## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 4.16 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivables, net of discounts and rebates.

Revenue is recognised to the extent that it is probable that the economic benefits associated with the transaction would flow to the Group, and the amount of revenue and the cost incurred or to be incurred in respect of the transaction can be reliably measured and specific recognition criteria have been met for each of the Group's activities as follows:

(a) Sales of goods

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

(b) Dividend income

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

(c) Interest income

Interest income is recognised using the effective interest method.

### 4.17 Operating segments

Operating segments are defined as components of the Group that:

(a) Engages in business activities from which it could earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group);

(b) Whose operating results are regularly reviewed by the chief operating decision maker of the Group in making decisions about resources to be allocated to the segment and assessing its performance; and

(c) For which discrete financial information is available.

An operating segment may engage in business activities for which it has yet to earn revenues.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 4.17 Operating segments (continued)

The Group reports separately information about each operating segment that meets any of the following quantitative thresholds:

(a) Its reported revenue, including both sales to external customers and intersegment sales or transfers, is ten (10) per cent or more of the combined revenue, internal and external, of all operating segments.

(b) The absolute amount of its reported profit or loss is ten (10) per cent or more of the greater, in absolute amount of:

   (i) The combined reported profit of all operating segments that did not report a loss; and

   (ii) The combined reported loss of all operating segments that reported a loss.

(c) Its assets are ten (10) per cent or more of the combined assets of all operating segments.

Operating segments that do not meet any of the quantitative thresholds may be considered reportable, and separately disclosed, if the management believes that information about the segment would be useful to users of the financial statements.

Total external revenue reported by operating segments shall constitute at least seventy five (75) percent of the Group's revenue. Operating segments identified as reportable segments in the current financial year in accordance with the quantitative thresholds would result in a restatement of prior period segment data for comparative purposes.

### 4.18 Earnings per share

(a) Basic

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

(b) Diluted

Diluted earnings per ordinary share for the financial year is calculated by dividing the profit for the financial year attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the financial year adjusted for the effects of dilutive potential ordinary shares.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 4.19 Fair value measurements

The fair value of an asset or a liability is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transactions to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

The Group measures the fair value of an asset or a liability by taking into account the characteristics of the asset or liability if market participants would take these characteristics into account when pricing the asset or liability. The Group has considered the following characteristics when determining fair value:

(a) the condition and location of the asset; and

(b) restrictions, if any, on the sale or use of the assets.

The fair value measurement for a non-financial asset takes into account the ability of the market participant to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The fair value of a financial or non-financial liability or an entity's own equity instrument assumes that:

(a) a liability would remain outstanding and the market participant transferee would be required to fulfil the obligation. The liability would not be settled with the counterparty or otherwise extinguished on the measurement date; and

(b) an entity's own equity instrument would remain outstanding and the market participant transferee would take on the right and responsibilities associated with the instrument. The instrument would not be cancelled or otherwise extinguished on the measurement date.

## 5. ADOPTION OF NEW MFRSs AND AMENDMENTS TO MFRSs

### 5.1 New MFRSs adopted during the current financial year

The Group and Company adopted the following Standards of the MFRS Framework that were issued by the Malaysian Accounting Standards Board ('MASB') during the financial year.

| Title | Effective Date |
|---|---|
| Amendments to MFRS 101 *Presentation of Items of Other Comprehensive Income* | 1 July 2012 |
| MFRS 10 *Consolidated Financial Statements* | 1 January 2013 |
| MFRS 11 *Joint Arrangements* | 1 January 2013 |
| MFRS 12 *Disclosure of Interests in Other Entities* | 1 January 2013 |
| MFRS 13 *Fair Value Measurement* | 1 January 2013 |
| MFRS 119 *Employee Benefits (2011)* | 1 January 2013 |
| MFRS 127 *Separate Financial Statements* | 1 January 2013 |
| MFRS 128 *Investments in Associates and Joint Ventures* | 1 January 2013 |
| Amendments to MFRS 1 *Government Loans* | 1 January 2013 |
| Amendments to MFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities* | 1 January 2013 |
| Amendments to MFRSs *Annual Improvements 2009 – 2011 Cycle* | 1 January 2013 |
| Amendments to MFRS 10, MFRS 11 and MFRS 12 *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance* | 1 January 2013 |
| IC Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine* | 1 January 2013 |

There is no material impact upon adoption of the above Standards during the financial year.

### 5.2 New MFRSs that have been issued, but only effective for annual periods beginning on or after 1 January 2014

The following are Standards of the MFRS Framework that have been issued by the MASB but have not been early adopted by the Group and the Company.

| Title | Effective Date |
|---|---|
| Amendments to MFRS 10 *Consolidated Financial Statements: Investment Entities* | 1 January 2014 |
| Amendments to MFRS 12 *Disclosure of Interest in Other Entities: Investment Entities* | 1 January 2014 |
| Amendments to MFRS 127 *Separate Financial Statements (2011): Investment Entities* | 1 January 2014 |
| Amendments to MFRS 132 *Offsetting Financial Assets and Financial Liabilities* | 1 January 2014 |
| Amendments to MFRS 136 *Recoverable Amount Disclosures for Non-Financial Assets* | 1 January 2014 |

## 5. ADOPTION OF NEW MFRSs AND AMENDMENTS TO MFRSs (continued)

### 5.2 New MFRSs that have been issued, but only effective for annual periods beginning on or after 1 January 2014 (continued)

| Title | **Effective Date** |
|---|---|
| Amendments to MFRS 139 *Novation of Derivatives and Continuation of Hedge Accounting* | 1 January 2014 |
| IC Interpretation 21 *Levies* | 1 January 2014 |
| *Defined Benefit Plans: Employee Contributions* (Amendments to MFRS 119) | 1 July 2014 |
| Amendments to MFRSs *Annual Improvements 2010 – 2012 Cycle* | 1 July 2014 |
| Amendments to MFRSs *Annual Improvements 2011 – 2013 Cycle* | 1 July 2014 |
| *Mandatory Effective Date of MFRS 9 and Transition Disclosures* | Deferred |
| MFRS 9 *Financial Instruments (2009)* | Deferred |
| MFRS 9 *Financial Instruments (2010)* | Deferred |
| *MFRS 9 Financial Instruments* (Hedge Accounting and Amendments to MFRS 9, MFRS 7 and MFRS 139) | Deferred |

The Group is in the process of assessing the impact of implementing these Standards, since the effects would only be observable for the future financial years.

## 6. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

### 6.1 Changes in estimates

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Directors are of the opinion that there are no significant changes in estimates at the end of the reporting period.

### 6.2 Critical judgements made in applying accounting policies

The following are judgements made by management in the process of applying the Group's accounting policies that have the most significant effect on the amounts recognised in the financial statements.

(a) Classification of leasehold land

The Group has assessed and classified land use rights of the Group as finance leases based on the extent to which risks and rewards incidental to ownership of the land resides with the Group arising from the lease term. Consequently, the Group has classified the unamortised upfront payment for land use rights as finance leases in accordance with MFRS 117 *Leases*.

(b) Contingent liabilities

The determination of treatment of contingent liabilities is based on management's view of the expected outcome of the contingencies for matters in the ordinary course of the business.

## 6. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

### 6.2 Critical judgements made in applying accounting policies (continued)

(c) Classification of non-current bank borrowings

Term loan agreements entered into by the Group include repayment on demand clauses at the discretion of financial institutions. The Group believes that in the absence of a default being committed by the Group, these financial institutions are not entitled to exercise its right to demand for repayment. Accordingly, the carrying amount of the term loans have been classified between current and non-current liabilities based on their repayment period.

(d) Contingent liabilities on corporate guarantees

The determination of treatment of contingent liabilities is based on management's view of the expected outcome of the contingencies for matters in the ordinary course of the business. The Directors are of the view that the chances of the financial institutions to call upon the corporate guarantees are remote.

### 6.3 Key sources of estimation uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(a) Depreciation of plant and machinery

The cost of plant and machinery is depreciated on a straight-line basis over the assets' useful lives. Management estimates that the useful lives of these plant and machinery as disclosed in Note 4.3 to the financial statements. The useful lives are based on the Group's historical experience with similar assets and taking into account of anticipated technological changes, which are common life expectancies applied in the manufacturing industry. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, and therefore future depreciation charges could be revised.

