committee are as follows: -

1. Formation

1.1 The Board pursuant to its resolution formed the Audit Committee on 25 June 1994.

2. Membership

2.1 The members of the Audit Committee shall be appointed by the Board from amongst their number and shall consist of not fewer than three (3) members all of whom shall be independent directors.

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

- (i) must be a member of the Malaysian Institute of Accountants; or
- (ii) if he is not a member of the Malaysian Institute of Accountants, he must have at least three (3) years' working experience and: -
- (iii) (a) he must have passed the examinations specified in Part 1 of the 1st Schedule of the Accountants Act 1967; or
- (b) he must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act 1967.

2.3 No alternate director can be appointed as a member of the Audit Committee.

2.4 The members of the Audit Committee shall elect a Chairman from amongst their number who shall be an independent director.

2.5 If a member of the Audit Committee retires, resigns, dies or for any reason ceases to be a member resulting in the non-compliance of paragraph 2.1 and 2.2 above, the Board shall within three (3) months of that event, fill the vacancy.

2.6 The Company Secretary or such other person as the Audit Committee may determine shall be the Secretary of the Audit Committee.

3. Meeting

3.1 Meetings of Audit Committee shall be held at least four (4) times a year.

3.2 In order to form a quorum in respect of a meeting of an Audit Committee, at least two members must be present.

3.3 Upon the request of the external auditors, the Chairman of the Audit Committee shall convene a meeting of the Audit Committee to consider any matter the external auditors believe should be brought to the attention of the Board or shareholders.

3.4 The Audit Committee shall meet with the external auditors without the presence of the executive directors at least twice a year.

3.5 At least 5 calendar days' notice should be given to members of the Audit Committee before a meeting is held. In an emergency meeting, the notice can be shortened provided majority of members agree.

3.6 Each member is entitled to one vote. Decision arising from any meeting shall be by majority of votes. The Chairman has no casting vote.

3.7 Other directors and employees may attend any particular Audit Committee meeting only at the Audit Committee's invitation, specific to the relevant meeting.

REPORT ON AUDIT COMMITTEE

Terms of Reference (cont'd.)

4. Authority

- 4.1 The Audit Committee is authorised to investigate any activity within its term of reference.
- 4.2 The Audit Committee shall have the resources, which are required to perform its duties.
- 4.3 The Audit Committee shall have full and unrestricted access to any information pertaining to the Group and is authorised to seek any information it requires from any employees and all employees are directed to cooperate with any request made by the Audit Committee and is free to summon any employee to appear before the meeting of the Audit Committee.
- 4.4 The Audit Committee is authorised to communicate directly with the external auditors and person(s) carrying out the internal audit function.
- 4.5 The Audit Committee is authorised to obtain independent professional service or other service and to secure the attendance of persons with relevant experience and expertise at the meeting of the Audit Committee, if it considers necessary.

5. Duties and functions

5.1 The duties and functions of the Audit Committee shall be: -

- (a) to review with the external auditors, the audit plan.
- (b) to review with the external auditors, their evaluation of the system of internal controls.
- (c) to review with the external auditors, their audit report.
- (d) to review the assistance given by the employees to the external auditors.
- (e) to review the adequacy of the scope, functions and resources of the internal audit functions and that it has the necessary authority to carry out its work.
- (f) to review the internal audit programme, processes, the results of the internal audit programme, process or investigation and consider the findings and recommendations of the internal audit and management's response.
- (g) to review any appraisal or assessment of the performance of members of the internal audit function and approve any appointment or termination of senior staff members of the internal audit function and take cognisance of resignations of internal audit staff members and provide the resigning staff member an opportunity to submit his reasons for resigning.
- (h) to review the quarterly results and year end financial statements, prior to the approval by the Board, focusing particularly on: -
 - any change in or implementation of accounting policies and practices
 - the going concern assumption
 - significant and unusual events
 - significant adjustments arising from the audit
 - compliance with accounting standards and other legal requirements
- (i) to review any related party transaction and conflict of interest situation that may arise within the Group including any transaction, procedure or course of conduct that raises questions of management integrity.
- (j) to discuss problems and reservations arising from the interim and final audits, and any matter the auditors may wish to discuss (in the absence of management where necessary)
- (k) to consider the appointment of the external auditors, audit fee and any questions of resignation or dismissal.

5.2 To consider other topics as defined by the Board.

6. Minutes

- 6.1 The Audit Committee shall cause minutes to be duly entered in books provided for the purpose of all proceedings of meetings of Audit Committee.
- 6.2 Such minutes shall be signed by the Chairman of the meeting at which the proceedings were held or the Chairman of the next succeeding meeting and if so signed, shall be conclusive evidence without any further proof of the facts thereon stated.
- 6.3 The Secretary shall circulate the minutes of meetings of Audit Committee to all members of the Board.

REPORT ON AUDIT COMMITTEE

Terms of Reference (cont'd.)

7. Reporting of breaches to Bursa Malaysia Securities Berhad.
 - 7.1 Where the Audit Committee is of the view that a matter reported by it to the Board has not been satisfactorily resolved resulting in a breach of the Listing Requirements of Bursa Malaysia Securities Berhad, the Audit Committee must promptly report such matter to Bursa Malaysia Securities Berhad.
8. Review of the Audit Committee
 - 8.1 The Board must review the terms of office and performance of the Audit Committee and each of its members at least once every three (3) years to determine whether the Audit Committee and the members have carried out their duties in accordance with the terms of reference.

Number of meetings of Audit Committee held during the financial year ended 31 December 2012 and attendance of each member of Audit Committee

During the financial year ended 31 December 2012, a total of four meetings were held.

The attendance of each member is as follows: -

	<u>Number of Meetings Attended</u>
Keong Choon Keat	4
Dato' Ong Bok Lim	4
Sio Sit Po	4

Summary of the activities of the Audit Committee during the financial year ended 31 December 2012

The Audit Committee met at scheduled times. Agendas were planned and itemised so that matters were deliberated and discussed in a focused and detailed manner.

