

# Notes to the Financial Statements

Amounts in RM'000 unless otherwise stated

## 1. BASIS OF PREPARATION (CONTINUED)

### (a) Statement of compliance (continued)

#### **FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2011**

- Amendments to FRS 1, *First-time Adoption of Financial Reporting Standards*
  - *Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters*
  - *Additional Exemptions for First-time Adopters*
- Amendments to FRS 2, *Group Cash-settled Share Based Payment Transactions*
- Amendments to FRS 7, *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*
- IC Interpretation 4, *Determining whether an Arrangement contains a Lease*
- IC Interpretation 18, *Transfers of Assets from Customers*
- Improvements to FRSs (2010)

#### **FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2011**

- IC Interpretation 19, *Extinguishing Financial Liabilities with Equity Instruments*
- Amendments to IC Interpretation 14, *Prepayments of a Minimum Funding Requirement*

#### **FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2012**

- FRS 124, *Related Party Disclosures* (revised)
- IC Interpretation 15, *Agreements for the Construction of Real Estate*

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

- from the annual period beginning 1 January 2011 for those standards, amendments or interpretations that will be effective for annual periods beginning on or after 1 March 2010, 1 July 2010 and 1 January 2011 except for Amendments to FRS 132, FRS 1, Amendments to FRS 2, IC Interpretation 12, IC Interpretation 17, Amendments to FRS 1, Amendments to FRS 2, IC Interpretation 18 which are not applicable to the Group or the Company; and
- from the annual period beginning 1 January 2012 for those standards, amendments or interpretations that will be effective for annual periods beginning on or after 1 July 2011 and 1 January 2012, except for Amendments to IC Interpretation 14 and 15 which are not applicable to the Group or the Company.

The initial application of a standard, an amendment or an interpretation, which will be applied prospectively or which requires extended disclosures, is not expected to have any financial impacts to the current and prior periods' financial statements upon their first adoption.

The initial applications of the other standards, amendments and interpretations are not expected to have any material impact on the financial statements of the Group and the Company.

The impacts and disclosures as required by FRS 108.30(b), *Accounting Policies, Changes in Accounting Estimates and Errors*, in respect of applying FRS 7 and FRS 139 are not disclosed by virtue of the exemptions given in these respective FRSs.

Following the announcement by the MASB on 1 August 2008, the Group's and the Company's financial statements will be prepared in accordance with the International Financial Reporting Standards ("IFRS") framework for annual periods beginning on 1 January 2012. The change of the financial reporting framework is not expected to have any significant impact on the financial position and performance of the Group and the Company.

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## 1. BASIS OF PREPARATION (CONTINUED)

### (b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following assets and liabilities as explained in their respective accounting policy notes:

- Note 2(c) – Financial instruments
- Note 2(d) – Property, plant and equipment
- Note 2(g) – Investment property
- Note 2(i) – Non-current assets held for sale

### (c) Functional and presentation currency

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

### (d) Use of estimates and judgements

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

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

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed in the following notes:

- Note 2(d) (i) and Note 3 – revaluation of property, plant and equipment
- Note 2(e) – leased assets
- Note 2(g) (iii) and Note 6 – valuation of investment properties
- Note 2(o) and Note 17 – provisions
- Note 2(p) (iii) and Note 19 – revenue from construction contracts
- Note 2(r) and Note 10 – deferred tax assets
- Note 4 – measurement of the recoverable amounts of cash-generating units and intangible assets

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## 2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to the periods presented in these financial statements, and have been applied consistently by Group entities, other than those disclosed in the following notes:

- Note 2(c) – Financial instruments
- Note 2(t) – Operating segments

### (a) Basis of consolidation

#### (i) Subsidiaries

Subsidiaries are entities, including unincorporated entities, controlled by the Group. Control exists when the Group has the ability to exercise its power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. Subsidiaries are consolidated using the purchase method of accounting. Under the purchase method of accounting, the financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Investments in subsidiaries are stated in the Company's statement of financial position at cost less impairment losses, unless the investment is classified held for sale.

# Notes to the Financial Statements

Amounts in RM'000 unless otherwise stated

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (a) Basis of consolidation (continued)

#### (ii) Associates

Associates are entities, including unincorporated entities, in which the Group has significant influence, but not control, over the financial and operating policies.

Investments in associates are accounted for in the consolidated financial statements using the equity method less any impairment losses, unless it is classified as held for sale or included in a disposal group that is classified as held for sale. The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of the equity accounted associates, after adjustments, if any, to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest (including any long-term investments) is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Investments in associates are measured in the Company's statement of financial position at cost less any impairment losses, unless the investment is classified as held for sale. The cost of the investment includes transaction costs.

#### (iii) Changes in Group composition

The Group treats all changes in group composition as equity transactions between the Group and its minority shareholders. Any difference between the Group's share of net assets before and after the change, and any consideration received or paid, is adjusted to or against Group reserves.

#### (iv) Minority interest

Minority interest at the end of the reporting period, being the portion of the net identifiable assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated statement of financial position and statement of changes in equity within equity, separately from equity attributable to the owners of the Company. Minority interests in the results of the Group are presented in the consolidated statement of comprehensive income as an allocation of the comprehensive income for the year between minority interest and the owners of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investments to cover the losses.

If the subsidiary subsequently reports profits, the Group's interest is allocated with all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

#### (v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

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## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (b) Foreign currency

#### (i) Foreign currency transactions

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

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

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

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

#### (ii) Operations denominated in functional currencies other than Ringgit Malaysia

The assets and liabilities of operations in functional currencies other than RM, including goodwill and fair value adjustments arising on acquisition, are translated to RM at exchange rates at the end of the reporting period, except for goodwill and fair value adjustments arising from business combinations before 1 January 2006 which are reported using the exchange rates at the dates of the acquisition.

The income and expenses of foreign operations, excluding operations in hyperinflationary economies, are translated to RM at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve ("FCTR"). When a foreign operation is disposed of, in part of or in full, the relevant amount in the FCTR is transferred to profit or loss as part of the profit or loss on disposal.

In the consolidated financial statements, when settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented in the FCTR within equity.

### (c) Financial instruments

Arising from the adoption of FRS 139, *Financial Instruments: Recognition and Measurement*, with effect from 1 January 2010, financial instruments are categorised and measured using accounting policies as mentioned below. Before 1 January 2010, different accounting policies were applied. Significant changes to the accounting policies are discussed in Note 32.

#### (i) Initial recognition and measurement

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

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

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

# Notes to the Financial Statements

Amounts in RM'000 unless otherwise stated

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (c) Financial instruments (continued)

#### (ii) Financial instrument categories and subsequent measurement

The Group and the Company categorise financial instruments as follows:

#### Financial assets

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

Fair value through profit or loss category comprises financial assets that are held for trading, including derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial assets that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at cost.

Other financial assets categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

##### (b) *Held-to-maturity investments*

Held-to-maturity investments category comprises debt instruments that are quoted in an active market and the Group or the Company has the positive intention and ability to hold them to maturity.

Financial assets categorised as held-to-maturity investments are subsequently measured at amortised cost using the effective interest method.

##### (c) *Loans and receivables*

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

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

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

Available-for-sale category comprises investment in equity and debt securities instruments that are not held for trading.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. Other financial assets categorised as available-for-sale are subsequently measured at their fair values with the gain or loss recognised in other comprehensive income, except for impairment losses, foreign exchange gains and losses arising from monetary items and gains and losses of hedged items attributable to hedge risks of fair value hedges which are recognised in profit or loss. On derecognition, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into profit or loss. Interest calculated for a debt instrument using the effective interest method is recognised in profit or loss.

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment (see note 2(l)(i)).

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## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (c) Financial instruments (continued)

#### (ii) Financial instrument categories and subsequent measurement (continued)

##### Financial liabilities

All financial liabilities are subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprises financial liabilities that are held for trading, derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial liabilities that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at cost.

Other financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

#### (iii) Financial guarantee contracts

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

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

#### (iv) Regular way purchase or sale of financial assets

A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

A regular way purchase or sale of financial assets is recognised and derecognised, as applicable, using trade date accounting. Trade date accounting refers to:

- (a) the recognition of an asset to be received and the liability to pay for it on the trade date, and
- (b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

#### (v) Derecognition

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

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

# Notes to the Financial Statements

Amounts in RM'000 unless otherwise stated

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (d) Property, plant and equipment

#### (i) Recognition and measurement

Items of property, plant and equipment are stated at cost/valuation less any accumulated depreciation and any accumulated impairment losses.

#### *Property, plant and equipment under the revaluation model*

The Group revalues its property comprising land and building every 5 years and at shorter intervals whenever the fair value of the revalued assets is expected to differ materially from their carrying value. Additions subsequent to their revaluation are stated in the financial statements at cost until the next revaluation exercise.

Surpluses arising from revaluation are dealt with in the revaluation reserve account. Any deficit arising is offset against the revaluation reserve to the extent of a previous increase for the same property. In all other cases, a decrease in carrying amount is recognised in profit or loss.

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

The cost of property, plant and equipment recognised as a result of a business combination is based on fair value at acquisition date. The fair value of property is the estimated amount for which a property could be exchanged between knowledgeable willing parties in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The fair value of other items of plant and equipment is based on the quoted market prices for similar items when available and replacement cost when appropriate.

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

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" or "other expenses" respectively in the profit or loss. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

#### (ii) Subsequent costs

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

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## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (d) Property, plant and equipment (continued)

#### (iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in the profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leasehold assets were depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Freehold land is not depreciated. Property, plant and equipment under construction are not depreciated until the assets are ready for their intended use.

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

• Leasehold land	48 to 96 years
• Freehold building	50 years
• Long term leasehold building	10 years to 50 years
• Short term leasehold building	10 years to 50 years
• Plant, machinery and equipment	4 years to 13 years

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

### (e) Leased assets

#### (i) Finance lease

Leases in terms of which the Group or the Company assume substantially all the risks and rewards of ownership are classified as finance leases. On initial recognition of the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between a finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Leasehold land which in substance is a finance lease is classified as property, plant and equipment.

#### (ii) Operating lease

Leases, where the Group or the Company does not assume substantially all the risks and rewards of ownership are classified as operating leases and, except for property interest held under operating lease, the leased assets are not recognised in the statement of financial position of the Group or the Company. Property interest held under an operating lease, which is held to earn rental income or for capital appreciation or both, is classified as investment property.

In the previous years, a leasehold land that normally had an indefinite economic life and title was not expected to pass to the lessee by the end of the lease term was treated as an operating lease. The payment made on entering into or acquiring a leasehold land that was accounted for as an operating lease represents prepaid lease payments, except for leasehold land classified as investment property.



# Notes to the Financial Statements

Amounts in RM'000 unless otherwise stated

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (e) Leased assets (continued)

#### (ii) Operating lease (continued)

The Group has adopted the amendment made to FRS 117, *Leases* in 2010 in relation to the classification of lease of land. Leasehold land which in substance is a finance lease has been reclassified and measured as such retrospectively.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease. Contingent rentals are charged to profit or loss in the reporting period in which they are incurred.

### (f) Intangible assets

#### (i) Goodwill

Goodwill arises on business combinations and is measured at cost less any accumulated impairment losses.

For acquisitions prior to 1 January 2006, goodwill represents the excess of the cost of the acquisition over the Group's interest in the fair values of the net identifiable assets and liabilities.

For business acquisitions beginning from 1 January 2006, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in profit or loss.

#### (ii) Marketing rights

Marketing rights acquired via a purchase consideration are carried at the original cost of purchase less any accumulated amortisation and any accumulated impairment.

#### (iii) Brand name

Brand name is stated at cost less any accumulated impairment losses. Brand name has an indefinite useful life as it is maintained through continuous marketing and upgrading.

