



ANNUAL REPORT  

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**FEDERAL FURNITURE HOLDINGS (M) BHD**  
*(Incorporated in Malaysia) Company No.: 97092-W*

# contents

|  |          |
|--|----------|
| Notice of Annual General Meeting                               | 2-3      |
| Statement Accompanying<br>the Notice of Annual General Meeting | 3        |
| Corporate Information  | 4        |
| Audit Committee Report   | 5-8      |
| Corporate Governance Disclosure<br>and Other Information       | 9-13     |
| Corporate Social Responsibility                                | 13       |
| Statement of Internal Control                                  | 14       |
| Board of Directors   | 15       |
| Profile of Directors   | 16-18    |
| Corporate Structure  | 19       |
| Chairman's Statement   | 20-21    |
| Directors' Report  | 22-26    |
| Statement by Directors   | 27       |
| Statutory Declaration  | 27       |
| Report of the Auditors   | 28       |
| Income Statements  | 29       |
| Balance Sheets   | 30-31    |
| Consolidated Statement of Changes in Equity                    | 32       |
| Company Statement of Changes in Equity                         | 33       |
| Consolidated Cash Flow Statement                               | 34-35    |
| Cash Flow Statement  | 36       |
| Notes to the Financial Statements                              | 37-85    |
| Shareholders' Statistics                                       | 86-87    |
| Warrantholders' Statistics                                     | 88-89    |
| List of Properties   | 90       |
| Proxy Form   | Enclosed |

# Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Twenty-Fifth Annual General Meeting of Federal Furniture Holdings (M) Berhad will be held at Level P1, Menara Choy Fook On, No. 1B, Jalan Yong Shook Lin, 46050 Petaling Jaya, Selangor Darul Ehsan on Monday, 30 June 2008 at 3.00p.m. for the following purposes:-

## AGENDA

1. To receive the Audited Financial Statements for the financial year ended 31 December 2007 together with the Reports of the Directors and the Auditors thereon. **(Resolution 1)**
2. To approve Directors' fees for the financial year ended 31 December 2007. **(Resolution 2)**
3. To consider and if thought fit, to pass the following ordinary resolution in accordance with Section 129(6) of the Companies Act, 1965:-  
"THAT pursuant to Section 129(6) of the Companies Act, 1965, Dr. Choy Fook On who has exceeded the age of 70 years be and is hereby re-appointed as a Director of the Company and to hold office until the conclusion of the next Annual General Meeting."  
**(Resolution 3)**
4. To re-elect the following Directors who shall retire in accordance with Article 98 of the Company's Articles of Association and who being eligible, offered themselves for re-election:-
  - (a) Mr. Choy Wai Ceong; and **(Resolution 4)**
  - (b) Tuan Haji Hussein Bin Hamzah **(Resolution 5)**
5. To re-appoint Messrs Ernst & Young as Auditors of the Company until the conclusion of the next Annual General Meeting and to authorise the Directors to fix their remuneration. **(Resolution 6)**
6. **As Special Business:-**  
To consider and, if thought fit, to pass the following ordinary resolution:-  
**Ordinary Resolution**  
**- Authority to issue shares pursuant to Section 132D of the Companies Act, 1965**  
"THAT subject to Section 132D of the Companies Act, 1965 and approvals of the relevant governmental/regulatory authorities, the Directors be and are hereby empowered to issue and allot shares in the Company, at any time to such persons and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit, provided that the aggregate number of shares issued pursuant to this resolution does not exceed ten per centum (10%) of the issued and paid-up share capital of the Company for the time being and the Directors be and are also empowered to obtain the approval for the listing of and quotation for the additional shares so issued on Bursa Malaysia Securities Berhad; AND THAT such authority shall commence immediately upon the passing of this resolution and continue to be in force until the conclusion of the next Annual General Meeting of the Company."  
**(Resolution 7)**
7. To transact any other business for which due notice has been given.

By Order of the Board

Chua Siew Chuan (MAICSA 0777689)  
Mak Chooi Peng (MAICSA 7017931)  
Company Secretaries

Selangor Darul Ehsan  
6 June 2008

**Explanatory Notes to Special Business:-**

**Authority to issue shares pursuant to Section 132D of the Companies Act, 1965**

The above Ordinary Resolution, if passed, will empower the Directors of the Company to issue and allot shares at any time in their absolute discretion without convening a general meeting provided that the aggregate number of the shares issued does not exceed 10% of the issued share capital of the Company for the time being.

**Notes:**

1. A member entitled to attend and vote at the Meeting is entitled to appoint one (1) or more proxies (who may but need not be a member(s) of the Company) to attend and vote in his stead. A member may appoint any person to be his proxy without limitation and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
2. If a member appoints two (2) or more proxies, the appointments shall be invalid unless he states the percentage of his holdings to be represented by each proxy.
3. The Proxy Form duly completed, must be deposited at the Registered Office of the Company at Level P1, Menara Choy Fook On, No. 1B, Jalan Yong Shook Lin, 46050 Petaling Jaya, Selangor Darul Ehsan not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof.
4. In case of a corporation, the Proxy Form must be either executed under common seal or signed by a duly authorised officer or attorney.
5. If the Proxy Form is returned without any indication as to how the proxy shall vote, the proxy will vote or abstain as he thinks fit and if no name is inserted in the space for the name of your proxy, the Chairman of the Meeting will act as your proxy.

## Statement Accompanying the Notice of Annual General Meeting

The Directors standing for re-election at the Twenty-Fifth Annual General Meeting of the Company are as follows:-

| <b>Name of Director</b>   | <b>Details of Individual Director and Other Disclosure Requirements</b> |
|---|---|
| Dr. Choy Fook On<br>(Section 129(6) of the Companies Act, 1965)                       | Refer to page 16 of the Annual Report                                   |
| Mr. Choy Wai Ceong<br>(Article 98 of the Company's Articles of Association)           | Refer to page 17 of the Annual Report                                   |
| Tuan Haji Hussein Bin Hamzah<br>(Article 98 of the Company's Articles of Association) | Refer to page 18 of the Annual Report                                   |

# Corporate Information

## **BOARD OF DIRECTORS**

|                                   |  |
|-----------------------------------|--|
| Dr Choy Fook On                   | - Non-Independent Non-Executive Chairman |
| Choy Wai Hin                      | - Managing Director                      |
| Tan Geok Foong                    | - Executive Director                     |
| Choy Wai Ceong                    | - Executive Director                     |
| Haji Hussein bin Hamzah           | - Independent Non-Executive Director     |
| Haji Md Abdul Wahab bin Md Shahir | - Independent Non-Executive Director     |

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## **COMPANY SECRETARIES**

Chua Siew Chuan (MAICSA 0777689)  
Mak Chooi Peng (MAICSA 7017931)

## **REGISTERED OFFICE/PRINCIPAL PLACE OF BUSINESS**

Level P1, Menara Choy Fook On  
No. 1B, Jalan Yong Shook Lin  
46050 Petaling Jaya, Selangor Darul Ehsan, Malaysia  
Tel: 603-7955 9937 Fax: 603-7956 2812  
Website: <http://www.federal-furniture.com>

## **SHARE REGISTRAR**

Symphony Share Registrars Sdn Bhd  
Level 26, Menara Multi Purpose, Capital Square  
No. 8, Jalan Munshi Abdullah  
50100 Kuala Lumpur  
Tel: 603-2721 2222 Fax: 603-2721 2530

## **AUDITORS**

Ernst & Young  
Chartered Accountants  
Level 23A, Menara Milenium, Jalan Damanlela  
Pusat Bandar Damansara, Damansara Heights  
50490 Kuala Lumpur

## **PRINCIPAL BANKERS**

CIMB Bank Berhad  
RHB Bank Berhad  
Malayan Banking Berhad

## **SOLICITORS**

Lee, Ling & Partners  
Lee, Ong & Kandiah  
Raslan Loong  
Surend Zeffree & Partners

## **STOCK EXCHANGE**

Bursa Malaysia Securities Berhad - Second Board

# Audit Committee Report

## 1. MEMBERSHIP

The present members of the Audit Committee of the Company are:

| Name  | Position |
|---|----------|
| (a) Haji Md Abdul Wahab bin Md Shahir*#                                       | Chairman |
| (b) Haji Hussein bin Hamzah *   | Member   |
| (c) Choy Wai Hin + ( <i>resigned with effect from 29 November 2007</i> )      | Member   |
| (d) Dr Choy Fook On ** ( <i>appointed with effect from 29 November 2007</i> ) | Member   |

\* Independent Non-Executive Director

\*\* Non-Executive Director

+ Managing Director

# Member of Malaysian Institute of Accountants

## 2. COMPOSITION OF MEMBERS

The Board shall appoint the Audit Committee members from amongst themselves, comprising no fewer than three (3) non-executive directors. The majority of the Audit Committee members shall be independent directors.

In this respect, the Board adopts the definition of "independent director" as defined under the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities").

All members of the Audit Committee shall be financially literate and at least one (1) member of the Audit Committee must be:-

- (a) a member of the Malaysian Institute of Accountant ("MIA"); or
- (b) if he is not a member of MIA, he must have at least three (3) years of working experience and:
  - i. he must have passed the examinations specified in Part I of the First Schedule of the Accountants Act 1967; or
  - ii. he must be a member of one of the associations of the accountants specified in Part II of the First Schedule of the Accountants Act 1967; or

fulfils such other requirements as prescribed by Bursa Securities.

No alternate director of the Board shall be appointed as a member of the Audit Committee.

The term of office and performance of the Audit Committee and each of its members shall be reviewed by the Board at least once every three (3) years to determine whether such Audit Committee and members have carried out their duties in accordance with their terms of reference.

### Retirement and resignation

If a member of the Audit Committee resigns, dies, or for any reason ceases to be a member with the result that the number of members is reduced below three (3), the Board shall within three (3) months of the event appoint such number of the new members as may be required to fill the vacancy.

**3. CHAIRMAN**

The members of the Audit Committee shall elect a Chairman from amongst their number who shall be an independent director.

In the absence of the Chairman of the Audit Committee, the other members of the Audit Committee shall amongst themselves elect a Chairman who must be an independent director to chair the meeting.

**4. SECRETARY**

The Company Secretary shall be the Secretary of the Audit Committee and as a reporting procedure, the Minutes shall be circulated to all members of the Board.

**5. MEETINGS**

The Audit Committee shall meet regularly, with due notice of issues to be discussed, and shall record its conclusions in discharging its duties and responsibilities. In addition, the Chairman may call for additional meetings at any time at the Chairman's discretion.

Upon the request of the external auditor, the Chairman of the Audit Committee shall convene a meeting of the Audit Committee to consider any matter the external auditor believes should be brought to the attention of the directors or shareholders.

Notice of Audit Committee meetings shall be given to all the Audit Committee members unless the Audit Committee waives such requirement.

The Chairman of the Audit Committee shall engage on a continuous basis with senior management, such as the Chairman, the Chief Executive Officer, the Group Financial Controller, the head of internal audit and the external auditors in order to be kept informed of matters affecting the Company.

The Group Financial Controller, the head of internal audit and a representative of the external auditors should normally attend meetings. Other Board members and employees may attend meetings upon the invitation of the Audit Committee. However, the Audit Committee shall meet with the external auditors without executive Board members present at least twice a year and whenever necessary.

Questions arising at any meeting of the Audit Committee shall be decided by a majority of votes of the members present, and in the case of equality of votes, the Chairman of the Audit Committee shall have a second or casting vote.

The Audit Committee held four (4) meetings in the financial year ended 31 December 2007. In addition, the Audit Committee also met with the external auditors without the presence of any of the executive directors, management and staff of the Company. The details of attendance of each Audit Committee member are as follow;

|   |     |
|---|-----|
| Haji Md Abdul Wahab bin Md Shahir (Chairman)                                | 4/4 |
| Haji Hussein bin Hamzah (Member)  | 4/4 |
| Choy Wai Hin (Member) ( <i>resigned with effect from 29 November 2007</i> ) | 4/4 |
| Dr. Choy Fook On ( <i>appointed with effect from 29 November 2007</i> )     | –   |

## 6. MINUTES

Minutes of each meeting shall be kept at the registered office and distributed to each member of the Audit Committee and also to the other members of the Board. The Audit Committee Chairman shall report on each meeting to the Board.

The minutes of the Audit Committee meeting shall be signed by the Chairman of the meeting at which the proceedings were held or by the Chairman of the next succeeding meeting.

## 7. QUORUM

The quorum for the Audit Committee meeting shall be the majority of members present whom must be independent directors.

## 8. OBJECTIVES

The principal objectives of the Audit Committee are to assist the Board in discharging its statutory duties and responsibilities relating to accounting and reporting practices of the holding company and each of its subsidiaries. In addition, the Audit Committee shall:-

- (a) evaluate the quality of the audits performed by the internal and external auditors;
- (b) provide assurance that the financial information presented by management is relevant, reliable and timely;
- (c) oversee compliance with laws and regulations and observance of a proper code of conduct; and
- (d) determine the quality, adequacy and effectiveness of the Group's control environment.

## 9. AUTHORITY

The Audit Committee shall, in accordance with a procedure to be determined by the Board and at the expense of the Company,

- (a) have explicit authority to investigate any matter within its terms of reference, the resources to do so, and full access to information. All employees shall be directed to co-operate as requested by members of the Audit Committee.
- (b) have full and unlimited/unrestricted access to all information and documents/resources which are required to perform its duties as well as to the internal and external auditors and senior management of the Company and Group.
- (c) obtain independent professional or other advice and to invite outsiders with relevant experience to attend, if necessary.
- (d) have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity (if any).
- (e) where the Audit Committee is of the view that the matter reported by it to the Board has not been satisfactorily resolved resulting in a breach of the Listing Requirements, the Audit Committee shall promptly report such matter to Bursa Securities.

## 10. DUTIES AND RESPONSIBILITIES

The duties and responsibilities of the Audit Committee are as follows:-

- (a) To consider the appointment of the external auditor, the audit fee and any question of resignation or dismissal;
- (b) To discuss with the external auditor before the audit commences, the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved;
- (c) To review with the external auditor his evaluation of the system of internal controls and his audit report;



## 10. DUTIES AND RESPONSIBILITIES (Cont'd)

- (d) To review the quarterly and year-end financial statements of the Board, focusing particularly on:-
- any change in accounting policies and practices;
  - significant adjustments arising from the audit;
  - the going concern assumption; and
  - compliance with accounting standards and other legal requirements.
- (e) To discuss problems and reservations arising from the interim and final audits, and any matter the auditor may wish to discuss (in the absence of management, where necessary);
- (f) To review the external auditor's management letter and management's response;
- (g) To do the following, in relation to the internal audit function:-
- review the adequacy of the scope, functions and resources of the internal audit function, and that it has the necessary authority to carry out its work;
  - review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit function;
  - review any appraisal or assessment of the performance of members of the internal audit function;
  - approve any appointment or termination of senior staff members of the internal audit function; and
  - take cognizance of resignations of internal audit staff members and provide the resigning staff member an opportunity to submit his reasons for resigning.
- (h) To consider any related party transactions and conflict of interest situation that may arise within the Company or Group including any transaction, procedure or course of conduct that raises questions of management integrity;
- (i) To report its findings on the financial and management performance, and other material matters to the Board;
- (j) To consider the major findings of internal investigations and management's response;
- (k) To verify the allocation of employees' share option scheme ("ESOS") in compliance with the criteria as stipulated in the by-laws of ESOS of the Company, if any;
- (l) To determine the remit of the internal audit function;
- (m) To consider other topics as defined by the Board; and
- (n) To consider and examine such other matters as the Audit Committee considers appropriate.

## 11. SUMMARY OF ACTIVITIES

During the financial year, the summary of activities of the Audit Committee is as follows:

- Reviewed and recommended the quarterly consolidated results for Board of Directors' approval
- Reviewed and recommended the annual audited accounts for Board of Directors' approval
- Reviewed with the external auditors their audit plan and the findings and recommendations during the course of their audit
- Reviewed and approved the internal audit program and reports prepared by the Internal Audit Department
- Oversee the internal audit function
- Reviewed and approved the implementation plan of the Risk Management Framework for the management of risk within the Company and the Group

## 12. INTERNAL AUDIT FUNCTION

The internal audit function is carried out by the Internal Audit Department that reports directly to the Audit Committee. During the financial year, the Internal Audit Department presented four internal audit reports involving two subsidiaries in the areas of internal control and operational efficiencies.

# Corporate Governance Disclosure and Other Information

## A. STATEMENT OF CORPORATE GOVERNANCE

The Board of Directors recognises the importance of corporate governance and is taking steps to continuously evaluate and improve management practices and systems for the enhancement of the standard of corporate governance applied by the Group. In doing so the Board has taken guidance from the Malaysian Code on Corporate Governance.

### Board of Directors

The members of the Board reflect a broad range of experience, skills and knowledge required to successfully direct and supervise the Group's business activities. The Board is headed by a Non-Independent Non-Executive Chairman who has intimate knowledge of the business and who is capable of providing the leadership expected of the position. The day-to-day management of the operations is entrusted to the Managing Director. There is a clearly accepted division of responsibilities at the head of the Company, which will ensure a balance of power and responsibility, such that no one individual has unfettered powers of decision.

### Board Balance

The Board consists of one Non-Independent Non-Executive Chairman, three Executive Directors and two Independent Non-Executive directors. The independent non-executive directors, who constitute one third of the Board, have the skills and experience to exert their independent judgement to bear on issues of strategy, performance and resources including standards of conduct. With one third of the Board composition being non-executive and independent, the interests of the shareholders are adequately represented and protected.

### Board Meetings

The Board holds meetings at least four times in each financial year and will hold additional meetings if the situation requires. At each meeting the Board will consider: -

- an operational report from the Managing Director;
- a report on the financial performance;
- specific proposals for capital expenditure and acquisitions if any;
- major issues and opportunities for the Company; and
- approve the Interim Financial Reports for announcement to relevant authorities.

During the financial year ended 31 December 2007, there were 4 board meetings held and details of attendance by directors who held office during the financial year are as follows:-

| <b>Name of director</b>           | <b>No. of meetings attended</b> |
|-----------------------------------|---------------------------------|
| Dr. Choy Fook On                  | 3/4                             |
| Choy Wai Hin                      | 3/4                             |
| Tan Geok Foong                    | 3/4                             |
| Choy Wai Ceong                    | 4/4                             |
| Haji Hussein bin Hamzah           | 4/4                             |
| Haji Md Abdul Wahab bin Md Shahir | 4/4                             |

### Supply of Information

The Directors have full and unrestricted access to all information pertaining to the Group's affairs. All directors receive relevant board papers prior to board meetings. The contents of the board papers include agenda for the meeting, minutes of the previous board meeting, reports on performance of key operating units, announcements released to Bursa Malaysia Securities Berhad and matters arising for Board deliberations.

**A. STATEMENT OF CORPORATE GOVERNANCE (cont'd)**

**Supply of Information (Cont'd)**

All Directors have access to the advice and services of the Company Secretaries and the advice of such other independent professional as may be deemed necessary at the Company's expense.

**Appointments to the Board**

New appointment to the Board is recommended by the Nomination Committee. The members of the Nomination Committee during the financial year ended 31 December 2007 are as follows:-

1. Haji Hussein bin Hamzah (Chairman, Independent Non-Executive Director)
2. Haji Md Abdul Wahab bin Md Shahir (Member, Independent Non-Executive Director)
3. Dr. Choy Fook On (Member, Non-Independent Non-Executive Chairman)

The composition of the Nomination Committee is a team of wholly non-executive directors. The Nomination Committee ensures that the Board has an appropriate balance of skills and experience. For this purpose, the Committee regularly assesses the effectiveness of the Board as a whole and the performance of the Directors of the Company on an on-going basis. Terms of reference of the Committee are also clearly defined.

**Re-election**

In accordance to the Company's Articles of Association, all directors, including the Managing Director, shall retire from office once at least in each three-year period. Additionally, where the Managing Director is appointed for a fixed term, that term shall not exceed three years.

**Directors' Remuneration**

The Remuneration Committee reviews, assesses and recommends to the Board the remuneration packages of Executive Directors. The members of the Remuneration Committee during the financial year ended 31 December 2007 are as follows:

1. Haji Hussein bin Hamzah (Chairman, Independent Non-Executive Director)
2. Haji Md Abdul Wahab bin Md Shahir (Member, Independent Non-Executive Director)
3. Dr. Choy Fook On (Member, Non-Independent Non-Executive Chairman)

The composition of the Remuneration Committee is a team of wholly non-executive directors. As recommended by the revised Malaysian Code on Corporate Governance, the Executive Directors play no part in decisions on their own remuneration.

The remuneration packages of Non-Executive Directors are determined by the Board as a whole with the individuals concerned abstaining from discussion on their own remuneration.

Details of Directors' remuneration for the financial year ended 31 December 2007 are as follows:

|                               | <b>Executive<br/>RM</b> | <b>Non-Executive<br/>RM</b> |
|-------------------------------|-------------------------|-----------------------------|
| Fees                          | 24,000                  | 5,250                       |
| Salaries and other emoluments | 523,188                 | 43,217                      |

**A. STATEMENT OF CORPORATE GOVERNANCE (Cont'd)**

**Directors' Remuneration (Cont'd)**

The number of Directors of the Company whose total remuneration during the year fall within the following bands is as follows:

|                       |   |
|-----------------------|---|
| Less than RM50,000    | 2 |
| RM50,001 - RM100,000  | – |
| RM100,001 - RM150,000 | 2 |
| RM150,001 - RM200,000 | 2 |

Details of remuneration of each Director is not disclosed as the Board is of the view that the above disclosure by banding adequately achieve the remuneration disclosure objective.

**Directors' training**

All the Directors have attended the Bursa Malaysia Securities Berhad's Mandatory Accreditation Program ("MAP"). They will attend further training program from time to time to keep abreast with the relevant changes and development in laws and regulations as well as the business development.

Amongst such trainings, programmes and courses attended by the Directors during the financial year under review include:-

1. Updates on Listing Requirements - Issues and Challenges
2. Workshop on Investor Relations - A Practical Approach
3. London AIM's Listing Seminar
4. Recent Amendment to Malaysia Code of Corporate Governance
5. Finance Forum for Bumiputra Businessman and Industrialist
6. Malaysian Code of Takeover and Mergers - Issues and Challenges
7. North of the Border
8. Effective Bird's Nest Processing and Market Development

The Board on a continuous basis, evaluate and determine the training needs of all Directors to enable the Directors to effectively discharge their duties. All Directors will be considered for continuous training on yearly rotation basis.

**Audit Committee**

The full Audit Committee report including its membership, composition, roles and responsibilities are laid out in the Audit Committee Report.

**Shareholders**

The Board believes in maintaining an effective communication policy that encourages feedback and comments from shareholders during the AGM. Each item of special business included in the notice is accompanied by full explanation of the effects of a proposed resolution. In case of re-election of Directors, the relevant particulars relating to the directors are stated to assist shareholders in making an informed decision. Communication with shareholders and the general public is also maintained through various announcements released to Bursa Securities including the mandatory announcement of interim financial reports.

**Financial Reporting**

The Board endeavours to present a balanced and understandable assessment of the Group's position and prospects when releasing the annual financial statements, Chairman's Statements and quarterly interim reports on consolidated results. All financial reports are reviewed by the Audit Committee before approval by the Board. One of the members of the Audit Committee is a qualified accountant and member of the Malaysian Institute of Accountants. The responsibility of the Audit Committee in relation to the financial reporting is detailed in the Audit Committee Report.

**A. STATEMENT OF CORPORATE GOVERNANCE (Cont'd)**

**Internal Control**

The Board acknowledges its overall responsibility for maintaining a sound system of internal control to safeguard shareholders' investment and the Group's assets. An integral part of this system of internal control is the establishment of an internal audit department that is independent of the activities they audit and is able to exercise due professional care. Further elaboration on this can be found on the Statement of Internal Control on page 14 of the Annual Report.

**Relationship with the Auditors**

The duties of the Audit Committee include keeping under review the scope and results of the external audit and its effectiveness and the independence and objectivity of the auditors. The external auditors have unrestricted access to the Audit Committee and the findings of the external auditors are reported to the Audit Committee at least once a year.

