

# KIAN ANN ENGINEERING LTD

ANNUAL REPORT 2010



THE **TRUSTED** NAME IN HEAVY MACHINERY & DIESEL ENGINE PARTS







## OUR VISION

To be the largest one-stop centre for heavy machinery parts and diesel engine spares, making progress possible for diverse industries around the world.

## OUR MISSION

We are guided by our Founders' core principles of business integrity, reliability, product quality and customer service.

We use the latest technology to stay connected globally to our customers.

We strive to achieve for our shareholders a reasonable return on their investments.

We remain committed to providing a promising and secure future for our people.

## LETTER TO SHAREHOLDERS



Kian Ann achieved a record \$13.2 million profit attributable to owners of the parent for FY2010

Dear Shareholders,

### Financial Performance

I am pleased to announce that despite a challenging year, Kian Ann achieved a record \$13.2 million profit attributable to owners of the parent (equity holders) for FY2010.

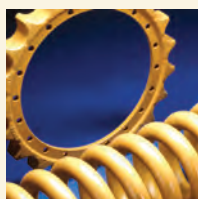
Against a backdrop of renewed confidence in consumer spending as global economies show signs of recovery, sales grew by 10.8% to \$149.4 million in FY2010. The improved sales were attributed to strengthening demand from the mining, forestry, agriculture and infrastructure sectors in Malaysia and Non-Asian Countries, especially Russia, South America and the Pacific region.

The Group's gross profit rose in tandem with improved sales from \$35.5 million in FY2009 to \$37.9 million in FY2010.

Profit before tax grew significantly by 34.5% to an all-time high of \$16.6 million compared with the previous financial year. This was attributed to the higher gross profit recorded and better management of operating costs.

We have remained focused on managing costs and cash flow. The Group's financial position remained strong with cash and bank balances of \$26.9 million as at 30 June 2010. Correspondingly, the Group's total loans and borrowings reduced by \$11.4 million or 41.0% from \$27.9 million as at 30 June 2009 to \$16.4 million as at 30 June 2010. Net working capital was positive at \$110.4 million as at 30 June 2010 compared with \$101.1 million as at 30 June 2009.

Equity attributable to owners of the parent (total shareholders' equity) was \$128.9 million as at 30 June 2010, an increase of \$9.7 million from \$119.2 million as at 30 June 2009.



### Undercarriage

Undercarriage forms a substantial bulk of the operating costs of a machine. As one of the largest distributors, Kian Ann offers multiple choices and a wide range of undercarriage parts to suit customers' exacting needs.

Net asset value per share was 29.4 cents as at 30 June 2010 (30 June 2009: 27.2 cents).

### Dividends

In view of the Group's strong performance, the Board has proposed a final dividend of 0.7 cent per share, subject to shareholders' approval at the forthcoming Annual General Meeting. Together with the interim dividend of 0.3 cent which was paid in April 2010, total dividend for FY2010 will amount to 1.0 cent per share or 33.1% of the FY2010 net profit attributable to owners of the parent (equity holders). This represents an increase of 42.9% in total dividend for FY2010 as compared with FY2009.

### Earnings Per Share

Earnings per share for FY2010 was 3.02 cents (FY2009: 2.63 cents).

### Prospects For Year 2011

We serve a diverse customer base, both in terms of geography and industry. This diversity allows us to capitalise on growth opportunities as the pace of economic activity in the various sectors pick up globally.

Given the Gross Domestic Product (GDP) rebound in most Asian countries, and upward revision of growth estimates globally, we continue to be positive about the growth opportunities for many of the industries we serve, like mining, forestry, agriculture and infrastructure sectors.

Going forward, we will remain highly focused on raising internal efficiencies, leveraging on our sourcing abilities to expand our market reach, particularly in developing economies, and maintaining a healthy cash flow.

### Kian Ann Celebrates its 45<sup>th</sup> Anniversary

A highlight in 2010 is the 45<sup>th</sup> anniversary of the founding of Kian Ann. The Company's journey over the past four decades has been a remarkable one. Credit goes to our talented, hard working and dedicated employees. The road has not always been easy, but working through the challenges has made Kian Ann what it is today. From our humble beginnings as a trader of general spare parts, we are now recognized as one of the largest independent distributors of heavy machinery parts in the world. I take great pride in knowing that our core principles – business integrity, reliability, product quality, and customer service – that have guided Kian Ann from day one, lives on today in our employees. These time-tested principles should provide assurance to all of us that Kian Ann will continue to succeed in 2011 and beyond.

### Acknowledgement

I wish to express my deep appreciation to our Board members for their invaluable contributions. I extend a warm welcome to our new Directors Mr Tan Ngiap Joo and Mr Loy Soo Chew, and I look forward to working closely with them in the years ahead.

On behalf of the Board, I take this opportunity to thank our shareholders for their support. Our appreciation also extends to our staff, customers, suppliers and business partners for their continued support. I am confident that the solid foundation, strong partnerships and our competent team will propel the Group to greater heights.

**LOW HAN CHEONG**  
CHAIRMAN



### Transmission, Power Train and Final Drive Parts

Kian Ann only sources and procures high quality transmission and final drive parts that ensure extended life-span of the drive train system and superior machine performance.

## OPERATIONS REVIEW

The past financial year was marked by both challenges and opportunities. During the year under review, market sentiments and conditions in the major markets we served improved as economies gradually recovered from the financial crisis.

For the financial year under review, Kian Ann recorded better sales of \$149.4 million, a 10.8% increase as compared with \$134.8 million a year ago. This was attributed to improved buying sentiments in most of its geographical segments.

Markets in Asia made up the largest component in Kian Ann's sales, contributing 77.3% in FY2010. Malaysia, our largest single market, contributed 28.0% to the Group's sales in FY2010. Sales in Malaysia increased from \$34.3 million in FY2009 to \$41.8 million. This was mainly attributed to a recovery in demand from forestry and agriculture sectors.

Singapore remained the second largest sales generator at 19.1% in FY2010. Domestic sales rose by 6.3% to \$28.5 million in FY2010 due to higher demand in construction sectors.

In FY2010, the Group experienced strong demand for replacement parts in mining and infrastructure sectors in Non-Asian Countries, specifically from Russia, South America and the Pacific region. Sales increased to \$33.8 million in FY2010 from \$28.3 million in FY2009.

Gross profit increased by \$2.4 million or 6.9% to \$37.9 million as compared with the previous financial year. Despite higher sales and higher gross profit in FY2010, gross profit margin had declined slightly from 26.3% to 25.4% as a result of lower selling prices amidst competitive market conditions in the first half of FY2010. However, gross profit margin improved significantly to 28.4% in Q4FY2010 as a result of higher demand for parts and higher selling prices.

One of the Group's subsidiaries, Kian Chue Hwa (Industries) Pte Ltd, which specializes in the distribution of commercial and industrial vehicles parts, also reported better performance with higher demand for its parts in its main markets, Malaysia and Singapore.



### Filters

Kian Ann offers top-performing Genuine, OEM and Quality Replacement filtration components, that can maintain system cleanliness, reduce component wear and tear, as well as lower operating costs.

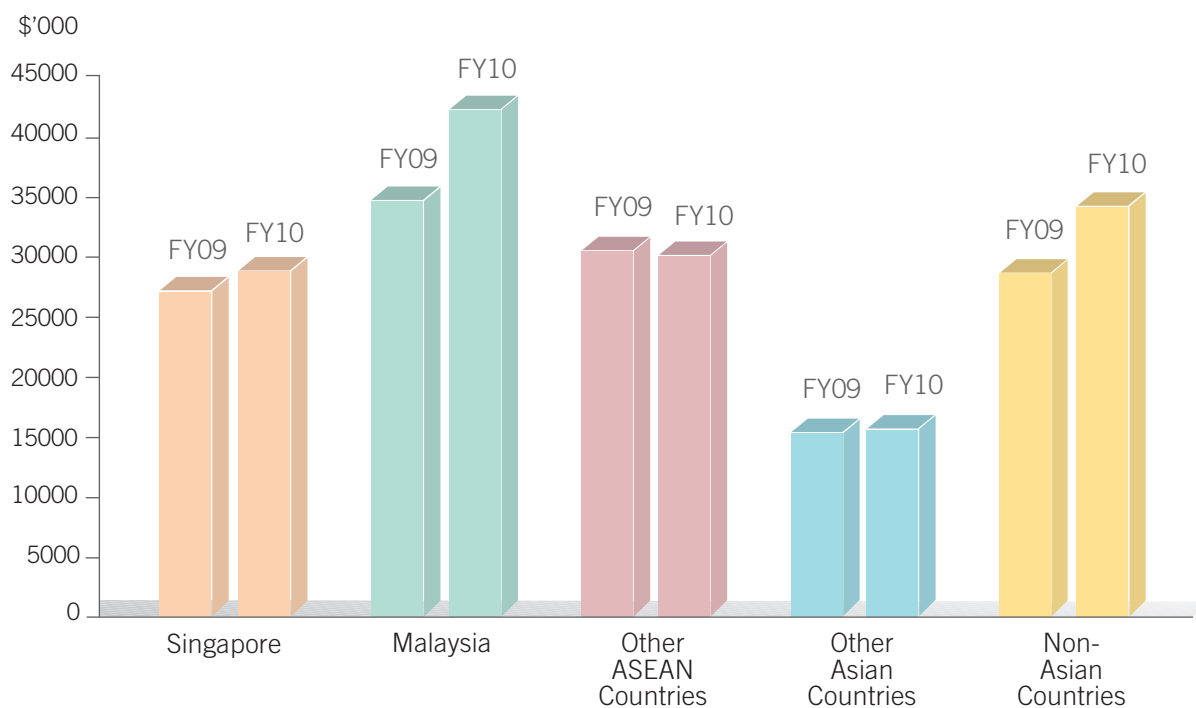


### Diesel Engine Parts

Kian Ann is stringent in our quality control and selection of brands. We continually source for engine parts that are able to operate under incredible stresses and extreme temperatures.

## By Geographical Segments

	FY2010		FY2009		Changes	
	\$'000	%	\$'000	%	\$'000	%
Singapore	28,511	19.1	26,821	19.9	1,690	6.3
Malaysia	41,841	28.0	34,311	25.5	7,530	21.9
Other ASEAN Countries	29,773	19.9	30,193	22.4	(420)	(1.4)
Other Asian Countries	15,411	10.3	15,140	11.2	271	1.8
Non-Asian Countries	33,828	22.7	28,339	21.0	5,489	19.4
Sale of Goods	149,364	100.0	134,804	100.0	14,560	10.8



### Hydraulic Seal Kits

Kian Ann offers a wide variety of seal kits for work cylinders in various earthmoving hydraulic systems. Our products include buffer rings, piston seals, wear rings and O-rings. We source our products from reliable and experienced OEM suppliers, who are equipped with state-of-the-art laboratories to conduct material, durability and load tests.



## BOARD OF DIRECTORS

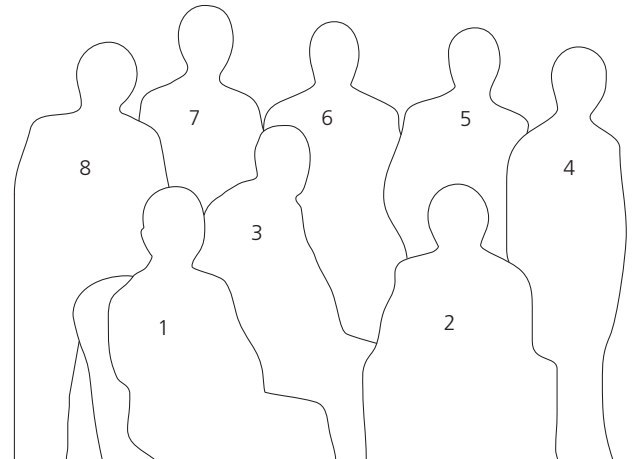
**1. Mr Low Han Cheong** is the co-founder and Chairman of Kian Ann. He was last re-appointed as a Director on 29 October 2009. Mr Low has been instrumental in expanding the Group's overseas customer base and cementing business relationships with local and international customers. Currently, Mr Low's executive responsibilities include corporate governance, as well as finance and accounting functions.

**2. Mr Law Peng Kwee** is the co-founder and Managing Director of Kian Ann. He was last re-elected as a Director on 29 October 2007. His main duties include overseeing the Group's marketing and procurement functions. Mr Law has contributed to the growth in the Group's customer base. Currently he is the Commissioner of our subsidiary, PT. Haneagle Heavyparts Indonesia.

**3. Mr Kevin Law Cher Chuan** joined Kian Ann in 1992 and was appointed to the Board as Executive Director on 16 September 2002. He was last re-elected as Director on 30 October 2008. Mr Law is also the Group General Manager of Kian Ann, responsible for overseeing the day-to-day running of the Company and the strategic planning for the Group. He holds a Bachelor of Science degree, majoring in Computer Information Systems. He is also Chairman of our subsidiaries, Kian Ann Engineering Trading (Shanghai) Co., Ltd, Kian Chue Hwa (Industries) Pte Ltd and President Director of PT. Haneagle Heavyparts Indonesia.

**4. Mr Loy Soo Chew** joined Kian Ann in 1996 and has been the General Manager since 2007. He was appointed to the Board as Executive Director on 1 December 2009. He oversees the daily operations of the Company. He also assists the Group General Manager in exploring and evaluating new business opportunities for the Group. Mr Loy is also a Director of our subsidiaries, Kian Ann Engineering Trading (Shanghai) Co., Ltd, Kian Chue Hwa (Industries) Pte Ltd and PT. Haneagle Heavyparts Indonesia. Mr Loy holds a Master Degree in Business Administration and Bachelor of Business, majoring in Professional Accounting. He is an associate of CPA Australia.

**5. Mr Ng Cher Yan** joined the Board on 30 April 2002 as Independent Director and was last re-elected as a Director on 29 October 2007. He is currently the Chairman of the Remuneration Committee and a member of the Audit and Nominating Committees. Mr Ng is also a Non-Executive Director of several other public companies listed on the Singapore Exchange Securities Trading Limited. Mr Ng holds a Bachelor of Accountancy degree and started his professional career with an international accounting firm. He is currently a Practicing Public Accountant, and



is a Fellow of the Institute of Certified Public Accountants of Singapore and a member of the Institute of Chartered Accountants, Australia.

**6. Mr Lim Ho Seng** joined the Board on 18 November 1996 as Independent Director and was last re-elected as a Director on 29 October 2009. Currently, he is the Chairman of the Audit Committee. He is also a member of the Remuneration and Nominating Committees. Mr Lim is the Chairman of Baker Technology Limited and an Independent Director of several other public companies listed on the Singapore Exchange Securities Trading Limited. He was the former Chief Executive Officer of NTUC Fairprice Co-operative Ltd. Mr Lim is a Fellow of the Institute of Certified Public Accountants of Singapore, Certified Public Accountants, Australia, the Association of Chartered Certified Accountants of the United Kingdom, the Institute of Chartered Secretaries and Administrators, and the Singapore Institute of Directors.

**7. Dr Lau Hwee Beng** joined the Board on 1 April 2005 as Non-Executive Director and was last re-elected as a Director on 30 October 2008. He is a member of the Audit Committee. Dr Lau is presently the Managing Director of Bio-Green Agritech Pte Ltd. He holds a Doctorate in Mechanical Engineering from Imperial College of Science & Technology, UK, and a Bachelor of Engineering degree in Mechanical Engineering (1<sup>st</sup> Class Honours) from Leicester University, UK.

**8. Mr Tan Ngiap Joo** joined the Board on 1 December 2009 as Independent Director. He is currently the Chairman of the Nominating Committee and a member of the Audit and Remuneration Committees. Mr Tan is the Chairman of United Engineering Limited and an Independent Director of several other public companies listed on the Singapore Exchange Securities Trading Limited and a public listed company on the Hong Kong Exchange. He was previously Deputy President of Oversea-Chinese Banking Corporation Limited. Prior to that, Mr Tan was the Chief Executive Officer of Bank of Singapore (Australia) Limited. He holds a Bachelor of Arts degree.

## KEY EXECUTIVES

**Mr Donald Low Shao Wei** joined Kian Ann in 1988 and was promoted to Deputy General Manager in December 2009. Mr Low has vast experience in liaising with overseas customers. In addition to servicing his broad customer base, Mr Low assists the GM in managing all sales matters of the Company. Mr Low is a Director of our subsidiaries, Kian Chue Hwa (Industries) Pte Ltd and PT. Haneagle Heavyparts Indonesia. He is also an Alternate Director to Mr Allan Ang Gim Hoon for Kian Ann Engineering Trading (Shanghai) Co., Ltd.

**Mr David Tan Wee Kok** joined Kian Ann in 1996 and is the Group Financial Controller cum Company Secretary. He holds a Master degree in Business Administration and Bachelor degree in Commerce (Accountancy). Mr Tan is a Fellow of the Institute of Certified Public Accountants of Singapore and Institute of Chartered Secretaries and Administration. He is also an Alternate Director to Mr Loy Soo Chew for Kian Ann Engineering Trading (Shanghai) Co., Ltd.

**Ms Florence Low Fei Lin** joined Kian Ann in 1994 and is the Group Human Resources and Corporate Communications Manager. Ms Low oversees the Company's office administration, human resources and corporate communications. Ms Low holds a Bachelor of Arts degree majoring in Economics and Japanese Studies. She is a professional member of the Singapore Human Resources Institute.

**Mr Allan Ang Gim Hoon** joined Kian Ann in 1979. He is the Assistant General Manager (Sales) in charge of sales to foreign customers, and is responsible for routine marketing, customer service and delivery schedules. He makes overseas trips regularly to service existing customers and to develop new markets. He is also a Director of our subsidiary, Kian Ann Engineering Trading (Shanghai) Co., Ltd.

**Mr Low Yeow Tuan** joined Kian Ann in 1976 as one of the pioneer executives of the Company, and now holds the position of Assistant General Manager (Sales). He has served the Company for over three decades and has acquired extensive experience in the industry. Mr Low currently oversees the Company's local sales operations.

**Mr Sam Teo Kia Tiong** joined Kian Ann in 1980 and holds the position of Assistant General Manager (Parts). He is responsible for the planning, organisation, co-ordination and dissemination of product related information within the Company. He works closely with the Warehouse Manager in managing inventory. He also works with the Assistant General Manager (Purchasing) in liaising with suppliers and negotiating prices, procurement contracts and delivery terms.

**Mr Raymond Tan Gim Hin** joined Kian Ann in 1976 and is one of the pioneer executives of the Company who has varied experience in sales and operations. Currently, he is the Assistant General Manager (Purchasing), responsible for overseeing the Purchasing Department.



### Buckets

Kian Ann offers excavator buckets for general purpose, heavy-duty, rock, clean-up, skeleton and ditching usage. These buckets are designed for maximum performance over a broad range of abrasive applications such as mixed dirt, clay and rock.

# CORPORATE INFORMATION

## Board of Directors

### Executive

Mr Low Han Cheong  
*Chairman*

Mr Law Peng Kwee  
*Managing Director*

Mr Kevin Law Cher Chuan  
*Group General Manager*

Mr Loy Soo Chew  
*General Manager*

### Non-Executive

Mr Lim Ho Seng  
*Independent*

Mr Ng Cher Yan  
*Independent*

Dr Lau Hwee Beng

Mr Tan Ngiap Joo  
*Independent*

### Audit Committee

Mr Lim Ho Seng  
*Chairman*

Mr Ng Cher Yan

Dr Lau Hwee Beng

Mr Tan Ngiap Joo

### Remuneration Committee

Mr Ng Cher Yan  
*Chairman*

Mr Lim Ho Seng

Mr Tan Ngiap Joo

### Nominating Committee

Mr Tan Ngiap Joo  
*Chairman*

Mr Lim Ho Seng

Mr Ng Cher Yan

## Company Secretary

Mr David Tan Wee Kok

## Registered & Business Office

Kian Ann Building  
7 Changi South Lane  
Singapore 486119

Tel: (65) 6298 1011

Fax: (65) 6587 3488

Company Registration No.:  
197101102H

## Registrars & Share Transfer Office

Boardroom Corporate & Advisory  
Services Pte. Ltd.

