

The background is a teal-colored image. On the left side, there is a close-up of a calculator's buttons, including a '0' button, a '+/-' button, a 'M+' button, and a '+' button. On the right side, there is a line graph on a grid. The y-axis has numerical labels: 6,000, 6,250, 6,500, and 6,750. The graph shows a line that generally trends upwards with some fluctuations. Below the graph, there are some faint, illegible text elements that appear to be part of a financial statement or report.

## FINANCIAL REPORT

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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 2011.

## 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  
 Lim Ho Seng  
 Ng Cher Yan  
 Lau Hwee Beng  
 Tan Ngiap Joo

## 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 1.7.10	At 30.6.11	At 21.7.11	At 1.7.10	At 30.6.11	At 21.7.11
<b>The Company</b>						
<b><i>Kian Ann Engineering Ltd</i></b> <i>(Ordinary shares)</i>						
Low Han Cheong	54,884,980	54,884,980	54,884,980	1,330,000	1,330,000	1,330,000
Law Peng Kwee	11,416,470	11,416,470	11,416,470	119,320,230	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	43,769,320	44,530,320	44,530,320	1,592,500	1,592,500	1,592,500
Loy Soo Chew	–	–	–	155,000	155,000	155,000
Tan Ngiap Joo	50,000	50,000	50,000	–	–	–
<b>Subsidiary companies</b>						
<b><i>Transmec Engineering Pte Ltd</i></b> <i>(Ordinary shares)</i>						
Law Peng Kwee	–	–	–	963,900	963,900	963,900
<b><i>Kian Chue Hwa (Industries) Pte Ltd</i></b> <i>(Ordinary shares)</i>						
Law Peng Kwee	–	–	–	3,600,000	3,600,000	3,600,000
<b><i>PT. Haneagle Heavyparts Indonesia</i></b> <i>(Ordinary shares)</i>						
Law Peng Kwee	–	–	–	190	1,425	1,425

## **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 2011 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  
21 September 2011

## 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 2011 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  
21 September 2011

# INDEPENDENT AUDITORS' REPORT

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

### TO THE MEMBERS OF KIAN ANN ENGINEERING LTD

#### **Report on the consolidated financial statements**

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 98, which comprise the statements of financial position of the Group and the Company as at 30 June 2011, 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 information.

#### **Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act (the "Act") and Singapore Financial Reporting Standards, and for 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 income statement and statements of financial position and to maintain accountability of assets.

#### **Auditors' responsibility**

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated financial statements are free from material misstatement.

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

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

#### **Opinion**

In our opinion, the 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 2011 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.

#### **Report on other legal and regulatory requirements**

In our opinion, 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  
21 September 2011

# STATEMENTS OF FINANCIAL POSITION

## AS AT 30 JUNE 2011

	Note	Group		Company	
		2011	2010	2011	2010
		\$'000	\$'000	\$'000	\$'000
<b>Non-current assets</b>					
Property, plant and equipment	3	23,664	23,806	293	132
Investment properties	4	2,397	2,464	782	806
Intangible assets	5	1,086	1,366	–	–
Goodwill	6	1,200	1,200	–	–
Subsidiary companies	7	–	–	9,664	10,695
Other investment	8	157	157	–	–
Long term receivables	9	13,000	–	14,950	3,766
Deferred tax assets	18	210	83	–	–
		41,714	29,076	25,689	15,399
<b>Current assets</b>					
Inventories	10	83,377	69,798	68,172	56,179
Trade and other receivables	11	51,689	46,969	42,606	43,517
Derivative financial instruments	12	33	7	33	19
Advance payments	13	1,112	1,009	160	172
Marketable securities	14	199	187	199	187
Fixed deposits	15	13,160	17,188	13,002	16,560
Cash and bank balances	15	10,176	10,480	5,729	4,671
		159,746	145,638	129,901	121,305
<b>Current liabilities</b>					
Trade and other payables	16	30,847	23,321	31,969	20,368
Derivative financial instruments	12	45	–	31	–
Loans and borrowings	17	17,867	8,993	10,125	5,850
Provision for taxation		3,345	2,914	1,897	1,626
		52,104	35,228	44,022	27,844
<b>Net current assets</b>		107,642	110,410	85,879	93,461
<b>Non-current liabilities</b>					
Loans and borrowings	17	4,733	7,453	2,750	5,500
Deferred tax liabilities	18	1,262	1,173	44	18
		5,995	8,626	2,794	5,518
<b>Net assets</b>		143,361	130,860	108,774	103,342
<b>Equity</b>					
Share capital	19	80,245	80,245	80,245	80,245
Reserves	20	60,289	48,678	28,529	23,097
<b>Equity attributable to owners of the parent</b>		140,534	128,923	108,774	103,342
Non-controlling interests		2,827	1,937	–	–
<b>Total equity</b>		143,361	130,860	108,774	103,342

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

# CONSOLIDATED INCOME STATEMENT

## FOR THE YEAR ENDED 30 JUNE 2011

	Note	Group	
		2011 \$'000	2010 \$'000
<b>Sale of goods</b>	21	162,315	149,364
Cost of goods sold		(116,212)	(111,443)
<b>Gross profit</b>		46,103	37,921
Rental income		342	328
Other income	22	1,080	1,353
Distribution expenses		(13,708)	(13,090)
Administrative expenses		(10,001)	(8,817)
Other expenses	23	(2,395)	(405)
Finance expenses	26	(580)	(715)
<b>Profit before tax</b>	24	20,841	16,575
Taxation	27	(3,239)	(2,959)
<b>Profit for the year</b>		17,602	13,616
<b>Profit attributable to:</b>			
Owners of the parent		16,770	13,247
Non-controlling interests		832	369
		17,602	13,616
<b>Earnings per share (Cents)</b>			
- Basic	28	3.83	3.02
- Diluted	28	3.83	3.02

*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 2011

	<b>Group</b>	
	<b>2011</b>	<b>2010</b>
	\$'000	\$'000
<b>Profit for the year</b>	17,602	13,616
<b>Other comprehensive income</b>		
Foreign currency translation	(668)	6
Other comprehensive income for the year, net of tax	(668)	6
<b>Total comprehensive income for the year</b>	16,934	13,622
<b>Total comprehensive income attributable to:</b>		
Owners of the parent	16,111	13,245
Non-controlling interests	823	377
	16,934	13,622

*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 2011

Group	Note	Share capital \$'000	Other reserves \$'000 (Note 20)	Revenue reserve \$'000 (Note 20)	Foreign currency translation reserve \$'000 (Note 20)	Equity attributable to owners of the parent \$'000	Non-controlling interests \$'000	Total equity \$'000
At 1 July 2010		80,245	642	47,904	132	128,923	1,937	130,860
Profit for the year		–	–	16,770	–	16,770	832	17,602
<u>Other comprehensive income</u>								
Foreign currency translation		–	–	–	(659)	(659)	(9)	(668)
Other comprehensive income for the year, net of tax		–	–	–	(659)	(659)	(9)	(668)
<b>Total comprehensive income for the year</b>		–	–	16,770	(659)	16,111	823	16,934
<u>Contributions by and distributions to owners</u>								
Transfer to other reserves		–	112	(112)	–	–	–	–
Utilisation of other reserves		–	(9)	–	–	(9)	–	(9)
Proceeds from a non-controlling shareholder from issuance of new shares by a subsidiary		–	–	–	–	–	85	85
Dividend paid by a subsidiary to a non-controlling shareholder for FY 2011 - Interim		–	–	–	–	–	(18)	(18)
Dividend paid for FY 2010 - Final	29	–	–	(3,067)	–	(3,067)	–	(3,067)
Dividend paid for FY 2011 - Interim	29	–	–	(1,424)	–	(1,424)	–	(1,424)
<b>Total contributions by and distributions to owners, representing total transactions with owners in their capacity as owners</b>		–	103	(4,603)	–	(4,500)	67	(4,433)
At 30 June 2011		80,245	745	60,071	(527)	140,534	2,827	143,361
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 by a subsidiary to a non-controlling shareholder for FY 2010 - Interim		–	–	–	–	–	(10)	(10)
Dividend paid for FY 2009 - Final	29	–	–	(2,190)	–	(2,190)	–	(2,190)
Dividend paid for FY 2010 - Interim	29	–	–	(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