**B. DIRECTORS' RESPONSIBILITY STATEMENT**

The Directors have overall responsibility under the Companies Act, 1965 for the preparation of annual financial statements in accordance with applicable Financial Reporting Standards in Malaysia so as to give a true and fair view of the affairs of the Company and the Group at the end of the financial year and of the results and cash flows for the year. The Directors are also required to ensure that proper accounting and other records are maintained to sufficiently explain the transactions and cause these records to be kept in such a manner as to enable them to be conveniently and properly audited.

The Listing Requirements of Bursa Securities require that the annual audited financial statements be prepared in accordance with applicable Financial Reporting Standards in Malaysia and the Ninth Schedule of the Companies Act 1965.

In preparing the annual audited financial statements, the Directors have:-

- Selected appropriate accounting policies and applied them consistently
- Ensured that accounting standards adopted are in compliance with applicable Financial Reporting Standards in Malaysia and where applicable the International Accounting Standard Committee (IASC)
- Made judgements and estimates that are reasonable and prudent
- Ensured complete disclosures of all information required under the Companies Act 1965 and the Listing Requirements of Bursa Securities

**C. OTHER INFORMATION**

**Options, warrants or Convertible Securities**

There were no options, warrants or convertible securities converted during the financial year.

**American Depository Receipt ("ADR") or Global Depository Receipt ("GDR") Programme**

The Company did not sponsor any ADR or GDR programme during the year.

**Sanctions and/or penalties imposed by relevant regulatory bodies**

There were no sanctions and/or penalties imposed by the relevant regulatory bodies during the financial year.

**Non-audit fees**

Save as disclosed in Note 7 Other Expenses of the Notes to the Financial Statements on page 52 of the Annual Report, there were no non-audit fees paid to external auditors for the financial year ended 31 December 2007.

**C. OTHER INFORMATION (Cont'd)**

**Variation in Profit Estimate, Forecast or Projection**

There were no profit estimate, forecast or projections previously made.

**Material Contracts Involving Directors' or Major Shareholders' Interest**

Transactions that involve the interests of directors and major shareholders are disclosed in Note 39 Significant Related Party Transactions of the Notes to the Financial Statements on page 79 and 80 of the Annual Report. Save as disclosed therein there are no material contracts still subsisting that involve the interests of directors and major shareholders.

**Revaluation of Landed Properties**

The Company's policy on revaluation of properties is stated in Note 2.2 (d) Property, Plant and Equipment and Depreciation of the Notes to the Financial Statements on pages 38 and 39 of the Annual Report.

## Corporate Social Responsibility

During the financial year ended 31 December 2007, the Company has carried out the following activities as part of its corporate social responsibility.

- **EMPLOYEES**

The Company believes that employees being the valuable assets needs to be provided with the necessary training and development to enhance their skill and knowledge. In this respect, employees are nominated to attend a wide variety of training programmes that will enable them to upgrade themselves. In addition to that the Company has also continued with its in-house Management Development Programme. The main objective of the Management Development Programme is to identify, train and develop a group of managers and leaders for the future.

The Company has organised weekly exercise classes for its employees as well as has in place an Adventure Club that organises recreational activities for staff on quarterly basis. All this activities would allow our employees to take time off from work and spend time with fellow colleagues.

- **ENVIRONMENTAL ACTIVITIES**

The Company has a policy to introduce wherever possible work practices, manufacturing processes and substitution of raw materials with environmental friendly alternatives.

Our Banting plant is in the process of getting certified under the Forest Stewardship Council (FSC) scheme whereby certified organisations will use wood from sustainably managed forests.

As exports accounts for a major part of our business, we have recently commenced the usage of honeycomb cardboard pallets for the packing of our exported products. As opposed to traditional wood or plywood pallets, honeycomb cardboard pallets negates the need to undergo toxic fumigation, as well as being extremely recyclable.

Our export division has a programme to convert utilization of plywood, MDF and particle boards to meet the strictest international standards (e.g. F 4-Star) of Volatile Organic Compounds such as urea formaldehyde, and currently about 15% of our products are utilizing zero VOC emission board materials for our production. We envisage this to increase significantly over the years.

# Statement of Internal Control

## **RESPONSIBILITY**

The Board and the Company maintain a sound system of internal control in accordance to the Malaysian Code on Corporate Governance to safeguard the shareholders' investments and the Company's assets.

The internal control system is designed to enable the Group to manage rather than to eliminate risks. The Board acknowledges that risks cannot be completely eliminated and the system can only provide reasonable and not absolute assurance against material misstatement, loss and fraud.

## **KEY PROCESSES**

The internal control system continuously identify, evaluate and manage the significant risks faced by the Group and was operational for the financial year under review up to the date of approval of the annual report.

The processes within the internal control system are regularly reviewed by the Board and are in accordance with the guidance as contained in the Statement on Internal Control - Guidance for Directors of Public Listed Companies.

The key processes employed by the Board include the following:

- The Group's internal audit department conducts regular reviews of business processes to assess the effectiveness of internal controls and highlight significant risks impacting the Group.
- The internal audit department reports to the Audit Committee who regularly reviews and holds discussions with the internal audit department and management on the findings and recommendations in reports prepared by the internal audit department.
- A Risk Management Framework has been implemented to identify the significant risks faced by the Group and plans are made to mitigate and manage the risks.
- The Board receives and reviews regular reports from management covering the financial performance and key business indicators of various business operating units.

# Board of Directors



Top row Left to right:  
**Choy Wai Ceong,**  
**Haji Hussein bin Hamzah,**  
**Choy Wai Hin**

Bottom row:  
**Tan Geok Foong,**  
**Dr Choy Fook On,**  
**Haji Md Abdul Wahab bin Md Shahir**



# Profile of Directors

## **DR CHOY FOOK ON**

Malaysian, aged 71, is the Non-Independent Non-Executive Chairman and founder of FFHB Group and was appointed to the Board of Directors on 2 February 1983. He was appointed Executive Chairman on 6 November 1992 and held the position of Managing Director from 12 February 1993 until 8 August 1996. Dr. Choy is also a member of the Nomination and Remuneration Committee.

In 1996, the Pacific Western University in the United States of America awarded Dr. Choy a Degree in Doctor of Philosophy in Business Administration. He has been involved in the furniture and interior fit-out works industries for more than 30 years and has acquired extensive experience and knowledge in manufacturing, exporting, distribution and marketing of furniture, renovation, and interior design of offices and hotels. In 1990, he was appointed by the World Bank to act as a Project Consultant for the development of wood-based industry for the General Bureaux of Guangdong State Farms and Hainan State Farms in the People's Republic of China.

Dr. Choy is the spouse of Mdm. Tan Geok Foong, an Executive Director, and father of Messrs. Choy Wai Hin and Choy Wai Ceong who are Managing Director and Executive Director respectively as well as major shareholders of the Company. He is a director and major shareholder of Choy Fook On & Sons Realty Sdn Bhd, a major shareholder of the Company. He has no conflict of interest with the Company and has not been convicted for any offences within the past 10 years. During the financial year ended 31 December 2007 he attended 3 out of the 4 board meetings held. Dr. Choy's interest in securities of the Company and its subsidiaries is stated in the Directors' Report on page 23 of the Annual Report.

## **MADAM TAN GEOK FOONG**

Malaysian, aged 66, was appointed Executive Director of FFHB on 2 February 1983. She has more than 20 years experience in the interior fit-out works and in retailing, trading and manufacturing of wood-based products. Currently she is actively involved in the retailing operations of the Group. She also sits on the Board of other private limited companies involved in property development and property investments.

Mdm. Tan is the spouse of Dr. Choy Fook On, the Non-Independent Non-Executive Chairman, and mother of Messrs. Choy Wai Hin and Choy Wai Ceong who are Managing Director and Executive Director respectively as well as major shareholders of the Company. She is also director and major shareholder of Choy Fook On & Sons Realty Sdn Bhd, a major shareholder of the Company. She has no conflict of interest with the Company and has no convictions for offences within the past 10 years. During the financial year ended 31 December 2007 she attended 3 out of the 4 board meetings held. Mdm. Tan's interest in securities of the Company and its subsidiaries is stated in the Directors' Report on page 23 of the Annual Report.

**MR CHOY WAI HIN**

Malaysian, aged 44, has been the Group Managing Director of FFHB since 8 August 1996 and was first appointed to the Board on 1 November 1991.

Mr. Choy graduated with a Bachelor of Science (Honours) degree in Civil Engineering from the University of London, United Kingdom in 1986. He joined Alam Jurutera Perunding, a firm of Quantity Surveyors, as an engineer in 1987 and, in the same year, left to join the Group. Prior to his appointment as Group Managing Director, he was responsible for the production and domestic marketing for the FFHB Group. Presently, as the Group Managing Director of FFHB, he has overall responsibilities for the directions and profitability of the Group. In 1997, he attended the Program for Management Development at the School of Business Administration, Harvard Business School in the United States of America.

Mr. Choy Wai Hin is the son of Dr. Choy Fook On, the Non-Independent Non-Executive Chairman and Mdm. Tan Geok Foong and brother of Mr. Choy Wai Ceong who are executive directors and major shareholders of the Company. He is a director and major shareholder of Choy Fook On & Sons Realty Sdn Bhd, a major shareholder of the Company. He has no conflict of interest with the Company and never been convicted for any offences within the past 10 years. During the financial year ended 31 December 2007 he attended 3 out of the 4 board meetings held. Mr. Choy's interest in securities of the Company and its subsidiaries is stated in the Directors' Report on page 23 of the Annual Report.

**MR CHOY WAI CEONG**

Malaysian, aged 43, has been the Executive Director of FFHB since 1 November 1991. He holds a Bachelor of Law (Hons) degree from University of London, United Kingdom and was called to the English Bar (Middle Temple) in 1986. Prior to joining the Group in 1987, he worked at the law firm of Nik Hussain & Partners for a period of one year. As a result of his active participation in the overseas market, he has acquired substantial experience in the international furniture market and has developed an intimate knowledge of the overseas market structure, distribution system, pricing and trade opportunities. Mr. Choy is also the Managing Director of the Masteron Group which is involved in property developments and property investments.

Mr. Choy Wai Ceong is the son of Dr. Choy Fook On, the Non-Independent Non-Executive Chairman, and Mdm. Tan Geok Foong, Executive Director, and brother of Mr. Choy Wai Hin, the Managing Director and they are all major shareholders of the Company. He is a director and major shareholder of Choy Fook On & Sons Realty Sdn Bhd, a major shareholder of the Company. He has no conflict of interest with the Company and has no convictions for offences within the past 10 years. During the financial year ended 31 December 2007 he attended all 4 board meetings held. Mr. Choy's interest in securities of the Company and its subsidiaries is stated in the Directors' Report on page 23 of the Annual Report.

#### **HAJI HUSSEIN BIN HAMZAH**

Malaysian, aged 63, has been an Independent Non-Executive Director since 7 August 2004. He is a member of the Audit Committee and Chairman of the Nomination and Remuneration Committees.

He holds Associateship in Architecture from Western Australian Institute of Technology and Diploma in Architecture from MARA Institute of Technology. He is a Registered Architect on Board of Architects, Malaysia. He held various positions in Professional Institutes including Pertubuhan Arkitek Malaysia ("PAM") serving as President from 1989 to 1990, and Institut Rekabentuk Dalaman Malaysia ("IPDM") serving as President from 1992 to 1994. He had previously served as a member representing PAM on the Board of Architects (1990 to 1992), the committee for GATT and Trade in Services, Ministry of Finance, the Consultative Panel for the National Housing Policy and as Chairman for the Standards Committee on use of buildings by the handicapped in the Ministry of Housing and Local Government. He is also a Director of Idaman Unggul Bhd and Idris Hydraulic (Malaysia) Bhd.

Haji Hussein does not hold any shares in the Company and has no relationship with any other directors and/or substantial shareholders of FFHB. He has no conflict of interests with FFHB and has no convictions for offences within the past 10 years. During the financial year ended 31 December 2007 he attended all of the 4 board meetings held.

#### **HAJI MD ABDUL WAHAB BIN MD SHAHIR**

Malaysian, aged 66, was appointed as an Independent Non-Executive Director on 29 June 2005. He is the Chairman of the Audit Committee and a member of the Nomination and Remuneration Committees.

Haji Md Abdul Wahab graduated from the Sydney Technical College in Accountancy and holds a Diploma in Management Consultancy Practices from the United Nations International Centre, Turin, Italy. He is a fellow member of the Certified Practising Accountants, Australia, and is also a member of the Malaysian Institute of Accountants and the Malaysian Institute of Certified Public Accountant.

He began his career in accounting with a public listed company in Sydney, Australia in 1967. Upon his return to Malaysia in 1972, he joined the Malaysian Airlines System Berhad as an Internal Auditor and subsequently with MIDF Industrial Consultants Sdn Bhd as a Management Consultant. In 1979 he was appointed as the Director of Finance of Rubber Industries Smallholders Development Authority. In 1984 he joined Perwira Affin Bank Malaysia Berhad as the Assistant General Manager/Chief Internal Auditor and was subsequently promoted as the General Manager of Affin Finance Berhad. In 1995 he was appointed as the Group Managing Director of Business Focus Sdn. Bhd.

Currently he is an Independent Non-Executive Director of Inno-Pacific Holdings Limited, Singapore and sits on the boards of CPA Australia (M) Sdn Bhd and Liga Klasik Sdn Bhd.

Haji Md Abdul Wahab does not hold any shares in the Company and has no relationship with any other directors and/or substantial shareholders of FFHB. He has no conflict of interests with FFHB and has no convictions for offences within the past 10 years. During the financial year ended 31 December 2007 he attended all of the 4 board meetings held.

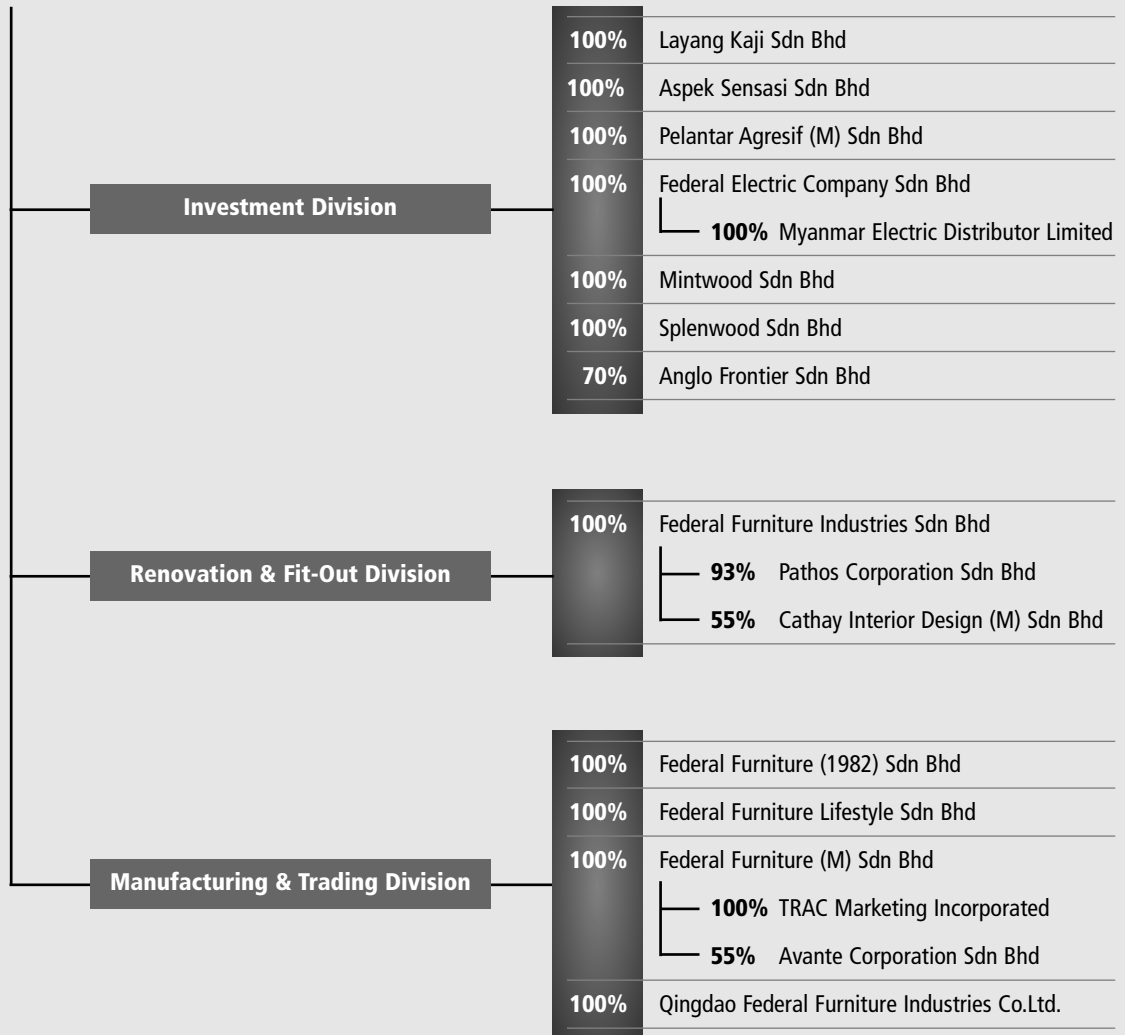
# Corporate Structure



## FEDERAL FURNITURE HOLDINGS (M) BERHAD

(97092-W) (Incorporated in Malaysia)

### Investment Holding Company



# Chairman's Statement

On behalf of the Board of Directors, I am pleased to present the Annual Report and Financial Statements of the Company and the Group for the financial year ended 31 December 2007.

## REVIEW OF GROUP FINANCIAL RESULTS

Underpinned by the higher contracts secured by the Kitchen Project operations under the Renovation & Interior Fit-out division, Group turnover increased by 17% to RM52.8 million in 2007 from RM45.1 million in the previous year. Operating profit before interest and tax charges was RM24.9 million, compared to a loss of RM2.3 million in 2006. These results include one-time and non operational interest write-back of RM29.6 million and loss on disposal of marketable securities in 2007 and one-time provision for loss on forfeiture of property amount to RM4.8 million in 2006. Interest cost fell by 82% to RM1.8 million from RM9.5 million as a result of the completion of the debt restructuring exercise in April 2007. After accounting for tax of RM1.0 million in 2007 and RM0.3 million a year earlier, the profit attributable to shareholders in 2007 was RM22.2 million compared to a loss of RM12.0 million in 2006.

## DIVIDENDS

Although the Group's financial results attained a sharp turnaround due principally to non-cash interest write-backs, your Board is of the opinion that the Group needs to retain its cash to fund working capital requirements and therefore is not recommending the payment of any dividend in respect of the financial year ended 31 December 2007.

## CORPORATE DEVELOPMENTS

With the regularization of the Company's financial condition and the return to operational profitability, the Group is in a position to scour the external corporate landscape for opportunities to grow the Group's top and bottom lines. The direction taken by your Board is to explore strategic alliances, mergers and acquisitions that are clearly in line with the existing core businesses and where we can add value using our existing core competence.

## REVIEW OF OPERATIONS

The Manufacturing and Trading Division expanded its gross revenue by 5% from RM34.3 million last year to RM35.9 million in 2007. This growth came from inter-group sales that grew by 13% to RM15.9 million while external sales were flat at RM19.9

million. Sales to its key customer, Starbucks continued to trend upwards albeit at a slower rate of 7.5% over the preceding year aided by the two folds increase in orders from the Philippines and Malaysian markets. Growth in sales from the fundamental markets, Japan and Korea was only marginally better than the year before. During the year the Division decided not to proceed with its plan to set up a factory in Qingdao China as the customer's expansion plan had not reached the economic volume to validate continuation. On a brighter note the Division had been successful in developing a number of very key customers for the supply of store fixtures and fittings in Europe and the US for their store refurbishment programme. Although the sales achieved was modest in 2007 the potential business going forward could be sizeable as they have only just embarked on their refurbishment programme. The Division registered an operating profit of RM5.2 million that included one-time write-back of interest provision compared to RM2.0 million in the previous year.

The furniture trading division achieved a 17% increase in sales of MFI products to RM1.4 million from RM1.2 million previously despite the discontinuation of the distributorship arrangement with MFI UK. This is in fulfillment of sales secured in the preceding year and the MFI retail outlet was not in a position to carry out any new retail activities during the year. The search for a new supplier of imported modular kitchen and wardrobe furniture to replace the MFI brand resulted in the identification of the Symphony Group UK as the most appropriate business partner. The Symphony Group is UK's largest privately-owned manufacturer of fitted kitchens, bedrooms and bathrooms furniture and as the largest supplier to the UK's public and private housing market, its business operations is almost identical to our Kitchen Project operations.

The local renovation and interior fit-out industry did not see any improvement to the very challenging operating conditions that have persisted for the past 10 years since the financial crisis. As I had disclosed last year, the Renovation & Interior Fit-out division had decided to only participate in and secure contracts that meet its criteria on margin yield and payment terms. In spite of this, the traditional interior fit-out operations was able to maintain its turnover at last year's level of RM22.3 million. The more notable contracts secured during the year include contracts to fit-out the corporate office of Price WaterhouseCoopers in Kuala Lumpur and the refurbishment of the Majestic Hotel in Malacca. However, the bright spark in the Group for 2007 is without a doubt the Kitchen Project

operations that managed to increase its turnover by almost 4 folds to RM10.4 million from RM2.7 million a year ago. The quick success achieved by this relatively new outfit exemplifies my point made earlier on the benefit of being able to leverage on the Group's core competencies, in this case, the project management capability, connections and track record built up over the past 40 years, in the budding kitchen projects market. This market has grown in tandem with the recent interest in middle to higher-end segment of the properties market in Malaysia. The achievement by the Kitchen project operations has lifted the Renovation & Interior Fit-out Division's turnover for the year to RM32.9 million, up by 32% from RM24.9 million last year. Despite the better margin from the Kitchen Project operations, operating profit fell by 14% to RM1.5 million from RM1.78 million in 2006 due to contracts cost written off for projects undertaken in prior years.

#### PROSPECT FOR 2008

Despite aggressive measures to cut interest rates and pump liquidity into the market, the US credit crisis brought about by the sub-prime loans continue to deteriorate and spread to the real sector of the US economy with consumer confidence at a 16-year low. The US economy is forecast to slow down considerably to 0.5 percent in 2008 from 2.2 percent in 2007 and this is expected to extend to 2009 (forecast 0.6 percent). The spillover effect will lower Europe's growth forecast to 1.4% from 2.7% in 2007 while Japan's growth forecast is reduced to 1.4% from 2.1% in 2007. Asia will not be spared from the US economic turmoil although China and India should have better cushion compared to the rest. World economic growth estimate has been reduced to 3.7% compared to 4.9% in 2007. The Malaysian economy has been surprisingly resilient to the global slowdown thanks to high commodity prices, high private consumption and fiscal spending. Although GDP is forecast to grow at 5.4% in 2008 and the consumer and business confidence is still holding up to-date, the second half of the year may see the cooling effects of inflationary pressure brought about by high oil and food prices and uncertainties in the local political landscape.

The Manufacturing and Export division expects the incipient demand for its caseworks and shop fixtures and fitting products noted in the European and the United States of America markets last year to spill over to 2008 and beyond. The Division is already in discussion with several other household names multinational retail chain customers in the United States on the supply of its products to America and is upbeat on the likelihood of actualizing supplies by the third quarter of this year. The need to continuously bring down investment costs to stay relevant coupled with the increasing willingness to look at sourcing from the Asian markets that have lower cost base has proven to be a boon for manufacturers who can provide consistent product quality and offer product reengineering capabilities. Sales to the existing Asia Pacific markets is expected to expand at about the

same rate as 2007 and accrue from upgrades to store designs rather than number of stores. Although the expansion into the China market has been held in abeyance pending a clearer picture of the market potential there, the Division has not taken its eyes off the market there and is confident that its entry to that market is a given at some point in the future.

The Furniture Trading operations is expected to resume its retail activities when the retail showroom is refitted with the new Symphony range of kitchens in the third quarter of the year. The prospect for the year will depend on the success of the new Symphony range that is positioned at a higher price point to the MFI products.