#### (iv) Other intangible assets

Intangible assets, other than goodwill, that are acquired by the Group, which have finite useful lives, are measured at cost less any accumulated amortisation and any accumulated impairment losses.

The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned. The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

#### (v) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

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## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (f) Intangible assets (continued)

#### (vi) Amortisation

Goodwill and intangible assets with indefinite useful lives are not amortised but are tested for impairment annually and whenever there is an indication that they may be impaired.

### (g) Investment property

#### (i) Investment property carried at fair value

Investment properties are properties which are owned or held under a leasehold interest to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment properties are measured initially at cost and subsequently at fair value with any change therein recognised in profit or loss for the period in which they arise.

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

An investment property under construction before 1 January 2010 was classified as property, plant and equipment and measured at cost. Such property is measured at cost until construction or development is complete, at which time it is remeasured to fair value and reclassified as investment property. Any gain or loss arising on remeasurement is recognised in profit or loss.

Following the amendment made to FRS 140, *Investment Property*, with effect from 1 January 2010, investment property under construction is classified as investment property. Where the fair value of the investment property under construction is not reliably determinable, the investment property under construction is measured at cost until either its fair value becomes reliably determinable or construction is complete, whichever is earlier.

#### (ii) Reclassification to/from investment property

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

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

#### (iii) Determination of fair value

An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Group's investment property portfolio every year, and at shorter intervals whenever the fair value of the properties is expected to differ materially.

The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

# Notes to the Financial Statements

Amounts in RM'000 unless otherwise stated

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (g) Investment property (continued)

#### (iii) Determination of fair value (continued)

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

Valuations reflect, where appropriate:

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

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

Significant assumptions in arriving at the fair value of investment properties are disclosed in note 6.

### (h) Inventories

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

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

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

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

### (i) Non-current assets held for sale

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets are measured at the lower of their carrying amount and fair value less cost to sell.

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

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## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (j) Construction work in progress

Construction work in progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date less progress billing and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity. For qualifying contracts, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs.

Construction work in progress is presented as part of trade and other receivables as amount due from contract customers in the statement of financial position. If payments received from customers exceed the income recognised, then the difference is presented as deferred income in the statement of financial position.

### (k) Cash and cash equivalents

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

### (l) Impairment of assets

#### (i) Financial assets

All financial assets (except for financial assets categorised as fair value through profit or loss, investment in subsidiaries and investment in associates) are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. For an equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment.

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

An impairment loss in respect of available-for-sale financial assets is recognised in the profit or loss and is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and the asset's current fair value, less any impairment loss previously recognised. Where a decline in the fair value of an available-for-sale financial asset has been recognised in the other comprehensive income, the cumulative loss in other comprehensive income is reclassified from equity and recognised to profit or loss.

An impairment loss in respect of unquoted equity instrument that is carried at cost is recognised in profit or loss and is measured as the difference between the 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.

Impairment losses recognised in profit or loss for an investment in an equity instrument is not reversed through the profit or loss.

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

# Notes to the Financial Statements

Amounts in RM'000 unless otherwise stated

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (l) Impairment of assets (continued)

#### (ii) Other assets

The carrying amounts of other assets (except for inventories, assets arising from construction contract, deferred tax asset, assets arising from employee benefits, investment property that is measured at fair value and non-current assets (or disposal groups) classified as held for sale) are reviewed at the end of each reporting period to determine whether there is any indication of impairment.

If any such indication exists, then the asset's recoverable amount is estimated. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

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

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

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

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

### (m) Equity instruments

Instrument classified as equity are measured at cost on initial recognition and are not re-measured subsequently.

#### (i) Issue expenses

Incremental costs directly attributable to the issue of equity instruments are recognised as a deduction from equity.

#### (ii) Repurchase of share capital

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

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

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

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## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (n) Employee benefits

#### (i) Short term employee benefits

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

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

#### (ii) State plans

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

### (o) Provision

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

#### (i) Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

#### (ii) Contingent liabilities

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

Where the Group enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Group considers these to be insurance arrangements, and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such time as it becomes probable that the Group will be required to make a payment under the guarantee.

#### (iii) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

# Notes to the Financial Statements

Amounts in RM'000 unless otherwise stated

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (p) Revenue recognition

#### (i) Goods sold

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

#### (ii) Services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the end of the reporting period. The stage of completion is assessed by reference to surveys of work performed.

#### (iii) Construction contracts

As soon as the outcome of a construction contract can be estimated reliably, contract revenue and contract cost are recognised in profit or loss in proportion to the stage of completion of the contract. Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and can be measured reliably.

The stage of completion is assessed by reference to the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in profit or loss.

#### (iv) Rental income

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

#### (v) Dividend income

Dividend income is recognised in profit or loss on the date that the Group's or the Company's right to receive payment is established.

### (q) Interest income and borrowing costs

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

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

Before 1 January 2010, all borrowing costs were recognised in profit or loss using the effective interest method in the period in which they are incurred.

Following the adoption of FRS 123, *Borrowing Costs*, borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets.

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## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (q) Interest income and borrowing costs (continued)

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

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

### (r) Income tax

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

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

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

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

A tax incentive that is not a tax base of an asset is recognised as a reduction of tax expense in profit or loss as and when it is granted and claimed. Any unutilised portion of the tax incentive is recognised as a deferred tax asset to the extent that it is probable that future taxable profits will be available against which the unutilised tax incentive can be utilised.

### (s) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

### (t) Operating segments

In the previous years, a segment was a distinguishable component of the Group that was engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment) which was subject to risks and rewards that were different from those of other segments.

Following the adoption of FRS 8, *Operating Segments*, an operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the chief operating decision maker, which in this case is the Group Managing Director/Executive Director of the Group, to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.



## Notes to the Financial Statements

Amounts in RM'000 unless otherwise stated

### 3. PROPERTY, PLANT AND EQUIPMENT

Group	Leasehold land	Freehold land	Freehold buildings	Long term leasehold buildings	Short term leasehold buildings	Plant, machinery and equipment	Under construction	Total
<b>Cost/Valuation</b>								
At 1 January 2009	–	33,465	42,453	113,212	367	534,516	13,862	737,875
Effect of improvement of FRS 117	126,367	–	–	–	–	–	–	126,367
As restated at 1 January 2009	126,367	33,465	42,453	113,212	367	534,516	13,862	864,242
Additions	411	1	3,699	1,358	619	62,208	37,243	105,539
Acquisition through business combination	2,075	–	–	–	–	4,557	–	6,632
Reclassification	–	–	2,388	–	–	31,088	(33,476)	–
Transfer to assets held for sale	(8,000)	(1,001)	–	(350)	–	(1,850)	–	(11,201)
Disposals	–	–	–	–	–	(19,337)	–	(19,337)
Write-off	–	–	–	–	–	(75)	–	(75)
At 31 December 2009/ 1 January 2010	120,853	32,465	48,540	114,220	986	611,107	17,629	945,800
Additions	–	–	434	761	505	19,174	66,896	87,770
Reclassification	–	–	(5,261)	35,288	28,577	(23,026)	(35,578)	–
Transfer to assets held for sale	–	(1,355)	(525)	–	–	–	–	(1,880)
Disposals	–	–	–	–	–	(3,657)	–	(3,657)
Write-off	–	–	–	–	–	(8,457)	–	(8,457)
Effect of movements in exchange rates	–	–	–	–	–	(2,646)	–	(2,646)
Revaluation loss	–	–	–	–	(8,955)	–	–	(8,955)
Revaluation surplus	5,053	20,329	3,115	6,147	–	–	–	34,644
Adjustment on revaluation	(2,903)	–	(2,661)	(10,144)	–	–	–	(15,708)
At 31 December 2010	123,003	51,439	43,642	146,272	21,113	592,495	48,947	1,026,911

### 3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group (continued)	Leasehold land	Freehold land	Freehold buildings	Long term leasehold buildings	Short term leasehold buildings	Plant, machinery and equipment	Under construction	Total
<b>Depreciation</b>								
At 1 January 2009	–	–	2,496	5,723	275	340,841	–	349,335
Effect of improvement of FRS 117	4,196	–	–	–	–	–	–	4,196
Restated at 1 January 2009	4,196	–	2,496	5,723	275	340,841	–	353,531
Depreciation	1,983	–	1,911	3,951	43	34,814	–	42,702
Transfer to assets held for sale	(415)	–	–	(26)	–	–	–	(441)
Disposals	–	–	–	–	–	(16,120)	–	(16,120)
Write-off	–	–	–	–	–	(23)	–	(23)
At 31 December 2009/ 1 January 2010	5,764	–	4,407	9,648	318	359,512	–	379,649
Depreciation for the year	1,878	–	4,535	3,424	2,580	31,789	–	44,206
Reclassification	–	–	(1,461)	–	–	1,461	–	–
Disposals	–	–	–	–	–	(2,679)	–	(2,679)
Write-off	–	–	–	–	–	(7,648)	–	(7,648)
Adjustment on revaluation	(2,903)	–	(2,661)	(10,144)	–	–	–	(15,708)
At 31 December 2010	4,739	–	4,820	2,928	2,898	382,435	–	397,820
<b>Carrying amounts</b>								
At 1 January 2009, restated	122,171	33,465	39,957	107,489	92	193,675	13,862	510,711
At 31 December 2009/ 1 January 2010	115,089	32,465	44,133	104,572	668	251,595	17,629	566,151
At 31 December 2010	118,264	51,439	38,822	143,344	18,215	210,060	48,947	629,091

## Notes to the Financial Statements

Amounts in RM'000 unless otherwise stated

### 3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company	Freehold land	Freehold buildings	Under construction	Plant, machinery and equipment	Total
<b>Cost/Valuation</b>					
At 1 January 2009	15,400	623	–	9,372	25,395
Additions	–	–	–	1,001	1,001
Write-off	–	–	–	(600)	(600)
At 31 December 2009/1 January 2010	15,400	623	–	9,773	25,796
Additions	–	–	8,437	424	8,861
Disposals	–	–	–	(582)	(582)
Revaluation surplus/(loss)	9,700	(24)	–	–	9,676
Adjustment on revaluation	–	(60)	–	–	(60)
At 31 December 2010	25,100	539	8,437	9,615	43,691
<b>Depreciation</b>					
At 1 January 2009	–	36	–	4,967	5,003
Depreciation for the year	–	12	–	1,300	1,312
Write-off	–	–	–	(320)	(320)
At 31 December 2009/1 January 2010	–	48	–	5,947	5,995
Depreciation for the year	–	12	–	1,210	1,222
Disposals	–	–	–	(576)	(576)
Adjustment on revaluation	–	(60)	–	–	(60)
At 31 December 2010	–	–	–	6,581	6,581
<b>Carrying amounts</b>					
At 1 January 2009	15,400	587	–	4,405	20,392
At 31 December 2009/1 January 2010	15,400	575	–	3,826	19,801
At 31 December 2010	25,100	539	8,437	3,034	37,110

#### Property, plant and equipment under construction

During the year ended 31 December 2010, the Group incurred the following:

- (i) installation and implementation of a new software of the Group and Company; costs incurred up to the period end date totalled RM8,437,000 (2009: Nil).
- (ii) installation of new plant and machinery for manufacturing of a wide range of pharmaceutical products; costs incurred up to the period end date totalled RM40,510,000 (2009: RM17,629,000).

### 3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

#### Property, plant and equipment under the revaluation model

The Group's land and buildings were revalued in December 2010 by independent professional qualified valuers using an open market value method.

Had the land and buildings been carried under the cost model, their carrying amounts would be as follow:

	Group		Company	
	2010	2009	2010	2009
Land and buildings	313,316	253,531	2,819	2,928

The carrying amounts of land at 1 January 2009 and 31 December 2009 have been adjusted following the adoption of the amendments to FRS 117, *Leases*, where leasehold land, in substance is a finance lease, has been reclassified from prepaid lease payments to property, plant and equipment.

