Notes to the
FINANCIAL STATEMENTS

CCM Duopharma Biotech Berhad is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Main Market of the Bursa Malaysia Securities Berhad. The addresses of its registered office and principal place of business are as follows:

Registered office
13th Floor, Menara PNB
201-A, Jalan Tun Razak
50400 Kuala Lumpur
Malaysia

Principal place of business
Lot 2599, Jalan Seruling 59
Kawasan 3, Taman Klang Jaya
41200 Klang
Selangor Darul Ehsan
Malaysia

The consolidated financial statements of the Company as at and for the financial year ended 31 December 2012 comprise the Company and its subsidiary (together referred to as the "Group" and individually referred to as "Group entities"). The financial statements of the Company as at and for the financial year ended 31 December 2012 do not include other entities.

The Company is principally engaged in investment holding whilst the subsidiary is primarily involved in carrying on business as manufacturer, distributor, importer and exporter of pharmaceutical products and medicines.

The immediate and intermediate holding companies during the financial year were CCM Marketing Sdn. Bhd. and Chemical Company of Malaysia Berhad (a public listed company), respectively. The ultimate holding company during the financial year was Permodalan Nasional Berhad. All the holding companies were incorporated in Malaysia.

These financial statements were authorised for issue by the Board of Directors on 22 March 2013.

1. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements of the Group and the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards and the Companies Act, 1965 in Malaysia. These are the Group and the Company's first financial statements prepared in accordance with MFRSs and MFRS 1, First-time Adoption of Malaysian Financial Reporting Standards has been applied.

In the previous financial years, the financial statements of the Group and the Company were prepared in accordance with Financial Reporting Standards ("FRSs") in Malaysia. The financial impacts on transition to MFRSs are disclosed in note 27.

The following are accounting standards, amendments and interpretations of the MFRS framework that have been issued by the Malaysian Accounting Standards Board ("MASB") but have not been adopted by the Group and the Company:

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2012

- Amendments to MFRS 101, Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income

1. BASIS OF PREPARATION (CONTINUED)

(a) Statement of compliance (continued)

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2013

- MFRS 10, Consolidated Financial Statements
- MFRS 11, Joint Arrangements
- MFRS 12, Disclosure of Interests in Other Entities
- MFRS 13, Fair Value Measurement
- MFRS 119, Employee Benefits (2011)
- MFRS 127, Separate Financial Statements (2011)
- MFRS 128, Investments in Associates and Joint Ventures (2011)
- IC Interpretation 20, Stripping Costs in the Production Phase of a Surface Mine
- Amendments to MFRS 7, Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
- Amendments to MFRS 1, First-time Adoption of Malaysian Financial Reporting Standards – Government Loans
- Amendments to MFRS 1, First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2009-2011 Cycle)
- Amendments to MFRS 101, Presentation of Financial Statements (Annual Improvements 2009-2011 Cycle)
- Amendments to MFRS 116, Property, Plant and Equipment (Annual Improvements 2009-2011 Cycle)
- Amendments to MFRS 132, Financial Instruments: Presentation (Annual Improvements 2009-2011 Cycle)
- Amendments to MFRS 134, Interim Financial Reporting (Annual Improvements 2009-2011 Cycle)
- Amendments to MFRS 10, Consolidated Financial Statements: Transition Guidance
- Amendments to MFRS 11, Joint Arrangements: Transition Guidance
- Amendments to MFRS 12, Disclosure of Interests in Other Entities: Transition Guidance

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2014

- Amendments to MFRS 10, Consolidated Financial Statements: Investment Entities
- Amendments to MFRS 12, Disclosure of Interests in Other Entities: Investment Entities
- Amendments to MFRS 127, Separate Financial Statements (2011): Investment Entities
- Amendments to MFRS 132, Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2015

- MFRS 9, Financial Instruments (2009)
- MFRS 9, Financial Instruments (2010)
- Amendments to MFRS 7, Financial Instruments: Disclosures – Mandatory Date of MFRS 9 and Transition Disclosures

1. BASIS OF PREPARATION (CONTINUED)

(a) Statement of compliance (continued)

The Group and the Company plan to apply the abovementioned standards, amendments and interpretations:

- from the annual period beginning on 1 January 2013 for those standards, amendments or interpretations that are effective for annual periods beginning on or after 1 July 2012 and 1 January 2013, except for MFRS 11, 12 and 128 and IC Interpretation 20 which are not applicable to the Company.

- from the annual period beginning on 1 January 2014 for those standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2014, except for MFRS 12 which are not applicable to the Company.

- from the annual period beginning on 1 January 2015 for those standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2015.

The initial application of other standards, amendments and interpretations is not expected to have any material financial impacts to the current and prior periods financial statements upon their first adoption.

(b) Basis of measurement

These financial statements have been prepared on the historical cost basis other than as disclosed in note 2.

(c) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia ("RM"), which is the Company's functional currency. All financial information is presented in RM and has been rounded to the nearest thousand, unless otherwise stated.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with Malaysian Financial Reporting Standards ("MFRS") requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than as disclosed in note 2.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to the periods presented in these financial statements, and in preparing the opening MFRS statements of financial position of the Group and of the Company at 1 January 2011 (the transition date to MFRS framework), unless otherwise stated.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities, including unincorporated entities, controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Control exists when the Company has the ability to exercise its power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

Investments in subsidiaries are measured in the Company's statement of financial position at cost less any impairment losses. The cost of investments includes transaction costs.

(ii) Business combinations

Business combinations are accounted for using the acquisition method from the acquisition date, which is the date on which control is transferred to the Group.

Acquisitions on or after 1 January 2011

For acquisitions on or after 1 January 2011, the Group measures the cost of goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquire; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquire; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

(iii) Accounting for business combinations

Acquisitions before 1 January 2011

As part of its transition to MFRS, the Group elected not to restate those business combinations that occurred before the date of transition to MFRSs, i.e. 1 January 2011. Goodwill arising from acquisitions before 1 January 2011 has been carried forward from the previous FRS framework as at the date of transition.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of consolidation (continued)

(iv) Loss of control

Upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are retranslated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting date except for those that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial instrument designated as a cash flow hedge of currency risk, which are recognised in other comprehensive income.