The Kitchen Project operations under the Renovation and Interior Fit-out division is expected to further improve on its achievement in 2007 premised on the contracts already secured in hand for installation in 2008. The middle and high-end segment of the properties market that the operations is supplying to is still charting an emphatic upward trend buoyed by continuing interest in properties located in the city centre from local and foreign buyers. In this regard, the availability of the Symphony products is timely as the Group is able to offer 2 brands that specifically target the middle and the high-end market segments where most of the actions are centered at the moment. Given the continuing depression in the local traditional interior fit-out business, the operations have initiated strategies to secure contracts overseas on commercial terms that are structured to minimize project execution and cost escalation risks. The prospect for the division will hinge on the ability to secure such contracts and the ability to procure the execution and financial resources to successfully undertake the contracts.

#### APPRECIATION

To the management and employees, I wish to convey, on behalf my colleagues on the Board, our gratitude and thanks for the dedicated services, sacrifices and co-operation throughout the year. I also take this opportunity to thank all our business and finance partners and the various stakeholders for their continuing understanding, support and trust in the Group. Last but not least my appreciation also goes to my fellow directors for their valuable advice and contribution all through the year.

To all of the above, I look forward to their continued dedication, support and co-operation in the coming year that to be sure will be both exciting and challenging for the Group.

#### CHAIRMAN

# Directors' Report

The directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2007.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

The principal activities of the subsidiaries are described in Note 14 to the financial statements.

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

## RESULTS

|                               | <b>GROUP<br/>RM</b> | <b>COMPANY<br/>RM</b> |
|-------------------------------|---------------------|-----------------------|
| Profit for the year           | 22,184,180          | 15,153,842            |
| Attributable to:              |                     |                       |
| Equity holders of the Company | 22,158,595          | 15,153,842            |
| Minority interests            | 25,585              | –                     |
|                               | 22,184,180          | 15,153,842            |

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in the statements of changes in equity.

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.

## 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:

Dr. Choy Fook On  
Tan Geok Foong  
Choy Wai Hin  
Choy Wai Ceong  
Haji Hussein bin Hamzah  
Md Abdul Wahab bin Md Shahir

**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.

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 as shown in Note 6 to the financial statements or the fixed salary of a full-time employee of the Company) 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, except for those benefits which may be deemed to have arisen by virtue of those contracts, agreements and transactions entered into in the ordinary course of business between the Company or its subsidiaries and companies in which the directors are deemed to have a substantial financial interest and as disclosed in Note 39 to the financial statements.

**DIRECTORS' INTEREST**

According to the register of directors' shareholdings, the interests of directors in office at the end of the financial year in shares and warrants in the Company during the financial year were as follows:

|                          | <b>Number of Ordinary Shares of RM0.50 Each</b> |                 |             |                             |
|--------------------------|---|-----------------|-------------|-----------------------------|
|                          | <b>1 January<br/>2007</b>                       | <b>Acquired</b> | <b>Sold</b> | <b>31 December<br/>2007</b> |
| <b>The Company</b>       |   |                 |             |                             |
| <b>Direct Interest</b>   |   |                 |             |                             |
| Dr. Choy Fook On         | 2,517,550                                       | 3,524,570       | –           | 6,042,120                   |
| Tan Geok Foong           | 1,865,050                                       | 2,611,070       | –           | 4,476,120                   |
| Choy Wai Hin             | 1,252,000                                       | 1,752,800       | –           | 3,004,800                   |
| Choy Wai Ceong           | 1,042,000                                       | 1,458,800       | –           | 2,500,800                   |
| <b>Indirect Interest</b> |   |                 |             |                             |
| Dr. Choy Fook On         | 1,759,600                                       | 9,287,740       | –           | 11,047,340                  |
| Tan Geok Foong           | 1,759,600                                       | 9,287,740       | –           | 11,047,340                  |
| Choy Wai Hin             | 1,759,600                                       | 9,287,740       | –           | 11,047,340                  |
| Choy Wai Ceong           | 1,759,600                                       | 9,287,740       | –           | 11,047,340                  |



**DIRECTORS' INTEREST (Cont'd)**

According to the register of directors' shareholdings, the interests of directors in office at the end of the financial year in shares and warrants in the Company during the financial year were as follows: (Cont'd)

|                          | 30 March<br>2007* | Number of Warrants |           | 31 December<br>2007 |
|--------------------------|-------------------|--------------------|-----------|---------------------|
|                          |                   | Acquired           | Exercised |                     |
| <b>The Company</b>       |                   |                    |           |                     |
| <b>Direct Interest</b>   |                   |                    |           |                     |
| Dr. Choy Fook On         | 4,279,835         | –                  | –         | 4,279,835           |
| Tan Geok Foong           | 3,170,585         | –                  | –         | 3,170,585           |
| Choy Wai Hin             | 2,128,400         | –                  | –         | 2,128,400           |
| Choy Wai Ceong           | 1,771,400         | –                  | –         | 1,771,400           |
| <b>Indirect Interest</b> |                   |                    |           |                     |
| Dr. Choy Fook On         | 11,277,986        | –                  | –         | 11,277,986          |
| Tan Geok Foong           | 11,277,986        | –                  | –         | 11,277,986          |
| Choy Wai Hin             | 11,277,986        | –                  | –         | 11,277,986          |
| Choy Wai Ceong           | 11,277,986        | –                  | –         | 11,277,986          |

\* Date of Allotment of Rights Issue with Warrants

Dr. Choy Fook On, Choy Wai Hin, Choy Wai Ceong and Tan Geok Foong, by virtue of their interest in shares in the Company, are also deemed interested in shares of all the Company's subsidiaries to the extent the Company has an interest.

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

The terms of the Warrants are as disclosed in Note 36 to the financial statements.

**DEBT RESTRUCTURING AND FUND RAISING EXERCISE**

On 30 April 2007, the Company fully completed its Debt Restructuring and Fund Raising Exercise ("DRA") and regularised its financial condition as disclosed in Note 42 of the financial statements.

**ISSUE OF SHARES**

Pursuant to the DRA, the Company's issued and paid-up ordinary share capital increased from RM13,840,750 to RM41,347,950 during the financial year by way of:

- (i) the issuance of 26,000,000 ordinary shares of RM0.50 each pursuant to the Right Issue with Warrants;
- (ii) the issuance of 29,014,400 ordinary shares of RM0.50 each pursuant to the Restricted Issue at an issue price of RM0.70 per ordinary share as debt settlement between the Company and its affected subsidiary companies and their respective scheme lenders as detailed in Note 42.

The new ordinary shares issued during the financial year ranked pari passu in all respects with the existing ordinary shares of the Company.

**REDEEMABLE SECURED LOAN STOCK**

On 30 April 2007, the Company issued 1,900,000 zero coupon five (5)-years Redeemable Secured Loan Stock at a nominal amount of RM1.00 each pursuant to the DRA.

The terms of the RSLs are as disclosed in Note 32 to the financial statements.

**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 values 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 current assets in the financial statements of the Group and of the Company misleading.
- (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 the 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 other than as disclosed in Note 38 to the financial statements.
- (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.

**AUDITORS**

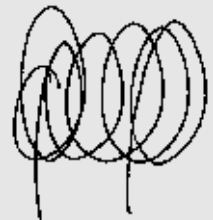
The auditors, Ernst & Young, have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the directors dated 14 April 2008.



**CHOY FOOK ON**

Kuala Lumpur, Malaysia



**CHOY WAI CEONG**

# Statement by Directors Pursuant to Section 169(15) of the Companies Act, 1965

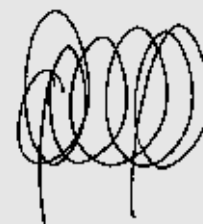
We, **CHOY FOOK ON** and **CHOY WAI CEONG**, being two of the directors of **FEDERAL FURNITURE HOLDINGS (M) BERHAD**, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 29 to 85 are drawn up in accordance with the provisions of the Companies 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 December 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 14 April 2008.



**CHOY FOOK ON**

Kuala Lumpur, Malaysia



**CHOY WAI CEONG**

# Statutory Declaration Pursuant to Section 169(16) of the Companies Act, 1965

I, **JAMES SHII LIHTON**, being the Officer primarily responsible for the financial management of **FEDERAL FURNITURE HOLDINGS (M) BERHAD**, do solemnly and sincerely declare that the accompanying financial statements set out on pages 29 to 85 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 **JAMES SHII LIHTON** at Kuala Lumpur in Wilayah Persekutuan on 18 April 2008.



**JAMES SHII LIHTON**

Before me,



# Report of the Auditors

To the Members of Federal Furniture Holdings (M) Berhad  
(97092-W) (Incorporated in Malaysia)

We have audited the financial statements set out on pages 29 to 85. 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 December 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 and 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 Companies Act, 1965.



**ERNST & YOUNG**  
AF: 0039  
Chartered Accountants

Kuala Lumpur, Malaysia  
18 April 2008



**GLADYS LEONG**  
No. 1902/04/10 (J)  
Partner

# Income Statements For the year ended 31 December 2007

|  | Note | GROUP               |              | COMPANY            |             |
|--|------|---------------------|--------------|--------------------|-------------|
|  |      | 2007<br>RM          | 2006<br>RM   | 2007<br>RM         | 2006<br>RM  |
| Revenue                                  | 3    | <b>52,809,869</b>   | 45,069,142   | –                  | –           |
| Other income                             | 4    | <b>31,892,008</b>   | 2,016,953    | <b>19,782,109</b>  | 858,844     |
| Changes in inventories of finished goods |      | <b>269,496</b>      | 1,490,197    | –                  | –           |
| Contract costs                           |      | <b>(31,475,777)</b> | (23,860,191) | –                  | –           |
| Raw materials and consumables used       |      | <b>(8,607,784)</b>  | (6,196,354)  | –                  | –           |
| Finished goods purchased                 |      | <b>(3,250,339)</b>  | (2,879,204)  | –                  | –           |
| Staff costs                              | 5    | <b>(7,463,586)</b>  | (6,551,449)  | <b>(638,843)</b>   | (800,641)   |
| Depreciation                             |      | <b>(1,188,973)</b>  | (1,644,295)  | <b>(57,512)</b>    | (81,001)    |
| Other expenses                           | 7    | <b>(8,073,596)</b>  | (9,778,394)  | <b>(3,265,623)</b> | (583,357)   |
| Profit/(loss) from operations            |      | <b>24,911,318</b>   | (2,333,595)  | <b>15,820,131</b>  | (606,155)   |
| Finance costs, net                       | 9    | <b>(1,751,443)</b>  | (9,467,086)  | <b>(665,886)</b>   | (5,078,384) |
| Profit/(loss) before taxation            |      | <b>23,159,875</b>   | (11,800,681) | <b>15,154,245</b>  | (5,684,539) |
| Income tax expense                       | 10   | <b>(975,695)</b>    | (277,191)    | <b>(403)</b>       | –           |
| Profit/(loss) for the year               |      | <b>22,184,180</b>   | (12,077,872) | <b>15,153,842</b>  | (5,684,539) |
| Attributable to:                         |      |                     |              |                    |             |
| Equity holders of the Company            |      | <b>22,158,595</b>   | (11,868,665) | <b>15,153,842</b>  | (5,684,539) |
| Minority interest                        |      | <b>25,585</b>       | (209,207)    | –                  | –           |
|  |      | <b>22,184,180</b>   | (12,077,872) | <b>15,153,842</b>  | (5,684,539) |
| Basic earning/(loss) per share (sen)     | 11   | <b>32</b>           | (44)         |                    |             |
| Fully diluted earning per share (sen)    | 11   | <b>24</b>           | N/A          |                    |             |

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

# Balance Sheets As at 31 December 2007

|                               | Note | GROUP             |                          | COMPANY           |                          |
|-------------------------------|------|-------------------|--------------------------|-------------------|--------------------------|
|                               |      | 2007<br>RM        | 2006<br>RM<br>(restated) | 2007<br>RM        | 2006<br>RM<br>(restated) |
| <b>ASSETS</b>                 |      |                   |                          |                   |                          |
| <b>Non-current assets</b>     |      |                   |                          |                   |                          |
| Property, plant and equipment | 12   | <b>11,856,702</b> | 19,406,947               | <b>101,950</b>    | 1,518,161                |
| Land held for development     | 13   | –                 | 50,000,000               | –                 | –                        |
| Investment in subsidiaries    | 14   | –                 | –                        | <b>22,231,183</b> | 22,019,835               |
| Other investment              | 15   | <b>60,000</b>     | 60,000                   | <b>60,000</b>     | 60,000                   |
| Goodwill on consolidation     | 16   | –                 | –                        | –                 | –                        |
| Deferred tax assets           | 17   | <b>6,143,759</b>  | 7,385,773                | –                 | –                        |
| Investment properties         | 18   | <b>2,067,200</b>  | 8,191,669                | –                 | –                        |
| Prepaid land lease payments   | 19   | <b>2,051,370</b>  | 4,757,876                | –                 | –                        |
|                               |      | <b>22,179,031</b> | 89,802,265               | <b>22,393,133</b> | 23,597,996               |
| <b>Current assets</b>         |      |                   |                          |                   |                          |
| Inventories                   | 20   | <b>7,419,122</b>  | 7,665,209                | –                 | –                        |
| Trade receivables             | 21   | <b>16,760,611</b> | 17,632,820               | –                 | –                        |
| Other receivables             | 23   | <b>6,817,152</b>  | 8,743,536                | <b>608,446</b>    | 1,814,953                |
| Due from subsidiaries         | 24   | –                 | –                        | <b>60,081,024</b> | 40,609,567               |
| Marketable securities         | 25   | <b>48,636</b>     | 1,233,001                | –                 | –                        |
| Cash and bank balances        | 26   | <b>657,515</b>    | 797,561                  | <b>5,722</b>      | 9,965                    |
| Properties held for sale      | 27   | –                 | 9,136,328                | –                 | –                        |
|                               |      | <b>31,703,036</b> | 45,208,455               | <b>60,695,192</b> | 42,434,485               |
| <b>TOTAL ASSETS</b>           |      | <b>53,882,067</b> | 135,010,720              | <b>83,088,325</b> | 66,032,481               |

|   | Note | GROUP               |                          | COMPANY             |                          |
|---|------|---------------------|--------------------------|---------------------|--------------------------|
|   |      | 2007<br>RM          | 2006<br>RM<br>(restated) | 2007<br>RM          | 2006<br>RM<br>(restated) |
| <b>EQUITY AND LIABILITIES</b>                               |      |                     |                          |                     |                          |
| <b>Equity attributable to equity holders of the Company</b> |      |                     |                          |                     |                          |
| Share capital   | 28   | <b>41,347,950</b>   | 13,840,750               | <b>41,347,950</b>   | 13,840,750               |
| Share premium   | 29   | <b>3,440,941</b>    | –                        | <b>3,440,941</b>    | –                        |
| Other reserves  |      | <b>(27,377,342)</b> | (32,209,942)             | <b>(10,790,686)</b> | (25,944,528)             |
| Shareholders' funds/(deficit)                               |      | <b>17,411,549</b>   | (18,369,192)             | <b>33,998,205</b>   | (12,103,778)             |
| Minority interests  |      | <b>358,962</b>      | 333,377                  | –                   | –                        |
| <b>Total equity</b>   |      | <b>17,770,511</b>   | (18,035,815)             | <b>33,998,205</b>   | (12,103,778)             |
| <b>Non-current liabilities</b>                              |      |                     |                          |                     |                          |
| Borrowings  | 30   | <b>70,232</b>       | 2,435,361                | <b>60,482</b>       | 77,773                   |
| Deferred tax liabilities                                    | 17   | <b>1,073,283</b>    | 1,428,202                | <b>7,403</b>        | 7,000                    |
| Redeemable secured loan stock                               | 32   | <b>1,900,000</b>    | –                        | <b>1,900,000</b>    | –                        |
|   |      | <b>3,043,515</b>    | 3,863,563                | <b>1,967,885</b>    | 84,773                   |
| <b>Current liabilities</b>                                  |      |                     |                          |                     |                          |
| Borrowings  | 30   | <b>7,206,980</b>    | 93,710,677               | <b>15,850</b>       | 41,343,184               |
| Trade payables  | 33   | <b>11,152,642</b>   | 6,953,382                | –                   | –                        |
| Other payables  | 34   | <b>14,537,843</b>   | 48,345,717               | <b>7,388,523</b>    | 29,114,065               |
| Due to subsidiaries   | 35   | –                   | –                        | <b>39,552,026</b>   | 7,428,400                |
| Tax payable   |      | <b>170,576</b>      | 173,196                  | <b>165,836</b>      | 165,837                  |
|   |      | <b>33,068,041</b>   | 149,182,972              | <b>47,122,235</b>   | 78,051,486               |
| <b>Total liabilities</b>                                    |      | <b>36,111,556</b>   | 153,046,535              | <b>49,090,120</b>   | 78,136,259               |
| <b>TOTAL EQUITY AND LIABILITIES</b>                         |      | <b>53,882,067</b>   | 135,010,720              | <b>83,088,325</b>   | 66,032,481               |

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



# Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

|   | Attributable to Equity Holders of the Company |                     |                           |                                |                          |              |                          | Total equity<br>RM |
|---|---|---------------------|---------------------------|--------------------------------|--------------------------|--------------|--------------------------|--------------------|
|   | Non-distributable                             |                     |                           | Distributable                  |                          |              | Minority interests<br>RM |                    |
|   | Share capital<br>RM                           | Share premium<br>RM | Revaluation reserve<br>RM | Foreign exchange reserve<br>RM | Accumulated losses<br>RM | Total<br>RM  |                          |                    |
| <b>At 1 January 2006</b>  | 27,681,500                                    | 10,833,007          | 42,723,525                | 19,578                         | (85,599,859)             | (4,342,249)  | 542,584                  | (3,799,665)        |
| Net loss for the year   | -   | -                   | -                         | -                              | (11,868,665)             | (11,868,665) | (209,207)                | (12,077,872)       |
| Revaluation surplus written off   | -   | -                   | (2,158,278)               | -                              | -                        | (2,158,278)  | -                        | (2,158,278)        |
| Realisation gain on disposal of property, plant and machinery                     | -   | -                   | (874,824)                 | -                              | 874,824                  | -            | -                        | -                  |
| Reduction in share capital  | (13,840,750)                                  | -                   | -                         | -                              | 13,840,750               | -            | -                        | -                  |
| Reduction in share premium  | -   | (10,833,007)        | -                         | -                              | 10,833,007               | -            | -                        | -                  |
| <b>At 31 December 2006</b>  | 13,840,750                                    | -                   | 39,690,423                | 19,578                         | (71,919,943)             | (18,369,192) | 333,377                  | (18,035,815)       |
| <b>At 1 January 2007</b>  | 13,840,750                                    | -                   | 39,690,423                | 19,578                         | (71,919,943)             | (18,369,192) | 333,377                  | (18,035,815)       |
| Net profit for the year   | -   | -                   | -                         | -                              | 22,158,595               | 22,158,595   | 25,585                   | 22,184,180         |
| Transfer of asset revaluation reserve   | -   | -                   | (22,153,328)              | -                              | 22,153,328               | -            | -                        | -                  |
| Amount recognised directly in equity  | -   | -                   | (17,325,995)              | -                              | -                        | (17,325,995) | -                        | (17,325,995)       |
| Issue of ordinary shares pursuant to Debt Restructuring and Fund Raising Exercise | 27,507,200                                    | 5,802,880           | -                         | -                              | -                        | 33,310,080   | -                        | 33,310,080         |
| Transaction costs   | -   | (2,361,939)         | -                         | -                              | -                        | (2,361,939)  | -                        | (2,361,939)        |
| <b>At 31 December 2007</b>  | 41,347,950                                    | 3,440,941           | 211,100                   | 19,578                         | (27,608,020)             | 17,411,549   | 358,962                  | 17,770,511         |

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

# Company Statement of Changes in Equity

For the year ended 31 December 2007

|   | <b>Share<br/>capital<br/>RM</b> | <b><u>Non-distributable</u><br/>Share<br/>premium<br/>RM</b> | <b><u>Distributable</u><br/>Accumulated<br/>losses<br/>RM</b> | <b>Total<br/>equity<br/>RM</b> |
|---|---------------------------------|--|---|--------------------------------|
| <b>At 1 January 2006</b>  | 27,681,500                      | 10,833,007   | (44,933,746)  | (6,419,239)                    |
| Net loss for the year   | –                               | –  | (5,684,539)   | (5,684,539)                    |
| Reduction in share capital  | (13,840,750)                    | –  | 13,840,750  | –                              |
| Reduction in share premium  | –                               | (10,833,007)   | 10,833,007  | –                              |
| <b>At 31 December 2006</b>  | 13,840,750                      | –  | (25,944,528)  | (12,103,778)                   |
| <b>At 1 January 2007</b>  | <b>13,840,750</b>               | –  | <b>(25,944,528)</b>   | <b>(12,103,778)</b>            |
| Net profit for the year   | –                               | –  | <b>15,153,842</b>   | <b>15,153,842</b>              |
| Issue of ordinary shares pursuant to Debt<br>Restructuring and Fund<br>Raising Exercise | <b>27,507,200</b>               | <b>5,802,880</b>   | –   | <b>33,310,080</b>              |
| Transaction costs   | –                               | <b>(2,361,939)</b>   | –   | <b>(2,361,939)</b>             |
| <b>At 31 December 2007</b>  | <b>41,347,950</b>               | <b>3,440,941</b>   | <b>(10,790,686)</b>   | <b>33,998,205</b>              |

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

# Consolidated Cash Flow Statement

For the year ended 31 December 2007

|  | 2007<br>RM          | 2006<br>RM   |
|--|---------------------|--------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>              |                     |              |
| Profit/(loss) before taxation                            | <b>23,159,875</b>   | (11,800,681) |
| Adjustments for:   |                     |              |
| Impairment of goodwill                                   | –                   | 128,568      |
| Provision for doubtful debts                             | <b>1,718,511</b>    | 31,644       |
| Depreciation   | <b>1,188,972</b>    | 1,644,297    |
| Reversal of impairment loss of marketable securities     | –                   | (1,351,056)  |
| Net unrealised foreign exchange gain                     | <b>(13,397)</b>     | (2,651)      |
| Share disposal expenses                                  | <b>507</b>          | 50           |
| Property, plant and equipment written off                | <b>603</b>          | 11,733       |
| (Gain)/loss on disposal of property, plant and equipment | <b>(126,636)</b>    | 235,762      |
| Loss/(gain) on disposal of marketable securities         | <b>1,183,858</b>    | (2,785)      |
| Gain on disposal of subsidiaries                         | <b>(1,961,807)</b>  | –            |
| Provision for loss on forfeited property                 | –                   | 4,823,894    |
| Interest write back                                      | <b>(29,598,323)</b> | –            |
| Bad debt written off                                     | <b>292,394</b>      | –            |
| Interest expense   | <b>1,751,443</b>    | 9,466,698    |
| Interest income  | <b>(5,983)</b>      | (389)        |
| Operating (loss)/profit before working capital changes   | <b>(2,409,983)</b>  | 3,185,084    |
| Decrease/(increase) in receivables                       | <b>2,335,760</b>    | (2,031,865)  |
| Decrease/(increase) in inventories                       | <b>26,531</b>       | (1,074,401)  |
| Increase/(decrease) in payables                          | <b>10,436,044</b>   | (715,825)    |
| Cash generated from/(used in) operations                 | <b>10,388,352</b>   | (637,007)    |
| Interest paid  | <b>(11,585,400)</b> | (1,146,232)  |
| Taxes paid   | <b>(56,913)</b>     | (7,695)      |
| Net cash used in operating activities                    | <b>(1,253,961)</b>  | (1,790,934)  |