### 4. INTANGIBLE ASSETS

Group	Note	Goodwill	Marketing rights	Trademark	Brands	Total
<b>Cost</b>						
At 1 January 2009		212,638	17,353	63	4,000	234,054
Acquisition through business combinations		98,292	–	–	–	98,292
Effect of movement in exchange rates		–	(230)	–	–	(230)
At 31 December 2009/ 1 January 2010		310,930	17,123	63	4,000	332,116
Reversal of contingent consideration	4.4	(4,185)	–	–	–	(4,185)
Effect of movement in exchange rates		–	(1,706)	–	–	(1,706)
At 31 December 2010		306,745	15,417	63	4,000	326,225
<b>Accumulated impairment loss</b>						
At 1 January 2009		–	–	–	–	–
Impairment loss		17,480	–	–	–	17,480
At 31 December 2009/ 1 January 2010		17,480	–	–	–	17,480
Impairment loss		5,500	–	–	–	5,500
At 31 December 2010		22,980	–	–	–	22,980

## Notes to the Financial Statements

Amounts in RM'000 unless otherwise stated

### 4. INTANGIBLE ASSETS (CONTINUED)

Group (continued)	Note	Goodwill	Marketing rights	Trademark	Brands	Total
<b>Carrying amounts</b>						
At 1 January 2009		212,638	17,353	63	4,000	234,054
At 31 December 2009/ 1 January 2010		293,450	17,123	63	4,000	314,636
At 31 December 2010		283,765	15,417	63	4,000	303,245
<b>Company</b>						<b>Trademark</b>
<b>Cost</b>						
At 1 January 2009/At 31 December 2009/ 1 January 2010/At 31 December 2010						63
<b>Accumulated impairment losses</b>						
At 1 January 2009/At 31 December 2009/ 1 January 2010/At 31 December 2010						–
<b>Carrying amount</b>						
At 1 January 2009/At 31 December 2009/ 1 January 2010/At 31 December 2010						63

#### 4.1 Material intangible assets

##### Goodwill

The carrying amount of the goodwill of subsidiaries in the pharmaceutical and chemical segments, arising from acquisition through business combination, was assessed for impairment during the year.

##### Marketing rights

The carrying amount of marketing rights represents the sole and exclusive right to market and sell to the region of Asia, excluding Japan, all products developed by Synergy America, Inc., a company incorporated in the United States of America, in which the Group has interests. The products have yet to be fully commercialised at year-end, as such the Group has not amortised the marketing rights. The Group will amortise once the products are fully commercialised. The management made an assumption the marketing rights will be recovered through future commercial activity when the products are fully commercialised in the future.

##### Brands

The carrying amount of brands represents the acquisition of the brand name of the over-the-counter products. The Group has not amortised the brand as the Group is of the opinion that the brands have indefinite useful lives. The Group has assessed the carrying amount for impairment during the year. It is reasonably anticipated that the brands will be recovered through future commercial activity.

## 4. INTANGIBLE ASSETS (CONTINUED)

### 4.2 Amortisation and impairment charge

Amortisation and impairment is allocated and recognised in the statements of comprehensive income as amortisation cost and impairment loss.

### 4.3 Impairment testing for cash-generating units containing goodwill

For the purpose of impairment testing, goodwill is allocated to the Group's operating divisions which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The aggregate carrying amounts of goodwill allocated to each unit are as follows:

	Group	
	2010	2009
Subsidiaries in pharmaceuticals division	193,850	195,350
Subsidiaries in chemicals division	89,915	98,100
	283,765	293,450

The recoverable amounts of the goodwill arising from consolidations were based on value in use of the investment in the respective subsidiaries ("the subsidiaries"). These calculations use pre-tax cash flow projections based on financial budgets approved by management.

The value in use was determined by discounting the future cash flows based on the following key assumptions:

- Cash flows were projected based on past experience, actual operating results and 3 years budget. Cash flows for a further 7-year period were extrapolated using a steady growth rate of 8 percent for subsidiaries of pharmaceuticals division and 5 percent with declining growth rate for subsidiaries of chemicals division. Management believes that these 10 years forecast period was justified due to the long term nature of the business.
- The anticipated growth rate for revenue was projected in accordance with the Group's 3 years budget and subsequently projected based on growth rate as stated in note (a) above.
- A pre-tax discount rate of 5.9 percent (2009: 5.5 percent) was applied in determining the recoverable amount. The discount was estimated based on the Group weighted average cost of capital ("WACC").

The key assumptions represent the Group and the Company's assessment of future trends in the pharmaceutical and chemical industries and are based on both external and internal sources of historical data.

### 4.4 Reversal of contingent consideration

Pursuant to the Conditional Profit Guarantee Agreement dated 23 April 2008 and Supplemental Conditional Profit Guarantee Agreement dated 3 July 2008 between AKN Technology Berhad ("AKN") and Chemical Company of Malaysia Berhad ("CCM") in respect of acquisition of Innovative Polymer Systems Sdn. Bhd., Innovative Resins Sdn. Bhd. and Delta Polymer Systems Sdn. Bhd. ("Innovative group"), AKN has agreed to compensate CCM any shortfall in Innovative group cumulative net profit over the two financial years (i.e. 2009 and 2010) of RM40 million.

Following the completion of second anniversary of acquisition of Innovative group on 31 December 2010, the cumulative net profit over the two financial years (i.e. 2009 and 2010) of Innovative group was below RM40 million resulting in a shortfall of RM4.185 million. As such, this shortfall has been adjusted as part of cost of investment and goodwill of Innovative group during the year.

## Notes to the Financial Statements

Amounts in RM'000 unless otherwise stated

### 5. PREPAID LEASE PAYMENTS

Group	Unexpired period less than 50 years	Unexpired period more than 50 years	Total
<b>Cost/Valuation</b>			
At 1 January 2009	32,085	102,367	134,452
Effect of improvement of FRS 117	(24,000)	(102,367)	(126,367)
As restated at 1 January 2009	8,085	–	8,085
Effect of movements in exchange rates	1,199	–	1,199
At 31 December 2009/1 January 2010	9,284	–	9,284
Effect of movements in exchange rates	(512)	–	(512)
At 31 December 2010	8,772	–	8,772
<b>Amortisation</b>			
At 1 January 2009	2,243	2,901	5,144
Effect of improvement of FRS 117	(1,295)	(2,901)	(4,196)
As restated at 1 January 2009	948	–	948
Amortisation for the year	464	–	464
At 31 December 2009/1 January 2010	1,412	–	1,412
Amortisation for the year	439	–	439
At 31 December 2010	1,851	–	1,851
<b>Carrying amounts</b>			
At 1 January 2009, restated	7,137	–	7,137
At 31 December 2009/1 January 2010	7,872	–	7,872
At 31 December 2010	6,921	–	6,921

## 6. INVESTMENT PROPERTIES

	Group		Company	
	2010	2009	2010	2009
At 1 January	47,667	72,724	135,667	160,313
Additions	–	–	227	411
Transfer to assets held for sale	–	(27,357)	–	(27,357)
Change in fair value	3,361	2,300	52	2,300
Disposals	(8,346)	–	(8,346)	–
At 31 December	42,682	47,667	127,600	135,667
Included in the above are:				
Freehold land	26,300	24,963	28,800	27,432
Leasehold land with unexpired lease period of less than 50 years	4,000	3,200	–	–
Leasehold land with unexpired lease period of more than 50 years	11,082	17,845	83,608	93,702
Buildings	1,300	1,659	15,192	14,533
At 31 December	42,682	47,667	127,600	135,667

All the investment properties are determined based on market values.

The fair value of the investment properties are determined based on an external independent valuation company using an open market value method.

Investment properties of the Group and of the Company comprise a number of commercial properties that are leased to third party and subsidiaries.

The range of yields applied to the net annual rentals to determine fair value of property for which current prices in an active market are unavailable is as follows:

Malaysia	Yields
Office buildings, warehouses and factory	5.30% – 5.62% (2009: 4.15% – 4.94%)
Residential house	0.8% (2009: 0.8%)



## Notes to the Financial Statements

Amounts in RM'000 unless otherwise stated

### 7. INVESTMENT IN SUBSIDIARIES

	Company	
	2010	2009
At cost:		
Unquoted shares	326,021	329,601
Less: Accumulated impairment loss	(4,200)	(4,200)
	321,821	325,401

Details of the subsidiaries are as follows:

Name of subsidiaries	Country of incorporation	Principal activities	Effective ownership interest	
			2010 %	2009 %
CCM Fertilizers Sdn. Bhd. and its subsidiaries:	Malaysia	Manufacture and marketing of fertilizers	50.1	50.1
Max Agriculture Sdn. Bhd.	Malaysia	Dormant	50.1	50.1
CCMF Agronomic and Technical Services Sdn. Bhd.*	Malaysia	Dormant	50.1	50.1
CCM Chemicals Sdn. Bhd. and its subsidiaries:	Malaysia	Manufacture and marketing of chlor-alkali and coagulant products and marketing of industrial and specialty chemicals	80.0	80.0
CCM Watercare Sdn. Bhd.	Malaysia	Marketing of water treatment products	80.0	80.0
CCM Singapore Pte. Ltd.*	Singapore	Marketing of chlor-alkali and coagulant products	80.0	80.0
CCM Chemtrans Sdn. Bhd.	Malaysia	Dormant	80.0	80.0
CCM Chemtrade Sdn. Bhd.	Malaysia	Dormant	80.0	80.0
PT CCM Indonesia*	Indonesia	Marketing of chlor-alkali and coagulant products and industrial chemicals	80.0	80.0
CCM Pharma Sdn. Bhd.	Malaysia	Investment holding	100.0	100.0
Innovax Sdn. Bhd.	Malaysia	Research and development of pharmaceutical products	100.0	100.0

## 7. INVESTMENT IN SUBSIDIARIES (CONTINUED)

Details of the subsidiaries are as follows: (continued)

Name of subsidiaries	Country of incorporation	Principal activities	Effective ownership interest	
			2010 %	2009 %
Usaha Pharma (M) Sdn. Bhd.	Malaysia	Dormant	100.0	100.0
CCM Agriculture (Sabah) Sdn. Bhd.	Malaysia	Investment holding	100.0	100.0
CCM Agriculture Sdn. Bhd.	Malaysia	Manufacturing and marketing of fertilizers	100.0	100.0
CCM International Sdn. Bhd. and its subsidiaries:	Malaysia	Investment holding	100.0	100.0
CCM Pharmaceuticals (S) Pte. Ltd.*	Singapore	Distribution, wholesaler of medicinal and pharmaceutical products	100.0	100.0
P.T. CCM AgriPharma*	Indonesia	Manufacturing and trading of fertilizers and importing and trading of pharmaceutical products	100.0	100.0
CCM Siam Ltd*	Thailand	Engage in the business of fertilizers, chemicals and pharmaceuticals	100.0	100.0
CCM Marketing Sdn. Bhd. and its subsidiaries:	Malaysia	Investment holding	100.0	100.0
CCM Duopharma Biotech Berhad and its subsidiary:	Malaysia	Investment holding	73.7	73.7
Duopharma (M) Sendirian Berhad	Malaysia	Manufacturing, distributing, importing and exporting of pharmaceutical products and medicines	73.7	73.7
Euphorex Corporation Sdn. Bhd.	Malaysia	Dormant	100.0	100.0
Liberal Wira Sdn. Bhd.	Malaysia	Dormant	100.0	100.0
Usaha Progresif Sdn. Bhd.	Malaysia	Dormant	100.0	100.0
Upha Pharmaceutical Manufacturing (M) Sdn. Bhd.	Malaysia	Manufacturing of pharmaceutical products and sales of medicines	100.0	100.0