(b) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses and unabsorbed capital allowances to the extent that it is probable that future taxable profits would be available against which the losses and capital allowances could be utilised. Significant management judgement is required to determine the amount of deferred tax assets that could be recognised, based on the likely timing and extent of future taxable profits together with future tax planning strategies.

## 6. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

### 6.3 Key sources of estimation uncertainty (continued)

(c) Impairment of receivables

The Group makes impairment of receivables based on an assessment of the recoverability of receivables. Impairment is applied to receivables where events or changes in circumstances indicate that the carrying amounts may not be recoverable. Management specifically analyses historical bad debt, customer creditworthiness, current economic trends and changes in customer payment terms when making a judgement to evaluate the adequacy of impairment of receivables. Where expectations differ from the original estimates, the differences would impact the carrying amount of receivables.

(d) Write down for obsolete or slow moving inventories

The Group writes down its obsolete or slow moving inventories based on assessment of their estimated net selling price. Inventories are written down when events or changes in circumstances indicate that the carrying amounts could not be recovered. Management specifically analyses sales trend and current economic trends when making this judgement to evaluate the adequacy of the write down for obsolete or slow moving inventories. Where expectations differ from the original estimates, the differences would impact the carrying amount of inventories.

(e) Classification of joint arrangements

For all joint arrangements structured in separate vehicles, the Group assesses the substance of the joint arrangement in determining whether it is classified as a joint venture or joint operation. This assessment requires the Group to consider whether there are any factors that give the Group rights to the net assets of the joint arrangements (in which case it is classified as a joint venture), or rights to specific assets, liabilities, expenses, and revenues (in which case it is classified as a joint operation). These factors include:

(i) Structure;
(ii) Legal form;
(iii) Contractual agreement; and
(iv) Other facts and circumstances.

Upon consideration of these factors, the Group has determined that all of its joint arrangements structured through separate vehicles provide rights to the net assets and are therefore, classified as joint ventures.

(f) Fair values of borrowings

The fair values of borrowings are estimated by discounting future contractual cash flows at the current market interest rates available to the Group for similar financial instruments. Sensitivity analysis of the effects of interest rate risk has been disclosed in Note 33 to the financial statements.

## 6. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

### 6.3 Key sources of estimation uncertainty (continued)

(g) Impairment of investments in subsidiaries and joint venture

The management reviews the material investments in subsidiaries and joint venture for impairment when there is an indication of impairment.

The recoverable amounts of the investments in subsidiaries and joint venture are assessed by reference to the higher of its fair value less cost to sell and its value in use of the respective subsidiaries and joint venture.

Estimating a value in use requires management to make an estimate of the expected future cash flows to be derived from continuing use of the asset and from its ultimate disposal, expectations about possible variations in the amount, timing of those cash flows, the time value of money, price for inherent uncertainty risk and other relevant factors.

(h) Fair value measurement

The fair value measurement of the financial and non-financial assets and liabilities of the Group utilises market observable inputs and data as far as possible, where applicable. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are:

(i) Level 1: Quoted prices in active markets for identical items (unadjusted);
(ii) Level 2: Observable direct or indirect inputs other than Level 1 inputs; and
(iii) Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used in the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

The Group measures its financial instruments at fair value as disclosed in Note 32 to the financial statements.

## 7. PROPERTY, PLANT AND EQUIPMENT

| Group<br><br>2013 | Long-term leasehold land RM'000 | Factory and office buildings RM'000 | Plant and machinery, tools and implements RM'000 | Furniture and fittings and equipment RM'000 | Renovations and electrical installations RM'000 | Motor vehicles RM'000 | Construction -in-progress RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| As at 1 January 2013 | 20,857 | 47,709 | 92,502 | 4,082 | 2,511 | 9,275 | 1,642 | 178,578 |
| Additions | - | 875 | 4,138 | 250 | 33 | 646 | 25 | 5,967 |
| Disposal | - | - | - | - | - | (319) | - | (319) |
| As at 31 December 2013 | 20,857 | 48,584 | 96,640 | 4,332 | 2,544 | 9,602 | 1,667 | 184,226 |
| **Accumulated depreciation** | | | | | | | | |
| As at 1 January 2013 | 1,961 | 5,575 | 28,947 | 2,365 | 1,409 | 2,997 | - | 43,254 |
| Charge for the year | 247 | 917 | 4,633 | 265 | 160 | 598 | - | 6,820 |
| Disposal | - | - | - | - | - | (207) | - | (207) |
| As at 31 December 2013 | 2,208 | 6,492 | 33,580 | 2,630 | 1,569 | 3,388 | - | 49,867 |
| **Carrying amount** | | | | | | | | |
| As at 31 December 2013 | 18,649 | 42,092 | 63,060 | 1,702 | 975 | 6,214 | 1,667 | 134,359 |

## 7. PROPERTY, PLANT AND EQUIPMENT (continued)

| Group<br><br>2012 | Long-term leasehold land RM'000 | Factory and office buildings RM'000 | Plant and machinery, tools and implements RM'000 | Furniture and fittings and equipment RM'000 | Renovations and electrical installations RM'000 | Motor vehicles RM'000 | Construction -in-progress RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| As at 1 January 2012 | 16,158 | 42,485 | 80,448 | 3,873 | 2,363 | 7,171 | 8,163 | 160,661 |
| Additions | - | 490 | 7,538 | 209 | 148 | 2,251 | 3,217 | 13,853 |
| Transfer from prepaid lease payments for land (Note 8) | 4,211 | - | - | - | - | - | - | 4,211 |
| Disposal | - | - | - | - | - | (147) | - | (147) |
| Reclassification | 488 | 4,734 | 4,516 | - | - | - | (9,738) | - |
| As at 31 December 2012 | 20,857 | 47,709 | 92,502 | 4,082 | 2,511 | 9,275 | 1,642 | 178,578 |
| **Accumulated depreciation** | | | | | | | | |
| As at 1 January 2012 | 1,345 | 4,616 | 24,606 | 2,046 | 1,251 | 2,617 | - | 36,481 |
| Charge for the year | 316 | 959 | 4,341 | 319 | 158 | 527 | - | 6,620 |
| Transfer from prepaid lease payments for land (Note 8) | 300 | - | - | - | - | - | - | 300 |
| Disposal | - | - | - | - | - | (147) | - | (147) |
| As at 31 December 2012 | 1,961 | 5,575 | 28,947 | 2,365 | 1,409 | 2,997 | - | 43,254 |
| **Carrying amount** | | | | | | | | |
| As at 31 December 2012 | 18,896 | 42,134 | 63,555 | 1,717 | 1,102 | 6,278 | 1,642 | 135,324 |

## 7. PROPERTY, PLANT AND EQUIPMENT (continued)

| Company | Furniture and fittings 2013 RM'000 | 2012 RM'000 |
|---|---|---|
| **Cost** | | |
| At 1 January/31 December | 5 | 5 |
| **Accumulated depreciation** | | |
| At 1 January/31 December | 5 | 5 |
| **Carrying amount** | | |
| At 31 December | - | - |

(a) During the financial year, the Group made the following cash payments to purchase property, plant and equipment:

| | Group 2013 RM'000 | 2012 RM'000 |
|---|---|---|
| Purchase of property, plant and equipment | 5,967 | 13,853 |
| Financed by hire purchase | (401) | (668) |
| Financed by credit purchase (Note 19(c)) | (160) | (1,564) |
| Cash payments on purchase of property, plant and equipment | 5,406 | 11,621 |

(b) The carrying amount of the property, plant and equipment of the Group under finance lease at the end of the reporting period are as follows:

| | Group 2013 RM'000 | 2012 RM'000 |
|---|---|---|
| Plant and machinery | 3,167 | 3,355 |
| Motor vehicles | 2,693 | 2,826 |
| | 5,860 | 6,181 |

(c) As at the end of the reporting period, certain long term leasehold land, factory and office buildings, plant and machinery with a carrying amount of RM56,665,000 (2012: RM51,431,000) have been charged to bank for credit facilities granted to the Group as disclosed in Note 17 to the financial statements.