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 2011

Company	Note	Share capital \$'000	Revenue reserve \$'000	Total equity \$'000
At 1 July 2010		80,245	23,097	103,342
<b>Profit for the year, representing total comprehensive income for the year</b>		–	9,923	9,923
<u>Contributions by and distributions to owners</u>				
Dividend paid for FY 2010 - Final	29	–	(3,067)	(3,067)
Dividend paid for FY 2011 - Interim	29	–	(1,424)	(1,424)
<b>Total contributions by and distributions to owners, representing total transactions with owners in their capacity as owners</b>		–	(4,491)	(4,491)
At 30 June 2011		80,245	28,529	108,774
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	29	–	(2,190)	(2,190)
Dividend paid for FY 2010 - Interim	29	–	(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

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

# CONSOLIDATED STATEMENT OF CASH FLOW

## FOR THE YEAR ENDED 30 JUNE 2011

	Group	
	2011	2010
	\$'000	\$'000
<b>Cash flows from operating activities:</b>		
Profit before tax	20,841	16,575
Adjustments for:		
Depreciation of property, plant and equipment	1,093	1,094
Depreciation of investment properties	67	66
Amortisation of intangible assets	280	280
Reversal of impairment loss of property, plant and equipment	(374)	–
Allowance for impairment of trade-related debts, net	632	1,354
Allowance/(reversals of allowance) for inventories obsolescence, net	430	(134)
Gain on disposal of property, plant and equipment	(2)	(20)
Fair value (gain)/loss for marketable securities	(14)	51
Net fair value loss on derivative financial instruments	14	6
Interest expenses	472	587
Interest income	(398)	(68)
Dividend income	(189)	(53)
Currency realignment	(541)	(66)
<b>Operating profit before changes in working capital</b>	22,311	19,672
(Increase)/decrease in inventories	(13,990)	4,867
Increase in trade and other receivables and advance payments	(5,059)	(2,506)
Decrease/(increase) in derivative financial instruments	5	(5)
Increase in trade and other payables	7,493	3,698
Increase/(decrease) in bills payable and trade bills discounting	9,779	(6,098)
<b>Cash generated from operations</b>	20,539	19,628
Tax paid	(2,827)	(2,331)
Interest paid	(448)	(653)
Interest received	67	68
<b>Net cash generated from operating activities</b>	17,331	16,712
<b>Cash flows from investing activities:</b>		
Purchase of property, plant and equipment	(772)	(720)
Proceeds from disposal of property, plant and equipment	19	34
Proceeds from sale of quoted equity investment	2	–
Long-term convertible loan to a third party	(13,000)	–
Interest received from long-term receivables	137	–
Dividend income	–	53
<b>Net cash used in investing activities</b>	(13,614)	(633)
<b>Cash flows from financing activities:</b>		
Dividends paid – by Company	(4,491)	(3,504)
Dividends paid – by a subsidiary to a non-controlling shareholder	(18)	(10)
Proceeds from new bank term loans	1,794	–
Repayment of bank term loans	(5,344)	(7,255)
Proceeds from finance leases	63	–
Repayment of finance leases	(15)	(4)
Proceeds from a non-controlling shareholder from issuance of new shares by a subsidiary	85	–
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>	(7,926)	(8,823)
Net (decrease)/increase in cash and cash equivalents	(4,209)	7,256
Cash and cash equivalents at beginning of the year (Note 15)	26,909	19,653
<b>Cash and cash equivalents at end of the year (Note 15)</b>	22,700	26,909

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

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2011

## 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;
- (iv) rental of office, warehouse, logistics and distribution service provider; and
- (v) investment holding.

There have been no significant changes in the nature of these activities during the financial year, other than from newly incorporated subsidiary, Kian Ann Investment Pte Ltd, of which the principal activity is investment holding.

## 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 in the current financial year, the Group has adopted all the new and revised standards and Interpretations of FRS (INT FRS) that are effective for annual periods beginning on or after 1 July 2010. The adoption of these standards and interpretations did not have any effect on the financial performance or position of the Group and the Company.

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

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

Improvements to FRSs issued in 2009:

- Amendments to FRS 1 Presentation of Financial Statements
  - Amendments to FRS 7 Statement of Cash Flows
  - Amendments to FRS 17 Leases
  - Amendments to FRS 36 Impairment of Assets
  - FRS 39 Financial Instruments: Recognition and Measurement
  - Amendments to FRS 105 Non-current Assets Held for Sale and Discontinued Operations
  - Amendments to FRS 108 Operating Segments
- Amendment to FRS 32 Financial instruments: Presentation – Classification of Rights Issues  
INT FRS 119 Extinguishing Financial Liabilities with Equity Instruments

### 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 2010:	
- Amendments to FRS 103 Business Combinations	1 January 2011
- Amendments to FRS 1 Presentation of Financial Statements	1 January 2011
- Amendments to transition requirements for amendments arising as a result of FRS 27 Consolidated and Separate Financial Statements	1 January 2011
- FRS 39 Financial Instruments: Recognition and Measurement	1 January 2011
- Amendments to INT FRS 113 Customer Loyalty Programmes	1 January 2011
Revised FRS 24 Related Party Disclosures	1 January 2011
INT FRS 115 Agreements for the Construction of Real Estate	1 January 2011
INT FRS 119 Extinguishing Financial Liabilities with Equity Instruments	1 January 2011
Amendments to INT FRS 114 Prepayments of a Minimum Funding Requirement	1 January 2011
Amendments to FRS 101 – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters.	1 July 2011
Amendments to FRS 107 Disclosures – Transfers of Financial Assets	1 July 2011
Amendments to FRS 12 Deferred Tax: Recovery of Underlying Assets	1 January 2012

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.

#### *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.

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2011

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

### 2.4 Significant accounting judgments and estimates

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of each reporting period. 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 have the most significant effect on the amounts recognised in the financial statements:

(i) 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 2011 were \$3,345,000 (2010: \$2,914,000), \$1,262,000 (2010: \$1,173,000) and \$210,000 (2010: \$83,000) respectively.

(ii) Useful life of properties

The cost of property under property, plant and equipment and investment property are depreciated on a straight-line basis over the assets' useful lives. Management estimates the useful lives of these properties to be 50 years or over period of lease if the lease is less than 50 years. For certain properties, the lease agreements include an option to extend for another 30 years subject at management's discretion. Management has made a judgment to depreciate the cost of these properties over the extended useful life, as the lease for these properties are likely to be extended. The carry amounts of these properties are disclosed in Note 3 and Note 4 respectively.

#### *Key sources of estimation uncertainty*

The key assumptions concerning the future and other key sources of estimation uncertainty at end of each reporting period, 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.

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

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

(i) Impairment review of subsidiary companies (cont'd)

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 and other receivables

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

(iv) Impairment review of non-financial assets

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. Further details of the key assumptions applied in the impairment assessment of goodwill and brands, are given in Note 6 to the financial statements.

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.

# NOTES TO THE FINANCIAL STATEMENTS

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

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

(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 2011 was \$23,664,000 (2010: \$23,806,000). 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.

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 profit or loss 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 profit or loss.

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

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

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 profit or loss 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 statement of comprehensive income and within equity in the statement of financial position, separately from equity attributable to owners of the parent.