Consolidated Cash Flow Statement (cont'd)

|   | <b>2007</b>         | <b>2006</b> |
|---|---------------------|-------------|
|   | <b>RM</b>           | <b>RM</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                 |                     |             |
| Purchase of property, plant and equipment                   | <b>(648,422)</b>    | (714,499)   |
| Proceeds from disposal of subsidiaries (Note 8)             | <b>3</b>            | –           |
| Proceeds from disposal of property, plant and equipment     | <b>5,099,513</b>    | 35,123      |
| Proceeds from disposal of investment properties             | <b>8,621,123</b>    | 4,950,000   |
| Proceeds from disposal of land held for development         | <b>35,000,000</b>   | –           |
| Proceeds from disposal of properties held for sale          | <b>9,056,400</b>    | –           |
| Proceeds from disposal of marketable securities             | –                   | 1,237,500   |
| Interest received   | <b>5,983</b>        | 389         |
| Net cash generated from investing activities                | <b>57,134,600</b>   | 5,508,513   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                 |                     |             |
| Net repayment of short term borrowings                      | <b>(82,530,542)</b> | (3,135,313) |
| Repayment of hire purchase and lease payables               | <b>(44,295)</b>     | (1,444)     |
| Net repayment of term loans                                 | <b>(2,325,518)</b>  | (1,392,718) |
| Proceeds from issuance of ordinary shares                   | <b>33,310,080</b>   | –           |
| Proceeds from issuance of redeemable secured loan stock     | <b>1,900,000</b>    | –           |
| Transaction cost  | <b>(2,361,939)</b>  | –           |
| Net cash used in financing activities                       | <b>(52,052,214)</b> | (4,529,475) |
| <b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b> | <b>3,828,425</b>    | (811,896)   |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>       | <b>(4,944,003)</b>  | (4,132,107) |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR (NOTE 26)</b>   | <b>(1,115,578)</b>  | (4,944,003) |

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

# Cash Flow Statement For the year ended 31 December 2007

|   | <b>2007</b>         | <b>2006</b> |
|---|---------------------|-------------|
|   | <b>RM</b>           | <b>RM</b>   |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                   |                     |             |
| Profit/(loss) before taxation                                 | <b>15,154,245</b>   | (5,684,539) |
| Adjustments for:  |                     |             |
| Depreciation  | <b>57,512</b>       | 81,001      |
| Interest write back   | <b>(18,571,434)</b> | –           |
| Property, plant and equipment written off                     | <b>1,361,277</b>    | –           |
| Loss on disposal of investment in subsidiaries                | <b>4,998</b>        | –           |
| Interest expense  | <b>664,782</b>      | 5,078,385   |
| Interest income   | <b>(5,973)</b>      | –           |
| Operating loss before working capital changes                 | <b>(1,334,593)</b>  | (525,153)   |
| Decrease/(increase) in receivables                            | <b>1,206,506</b>    | (71,362)    |
| (Decrease)/increase in payables                               | <b>(51,203,534)</b> | 98,537      |
| Decrease in intercompany balances                             | <b>59,753,911</b>   | 744,195     |
| Cash generated from operations                                | <b>8,422,290</b>    | 246,217     |
| Interest paid   | <b>282,644</b>      | (4,838)     |
| Net cash generated from operating activities                  | <b>8,704,934</b>    | 241,379     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                   |                     |             |
| Proceeds from disposal of investment in subsidiaries (Note 8) | <b>2</b>            | –           |
| Purchase of property, plant and equipment                     | <b>(2,579)</b>      | (13,443)    |
| Investment in foreign subsidiary                              | <b>(216,090)</b>    | (220,895)   |
| Interest received   | <b>5,973</b>        | –           |
| Net cash used in investing activities                         | <b>(212,694)</b>    | (234,338)   |
| <b>CASH FLOW FROM FINANCING ACTIVITY</b>                      |                     |             |
| Repayment of hire purchase and lease payables                 | <b>(17,291)</b>     | (17,291)    |
| Net repayment of short term borrowings                        | <b>(41,327,333)</b> | –           |
| Proceeds from issuance of ordinary shares                     | <b>33,310,080</b>   | –           |
| Proceeds from issuance of redeemable secured loan stock       | <b>1,900,000</b>    | –           |
| Transaction cost  | <b>(2,361,939)</b>  | –           |
| Net cash used in financing activities                         | <b>(8,496,483)</b>  | (17,291)    |
| <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>              | <b>(4,243)</b>      | (10,250)    |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>         | <b>9,965</b>        | 20,215      |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR (NOTE 26)</b>     | <b>5,722</b>        | 9,965       |

The accompanying notes form an integral part of the financial statements

## 1. CORPORATE INFORMATION

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are described in Note 14. There have been no significant changes in the nature of the principal activities during the financial year.

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the Second Board of Bursa Malaysia Securities Berhad. The registered office of the Company is located at Level P1, Menara Choy Fook On, No. 1B, Jalan Yong Shook Lin, 46050 Petaling Jaya, Selangor Darul Ehsan.

The number of employees in the Group and in the Company at the end of the financial year were 151 (2006: 192) and 12 (2006: 13) respectively.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 14 April 2008.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of Preparation

The financial statements comply with the provision of the Companies Act, 1965 and applicable Financial Reporting Standards in Malaysia. The Group and the Company had adopted new and revised Financial Reporting Standards ("FRSs") which are mandatory for financial period beginning on or after 1 January 2007 as described in Note 2.3.

The financial statements, presented in Ringgit Malaysia, are prepared under the historical cost convention unless otherwise indicated in the other section of accounting policies.

### 2.2 Summary of Significant Accounting Policies

#### (a) 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 those companies in which the Group has power to exercise control over financial and operating policies so as to obtain benefits from their activities.

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.

Acquisitions of subsidiaries are accounted for using the acquisition method. The acquisition 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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

#### (a) Basis of Consolidation (Cont'd)

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 minority's 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) Goodwill

Goodwill represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill is stated at cost less accumulated amortisation and impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2.2(o). Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

#### (c) Investment in Subsidiaries

The Company's investment in subsidiaries are stated at cost less impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2.2(o).

On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is recognised in the income statement.

#### (d) 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 except for leasehold buildings are stated at cost or valuation less accumulated depreciation and any accumulated impairment losses.

Revaluations are made at least once in every five years based on a valuation by an independent valuer on an open market value basis. Any revaluation increase is credited to equity as a revaluation surplus, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is recognised in the income statement to the extent of the decrease previously recognised. A revaluation decrease is first offset against unutilised previously recognised revaluation surplus in respect of the same asset and the balance thereafter recognised as an expense. Upon the disposal of revalued assets, the attributable revaluation surplus remaining in the revaluation reserve is transferred to retained earnings.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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

#### (d) Property, Plant and Equipment and Depreciation (Cont'd)

Freehold land has an unlimited useful life and therefore is not depreciated. 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              | 2%         |
| Motor vehicles         | 20%        |
| Furniture and fittings | 5% - 15%   |
| Plant and machinery    | 6.7% - 20% |
| Office equipment       | 10% - 20%  |
| Renovation             | 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 and the unutilised portion of the revaluation surplus on that item is taken directly to retained earnings.

#### (e) Land Held for Development

Land held for development consists of land where no development activities have been carried out or where development activities are not expected to be completed within the normal operating cycle. Such land is classified within non-current assets and is stated at cost or revalued amounts less any accumulated impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2.2(o).

#### (f) Due from Customers on Contracts

Where the outcome of a contract can be estimated reliably, contract revenue and contract costs are recognised as revenue and expenses respectively by using the stage of completion method. The stage of completion is measured by reference to the proportion of contract costs incurred for work performed to date to the estimated total contract costs.

Where the outcome of a contract cannot be reliably estimated, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When the total of costs incurred on contracts plus recognised profits (less recognised losses) exceeds progress billings, the balance is classified as amount due from customers on contracts. When progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is classified as amount due to customers on contracts. Cost includes the cost of direct labour, materials, and overhead expenses incurred based on the normal level of activities.



## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.2 Summary of Significant Accounting Policies (cont'd)

#### (g) Inventories

Inventories are stated at the 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 cost 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 level of activity.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to be incurred in marketing, selling and distribution.

#### (h) Cash and Cash Equivalents

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

#### (i) Leases

A lease is recognised as a finance lease if it transfers substantially to the Group all the risks and rewards incident to ownership. All other leases are classified as operating leases.

##### (i) Finance leases

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.

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 as an expense in the income statement 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(d).

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.2 Summary of Significant Accounting Policies (cont'd)

#### (i) Leases (cont'd)

##### (ii) Operating lease

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

In the case of a lease of land and buildings, the minimum lease payments or the up-front payments are allocated, whenever necessary, between the land and the buildings elements in proportion to the relative fair values for leasehold interests in the land element and buildings element of the lease at the inception of the lease. The up-front payment represents prepaid lease payments and are amortised on a straight-line basis over the lease term.

#### (j) 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 arise from goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of 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 as income or an expense and included in the profit or loss for the period, except when it raised from a transaction which is recognised directly in equity.

#### (k) Provisions for Liabilities

Provisions 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, the amount of provision is the present value of the expenditure expected to be required to settle the obligations.

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.2 Summary of Significant Accounting Policies (cont'd)

#### (l) Employees 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 employees. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by 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.

##### (ii) Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Group pays a fixed contribution 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, companies in Malaysia make such contributions to the Employees Provident Fund ("EPF").

#### (m) 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. The following specific recognition criteria must also be met before revenue is recognised:

##### (i) Contract work

Revenue from contract work is accounted for by the percentage of completion method as described in Note 2.2(f).

##### (ii) Sales of goods

Revenue relating to sale of goods is recognised net of discounts upon the transfer of risks and rewards.

##### (iii) Interest income and rental income

Interest and rental income are recognised on an accrual basis.

#### (n) 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.2 Summary of Significant Accounting Policies (cont'd)

#### (n) Foreign Currencies (cont'd)

##### (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 rates 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. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the period except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in equity. Exchange differences arising from such non-monetary items are also recognised directly in equity.

##### (iii) Foreign operation

The results and financial position of foreign operations that have a functional currency different from the presentation currency (RM) of the consolidated financial statements are translated into RM as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate prevailing at the balance sheet date;
- Income and expenses for each income statement are translated at average exchange rates for the year, which approximates the exchange rates at the dates of the transactions; and
- All resulting exchange differences are taken to the foreign currency translation reserve within equity.

The principal exchange rates used for each respective unit of foreign currency ruling at the balance sheet date are as follows:

|                      | <b>2007</b> | <b>2006</b> |
|----------------------|-------------|-------------|
|                      | <b>RM</b>   | <b>RM</b>   |
| United States Dollar | <b>3.31</b> | 3.58        |
| Great Britain Pound  | <b>6.68</b> | 6.99        |

#### (o) Impairment of Assets

The carrying amount of the Company's assets are reviewed at each balance sheet reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated and an impairment loss is recognised whenever the recoverable amount is less than the carrying amount of the asset. Recoverable amount is the higher of net selling price and value in use, which is measured by reference to discounted future cash flows.

## **2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

### **2.2 Summary of Significant Accounting Policies (cont'd)**

#### **(o) Impairment of Assets (cont'd)**

The impairment loss is recognised in the income statement immediately except for the impairment on a revalued asset where the impairment loss is recognised directly against the revaluation surplus account to the extent of the surplus credited from the previous revaluation for the same asset, with the excess of the impairment loss charged to the income statement.

All reversals of impairment losses are recognised as income immediately in the income statement except for the reversal of an impairment loss on a revalued asset where the reversal of the impairment loss is treated as a revaluation increase and credited to the revaluation surplus account of the same asset.

An impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount. An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment had been recognised.

#### **(p) Investment Properties**

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any accumulated impairment losses.

Investment properties of the Group consist of freehold land and building. There is no depreciation charged on freehold land. Depreciation on building 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 2% per annum.

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

#### **(q) Non-current Assets (or Disposal Group) Held for Sale and Discontinued Operations**

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary.

Immediately before classification as held for sale, the measurement of the non-current assets (or all the assets and liabilities in a disposal group) is brought up-to-date in accordance with applicable FRSs. Then, on initial classification as held for sale, non-current assets or disposal groups (other than investment properties, deferred tax assets, employee benefits assets, financial assets and inventories) are measured in accordance with FRS 5 that is at the lower of carrying amount and fair value less costs to sell. Any differences are included in profit or loss.

A component of the Group is classified as a discontinued operation when the criteria to be classified as held for sale have been met or it has been disposed of and such a component represents a separate major line of business or geographical area of operations, is part of a single co-ordinated major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.2 Summary of Significant Accounting Policies (cont'd)

#### (r) Financial Instruments

Financial instrument 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) Other investment

Other investment is also stated at cost less impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2.2(o).

On disposal of an investment, the difference between net disposal proceeds and its carrying amount is recognised in the income statement.

#### (ii) 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 profit or loss. On disposal of marketable securities, the difference between net disposal proceeds and the carrying amount is recognised in profit or loss.

#### (iii) Receivables

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.

#### (iv) Payables

Payables are stated at cost which is the fair value of the consideration to be paid in the future for goods and services received.

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.2 Summary of Significant Accounting Policies (cont'd)

#### (r) Financial Instruments (cont'd)

##### (v) Interest-bearing borrowings

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

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. The amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate which is the weighted average of the borrowing costs applicable to the Group's borrowings that are outstanding during the year, other than borrowings made specifically for the purpose of acquiring another qualifying asset. For borrowings made specifically for the purpose of acquiring a qualifying asset, the amount of borrowing costs eligible for capitalisation is the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of funds drawn down from that borrowing facility.

All other borrowing costs are recognised as an expense in the income statement as an expense in the period in which they are incurred.

##### (vi) Equity instruments

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

The transaction costs of an equity transaction are accounted for as a deduction from equity, net of tax. Equity transaction costs comprise only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided.

##### (vii) Redeemable secured loan stocks ("RSLs")

The RSLs is recorded at the amount of proceeds received, net of transaction costs. The RSLs is classified as non-current liability in the balance sheet and the interest on this instrument is recognised as finance costs in profit or loss in the period in which they are incurred.

##### (viii) Warrants

The free detachable warrants were issued pursuant to the Rights Issue of 26,000,000 ordinary shares of the Company. The issuance of the ordinary shares upon exercise of the warrants are treated as new subscription of ordinary shares for the consideration equivalent to the exercise price of the warrants.

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

On 1 January 2007, the Group and the Company adopted the following FRSs and amendments to FRSs:

|         |                           |
|---------|---------------------------|
| FRS 117 | Leases                    |
| FRS 124 | Related Party Disclosures |

The Malaysian Accounting Standards Board ("MASB") has also issued FRS 6: Exploration for and Evaluation of Mineral Resources and Amendments to FRS 119: Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures which will be effective for annual periods beginning on or after 1 January 2007. These FRSs are, however, not applicable to the Group or the Company.

The adoption of the revised FRS 124 give rise to additional disclosures but did not result in significant changes in accounting policies of the Group and of the Company. The principal changes in accounting policies and their effects resulting from adoption of the revised FRS 117 are discussed below:

#### (a) FRS 117: Leases

##### (i) Leasehold land held for own use

Prior to 1 January 2007, leasehold land held for own use was classified as property, plant and equipment and was stated at cost less accumulated depreciation and impairment losses. The adoption of the revised FRS 117 has resulted in a change in the accounting policy relating to the classification of leases of land and buildings. Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets and the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification.

Leasehold land held for own use is now classified as operating lease and where necessary, the minimum lease payments or the up-front payments made are allocated between the land and the buildings elements in proportion to the relative fair values for leasehold interests in the land element and buildings element of the lease at the inception of the lease. The up-front payment represents prepaid lease payments and are amortised on a straight-line basis over the lease term.

The Group and the Company has applied the change in accounting policy in respect of leasehold land in accordance with the transitional provisions of FRS 117. At 1 January 2007, the unamortised amount of leasehold land is retained as the surrogate carrying amount of prepaid lease payments as allowed by the transitional provisions. The reclassification of leasehold land as prepaid lease payments has been accounted for retrospectively and as disclosed in Note 2.3(a)(ii), certain comparatives have been restated. There were no effects on the consolidated income statement for the year ended 31 December 2007 and the Company's financial statements.



**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)****2.3 Changes in Accounting Policies and Effects Arising from Adoption of New and Revised FRSs (cont'd)****(a) FRS 117: Leases (cont'd)****(ii) Restatement of Comparatives**

The following comparatives have been restated as a result of adopting FRS 117:

| <b>Description of change</b>    | <b>As Previously<br/>Stated<br/>RM</b> | <b>Increase/<br/>(Decrease)<br/>RM</b> | <b>Restated<br/>RM</b> |
|---------------------------------|--|--|------------------------|
| <b>At 31 December 2006</b>      |  |  |                        |
| <b>GROUP</b>                    |  |  |                        |
| Property, plant and equipment   | 24,164,823                             | (4,757,876)                            | 19,406,947             |
| Prepaid land and lease payments | –                                      | 4,757,876                              | 4,757,876              |

**2.4 Standards and interpretations issued but not yet effective**

At the date of authorisation of these financial statements, the following FRSs, amendments to FRSs and Issues Committee Interpretation ("IC interpretations") were issued but not yet effective and have not been applied by the Group and the Company:

|                      |   |
|----------------------|---|
| FRS 107              | Cash Flow Statements  |
| FRS 111              | Construction Contracts  |
| FRS 112              | Income Taxes  |
| FRS 118              | Revenue   |
| FRS 119              | Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures                             |
| FRS 120              | Accounting for Government Grants and Disclosure of Government Assistance                                |
| Amendments to        | The Effects of Changes in Foreign Exchange Rates -  |
| FRS 121              | Net Investment in Foreign Operation   |
| FRS 126              | Accounting and Reporting by Retirement Benefit Plans  |
| FRS 134              | Interim Financial Reporting   |
| FRS 137              | Provisions, Contingent Liabilities and Contingent Assets  |
| IC Interpretations 1 | Changes in Existing Decommissioning, Restoration and Similar Liabilities                                |
| IC Interpretations 2 | Members' Shares in Co-operative Entities and Similar Instruments  |
| IC Interpretations 5 | Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds    |
| IC Interpretations 6 | Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment |
| IC Interpretations 7 | Applying the Restatement Approach under FRS 129 Financial Reporting in Hyperinflationary Economies      |
| IC Interpretations 8 | Scope of FRS 2  |

The above FRSs, amendments to FRSs and IC Interpretations are not expected to have significant impact on the financial statements of the Group and of the Company upon their initial adoption.

FRS 139 application has been deferred to a date to be announced by Malaysian Accounting Standards Board. The adoption of FRS 139 in future periods will not have a material impact on the financial statements of the Group and of the Company.

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.5 Significant Accounting Estimates and Judgements

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

#### (a) Critical Judgements Made in Applying Accounting Policies

##### (i) Classification between investment properties and property, plant and equipment

The Group has developed certain criteria based on FRS 140 in making judgment whether a property qualifies as an investment property. Investment property is a property held to earn rentals or for capital appreciation or both.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portion could be sold separately (or leased out separately under a finance lease), the Group would account for the portion separately. If the portion could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

#### (b) Key Sources of Estimation Uncertainty

##### (i) 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 taxable profit will be available against which the losses and capital allowances can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

## 3. REVENUE

Revenue of the Group consists of the following:

|                             | <b>GROUP</b>      |             |
|-----------------------------|-------------------|-------------|
|                             | <b>2007</b>       | <b>2006</b> |
|                             | <b>RM</b>         | <b>RM</b>   |
| Revenue from contract works | <b>36,038,192</b> | 24,862,475  |
| Sale of goods               | <b>16,771,677</b> | 20,206,667  |
|                             | <b>52,809,869</b> | 45,069,142  |

**4. OTHER INCOME**

Included in other income are the following:

|   | GROUP      |            | COMPANY    |            |
|---|------------|------------|------------|------------|
|   | 2007<br>RM | 2006<br>RM | 2007<br>RM | 2006<br>RM |
| Rental income   |            |            |            |            |
| - third parties   | 55,009     | 398,008    | -          | -          |
| - director related companies  | -          | 126,000    | -          | -          |
| Reversal of impairment loss on marketable securities                            | -          | 1,351,056  | -          | -          |
| Foreign exchange gain:  |            |            |            |            |
| - realised  | 130        | -          | -          | -          |
| - unrealised  | 13,397     | 8,260      | -          | -          |
| Gain on disposal of property, plant and equipment                               | 126,636    | 14,564     | -          | -          |
| Gain on disposal of investment in subsidiaries                                  | 1,961,226  | -          | -          | -          |
| Interest waiver pursuant to the debt restructuring<br>and fund raising exercise | 29,598,324 | -          | 18,571,434 | -          |
| Management fees   | -          | -          | 1,204,702  | 858,844    |

**5. STAFF COSTS**

|   | GROUP      |            | COMPANY    |            |
|---|------------|------------|------------|------------|
|   | 2007<br>RM | 2006<br>RM | 2007<br>RM | 2006<br>RM |
| Wages and salaries                        | 5,383,328  | 5,207,835  | 572,643    | 733,523    |
| Social security costs                     | 54,259     | 46,759     | 4,254      | 3,488      |
| Pension costs - defined contribution plan | 567,527    | 462,494    | 57,158     | 57,221     |
| Other staff related expenses              | 1,458,472  | 834,361    | 4,788      | 6,409      |
|   | 7,463,586  | 6,551,449  | 638,843    | 800,641    |

**6. DIRECTORS' REMUNERATION**

|                                 | GROUP      |            | COMPANY    |            |
|---------------------------------|------------|------------|------------|------------|
|                                 | 2007<br>RM | 2006<br>RM | 2007<br>RM | 2006<br>RM |
| <b>Directors of the Company</b> |            |            |            |            |
| Executive:                      |            |            |            |            |
| Salaries and other emoluments   | 512,688    | 520,080    | 512,688    | 520,080    |
| Fees                            | 24,000     | 11,500     | 24,000     | 11,500     |
| Benefits-in-kind                | 10,500     | 10,500     | 10,500     | 10,500     |
|                                 | 547,188    | 542,080    | 547,188    | 542,080    |

**6. DIRECTORS' REMUNERATION (Cont'd)**

|   | <b>GROUP</b>   |             | <b>COMPANY</b> |             |
|---|----------------|-------------|----------------|-------------|
|   | <b>2007</b>    | <b>2006</b> | <b>2007</b>    | <b>2006</b> |
|   | <b>RM</b>      | <b>RM</b>   | <b>RM</b>      | <b>RM</b>   |
| Non-Executive:                              |                |             |                |             |
| Salaries and other emoluments               | <b>43,217</b>  | 29,200      | <b>43,217</b>  | 29,200      |
| Fees  | <b>5,250</b>   | 5,000       | <b>5,250</b>   | 5,000       |
|   | <b>595,655</b> | 576,280     | <b>595,655</b> | 576,280     |
| <b>Other Directors</b>                      |                |             |                |             |
| Executive:                                  |                |             |                |             |
| Salaries and other emoluments               | <b>291,648</b> | 291,648     | –              | –           |
| Total                                       | <b>887,303</b> | 867,928     | <b>595,655</b> | 576,280     |
| Analysis excluding benefits-in-kind:        |                |             |                |             |
| Total executive directors' remuneration     | <b>828,336</b> | 823,228     | <b>536,688</b> | 531,580     |
| Total non-executive directors' remuneration | <b>48,467</b>  | 34,200      | <b>48,467</b>  | 34,200      |
| Total directors' remuneration               | <b>876,803</b> | 857,428     | <b>585,155</b> | 565,780     |

The number of directors of the Company whose total remuneration during the year fell within the following bands is analysed below:

|                          | <b>Number of Directors</b> |             |
|--------------------------|----------------------------|-------------|
|                          | <b>2007</b>                | <b>2006</b> |
| Executive directors:     |                            |             |
| RM100,001 - RM150,000    | <b>2</b>                   | 2           |
| RM150,001 - RM200,000    | <b>2</b>                   | 2           |
| Non-Executive directors: |                            |             |
| Below RM50,000           | <b>2</b>                   | 2           |