50 Raffles Place #32-01  
Singapore Land Tower  
Singapore 048623

Tel: (65) 6536 5355

Fax: (65) 6536 1360

## Auditors

Ernst & Young LLP

One Raffles Quay  
North Tower, Level 18  
Singapore 048583

Partner-in-charge:  
Ang Chuen Beng  
(Appointed since FY2010)

## Key Executives

Mr Donald Low Shao Wei  
*Deputy General Manager*

Mr David Tan Wee Kok  
*Group Financial Controller*

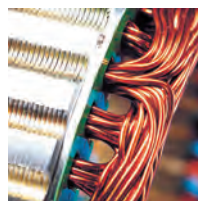
Ms Florence Low Fei Lin  
*Group Human Resources and  
Corporate Communications Manager*

Mr Allan Ang Gim Hoon  
*Assistant General Manager (Sales)*

Mr Low Yeow Tuan  
*Assistant General Manager (Sales)*

Mr Sam Teo Kia Tiong  
*Assistant General Manager (Parts)*

Mr Raymond Tan Gim Hin  
*Assistant General Manager (Purchasing)*



### Electrical Parts

Kian Ann offers a wide range of heavy-duty electrical parts that are capable of withstanding all kinds of climates and environments.



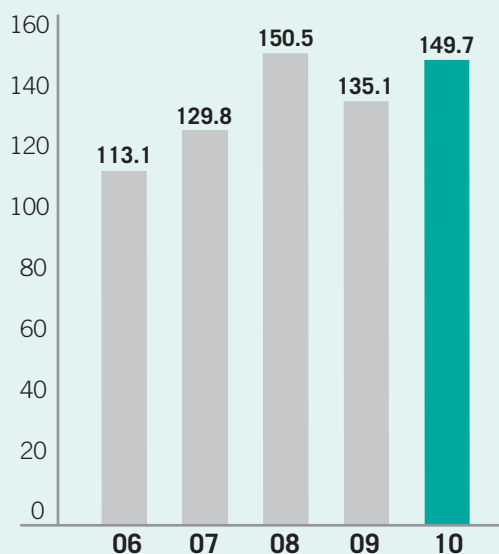
### Hydraulic Pumps and Travel Motor Parts

Reliable, efficient and well-maintained hydraulics maximise machine productivity whilst keeping costs in line. Kian Ann carries a full range of Genuine, OEM and Quality Replacement hydraulic pump assemblies and travel motor parts that are of superior quality and are competitively priced.

## 5-YEAR FINANCIAL SUMMARY

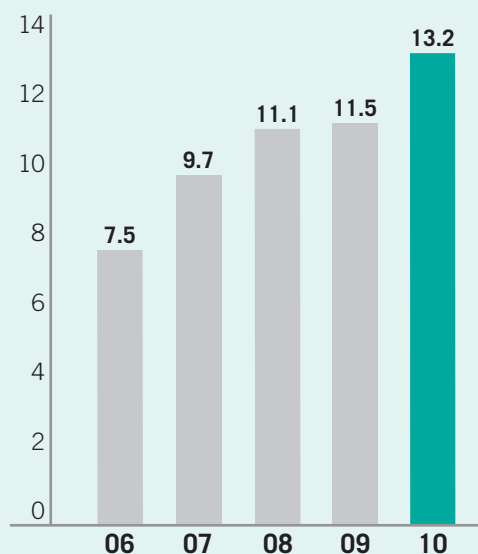
### GROUP TURNOVER

(\$ million)



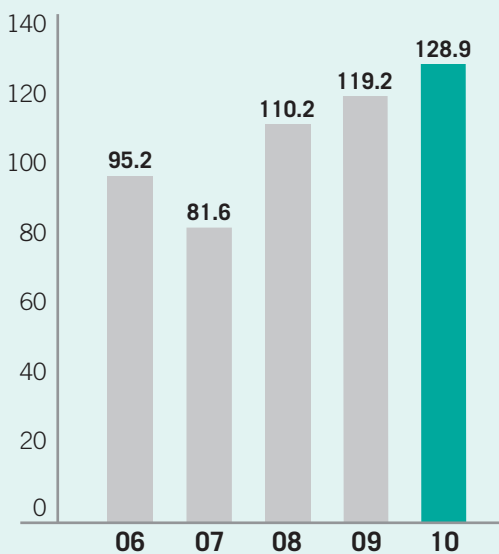
### PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT (EQUITY HOLDERS)

(\$ million)



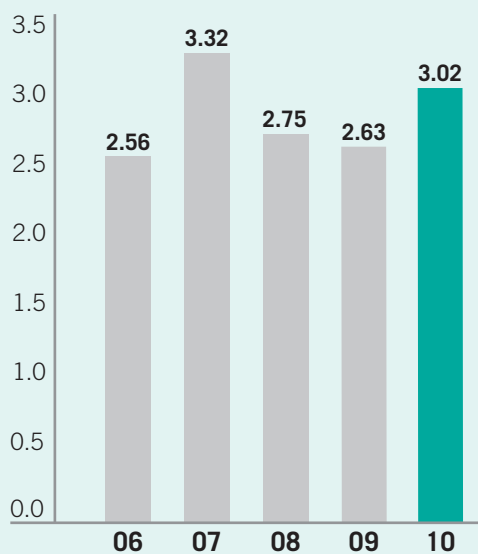
### EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT (TOTAL SHAREHOLDERS' EQUITY)

(\$ million)



### EARNINGS PER SHARE

(Cents)



## 5-YEAR FINANCIAL SUMMARY

### Results of Operations

(\$' 000)	Financial year ended 30 June				
	2010	2009	2008	2007	2006
Turnover	149,692	135,103	150,508	129,837	113,118
Profit before tax	16,575	12,325	13,807	12,012	9,381
Taxation	(2,959)	(716)	(2,599)	(2,229)	(2,115)
Profit for the year	13,616	11,609	11,208	9,783	7,266
Non-controlling interests	(369)	(106)	(92)	(82)	198
Profit attributable to owners of the parent	13,247	11,503	11,116	9,701	7,464
Earnings per share (Cents)	3.02	2.63	2.75	3.32	2.56

### Financial Position

(\$' 000)	As at 30 June				
	2010	2009	2008	2007	2006
Equity attributable to owners					
of the parent	128,923	119,194	110,238	81,616	95,167
Property, plant and equipment	23,806	24,109	24,046	24,276	25,096
Investment properties	2,464	2,530	2,583	2,636	2,689
Intangible assets	1,366	1,646	1,926	2,190	-
Goodwill	1,200	1,200	1,200	1,200	-
Joint venture companies	-	-	-	-	256
Other investment	157	157	157	157	157
Deferred tax assets	83	180	139	-	-
Long term receivables	-	-	-	-	224
Current assets	145,638	141,973	153,927	123,000	113,412
Current liabilities	(35,228)	(40,870)	(69,811)	(58,092)	(30,243)
Net current assets	110,410	101,103	84,116	64,908	83,169
Non-current liabilities	(8,626)	(10,161)	(2,464)	(13,092)	(16,047)
Non-controlling interests	(1,937)	(1,570)	(1,465)	(659)	(377)
Net assets employed	128,923	119,194	110,238	81,616	95,167
Net assets value per share (Cents)	29.43	27.21	25.16	27.94	32.58

## CORPORATE STRUCTURE

### KIAN ANN ENGINEERING LTD

100%

SINGAPORE  
**KIAN ANN DISTRICENTRE PTE LTD**

100%

SINGAPORE  
**EIK AN PARTS SERVICES PTE LTD**

100%

PEOPLE'S REPUBLIC OF CHINA  
**KIAN ANN ENGINEERING TRADING (SHANGHAI) CO., LTD**  
Person In Charge: Mr Fang Qing Li, General Manager

95%

INDONESIA  
**PT. HANEAGLE HEAVYPARTS INDONESIA**  
Person In Charge: Mr Handoko Harsono Widjaja, Director / General Manager

80%

SINGAPORE  
**KIAN CHUE HWA (INDUSTRIES) PTE LTD**  
Person In Charge: Mr Ivan Lin Kar Hock, Managing Director

51%

SINGAPORE  
**TRANSMEC ENGINEERING PTE LTD**  
Person In Charge: Mr Daniel Loh Yong Ngon, Managing Director

# CORPORATE GOVERNANCE

The Company is committed to maintain a high standard of corporate governance within the Group in order to protect the interests of its shareholders. The Board has adopted the principles and guidelines set out in the Code of Corporate Governance 2005 (the “Code”) and in compliance with the Listing Manual of the Singapore Exchange Securities Trading Limited (“SGX-ST”). This Statement describes the Company’s corporate governance processes and activities with specific reference to the Code and deviations from the Code are explained. For effective corporate governance, the Company has in place various self-regulatory and monitoring mechanisms as follows:

## Board Of Directors

### The Board comprises:

Low Han Cheong (Chairman)  
 Law Peng Kwee (Managing Director)  
 Kevin Law Cher Chuan (Executive Director)  
 Loy Soo Chew (Executive Director)  
 Lim Ho Seng (Independent Non-Executive Director)  
 Ng Cher Yan (Independent Non-Executive Director)  
 Lau Hwee Beng (Non-Executive Director)  
 Tan Ngiap Joo (Independent Non-Executive Director)

Mr Law Peng Kwee is the nephew of Mr Low Han Cheong.  
 Mr Kevin Law Cher Chuan is the son of Mr Law Peng Kwee.  
 Dr Lau Hwee Beng is the nephew of Mr Low Han Cheong.

The Board supervises the overall management of the business and affairs of the Group. Apart from its statutory responsibilities, the Board reviews and approves the Group’s strategic plans, key operational initiatives, major investments, disposals and funding decisions and interested person transactions. It also identifies principal risks of the Group’s business and implements appropriate systems to manage those risks, reviews the Group’s financial performance, approves major expenditure and significant financing matters.

All newly appointed Directors are given briefings by Management on the history and business operations of the Group. The Company will, if necessary, organize briefing sessions or circulate memoranda to Directors to enable them to keep pace with regulatory changes, where such changes have a material bearing on the Group.

The Board has separate and independent access to Senior Management of the Company and the request for information from the Board is dealt with promptly by Management. The Board is informed of all material events and transactions as and when they occur.

The Directors are from diverse backgrounds and collectively bring with them a wide range of experience in industry, accounting, banking, finance, business and management. The profiles of the Directors are set out on page 7 of the Annual Report.

The Board holds at least four meetings every year. Ad hoc meetings are convened when circumstances require. The attendance of the Directors at meetings of the Board and Board Committees, as well as the frequency of such meetings, is disclosed in this Report.

The roles of the Chairman and Managing Director are separated. The Managing Director is responsible for the daily operations of the Group, whereas the Chairman ensures that the Board meetings are held when necessary and set the Board meeting agendas in consultation with the Managing Director and ensures that Board members are provided with complete, adequate and timely information.

## CORPORATE GOVERNANCE

The Board comprises eight directors, three of whom are Non-Executive and independent of Management. This enables the Board to exercise objective judgement on the business, directions and affairs of the Group in the interest of the Company.

The independence of each Director is reviewed annually by the Nominating Committee.

As a result of its review of the independence of the Directors for the financial year ended 30 June 2010, the NC noted that more than one-third of the Board members are Independent Directors, and that no individual or small group of individuals dominates the Board's decision-making process.

### **Access to Information**

The Company recognises the importance of providing the Board with timely and complete information prior to its meetings and as and when the need arises.

In order to ensure that the Board is able to fulfill its responsibilities, the Management provides the Board with quarterly management reports, forecasts/budgets, financial statements and other relevant information of the Group. In addition, the Management provides adequate and timely information to the Board on affairs and issues that require the Board's decision.

The Board has separate and independent access to Senior Management and the Company Secretary at all times.

The Company Secretary attends all Board and Committee meetings and is responsible for adherence to Board procedures. The Company Secretary, together with the Management, is also responsible for ensuring the Group's compliance with the Companies Act, Cap. 50, the SGX-ST Listing Manual and all relevant rules and regulations which are applicable to the Group.

Should Directors, whether as a group or individually, need independent professional advice to fulfill their duties, such advice will be obtained from a professional firm of the Director's choice and the cost of such professional advice will be borne by the Company.

### **Accountability**

As mentioned earlier, the Management furnishes the Board with timely quarterly management reports and financial statements of the Group. The Board in turn is accountable to the shareholders and is obliged to provide the shareholders with timely and fair disclosure of material information.

## **Board Committees**

To assist the Board in the execution of its duties, the Board has delegated specific functions to the various committees.

### **Nominating Committee (NC)**

#### **Board Membership**

The NC comprises Mr Tan Ngiap Joo (Chairman of the NC), Mr Lim Ho Seng and Mr Ng Cher Yan. All the NC members and the Chairman of the NC are Independent Non-Executive Directors.

The NC regulated by a set of written Terms of Reference, was set up to perform the following functions:

- (i) Identify candidates and review all nominations for new appointment and re-appointment of Directors;
- (ii) Determine the criteria for identifying candidates and reviewing nominations for new appointments;
- (iii) Evaluate the effectiveness and performance of the Board as a whole and the contribution of individual Directors to the effectiveness of the Board;
- (iv) Review and determine the independence of Directors annually;
- (v) Decide whether a Director is able to and has been adequately carrying out his duties as a Director of the Company, particularly when the Director has multiple board representations; and
- (vi) Review and recommend Directors who will be retiring by rotation once every three years, as well as those retiring pursuant to Section 153(6) of the Companies' Act, to be re-elected and re-appointed respectively at each Annual General Meeting.

In selecting potential new Directors, the NC will seek to identify the competencies required to enable the Board to fulfill its responsibilities. In doing so, the NC will have regard to the results of the annual appraisal of the Board's performance. The NC may engage consultants to undertake research on, or assess, candidates for new positions on the Board, or to engage such other independent experts as it considers necessary to carry out its duties and responsibilities.

Upon the review and recommendation by the NC for the appointment of Directors, the Board will approve the appointment of new Directors.

In accordance with the Company's Articles of Associations, each Director is required to retire at least once in every three years by rotation at the Annual General Meeting. The retiring Directors are eligible to offer themselves for re-election.

In accordance with Section 153(6) of the Companies' Act, a Director over 70 years of age is required to vacate office every year. The Director is eligible to offer himself for re-appointment.

The NC has assessed the independence of the Non-Executive Directors, namely Mr Tan Ngiap Joo, Mr Lim Ho Seng and Mr Ng Cher Yan and is satisfied that there are no relationships which would deem them not to be independent.

The NC had recommended the re-elections of Mr Law Peng Kwee, Mr Ng Cher Yan, Mr Tan Ngiap Joo and Mr Loy Soo Chew and the re-appointment of Mr Low Han Cheong as Directors of the Company at the forthcoming Annual General Meeting. The Board had accepted the NC's recommendation and the five Directors would be offering themselves for re-election or re-appointment at the forthcoming Annual General Meeting.

## **Board Performance**

On an annual basis, the NC will assess the effectiveness and performance of the Board as a whole and of each individual director in consultation with the Chairman of the Company based on assessment parameters adopted by the Board. The assessment parameters include objective performance criteria, which allow comparison with the Company's peers, attendance record at meetings of the Board and Board Committees, contribution and participation at meetings and ability to make informed decisions. The review of Board performance also involves evaluation of the Board on the level of supervision and oversight by Executive Directors.

## CORPORATE GOVERNANCE

### Remuneration Committee (RC)

The RC comprises Mr Ng Cher Yan (Chairman of the RC), Mr Lim Ho Seng and Mr Tan Ngiap Joo.

All the RC members and the Chairman of the RC are Independent Non-Executive Directors. The RC has access to external professional advice on executive compensation and remuneration matters, if and when required.

The RC is guided by its Terms of Reference, which sets out its responsibilities. The RC reviews the existing framework of remuneration for Directors serving on the Board and Board Committees. In reviewing the remuneration of Directors, the RC considers the market conditions, pay conditions within the industry as well as the Company's performance and the performance of Directors.

The RC also reviews and recommends to the Board for approval all service contracts of the Executive Directors (including performance related elements of remuneration), remuneration of employees related to the Directors and substantial shareholders and any long-term incentive schemes, which may be set up from time to time.

The RC also ensures that Directors' fees for the Non-Executive Directors takes into account of Directors' involvement in committees of the Board.

A breakdown, showing the level and mix of the remuneration of the Directors and all the Key Executives for FY2010, is set out on page 20 of this Annual Report.

### Audit Committee (AC)

The AC comprises Mr Lim Ho Seng (Chairman of the AC), Mr Ng Cher Yan, Dr Lau Hwee Beng and Mr Tan Ngiap Joo. The majority of the AC members and the Chairman of the AC are Independent Non-Executive Directors.

The members of the AC collectively have many years of corporate experience in senior management positions and are knowledgeable in the field of accounting, auditing, banking and finance industries and have sufficient financial management expertise to discharge the AC's functions.

The AC, regulated by a set of written Terms of Reference, discharges the following delegated key functions and responsibilities:

- (i) Review financial results;
- (ii) Review, internal and external audit plans, including internal audit procedures and the nature and scope of the audit before the audit commences, the Internal Auditors' evaluation of the Company's system of internal controls, the External and Internal Auditors' audit reports and management letter issued by the External Auditors (if any) and Management's response to the letter;
- (iii) Review interested person transactions in accordance with the requirements of the Listing Rules of the SGX-ST;
- (iv) Review significant financial reporting issues and judgments so as to ensure the integrity of the financial statements of the Company and the Group before their submission to the Board, together with the External Auditors' report;
- (v) Review the announcements of quarterly and full-year results before they are submitted to the Board for approval to release to the SGX-ST;
- (vi) Review and recommend the re-appointment of External Auditors and review of their audit fees and terms of engagement;

- (vii) Review annually all non-audit services provided by the External Auditors to determine if the provision of such services would affect the independence of the External Auditors; and
- (viii) Consider other matters as requested by the Board.

The AC is also tasked to conduct annual reviews of the independence of External Auditors to satisfy itself that the nature and volume of non-audit services will not prejudice the independence and objectivity of the Auditors before confirming their re-nomination.

The AC has reviewed the non-audit services amounted to \$30,300 provided by the External Auditors, Ernst & Young LLP, and is of the opinion that the provision of such services does not affect their independence. The AC has recommended the re-appointment of Ernst & Young LLP as External Auditors at the forthcoming Annual General Meeting.

Additionally, the AC also reviews legal or regulatory changes that may have a material impact on the financial statements.

The AC has the express power to investigate into any matters within its Terms of Reference, and has full access to Management. It has full discretion to invite any Executive Director or Executive Officer to attend its meetings and has reasonable resources to enable it to discharge its function properly.

Annually, and as and when required, the AC meets with the External Auditors and the Internal Auditors, without the presence of Management.

The AC has put in place a policy, whereby staff of the Group may raise concerns about possible improprieties in matters of financial reporting, fraudulent acts and other matters and ensure that arrangements are in place for independent investigations of such matters and the appropriate follow up actions.

The attendance record of the AC is set out on page 20 of this Annual Report.

## **Internal Controls**

The Company has instituted a system of internal controls for the Group. While no system can provide absolute assurance against material loss or financial misstatement, the Group's internal financial controls are designed to provide reasonable assurance that assets are safeguarded, that proper accounting records are maintained, and that financial information used within the business and for publication is reliable. In designing these controls, the Management has taken into consideration to the risks to which the business is exposed, the likelihood of such risks occurring and the costs of protecting against them.

The Board has adopted a set of internal controls which sets out approval limits for expenditure, investments and divestments and cheque signatory arrangements. Approval sub-limits are also provided at management levels to facilitate operational efficiency.

The AC also reviews the effectiveness of the Company's material internal controls, including financial, operational and compliance controls, and risk management with the Internal Auditors. The Internal Auditors report to the Chairman of the Audit Committee at least annually.

The Board reviews the effectiveness of the Group's system of internal controls in the light of key business and financial risks affecting its business.

The Board is satisfied that based on the information furnished to it and from its own observations, the internal controls and risk management processes are satisfactory for the nature and size of the Group's operations and business.