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.

# NOTES TO THE FINANCIAL STATEMENTS

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

### 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 profit or loss. 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 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 profit or loss in the expense category consistent with the function of the intangible asset.

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 profit or loss when the asset is derecognised.

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

### 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 end of the reporting period. 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 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 are 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 end of the reporting period are recognised in profit or loss, 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 profit or loss of the Group on disposal of the foreign operation.

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 profit or loss.

### 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.

# NOTES TO THE FINANCIAL STATEMENTS

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

### 2.10 Property, plant and equipment (cont'd)

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 profit or loss 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 profit or loss in the year the asset is derecognised.

### 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.

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

### 2.11 Investment properties (cont'd)

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 profit or loss 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 profit or loss. The cost of maintenance, repairs and minor improvement is charged to profit or loss 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 profit or loss 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.

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 profit or loss 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 recognised in profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2011

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

### 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.

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 profit or loss. Net gains or net losses on financial assets at fair value through profit or loss include exchange differences, interest and dividend income.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

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 profit or loss 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; and
- trade and other receivables, including amounts due from subsidiary companies.

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

### 2.13 Financial assets (cont'd)

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

Available-for-sale financial assets comprise 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 profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss 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 profit or loss.

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.

### 2.14 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 statement of financial position are classified as loans and receivables.

### 2.16 Inventories

Inventories are stated at the lower of cost and net realisable value, with 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.

# NOTES TO THE FINANCIAL STATEMENTS

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

### 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.

### 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 profit or loss.

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.

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

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

#### (a) *Financial assets carried at amortised cost (cont'd)*

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 profit or loss.

#### (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.

#### (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 profit or loss, is transferred from other comprehensive income and recognised in profit or loss. Reversals of impairment losses in respect of equity instruments are not recognised in profit or loss; 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 profit or loss. 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 profit or loss, the impairment loss is reversed in profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS

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

### 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.

#### 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 profit or loss.

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 profit or loss 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 profit or loss.

### 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 the end of each reporting period 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 profit or loss. 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 profit or loss 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.

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2011

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

### 2.23 Leases (cont'd)

#### (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 earned.

### 2.24 Borrowing costs

Borrowing costs are capitalised as part of a qualifying asset 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 or sale. 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 income tax

Current income tax assets and liabilities for the current and prior periods 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 end of the reporting period, in the countries where the Group operates and generates taxable income.

Current income taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

#### (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 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.

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2011

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

### 2.26 Income taxes (cont'd)

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

The carrying amount of deferred tax assets is reviewed at each reporting period 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 end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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 end of each reporting period.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying 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 tax assets and deferred 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 35, 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 share capital.

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

### 2.29 Contingencies

A contingent liability is:

- (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or
- (b) a present obligation that arises from past events but is not recognised because:
  - (i) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
  - (ii) The amount of the obligation cannot be measured with sufficient reliability.

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

Contingent liabilities and assets are not recognised on the statement of financial position of the Group, except for contingent liabilities assumed in a business combination that are present obligations and which the fair values can be reliably determined.

### 2.30 Related parties

A related party is a person or entity that is related to the entity that is preparing its financial statements (in the revised FRS 24 referred to as the 'reporting entity').

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

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2011

## 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 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 and 1 July 2010	28,960	1,538	2,507	3,142	9,507	45,654
Currency realignment	(161)	(35)	(11)	(21)	(5)	(233)
Additions	–	247	79	236	210	772
Disposals	–	(21)	(3)	(43)	–	(67)
At 30 June 2011	28,799	1,729	2,572	3,314	9,712	46,126
<b>Accumulated depreciation and impairment</b>						
At 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 and 1 July 2010	6,614	1,097	1,911	2,909	9,317	21,848
Currency realignment	(20)	(17)	(5)	(12)	(1)	(55)
Reversal of impairment loss	(374)	–	–	–	–	(374)
Charge for the year	590	188	144	89	82	1,093
Disposals	–	(10)	(2)	(38)	–	(50)
At 30 June 2011	6,810	1,258	2,048	2,948	9,398	22,462
<b>Net carrying amount</b>						
At 30 June 2011	21,989	471	524	366	314	23,664
At 30 June 2010	22,346	441	596	233	190	23,806

### 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 2009	7	475	2,734	272	3,488
Additions	–	5	22	–	27
Disposals	(7)	(18)	–	–	(25)
At 30 June 2010 and 1 July 2010	–	462	2,756	272	3,490
Additions	–	15	196	–	211
At 30 June 2011	–	477	2,952	272	3,701
<b>Accumulated depreciation</b>					
At 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 and 1 July 2010	–	408	2,681	269	3,358
Charge for the year	–	12	35	3	50
At 30 June 2011	–	420	2,716	272	3,408
<b>Net carrying amount</b>					
At 30 June 2011	–	57	236	–	293
At 30 June 2010	–	54	75	3	132

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2011

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

### Assets held under finance lease

The net carrying amount of property, plant and equipment under finance leases amounted to \$73,000 (2010: \$nil) 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.

(a) The following are the properties of the Group as at 30 June 2011:

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 \$1,711,000 (2010: \$1,369,000) is pledged to the bank for credit facilities as disclosed in Note 17 to the financial statements.

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

- (b) 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 2011, the net carrying amount of this property classified as property, plant and equipment amounted to \$18,574,000 (2010: \$19,065,000) and classified as investment properties amounted to \$1,615,000 (2010: \$1,658,000).
- (c) Based on the valuation performed by external professional appraisal, Jones Lang Lasalle, on 7 June 2011 for the leasehold building at 6 Loyang Walk, made on the basis of market value for existing use, the property was valued at \$2,600,000. As part of the impairment assessment review exercise conducted by the Group as at 30 June 2011, the Group has reversed the impairment loss of \$374,000 (2010: \$nil) previously provided on this building. The net carrying amount of this property was \$1,711,000 as at 30 June 2011 (2010: \$1,369,000).
- (d) 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 \$924,000 as at 30 June 2011 (2010: \$1,023,000).
- (e) 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 \$780,000 as at 30 June 2011 (2010: \$889,000).

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2011

## 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 2009, 30 June 2010, 1 July 2010 and 30 June 2011	269	624	2,462	3,355
<b>Accumulated depreciation</b>				
At 1 July 2009	–	238	587	825
Charge for the year	–	14	52	66
At 30 June 2010 and 1 July 2010	–	252	639	891
Charge for the year	–	15	52	67
At 30 June 2011	–	267	691	958
<b>Net carrying amount</b>				
At 30 June 2011	269	357	1,771	2,397
At 30 June 2010	269	372	1,823	2,464
<b>Company</b>				
<b>Cost</b>				
At 1 July 2009, 30 June 2010, 1 July 2010 and 30 June 2011	269	624	326	1,219
<b>Accumulated depreciation</b>				
At 1 July 2009	–	238	152	390
Charge for the year	–	14	9	23
At 30 June 2010 and 1 July 2010	–	252	161	413
Charge for the year	–	15	9	24
At 30 June 2011	–	267	170	437
<b>Net carrying amount</b>				
At 30 June 2011	269	357	156	782
At 30 June 2010	269	372	165	806

## 4. Investment properties (cont'd)

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

	Group		Company	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Rental income from investment properties	342	328	65	60
Direct operating expenses	(132)	(124)	(31)	(30)
Net income	210	204	34	30

(b) The following are the investment properties held by the Group as at 30 June 2011:

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.

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2011

## 4. Investment properties (cont'd)

- (c) Based on the valuations performed by external valuers in July 2011 for the four properties in Malaysia, made on the basis of market value for existing use, the properties were valued at \$2,135,000. The net carrying amount of these properties was \$782,000 as at 30 June 2011 (2010: \$806,000).
- (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 2011, the net carrying amount of this property classified as property, plant and equipment amounted to \$18,574,000 (2010: \$19,065,000) and classified as investment properties amounted to \$1,615,000 (2010: \$1,658,000).