**7. OTHER EXPENSES**

Included in other expenses are the following:

|   | GROUP            |            | COMPANY          |            |
|---|------------------|------------|------------------|------------|
|   | 2007<br>RM       | 2006<br>RM | 2007<br>RM       | 2006<br>RM |
| Auditors' remuneration:                           |                  |            |                  |            |
| - Statutory audit                                 | <b>69,600</b>    | 67,998     | <b>18,500</b>    | 18,500     |
| - Other services                                  | <b>6,825</b>     | 6,500      | <b>6,825</b>     | 6,500      |
| - (Over)/underprovision in prior year             | <b>(8,447)</b>   | 5,000      | –                | 5,000      |
| Loss on disposal of property, plant and equipment | –                | 250,326    | –                | –          |
| Loss on disposal of investment in subsidiaries    | –                | –          | <b>4,998</b>     | –          |
| Loss/(gain) on disposal of marketable securities  | <b>1,183,858</b> | (2,785)    | –                | –          |
| Foreign exchange loss:                            |                  |            |                  |            |
| - Realised  | <b>238,511</b>   | 21,592     | –                | –          |
| - Unrealised                                      | –                | 5,609      | –                | –          |
| Provision for doubtful debts                      | <b>1,718,511</b> | 31,644     | <b>633,450</b>   | –          |
| Provision for loss on forfeited property:         |                  |            |                  |            |
| - Current year                                    | –                | 4,823,894  | –                | –          |
| - Overprovision in prior year                     | <b>(35,312)</b>  | –          | –                | –          |
| Bad debt written off                              | <b>292,394</b>   | –          | –                | –          |
| Property, plant and equipment written off         | <b>35,915</b>    | 11,733     | <b>1,361,278</b> | –          |
| Impairment of goodwill                            | –                | 128,568    | –                | –          |
| Rental:   |                  |            |                  |            |
| - office  | <b>250,488</b>   | 160,320    | <b>161,280</b>   | 64,512     |
| - factory   | <b>211,631</b>   | 509,398    | –                | –          |
| - showroom  | <b>157,200</b>   | 95,000     | –                | –          |

**8. DISPOSAL OF SUBSIDIARIES**

The Group disposed of its interests in the following subsidiaries during the year:

| Name of subsidiaries        | Equity interest disposed | Consideration<br>RM |
|-----------------------------|--------------------------|---------------------|
| Bumper Wood Sdn Bhd         | 100%                     | 1                   |
| Paramount Wood Sdn Bhd      | 100%                     | 1                   |
| Maskamaz Industries Sdn Bhd | 36%                      | 1                   |

**8. DISPOSAL OF SUBSIDIARIES (cont'd)**

The disposals had the following effects on the financial position of the Group as at the end of the year:

|   | <b>2007<br/>RM</b> |
|---|--------------------|
| Inventories   | <b>219,555</b>     |
| Other receivables   | <b>600</b>         |
| Cash and bank balances                                      | <b>585</b>         |
| Other payables  | <b>(2,181,963)</b> |
| Net liabilities disposed                                    | <b>(1,961,223)</b> |
| Total disposal proceeds                                     | <b>3</b>           |
| Gain on disposal to the Group                               | <b>(1,961,226)</b> |
| <hr/>   |                    |
| Cash outflow arising on disposal:                           |                    |
| Cash consideration, representing cash inflow of the Company | <b>3</b>           |
| Cash and cash equivalents of the subsidiaries disposed      | <b>(585)</b>       |
| Net cash outflow of the Group                               | <b>(582)</b>       |

The disposal of the subsidiary had the following effect on the financial results of the Company:

|                                    |                |
|------------------------------------|----------------|
| Total disposal proceeds            | <b>2</b>       |
| Cost of investment in subsidiaries | <b>(5,000)</b> |
| Loss on disposal of subsidiaries   | <b>(4,998)</b> |

**9. FINANCE COSTS, NET**

|                  | <b>GROUP</b>       |                    | <b>COMPANY</b>     |                    |
|------------------|--------------------|--------------------|--------------------|--------------------|
|                  | <b>2007<br/>RM</b> | <b>2006<br/>RM</b> | <b>2007<br/>RM</b> | <b>2006<br/>RM</b> |
| Interest expense | <b>1,729,010</b>   | 9,428,535          | <b>664,782</b>     | 5,073,546          |
| Others           | <b>22,433</b>      | 38,551             | <b>1,104</b>       | 4,838              |
|                  | <b>1,751,443</b>   | 9,467,086          | <b>665,886</b>     | 5,078,384          |

**10. TAXATION**

|   | <b>GROUP</b>     |             | <b>COMPANY</b> |             |
|---|------------------|-------------|----------------|-------------|
|   | <b>2007</b>      | <b>2006</b> | <b>2007</b>    | <b>2006</b> |
|   | <b>RM</b>        | <b>RM</b>   | <b>RM</b>      | <b>RM</b>   |
| Income tax:   |                  |             |                |             |
| Malaysian income tax  | <b>45,202</b>    | 7,363       | –              | –           |
| Under/(over)provision in prior years                          | <b>43,398</b>    | (20,393)    | –              | –           |
|   | <b>88,600</b>    | (13,030)    | –              | –           |
| Deferred tax (Note 17):                                       |                  |             |                |             |
| Relating to origination and reversal of temporary differences | <b>902,380</b>   | 404,361     | <b>(144)</b>   | 7,000       |
| Relating to reduction in Malaysian income tax rate            | <b>217,221</b>   | –           | <b>(279)</b>   | –           |
| (Over)/underprovided in prior years                           | <b>(232,506)</b> | (114,140)   | <b>826</b>     | (7,000)     |
|   | <b>887,095</b>   | 290,221     | <b>403</b>     | –           |
|   | <b>975,695</b>   | 277,191     | <b>403</b>     | –           |

Domestic current income tax is calculated at the Malaysian statutory tax rate of 27% (2006: 28%) of the estimated assessable profit for the year. The domestic statutory tax rate will be reduced from the current year's rate of 27% to 26% for the year of assessment 2008, and to 25% in subsequent years of assessments. The computation of deferred tax as at 31 December 2007 has reflected these changes.

A reconciliation of income tax expense applicable to profit/(loss) before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Group and of the Company is as follows:

**GROUP**

|  | <b>2007</b>        | <b>2006</b>  |
|--|--------------------|--------------|
|  | <b>RM</b>          | <b>RM</b>    |
| Profit/(loss) before taxation  | <b>23,159,875</b>  | (11,800,681) |
| Taxation at Malaysian statutory tax rate of 27% (2006: 28%)  | <b>6,253,166</b>   | (3,294,147)  |
| Effect of lower tax rates of Malaysian subsidiaries with issued and paid-up share capital below RM2,500,000  | <b>(15,820)</b>    | –            |
| Effect on opening deferred tax of reduction in Malaysian tax rate  | <b>217,221</b>     | –            |
| Effect of expenses not deductible for tax purposes   | <b>2,017,188</b>   | 1,677,836    |
| Effect of income not subject to tax  | <b>(5,655,824)</b> | –            |
| Effect of utilisation of previously unrecognised tax losses and unabsorbed capital allowances                | <b>(1,768,227)</b> | (65,098)     |
| Deferred tax assets recognised on other deductible temporary differences                                     | –                  | (100,090)    |
| Deferred tax assets not recognised in respect of current year's tax losses and unabsorbed capital allowances | <b>103,023</b>     | 2,193,225    |
| Overprovision of deferred tax in prior years   | <b>(218,430)</b>   | (114,142)    |
| Under/(over)provision of tax expense in prior years  | <b>43,398</b>      | (20,393)     |
| Tax expense for the year   | <b>975,695</b>     | 277,191      |

**10. TAXATION (Cont'd)****COMPANY**

|   | <b>2007</b>        | <b>2006</b> |
|---|--------------------|-------------|
|   | <b>RM</b>          | <b>RM</b>   |
| Profit/(loss) before taxation   | <b>15,154,245</b>  | (5,684,539) |
| Taxation at Malaysian statutory tax rate of 27% (2006: 28%)                                   | <b>4,091,646</b>   | (1,591,671) |
| Effect on opening deferred tax of reduction in Malaysian tax rate                             | <b>(279)</b>       | –           |
| Effect of expenses not deductible for tax purposes  | <b>1,338,777</b>   | 1,530,227   |
| Effect of income not subject to tax   | <b>(5,014,288)</b> | –           |
| Deferred tax assets not recognised during the year  | –                  | 61,444      |
| Effect of utilisation of previously unrecognised tax losses and unabsorbed capital allowances | <b>(416,279)</b>   | –           |
| Underprovision of deferred tax in prior year  | <b>826</b>         | –           |
| Tax expense for the year  | <b>403</b>         | –           |

|   | <b>GROUP</b>     |             | <b>COMPANY</b> |             |
|---|------------------|-------------|----------------|-------------|
|   | <b>2007</b>      | <b>2006</b> | <b>2007</b>    | <b>2006</b> |
|   | <b>RM</b>        | <b>RM</b>   | <b>RM</b>      | <b>RM</b>   |
| Tax savings recognised during the year arising from utilisation of tax losses brought forward from previous years | <b>2,418,083</b> | 1,848       | <b>308,772</b> | –           |

**11. EARNING/(LOSS) PER SHARE****(a) Basic**

Basic earning/(loss) per share is calculated by dividing the net profit/(loss) for the year by the weighted average number of ordinary shares in issue during the financial year.

|   | <b>GROUP</b>      |              |
|---|-------------------|--------------|
|   | <b>2007</b>       | <b>2006</b>  |
| Net profit/(loss) for the year (RM)                 | <b>22,184,180</b> | (12,077,872) |
| Weighted average number of ordinary shares in issue | <b>68,942,300</b> | 27,681,500   |
| Basic earning/(loss) per share (Sen)                | <b>32</b>         | (44)         |



**11. EARNING/(LOSS) PER SHARE (Cont'd)****(b) Diluted**

For the purpose of calculating diluted earnings per share, the weighted average number of ordinary shares in issue during the financial year have been adjusted for the dilutive effects of all outstanding warrants issued by the Company during the year.

|   | <b>GROUP</b>      |              |
|---|-------------------|--------------|
|   | <b>2007</b>       | <b>2006</b>  |
| Net profit/(loss) for the year (RM)                 | <b>22,184,180</b> | (12,077,872) |
| Weighted average number of ordinary shares in issue | <b>92,620,871</b> | 27,681,500   |
| <b>Diluted earning/(loss) per share (Sen)</b>       | <b>24</b>         | (44)         |

**12. PROPERTY, PLANT AND EQUIPMENT**

|                            | <b>Land and<br/>buildings*<br/>RM</b> | <b>Other<br/>property,<br/>plant and<br/>equipment**<br/>RM</b> | <b>Total<br/>RM</b> |
|----------------------------|---------------------------------------|---|---------------------|
| <b>GROUP</b>               |                                       |   |                     |
| <b>At 31 December 2007</b> |                                       |   |                     |
| <b>Cost or valuation</b>   |                                       |   |                     |
| At 1 January 2007          |                                       |   |                     |
| At cost                    | –                                     | 17,884,152  | 17,884,152          |
| At valuation               | 15,962,015                            | –   | 15,962,015          |
|                            | <b>15,962,015</b>                     | <b>17,884,152</b>   | <b>33,846,167</b>   |
| Additions                  | –                                     | 648,424   | 648,424             |
| Disposals                  | (6,140,015)                           | (1,843,201)   | (7,983,216)         |
| Write offs                 | –                                     | (575,183)   | (575,183)           |
| At 31 December 2007        | <b>9,822,000</b>                      | <b>16,114,192</b>   | <b>25,936,192</b>   |
| Representing:              |                                       |   |                     |
| At cost                    | –                                     | 16,114,192  | 16,114,192          |
| At valuation               | 9,822,000                             | –   | 9,822,000           |
| At 31 December 2007        | <b>9,822,000</b>                      | <b>16,114,192</b>   | <b>25,936,192</b>   |

**12. PROPERTY, PLANT AND EQUIPMENT (Cont'd)**

|                                       | Land and<br>buildings*<br>RM | Other<br>property,<br>plant and<br>equipment**<br>RM | Total<br>RM |
|---------------------------------------|------------------------------|--|-------------|
| <b>GROUP (Cont'd)</b>                 |                              |  |             |
| <b>At 31 December 2007 (Cont'd)</b>   |                              |  |             |
| <b>Accumulated Depreciation</b>       |                              |  |             |
| At 1 January 2007                     | 1,315,282                    | 13,123,937   | 14,439,219  |
| Charge for the year                   | 204,632                      | 917,856  | 1,122,488   |
| Disposals                             | (536,700)                    | (406,249)  | (942,949)   |
| Write offs                            | –                            | (539,268)  | (539,268)   |
| At 31 December 2007                   | 983,214                      | 13,096,276   | 14,079,490  |
| <b>Net Carrying Amount</b>            |                              |  |             |
| At cost                               | –                            | 3,017,916  | 3,017,916   |
| At valuation                          | 8,838,786                    | –  | 8,838,786   |
| At 31 December 2007                   | 8,838,786                    | 3,017,916  | 11,856,702  |
| <b>At 31 December 2006 (restated)</b> |                              |  |             |
| <b>Cost or valuation</b>              |                              |  |             |
| At 1 January 2006                     |                              |  |             |
| At cost                               | –                            | 17,762,005   | 17,762,005  |
| At valuation                          | 20,002,855                   | –  | 20,002,855  |
| Additions                             | 20,002,855                   | 17,762,005   | 37,764,860  |
| Disposals                             | 159,160                      | 555,339  | 714,499     |
| Write offs                            | –                            | (151,206)  | (151,206)   |
| Reclassifications                     | –                            | (281,985)  | (281,985)   |
| Reclassifications                     | (4,200,000)                  | –  | (4,200,000) |
| At 31 December 2006                   | 15,962,015                   | 17,884,153   | 33,846,168  |
| Representing:                         |                              |  |             |
| At cost                               | –                            | 17,884,153   | 17,884,153  |
| At valuation                          | 15,962,015                   | –  | 15,962,015  |
| At 31 December 2006                   | 15,962,015                   | 17,884,153   | 33,846,168  |

**12. PROPERTY, PLANT AND EQUIPMENT (Cont'd)**

|  | <b>Land and<br/>buildings*</b> | <b>Other<br/>property,<br/>plant and<br/>equipment**</b> | <b>Total</b> |
|--|--------------------------------|--|--------------|
|  | <b>RM</b>                      | <b>RM</b>  | <b>RM</b>    |
| <b>GROUP (Cont'd)</b>                          |                                |  |              |
| <b>At 31 December 2006 (restated) (Cont'd)</b> |                                |  |              |
| <b>Accumulated Depreciation</b>                |                                |  |              |
| At 1 January 2006                              | 1,120,751                      | 12,492,331   | 13,613,082   |
| Charge for the year                            | 318,203                        | 1,002,183  | 1,320,386    |
| Disposals                                      | –                              | (100,322)  | (100,322)    |
| Write offs                                     | –                              | (270,253)  | (270,253)    |
| Reclassifications                              | (123,672)                      | –  | (123,672)    |
| At 31 December 2006                            | 1,315,282                      | 13,123,939   | 14,439,221   |
| <b>Net Carrying Amount</b>                     |                                |  |              |
| At cost  | –                              | 4,760,214  | 4,760,214    |
| At valuation                                   | 14,646,733                     | –  | 14,646,733   |
| At 31 December 2006                            | 14,646,733                     | 4,760,214  | 19,406,947   |

**\* LAND AND BUILDINGS**

|                            | <b>Freehold<br/>land</b> | <b>Buildings</b>   | <b>Total</b>       |
|----------------------------|--------------------------|--------------------|--------------------|
|                            | <b>RM</b>                | <b>RM</b>          | <b>RM</b>          |
| <b>GROUP</b>               |                          |                    |                    |
| <b>At 31 December 2007</b> |                          |                    |                    |
| <b>At valuation</b>        |                          |                    |                    |
| At 1 January 2007          | <b>1,597,819</b>         | <b>14,364,196</b>  | <b>15,962,015</b>  |
| Disposals                  | <b>(1,597,819)</b>       | <b>(4,542,196)</b> | <b>(6,140,015)</b> |
| At 31 December 2007        | –                        | <b>9,822,000</b>   | <b>9,822,000</b>   |

**12. PROPERTY, PLANT AND EQUIPMENT (Cont'd)****\* LAND AND BUILDINGS (Cont'd)**

|  | <b>Freehold<br/>land<br/>RM</b> | <b>Buildings<br/>RM</b> | <b>Total<br/>RM</b> |
|--|---------------------------------|-------------------------|---------------------|
| <b>GROUP (Cont'd)</b>                        |                                 |                         |                     |
| <b>At 31 December 2007 (Cont'd)</b>          |                                 |                         |                     |
| <b>Accumulated Depreciation</b>              |                                 |                         |                     |
| At 1 January 2007                            | –                               | 1,315,282               | 1,315,282           |
| Charge for the year                          | –                               | 204,632                 | 204,632             |
| Disposals                                    | –                               | (536,700)               | (536,700)           |
| At 31 December 2007                          | –                               | 983,214                 | 983,214             |
| <b>Net Carrying Amount</b>                   |                                 |                         |                     |
| At 31 December 2007                          | –                               | 8,838,786               | 8,838,786           |
| <b>At 31 December 2006 (restated)</b>        |                                 |                         |                     |
| <b>At valuation</b>                          |                                 |                         |                     |
| At 1 January 2006                            | 4,092,759                       | 15,910,096              | 20,002,855          |
| Additions                                    | 159,160                         | –                       | 159,160             |
| Reclassification to properties held for sale | (2,654,100)                     | (1,545,900)             | (4,200,000)         |
| At 31 December 2006                          | 1,597,819                       | 14,364,196              | 15,962,015          |
| <b>Accumulated Depreciation</b>              |                                 |                         |                     |
| At 1 January 2006                            | –                               | 1,120,751               | 1,120,751           |
| Charge for the year                          | –                               | 318,203                 | 318,203             |
| Reclassification to properties held for sale | –                               | (123,672)               | (123,672)           |
| At 31 December 2006                          | –                               | 1,315,282               | 1,315,282           |
| <b>Net Carrying Amount</b>                   |                                 |                         |                     |
| At 31 December 2006                          | 1,597,819                       | 13,048,914              | 14,646,733          |

**12. PROPERTY, PLANT AND EQUIPMENT (cont'd)****\* LAND AND BUILDINGS (Cont'd)**

|   | <b>2007</b>        | <b>2006</b> |
|---|--------------------|-------------|
|   | <b>RM</b>          | <b>RM</b>   |
| <b>COMPANY</b>                                |                    |             |
| <b>Other property, plant and equipment **</b> |                    |             |
| <b>At cost</b>                                |                    |             |
| At 1 January                                  | <b>2,337,677</b>   | 2,324,234   |
| Additions                                     | <b>2,579</b>       | 13,443      |
| Written off                                   | <b>(1,652,418)</b> | –           |
| At 31 December                                | <b>687,838</b>     | 2,337,677   |
| <b>Accumulated Depreciation</b>               |                    |             |
| At 1 January                                  | <b>819,516</b>     | 738,515     |
| Charge for the year                           | <b>57,512</b>      | 81,001      |
| Written off                                   | <b>(291,140)</b>   | –           |
| At 31 December                                | <b>585,888</b>     | 819,516     |
| <b>Net Carrying Amount</b>                    |                    |             |
| At 31 December                                | <b>101,950</b>     | 1,518,161   |

\*\* Other property, plant and equipment consist of motor vehicles, furniture and fittings, plant and machinery, office equipment and renovation.

(a) The building of the Group amounting to RM8,838,786 (2006: RM9,035,226) has been pledged to financial institutions for bank borrowings as referred to in Note 30.

(b) Net book value of property, plant and equipment held under finance lease and hire purchase arrangements are as follows:

|                | <b>GROUP</b>   |             | <b>COMPANY</b> |             |
|----------------|----------------|-------------|----------------|-------------|
|                | <b>2007</b>    | <b>2006</b> | <b>2007</b>    | <b>2006</b> |
|                | <b>RM</b>      | <b>RM</b>   | <b>RM</b>      | <b>RM</b>   |
| Motor vehicles | <b>124,606</b> | 198,611     | <b>78,385</b>  | 111,979     |

**12. PROPERTY, PLANT AND EQUIPMENT (cont'd)**

- (c) The following properties were revalued on 31 December 2002 by Mohd. Nor & Partners Sdn. Bhd., Suite 152, 15th Floor, Wisma Mirama, Jalan Wisma Putra, 50460 Kuala Lumpur.

Details of independent professional valuation of the properties of the Group are as follows:

| <b>Date of Valuation</b> | <b>Description of Property</b>  | <b>Valuation Amount<br/>RM</b> | <b>Basis of Valuation</b> |
|--------------------------|---|--------------------------------|---------------------------|
| <b>GROUP</b>             |   |                                |                           |
| 31 December 2002         | Freehold industrial land with factory in Puchong Mukim and District of Petaling, Selangor Darul Ehsan*                        | 5,300,000                      | Open market value         |
| 31 December 2002         | Freehold industrial land in Mukim Kapar, District of Klang, Selangor Darul Ehsan++  | 2,000,000                      | Open market value         |
| 31 December 2002         | Leasehold industrial land with factory in Banting, Mukim Tanjung Duabelas, District of Kuala Langat, Selangor Darul Ehsan#    | 12,000,000                     | Open market value         |
| 31 December 2002         | Leasehold industrial land and construction-in-progress in Mukim Tanggul, District of Hulu Terengganu, Terengganu Darul Iman++ | 7,000,000                      | Open market value         |
| 31 December 2002         | Leasehold industrial land with factory in Pekan Chembong, District of Rembau, Negeri Sembilan Darul Khusus*                   | 5,000,000                      | Open market value         |
| 31 December 2002         | Office building in Petaling Jaya*   | 11,000,000                     | Open market value         |
| 31 December 2002         | Freehold industrial land with factory in Puchong, Mukim and District of Petaling, Selangor Darul Ehsan*                       | 4,200,000                      | Open market value         |
|                          |   | 46,500,000                     |                           |

\* Properties disposed off during the current financial year

++ As disclosed in Note 18

# As disclosed in Note 19

Had the revalued properties been carried at historical cost, the net book value of each class of properties that would have been included in the financial statements of the Group and of the Company as at 31 December 2007 would have been as follows:

|               | <b>GROUP</b>       |                    |
|---------------|--------------------|--------------------|
|               | <b>2007<br/>RM</b> | <b>2006<br/>RM</b> |
| Freehold land | –                  | 1,500,044          |
| Buildings     | <b>9,685,932</b>   | 12,615,858         |
|               | <b>9,685,932</b>   | 14,115,902         |

**13. LAND HELD FOR DEVELOPMENT**

|                                 | <b>GROUP</b>        |             |
|---------------------------------|---------------------|-------------|
|                                 | <b>2007</b>         | <b>2006</b> |
|                                 | <b>RM</b>           | <b>RM</b>   |
| <b>Long term leasehold land</b> |                     |             |
| <b>At valuation</b>             |                     |             |
| At 1 January                    | <b>50,000,000</b>   | 50,000,000  |
| Disposal                        | <b>(50,000,000)</b> | –           |
| At 31 December                  | –                   | 50,000,000  |

The long term leasehold land was last revalued on 31 December 2002 by a professional valuer using the open market value basis.

The Company completed the disposal of the land during the year pursuant to the DRA.