The Audit Committee carried out the following activities during the financial year ended 31 December 2012: -

- (a) Meeting with external auditors twice without the executive directors present.
- (b) Review of the quarterly and annual financial statements prior to submission to the Board of Directors for consideration and approval.
- (c) Review of the audit report and any internal control weaknesses report and recommendations made by the external auditors as well as internal audit reports and recommendations made by internal auditors.
- (d) Review of the audit plans for the financial year prepared by the external and internal auditors as well as the recommendations of their respective fees to the Board.
- (e) Consider and recommend to the Board of Directors the re-appointment of external auditors.
- (f) Review the transactions with related parties as disclosed in the annual financial statements.

Internal audit functions

The internal audit functions have been outsourced to J. S. Lim & Co. with the primary objective to carry out reviews of the business processes as well as the internal control systems to determine if the accounting and internal control system procedures have been complied with as well as to identify recommendations to strengthen the accounting and internal control system so as to foster a strong management control environment.

The internal auditors report directly to the Audit Committee.

During the financial year under review, the internal auditors visited the estates of the Group. The internal auditors prepared internal audit reports and presented these to the Audit Committee. The internal audit reports summarise the audit approach, scope, significant audit findings, the overall opinion for the internal control review, management comments on the audit findings and recommendations. The internal audit reports also cover the follow-up by the management on implementation of recommendations in their earlier reports. The internal auditors attended the meetings of Audit Committee twice during the financial year under review. The total cost of internal audit for the financial year under review amounted to RM75,040.

CORPORATE SOCIAL RESPONSIBILITY

Health and Safety

The Group is committed to provide a safe and healthy working environment for all employees. Health and safety consideration will not be compromised in all processes and activities. Relevant health and safety programmes will be implemented with the ultimate objective of achieving "Zero Accident" at work place. To achieve this objective, the Group has established a Health and Safety Committee which is entrusted with the functions of cultivating safe working practices and behaviour at the work place.

Workers at the work place are provided with safety equipment and working procedures. They are also provided with regular training and briefing on health and safety matters.

Injury investigations are conducted and analysis reports are prepared to determine the root cause for preventing or reducing accidents in the future.

Approved codes of health and safety practices are to be strictly adhered to by all parties concerned.

Environmental Management

Our palm oil mills adhere to strict compliance with the environmental laws governing mill operations, maintenance and improvements in areas relating to environmental standards, emission standards, noise level management and treatment of effluents and waste disposal.

The visiting engineer reviews environmental issues and compliance. Appropriate recommendations are made and necessary actions are taken for further improvement in compliance with environmental and related standards.

Human Resource Development

The Group believes that proper training and development programme is necessary in developing and upgrading workers' skills and knowledge to achieve an optimal performance. Workers are encouraged to attend relevant external trainings and seminars. In-house trainings are also conducted for workers.

Recognising the social needs, quarters are provided to staff and workers in the estates. Furthermore, the estates provide facilities to take care of the young children of the workers. Sports facilities such as football fields, badminton courts and table tennis tables, are provided for workers to engage in healthy activities during their free time. The estates also provide transportation for workers' school going children.

To foster a better rapport among the workforce, the estates organise social events on festive and cultural occasions.

Community

Additionally, the Group also makes monetary donations and contributions to charitable organisations from time to time.

**STATEMENT ON DIRECTORS' RESPONSIBILITY
FOR THE PREPARATION OF ANNUAL AUDITED ACCOUNTS**

The Directors are required by the Companies Act, 1965 ('the Act') to prepare financial statements for each financial year which give a true and fair view of the financial position of the Company and of the Group as at the end of the financial year and their financial performance and cash flows for the financial year.

The Directors are responsible for ensuring that the Company and the Group keep accounting records which disclose with reasonable accuracy the financial position of the Company and of the Group and which enable them to ensure that the financial statements of the Company and of the Group comply with the Financial Reporting Standards and the Act in Malaysia.

The Directors consider that the financial statements set out on pages 38 to 82 have been prepared using appropriate accounting policies, which are consistently applied and are in accordance with the Financial Reporting Standards and the Act in Malaysia.

The Directors have engaged independent auditors who are required to undertake inspection and make enquiries they consider to be appropriate for the purpose of enabling them to give their audit report set out on pages 36 and 37.

This statement is made in accordance with a resolution of the Board of Directors dated 28 February 2013.

GROUP FINANCIAL PROFILE

	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000
Revenue	105,456	79,336	86,612	113,165	85,349
Cost of sales	(46,385)	(37,443)	(38,120)	(40,823)	(38,810)
Gross profit	59,071	41,893	48,492	72,342	46,539
Interest income	2,789	1,659	1,917	2,524	2,705
Dividend income	1,083	1,013	1,236	2,042	1,697
Other income	1,912	2,093	109	1,045	1,839
Fair value adjustment of biological assets	(19,000)	5,900	5,500	(4,400)	(17,400)
Selling expenses	(1,608)	(1,473)	(1,365)	(1,385)	(1,429)
Administrative expenses	(11,428)	(10,917)	(11,797)	(14,654)	(16,718)
Replanting expenses	(1,263)	(1,688)	(2,621)	(3,232)	(4,322)
Other expenses	(1,059)	-	(429)	(194)	-
Share of results of associates	(940)	341	26	(611)	830
Share of results of a jointly controlled entity	(441)	(2,052)	(902)	764	1,456
Profit before tax	29,116	36,769	40,166	54,241	15,197
Income tax expense	(7,948)	(8,984)	(10,244)	(13,087)	(2,628)
Profit net of tax	21,168	27,785	29,922	41,154	12,569
Attributable to:					
Owners of the parent	16,519	24,075	25,650	33,318	10,148
Non-controlling interest	4,649	3,710	4,272	7,836	2,421
	21,168	27,785	29,922	41,154	12,569
Dividends	20,780	13,162	16,848	22,114	15,269
Earnings per stock unit (sen)					
Basic	23.53	34.29	36.54	47.46	14.46
Diluted	23.53	34.29	36.54	47.46	14.46
Net dividend (sen per stock unit)					
First interim	14.80	7.50	11.25	13.50	7.50
Second interim	14.80	11.25	12.75	18.00	10.50
Special	-	-	-	-	3.75
	29.60	18.75	24.00	31.50	21.75
Dividend cover (times)	0.79	1.83	1.52	1.51	0.66
Dividend payout - %	125.79	54.67	65.69	66.37	150.48
Gross profit margin - %	56.01	52.80	55.99	63.93	54.53