(c) Financial instruments

(i) Initial recognition and measurement

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the Group or the Company becomes a party to the contractual provisions of the instrument.

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

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement

The Group and the Company categorise financial instruments as follows:

Financial assets

(a) Loans and receivables

Loans and receivables category comprises debt instruments that are not quoted in an active market.

Financial assets categorised as loans and receivables are subsequently measured at amortised cost using the effective interest method.

All financial assets are subject to review for impairment (see note 2(j)).

Financial liabilities

All financial liabilities are subsequently measured at amortised cost.

(iii) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are classified as deferred income and are amortised to profit or loss using a straight-line method over the contractual period or, when there is no specified contractual period, recognised in profit or loss upon discharge of the guarantee. When settlement of a financial guarantee contract becomes probable, an estimate of the obligation is made. If the carrying value of the financial guarantee contract is lower than the obligation, the carrying value is adjusted to the obligation amount and accounted for as a provision.

(iv) Derecognition

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Property, plant and equipment

(i) Recognition and measurement

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

Cost includes expenditure that are directly attributable to the acquisition of the asset, and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain and loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and is recognised net within "other income" or "other expenses" respectively in profit or loss.

(ii) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised to profit or loss. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component are depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Freehold land is not depreciated. Property, plant and equipment under construction (capital work-in-progress) are not depreciated until the assets are ready for their intended use.

The estimated useful lives for the current and comparative periods are as follows:

• buildings	50 years
• plant and machineries	5 - 10 years
• office equipment, furniture and fittings	5 - 20 years
• motor vehicles	4 - 10 years
• renovations	10 years

Depreciation methods, useful lives and residual values are reviewed and adjusted as appropriate at the end of the reporting period.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Intangible assets

Research and development
Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss as an expense as incurred.

Expenditure on development activities, whereby the application of research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset.

The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads that are directly attributable to preparing the asset for its intended use. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs. Other development expenditure is recognised in profit or loss as incurred.

Capitalised development expenditure is measured at cost less any accumulated amortisation and any impairment losses.

(f) Investment property

(i) Investment property carried at fair value
Investment properties are properties which are owned to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. This includes land held for a currently undetermined future use.

Investment properties are measured initially at cost and subsequently at fair value with any change therein recognised in profit or loss for the period in which they arise. Where the fair value of the investment property under construction is not reliably determinable, the investment property under construction is measured at cost until either its fair value becomes reliably determinable or construction is complete, whichever is earlier.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-contracted investment property includes the cost of materials and direct labour, and any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs.

An investment property is derecognised on its disposal, or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal. The difference between the net disposal proceeds and the carrying amount is recognised in profit or loss in the period in which the item is derecognised.

Notes to the FINANCIAL STATEMENTS cont'd

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Investment property (continued)

(ii) Reclassification to/from investment property

When an item of property, plant and equipment is transferred to investment property following a change in its use, any difference arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognised in other comprehensive income and accumulated in equity as revaluation reserve. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in profit or loss. Upon disposal of an investment property, any surplus previously recorded in equity is transferred to retained earnings; the transfer is not made through profit or loss.

When the use of a property changes such that it is reclassified as property, plant and equipment or inventories, its fair value at the date of reclassification becomes its cost for subsequent accounting.

(iii) Determination of fair value

An external, independent valuation firm, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Group's investment property portfolio every year.

The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows is then applied to the net annual cash flows to arrive at the property valuation.

Valuations reflect, where appropriate:

- the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, and the market's general perception of their creditworthiness;
- the allocation of maintenance and insurance responsibilities between the Group and the lessee; and
- the remaining economic life of the property.

When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices and where appropriate counter-notices, have been served validly and within the appropriate time.

(g) Inventories

Inventories are measured at the lower of cost and net realisable value.

The cost of inventories is based on the weighted average cost formula. The cost of inventories includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of work-in-progress and manufactured inventories, cost includes an appropriate share of production overheads based on normal operating capacity.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Non-current assets classified as held for sale

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale.

Immediately before classification as held for sale, the assets are remeasured in accordance with the Group's accounting policies. Thereafter, generally the assets are measured at the lower of their carrying amount and fair value less cost to sell.

Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories and financial assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Property, plant and equipment once classified as held for sale are not depreciated.

(i) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in value. For the purpose of the statement of cash flows, cash and cash equivalents are presented net of bank overdrafts.

(j) Impairment

(i) Financial assets

All financial assets (except for investments in subsidiaries) are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. For an equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment. If any such objective evidence exists, then the financial asset's recoverable amount is estimated.

An impairment loss in respect of loans and receivables is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

An impairment loss in respect of unquoted equity instrument that is carried at cost is recognised in profit or loss and is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Impairment

(ii) Other assets

The carrying amounts of other assets (except for inventories, investment property that is measured at fair value and non-current assets classified as held for sale) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating unit.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit or the group of cash-generating units and then to reduce the carrying amount of the other assets in the cash-generating unit (or a group of cash-generating units) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(k) Equity instruments

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

(i) Issue expenses

Costs directly attributable to issue of instruments classified as equity are recognised as a deduction from equity.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Equity instruments (continued)

(ii) Repurchases of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares that are not subsequently cancelled are classified as treasury shares and in the statement of changes in equity.

Where treasury shares are distributed as share dividends, the cost of the treasury shares is applied in the reduction of the share premium account or distributable reserves, or both.

Where treasury shares are reissued by re-sale in the open market, the difference between the sales consideration net of directly attributable costs and the carrying amount of the treasury shares is recognised in equity.

(l) Employee benefits

(i) Short- term employee benefits

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) State plans

The Group's contributions to the statutory pension funds are charged to profit or loss in the financial year to which they relate. Once the contributions have been paid, the Group has no further payment obligations.

(m) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(n) Contingent liabilities

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Revenue and other income

(i) Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

(ii) Dividend income

Dividend income is recognised in profit or loss on the date that the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

(iii) Finance income

Finance income is recognised as it accrues, using the effective interest method in profit or loss except for finance income arising from temporary investment of borrowings taken specifically for the purpose of obtaining a qualifying asset which is accounted for in accordance with the accounting policy on borrowing costs.