## 5. Intangible assets

	Trademarks/ Distribution agreements \$'000	Non- compete clauses \$'000	Total \$'000
<b>Group</b>			
<b>Cost</b>			
At 1 July 2009, 30 June 2010			
1 July 2010 and 30 June 2011	1,800	500	2,300
<b>Accumulated amortisation</b>			
At 1 July 2009	420	234	654
Amortisation for the year	180	100	280
At 30 June 2010 and 1 July 2010	600	334	934
Amortisation for the year	180	100	280
At 30 June 2011	780	434	1,214
<b>Net carrying amount</b>			
At 30 June 2011	1,020	66	1,086
At 30 June 2010	1,200	166	1,366

The amortisation is recognised in other expenses in profit or loss.

## 6. Goodwill

	Group	
	2011 \$'000	2010 \$'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.

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 9.0% (2010: 6.6%) and 0% (2010: 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.

# NOTES TO THE FINANCIAL STATEMENTS

## 30 JUNE 2011

### 7. Subsidiary companies

	Company	
	2011 \$'000	2010 \$'000
Unquoted shares, at cost	12,967	12,967
Liquidation of a subsidiary company during the year	(3,000)	–
Additional investment in new and existing subsidiary companies	1,613	–
	11,580	12,967
Less: Impairment losses	(1,916)	(2,272)
	9,664	10,695
<u>Impairment losses for equity investment in subsidiary companies</u>		
At 1 July	2,272	2,272
Reversal of impairment loss on liquidation of a subsidiary company during the year	(356)	–
At 30 June	1,916	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	
			2011 \$'000	2010 \$'000	2011 %	2010 %
<b>Subsidiary companies:</b>						
<i>Held by the Company</i>						
# ^**	Eik An Parts Services Pte Ltd (Singapore)	Under member's voluntary liquidation (Singapore)	–	3,000	–	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)	1,888	275	95	95
#	Kian Ann Investment Pte Ltd (Singapore)	Investment holding and wholesale of industrial machinery and equipment (Singapore)	@	–	100	–
			11,580	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.
- \*\* On February 2011, the wholly-owned subsidiary company Eik An Parts Services Pte Ltd was under the member's voluntary liquidation.
- @ Amount less than \$1,000.

### Liquidation of a subsidiary company

During the year, the Company liquidated Eik An Parts Services Pte Ltd, a wholly-owned subsidiary in Singapore. As a result, the impairment loss previously provided was reversed.

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2011

## 8. Other investment

	Group	
	2011 \$'000	2010 \$'000
Unquoted equity investment, at cost	171	171
Less: Impairment loss	(14)	(14)
Total investment available-for-sale	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

	Group		Company	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Loan to third party	13,000	–	–	–
Loan to subsidiary companies	–	–	14,950	3,766
	13,000	–	14,950	3,766

### Loan to third party

A convertible term loan to a key upstream supplier at the end of financial year is unsecured, bears interest of 6.0% (2010: nil) per annum and is repayable after 3 years.

### Loan to subsidiary companies

The loan to subsidiary companies are unsecured, bear interest at a range of 2.7% to 3.0% (2010: 3.0% to 5.5%) per annum and are not expected to be repaid within the next 12 months.

## 10. Inventories

	Group		Company	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Finished goods	88,467	76,001	72,922	62,279
Goods in transit	5,607	4,083	4,860	3,321
Less: Allowance for inventories obsolescence	(10,697)	(10,286)	(9,610)	(9,421)
Inventories at lower of cost and net realisable value	83,377	69,798	68,172	56,179

Cost of inventories of the Group recognised as an expense in cost of goods sold in profit or loss amounts to \$115,862,000 (2010: \$111,260,000).

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

	Group		Company	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
At 1 July	10,286	10,428	9,421	9,755
Currency realignment	(19)	(8)	–	–
Allowance for inventories obsolescence	1,424	1,320	1,014	941
Reversals of allowance for inventories obsolescence	(994)	(1,454)	(825)	(1,275)
At 30 June	10,697	10,286	9,610	9,421

The reversals of allowance for inventories obsolescence were made when the related inventories were sold during the year.

Both the allowance and reversals of allowance have been recognised in distribution expenses in profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2011

## 11. Trade and other receivables

	Group		Company	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Trade receivables	50,875	46,694	35,539	36,997
Deposits	210	58	19	19
Staff loans	24	19	24	14
Other recoverables	580	198	247	2
Amounts due from subsidiary companies				
- loans and other receivables (non-trade)	-	-	321	192
- trade receivables	-	-	6,456	6,293
	-	-	6,777	6,485
	51,689	46,969	42,606	43,517

### 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 end of the reporting period, trade receivables of the Group arising from export sales amounting to \$1,487,000 (2010: \$1,250,000) are arranged to be settled via letters of credits, documents against acceptance and documents against payment through 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	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Trade receivables - nominal amounts	15,767	18,484	12,154	14,120
Less: Allowance for impairment	(7,705)	(7,251)	(6,730)	(6,041)
	8,062	11,233	5,424	8,079
Movement in allowance accounts:				
At 1 July	7,251	6,313	6,041	5,530
Currency realignment	(17)	18	-	-
Impairment loss recognised	2,561	2,821	2,188	2,151
Reversals of impairment loss	(1,929)	(1,467)	(1,499)	(1,206)
Amount written off as uncollectible	(161)	(434)	-	(434)
At 30 June	7,705	7,251	6,730	6,041

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

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

A net impairment loss of \$632,000 (2010: \$1,354,000) for the Group was recognised in profit or loss, subsequent to a debt recovery assessment performed on trade receivables at 30 June 2011.

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 \$8,147,000 (2010: \$6,580,000) and \$3,003,000 (2010: \$4,651,000) 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	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Trade receivables past due:				
Less than 31 days	2,670	1,917	1,171	974
31 to 60 days	2,840	1,635	1,114	1,119
61 to 90 days	859	722	372	492
91 to 120 days	582	733	198	534
More than 120 days	1,196	1,573	148	1,532
	8,147	6,580	3,003	4,651

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

	Group		Company	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Singapore Dollar	24,888	23,927	18,176	19,829
United States Dollar	11,588	12,650	9,750	12,026
Malaysian Ringgit	11,466	7,790	7,456	5,043
Euro	82	123	82	99
Others	2,851	2,204	75	–
	50,875	46,694	35,539	36,997

### Amounts due from subsidiary companies

The loans receivable from subsidiary companies are unsecured, repayable within 1 year and bear interest at 5.5% (2010: 5.5%) per annum. Trade and non-trade receivables from subsidiary companies are unsecured, interest-free and repayable on demand.

# NOTES TO THE FINANCIAL STATEMENTS

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## 12. Derivative financial instruments

	Group				Company			
	2011		2010		2011		2010	
	Assets \$'000	Liabilities \$'000	Assets \$'000	Liabilities \$'000	Assets \$'000	Liabilities \$'000	Assets \$'000	Liabilities \$'000
Foreign currency forward contracts	33	45	7	–	33	31	19	–

Foreign currency forward contracts are used to hedge the Group's sales and purchases dominated in foreign currency for which firm commitments existed at the statement of financial position date, extending to October 2011 (Note 31(b)).

As at statement of financial position date, the notional amount of the outstanding contracts amounts to \$9,231,000 (2010: \$3,186,000) for the Group and \$7,479,000 (2010: \$2,982,000) for the Company respectively.

The Group does not apply hedge accounting.