## CORPORATE GOVERNANCE

### Internal Audit

The Company has out-sourced its internal audit function to Stone Forest Consulting Pte Ltd (“Stone Forest”). Members of Stone Forest are suitably qualified and have the relevant experience.

The AC is satisfied that the Internal Auditors have met the standards set by internationally recognised professional bodies including the Standards for the Professional Practice of Internal Auditing set by The Institute of Internal Auditors.

The Internal Auditors report directly to the AC on internal audit matters, and to Senior Management on administrative matters. The AC reviews the internal audit reports and activities periodically and the effectiveness of the Company’s internal audit function. The AC also reviews and approves the annual internal audit plan. The AC is of the view that the internal audit function is adequately resourced to perform its functions and has, to the best of its ability, maintained its independence from the activities that it audits.

### Communication With Shareholders

The Company does not practise selective disclosures. Financial results and other material information are released to shareholders and the investing community on a timely basis in accordance with the requirements of the Listing Rules of the SGX-ST via the SGXNET system.

All shareholders of the Company receive copies of the Annual Report and Notice of the Annual General Meeting annually. Notice of the Annual General Meeting is also advertised in the newspapers and made available on the SGX-ST website.

The Company’s main forum for dialogue with shareholders takes place at its Annual General Meeting whereat members of the Board, Chairmen of the Audit, Remuneration, and Nominating Committees, Senior Management, and the External Auditors are in attendance to answer to any queries raised by the shareholders. At the Annual General Meeting, shareholders are given the opportunity to voice their views and ask questions regarding the Company.

Resolutions to be passed at general meetings are always separate and distinct in terms of issue so that shareholders are better able to exercise their right to approve or deny the issue or motion.

### Dealing In Securities

The Company has complied with its Best Practices Guide on Securities Transactions which states that Officers of the Company should not deal in the Company’s securities on short-term considerations and during the period commencing two weeks before the announcements for each of the first three quarters of its financial year end and one month before the announcement of the Company’s full year financial statements.

### Interested Person Transactions

The Company has adopted an internal policy governing procedures for the identification, approval and monitoring of interested person transactions. All interested person transactions are subject to review by the AC to ensure that they are carried out on normal commercial terms or entered into on an arm’s length basis.

The Company also adopts the materiality thresholds imposed under Chapter 9 for the Company to announce such transactions, or to announce and convene separate general meetings as and when potential transactions with the Interested Persons arise, to seek shareholders, prior approval for those transactions.

In compliance with the SGX-ST listing requirement, the Group confirms that there were interested person transactions during the financial year under review.

Name of interested person	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than \$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)	Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than \$100,000)
Skylift Consolidator (Pte) Ltd	\$ 364,919	Not Applicable
Truck & Tractor Engineering Sdn Bhd	\$ 1,072,189	

## Risk Management Policies & Processes

The main risks arising from the Group's operations are interest rate risk, credit risk, foreign exchange risk and the risk of stock obsolescence. The Board reviews and agrees on policies for managing each of these risks.

Besides the above-mentioned risks, the Group also considers the following as major vulnerable factors to the Group:

(a) Pace of infrastructure development in the region

As most of the Group's sales of industrial hardware and machinery spares are to customers engaged in the construction, mining and logging industries, the Group's turnover may be adversely affected by any government restrictions or other economic factors which may delay the pace of infrastructure development.

(b) Political risks

The Group derives approximately 81% of its sales from countries outside Singapore, including certain Southeast Asian countries where the political and socio-economic situation may be undergoing a transitional phase of uncertainty and this may have an adverse impact on its sales revenue.

## Material Contracts

No material contracts were entered between the Company or any of its subsidiaries with any Director or controlling shareholders during the financial year ended 30 June 2010.

## CORPORATE GOVERNANCE

### Directors' Attendance at Board and Board Committee Meetings for FY2010

Name of Director	Board Meeting		Audit Committee Meeting		Nominating Committee Meeting		Remuneration Committee Meeting	
	Number Held	Attendance	Number Held	Attendance	Number Held	Attendance	Number Held	Attendance
Low Han Cheong	4	4	-	-	-	-	-	-
Law Peng Kwee	4	4	-	-	2	2	-	-
Kevin Law Cher Chuan	4	4	-	-	-	-	-	-
Loy Soo Chew*	2	2	-	-	-	-	-	-
Lim Ho Seng	4	4	4	4	2	2	3	3
Ng Cher Yan	4	4	4	4	2	2	3	3
Lau Hwee Beng	4	4	4	4	-	-	-	-
Tan Ngiap Joo*#	2	2	2	2	-	-	2	2

\* Mr Loy Soo Chew and Mr Tan Ngiap Joo were appointed as Board Members in December 2009.

# Mr Tan Ngiap Joo was appointed as the chairman of Nominating Committee and a member of the Audit and Remuneration Committees in January 2010.

### Disclosure of Remuneration

Remuneration of Directors for FY2010 are as follows:

	Name	Directors' fee	Salary	Bonus and Profit Sharing	Total
\$1,000,000 to below \$1,250,000	Law Peng Kwee	-	28%	72%	100%
\$750,000 to below \$1,000,000	Low Han Cheong	-	37%	63%	100%
\$250,000 to below \$500,000	Kevin Law Cher Chuan	4%	54%	42%	100%
	Loy Soo Chew*	5%	53%	42%	100%
Below \$250,000	Lim Ho Seng	100%	-	-	100%
	Ng Cher Yan	100%	-	-	100%
	Lau Hwee Beng	100%	-	-	100%
	Tan Ngiap Joo	100%	-	-	100%

\* Mr Loy Soo Chew was remunerated as a key executive and an executive director for the periods from 1 July 2009 to 30 November 2009 and 1 December 2009 to 30 June 2010 respectively. His remuneration shown in the above table reflects total remuneration receivable from 1 July 2009 to 30 June 2010.

Remuneration Band of all Key Executives of the Company who are not Directors of the Company for FY2010 are as follows:

	Name	Salary	Bonus	Other Benefits	Total
Below \$250,000	Donald Low Shao Wei	72%	20%	8%	100%
	David Tan Wee Kok	78%	19%	3%	100%
	Florence Low Fei Lin	81%	19%	-	100%
	Allan Ang Gim Hoon	73%	23%	4%	100%
	Low Yeow Tuan	78%	22%	-	100%
	Sam Teo Kia Tiong	76%	24%	-	100%
	Raymond Tan Gim Hin	92%	8%	-	100%

The profiles of the Key Executives of the Company are set out on page 8 of the Annual Report.

No other employee of the Group who is an immediate family member of a Director or the Managing Director received remuneration exceeding \$150,000 during the financial year ended 30 June 2010, except for Mr Donald Low Shao Wei who is the son of the Chairman and a Key Executive of the Company.

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## DIRECTORS' REPORT

The Directors are pleased to present their report to the members together with the audited consolidated financial statements of Kian Ann Engineering Ltd (the "Company") and its subsidiaries (collectively, the "Group") and the statement of financial position and statement of changes in equity of the Company for the financial year ended 30 June 2010.

### Directors

The Directors of the Company in office at the date of this report are:

Low Han Cheong	(Chairman)
Law Peng Kwee	
Kevin Law Cher Chuan	
Loy Soo Chew	(Appointed on 1 December 2009)
Lim Ho Seng	
Ng Cher Yan	
Lau Hwee Beng	
Tan Ngiap Joo	(Appointed on 1 December 2009)

### Arrangements to enable directors to acquire shares and debentures

Except as disclosed in this report, neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object is, to enable the Directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

### Directors' interests in shares and debentures

The following Directors, who held office at the end of the financial year, had according to the register of Directors' shareholdings required to be kept under Section 164 of the Singapore Companies Act, Cap. 50, an interest in shares and share options of the Company and related corporations (other than wholly-owned subsidiaries) as stated below:

Name of Director	Direct interest			Deemed interest		
	At 1.7.09 or date of appointment	At 30.6.10	At 21.7.10	At 1.7.09 or date of appointment	At 30.6.10	At 21.7.10
<b>The Company</b>						
Kian Ann Engineering Ltd ( <i>Ordinary shares</i> )						
Low Han Cheong	48,474,000	54,884,980	54,884,980	12,169,000	1,330,000	1,330,000
Law Peng Kwee	7,800,000	11,416,470	11,416,470	122,279,230	119,320,230	119,320,230
Kevin Law Cher Chuan	370,000	370,000	370,000	174,000	174,000	174,000
Lau Hwee Beng	50,804,770	43,769,320	43,769,320	12,851,500	1,592,500	1,592,500
Loy Soo Chew	-	-	-	155,000	155,000	155,000
Tan Ngiap Joo	-	50,000	50,000	-	-	-
<b>Subsidiary companies</b>						
Transmec Engineering Pte Ltd ( <i>Ordinary shares</i> )						
Law Peng Kwee	-	-	-	963,900	963,900	963,900
Kian Chue Hwa (Industries) Pte Ltd ( <i>Ordinary shares</i> )						
Law Peng Kwee	-	-	-	3,600,000	3,600,000	3,600,000
PT. Haneagle Heavyparts Indonesia ( <i>Ordinary shares</i> )						
Law Peng Kwee	-	-	-	190	190	190

### **Directors' interests in shares and debentures (cont'd)**

By virtue of Section 7 of the Companies Act, Mr Law Peng Kwee is deemed to have interests in shares of the other subsidiary companies of the Company, all of which are wholly owned.

Except as disclosed in this report, no Director who held office at the end of the financial year had interests in shares, share options, warrants or debentures of the Company, or of related corporations, either at the beginning of the financial year or at the end of the financial year.

### **Directors' contractual benefits**

Except as disclosed in the financial statements, since the end of the previous financial year, no Director of the Company has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the Director, or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

### **Audit Committee**

The members of the Audit Committee at the date of this report are as follows:

Lim Ho Seng (Chairman, Independent Director)  
Ng Cher Yan (Independent Director)  
Lau Hwee Beng (Non-Executive Director)  
Tan Ngiap Joo (Independent Director)

The Audit Committee performs the functions set out in the Companies Act and the Code of Corporate Governance. In performing those functions, the Audit Committee reviewed the overall scope of both internal and external audits and the assistance given by the Company's officers to the auditors. The Committee met with the internal and external auditors to discuss the results of their respective examinations and their evaluation of the systems of internal accounting controls. The Committee also reviewed the financial statements of the Company and the consolidated financial statements of the Group for the year ended 30 June 2010 as well as the external auditors' report thereon.

A full report of these functions performed is included in the Report on Corporate Governance.

### **Auditors**

Ernst & Young LLP have expressed their willingness to accept re-appointment as auditors.

On behalf of the Board of Directors,

Low Han Cheong  
Director

Law Peng Kwee  
Director

Singapore  
23 September 2010

## STATEMENT BY DIRECTORS

We, Low Han Cheong and Law Peng Kwee, being two of the Directors of Kian Ann Engineering Ltd, do hereby state that, in the opinion of the Directors:

- (i) the accompanying statements of financial position, consolidated income statement, consolidated statement of comprehensive income, statements of changes in equity, and consolidated statement of cash flow together with notes thereto are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 30 June 2010 and the results of the business, changes in equity and cash flows of the Group and the changes in equity of the Company for the year ended on that date, and
- (ii) at the date of this statement there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the Board of Directors,

Low Han Cheong  
Director

Law Peng Kwee  
Director

Singapore  
23 September 2010

# INDEPENDENT AUDITORS' REPORT

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

We have audited the accompanying financial statements of Kian Ann Engineering Ltd (the "Company") and its subsidiaries (collectively, the "Group") set out on pages 26 to 97, which comprise the statements of financial position of the Group and the Company as at 30 June 2010, the statements of changes in equity of the Group and the Company, and the consolidated income statement, consolidated statement of comprehensive income and consolidated statement of cash flow of the Group for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the provisions of the Singapore Companies Act, Cap. 50 (the "Act") and Singapore Financial Reporting Standards. This responsibility includes devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss account and balance sheet and to maintain accountability of assets; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, 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,

- (i) the consolidated financial statements of the Group, and the statement of financial position and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 30 June 2010 and the results, changes in equity and cash flows of the Group and the changes in equity of the Company for the year ended on that date; and
- (ii) the accounting and other records required by the Act to be kept by the Company and by those subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

Ernst & Young LLP  
Public Accountants and Certified Public Accountants  
Singapore  
23 September 2010

## STATEMENTS OF FINANCIAL POSITION

### AS AT 30 JUNE 2010

	Note	Group		Company	
		2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
<b>Non-current assets</b>					
Property, plant and equipment	3	23,806	24,109	132	240
Investment properties	4	2,464	2,530	806	829
Intangible assets	5	1,366	1,646	–	–
Goodwill	6	1,200	1,200	–	–
Subsidiary companies	7	–	–	10,695	10,695
Other investment	8	157	157	–	–
Long term receivables	9	–	–	3,766	1,816
Deferred tax assets	17	83	180	–	–
		29,076	29,822	15,399	13,580
<b>Current assets</b>					
Inventories	10	69,798	74,524	56,179	61,837
Trade and other receivables	11	46,976	46,147	43,536	46,355
Advance payments	12	1,009	639	172	189
Marketable securities	13	187	238	187	238
Fixed deposits	14	17,188	12,596	16,560	12,414
Cash and bank balances	14	10,480	7,829	4,671	3,657
		145,638	141,973	121,305	124,690
<b>Current liabilities</b>					
Trade and other payables	15	23,321	19,611	20,368	12,389
Loans and borrowings	16	8,993	18,804	5,850	16,002
Provision for taxation		2,914	2,455	1,626	1,403
		35,228	40,870	27,844	29,794
<b>Net current assets</b>		110,410	101,103	93,461	94,896
<b>Non-current liabilities</b>					
Loans and borrowings	16	7,453	9,057	5,500	9,050
Deferred tax liabilities	17	1,173	1,104	18	40
		8,626	10,161	5,518	9,090
<b>Net assets</b>		130,860	120,764	103,342	99,386
<b>Equity</b>					
Share capital	18	80,245	80,245	80,245	80,245
Reserves	19	48,678	38,949	23,097	19,141
<b>Equity attributable to owners of the parent</b>		128,923	119,194	103,342	99,386
Non-controlling interests		1,937	1,570	–	–
<b>Total equity</b>		130,860	120,764	103,342	99,386

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

## CONSOLIDATED INCOME STATEMENT

### FOR THE YEAR ENDED 30 JUNE 2010

	Note	Group	
		2010	2009
		\$'000	\$'000
<b>Sale of goods</b>	20	149,364	134,804
Cost of goods sold		(111,443)	(99,313)
<b>Gross profit</b>		37,921	35,491
Rental income		328	299
Other income	21	1,353	254
Distribution costs		(13,090)	(13,161)
Administrative expenses		(8,817)	(7,504)
Other expenses	22	(405)	(1,668)
Finance costs	25	(715)	(1,386)
<b>Profit before tax</b>	23	16,575	12,325
Taxation	26	(2,959)	(716)
<b>Profit for the year</b>		13,616	11,609
<b>Profit attributable to:</b>			
Owners of the parent		13,247	11,503
Non-controlling interests		369	106
		13,616	11,609
<b>Earnings per share (Cents)</b>			
- Basic	27	3.02	2.63
- Diluted	27	3.02	2.63

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

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2010

	Group	
	2010 \$'000	2009 \$'000
<b>Profit for the year</b>	13,616	11,609
<b>Other comprehensive income</b>		
Foreign currency translation	6	309
Other comprehensive income for the year, net of tax	6	309
<b>Total comprehensive income for the year</b>	13,622	11,918
<b>Total comprehensive income attributable to:</b>		
Owners of the parent	13,245	11,813
Non-controlling interests	377	105
	13,622	11,918

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

## STATEMENTS OF CHANGES IN EQUITY

### FOR THE YEAR ENDED 30 JUNE 2010

Group	Note	Share capital \$'000	Other reserves \$'000 (Note 19)	Revenue reserve \$'000 (Note 19)	Foreign currency translation reserve \$'000 (Note 19)	Equity attributable to owners of the parent \$'000	Non-controlling interests \$'000	Total equity \$'000
At 1 July 2009		80,245	563	38,252	134	119,194	1,570	120,764
Profit for the year		–	–	13,247	–	13,247	369	13,616
<u>Other comprehensive income</u>								
Foreign currency translation		–	–	–	(2)	(2)	8	6
Other comprehensive income for the year, net of tax		–	–	–	(2)	(2)	8	6
<b>Total comprehensive income for the year</b>		–	–	13,247	(2)	13,245	377	13,622
<u>Contributions by and distributions to owners</u>								
Transfer to other reserves		–	91	(91)	–	–	–	–
Utilisation of other reserves		–	(12)	–	–	(12)	–	(12)
Dividend paid for by a subsidiary to a non-controlling shareholder for FY 2010 - Interim		–	–	–	–	–	(10)	(10)
Dividend paid for FY 2009 - Final	28	–	–	(2,190)	–	(2,190)	–	(2,190)
Dividend paid for FY 2010 - Interim	28	–	–	(1,314)	–	(1,314)	–	(1,314)
<b>Total contributions by and distributions to owners, representing total transactions with owners in their capacity as owners</b>		–	79	(3,595)	–	(3,516)	(10)	(3,526)
At 30 June 2010		80,245	642	47,904	132	128,923	1,937	130,860
At 1 July 2008		80,245	469	29,700	(176)	110,238	1,465	111,703
Profit for the year		–	–	11,503	–	11,503	106	11,609
<u>Other comprehensive income</u>								
Foreign currency translation		–	–	–	310	310	(1)	309
Other comprehensive income for the year, net of tax		–	–	–	310	310	(1)	309
<b>Total comprehensive income for the year</b>		–	–	11,503	310	11,813	105	11,918
<u>Contributions by and distributions to owners</u>								
Transfer to other reserves		–	104	(104)	–	–	–	–
Utilisation of other reserves		–	(10)	–	–	(10)	–	(10)
Dividend paid for FY 2008 - Final	28	–	–	(1,971)	–	(1,971)	–	(1,971)
Dividend paid for FY 2009 - Interim	28	–	–	(876)	–	(876)	–	(876)
<b>Total contributions by and distributions to owners, representing total transactions with owners in their capacity as owners</b>		–	94	(2,951)	–	(2,857)	–	(2,857)
At 30 June 2009		80,245	563	38,252	134	119,194	1,570	120,764

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

## STATEMENTS OF CHANGES IN EQUITY

### FOR THE YEAR ENDED 30 JUNE 2010

Company	Note	Share capital \$'000	Revenue reserve \$'000	Total equity \$'000
At 1 July 2009		80,245	19,141	99,386
<b>Profit for the year, representing total comprehensive income for the year</b>		–	7,460	7,460
<u>Contributions by and distributions to owners</u>				
Dividend paid for FY 2009 - Final	28	–	(2,190)	(2,190)
Dividend paid for FY 2010 - Interim	28	–	(1,314)	(1,314)
<b>Total contributions by and distributions to owners, representing total transactions with owners in their capacity as owners</b>		–	(3,504)	(3,504)
At 30 June 2010		80,245	23,097	103,342
At 1 July 2008		80,245	14,503	94,748
<b>Profit for the year, representing total comprehensive income for the year</b>		–	7,485	7,485
<u>Contributions by and distributions to owners</u>				
Dividend paid for FY 2008 - Final	28	–	(1,971)	(1,971)
Dividend paid for FY 2009 - Interim	28	–	(876)	(876)
<b>Total contributions by and distributions to owners, representing total transactions with owners in their capacity as owners</b>		–	(2,847)	(2,847)
At 30 June 2009		80,245	19,141	99,386

## CONSOLIDATED STATEMENT OF CASH FLOW

### FOR THE YEAR ENDED 30 JUNE 2010

	Group	
	2010	2009
	\$'000	\$'000
<b>Cash flows from operating activities:</b>		
Profit before tax	16,575	12,325
Adjustments for:		
Depreciation of property, plant and equipment	1,094	1,130
Depreciation of investment properties	66	53
Amortisation of intangible assets	280	280
Impairment loss for trade-related debts, net	1,354	1,168
(Reversal of allowance)/allowance for inventories obsolescence, net	(134)	530
Gain on disposal of property, plant and equipment	(20)	(11)
Loss on fair value of held for trading securities	51	184
Gain on disposal of quoted equity investment	–	(1)
Interest expenses	587	1,255
Interest income	(68)	(54)
Dividend income	(53)	(57)
Currency realignment	(66)	359
<b>Operating profit before changes in working capital</b>	19,666	17,161
Decrease in inventories	4,867	5,082
(Increase)/decrease in trade and other receivables and advance payments	(2,571)	6,518
Increase/(decrease) in trade and other payables	3,698	(12,215)
Decrease in bills payable and trade bills discounting	(6,098)	(11,851)
<b>Cash generated from operations</b>	19,562	4,695
Tax paid	(2,331)	(637)
Interest paid	(587)	(1,255)
Interest received	68	54
<b>Net cash generated from operating activities</b>	16,712	2,857
<b>Cash flows from investing activities:</b>		
Purchase of property, plant and equipment	(720)	(1,143)
Proceeds from disposal of property, plant and equipment	34	11
Purchase of quoted equity investment	–	(52)
Proceeds from sale of quoted equity investment	–	11
Dividend income	53	57
<b>Net cash used in investing activities</b>	(633)	(1,116)
<b>Cash flows from financing activities:</b>		
Dividends paid – by Company	(3,504)	(2,847)
Dividends paid – by a subsidiary to a non-controlling shareholder	(10)	–
Proceeds from new bank term loans	–	19,905
Repayment of bank term loans	(7,255)	(17,252)
Repayment of finance leases	(4)	(4)
Proceeds from a non-controlling shareholder loan to a subsidiary company	2,000	–
Repayment of loan from a subsidiary company to a non-controlling shareholder	(50)	–
<b>Net cash used in financing activities</b>	(8,823)	(198)
Net increase in cash and cash equivalents	7,256	1,543
Cash and cash equivalents at beginning of the year (Note 14)	19,653	18,110
<b>Cash and cash equivalents at end of the year (Note 14)</b>	26,909	19,653

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

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2010

## 1. Corporate information

Kian Ann Engineering Ltd (the “Company”) is a limited liability company incorporated and domiciled in Singapore and is listed on the Singapore Exchange Securities Trading Limited (SGX-ST).