(p) Borrowing costs

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible capitalisation.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income for the year, using tax rates enacted or substantively enacted by the end of reporting period, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2(f), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held with the objective to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are not discounted.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unutilised reinvestment allowance, being a tax incentive that is not a tax base of an asset, is recognised as a deferred tax asset to the extent that it is probable that the future taxable profits will be available against the unutilised tax incentive can be utilised.

(r) Earnings per ordinary share

The Group presents basic and diluted earnings per share data for its ordinary shares ("EPS").

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding adjusted for own shares held for the effects of all dilutive potential ordinary shares.

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FINANCIAL STATEMENTS cont'd

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Operating segments

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

3. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold land RM'000	Buildings RM'000	Plant and machineries RM'000	Office equipment, furniture and fittings RM'000	Motor vehicles RM'000	Renovations RM'000	Capital work-in-progress RM'000	Total RM'000
Cost								
At 1 January 2011	16,339	23,571	53,744	2,597	1,154	338	37,773	135,516
Additions	-	777	3,685	181	-	-	2,774	7,417
Reclassifications	2,095	29,299	8,690	-	-	-	(40,084)	-
Transfer to investment property (Note 4)	(5,537)	-	-	-	-	-	(183)	(5,720)
At 31 December 2011/ 1 January 2012	12,897	53,647	66,119	2,778	1,154	338	280	137,213
Additions	-	186	7,379	2,217	-	158	414	10,354
Reclassifications	-	-	419	-	-	-	(419)	-
Disposals	-	-	(21)	-	(687)	-	-	(708)
At 31 December 2012	12,897	53,833	73,896	4,995	467	496	275	146,859

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group	Freehold land RM'000	Buildings RM'000	Plant and machineries RM'000	Office equipment, furniture and fittings RM'000	Motor vehicles RM'000	Renovations RM'000	Capital work-in-progress RM'000	Total RM'000
Depreciation								
At 1 January 2011	-	-	32,355	2,109	526	277	-	35,267
Depreciation for the year	-	712	4,935	216	98	8	-	5,969
At 31 December 2011/ 1 January 2012	-	712	37,290	2,325	624	285	-	41,236
Depreciation for the year	-	1,079	5,580	236	71	8	-	6,974
Disposals	-	-	(1)	-	(290)	-	-	(291)
At 31 December 2012	-	1,791	42,869	2,561	405	293	-	47,919
Carrying amounts								
At 1 January 2011	16,339	23,571	21,389	488	628	61	37,773	100,249
At 31 December 2011/ 1 January 2012	12,897	52,935	28,829	453	530	53	280	95,977
At 31 December 2012	12,897	52,042	31,027	2,434	62	203	275	98,940

The Company has no property, plant and equipment.

(i) Borrowing costs capitalised at nil% (31 December 2011: 4.1% to 4.53%; 1 January 2011: 3.49% to 4.10%) per annum.

	Group		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Borrowing costs	-	407	782

Notes to the FINANCIAL STATEMENTS cont'd

4. INVESTMENT PROPERTY

	Group	
	2012 RM'000	**2011 RM'000**
At fair value:		
At 1 January	5,720	-
Transfer from property, plant and equipment (Note 3)	-	5,720
Change in fair value recognised in profit or loss	750	-
At 31 December	6,470	5,720
Included in the above are:		
Freehold land	6,470	5,720

The fair value of investment property is determined based on market values.

5. INVESTMENT IN A SUBSIDIARY

	Company		
	31.12.2012 RM'000	**31.12.2011 RM'000**	**1.1.2011 RM'000**
Unquoted share, at cost	40,187	40,187	40,187

Details of the subsidiary are as follows:

Name of subsidiary	**Country of incorporation**	**Principal activities**	**Effective ownership interest**		
			31.12.2012 %	**31.12.2011 %**	**1.1.2011 %**
Duopharma (M) Sendirian Berhad	Malaysia	Manufacturing, distributing, importing and exporting of pharmaceutical products and medicines	100	100	100

6. TRADE AND OTHER RECEIVABLES

		Group			Company		
	Note	**31.12.2012 RM'000**	**31.12.2011 RM'000**	**1.1.2011 RM'000**	**31.12.2012 RM'000**	**31.12.2011 RM'000**	**1.1.2011 RM'000**
Non-current							
Amount due from a subsidiary	6.1	-	-	-	54,523	53,754	47,384
Current Trade							
Trade receivables		32,460	33,896	34,203	-	-	-
Amount due from related companies	6.2	1,619	782	865	-	-	-
		34,079	34,678	35,068	-	-	-
Non-trade							
Amount due from a subsidiary	6.1	-	-	-	5,372	5,000	5,000
Amount due from a related company	6.3	-	407	-	-	-	-
Other receivables, deposits and prepayments	6.4	3,019	2,594	687	-	-	-
		3,019	3,001	687	5,372	5,000	5,000
		37,098	37,679	35,755	5,372	5,000	5,000

6.1 The non-trade receivable due from a subsidiary is unsecured, subject to interest at 4.0% (31 December 2011: 4.4%; 1 January 2011: 4.3%) per annum. The non-current amount is not repayable over the next 12 months.

6.2 The trade receivable due from related companies are subject to the normal trade terms.

6.3 The non-trade receivable due from a related company is unsecured, interest free and repayable on demand.

6.4 Included in other receivables, deposits and prepayments is deposits for new plant and machineries amounting to RM2,770,348 (31 December 2011: RM1,793,000; 1 January 2011: RM183,000).

Notes to the
FINANCIAL STATEMENTS cont'd

7. INVENTORIES

	Group		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Raw materials and consumables	12,740	15,855	14,364
Work-in-progress	1,557	2,246	2,327
Packing materials	6,390	7,076	1,997
Finished goods	20,696	19,947	15,315
	41,383	45,124	34,003
Recognised in profit or loss:			
Inventories recognised as cost of sales	72,362	74,847	71,940

In 2012, inventories amounting to RM4,327,000 (31 December 2011: RM2,413,000; 1 January 2011: RM2,896,000) were written off. The write-off is included in cost of sales.

8. CASH AND CASH EQUIVALENTS

	Group			Company		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Deposits with licensed banks	4,793	8,016	23,289	-	-	4,100
Cash and bank balances	9,346	568	1,443	663	113	105
	14,139	8,584	24,732	663	113	4,205

9. ASSETS CLASSIFIED AS HELD FOR SALE

In January 2012, two units of one and half storey semi-detached factory and two pieces of freehold industrial lands were sold. The gains on disposal of the assets held for sale have been credited in the statement of profit or loss and other comprehensive income.