**14. INVESTMENT IN SUBSIDIARIES**

|                                     | <b>COMPANY</b>     |             |
|-------------------------------------|--------------------|-------------|
|                                     | <b>2007</b>        | <b>2006</b> |
|                                     | <b>RM</b>          | <b>RM</b>   |
| Unquoted shares at cost in Malaysia | <b>30,279,572</b>  | 30,068,224  |
| Less: Accumulated impairment losses | <b>(8,048,389)</b> | (8,048,389) |
|                                     | <b>22,231,183</b>  | 22,019,835  |

Details of the subsidiaries are as follows:

| <b>Name of Subsidiaries</b>             | <b>Country of Incorporation</b> | <b>Equity Interest Held (%)</b> |             | <b>Principal Activities</b>   |
|---|---------------------------------|---------------------------------|-------------|---|
|   |                                 | <b>2007</b>                     | <b>2006</b> |   |
| Federal Furniture (M) Sdn. Bhd.#        | Malaysia                        | <b>100</b>                      | 100         | Marketing and export of furniture   |
| Federal Furniture Industries Sdn. Bhd.# | Malaysia                        | <b>100</b>                      | 100         | Renovation and interior fit-outs of offices and hotels and contract works |
| Federal Furniture (1982) Sdn. Bhd.#     | Malaysia                        | <b>100</b>                      | 100         | Manufacturing and export of furniture                                     |
| Anglo Frontier Sdn. Bhd.                | Malaysia                        | <b>70</b>                       | 70          | Investment holding  |
| Pelantar Agresif (M) Sdn. Bhd.          | Malaysia                        | <b>100</b>                      | 100         | Investment holding  |
| Aspek Sensasi Sdn. Bhd.                 | Malaysia                        | <b>100</b>                      | 100         | Investment holding  |
| Layang Kaji Sdn. Bhd.                   | Malaysia                        | <b>100</b>                      | 100         | Dormant   |
| Federal Electric Company Sdn. Bhd.      | Malaysia                        | <b>100</b>                      | 100         | Investment holding  |
| Bumper Wood Sdn. Bhd.#                  | Malaysia                        | –                               | 100         | Dormant   |

**14. INVESTMENT IN SUBSIDIARIES (Cont'd)**

Details of the subsidiaries are as follows: (Cont'd)

| Name of Subsidiaries   | Country of Incorporation | Equity Interest Held (%) |      | Principal Activities   |
|--|--------------------------|--------------------------|------|--|
|  |                          | 2007                     | 2006 |  |
| Paramount Wood Sdn. Bhd.#  | Malaysia                 | –                        | 100  | Dormant  |
| Mintwood Sdn. Bhd.   | Malaysia                 | 100                      | 100  | Dormant  |
| Splenwood Sdn. Bhd.  | Malaysia                 | 100                      | 100  | Dormant  |
| Federal Furniture Lifestyles Sdn. Bhd.<br>(formerly known as Interior Design World Sdn Bhd.)       | Malaysia                 | 100                      | 100  | Interior design of residential properties and trading of furniture |
| Qingdao Federal Furniture Industries Co. Ltd.  | China                    | 100                      | 100  | Manufacturing and export of furniture                              |
| <u>Held by</u><br><u>Anglo Frontier Sdn. Bhd.:</u>   |                          |                          |      |  |
| Maskamaz Industries Sdn. Bhd.#   | Malaysia                 | –                        | 36   | Ceased operations  |
| <u>Held by</u><br><u>Federal Furniture Industries Sdn. Bhd.:</u>                                   |                          |                          |      |  |
| Pathos Corporation Sdn. Bhd.<br>(formerly known as MioDino The Office World (Malaysia) Sdn. Bhd.)# | Malaysia                 | 93                       | 93   | Ceased operations  |
| Cathay Interior Design (M) Sdn. Bhd.   | Malaysia                 | 55                       | 55   | Renovation and interior fit-outs of offices and hotels             |
| <u>Held by</u><br><u>Federal Furniture (M) Sdn. Bhd.:</u>  |                          |                          |      |  |
| Avante Corporation Sdn. Bhd.#  | Malaysia                 | 55                       | 55   | Ceased operations  |
| <u>Held by</u><br><u>Avante Corporation Sdn. Bhd.:</u>   |                          |                          |      |  |
| Trac Marketing Incorporated  | United States of America | 55                       | 55   | Dormant  |
| <u>Held by</u><br><u>Federal Electric Company Sdn. Bhd.:</u>                                       |                          |                          |      |  |
| Myanmar Electric Distributor Ltd.  | Union of Myanmar         | 100                      | 100  | Dormant  |

The auditors' reports of all the above subsidiaries, except for Cathay Interior Design (M) Sdn. Bhd., Layang Kaji Sdn. Bhd., Federal Furniture Industries Sdn. Bhd. and Pelantar Agresif (M) Sdn. Bhd. contain an emphasis of matter paragraph on the appropriateness of the going concern assumption as the ability of the respective subsidiaries to operate as going concerns are dependent upon the continuous financial support from the Company.

# Subsidiary companies which participated in the debt restructuring exercise as disclosed in Note 42.



**14. INVESTMENT IN SUBSIDIARIES (cont'd)****(a) Disposal of Subsidiaries**

Information relating to the disposal of the subsidiaries is set out in Note 8.

**15. OTHER INVESTMENT**

|                          | <b>GROUP/COMPANY</b> |             |
|--------------------------|----------------------|-------------|
|                          | <b>2007</b>          | <b>2006</b> |
|                          | <b>RM</b>            | <b>RM</b>   |
| Unquoted shares, at cost | <b>60,000</b>        | 60,000      |

**16. GOODWILL ON CONSOLIDATION**

|                                   | <b>GROUP</b> |             |
|-----------------------------------|--------------|-------------|
|                                   | <b>2007</b>  | <b>2006</b> |
|                                   | <b>RM</b>    | <b>RM</b>   |
| Goodwill arising on consolidation |              |             |
| At 1 January/31 December          | –            | 128,568     |
| Less: Accumulated impairment loss | –            | –           |
| Impairment recognised             | –            | (128,568)   |
| At 31 December                    | –            | –           |

**17. DEFERRED TAX**

|  | <b>GROUP</b>       |             | <b>COMPANY</b> |             |
|--|--------------------|-------------|----------------|-------------|
|  | <b>2007</b>        | <b>2006</b> | <b>2007</b>    | <b>2006</b> |
|  | <b>RM</b>          | <b>RM</b>   | <b>RM</b>      | <b>RM</b>   |
| At 1 January                                       | <b>(5,957,571)</b> | (6,247,792) | <b>7,000</b>   | 7,000       |
| Recognised in the income statement (Note 10)       | <b>887,095</b>     | –           | <b>403</b>     | –           |
| Reversal of deferred taxation no longer required   | –                  | 290,221     | –              | –           |
| At 31 December                                     | <b>(5,070,476)</b> | (5,957,571) | <b>7,403</b>   | 7,000       |
| Presented after appropriate offsetting as follows: |                    |             |                |             |
| Deferred tax assets                                | <b>(6,143,759)</b> | (7,385,773) | –              | –           |
| Deferred tax liabilities                           | <b>1,073,283</b>   | 1,428,202   | <b>7,403</b>   | 7,000       |
|  | <b>(5,070,476)</b> | (5,957,571) | <b>7,403</b>   | 7,000       |

**17. DEFERRED TAX (Cont'd)**

The components and movements of deferred tax assets and liabilities during the financial year prior to offsetting are as follows:

**Deferred tax assets of the Group:**

|                                    | Unutilised<br>Capital Allowances<br>RM | Unabsorbed<br>Losses<br>RM | Write<br>down of<br>Inventories<br>RM | Others<br>RM | Total<br>RM |
|------------------------------------|--|----------------------------|---------------------------------------|--------------|-------------|
| At 1 January 2007                  | (415,074)                              | (4,794,666)                | (1,328,369)                           | (847,664)    | (7,385,773) |
| Recognised in the income statement | 170,314                                | 358,350                    | 99,608                                | 613,742      | 1,242,014   |
| At 31 December 2007                | (244,760)                              | (4,436,316)                | (1,228,761)                           | (233,922)    | (6,143,759) |

**Deferred tax liabilities of the Group:**

|                                    | Revaluation<br>of Land and<br>Buildings<br>RM | Property,<br>Plant and<br>Equipment<br>RM | Total<br>RM |
|------------------------------------|---|---|-------------|
| At 1 January 2007                  | 5,590   | 1,422,612                                 | 1,428,202   |
| Recognised in the income statement | (5,590)                                       | (349,329)                                 | (354,919)   |
| At 31 December 2007                | –   | 1,073,283                                 | 1,073,283   |

**Deferred tax liabilities of the Company:**

|                                    | Others<br>RM | Total<br>RM |
|------------------------------------|--------------|-------------|
| At 1 January 2007                  | 7,000        | 7,000       |
| Recognised in the income statement | 403          | 403         |
| At 31 December 2007                | 7,403        | 7,403       |

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

**GROUP**

|                               | 2007<br>RM | 2006<br>RM |
|-------------------------------|------------|------------|
| Unused tax losses             | 46,557,562 | 40,344,424 |
| Unabsorbed capital allowances | 199,022    | 758,257    |
|                               | 46,756,584 | 41,102,681 |

**17. DEFERRED TAX (Cont'd)**

The availability of the unused tax losses and unabsorbed capital allowances for offsetting against future taxable profits of the company are subject to no substantial changes in shareholdings of those entities under the Income Tax Act, 1967, and guidelines issued by the tax authority. Deferred tax assets have not been recognised in respect of these items as they may not be used to offset taxable profits of certain subsidiaries of the Group and they have arisen in subsidiaries that have a recent history of losses.

**18. INVESTMENT PROPERTIES**

|  | Freehold<br>land<br>RM | Long term<br>leasehold<br>land<br>RM | Short term<br>leasehold<br>land<br>RM | Buildings<br>RM | Total<br>RM |
|--|------------------------|--------------------------------------|---------------------------------------|-----------------|-------------|
| <b>GROUP</b>                                 |                        |                                      |                                       |                 |             |
| <b>At 31 December 2007</b>                   |                        |                                      |                                       |                 |             |
| <b>At valuation</b>                          |                        |                                      |                                       |                 |             |
| At 1 January 2007                            | 2,301,266              | –                                    | 1,030,408                             | 5,165,801       | 8,497,475   |
| Disposals                                    | (301,266)              | –                                    | (1,030,408)                           | (5,085,801)     | (6,417,475) |
| At 31 December 2007                          | 2,000,000              | –                                    | –                                     | 80,000          | 2,080,000   |
| <b>Accumulated Depreciation</b>              |                        |                                      |                                       |                 |             |
| At 1 January 2007                            | –                      | –                                    | 52,876                                | 252,930         | 305,806     |
| Charge for the year                          | –                      | –                                    | 6,779                                 | 22,241          | 29,020      |
| Disposals                                    | –                      | –                                    | (59,655)                              | (262,371)       | (322,026)   |
| At 31 December 2007                          | –                      | –                                    | –                                     | 12,800          | 12,800      |
| <b>Net Carrying Amount</b>                   |                        |                                      |                                       |                 |             |
| At 31 December 2007                          | 2,000,000              | –                                    | –                                     | 67,200          | 2,067,200   |
| <b>At 31 December 2006</b>                   |                        |                                      |                                       |                 |             |
| <b>At valuation</b>                          |                        |                                      |                                       |                 |             |
| At 1 January 2006                            | 2,301,266              | 909,199                              | 1,030,408                             | 22,256,602      | 26,497,475  |
| Disposals                                    | –                      | –                                    | –                                     | (5,500,000)     | (5,500,000) |
| Provision for loss on forfeited properties   | –                      | (909,199)                            | –                                     | (6,090,801)     | (7,000,000) |
| Reclassification to properties held for sale | –                      | –                                    | –                                     | (5,500,000)     | (5,500,000) |
| At 31 December 2006                          | 2,301,266              | –                                    | 1,030,408                             | 5,165,801       | 8,497,475   |

**18. INVESTMENT PROPERTIES (Cont'd)**

|  | Freehold<br>land<br>RM | Long term<br>leasehold<br>land<br>RM | Short term<br>leasehold<br>land<br>RM | Buildings<br>RM | Total<br>RM |
|--|------------------------|--------------------------------------|---------------------------------------|-----------------|-------------|
| <b>GROUP (Cont'd)</b>                        |                        |                                      |                                       |                 |             |
| <b>At 31 December 2006 (Cont'd)</b>          |                        |                                      |                                       |                 |             |
| <b>Accumulated Depreciation</b>              |                        |                                      |                                       |                 |             |
| At 1 January 2006                            | –                      | 17,828                               | 25,760                                | 800,014         | 843,602     |
| Charge for the year                          | –                      | –                                    | 27,116                                | 222,916         | 250,032     |
| Disposals                                    | –                      | –                                    | –                                     | (330,000)       | (330,000)   |
| Provision for loss on forfeited properties   | –                      | (17,828)                             | –                                     | –               | (17,828)    |
| Reclassification to properties held for sale | –                      | –                                    | –                                     | (440,000)       | (440,000)   |
| At 31 December 2006                          | –                      | –                                    | 52,876                                | 252,930         | 305,806     |
| <b>Net Carrying Amount</b>                   |                        |                                      |                                       |                 |             |
| At 31 December 2006                          | 2,301,266              | –                                    | 977,532                               | 4,912,871       | 8,191,669   |

- (a) The net book values of investment properties pledged to financial institutions for bank borrowings as referred to in Note 30 are as follows:

|                           | <b>GROUP</b>     |             |
|---------------------------|------------------|-------------|
|                           | <b>2007</b>      | <b>2006</b> |
|                           | <b>RM</b>        | <b>RM</b>   |
| Freehold land             | <b>2,000,000</b> | 2,301,266   |
| Short term leasehold land | –                | 767,856     |
| Buildings                 | –                | 3,956,845   |
|                           | <b>2,000,000</b> | 7,025,967   |

**19. PREPAID LAND LEASE PAYMENTS**

|                     | <b>GROUP</b>       |             |
|---------------------|--------------------|-------------|
|                     | <b>2007</b>        | <b>2006</b> |
|                     | <b>RM</b>          | <b>RM</b>   |
| <b>At Valuation</b> |                    |             |
| At 1 January        | <b>5,139,670</b>   | 5,139,670   |
| Disposal            | <b>(2,961,670)</b> | –           |
| At 31 December      | <b>2,178,000</b>   | 5,139,670   |

**19. PREPAID LAND LEASE PAYMENTS (Cont'd)**

|                                 | <b>GROUP</b>     |             |
|---------------------------------|------------------|-------------|
|                                 | <b>2007</b>      | <b>2006</b> |
|                                 | <b>RM</b>        | <b>RM</b>   |
| <b>Accumulated amortisation</b> |                  |             |
| At 1 January                    | <b>381,794</b>   | 307,916     |
| Charge for the year             | <b>37,464</b>    | 73,878      |
| Disposal                        | <b>(292,628)</b> | –           |
| At 31 December                  | <b>126,630</b>   | 381,794     |
| <b>Net carrying amount</b>      |                  |             |
| At 31 December                  | <b>2,051,370</b> | 4,757,876   |
| Analysed as:                    |                  |             |
| Long term leasehold land        | <b>2,051,370</b> | 2,076,696   |
| Short term leasehold land       | –                | 2,681,180   |
|                                 | <b>2,051,370</b> | 4,757,876   |

Leasehold land with an aggregate carrying value of RM Nil (2006: RM2,681,180) are pledged as securities for borrowings.

**20. INVENTORIES**

|                  | <b>GROUP</b>     |             |
|------------------|------------------|-------------|
|                  | <b>2007</b>      | <b>2006</b> |
|                  | <b>RM</b>        | <b>RM</b>   |
| <b>Cost</b>      |                  |             |
| Raw materials    | <b>3,783,782</b> | 2,766,161   |
| Work-in-progress | <b>2,759,930</b> | 1,505,318   |
| Finished goods   | <b>695,410</b>   | 1,300,815   |
|                  | <b>7,239,122</b> | 5,572,294   |

**20. INVENTORIES (Cont'd)**

|                             | <b>GROUP</b>     |             |
|-----------------------------|------------------|-------------|
|                             | <b>2007</b>      | <b>2006</b> |
|                             | <b>RM</b>        | <b>RM</b>   |
| <b>Net realisable value</b> |                  |             |
| Raw materials               | <b>8,666</b>     | 890,250     |
| Work-in-progress            | <b>82,865</b>    | 82,865      |
| Finished goods              | <b>88,469</b>    | 1,119,800   |
|                             | <b>180,000</b>   | 2,092,915   |
|                             | <b>7,419,122</b> | 7,665,209   |

The cost of inventories recognised as an expense during the financial year in the Group amounted to RM11,588,627 (2006: RM7,585,361).

**21. TRADE RECEIVABLES**

|   | <b>GROUP</b>       |             |
|---|--------------------|-------------|
|   | <b>2007</b>        | <b>2006</b> |
|   | <b>RM</b>          | <b>RM</b>   |
| Trade receivables                         | <b>11,744,476</b>  | 9,111,243   |
| Due from customers on contracts (Note 22) | <b>6,183,477</b>   | 10,548,130  |
| Retention sum on contracts (Note 22)      | <b>76,264</b>      | 174,889     |
|   | <b>18,004,217</b>  | 19,834,262  |
| Less: Provision for doubtful debts        | <b>(1,243,606)</b> | (2,201,442) |
|   | <b>16,760,611</b>  | 17,632,820  |

Included in trade receivables of the Group are balances due from companies in which certain directors have interest amounting to RM2,484,984 (2006: RM2,340,023) whereby the details are disclosed in Note 39.

The Group's normal trade credit term ranges from 30 to 90 days. Other credit terms are assessed and approved on a case-by-case basis.

The Group has no other significant concentration of credit risk that may arise from exposures to a single debtor or to groups of debtors.

**22. DUE FROM CUSTOMERS ON CONTRACTS**

|  | <b>GROUP</b>        |               |
|--|---------------------|---------------|
|  | <b>2007</b>         | <b>2006</b>   |
|  | <b>RM</b>           | <b>RM</b>     |
| Contract costs incurred to date  | <b>63,276,376</b>   | 107,673,721   |
| Attributable profits   | <b>11,613,597</b>   | 18,503,712    |
| Less: Provision for foreseeable losses                                 | <b>(866,383)</b>    | (329,296)     |
|  | <b>74,023,590</b>   | 125,848,137   |
| Less: Progress billings  | <b>(67,840,113)</b> | (115,300,007) |
|  | <b>6,183,477</b>    | 10,548,130    |
| Retention sum on contracts, included under trade receivables (Note 21) | <b>76,264</b>       | 174,889       |

**23. OTHER RECEIVABLES**

|                                    | <b>GROUP</b>       |             | <b>COMPANY</b>     |             |
|------------------------------------|--------------------|-------------|--------------------|-------------|
|                                    | <b>2007</b>        | <b>2006</b> | <b>2007</b>        | <b>2006</b> |
|                                    | <b>RM</b>          | <b>RM</b>   | <b>RM</b>          | <b>RM</b>   |
| Deposits                           | <b>580,224</b>     | 499,983     | <b>30,247</b>      | 25,247      |
| Prepayments                        | <b>424,066</b>     | 2,126,813   | <b>1,570</b>       | 1,585,078   |
| Sundry receivables                 | <b>7,976,793</b>   | 8,079,191   | <b>2,009,925</b>   | 1,637,924   |
|                                    | <b>8,981,083</b>   | 10,705,987  | <b>2,041,742</b>   | 3,248,249   |
| Less: Provision for doubtful debts | <b>(2,163,931)</b> | (1,962,451) | <b>(1,433,296)</b> | (1,433,296) |
|                                    | <b>6,817,152</b>   | 8,743,536   | <b>608,446</b>     | 1,814,953   |

Included in sundry receivables of the Group are amounts due from companies in which certain directors have interest amounting to RM4,951,514 (2006: RM3,781,363), whereby the details are disclosed in Note 39.

The sundry receivables are unsecured, interest-free and have no fixed term of repayments.

**24. DUE FROM SUBSIDIARIES**

|                                    | <b>COMPANY</b>      |              |
|------------------------------------|---------------------|--------------|
|                                    | <b>2007</b>         | <b>2006</b>  |
|                                    | <b>RM</b>           | <b>RM</b>    |
| Unsecured, interest-free advances  | <b>74,249,434</b>   | 54,144,527   |
| Less: Provision for doubtful debts | <b>(14,168,410)</b> | (13,534,960) |
|                                    | <b>60,081,024</b>   | 40,609,567   |

The amounts due from subsidiaries are unsecured and have no fixed terms of repayment.

**25. MARKETABLE SECURITIES**

|  | <b>GROUP</b>  |             |
|--|---------------|-------------|
|  | <b>2007</b>   | <b>2006</b> |
|  | <b>RM</b>     | <b>RM</b>   |
| Quoted shares on conversion of quoted ICULS, at cost | <b>48,636</b> | 5,881,153   |
| Less: Provision for diminution in value              | –             | (4,648,152) |
|  | <b>48,636</b> | 1,233,001   |
| Market value   | <b>48,636</b> | 1,233,001   |

During the previous financial year, the marketable securities were pledged to a bank for a credit facility which has been duly repaid upon the successful completion of the Company's debt restructuring and fund raising exercise as disclosed in Note 42.

**26. CASH AND CASH EQUIVALENTS**

|                                 | <b>GROUP</b>       |             | <b>COMPANY</b> |             |
|---------------------------------|--------------------|-------------|----------------|-------------|
|                                 | <b>2007</b>        | <b>2006</b> | <b>2007</b>    | <b>2006</b> |
|                                 | <b>RM</b>          | <b>RM</b>   | <b>RM</b>      | <b>RM</b>   |
| Cash and bank balances          | <b>657,515</b>     | 797,561     | <b>5,722</b>   | 9,965       |
| Less: Bank overdrafts (Note 30) | <b>(1,773,093)</b> | (5,741,564) | –              | –           |
| Cash and cash equivalents       | <b>(1,115,578)</b> | (4,944,003) | <b>5,722</b>   | 9,965       |



**27. PROPERTIES HELD FOR SALE**

|  | <b>GROUP</b>       |             |
|--|--------------------|-------------|
|  | <b>2007</b>        | <b>2006</b> |
|  | <b>RM</b>          | <b>RM</b>   |
| At 1 January                                     | <b>9,136,328</b>   | 9,700,000   |
| Depreciation of properties held for sale at cost | –                  | (563,672)   |
| Disposal   | <b>(9,136,328)</b> | –           |
| At 31 December                                   | –                  | 9,136,328   |

- (a) The above properties which have been disposed pursuant to the debt restructuring exercise and fund raising exercise as disclosed in Note 42.

**28. SHARE CAPITAL**

|   | <b>Number of<br/>Ordinary Shares</b> |             | <b>Amount</b>      |              |
|---|--------------------------------------|-------------|--------------------|--------------|
|   | <b>2007</b>                          | <b>2006</b> | <b>2007</b>        | <b>2006</b>  |
|   |                                      |             | <b>RM</b>          | <b>RM</b>    |
| <b>Authorised:</b>  |                                      |             |                    |              |
| <b>At 1 January</b>                                       |                                      |             |                    |              |
| Shares of RM1.00 each                                     | –                                    | 50,000,000  | –                  | 50,000,000   |
| Shares of RM0.50 each                                     | <b>200,000,000</b>                   | –           | <b>100,000,000</b> | –            |
|   | <b>200,000,000</b>                   | 50,000,000  | <b>100,000,000</b> | 50,000,000   |
| Reduction of nominal value of shares                      | –                                    | –           | –                  | (25,000,000) |
| Created during the year                                   | –                                    | 150,000,000 | –                  | 75,000,000   |
| At 31 December  |                                      |             |                    |              |
| Shares of RM0.50 each                                     | <b>200,000,000</b>                   | 200,000,000 | <b>100,000,000</b> | 100,000,000  |
| <b>Issued and fully paid:</b>                             |                                      |             |                    |              |
| <b>At 1 January</b>                                       |                                      |             |                    |              |
| Ordinary shares of RM1.00 each                            | –                                    | 27,681,500  | –                  | 27,681,500   |
| Ordinary shares of RM0.50 each                            | <b>27,681,500</b>                    | –           | <b>13,840,750</b>  | –            |
|   | <b>27,681,500</b>                    | 27,681,500  | <b>13,840,750</b>  | 27,681,500   |
| Reduction of nominal value of shares                      | –                                    | –           | –                  | (13,840,750) |
| <b>Ordinary shares issued during the year:</b>            |                                      |             |                    |              |
| Issued for cash   | <b>26,000,000</b>                    | –           | <b>13,000,000</b>  | –            |
| Restricted issue pursuant to Debt Restructuring (Note 42) | <b>29,014,400</b>                    | –           | <b>14,507,200</b>  | –            |
| At 31 December  |                                      |             |                    |              |
| Ordinary shares of RM0.50 each                            | <b>82,695,900</b>                    | 27,681,500  | <b>41,347,950</b>  | 13,840,750   |

**28. SHARE CAPITAL (Cont'd)**

- (a) On 11 October 2006, the nominal value of each of the issued and unissued ordinary shares in the capital of the Company was reduced from RM1 to RM0.50 resulting in the authorised share capital being reduced from RM50,000,000 divided into 50,000,000 ordinary shares of RM1 each to RM25,000,000 divided into 50,000,000 ordinary shares of RM0.50 each and the issued and fully paid up share capital was accordingly reduced from RM27,681,500 divided into 27,681,500 ordinary shares of RM1 each to RM13,840,750 divided into 27,681,500 ordinary shares of RM0.50 each. The credit of RM13,840,750 arising from the said capital reduction was utilised to reduce the accumulated losses of the Company.
- (b) During the financial year, the Company issued the following new ordinary shares pursuant to the debt restructuring and fund raising exercise:
- (i) 26,000,000 new ordinary shares of RM0.50 each together with 31,571,428 free detachable new warrants at an issue price of RM0.50 per ordinary shares for cash as part of its debt restructuring and fund raising exercise. The new ordinary shares rank pari passu in all respects with the existing ordinary shares of the Company.
- (ii) 29,014,400 new ordinary shares of RM0.50 each at an issue price of RM0.70 each as debt settlement between the Company and its affected subsidiary companies and their respective scheme lenders as detailed in Note 42. The share premium of RM5,802,880 arising from the issuance of ordinary shares and the share issue costs of RM2,361,939 have been included in the share premium account. The new ordinary shares rank pari passu in all respects with the existing ordinary shares of the Company.