GROUP FINANCIAL PROFILE

	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000
Assets					
Non-current assets					
Property, plant and equipment	147,832	146,973	147,013	217,013	218,051
Biological assets	49,200	55,100	60,600	56,200	38,800
Investments in associates	9,919	19,844	19,507	19,284	20,587
Investment in a jointly controlled entity	23,779	24,495	22,914	24,443	25,006
Investment securities	20,233	15,965	40,901	41,088	49,782
	<u>250,963</u>	<u>262,377</u>	<u>290,935</u>	<u>358,028</u>	<u>352,226</u>
Current assets					
Inventories	2,607	2,612	1,461	2,298	3,490
Receivables	4,491	4,559	6,140	5,196	4,502
Income tax recoverable	2,634	2,058	1,279	1,176	855
Cash and bank balances	108,040	112,970	109,982	125,325	129,903
	<u>117,772</u>	<u>122,199</u>	<u>118,862</u>	<u>133,995</u>	<u>138,750</u>
Total assets	<u>368,735</u>	<u>384,576</u>	<u>409,797</u>	<u>492,023</u>	<u>490,976</u>
Equity and liabilities					
Current liabilities					
Payables	5,920	6,676	5,939	7,072	8,655
Income tax payable	3	-	965	395	403
	<u>5,923</u>	<u>6,676</u>	<u>6,904</u>	<u>7,467</u>	<u>9,058</u>
Non-current liabilities					
Deferred tax liabilities	23,332	24,661	25,967	34,273	29,597
Total liabilities	<u>29,255</u>	<u>31,337</u>	<u>32,871</u>	<u>41,740</u>	<u>38,655</u>
Equity attributable to owners of the parent					
Share capital	70,202	70,202	70,202	70,202	70,202
Share premium	4,336	4,336	4,336	4,336	4,336
Other reserves	62,131	61,850	70,869	119,010	122,661
Retained profits	151,449	162,838	172,115	183,794	179,400
	<u>288,118</u>	<u>299,226</u>	<u>317,522</u>	<u>377,343</u>	<u>376,599</u>
Non-controlling interest	51,362	54,013	59,404	72,940	75,722
Total equity	<u>339,480</u>	<u>353,239</u>	<u>376,926</u>	<u>450,283</u>	<u>452,321</u>
Total equity and liabilities	<u>368,735</u>	<u>384,576</u>	<u>409,797</u>	<u>492,023</u>	<u>490,976</u>
Net assets per stock unit attributable to owners of the parent (RM)					
	4.10	4.26	4.52	5.38	5.36
Current ratio	20:1	18:1	17:1	18:1	15:1
Return on equity attributable to owners of the parent - %	5.73%	8.05%	8.08%	8.83%	2.69%

GROUP FINANCIAL PROFILE

	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000
Net cash flows from operating activities	32,399	23,341	26,545	42,207	21,412
Net cash flows used in investing activities	(16,869)	(4,462)	(10,778)	(3,133)	(801)
Net cash flows used in financing activities	(23,018)	(14,250)	(18,333)	(24,335)	(16,753)
Net increase/(decrease) in cash and cash equivalents	(7,488)	4,629	(2,566)	14,739	3,858
Effects of exchange rate changes on cash and cash equivalents	1,676	275	(429)	588	708
Cash and cash equivalents at beginning of year	113,558	107,746	112,650	109,655	124,982
Cash and cash equivalents at end of year	107,746	112,650	109,655	124,982	129,548
Deposits pledged for banks guarantee facilities	294	320	327	343	355
Cash and bank balances	108,040	112,970	109,982	125,325	129,903

PLANTATIONS STATISTICS

	2008	2009	2010	2011	2012
Malaysia					
Planted Area -Hectares					
Mature	6,879	6,857	6,678	6,360	6,106
Immature	285	303	482	800	1,064
	<u>7,164</u>	<u>7,160</u>	<u>7,160</u>	<u>7,160</u>	<u>7,170</u>
Mature oil palm					
Age in years					
Above 25	0.60%	3.09%	2.59%	2.69%	5.55%
21 - 25	14.68%	13.14%	33.65%	42.15%	38.55%
16 - 20	44.15%	43.56%	22.45%	13.47%	18.36%
11 - 15	22.45%	22.52%	23.29%	21.64%	17.23%
6 - 10	15.99%	16.84%	14.75%	15.49%	18.11%
Below 6	2.13%	0.85%	3.27%	4.56%	2.20%
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
Production (m/t)					
ffb					
- own estates	147,732	150,110	126,975	131,985	123,244
- purchased	20,263	25,063	17,018	16,622	12,021
	<u>167,995</u>	<u>175,173</u>	<u>143,993</u>	<u>148,607</u>	<u>135,265</u>
Crude palm oil	<u>23,411</u>	<u>24,874</u>	<u>20,831</u>	<u>22,217</u>	<u>19,934</u>
Palm kernel	<u>6,475</u>	<u>7,006</u>	<u>5,554</u>	<u>5,892</u>	<u>5,340</u>
ffb yield per mature hectare, m/t per hectare	<u>21.48</u>	<u>21.89</u>	<u>19.01</u>	<u>20.75</u>	<u>20.18</u>
Extraction Rate (%)					
Crude palm oil	18.79	18.75	19.25	19.36	18.93
Palm kernel	<u>5.20</u>	<u>5.28</u>	<u>5.13</u>	<u>5.13</u>	<u>5.07</u>
Joint venture in Indonesia					
Planted Area -Hectares					
Mature, below 6 years	-	-	-	315	702
Immature	1,673	1,992	1,992	1,898	1,951
	<u>1,673</u>	<u>1,992</u>	<u>1,992</u>	<u>2,213</u>	<u>2,653</u>

DIRECTORS' REPORT

The directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2012.