Assets held for sale comprise the following:

	2012 RM'000	2011 RM'000
Property, plant and equipment	-	1,740
Less: Impairment loss during the year	-	-
Carrying value	-	1,740

10. SHARE CAPITAL AND RESERVES

	Group			Company		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Share capital	69,739	69,739	69,739	69,739	69,739	69,739
Non-distributable reserves						
Share premium	13,720	13,720	13,720	13,720	13,720	13,720
Revaluation reserve	-	-	7,395	-	-	-
Treasury shares	(1,578)	(1,578)	(1,578)	(1,578)	(1,578)	(1,578)
	12,142	12,142	19,537	12,142	12,142	12,142
Retained earnings (distributable)	88,622	82,564	68,593	18,013	17,045	14,686
	170,503	164,445	157,869	99,894	98,926	96,567

10. SHARE CAPITAL AND RESERVES (CONTINUED)

10.1 Share capital

	Group and Company					
	31.12.2012		31.12.2011		1.1.2011	
	Amount RM'000	Number of shares '000	Amount RM'000	Number of shares '000	Amount RM'000	Number of shares '000
Ordinary shares of RM0.50 each						
Authorised	100,000	200,000	100,000	200,000	100,000	200,000
Issued and fully paid	69,739	139,479	69,739	139,479	69,739	139,479

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company and rank equally with regards to the Company's residual assets. In respect of the Company's treasury shares that are held by the Company (see below), all rights are suspended until those shares are reissued.

10.2 Treasury shares

The shareholders of the Company, by a special resolution passed at the extraordinary general meeting held on 25 June 2004, approved the Company's plan to purchase its own shares and the authority was reviewed at the Fourth Annual General Meeting of the Company held on 29 June 2005. The renewal of authority for purchase of its own shares lapsed at the conclusion of the Fifth Annual General Meeting held on 18 May 2006 and no further renewal was sought.

There was no purchase of its issued share capital during the year. The number of outstanding shares as at 31 December 2012 after deducting treasury shares held is 138,821,000 (31 December 2011: 138,821,000; 1 January 2011: 138,821,000).

11. LOAN AND BORROWING

	Group		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Non-current			
Unsecured non-revolving loan	-	2,082	10,416
Current			
Unsecured non-revolving loan	-	8,334	8,334
Unsecured revolving loan	5,000	-	-
	5,000	8,334	8,334
	5,000	10,416	18,750

On 12 June 2012, the subsidiary entered into Revolving Credit Facility Agreement of RM10 million with Hong Leong Bank Berhad ("HLBB") to accommodate for working capital requirements.

Interest rates of the subsidiary's borrowings depend on the lenders' effective cost of funds plus 0.35% p.a..

12. DEFERRED TAX LIABILITIES

Recognised deferred tax assets/(liabilities)

Deferred tax assets and liabilities are attributable to the following:

	Assets			Liabilities			Net		
Group	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Property, plant and equipment	-	-	-	(6,269)	(5,863)	(4,132)	(6,269)	(5,863)	(4,132)
Receivables	97	88	98	-	-	-	97	88	98
Other items	513	191	213	-	-	-	513	191	213
Tax assets/ (liabilities)	610	279	311	(6,269)	(5,863)	(4,132)	(5,659)	(5,584)	(3,821)

Notes to the FINANCIAL STATEMENTS cont'd

12. DEFERRED TAX LIABILITIES (CONTINUED)

Movement in temporary differences during the year

Group	At 1.1.2011 RM'000	Recognised in profit or loss RM'000 (Note 19)	At 31.12.2011 RM'000	Recognised in profit or loss RM'000 (Note 19)	At 31.12.2012 RM'000
Property, plant and equipment	4,132	1,731	5,863	(204)	6,269
Receivables	(98)	10	(88)	88	(97)
Other items	(213)	22	(191)	191	(513)
Total	3,821	1,763	5,584	75	5,659

13. TRADE AND OTHER PAYABLES

	Group			Company		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Trade						
Trade payables	2,361	3,842	2,363	-	-	-
Amount due to related companies	-	205	367	-	-	-
	2,361	4,047	2,730	-	-	-
Non-trade						
Amount due to intermediate holding company	4,536	1,800	957	423	-	-
Amount due to related companies	470	-	-	-	-	-
Other payables	2,064	4,229	5,349	-	-	-
Accrued expenses	7,050	6,233	5,797	526	340	326
Others	341	766	850	-	-	-
	14,461	13,028	12,953	949	340	326
	16,822	17,075	15,683	949	340	326

The trade payables due to related companies are subject to normal trade terms.

The non-trade payable due to intermediate holding company is unsecured, interest free and repayable on demand.

14. REVENUE

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Sale of goods	135,310	138,132	-	-
Dividend income from an unquoted subsidiary in Malaysia	-	-	19,822	23,474
	135,310	138,132	19,822	23,474

15. RESULTS FROM OPERATING ACTIVITIES

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Operating profit is arrived at after charging:				
Auditors' remuneration:				
- Audit fees	73	73	18	18
- Non-audit fees	14	14	14	14
Depreciation on property, plant and equipment	6,974	5,969	-	-
Impairment loss:				
- trade receivables	37	52	-	-
Intermediate holding company management fees	5,649	6,010	-	-
Inventories written off	4,327	2,413	-	-
Loss on disposal of property, plant and equipment	65	-	-	-
Net realised foreign exchange loss	261	689	-	-
Personnel expenses:				
- contributions to state plans	2,133	2,031	-	-
- wages, salaries and others	17,490	16,642	-	-
Rental of premises	90	84	-	-
Research and development costs expensed as incurred	1,760	1,463	-	-
and after crediting:				
Dividend income from				
- a subsidiary in Malaysia (unquoted)	-	-	19,822	23,474
Gain on disposal of asset held for sales	601	-	-	-
Gain on revaluation of investment properties	750	-	-	-

Notes to the
FINANCIAL STATEMENTS cont'd

16. FINANCE INCOME

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Interest income of financial assets that are not at fair value through profit or loss:				
- recognised before impairment	101	364	2,321	2,341
Recognised in profit or loss	101	364	2,321	2,341

17. FINANCE COSTS

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Interest expense of financial liabilities that are not at fair value through profit or loss:				
- loans	401	638	-	-
Recognised in profit or loss	401	231	-	-
Capitalised on qualifying assets:				
- property, plant and equipment	-	407	-	-
	401	638	-	-

18. KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel compensation is as follows:

	Group		Company	
	2012 RM'000	**2011 RM'000**	**2012 RM'000**	**2011 RM'000**
Directors				
- Fees	242	242	242	242
Other key management personnel				
- Remuneration	1,443	1,451	-	-
Total short-term employee benefits	1,685	1,693	242	242

Other key management personnel comprise persons other than the Directors of Group entities, having authority and responsibility for planning, directing and controlling the activities of the entity either directly or indirectly.