## 13. Advance payments

	Group		Company	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Deposits paid to suppliers	454	467	137	155
Deposit for property, plant and equipment	69	–	–	–
Prepayments	589	542	23	17
	1,112	1,009	160	172

## 14. Marketable securities

	Group		Company	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Held for trading quoted equity investments, at fair value through profit or loss				
- Singapore	78	89	78	89
- Overseas (1)	121	98	121	98
	199	187	199	187

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

## 15. Cash and cash equivalents

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

	Group		Company	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Fixed deposits	13,160	17,188	13,002	16,560
Cash and bank balances	10,176	10,480	5,729	4,671
	23,336	27,668	18,731	21,231
Bank overdraft (Note 17)	(636)	(759)	-	-
	22,700	26,909	18,731	21,231

Fixed deposits at the statement of financial position date have an average maturity of 1 month (2010: 1 month) from the end of the financial year. The effective interest rate of fixed deposits is 0.1% (2010: 0.3%) per annum.

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

	Group		Company	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Singapore Dollar	16,334	19,941	14,898	17,400
United States Dollar	1,915	3,184	1,086	1,983
Malaysian Ringgit	1,445	662	1,445	662
Chinese Renminbi	2,736	2,474	712	136
Euro	196	242	46	103
Others	710	1,165	544	947
	23,336	27,668	18,731	21,231

# NOTES TO THE FINANCIAL STATEMENTS

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## 16. Trade and other payables

	Group		Company	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Trade payables				
- Non-related parties	22,458	15,398	19,893	12,531
- Related party	55	28	-	-
- Subsidiary companies	-	-	6,811	2,250
	22,513	15,426	26,704	14,781
Amounts due to Directors	2,962	2,399	2,306	1,792
Other payables				
- Related party	32	16	-	-
- Rental deposits	44	44	-	-
- Accrued payroll costs	1,977	2,195	1,276	1,451
- Accrued interest expenses	54	30	26	14
- Other accrued operating expenses	3,265	3,211	1,657	2,330
	5,372	5,496	2,959	3,795
	30,847	23,321	31,969	20,368

### 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	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
United States Dollar	10,053	6,915	9,397	6,228
Euro	9,193	5,529	8,072	4,256
Singapore Dollar	1,959	1,693	1,475	1,210
Japanese Yen	457	626	457	626
Chinese Renminbi	290	386	-	-
Others	506	249	492	211
	22,458	15,398	19,893	12,531

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

### Amounts due to Directors

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

## 17. Loans and borrowings

	Group		Company	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
<b>Current</b>				
Obligations under finance lease	22	4	–	–
Bank overdraft	636	759	–	–
Trust receipts and bills payable	13,985	4,680	6,901	–
Trade bills discounting	474	–	474	–
Term loans	2,750	3,550	2,750	3,550
Loan from a subsidiary company	–	–	–	2,300
	17,867	8,993	10,125	5,850
<b>Non-current</b>				
Obligations under finance lease	33	3	–	–
Term loans	2,750	5,500	2,750	5,500
Loan from a non-controlling shareholder of a subsidiary company	1,950	1,950	–	–
	4,733	7,453	2,750	5,500
Total loans and borrowings	22,600	16,446	12,875	11,350

# NOTES TO THE FINANCIAL STATEMENTS

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

### Obligations under finance lease

The Group has acquired motor vehicles under finance lease for a lease term of 3 years to 7 years. The average discount rate implicit in the lease is between 3.1% to 8.3% (2010: 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 2011 \$'000	Present value of payments 2011 \$'000	Minimum lease payments 2010 \$'000	Present value of payments 2010 \$'000
Not later than one year	29	22	5	4
Later than one year but not later than five years	37	33	3	3
Total minimum lease payments	66	55	8	7
Less: Amounts representing finance charges	(11)	–	(1)	–
Present value of minimum lease payments	55	55	7	7

### Bank overdraft

Bank overdraft is denominated in Singapore Dollar, secured by a subsidiary's leasehold building and bears interest at Prime rate + 1% (2010: 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 3.4% (2010: 1.5% to 2.8%) per annum and have an average maturity of 3 months (2010: 2 months) from the end of the financial year.

### Trade bills discounting

Trade bills discounting are unsecured, bear interest at 1.8% (2010: nil) per annum and have an average maturity of 1 month (2010: zero month) from the end of the financial year.

### Term loans

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

- (a) \$3,000,000 (2010: \$4,000,000) represents a 5-year term loan drawn down by the Company from a bank which is unsecured and bears interest at a range of 2.6% to 2.8% (2010: 2.7% to 2.9%) 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.

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

### Term loans (cont'd)

- (b) \$1,000,000 (2010: \$2,000,000) represents a 3-year term loan drawn down by the Company from a bank which is unsecured and bears interest at a range of 2.2% to 2.4% (2010: 2.3% to 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.
- (c) \$1,500,000 (2010: \$2,250,000) represents a 4-year term loan drawn down by the Company from another bank which is unsecured and bears interest at a range of 2.4% to 2.5% (2010: 2.5% to 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.
- (d) \$nil (2010: \$800,000) 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 matured in September 2010. The loan has been fully repaid during the year.

### Loan from a subsidiary company

\$nil (2010: \$2,300,000) represents a loan from a subsidiary company which is unsecured and bears interest of 1.5% (2010: 1.6%) per annum. The loan has been fully repaid during the year.

### 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 2.8% to 3.0% (2010: 3.0% to 3.1%) per annum and is not expected to be repaid within the next 12 months.

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	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Singapore Dollar	12,187	15,924	6,188	11,350
United States Dollar	6,718	74	6,620	–
Euro	3,576	448	–	–
Japanese Yen	67	–	67	–
Indonesian Rupiah	52	–	–	–
	22,600	16,446	12,875	11,350

# NOTES TO THE FINANCIAL STATEMENTS

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## 18. Deferred tax assets/(liabilities)

	Group		Company	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
<b>Deferred tax assets</b>				
At 1 July	83	180	–	–
Currency realignment	(8)	7	–	–
Provision/(write-back) for the year	135	(104)	–	–
At 30 June	210	83	–	–
Comprises of:				
Differences in depreciation and amortisation for tax purposes	20	–	–	–
Provisions	12	–	–	–
Other deductible temporary differences	178	83	–	–
Net deferred tax assets	210	83	–	–
<b>Deferred tax liabilities</b>				
At 1 July	(1,173)	(1,104)	(18)	(40)
(Charge)/write-back for the year	(89)	(69)	(26)	22
At 30 June	(1,262)	(1,173)	(44)	(18)
Comprises of:				
Differences in depreciation and amortisation for tax purposes	(1,264)	(1,224)	(46)	(22)
Gross deferred tax liabilities	(1,264)	(1,224)	(46)	(22)
Provisions	2	4	2	4
Other deductible temporary differences	–	47	–	–
Gross deferred tax assets	2	51	2	4
Net deferred tax liabilities	(1,262)	(1,173)	(44)	(18)
Recognised in income statement (Note 27)	46	(173)	(26)	22

## 19. Share capital

	Group and Company			
	2011		2010	
	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.

## 20. Reserves

	Group		Company	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Other reserves (a)	745	642	–	–
Foreign currency translation reserve (b)	(527)	132	–	–
Revenue reserve	60,071	47,904	28,529	23,097
	60,289	48,678	28,529	23,097

(a) *Other reserves*

	Group	
	2011 \$'000	2010 \$'000
Surplus reserves	745	642
Comprises of:		
Statutory reserve	677	583
Development reserve	68	59
Welfare reserve	–	–
	745	642

# NOTES TO THE FINANCIAL STATEMENTS

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## 20. Reserves (cont'd)

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

	Group			Total \$'000
	Statutory reserve \$'000	Development reserve \$'000	Welfare reserve \$'000	
At 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 and 1 July 2010	583	59	–	642
Transferred from revenue reserve	94	9	9	112
Utilisation of welfare reserve	–	–	(9)	(9)
At 30 June 2011	677	68	–	745

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	
	2011 \$'000	2010 \$'000
At 1 July	132	134
Net effect of exchange differences arising from translation of financial statements of foreign operations	(659)	(2)
At 30 June	(527)	132

## 21. Revenue

	Group	
	2011	2010
	\$'000	\$'000
Sale of goods	162,315	149,364

Sales of goods represents sales less discount and returns.