## Notes to the Financial Statements

Amounts in RM'000 unless otherwise stated

### 7. INVESTMENT IN SUBSIDIARIES (CONTINUED)

Details of the subsidiaries are as follows: (continued)

Name of subsidiaries	Country of incorporation	Principal activities	Effective ownership interest	
			2010 %	2009 %
CCM Pharmaceuticals Sdn. Bhd. and its subsidiaries:	Malaysia	Marketing and sales of medicine and pharmaceutical products	100.0	100.0
CCM Biopharma Sdn. Bhd. (f.k.a. Ho Han Medical Company Sdn. Bhd.)	Malaysia	Dormant	100.0	100.0
Sentosa Pharmacy Sdn. Bhd.	Malaysia	Marketing of pharmaceutical and healthcare products	100.0	100.0
Unique Pharmacy (Ipoh) Sdn. Bhd.	Malaysia	Marketing of pharmaceutical and healthcare products	100.0	100.0
Unique Pharmacy (Penang) Sdn. Bhd.	Malaysia	Marketing of pharmaceutical and healthcare products	100.0	100.0
Negeri Pharmacy Sdn. Bhd.	Malaysia	Dormant	100.0	100.0
CCM Agri-Max Sdn. Bhd.	Malaysia	Marketing of wide range of fertilizers	100.0	100.0
CCM Usaha Kimia (M) Sdn. Bhd. and its subsidiary:	Malaysia	Marketing of chlor-alkali and chemical products	100.0	100.0
CCM Water Systems Sdn. Bhd.	Malaysia	Designing, manufacturing, installing, commissioning and providing maintenance services for water purification and waste water treatment plant systems and sale of its related products.	100.0	98.4
CCM Investments Limited** and its subsidiary:	British Virgin Islands	Investment holding	100.0	100.0
CCM International (Philippines), Inc.*	Republic of Philippines	Distribution, importing and exporting of pharmaceuticals and chemicals product	99.9	99.9
Yayasan CCM (Limited by Guarantee)	Malaysia	To receive and administer funds for education and charitable purposes, all for the public welfare.	100.0	100.0

## 7. INVESTMENT IN SUBSIDIARIES (CONTINUED)

Details of the subsidiaries are as follows: (continued)

Name of subsidiaries	Country of incorporation	Principal activities	Effective ownership interest	
			2010 %	2009 %
Innovative Polymer Systems Sdn. Bhd.	Malaysia	Manufacturing of hydrogel coating products.	93.06	93.06
Innovative Resins Sdn. Bhd.	Malaysia	Investment holding	93.06	93.06
Delta Polymer Systems Sdn. Bhd.	Malaysia	Manufacturing and trading of coating products.	93.05	93.05

\* Not audited by KPMG

\*\* Not required to be audited and consolidated based on unaudited financial statements

During the year, the Company has acquired 151,248 ordinary shares of RM1.00 each representing 1.51% of the issued and paid up capital of CCM Water Systems Sdn. Bhd. ("CCMWS") from Mr Aloysius Lai Min Yun for a total purchase consideration of RM605,150, as agreed in the Shareholders' Agreement between the Company, CCM Usaha Kimia (M) Sdn. Bhd., Mr Lai Wai Kun and Mr Aloysius Lai Min Yun dated 17 April 2008.

As a result of the above acquisition, the total shareholding of the Company in CCMWS now stands at 528,173 ordinary shares of RM1.00 each, representing approximately 5.28% of the issued and paid up capital of CCMWS and through existing shares already owned by another company within the Group, effectively CCMWS becomes wholly owned subsidiary of the Company.

## 8. INVESTMENT IN ASSOCIATE

	Group		Company	
	2010	2009	2010	2009
At cost:				
Unquoted shares	1,408	1,408	—	—
Share of post acquisition reserves	9,026	6,953	—	—
Dividend received from associate	(2,430)	—	—	—
	8,004	8,361	—	—

## Notes to the Financial Statements

Amounts in RM'000 unless otherwise stated

### 8. INVESTMENT IN ASSOCIATE (CONTINUED)

Group	Country of incorporation	Effective ownership interest	Revenue (100%)	Profit (100%)	Total assets (100%)	Total liabilities (100%)
<b>2010</b>						
Orica-CCM Energy Systems Sdn. Bhd.	Malaysia	45.0%	30,406	4,607	25,650	7,464
<b>2009</b>						
Orica-CCM Energy Systems Sdn. Bhd.	Malaysia	45.0%	31,642	2,588	23,209	4,911

### 9. OTHER INVESTMENTS

Group	Share Quoted in Malaysia	Share Quoted outside Malaysia	Total
<b>2010</b>			
<b>Non-current</b>			
Available-for-sale Financial assets	100	24,415	24,515
Representing items: At fair value	100	24,415	24,515
Market value of quoted investments	100	24,415	24,515
<b>2009</b>			
<b>Non-current</b>			
At cost	–	6,978	6,978
Market value	–	33,101	33,101

The comparative figures as at 31 December 2009 have not been presented based on the new categorisation of financial assets resulting from the adoption of FRS 139 by virtue of the exemption given in FRS 7.44AA.

## 10. DEFERRED TAX ASSETS AND LIABILITIES

### Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Group	Assets		Liabilities		Net	
	2010	2009	2010	2009	2010	2009
Property, plant and equipment	–	–	30,588	24,264	30,588	24,264
Provisions	(4,006)	(5,347)	–	11	(4,006)	(5,336)
Other temporary difference	(8,056)	(3,825)	56	463	(8,000)	(3,362)
Tax loss carry-forwards	(658)	(1,831)	–	–	(658)	(1,831)
Tax (assets)/liabilities	(12,720)	(11,003)	30,644	24,738	17,924	13,735
Set off	9,451	9,297	(9,451)	(9,297)	–	–
Net tax (assets)/liabilities	(3,269)	(1,706)	21,193	15,441	17,924	13,735

Deferred tax assets and liabilities are attributable to the following:

Company	Assets		Liabilities		Net	
	2010	2009	2010	2009	2010	2009
Property, plant and equipment	–	–	2,022	2,807	2,022	2,807
Net tax liabilities	–	–	2,022	2,807	2,022	2,807

### Unrecognised deferred tax assets

Deferred tax assets and liabilities have not been recognised in respect of the following items:

	Group	
	2010	2009
Tax losses carry-forward	(27,918)	(16,276)
Other deductible temporary differences	1,080	3,895
	(26,838)	(12,381)

The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits there from.

## Notes to the Financial Statements

Amounts in RM'000 unless otherwise stated

### 10. DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

Movement in temporary differences during the year

	At 1.1.2009	Recognised in profit or loss (Note 22)	At 31.12.2009	Recognised in profit or loss (Note 22)	Recognised in equity	At 31.12.2010
<b>Group</b>						
Property, plant and equipment	27,700	(3,436)	24,264	2,631	3,693	30,588
Provisions	6,448	(11,784)	(5,336)	1,330	–	(4,006)
Other items	(1,222)	(2,140)	(3,362)	(4,638)	–	(8,000)
Tax loss carry-forward	(3,782)	1,951	(1,831)	1,173	–	(658)
	29,144	(15,409)	13,735	496	3,693	17,924
<b>Company</b>						
Property, plant and equipment	3,109	(302)	2,807	(785)	–	2,022
Provisions	(392)	392	–	–	–	–
Other items	15,392	(15,392)	–	–	–	–
	18,109	(15,302)	2,807	(785)	–	2,022

### 11. TRADE AND OTHER RECEIVABLES

	Note	Group		Company	
		2010	2009	2010	2009
<b>CURRENT</b>					
<b>Trade</b>					
Trade receivables		392,082	329,732	–	–
Amount due from contract customers	11.1	2,440	3,344	–	–
		394,522	333,076	–	–
<b>Non-trade</b>					
Amount due from subsidiaries	11.2	–	–	7,074	21,850
Amount due from associate	11.2	23	136	17	17
Deposits		2,916	2,881	255	234
Other receivables		4,916	18,318	390	340
Prepayments		6,827	15,720	4,409	1,580
		14,682	37,055	12,145	24,021
<b>Total current</b>		<b>409,204</b>	<b>370,131</b>	<b>12,145</b>	<b>24,021</b>

## 11. TRADE AND OTHER RECEIVABLES (CONTINUED)

	Note	Group		Company	
		2010	2009	2010	2009
<b>NON-CURRENT</b>					
<b>Non-trade</b>					
Amount due from subsidiaries	11.3	–	–	699,991	760,436
<b>Total non-current</b>		–	–	699,991	760,436

### 11.1 Construction work in progress

	Note	Group		Company	
		2010	2009	2010	2009
Aggregate costs incurred to date		20,187	67,997	–	–
Add: Attributable profits less foreseeable loss		4,868	2,399	–	–
		25,055	70,396	–	–
Less: Progress billings		(22,834)	(69,482)	–	–
		2,221	914	–	–
Amount due from contract customers		2,440	3,344	–	–
Amount due to contract customers	18	(219)	(2,430)	–	–
		2,221	914	–	–

**11.2** The non-trade receivables due from subsidiaries and associate are unsecured, subject to interest ranging from 4.19% to 4.36% (2009: 4.19% to 4.30%) and repayable on demand.

**11.3** The advances to subsidiary companies are unsecured, subject to interest ranging from 4.19% to 4.36% (2009: 4.19% to 4.30%) and are not repayable over the next 12 months.



## Notes to the Financial Statements

Amounts in RM'000 unless otherwise stated

### 12. INVENTORIES

	Group	
	2010	2009
Raw materials	82,046	79,878
Work-in-progress	8,201	8,799
Finished goods	196,211	250,922
Spares and consumables	21,604	37,843
	308,062	377,442

In 2010, the write-down of inventories to net realisable value amounted to RM3,046,000 (2009: RM9,584,000) and write-off of inventories amounted to RM3,349,000 (2009: RM2,620,000). The write-down and write-off are included in cost of sales.

### 13. ASSETS CLASSIFIED AS HELD FOR SALE

	Group	
	2010	2009
Reclassified from property, plant and equipment, and investment properties	1,880	38,117
Impairment loss	(140)	–
	1,740	38,117

An impairment loss of RM140,000 (2009: Nil) was recognised as other operating expense in the profit or loss of the Group to write down the assets to fair value less cost to sell.

	Company	
	2010	2009
Reclassified from investment properties	–	27,357

In 2010, the Group and the Company disposed of assets which was classified as held for sale in 2009 for a consideration of RM41,921,000 and RM28,879,000 respectively.

## 14. CASH AND CASH EQUIVALENTS

	Group		Company	
	2010	2009	2010	2009
Cash and bank balances	73,478	69,527	4,180	1,987
Deposits are placed with licensed banks	138,681	157,815	83,558	121,421
	212,159	227,342	87,738	123,408

Included in deposits placed with licensed banks of a subsidiary within the Group is RM547,000 (2009: RM522,000) pledged for a bank facility granted to a subsidiary.

## 15. CAPITAL AND RESERVES

### Share capital

	Group and Company			
	Amount 2010	Number of shares 2010 '000	Amount 2009	Number of shares 2009 '000
Authorised:				
Ordinary shares of RM1 each	800,000	800,000	800,000	800,000
Issued and fully paid:				
Ordinary shares of RM1 each				
At 1 January	402,946	402,946	402,849	402,849
Conversion of warrants	1,795	1,795	97	97
At 31 December	404,741	404,741	402,946	402,946

### Capital redemption reserve

The capital redemption reserve comprises the equity portion of financial instruments issued.

### Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of the Group entities with functional currency other than RM.

### Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognised or impaired.

### Revaluation reserve

The revaluation reserve relates to the revaluation of land and buildings.

# Notes to the Financial Statements

Amounts in RM'000 unless otherwise stated

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## 15. CAPITAL AND RESERVES (CONTINUED)

### Treasury shares

The shareholders of the Company, by a special resolution passed in a General Meeting held on 23 April 1998, approved the Company's plan to repurchase its own shares. The Directors of the Company are committed to enhancing the value of the Company to its shareholders and believe that the repurchase plan can be applied in the best interests of the Company and its shareholders.