The Group pays management fee to the intermediate holding company in relation to services of certain key management personnel of the Group as disclosed in Note 25.

Notes to the FINANCIAL STATEMENTS cont'd

19. INCOME TAX EXPENSE

Recognised in profit or loss

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Income tax expense	9,284	8,023	554	2,877

Major components of income tax expense include:

	Group 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 2011 RM'000
Current tax expense				
Malaysian - current year	8,388	6,082	554	2,881
- prior year	821	178	-	(4)
Total current tax recognised in profit or loss	9,209	6,260	554	2,877
Deferred tax expense				
Origination and reversal of temporary differences	95	1,625	-	-
Under/(Over) provision in prior year	(20)	138	-	-
Total deferred tax recognised in profit or loss	75	1,763	-	-
Total income tax expense	9,284	8,023	554	2,877

Reconciliation tax expense

	Group 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 2011 RM'000
Profit for the year	26,014	26,705	20,924	22,488
Total income tax expense	9,284	8,023	554	2,877
Profit excluding tax	35,298	34,728	21,478	25,365
Income tax calculated using Malaysian tax rate of 25%	8,825	8,682	5,370	6,341
Non-deductible expenses	316	204	140	86
Tax exempt income	-	-	(4,956)	(3,552)
Tax incentives	(440)	(366)	-	-
Utilisation of reinvestment allowance	-	(842)	-	-
Other items	(81)	29	-	6
Non- taxable income	(137)	-	-	-
Under/(Over) provided in prior years	801	316	-	(4)
	9,284	8,023	554	2,877

20. EARNINGS PER ORDINARY SHARE

Basic earnings per ordinary share

The calculation of basic earnings per ordinary share at 31 December 2012 was based on the profit attributable to ordinary shareholders of the Company and a weighted average number of ordinary shares outstanding calculated as follows:

	Group	
	2012 RM'000	**2011 RM'000**
Profit for the year attributable to ordinary shareholders	26,014	26,705

Weighted average number of ordinary shares

	Group	
	2012 '000	**2011 '000**
Issued ordinary shares at 1 January	139,479	139,479
Effect of treasury shares held	(658)	(658)
Weighted average number of ordinary shares at 31 December	138,821	138,821

	Group	
	2012 sen	**2011 sen**
Basic earnings per ordinary share	18.74	19.24

Diluted earnings per ordinary share

There is no dilution to the earnings per ordinary share as there are no dilutive potential ordinary shares, hence, the diluted earnings per share is the same of basic earnings per share.

Notes to the FINANCIAL STATEMENTS cont'd

21. DIVIDENDS

Dividends recognised by the Company are:

2012	Sen per share (Net of tax)	Total amount RM'000	Date of payment
Final 2011 ordinary	10.87	15,097	29 June 2012
Interim 2012 ordinary	3.50	4,859	9 November 2012
		19,956	
2011			
Final 2010 ordinary	11.00	15,270	27 June 2011
Interim 2011 ordinary	3.50	4,859	28 October 2011
		20,129	

After the reporting period, the following dividends were proposed by the Directors. These dividends will be recognised in subsequent financial period upon approval by the owners of the Company.

	Sen per share (net of tax)	Total amount RM'000
Final 2012 ordinary	10.50	14,576

22. FINANCIAL INSTRUMENTS

22.1 Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:

(a) Loans and receivables ("L&R"); and
(b) Financial liabilities measured at amortised cost ("FL").

	Carrying amount 31.12.2012 RM'000	L&R 31.12.2012 RM'000	Carrying amount 31.12.2011 RM'000	L&R 31.12.2011 RM'000	Carrying amount 1.1.2011 RM'000	L&R 1.1.2011 RM'000
Financial assets						
Group						
Trade and other receivables	37,098	37,098	35,123	35,123	35,157	35,157
Cash and cash equivalents	14,139	14,139	8,584	8,584	24,732	24,732
	51,237	51,237	43,707	43,707	59,889	59,889
Company						
Trade and other receivables	59,895	59,895	58,754	58,754	52,384	52,384
Cash and cash equivalents	663	663	113	113	4,205	4,205
	60,558	60,558	58,867	58,867	56,589	56,589

	Carrying amount 31.12.2012 RM'000	FL 31.12.2012 RM'000	Carrying amount 31.12.2011 RM'000	FL 31.12.2011 RM'000	Carrying amount 1.1.2011 RM'000	FL 1.1.2011 RM'000
Financial liabilities						
Group						
Loans and borrowings	5,000	5,000	10,416	10,416	18,750	18,750
Trade and other payables	16,481	16,481	16,309	16,309	14,833	14,833
	21,481	21,481	26,725	26,725	33,583	33,583
Company						
Trade and other payables	949	949	340	340	326	326

Notes to the
FINANCIAL STATEMENTS cont'd

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.2 Net gains and losses arising from financial instruments

	Group		Company	
	2012 RM'000	**2011 RM'000**	**2012 RM'000**	**2011 RM'000**
Net (losses)/ gains arising on:				
Loans and receivables	101	364	2,321	2,341
Financial liabilities measured at amortised cost	(662)	(1,327)	-	-
	(561)	(963)	2,321	2,341

22.3 Financial risk management

The Group and the Company have exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

22.4 Credit risk

Credit risk is the risk of a financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's exposure to credit risk arises principally from its receivables from customers. The Company's exposure to credit risk arises principally from amount due from subsidiary.