**29. SHARE PREMIUM**

|   | <b>COMPANY</b>     |              |
|---|--------------------|--------------|
|   | <b>2007</b>        | <b>2006</b>  |
|   | <b>RM</b>          | <b>RM</b>    |
| At 1 January  | –                  | 10,833,007   |
| Ordinary shares issued during the year (Note 28(b)(ii)) | <b>5,802,880</b>   | –            |
| Premium reduction                                       | –                  | (10,833,007) |
| Transaction cost (Note 28(b)(ii))                       | <b>(2,361,939)</b> | –            |
| At 31 December  | <b>3,440,941</b>   | –            |

During the last financial year, the share premium account of RM10,833,007 was reduced to nil where the credit arising from the said reduction was utilised to reduce the accumulated losses of the Company.

**30. BORROWINGS**

|  | GROUP            |            | COMPANY       |            |
|--|------------------|------------|---------------|------------|
|  | 2007<br>RM       | 2006<br>RM | 2007<br>RM    | 2006<br>RM |
| <b>Short Term Borrowings</b>                       |                  |            |               |            |
| Secured:   |                  |            |               |            |
| Bank overdrafts                                    | <b>986,460</b>   | 995,846    | –             | –          |
| Bankers' acceptances                               | <b>121,000</b>   | 1,940,000  | –             | –          |
| Revolving credits                                  | –                | 1,900,000  | –             | –          |
| Short term loans                                   | –                | 45,765,690 | –             | 39,928,334 |
| Term loans due within 12 months                    | <b>293,721</b>   | 637,995    | –             | –          |
| Hire purchase and finance lease payables (Note 31) | <b>38,166</b>    | 42,850     | <b>15,850</b> | 15,850     |
|  | <b>1,439,347</b> | 51,282,381 | <b>15,850</b> | 39,944,184 |
| Unsecured:   |                  |            |               |            |
| Bank overdrafts                                    | <b>786,633</b>   | 4,745,718  | –             | –          |
| Bankers' acceptances                               | <b>4,481,000</b> | 27,895,313 | –             | –          |
| Letter of credit                                   | –                | 1,017,302  | –             | –          |
| Revolving credits                                  | <b>500,000</b>   | 6,590,133  | –             | 1,399,000  |
| Short term loan                                    | –                | 2,179,830  | –             | –          |
|  | <b>5,767,633</b> | 42,428,296 | –             | 1,399,000  |
|  | <b>7,206,980</b> | 93,710,677 | <b>15,850</b> | 41,343,184 |
| <b>Long Term Borrowings</b>                        |                  |            |               |            |
| Secured:   |                  |            |               |            |
| Term loans, due after 12 months                    | –                | 2,325,518  | –             | –          |
| Hire purchase and finance lease payables (Note 31) | <b>70,232</b>    | 109,843    | <b>60,482</b> | 77,773     |
|  | <b>70,232</b>    | 2,435,361  | <b>60,482</b> | 77,773     |
| <b>Total Borrowings</b>                            |                  |            |               |            |
| Bank overdrafts (Note 26)                          | <b>1,773,093</b> | 5,741,564  | –             | –          |
| Bankers' acceptances                               | <b>4,602,000</b> | 29,835,313 | –             | –          |
| Letter of credit                                   | –                | 1,017,302  | –             | –          |
| Revolving credits                                  | <b>500,000</b>   | 8,490,133  | –             | 1,399,000  |
| Term loans   | <b>293,721</b>   | 50,909,033 | –             | 39,928,334 |
| Hire purchase and finance lease payables (Note 31) | <b>108,398</b>   | 152,693    | <b>76,332</b> | 93,623     |
|  | <b>7,277,212</b> | 96,146,038 | <b>76,332</b> | 41,420,957 |

**30. BORROWINGS (cont'd)**

|  | GROUP            |            | COMPANY    |            |
|--|------------------|------------|------------|------------|
|  | 2007<br>RM       | 2006<br>RM | 2007<br>RM | 2006<br>RM |
| <b>Total Borrowings (cont'd)</b>   |                  |            |            |            |
| Maturity of borrowings (excluding hire purchase and finance lease payables): |                  |            |            |            |
| Within one year  | <b>7,168,814</b> | 93,667,827 | –          | 41,327,334 |
| More than 1 year and less than 2 years                                       | –                | 901,393    | –          | –          |
| More than 2 years and less than 5 years                                      | –                | 1,244,002  | –          | –          |
| 5 years or more  | –                | 180,123    | –          | –          |
|  | <b>7,168,814</b> | 95,993,345 | –          | 41,327,334 |

The weighted average effective interest rates as at 31 December 2007 for borrowings, excluding hire purchase and lease payables, were as follows:

|                      | GROUP       |           | COMPANY   |           |
|----------------------|-------------|-----------|-----------|-----------|
|                      | 2007<br>%   | 2006<br>% | 2007<br>% | 2006<br>% |
| Bank overdrafts      | <b>9.25</b> | 8.51      | –         | –         |
| Bankers' acceptances | <b>5.53</b> | 4.37      | –         | –         |
| Revolving credits    | <b>6.72</b> | 7.74      | –         | 6.60      |
| Term loans           | <b>8.50</b> | 7.43      | –         | 8.25      |

The secured bank overdrafts, bankers' acceptances, revolving credits and short term loans of the Group and of the Company are secured by way of fixed and floating charges over certain assets of the Group as disclosed in Notes 12, 18 and 19.

The term loans are secured by the following:

- (a) First legal charge over the property, plant and equipment as disclosed in Note 12; and
- (b) Personal guarantee by certain directors on certain of the term loans amounting to RM180,000 (2006: RM180,000).

**31. HIRE PURCHASE AND FINANCE LEASE PAYABLES**

|  | GROUP           |            | COMPANY         |            |
|--|-----------------|------------|-----------------|------------|
|  | 2007<br>RM      | 2006<br>RM | 2007<br>RM      | 2006<br>RM |
| <b>Minimum lease payments:</b>   |                 |            |                 |            |
| Not later than 1 year  | 45,461          | 51,185     | 18,546          | 18,546     |
| Later than 1 year and not later than 2 years                           | 31,713          | 47,116     | 20,232          | 20,232     |
| Later than 2 years and not later than 5 years                          | 50,538          | 82,250     | 50,538          | 70,772     |
|  | <b>127,712</b>  | 180,551    | <b>89,316</b>   | 109,550    |
| Less: Future finance charges   | <b>(19,314)</b> | (27,858)   | <b>(12,984)</b> | (15,927)   |
| Present value of hire purchase and finance lease payables<br>(Note 30) | <b>108,398</b>  | 152,693    | <b>76,332</b>   | 93,623     |
| <b>Present value of hire purchase and finance lease payables:</b>      |                 |            |                 |            |
| Not later than 1 year  | 38,166          | 42,850     | 15,850          | 15,850     |
| Later than 1 year and not later than 2 years                           | 17,292          | 109,843    | 17,292          | 17,292     |
| Later than 2 years and not later than 5 years                          | 52,940          | –          | 43,190          | 60,481     |
|  | <b>108,398</b>  | 152,693    | <b>76,332</b>   | 93,623     |
| <b>Analysed as:</b>  |                 |            |                 |            |
| Due within 12 months (Note 30)   | 38,166          | 42,850     | 15,850          | 15,850     |
| Due after 12 months (Note 30)  | 70,232          | 109,843    | 60,482          | 77,773     |
|  | <b>108,398</b>  | 152,693    | <b>76,332</b>   | 93,623     |

The hire purchase and finance lease payables bore interest at balance sheet date at rates between 3.25% to 5.90% (2006: 3.25% to 5.90%) per annum.

**32. REDEEMABLE SECURED LOAN STOCK ("RSLs")**

On 30 April 2007, the Company issued 1,900,000 zero coupon five (5)-year Redeemable Secured Loan Stock at a nominal amount of RM1.00 each pursuant to the Restructuring Scheme.

The terms of the RSLs are as follows:

- (a) Redeemability - The RSLs and the interest accrued shall be redeemed through the sale of the properties secured.
- (b) Security - Southern Investment Bank Berhad ("SIBB") shall have a third party legal charge over each the said properties secured which consists of 4 vacant parcels of industrial land held under Geran Nos 32885 to 32888 for Lots 8421 to 8424, all in Mukim of Kapar District of Klang, Negeri Selangor Darul Ehsan.

**32. REDEEMABLE SECURED LOAN STOCK ("RSLs") (Cont'd)**

The terms of the RSLs are as follows: (Cont'd)

- (c) Coupon rate - RSLs shall bear coupon rates at the effective interest yield of 6.4% p.a., until redemption of the RSLs or at the end of the 5th year, whichever is the earlier.
- (d) Transferability - RSLs are not transferable.
- (e) Others - Any changes to the terms and conditions of the RSLs would required the Securities Commission's approval.

**33. TRADE PAYABLES**

|                | <b>GROUP</b>      |             |
|----------------|-------------------|-------------|
|                | <b>2007</b>       | <b>2006</b> |
|                | <b>RM</b>         | <b>RM</b>   |
| Trade payables | <b>11,152,642</b> | 6,953,382   |

The normal trade credit term granted to the Group ranges from 30 to 120 days.

**34. OTHER PAYABLES**

|                 | <b>GROUP</b>      |             | <b>COMPANY</b>   |             |
|-----------------|-------------------|-------------|------------------|-------------|
|                 | <b>2007</b>       | <b>2006</b> | <b>2007</b>      | <b>2006</b> |
|                 | <b>RM</b>         | <b>RM</b>   | <b>RM</b>        | <b>RM</b>   |
| Deposits        | <b>899,369</b>    | 91,500      | <b>4,200</b>     | 8,700       |
| Accruals        |                   |             |                  |             |
| - interest      | <b>947,427</b>    | 40,379,708  | <b>947,426</b>   | 27,817,882  |
| - others        | <b>2,016,044</b>  | 2,091,678   | <b>173,247</b>   | 190,647     |
| Sundry payables | <b>10,675,003</b> | 5,782,831   | <b>6,263,650</b> | 1,096,836   |
|                 | <b>14,537,843</b> | 48,345,717  | <b>7,388,523</b> | 29,114,065  |

Included in sundry payables of the Group and the Company are:

|  |                  |           |                  |         |
|--|------------------|-----------|------------------|---------|
| Amount due to companies in which certain directors have interest (Note 39) | <b>5,996,474</b> | 2,361,358 | <b>3,389,304</b> | 510,769 |
| Amount due to directors (Note 39)  | <b>809,482</b>   | 546,117   | <b>410,264</b>   | 190,232 |

The above amounts are unsecured, interest-free and have no fixed terms of repayment.

### 35. DUE TO SUBSIDIARIES

The amounts due to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

### 36. WARRANTS

On 30 March 2007, the Company issued 31,571,428 Warrants pursuant to the Company's Rights Issue. The terms of the Warrants are as follow:

- (a) Exercise rights - subject to the terms of the Deed Poll, each Warrant will entitle its registered holder to subscribe for one (1) new ordinary share at the exercise price (as defined below).
- (b) Exercise price - the Warrant is fixed at RM0.50 based on the par value of the ordinary shares, subject to adjustments in accordance with the provisions of the Deed Poll.
- (c) Exercise period - the period commencing on and including the day of issuance of the Warrants and expiring on the tenth anniversary of the issue date. Warrants not exercised during the exercise period will thereafter lapse and cease to be valid for any purpose.
- (d) Transferability - the warrants will be transferable in any manner provided under the Securities Industry (Central Depositories) Act, 1991 and the Rules of the Bursa Depository.
- (e) Ranking - The 31,571,428 new ordinary shares to be issued pursuant to the exercise of the Warrants will, on allotment and issue, rank pari passu in all respects with the then existing ordinary shares except that such new ordinary shares shall not be entitled for any dividends, that may be declared prior to the date of allotment and issue of new ordinary shares, nor shall it be entitled to any distributions or entitlements where the record date is prior to the date of exercise of Warrants.

### 37. REVALUATION RESERVE (NON-DISTRIBUTABLE)

|   | GROUP          |             |
|---|----------------|-------------|
|   | 2007<br>RM     | 2006<br>RM  |
| At 1 January  | 39,690,423     | 42,723,525  |
| Revaluation surplus written off*                                | -              | (2,158,278) |
| Realisation gain on disposal of property, plant and equipment** | (39,479,323)   | (874,824)   |
| At 31 December  | <b>211,100</b> | 39,690,423  |

\* The revaluation surplus was written off as it is arose from the revaluation of a leasehold land which is being forfeited by the State Authority for failure to comply with the condition on the purchase of the said land.

\*\* The realisation on reserve arises from the disposal of the Company's freehold and leasehold land and building as part of the debt restructuring exercise.

This reserve includes the cumulative net change, net of deferred tax effects, arising from the revaluation of freehold and leasehold land and building above their cost.

**38. CONTINGENT LIABILITIES**

|  | COMPANY          |            |
|--|------------------|------------|
|  | 2007<br>RM       | 2006<br>RM |
| Unsecured:   |                  |            |
| Corporate guarantees given to financial institutions for credit facilities granted to subsidiaries | <b>7,168,814</b> | 47,355,011 |

**39. SIGNIFICANT RELATED PARTY TRANSACTIONS**

|   | 2007<br>RM         | 2006<br>RM  |
|---|--------------------|-------------|
| <b>GROUP</b>  |                    |             |
| Sales to Choy Fook On & Sons Realty Sdn. Bhd., a director related company               | <b>4,200,000</b>   | –           |
| Insurance and assessment payable to Cipta Sentosa Sdn. Bhd., a director related company | –                  | 10,840      |
| Rental receivable from Masteron Sdn. Bhd., a director related company                   | –                  | 126,000     |
| Building maintenance fee to Cipta Sentosa Sdn. Bhd., a director related company         | –                  | 152,682     |
| Rental payable to Cipta Sentosa Sdn. Bhd., a director related company                   | <b>161,280</b>     | 64,512      |
| Balances:   |                    |             |
| <b>Due from:</b>  |                    |             |
| Masteron Sdn. Bhd.  | <b>2,306,918</b>   | 2,605,417   |
| Kemajuan Masteron Sdn. Bhd.   | <b>2,593,481</b>   | 2,561,201   |
| Pembinaan Masteron Sdn. Bhd.  | <b>373,377</b>     | 339,737     |
| Cipta Sentosa Sdn. Bhd.   | <b>1,940,379</b>   | 475,502     |
| Choy Fook On & Sons Realty Sdn. Bhd.  | <b>142,345</b>     | 112,345     |
| Bulletin Engineering Sdn. Bhd.  | <b>79,121</b>      | 27,184      |
| Pagoda Canggih Sdn. Bhd.  | <b>877</b>         | –           |
| <b>Due to:</b>  |                    |             |
| Masteron Sdn. Bhd.  | <b>(1,190,459)</b> | (315,715)   |
| Kemajuan Masteron Sdn. Bhd.   | <b>(300,000)</b>   | (300,000)   |
| Pembinaan Masteron Sdn. Bhd.  | <b>(63,873)</b>    | (63,873)    |
| Cipta Sentosa Sdn. Bhd.   | <b>(4,384,568)</b> | (1,674,196) |
| Utararia Development Sdn. Bhd.  | <b>(52,494)</b>    | (2,494)     |
| Bulletin Engineering Sdn. Bhd.  | <b>(5,080)</b>     | (5,080)     |
| Choy Fook On  | <b>(367,925)</b>   | (169,143)   |
| Tan Geok Foong  | <b>(16,524)</b>    | (10,149)    |
| Choy Wai Hin  | <b>(396,098)</b>   | (352,765)   |
| Choy Wai Ceong  | <b>(18,875)</b>    | (12,500)    |
| Haji Hussein bin Hamzah   | <b>(4,250)</b>     | –           |
| Md Abdul Wahab bin Md Shahir  | <b>(4,250)</b>     | –           |
| Dato' Haji Othman bin Mohd. Taib  | <b>(1,560)</b>     | (1,560)     |



**39. SIGNIFICANT RELATED PARTY TRANSACTIONS (Cont'd)**

|   | 2007<br>RM         | 2006<br>RM |
|---|--------------------|------------|
| <b>COMPANY</b>  |                    |            |
| Rental payable to Cipta Sentosa Sdn. Bhd., a director related company | <b>161,280</b>     | 64,512     |
| Balances:   |                    |            |
| <b>Due from:</b>  |                    |            |
| Choy Wai Hin  | <b>1,602</b>       | 9,935      |
| <b>Due to:</b>  |                    |            |
| Cipta Sentosa Sdn. Bhd.   | <b>(2,445,312)</b> | (151,777)  |
| Masteron Sdn. Bhd.  | <b>(884,058)</b>   | (299,058)  |
| Pembinaan Masteron Sdn. Bhd.  | <b>(59,934)</b>    | (59,934)   |
| Choy Fook On  | <b>(367,925)</b>   | (169,143)  |
| Tan Geok Foong  | <b>(14,964)</b>    | (8,589)    |
| Choy Wai Ceong  | <b>(18,875)</b>    | (12,500)   |
| Md Abdul Wahab bin Md Shahir  | <b>(4,250)</b>     | –          |
| Dato' Haji Othman bin Mohd. Taib                                      | <b>(4,250)</b>     | –          |

Tan Geok Foong is the spouse while Choy Wai Hin and Choy Wai Ceong are the sons of Dr. Choy Fook On. Collectively, they ("the Choy family") own, directly and indirectly, 34.38% of the voting rights of the Company. The indirect interest is held through Choy Fook On & Sons Realty Sdn. Bhd., a company wholly-owned by the Choy family.

The Choy family, are directors of, and have directly or indirectly, controlling interests in Masteron Sdn. Bhd., Pembinaan Masteron Sdn. Bhd., Kemajuan Masteron Sdn. Bhd., Bulletin Engineering Sdn. Bhd.\*, Cipta Sentosa Sdn. Bhd.\*\* and Utararia Development Sdn. Bhd.

The directors are of the opinion that the above transactions have been entered into in the normal course of business and have been established on terms and conditions that are not materially different from that obtainable in transactions with unrelated parties. During the year, there were no amount written off or forgiven in respect of debts due to or from these related parties.

\* A company in which Masteron Sdn. Bhd. has 50% interest

\*\* A wholly-owned subsidiary of Choy Fook On & Sons Realty Sdn. Bhd.

**40. FINANCIAL INSTRUMENTS****(a) Financial Risk Management Objectives and Policies**

The Group's risk management policy recognises that the activities undertaken by the Group expose it to a variety of financial risks especially those relating to the effects of changes in foreign currency exchange rates and interest rates. The objectives of the Group's policy are therefore directed towards the unpredictability of the financial markets and seeks to minimise the potential adverse effect on the financial performance of the Group.

**40. FINANCIAL INSTRUMENTS (cont'd)****(b) Foreign Exchange Risk**

The Group's export business is exposed to foreign exchange risk arising from various currencies. The Group does not take position to hedge its currency exposure but regularly reviews its exposure to foreign currency risk and manages it by purchasing forward foreign exchange contracts where deemed necessary. As a policy, the Group does not enter into derivatives in foreign currency contracts to hedge its foreign exchange risk.

**(c) Interest Rate Risk**

The Group's primary interest rate risk is related to its interest-bearing debts that are on the main attributable to its borrowings from financial institutions. The Group has no substantial interest-bearing assets. The Group manages its interest rate exposure by maintaining an appropriate combination of floating rates and fixed rates borrowings and reviewing its debt portfolio with regards to their maturity. It is not the Group's policy to not enter into financial instruments to hedge the movements in interest rates unless the risk is deemed to be significant.

**(d) Credit Risk**

The Group's primary financial assets include receivables and cash and cash equivalents. The Group has no significant concentrations of credit risk and policies are in place to ensure that services are rendered to customers with an appropriate credit history and/or standing and monitoring are carried out regularly. Cash and cash equivalents are placed with banks and financial institutions of reputable standing.

**(e) Liquidity Risk**

The Group adopts prudent liquidity risk management even in difficult times for the market by striving to maintain sufficient cash resources and having available funding through an adequate amount of credit facilities, appropriate debt maturity profile to finance the Group's working capital requirement and mitigate the effects of cash flow fluctuations.

**(f) Market Risk**

The Group's exposure to market risk arises mainly from changes in equity prices. The Group does not use derivative financial instruments to manage equity risks. Equity investments classified as current assets are available for sale with the objective of optimising returns on realisation.

**(g) Fair Values**

The carrying amounts of cash and bank balances, marketable securities, amounts owing by/to related companies, receivables, payables and borrowings approximate their fair values which are determined in accordance with Note 2.2(s).

The fair value of contingent liabilities (as disclosed in Note 38) is not disclosed as it is not practicable to make a reliable estimate due to the uncertainties of timing, costs and eventual outcome.