The registered office and principal place of business of the Company is located at Kian Ann Building, No. 7 Changi South Lane, Singapore 486119.

The principal activities of the Company are in the trading of heavy machinery and diesel engine parts. The principal activities of its subsidiaries are that of:

- (i) trading of heavy machinery, diesel engine, gears and engineering parts;
- (ii) trading of commercial and industrial vehicles parts;
- (iii) manufacturing of machinery parts; and
- (iv) rental of office, warehouse, logistics and distribution service provider.

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

## 2. Significant accounting policies

### 2.1 Basis of preparation

The consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company have been prepared in accordance with Singapore Financial Reporting Standards (“FRS”).

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

The financial statements are presented in Singapore Dollars (SGD or \$) and all values are rounded to the nearest thousand (\$’000) except otherwise indicated.

### 2.2 Changes in accounting policies

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

On 1 July 2009, the Group and the Company adopted the following standards and interpretations mandatory for the Group for annual financial periods beginning on or after 1 July 2009.

- FRS 1 Presentation of Financial Statements (Revised)
- Amendments to FRS 18 Revenue
- Amendments to FRS 23 Borrowing Costs
- Amendments to FRS 32 Financial Instruments: Presentation and FRS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation
- Amendments to FRS 102 Share-based Payment – Vesting Conditions and Cancellations

## 2. Significant accounting policies (cont'd)

### 2.2 Changes in accounting policies (cont'd)

- Amendments to FRS 107 Financial Instruments: Disclosures
- FRS 108 Operating Segments
- Improvements to FRSs issued in 2008
- INT FRS 113 Customer Loyalty Programmes
- INT FRS 116 Hedges of a Net Investment in a Foreign Operation
- Amendments to INT FRS 109 Reassessment of Embedded Derivatives and FRS 39 Financial Instruments: Recognition and Measurement – Embedded Derivatives
- INT FRS 118 Transfers of Assets from Customers
- Amendments to FRS 27 Consolidated and Separate Financial Statements
- Amendments to FRS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Item
- Revised FRS 103 Business Combinations
- Amendments to FRS 105 Non-current Assets Held for Sale and Discontinued Operations
- INT FRS 117 Distributions of Non-cash Assets to Owners
- Improvements to FRSs issued in 2009:
  - Amendments to FRS 38 Intangible Assets
  - Amendments to FRS 102 Share-based Payment
  - Amendments to FRS 108 Operating Segments
  - Amendments to INT FRS 109 Reassessment of Embedded Derivatives
  - Amendments to INT FRS 116 Hedges of a Net Investment in a Foreign Operation

Adoption of these standards and interpretations did not have any effect on the financial performance or position of the Group and the Company. They did however give rise to additional disclosures, including, in some cases, revisions to accounting policies.

The principal effects of these changes are as follows:

#### *FRS 1 Presentation of Financial Statements – Revised presentation*

The revised FRS 1 separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented in the statement of other comprehensive income. In addition, the Standard introduces the statement of comprehensive income which presents income and expense recognised in the period. This statement may be presented in one single statement, or two linked statements. The Group has elected to present this statement as two linked statements.

#### *Amendments to FRS 107 Financial Instruments: Disclosures*

The amendments to FRS 107 require additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instrument. In addition, reconciliation between the beginning and ending balance for Level 3 fair value measurements is now required, as well as significant transfers between Level 1 and Level 2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures. The fair value measurement disclosures and liquidity risk disclosures are presented in Note 31 and Note 30 to the financial statements respectively.

# NOTES TO THE FINANCIAL STATEMENTS

## 30 JUNE 2010

## 2. Significant accounting policies (cont'd)

### 2.2 Changes in accounting policies (cont'd)

#### *FRS 108 Operating Segments*

FRS 108 requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary and secondary reporting segments of the Group. The Group determined that the reportable operating segments are the same as the business segments previously identified under FRS 14 Segment Reporting. Additional disclosures about each of the segments are shown in Note 34, including revised comparative information.

#### *Improvements to FRSs issued in 2008*

In 2008, the Accounting Standards Council issued an omnibus of amendments to FRS. There are separate transitional provisions for each amendment. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group and the Company:

- FRS 1 Presentation of Financial Statements: Assets and liabilities classified as held for trading in accordance with FRS 39 Financial Instruments: Recognition and Measurement are not automatically classified as current in the statement of financial position. The Group and the Company amended its accounting policy accordingly and analysed whether Management's expectation of the period of realisation of financial assets and liabilities differed from the classification of the instrument. This did not result in any re-classification of financial instruments between current and non-current in the statement of financial position.
- FRS 16 Property, Plant and Equipment: Replaces the term "net selling price" with "fair value less costs to sell". The Group and the Company amended its accounting policy accordingly, which did not result in any change in the financial position.
- FRS 23 Borrowing Costs: The definition of borrowing costs is revised to consolidate the two types of items that are considered components of "borrowing costs" into one – the interest expense calculated using the effective interest rate method calculated in accordance with FRS 39. The Group and the Company has amended its accounting policy accordingly which did not result in any change in its financial position.

### 2.3 Standards issued but not yet effective

The Group and the Company has not adopted the following standards and interpretations that have been issued but are not yet effective:

Description	Effective for annual periods beginning on or after
Improvements to FRSs issued in 2009:	
- Amendments to FRS 1 Presentation of Financial Statements	1 January 2010
- Amendments to FRS 7 Statement of Cash Flows	1 January 2010
- Amendments to FRS 17 Leases	1 January 2010
- Amendments to FRS 36 Impairment of Assets	1 January 2010

## 2. Significant accounting policies (cont'd)

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

Description	Effective for annual periods beginning on or after
Improvements to FRSs issued in 2009:	
- FRS 39 Financial Instruments: Recognition and Measurement	1 January 2010
- Amendments to FRS 105 Non-current Assets Held for Sale and Discontinued Operations	1 January 2010
- Amendments to FRS 108 Operating Segments	1 January 2010
Amendment to FRS 32 Financial instruments: Presentation – Classification of Rights Issues	1 February 2010
INT FRS 119 Extinguishing Financial Liabilities with Equity Instruments	1 July 2010
Revised FRS 24 Related Party Disclosures	1 January 2011
Amendments to INT FRS 114 Prepayments of a Minimum Funding Requirement	1 January 2011

Except for the revised FRS 24, the directors expect that the adoption of the other standards and interpretations above will have no material impact on the financial statements in the period of initial application. The nature of the impending changes in accounting policy on adoption of the revised FRS 24 is described below.

#### *Revised FRS 24 Related Party Disclosures*

The revised FRS 24 clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised FRS 24 expands the definition of a related party and would treat two entities as related to each other whenever a person (or a close member of that person's family) or a third party has control or joint control over the entity, or has significant influence over the entity. The Group is currently determining the impact of the changes to the definition of a related party has on the disclosure of related party transaction. As this is a disclosure standard, it will have no impact on the financial position or financial performance of the Group when implemented in financial year beginning 1 July 2011.

### 2.4 Significant accounting estimates and judgements

Estimates, assumptions concerning the future and judgements are made in the preparation of the financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances.

However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in the future.

#### *Judgements made in applying accounting policies*

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

# NOTES TO THE FINANCIAL STATEMENTS

## 30 JUNE 2010

### 2. Significant accounting policies (cont'd)

#### 2.4 Significant accounting estimates and judgements (cont'd)

##### Income taxes

The Group has exposure to income taxes in numerous jurisdictions. Significant judgement is involved in determining the group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The carrying amount of the Group's tax payables, deferred tax liabilities and deferred tax assets at 30 June 2010 were \$2,914,000 (2009: \$2,455,000), \$1,173,000 (2009: \$1,104,000) and \$83,000 (2009: \$180,000) respectively.

##### *Key sources of estimation uncertainty*

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

##### (i) Impairment review of subsidiary companies

Investments in subsidiary companies are stated at cost less accumulated impairment losses in the Company's statement of financial position. These investments are reviewed for impairment whenever there is any indication that these assets may be impaired. If any such indication exists, the recoverable amount (i.e. the higher of the fair value less cost to sell and value in use) of the assets is estimated to determine the amount of impairment loss.

For the purpose of impairment assessment of the investments, recoverable amount is determined for the cash-generating unit ("CGU") to which the investment belongs. In estimating the value in use, the Company makes an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

##### (ii) Assessment of inventories write down

The Group's policy in assessing inventories' write-down is based on management's best estimate of the net realisable value of inventories that are subject to obsolescence.

##### (iii) Impairment review of trade receivables

The Group follows the guidance of FRS 39 in assessing whether there is any objective evidence that the trade receivables are impaired. This assessment requires significant judgement applied in evaluating the financial health and credibility of the trade receivables. If any objective evidence exists to suggest that the trade receivables may be impaired, the Group will estimate and record the impairment losses accordingly.

## 2. Significant accounting policies (cont'd)

### 2.4 Significant accounting estimates and judgements (cont'd)

#### (iv) Impairment review of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill and intangible assets are tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may be impaired.

When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash-generating unit and chooses a suitable discount rate in order to calculate the present value of those cash flows.

#### (v) Depreciation of property, plant and equipment

The cost of property, plant and equipment are depreciated on a straight-line basis over the assets' useful lives. Management estimates the useful lives of these assets to be within 3 to 50 years. These are common life expectancies applied in the industry. The carrying amount of the Group's property, plant and equipment at 30 June 2010 was \$23,806,000 (2009: \$24,109,000). Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised. The carrying amount of the Group's property, plant and equipment at the statement of financial position date is disclosed in Note 3 to the financial statements.

### 2.5 Basis of consolidation

#### Business combinations from 1 July 2009

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the statement of financial position 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 transactions are eliminated in full.

Subsidiary companies 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.

Business combinations 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.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

# NOTES TO THE FINANCIAL STATEMENTS

## 30 JUNE 2010

### 2. Significant accounting policies (cont'd)

#### 2.5 Basis of consolidation (cont'd)

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with FRS 39 either in the income statement or as change to other comprehensive income. If the contingent consideration is classified as equity, it is not to be remeasured until it is finally settled within equity.

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

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 identifiable net 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. The accounting policy for goodwill is set out in Note 2.7(a). In instances where the latter amount exceeds the former, the excess is recognised as gain on bargain purchase in the income statement on the acquisition date.

#### Business combinations before 1 July 2009

In comparison to the above mentioned requirements, the following differences applied:

Business combinations are accounted for by applying the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Adjustments to those fair values relating to previously held interests are treated as a revaluation and recognised in equity.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree are not reassessed on acquisition unless the business combination results in a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent measurements to the contingent consideration affected goodwill.

#### 2.6 Transactions with non-controlling interests

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

## 2. Significant accounting policies (cont'd)

### 2.6 Transactions with non-controlling interests (cont'd)

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

### 2.7 Intangible assets

#### (a) *Goodwill*

Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

The cash-generating unit to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in the income statement. Impairment losses recognised for goodwill are not reversed in subsequent periods.

Where goodwill forms part of a cash-generating unit and part of the operation within that cash-generating unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operations disposed of and the portion of the cash-generating unit retained.

#### (b) *Other intangible assets*

Intangible assets acquired separately are measured initially at cost. The cost of intangible assets acquired in a business combination is their fair values as at the date of acquisition. Following initial recognition, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or infinite.

Intangible assets with finite useful lives are amortised on a straight-line basis over the estimated economic useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite useful lives is recognised in the income statement through the 'other expenses' line item.

# NOTES TO THE FINANCIAL STATEMENTS

## 30 JUNE 2010

## 2. Significant accounting policies (cont'd)

### 2.7 Intangible assets (cont'd)

#### (b) Other intangible assets (cont'd)

Intangible assets are amortised on a straight-line basis over their estimated economic useful lives as follows:

Trademarks/distribution agreements	- 10 years
Non-compete clauses	- 5 years

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

### 2.8 Subsidiary companies

A subsidiary is an entity over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities.

In the Company's separate financial statements, investments in subsidiary companies are accounted for at cost less any accumulated impairment losses.

### 2.9 Functional and foreign currency

#### (i) Functional and presentation currency

The management has determined the currency of the primary economic environment in which the Company operates i.e. functional and presentation currency, to be SGD. Sales prices and major costs of providing goods and services including major operating expenses are primarily influenced by fluctuations in SGD.

#### (ii) Foreign currency

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

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

## 2. Significant accounting policies (cont'd)

### 2.9 Functional and foreign currency (cont'd)

#### (ii) Foreign currency (cont'd)

The assets and liabilities of foreign operations are translated into SGD at the rate of exchange ruling at the statement of financial position and their statement of comprehensive income are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to other comprehensive income. On disposal of a foreign operation, the cumulative amount recognised in other comprehensive income relating to that particular foreign operation is recognised in the income statement.

### 2.10 Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying property, plant and equipment. The accounting policy for borrowing costs is set out in Note 2.24. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Subsequent to recognition, property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

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

Depreciation of an asset begins when it is available for use and is computed on a straight-line basis over the estimated useful lives of the asset as follows:

Leasehold land and buildings	- 50 years or over period of lease if less than 50 years (Period of leases range from 20 to 60 years)
Motor vehicles	- 5 years
Office equipment, furniture and fittings	- 5 to 10 years
Computers	- 3 to 5 years
Plant and machinery	- 5 to 6 2/3 years

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

The residual value, useful life and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

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

# NOTES TO THE FINANCIAL STATEMENTS

## 30 JUNE 2010

## 2. Significant accounting policies (cont'd)

### 2.11 Investment properties

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

Investment properties are initially recorded at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met. Subsequent to initial recognition, investment properties are carried at cost less accumulated depreciation and accumulated impairment losses.

No depreciation is provided on freehold land.

Depreciation is calculated using the straight-line method to allocate their depreciable amount over the estimated useful life. The estimated useful lives are as follows:

Freehold buildings	- 50 years
Leasehold land and buildings	- 50 years or over period of lease if less than 50 years (Period of leases range from 50 to 60 years)

The residual values and estimated useful lives of investment properties are reviewed, and adjusted as appropriate at each statement of financial position date. The effects of any revision are recognised in the income statement when the changes arise.

Investment properties are subject to renovations or improvements at regular intervals. The cost of major renovations and improvements is capitalised as addition and the carrying amounts of the replaced components are written off to the income statement. The cost of maintenance, repairs and minor improvement is charged to the income statement when incurred.

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

Transfers are made to or from investment property only when there is a change in use.

### 2.12 Impairment of non-financial assets

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

## 2. Significant accounting policies (cont'd)

### 2.12 Impairment of non-financial assets (cont'd)

An asset's recoverable amount is the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognized in the income statement unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

### 2.13 Financial assets

#### Initial recognition and measurement

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

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

#### Subsequent measurement

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

### 30 JUNE 2010

## 2. Significant accounting policies (cont'd)

### 2.13 Financial assets (cont'd)

#### (a) *Financial assets at fair value through profit or loss (cont'd)*

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value of the financial assets are recognised in the income statement. Net gains or net losses on financial assets at fair value through profit or loss include exchange differences, interest and dividend income.

The Group classifies derivative financial instruments and marketable securities as financial assets at fair value through profit or loss.

#### (b) *Loans and receivables*

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, and through the amortisation process.

The Group and the Company classifies the following financial assets as loans and receivables:

- cash and bank balances;
- fixed deposits;
- trade and other receivables, including amounts due from subsidiary companies

#### (c) *Available-for-sale financial assets*

Available-for-sale financial assets comprise of equity securities. Equity investments classified as available-for-sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss.

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

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

### **Derecognition**

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that has been recognised directly in other comprehensive income is recognised in the income statement.

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

## 2. Significant accounting policies (cont'd)

### 2.14 Other investment

Other investment, an unquoted equity instrument, is carried at cost less accumulated impairment as it does not have a quoted market price in an active market and the fair value cannot be reliably measured. It is classified as an available-for-sale financial asset.

### 2.15 Cash and cash equivalents

Cash and cash equivalents comprise cash in banks and on hand and short-term deposits, which are subject to an insignificant risk of changes in value. For purpose of the consolidated statement of cash flow, cash and cash equivalents consist of cash at banks and on hand and deposits in banks, net of outstanding bank overdrafts.

Cash and short term deposits carried in the statements of financial position are classified as loans and receivables.

### 2.16 Inventories

Inventories are stated at the lower of cost and net realisable value, cost being determined on a weighted average basis. Where necessary, allowance is provided for damaged, obsolete and slow moving items to adjust the carrying value of inventories to the lower of cost and net realisable value. Net realisable value represents the estimated selling price less anticipated cost of disposal and after making allowance for damaged, obsolete and slow-moving items.

### 2.17 Trade and other receivables

Trade and other receivables, including amounts due from subsidiary companies, are classified and accounted for as loans and receivables under FRS 39. The accounting policy for this category of financial assets is stated in Note 2.13.

An impairment loss is made for uncollectible amounts when there is objective evidence that the Group will not be able to collect the debt. Bad debts are written off when identified. Further details on the accounting policy for impairment of financial assets are stated in Note 2.19 below.

### 2.18 Fair value estimation

The fair value of financial assets and liabilities traded in active markets is based on their quoted bid and ask market prices at the statement of financial position date respectively. The fair value of forward currency contracts is determined by reference to current forward prices for contracts with similar maturity profiles.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques commonly used by market participants and based on assumption and data obtainable in the market.

The carrying amount of current receivables and payables are assumed to approximate their fair values due to their short term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

# NOTES TO THE FINANCIAL STATEMENTS

## 30 JUNE 2010

### 2. Significant accounting policies (cont'd)

#### 2.19 Impairment of financial assets

The Group assesses at each statement of financial position date whether there is any objective evidence that a financial asset is impaired.

(a) *Financial assets carried at amortised cost*

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

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced directly or through the use of an allowance account. The impairment loss is recognised in the income statement.

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in the income statement.

