Financial Statements

KFM

KUANTAN FLOUR MILLS BERHAD

(119598-P)

DIRECTORS' REPORT

The directors hereby submit their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 March 2007.

PRINCIPAL ACTIVITIES

The principal activities of the Company are flour milling and trading in its related products.

The principal activities of the subsidiaries are transportation and sales of premix flour and its related products.

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

RESULTS

	Group RM	Company RM
(Loss)/Profit for the year	(1,259,253)	1,834,837
Attributable to:		
Equity holders of the Company	(1,259,253)	1,834,837
Minority interest	-	-
	(1,259,253)	1,834,837

There were no material transfers to or from reserves or provisions during the financial year.

In the opinion of the directors, the results of the operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature other than the effects arising from changes in estimates as disclosed in Note 2.4

DIVIDENDS

No dividends has been paid or declared by the Company since the end of the previous financial year. The directors do not recommend the payment of any dividend for the current year.

DIRECTORS

The names of the directors of the Company in office since the date of the last report and at the date of this report are:

Dato' Abdul Halim bin Dato' Haji Abdul Rauf

Dato' Krishna Kumar a/l Sivasubramaniam

Ng Kay Eng

Dato' Dr. Shanmughanathan a/l Vellanthurai

Michael Camillus Fernandez (Retired on 29 September 2006)

Jeyaraj a/l V. Ratnaswamy (Appointed on 27 July 2007)

DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company was a party, whereby the directors might acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, other than those arising from the share options to be granted under the Employee Share Options Scheme.

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors or the fixed salary of a full-time employee of the Company as shown in Note 8 to the financial statements) by reason of a contract made by the Company or a related corporation with any director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

DIRECTORS' INTERESTS

None of the directors in office at the end of the financial year had any interest in shares and options in the Company or its related corporations during the financial year.

EMPLOYEE SHARE OPTION SCHEME

The Company's Employee Share Option Scheme ("ESOS") is governed by the by-laws approved by the shareholders on 21 November 2000. The salient features and other terms of the ESOS are disclosed in Note 25 to the financial statements.

The Company has been granted exemption by the Companies Commission of Malaysia from having to disclose the names of employees who have been granted options to subscribe for less than 200,000 ordinary shares of RM1.00 each.

OTHER STATUTORY INFORMATION

(a) Before the income statements and balance sheets of the Group and of the Company were made out, the directors took reasonable steps:

    (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and

    (ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

(b) At the date of this report, the directors are not aware of any circumstances which would render:

    (i) the amount written off for bad debts or the amount of the provision for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; and

    (ii) the values attributed to the current assets in the financial statements of the Group and of the Company misleading.

OTHER STATUTORY INFORMATION (CONT'D.)

(c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.

(d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.

(e) As at the date of this report, there does not exist:

(i) any charge on the assets of the Group or of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or

(ii) any contingent liability of the Group or of the Company which has arisen since the end of the financial year.

(f) In the opinion of the directors:

(i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group or of the Company to meet their obligations when they fall due; and

(ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group or of the Company for the financial year in which this report is made.

SIGNIFICANT EVENT

Details of the significant event are disclosed in Note 29 to the financial statements.

SUBSEQUENT EVENTS

Details of subsequent events are disclosed in Note 30 to the financial statements.

AUDITORS

The auditors, Ernst & Young, have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the directors dated 30 July 2007.

DATO' ABDUL HALIM BIN DATO' HAJI ABDUL RAUF

DATO' KRISHNA KUMAR A/L SIVASUBRAMANIAM

Statement By Directors

PURSUANT TO SECTION 169 (15) OF THE COMPANIES ACT, 1965

We, DATO' ABDUL HALIM BIN DATO' HAJI ABDUL RAUF and DATO' KRISHNA KUMAR A/L SIVASUBRAMANIAM, being two of the directors of KUANTAN FLOUR MILLS BERHAD, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 21 to 52 are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable Financial Reporting Standards in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 March 2007 and of the results and the cash flows of the Group and of the Company for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 30 July 2007.