## 8. PREPAID LEASE PAYMENTS FOR LAND

| Group<br><br>Carrying amount | Balance as at 1.1.2013 RM'000 | Addition RM'000 | Amortisation charge for the financial year RM'000 | Balance as at 31.12.2013 RM'000 |
|---|---|---|---|---|
| Short term leasehold land | 1,731 | 5,000 | (370) | 6,361 |

| | [--------------- At 31.12.2013 --------------] | | |
|---|---|---|---|
| | Cost RM'000 | Accumulated amortisation RM'000 | Carrying amount RM'000 |
| Short term leasehold land | 7,201 | (840) | 6,361 |

| Group<br><br>Carrying amount | Balance as at 1.1.2012 RM'000 | Addition RM'000 | Amortisation charge for the financial year RM'000 | Transfer to property, plant and equipment RM'000 | Balance as at 31.12.2012 RM'000 |
|---|---|---|---|---|---|
| Short term leasehold land | 4,488 | 1,211 | (57) | (3,911) | 1,731 |

| | [--------------- At 31.12.2012 --------------] | | |
|---|---|---|---|
| | Cost RM'000 | Accumulated amortisation RM'000 | Carrying amount RM'000 |
| Short term leasehold land | 2,201 | (470) | 1,731 |

## 9. INVESTMENTS IN SUBSIDIARIES

| | Company 2013 RM'000 | Company 2012 RM'000 |
|---|---|---|
| Unquoted shares | 142,423 | 128,423 |

(a) The details of the subsidiaries are as follows:

| Name of company | Country of incorporation | Effective interest in equity 2013 % | Effective interest in equity 2012 % | Principal activities |
|---|---|---|---|---|
| San Soon Seng Food Industries Sdn. Bhd. | Malaysia | 100 | 100 | Manufacturing and sale of food and beverage ingredients |
| Three-A Food Industries (M) Sdn. Bhd. | Malaysia | 100 | 100 | Investment holding |

All subsidiaries are audited by BDO, Malaysia.

(b) During the financial year, amounts owing by subsidiaries amounting to RM14,000,000 have been capitalised as investments in subsidiaries (Note 13(c)).

## 10. INVESTMENT IN A JOINT VENTURE

| | Group 2013 RM'000 | Group 2012 RM'000 |
|---|---|---|
| Unquoted equity shares, at cost | 14,039 | 14,039 |
| Share of post-acquisition reserves | (6,311) | (2,036) |
| | 7,728 | 12,003 |
| Exchange differences | 1,619 | 483 |
| | 9,347 | 12,486 |

(a) The details of the joint venture are as follows:

| Name | Country of incorporation | Proportion (%) of ownership interest 2013 % | Proportion (%) of ownership interest 2012 % | Principal activities |
|---|---|---|---|---|
| Held through Three-A Food Industries (M) Sdn. Bhd. | | | | |
| Three-A (Qinhuangdao) Food Industries Co. Ltd.# | People's Republic of China | 50 | 50 | Manufacturing and sale of food and beverage ingredients |

# Audited by a firm other than BDO

**10. INVESTMENT IN A JOINT VENTURE (continued)**

(b) Three-A (Qinhuangdao) Food Industries Co. Ltd., the only joint venture in which the Group participates, is an unlisted separate structured entity whose quoted market price is not available. The contractual arrangement provides the Group with only the rights to the net assets or the joint arrangement, with the rights to the assets and obligation for liabilities of the joint arrangement resting primarily with Three-A (Qinhuangdao) Food Industries Co. Ltd.. The joint arrangement has been classified as a joint venture and has been included in the consolidated financial statements using the equity method.

(c) The summarised financial information of the joint venture, adjusted for any differences in accounting policies and a reconciliation to the carrying amount in the consolidated financial statements, are as follows:

| | **Group** | |
|---|---|---|
| | **2013** | **2012** |
| | **RM'000** | **RM'000** |
| **Assets and liabilities:** | | |
| Non-current assets | 55,421 | 46,507 |
| Current assets | 5,816 | 17,992 |
| Current liabilities | (42,543) | (39,527) |
| Net assets | 18,694 | 24,972 |
| Proportion of the ownership of the Group | 50% | 50% |
| Carrying amount of the investment in joint venture | 9,347 | 12,486 |
| **Results** | | |
| Revenue | 2,624 | 845 |
| Cost of sales | (7,821) | (1,678) |
| Gross loss | (5,197) | (833) |
| Administrative expenses | (1,219) | (1,927) |
| Finance cost | (2,134) | (657) |
| Loss before tax | (8,550) | (3,417) |
| Taxation | - | 273 |
| Loss for the financial year | (8,550) | (3,144) |
| Share of loss by the Group for the financial year | (4,275) | (1,572) |

**10. INVESTMENT IN A JOINT VENTURE (continued)**

(d) The Group's commitments in respect of its investment in joint venture are as follows:

| | | Group | |
|---|---|---|---|
| | Note | 2013 USD'000 | 2012 USD'000 |
| Co-operation commitments | (i) | 20,000 | 20,000 |
| Balance of the investment commitment in joint venture | (ii) | 5,450 | 5,450 |
| | | RM'000 | RM'000 |
| Share of capital commitments of joint venture on buildings, machinery and equipment | (iii) | 64 | 2,048 |

(i) On 5 May 2010, the Group had entered into a framework co-operation agreement with Wilmar International Limited ("Wilmar"), a company incorporated in Singapore to set up equity joint venture company in the People's Republic of China ("PRC"). Both parties agreed to contribute 50% and jointly invest up to USD40,000,000 or such other amount as may be agreed by both parties from time to time.

(ii) Pursuant to the framework co-operation Agreement, the Group had on 5 May 2010 entered into a joint venture agreement with Yihai Kerry Investments Co. Ltd ("Yihai"), a wholly-owned subsidiary of Wilmar. Both parties agreed to contribute 50% of the total investment cost of up to USD12,000,000 in the joint venture company to set up a factory in the vicinity of Shanhaiguan, PRC for the business of manufacturing and selling of food and beverage ingredients. The Group and Yihai agreed to increase their total investment in the joint venture company up to USD20,000,000 during the year. As at the end of reporting period, the Group had invested a total amount of USD4,550,000 (2012: USD4,550,000).

(iii) The joint venture company has capital commitments of RMB237,000 (2012: RMB8,345,000) on buildings, machinery and equipment as at 31 December 2013. The Group's share of the capital commitment is RMB118,400 (2012: RMB4,172,000) (equivalent to RM64,000 (2012: RM2,048,000)), representing the Group's 50% share in the joint venture company.

(e) The exchange rate of RMB1.00: RM0.5411 (2012: RMB1.00: RM0.4909) as at end of reporting period have been used.

## 11. DEFERRED TAX

(a) The deferred tax assets and liabilities are made up of the following:

| | Group | |
|---|---|---|
| | 2013 RM'000 | 2012 RM'000 (Restated) |
| Balance as at 1 January | 12,377 | 7,999 |
| Recognised in profit or loss (Note 26) | 766 | 4,378 |
| Balance as at 31 December | 13,143 | 12,377 |
| Deferred tax liabilities presented after appropriate offsetting | 13,143 | 12,377 |

(b) The components and movements of the Group's deferred tax liabilities and assets during the financial year prior to offsetting are as follows:

**Deferred tax liabilities of the Group**

| | Property, plant and equipment RM'000 | Others RM'000 | Total RM'000 |
|---|---|---|---|
| Balance as at 1 January 2012 | 11,542 | 150 | 11,692 |
| Recognised in profit or loss | 2,027 | (243) | 1,784 |
| Balance as at 31 December 2012 | 13,569 | (93) | 13,476 |
| Recognised in profit or loss | 1,181 | 149 | 1,330 |
| Balance as at 31 December 2013 | 14,750 | 56 | 14,806 |

**Deferred tax assets of the Group**

| | Other payables RM'000 |
|---|---|
| Balance as at 1 January 2012 | (3,693) |
| Recognised in profit or loss | 2,594 |
| Balance as at 31 December 2012 | (1,099) |
| Recognised in profit or loss | (564) |
| Balance as at 31 December 2013 | (1,663) |

## 12. INVENTORIES

| | Group 2013 RM'000 | Group 2012 RM'000 |
|---|---|---|
| **At cost** | | |
| Raw materials | 29,812 | 45,667 |
| Goods-in-transit | 4,252 | 3,650 |
| Work-in-progress | 3,331 | 4,009 |
| Packing materials | 1,032 | 1,249 |
| Finished goods | 8,361 | 9,295 |
| | 46,788 | 63,870 |

During the financial year, inventories of the Group recognised as cost of sales amounted to RM237,738,000 (2012: RM235,817,000).