There were no repurchase of its issued shares capital since 2003. At 31 December 2010, the Group held 2,998,000 (2009: 2,998,000) of the Company's shares.

### Retained Earnings

The Finance Act, 2007 introduced a single tier company income tax system with effect from 1 January 2008. As such, the Section 108 tax credit as at 31 December 2010 will be available to the Company until such time the credit is fully utilised or upon expiry of the six-year transitional period on 31 December 2013, whichever is earlier.

Subject to agreement by the Inland Revenue Board, the Company has moved into the single tier dividend system. As such, all its distributable reserves at 31 December 2010 are available to be paid out as dividends.

### Warrants

On 27 December 2002, the Company issued RM200,000,000 nominal amount of 7-year 3% Fixed Rate Bonds ("Bonds") together with 88,040,592 detachable warrants (hereinafter termed "Warrants-B") at 100% of the nominal amount of the Bonds to AmMerchant Bank Berhad as primary subscriber.

On 13 January 2003, the primary subscriber offered for sale 88,040,592 Warrants-B at an offer price of RM0.4522 per warrant on a non-renounceable basis to the shareholders of the Company on the basis of one (1) warrant for every four (4) existing ordinary shares held.

These Warrants-B confer upon the registered holder the right to subscribe for one ordinary share ("New Share") of RM1.00 in the Company at an exercisable price of RM1.36 for each new ordinary share, subject to adjustments under certain circumstances in accordance with the Deed Poll dated 22 November 2002 commencing on the issue date and ending on the date falling 10 years from the issue date.

The Company has on 24 December 2009 fully redeemed the Bonds and fully settled the final interest payment for the Bonds in accordance with the terms and conditions of the Trust Deed dated 21 November 2002 relating to the issuance of the Bonds.

Pursuant to the terms and conditions of the Deed Poll dated 22 November 2002 constituting Warrants-B, Warrants-B may be exercised at any time within ten (10) years commencing on the issue date and ending on 26 December 2012.

During the financial year, the Company issued 1,795,000 ordinary shares of RM1 each for cash arising from conversion of 1,795,000 Warrants-B on the basis of one ordinary share at the price of RM1.36 per ordinary share for every warrant held.

## 16. LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's and the Company's interest-bearing loans and borrowings. For more information about the Group's and the Company's exposure to interest rate and foreign currency risk, see note 27.

	Note	Group		Company	
		2010	2009	2010	2009
<b>Non-current</b>					
Secured term loan	16.1	838	1,715	–	–
Unsecured Musyarakah medium term notes	16.2	–	150,000	–	150,000
Unsecured 3-years term loan	16.3	300,000	300,000	300,000	300,000
Unsecured non-revolving loan	16.5	10,416	9,175	–	–
		311,254	460,890	300,000	450,000
<b>Current</b>					
Secured term loan	16.1	451	–	–	–
Unsecured bank overdrafts		18,421	12,062	–	–
Unsecured bankers' acceptances		133,450	140,337	–	–
Unsecured revolving credit	16.4	204,832	266,558	130,000	170,000
Unsecured term loan		14,468	42,461	–	35,000
Unsecured non-revolving loan	16.5	8,334	6,251	–	–
Unsecured Musyarakah medium term notes	16.2	150,000	–	150,000	–
		529,956	467,669	280,000	205,000

### 16.1 Secured Term Loan

The term loan of the Group is secured by the following:

- (i) Letter of Comfort from Chemical Company of Malaysia Berhad;
- (ii) First party first legal charge of RM11.5 million over leasehold factory land and building of the subsidiary together with joint and several guarantee by 3rd party; and
- (iii) First party second legal charge of RM2.0 million over leasehold factory land and building of the subsidiary.

### 16.2 Unsecured Musyarakah Medium Term Notes

On 28 November 2008, the Company issued RM150,000,000 nominal amount of 3 year fixed rate Musyarakah Medium Term Notes ("MMTN") at 5.95% (2009: 5.95%). Some of the significant covenants of the MMTN are:-

#### Financial Covenants

The Company shall maintain the following ratios throughout the tenure of the MMTN.

- (i) The Finance to Equity Ratio of not more than 1.5 times (2009: 1.5 times).
- (ii) The Profit/Interest Cover Ratio of at least 2 times (2009: 2 times).

# Notes to the Financial Statements

Amounts in RM'000 unless otherwise stated

## 16. LOANS AND BORROWINGS (CONTINUED)

### 16.2 Unsecured Musyarakah Medium Term Notes

#### Negative Covenants

The Company will not, without written consent from of the Trustee first, had and obtained for the followings:-

- (i) Create or permit to subsist any Security Interest over any of its present of future assets, other than those permitted by the financing document and trust deed.
- (ii) Reduce its authorized and/or issued shares save and except for any decrease in its issued capital resulting from purchase or cancellation of its own shares pursuant to Section 67A of the Companies Act 1965.
- (iii) Add, delete, vary or amend its Memorandum or Articles of Association in a manner inconsistent of the Financing Document other than those permitted by the financing document and trust deed.
- (iv) Dispose any assets in excess of 5% of the Group's net assets (as reflected in the latest consolidated annual audited financial statements) in any financial year other than those permitted by the financing document and trust deed.
- (v) Not to manage and conduct business affairs of the Group in a manner consistent with the provisions and conditions of the financing document and trust deed.

### 16.3 Unsecured 3-years Term Loan

On 19 August 2009, the Company has entered into a RM300 million, 3 years unsecured term loan with Bank of Tokyo-Mitsubishi UFJ (Malaysia) Berhad at the rate of 3.92% (for first RM100 million) and 3.95% (for balance RM200 million).

#### Significant covenant

The Term Loan is subject to fulfilment of the following covenant:

- (i) the consolidated Total Indebtedness to Consolidated Networth Ratio shall not be exceeding 1.5 times.
- (ii) the consolidated Networth shall not be less than RM750 million.
- (iii) the interest Coverage Ratio of not less than 2 times.

### 16.4 Unsecured Revolving Credit

On 22 July 2009, the Company has issued an unsecured RM80 million 1 year Revolving Credit (RC) Facility with AmBank (M) Berhad at the rate of 3.32%.

#### Significant conditions

The RC is subject to fulfilment of the following covenants:

- (i) the borrower shall maintain a gearing ratio of not more than 1.5 times (2009: 1.5 times) during the tenure of the facility.
- (ii) the borrower shall maintain at least 2.0 times (2009: 2.0 times) Earnings Before Interest, Income Tax and Depreciation during the tenure of the facility.

### 16.5 Unsecured Non-Revolving Loan

On 10 July 2009, a subsidiary has received an unsecured non-revolving loan facility of RM25 million from The Bank of Nova Scotia Berhad. During the year, the subsidiary has utilised RM18,750,000 (2009: RM15,426,000) of the said facility.

## 16. LOANS AND BORROWINGS (CONTINUED)

### 16.5 Unsecured Non-Revolving Loan (continued)

#### Significant covenants

The unsecured non-revolving loan is subject to fulfilment of the following significant covenants:

- (i) not to pledge any of its assets, present and future, without the prior written consent of the Bank;
- (ii) remain a subsidiary of Chemical Company of Malaysia Berhad;
- (iii) cross default to other indebtedness of the Company and its subsidiaries;
- (iv) the total liabilities to tangible net worth ratio of the subsidiary company does not exceed 1.75 (2009: 1.75); and
- (v) the debt service cover ratio of the subsidiary company is at least 2.0 times (2009: 2.0 times).

#### *Terms and debt repayment schedule*

Group	Year of maturity	Carrying amount	Under 1 year	1-2 years	2-5 years	Over 5 years
<b>2010</b>						
Unsecured 3-years term loan	2012	300,000	–	300,000	–	–
Unsecured Musyarakah medium term note	2011	150,000	150,000	–	–	–
Secured term loan	2013	1,289	451	838	–	–
Unsecured term loan	2011	14,468	14,468	–	–	–
Unsecured bank overdrafts	2011	18,421	18,421	–	–	–
Unsecured bankers' acceptances	2011	133,450	133,450	–	–	–
Unsecured revolving credits	2011	204,832	204,832	–	–	–
Unsecured non-revolving loan	2013	18,750	8,334	10,416	–	–
		841,210	529,956	311,254	–	–
<b>2009</b>						
Unsecured 3-years term loan	2012	300,000	–	–	300,000	–
Unsecured Musyarakah medium term note	2011	150,000	–	150,000	–	–
Secured term loan	2013	1,715	–	–	1,715	–
Unsecured term loan	2010	42,461	42,461	–	–	–
Unsecured bank overdrafts	2010	12,062	12,062	–	–	–
Unsecured bankers' acceptance	2010	140,337	140,337	–	–	–
Unsecured revolving credits	2010	266,558	266,558	–	–	–
Unsecured non-revolving loan	2013	15,426	6,251	8,334	841	–
		928,559	467,669	158,334	302,556	–

## Notes to the Financial Statements

Amounts in RM'000 unless otherwise stated

### 16. LOANS AND BORROWINGS (CONTINUED)

#### Terms and debt repayment schedule (continued)

Company	Year of maturity	Carrying amount	Under 1 year	1-2 years	2-5 years	Over 5 years
<b>2010</b>						
Unsecured 3-years term loan	2012	300,000	–	300,000	–	–
Unsecured Musyarakah medium term notes	2011	150,000	150,000	–	–	–
Unsecured revolving credit	2011	130,000	130,000	–	–	–
		580,000	280,000	300,000	–	–
<b>2009</b>						
Unsecured 3-years term loan	2012	300,000	–	–	300,000	–
Unsecured Musyarakah medium term notes	2011	150,000	–	150,000	–	–
Unsecured term loan	2010	35,000	35,000	–	–	–
Unsecured revolving credit	2010	170,000	170,000	–	–	–
		655,000	205,000	150,000	300,000	–

### 17. PROVISION

Warranties	Group	
	2010	2009
At 1 January	667	656
Provision made during the year	574	200
Provision used during the year	(391)	(189)
At 31 December	850	667

The provision of warranties relates to pharmaceutical products sold. The provision is based on estimates made from historical warranty data associated with similar products. The Group expects to incur the liability over the next 2 years (2009: 2 years).

## 18. TRADE AND OTHER PAYABLES

	Note	Group		Company	
		2010	2009	2010	2009
<b>Trade</b>					
Trade payables		147,798	125,035	–	–
Amount due to contract customers	11.1	219	2,430	–	–
		148,017	127,465	–	–
<b>Non-trade</b>					
Accrued expenses		35,802	36,801	–	9,026
Amount due to subsidiaries	18.1	–	–	19,640	88,472
Other payables		38,319	42,470	23,034	–
		74,121	79,271	42,674	97,498
		222,138	206,736	42,674	97,498

**18.1** The non-trade payables due to subsidiaries are unsecured, interest bearing ranging from 4.19% to 4.36% (2009: 4.19% to 4.30%) and repayable on demand.