DATO' ABDUL HALIM BIN DATO' HAJI ABDUL RAUF	DATO' KRISHNA KUMAR A/L SIVASUBRAMANIAM

Statutory Declaration

PURSUANT TO SECTION 169 (15) OF THE COMPANIES ACT, 1965

I, SIEW KIN MENG, being the officer primarily responsible for the financial management of KUANTAN FLOUR MILLS BERHAD, do solemnly and sincerely declare that the accompanying financial statements set out on pages 21 to 52 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed SIEW KIN MENG at Kuala Lumpur in the Federal Territory on 30 July 2007	SIEW KIN MENG

Before me,
Ahmad Bin Bakar
Commissioner for Oaths
W482

Report Of The Auditors

TO THE MEMBERS OF KUANTAN FLOUR MILLS BERHAD (119598 P)

We have audited the financial statements set out on pages 21 to 52. These financial statements are the responsibility of the Company's directors.

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with applicable Approved Standards on Auditing in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

(a) the financial statements have been properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable Financial Reporting Standards in Malaysia so as to give a true and fair view of:

  (i) the financial position of the Group and of the Company as at 31 March 2007 and of the results and the cash flows of the Group and of the Company for the year then ended; and

  (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and

(b) the accounting and other records required by the Act to be kept by the Company and by its subsidiaries have been properly kept in accordance with the provisions of the Act.

However, in our opinion, except for KFM-Bunge Flour Mixes Sdn. Bhd., the registers required by the Act to be kept by the Company and by its subsidiaries have been properly kept in accordance with the provisions of the Act.

We are satisfied that the financial statements of the subsidiaries that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The auditors' reports on the financial statements of the subsidiaries were not subject to any qualification material to the consolidated financial statements and did not include any comment required to be made under Section 174(3) of the Act.

ERNST & YOUNG
AF: 0039
Chartered Accountants

OONG KEE LEONG
No. 1246/12/07 (J)
Partner

Kuala Lumpur, Malaysia
30 July 2007

INCOME STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2007

		Group		Company	
	Note	2007 RM	2006 RM	2007 RM	2006 RM
Revenue	3	89,539,932	75,789,311	82,230,975	71,458,951
Cost of sales	4	(80,253,011)	(72,128,442)	(75,039,136)	(69,357,211)
Gross profit		9,286,921	3,660,869	7,191,839	2,101,740
Other income		389,399	301,297	370,503	263,939
Administrative expenses		(6,407,256)	(4,749,281)	(4,141,712)	(5,057,622)
Selling expenses		(2,559,182)	(2,604,656)	(155,160)	(1,000,469)
Operating profit/(loss)		709,882	(3,391,771)	3,265,470	(3,692,412)
Finance costs	5	(1,469,047)	(932,244)	(1,427,894)	(914,020)
(Loss)/Profit before tax	6	(759,165)	(4,324,015)	1,837,576	(4,606,432)
Income tax	9	(500,088)	179,112	(2,739)	-
(Loss)/Profit for the year		(1,259,253)	(4,144,903)	1,834,837	(4,606,432)
Attributable to: Equity holders of the Company		(1,259,253)	(4,144,903)	1,834,837	(4,606,432)
Minority interests		-	-	-	-
		(1,259,253)	(4,144,903)	1,834,837	(4,606,432)
Loss per share attributable to equity holders of the Company (sen)					
Basic, for loss for the year	10(a)	(2.80)	(9.20)		
Diluted, for loss for the year	10(b)	-	-		

The accompanying notes form an integral part of the financial statements.

