2010 ANNUAL REPORT

FEDERAL FURNITURE HOLDINGS (M) BHD

(Incorporated in Malaysia) Company No.: 97092-W

Contents

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Twenty-Eighth 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 Wednesday, 29 June 2011 at 3.00 p.m. for the following purposes:-

AGENDA

1. To receive the Audited Financial Statements for the financial year ended 31 December 2010 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 2010. **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: - **RESOLUTION 3**

   "THAT pursuant to Section 129(6) of the Companies Act, 1965, Dato' 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."

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 **RESOLUTION 4**

   (b) Tuan Haji Hussein Bin Hamzah **RESOLUTION 5**

5. To re-appoint GEP Associates 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 **RESOLUTION 7**
   - 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."

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
7 June 2011

Explanatory Notes to Special Business:-

1. **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 to such persons 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.

   The General Mandate will provide flexibility to the Company for allotment of shares for any possible fund raising activities, including but not limited to further placing of shares, for the purpose of funding future investment project(s), working capital and/or acquisition(s).

   The General Mandate is a renewal. As at the date of this Notice, no new shares in the Company were issued pursuant to the mandate granted to the Directors at the Twenty-Seventh Annual General Meeting held on 29 June 2010 and which will lapse at the conclusion of the Twenty-Eighth Annual General Meeting.

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 either be 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.

Corporate Information

BOARD OF DIRECTORS

Dato' Dr. Choy Fook On	– Non-Independent Non-Executive Chairman
Choy Wai Hin	– Managing Director
Datin Tan Geok Foong	– Executive Director
Choy Wai Ceong	– Executive Director
Haji Hussein Bin Hamzah	– Independent Non-Executive Director
Mohd. Arif Bin Mastol	– Independent Non-Executive Director

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 6, Symphony House
Pusat Dagangan Dana 1
Jalan PJU 1A/46
47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia
Tel: 603-7841 8000 Fax: 603-7841 8151/8152

AUDITORS

GEP Associates
Chartered Accountants
Block F2 Dataran Prima
25-3 Jalan PJU 1/42A
47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia
Tel: 603-7803 3390 Fax: 603-7803 3603

PRINCIPAL BANKERS

CIMB Bank Berhad
Malayan Banking Berhad

SOLICITORS

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

STOCK EXCHANGE

Bursa Malaysia Securities Berhad – Main Market

1. MEMBERSHIP

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

	Name	Position
(a)	Mohd. Arif Bin Mastol * #	Chairman
(b)	Haji Hussein Bin Hamzah *	Member
(c)	Dato' Dr. Choy Fook On **	Member

* Independent Non-Executive Director
** Non-Independent Non-Executive 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

(c) fulfils such other requirements as prescribed or approved 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 resulting in non-compliance to the composition criteria as stated in paragraph 2 above, 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 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 auditors, the Chairman of the Audit Committee shall convene a meeting of the Audit Committee to consider any matter the external auditors believe 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 Finance Director, 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. The Audit Committee shall be able to convene meetings with the external auditors, the internal auditors or both without executive Board members or employees present whenever deemed necessary and at least twice a year with the external auditors.

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 five (5) meetings in the financial year ended 31 December 2010. The Audit Committee also met with the external auditors without the presence of any of the executive directors, management staff of the Company. The details of attendance of each Audit Committee member are as follow:-

Mohd. Arif Bin Mastol (Chairman)	5/5
Haji Hussein Bin Hamzah (Member)	5/5
Dato' Dr. Choy Fook On (Member)	5/5

6. INSTANTANEOUS TELECOMMUNICATION DEVICE

For the purpose of contemporaneous linking together by an instantaneous telecommunication device of a number of the members of the Audit Committee no less than the quorum required, whether or not any one or more of the members of the Audit Committee is out of Malaysia, is deemed to constitute a meeting of the Audit Committee. The Audit Committee will apply to such meeting held by instantaneous telecommunication device so long as the following conditions are met:-

(a) all members of the Audit Committee shall have received notice of a meeting by instantaneous telecommunication device for the purpose of such meeting. Notice of any such meeting will be given on the instantaneous telecommunication device or in any other manner permitted;

(b) each of the members of the Audit Committee taking part in the meeting by instantaneous telecommunication device must be able to hear and/or see each of the other members of the Audit Committee taking part at the commencement and for the duration of the meeting; and

(c) at the commencement of the meeting, each of the members of the Audit Committee must acknowledge his presence for the purpose of the meeting to all of the other members of the Audit Committee taking part.

7. 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.

8. QUORUM

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

9. 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.

10. 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.

11. DUTIES AND RESPONSIBILITIES

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

(a) To consider the appointment of the external auditors, the audit fee and any question of resignation or dismissal;
(b) To discuss with the external auditors 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 auditors his evaluation of the system of internal controls and his audit report;
(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 auditors' management letter and management's response;

11. DUTIES AND RESPONSIBILITIES (cont'd)

(g) To do the following, in relation to the internal audit function:-
- review the adequacy of the scope, functions, competency 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.

12. 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.
- Meet with the external auditors with and without the presence of the management and staff.
- Reviewed all related party transactions.

13. 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 conducted two internal audits:

Company	Area of audit
Federal Furniture Lifestyle Sdn Bhd	Installation of pending orders and collection of installed orders
Federal Furniture (1982) Sdn Bhd	Duration of work hours

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 to enhance 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 2010, there were 4 board meetings held and details of attendance by Directors who held office during the financial year are as follows:-

Name of director	No. of meetings attended
Dato' Dr. Choy Fook On	3/4
Choy Wai Hin	3/4
Datin Tan Geok Foong	4/4
Choy Wai Ceong	3/4
Haji Hussein Bin Hamzah	4/4
Mohd. Arif Bin Mastol	4/4

A. STATEMENT OF CORPORATE GOVERNANCE (cont'd)

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 previous board meeting, reports on performance of key operating units, announcements released to Bursa Malaysia Securities Berhad and matters arising for Board deliberations.

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 2010 are as follows:-

1. Haji Hussein Bin Hamzah (Chairman, Independent Non-Executive Director)
2. Dato' Dr. Choy Fook On (Member, Non-Independent Non-Executive Chairman)
3. Mohd. Arif Bin Mastol (Member, Independent Non-Executive Director)

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 2010 are as follows:

1. Haji Hussein Bin Hamzah (Chairman, Independent Non-Executive Director)
2. Dato' Dr. Choy Fook On (Member, Non-Independent Non-Executive Chairman)
3. Mohd. Arif Bin Mastol (Member, Independent Non-Executive Director)

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 2010 are as follows:

	Executive RM	**Non-Executive RM**
Fees	54,000	70,500
Salaries and other emoluments	241,920	53,040

A. STATEMENT OF CORPORATE GOVERNANCE (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	4
RM50,001 – RM100,000	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.

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 Malaysia Securities Berhad including the mandatory announcement of interim financial reports.

The Board has appointed Haji Hussein Bin Hamzah to be the independent non-executive director to whom concerns may be conveyed by shareholders and the general public.

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 a 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 15 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 assess to the Audit Committee and the findings of the external auditors are reported to the Audit Committee at least twice 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 Malaysia Securities Berhad 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 Malaysia Securities Berhad

C. OTHER INFORMATION

Options, Warrants or Convertible Securities

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

Depository Receipt Programme

The Company did not sponsor any depository receipt 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.

C. OTHER INFORMATION (cont'd)

Non-audit fees

Save as disclosed in Note 25 Profit/(Loss) from Operations of the Notes to the Financial Statements on page 72 of the Annual Report, there were no non-audit fees paid to external auditors for the financial year ended 31 December 2010.

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 34 Significant Related Party Transactions of the Notes to the Financial Statements on pages 77 and 78 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 3.4 Property, Plant and Equipment of the Notes to the Financial Statements on page 47 of the Annual Report.

Corporate Social Responsibility

During the financial year ended 31 December 2010, 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.

- **Environmental Activities**

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

  To this end, the Company will aim to observe the requirements of relevant environmental legislations and regulations as well as establishing objectives and targets with the intention of reducing and recycling of waste, developing of environmental friendly products and services as well as purchasing of environmental friendly materials, items and commodities.

  Our Manufacturing division has started using recycled materials such as railway sleepers purchased from KTMB and recycled teak from Indonesia and recycled leather from United States. All these materials are used in manufacturing caseworks for one of our key customer. In addition, the Company has also worked closely with all our international customers where ever possible to use locally sourced raw materials with the objective of reducing carbon footprint.

- **Communities**

  The Company gives back to the communities by supporting events promoting various social causes. The Company also seeks to assist the less fortunate by contributions to charitable organization.

RESPONSIBILITY

The Board and the Company maintains a sound system of internal control in accordance to the Malaysian Code on Corporate Governance to safeguard the shareholder's 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.

- The Board receives and reviews regular reports from management covering the financial performance and key business indicators of various business operating units.

DATO' DR. CHOY FOOK ON

Malaysian, aged 74, 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. Dato' Dr. Choy is also a member of the Nomination Committee and Remuneration Committee.

In 1996, the Pacific Western University in the United States of America awarded Dato' 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 Guangdon State Farms and Hainan State Farms in the People's Republic of China.

Dato' Dr. Choy is the spouse of Datin 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 2010 he attended 3 out of the 4 board meetings held. Dato' 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.

DATIN TAN GEOK FOONG

Malaysian, aged 69, 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.

Datin Tan is the spouse of Dato' 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 a 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 2010 she attended all of the 4 board meetings held. Datin 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 47, 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 Dato' Dr. Choy Fook On, the Non-Independent Non-Executive Chairman and Datin 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 2010 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 46, 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 Dato' Dr. Choy Fook On, the Non-Independent Non-Executive Chairman, and Datin 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 2010 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.