## 19. REVENUE

	Group		Company	
	2010	2009	2010	2009
Sales	1,623,947	1,551,871	–	–
Construction contracts	13,243	8,850	–	–
Services	1,161	10,389	–	–
Rental income from investment properties	688	699	4,926	5,049
Dividends	–	–	21,441	24,785
	1,639,039	1,571,809	26,367	29,834



## Notes to the Financial Statements

Amounts in RM'000 unless otherwise stated

### 20. OPERATING PROFIT

	Group		Company	
	2010	2009	2010	2009
<b>Operating profit is arrived at after charging:</b>				
Impairment loss:				
– Goodwill	5,500	17,480	–	–
– Trade Receivables	3,585	15,835	–	–
– Asset held for sale	140	–	–	–
Amortisation of prepaid lease payments	439	464	–	–
Auditors' remuneration				
– Statutory Audit				
Auditor of the Company	470	430	50	50
Other auditors	40	78	–	–
– Other services by auditor of the Company	275	376	103	369
Bad debts written off	35	216	–	–
Depreciation of property, plant and equipment	44,206	42,702	1,222	1,312
Interest expense:				
– Subsidiaries	–	–	1,421	374
– Bank overdraft	1,123	810	164	150
– Revolving credits	4,963	7,417	4,071	6,748
– Bankers' acceptances	2,797	4,269	–	–
– Bond issues	–	5,901	–	5,901
– Term loans	1,403	2,779	1,212	2,610
– Unsecured 3-years term loan	12,552	10,505	12,552	10,505
– Other borrowings	11,816	2,209	10,405	–
Loss on damaged goods	–	60	–	–
Property, plant and equipment written off	809	52	–	280
Rental expenses on property leases	6,093	8,691	1,035	1,035
Rental expenses on equipment	3,005	41	–	–
Research and development costs expensed as incurred	6,610	5,012	–	–
Personnel expenses (including key management personnel)				
– Contribution to Employees Provident Fund	10,839	11,142	1,432	1,519
– Wages, salaries and others	84,697	83,270	8,227	7,950
Write-down of inventories	3,046	9,584	–	–
Write-off of inventories	3,349	2,620	–	–
Net foreign exchange loss	3,332	749	–	–
Loss on revaluation of property, plant and equipment	8,955	–	–	–

## 20. OPERATING PROFIT (CONTINUED)

	Group		Company	
	2010	2009	2010	2009
<b>and after crediting:</b>				
Reversal of impairment loss on trade receivables	940	203	–	–
Change in fair value of investment properties	3,361	2,300	52	2,300
Gain on disposal of property, plant and equipment	2,347	799	1,731	–
Interest income:				
– Subsidiaries	–	–	30,882	12,982
– Associate	3	4	–	–
– Fixed deposits	3,074	2,300	1,837	1,795
– Others	190	140	–	–
Net foreign exchange gain	6,338	8,842	–	–
Rental income from property subleases	–	555	–	–
Gain on revaluation of property, plant and equipment	–	56	–	–
Gain on disposal of asset held for sale	3,804	–	1,522	–
Gain on disposal of investment properties	160	–	160	–

## 21. KEY MANAGEMENT PERSONNEL COMPENSATION

	Group		Company	
	2010	2009	2010	2009
Directors				
– Fees	410	645	410	550
– Remuneration	564	1,090	564	1,090
Other short term employee benefits (including estimated monetary value of benefits-in-kind)	84	180	84	180
	1,058	1,915	1,058	1,820
Other key management personnel:				
– Remuneration	4,808	1,277	2,267	1,277
Other short term employee benefits (including estimated monetary value of benefits-in-kind)	316	42	142	42
	5,124	1,319	2,409	1,319

Other key management personnel comprises certain members of senior management of Group entities, having authority and responsibility for planning, directing and controlling the activities of the entity either directly or indirectly.

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### 22. INCOME TAX EXPENSE

#### Recognised in profit or loss

	Note	Group		Company	
		2010	2009	2010	2009
Income tax expense		26,129	10,511	5,208	(3,337)
Share of tax of equity accounted associate		791	415	–	–
<b>Total income tax expense</b>		<b>26,920</b>	<b>10,926</b>	<b>5,208</b>	<b>(3,337)</b>
Major components of income tax expense include:					
<b>Current tax expense</b>					
Malaysian – current year		25,989	18,661	6,143	8,995
– prior year		(1,322)	1,529	(150)	2,970
Overseas – current year		602	1,772	–	–
– prior year		364	3,958	–	–
<b>Total current tax expense</b>		<b>25,633</b>	<b>25,920</b>	<b>5,993</b>	<b>11,965</b>
<b>Deferred tax expense</b>					
Origination and reversal of temporary differences		1,146	(2,507)	(785)	(3,336)
Overprovision in prior years		(650)	(12,902)	–	(11,966)
<b>Total deferred tax expense</b>	10	<b>496</b>	<b>(15,409)</b>	<b>(785)</b>	<b>(15,302)</b>
		26,129	10,511	5,208	(3,337)
Share of tax of equity accounted associate		791	415	–	–
<b>Total income tax expense</b>		<b>26,920</b>	<b>10,926</b>	<b>5,208</b>	<b>(3,337)</b>

#### Reconciliation of effective tax rate

	Group		Company	
	2010 %	2009 %	2010 %	2009 %
Profit before tax	100	100	100	100
Income tax at Malaysian tax rate of 25%	25	25	25	25
Non-deductible expenses	32	113	77	81
Non-taxable income	(8)	(2)	(78)	–
Tax exempt income	(8)	(23)	–	–
Overprovision in prior years	(3)	(48)	(1)	(167)
Change in unrecognised temporary differences	6	2	–	–
	<b>44</b>	<b>67</b>	<b>23</b>	<b>(61)</b>

## 23. OTHER COMPREHENSIVE INCOME

	Before tax	Tax expense	Net of tax
<b>Group</b>			
<b>2010</b>			
Foreign currency translation differences for foreign operations			
– Gains arising during the year	123	–	123
Fair value of available-for-sale financial assets			
– Loss arising during the year	(8,687)	–	(8,687)
Revaluation of property, plant and equipment	34,644	(3,693)	30,951
	26,080	(3,693)	22,387
<b>2009</b>			
Foreign currency translation differences for foreign operations			
– Gains arising during the year	3,429	–	3,429
<b>Company</b>			
<b>2010</b>			
Revaluation of property, plant and equipment	9,676	–	9,676

## 24. EARNINGS PER ORDINARY SHARE

### Basic earnings/(loss) per ordinary share

The calculation of basic earnings/(loss) per ordinary share at 31 December 2010 was based on the profit/(loss) attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding, calculated as follows:

	Group	
	2010	2009
Profit/(Loss) for the year attributable to ordinary shareholders	15,372	(5,820)

## Notes to the Financial Statements

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### 24. EARNINGS PER ORDINARY SHARE (CONTINUED)

#### Basic earnings/(loss) per ordinary share (continued)

Weighted average number of ordinary shares

	Group	
	2010	2009
Issued ordinary shares at 1 January	402,946	402,849
Effect of ordinary shares issued	1,795	97
Weighted average number of ordinary shares at 31 December	404,741	402,946

	Group	
	2010 Sen	2009 Sen
Basic earnings/(loss) per ordinary share	3.80	(1.44)

#### Diluted earnings/(loss) per ordinary share

The calculation of diluted earnings/(loss) per ordinary share at 31 December 2010 was based on profit/(loss) attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares, calculated as follows:

	Group	
	2010	2009
Profit/(Loss) for the year attributable to ordinary shareholders	15,372	(5,820)
Interest expense on convertible warrants, net of tax	–	1,748
Profit/(Loss) attributable to ordinary shareholders (diluted)	15,372	(4,072)

Weighted average number of ordinary shares diluted

	Group	
	2010	2009
Weighted average number of ordinary shares at 31 December	404,741	402,876
Effect of conversion of warrants	55,329	57,123
Weighted average number of ordinary shares (diluted) at 31 December	460,070	459,999

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## 24. EARNINGS PER ORDINARY SHARE (CONTINUED)

The average market value of the Company's shares for purpose of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

	<b>Group</b>	
	<b>2010 Sen</b>	<b>2009 Sen</b>
Diluted earnings per ordinary share	3.34	(0.89)

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## 25. DIVIDENDS

Dividends recognised in the current year by the Company are:

	<b>Sen per share (net of tax)</b>	<b>Total amount</b>	<b>Date of payment</b>
<b>2010</b>			
Final 2009 ordinary (tax exempt - single tier)	8.00	31,998	9 July 2010
<b>2009</b>			
Final 2008 ordinary	6.20	24,791	23 July 2009

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

	<b>Sen per share</b>
Final ordinary (tax exempt – single tier)	2.65

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# Notes to the Financial Statements

Amounts in RM'000 unless otherwise stated

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## 26. OPERATING SEGMENT

### ***Business segments***

The Group has three reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Group Managing Director/Executive Director (the chief operating decision maker) reviews internal management reports at least on a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

- Fertilizers – Manufacture and marketing of fertilizers
- Chemicals – Manufacture and marketing of chlor-alkali and coagulant products, industrial and specialty chemicals and designing, manufacturing, installing, commissioning and providing maintenance services for water purification and waste water treatment plant systems and sale of its related products
- Pharmaceuticals – Manufacture and marketing of pharmaceutical and healthcare products.

Other non-reportable segments comprise operations related to the investment holding company and rental of investment property.

Performance is measured based on segment profit before tax, interest, depreciation and amortisation, as included in the internal management reports that are reviewed by the Group Managing Director/Executive Director (the chief operating decision maker). Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

### ***Segment assets***

The total of segment asset is measured based on all assets (including goodwill) of a segment, as included in the internal management reports that are reviewed by the Group Managing Director/Executive Director. Segment total asset is used to measure the return of assets of each segment.

### ***Segment liabilities***

Segment liabilities information is neither included in the internal management reports nor provided regularly to the Group Managing Director/Executive Director. Hence no disclosure is made on segment liability.

## 26. OPERATING SEGMENT (CONTINUED)

	Fertilizers		Chemicals		Pharmaceuticals		Others		Eliminations		Consolidated	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
<b>Segment profit/(loss)</b>	3,433	6,573	17,673	(15,459)	12,378	27,097	20,740	8,802	(21,153)	(21,945)	33,071	5,068
<i>Included in the measure of segment profit/(loss):</i>												
Total external revenue	930,757	897,181	457,592	430,705	250,002	242,546	688	1,377	-	-	1,639,039	1,571,809
Inter-segment revenue	-	105	1,735	1,314	-	128	25,679	28,457	(27,414)	(30,004)	-	-
Revaluation loss	8,955	-	-	-	-	-	-	-	-	-	8,955	-
Write-down of inventories	1,421	7,315	1,318	960	306	1,310	-	-	-	-	3,046	9,584
Impairment of intangible assets	-	-	4,000	17,480	1,500	-	-	-	-	-	5,500	17,480
Share of profit of associates	-	-	2,073	1,165	-	-	-	-	-	-	2,073	1,165
<i>Not included in the measure of segment profit but provided to Chief Executive Officer:</i>												
Depreciation and Amortisation	(12,837)	(8,496)	(13,027)	(16,977)	(13,606)	(13,450)	(5,175)	(4,243)	-	-	(44,645)	(43,166)
Finance costs	(11,931)	(14,788)	(7,248)	(3,994)	(18,244)	(4,378)	(29,353)	(26,288)	32,122	15,558	(34,654)	(33,890)
Finance income	329	2,805	1,256	268	1,660	431	32,909	14,975	(32,887)	(16,035)	3,267	2,444
Income tax expense	(14,130)	(10,045)	(10,165)	99	(7,661)	(8,455)	(5,252)	3,290	11,079	4,600	(26,129)	(10,511)



## Notes to the Financial Statements

Amounts in RM'000 unless otherwise stated

### 26. OPERATING SEGMENT (CONTINUED)

	Fertilizers		Chemicals		Pharmaceuticals		Others		Eliminations		Consolidated	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
<b>Segment assets</b>	667,022	649,850	415,906	384,090	765,278	780,553	1,357,375	1,490,202	(1,203,658)	(1,284,466)	2,001,923	2,020,229
Investment in associate	-	-	8,004	8,361	-	-	-	-	-	-	8,004	8,361
Additions to non-current assets other than financial instrument and deferred tax assets	36,802	65,109	7,083	16,015	35,023	22,982	8,862	1,433	-	-	87,770	105,539

#### Geographical segments

The Fertilizers, Chemicals and Pharmaceuticals business segments are managed on a worldwide basis, but operate in two principal geographical areas, Malaysia and Indonesia.