BALANCE SHEETS
AS AT 31 MARCH 2007

		Group		Company	
	Note	2007 RM	2006 RM	2007 RM	2006 RM
ASSETS					
Non-current assets					
Property, plant and equipment	11	23,355,585	23,141,636	22,215,756	22,570,044
Investments in subsidiaries	12	-	-	8	8
Other investments	13	1,458,916	1,458,916	1,458,916	1,458,916
Deferred tax assets	14	-	497,349	-	-
		24,814,501	25,097,901	23,674,680	24,028,968
Current assets					
Inventories	15	9,780,931	11,485,506	8,334,859	9,841,938
Trade receivables	16	18,600,265	23,515,865	1,262,737	1,254,068
Other receivables	17	4,407,174	2,521,463	4,215,605	2,022,520
Due from subsidiaries	18	-	-	21,425,665	24,079,016
Marketable securities	19	16,677	495,683	16,677	16,677
Cash and bank balances	20	2,488,062	2,042,309	960,496	1,182,620
		35,293,109	40,060,826	36,216,039	38,396,839
TOTAL ASSETS		60,107,610	65,158,727	59,890,719	62,425,807
EQUITY AND LIABILITIES					
Equity attributable to equity holders of the Company					
Share capital	25	45,053,000	45,053,000	45,053,000	45,053,000
Share premium		6,446,933	6,446,933	6,446,933	6,446,933
Accumulated losses		(21,949,029)	(20,689,776)	(19,965,973)	(21,800,810)
		29,550,904	30,810,157	31,533,960	29,699,123
Minority interests		2	2	-	-
Total equity		29,550,906	30,810,159	31,533,960	29,699,123
Non-current liability					
Borrowings	21	6,883,824	477,857	6,527,420	475,958
Current liabilities					
Borrowings	21	14,184,026	23,141,879	13,952,504	22,961,930
Trade payables	23	6,973,876	8,051,632	6,052,722	7,338,090
Other payables	24	2,514,978	2,677,200	1,824,113	1,950,706
		23,672,880	33,870,711	21,829,339	32,250,726
Total liabilities		30,556,704	34,348,568	28,356,759	32,726,684
TOTAL EQUITY AND LIABILITIES		60,107,610	65,158,727	59,890,719	62,425,807

The accompanying notes form an integral part of the financial statements.

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2007

	Non-distributable		Distributable		
	Share Capital RM	Share Premium RM	(Accumulated Losses)/ Profit RM	Minority Interests RM	Total RM
GROUP					
At 1 April 2005	45,053,000	6,446,933	(16,544,873)	2	34,955,062
Loss for the year	-	-	(4,144,903)	-	(4,144,903)
At 31 March 2006	45,053,000	6,446,933	(20,689,776)	2	30,810,159
At 1 April 2006	45,053,000	6,446,933	(20,689,776)	2	30,810,159
Loss for the year	-	-	(1,259,253)	-	(1,259,253)
At 31 March 2007	45,053,000	6,446,933	(21,949,029)	2	29,550,906
COMPANY					
At 1 April 2005	45,053,000	6,446,933	(17,194,378)	-	34,305,555
Loss for the year	-	-	(4,606,432)	-	(4,606,432)
At 31 March 2006	45,053,000	6,446,933	(21,800,810)	-	29,699,123
At 1 April 2006	45,053,000	6,446,933	(21,800,810)	-	29,699,123
Profit for the year	-	-	1,834,837	-	1,834,837
At 31 March 2007	45,053,000	6,446,933	(19,965,973)	-	31,533,960

The accompanying notes form an integral part of the financial statements.

CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2007

	Note	Group 2007 RM	Group 2006 RM	Company 2007 RM	Company 2006 RM
Cash Flows from Operating Activities					
(Loss)/Profit before tax		(759,165)	(4,324,015)	1,837,576	(4,606,432)
Adjustments for:					
Depreciation	6	1,315,230	2,802,551	1,202,780	2,684,206
Gain on disposal of property, plant and equipment	6	(56,254)	(22,998)	(56,254)	(5,999)
Loss/(Gain) on disposal of marketable securities	6	323,329	(37,978)	-	-
Property, plant and equipment written off	6	22,806	11,640	1	11,640
Unrealised foreign exchange loss	6	9,634	-	-	-
Provision for doubtful debts	6	2,309,297	191,736	1,072,272	1,011,590
Bad debts written off	6	66,333	-	58,192	-
Provision for doubtful debts no longer required	6	(46,932)	(245,331)	(46,932)	(245,331)
Provision for diminution in value of investments	6	-	463,992	-	738,584
Short term accumulating compensated absences	7	(1,804)	13,799	-	-
Interest income	6	(199)	(9,589)	(199)	(9,589)
Interest expense	5	1,469,047	932,244	1,427,894	914,020
Operating profit/(loss) before working capital changes		4,651,322	(223,949)	5,495,330	492,689
Decrease in inventories		1,704,575	238,724	1,507,079	1,295,321
Decrease/(Increase) in receivables		691,557	(8,460,701)	(5,118,682)	(10,956,005)
(Decrease)/Increase in payables		(1,238,228)	3,743,374	3,074,732	3,105,441
Cash generated from/(used in) operations		5,809,226	(4,702,552)	4,958,459	(6,062,554)
Interest paid		(1,469,047)	(932,244)	(1,427,894)	(914,020)
Taxes paid		(2,685)	-	(2,685)	-
Net cash generated from/(used in) operating activities		4,337,494	(5,634,796)	3,527,880	(6,976,574)

The accompanying notes form an integral part of the financial statements.

CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2007

	Note	Group 2007 RM	Group 2006 RM	Company 2007 RM	Company 2006 RM
Cash Flows from Investing Activities					
Purchase of property, plant and equipment		(676,399)	(722,182)	(494,907)	(449,999)
Proceeds from disposal of property, plant and equipment		317,918	23,000	317,918	6,000
Proceeds from disposal of marketable securities		155,677	641,144	-	-
Purchase of marketable securities		-	(1,269,580)	-	-
Interest received		199	9,589	199	9,589
Net cash used in investing activities		(202,605)	(1,318,029)	(176,790)	(434,410)
Cash Flows from Financing Activities					
Repayment of term loans		(1,590,845)	-	-	-
Repayment of hire purchase instalments		(619,661)	(330,200)	(545,430)	(299,953)
(Repayment of)/Proceeds from short term borrowings		(1,436,939)	6,273,583	(3,027,784)	6,273,583
Net cash (used in)/generated from financing activities		(3,647,445)	5,943,383	(3,573,214)	5,973,630
Net increase/(decrease) in cash and cash equivalents		487,444	(1,009,442)	(222,124)	(1,437,354)
Cash and cash equivalents at beginning of year		1,891,160	2,900,602	1,182,620	2,619,974
Cash and cash equivalents at end of year	20	2,378,604	1,891,160	960,496	1,182,620

The accompanying notes form an integral part of the financial statements.

1. CORPORATE INFORMATION

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the Second Board of the Bursa Malaysia Securities Berhad. The registered office of the Company is located at Kawasan Lembaga Pelabuhan Kuantan, KM25, Jalan Kuantan/Kemaman, Tanjung Gelang, P.O.Box 387, 25740 Kuantan, Pahang Darul Makmur.

The principal activities of the Company are flour milling and trading in its related products. The principal activities of the subsidiaries are transportation and sales of premix flour and its related products. There have been no significant changes in the nature of the principal activities during the financial year.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 30 July 2007.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

The financial statements comply with the provisions of the Companies Act, 1965 and applicable Financial Reporting Standards in Malaysia. At the beginning of the current financial year, the Group and the Company had adopted new and revised Financial Reporting Standards (FRSs) which are mandatory for financial periods beginning on or after 1 January 2006 as described fully in Note 2.3.

The financial statements of the Group and of the Company have also been prepared on a historical basis.

The financial statements are presented in Ringgit Malaysia (RM).

2.2 Summary of Significant Accounting Policies

(a) Subsidiaries and Basis of Consolidation

(i) Subsidiaries

Subsidiaries are entities over which the Group has the ability to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has such power over another entity.

In the Company's separate financial statements, investments in subsidiaries are stated at cost less impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

(ii) Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the balance sheet date. The financial statements of the subsidiaries are prepared for the same reporting date as the Company.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. In preparing the consolidated financial statements, intragroup balances, transactions and unrealised gains or losses are eliminated in full. Uniform accounting policies are adopted in the consolidated financial statements for like transactions and events in similar circumstances.

2.2 Summary of Significant Accounting Policies (Cont'd.)

(a) Subsidiaries and Basis of Consolidation (Cont'd.)

(ii) Basis of Consolidation (Cont'd.)

Acquisitions of subsidiaries are accounted for using the purchase method. The purchase method of accounting involves allocating the cost of the acquisition to the fair value of the assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The cost of an acquisition is measured as the aggregate of the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued, plus any costs directly attributable to the acquisition.

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

Minority interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group. It is measured at the minorities' share of the fair value of the subsidiaries' identifiable assets and liabilities at the acquisition date and the minorities' share of changes in the subsidiaries' equity since then.

(b) Property, Plant and Equipment and Depreciation

All items of property, plant and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred

Subsequent to recognition, property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Freehold land has an unlimited useful life and therefore is not depreciated. Buildings under construction are also not depreciated as these assets are not available for use. Depreciation of other property, plant and equipment is provided for on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life, at the following annual rates:

Buildings, factory and civil works	2.5% - 5%
Plant and machinery	3.33% - 5%
Equipment and fixtures	5% - 20%
Motor vehicles	10% - 20%

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any and the net carrying amount is recognised in profit or loss.