Principal activities

The principal activities of the Company are the cultivation of oil palms and sale of fresh fruit bunches, and investment holding.

The principal activities of the subsidiaries are the cultivation of oil palms and, the process and sale of crude palm oil and palm kernel.

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

Results

	Group RM	Company RM
Profit net of tax	12,568,341	5,898,527
Attributable to:		
Owners of the parent	10,146,865	5,898,527
Non-controlling interest	2,421,476	-
	<u>12,568,341</u>	<u>5,898,527</u>

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

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

Dividends

The amount of dividends paid by the Company since 31 December 2011 were as follows:

	RM
In respect of the financial year ended 31 December 2012:	
First interim dividend of 10% less 25% taxation and a special dividend of 5% less 25% taxation, on 70,201,962 ordinary stock units, declared on 25 May 2012 and paid on 29 June 2012	7,897,720
Second interim dividend of 14% less 25% taxation, on 70,201,962 ordinary stock units, declared on 30 November 2012 and paid on 31 December 2012	7,371,206
	<u>15,268,926</u>

In view of the payment of the interim and special dividends, the directors do not recommend any final dividend in respect of the current financial year.

Directors

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

Goh Eng Chew
 Goh Pock Ai
 Wong Aun Phui
 Goh Wei Lei
 Goh Yeok Beng
 Gho Lian Chin
 Sio Sit Po
 Dato' Ong Bok Lim
 Keong Choon Keat
 Goh Tju Kiang @ Gho Tju Kiang @ Gho Tju Kiong
 Gho Eng Liong
 Gho Bun Tjin (alternate to Gho Lian Chin)

DIRECTORS' REPORT**Directors (cont'd.)**

In accordance with the Company's Articles of Association, Gho Lian Chin and Goh Wei Lei retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Goh Eng Chew, Wong Aun Phui, Dato' Ong Bok Lim and Goh Pock Ai retire pursuant to Section 129 of the Companies Act, 1965 and resolutions are being proposed for their reappointment as directors under the provisions of Section 129(6) of the said Act to hold office until the next Annual General Meeting of the Company.

Directors' benefits

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

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors or the fixed salary of a full-time employee of the Company as shown in Note 8 to the financial statements) by reason of a contract made by the Company or a related corporation with any director or with a firm of which he is a member, or with a company in which he has a substantial financial interest, except as disclosed in Note 28 to the financial statements.

Directors' interests

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

	<----- Number of ordinary stock units of RM1 each ----->			
	1 January 2012	Bought	Sold	31 December 2012
The Company				
Direct interest:				
Goh Eng Chew	400,000	-	(400,000)	-
Goh Pock Ai	401,100	-	-	401,100
Wong Aun Phui	645,850	-	-	645,850
Goh Yeok Beng	400,000	-	-	400,000
Gho Lian Chin	2,200	-	-	2,200
Sio Sit Po	608,968	-	-	608,968
Gho Bun Tjin	2,200	-	-	2,200
Gho Eng Liong	400,000	-	-	400,000
Indirect interest:				
Goh Eng Chew	38,701,009	400,000	-	39,101,009
Wong Aun Phui #	59,785	-	-	59,785
Gho Lian Chin	38,852,673	-	-	38,852,673

DIRECTORS' REPORT

Directors' interests (cont'd.)

	<----- Number of ordinary shares of RM1 each ----->			
	1 January 2012	Bought	Sold	31 December 2012
Eng Thye Plantations Berhad - Subsidiary				
Direct interest:				
Wong Aun Phui	3,500	-	-	3,500
Dato' Ong Bok Lim	35,000	-	-	35,000
Indirect interest:				
Goh Eng Chew	15,783,250	-	-	15,783,250
Gho Lian Chin	15,783,250	-	-	15,783,250
Timor Oil Palm Plantation Berhad - Subsidiary				
Direct interest:				
Goh Eng Chew	10,000	-	-	10,000
Goh Pock Ai	10,000	-	-	10,000
Wong Aun Phui	1,000	-	-	1,000
Goh Yeok Beng	10,000	-	-	10,000
Gho Lian Chin	10,000	-	-	10,000
Goh Tju Kiang @ Gho Tju Kiang @ Gho Tju Kiong	10,000	-	-	10,000
Indirect interest:				
Goh Eng Chew	6,112,300	-	-	6,112,300
Wong Aun Phui #	39,000	-	-	39,000
Gho Lian Chin	6,112,300	-	-	6,112,300
Tiong Thye Company Berhad - Holding company				
Direct interest:				
Gho Lian Chin	1,000	-	-	1,000
Gho Bun Tjin	1,000	-	-	1,000
Indirect interest:				
Goh Eng Chew	13,650,000	-	-	13,650,000
Gho Lian Chin	5,670,000	-	-	5,670,000

Interest by virtue of the interests of children

Goh Eng Chew and Gho Lian Chin by virtue of their interests in the holding company, are also deemed interested in the stock units and shares of all its subsidiaries to the extent the holding company has an interest.

None of the other directors in office at the end of the financial year had any interest in stock units in the Company and shares of its related corporations during the financial year.

DIRECTORS' REPORT

Other statutory information

- (a) Before the income statements, statements of comprehensive income and statements of financial position of the Group and of the Company were made out, the directors took reasonable steps:
- (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that there were no known bad debts and that no provision for doubtful debts was necessary; and
 - (ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the directors are not aware of any circumstances which would render:
- (i) it necessary to write off any bad debts or to make any provision for doubtful debts in respect of the financial statements of the Group and of the Company; and
 - (ii) the values attributed to current assets in the financial statements of the Group and of the Company misleading.
- (c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.
- (d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.
- (e) As at the date of this report, there does not exist:
- (i) any charge on the assets of the Group or of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
 - (ii) any contingent liability of the Group or of the Company which has arisen since the end of the financial year.
- (f) In the opinion of the directors:
- (i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group or of the Company to meet their obligations as and when they fall due; and
 - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group or of the Company for the financial year in which this report is made.