## 13. TRADE AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 RM'000 | 2012 RM'000 | 2013 RM'000 | 2012 RM'000 |
| **Trade receivables** | | | | |
| Third parties | 74,925 | 80,669 | - | - |
| Related party | 162 | 164 | - | - |
| | 75,087 | 80,833 | - | - |
| Less: Impairment losses | | | | |
| - third parties | (956) | (16) | - | - |
| | 74,131 | 80,817 | - | - |
| **Other receivables** | | | | |
| Amounts owing by subsidiaries | - | - | 6,668 | 20,474 |
| Other receivables | 8 | 13 | 8 | 13 |
| Staff loans | 20 | 33 | - | - |
| Deposits | 324 | 1,301 | - | - |
| | 352 | 1,347 | 6,676 | 20,487 |
| Loans and receivables | 74,483 | 82,164 | 6,676 | 20,487 |
| Prepayments | 4,719 | 300 | - | - |
| Total trade and other receivables | 79,202 | 82,464 | 6,676 | 20,487 |

## 13. TRADE AND OTHER RECEIVABLES (continued)

(a) Trade receivables are non-interest bearing and the normal trade credit terms granted by the Group range from 30 to 150 days (2012: 30 to 150 days). They are recognised at their original invoice amounts which represent their fair values on initial recognition.

(b) Related party's debt is due from Seong Chan Sauce & Foodstuff Sdn. Bhd., a company in which certain Directors have financial interests. Amount owing by a related party is non-interest bearing and on 90 days (2012: 90 days) credit term and is repayable in cash.

(c) Amounts owing by subsidiaries represent non-trade transactions, which are unsecured, interest-free and payable upon demand in cash and cash equivalents. Included in amounts owing by subsidiaries is the subordination up to RM28,000,000 (2012: RM28,000,000) of advances to a subsidiary as required by borrowing covenant (Note 17).

In addition, during the financial year, an amount of RM14,000,000 owing by subsidiaries have been capitalised as investments in subsidiaries, as disclosed in Note 9 to the financial statements.

(d) In the previous financial year, included in deposits of the Group was RM1,000,000 of deposit paid by a subsidiary for the purchase of a piece of leasehold agricultural land held under No. Hakmilik HSM 1366 for PT No. 848 situated in Sungai Buloh New Village, Mukim Sungai Buloh, Daerah Petaling, Negeri Selangor Darul Ehsan from Mdm. Chong Foong Tai.

(e) Included in prepayments is RM4,209,000 (2012: RM nil) paid to suppliers for purchase of raw materials.

(f) The currency exposure profile of receivables are as follows:

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2013 RM'000** | **2012 RM'000** | **2013 RM'000** | **2012 RM'000** |
| Ringgit Malaysia | 57,608 | 58,835 | 6,676 | 20,487 |
| US Dollar | 15,566 | 20,447 | - | - |
| Singapore Dollar | 1,309 | 2,882 | - | - |
| | 74,483 | 82,164 | 6,676 | 20,487 |

## 13. TRADE AND OTHER RECEIVABLES (continued)

(g) The ageing analysis of trade receivables of the Group are as follows:

| | Group | |
|---|---|---|
| | **2013** | **2012** |
| | **RM'000** | **RM'000** |
| Neither past due nor impaired | 72,876 | 78,227 |
| Past due and not impaired | | |
| 1 month past due not impaired | 680 | 938 |
| 2 months past due not impaired | 413 | 1,329 |
| 3 months past due not impaired | 141 | 205 |
| 4 months past due not impaired | - | 112 |
| More than 5 months past due not impaired | 21 | 6 |
| Past due and not impaired | 1,255 | 2,590 |
| Past due and impaired | 956 | 16 |
| | 75,087 | 80,833 |

Receivables that are neither past due nor impaired

Trade receivables that are neither past due nor impaired are creditworthy trade receivables with good payment records with the Group. 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.

None of the Group's trade receivables that are neither past due nor impaired have been renegotiated during the financial year.

Receivables that are past due but not impaired

The Group has trade receivables amounting to RM1,255,000 (2012: RM2,590,000) that are past due at the end of the reporting period but not impaired. Trade receivables that are past due but not impaired mainly arose from active corporate customers with healthy business relationship, in which the Group is of the view that the amounts are recoverable based on past payment history. Trade receivables of the Group that are past due but not impaired are unsecured in nature. The Group closely monitors the financial standing of these counter parties on an ongoing basis to ensure that the Group is exposed to minimal credit risk.

## 13. TRADE AND OTHER RECEIVABLES (continued)

(g) The ageing analysis of trade receivables of the Group are as follows: (continued)

Receivables that are past due and impaired

Trade receivables of the Group that are past due and impaired at the end of each reporting period are as follows:

| | Individually impaired | |
|---|---|---|
| | **2013** | **2012** |
| | **RM'000** | **RM'000** |
| Trade receivables - nominal amounts | 956 | 16 |
| Less: Impairment loss | (956) | (16) |
| | - | - |

(h) The reconciliation of movement in the impairment loss are as follows:

| | **2013** | **2012** |
|---|---|---|
| | **RM'000** | **RM'000** |
| **Trade receivables** | | |
| At 1 January | 16 | - |
| Charge for the financial year (Note 25) | 940 | 16 |
| At 31 December | 956 | 16 |

Trade receivables that are individually determined to be impaired at the end of each reporting period relate to those debtors that exhibit significant financial difficulties and have defaulted on payments. These receivables are not secured by any collateral or credit enhancements.

(i) Information on financial risks of trade and other receivables is disclosed in Note 33 to the financial statements.

## 14. CASH AND CASH EQUIVALENTS

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Cash at banks and on hand | 16,720 | 12,782 | 6,646 | 1,823 |
| Short term deposits with licensed banks | - | 5,000 | - | 5,000 |
| | 16,720 | 17,782 | 6,646 | 6,823 |

(a) Information on financial risks of cash and cash equivalents is disclosed in Note 33 to the financial statements.

## 14. CASH AND CASH EQUIVALENTS (continued)

(b) The currency exposure profile of cash and cash equivalent are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 RM'000 | 2012 RM'000 | 2013 RM'000 | 2012 RM'000 |
| Ringgit Malaysia | 15,992 | 16,897 | 6,646 | 6,823 |
| US Dollar | 692 | 846 | - | - |
| Singapore Dollar | 34 | 36 | - | - |
| Indonesia Rupiah | 1 | 2 | - | - |
| Philippine Peso | 1 | 1 | - | - |
| | 16,720 | 17,782 | 6,646 | 6,823 |

(c) For the purpose of the statements of cash flows, cash and cash equivalents comprise the following as at the end of each reporting period:

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 RM'000 | 2012 RM'000 | 2013 RM'000 | 2012 RM'000 |
| Cash at banks and on hand | 16,720 | 12,782 | 6,646 | 1,823 |
| Short term deposits with licensed banks | - | 5,000 | - | 5,000 |
| Bank overdrafts included in borrowings (Note 17) | (74) | (385) | - | - |
| | 16,646 | 17,397 | 6,646 | 6,823 |

## 15. SHARE CAPITAL

| | Group and Company | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| | Number of shares '000 | RM'000 | Number of shares '000 | RM'000 |
| **Ordinary share of RM0.20 each** | | | | |
| Authorised | 500,000 | 100,000 | 500,000 | 100,000 |
| Issued and fully paid<br>- At 1 January/31 December | 393,600 | 78,720 | 393,600 | 78,720 |

The owners of the parent are are entitled to receive dividends as and when declared by the Company and are entitled to one (1) vote per ordinary share at meetings of the Company. All ordinary shares rank pari passu with regard to the residual assets of the Company.