## 22. Other income

	Group	
	2011	2010
	\$'000	\$'000
Interest income from loans and receivables	398	68
Dividend income from quoted equity investments	–	1
Dividend income from unquoted equity investments	189	52
Reversal of impairment loss of property, plant and equipment (Note 3)	374	–
Foreign currency gains	–	1,137
Net fair value loss on derivative financial instruments	–	(6)
Sundry income	119	101
	1,080	1,353

## 23. Other expenses

The following items have been included in arriving at other expenses:

	Group	
	2011	2010
	\$'000	\$'000
Amortisation of intangible assets (Note 5)	280	280
Foreign currency losses	1,996	–
Net fair value loss on derivative financial instruments	14	–
Fair value (gain)/loss for marketable securities	(14)	51

# NOTES TO THE FINANCIAL STATEMENTS

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## 24. Profit before tax

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

	Group	
	2011	2010
	\$'000	\$'000
Non-audit fees paid to auditors of the Company	30	30
Operating leases expense	562	409
Gain on disposal of property, plant and equipment	(2)	(20)
Depreciation of property, plant and equipment (Note 3)	1,093	1,094
Depreciation of investment properties (Note 4)	67	66
Allowance/(reversals of allowance) for inventories obsolescence, net (Note 10)	430	(134)
Allowance for impairment of trade-related debts, net (Note 11)	632	1,354
Employee benefits expense (Note 25)	13,425	12,234
Commission	487	439

## 25. Employee benefits

	Group	
	2011	2010
	\$'000	\$'000
Salaries and bonuses	8,391	8,263
Central Provident Fund contribution and other pension costs		
- Directors of the Company	34	27
- Directors of subsidiary companies	31	35
- Other employees	747	768
Directors' fees		
- Directors of the Company	161	145
- Directors of subsidiary companies	53	48
Directors' remuneration		
- Directors of the Company	3,287	2,589
- Directors of subsidiary companies	602	572
Jobs Credit Scheme		
- Directors of the Company	-	(8)
- Directors of subsidiary companies	-	(4)
- Other employees	(3)	(265)
Other employee benefits	122	64
	13,425	12,234

## 26. Finance expenses

	Group	
	2011	2010
	\$'000	\$'000
Bank overdraft interest	47	52
Interest on trade bills financing	167	135
Term loans interest	253	399
Finance lease interest	5	1
Bank charges	108	128
	580	715

## 27. Taxation

	Group	
	2011 \$'000	2010 \$'000
Taxation in respect of profit for the year:		
Current taxation		
- Singapore	2,972	2,429
- Overseas	365	386
Deferred taxation (Note 18)	(46)	173
	3,291	2,988
Reversal of (over)/under provision in respect of prior years:		
Current taxation		
- Singapore	(68)	(5)
- Overseas	16	(24)
	3,239	2,959

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

	Group	
	2011 %	2010 %
Statutory tax rate	17.0	17.0
Expenses not deductible for tax purposes	0.4	0.2
Double tax relief	(0.1)	(0.1)
Deferred tax liabilities arising from IBA claims previously disallowed	0.1	0.6
Income not subject to tax	(0.6)	(0.3)
Differences in effective tax rates of other countries	0.3	0.7
Tax-exempt income	(0.5)	(0.5)
Deferred tax benefits not recognised	(0.3)	0.2
Over provision in respect of prior years	(0.3)	(0.2)
Others	(0.5)	0.3
Effective tax rate	15.5	17.9

At the statement of financial position date, one of the subsidiaries of the Group has unabsorbed capital allowances of approximately \$581,000 (2010: \$667,000) and unabsorbed tax losses of approximately \$191,000 (2010: \$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 2010 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.

## 28. 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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## 28. 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	
	2011 \$'000	2010 \$'000
<hr/>		
Group earnings used for the calculation of EPS:		
Profit attributable to owners of the parent	16,770	13,247
	'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
Adjusted weighted average number of ordinary shares for diluted earnings per share computation	438,099	438,099

## 29. Dividends

	Group and Company	
	2011 \$'000	2010 \$'000
<hr/>		
Declared and paid during the year:		
<i>Ordinary dividend</i>		
Final dividends of 0.7 cent per share tax exempt (one-tier) for FY 2010 (2010: 0.5 cent tax exempt (one-tier) for FY 2009)	3,067	2,190
Interim dividends of 0.325 cent per share tax exempt (one-tier) for FY 2011 (2010: 0.3 cent tax exempt (one-tier) for FY 2010)	1,424	1,314
	4,491	3,504
<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 0.775 cent per share tax exempt (one-tier) for FY 2011 (2010: 0.7 cent tax exempt (one-tier) for FY 2010)	3,395	3,067

### 30. 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	
	2011 \$'000	2010 \$'000
Not later than one year	326	416
Later than one year but not later than five years	1,305	1,281
Later than five years	13,185	12,806
	14,816	14,503

(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 3 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	
	2011 \$'000	2010 \$'000
Not later than one year	229	259
Later than one year but not later than five years	253	144
	482	403

(c) *Contingent liabilities*

Contingent liabilities not provided for in the financial statements:

	Company	
	2011 \$'000	2010 \$'000
(i) Corporate guarantee issued to banks for credit facilities granted to subsidiary companies	12,679	12,933

(ii) The Company has undertaken to provide continuing financial support for 1 (2010: 1) 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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## 31. 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 derivative financial instruments 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 15 (2010: 10) basis points lower/higher with all other variables held constant, the Group's profit net of tax would have been \$36,000 (2010: \$43,000) 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.

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

(a) Interest rate risk (cont'd)

	Variable rates			Fixed rates			Non-interest bearing \$'000	Total \$'000
	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		
<b>Group</b>								
<b>At 30 June 2011</b>								
Cash and bank balances	-	-	-	-	-	-	10,176	10,176
Fixed deposits	-	-	-	13,160	-	-	-	13,160
Trade receivables	-	-	-	-	-	-	50,875	50,875
Other receivables	-	-	-	24	-	-	790	814
Derivative financial instruments	-	-	-	-	-	-	33	33
Marketable securities	-	-	-	-	-	-	199	199
Long term receivables	-	-	-	-	-	13,000	-	13,000
Other investment	-	-	-	-	-	-	157	157
Non-financial assets	-	-	-	-	-	-	113,046	113,046
<b>Total assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13,184</b>	<b>-</b>	<b>13,000</b>	<b>175,276</b>	<b>201,460</b>
Trade payables	-	-	-	-	-	-	22,513	22,513
Other payables	-	-	-	-	-	-	8,334	8,334
Derivatives financial instruments	-	-	-	-	-	-	45	45
Loans and borrowings	2,011	1,375	4,700	14,471	10	33	-	22,600
Non-financial liabilities	-	-	-	-	-	-	4,607	4,607
<b>Total liabilities</b>	<b>2,011</b>	<b>1,375</b>	<b>4,700</b>	<b>14,471</b>	<b>10</b>	<b>33</b>	<b>35,499</b>	<b>58,099</b>

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

(a) Interest rate risk (cont'd)

	Variable rates			Fixed rates			Non-interest bearing \$'000	Total \$'000
	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		
<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	-	-	261	275
Derivative financial instruments	-	-	-	-	-	-	7	7
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>