HAJI HUSSEIN BIN HAMZAH

Malaysian, aged 66, has been an Independent Non-Executive Director since 7 August 2004. He is a member of the Audit Committee and Chairman of the Nomination Committee and Remuneration Committee.

He holds Associateship in Architecture from Western Australian Institute of Technology and Diploma in Architecture from MARA Institute of Technology. He is a Professional Architect and Interior Designer registered with the 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 Perekabentuk Dalaman Malaysia ("IPDM") serving as President from 1992 to 1994 and 2007 to 2009. Having previously served as a member representing PAM on the Board of Architects (1990 to 1992), he is currently re-appointed to the Board of Architects (2004 to present).

He has served in various government committees such as a member of the committee for GATT and Trade in Services (construction industry) in the Ministry of Finance, a member of the Consultative Panel for the National Housing Policy, the standing committee for amendments to the Uniform Building By-Laws in the Ministry of Housing and Local Government and Chairman for Architectural Examination Council of the Board of Architects. He was appointed by Ministry of Housing and Local Government as Chairman for the Standards Committee on Use of Buildings by the Handicapped. 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 2010 he attended all of the 4 board meetings held.

MOHD. ARIF BIN MASTOL

Malaysian, aged 57, was appointed as an Independent Non-Executive Director on 30 January 2010. He is the Chairman of the Audit Committee and a member of the Nomination Committee and Remuneration Committee.

Mohd. Arif Bin Mastol graduated from MARA Institute of Technology in Accountancy. He is also a member of the Malaysian Institute of Accountants.

He began his career in 1977 as an Executive Account Officer. In 1985, he served as an Accountant with the Treasury Department of Kuala Lumpur City Hall after completing his Degree in Accounting from MARA Institute of Technology. From 1991 to 2001, he was attached with several companies, including a Japanese based company in several capacities including Assistant Manager Finance & Accounts, Finance & Administration Manager, Company Representative and Financial Controller before assuming his current position as Chief Operating Officer.

Currently he is an Independent Non-Executive Director of Leader Steel Holdings Berhad and SKB Shutter Holdings Berhad.

Mohd. Arif Bin Mastol 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 2010 he attended all of the 4 board meetings held.

Federal Furniture Holdings (M) Berhad
(97092-W) (Incorporated in Malaysia)
Investment Holding Company

Investment Division

- **100%** Layang Kaji Sdn Bhd
- **100%** Aspek Sensasi Sdn Bhd
- **100%** Pelantar Agresif (M) Sdn Bhd
- **100%** Federal Electric Company Sdn Bhd
  - **100%** Myanmar Electric Distributor Limited
- **100%** Mintwood Sdn Bhd
- **100%** Splenwood Sdn Bhd
- **70%** Anglo Frontier Sdn Bhd

Renovation & Fit-Out Division

- **100%** Federal Furniture Industries Sdn Bhd
  - **93%** Pathos Corporation Sdn Bhd
  - **55%** Cathay Interior Design (M) Sdn Bhd

Manufacturing & Trading Division

- **100%** Federal Furniture (1982) Sdn Bhd
- **100%** Federal Furniture Lifestyle Sdn Bhd
- **100%** Federal Furniture (M) Sdn Bhd
  - **55%** Avante Corporation Sdn Bhd
    - **100%** Trac Marketing Incorporated
- **100%** Qingdao Federal Furniture Industries Co.Ltd.

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 2010.

REVIEW OF GROUP FINANCIAL RESULTS

Group turnover increased by 10% to RM40.0 million in 2010 from RM36.4 million in 2009. All business operating units improved on their turnover except for the Manufacturing division. Operating profit before interest and tax charges increased by 23% to RM1.3 million from RM1.0 million last year due to the higher turnover and margin from kitchen project and trading operations.

After accounting for interest cost, pre-tax profit increased by 33% from RM0.8 million a year ago to RM1.0 million in 2010. Tax charge consisting mainly deferred tax increased to RM0.4 million from RM0.3 million previously. After accounting for minority interest, the profit attributable to shareholders was RM0.5 million compared to RM0.4 million in the previous year while basic earnings per share was 0.7 sen (2009: 0.5 sen).

DIVIDENDS

Your board is not recommending the payment of any dividend in respect of the financial year ended 31 December 2010 as your board is of the opinion that the Group needs to retain its cash to fund working capital requirement.

REVIEW OF OPERATIONS

Revenue for the Manufacturing and Trading division grew by a modest 4% to RM19.0 million from RM18.3 million a year ago. This growth came from inter-group sales that grew by 11% to RM7.1 million while external sales were flat at RM11.9 million. While sales to its key customer for the Asia Pacific market has seen marked improvement of 13% for the year, it was still insufficient to make up the shortfall from export to newly developed market in Europe. The trading operations has seen substantial increase in revenue by 300% from RM0.8 million in 2009 to RM3.1 million during the current year due to a supply contract secured while furniture retail volume remained subdued . Operating profit for the division remained unchanged at RM0.9 million for the year.

The Renovation and Interior Fit-out division increased its revenue by 15% to RM28.1 million from RM24.5 million a year earlier. Notwithstanding the ever challenging and competitive environment in which the traditional interior fit-out business is in, turnover for the year grew by 15%. The operating scenario for this business unit will continue to be difficult in the foreseeable future and the Renovation and Interior Fit-out division continued to be selective in tender participation. The kitchen project operations that had been severely affected by delays to projects already secured in 2009 has shown increase in revenue of 16% from RM8.2 million in 2009 to RM9.6 million in 2010. Despite the increase in revenue, operating profit fell 8% to RM1.4 million for the year under review from RM1.5 million a year ago due to continuing deterioration in margin yield of projects secured.

PROSPECTS FOR 2011

The global economic recovery that started in mid-2009 seems to be gaining momentum but price pressure are slowly building up. Growth however continues to be highly uneven. More recently, several developments in the global economic environment and the international financial system have highlighted the fragility of global growth.

Crude oil has once again crossed the US$100 mark. With western intervention in Libya's civil war, repression in Bahrain and Saudi Arabia, and continued instability elsewhere, the danger has risen that the recent rise in oil prices will be more or less permanent, with occasional spikes potentially much higher. The weakening of the US dollar will put more pressure on prices to rise. Skyrocketing oil and commodity prices are a threat to global growth, as they squeeze consumers' purchasing power, push up companies' costs and compress profit margins.

In the Japanese front, the earthquake and tsunami of March 11 are still reverberating through global markets. Japan as one of the world's largest economy is a critical link in many supply chains. The possible disruptions to its manufacturing and transportation network will increase the downside risks to growth.

The growth prospect in the emerging economies continue to remain positive. However, many of these economies is now confronted with immediate concerns of increasing challenges from overheating, rising inflationary pressures and continued large and volatile capital flows. Tension continues between countries that see a need to tighten policy (mostly in Asia, except Japan) and those who still perceive unemployment to be the more pressing issue (US and Europe).

The overall improvement in the Manufacturing and Trading division seen in 2010 is expected to continue into 2011. This growth is supported by the growth momentum seen in export of caseworks to the Asia Pacific market and the commencement of export of newly developed consumer furniture products to other export markets such as Africa, Middle East and Australia. Barring unforeseen circumstances, the Manufacturing division is confident of improving on last year's performance although the appreciation of the Ringgit will dilute margin yield. The trading division is developing a new retail platform under its expansion strategy and the prospect for the year will depend on the success of its implementation program.

The Kitchen project operations however will see lower turnover on the basis of projects in hand and projects available in the market. The prospect for the operations is in tandem with the property market, more particularly the high-end high-rise segment and increasing competition faced by other competitors. The traditional Renovation and Interior Fit-out operations is expected to face another challenging year due to the stiff competition especially from new players emerging from overseas although the industry's market size is expected to increase this year. The prospect for the operations will hinge on its ability to secure projects that yield reasonable margin.

APPRECIATION

I wish to convey, on behalf of my colleagues on the Board, our heartfelt thanks to the management and all employees for their commitments and selfless dedications throughout the year. The Group is also grateful for the continued support, confidence, understanding and trust of all our business and finance partners and various stakeholders. Last but not least, I extend my appreciation to my fellow colleagues on the Board for their valuable advice and contribution throughout the year.

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

DATO' DR CHOY FOOK ON
Chairman

Directors' Report

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the financial year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The Company is principally engaged in the business of investment holding. The principal activities of the Subsidiary Companies are set out in Note 6 to the financial statements. There have been no significant changes in the nature of these activities during the financial year.

RESULTS

	GROUP RM	COMPANY RM
Profit / (Loss) for the year	587,451	(387,781)
Attributable to :-		
Owners of the parent	539,692	(387,781)
Non-controlling interests	47,759	–
	587,451	(387,781)

DIVIDENDS

There were no dividends paid or declared since the last financial year.

RESERVES AND PROVISIONS

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

ISSUE OF SHARES AND DEBENTURES

During the financial year, no shares or debentures were issued.

SHARE OPTIONS

During the financial year, no share options have been granted.