## 16. RESERVES

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 RM'000 | 2012 RM'000 (Restated) | 2013 RM'000 | 2012 RM'000 |
| **Non-distributable** | | | | |
| Share premium | 70,367 | 70,367 | 70,367 | 70,367 |
| Exchange translation reserve | 1,619 | 483 | - | - |
| | 71,986 | 70,850 | 70,367 | 70,367 |
| **Distributable** | | | | |
| Retained earnings | 68,325 | 62,732 | 1,885 | 1,915 |
| | 140,311 | 133,582 | 72,252 | 72,282 |

(a) Exchange translation reserve

The exchange translation reserve was used to record foreign exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency. It is also used to record the exchange differences arising from monetary items which form part of the Group's net investment in foreign operations, where the monetary items is denominated in either the functional currency of the reporting entity of the foreign operation.

(b) Retained earnings

Effective 1 July 2008, the Company is given the option to make an irrevocable election to move to a single tier system or to continue to use its tax credit under Section 108 of the Income Tax Act, 1967 for the purpose of dividend distribution until the tax credit is fully utilised or latest, by 31 December 2013.

The Company has decided not to make this election and has sufficient tax credit under Section 108 of the Income Tax Act, 1967 to frank the payment of dividends out of its entire retained earnings without incurring additional tax liabilities.

## 17. BORROWINGS

| | Group 2013 RM'000 | Group 2012 RM'000 |
|---|---|---|
| **Current liabilities** | | |
| Secured: | | |
| Bank overdrafts (Note 14) | 74 | 385 |
| Bankers' acceptances | 17,154 | 45,465 |
| Term loans | 4,635 | 4,343 |
| Hire purchase creditors (Note 18) | 1,029 | 830 |
| | 22,892 | 51,023 |
| **Non-current liabilities** | | |
| Secured: | | |
| Term loans | 16,823 | 17,650 |
| Hire purchase creditors (Note 18) | 2,981 | 3,314 |
| | 19,804 | 20,964 |
| **Total borrowings** | | |
| Secured: | | |
| Bank overdrafts (Note 14) | 74 | 385 |
| Bankers' acceptances | 17,154 | 45,465 |
| Term loans | 21,458 | 21,993 |
| Hire purchase creditors (Note 18) | 4,010 | 4,144 |
| | 42,696 | 71,987 |

(a) The bank borrowings of the Group, other than hire purchase creditors are secured by the following:

(i) fixed charges over the prepaid lease payments for land (Note 8), long-term leasehold land, factory and office buildings, plant and machinery of a subsidiary (Note 7);

(ii) debentures over certain plant and machinery of a subsidiary;

(iii) negative pledge on two adjoining pieces of leasehold land of a subsidiary;

(iv) a corporate guarantee of RM38,612,000 (2012: RM67,458,000) by the Company; and

(v) subordination up to RM28,000,000 (2012: RM28,000,000) of advances by the Company to the subsidiaries.

## 17. BORROWINGS (continued)

(b) Term loans are repayable as follows:

| | Group 2013 RM'000 | Group 2012 RM'000 |
|---|---|---|
| Not later than one (1) year | 4,635 | 4,343 |
| Later than one (1) year and not later than five (5) years | 12,933 | 13,921 |
| Later than five (5) years | 3,890 | 3,729 |
| | 21,458 | 21,993 |

(c) Information on financial risks of borrowings is disclosed in Note 33 to the financial statements.

(d) All borrowings are denominated in RM.

## 18. HIRE PURCHASE CREDITORS

| | Group 2013 RM'000 | Group 2012 RM'000 |
|---|---|---|
| Future minimum lease payments: | | |
| Not later than 1 year | 1,263 | 1,083 |
| Later than 1 year and not later than 2 years | 1,149 | 956 |
| Later than 2 years and not later than 5 years | 2,075 | 2,160 |
| Later than 5 years | 154 | 777 |
| Total future minimum lease payments | 4,641 | 4,976 |
| Less: Future finance charges | (631) | (832) |
| Present value of finance lease liabilities | 4,010 | 4,144 |
| Analysis of present value of finance lease liabilities: | | |
| Not later than 1 year | 1,029 | 830 |
| Later than 1 year and not later than 2 years | 980 | 753 |
| Later than 2 years and not later than 5 years | 1,848 | 1,819 |
| Later than 5 years | 153 | 742 |
| | 4,010 | 4,144 |
| Less: Amounts due within 12 months | (1,029) | (830) |
| Amounts due after 12 months | 2,981 | 3,314 |

Information on financial risks of borrowings is disclosed in Note 33 to the financial statements.

## 19. TRADE AND OTHER PAYABLES

| | Group | | Company | |
|---|---|---|---|---|
| | 2013<br>RM'000 | 2012<br>RM'000 | 2013<br>RM'000 | 2012<br>RM'000 |
| Trade payables | | | | |
| - third parties | 7,331 | 4,349 | - | - |
| Other payables | 2,484 | 4,767 | - | - |
| Accruals | 3,217 | 4,143 | 52 | 43 |
| | 5,701 | 8,910 | 52 | 43 |
| Total trade and other payables | 13,032 | 13,259 | 52 | 43 |

(a) Trade payables are non-interest bearing and the normal trade credit term granted to the Group ranges from 30 to 60 days (2012: 30 to 60 days)

(b) The currency exposure profile of payables are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2013<br>RM'000 | 2012<br>RM'000 | 2013<br>RM'000 | 2012<br>RM'000 |
| Ringgit Malaysia | 12,491 | 12,520 | 52 | 43 |
| Euro | 165 | 315 | - | - |
| US Dollar | 376 | 424 | - | - |
| | 13,032 | 13,259 | 52 | 43 |

(c) Included in other payables of the Group are credit purchase of property, plant and equipment amounting to RM160,000 (2012: RM1,564,000).

(d) Information on financial risk of trade and other payables is disclosed in Note 33 to the financial statements.

## 20. CAPITAL COMMITMENTS

| | Group | |
|---|---|---|
| | 2013<br>RM'000 | 2012<br>RM'000 |
| Capital expenditure in respect of purchase of property, plant and equipment: | | |
| Contracted but not provided for | 23 | 5,401 |
| | 23 | 5,401 |

## 21. CONTINGENT LIABILITIES

| | Company 2013 RM'000 | Company 2012 RM'000 |
|---|---|---|
| Corporate guarantees given to banks for credit facilities granted to a subsidiary – secured (Note 17) | 38,612 | 67,458 |

The Directors have assessed the financial guarantee contracts and concluded that the guarantees are unlikely to be called upon by the banks. This is because the guarantees are collateralised by fixed charges over certain properties, plant and equipment of the Group (Notes 7 and 17). The Directors have estimated the financial impact of the guarantees as at 31 December 2013 to be insignificant.

## 22. REVENUE

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 RM'000 | 2012 RM'000 | 2013 RM'000 | 2012 RM'000 |
| Sales of goods | 302,910 | 306,429 | - | - |
| Dividend income from a subsidiary | - | - | 5,003 | 5,003 |
| | 302,910 | 306,429 | 5,003 | 5,003 |

## 23. COST OF SALES

Cost of sales comprises of cost of goods sold and its associated expenses.