2.2 Summary of Significant Accounting Policies (Cont'd.)

(c) Impairment of Non-Financial Assets

The carrying amounts of assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss.

For the purpose of impairment testing of these assets, recoverable amount is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs to.

An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. 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. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated to reduce the carrying amount of the assets in the unit or groups of units on pro-rata basis.

An impairment loss is recognised in profit or loss in the period in which it arises.

(d) Inventories

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

Cost is determined using the first in, first out method. The cost of raw materials comprises costs of purchase. The costs of finished goods and work-in-progress comprise costs of raw materials, direct labour, other direct costs and appropriate proportions of manufacturing 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 necessary costs to make the sale.

(e) Financial Instruments

Financial instruments are recognised in the balance sheet when the Group has become a party to the contractual provisions of the instrument.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends and gains and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are recognised directly in equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

(i) Cash and Cash Equivalents

For the purposes of the cash flow statements, cash and cash equivalents include cash on hand and at bank and deposits at call, net of outstanding bank overdrafts.

2.2 Summary of Significant Accounting Policies (Cont'd.)

(e) Financial Instruments (Cont'd.)

(ii) Other Non-Current Investments

Non-current investments are stated at cost less impairment losses. On disposal of an investment, the difference between net disposal proceeds and its carrying amount is recognised in profit or loss.

(iii) Marketable Securities

Marketable securities are carried at the lower of cost and market value, determined on an aggregate basis. Cost is determined on the weighted average basis while market value is determined based on quoted market values. Increases or decreases in the carrying amount of marketable securities are recognised in the income statement. On disposal of marketable securities, the difference between net disposal proceeds and the carrying amount is recognised in profit or loss.

(iv) Trade Receivables

Trade receivables are carried at anticipated realisable values. Bad debts are written off when identified. An estimate is made for doubtful debts based on a review of all outstanding amounts as at the balance sheet date.

(v) Trade Payables

Trade payables are stated at the fair value of the consideration to be paid in the future for goods and services received.

(vi) Interest-Bearing Borrowings

Interest-bearing bank loans and overdrafts are recorded at the amount of proceeds received, net of transaction costs.

All borrowing costs are recognised as an expense in profit or loss in the period in which they are incurred.

(vii) Equity Instruments

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

(f) Leases

A lease is recognised as a finance lease if it transfers substantially to the Group all the risks and rewards incidental to ownership.

Assets acquired by way of hire purchase or finance leases are stated at an amount equal to the lower of their fair values and the present value of the minimum lease payments at the inception of the leases, less accumulated depreciation and impairment losses. The corresponding liability is included in the balance sheet as borrowings. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Company's incremental borrowing rate is used. Any initial direct costs are also added to the carrying amount of such assets.

2.2 Summary of Significant Accounting Policies (Cont'd.)

(f) Leases (Cont'd.)

Lease payments are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are recognised in the profit or loss over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

The depreciation policy for leased assets is in accordance with that for depreciable property, plant and equipment as described in Note 2.2 (b).

(g) Income Tax

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred tax is provided for, using the liability method. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also recognised directly in equity.

(h) Provisions for Liabilities

Provisions for liabilities are recognised when the Group has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

(i) Employee Benefits

(i) Short Term Benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employee. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by the employees that increase their entitlement to future compensated absences. Short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

2.2 Summary of Significant Accounting Policies (Cont'd.)

(i) Employee Benefits (Cont'd.)

(ii) Defined Contribution Plans

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities or funds and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years. Such contributions are recognised as an expense in the profit or loss as incurred. As required by law, the Group makes such contributions to the Employees Provident Fund ("EPF").

(j) Foreign Currencies

(i) Functional and Presentation Currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Ringgit Malaysia (RM), which is also the Company's functional currency.

(ii) Foreign Currency Transactions

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded in the functional currencies using the exchange rate prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are translated at the rates prevailing on the balance sheet date.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in profit or loss for the period.

(k) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

(i) Sale of Goods

Revenue is recognised net of sales taxes and discounts upon the transfer of risks and rewards of ownership to the buyer. 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.

(ii) Revenue from Services

Revenue from services rendered is recognised net of service taxes and discounts as and when the services are performed.