DIRECTORS

The Directors in office since the date of the last report are :-

DATO' DR. CHOY FOOK ON
DATIN TAN GEOK FOONG
CHOY WAI HIN
CHOY WAI CEONG
HAJI HUSSEIN BIN HAMZAH
MOHD ARIF BIN MASTOL

DIRECTORS' INTERESTS

The following Directors who held office at the end of the financial year had, according to the register required to be kept under Section 134 of the Companies Act, 1965, interests in shares and warrants of the Company and its related corporations as stated below :-

	Number of ordinary shares of RM0.50 each			
	1 January 2010	Bought	Sold	31 December 2010
COMPANY				
DIRECT INTEREST				
DATO' DR. CHOY FOOK ON	6,042,120	–	–	6,042,120
DATIN TAN GEOK FOONG	4,476,120	–	–	4,476,120
CHOY WAI HIN	3,004,800	–	–	3,004,800
CHOY WAI CEONG	2,500,800	–	–	2,500,800
INDIRECT INTEREST				
DATO' DR. CHOY FOOK ON	12,408,140	–	–	12,408,140
DATIN TAN GEOK FOONG	12,408,140	–	–	12,408,140
CHOY WAI HIN	11,047,340	–	–	11,047,340
CHOY WAI CEONG	11,047,340	–	–	11,047,340

	Number of warrants			
	1 January 2010	Bought	Sold	31 December 2010
COMPANY				
DIRECT INTEREST				
DATO' DR. CHOY FOOK ON	4,279,835	–	–	4,279,835
DATIN 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
INDIRECT INTEREST				
DATO' DR. CHOY FOOK ON	12,241,886	–	–	12,241,886
DATIN TAN GEOK FOONG	12,241,886	–	–	12,241,886
CHOY WAI HIN	11,277,986	–	–	11,277,986
CHOY WAI CEONG	11,277,986	–	–	11,277,986

By virtue of their interests in shares of the Company, DATO' DR. CHOY FOOK ON, DATIN TAN GEOK FOONG, CHOY WAI HIN and CHOY WAI CEONG are also deemed interested in the shares of the Subsidiary Companies to the extent the Company has an interest.

The other Directors in office at the end of the financial year had no interest in the shares of the Company or its related corporations during the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the Directors shown in Note 27 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 the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

Neither during nor at the end of the financial year, was the Company a party to any arrangements which object is to enable the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, other than warrants.

OTHER STATUTORY INFORMATION

Before the financial statements of the Group and of the Company were made out, the Directors took reasonable steps :-

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

b) to ensure that any current assets which were unlikely to realise their book values in the ordinary course of business have been written down to their estimated realisable value.

At the date of this report, the Directors are not aware of any circumstances which would render :-

a) the amounts written off for bad debts or the amount of allowance for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; or

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

At the date of this report, the Directors are not aware of any circumstances which have arisen which render adherence to the existing methods of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.

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 respective financial statements misleading.

At the date of this report, there does not exist :-

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

b) any contingent liability in respect of the Group and of the Company which has arisen since the end of the financial year other than as disclosed in Note 33 to the financial statements.

OTHER STATUTORY INFORMATION (cont'd)

In the opinion of the Directors :-

a) no contingent liability 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 and of the Company to meet their obligations when they fall due;

b) the results of the operations of the Group and of the Company during the financial year have not been substantially affected by any item, transaction or event of a material and unusual nature; and

c) 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 and of the Company for the financial year in which this report is made.

AUDITORS

The Auditors, GEP Associates, have indicated their willingness to continue in office.

Signed in accordance with a resolution of the Directors dated 28 April 2011

DATO' DR. CHOY FOOK ON **CHOY WAI HIN**

Petaling Jaya, Selangor Darul Ehsan
Dated : 28 April 2011

Statement by Directors

Pursuant to Section 169(15) of the Companies Act, 1965

We, **DATO' DR. CHOY FOOK ON** and **CHOY WAI HIN**, being two of the Directors of FEDERAL FURNITURE HOLDINGS (M) BERHAD, do hereby state that, in the opinion of the Directors, the financial statements set out on pages 29 to 84 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 of 31 December 2010 and of their financial performance and cash flows for the year then ended.

In the opinion of the Directors, the supplementary information set out in Note 38 has been compiled in accordance with the Guidance on Special Matter No. 1 "Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements" as issued by Malaysian Institute of Accountants and the directive of Bursa Malaysia Securities Berhad.

Signed in accordance with a resolution of the Directors dated 28 April 2011

DATO' DR. CHOY FOOK ON **CHOY WAI HIN**

Petaling Jaya, Selangor Darul Ehsan
Dated : 28 April 2011

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 financial statements set out on pages 29 to 84 are, to the best of my knowledge and belief, 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)
JAMES SHII LIHTON)
at Petaling Jaya, Selangor Darul Ehsan)
on 28 April 2011)

JAMES SHII LIHTON

Before me

PESURUHJAYA SUMPAH
B 299
K. CHERIAN ABRAHAM
MALAYSIA

COMMISSIONER FOR OATHS

1-5, Block F1, Jalan PJU 1/42,
Dataran Prima, 47301 Petaling Jaya
Selangor Darul Ehsan

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of FEDERAL FURNITURE HOLDINGS (M) BERHAD, which comprise the statement of financial position as at 31 December 2010 of the Group and of the Company, and the statement of comprehensive income, statement of changes in equity and statement of cash flows of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 29 to 84.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as of 31 December 2010 and of their financial performance and cash flows for the year then ended.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following :-

a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its Subsidiary Companies of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

b) We have considered the accounts and the Auditors' Report of a Subsidiary Company of which we have not acted as auditors, which is indicated in Note 6 to the financial statements.

c) We are satisfied that the accounts of the Subsidiary Companies that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.

d) The audit reports on the accounts of the Subsidiary Companies did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

OTHER REPORTING RESPONSIBILITIES

The supplementary information set out in Note 38 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The Directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1 "Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements", as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

GEP ASSOCIATES
No : AF 1030
Chartered Accountants

ESTHER TAN CHOON HWA
No : 1023 / 03 / 12 (J)
Chartered Accountant

Petaling Jaya, Selangor Darul Ehsan
Dated : 28 April 2011

Consolidated Statement of Financial Position

As at 31 December 2010

	Note	31/12/2010 RM	31/12/2009 RM (Restated)	1/1/2009 RM (Restated)
ASSETS				
Non-current assets				
Property, plant and equipment	4	**12,076,104**	12,633,881	13,570,555
Investment properties	5	**2,062,400**	2,064,000	2,065,600
Available-for-sale investments	7	**–**	–	–
Deferred tax assets	8	**3,830,901**	4,277,534	4,818,886
		17,969,405	18,975,415	20,455,041
Current assets				
Inventories	9	**4,573,528**	2,891,028	3,576,128
Trade receivables	10	**9,568,423**	3,703,185	14,194,467
Amounts due from contract customers	11	**1,887,773**	3,411,292	2,440,926
Other receivables, deposits and prepayments	12	**991,455**	1,805,334	6,793,218
Financial assets held for trading	14	**87,892**	55,931	23,276
Tax recoverable		**–**	–	26,137
Cash and bank balances	15	**2,895,749**	3,303,735	2,549,085
		20,004,820	15,170,505	29,603,237
TOTAL ASSETS		**37,974,225**	34,145,920	50,058,278
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the Company				
Share capital	16	**41,347,950**	41,347,950	41,347,950
Share premium	17	**3,440,941**	3,440,941	3,440,941
Reserves	18	**(25,362,681)**	(25,921,882)	(26,303,396)
Equity attributable to owners of the parent		**19,426,210**	18,867,009	18,485,495
Non-controlling interest	19	**499,301**	451,542	363,813
Total equity		**19,925,511**	19,318,551	18,849,308

	Note	31/12/2010 RM	31/12/2009 RM (Restated)	1/1/2009 RM (Restated)
Non-current liabilities				
Long-term borrowings	20	**214,905**	102,597	132,914
Redeemable secured loan stock	21	**2,329,820**	1,900,000	1,900,000
Deferred tax liabilities	8	**864,875**	95,451	1,245,317
		3,409,600	2,918,048	3,278,231
Current liabilities				
Trade payables	22	**6,653,814**	4,079,406	6,313,752
Other payables, deposits and accruals	23	**4,906,587**	5,203,447	14,059,116
Amounts due to contract customers	11	**217,187**	207,916	2,138,637
Short-term borrowings	20	**2,851,021**	2,393,433	5,419,234
Provision for taxation		**10,505**	25,119	–
		14,639,114	11,909,321	27,930,739
Total liabilities		**18,048,714**	14,827,369	31,208,970
TOTAL EQUITY AND LIABILITIES		**37,974,225**	34,145,920	50,058,278

The accompanying Notes form an integral part of the Financial Statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	Note	2010 RM	2009 RM
Revenue	24	**40,029,684**	36,412,113
Cost of sales		**(31,861,693)**	(27,605,285)
Gross profit		**8,167,991**	8,806,828
Other income		**221,533**	1,121,409
		8,389,524	9,928,237
Selling and distribution expenses		**(3,272,804)**	(3,690,014)
		5,116,720	6,238,223
Administrative expenses		**(3,855,052)**	(5,215,302)
Profit from operations	25	**1,261,668**	1,022,921
Finance costs	28	**(250,544)**	(261,302)
Profit before taxation		**1,011,124**	761,619
Income tax expense	29	**(423,673)**	(292,376)
Profit for the year		**587,451**	469,243
Other comprehensive income		**–**	–
Total comprehensive income for the year		**587,451**	469,243
Profit for the year / Total comprehensive income attributable to :-			
Owners of the parent		**539,692**	381,514
Non-controlling interest		**47,759**	87,729
		587,451	469,243
Earnings per share attributable to owners of the parent :-			
Basic (sen)	30	**0-65**	0-46
Fully diluted earning per share (sen)	30	**0-47**	0-33

The accompanying Notes form an integral part of the Financial Statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