**41. SEGMENT INFORMATION**

|  | <b>Manufacturing and<br/>Trading of Furniture</b> |             | <b>Renovation and<br/>Interior Design</b> |             |
|--|---|-------------|---|-------------|
|  | <b>2007</b>                                       | <b>2006</b> | <b>2007</b>                               | <b>2006</b> |
|  | <b>RM</b>   | <b>RM</b>   | <b>RM</b>                                 | <b>RM</b>   |
| <b>REVENUE AND EXPENSES</b>                          |   |             |   |             |
| <b>Revenue</b>                                       |   |             |   |             |
| External sales                                       | <b>19,924,691</b>                                 | 20,157,966  | <b>32,885,178</b>                         | 24,911,176  |
| Inter-segment sale                                   | <b>15,952,627</b>                                 | 14,090,151  | <b>660,520</b>                            | 4,447,732   |
| <b>Total revenue</b>                                 | <b>35,877,318</b>                                 | 34,248,117  | <b>33,545,698</b>                         | 29,358,908  |
| <b>Result</b>  |   |             |   |             |
| Profit/(loss) from operations                        | <b>5,249,791</b>                                  | 1,961,210   | <b>1,535,658</b>                          | 1,784,420   |
| Finance costs, net                                   | <b>(484,584)</b>                                  | (2,139,892) | <b>(594,141)</b>                          | (2,375,403) |
| Taxation   | <b>85,014</b>                                     | (472,953)   | <b>(1,057,890)</b>                        | 70,727      |
| <b>Profit/(loss) after taxation</b>                  | <b>4,850,221</b>                                  | (651,635)   | <b>(116,373)</b>                          | (520,256)   |
| Minority interests                                   | –   | –           | <b>(25,585)</b>                           | 209,207     |
| <b>Net profit/(loss) for the year</b>                | <b>4,850,221</b>                                  | (651,635)   | <b>(141,958)</b>                          | (311,049)   |
| <b>ASSETS AND LIABILITIES</b>                        |   |             |   |             |
| Segment assets                                       | <b>62,538,214</b>                                 | 73,797,669  | <b>30,525,127</b>                         | 9,714,450   |
| Segment liabilities                                  | <b>78,602,741</b>                                 | 94,254,913  | <b>33,621,632</b>                         | 41,399,483  |
| <b>OTHER INFORMATION</b>                             |   |             |   |             |
| Depreciation of property, plant and equipment        | <b>(959,078)</b>                                  | (1,049,561) | <b>(124,632)</b>                          | (322,733)   |
| Reversal of impairment loss of marketable securities | –   | –           | –   | 1,351,056   |

| Investment Holding |             | Others            |             | Elimination          |               | Consolidated       |              |
|--------------------|-------------|-------------------|-------------|----------------------|---------------|--------------------|--------------|
| 2007               | 2006        | 2007              | 2006        | 2007                 | 2006          | 2007               | 2006         |
| RM                 | RM          | RM                | RM          | RM                   | RM            | RM                 | RM           |
| -                  | -           | -                 | -           | -                    | -             | <b>52,809,869</b>  | 45,069,142   |
| -                  | -           | -                 | -           | <b>(16,613,147)</b>  | (18,537,883)  | -                  | -            |
| -                  | -           | -                 | -           | <b>(16,613,147)</b>  | (18,537,883)  | <b>52,809,869</b>  | 45,069,142   |
| <b>17,996,193</b>  | (622,131)   | <b>129,676</b>    | (7,317,442) | -                    | 1,860,348     | <b>24,911,318</b>  | (2,333,595)  |
| <b>(665,987)</b>   | (5,078,475) | <b>(6,731)</b>    | (42,621)    | -                    | 169,305       | <b>(1,751,443)</b> | (9,467,086)  |
| <b>(403)</b>       | -           | <b>(2,416)</b>    | (7,666)     | -                    | 132,701       | <b>(975,695)</b>   | (277,191)    |
| <b>17,329,803</b>  | (5,700,606) | <b>120,529</b>    | (7,367,729) | -                    | 2,162,354     | <b>22,184,180</b>  | (12,077,872) |
| -                  | -           | -                 | -           | -                    | -             | <b>(25,585)</b>    | 209,207      |
| <b>17,329,803</b>  | (5,700,606) | <b>120,529</b>    | (7,367,729) | -                    | 2,162,354     | <b>22,158,595</b>  | (11,868,665) |
| <b>110,258,600</b> | 117,475,232 | <b>38,833,156</b> | 59,915,250  | <b>(188,273,030)</b> | (125,891,881) | <b>53,882,067</b>  | 135,010,720  |
| <b>64,290,492</b>  | 95,552,892  | <b>65,649,834</b> | 70,950,131  | <b>(206,053,143)</b> | (149,110,884) | <b>36,111,556</b>  | 153,046,535  |
| <b>(57,512)</b>    | (81,001)    | <b>(47,751)</b>   | (191,001)   | -                    | -             | <b>(1,188,973)</b> | (1,644,296)  |
| -                  | -           | -                 | -           | -                    | -             | -                  | 1,351,056    |

#### 41. SEGMENT INFORMATION (cont'd)

##### (a) Business Segments:

The Group is organised into three major business segments:

- (i) Manufacturing and trading of furniture;
- (ii) Renovation and interior design; and
- (iii) Investment holding.

None of the other subsidiaries which are dormant or have ceased operations are of a sufficient size to be reported separately.

The directors are of the opinion that inter-segment transactions have been entered into in the normal course of business and have been established on terms and conditions that are not materially different from that obtainable in transactions with unrelated parties.

The directors are of the opinion that all inter-segment transactions have been entered into in the normal course of business and have been established on terms and conditions that are not materially different from that obtainable in transactions with unrelated parties.

The activities of the Group are carried out mainly in Malaysia. The directors deem the contributions of the foreign subsidiaries to the Group's revenue, profit or loss, total assets and liabilities, and other information to be insignificant. As such, segmental reporting by geographical location is not prepared.

#### 42. DEBT RESTRUCTURING AND FUND RAISING EXERCISE

The Company and its affected subsidiaries (those marked "#" in Note 14) had successfully completed their corporate restructuring exercise to restructure their financing facilities on 30 April 2007.

The Company had on 25 June 2004, submitted to the Securities Commission ("SC") its proposal, which include, among others:

- (i) Proposed capital reduction by the cancellation of RM0.50 of the par value of every ordinary share of RM1.00 each in Federal Furniture Holdings (M) Berhad ("FFHB") to set-off against the accumulated losses of FFHB;
- (ii) Proposed reduction of the share premium account to set-off against the accumulated losses of FFHB;
- (iii) Proposed renounceable rights issue of up to 38,754,100 new ordinary shares of RM0.50 each together with up to 47,058,550 free detachable new warrants at an issue price of RM0.50 each on the basis of seven (7) new ordinary shares of RM0.50 each together with eight and a half (8.5) new warrants for every five (5) ordinary shares of RM0.50 each held in FFHB at a book closure date to be determined later ("Proposed Right Issue with Warrants"); and
- (iv) Proposed debt settlement between FFHB and its affected subsidiary companies ("FFHB Companies") and their respective scheme lenders, which involve inter alia, the followings:
  - (a) Proposed disposal of three (3) properties by FFHB and its subsidiary companies ("FFHB Group") to a Special Purpose Vehicle 1 ("SPV1"), the proposed novation of FFHB's debt of RM35.322 million to SPV1 and the proposed issuance of redeemable secured loan stocks ("RSLs") by SPV1 (referred to as "RSLs-SPV1") to the affected secured lenders for partial settlement of debt owing by FFHB to the affected secured lenders;
  - (b) Proposed disposal of four (4) properties by the FFHB Group to a Special Purpose Vehicle 2 ("SPV2"), the proposed novation of the FFHB Companies' debt of RM18.21 million to SPV2 and the proposed issuance of RSLs by SPV2 (referred to as "RSLs-SPV2") to the SPV2 lenders for partial settlement of debt owing to the SPV2 lenders;
  - (c) Proposed cash repayment of RM13.0 million from the proceeds of the Proposed Rights Issue with Warrants to the SPV2 lenders;

**42. DEBT RESTRUCTURING AND FUND RAISING EXERCISE (cont'd)**

- (iv) Proposed debt settlement between FFHB and its affected subsidiary companies ("FFHB Companies") and their respective scheme lenders, which involve inter alia, the followings: (cont'd)
  - (d) Proposed issuance of up to 29,014,400 new ordinary shares of RM0.50 each in FFHB at an issue price of RM0.70 each to the SPV2 lenders to settle RM 20.310 million debt owing to the affected secured lenders and unsecured lenders; and
  - (e) Proposed bilateral settlement with other secured lenders by way of set-off against the borrowings of FFHB Companies with the transfer of properties, disposal of Faber ICULS and proposed issuance of RSLs by FFHB.

The proposed Debt Restructuring and Fund Raising Exercise was approved by the SC on 15 March 2005.

On 13 March 2006, the SC granted an extension of time by twelve months from 15 March 2006 to 15 March 2007 for the Company to complete implementation of the above restructuring and fund raising exercise. BMSB has also granted the Company a similar extension of time to meet the minimum paid-up capital of RM40,000,000.

On 11 October 2006, items (i) and (ii) of the above proposals were implemented.

On 20 March 2007, the SC has further granted an extension of time by six months from 14 March 2007 to 13 September 2007 for FFHB to complete implementation of the above restructuring and fund raising exercise.

On 30 March 2007, item (iii) of the above proposals were implemented, and the actual number of new ordinary shares issued was 26,000,000 new ordinary shares of RM0.50 each together with 31,571,428 free detachable new warrants at an issue price of RM0.50 per ordinary shares for cash as part of its debt restructuring and fund raising exercise. The new ordinary shares rank pari passu in all respects with the existing ordinary shares of the Company.

On 30 April 2007, item (iv) of the above proposal is implemented.

On 30 April 2007, FFHB disposed off all its interest in SPV1 and SPV2. With this disposal, the Company has completed its Debt Restructuring and Fund Raising Exercise and regularised its financial condition.

# Shareholders' Statistics As at 15 May 2008

Class of Shares : Ordinary  
 Nominal Value : RM0.50 per Ordinary Share  
 Voting Rights : 1 vote per Ordinary Share

## ANALYSIS BY SIZE OF SHAREHOLDINGS

| Category                                 | No. of Holders | %             | No. of Shares     | %             |
|--|----------------|---------------|-------------------|---------------|
| Less than 100                            | 11             | 0.42          | 251               | 0.00          |
| 100 - 1,000                              | 1,095          | 42.07         | 988,870           | 1.20          |
| 1,001 - 10,000                           | 1,187          | 45.60         | 4,616,173         | 5.58          |
| 10,001 - 100,000                         | 253            | 9.72          | 8,647,400         | 10.46         |
| 100,001 to less than 5% of issued shares | 52             | 2.00          | 33,015,517        | 39.92         |
| 5% and above of issued shares            | 5              | 0.19          | 35,427,689        | 42.84         |
| <b>Total</b>                             | <b>2,603</b>   | <b>100.00</b> | <b>82,695,900</b> | <b>100.00</b> |

## SUBSTANTIAL SHAREHOLDERS

|                                     | Ordinary Shares of RM0.50 Each Held |       |              |       |
|-------------------------------------|-------------------------------------|-------|--------------|-------|
|                                     | Direct                              | %     | Indirect     | %     |
| Dr. Choy Fook On                    | 6,042,120                           | 7.31  | 11,047,340 * | 13.36 |
| Tan Geok Foong                      | 4,476,120                           | 5.41  | 11,047,340 * | 13.36 |
| Choy Fook On & Son Realty Sdn. Bhd. | 11,047,340                          | 13.36 | —            | —     |
| Choy Wai Hin                        | 3,004,800                           | 3.63  | 11,047,340 * | 13.36 |
| Choy Wai Ceong                      | 2,500,800                           | 3.02  | 11,047,340 * | 13.36 |

\* Deemed interested by virtue of his/her interest of more than 15% of the total voting shares in Choy Fook On & Sons Realty Sdn Bhd.

## THIRTY (30) LARGEST SECURITIES ACCOUNT HOLDERS

| No. | Name   | No. of Shares | %     |
|-----|--|---------------|-------|
| 1   | Choy Fook On & Sons Realty Sdn Bhd   | 11,047,340    | 13.36 |
| 2   | CIMB Bank Berhad   | 10,356,255    | 12.52 |
| 3   | Al Wakalah Nominees (Tempatan) Sdn Bhd <i>Bank Islam Malaysia Berhad</i>                             | 5,231,567     | 6.33  |
| 4   | Tan Geok Foong   | 4,476,120     | 5.41  |
| 5   | ABB Nominee (Tempatan) Sdn Bhd <i>Affin Bank Berhad (Loan Recovery)</i>                              | 4,316,407     | 5.22  |
| 6   | Mega Gold Harvest Sdn Bhd  | 2,845,000     | 3.44  |
| 7   | ABB Nominee (Tempatan) Sdn Bhd <i>Pledged Securities Account For Choy Fook On</i>                    | 2,022,407     | 2.45  |
| 8   | Choy Fook On   | 1,998,400     | 2.42  |
| 9   | Choy Wai Hin   | 1,752,800     | 2.12  |
| 10  | Choy Wai Ceong   | 1,458,800     | 1.76  |
| 11  | HSBC Nominees (Tempatan) Sdn Bhd <i>Pledged Securities Account For Choy Fook On (302-643390-089)</i> | 1,400,000     | 1.69  |

**THIRTY (30) LARGEST SECURITIES ACCOUNT HOLDERS (Cont'd)**

| No.          | Name   | No. of Shares     | %            |
|--------------|--|-------------------|--------------|
| 12           | Tan Huan Chuan   | 1,348,320         | 1.63         |
| 13           | Ng Chwee Pho   | 1,343,950         | 1.63         |
| 14           | Choy Sook Kuen   | 1,262,400         | 1.53         |
| 15           | ABB Nominee (Tempatan) Sdn Bhd <i>Pledged Securities Account For Choy Wai Hin</i>                            | 1,252,000         | 1.51         |
| 16           | Yeoh Soo Keng  | 1,052,800         | 1.27         |
| 17           | Leow Hong Yen  | 1,050,000         | 1.27         |
| 18           | ABB Nominee (Tempatan) Sdn Bhd <i>Pledged Securities Account For Choy Wai Ceong</i>                          | 1,042,000         | 1.26         |
| 19           | CIMB Nominees (Tempatan) Sdn Bhd <i>CIMB Investment Bank Berhad</i>  | 1,031,070         | 1.25         |
| 20           | MIDF Amanah Investment Bank Berhad <i>IVT For MIDF Amanah Investment Bank Berhad (IVTC 004)</i>              | 1,003,776         | 1.21         |
| 21           | Mayban Nominees (Tempatan) Sdn Bhd<br><i>Mayban Investment Management Sdn Bhd For Malayan Banking Berhad</i> | 998,261           | 1.21         |
| 22           | Liew Soon Hin  | 926,500           | 1.12         |
| 23           | Yeoh Chew Kiat   | 624,000           | 0.75         |
| 24           | Choy Fook On   | 621,313           | 0.75         |
| 25           | Minister Of Finance <i>Akaun Jaminan Pinjaman Kerajaan Persekutuan</i>                                       | 600,000           | 0.73         |
| 26           | Tan Tuan Shee  | 500,000           | 0.60         |
| 27           | Foo Fong Man @ Foo Chee Chee   | 484,300           | 0.59         |
| 28           | Tan Kim Kuan   | 431,200           | 0.52         |
| 29           | Farm Seen Chong  | 401,000           | 0.48         |
| 30           | Tan Lee-lin  | 367,500           | 0.44         |
| <b>Total</b> |  | <b>63,245,486</b> | <b>76.48</b> |

**DIRECTORS' SHAREHOLDINGS**

| No. | Directors                         | Ordinary Shares of RM0.50 Each Held |      |              |       |
|-----|-----------------------------------|-------------------------------------|------|--------------|-------|
|     |                                   | Direct                              | %    | Indirect     | %     |
| 1.  | Dr. Choy Fook On                  | 6,042,120                           | 7.31 | 11,047,340 * | 13.36 |
| 2.  | Choy Wai Hin                      | 3,004,800                           | 3.63 | 11,047,340 * | 13.36 |
| 3.  | Tan Geok Foong                    | 4,476,120                           | 5.41 | 11,047,340 * | 13.36 |
| 4.  | Choy Wai Ceong                    | 2,500,800                           | 3.02 | 11,047,340 * | 13.36 |
| 5.  | Haji Hussein bin Hamzah           | —                                   | —    | —            | —     |
| 6.  | Haji Md Abdul Wahab bin Md Shahir | —                                   | —    | —            | —     |

\* Deemed interested by virtue of his/her interest of more than 15% of the total voting shares in Choy Fook On & Sons Realty Sdn Bhd.



# Warrantheolders' Statistics As at 15 May 2008

## ANALYSIS BY SIZE OF WARRANTHOLDINGS

| Category                                   | No. of Holders | %             | No. of Warrants   | %             |
|--|----------------|---------------|-------------------|---------------|
| Less than 100                              | 5              | 2.02          | 279               | 0.00          |
| 100 - 1,000                                | 53             | 21.46         | 9,336             | 0.03          |
| 1,001 - 10,000                             | 121            | 48.99         | 522,794           | 1.66          |
| 10,001 - 100,000                           | 53             | 21.46         | 1,703,593         | 5.40          |
| 100,001 to less than 5% of issued warrants | 8              | 3.24          | 4,937,220         | 15.64         |
| 5% and above of issued warrants            | 7              | 2.83          | 24,398,206        | 77.27         |
| <b>Total</b>                               | <b>247</b>     | <b>100.00</b> | <b>31,571,428</b> | <b>100.00</b> |

## THIRTY (30) LARGEST WARRANTHOLDERS

| No.          | Name  | No. of Warrants   | %            |
|--------------|---|-------------------|--------------|
| 1            | Choy Fook On & Sons Realty Sdn Bhd  | 11,277,986        | 35.72        |
| 2            | Tan Geok Foong  | 3,170,585         | 10.04        |
| 3            | Choy Fook On  | 2,407,200         | 7.62         |
| 4            | Choy Wai Hin  | 2,128,400         | 6.74         |
| 5            | Choy Fook On  | 1,872,635         | 5.93         |
| 6            | Choy Wai Ceong  | 1,771,400         | 5.61         |
| 7            | Ng Chwee Pho  | 1,770,000         | 5.61         |
| 8            | Yeoh Soo Keng   | 1,251,686         | 3.96         |
| 9            | Liew Soon Hin   | 1,171,200         | 3.71         |
| 10           | Tan Han Chuan   | 955,060           | 3.02         |
| 11           | Choy Sook Kuen  | 894,200           | 2.83         |
| 12           | Wong Yee Ling   | 247,000           | 0.78         |
| 13           | Phang Kwong Yen @ Raymond   | 187,014           | 0.59         |
| 14           | Bong Hon Liong  | 124,300           | 0.39         |
| 15           | Poo Choo @ Ong Poo Choi   | 106,760           | 0.34         |
| 16           | Mayban Nominees (Tempatan) Sdn Bhd <i>Pledged Securities Account For Tan Cheng Guan</i> | 100,000           | 0.32         |
| 17           | Muhammad Shafiq Baljit Bin Abdullah   | 85,000            | 0.27         |
| 18           | Yeo Lee Hwa   | 73,700            | 0.23         |
| 19           | Sunita Subhashini G.P.Zechariah   | 70,000            | 0.22         |
| 20           | Choy Sook Kuen  | 69,700            | 0.22         |
| 21           | Koay Siew Ean   | 68,600            | 0.22         |
| 22           | Ng Suet Mei   | 60,000            | 0.19         |
| 23           | Cheah Kok Weng  | 60,000            | 0.19         |
| 24           | Chew Teeck Leong  | 55,000            | 0.17         |
| 25           | Toh Chew Heng   | 50,000            | 0.16         |
| 26           | Pong Pei Ching  | 50,000            | 0.16         |
| 27           | HDM Nominees (Tempatan) Sdn Bhd <i>Pledged Securities Account For Ting Tung Ming</i>    | 46,914            | 0.15         |
| 28           | Teoh Choon Huat   | 40,000            | 0.13         |
| 29           | Chew Chin Chin  | 39,200            | 0.12         |
| 30           | Chan Bee Hoon   | 35,200            | 0.11         |
| <b>Total</b> |   | <b>30,238,740</b> | <b>95.78</b> |

**DIRECTORS' WARRANTHOLDINGS**

| No. | Directors                         | No. of Warrants |       |              |       |
|-----|-----------------------------------|-----------------|-------|--------------|-------|
|     |                                   | Direct          | %     | Indirect     | %     |
| 1.  | Dr. Choy Fook On                  | 4,279,835       | 13.56 | 11,277,986 * | 35.72 |
| 2.  | Choy Wai Hin                      | 2,128,400       | 6.74  | 11,277,986 * | 35.72 |
| 3.  | Tan Geok Foong                    | 3,170,585       | 10.04 | 11,277,986 * | 35.72 |
| 4.  | Choy Wai Ceong                    | 1,771,400       | 5.61  | 11,277,986 * | 35.72 |
| 5.  | Haji Hussein bin Hamzah           | –               | –     | –            | –     |
| 6.  | Haji Md Abdul Wahab bin Md Shahir | –               | –     | –            | –     |

\* Deemed interested by virtue of his/her interest of more than 15% of the total voting shares in Choy Fook On & Sons Realty Sdn Bhd.

# List of Properties

The properties of the FFHB Group as at the date of this report are as follows:-

| <b>LOCATION</b>  | <b>TENURE</b>                    | <b>AREA</b> | <b>DESCRIPTION</b>           | <b>APPROXIMATE AGE OF BUILDINGS</b> | <b>NET BOOK VALUE (31.12.2007) RM</b> |
|--|----------------------------------|-------------|------------------------------|-------------------------------------|---------------------------------------|
| Lot 104 Jalan Satu Tapak Perusahaan Kompleks Perabot Olak Lempit, Banting Selangor Darul Ehsan | 99 years' lease expiring in 2087 | 217,800     | Factory                      | 15 years                            | 10,890,156                            |
| Lot 8421 - 8424 Mukim Kapar District of Klang Selangor Darul Ehsan                             | Freehold                         | 58,328      | Industrial land vacant       | N/A                                 | 2,000,000                             |
| Unit 035038, Block H 35-3A, Jalan PJU 1/3F Masalam Commercial Centre Shah Alam                 | Freehold                         | 808         | Three storey office and shop | 6 years                             | 67,200                                |

All the above properties were revalued on 31 December 2002.

FEDERAL FURNITURE HOLDINGS (M) BERHAD

(97092-W) (Incorporated in Malaysia)

Proxy Form

|                      |  |
|----------------------|--|
| <b>NO. OF SHARES</b> |  |
|----------------------|--|

I/We, \_\_\_\_\_  
of \_\_\_\_\_  
being a member/members of the abovenamed Company, hereby appoint \_\_\_\_\_

\_\_\_\_\_ of \_\_\_\_\_  
or failing him/her \_\_\_\_\_

of \_\_\_\_\_ or failing him/her,  
the Chairman of the Meeting\* as my/our proxy to vote for me/us and on my/our behalf at the Twenty-Fifth Annual General Meeting of the Company to be held at Level P1, Menara Choy Fook On, No. 1B, Jalan Yong Shook Lin, 46050 Petaling Jaya, Selangor Darul Ehsan on Monday, 30 June 2008 at 3.00 p.m. and at any adjournment thereof.

\* Delete the words "or failing him/her, the Chairman of the Meeting" if you wish to appoint some other person(s) to be your proxy.

My/Our proxy is to vote as indicated below:

|                            | <b>ORDINARY RESOLUTIONS</b>   | <b>FOR</b> | <b>AGAINST</b> |
|----------------------------|---|------------|----------------|
| Resolution 1               | To receive the Audited Financial Statements for the financial year ended 31 December 2007 together with the Reports of the Directors and the Auditors thereon.  |            |                |
| Resolution 2               | To approve the payment of Directors' fees for the financial year ended 31 December 2007.  |            |                |
| Resolution 3               | To re-appoint Dr. Choy Fook On who is due to retire pursuant to Section 129(6) of the Companies Act, 1965, and being eligible, has offered himself for re-election.                                     |            |                |
| Resolution 4               | To re-elect Mr. Choy Wai Ceong, a director who retires pursuant to Article 98 of the Company's Articles of Association.   |            |                |
| Resolution 5               | To re-elect Tuan Haji Hussein Bin Hamzah, a director who retires pursuant to Article 98 of the Company's Articles of Association.   |            |                |
| Resolution 6               | To re-appoint Messrs. Ernst & Young, Chartered Accountants as Auditors of the Company until the conclusion of the next Annual General Meeting and to authorise the Directors to fix their remuneration. |            |                |
| <b>As Special Business</b> |   |            |                |
| Resolution 7               | Ordinary Resolution - Authority to allot shares pursuant to Section 132D of the Companies Act, 1965.  |            |                |

(Please indicate with an 'X' in the appropriate spaces how you wish to cast your vote. If you do not indicate how you wish your proxy to vote on any Resolution, the proxy will vote as he thinks fit or, at his discretion, abstain from voting.)

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2008

\_\_\_\_\_  
Signature/Seal

Notes:

1. A member entitled to attend and vote at the Meeting is entitled to appoint one (1) or more proxies (who may but need not be a member(s) of the Company) to attend and vote in his stead. A member may appoint any person to be his proxy without limitation and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
2. If a member appoints two (2) or more proxies, appointments shall be invalid unless he states the percentage of his holdings to be represented by each proxy.
3. The Proxy Form duly completed, must be deposited at the Registered Office of the Company at Level P1, Menara Choy Fook On, No. 1B, Jalan Yong Shook Lin, 46050 Petaling Jaya, Selangor Darul Ehsan not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof.
4. In case of a corporation, the Proxy Form must be either executed under common seal or signed by a duly authorised officer or attorney.
5. If the Proxy Form is returned without any indication as to how the proxy shall vote, the proxy will vote or abstain as he thinks fit and if no name is inserted in the space for the name of your proxy, the Chairman of the Meeting will act as your proxy.



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POSTAGE

THE SECRETARY  
**FEDERAL FURNITURE HOLDINGS (M) BERHAD**  
Level P1, Menara Choy Fook On,  
No. 1B, Jalan Yong Shook Lin,  
46050 Petaling Jaya, Selangor Darul Ehsan.

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