Receivables

Risk management objectives, policies and processes for managing the risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on new customers who require credit facility during the financial year. Depending on the nature of the transactions and the customer's risk profile, the Group may require upfront deposits as collateral.

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the maximum exposure to credit arising from receivables is represented by the carrying amounts in the statement of financial position.

Management has taken reasonable steps to ensure that receivables that are neither past due nor impaired are stated at their realisable values. A significant portion of these receivables are regular customers that have been transacting with the Group. The Group uses ageing analysis to monitor the credit quality of the receivables. For receivables from corporate, wholesale and government sectors, impairment loss will be generally provided for amounts aged more than 270 days based on historical payment trends and patterns unless there is objective evidence to show otherwise.

The Group has a lower exposure to international credit risk as most of its receivables are concentrated in Malaysia.

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.4 Credit risk (continued)

Receivables (continued)

Impairment losses

The ageing of receivables as at the end of the reporting period was:

Group	Gross RM'000	Individual impairment RM'000	Collective impairment RM'000	Net RM'000
31 December 2012				
Not past due	28,733	-	-	28,733
Past due 0-30 days	3,138	-	-	3,138
Past due 31-120 days	589	-	-	589
Past due more than 120 days	274	-	(274)	-
	32,734	-	(274)	32,460
31 December 2011				
Not past due	25,460	-	-	25,460
Past due 0-30 days	7,445	-	-	7,445
Past due 31-120 days	861	-	-	861
Past due more than 120 days	481	-	(351)	130
	34,247	-	(351)	33,896
1 January 2011				
Not past due	28,346	-	-	28,346
Past due 0-30 days	4,000	-	-	4,000
Past due 31-120 days	1,798	-	-	1,798
Past due more than 120 days	452	-	(393)	59
	34,596	-	(393)	34,203

Notes to the FINANCIAL STATEMENTS cont'd

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.4 Credit risk (continued)

Receivables (continued)

Impairment losses (continued)

The movements in the allowance for impairment losses of trade receivables during the financial year were:

	Group	
	2012 RM'000	2011 RM'000
At 1 January	351	393
Impairment loss recognised	37	52
Impairment loss reversed	-	-
Impairment loss written off	(114)	(94)
At 31 December	274	351

The allowance account in respect of receivables is used to record impairment losses. Unless the Group is satisfied that recovery of the amount is possible, the amount considered irrecoverable is written off against the receivable directly.

Financial guarantees

Risk management objectives, policies and processes for managing the risk

The Company provides unsecured financial guarantees to a bank in respect of banking facilities granted to a subsidiary. The Company monitors on an ongoing basis the results of the subsidiary and repayments made by the subsidiary.

Exposure to credit risk, credit quality and collateral

The maximum exposure to credit risk amounts to RM3,228,436 (2011: RM2,927,620) representing the outstanding banking facilities of the subsidiary as at the end of the reporting period.

As at the end of the reporting period, there was no indication that the subsidiary would default on repayment.

The financial guarantees have not been recognised since the fair value on initial recognition was not material.

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.4 Credit risk (continued)

Deposits placed with licensed banks

Risk management objectives, policies and processes for managing the risk

Investments are only allowed in placing deposits with licensed banks.

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the Group has only placed deposits in Malaysia. The maximum exposure to credit risk is represented by the carrying amounts in the statement of financial position.

In view of that deposits are only placed with licensed banks, management does not expect the bank to fail to meet its obligation.

The deposits with licensed banks of the Group is unsecured.

Impairment losses

As at the end of the reporting period, there was no indication that the deposits with licensed banks were not recoverable.

Inter company balances

Risk management objectives, policies and processes for managing the risk

The Company provides unsecured loans and advances to a subsidiary. The Company monitors the results of the subsidiary regularly.

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the maximum exposure to credit risk is represented by its carrying amount in the statement of financial position.

Loans and advances are only provided to subsidiary which is wholly owned by the Company.

Impairment losses

As at the end of the reporting period, there was no indication that the loans and advances to the subsidiary were not recoverable. The Company does not specifically monitor the ageing of the advances to the subsidiary.

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.5 Liquidity risk

Liquidity risk is the risk that the Group and the Company will not be able to meet its financial obligations as they fall due. The Group's and the Company's exposure to liquidity risk arises principally from its various payables, loans and borrowings.

The Group and the Company monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance its operations and mitigate the effects of fluctuations in the cash flows.

Maturity analysis

The table below summarises the maturity profile of the Group's and the Company's financial liabilities as at the end of the reporting period based on undiscounted contractual payments:

Group	Carrying amount RM'000	Contractual interest rate/ coupon	Contractual cash flows RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	More than 5 years RM'000
31 December 2012							
Non-derivative financial liabilities							
Unsecured revolving loan	5,000	3.80 % p.a.	5,190	5,190	-	-	-
Unsecured non-revolving loans	-	-	-	-	-	-	-
Trade and other payables	16,481	-	16,481	16,481	-	-	-
	21,481	-	21,671	21,671	-	-	-
31 December 2011							
Non-derivative financial liabilities							
Unsecured non-revolving loans	10,416	0.9% p.a. over the KLIBOR	10,690	8,600	2,090	-	-
Trade and other payables	16,309	-	16,309	16,309	-	-	-
	26,725	-	26,999	24,909	2,090	-	-

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.5 Liquidity risk (continued)

Group	Carrying amount RM'000	Contractual interest rate/ coupon	Contractual cash flows RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	More than 5 years RM'000
1 January 2011							
Non-derivative financial liabilities							
Unsecured non-revolving loans	18,750	0.9% p.a. over the KLIBOR	19,583	8,918	8,576	2,089	-
Trade and other payables	14,833	-	14,833	14,833	-	-	-
	33,583	-	34,416	23,751	8,576	2,089	-

Company	Carrying amount RM'000	Contractual interest rate/ coupon	Contractual cash flows RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	More than 5 years RM'000
31 December 2012							
Non-derivative financial liabilities							
Trade and other payables	526	-	526	526	-	-	-
31 December 2011							
Non-derivative financial liabilities							
Trade and other payables	340	-	340	340	-	-	-
1 January 2011							
Non-derivative financial liabilities							
Trade and other payables	326	-	326	326	-	-	-

Notes to the FINANCIAL STATEMENTS cont'd

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.6 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates that will affect the Group's financial position or cash flows.