		Attributable to equity holders of the Company							
			Non-distributable			Distributable			
	Note	Share capital RM	Share premium RM	Revaluation reserve RM	Foreign exchange reserve RM	Accumulated losses RM	Total RM	Non-controlling interests RM	Total equity RM
At 1 January 2009		41,347,950	3,440,941	211,100	15,530	(26,530,026)	18,485,495	363,813	18,849,308
Total comprehensive income		–	–	–	–	381,514	381,514	87,729	469,243
At 31 December 2009		41,347,950	3,440,941	211,100	15,530	(26,148,512)	18,867,009	451,542	19,318,551
At 1 January 2010		**41,347,950**	**3,440,941**	**211,100**	**15,530**	**(26,148,512)**	**18,867,009**	**451,542**	**19,318,551**
Effect on adoption of FRS 139	**3.1 (f)**	–	–	–	–	**19,509**	**19,509**	–	**19,509**
At 1 January 2010 (Restated)		**41,347,950**	**3,440,941**	**211,100**	**15,530**	**(26,129,003)**	**18,886,518**	**451,542**	**19,338,060**
Total comprehensive income		–	–	–	–	**539,692**	**539,692**	**47,759**	**587,451**
At 31 December 2010		**41,347,950**	**3,440,941**	**211,100**	**15,530**	**(25,589,311)**	**19,426,210**	**499,301**	**19,925,511**

The accompanying Notes form an integral part of the Financial Statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	2010 RM	2009 RM
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	**1,011,124**	761,619
Adjustments for :-		
Allowance for doubtful debts	–	59,323
Bad debt written off	**108,629**	10,372
Changes in value of marketable securities	**(31,961)**	(32,655)
Depreciation	**1,072,402**	1,178,551
Dividend income	**(1,563)**	(1,042)
(Gain) / Loss on disposal of property, plant and equipment	**(71,030)**	1,435
Interest expense	**250,544**	261,302
Interest income	**(18,370)**	(1,097)
Net unrealised foreign exchange gain	**(527,751)**	(11,719)
Reversal of allowance for doubtful debts	–	(8,473)
Write back of provision no longer required	–	(75,816)
Operating profit before working capital changes	**1,792,024**	2,141,800
(Increase) / Decrease in inventories	**(1,682,500)**	685,100
(Increase) / Decrease in trade receivables	**(5,973,867)**	10,490,097
Decrease / (Increase) in amounts due from contract customers	**1,523,519**	(970,366)
Decrease in other receivables, deposits and prepayments	**813,879**	4,927,847
Increase / (Decrease) in trade payables	**3,102,159**	(2,225,779)
Increase / (Decrease) in other payables, deposits and accruals	**26,629**	(8,776,701)
Increase / (Decrease) in amounts due to contract customers	**9,271**	(1,930,721)
	(2,180,910)	2,199,477
Cash (used in) / generated from operations	**(388,886)**	4,341,277
Income tax paid	**(42,230)**	(29,634)
Net cash (used in) / generated from operating activities carried forward	**(431,116)**	4,311,643

	Note	2010 RM	2009 RM
Net cash (used in) / generated from operating activities brought forward		**(431,116)**	4,311,643
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividend received		**1,563**	1,042
Proceeds from disposal of property, plant and equipment		**71,030**	2,609
Purchase of property, plant and equipment		**(311,025)**	(244,321)
Interest received		**18,370**	1,097
Net cash used in investing activities		**(220,062)**	(239,573)
		(651,178)	4,072,070
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		**(124,704)**	(261,302)
Net loans raised / (repaid)		**419,000**	(3,008,721)
Repayments of hire purchase payables		**(60,194)**	(38,990)
Net cash used in financing activities		**234,102**	(3,309,013)
Net (decrease) / increase in cash and cash equivalents		**(417,076)**	763,057
Cash and cash equivalents brought forward		**3,117,620**	2,354,563
Cash and cash equivalents carried forward	15	**2,700,544**	3,117,620

The accompanying Notes form an integral part of the Financial Statements.

Statement of Financial Position

As at 31 December 2010

	Note	31/12/2010 RM	31/12/2009 RM
ASSETS			
Non-current assets			
Property, plant and equipment	4	**178,131**	28,253
Investment in Subsidiary Companies	6	**14,789,247**	14,789,247
Available-for-sale investments	7	**–**	–
		14,967,378	14,817,500
Current assets			
Other receivables, deposits and prepayments	12	**287,382**	286,224
Amounts due from Subsidiary Companies	13	**48,362,332**	52,722,366
Cash and bank balances	15	**77,660**	20,111
		48,727,374	53,028,701
TOTAL ASSETS		**63,694,752**	67,846,201
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Share capital	16	**41,347,950**	41,347,950
Share premium	17	**3,440,941**	3,440,941
Accumulated losses	18	**(25,003,765)**	(24,635,493)
Total equity		**19,785,126**	20,153,398
Non-current liabilities			
Long-term borrowings	20	**104,753**	24,459
Redeemable secured loan stock	21	**2,329,820**	1,900,000
Deferred tax liabilities	8	**7,403**	7,403
		2,441,976	1,931,862
Current liabilities			
Other payables, deposits and accruals	23	**815,632**	5,767,508
Amounts due to Subsidiary Companies	13	**40,628,655**	39,976,141
Short-term borrowings	20	**23,363**	17,292
		41,467,650	45,760,941
Total liabilities		**43,909,626**	47,692,803
TOTAL EQUITY AND LIABILITIES		**63,694,752**	67,846,201

The accompanying Notes form an integral part of the Financial Statements.

Statement of Comprehensive Income

For the year ended 31 December 2010

	Note	2010 RM	2009 RM
Revenue		**–**	–
Cost of sales		**–**	–
Gross profit		**–**	–
Other income		**801,570**	1,716,351
		801,570	1,716,351
Administrative expenses		**(1,056,666)**	(2,313,413)
Loss from operations	25	**(255,096)**	(597,062)
Finance costs	28	**(132,685)**	(131,215)
Loss before taxation		**(387,781)**	(728,277)
Income tax expense	29	**–**	–
Loss for the year		**(387,781)**	(728,277)
Other comprehensive income		**–**	–
Total comprehensive loss		**(387,781)**	(728,277)

The accompanying Notes form an integral part of the Financial Statements.

Statement of Changes in Equity

For the year ended 31 December 2010

	Note	Share capital RM	Non-distributable Share premium RM	Distributable Accumulated losses RM	Total RM
At 1 January 2009		41,347,950	3,440,941	(23,907,216)	20,881,675
Total comprehensive loss		–	–	(728,277)	(728,277)
At 31 December 2009		41,347,950	3,440,941	(24,635,493)	20,153,398
At 1 January 2010		**41,347,950**	**3,440,941**	**(24,635,493)**	**20,153,398**
Effect on adoption of FRS 139	**3.1 (f)**	**–**	**–**	**19,509**	**19,509**
At 1 January 2010 (Restated)		**41,347,950**	**3,440,941**	**(24,615,984)**	**20,172,907**
Total comprehensive loss		**–**	**–**	**(387,781)**	**(387,781)**
At 31 December 2010		**41,347,950**	**3,440,941**	**(25,003,765)**	**19,785,126**

The accompanying Notes form an integral part of the Financial Statements.

Statement of Cash Flows

For the year ended 31 December 2010

	Note	2010 RM	2009 RM
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before taxation		**(387,781)**	(728,277)
Adjustments for :-			
Depreciation		**21,173**	42,224
Gain on disposal of property, plant and equipment		**(71,000)**	–
Interest expense		**132,685**	131,215
Write back of provision no longer required		**–**	(75,816)
Operating loss before working capital changes		**(304,923)**	(630,654)
(Increase) / Decrease in other receivables, deposits and prepayments		**(1,158)**	321,207
Decrease in other payables, deposits and accruals		**(4,628,387)**	(1,142,726)
		(4,629,545)	(821,519)
Cash used in operations		**(4,934,468)**	(1,452,173)
Income tax paid		**–**	–
Net cash used in operating activities		**(4,934,468)**	(1,452,173)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment		**71,000**	–
Purchase of property, plant and equipment		**(41,051)**	(6,870)
Net cash generated form / (used in) investing activities		**29,949**	(6,870)
		(4,904,519)	(1,459,043)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		**(6,845)**	(11,282)
Repayment of hire purchase payable		**(43,635)**	(17,289)
Decrease in amounts due from Subsidiary Companies		**4,360,034**	1,099,443
Increase in amounts due to Subsidiary Companies		**652,514**	371,873
Net cash generated from financing activities		**4,962,068**	1,442,745
Net increase / (decrease) in cash and cash equivalents		**57,549**	(16,298)
Cash and cash equivalents brought forward		**20,111**	36,409
Cash and cash equivalents carried forward	15	**77,660**	20,111

The accompanying Notes form an integral part of the Financial Statements.

1. CORPORATE INFORMATION

The Company is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Main Market of Bursa Malaysia Securities Berhad.

The registered office and principal place of business are located at Level P1, Menara Choy Fook On, No. 1B, Jalan Yong Shook Lin, 46050 Petaling Jaya, Selangor Darul Ehsan.

The Company is principally engaged in the business of investment holding.

The principal activities of the Subsidiary Companies are disclosed in Note 6 to the financial statements.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 28 April 2011.

2. BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements of the Group and of the Company have been prepared in accordance with the provisions of the Companies Act, 1965 and applicable Financial Reporting Standards ("FRSs") in Malaysia.

2.2 Basis of accounting

The financial statements of the Group and of the Company are prepared under the historical cost convention unless otherwise stated.

The preparation of financial statements in conformity with the provisions of the Companies Act, 1965 and applicable FRSs in Malaysia requires the Directors to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results may differ from these estimates.