## 24. FINANCE COSTS

| | Group 2013 RM'000 | Group 2012 RM'000 |
|---|---|---|
| Interest expense on: | | |
| - bank overdrafts | 31 | 74 |
| - term loans | 1,513 | 1,661 |
| - bankers' acceptances | 958 | 959 |
| - hire purchase creditors | 292 | 298 |
| | 2,794 | 2,992 |

## 25. PROFIT BEFORE TAX

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2013 RM'000 | 2012 RM'000 | 2013 RM'000 | 2012 RM'000 |
| Profit before tax is stated after charging: | | | | | |
| Amortisation of prepaid lease payments for land | 8 | 370 | 57 | - | - |
| Auditors' remuneration | | | | | |
| - current year | | 100 | 114 | 30 | 30 |
| - under provision in prior year | | 8 | - | 5 | - |
| - others | | 1 | 6 | 1 | 6 |
| Bad debts written off | | - | 1 | - | - |
| Depreciation of property, plant and equipment | 7 | 6,820 | 6,620 | - | - |
| Directors' remuneration | | | | | |
| - other emoluments | | | | | |
| - payable by the Company | | 110 | 110 | 110 | 110 |
| - payable by a subsidiary | | 2,511 | 2,359 | - | - |
| Impairment of trade and other receivables | 13 | 940 | 16 | - | - |
| Interest expense on: | | | | | |
| - term loan | 24 | 1,513 | 1,661 | - | - |
| - bankers' acceptances | 24 | 958 | 959 | - | - |
| - bank overdrafts | 24 | 31 | 74 | - | - |
| - hire purchase creditors | 24 | 292 | 298 | - | - |
| Realised foreign exchange loss | | - | 451 | - | - |
| Rental of machineries | | 86 | 84 | - | - |
| Rental of premises | | 288 | 202 | - | - |
| Unrealised foreign exchange loss | | - | 373 | - | - |
| *And crediting:* | | | | | |
| Gain on disposal of property, plant and equipment | | 18 | 28 | - | - |
| Interest income | | 76 | 345 | 76 | 344 |
| Realised foreign exchange gain | | 112 | - | - | - |
| Unrealised foreign exchange gain | | 453 | - | - | - |

## 26. TAX EXPENSE

| | Group 2013 RM'000 | Group 2012 RM'000 (Restated) | Company 2013 RM'000 | Company 2012 RM'000 |
|---|---|---|---|---|
| Current tax | | | | |
| Current tax expense based on profit for the financial year | 4,816 | 1,427 | 21 | 83 |
| Under provision in prior years | 222 | 8 | - | - |
| | 5,038 | 1,435 | 21 | 83 |
| Deferred tax (Note 11): | | | | |
| Relating to origination and reversal of temporary differences | 627 | 3,809 | - | - |
| Under provision in prior years | 139 | 569 | - | - |
| | 766 | 4,378 | - | - |
| | 5,804 | 5,813 | 21 | 83 |

Malaysian income tax is calculated at the statutory tax rate of 25% (2012: 25%) of the estimated taxable profit for the fiscal year.

The numerical reconciliation between the tax expense and the product of accounting profit multiplied by the applicable corporate tax rate of the Group and of the Company are as follows:

| | Group 2013 RM'000 | Group 2012 RM'000 (Restated) | Company 2013 RM'000 | Company 2012 RM'000 |
|---|---|---|---|---|
| Profit before tax | 16,120 | 21,999 | 4,714 | 5,050 |
| Taxation at Malaysian statutory tax rate of 25% (2012: 25%) | 4,030 | 5,500 | 1,179 | 1,262 |
| Tax effect in respect of: | | | | |
| Non-allowable expenses | 348 | 313 | 93 | 72 |
| Non-taxable income | (4) | - | (1,251) | (1,251) |
| Utilisation of previously unrecognised deferred tax assets | - | (970) | - | - |
| Share of results of joint venture (foreign) | 1,069 | 393 | - | - |
| | 5,443 | 5,236 | 21 | 83 |
| Under provision of deferred tax in prior years | 139 | 569 | - | - |
| Under provision of income tax expense in prior years | 222 | 8 | - | - |
| Tax expense recognised in profit or loss | 5,804 | 5,813 | 21 | 83 |

## 27. EARNINGS PER SHARE

(a) Basic earnings per ordinary share

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

| | Group | |
|---|---|---|
| | 2013<br>RM'000 | 2012<br>RM'000<br>(Restated) |
| Profit attributable to owners of the parent | 10,316 | 16,186 |
| Weighted average number of ordinary shares outstanding ('000) | 393,600 | 393,600 |
| Basic earnings per ordinary share (sen) | 2.6 | 4.1 |

(b) Diluted earnings per ordinary share equals basic earnings per ordinary share.

## 28. DIVIDENDS

| | Group and Company | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| | Gross dividend per share<br>sen | Amount of dividend<br>RM'000 | Gross dividend per share<br>sen | Amount of dividend<br>RM'000 |
| Interim tax exempt dividend | 1.2 | 4,723 | 1.2 | 4,723 |

The Directors do not recommend the payment of any final dividend in respect of the financial year ended 31 December 2013.

## 29. EMPLOYEE BENEFITS EXPENSES

| | Group | | Company | |
|---|---|---|---|---|
| | 2013<br>RM'000 | 2012<br>RM'000 | 2013<br>RM'000 | 2012<br>RM'000 |
| Salaries, wages, allowances and bonuses | 11,388 | 13,442 | 30 | 30 |
| Contributions to defined contribution plan | 613 | 914 | - | - |
| Social security contributions | 73 | 63 | - | - |
| Other employee benefits | 110 | 314 | - | - |
| | 12,184 | 14,733 | 30 | 30 |

## 29. EMPLOYEE BENEFITS EXPENSES (continued)

Included in employee benefits expenses of the Group and of the Company are Executive Directors' remuneration amounting to RM2,169,000 (2012: RM2,389,000) and RM30,000 (2012: RM30,000) respectively.

## 30. RELATED PARTY TRANSACTIONS

(a) Identities of related parties

Parties are considered to be related to the Group if the group 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 and the party are subject to common control or common significant influence. Related parties could be individuals or other parties.

The Company has controlling related party relationships with its direct subsidiaries.

The Group also has related party relationships with the following:

| | |
|---|---|
| Seong Chan Sauce & Foodstuff Sdn. Bhd. | A company of which Fang Chew Ham and Fong Chu King @ Tong Chu King, who are Directors of the Company, have financial interests |

(b) Significant related party transactions

In addition to the transactions and balances detailed elsewhere in the financial statements, the Group and the Company had the following transactions with related parties:

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Related party: | | | | |
| Sale of products | 1,018 | 912 | - | - |
| Repayments by/(Advances to) subsidiaries | - | - | 4,808 | (6,234) |

The related party transaction described above were carried out on negotiated terms and conditions in the ordinary course of business between the related party and the Company.

(c) Compensation of key management personnel

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity, directly and indirectly, including any Director (whether executive or otherwise) of the Group and the Company.

## 30. RELATED PARTY TRANSACTIONS (continued)

(c) Compensation of key management personnel (continued)

The remuneration of Directors and other members of key management during the financial year was as follows:

| | Group | |
|---|---|---|
| | **2013** | **2012** |
| | **RM'000** | **RM'000** |
| Short-term employee benefits | 3,416 | 3,119 |
| Contributions to defined contribution plan | 333 | 338 |
| | 3,749 | 3,457 |

## 31. SEGMENTS INFORMATION

(a) Segmental information

Segment analysis has not been prepared as the Group's business is focused only in manufacturing and trading of food and beverage ingredients.

The Group does not have any non-current assets that are located in countries other than Malaysia.

The chief operating decision maker reviews the business performance of the Group as a whole and management monitors the operating results of its business for the purpose of making decisions on resources allocation and performance assessment.

(b) Geographical information

For the purpose of disclosing geographical information, revenue is based on the geographical location of customers from which the sales transactions originated. The foreign customers are predominantly based in Singapore, Hong Kong, China, South Korea, Indonesia, Philippines, Vietnam, Australia and United States of America.

| | Group | |
|---|---|---|
| | **2013** | **2012** |
| | **RM'000** | **RM'000** |
| Malaysia | 215,279 | 212,577 |
| Singapore | 17,516 | 24,195 |
| Foreign countries | 70,115 | 69,657 |
| | 302,910 | 306,429 |

The Group's assets and liabilities are solely located in Malaysia other than investment in a joint venture amounting to RM14,039,000 (2012: RM14,039,000) which is located in the People's Republic of China.