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

(a) Interest rate risk (cont'd)

	Variable rates			Fixed rates			Non-interest bearing \$'000	Total \$'000
	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		
<b>Company</b>								
<b>At 30 June 2011</b>								
Cash and bank balances	-	-	-	-	-	-	5,729	5,729
Fixed deposits	-	-	-	13,002	-	-	-	13,002
Trade receivables	-	-	-	-	-	-	35,539	35,539
Other receivables	-	-	-	24	-	-	266	290
Amounts due from subsidiary companies	-	-	-	-	175	-	6,602	6,777
Derivative financial instruments	-	-	-	-	-	-	33	33
Long term receivables	-	-	1,950	-	-	13,000	-	14,950
Marketable securities	-	-	-	-	-	-	199	199
Non-financial assets	-	-	-	-	-	-	79,071	79,071
<b>Total assets</b>	<b>-</b>	<b>-</b>	<b>1,950</b>	<b>13,026</b>	<b>175</b>	<b>13,000</b>	<b>127,439</b>	<b>155,590</b>
Trade payables	-	-	-	-	-	-	19,893	19,893
Other payables	-	-	-	-	-	-	5,265	5,265
Amounts due to subsidiary companies	-	-	-	-	-	-	6,811	6,811
Derivative financial instruments	-	-	-	-	-	-	31	31
Loans and borrowings	1,375	1,375	2,750	7,375	-	-	-	12,875
Non-financial liabilities	-	-	-	-	-	-	1,941	1,941
<b>Total liabilities</b>	<b>1,375</b>	<b>1,375</b>	<b>2,750</b>	<b>7,375</b>	<b>-</b>	<b>-</b>	<b>33,941</b>	<b>46,816</b>

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

(a) Interest rate risk (cont'd)

	Variable rates			Fixed rates			Non-interest bearing \$'000	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>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	-	-	21	35
Amounts due from subsidiary companies	-	-	-	-	175	-	6,310	6,485
Derivative financial instruments	-	-	-	-	-	-	19	19
Long term receivables	-	-	1,950	-	-	1,816	-	3,766
Marketable securities	-	-	-	-	-	-	187	187
Non-financial assets	-	-	-	-	-	-	67,984	67,984
<b>Total assets</b>	<b>-</b>	<b>-</b>	<b>1,950</b>	<b>16,574</b>	<b>175</b>	<b>1,816</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>

## 31. 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 Indonesian Rupiah, Malaysian Ringgit and Euro. Approximately 52% (2010: 55%) of the Group's sales are denominated in foreign currencies whilst almost 98% (2010: 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 15.

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 \$9,231,000 (2010: \$3,186,000). At 30 June 2011, the Group had hedged 30% (2010: 22%) of its foreign currency denominated purchases for which firm commitments existed at the statement of financial position date, extending to October 2011.

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 IDR, MYR and EUR exchange rates (against SGD) with all other variables held constant, of the Group's profit net of tax and equity.

	Group	
	2011 \$'000 Profit net of tax and equity	2010 \$'000 Profit net of tax and equity
SGD/IDR – strengthened 1% (2010: 3%)	+ 171	+ 196
– weakened 1% (2010: 3%)	- 171	- 196
SGD/MYR – strengthened 1% (2010: 1%)	+ 106	+ 72
– weakened 1% (2010: 1%)	- 106	- 72
SGD/EUR – strengthened 2% (2010: 1%)	- 74	+ 67
– weakened 2% (2010: 1%)	+ 74	- 67

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## 31. 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			
	2011	% of	2010	% of	2011	% of	2010	% of
	\$'000	total	\$'000	total	\$'000	total	\$'000	total
By geographical segments:								
Singapore	9,261	18	7,918	17	6,877	19	6,342	17
Malaysia	23,359	46	20,260	43	15,161	43	15,041	41
Indonesia	6,917	14	5,283	11	3,764	11	3,063	8
Other ASEAN countries	2,126	4	2,699	6	2,125	6	2,673	7
Other Asian countries	1,940	4	1,741	4	874	2	1,085	3
Non-Asian countries	7,272	14	8,793	19	6,738	19	8,793	24
	50,875	100	46,694	100	35,539	100	36,997	100

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

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

At the statement of financial position date, approximately 29% (2010: 29%) of the Group's trade receivables were due from 5 major customers who are located in Malaysia, Singapore and Canada. Long term receivable of \$13,000,000 (2010: \$nil) as disclosed in Note 9 is the convertible loan extended to a key upstream supplier in Europe.

#### **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, marketable securities and derivative financial instruments 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).

# NOTES TO THE FINANCIAL STATEMENTS

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

### (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.

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				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 2011</b>								
<b>Financial assets</b>								
Trade and other receivables	51,689	–	–	51,689	42,431	175	–	42,606
Derivative financial instruments	33	–	–	33	33	–	–	33
Marketable securities	199	–	–	199	199	–	–	199
Other investment	–	–	157	157	–	–	–	–
Long term receivables	390	390	14,229	15,009	203	203	16,478	16,884
Fixed deposits	13,160	–	–	13,160	13,002	–	–	13,002
Cash and bank balances	10,176	–	–	10,176	5,729	–	–	5,729
<b>Total undiscounted financial assets</b>	<b>75,647</b>	<b>390</b>	<b>14,386</b>	<b>90,423</b>	<b>61,597</b>	<b>378</b>	<b>16,478</b>	<b>78,453</b>
<b>Financial liabilities</b>								
Trade and other payables	30,847	–	–	30,847	31,969	–	–	31,969
Derivative financial instruments	45	–	–	45	31	–	–	31
Loans and borrowings	16,577	1,461	5,020	23,058	8,813	1,420	2,813	13,046
<b>Total undiscounted financial liabilities</b>	<b>47,469</b>	<b>1,461</b>	<b>5,020</b>	<b>53,950</b>	<b>40,813</b>	<b>1,420</b>	<b>2,813</b>	<b>45,046</b>
<b>Total net undiscounted financial assets / (liabilities)</b>	<b>28,178</b>	<b>(1,071)</b>	<b>9,366</b>	<b>36,473</b>	<b>20,784</b>	<b>(1,042)</b>	<b>13,665</b>	<b>33,407</b>

## 31. 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 2010</b>								
<b>Financial assets</b>								
Trade and other receivables	46,969	–	–	46,969	43,342	175	–	43,517
Derivative financial instruments	7	–	–	7	19	–	–	19
Marketable securities	187	–	–	187	187	–	–	187
Other investment	–	–	157	157	–	–	–	–
Long term receivables	–	–	–	–	29	29	4,003	4,061
Fixed deposits	17,188	–	–	17,188	16,560	–	–	16,560
Cash and bank balances	10,480	–	–	10,480	4,671	–	–	4,671
<b>Total undiscounted financial assets</b>	<b>74,831</b>	<b>–</b>	<b>157</b>	<b>74,988</b>	<b>64,808</b>	<b>204</b>	<b>4,003</b>	<b>69,015</b>
<b>Financial liabilities</b>								
Trade and other payables	23,277	14	30	23,321	20,368	–	–	20,368
Loans and borrowings	7,754	1,490	7,871	17,115	4,601	1,476	5,682	11,759
<b>Total undiscounted financial liabilities</b>	<b>31,031</b>	<b>1,504</b>	<b>7,901</b>	<b>40,436</b>	<b>24,969</b>	<b>1,476</b>	<b>5,682</b>	<b>32,127</b>
<b>Total net undiscounted financial assets / (liabilities)</b>	<b>43,800</b>	<b>(1,504)</b>	<b>(7,744)</b>	<b>34,552</b>	<b>39,839</b>	<b>(1,272)</b>	<b>(1,679)</b>	<b>36,888</b>

# NOTES TO THE FINANCIAL STATEMENTS

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## 32. Fair value of financial instruments

(a) *Fair value of financial instruments that are carried at fair value*

### 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)	Group 2011 \$'000 Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
<b>Financial assets:</b>				
Marketable securities (quoted) (Note 14)	199	–	–	199
Derivative financial instruments:- Foreign currency forward contracts (Note 12)	–	33	–	33
At 30 June 2011	199	33	–	232
<b>Financial liabilities:</b>				
Derivative financial instruments:- Foreign currency forward contracts (Note 12)	–	(45)	–	(45)
At 30 June 2011	–	(45)	–	(45)

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

(a) Fair value of financial instruments that are carried at fair value (cont'd)

### Fair value hierarchy (cont'd)

	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 14)	187	–	–	187
Derivative financial instruments:- Foreign currency forward contracts (Note 12)	–	7	–	7
At 30 June 2010	187	7	–	194

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

### 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.

# NOTES TO THE FINANCIAL STATEMENTS

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

- (b) *Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are reasonable approximation of fair values*

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

The carrying amounts of long term receivables and loans and borrowings approximate their fair values as their interest rates approximate current market interest rates on or near the end of the reporting period.