2.3 Functional and presentation currency

The financial statements are presented in Ringgit Malaysia ("RM"), which is also the Company's functional currency.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Changes in accounting policies

On 1 January 2010, the Group and the Company adopted the following new and revised FRSs, Issues Committee Interpretations ("IC Int.") and amendments to FRSs which are mandatory for financial periods beginning on or after the respective dates as follows :-

i) Financial periods beginning on or after 1 July 2009

FRS 8	Operating Segments

ii) Financial periods beginning on or after 1 January 2010

FRS 4	Insurance Contracts
FRS 7	Financial Instruments : Disclosures
FRS 101	Presentation of Financial Statements (Revised 2009)
FRS 123	Borrowing Costs
FRS 139	Financial Instruments : Recognition and Measurement
IC Int. 9	Reassessment of Embedded Derivatives
IC Int. 10	Interim Financial Reporting and Impairment
IC Int. 11	FRS 2 - Group and Treasury Share Transactions
IC Int. 13	Customer Loyalty Programmes
IC Int. 14	FRS 119 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

Amendments to FRS 1 First-time Adoption of Financial Reporting Standards and FRS 127 Consolidated and Separate Financial Statements : Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

Amendments to FRS 2 Share-based Payment - Vesting Conditions and Cancellations

Amendments to FRS 132 Financial Instruments : Presentation

Amendments to FRS 139 Financial Instruments : Recognition and Measurement, FRS 7 Financial Instruments : Disclosures and IC Int. 9 Reassessment of Embedded Derivatives

Amendments to FRSs contained in the document entitled "Improvements to FRSs (2009)"

The adoption of the above new and revised FRSs, IC Int. and amendments to FRSs, does not result in any significant impact on the financial statements of the Group and of the Company except as follows :-

a) FRS 7 : Financial Instruments : Disclosures

Prior to 1 January 2010, information about financial instruments was disclosed in accordance with the requirements of FRS 132 Financial Instruments : Disclosure and Presentation. FRS 7 introduces new disclosures to improve both quantitative and qualitative informations provided to users of the financial statements about an entity's exposure to risk and how the entity manages these risk.

The Group and the Company have applied FRS 7 prospectively in accordance with the transitional provisions of the standard. Hence, the new disclosures have no impact to the comparatives.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.1 Changes in accounting policies (cont'd)

b) FRS 8 : Operating Segment

FRS 8 replaces FRS 114_{2004} : Segment Reporting and requires a 'management approach', under which segment information is presented on a similar basis to that used for internal reporting purposes. As a result, the Group's external segmental reporting will be based on the internal reporting to the "chief operating decision maker", who makes decisions on the allocation of resources and assesses the performance of the reportable segments.

The Group concluded that reportable operating segments determined in accordance with FRS 8 are the same as the business segment previously identified under FRS 114_{2004}, no further segmental information disclosures will be necessary.

c) FRS 101 : Presentation of Financial Statement (Revised 2009)

The revised FRS 101 separates owner and non-owner changes in equity. Therefore, the consolidated statement of changes in equity will now include only details of transactions with owners. All non-owner changes in equity are presented as a single line labelled as total comprehensive income. The standard also introduces the statement of comprehensive income : presenting all items of income and expenses recognised in the profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group and the Company have elected to present this statement as one single statement. Comparative information have been re-presented so that it is in conformity with the revised standard.

In addition, the revised FRS 101 also requires the Group and the Company to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing its capital.

d) "Improvements to FRSs (2009)" : Amendments to FRS 117 : Leases

Prior to the adoption of the Amendments to FRS 117, leasehold land that normally had an indefinite economic life and where title was not expected to pass to the lessee by the end of the lease term was treated as an operating lease. The payment made on entering into or acquiring a leasehold land was accounted for as prepaid lease payments that were amortised over the lease term in accordance with the pattern of benefits provided.

The amendments to FRS 117 requires entities with existing leases of land to reassess the classification of land as a finance or operating lease based on the extent of risk and rewards associated with the land. The Group has determined that all leasehold land of the Group are substance a finance lease and has reclassified its prepaid land lease payments to property, plant and equipment retrospectively, with no effect on reported profit or equity. However, as a result of the adoption of the Amendments to FRS 117, comparative balances have been restated as follows :-

GROUP	As previously reported RM	Effect of changes in accounting policy RM	As restated RM
Property, plant and equipment	10,633,161	2,000,720	12,633,881
Prepaid land lease payments	2,000,720	(2,000,720)	–

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.1 Changes in accounting policies (cont'd)

e) FRS 123 : Borrowing Costs

This standard supersedes FRS 123_{2004} : Borrowing Costs that removes the option of expensing borrowing costs and requires capitalisation of such costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognised as an expense.

f) FRS 139 : Financial Instruments : Recognition and Measurement

FRS 139 establishes principles for recognising and measuring financial instruments. The Group and the Company have adopted FRS 139 prospectively on 1 January 2010 in accordance with the transitional provisions. The effects arising from the adoption of this Standard has been accounted for by adjusting the opening balance of accumulated losses as at 1 January 2010. Comparatives are not restated. The details of changes in accounting policies and the effects arising from the adoption of FRS 139 are discussed below :-

i) Equity instruments

Prior to 1 January 2010, the Group classified its investments in equity instruments which were held for non-trading purposes as non-current investments. Such investment were carried at cost less impairment losses. Upon the adoption of FRS 139, these investments whose fair value cannot be reliably measured amounting to RM60,000, are designated at 1 January 2010 as available-for-sale financial assets and accordingly are continued to be carried at cost less impairment losses.

Prior to 1 January 2010, the Group classified its investment in equity instruments which were held for trading purposes as marketable securities. Such investments were carried at the lower of cost and market value, determined on an aggregate basis. Upon the adoption of FRS 139, these investment are designated at 1 January 2010 as financial assets at fair value through profit or loss and accordingly are stated at their fair value. No adjustment is required to be made to the opening balance of accumulated losses as at 1 January 2010.

ii) Impairment of trade receivables

Prior to 1 January 2010, provisions for doubtful debts was recognised on debts when recovery is considered doubtful. Upon the adoption of FRS 139, an impairment loss is recognised when there is objective evidence that an impairment loss has been incurred. The amount of the loss is measured as the difference between the receivable's carrying amount and the present value of the estimated future cash flows discounted at the receivable's original effective interest rate.

As at 1 January 2010, the Group and the Company have remeasured its allowance for impairment losses as at the date in accordance with FRS 139 but no adjustment is required to be made to the opening balance of accumulated losses as at the date.

iii) Inter-company loans

During the current and prior years, the Company granted interest-free loan or advances to its subsidiaries. Prior to 1 January 2010, these loans or advances were recorded at cost in the Company's financial statements. Upon the adoption of FRS 139, the interest-free loans or advances are recorded initially at fair value. Subsequent to initial recognition, the loans or advances are measured at amortised cost.

As at 1 January 2010, the Company has remeasured such loans or advances at their amortised cost but no adjustment is required to be made to the opening balance of accumulated losses as at the date.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.1 Changes in accounting policies (cont'd)

f) FRS 139 : Financial Instruments : Recognition and Measurement (cont'd)

iv) Redeemable secured loan stock ("RSLS")

Prior to 1 January 2010, the Group and the Company classified its RSLS as non-current liability in the statement of financial position and the interest on this instrument is recognised as finance costs in statement of comprehensive income in the period in which they are incurred. Upon adoption of FRS 139, the RSLS is recognised initially at fair value, net of transaction cost incurred and subsequently measured at amortised cost using the effective interest method.

As at 1 January 2010, the Group and the Company has remeasured its RSLS at amortised cost and the adjustments to its previous carrying amounts are recognised as adjustments to the opening balance of accumulated losses as at 1 January 2010.

The following are effects on the opening balances arising from the above changes in accounting policies :-

GROUP	As at 31/12/2009 RM	Effect of adoption FRS 139 RM	As at 1/1/2010 RM
Non-current liabilities			
Redeemable secured loan stock	1,900,000	303,980	**2,203,980**
Current liabilities			
Accruals - interest	323,489	(323,489)	–
Equity			
Accumulated losses	26,148,512	(19,509)	**26,129,003**
COMPANY			
Non-current liabilities			
Redeemable secured loan stock	1,900,000	303,980	**2,203,980**
Current liabilities			
Accruals - interest	323,489	(323,489)	–
Equity			
Accumulated losses	24,635,493	(19,509)	**24,615,984**

3. **SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

3.1 Changes in accounting policies (cont'd)

The Group and the Company has not early adopted the following new and revised FRSs, IC Int., amendments to FRSs and amendments to IC Int. which are mandatory for financial period beginning on or after the respective dates as follows :-

i) **Financial periods beginning on or after 1 March 2010**

Amendments to FRS 132 Financial Instruments : Presentation

ii) **Financial periods beginning on or after 1 July 2010**

FRS 1	First-time Adoption of Financial Reporting Standards (Revised 2010)
FRS 3	Business Combinations (Revised 2010)
FRS 127	Consolidated and Separate Financial Statements (Revised 2010)
IC Int. 12	Service Concession Arrangements
IC Int. 16	Hedges of a Net Investment in a Foreign Operation
IC Int. 17	Distributions of Non-cash Assets to Owners

Amendments to FRS 2 Share-based Payment

Amendments to FRS 5 Non-current Assets Held for Sale and Discontinued Operations

Amendments to FRS 138 Intangible Assets

Amendments to IC Int. 9 Reassessment of Embedded Derivatives

iii) **Financial periods beginning on or after 1 January 2011**

IC Int. 4	Determining whether an Arrangement contains a Lease
IC Int. 18	Transfers of Assets from Customers

Amendments to FRS 1 Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters.

Amendments to FRS 2 Group Cash-settled Share-based Payment Transactions

Amendments to FRS 7 Improving Disclosures about Financial Instruments

Amendments to FRSs contained in the document entitled "Improvements to FRSs (2010)"

iv) **Financial periods beginning on or after 1 July 2011**

IC Int. 19	Extinguishing Financial Liabilities with Equity Instruments

Amendments to IC Int. 14 Prepayments of a Minimum Funding Requirement

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.1 Changes in accounting policies (cont'd)

v) Financial periods beginning on or after 1 January 2012

FRS 124	Related Party Disclosures
IC Int. 15	Agreements for the Construction of Real Estate

The Group and the Company plan to adopt the above pronouncements when they become effective in the respective financial period. Unless otherwise described below, these pronouncements are expected to have no significant impact to the financial statements of the Group and the Company upon their initial application :-

a) FRS 3 : Business Combinations (Revised 2010) and FRS 127 : Consolidated and Separate Financial Statements (Revised 2010)

FRS 3 (Revised 2010) introduces a number of changes to the accounting for business combinations occurring on or after 1 July 2010. These include changes that affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

FRS 127 (Revised 2010) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners and to be recorded in equity. Therefore, such transaction will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended Standard changes the accounting for losses incurred by the subsidiary as well as loss of control of a subsidiary.