## 32. FINANCIAL INSTRUMENTS

(a) Capital management

The primary objective of the capital management of the Group is to ensure that entities of the Group would be able to continue as a going concern whilst maximising return to shareholders through the optimisation of the debt and equity ratios. The overall strategy of the Group remains unchanged from that in the previous financial year.

The Group manages its capital structure and makes adjustments to it in response to changes in economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the financial years ended 31 December 2013 and 31 December 2012.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, loans and borrowings, trade and other payables, less cash and bank balances. Capital represents equity attributable to the owners of the parent.

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2013 RM'000** | **2012 RM'000** | **2013 RM'000** | **2012 RM'000** |
| Borrowings | 42,696 | 71,987 | - | - |
| Trade and other payables | 13,032 | 13,259 | 52 | 43 |
| Total liabilities | 55,728 | 85,246 | 52 | 43 |
| Less: Cash and bank balances | (16,720) | (12,782) | (6,646) | (1,823) |
| Net debt | 39,008 | 72,464 | (6,594) | (1,780) |
| Total capital | 219,031 | 212,302 | 150,972 | 151,002 |
| Net debt | 39,008 | 72,464 | (6,594) | (1,780) |
| Equity | 258,039 | 284,766 | 144,378 | 149,222 |
| Gearing ratio (%) | 15 | 25 | * | * |

* Gearing ratio is not presented as the Company is in net cash position as at 31 December 2013 and 31 December 2012

Pursuant to the requirements of Practice Note No. 17/2005 of the Bursa Malaysia Securities, the Group is required to maintain a consolidated shareholders' equity equal to or not less than the twenty-five (25%) of the issued and paid-up capital and such shareholders' equity is not less than RM40,000,000. The Group has complied with this requirement for the financial year ended 31 December 2013.

The Group is not subject to any other externally imposed capital requirements.

## 32. FINANCIAL INSTRUMENTS (continued)

(b) Financial instruments

| Group | 2013 RM'000 | 2012 RM'000 |
|---|---|---|
| **Financial assets** | | |
| Loans and receivables - trade and other receivables | 74,483 | 82,164 |
| Cash and cash equivalents | 16,720 | 17,782 |
| | 91,203 | 99,946 |

| | | |
|---|---|---|
| **Group** | | |
| **Financial liabilities** | | |
| Other financial liabilities - borrowings | 42,696 | 71,987 |
| Other financial liabilities - dividend payable | 4,723 | 4,723 |
| Other financial liabilities - trade and other payables | 13,032 | 13,259 |
| | 60,451 | 89,969 |

| | | |
|---|---|---|
| **Company** | | |
| **Financial assets** | | |
| Loans and receivables - trade and other receivables | 6,676 | 20,487 |
| Cash and cash equivalents | 6,646 | 6,823 |
| | 13,322 | 27,310 |

| | | |
|---|---|---|
| **Company** | | |
| **Financial liabilities** | | |
| Other financial liabilities - dividend payable | 4,723 | 4,723 |
| Other financial liabilities - trade and other payables | 52 | 43 |
| | 4,775 | 4,766 |

## 32. FINANCIAL INSTRUMENTS (continued)

(c) Fair values of financial instruments

The carrying amounts of financial instruments of the Group as at the end of the end of the reporting period approximately their fair values due to the relatively short term maturity of these financial instruments except for the following:

| At 31 December 2013 | Carrying amount RM'000 | Fair value RM'000 |
|---|---|---|
| **Financial liability** | | |
| Hire purchase creditors | 4,010 | 3,905 |
| **At 31 December 2012** | | |
| **Financial liability** | | |
| Hire purchase creditors | 4,144 | 4,133 |

(d) Methods and assumptions used to estimate fair values

The fair values of financial assets and financial liabilities are determined as follows:

(i) Financial instruments that are not carried at fair values and whose carrying amounts are reasonable approximation of fair values.

The carrying amounts of financial assets and liabilities, such as trade and other receivables, trade and other payables and borrowings, are reasonable approximation of their fair values, either due to their short-term nature or that they are floating rate instruments that are re-priced to market rates on or near the end of the reporting period.

The carrying amounts of the current position of loans and borrowings are reasonable approximation of their fair values due to the insignificant impact of discounting.

(ii) Obligations under hire purchase creditors

The fair values of these financial instruments are estimated by discounting expected future cash flows at market incremental lending rate for similar types of lending, borrowings or leasing arrangements at the end of each reporting period.

## 33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The financial risk management objective of the Group is to optimise value creation for shareholders whilst minimising the potential adverse impact arising from credit risk, liquidity and cash flows risk, interest rate risk and foreign currency risk.

The Group operates within an established risk management framework and clearly defined guidelines that are regularly reviewed by the Board of Directors and does not trade in derivative financial instruments. Financial risk management is carried out through risk review programmes, internal control systems, insurance programmes and adherence to the Group financial risk management policies. The Group is exposed mainly to credit risk, liquidity and cash flow risks, interest rate risk, and foreign currency risk. Information on the management of the related exposures is detailed below:

(a) Credit risk

Cash deposits and trade receivables may give rise to credit risk which requires the loss to be recognised if a counter party fails to perform as contracted. The counter parties on trade receivables are reputable multinational organisations. It is the policy of the Group to monitor the financial standing of these counter parties on an ongoing basis to ensure that the Group is exposed to minimal credit risk.

The primary exposure of the Group to credit risk arises through its trade receivables. The trading terms of the Group with its customers are mainly on credit, except for certain new customers, where deposits in advance are normally required. The credit period is generally for a period of 30 days, extending up to 150 days for major customers. Each customer has a maximum credit limit and the Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management.

Exposure to credit risk

At the end of the reporting period, the maximum exposure of the Group and of the Company to credit risk is represented by the carrying amount of financial assets recognised in the statements of financial position.

Credit risk concentration profile

The Group determines concentrations of credit risk by monitoring the country of its trade receivables on an ongoing basis. The credit risk concentration profile of the Group's trade receivables at the reporting date are as follows:

| | Group | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| | RM'000 | % of total | RM'000 | % of total |
| By country: | | | | |
| Malaysia | 60,491 | 82% | 63,278 | 78% |
| Singapore | 1,324 | 2% | 3,649 | 5% |
| Other countries | 12,316 | 16% | 13,890 | 17% |
| | 74,131 | 100% | 80,817 | 100% |

At the end of the reporting period, approximately 54% (2012: 58%) of the Group's trade receivables were due from 10 major customers.

## 33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(b) Liquidity and cash flow risks

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting financial obligations due to the shortage of funds.

The Group actively manages its debts maturity profile, operating cash flows and availability of funding so as to ensure that all operating, investing and financing needs are met. As part of its overall prudent liquidity management, the Group maintains sufficient levels of cash or cash convertible investments to meet its working capital requirements. In addition, the Group strives to maintain available banking facilities at a reasonable level to its overall debt position. As far as possible, the Group raises committed funding from both capital markets and financial institutions and prudently balances its portfolio with some short term funding so as to achieve overall cost effectiveness.