In presenting information on the basis of geographical segments, segment revenue is based on geographical location of customers. Segment assets are based on the geographical location of the assets.

	Malaysia		Indonesia		Other regions		Unallocated		Consolidated	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
<b>Geographical segments</b>										
Revenue	1,240,021	1,213,764	301,161	284,123	97,857	73,922	-	-	1,639,039	1,571,809
Segment assets	1,726,906	1,753,638	248,787	237,948	34,234	37,004	-	-	2,009,927	2,028,590

## 27. FINANCIAL INSTRUMENTS

Certain comparative figures have not been presented for 31 December 2009 by virtue of the exemption given in paragraph 44AA of FRS 7.

### 27.1 Categories of financial instruments

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

- (a) Loans and receivables (L&R);
- (b) Fair value through profit or loss (FVTPL):
  - Derivatives
- (c) Available-for-sale financial assets (AFS); and
- (d) Other financial liabilities measured at amortised cost (OL).

2010	Carrying amount	L&R/ (OL)	FVTPL -Derivatives	AFS
<b>Financial assets</b>				
<b>Group</b>				
Other investments	24,515	–	–	24,515
Trade and other receivables	402,377	402,377	–	–
Cash and cash equivalents	212,159	212,159	–	–
	639,051	614,536	–	24,515
<b>Company</b>				
Trade and other receivables	707,727	707,727	–	–
Cash and cash equivalents	87,738	87,738	–	–
	795,465	795,465	–	–
<b>Financial liabilities</b>				
<b>Group</b>				
Loans and borrowings	(841,210)	(841,210)	–	–
Trade and other payables, including derivatives	(216,719)	(216,660)	(59)	–
	(1,057,929)	(1,057,870)	(59)	–
<b>Company</b>				
Loans and borrowings	(580,000)	(580,000)	–	–
Trade and other payables	(42,674)	(42,674)	–	–
	(622,674)	(622,674)	–	–

# Notes to the Financial Statements

Amounts in RM'000 unless otherwise stated

## 27. FINANCIAL INSTRUMENTS (CONTINUED)

### 27.2 Net gains and losses arising from financial instruments

	Group
	2010
Available-for-sale financial assets	
– recognised in other comprehensive income	(8,687)
Loans and receivables	2,747
Financial liabilities measured at amortised cost	(34,654)
	(40,594)

### 27.3 Financial Risk Management

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

### 27.4 Credit risk

Credit risk is the risk of a financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's and the Company's exposure to credit risk arises principally from its receivables from customers and investment securities. The Company's exposure to credit risk arises principally from loans and advances to subsidiaries and financial guarantees given.

#### (i) Receivables

##### *Risk management objectives, policies and processes for managing the risk*

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on customers requiring credit over a certain amount.

##### *Exposure to credit risk, credit quality and collateral*

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

Management has taken reasonable steps to ensure that receivables that are neither past due nor impaired are measured at their realisable values. A significant portion of these receivables are regular customers that have been transacting with the Group. The Group uses ageing analysis to monitor the credit quality of the receivables. Any receivables having significant balances past due more than 180 days, which are deemed to have higher credit risk, are monitored individually.

## 27. FINANCIAL INSTRUMENTS (CONTINUED)

### 27.4 Credit risk (continued)

#### (i) Receivables (continued)

##### *Exposure to credit risk, credit quality and collateral (continued)*

The exposure of credit risk for receivables as at the end of the reporting period by geographic region was:

	<b>Group</b>
	<b>2010</b>
Malaysia	273,728
Indonesia	102,795
Others	15,559
	<b>392,082</b>

##### *Impairment losses*

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

<b>Group</b>	<b>Gross</b>	<b>Individual impairment</b>	<b>Collective impairment</b>	<b>Net</b>
<b>2010</b>				
Not past due	233,865	–	–	233,865
Past due 0-30 days	128,143	–	–	128,143
Past due 31-180 days	28,518	(230)	–	28,288
Past due more than 180 days	28,298	(20,402)	(6,110)	1,786
	<b>418,824</b>	<b>(20,632)</b>	<b>(6,110)</b>	<b>392,082</b>

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

	<b>Group</b>
	<b>2010</b>
At 1 January, as previously stated	23,909
Effect of adoption of FRS139	287
At 1 January, restated	24,196
Impairment loss recognised	3,585
Impairment loss reversed	(940)
Impairment loss written off	(99)
At 31 December	<b>26,742</b>

# Notes to the Financial Statements

Amounts in RM'000 unless otherwise stated

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## 27. FINANCIAL INSTRUMENTS (CONTINUED)

### 27.4 Credit risk (continued)

#### (i) Receivables (continued)

##### *Impairment losses*

Although some of the receivables are secured by third party financial guarantees, it is impracticable to estimate the fair values of the guarantees obtained.

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

#### (ii) Investments and other financial assets

##### *Risk Management objectives, policies and processes for managing the risk*

Investments are allowed only in liquid securities and only with counterparties that have a credit rating equal to or better than the Group. Transactions involving derivative financial instruments are with approved financial institutions.

##### *Exposure to credit risk, credit quality and collateral*

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

In view of the sound credit rating of counterparties, management does not expect any counterparty to fail to meet its obligations.

The fixed deposits are unsecured.

#### (iii) Inter company balances

##### *Risk Management objectives, policies and processes for managing the risk*

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

##### *Exposure to credit risk, credit quality and collateral*

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

##### *Impairment losses*

As at the end of the reporting period, there was no indication that the loans and advances to the subsidiaries are not recoverable. The Company does not specifically monitor the ageing of the advances to the subsidiaries. Nevertheless, these advances have been overdue for less than a year. Non-current loans to subsidiaries are not overdue.

### 27.5 Liquidity risk

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

The Group maintains a level of cash and cash equivalents and bank facilities deemed adequate by the Management to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they fall due.

## 27. FINANCIAL INSTRUMENTS (CONTINUED)

### 27.5 Liquidity risk (continued)

#### *Maturity analysis*

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

	Carrying amount	Contractual interest/profit rate	Contractual cash flows	Under 1 year	1-2 years	2-5 years	More than 5 years
<b>Group</b>							
<b>2010</b>							
Secured term loan	1,289	7.05%	1,422	528	894	–	–
Unsecured term loan	14,468	1.03%-2.45%	14,468	14,468	–	–	–
Unsecured Musyarakah medium term notes	150,000	5.95%	150,000	150,000	–	–	–
Unsecured 3-years term loan	300,000	3.92%-3.95%	322,091	11,820	310,271	–	–
Unsecured non-revolving loan	18,750	3.49%-4.10%	19,583	8,918	10,665	–	–
Unsecured bank overdraft	18,421	1.50%-6.55%	18,421	18,421	–	–	–
Unsecured bankers' acceptance	133,450	3.05%-3.55%	133,450	133,450	–	–	–
Unsecured revolving credit	204,832	2.95%-3.85%	204,832	204,832	–	–	–
Trade and other payables	216,719		216,719	216,719	–	–	–
	1,057,929		1,080,986	759,156	321,830	–	–
<b>Company</b>							
<b>2010</b>							
Unsecured 3-years term loan	300,000	3.92%-3.95%	322,091	11,820	310,271	–	–
Unsecured Musyarakah medium term notes	150,000	5.95%	150,000	150,000	–	–	–
Unsecured revolving credit	130,000	2.95%-3.85%	130,000	130,000	–	–	–
Trade and other payables	42,674		42,674	42,674	–	–	–
	622,674		644,765	334,494	310,271	–	–

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## 27. FINANCIAL INSTRUMENTS (CONTINUED)

### 27.6 Market risk

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

#### 27.6.1 Interest rate risk

The Group's investment in fixed-rate debt securities and its fixed-rate and borrowings are exposed to a risk of change in their fair value due to changes in interest rates. The Group's borrowings in variable-rate instruments are exposed to a risk of change in cash flows due to changes in interest rates. Investments in equity securities and short-term receivables and payables are not exposed to interest rate risk.

The interest rate risk for the Group is managed by a combination of both long term and short term borrowings.

The excess fund placed with licensed banks and other financial institutions and corporations are for certain periods during which the interest rates are fixed. The management reviews the interest rates at regular intervals.

#### *Exposure to interest rate risk*

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

	Group		Company	
	2010	2009	2010	2009
<b>Fixed rate instruments</b>				
Financial assets	138,704	157,951	790,640	903,724
Financial liabilities	(790,812)	(892,037)	(599,640)	(708,472)
	(652,108)	(734,086)	191,000	195,252
<b>Floating rate instruments</b>				
Financial liabilities	(50,398)	(36,522)	–	(35,000)

#### *Interest rate risk sensitivity analysis*

##### *Fair value sensitivity analysis for fixed rate instruments*

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

## 27. FINANCIAL INSTRUMENTS (CONTINUED)

### 27.6 Market risk (continued)

#### 27.6.1 Interest rate risk (continued)

##### *Interest rate risk sensitivity analysis (continued)*

##### *Cash flow sensitivity analysis for variable rate instruments*

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

Group 2010	Profit or loss	
	50bp increase	50bp decrease
Floating rate instruments	(189)	189
Cash flow sensitivity (net)	(189)	189

#### 27.6.2 Currency risk

The Group and the Company are exposed to foreign currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of Group entities. The currencies giving rise to this risk are primarily U.S Dollar, Singapore Dollar, Hong Kong Dollar, Indonesian Rupiah, Euro Dollar, Thai Baht, Australia Dollar and Great Britain Pound Sterling.

In respect of other monetary assets and liabilities held in currencies other than Ringgit Malaysia, the Group and the Company ensure that the net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates where necessary to address short term imbalances. The Group will also enter into foreign currency forward contracts in the normal course of business in order to manage its exposure against foreign currency fluctuations on sales and purchases transactions denominated in foreign currencies.

##### *Risk management objectives, policies and processes for managing the risk*

Currently, the Group does not hedge these exposures. However, the Management keep this policy under review.

##### *Exposure to foreign currency risk*

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

Group In thousands RM	2010 Denominated in		
	USD	SGD	BHT
Trade receivables	34,045	3,206	4,390
Trade payables	(53,904)	(173)	(4,186)
Net exposure in the statement of financial position	(19,859)	3,033	204



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## 27. FINANCIAL INSTRUMENTS (CONTINUED)

### 27.6 Market risk (continued)

#### 27.6.2 Currency risk (continued)

##### *Currency risk sensitivity analysis*

A 10 percent strengthening of the Ringgit Malaysia ("RM") against the following currencies at the end of the reporting period would have increased/(decreased) equity and post-tax profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecasted sales and purchases.

Group 2010	Profit/ (Loss)
USD	1,489
SGD	(227)
BHT	(15)

A 10 percent weakening of RM against the above currencies at the end of the reporting period would have had equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

### 27.7 Fair values of financial instruments

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

The Company provides financial guarantees to banks for credit facilities extended to certain subsidiaries. The fair value of such financial guarantees is not expected to be material as the probability of the subsidiaries defaulting on the credit lines is remote.

The fair values of other financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	2010		2009	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Group</b>				
Quoted shares	24,515	24,515	33,101	33,101
Forward exchange contracts:				
– Liabilities	59	59	–	–
Unsecured 3-years term loan	300,000	300,000	300,000	300,000
Unsecured non-revolving loan	18,750	18,750	15,426	15,426
<b>Company</b>				
Unsecured 3-years term loan	300,000	300,000	300,000	300,000

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## 27. FINANCIAL INSTRUMENTS (CONTINUED)

### 27.7 Fair values of financial instruments (continued)

The following summarises the methods used in determining the fair value of financial instruments reflected in the above table.

#### *Quoted shares*

Fair value of quoted shares is based on quoted market prices at the period end date without any deduction for transaction costs.