Auditors

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

Signed on behalf of the Board in accordance with a resolution of the directors dated 28 February 2013.

Goh Eng Chew

Wong Aun Phui

STATEMENT BY DIRECTORS

Pursuant to Section 169(15) of the Companies Act, 1965

We, Goh Eng Chew and Wong Aun Phui, being two of the directors of Negri Sembilan Oil Palms Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 38 to 82 are drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2012 and of their financial performance and cash flows for the year then ended.

Other matters

The supplementary information set out in Note 33 on page 83, is prepared in all material respects, in accordance with the Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad.

Signed on behalf of the Board in accordance with a resolution of the directors dated 28 February 2013.

Goh Eng Chew

Wong Aun Phui

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

I, Gan Kok Tiong, being the officer primarily responsible for the financial management of Negri Sembilan Oil Palms Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 38 to 83 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by
the abovenamed Gan Kok Tiong
at Kuala Lumpur in the Federal Territory
on 28 February 2013.

Gan Kok Tiong

Before me,

Ooi Ah Bah
No. W152
Commissioner for Oaths
Kuala Lumpur

INDEPENDENT AUDITORS' REPORT

Report on the financial statements

We have audited the financial statements of Negri Sembilan Oil Palms Berhad, which comprise the statements of financial position as at 31 December 2012 of the Group and of the Company, and the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 38 to 82.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia, and for such internal control as the directors determine are 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 the accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2012 and of their financial performance and cash flows for the year then ended.

Report on other legal and regulatory requirements

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

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

INDEPENDENT AUDITORS' REPORT

Other matters

The supplementary information set out in Note 33 on page 83 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad. 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 Main Market 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.

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Ernst & Young
AF: 0039
Chartered Accountants

Kuala Lumpur, Malaysia
28 February 2013

Tan Shium Jye
No. 2991/05/14(J)
Chartered Accountant

**INCOME STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012**

	Note	Group		Company	
		2012	2011	2012	2011
		RM	RM	RM	RM
Revenue	4	85,349,164	113,164,789	23,258,659	31,847,234
Cost of sales	4	(38,810,463)	(40,823,339)	(8,050,811)	(6,176,364)
Gross profit		<u>46,538,701</u>	<u>72,341,450</u>	<u>15,207,848</u>	<u>25,670,870</u>
Other items of income					
Interest income		2,704,637	2,523,981	1,230,101	1,283,218
Dividend income	5	1,697,135	2,041,991	6,632,397	9,465,870
Other income	6	1,839,221	1,045,356	12,941	122,195
Fair value adjustment of biological assets	14	(17,400,000)	(4,400,000)	(6,100,000)	(4,900,000)
Other items of expense					
Selling expenses		(1,429,079)	(1,385,348)	(469,359)	(465,250)
Administrative expenses		(16,718,290)	(14,653,591)	(6,333,998)	(5,471,701)
Replanting expenses		(4,322,511)	(3,233,263)	(2,261,381)	(1,884,862)
Other expenses		-	(194,450)	-	-
Share of results of associates		830,236	(610,749)	-	-
Share of results of a jointly controlled entity		1,456,008	764,352	-	-
Profit before tax	7	<u>15,196,058</u>	<u>54,239,729</u>	<u>7,918,549</u>	<u>23,820,340</u>
Income tax expense	10	(2,627,717)	(13,087,232)	(2,020,022)	(6,016,047)
Profit net of tax		<u>12,568,341</u>	<u>41,152,497</u>	<u>5,898,527</u>	<u>17,804,293</u>
Attributable to:					
Owners of the parent		10,146,865	33,316,946	5,898,527	17,804,293
Non-controlling interest		2,421,476	7,835,551	-	-
		<u>12,568,341</u>	<u>41,152,497</u>	<u>5,898,527</u>	<u>17,804,293</u>
Earnings per stock unit attributable to owners of the parent (sen per stock unit)					
Basic	11	14.45	47.46		
Diluted	11	14.45	47.46		

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

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

	Note	Group		Company	
		2012 RM	2011 RM	2012 RM	2011 RM
Profit net of tax		12,568,341	41,152,497	5,898,527	17,804,293
Other comprehensive (loss)/income:					
Foreign currency translation		(413,621)	1,164,961	-	-
Net gain/(loss) on fair value changes of available-for-sale investment securities		6,641,098	(5,656,020)	178,747	(127,692)
- Transfer to profit or loss upon disposal		(1,030,632)	193,158	-	-
- Gain/(loss) on fair value changes		7,671,730	(5,849,178)	178,747	(127,692)
Net gain on fair value changes of available-for-sale investments in subsidiaries	15	-	-	6,934,396	26,681,871
Revaluation surplus on freehold and leasehold land		-	61,044,115	-	25,192,187
Share of other comprehensive loss of an associate		(5,849)	(13,917)	-	-
Total comprehensive income for the year		18,789,969	97,691,636	13,011,670	69,550,659
Attributable to:					
Owners of the parent		14,524,353	81,934,133	13,011,670	69,550,659
Non-controlling interest		4,265,616	15,757,503	-	-
		18,789,969	97,691,636	13,011,670	69,550,659