Analysis of financial instruments by remaining contractual maturities

The table below summarises the maturity profile of the Group's and of the Company's liabilities at the end of the reporting period based on contractual undiscounted repayment obligations.

| As at 31 December 2013<br>Group | On demand or within one year RM'000 | Two to five years RM'000 | Over five years RM'000 | Total RM'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Loans and receivables | 74,483 | - | - | 74,483 |
| Cash and cash equivalents | 16,720 | - | - | 16,720 |
| Total undiscounted financial assets | 91,203 | - | - | 91,203 |
| **Financial liabilities** | | | | |
| Trade and other payables | 13,032 | - | - | 13,032 |
| Bank overdrafts | 74 | - | - | 74 |
| Bankers' acceptances | 17,154 | - | - | 17,154 |
| Term loans | 5,905 | 15,572 | 4,432 | 25,909 |
| Hire purchase creditors | 1,263 | 3,224 | 154 | 4,641 |
| Total undiscounted financial liabilities | 37,428 | 18,796 | 4,586 | 60,810 |

## 33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(b) Liquidity and cash flow risks (continued)

| **As at 31 December 2013**<br>**Company** | **On demand or within one year RM'000** | **Two to five years RM'000** | **Over five years RM'000** | **Total RM'000** |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Loans and receivables | 6,676 | - | - | 6,676 |
| Cash and cash equivalents | 6,646 | - | - | 6,646 |
| Total undiscounted financial assets | 13,322 | - | - | 13,322 |
| **Financial liabilities** | | | | |
| Trade and other payables | 52 | - | - | 52 |
| Total undiscounted financial liabilities | 52 | - | - | 52 |

| **As at 31 December 2012**<br>**Group** | **On demand or within one year RM'000** | **Two to five years RM'000** | **Over five years RM'000** | **Total RM'000** |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Trade and other receivables | 82,164 | - | - | 82,164 |
| Cash and cash equivalents | 17,782 | - | - | 17,782 |
| Total undiscounted financial assets | 99,946 | - | - | 99,946 |
| **Financial liabilities** | | | | |
| Trade and other payables | 13,259 | - | - | 13,259 |
| Bank overdrafts | 385 | - | - | 385 |
| Bankers' acceptances | 45,465 | - | - | 45,465 |
| Term loans | 5,777 | 12,831 | 8,328 | 26,936 |
| Hire purchase creditors | 1,083 | 3,116 | 777 | 4,976 |
| Total undiscounted financial liabilities | 65,969 | 15,947 | 9,105 | 91,021 |

## 33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(b) Liquidity and cash flow risks (continued)

| As at 31 December 2012<br><br>Company | On demand or within one year RM'000 | Two to five years RM'000 | Over five years RM'000 | Total RM'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Loans and receivables | 20,487 | - | - | 20,487 |
| Cash and cash equivalents | 6,823 | - | - | 6,823 |
| Total undiscounted financial assets | 27,310 | - | - | 27,310 |
| **Financial liabilities** | | | | |
| Payables | 43 | - | - | 43 |
| Total undiscounted financial liabilities | 43 | - | - | 43 |

(c) Interest rate risk

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

The Group's primary interest rate risk relates to interest-bearing borrowings from financial institutions. The Group's borrowings are exposed to a risk of changes in their fair values due to changes in interest rates. The Group's floating rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates. The Group does not use derivative financial instruments to hedge this risk.

The exposure of interest rate in the Group is not material and hence, sensitivity analysis is not presented.

## 33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Interest rate risk (continued)

The following table sets out the carrying amounts, the weighted average effective interest rates ("WAEIR") as at the end of each reporting period and the remaining maturities of the Group's and the Company's financial instruments that are exposed to interest rate risk:

| **Group** | **Note** | **WAEIR %** | **Within 1 year RM'000** | **1 – 2 years RM'000** | **2 – 3 years RM'000** | **3 – 4 years RM'000** | **4 – 5 years RM'000** | **More than 5 years RM'000** | **Total RM'000** |
|---|---|---|---|---|---|---|---|---|---|
| **As at 31 December 2013** | | | | | | | | | |
| Fixed rate | | | | | | | | | |
| Bankers' acceptances | 17 | 3.53 | 17,154 | - | - | - | - | - | 17,154 |
| Hire purchase creditors | 18 | 5.80 | 1,029 | 980 | 637 | 590 | 621 | 153 | 4,010 |
| Floating rates | | | | | | | | | |
| Term loans | 17 | 6.46 | 4,635 | 3,796 | 2,933 | 3,059 | 3,145 | 3,890 | 21,458 |
| **As at 31 December 2012** | | | | | | | | | |
| Fixed rates | | | | | | | | | |
| Bankers' acceptances | 17 | 3.59 | 45,465 | - | - | - | - | - | 45,465 |
| Deposits with licensed banks | 14 | 3.15 | 5,000 | - | - | - | - | - | 5,000 |
| Hire purchase creditors | 18 | 5.94 | 830 | 753 | 688 | 584 | 547 | 742 | 4,144 |
| Floating rates | | | | | | | | | |
| Term loans | 17 | 7.39 | 4,343 | 4,482 | 3,821 | 2,827 | 2,791 | 3,729 | 21,993 |
| **Company** | | | | | | | | | |
| **As at 31 December 2012** | | | | | | | | | |
| Fixed rate | | | | | | | | | |
| Deposits with licensed banks | 14 | 3.15 | 5,000 | - | - | - | - | - | 5,000 |

**33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

(d) Foreign currency risk

Foreign currency risk is that the fair value or future cash flows of a financial instrument would fluctuate because of changes in foreign exchange rates.

A joint venture operating in PRC has assets and liabilities with expected cash flows from anticipated transactions denominated in foreign currencies that give rise to foreign exchange exposures. The Group's net investment in PRC is not hedged as currency positions in RMB is considered to be long-term in nature.

The Group is exposed to foreign currency risk as a result of the foreign currency denominated transactions entered into by the Group during the course of business. The foreign currencies primarily involved are the US Dollar, Singapore Dollar and European Dollar. In addition, the Group does not use foreign exchange derivative instruments to hedge its transaction risk.

The Group also holds cash and cash equivalents denominated in foreign currencies for working capital purposes. At the end of the reporting period, such foreign currencies balances amounted to RM728,000 (2012: RM885,000) for the Group.

<u>Sensitivity analysis for foreign currency risk</u>

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

| **Profit net of tax** | | **Group** 2013 RM'000 | **Group** 2012 RM'000 |
|---|---|---|---|
| USD/RM | - strengthen 6% (2012: 6%) | 989 | 1,244 |
| | - weakened 6% (2012: 6%) | (989) | (1,244) |
| SGD/RM | - strengthen 5% (2012: 5%) | 68 | 146 |
| | - weakened 5% (2012: 5%) | (68) | (146) |
| EURO/RM | - strengthen 6% (2012: 6%) | (10) | (7) |
| | - weakened 6% (2012: 6%) | 10 | 7 |

## 34. PRIOR YEAR ADJUSTMENTS

In the previous financial year, reinvestment allowance was incorrectly accounted for in the financial statements of the Group. This resulted in an understatement of deferred tax liabilities in the statement of financial position and an understatement of tax expense in the statement of profit or loss. Consequently, the prior year adjustments have been applied retrospectively with the comparative figures of deferred tax liabilities and tax expense of the Group being restated. The effect of the prior year adjustments are summarised as follows:

| Group | Previously stated RM'000 | Adjustments RM'000 | As restated RM'000 |
|---|---|---|---|
| **Effects on statement of financial position as at 31 December 2012** | | | |
| Deferred tax liabilities | 10,925 | 1,452 | 12,377 |
| Retained earnings | 64,184 | (1,452) | 62,732 |

| Group | | | |
|---|---|---|---|
| **Effects on statement of profit or loss and other comprehensive income for the year ended 31 December 2012** | | | |
| Tax expense | 4,361 | 1,452 | 5,813 |
| Profit for the financial year | 17,638 | (1,452) | 16,186 |

There is no impact to the statements of cash flows resulting from the above prior year adjustments.

## 35. SUPPLEMENTARY INFORMATION - BREAKDOWN OF RETAINED EARNINGS INTO REALISED AND UNREALISED

The breakdown of the retained earnings of the Group and of the Company as at 31 December 2013 and 2012 into realised and unrealised earnings is prepared in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirement, issued by the Malaysian Institute of Accountants.

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 RM'000 | 2012 RM'000 (Restated) | 2013 RM'000 | 2012 RM'000 |
| Total retained earnings of the Company and its subsidiaries | | | | |
| - Realised | 71,732 | 88,231 | 1,885 | 1,915 |
| - Unrealised | 12,690 | (12,004) | - | - |
| | 84,422 | 76,227 | 1,885 | 1,915 |
| Total share of retained earnings from joint venture | | | | |
| - Realised | (4,658) | (1,920) | - | - |
| - Unrealised | 383 | 348 | - | - |
| | 80,147 | 74,655 | 1,885 | 1,915 |
| Less: Consolidation adjustments | (11,822) | (11,923) | - | - |
| Retained earnings as per financial statements | 68,325 | 62,732 | 1,885 | 1,915 |