The changes by FRS 3 (Revised 2010) and FRS 127 (Revised 2010) will be applied prospectively and only affect future acquisition or loss of control of subsidiaries and transactions with non-controlling interests.

3.2 Significant accounting estimates and judgements

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed as follows :-

a) Classification between investment properties and property, plant and equipment

The Group has developed certain criteria based on FRS 140 in making judgement 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. Judgement 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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Significant accounting estimates and judgements (cont'd)

Key sources of estimation uncertainty (cont'd)

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed as follows :- (cont'd)

b) Income taxes

Judgement is required in determining the capital allowances and deductibility of certain expenses when estimating the provision for taxation. There were transactions during the ordinary course of business for which the ultimate tax determination of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

c) Deferred tax assets

Deferred tax assets are recognised for all unutilised tax losses and unabsorbed capital allowances to the extent that it is probable that taxable profits will be available against which the losses and capital allowances can be utilised. Significant management judgement 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.

d) Revenue recognition

The Group recognises contracts revenue and expenses in the statement of comprehensive income by using the stage of completion method. The stage of completion is determined by the proportion that contracts costs incurred for the work performed to date bear to the estimated total contracts cost and the recoverability of the contracts.

e) Allowance for doubtful debts of receivables

The Company makes allowance for doubtful debts based on an assessment of the recoverability of receivables. Allowances are applied to receivables where events or changes in circumstances indicate that the carrying amounts may not be recoverable. Management specifically analyses historical bad debt, customer concentrations, customer creditworthiness, current economic trends and changes in customer payment terms when making a judgement to evaluate the adequacy of the allowance for doubtful debts of receivables. Where the expectation is different from the original estimate, such difference will impact the carrying value of receivables.

3.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its Subsidiary Companies as at the reporting date. The financial statements of the Subsidiary Companies are prepared for the same reporting date as the Company.

Subsidiary Companies are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Uniform accounting policies are adopted in the consolidated financial statements for like transactions and events in similar circumstances.

Intragroup balances, transactions and unrealised gains and losses are eliminated in full on consolidation and the consolidated financial statements reflect external transactions only.

Acquisitions of Subsidiary Companies are accounted for by applying the purchase method. The purchase method of accounting involves allocating of the acquisition to the fair value of the identifiable assets, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.3 Basis of consolidation (cont'd)

Any excess of the cost of 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 the statement of comprehensive income.

Non-controlling interests represent the portion of the profit or loss or net assets in Subsidiary Companies not held by the Group. It is measured as the minorities' share of the fair value of the Subsidiary Companies' identifiable assets and liabilities at the date of acquisition and the minorities' share of changes in the Subsidiary Companies' equity since then. Separate disclosure is made for minority interests.

3.4 Property, plant and equipment

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 statement of comprehensive income during the financial year in which they are incurred.

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

Land and buildings stated at valuation are revalued at regular intervals of at least once in every five years by the Directors based on the valuation reports of independent professional valuers using the open market value basis.

Surpluses arising on revaluation are credited to revaluation reserve. Any deficit arising from revaluation is charged against the revaluation reserve to the extent of a previous surplus held in the revaluation reserve for the same asset. In all other cases, a decrease in carrying value is charged to the statement of comprehensive income. An increase in revaluation directly related to a previous decrease in carrying amount for that same asset that was recognised as an expense, is credited to statement of comprehensive income to the extent that it offsets the previously recorded decrease.

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 or the revalued amount of each asset to its residual value over the estimated useful life, at the following annual rates :-

Buildings	2%
Leasehold land	over remaining lease period
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 the statement of comprehensive income. Upon disposal of revalued assets, the attributable revaluation surplus remaining in the revaluation reserve is transferred to retained earnings.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.5 Leases

i) Classification

A lease is recognised as a finance lease if it transfers substantially to the Group all the risk and rewards incidental to ownership. All lease that do not transfer substantially all the risks and rewards are classified as operating leases and are not recognised in the statement of financial position of the Group or of the Company, except for property interest held under operating lease. Lease of land and buildings are classified as operating or finance leases in the same way as leases of other assets and the land and building elements of a lease of land and buildings are considered separately for the purposes of lease classification. Property interest held under an operating lease, which is held to earn rental income or for capital appreciation or both is classified as investment property on a property-by-property basis.

ii) Finance leases - the Group as lessee

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 statement of financial position as borrowings. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Company's incremental borrowing rate is used. Any initial direct costs are also added to the carrying amount of such assets.

Lease payments are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are recognised in the statement of comprehensive income 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.

Leasehold land and buildings under long term leases held for own use are classified as property, plant and equipment as they are finance lease, where substantially all the risk and rewards incidental to their ownership is transferred to the Group.

The depreciation policy for leased assets is in accordance with that for depreciable property, plant and equipment as disclosed in Note 3.4 to the financial statements.

iii) Operating leases - the Group as lessee

Operating lease payments are recognised as an expense 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.

3.6 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 fair value. Fair value is arrived at by reference to market evidence of transaction prices for similar properties. In the absence of such market evidence, the valuation is performed by independent professional valuers.

Gains or losses arising from changes in the fair values of investment properties are recognised in statement of comprehensive income in the year in which they arise.

A property interest under an operating lease is classified and accounted for as an investment property on a property-by-property basis when the Group holds it to earn rentals or for capital appreciation or both. Any such property interest under an operating lease classified as an investment property is carried at fair value.

3. SIGNIFICANT ACCOUNTING POLICIES (cont’d)

3.6 Investment properties (cont’d)

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

3.7 Subsidiary Companies

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

In the Company's separate financial statements, investments in Subsidiary Companies are stated at cost less impairment losses. On disposal of such investment, the difference between net disposal proceeds and its carrying amount is included in the statement of comprehensive income.

3.8 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that assets may be impaired. If any such indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss.

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

The recoverable amount of an asset is the higher of an asset's or CGU's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

An impairment loss is recognised in the statement of comprehensive income in the period in which it arises, unless the assets are previously revalued where the revaluation was taken to other comprehensive income. In this case the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

An impairment loss of an asset is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset other than goodwill is increased to its revised recoverable amount to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised for the asset in prior years. The reversal is recognised in the statement of comprehensive income, unless the asset is carried at revalued amount. A reversal of an impairment loss on a revalued asset is treated as a revaluation increase.

3.9 Inventories

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

The cost of raw materials is determined using the first in, first out method comprising the costs of purchase. The costs of manufactured inventories and work-in-progress comprise costs of raw materials, direct labour, other direct costs and appropriate proportions of manufacturing overheads based on normal operating capacity. The cost of finished goods comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to the present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.10 Financial assets

Financial assets are recognised in the statement of financial position when, and only when, the Group and the Company become a party to the contractual provisions of the financial instrument.

Financial assets are initially recognised at fair value plus transaction costs except for financial assets at fair value through profit or loss, which are recognised at fair value. Transaction costs for financial assets at fair value through profit or loss are recognised immediately in the statement of comprehensive income.

The Group and the Company determine the classification of their financial assets at initial recognition, and the categories include financial assets at loans and receivables, financial assets at fair value through profit or loss and available-for-sale financial assets.

i) Loans and receivables

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method. Gain and losses are recognised in statement of comprehensive income when the loans and receivables are derecognised or impaired, and through the amortisation process.

Loans and receivables are classified as current assets, except for those having maturity dates later than 12 months after the reporting date which are classified as non-current.

ii) Financial assets at fair value through profit or loss

Financial assets are classified as financial assets at fair value through profit or loss if they are held for trading or are designated as such upon initial recognition. Financial assets held for trading are derivatives (including separated embedded derivatives) or financial assets acquired principally for the purpose of selling in the near term.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value are recognised in profit or loss. Net gains or net losses on financial assets at fair value through profit or loss do not include exchange differences, interest and dividend income. Exchange differences, interest and dividend income on financial assets at fair value through profit or loss are recognised separately in profit or loss as part of other losses or other income.

iii) Available-for-sale financial assets

Available-for-sale financial assets are financial assets that are designated as available for sale or are neither classified in any of the preceding categories nor held-to-maturity investments.

After initial recognition, available-for-sale financial assets are measured at fair value. Any gains or losses from changes in fair value of the financial assets are recognised in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial assets is derecognised. Interest income calculated using the effective interest method is recognised in profit or loss. Dividends on an available-for-sale equity instrument are recognised in profit or loss when the Group's and the Company's right to receive payment is established.

Investment in equity instruments whose fair value cannot be reliably measured are measured at cost less impairment loss.

Available-for-sale financial assets are classified as non-current assets unless they are expected to be realised within 12 months after the reporting date.

3. **SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

3.10 Financial assets (cont'd)

A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in statement of comprehensive income.

Regular way of purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned. All regular way of purchases and sales of financial assets are recognised or derecognised on the trade date.

3.11 Impairment of financial assets

The Group and the Company assess at each reporting date whether there is any objective evidence that a financial asset is impaired.

i) Receivables and other financial assets carried at amortised cost.

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group and the Company consider factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. For certain categories of financial assets, such as receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis based on similar risk characteristics. Objective evidence of impairment for a portfolio of receivables could include the Group's and the Company's past experience of collecting payments, an increase in number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

If any such evidence exists, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss is recognised in statement of comprehensive income.