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

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

	Note	Group		Company	
		2012 RM	2011 RM	2012 RM	2011 RM
Assets					
Non-current assets					
Property, plant and equipment	13	218,050,798	217,012,751	91,586,875	92,276,836
Biological assets	14	38,800,000	56,200,000	15,300,000	21,400,000
Investments in subsidiaries	15	-	-	205,911,901	198,977,505
Investments in associates	16	20,586,825	19,283,671	11,063,584	11,063,584
Investment in a jointly controlled entity	17	25,006,335	24,442,715	13,781,480	13,781,480
Investment securities	18	49,782,494	41,088,357	7,120,624	6,894,472
		<u>352,226,452</u>	<u>358,027,494</u>	<u>344,764,464</u>	<u>344,393,877</u>
Current assets					
Inventories	19	3,489,797	2,298,402	463,124	324,282
Receivables	20	4,502,622	5,195,708	1,910,366	2,519,091
Income tax recoverable		854,770	1,175,987	303,562	40,332
Cash and bank balances	21	129,902,710	125,325,124	42,553,511	46,465,003
		<u>138,749,899</u>	<u>133,995,221</u>	<u>45,230,563</u>	<u>49,348,708</u>
Total assets		<u>490,976,351</u>	<u>492,022,715</u>	<u>389,995,027</u>	<u>393,742,585</u>
Current liabilities					
Payables	22	8,655,920	7,071,485	2,480,325	2,253,992
Income tax payable		403,370	395,194	-	-
		<u>9,059,290</u>	<u>7,466,679</u>	<u>2,480,325</u>	<u>2,253,992</u>
Non-current liabilities					
Deferred tax liabilities	26	29,597,384	34,273,255	14,267,801	15,984,436
Total liabilities		<u>38,656,674</u>	<u>41,739,934</u>	<u>16,748,126</u>	<u>18,238,428</u>
Equity attributable to owners of the parent					
Share capital	23	70,201,962	70,201,962	70,201,962	70,201,962
Share premium	23	4,335,840	4,335,840	4,335,840	4,335,840
Other reserves	24	122,662,227	119,009,800	226,488,067	219,710,535
Retained profits	25	179,398,055	183,795,055	72,221,032	81,255,820
		<u>376,598,084</u>	<u>377,342,657</u>	<u>373,246,901</u>	<u>375,504,157</u>
Non-controlling interest		75,721,593	72,940,124	-	-
Total equity		<u>452,319,677</u>	<u>450,282,781</u>	<u>373,246,901</u>	<u>375,504,157</u>
Total equity and liabilities		<u>490,976,351</u>	<u>492,022,715</u>	<u>389,995,027</u>	<u>393,742,585</u>

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

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

2012 Group	Note	Equity, total RM	Equity attributable to owners of the parent, total RM	Attributable to owners of the parent		Non-distributable					Non- controlling interest RM
				Share capital RM	Share premium RM	Retained profits RM	Asset revaluation reserve – land RM	Foreign currency translation reserve RM	Fair value adjustment reserve RM	Non-distributable	
Opening balance at 1 January 2012		450,282,781	377,342,657	70,201,962	4,335,840	183,795,055	110,091,746	2,502,004	6,416,050	72,940,124	
Total comprehensive income		18,789,969	14,524,353	-	-	10,146,865	-	(320,625)	4,698,113	4,265,616	
Revaluation reserve of leasehold land realised		-	-	-	-	725,061	(725,061)	-	-	-	
Transactions with owners											
Dividends, representing total transactions with owners	12	(16,753,073)	(15,268,926)	-	-	(15,268,926)	-	-	-	(1,484,147)	
Closing balance at 31 December 2012		452,319,677	376,598,084	70,201,962	4,335,840	179,398,055	109,366,685	2,181,379	11,114,163	75,721,593	

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

2011 Group	Note	Equity, total RM	Equity attributable to owners of the parent, total RM	Attributable to owners of the parent		Non-distributable		Non- controlling interest RM		
				Share capital RM	Share premium RM	Retained profits RM	Asset revaluation reserve – land RM		Foreign currency translation reserve RM	Fair value adjustment reserve RM
Opening balance at 1 January 2011		376,926,203	317,522,142	70,201,962	4,335,840	172,115,426	58,960,214	1,461,747	10,446,953	59,404,061
Total comprehensive income		97,691,636	81,934,133	-	-	33,316,946	51,607,833	1,040,257	(4,030,903)	15,757,503
Revaluation reserve of leasehold land realised		-	-	-	-	476,301	(476,301)	-	-	-
Transactions with owners										
Dividends, representing total transactions with owners	12	(24,335,058)	(22,113,618)	-	-	(22,113,618)	-	-	-	(2,221,440)
Closing balance at 31 December 2011		450,282,781	377,342,657	70,201,962	4,335,840	183,795,055	110,091,746	2,502,004	6,416,050	72,940,124

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

2012 Company	Note	Equity, total RM	Non-distributable		Distributable		Non-distributable		
			Share capital RM	Share premium RM	Retained profits RM	Asset revaluation reserve – land RM	Assets revaluation reserve – investments in subsidiaries RM	Fair value adjustment reserve RM	
Opening balance at 1 January 2012		375,504,157	70,201,962	4,335,840	81,255,820	52,853,166	163,124,854	3,732,515	
Total comprehensive income		13,011,670	-	-	5,898,527	-	6,934,396	178,747	
Revaluation reserve of leasehold land realised		-	-	-	335,611	(335,611)	-	-	
Transactions with owners									
Dividends, representing total transactions with owners	12	(15,268,926)	-	-	(15,268,926)	-	-	-	
Closing balance at 31 December 2012		373,246,901	70,201,962	4,335,840	72,221,032	52,517,555	170,059,250	3,911,262	

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

2011 Company	Note	Equity, total RM	Non-distributable		Distributable		Non-distributable		
			Share capital RM	Share premium RM	Share capital RM	Share premium RM	Retained profits RM	Asset revaluation reserve – land RM	Assets revaluation reserve – investments in subsidiaries RM
Opening balance at 1 January 2011		328,067,116	70,201,962	4,335,840	85,280,231	27,945,893	136,442,983	3,860,207	
Total comprehensive income		69,550,659	-	-	17,804,293	25,192,187	26,681,871	(127,692)	
Revaluation reserve of leasehold land realised		-	-	-	284,914	(284,914)	-	-	
Transactions with owners									
Dividends, representing total transactions with owners	12	(22,113,618)	-	-	(22,113,618)	-	-	-	
Closing balance at 31 December 2011		375,504,157	70,201,962	4,335,840	81,255,820	52,853,166	163,124,854	3,732,515	