- (c) *Fair value of financial instruments by classes that are not carried at fair value*

The fair value of financial instruments 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:

	Group			
	2011 \$'000		2010 \$'000	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets:</b>				
Other investment (Note 8)*	157	#	157	#

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

\* **Investment in equity instruments carried at cost**

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 company that is 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.

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

### (d) Classification of financial instruments

The carrying amounts of financial instruments in each of the following categories are as follows:

	Group		Company	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
<b>Financial assets at fair value through profit or loss</b>				
Derivative financial instruments	33	7	33	19
Marketable securities	199	187	199	187
	232	194	232	206
<b>Loans and receivables</b>				
Long term receivables	13,000	–	14,950	3,766
Trade and other receivables	51,689	46,969	42,606	43,517
Fixed deposits	13,160	17,188	13,002	16,560
Cash and bank balances	10,176	10,480	5,729	4,671
	88,025	74,637	76,287	68,514
<b>Available-for-sale financial assets</b>				
Other investment	157	157	–	–
	157	157	–	–
<b>Financial liabilities at fair value through profit or loss</b>				
Derivative financial instruments	45	–	31	–
	45	–	31	–
<b>Financial liabilities at amortised cost</b>				
Trade and other payables	30,847	23,321	31,969	20,368
Loans and borrowings	22,600	16,446	12,875	11,350
	53,447	39,767	44,844	31,718

# NOTES TO THE FINANCIAL STATEMENTS

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## 33. Related party transactions

### (a) 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	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
<b>Subsidiary companies</b>				
Sales of goods	–	–	9,193	6,334
Interest received	–	–	217	98
Dividend income	–	–	72	90
Other income	–	–	29	32
Purchases of goods	–	–	(10,219)	(7,189)
Commission expenses	–	–	–	(7)
Agency and handling charges - outward	–	–	(120)	(349)
Interest expenses	–	–	(20)	(42)
Rental expenses	–	–	(1,560)	(1,341)
Logistics expenses	–	–	(6,110)	(6,110)
<b>Non-controlling shareholders</b>				
Purchase of goods	(25)	(35)	–	–
Interest expenses	(56)	(54)	–	–
Rental expenses	(30)	(36)	–	–

### (b) 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	
	2011 \$'000	2010 \$'000
Remuneration	1,080	1,004
Central Provident Fund contribution and other person costs	71	69

Disclosures on Directors' remuneration have been made in Note 25.

### 34. 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 maximise 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.

	<b>Group</b>	
	<b>2011</b>	<b>2010</b>
	\$'000	\$'000
Total loans and borrowings	22,600	16,446
Less: Cash and bank balances and fixed deposits	(23,336)	(27,668)
	(736)	(11,222)
Equity attributable to owners of the parent*	140,534	128,923
Gearing ratio	NA	NA

\* Included in equity is a surplus reserves of a subsidiary company of \$745,000 (2010: \$642,000) which is not available for dividend distribution to the shareholder.

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## 35. 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 other transactions as if the sales and other transactions 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

Except as indicated above, no operating segments have been aggregated to form the above reportable operating segments.

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. Revenue from external customers disclosed in geographical segments are based on the geographical location of its customers.

## 35. Segment information (cont'd)

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	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000		2011 \$'000	2010 \$'000
<i>Segment revenue:</i>											
Revenue from external customers	162,315	149,364	-	-	342	328	-	-	A	162,657	149,692
Inter-segment revenue	-	-	6,513	6,476	1,598	1,374	(8,111)	(7,850)	B	-	-
<b>Total segment revenue</b>	<b>162,315</b>	<b>149,364</b>	<b>6,513</b>	<b>6,476</b>	<b>1,940</b>	<b>1,702</b>	<b>(8,111)</b>	<b>(7,850)</b>	<b>A,B</b>	<b>162,657</b>	<b>149,692</b>
<i>Results:</i>											
Interest income	398	68	-	33	-	8	-	(41)	B	398	68
Dividend income	189	53	-	-	-	-	-	-		189	53
Depreciation of property, plant and equipment	396	446	260	211	-	-	437	437	B	1,093	1,094
Reversal of impairment loss of property, plant and equipment	374	-	-	-	-	-	-	-		374	-
Depreciation of investment properties	-	-	-	-	513	513	(446)	(447)	B,C	67	66
Amortisation of intangible assets	280	280	-	-	-	-	-	-		280	280
Finance expenses	580	715	-	33	-	8	-	(41)	B	580	715
Other non-cash expenses	404	1,262	-	(11)	-	-	-	-	D	404	1,251
<b>Segment profit before tax</b>	<b>16,813</b>	<b>12,447</b>	<b>3,336</b>	<b>3,600</b>	<b>682</b>	<b>518</b>	<b>10</b>	<b>10</b>	<b>C</b>	<b>20,841</b>	<b>16,575</b>
<i>Assets:</i>											
Additions to non-current assets	592	206	180	375	-	139	-	-	E	772	720
<b>Segment assets</b>	<b>179,154</b>	<b>151,914</b>	<b>19,921</b>	<b>20,505</b>	<b>2,758</b>	<b>2,677</b>	<b>(373)</b>	<b>(382)</b>	<b>F</b>	<b>201,460</b>	<b>174,714</b>
<b>Segment liabilities</b>	<b>55,474</b>	<b>41,141</b>	<b>1,958</b>	<b>2,052</b>	<b>667</b>	<b>661</b>	<b>-</b>	<b>-</b>		<b>58,099</b>	<b>43,854</b>

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2011

## 35. Segment information (cont'd)

### Reportable operating segments (cont'd)

#### Notes:

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

	Group	
	2011 \$'000	2010 \$'000
Revenue – sale of goods	162,315	149,364
Rental income	342	328
	162,657	149,692

(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 on disposal of property, plant and equipment, allowance/(reversal of allowance) for inventories obsolescence, allowance for impairment of trade-related debts and fair value (gain)/loss for marketable securities 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.

### Geographical segments

	Singapore		Malaysia		Indonesia		Other ASEAN countries		Other Asian countries		Non-Asian countries		Consolidated	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Segment revenue	29,803	28,779	51,286	41,901	25,101	21,419	7,367	8,354	14,636	15,411	34,464	33,828	162,657	149,692
Non-current assets	25,313	25,580	782	806	1,291	1,382	-	-	1,118	1,225	13,000	-	41,504	28,993

Non-current assets information presented above consist of property, plant and equipment, investment properties, intangible assets, goodwill, other investment and long term receivables 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.

## 36. Authorisation of financial statements

The financial statements for the year ended 30 June 2011 were authorised for issue in accordance with a resolution of the Directors on 21 September 2011.