(b) *Financial assets carried at cost*

If there is objective evidence (such as significant adverse changes in the business environment where the issuer operates, probability of insolvency or significant financial difficulties of the issuer) that an impairment loss on financial assets carried at cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

## 2. Significant accounting policies (cont'd)

### 2.19 Impairment of financial assets (cont'd)

#### (c) *Available-for-sale financial assets*

In the case of equity investments classified as available-for-sale, objective evidence of impairment include (i) significant financial difficulty of the issuer or obligor, (ii) information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in equity instrument may not be recovered; and (iii) a significant or prolonged decline in the fair value of the investment below its costs. Significant is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from other comprehensive income and recognised in the income statement. Reversals of impairment losses in respect of equity instruments are not recognised in the income statement; increase in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increases can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed in the income statement.

### 2.20 Financial liabilities

#### **Initial recognition and measurement**

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

All financial liabilities are recognised initially at fair value and in the case of other financial liabilities, plus directly attributable transaction costs.

# NOTES TO THE FINANCIAL STATEMENTS

## 30 JUNE 2010

## 2. Significant accounting policies (cont'd)

### 2.20 Financial liabilities (cont'd)

#### Subsequent measurement

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

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

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

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

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

(b) *Other financial liabilities*

After initial recognition, other financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised, and through the amortisation process.

#### Derecognition

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

### 2.21 Provisions

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

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

## 2. Significant accounting policies (cont'd)

### 2.22 Employee benefits

#### (a) *Defined contribution plans*

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. In particular, the Singapore companies in the Group make contributions to the Central Provident Fund scheme in Singapore, a defined contribution pension scheme. Contributions to defined contribution pension schemes are recognised as an expense in the period in which the related service is performed.

#### (b) *Short-term benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision 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.

### 2.23 Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2005 in accordance with the transitional requirements of INT FRS 104.

#### (a) *Finance lease - as lessee*

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

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

#### (b) *Operating lease - as lessee*

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

#### (c) *Operating lease - as lessor*

Leases where the Group retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. The accounting policy for rental income is set out in Note 2.25 (b). Contingent rents are recognised as revenue in the period in which they are incurred.

# NOTES TO THE FINANCIAL STATEMENTS

## 30 JUNE 2010

### 2. Significant accounting policies (cont'd)

#### 2.24 Borrowing costs

Borrowing costs are recognised in the income statement as incurred except to the extent that they are capitalised. Borrowing costs are capitalised if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

#### 2.25 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received or receivable, excluding discounts, rebates, and sales taxes or duty. The Group assesses its revenue arrangements to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

(a) *Sale of goods*

Revenue from sale of goods is recognised upon the transfer of significant risk and rewards of ownership of the goods to the customer. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

(b) *Rental income*

Revenue from rental of warehouse and office space is recognised on a straight line basis over the period of tenancy. The aggregate costs of incentives provided to lessees are recognised as a reduction of interest income over the lease term on a straight-line basis.

(c) *Logistics income*

Revenue from logistics and distribution services is recognised when services are rendered.

(d) *Interest income*

Interest income is recognised using the effective interest method.

(e) *Dividend income*

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

## 2. Significant accounting policies (cont'd)

### 2.26 Income taxes

#### (a) Current tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the statement of financial position date.

Current taxes are recognised in the income statement except when they relate to items recognised outside income statement, either in other comprehensive income or directly in equity.

#### (b) Deferred tax

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

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

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each statement of financial position date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be utilised.

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

# NOTES TO THE FINANCIAL STATEMENTS

## 30 JUNE 2010

## 2. Significant accounting policies (cont'd)

### 2.26 Income taxes (cont'd)

#### (b) *Deferred tax (cont'd)*

Deferred income tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

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

#### (c) *Sales tax*

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- Where the sales tax incurred in a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

### 2.27 Segment reporting

For management purposes, the Group is organised into operating segments based on their products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers report directly to the management of the Company who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 34, including the factors used to identify the reportable segments and the measurement basis of segment information.

### 2.28 Share capital and share issue expenses

Proceeds from issuance of ordinary shares are recognised as share capital in equity. Incremental costs directly attributable to the issuance of ordinary shares are deducted against revenue reserves.

### 2.29 Contingencies

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

Contingent liabilities and assets are not recognised on the statement of financial position of the Group.

### 3. Property, plant and equipment

	Leasehold land and buildings \$'000	Motor vehicles \$'000	Office equipment, furniture and fittings \$'000	Computers \$'000	Plant and machinery \$'000	Total \$'000
<b>Group</b>						
<b>Cost</b>						
At 1 July 2008	27,922	1,359	2,043	3,403	9,372	44,099
Currency realignment	79	(12)	1	(1)	–	67
Additions	911	139	46	42	5	1,143
Disposals	–	(50)	(8)	(367)	–	(425)
At 30 June 2009 and 1 July 2009	28,912	1,436	2,082	3,077	9,377	44,884
Currency realignment	48	36	6	14	1	105
Additions	–	96	444	51	129	720
Disposals	–	(30)	(25)	–	–	(55)
At 30 June 2010	28,960	1,538	2,507	3,142	9,507	45,654
<b>Accumulated depreciation and impairment</b>						
At 1 July 2008	5,417	796	1,687	3,042	9,111	20,053
Currency realignment	8	3	2	4	–	17
Charge for the year	594	177	141	117	101	1,130
Disposals	–	(50)	(8)	(367)	–	(425)
At 30 June 2009 and 1 July 2009	6,019	926	1,822	2,796	9,212	20,775
Currency realignment	3	12	1	3	1	20
Charge for the year	592	175	113	110	104	1,094
Disposals	–	(16)	(25)	–	–	(41)
At 30 June 2010	6,614	1,097	1,911	2,909	9,317	21,848
<b>Net carrying amount</b>						
At 30 June 2010	22,346	441	596	233	190	23,806
At 30 June 2009	22,893	510	260	281	165	24,109

## NOTES TO THE FINANCIAL STATEMENTS

### 30 JUNE 2010

### 3. Property, plant and equipment (cont'd)

	Motor vehicles \$'000	Office equipment, furniture and fittings \$'000	Computers \$'000	Plant and machinery \$'000	Total \$'000
<b>Company</b>					
<b>Cost</b>					
At 1 July 2008	7	482	3,080	272	3,841
Additions	–	1	19	–	20
Disposals	–	(8)	(365)	–	(373)
At 30 June 2009 and 1 July 2009	7	475	2,734	272	3,488
Additions	–	5	22	–	27
Disposals	(7)	(18)	–	–	(25)
At 30 June 2010	–	462	2,756	272	3,490
<b>Accumulated depreciation</b>					
At 1 July 2008	4	388	2,910	161	3,463
Charge for the year	1	28	75	54	158
Disposals	–	(8)	(365)	–	(373)
At 30 June 2009 and 1 July 2009	5	408	2,620	215	3,248
Charge for the year	–	18	61	54	133
Disposals	(5)	(18)	–	–	(23)
At 30 June 2010	–	408	2,681	269	3,358
<b>Net carrying amount</b>					
At 30 June 2010	–	54	75	3	132
At 30 June 2009	2	67	114	57	240

### 3. Property, plant and equipment (cont'd)

(a) The following are the properties of the Group as at 30 June 2010:

Description	Location	Land area (in sq metres)	Tenure
(i) 5-storey warehouse cum office building*	Kian Ann Building 7 Changi South Lane Singapore 486119	15,300	Lease term of 30 years commencing 16 May 1997 with an option to extend for another 30 years.
(ii) 2-storey factory cum office building**	6 Loyang Walk Singapore 508789	1,430	Lease term of 30 years commencing 1 June 1997 with an option to extend for another 25 years.
(iii) Warehouse cum office building	262 Lihang Road Jinqiao Export Processing Zone (South Zone) Pudong Shanghai People's Republic of China Postal code 201201	5,179	Lease term of 50 years commencing 27 August 2001.
(iv) Leasehold land	Jalan Mulawarman KM.16 Manggar East Kalimantan Balikpapan Indonesia	9,740	Lease term of 20 years commencing 30 May 2008.

\* This leasehold building is occupied by the Group with a portion that is held to earn rentals from third parties. The portion being leased out is classified under investment properties.

\*\* This leasehold building with net carrying amount of \$1,369,000 (2009: \$1,402,000) is pledged to the bank for credit facilities as disclosed in Note 16 to the financial statements.

(b) The net carrying amount of property, plant and equipment under finance leases amounted to \$nil (2009: \$4,000) for the Group. The Company has no property, plant and equipment under finance leases.

Leased asset is pledged as security for the related finance lease liability.

(c) Based on the valuation performed by external professional appraisal, DTZ Debenham Tie Leung (Sea) Pte Ltd, on 30 June 2009 for the leasehold building at 7 Changi South Lane, made on the basis of market value for existing use, the property was valued at \$25,000,000. As at 30 June 2010, the net carrying amount of this property classified as property, plant and equipment amounted to \$19,065,000 (2009: \$19,556,000) and classified as investment properties amounted to \$1,658,000 (2009: \$1,701,000).

## NOTES TO THE FINANCIAL STATEMENTS

### 30 JUNE 2010

### 3. Property, plant and equipment (cont'd)

- (d) Based on the valuation performed by external professional appraisal, Jones Lang Lasalle, on 29 June 2009 for the leasehold building at 6 Loyang Walk, made on the basis of market value for existing use, the property was valued at \$1,400,000. The net carrying amount of this property was \$1,369,000 as at 30 June 2010 (2009: \$1,402,000).
- (e) Based on the valuation performed by external professional appraisal, Wanqian Appraisal of Real Estate Co., Ltd., on 19 May 2009 for the leasehold building at 262 Lihang Road Jinqiao Export Processing Zone, made on the basis of market value for existing use, the property was valued at \$1,764,000. The net carrying amount of this property was \$1,023,000 as at 30 June 2010 (2009: \$1,074,000).
- (f) Based on the valuation performed by external professional appraisal, Knight Frank, on 9 June 2009 for the leasehold land at Jalan Mulawarman KM. 16 Manggar, East Kalimantan, Balikpapan, made on the basis of market value for existing use, the property was valued at \$938,000. The net carrying amount of this property was \$889,000 as at 30 June 2010 (2009: \$861,000).

### 4. Investment properties

	Freehold land \$'000	Freehold buildings \$'000	Leasehold land and buildings \$'000	Total \$'000
<b>Group</b>				
<b>Cost</b>				
At 1 July 2008, 30 June 2009, 1 July 2009 and 30 June 2010	269	624	2,462	3,355
<b>Accumulated depreciation</b>				
At 1 July 2008	–	238	534	772
Charge for the year	–	–	53	53
At 30 June 2009 and 1 July 2009	–	238	587	825
Charge for the year	–	14	52	66
At 30 June 2010	–	252	639	891
<b>Net carrying amount</b>				
At 30 June 2010	269	372	1,823	2,464
At 30 June 2009	269	386	1,875	2,530

#### 4. Investment properties (cont'd)

	Freehold land \$'000	Freehold buildings \$'000	Leasehold land and buildings \$'000	Total \$'000
<b>Company</b>				
<b>Cost</b>				
At 1 July 2008, 30 June 2009, 1 July 2009 and 30 June 2010	269	624	326	1,219
<b>Accumulated depreciation</b>				
At 1 July 2008	–	238	142	380
Charge for the year	–	–	10	10
At 30 June 2009 and 1 July 2009	–	238	152	390
Charge for the year	–	14	9	23
At 30 June 2010	–	252	161	413
<b>Net carrying amount</b>				
At 30 June 2010	269	372	165	806
At 30 June 2009	269	386	174	829

(a) The following amounts are recognised in the income statement:

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Rental income from investment properties	328	299	60	60
Direct operating expenses	(112)	(100)	(30)	(19)
Net income	216	199	30	41

## NOTES TO THE FINANCIAL STATEMENTS

### 30 JUNE 2010

#### 4. Investment properties (cont'd)

(b) The following are the investment properties held by the Group as at 30 June 2010:

Description	Location	Land area (in sq metres)	Tenure
(i) 4-storey terrace shophouse	109 Jalan Glasiar Johor Bahru Malaysia	164	Freehold
(ii) 4-storey terrace shophouse	111 Jalan Glasiar Johor Bahru Malaysia	218	Freehold
(iii) 2-storey corner terrace shophouse	32 Jalan Mutiara Barat Kuala Lumpur Malaysia	599	Freehold
(iv) 2-storey factory cum warehouse building	Lot 015304239 Innam Industrial Estate Sabah Malaysia	1,214	Lease term of 60 years commencing 4 April 1967.
(v) 5-storey warehouse cum office building*	Kian Ann Building 7 Changi South Lane Singapore 486119	15,300	Lease term of 30 years commencing 16 May 1997 with an option to extend for another 30 years.

\* This leasehold building is occupied by the Group with a portion that is held to earn rentals from third parties. The portion being occupied by the Group is classified under property, plant and equipment.

(c) Based on the valuations performed by external valuers in June 2008 for the four properties in Malaysia, made on the basis of market value for existing use, the properties were valued at \$1,800,000. The net carrying amount of these properties were \$806,000 as at 30 June 2010 (2009: \$829,000).

(d) Based on the valuation performed by external professional appraisal, DTZ Debenham Tie Leung (Sea) Pte Ltd, on 30 June 2009 for the leasehold building at 7 Changi South Lane, made on the basis of market value for existing use, the property was valued at \$25,000,000. As at 30 June 2010, the net carrying amount of this property classified as property, plant and equipment amounted to \$19,065,000 (2009: \$19,556,000) and classified as investment properties amounted to \$1,658,000 (2009: \$1,701,000).

## 5. Intangible assets

	Trademarks/ Distribution agreements \$'000	Non- compete clauses \$'000	Total \$'000
<b>Group</b>			
<b>Cost</b>			
At 1 July 2008, 30 June 2009 1 July 2009 and 30 June 2010	1,800	500	2,300
<b>Accumulated amortisation</b>			
At 1 July 2008	240	134	374
Amortisation for the year	180	100	280
At 30 June 2009 and 1 July 2009	420	234	654
Amortisation for the year	180	100	280
At 30 June 2010	600	334	934
<b>Net carrying amount</b>			
At 30 June 2010	1,200	166	1,366
At 30 June 2009	1,380	266	1,646

The amortisation is recognised in other expenses in the income statement.

## 6. Goodwill

	Group	
	2010 \$'000	2009 \$'000
At 1 July and 30 June	1,200	1,200

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of identifiable net assets acquired. Goodwill arose from subsidiary company Kian Chue Hwa (Industries) Pte Ltd's acquisition of the business of Kian Chue Hwa Auto Pte Ltd in financial year 2007, whose principal business activities are those relating to the distribution of commercial and industrial vehicles spare parts and accessories.

# NOTES TO THE FINANCIAL STATEMENTS

## 30 JUNE 2010

### 6. Goodwill (cont'd)

Goodwill has been allocated to the cash-generating unit (“CGU”), Kian Chue Hwa (Industries) Pte Ltd, for impairment testing. This CGU is within the “Trading” reportable operating segment. The recoverable amount is determined based on the higher of the cash-generating unit's fair value less cost to sell and its value in use.

For goodwill impairment review, management reviews economic factors and market conditions to assess whether the recoverable amounts are sustainable.

During the year, the Group determines that there is no indication that the carrying amount of goodwill may be impaired.

The recoverable amount of the CGU has been determined based on value in use calculations using cash flow projections from financial budgets approved by management. The pre-tax discount rate applied to the cash flow projections and the forecasted growth rates used to extrapolated cash flows beyond the five-year period are 6.6% (2009: 6.6%) and 0% (2009: 0%) respectively.

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

**Budgeted gross margins** – Gross margins are based on average values achieved in the years preceding the start of the budget period. These are maintained over the budget period.

**Growth rates** – The forecasted growth rates do not exceed the long-term average growth rate for the industries relevant to the CGU.

**Pre-tax discount rates** – Discount rates reflect management’s estimate of the risks specific to the CGU. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals.

### 7. Subsidiary companies

	Company	
	2010 \$'000	2009 \$'000
Shares, at cost	12,967	12,967
Less: Impairment losses	(2,272)	(2,272)
	10,695	10,695
<u>Impairment losses for equity investment in subsidiary companies</u>		
At 1 July	2,272	2,370
Reversal of impairment loss	–	(491)
Impairment loss provided during the year	–	393
At 30 June	2,272	2,272

## 7. Subsidiary companies (cont'd)

The subsidiary companies as at 30 June are:

	Name of company (Country of incorporation)	Principal activities (Place of business)	Cost		Percentage of equity held by the Group	
			2010 \$'000	2009 \$'000	2010 %	2009 %
<b>Subsidiary companies:</b>						
<i>Held by the Company</i>						
# ^	Eik An Parts Services Pte Ltd (Singapore)	Dormant (Singapore)	3,000	3,000	100	100
#	Transmec Engineering Pte Ltd (Singapore)	Manufacturing and dealing in gears and engineering parts (Singapore)	1,916	1,916	51	51
#	Kian Ann Districentre Pte Ltd (Singapore)	Rental of office, warehouse, logistics and distribution services provider (Singapore)	500	500	100	100
+	Kian Ann Engineering Trading (Shanghai) Co., Ltd (People's Republic of China)	Trading of heavy machinery and diesel engine parts (People's Republic of China)	3,676	3,676	100	100
#	Kian Chue Hwa (Industries) Pte Ltd (Singapore)	Trading of commercial and industrial vehicles parts (Singapore)	3,600	3,600	80	80
+	PT. Haneagle Heavyparts Indonesia (Indonesia)	Trading of heavy machinery and diesel engine parts (Indonesia)	275	275	95	95
			12,967	12,967		

### Notes

# Audited by Ernst & Young LLP, Singapore.

+ Considered insignificant as defined in Rule 718 of SGX Listing Manual.

^ Ceased operations on 30 July 2005 and became dormant.

## NOTES TO THE FINANCIAL STATEMENTS

### 30 JUNE 2010

#### 8. Other investment

	Group	
	2010 \$'000	2009 \$'000
Unquoted equity investment, at cost	171	171
Less: Impairment loss	(14)	(14)
	157	157
 <u>Impairment loss for other investment</u>		
At 1 July and 30 June	14	14

The fair value of the unquoted equity investment cannot be reliably measured as the investment does not have a quoted market price in an active market.

During the year, the Group determines that there is no indication that the carrying amount of the investment may be impaired.

#### 9. Long term receivables

	Company	
	2010 \$'000	2009 \$'000
Long term receivables		
- Loan to subsidiary companies	3,766	1,816

##### Loan to subsidiary companies

The loan to subsidiary companies are unsecured, bear interest at a range of 3.0% to 5.5% (2009: 5.5%) per annum and are not expected to be repaid within the next 12 months.

## 10. Inventories

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Finished goods	76,001	83,198	62,279	70,562
Goods in transit	4,083	1,754	3,321	1,030
Less: Allowance for inventories obsolescence	(10,286)	(10,428)	(9,421)	(9,755)
Inventories at lower of cost and net realisable value	69,798	74,524	56,179	61,837

Cost of inventories of the Group recognised as an expense in cost of goods sold in the income statement amounts to \$111,260,000 (2009: \$99,291,000).

The movements of the Group's and the Company's allowance for inventories obsolescence are as follows:

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
At 1 July	10,428	9,886	9,755	9,390
Currency realignment	(8)	12	–	–
Inventories written-down	1,320	1,682	941	1,457
Reversals of write-down of inventories	(1,454)	(1,152)	(1,275)	(1,092)
At 30 June	10,286	10,428	9,421	9,755

The reversals of write-down of inventories were made when the related inventories were sold during the year.

Both the write-down and reversals of write-down have been recognised in distribution costs in the income statement.

# NOTES TO THE FINANCIAL STATEMENTS

## 30 JUNE 2010

### 11. Trade and other receivables

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Trade receivables	46,694	46,012	36,997	38,445
Deposits	58	55	19	18
Staff loans	19	23	14	13
Derivative financial instruments	7	8	19	9
Other recoverables	198	49	2	2
Amounts due from subsidiary companies				
- loans receivable (non-trade)	-	-	192	1,983
- dividend receivable	-	-	-	319
- trade receivables	-	-	6,293	5,566
	-	-	6,485	7,868
	46,976	46,147	43,536	46,355

#### Trade receivables

Trade receivables are non-interest bearing and are generally on 30 to 150 days' terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

At the statement of financial position date, trade receivables of the Group arising from export sales amounting to \$1,250,000 (2009: \$106,000) are arranged to be settled via letters of credits issued by reputable banks.