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

**STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012**

	Group		Company	
	2012	2011	2012	2011
	RM	RM	RM	RM
Operating activities				
Profit before tax	15,196,058	54,239,729	7,918,549	23,820,340
Adjustments for:				
Depreciation of property, plant and equipment	3,029,657	2,204,540	1,103,688	813,048
Fair value decrease in biological assets	17,400,000	4,400,000	6,100,000	4,900,000
Gain on sale of property, plant and equipment	(6,000)	(100,000)	-	(100,000)
Gross dividend income	(1,697,135)	(2,041,991)	(6,632,397)	(9,465,870)
Interest income	(2,704,637)	(2,523,981)	(1,230,101)	(1,283,218)
Net fair value (gain)/loss on available-for-sale securities (transferred from equity on disposal)	(1,030,632)	193,158	-	-
Property, plant and equipment written off	-	684	-	684
Share of results of associates	(830,236)	610,749	-	-
Share of results of a jointly controlled entity	(1,456,008)	(764,352)	-	-
Unrealised gain on foreign exchange	(707,749)	(587,671)	(2,931)	(3,796)
Total adjustments	11,997,260	1,391,136	(661,741)	(5,139,152)
Operating cash flows before changes in working capital	27,193,318	55,630,865	7,256,808	18,681,188
Changes in working capital				
Increase in inventories	(1,191,395)	(837,349)	(138,842)	(124,079)
Decrease in receivables	738,278	976,112	607,673	4,191,053
Increase in payables	1,584,435	1,132,282	226,333	351,645
Total changes in working capital	1,131,318	1,271,045	695,164	4,418,619
Cash flows from operations	28,324,636	56,901,910	7,951,972	23,099,807
Taxes paid	(6,910,970)	(14,697,227)	(2,375,302)	(5,517,798)
Net cash flows from operating activities	21,413,666	42,204,683	5,576,670	17,582,009
Investing activities				
Interest received	2,659,445	2,491,894	1,231,153	1,288,034
Net dividends received	1,502,302	1,546,248	4,960,407	7,090,592
Purchase of property, plant and equipment	(4,067,704)	(1,646,433)	(413,727)	(414,067)
Purchase of investment securities	(2,969,003)	(5,658,406)	-	(2,272)
Proceeds from sale of property, plant and equipment	6,000	100,000	-	100,000
Proceeds from sale of investment securities	2,078,204	53,000	-	-
Placement of fixed deposits pledged to banks	(12,203)	(16,238)	(6,150)	(7,764)
Net cash flows (used in)/generated from investing activities	(802,959)	(3,129,935)	5,771,683	8,054,523
Financing activities				
Dividends paid to owners of the parent	(15,268,926)	(22,113,618)	(15,268,926)	(22,113,618)
Dividends paid to non-controlling interest	(1,484,147)	(2,221,440)	-	-
Net cash flows used in financing activities	(16,753,073)	(24,335,058)	(15,268,926)	(22,113,618)
Net increase/(decrease) in cash and cash equivalents	3,857,634	14,739,690	(3,920,573)	3,522,914
Effects of exchange rate changes on cash and cash equivalents	707,749	587,671	2,931	3,796
Cash and cash equivalents at 1 January	124,981,403	109,654,042	46,260,082	42,733,372
Cash and cash equivalents at 31 December (Note 21)	129,546,786	124,981,403	42,342,440	46,260,082

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

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2012

1. Corporate information

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the Main Market of Bursa Malaysia Securities Berhad. The registered office of the Company is located at Suite 2B-3A-2, Block 2B, Level 3A, Plaza Sentral, Jalan Stesen Sentral 5, Kuala Lumpur Sentral, 50470 Kuala Lumpur, Malaysia.

The immediate and ultimate holding company of the Company is Tiong Thye Company Berhad, which is incorporated in Malaysia and produces financial statements available for public use.

The principal activities of the Company are the cultivation of oil palms and sale of fresh fruit bunches, and investment holding. The principal activities of the subsidiaries are the cultivation of oil palms and, the process and sale of crude palm oil and palm kernel. There have been no significant changes in the nature of the principal activities during the financial year.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 28 February 2013.

2. Summary of significant accounting policies

2.1 Basis of preparation

The financial statements of the Group and of the Company have been prepared in accordance with Financial Reporting Standards ("FRS") and the Companies Act, 1965 in Malaysia. At the beginning of the current financial year, the Group and the Company adopted new and revised FRSs and Amendments to FRSs which are mandatory for financial periods beginning on or after 1 January 2012 as described fully in Note 2.2.

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

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

2.2 Changes in accounting policies

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

On 1 January 2012, the Group and the Company adopted the following new and amended FRS and IC Interpretations mandatory for annual financial periods beginning on or after 1 January 2012.

Amendments to FRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
Amendments to FRS 7	Disclosure – Transfer of Financial Assets
Amendments to FRS 112	Deferred Tax Recovery of Underlying Assets
FRS 124	Related Party Disclosures (Revised)
Improvements to FRSs issued in 2012	

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012

2. Summary of significant accounting policies (cont'd.)

2.3 Standards issued but not yet effective

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

Description		Effective for annual periods beginning on or after
FRS 101	Presentation of Item of Other Comprehensive Income (Amendments to FRS 101)	1 July 2012
Amendments to FRS 101	Presentation of Financial Statements (Improvements to FRSs (2012))	1 January 2013
FRS 10	Consolidated Financial Statements	1 January 2013
FRS 11	Joint Arrangements	1 January 2013
FRS 12	Disclosure of Interest in Other Entities	1 January 2013
FRS 13	Fair Value Measurement	1 January 2013
FRS 119	Employee Benefits	1 January 2013
FRS 127	Separate Financial Statements	1 January 2013
FRS 128	Investment in Associates and Joint Ventures	1 January 2013
Amendment to IC Interpretation 2	Members' Shares in Co-operative Entities and Similar Instruments (Improvements to FRSs (2012))	1 January 2013
Amendments to FRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013
Amendments to FRS 1	First-time Adoption of Malaysian Financial Reporting Standards – Government Loans	1 January 2013
Amendments to FRS 1	First-time Adoption of Malaysian Financial Reporting Standards (Improvements to FRSs (2012))	1 January 2013
Amendments to FRS 116	Property, Plant and Equipment (Improvements to FRSs (2012))	1 January 2013
Amendments to FRS 132	Financial Instruments: Presentation (Improvements to FRSs (2012))	1 January 2013
Amendments to FRS 134	Interim Financial Reporting (Improvements to FRSs (2012))	1 January 2013
Amendments to FRS 10	Consolidated Financial Statements: Transition Guidance	1 January 2013
Amendments to FRS 11	Joint Arrangements: Transition Guidance	1 January 2013
Amendments to FRS 12	Disclosure of Interests in Other Entities: Transition Guidance	1 January 2013
Amendments to FRS 132	Offsetting Financial Assets and Financial Liabilities	1 January 2014
FRS 9	Financial Instruments	1 January 2015