The carrying amount of the financial asset is reduced by the impairment loss either directly or through a use of an allowance account. When the financial asset's carrying amount is reduced through the use of an allowance account becomes uncollectible, it is written off against the allowance account.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in statement of comprehensive income.

ii) Available-for-sale financial assets

Significant or prolonged decline in fair value below cost, significant financial difficulties of the issuer or obligor and the disappearance of an active trading market are considerations to determine whether there is objective evidence that investment securities classified as available-for-sale financial assets are impaired.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to profit or loss.

Impairment losses on available-for-sale equity investments are not reversed in profit or loss in the subsequent periods. Increase in fair value, if any, subsequent to impairment loss is recognised in other comprehensive income. For available-for-sale debt investments, impairment losses are subsequently reversed in profit or loss if an increase in fair value of the investment can be objectively related to an event occuring after the recognition of the impairment loss in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.12 Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

Financial liabilities, within the scope of FRS 139, are recognised in the statement of financial position when, and only when, the Group and the Company become a party to the contractual provisions of the financial instrument . Financial liabilities of the Group and of the Company are classified as other financial liabilities which include trade and other payables, amount due to contract customer, borrowings and redeemable secured loan stocks ("RSLS").

Trade and other payables are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings and RSLS are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings and RSLS using the effective interest method. Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

For other financial liabilities, gain and losses are recognised in statement of comprehensive income when the liabilities are derecognised, and through the amortisation process.

A financial liability is derecognised when the obligation under the liability is extinguished. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

3.13 Provisions for liabilities

Provisions are recognised where there is 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 can be made of the amount of obligations. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

3.14 Due from customers on contracts

When the outcome of a contract can be reliably estimated, contract revenue and contract costs are recognised in the statement of comprehensive income 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.

When 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 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 costs incurred on contracts plus recognised profits (less recognised losses) exceed progress billings, the balance is classified as amounts due from customers on contracts. When progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is classified as amounts due to customers on contracts.

3.15 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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.16 Share capital

a) Classification

Ordinary shares are classified as equity.

b) Share issue costs

External costs directly attributable to the issue of new shares are shown as a deduction in equity.

3.17 Foreign currencies

i) Functional and presentation currency

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

ii) Foreign currency transactions

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

– income and expenses for each statement of comprehensive income 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 reporting date are as follows :-

	31/12/2010 RM	**31/12/2009 RM**
Chinese Renminbi	0-47	0-50
United States Dollar	3-08	3-43
Great Britain Pound	4-78	5-53
Myanmar Kyat	0-48	0-61

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.18 Revenue recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of revenue can be measured reliably.

a) Sale of goods

Revenue from sale of goods is measured at the fair value of the consideration receivable and is recognised in the statement of comprehensive income when the significant risks and rewards of ownership have been transferred to the buyer.

b) Contract work

Revenue on contracts is recognised on the percentage of completion method unless the outcome of the contract cannot be reliably determined, in which case the revenue on contracts is only recognised to the extent of contract costs incurred that are recoverable. Foreseeable losses, if any, are provided for in full as and when it can be reasonably ascertained that the contract will result in a loss.

The stage of completion is determined based on the proportion that the contract costs incurred for work performed to date bear to the estimated total contract costs.

c) Rental and interest income

Rental income and interest income are recognised in the statement of comprehensive income on an accrual basis unless collection is in doubt.

3.19 Employee benefits

Short-term benefits

Wages, salaries, bonuses and social security contributions ("SOCSO") are recognised as an expense in the year in which the associated services are rendered by employees of the Group and the Company. 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.

Defined Contribution Plans

As required by law, companies in Malaysia make contributions to the state pension scheme, the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the statement of comprehensive income as incurred.

3.20 Borrowing costs

Borrowing costs directly attributable to the construction of qualifying assets are capitalised as part of the cost of those assets during the period of time that is required to complete and prepare the assets for their intended use.

All other interest expense and other costs incurred in connection with borrowings are expensed as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.21 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 reporting date.

Deferred tax is provided for, using the liability method, on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. 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 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 reporting date. Deferred tax is recognised in the statement of comprehensive income, except when it arises from a transaction which is recognised directly in equity.

3.22 Cash and cash equivalents

Cash and cash equivalents comprise bank balances, cash on hand and short-term highly liquid assets that are readily convertible to cash with insignificant risk of changes in value less bank borrowings that are not subject to fixed term of repayment.

3.23 Segment reporting

Segment reporting is presented for enhanced assessment of the Group's risks and returns. Business segments provide products or services that are subject to risks and returns that are different from those of other business segments.

Segment revenue, expenses, assets and liabilities are those amounts resulting from the operating activities of a segment that are directly attributable to the segment and the relevant portion that can be allocated on a reasonable basis to the segment. Segment revenue, expenses, assets and liabilities are determined before intragroup balances and intragroup transactions are eliminated as part of the consolidation process, except to the extent that such intragroup balances and transactions are between Group enterprises within a single segment.

4. PROPERTY, PLANT AND EQUIPMENT

GROUP	At 1/1/2010 RM	Additions RM	Written off / Disposals RM	Current depreciation RM	At 31/12/2010 RM
Net carrying amount					
Leasehold land	**2,000,720**	**–**	**–**	**25,325**	**1,975,395**
Buildings	**8,445,906**	**–**	**–**	**196,440**	**8,249,466**
Equipment, furniture and fittings	**2,070,081**	**222,570**	**–**	**804,190**	**1,488,461**
Motor vehicles	**117,174**	**290,455**	**–**	**44,847**	**362,782**
	12,633,881	**513,025**	**–**	**1,070,802**	**12,076,104**

4. PROPERTY, PLANT AND EQUIPMENT (cont'd)

GROUP	At 1/1/2009 (As previously stated) RM	Effect of adopting Amendments to FRS 117 RM	At 1/1/2010 (Restated) RM	Additions RM	Written off / Disposals RM	Current depreciation RM	At 31/12/2009 RM
Net carrying amount (Restated)							
Leasehold land	–	2,026,045	2,026,045	–	–	25,325	2,000,720
Buildings	8,642,346	–	8,642,346	–	–	196,440	8,445,906
Equipment, furniture and fittings	2,702,432	–	2,702,432	244,321	4,044	872,628	2,070,081
Motor vehicles	199,732	–	199,732	–	–	82,558	117,174
	11,544,510	2,026,045	13,570,555	244,321	4,044	1,176,951	12,633,881

GROUP	Valuation / Cost RM	Accumulated depreciation RM	Net carrying amount RM
31 / 12 / 2010			
At valuation			
Leasehold land	**2,178,000**	**202,605**	**1,975,395**
Buildings	**9,822,000**	**1,572,534**	**8,249,466**
At cost			
Equipment, furniture and fittings	**15,920,710**	**14,432,249**	**1,488,461**
Motor vehicles	**1,249,653**	**886,871**	**362,782**
	29,170,363	**17,094,259**	**12,076,104**
31 / 12 / 2009 (Restated)			
At valuation			
Leasehold land	2,178,000	177,280	2,000,720
Buildings	9,822,000	1,376,094	8,445,906
At cost			
Equipment, furniture and fittings	15,887,045	13,816,964	2,070,081
Motor vehicles	1,127,165	1,009,991	117,174
	29,014,210	16,380,329	12,633,881

The balances in year 2009 have been restated to reflect the change in Group's accounting policy for classification of leasehold land required by the adoption of Amendments to FRS 117 : Leases, where the effects of the change are detailed in the Note 3.1(d).

4. PROPERTY, PLANT AND EQUIPMENT (cont'd)

COMPANY	At 1/1/2010 RM	Additions RM	Disposals RM	Current depreciation RM	At 31/12/2010 RM
Net carrying amount					
Equipment, furniture and fittings	**17,055**	**3,819**	**–**	**7,188**	**13,686**
Motor vehicles	**11,198**	**167,232**	**–**	**13,985**	**164,445**
	28,253	**171,051**	**–**	**21,173**	**178,131**

	At 1/1/2009 RM	Additions RM	Disposals RM	Current depreciation RM	At 31/12/2009 RM
Net carrying amount					
Equipment, furniture and fittings	18,816	6,870	–	8,631	17,055
Motor vehicles	44,791	–	–	33,593	11,198
	63,607	6,870	–	42,224	28,253

COMPANY	Cost RM	Accumulated depreciation RM	Net carrying amount RM
31 / 12 / 2010			
Equipment, furniture and fittings	**340,256**	**326,570**	**13,686**
Motor vehicles	**365,093**	**200,648**	**164,445**
	705,349	**527,218**	**178,131**
31 / 12 / 2009			
Equipment, furniture and fittings	336,437	319,382	17,055
Motor vehicles	365,828	354,630	11,198
	702,265	674,012	28,253

a) During the year, the Group and the Company acquired property, plant and equipment with aggregate cost of RM513,025 (2009 : RM244,321) and RM171,051 (2009 : RM6,870) respectively of which RM202,000 (2009 : NIL) and RM130,000 (2009 : NIL) respectively were acquired by means of hire purchase arrangements.

4. PROPERTY, PLANT AND EQUIPMENT (cont'd)

b) Included in the property, plant and equipment of the Group and of the Company are fully depreciated assets which are still in use with their carrying costs as follows :-

	GROUP		COMPANY	
	31/12/2010 RM	31/12/2009 RM	31/12/2010 RM	31/12/2009 RM
- Equipment, furniture and fittings	**4,370,412**	1,873,667	**303,510**	243,808
- Motor vehicles	**652,761**	294,920	**197,861**	197,861

c) Net carrying amount of assets acquired under hire purchase arrangements of which instalments are still outstanding at the reporting date :-

	GROUP		COMPANY	
	31/12/2010 RM	31/12/2009 RM	31/12/2010 RM	31/12/2009 RM
- Motor vehicles	**362,779**	117,171	**164,445**	11,198

d) The Leasehold land and buildings of the Group at the reporting date was charged to financial institutions as security for banking facilities granted to the Group as disclosed in Note 20 to the financial statements.

e) The long-term leasehold land of the Group has an unexpired lease period of 78 years.

f) The leasehold land and buildings of the Group was revalued on 10 April 2009 by the Directors based on valuation performed by independent firms of professional valuers using the open market value on existing use basis.