#### Receivables that are impaired

The Group's and the Company's trade receivables that are individually impaired at the statement of financial position date and the movement of the allowance accounts used to record the impairment are as follows:

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Trade receivables - nominal amounts	18,484	11,159	14,120	9,508
Less: Allowance for impairment	(7,251)	(6,313)	(6,041)	(5,530)
	11,233	4,846	8,079	3,978
Movement in allowance accounts:				
At 1 July	6,313	5,193	5,530	4,559
Currency realignment	18	4	-	-
Impairment loss recognised	2,821	1,905	2,151	1,652
Reversals of impairment loss	(1,467)	(743)	(1,206)	(635)
Amount write off as uncollectible	(434)	(46)	(434)	(46)
At 30 June	7,251	6,313	6,041	5,530

## 11. Trade and other receivables (cont'd)

### Receivables that are impaired (cont'd)

A net impairment loss of \$1,354,000 (2009: \$1,162,000) for the Group was recognised in the income statement, subsequent to a debt recovery assessment performed on trade receivables at 30 June 2010.

Trade receivables that are individually determined to be impaired at the statement of financial position date relate to debtors that are insolvent, in financial difficulties or who have significant delay or defaulted in payments. These amounts are not secured by any collateral or credit enhancements.

### Receivables that are past due but not impaired

The Group and the Company have trade receivables amounting to \$6,580,000 (2009: \$15,753,000) and \$4,651,000 (2009: \$14,822,000) respectively that are past due at the statement of financial position date but not impaired. These receivables are unsecured and the analysis of their aging at the statement of financial position date is as follows:

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Trade receivables past due:				
Less than 31 days	1,917	2,798	974	2,509
31 to 60 days	1,635	1,905	1,119	1,639
61 to 90 days	722	1,456	492	1,353
91 to 120 days	733	1,331	534	1,136
More than 120 days	1,573	8,263	1,532	8,185
	6,580	15,753	4,651	14,822

As at the statement of financial position date, the trade receivables for the Group and the Company are denominated in the following currencies:

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Singapore Dollar	23,927	24,284	19,829	21,113
United States Dollar	12,650	12,780	12,026	11,356
Malaysian Ringgit	7,790	7,168	5,043	5,890
Euro	123	419	99	86
Others	2,204	1,361	–	–
	46,694	46,012	36,997	38,445

# NOTES TO THE FINANCIAL STATEMENTS

## 30 JUNE 2010

### 11. Trade and other receivables (cont'd)

#### Derivative financial instruments

Derivative financial instruments included in the statement of financial position as at 30 June are as follows:

	Group				Company			
	2010		2009		2010		2009	
	Assets \$'000	Liabilities \$'000	Assets \$'000	Liabilities \$'000	Assets \$'000	Liabilities \$'000	Assets \$'000	Liabilities \$'000
Foreign currency forward contracts	7	–	8	–	19	–	9	–

Foreign currency forward contracts are used to hedge the Group's sales and purchases dominated in Australian Dollar and Euro for which firm commitments existed at the statement of financial position date, extending to November 2010.

As at statement of financial position date, the notional amount of the outstanding contracts amounts to \$3,186,000 (2009: \$1,820,000) for the Group and \$2,982,000 (2009: \$483,000) for the Company respectively.

The Group does not apply hedge accounting.

#### Amounts due from subsidiary companies

The loans receivable from subsidiary companies are unsecured, repayable within 1 year and bear interest at 5.5% (2009: 5.5%) per annum. The dividend receivable from a subsidiary company and trade receivables from subsidiary companies are unsecured, interest-free and repayable on demand.

### 12. Advance payments

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Deposits paid to suppliers	467	260	155	146
Prepayments	542	379	17	43
	1,009	639	172	189

### 13. Marketable securities

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Held for trading quoted equity investments, at fair value through profit or loss				
- Singapore	89	136	89	136
- Overseas (1)	98	102	98	102
	187	238	187	238

(1) Held in trust by an employee on behalf of the Company.

### 14. Cash and cash equivalents

Cash and cash equivalents included in the consolidated statement of cash flow comprised the following amounts:

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Fixed deposits	17,188	12,596	16,560	12,414
Cash and bank balances	10,480	7,829	4,671	3,657
	27,668	20,425	21,231	16,071
Bank overdraft (Note 16)	(759)	(772)	-	-
	26,909	19,653	21,231	16,071

Fixed deposits at the statement of financial position date have an average maturity of 1 month (2009: 1 month) from the end of the financial year. The effective interest rate of fixed deposits is 0.3% (2009: 0.4%) per annum.

As at the statement of financial position date, the cash and fixed deposits for the Group and the Company are denominated in the following currencies:

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Singapore Dollar	19,941	15,849	17,400	14,570
United States Dollar	3,184	2,613	1,983	1,178
Malaysian Ringgit	662	197	662	197
Euro	242	372	103	110
Others	3,639	1,394	1,083	16
	27,668	20,425	21,231	16,071

# NOTES TO THE FINANCIAL STATEMENTS

## 30 JUNE 2010

### 15. Trade and other payables

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Trade payables				
- Non-related parties	15,398	10,111	12,531	8,547
- Related party	28	1,736	-	-
- Subsidiary companies	-	-	2,247	344
	15,426	11,847	14,778	8,891
Amounts due to Directors	2,399	1,820	1,792	1,303
Amount due to a subsidiary company	-	-	3	7
Other payables				
- Related party	16	2,459	-	-
- Rental deposits	44	40	-	-
- Accrued payroll costs	2,195	997	1,451	622
- Accrued interest expenses	30	97	14	65
- Other accrued operating expenses	3,211	2,351	2,330	1,501
	5,496	5,944	3,795	2,188
	23,321	19,611	20,368	12,389

#### Trade payables

Related party in the financial statements refers to the non-controlling shareholder of a subsidiary company.

Trade payables due to non-related parties are unsecured, non-interest bearing and are normally settled on 60-day terms.

Trade payables due to related party and subsidiary companies are unsecured, non-interest bearing and are repayable on demand.

As at the statement of financial position date, trade payables due to non-related parties for the Group and the Company are denominated in the following currencies:

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
United States Dollar	6,915	6,035	6,228	5,643
Euro	5,529	2,040	4,256	1,244
Singapore Dollar	1,693	1,310	1,210	980
Japanese Yen	626	601	626	601
Chinese Renminbi	386	37	-	-
Others	249	88	211	79
	15,398	10,111	12,531	8,547

## 15. Trade and other payables (cont'd)

### Amounts due to Directors

The amounts due to Directors are non-trade related, unsecured, interest-free and are repayable on demand.

### Amount due to a subsidiary company

The amount due to a subsidiary company is non-trade related, unsecured, interest-free and are repayable on demand.

## 16. Loans and borrowings

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
<b>Current</b>				
Obligations under finance lease	4	4	–	–
Bank overdraft	759	772	–	–
Trust receipts and bills payable	4,680	7,260	–	2,934
Trade bills discounting	–	3,518	–	3,518
Term loans	3,550	7,250	3,550	7,250
Loan from a subsidiary company	–	–	2,300	2,300
	8,993	18,804	5,850	16,002
<b>Non-current</b>				
Obligations under finance lease	3	7	–	–
Term loans	5,500	9,050	5,500	9,050
Loan from a non-controlling shareholder of a subsidiary company	1,950	–	–	–
	7,453	9,057	5,500	9,050
<b>Total loans and borrowings</b>	<b>16,446</b>	<b>27,861</b>	<b>11,350</b>	<b>25,052</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 30 JUNE 2010

#### 16. Loans and borrowings (cont'd)

##### Obligations under finance lease

The Group has acquired motor vehicles under finance lease for a lease term of 7 years. The average discount rate implicit in the lease is 3.1% (2009: 3.1%) per annum. Future minimum lease payments under finance lease together with the present value of net minimum lease payments are as follows:

	Minimum lease payments 2010 \$'000	Present value of payments 2010 \$'000	Minimum lease payments 2009 \$'000	Present value of payments 2009 \$'000
Not later than one year	5	4	5	4
Later than one year but not later than five years	3	3	7	7
Total minimum lease payments	8	7	12	11
Less: Amounts representing finance charges	(1)	–	(1)	–
Present value of minimum lease payments	7	7	11	11

##### Bank overdraft

Bank overdraft is denominated in Singapore Dollar, secured by a subsidiary's leasehold building and bears interest at Prime rate + 1% (2009: Prime rate + 1%) per annum.

##### Trust receipts and bills payable

Trust receipts and bills payable are unsecured, bear interest at a range of 1.5% to 2.8% (2009: 1.4% to 4.7%) per annum and have an average maturity of 2 months (2009: 3 months) from the end of the financial year.

##### Trade bills discounting

Trade bills discounting are unsecured, bear interest at nil (2009: 2.1% to 3.0%) per annum and have an average maturity of zero month (2009: 4 months) from the end of the financial year. There was no outstanding trade bills discounting at the end of the financial year.

## 16. Loans and borrowings (cont'd)

### Term loans

Term loans held by the Group and the Company at the statement of financial position date are as follows:

- (a) \$800,000 (2009: \$2,400,000) represents a 5-year term loan drawn down by the Company from a bank which is unsecured and bears fixed interest at 4.3% per annum. The loan is repayable in 10 equal semi-annual instalments of \$800,000 each. The semi-annual instalments commenced in March 2006 and will mature in September 2010.
- (b) \$4,000,000 (2009: \$5,000,000) represents a 5-year term loan drawn down by the Company from a bank which is unsecured and bears interest at a range of 2.7% to 2.9% (2009: 2.7%) per annum based on 6 months Singapore Inter Bank Offer Rate (SIBOR) or Bank's Cost of Funds (COF), whichever is higher plus a margin of 2.0% per annum. The loan is repayable in 10 equal semi-annual instalments of \$500,000 each. The semi-annual instalments commenced in September 2009 and will mature in March 2014.
- (c) \$2,000,000 (2009: \$3,000,000) represents a 3-year term loan drawn down by the Company from a bank which is unsecured and bears interest at a range of 2.3% to 2.6% (2009: 2.6%) per annum based on 3 months Bank's Cost of Funds (COF) plus a margin of 1.8% per annum. The loan is repayable in 12 equal quarterly instalments of \$250,000 each. The quarterly instalments commenced in September 2009 and will mature in June 2012.
- (d) \$2,250,000 (2009: \$3,000,000) represents a 4-year term loan drawn down by the Company from another bank which is unsecured and bears interest at a range of 2.5% to 2.7% (2009: 2.7%) per annum based on 3 months Bank's Cost of Funds (COF) plus a margin of 2.0% per annum. The loan is repayable in 16 equal quarterly instalments of \$187,500 each. The quarterly instalments commenced in September 2009 and will mature in June 2013.
- (e) \$Nil (2009: \$2,900,000) represents short-term loans drawn down by the Company from banks which are unsecured and bear interest at 2.7% (2009: 1.8% to 3.4%) per annum.

### Loan from a subsidiary company

The loan from a subsidiary company at the end of financial year is unsecured, bears interest at 1.6% (2009: 3.6%) per annum and is expected to be repaid within the next 12 months.

### Loan from a non-controlling shareholder of a subsidiary company

The loan from a non-controlling shareholder of a subsidiary company to the subsidiary company at the end of financial year is unsecured, bears interest at a range of 3.0% to 3.1% (2009: nil) per annum and is not expected to be repaid within the next 12 months.

# NOTES TO THE FINANCIAL STATEMENTS

## 30 JUNE 2010

### 16. Loans and borrowings (cont'd)

As at the statement of financial position date, the loans and borrowings for the Group and the Company are denominated in the following currencies:

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Singapore Dollar	15,924	20,811	11,350	19,966
United States Dollar	74	5,139	–	5,086
Euro	448	1,911	–	–
	16,446	27,861	11,350	25,052

### 17. Deferred tax assets/(liabilities)

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
<b>Deferred tax assets</b>				
At 1 July	180	139	–	–
Currency realignment (Write-back)/provision for the year	7 (104)	1 40	–	–
At 30 June	83	180	–	–
Comprises of:				
Unutilised tax losses	–	65	–	–
Other deductible temporary differences	83	115	–	–
Net deferred tax assets	83	180	–	–
<b>Deferred tax liabilities</b>				
At 1 July	(1,104)	(53)	(40)	(60)
(Charge)/write-back for the year	(69)	(1,051)	22	20
At 30 June	(1,173)	(1,104)	(18)	(40)
Comprises of:				
Differences in depreciation and amortisation for tax purposes	(1,224)	(1,149)	(22)	(40)
Gross deferred tax liabilities	(1,224)	(1,149)	(22)	(40)
Provisions	4	–	4	–
Other deductible temporary differences	47	45	–	–
Gross deferred tax assets	51	45	4	–
Net deferred tax liabilities	(1,173)	(1,104)	(18)	(40)
Recognised in income statement (Note 26)	(173)	(1,011)	22	20

## 18. Share capital

	Group and Company			
	2010		2009	
	No. of ordinary shares	Share capital \$'000	No. of ordinary shares	Share capital \$'000
Ordinary shares issued and fully paid:				
At 1 July and 30 June	438,098,928	80,245	438,098,928	80,245

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restriction. The ordinary shares have no par value.

## 19. Reserves

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Other reserves (a)	642	563	–	–
Foreign currency translation reserve (b)	132	134	–	–
Revenue reserve	47,904	38,252	23,097	19,141
	48,678	38,949	23,097	19,141

(a) *Other reserves*

	Group	
	2010 \$'000	2009 \$'000
Surplus reserves	642	563
Comprises of:		
Statutory reserve	583	507
Development reserve	59	51
Welfare reserve	–	5
	642	563

## NOTES TO THE FINANCIAL STATEMENTS

### 30 JUNE 2010

#### 19. Reserves (cont'd)

(a) *Other reserves (cont'd)*

	Group			Total \$'000
	Statutory reserve \$'000	Development reserve \$'000	Welfare reserve \$'000	
At 1 July 2008	420	42	7	469
Transferred from revenue reserve	87	9	8	104
Utilisation of welfare reserve	–	–	(10)	(10)
At 30 June 2009 and 1 July 2009	507	51	5	563
Transferred from revenue reserve	76	8	7	91
Utilisation of welfare reserve	–	–	(12)	(12)
At 30 June 2010	583	59	–	642

In accordance with the Foreign Enterprise Law and other regulations of the People's Republic of China ("PRC"), the subsidiary company in the PRC has set aside a Statutory reserve, a Development reserve and a Welfare reserve by way of appropriation from its statutory net profit at a rate to be determined by the Board of Directors of the subsidiary company. It is a mandatory requirement for at least 10% of the statutory net profit to be appropriated to the Statutory reserve. The subsidiary company may stop allocating to the Statutory reserve when the cumulative total of the Statutory reserve reaches 50% of the registered capital.

The Board of Directors of the subsidiary company has decided that of the statutory net profit of the subsidiary in the PRC, 10%, 1% and 1% is to be appropriated each year to the Statutory reserve, Development reserve and Welfare reserve respectively.

Subject to approval from the PRC authorities, the Statutory reserve may be used to offset accumulated losses or increase the registered capital of this subsidiary, and are not available for dividend distribution to the shareholders. Subject to approval from the PRC authorities, the Development reserve may be used to increase the registered capital of the subsidiary company. Welfare reserve may be used as employment benefits to employees of the subsidiary company.

(b) *Foreign currency translation reserve*

The foreign currency translation reserve represents exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.

	Group	
	2010 \$'000	2009 \$'000
At 1 July	134	(176)
Net effect of exchange differences arising from translation of financial statements of foreign operations	(2)	310
At 30 June	132	134

## 20. Revenue

	Group	
	2010	2009
	\$'000	\$'000
Sale of goods	149,364	134,804

Sales of goods represents sales less discount and returns.

## 21. Other income

	Group	
	2010	2009
	\$'000	\$'000
Interest income from loans and receivables	68	54
Dividend income from quoted equity investments	1	4
Dividend income from unquoted equity investments	52	53
Foreign currency gains	1,131	–
Sundry income	101	143
	1,353	254

## 22. Other expenses

Other expenses is arrived after charging the following:

	Group	
	2010	2009
	\$'000	\$'000
Amortisation of intangible assets (Note 5)	280	280
Foreign currency losses	–	924
Loss on fair value of held for trading securities	51	184

## 23. Profit before tax

The following items have been charged/(credited) in arriving at profit before tax:

	Group	
	2010	2009
	\$'000	\$'000
Non-audit fees paid to auditors of the Company	30	30
Operating leases expense	409	363
Gain on disposal of property, plant and equipment	(20)	(11)
Gain on disposal of quoted equity investment	–	(1)
Depreciation of property, plant and equipment (Note 3)	1,094	1,130
Depreciation of investment properties (Note 4)	66	53
(Reversals of write-down)/write-down of inventories, net (Note 10)	(134)	530
Impairment loss for trade-related debts, net (Note 11)	1,354	1,162
Employee benefits expense (Note 24)	12,234	9,788
Commission	439	1,900

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#### 24. Employee benefits

	Group	
	2010	2009
	\$'000	\$'000
Salaries	8,263	6,674
Central Provident Fund contribution and other pension costs		
- Directors of the Company	27	19
- Directors of subsidiary companies	35	28
- Other employees	768	569
Directors' fees		
- Directors of the Company	145	126
- Directors of subsidiary companies	48	41
Directors' remuneration		
- Directors of the Company	2,589	1,987
- Directors of subsidiary companies	572	461
Jobs Credit Scheme		
- Directors of the Company	(8)	(5)
- Directors of subsidiary companies	(4)	(4)
- Other employees	(265)	(202)
Other employee benefits	64	94
	12,234	9,788

#### 25. Finance costs

	Group	
	2010	2009
	\$'000	\$'000
Bank overdraft interest	52	54
Interest on trade bills financing	135	708
Term loans interest	399	492
Finance lease interest	1	1
Bank charges	128	131
	715	1,386

#### 26. Taxation

	Group	
	2010	2009
	\$'000	\$'000
Taxation in respect of profit for the year:		
Current taxation		
- Singapore	2,429	2,053
- Overseas	386	275
Deferred taxation (Note 17)	173	1,011
	2,988	3,339
Reversal of over provision in respect of prior years:		
Current taxation		
- Singapore	(5)	(2,548)
- Overseas	(24)	(75)
	2,959	716

## 26. Taxation (cont'd)

A reconciliation of the statutory tax rate to the Group's effective tax rate applicable to profit before tax is as follows:

	Group	
	2010	2009
	%	%
Statutory tax rate	17.0	17.0
Expenses not deductible for tax purposes	0.2	2.5
Double tax relief	(0.1)	(0.2)
Deferred tax liabilities arising from IBA claims previously disallowed	0.6	8.6
Income not subject to tax	(0.3)	(0.4)
Differences in effective tax rates of other countries	0.7	0.1
Effect of change in tax rate	–	(0.1)
Tax-exempt income	(0.5)	(0.8)
Deferred tax benefits not recognised	0.2	0.2
Over provision in respect of prior years	(0.2)	(21.3)
Others	0.3	0.2
Effective tax rate	17.9	5.8

At the statement of financial position date, one of the subsidiaries of the Group has unabsorbed capital allowances of approximately \$667,000 (2009: \$700,000) and unabsorbed tax losses of approximately \$191,000 (2009: \$191,000) that are available for offset against future taxable profits of the subsidiary in which the losses arose, for which no deferred tax asset is recognised due to uncertainty of its recoverability. The comparative figures in 2009 have been adjusted based on the latest income tax submission. The use of these tax losses is subject to the agreement of the tax authorities and compliance with certain provisions of the tax legislation of the respective country in which the company operates.