The directors expect that the adoption of the above standards and interpretations will not have a material impact on the financial statements of the Group and of the Company in the period of initial application, except as disclosed below:

Amendments to FRS 101: Presentation of Financial Statements (Annual Improvements 2009-2011 Cycle)

The amendments to FRS 101 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, exchange differences on translation of foreign operations and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affects presentation only and has no impact on the Group's financial position and performance.

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2012

2. Summary of significant accounting policies (cont'd.)

2.3 Standards issued but not yet effective (cont'd.)

FRS 9 Financial Instruments: Classification and Measurement

FRS 9 reflects the first phase of the work on the replacement of FRS 139 Financial Instruments: Recognition and Measurement and applies to classification and measurement of financial assets and financial liabilities as defined in FRS 139 Financial Instruments: Recognition and Measurement. The adoption of the first phase of FRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

FRS 12 Disclosures of Interests in Other Entities

FRS 112 includes all disclosure requirements for interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are required. This standard affects disclosures only and has no impact on the Group's financial position or performance.

FRS 13 Fair Value Measurement

FRS 13 establishes a single source of guidance under FRS for all fair value measurements. FRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under FRS when fair value is required or permitted.

The Group is currently assessing the impact of adoption of FRS 13.

Malaysian Financial Reporting Standards (MFRS Framework)

On 19 November 2011, the Malaysian Accounting Standards Board (MASB) issued a new MASB approved accounting framework, the Malaysian Financial Reporting Standards (MFRS Framework).

The MFRS Framework is to be applied by all Entities Other Than Private Entities for annual periods beginning on or after 1 January 2012, with the exception of entities that are within the scope of MFRS 141 Agriculture (MFRS 141) and IC Interpretation 15 Agreements for Construction of Real Estate (IC 15), including its parent, significant investor and venturer (herein called "Transitioning Entities").

Transitioning Entities will be allowed to defer adoption of the new MFRS Framework and continue to use the existing Financial Reporting Standards (FRS) Framework. The adoption of the MFRS Framework by Transitioning Entities will be mandatory for annual periods beginning on or after 1 January 2014.

The Group and the Company fall within the scope definition of Transitioning Entities and accordingly, will be required to prepare financial statements using the MFRS Framework in their first MFRS financial statements for the year ending 31 December 2014. In presenting their first MFRS financial statements, the Group and the Company will be required to restate the comparative financial statements to amounts reflecting the application of MFRS Framework. The majority of the adjustments required on transition will be made, retrospectively, against opening retained profits.

The Group and the Company have commenced transitioning their accounting policies and financial reporting from the current FRS Framework to MFRS Framework. At the date of these financial statements, the Group and the Company have not completed their quantification of the financial effects of the differences between accounting standards under the FRS and MFRS Framework due to the ongoing assessment. Accordingly, the financial performance and financial position as disclosed in these financial statements for the year ended 31 December 2012 could be different if prepared under the MFRS Framework.

The Group and the Company consider that they are achieving their schedules milestones and expect to be in a position to fully comply with the requirements of the MFRS Framework for the financial year ending 31 December 2014.

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2012

2. Summary of significant accounting policies (cont'd.)

2.4 Subsidiaries

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities.

In the Company's separate financial statements, investments in subsidiaries are classified as available-for-sale financial assets in accordance with FRS 139. These financial assets are measured at fair value. Any gains or losses from changes in fair value are recognised in other comprehensive income except that impairment losses are recognised in profit or loss. The cumulative gains or losses previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when such investment is derecognised.

Any dividends received from a subsidiary after the revaluation, which are paid out of profits earned before the revaluation of the investment in that subsidiary, are offset against the carrying amount of the investments in the books of the Company.

On derecognition of such investments, the difference between the carrying amount and the sum of the consideration received and any cumulative gains or losses that had been recognised in other comprehensive income is recognised in profit or loss.

2.5 Basis of consolidation

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

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group translations are eliminated in full.

Acquisitions of subsidiaries are accounted for by applying the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

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

The Group elects for each individual business combination, whether non-controlling interest in the acquiree (if any) is recognised on the acquisition date at fair value, or at the non-controlling interest's proportionate share of the acquiree net identifiable assets.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), 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 is recorded as goodwill in the statement of financial position.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

**NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2012****2. Summary of significant accounting policies (cont'd.)****2.6 Transactions with non-controlling interest**

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the parent, and is presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to owners of the parent.

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. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the parent.

2.7 Associates

An associate is an entity, not being a subsidiary or a joint venture, in which the Group has significant influence. An associate is equity accounted for from the date the Group obtains significant influence until the date the Group ceases to have significant influence over the associate.

The Group's investments in associates are accounted for using equity method. Under the equity method, the investments in associates are measured in the Group's statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associates. Goodwill relating to associates is included in the carrying amount of the investments. Any excess of the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the Group's share of the associate's profit or loss for the period in which the investment is acquired.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investments in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairments as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in profit or loss.

The financial statements of the associates are prepared as of the same reporting date as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

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

2.8 Jointly controlled entity

The Group has an interest in a joint venture which is a jointly controlled entity. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest.

Investment in jointly controlled entity is accounted for in the Group's financial statements using the equity method of accounting as described in Note 2.7.

In the Company's separate financial statements, investment in jointly controlled entity is stated at cost less impairment losses.

On disposal of the investment, the difference between net disposal proceeds and its carrying amount is included in profit or loss.