#### *Derivatives*

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

#### *Non-derivative financial liabilities*

Fair value is determined using estimated future cash flows discounted using related market rate for a similar instrument at the period end date.

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## 28. CAPITAL MANAGEMENT

The Group's objectives when managing capital is to maintain a strong capital base and safeguard the Group's ability to continue as a going concern, so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Directors monitor and determine to maintain an optimal debt-to-equity ratio that complies with debt covenants and regulatory requirements.

The Group's strategy was to maintain the debt-to-equity ratio of not more than 1.5:1 to comply with the banks covenant. There were no changes in the Group's approach to Capital Management during the financial year. The Group has not breached this covenant.

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

## Notes to the Financial Statements

Amounts in RM'000 unless otherwise stated

### 29. CAPITAL AND OTHER COMMITMENTS

	Group		Company	
	2010	2009	2010	2009
<b>Capital expenditure commitments plant and equipment</b>				
Authorised but not contracted for	31,027	24,829	–	–
Contracted but not provided for	53,909	20,705	42,558	470
	84,936	45,534	42,558	470

### 30. RELATED PARTIES

#### Identity of related parties

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

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly. The Key Management personnel include all the Directors of the Group, and certain members of Senior Management of the Group.

The Group has a related party relationship with its subsidiaries (see note 7) and associate (see note 8).

The significant related party transactions of the Group and the Company, other than Key Management personnel compensation (see note 21) are as follows:

	Transaction value year ended 31 December		Balance outstanding as at 31 December	
	2010	2009	2010	2009
<b>Group</b>				
Sales of products to significant investors that has influence over a subsidiary	26,488	25,586	9,181	5,385
<b>Company</b>				
Dividend income from subsidiaries	21,441	24,785	–	53,681
Rental income from subsidiaries	4,238	4,144	647	708
Shared cost charged to subsidiaries	14,338	10,000	14,338	–

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

### 30. RELATED PARTIES (CONTINUED)

#### Identity of related parties (continued)

Sales to significant investors that has influence over the subsidiary in the Group are based on normal trade terms. All the amounts outstanding are unsecured.

Bursa Malaysia Securities Berhad had written a letter dated 11 October 2006 to approve the Company's application for waiver from complying with Paragraph 10.08 or 10.09 of the Listing Requirements in relation to transactions between the CCM Group of Companies and companies in which Permodalan Nasional Berhad ("PNB") and/or the Unit Trusts Funds managed by PNB companies, have interests.

### 31. ACQUISITIONS OF SUBSIDIARIES AND MINORITY INTEREST

On 20 January 2009, the Company acquired the following companies for an aggregate purchase consideration of RM122,733,000 satisfied by cash:

- (a) 480,000 ordinary shares of RM1.00 each in Innovative Polymer Systems Sdn. Bhd. ("IPSSB");
- (b) 99,999 ordinary shares of RM1.00 each in Innovative Resins Sdn. Bhd. ("IRSB"); and
- (c) 1,000 ordinary shares of RM1.00 each in Delta Polymer Systems Sdn. Bhd. ("DPSSB")

The acquisition had the following effect on the Group's assets and liabilities at the acquisition date:

	Pre- acquisition carrying amounts	Fair value adjustments	Recognised values on acquisition
Property, plant and equipment	2,884	1,673	4,557
Prepaid lease payments	2,075	–	2,075
Receivables, deposits and prepayments	15,824	–	15,824
Inventories	9,552	–	9,552
Cash and cash equivalents	4,251	–	4,251
Payables and accruals	(7,426)	–	(7,426)
Loans and borrowings	(1,978)	–	(1,978)
<b>Net identifiable assets and liabilities</b>	<b>25,182</b>	<b>1,673</b>	<b>26,855</b>
Minority shareholders interest			(1,611)
Goodwill on acquisition			98,292
Consideration paid, satisfied in cash*			123,536
Cash acquired			(4,251)
<b>Net cash outflow</b>			<b>119,285</b>

\* Inclusive of direct cost attributed to the acquisition amounting to RM803,000.

## Notes to the Financial Statements

Amounts in RM'000 unless otherwise stated

### 32. SIGNIFICANT CHANGES IN ACCOUNTING POLICIES

Group	Fair value reserve		Retained earnings	
	2010	2009	2010	2009
At 1 January, as previously stated	–	–	284,389	314,621
Adjustments arising from adoption of FRS 139:				
– Fair valuation of equity securities classified as available-for-sale	25,348	–	–	–
– Impairment of trade and other receivables, net of tax	–	–	(287)	–
At 1 January, as restated	25,348	–	284,102	314,621

There is no impact to the basic and diluted earnings per ordinary share for the current or preceding financial year arising from this adjustment.

#### **FRS 139, *Financial Instruments: Recognition and Measurement***

The adoption of FRS 139 has resulted in several changes to accounting policies relating to recognition and measurement of financial instruments. Significant changes in accounting policies are as follows:

##### ***Investments in equity securities***

Prior to the adoption of FRS 139, investments in non-current equity securities, other than investments in subsidiaries and associates were measured at cost less allowance for diminution in value which is other than temporary. With the adoption of FRS 139, quoted investments in non-current equity securities, other than investments in subsidiaries and associates are now categorised and measured as available-for-sale as detailed in note 2(c).

##### ***Inter-company loans***

Prior to the adoption of FRS 139, inter-company loans were recorded at cost. With the adoption of FRS 139, inter-company loans are now recognised initially at their fair values, which are estimated by discounting the expected cash flows using the current market interest rate of a loan with similar risk and tenure. Finance income and costs are recognised in profit or loss using the effective interest method.

##### ***Impairment of trade and other receivables***

Prior to the adoption of FRS 139, an allowance for doubtful debts was made when a receivable is considered irrecoverable by the management. With the adoption of FRS 139, an impairment loss is recognised for trade and other receivables and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

These changes in accounting policies have been made in accordance with the transitional provisions of FRS 139. In accordance to the transitional provisions of FRS 139 for first-time adoption, adjustments arising from remeasuring the financial instruments at the beginning of the financial year were recognised as adjustments of the opening balance of retained earnings or another appropriate reserve. Comparatives are not adjusted.

Consequently, the adoption of FRS 139 does not affect the basic and diluted earnings per ordinary share for prior periods. It is not practicable to estimate the impact arising from the adoption of FRS 139 to the current year's basic and diluted earnings per share.

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## 32. SIGNIFICANT CHANGES IN ACCOUNTING POLICIES (CONTINUED)

### **FRS 8, *Operating Segments***

As of 1 January 2010, the Group determines and presents operating segments based on the information that internally is provided to the Chief Executive Officer/Executive Director, who is the Group's chief operating decision maker. This change in accounting policy is due to the adoption of FRS 8. Previously operating segments were determined and presented in accordance with FRS 114, *Segment Reporting*.

Comparative segment information has been re-presented. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

### **FRS 101 (revised), *Presentation of Financial Statements***

The Group applies revised FRS 101 (revised) which became effective as of 1 January 2010. As a result, the Group presents all non-owner changes in equity in the consolidated statement of comprehensive income.

Comparative information has been re-presented so that it is in conformity with the revised standard. Since the change only affects presentation aspects, there is no impact on earnings per share.

### **FRS 117, *Leases***

The Group has adopted the amendment to FRS 117. The Group has reassessed and determined that all leasehold land of the Group which are in substance is finance leases and has reclassified the leasehold land to property, plant and equipment. The change in accounting policy has been made retrospectively in accordance with the transitional provisions of the amendment.

The reclassification does not affect the basic and diluted earnings per ordinary share for the current and prior periods.

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## 33. SUBSEQUENT EVENT

Pursuant to the Shareholders' Agreement dated 23 April 2008 between the Company, CCM Usaha Kimia (M) Sdn. Bhd. ("CCMUK"), Mr. Mar Hung Than, Mr. Low Kim Choong and Mr. Chieng Diing Yaw, the Company had acquired the remaining shares in Innovative Polymer Systems Sdn. Bhd., Innovative Resins Sdn. Bhd. and Delta Polymer Systems Sdn. Bhd. not held by the Company and CCMUK amounting to 30,638 ordinary shares of RM1.00 each, 6,383 ordinary shares of RM1.00 each and 64 ordinary shares of RM1.00 each, respectively.

The above acquisition was carried out in two tranches on 12 January 2011 and 28 February 2011 at a total purchase price of RM6,986,748 satisfied in cash. As at 28 February 2011, the Company owns 100% equity interest in Innovative Polymer Systems Sdn. Bhd., Innovative Resins Sdn. Bhd. and Delta Polymer Systems Sdn. Bhd.

# Notes to the Financial Statements

Amounts in RM'000 unless otherwise stated

## 34. COMPARATIVE FIGURES

### FRS 101 (revised), *Presentation of Financial Statements*

Arising from the adoption of FRS 101 (revised), income statements for the year ended 31 December 2009 have been re-presented as statement of comprehensive income. All non-owner changes in equity that were presented in the statement of changes in equity are now included in the statement of comprehensive income as other comprehensive income. Consequently, components of comprehensive income are not presented in the statement of changes in equity.

### FRS 117, *Leases*

Following the adoption of the amendment to FRS 117, certain comparatives have been re-presented as follows:

	Group			
	31.12.2009		1.1.2009	
	As restated	As previously stated	As restated	As previously stated
Property, plant and equipment	566,151	451,062	510,711	388,450
Prepaid lease payments	7,872	122,961	7,137	129,308

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### 35. SUPPLEMENTARY INFORMATION ON THE BREAKDOWN OF REALISED AND UNREALISED PROFITS OR LOSSES

On 25 March 2010, Bursa Malaysia Securities Berhad (“Bursa Malaysia”) issued a directive to all listed issuers pursuant to Paragraphs 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements. The directive requires all listed issuers to disclose the breakdown of the unappropriated profits or accumulated losses as at the end of the reporting period, into realised and unrealised profits or losses.

On 20 December 2010, Bursa Malaysia further issued guidance on the disclosure and the prescribed format of presentation.

The breakdown of the retained profits of the Group as at 31 December 2010, into realised and unrealised profits, pursuant to the directive, is as follows:

	<b>RM'000</b>
Total retained profits	
– Realised	260,066
– Unrealised	7,571
	<hr/> 267,637 <hr/>

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



# Analysis of Shareholdings

as at 30 April 2011

Authorised Share Capital	:	RM800,000,000
Issued and Fully Paid Share Capital	:	RM404,741,117
Class of Shares	:	Ordinary Shares of RM1.00 each
Voting Rights	:	One vote per Ordinary Share

## DISTRIBUTION OF SHAREHOLDINGS

as at 30 April 2011

Size of Holdings	No. of Holders	%	No. of Shares	%
1-99	337	7.64	5,881	0.00
100 – 1,000	755	17.12	568,677	0.15
1,001 – 10,000	2,477	56.16	10,984,881	2.71
10,001 – 100,000	768	7.41	21,418,406	5.29
100,001 to less than 5% of issued shares	72	1.63	53,330,512	13.18
5% and above of issued shares	2	0.04	318,432,760	78.67
<b>Total</b>	<b>4,411</b>	<b>100.0</b>	<b>404,741,117</b>	<b>100.0</b>

## SUBSTANTIAL SHAREHOLDERS

as at 30 April 2011

Names	Direct Holdings		Indirect Holdings	
	No.	*%	No.	%
1. Permodalan Nasional Berhad	280,387,460	69.28	–	–
2. Yayasan Pelaburan Bumiputra <sup>a</sup>	–	–	280,387,460	69.28
3. Citigroup Nominees (Tempatan) Sdn. Bhd. – Employees Provident Fund Board	38,045,300	9.40	–	–

<sup>a</sup> Deemed interest by virtue of its substantial interest in Permodalan Nasional Berhad pursuant to Section 6A of the Companies Act, 1965