## 27. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share is calculated by dividing the profit attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the financial year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

## NOTES TO THE FINANCIAL STATEMENTS

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#### 27. Earnings per share (cont'd)

The following reflects the earnings and share data used in the basic and diluted earnings per share (EPS) computations for the years ended 30 June:

	Group	
	2010	2009
	\$'000	\$'000
<hr/>		
Group earnings used for the calculation of EPS:		
Profit attributable to owners of the parent	13,247	11,503
	<hr/>	<hr/>
	'000	'000
Number of shares used for the calculation of EPS:		
Weighted average number of ordinary shares for basic earnings per share computation	438,099	438,099
	<hr/>	<hr/>
Adjusted weighted average number of ordinary shares for diluted earnings per share computation	438,099	438,099
	<hr/>	<hr/>

#### 28. Dividends

	Group and Company	
	2010	2009
	\$'000	\$'000
<hr/>		
Declared and paid during the year:		
<i>Ordinary dividend</i>		
Final dividends of 0.5 cent per share tax exempt (one-tier) for FY 2009 (2009: 0.45 cent tax exempt (one-tier) FY 2008)	2,190	1,971
Interim dividends of 0.3 cent per share tax exempt (one-tier) for FY 2010 (2009: 0.2 cent tax exempt (one-tier) for FY 2009)	1,314	876
	<hr/>	<hr/>
	3,504	2,847
	<hr/>	<hr/>
Proposed but not recognised as a liability as at 30 June:		
<i>Ordinary dividend, subject to shareholders' approval at the AGM</i>		
Final dividends of 0.7 cent per share tax exempt (one-tier) for FY 2010 (2009: 0.5 cent tax exempt (one-tier) for FY 2009)	3,067	2,190
	<hr/>	<hr/>

## 29. Commitments and contingencies

### (a) Operating lease commitments – As lessee

The Group has entered into non-cancellable operating lease agreements for land.

These leases expire at various dates till 2057 and contain provisions for rental adjustments. Future lease payments under non-cancellable operating leases are as follows:

	Group	
	2010 \$'000	2009 \$'000
Not later than one year	416	337
Later than one year but not later than five years	1,281	1,172
Later than five years	12,806	12,433
	14,503	13,942

### (b) Operating lease commitments – As lessor

The Group leases out its leasehold property to third parties. These non-cancellable leases with third parties have remaining lease terms of between 1 and 2 years. The leases include a clause for upward revision of rental charge on a periodic basis based on prevailing market conditions.

Future minimum rentals receivable at the statement of financial position date are as follows:

	Group	
	2010 \$'000	2009 \$'000
Not later than one year	259	208
Later than one year but not later than five years	144	246
	403	454

### (c) Contingent liabilities

Contingent liabilities not provided for in the financial statements:

	Company	
	2010 \$'000	2009 \$'000
(i) Corporate guarantee issued to banks for credit facilities granted to subsidiary companies	12,933	13,005

(ii) The Company has undertaken to provide continuing financial support for 1 (2009: 2) subsidiary company to enable it to operate as going concerns for at least twelve months from the date of its financial statement and to meet its liabilities as and when it falls due.

## NOTES TO THE FINANCIAL STATEMENTS

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### 30. Financial risk management objectives and policies

Risk management is integral to the whole business of the Group. The Group has a system of controls in place to create an acceptable balance between the cost of risks occurring and the cost of managing the risks. The management continually monitors the Group's risk management process to ensure that an appropriate balance between risk and control is achieved. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in its oversight role by management.

No derivatives shall be undertaken except for the use as hedging instruments where appropriate and cost-efficient. The Group and the Company do not apply hedge accounting.

The key financial risks include interest rate risk, foreign currency risk, credit risk and liquidity risk. The following sections provide details regarding the Group's and the Company's exposure to the risks and the objectives, policies and processes for the management of these risks.

#### (a) *Interest rate risk*

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

The Group's exposure to interest rate risk arises primarily from its loans and borrowings.

The Group obtains additional financing through bank borrowings and leasing arrangements. The Group's policy is to obtain comparative interest rates under the most favourable terms and conditions without increasing its foreign currency exposure.

#### **Sensitivity analysis for interest rate risk**

At the statement of financial position date, if Singapore Dollar interest rates had been 10 (2009: 10) basis points lower/higher with all other variables held constant, the Group's profit net of tax would have been \$43,000 (2009: \$12,000) higher/lower, arising mainly as a result of lower/higher interest expense on floating rate loans and borrowings.

The table below shows the interest sensitivity gap by time band based on the earlier of contractual repricing date and maturity date. Actual repricing date may differ from contractual date due to prepayments.

### 30. Financial risk management objectives and policies (cont'd)

(a) Interest rate risk (cont'd)

	Variable rates			Fixed rates			Non-interest bearing	Total
	Less than 6 months	6 to 12 months	1 to 5 years	Less than 6 months	6 to 12 months	1 to 5 years		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Group</b>								
<b>At 30 June 2010</b>								
Cash and bank balances	–	–	–	–	–	–	10,480	10,480
Fixed deposits	450	–	–	16,738	–	–	–	17,188
Trade receivables	–	–	–	–	–	–	46,694	46,694
Other receivables	–	–	–	14	–	–	268	282
Marketable securities	–	–	–	–	–	–	187	187
Other investment	–	–	–	–	–	–	157	157
Non-financial assets	–	–	–	–	–	–	99,726	99,726
<b>Total assets</b>	<b>450</b>	<b>–</b>	<b>–</b>	<b>16,752</b>	<b>–</b>	<b>–</b>	<b>157,512</b>	<b>174,714</b>
Trade payables	–	–	–	–	–	–	15,426	15,426
Other payables	–	–	–	–	–	–	7,895	7,895
Loans and borrowings	2,134	1,375	7,450	5,482	2	3	–	16,446
Non-financial liabilities	–	–	–	–	–	–	4,087	4,087
<b>Total liabilities</b>	<b>2,134</b>	<b>1,375</b>	<b>7,450</b>	<b>5,482</b>	<b>2</b>	<b>3</b>	<b>27,408</b>	<b>43,854</b>

## NOTES TO THE FINANCIAL STATEMENTS

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### 30. Financial risk management objectives and policies (cont'd)

#### (a) Interest rate risk (cont'd)

	Variable rates			Fixed rates			Non-interest bearing	Total
	Less than 6 months	6 to 12 months	1 to 5 years	Less than 6 months	6 to 12 months	1 to 5 years		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Group</b>								
<b>At 30 June 2009</b>								
Cash and bank balances	–	–	–	–	–	–	7,829	7,829
Fixed deposits	–	–	–	12,596	–	–	–	12,596
Trade receivables	–	–	–	–	–	–	46,012	46,012
Other receivables	–	–	–	13	–	–	122	135
Marketable securities	–	–	–	–	–	–	238	238
Other investment	–	–	–	–	–	–	157	157
Non-financial assets	–	–	–	–	–	–	104,828	104,828
<b>Total assets</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>12,609</b>	<b>–</b>	<b>–</b>	<b>159,186</b>	<b>171,795</b>
Trade payables	–	–	–	–	–	–	11,847	11,847
Other payables	–	–	–	2,107	–	–	5,657	7,764
Loans and borrowings	2,147	1,375	8,250	14,480	802	807	–	27,861
Non-financial liabilities	–	–	–	–	–	–	3,559	3,559
<b>Total liabilities</b>	<b>2,147</b>	<b>1,375</b>	<b>8,250</b>	<b>16,587</b>	<b>802</b>	<b>807</b>	<b>21,063</b>	<b>51,031</b>

### 30. Financial risk management objectives and policies (cont'd)

(a) *Interest rate risk (cont'd)*

	Variable rates			Fixed rates			Non-interest bearing	Total
	Less than 6 months	6 to 12 months	1 to 5 years	Less than 6 months	6 to 12 months	1 to 5 years		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Company</b>								
<b>At 30 June 2010</b>								
Cash and bank balances	–	–	–	–	–	–	4,671	4,671
Fixed deposits	–	–	–	16,560	–	–	–	16,560
Trade receivables	–	–	–	–	–	–	36,997	36,997
Other receivables	–	–	–	14	–	–	40	54
Amounts due from subsidiary companies	–	–	–	–	175	–	6,310	6,485
Long term receivables	–	–	–	–	–	3,766	–	3,766
Marketable securities	–	–	–	–	–	–	187	187
Non-financial assets	–	–	–	–	–	–	67,984	67,984
<b>Total assets</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>16,574</b>	<b>175</b>	<b>3,766</b>	<b>116,189</b>	<b>136,704</b>
Trade payables	–	–	–	–	–	–	12,531	12,531
Other payables	–	–	–	–	–	–	5,587	5,587
Amounts due to subsidiary companies	–	–	–	–	–	–	2,250	2,250
Loans and borrowings	1,375	1,375	5,500	3,100	–	–	–	11,350
Non-financial liabilities	–	–	–	–	–	–	1,644	1,644
<b>Total liabilities</b>	<b>1,375</b>	<b>1,375</b>	<b>5,500</b>	<b>3,100</b>	<b>–</b>	<b>–</b>	<b>22,012</b>	<b>33,362</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 30 JUNE 2010

### 30. Financial risk management objectives and policies (cont'd)

#### (a) Interest rate risk (cont'd)

	Variable rates			Fixed rates			Non-interest bearing	Total
	Less than 6 months	6 to 12 months	1 to 5 years	Less than 6 months	6 to 12 months	1 to 5 years		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Company</b>								
<b>At 30 June 2009</b>								
Cash and bank balances	–	–	–	–	–	–	3,657	3,657
Fixed deposits	–	–	–	12,414	–	–	–	12,414
Trade receivables	–	–	–	–	–	–	38,445	38,445
Other receivables	–	–	–	13	–	–	29	42
Amounts due from subsidiary companies	–	–	–	1,803	180	–	5,885	7,868
Long term receivables	–	–	–	–	–	1,816	–	1,816
Marketable securities	–	–	–	–	–	–	238	238
Non-financial assets	–	–	–	–	–	–	73,790	73,790
<b>Total assets</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>14,230</b>	<b>180</b>	<b>1,816</b>	<b>122,044</b>	<b>138,270</b>
Trade payables	–	–	–	–	–	–	8,547	8,547
Other payables	–	–	–	–	–	–	3,491	3,491
Amounts due to subsidiary companies	–	–	–	–	–	–	351	351
Loans and borrowings	1,375	1,375	8,250	12,452	800	800	–	25,052
Non-financial liabilities	–	–	–	–	–	–	1,443	1,443
<b>Total liabilities</b>	<b>1,375</b>	<b>1,375</b>	<b>8,250</b>	<b>12,452</b>	<b>800</b>	<b>800</b>	<b>13,832</b>	<b>38,884</b>

### 30. Financial risk management objectives and policies (cont'd)

#### (b) Foreign currency risk

The Group has transactional currency exposures arising from sales or purchases that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Singapore Dollar, Chinese Renminbi and Indonesian Rupiah. The currencies giving rise to this foreign currency risk are primarily the United States Dollar, Euro and Malaysian Ringgit. Approximately 55% (2009: 53%) of the Group's sales are denominated in foreign currencies whilst almost 95% (2009: 95%) of the Group's purchases are denominated in foreign currencies.

The Group also holds cash and cash equivalents denominated in foreign currencies for working capital purposes. Such foreign currency balances are disclosed in Note 14.

The Group uses foreign currency forward exchange contracts with settlement period within 5 months in managing its foreign currency risk arising from cash flows from anticipated sale and purchase transactions. At year end, the notional amount of the outstanding forward exchange contracts is \$3,186,000 (2009: \$1,820,000). At 30 June 2010, the Group had hedged 46% (2009: 60%) of its foreign currency denominated purchases for which firm commitments existed at the statement of financial position date, extending to November 2010.

The Group does not use foreign currency forward exchange contracts for speculative purposes.

#### Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity to a reasonably possible change in the USD, EUR and MYR exchange rates (against SGD) with all other variables held constant, of the Group's profit net of tax and equity.

	Group	
	2010 \$'000	2009 \$'000
	Profit net of tax and equity	Profit net of tax and equity
SGD/USD – strengthened 3% (2009: 1%)	+ 670	+ 32
– weakened 3% (2009: 1%)	- 670	- 32
SGD/EUR – strengthened 1% (2009: 1%)	- 67	- 27
– weakened 1% (2009: 1%)	+ 67	+ 27
SGD/MYR – strengthened 1% (2009: 1%)	+ 72	+ 60
– weakened 1% (2009: 1%)	- 72	- 60

## NOTES TO THE FINANCIAL STATEMENTS

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#### 30. Financial risk management objectives and policies (cont'd)

##### (c) Credit risk

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

The Group manages its credit risk through an independent credit risk review across different business units. These processes are developed and enhanced regularly to enable the Group to review the different risks in the various segments of its credit portfolios for better decision making and monitoring of risks.

The carrying amounts of financial assets recognised in the statement of financial position represent the Group's maximum exposure to credit risk as at the statement of financial position date.

Information regarding credit enhancements for trade and other receivables is disclosed in Note 11.

Concentrations of credit risk exist when changes in economic, industry or geographic factors similarly affect groups of counter parties whose aggregate credit exposure is significant in relation to the Group's total credit exposure. The Group's portfolio of financial instruments is broadly diversified along geographic lines and transactions are entered into with diverse credit worthy counter parties, thereby mitigating any significant concentration of credit risk.

##### Credit risk concentration profile

The Group and the Company determine concentrations of credit risk by monitoring the geographical profile of its trade receivables on an on-going basis. The credit risk concentration profile of the Group's and the Company's trade receivables at the statement of financial position date are as follows:

	Group				Company			
	2010		2009		2010		2009	
	\$'000	% of total	\$'000	% of total	\$'000	% of total	\$'000	% of total
By geographical segments:								
Singapore	7,918	17	6,813	15	6,342	17	5,875	15
Malaysia	20,260	43	20,514	44	15,041	41	17,564	46
Other ASEAN countries	7,982	17	9,016	20	5,736	15	5,802	15
Other Asian countries	1,741	4	1,569	3	1,085	3	1,104	3
Non-Asian countries	8,793	19	8,100	18	8,793	24	8,100	21
	46,694	100	46,012	100	36,997	100	38,445	100

### 30. Financial risk management objectives and policies (cont'd)

(c) *Credit risk (cont'd)*

At the statement of financial position date, approximately 29% (2009: 34%) of the Group's trade receivables were due from 5 major customers who are located in Malaysia, Singapore and Canada.

**Financial assets that are neither past due nor impaired**

Trade and other receivables that are neither past due nor impaired are creditworthy debtors with good payment record with the Group. Cash and cash equivalents, investment securities and derivatives that are neither past due nor impaired are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

**Financial assets that are either past due or impaired**

Information regarding financial assets that are either past due or impaired is disclosed in Note 11 (trade and other receivables).

(d) *Liquidity risk*

To manage liquidity risk, the Group monitors its net operating cash flows and maintains an adequate level of cash and cash equivalents and funding facilities from banks. In assessing the adequacy of these funding facilities, management reviews its working capital requirements regularly.

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### 30 JUNE 2010

### 30. Financial risk management objectives and policies (cont'd)

#### (d) Liquidity risk (cont'd)

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

	Group			Total \$'000	Company			Total \$'000
	Less than 6 months \$'000	6 to 12 months \$'000	1 to 5 years \$'000		Less than 6 months \$'000	6 to 12 months \$'000	1 to 5 years \$'000	
<b>At 30 June 2010</b>								
<b>Financial assets</b>								
Trade and other receivables	46,976	–	–	46,976	43,361	175	–	43,536
Marketable securities	187	–	–	187	187	–	–	187
Other investment	–	–	157	157	–	–	–	–
Long term receivables	–	–	–	–	–	–	3,766	3,766
Fixed deposits	17,188	–	–	17,188	16,560	–	–	16,560
Cash and bank balances	10,480	–	–	10,480	4,671	–	–	4,671
Total undiscounted financial assets	74,831	–	157	74,988	64,779	175	3,766	68,720
<b>Financial liabilities</b>								
Trade and other payables	23,277	44	–	23,321	20,368	–	–	20,368
Loans and borrowings	7,725	1,460	7,635	16,820	4,601	1,476	5,682	11,759
Total undiscounted financial liabilities	31,002	1,504	7,635	40,141	24,969	1,476	5,682	32,127
Total net undiscounted financial assets / (liabilities)	43,829	(1,504)	(7,478)	34,847	39,810	(1,301)	(1,916)	36,593

### 30. Financial risk management objectives and policies (cont'd)

(d) *Liquidity risk (cont'd)*

	Group				Company			
	Less than 6 months \$'000	6 to 12 months \$'000	1 to 5 years \$'000	Total \$'000	Less than 6 months \$'000	6 to 12 months \$'000	1 to 5 years \$'000	Total \$'000
<b>At 30 June 2009</b>								
<b>Financial assets</b>								
Trade and other receivables	46,147	–	–	46,147	46,175	180	–	46,355
Marketable securities	238	–	–	238	238	–	–	238
Other investment	–	–	157	157	–	–	–	–
Long term receivables	–	–	–	–	–	–	1,816	1,816
Fixed deposits	12,596	–	–	12,596	12,414	–	–	12,414
Cash and bank balances	7,829	–	–	7,829	3,657	–	–	3,657
Total undiscounted financial assets	66,810	–	157	66,967	62,484	180	1,816	64,480
<b>Financial liabilities</b>								
Trade and other payables	19,579	32	–	19,611	12,389	–	–	12,389
Loans and borrowings	16,811	2,322	9,439	28,572	14,028	2,338	9,432	25,798
Total undiscounted financial liabilities	36,390	2,354	9,439	48,183	26,417	2,338	9,432	38,187
Total net undiscounted financial assets / (liabilities)	30,420	(2,354)	(9,282)	18,784	36,067	(2,158)	(7,616)	26,293

# NOTES TO THE FINANCIAL STATEMENTS

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### 31. Fair value of financial instruments

#### Fair value hierarchy

The Group classifies fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy have the following levels:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices), and
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

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

	Quoted prices in active markets for identical instruments (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
				<b>Group 2010 \$'000</b>
<b>Financial assets:</b>				
Marketable securities (quoted) (Note 13)	187	–	–	187
Derivative financial instruments:- Foreign currency forward contracts (Note 11)	–	7	–	7
At 30 June 2010	187	7	–	194

There have been no transfers between Level 1 and Level 2 during the financial year.

### 31. Fair value of financial instruments (cont'd)

#### Methods and assumptions used to determine fair values

The methods and assumptions used by management to determine fair values of financial instruments other than those whose carrying amounts reasonably approximate their fair values, are as follows:

#### Financial assets and liabilities

Quoted equity instruments

Derivative financial instruments:-

- Forward currency contracts

#### Methods and assumptions

Fair value is determined directly by reference to their published market bid price at the statement of financial position date.

Fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

#### Fair value versus carrying amounts

The carrying amounts of cash and bank balances, fixed deposits, trade and other receivables (excluding derivatives), trade and other payables reasonably approximate their fair values because these are mostly short term in nature.

The carrying amounts of loans and borrowings approximate their fair values as the interest rates of the loans and borrowings approximate current market interest rates.

The fair value of financial assets and liabilities by classes that are not carried at fair value in the statement of financial position as at 30 June are represented in the following table:

	Note	Group			
		2010 \$'000	Fair value	2009 \$'000	Fair value
		Carrying amount		Carrying amount	
<b>Financial assets:</b>					
Other investment*	8	157	#	157	#
<b>Financial liabilities:</b>					
Loans and borrowings (current)	16	3,550	3,741	7,250	7,578
Loans and borrowings (non-current)	16	7,450	7,987	9,050	9,432

# Fair value information has not been disclosed for these financial instruments carried at cost because fair value cannot be measured reliably.

## NOTES TO THE FINANCIAL STATEMENTS

### 30 JUNE 2010

### 31. Fair value of financial instruments (cont'd)

#### Fair value versus carrying amounts (cont'd)

#### \* Investment in equity instruments carried at cost (Note 8)

The Group has carried other investment at cost less accumulated impairment as it does not have a quoted market price in an active market and the fair value cannot be reliably measured.

The investment represents the Group's equity interest in ordinary shares in the companies that are not quoted on any market and does not have any comparable industry peer that is listed. In addition, the variability in the range of reasonable fair value estimates derived from valuation techniques is significant. The Group does not intend to dispose of this investment in the foreseeable future.