22.6.1 Currency risk

The Group is exposed to foreign currency risk on sales, purchases and bank balance that are denominated in a currency other than the respective functional currencies of Group entities. The currencies giving rise to this risk are primarily U.S. Dollar (USD).

Risk management objectives, policies and processes for managing the risk

The Group ensures that the net exposure on foreign currency risk arising from commercial transactions is kept to an acceptable level by buying and selling foreign currencies at spot rates where necessary to address short term imbalances.

Exposure to foreign currency risk

The Group's exposure to foreign currency (a currency which is other than the currency of the Group entities) risk, based on carrying amounts as at the end of the reporting period was:

	Denominated in USD		
	31.12.2012 RM'000	**31.12.2011 RM'000**	**1.1.2011 RM'000**
Group			
Trade receivables	189	195	898
Trade payables	(710)	(1,186)	(1,227)
Bank balance	242	127	837
Other payables	(1,126)	-	-
Net exposure in the statement of financial position	(1,405)	(864)	508

Currency risk sensitivity analysis

The exposure to currency risk is not material and hence, sensitivity analysis is not presented.

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.6 Market risk (continued)

22.6.2 Interest rate risk

The Group's and the Company's fixed rate deposits with licensed banks are exposed to a risk of change in their fair value due to changes in interest rates. The Group's variable rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates. Investments in short term receivables and payables are not significantly exposed to interest rate risk.

Risk management objectives, policies and processes for managing the risk

The Group and the Company place cash balances with reputable banks to generate interest income for the Group and the Company. The Group and the Company manage their interest risk by placing such balances on varying maturities and interest rate terms.

Exposure to interest rate risk

The interest rate profile of the Group's and the Company's significant interest-bearing financial instruments, based on carrying amounts as at the end of the reporting period was:

	Group			Company		
	31.12.2012 RM'000	**31.12.2011 RM'000**	**1.1.2011 RM'000**	**31.12.2012 RM'000**	**31.12.2011 RM'000**	**1.1.2011 RM'000**
Fixed rate instruments						
Financial assets	4,793	8,016	23,289	44,935	58,754	56,484
Floating rate instruments						
Financial liabilities	(5,000)	(10,416)	(18,750)	-	-	-

Interest rate risk sensitivity analysis

(a) *Fair value sensitivity analysis for fixed rate instruments*
The Group and the Company do not account for any fixed rate financial assets at fair value through profit or loss. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

Notes to the FINANCIAL STATEMENTS cont'd

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.6 Market risk (continued)

22.6.2 Interest rate risk (continued)

(b) *Cash flow sensitivity analysis for variable rate instruments*

A change of fifty basis points (50 bp) in interest rates at the end of the reporting period would have increased (decreased) equity and post-tax profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remained constant.

Group	Equity 50 bp increase RM'000	Equity 50 bp decrease RM'000	Profit or loss 50 bp increase RM'000	Profit or loss 50 bp decrease RM'000
2012				
Floating rate instruments	-	-	(19)	19
2011				
Floating rate instruments	-	-	(39)	39

22.7 Fair value of financial instruments

The carrying amounts of cash and cash equivalents, short term receivables and payables and short term borrowings approximate fair values due to the relatively short term nature of these financial instruments.

The carrying amount of unsecured non-revolving loan approximate fair values as they are subject to variable interest rates which in turn approximates the current market interest rates for similar facilities at the end of the reporting period.

The fair value of other financial assets, together with the carrying amount shown in the statement of financial position, is as follows:

Company	Carrying amount 31.12.2012 RM'000	Fair value 31.12.2012 RM'000	Carrying amount 31.12.2011 RM'000	Fair value 31.12.2011 RM'000	Carrying amount 1.1.2011 RM'000	Fair value 1.1.2011 RM'000
Amount due from subsidiary	54,523	54,523	53,754	53,754	47,384	47,384

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.7 Fair value of financial instruments (continued)

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the end of the reporting period.

Interest rate used to determine fair value

The interest rate used to discount estimated cash flows is 4.0% (2011: 4.4%).

23. CAPITAL MANAGEMENT

The Group's objective when managing capital is to maintain a strong capital base and safeguard the Group's ability to continue as a going concern, so as to safeguard shareholders' interest within the Company.

The Group's strategy for capital management is to avoid unnecessary debts obligation and funding cost.

There were no changes in the Group's approach to capital management during the financial year.

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

The Group is also required to maintain a maximum debt-to-equity ratio of nil (2011: 1.75), total liabilities-to-net worth of 1.75 and minimum debt service cover ratio of 2.0 to comply with a debt covenant, failing which, the bank may call an event of default. The Group has complied with this covenant.

24. CAPITAL AND OTHER COMMITMENTS

	Group		
	31.12.2012 RM'000	**31.12.2011 RM'000**	**1.1.2011 RM'000**
Plant and equipment			
Authorised but not provided for	20,200	-	-
Contracted but not provided for	3,577	2,094	3,880

25. RELATED PARTIES

Identity of related parties

For the purposes of these financial statements, parties are considered to be related to the Group or the Company if the Group or the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group or the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

Significant related party transactions with key management personnel

Key management personnel compensation is disclosed in Note 18.

Other significant related party transactions (other than disclosed elsewhere in the financial statements)

	Transaction value for year ended 31 December	
Group	**2012 RM'000**	**2011 RM'000**
Sale of goods to related companies	13,197	16,603
Purchases from related companies	(1,429)	(4,487)
Management fees paid to intermediate holding company	(5,649)	(6,010)
Research and development expenditure paid to related company	(1,760)	(1,274)
Company		
Dividend income received from a subsidiary	19,822	23,474
Interest income received from a subsidiary	2,321	2,284

There is no impairment loss recognised in respect of these outstanding balances at year end.

All the outstanding balances are unsecured and expected to be settled with cash.

Included in the management fee paid to the intermediate holding company is payment for services of certain key management personnel of the Company amounting to RM1,441,000 (2011: RM1,544,000).

26. OPERATING SEGMENTS

The Group has two reportable segments, as described below, which are the Group's strategic business units. The strategic business units target different markets, and are managed separately because they require different marketing strategies. For each of the strategic business units, the Group's Chief Executive Officer (the chief operating decision maker) reviews internal management reports at least on a quarterly basis.