(iii) Interest Income

Interest income is recognised on an accrual basis using the effective interest method.

2.3 Changes in Accounting Policies, Effects and Changes in Comparatives Arising from Adoption of New and Revised FRSs

On 1 April 2006, the Company adopted the following FRSs mandatory for financial periods beginning on or after 1 January 2006:

FRS 2	Share-based Payment
FRS 3	Business Combinations
FRS 5	Non-current Assets Held for Sale and Discontinued Operations
FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 108	Accounting Policies, Changes in Accounting Estimates and Errors
FRS 110	Events after the Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 128	Investments in Associates
FRS 131	Interest in Joint Ventures
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 133	Earnings Per Share
FRS 136	Impairment of Assets
FRS 138	Intangible Assets
FRS 140	Investment Property

The Group will adopt the following new and revised FRSs that are mandatory for financial periods beginning on or after 1 October, 2006 in the financial statements of the Group for the year ending 31 March, 2008 thereafter:

FRS117	Leases
FRS124	Related Party Disclosures

The Group has not early adopted the deferred FRS 139-Financial Instruments: Recognition and Measurement and the following FRSs and amendment that are mandatory for financial periods beginning on or after 1 January 2007:

(i) FRS 6: Exploration for and Evaluation of Mineral Resources
FRS 6 is not relevant to the Group's operations.

(ii) Amendment to FRS 119_{2004}: Employee Benefits
- Actuarial Gains and Losses, Group Plans and Disclosures
This amendment introduces the option of an alternative recognition approach for actuarial gains and losses arising from post-employment defined benefit plans. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. This amendment is not applicable to the Group.

On 15 February 2007, the Malaysian Accounting Standards Board (MASB) issued the following amendments to FRS and interpretation (ICs) for Entities Other Than Private Entities:

(i) Amendments to FRS 121, The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operations;

(ii) IC Interpretation 1, Changes in Existing Decommissioning, Restoration and Similar Liabilities;

2.3 Changes in Accounting Policies, Effects and Changes in Comparatives Arising from Adoption of New and Revised FRSs (Cont'd.)

(iii) IC Interpretation 2, Members' Shares in Co-operative Entities and Similar Instruments;

(iv) IC Interpretation 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds;

(v) IC Interpretation 6, Liabilities arising from Participating in Specific Market - Waste Electrical and Electronic Equipment;

(vi) IC Interpretation 7, Applying the Restatement Approach under FRS 119_{2004}:Financial Reporting in Hyperinflationary Economies; and

(vii) IC Interpretation 8, Scope of FRS 2 Share-based payments.

The above amendments to FRSs and ICs are effective for accounting periods beginning on or after 1 July 2007. The initial application of the Amendments to FRS 121 and IC Interpretation 1 do not have any impact on the financial statements of the Group. Other ICs as issued above are not applicable to the Group.

FRS 5, 128, 131, 138 and 140 are not relevant to the Group's operations.

The adoption of revised of FRS 2, 3, 101, 102, 108, 110, 116, 121, 127, 132, 133 and 136 does not result in significant changes in accounting policies of the Group. The principal changes in accounting policies and their effects resulting from the adoption of the other new and revised FRSs are discussed below:

FRS 101: Presentation of Financial Statements

Prior to 1 January 2006, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and equity. Upon the adoption of the revised FRS 101, minority interests are now presented within total equity. In the consolidated income statement, minority interests are presented as an allocation of the total profit or loss for the year. A similar requirement is also applicable to the statement of changes in equity. The revised FRS 101 also requires disclosure, on the face of the statement of changes in equity, total recognised income and expenses for the year, showing separately the amounts attributable to equity holders of the Company and to minority interests.

These changes in presentation have been applied retrospectively. However, no restatement of comparative is disclosed since the amount of minority interest involved is not significant. These changes in presentation have no impact on the Company's financial statements.

2.4 Changes in Estimates

The revised FRS 116: Property, Plant and Equipment requires the review of the residual value and remaining useful life of an item of property, plant and equipment at least at each financial year end. The Group revised the residual values of certain buildings and the estimated useful lives of certain plant and machineries from twenty to thirty years with effect from 1 April 2006. The revisions were accounted for prospectively as a change in accounting estimates and as a result, the depreciation charges of the Group and of the Company for the current financial year have been reduced by RM1,359,307 and RM1,312,896 respectively.