	Note	Company			
		2010 \$'000		2009 \$'000	
		Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets:</b>					
Long term receivables	9	3,766	3,913	1,816	1,916
<b>Financial liabilities:</b>					
Loans and borrowings (current)	16	5,850	6,077	9,550	9,914
Loans and borrowings (non-current)	16	5,500	5,682	9,050	9,432

### 32. Related party transactions

An entity or individual is considered a related party of the Group for the purposes of the financial statements if:

- (i) it possesses the ability (directly or indirectly) to control or exercise significant influence over the operating and financial decisions of the Group or vice versa; or
- (ii) it is subject to common control or common significant influence.

## 32. Related party transactions (cont'd)

### Sale and purchase of goods and services

In addition to related party transactions disclosed in other notes to the financial statements, the following are significant related party transactions entered into, at terms agreed between the parties, by the Group and the Company with:

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
<b><i>Subsidiary companies</i></b>				
Sales of goods	–	–	6,334	4,657
Interest received	–	–	98	12
Dividend income	–	–	90	1,819
Other income	–	–	32	35
Purchases of goods	–	–	(7,189)	(6,239)
Commission expenses	–	–	(7)	(15)
Agency and handling charges - outward	–	–	(349)	(340)
Interest expenses	–	–	(42)	(72)
Rental expenses	–	–	(1,341)	(1,341)
Logistics expenses	–	–	(6,110)	(6,110)
<b><i>Non-controlling shareholders</i></b>				
Purchase of goods	(35)	(40)	–	–
Interest expenses	(54)	(44)	–	–
Rental expenses	(36)	(42)	–	–

### Key management personnel compensation

Key management personnel of the Group are those persons having the authority and responsibility for planning, directing and monitoring the activities of the Group. The Directors of the Company and the Executive Officers of the Group are considered as key management personnel of the Group.

Key management personnel (excluding Directors) compensation comprises the following:

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Salaries	914	1,211	912	1,101
Central Provident Fund contribution and other person costs	53	67	53	60

Disclosures on Directors' remuneration have been made in Note 24.

## NOTES TO THE FINANCIAL STATEMENTS

### 30 JUNE 2010

### 33. Capital management

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

The Group manages its capital structure and makes adjustment to it, in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, issue new shares or obtain new borrowings.

The Group monitors capital with reference to gearing ratio, which is calculated as total loans and borrowings less cash and bank balances and fixed deposits divided by equity attributable to the owners of the parent. The Group's overall strategy remains unchanged from previous year.

	Group	
	2010 \$'000	2009 \$'000
Total loans and borrowings	16,446	27,861
Less: Cash and bank balances and fixed deposits	(27,668)	(20,425)
	(11,222)	7,436
Equity attributable to owners of the parent*	128,923	119,194
Gearing ratio	NA	6%

\* Included in equity is a surplus reserves of a subsidiary company of \$642,000 (2009: \$563,000) which is not available for dividend distribution to the shareholder.

### 34. Segment information

The Group's operating businesses are organised and managed separately according to the nature of products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The Group's operations are mainly in three reportable operating segments, namely trading, logistics income and rental income. Segment accounting policies are the same as the policies described in Note 2. The Group generally accounts for inter-segment sales and transfers as if the sales or transfers were to third parties at current market prices. Revenues are attributed to geographic areas based on the location of the assets producing the revenues.

#### Reportable operating segments

The Group comprises the following reportable operating segments:

Trading	–	Trading of heavy machinery parts, diesel engine parts, commercial and industrial vehicles parts
Logistics income	–	Logistics and distribution services provider
Rental income	–	Rental of office and warehouse

No operating segments have been aggregated to form the above reportable operating segments.

## 34. Segment information (cont'd)

### Reportable operating segments (cont'd)

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

### Geographical segments

The Group's geographical segments are based on the location of the Group's assets. Sales to external customers disclosed in geographical segments are based on the geographical location of its customers.

Financial information about the reportable operating segments and geographical segments are presented as follows:

### Reportable operating segments

	Trading		Logistics income		Rental income		Inter-segment elimination		Note	Consolidated	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000		2010 \$'000	2009 \$'000
<i>Segment revenue:</i>											
Sales to external customers	149,364	134,804	-	-	328	299	-	-	A	149,692	135,103
Inter-segment revenue	-	-	6,476	6,443	1,374	1,358	(7,850)	(7,801)	B	-	-
Total segment revenue	149,364	134,804	6,476	6,443	1,702	1,657	(7,850)	(7,801)	A,B	149,692	135,103
<i>Results:</i>											
Interest income	68	50	33	6	8	-	(41)	(2)	B	68	54
Dividend income	53	57	-	1,202	-	298	-	(1,500)	B	53	57
Depreciation of property, plant and equipment	446	454	211	239	-	-	437	437	B	1,094	1,130
Depreciation of investment properties	-	-	-	-	513	500	(447)	(447)	B,C	66	53
Amortisation of intangible assets	280	280	-	-	-	-	-	-		280	280
Finance costs	715	1,386	33	2	8	-	(41)	(2)	B	715	1,386
Other non-cash expenses	1,262	1,881	(11)	(11)	-	-	-	-	D	1,251	1,870
Segment profit before tax	12,447	8,299	3,600	3,571	518	445	10	10	C	16,575	12,325
<i>Assets:</i>											
Additions to non-current assets	206	1,054	375	89	139	-	-	-	E	720	1,143
Segment assets	151,914	149,158	20,505	20,489	2,677	2,540	(382)	(392)	F	174,714	171,795
Segment liabilities	41,141	48,622	2,052	1,751	661	658	-	-		43,854	51,031

## NOTES TO THE FINANCIAL STATEMENTS

### 30 JUNE 2010

#### 34. Segment information (cont'd)

##### Reportable operating segments (cont'd)

##### Notes:

(A) The following items are added to arrive at segment revenue:

	Group	
	2010 \$'000	2009 \$'000
Revenue – sale of goods	149,364	134,804
Rental income	328	299
	149,692	135,103

(B) Inter-segment results are eliminated on consolidation.

(C) Depreciation of investment properties from inter-segment expenses is added to segment profit before tax to arrive at “Profit before tax” presented in the consolidated income statement.

(D) Other non-cash expenses consist of (gain)/loss on disposal of property, plant and equipment, (reversal of allowance)/allowance for inventories obsolescence, impairment loss for trade-related debts, loss on fair value of held for trading securities and (gain)/loss on disposal of quoted equity investment as presented in the financial statements.

(E) Additions to non-current assets consist of additions to property, plant and equipment.

(F) Inter-segment asset is deducted from segment assets to arrive at total assets reported in the consolidated statement of financial position.

## 34. Segment information (cont'd)

### Geographical segments

	Singapore		Malaysia		Other ASEAN Countries		Other Asian Countries		Non-Asian Countries		Consolidated	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Segment revenue	28,779	27,060	41,901	34,371	29,773	30,193	15,411	15,140	33,828	28,339	149,692	135,103
Non-current assets	25,580	26,147	806	829	1,382	1,392	1,225	1,274	-	-	28,993	29,642

Non-current assets information presented above consist of property, plant and equipment, investment properties, intangible assets, goodwill and other investment as presented in the consolidated statement of financial position.

### Information about a major customer

The Group is not significantly reliant on revenue derived from any major customer or group of customers under common control during the year.

## 35. Authorisation of financial statements

The financial statements for the year ended 30 June 2010 were authorised for issue in accordance with a resolution of the Directors on 23 September 2010.

## STATISTICS OF SHAREHOLDINGS AS AT 23 SEPTEMBER 2010

<b>Class of equity securities</b>	<b>:</b>	<b>Ordinary share</b>
<b>Number of equity securities</b>	<b>:</b>	<b>438,098,928</b>
<b>Voting rights</b>	<b>:</b>	<b>One vote per share</b>

### Distribution of shareholdings

Size of shareholdings	No. of shareholders	%	No. of shares	%
1 - 999	35	0.71	7,113	0.00
1,000 - 10,000	2,842	57.85	14,222,648	3.25
10,001 - 1,000,000	2,008	40.87	93,684,408	21.38
1,000,001 and above	28	0.57	330,184,759	75.37
<b>Total</b>	<b>4,913</b>	<b>100.00</b>	<b>438,098,928</b>	<b>100.00</b>

### Shareholdings of substantial shareholders

Name	Note	Registered in the name of substantial shareholders	%	Shareholdings in which substantial shareholders are deemed to have an interest	%
Low Han Cheong	2	54,884,980	12.53	1,330,000	0.30
Law Peng Kwee	3	11,416,470	2.61	119,320,230	27.24
Lau Hwee Beng	4	43,769,320	9.99	1,592,500	0.36
Lau Hung Swee & Sons Pte Ltd	5	95,320,230	21.76	24,000,000	5.48

#### Notes:

- Percentages based on 438,098,928 issued shares as at 23 September 2010.
- Low Han Cheong is deemed interested in 1,330,000 shares held by his spouse, Lucy Lim Chye Eng.
- Law Peng Kwee is deemed interested in all the shares that Lau Hung Swee & Sons Pte Ltd has an interest in.
- Lau Hwee Beng is deemed interested in 92,500 shares held by his spouse, Farah Lau and 1,500,000 shares held by Bio-Green Agritech Pte Ltd.
- Lau Hung Swee & Sons Pte Ltd is deemed to have an interest in the 24,000,000 shares held by Hong Leong Finance Nominees Pte Ltd.

#### Public Float

As at 23 September 2010, approximately 42% of the Company's shares are held in the hands of public. Accordingly, the Company has complied with Rule 723 of the Listing Manual of SGX-ST.

## Twenty largest shareholders

No.	Name	No. of shares	%
1	Lau Hung Swee & Sons Pte Ltd	95,320,230	21.76
2	Low Han Cheong	54,884,980	12.53
3	Lau Hwee Beng	43,769,320	9.99
4	Hong Leong Finance Nominees Pte Ltd	25,959,500	5.93
5	DB Nominees (S) Pte Ltd	13,820,000	3.15
6	Ng Chwee Cheng	13,647,000	3.12
7	Law Peng Kwee	11,416,470	2.61
8	Citibank Nominees Singapore Pte Ltd	8,884,832	2.03
9	Beh Swee Khim	7,452,000	1.70
10	United Overseas Bank Nominees Pte Ltd	6,497,000	1.48
11	Ng Sok Meng Evelyn	6,041,000	1.38
12	Low Shao Wei @ Donald Low	5,663,000	1.29
13	DBS Nominees Pte Ltd	5,112,000	1.17
14	CIMB Securities (Singapore) Pte Ltd	4,732,600	1.08
15	Phillip Securities Pte Ltd	3,991,929	0.91
16	OCBC Nominees Singapore Pte Ltd	3,508,000	0.80
17	See Beng Lian Janice	3,445,000	0.79
18	Lau Yee Hwa @ Jessica Lau	2,265,000	0.52
19	Lau Qian Xiu Alice	1,815,000	0.41
20	Bio-Green Agritech Pte Ltd	1,500,000	0.34
	Total	319,724,861	72.99

## NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Kian Ann Engineering Ltd (“the Company”) will be held at The Conference Room, Kian Ann Building, 7 Changi South Lane, Singapore 486119 on Friday, 29 October 2010 at 11.00 a.m. for the following purposes:

### As Ordinary Business

1. To receive and adopt the Directors’ Report and the Audited Accounts of the Company for the year ended 30 June 2010 together with the Auditors’ Report thereon. **(Resolution 1)**

2. To declare a final dividend of \$0.007 per share one-tier tax exempt for the year ended 30 June 2010 (2009: \$0.005 per share one-tier tax exempt). **(Resolution 2)**

3. To re-elect the following Directors of the Company retiring pursuant to Articles 103 and 107 of the Articles of Association of the Company:

Mr Law Peng Kwee	(Retiring under Article 103)	<b>(Resolution 3)</b>
Mr Ng Cher Yan	(Retiring under Article 103)	<b>(Resolution 4)</b>
Mr Tan Ngiap Joo	(Retiring under Article 107)	<b>(Resolution 5)</b>
Mr Loy Soo Chew	(Retiring under Article 107)	<b>(Resolution 6)</b>

Mr Ng Cher Yan will, upon re-election as a Director of the Company, remain as Chairman of the Remuneration Committee and a member of the Audit and Nominating Committees and will be considered independent.

Mr Tan Ngiap Joo will, upon re-election as a Director of the Company, remain as Chairman of the Nominating Committee and a member of the Audit and Remuneration Committees and will be considered independent.

4. To re-appoint Mr Low Han Cheong, a Director of the Company retiring under Section 153(6) of the Companies Act, Cap. 50, to hold office from the date of this Annual General Meeting until the next Annual General Meeting of the Company. [See Explanatory Note (i)] **(Resolution 7)**

5. To approve the payment of Directors’ fees of \$145,000 for the year ended 30 June 2010. (2009: \$126,000). **(Resolution 8)**

6. To re-appoint Ernst & Young LLP as the Auditors of the Company and to authorise the Directors of the Company to fix their remuneration. **(Resolution 9)**

7. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

### As Special Business

To consider and if thought fit, to pass the following resolutions as Ordinary Resolutions, with or without any modifications:

8. Authority to issue shares

That pursuant to Section 161 of the Companies Act, Cap. 50 and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited (“SGX-ST”), the Directors of the Company be authorised and empowered to:

- (a) (i) issue shares in the Company (“shares”) whether by way of rights, bonus or otherwise; and/or
- (ii) make or grant offers, agreements or options (collectively, “Instruments”) that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) options, warrants, debentures or other instruments convertible into shares,

at any time and upon such terms and conditions and for such purposes and to such persons as the Directors of the Company may in their absolute discretion deem fit; and

- (b) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue shares in pursuance of any Instruments made or granted by the Directors of the Company while this Resolution was in force,

provided that:

- (1) the aggregate number of shares (including shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution) to be issued pursuant to this Resolution shall not exceed fifty per centum (50%) of the total number of issued shares (excluding treasury shares) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of shares to be issued other than on a pro rata basis to shareholders of the Company shall not exceed twenty per centum (20%) of the total number of issued shares (excluding treasury shares) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below);
- (2) (subject to such calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of shares that may be issued under sub-paragraph (1) above, the total number of issued shares (excluding treasury shares) shall be based on the total number of issued shares (excluding treasury shares) in the capital of the Company at the time of the passing of this Resolution, after adjusting for:
  - (a) new shares arising from the conversion or exercise of any convertible securities;
  - (b) new shares arising from exercising share options or vesting of share awards which are outstanding or subsisting at the time of the passing of this Resolution; and
  - (c) any subsequent bonus issue, consolidation or subdivision of shares;
- (3) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Articles of Association of the Company; and
- (4) unless revoked or varied by the Company in a general meeting, such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier.

[See Explanatory Note (ii)]

**(Resolution 10)**

By Order of the Board

David Tan Wee Kok  
Secretary

Singapore, 12 October 2010

## NOTICE OF ANNUAL GENERAL MEETING

### Explanatory Notes:

- (i) The effect of the Ordinary Resolution 7 proposed in item 4 above, is to re-appoint a director of the Company who is over 70 years of age.
- (ii) The Ordinary Resolution 10 in item 8 above, if passed, will empower the Directors of the Company, effective until the conclusion of the next Annual General Meeting of the Company, or the date by which the next Annual General Meeting of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to issue shares, make or grant Instruments convertible into shares and to issue shares pursuant to such Instruments, up to a number not exceeding, in total, 50% of the total number of issued shares (excluding treasury shares) in the capital of the Company, of which up to 20% may be issued other than on a pro-rata basis to shareholders.

For determining the aggregate number of shares that may be issued, the total number of issued shares (excluding treasury shares) will be calculated based on the total number of issued shares (excluding treasury shares) in the capital of the Company at the time this Ordinary Resolution is passed after adjusting for new shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time when this Ordinary Resolution is passed and any subsequent bonus issue, consolidation or subdivision of shares.

### Notes:

- 1. A Member entitled to attend and vote at the Annual General Meeting (the "Meeting") is entitled to appoint a proxy to attend and vote in his/her stead. A proxy need not be a Member of the Company.
- 2. The instrument appointing a proxy must be deposited at the Registered Office of the Company at Kian Ann Building, 7 Changi South Lane, Singapore 486119 not less than forty-eight (48) hours before the time appointed for holding the Meeting.

# KIAN ANN ENGINEERING LTD

[Company Registration No. 197101102H]  
(Incorporated In The Republic of Singapore)

**IMPORTANT:**

1. For investors who have used their CPF monies to buy **Kian Ann Engineering Ltd's** shares, this Report is forwarded to them at the request of the CPF Approved Nominees and is sent solely FOR INFORMATION ONLY.
2. This Proxy Form is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.
3. CPF investors who wish to attend the Meeting as an observer must submit their requests through their CPF Approved Nominees within the time frame specified. If they also wish to vote, they must submit their voting instructions to the CPF Approved Nominees within the time frame specified to enable them to vote on their behalf.

## PROXY FORM

(Please see notes overleaf before completing this Form)

I/We, \_\_\_\_\_

of \_\_\_\_\_

being a member/members of Kian Ann Engineering Ltd (the "Company"), hereby appoint:

Name	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

and/or (delete as appropriate)

Name	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

or failing the person, or either or both of the persons, referred to above, the Chairman of the Meeting as my/our proxy/proxies to vote for me/us on my/our behalf at the Annual General Meeting (the "Meeting") of the Company to be held on Friday, 29 October 2010 at 11.00 a.m. and at any adjournment thereof. I/We direct my/our proxy/proxies to vote for or against the Resolutions proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given or in the event of any other matter arising at the Meeting and at any adjournment thereof, the proxy/proxies will vote or abstain from voting at his/her discretion. The authority herein includes the right to demand or to join in demanding a poll and to vote on a poll.

**(Please indicate your vote "For" or "Against" with a tick [✓] within the box provided.)**

No.	Resolutions relating to:	For	Against
1	Directors' Report and Audited Accounts for the year ended 30 June 2010		
2	Payment of proposed final tax exempt dividend		
3	Re-election of Mr Law Peng Kwee as a Director		
4	Re-election of Mr Ng Cher Yan as a Director		
5	Re-election of Mr Tan Ngiap Joo as a Director		
6	Re-election of Mr Loy Soo Chew as a Director		
7	Re-appointment of Mr Low Han Cheong as a Director		
8	Approval of Directors' fees amounting to \$145,000		
9	Re-appointment of Ernst & Young LLP as Auditors		
10	Authority to issue new shares		

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2010

\_\_\_\_\_  
Signature of Shareholder(s)  
or, Common Seal of Corporate Shareholder

Total number of Shares in:	No. of Shares
(a) CDP Register	
(b) Register of Members	



## **Notes:**

1. Please insert the total number of Shares held by you. If you have Shares entered against your name in the Depository Register (as defined in Section 130A of the Companies Act, Chapter 50 of Singapore), you should insert that number of Shares. If you have Shares registered in your name in the Register of Members, you should insert that number of Shares. If you have Shares entered against your name in the Depository Register and Shares registered in your name in the Register of Members, you should insert the aggregate number of Shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the Shares held by you.
2. A member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint one or two proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.
3. Where a member appoints two proxies, the appointments shall be invalid unless he/she specifies the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy.
4. Completion and return of this instrument appointing a proxy shall not preclude a member from attending and voting at the Meeting. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the meeting in person, and in such event, the Company reserves the right to refuse to admit any person or persons appointed under the instrument of proxy to the Meeting.
5. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at Kian Ann Building, 7 Changi South Lane, Singapore 486119 not less than 48 hours before the time appointed for the Meeting.
6. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of an attorney duly authorised. Where the instrument appointing a proxy or proxies is executed by an attorney on behalf of the appointor, the letter or power of attorney or a duly certified copy thereof must be lodged with the instrument.
7. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Meeting, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.

## **General:**

The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible, or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of Shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have Shares entered against his name in the Depository Register as at 48 hours before the time appointed for holding the Meeting, as certified by The Central Depository (Pte) Limited to the Company.





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Company Registration No.: 197101102H