Information about reportable segment and reconciliation of reportable segment revenue, profit and other material items

	Group	
	2012 RM'000	**2011 RM'000**
Reportable revenue from external		
Local	124,080	127,320
Export	11,230	10,812
	135,310	138,132
Operating expense		
Depreciation of property, plant and equipment	(6,974)	(5,969)
Other operating expense	(94,094)	(97,816)
Other operating income	1,356	248
Profit from operations	35,598	34,595
Finance income	101	364
Finance cost	(401)	(231)
Profit before tax	34,298	34,728
Income tax expense	(9,284)	(8,023)
Profit after tax	26,014	26,705

Major customers

Revenues from 2 major customers amount to approximately RM56,429,000 (2011: RM56,974,000) of the Group's total revenue.

Notes to the FINANCIAL STATEMENTS cont'd

27. EXPLANATION OF TRANSITION TO MFRSs

As stated in note 1(a), these are the first financial statements of the Group and of the Company prepared in accordance with MFRSs.

The accounting policies set out in note 2 have been applied in preparing the financial statements of the Group and of the Company for the financial year ended 31 December 2012, the comparative information presented in these financial statements for the financial year ended 31 December 2011 and in the preparation of the opening MFRS statement of financial position at 1 January 2011 (the Group's date of transition to MFRSs).

In preparing the opening consolidated statement of financial position at 1 January 2011, the Group has adjusted amounts reported previously in financial statements prepared in accordance with previous FRSs. An explanation of how the transition from previous FRSs to MFRSs has affected the Group's financial position, financial performance and cash flows is set out as follows:

27.1 Reconciliation of financial position

Group	1.1.2011			31.12.2011		
	FRSs RM'000	Effect of Transition to MFRSs RM'000	MFRSs RM'000	FRSs RM'000	Effect of Transition to MFRSs RM'000	MFRSs RM'000
Assets						
Property, plant and equipment	100,249	-	100,249	95,977	-	95,977
Investment properties	-	-	-	5,720	-	5,720
Total non-current assets	100,249	-	100,249	101,697	-	101,697
Inventories	34,003	-	34,003	45,124	-	45,124
Current tax assets	-	-	-	2,696	-	2,696
Trade and other receivables	35,755	-	35,755	37,679	-	37,679
Cash and cash equivalents	24,732	-	24,732	8,584	-	8,584
Assets classified as held for sale	1,740	-	1,740	1,740	-	1,740
Total current assets	96,230	-	96,230	95,823	-	95,823
Total assets	196,479	-	196,479	197,520	-	197,520

27. EXPLANATION OF TRANSITION TO MFRSs (CONTINUED)

27.1 Reconciliation of financial position (continued)

Group	1.1.2011			31.12.2011		
	FRSs RM'000	Effect of Transition to MFRSs RM'000	MFRSs RM'000	FRSs RM'000	Effect of Transition to MFRSs RM'000	MFRSs RM'000
Equity						
Share capital	69,739	-	69,739	69,739	-	69,739
Reserves	19,537	(7,395)	12,142	19,537	(7,395)	12,142
Retained earnings	68,593	7,395	75,988	75,169	7,395	82,564
Total equity	157,869	-	157,869	164,445	-	164,445
Liabilities						
Loans and borrowings	10,416	-	10,416	2,082	-	2,082
Deferred tax liabilities	3,821	-	3,821	5,584	-	5,584
Total non-current liabilities	14,237	-	14,237	7,666	-	7,666
Loans and borrowings	8,334	-	8,334	8,334	-	8,334
Current tax liabilities	356	-	356	-	-	-
Trade and other payables	15,683	-	15,683	17,075	-	17,075
Total current liabilities	24,373	-	24,373	25,409	-	25,409
Total liabilities	38,610	-	38,610	33,075	-	33,075
Total equity and liabilities	196,479	-	196,479	197,520	-	197,520

27.2 Reconciliation of profit or loss and other comprehensive income for the year ended 31 December 2011

There are no material differences between the statement of profit or loss and other comprehensive income presented under MFRSs and the statement of profit or loss and other comprehensive income presented under FRSs.

27.3 Material adjustments to the statements of cash flows for 2011

There are no material differences between the statement of cash flows presented under MFRSs and the statement of cash flows presented under FRSs.

27. EXPLANATION OF TRANSITION TO MFRSs (CONTINUED)

27.4 Notes to reconciliations

(a) Property, plant and equipment – Deemed cost exemption – previous revaluation

Under FRSs, the Group measured its land and buildings at valuation. The last valuation was carried out on 31 December 2010.

Upon transition to MFRSs, the Group elected to apply the optional exemption to use that previous revaluation as deemed cost under MFRSs. The revaluation reserve of RM7,395,000 at 1 January 2011 and 31 December 2011 was reclassified to retained earnings.

The aggregate fair value of the land and buildings at 31 December 2009 was determined to be RM35,443,000 compared to the then carrying amount of RM27,568,000 under FRSs.

The impact arising from the change is summarised as follows:

	Group		Company	
	1.1.2011 RM'000	**31.12.2011 RM'000**	**1.1.2011 RM'000**	**31.12.2011 RM'000**
Consolidated statement of financial position				
Revaluation reserve	7,395	7,395	-	-
Adjustment to retained Earnings	7,395	7,395	-	-

28. SUPPLEMENTARY FINANCIAL INFORMATION ON THE BREAKDOWN OF REALISED AND UNREALISED PROFITS OR LOSSES

The breakdown of the retained earnings of the Group and of the Company as at 31 December, into realised and unrealised profits, pursuant to Paragraphs 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements, are as follows:

	Group		**Company**	
	2012 RM'000	**2011 RM'000**	**2012 RM'000**	**2011 RM'000**
Total retained earnings of the Company and its subsidiary				
- realised	122,415	116,706	18,013	17,045
- unrealised	930	581	-	-
	123,345	117,287	18,013	17,045
Less: Consolidation adjustments	(34,723)	(34,723)	-	-
Total retained earnings	88,622	82,564	18,013	17,045

The determination of realised and unrealised profits is based on the Guidance of Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants on 20 December 2010.