Details of independent professional valuation of the property of the Group are as follows :-

Date of valuation	Description of property	Valuation amount RM	Basis of valuation
10 April 2009	Leasehold industrial land with factory in Banting, Mukim Tanjung Duabelas, District of Kuala Langat, Selangor Darul Ehsan	11,000,000	Open market value

Had the revalued buildings been carried at historical cost less accumulated depreciation, the net carrying amounts of the leasehold land and building that would have been included in the financial statements of the Group are as follows :-

	GROUP	
	31/12/2010 RM	31/12/2009 RM
- Buildings	**8,104,344**	8,297,328
- Leasehold land	**742,071**	765,213

5. INVESTMENT PROPERTIES

GROUP	Freehold land RM	Buildings RM	Total RM
Valuation			
At 1 January / 31 December 2010	**2,000,000**	**80,000**	**2,080,000**
Accumulated depreciation			
At 1 January 2010	**–**	**16,000**	**16,000**
Depreciation for the year	**–**	**1,600**	**1,600**
At 31 December 2010	**–**	**17,600**	**17,600**
Net carrying amount			
At 31 December 2010	**2,000,000**	**62,400**	**2,062,400**
Valuation			
At 1 January / 31 December 2009	2,000,000	80,000	2,080,000
Accumulated depreciation			
At 1 January 2009	–	14,400	14,400
Depreciation for the year	–	1,600	1,600
At 31 December 2009	–	16,000	16,000
Net carrying amount			
At 31 December 2009	2,000,000	64,000	2,064,000

The fair value of the investment properties of the Group as at 31 December 2010 was recommended by Directors based on a valuation carried out on 10 April 2009 by an independent professional valuer on an open market value basis.

Details of independent professional valuation of the property of the Group are as follows :-

Date of valuation	Description of property	Valuation amount RM	Basis of valuation
10 April 2009	Freehold industrial land in Mukim Kapar, District of Klang, Selangor Darul Ehsan	2,000,000	Open market value

The freehold land has been pledged as security for banking facilities granted to the Company as disclosed in Note 20 to the financial statements.

6. INVESTMENT IN SUBSIDIARY COMPANIES

	COMPANY 31/12/2010 RM	31/12/2009 RM
Unquoted shares, at cost	**30,279,572**	30,279,572
Less : Accumulated impairment losses	**(15,490,325)**	(15,490,325)
	14,789,247	14,789,247

The Subsidiary Companies are as follows :-

Name of Company	Effective equity interest 31/12/2010 %	31/12/2009 %	Principal activities
Federal Furniture (M) Sdn Bhd	100	100	Marketing and exporting of furniture
Federal Furniture Industries Sdn Bhd	100	100	Renovation and interior fit-outs of offices and hotels
Federal Furniture (1982) Sdn Bhd	100	100	Manufacturing and export of furniture
Anglo Frontier Sdn Bhd	70	70	Investment holding
Pelantar Agresif (M) Sdn Bhd	100	100	Investment holding
Aspek Sensasi Sdn Bhd	100	100	Dormant
Layang Kaji Sdn Bhd	100	100	Dormant
Federal Electric Company Sdn Bhd	100	100	Dormant
Mintwood Sdn Bhd	100	100	Investment holding
Splenwood Sdn Bhd	100	100	Investment holding
Federal Furniture Lifestyle Sdn Bhd	100	100	Interior design and furnishin of residential properties and trading of furniture and decorative items
* ^ Qingdao Federal Furniture Industries Co. Ltd.	100	100	Dormant
Held by Federal Furniture Industries Sdn Bhd :-			
Pathos Corporation Sdn Bhd	93	93	Dormant
Cathay Interior Design (M) Sdn Bhd	55	55	Renovation and interior design of offices and hotels including supply of furniture and fittings
Held by Federal Furniture (M) Sdn Bhd :-			
Avante Corporation Sdn Bhd	55	55	Dormant

6. INVESTMENT IN SUBSIDIARY COMPANIES (cont'd)

	Name of Company	Effective equity interest 31/12/2010 %	31/12/2009 %	Principal activities
	Held by Avante Corporation Sdn Bhd :-			
+	Trac Marketing Incorporated	55	55	Dormant
	Held by Federal Electric Company Sdn Bhd :-			
~	Myanmar Electric Distributor Ltd.	100	100	Dormant

* Subsidiary Companies not audited by GEP Associates
^ The country of incorporation is People's Republic of China
+ The country of incorporation is United States of America
~ The country of incorporation is Union of Myanmar

All companies in the Group are incorporated in Malaysia except as otherwise disclosed.

7. AVAILABLE-FOR-SALE INVESTMENTS

	GROUP AND COMPANY 31/12/2010 RM	31/12/2009 RM
Unquoted shares, at cost	**60,000**	60,000
Less : Accumulated impairment losses	**(60,000)**	(60,000)
	–	–

8. DEFERRED TAX (ASSETS) / LIABILITIES

	GROUP 2010 RM	2009 RM	COMPANY 2010 RM	2009 RM
At 1 January	**(3,362,083)**	3,573,569)	**7,403**	7,403
Recognised in statement of comprehensive income	**396,057**	211,486	–	–
At 31 December	**(2,966,026)**	(3,362,083)	**7,403**	7,403

Presented after appropriate offsetting as follows :-

	GROUP 31/12/2010 RM	31/12/2009 RM	COMPANY 31/12/2010 RM	31/12/2009 RM
Deferred tax assets	**(3,830,901)**	(4,277,534)	**–**	–
Deferred tax liabilities	**864,875**	915,451	**7,403**	7,403
	(2,966,026)	(3,362,083)	**7,403**	7,403

8. DEFERRED TAX (ASSETS) / LIABILITIES (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 :-

	Unabsorbed capital allowances RM	Unutilised tax losses RM	Write down of inventories RM	Others RM	Total RM
At 1 January 2010	**–**	**(2,850,267)**	**(1,137,742)**	**(289,525)**	**(4,277,534)**
Recognised in statement of comprehensive income	**–**	**322,223**	**–**	**124,410**	**446,633**
At 31 December 2010	**–**	**(2,528,044)**	**(1,137,742)**	**(165,115)**	**(3,830,901)**
At 1 January 2009	–	(3,158,511)	(1,137,742)	(522,633)	(4,818,886)
Recognised in statement of comprehensive income	–	308,244	–	233,108	541,352
At 31 December 2009	–	(2,850,267)	(1,137,742)	(289,525)	(4,277,534)

Deferred tax liabilities :-

	GROUP		COMPANY	
	2010 RM	2009 RM	2010 RM	2009 RM
Capital allowances				
At 1 January	**915,451**	1,245,317	**–**	–
Recognised in statement of comprehensive income	**(50,576)**	(329,866)	**–**	–
At 31 December	**864,875**	915,451	**–**	–
Others				
At 1 January	**–**	–	**7,403**	7,403
Recognised in statement of comprehensive income	**–**	–	**–**	–
At 31 December	**–**	–	**7,403**	7,403

9. INVENTORIES

	GROUP	
	31/12/2010 RM	31/12/2009 RM
At cost		
Raw materials	**1,823,582**	1,363,879
Work-in-progress	**1,579,706**	896,168
Finished goods	**978,240**	438,981
	4,381,528	2,699,028
Net realisable value		
Finished goods	**192,000**	192,000
	4,573,528	2,891,028

10. TRADE RECEIVABLES

	GROUP	
	31/12/2010 RM	**31/12/2009 RM**
Trade receivables	**10,936,302**	5,071,064
Retention sum on contracts (Note 11)	**16,747**	16,747
	10,953,049	5,087,811
Less : Allowance for impairment	**(1,384,626)**	(1,384,626)
	9,568,423	3,703,185

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

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

Analysis of the trade receivables ageing is as follows :-

	GROUP	
	31/12/2010 RM	**31/12/2009 RM**
Neither past due nor impaired	**7,222,219**	2,102,371
Past due less than 30 days, not impaired	**242,211**	127,955
Past due more than 30 days, not impaired	**2,103,993**	1,472,859
	9,568,423	3,703,185

The Group has not provide any allowance for impairment losses for its past due but not impaired trade receivables as the management are of the view that the receivables are recoverable.

11. AMOUNTS DUE FROM / (TO) CONTRACT CUSTOMERS

	GROUP 31/12/2010 RM	GROUP 31/12/2009 RM
Contract costs incurred to date	**40,059,751**	35,672,423
Attributable profits	**6,304,537**	5,612,906
Less : Provision for foreseeable losses	**(1,161,250)**	(1,161,250)
	45,203,038	40,124,079
Less : Progress billings	**(43,532,452)**	(36,920,703)
	1,670,586	3,203,376
Amounts due from contract customers	**1,887,773**	3,411,292
Amounts due to contract customers	**(217,187)**	(207,916)
	1,670,586	3,203,376
Retention sum on contracts, included under trade receivables (Note 10)	**16,747**	16,747

12. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	GROUP		COMPANY	
	31/12/2010 RM	31/12/2009 RM	31/12/2010 RM	31/12/2009 RM
Other receivables	**3,897,522**	4,950,790	**3,226,920**	3,225,806
Deposits	**540,460**	357,025	**30,247**	30,247
Prepayments	**142,735**	86,781	**2,890**	2,846
	4,580,717	5,394,596	**3,260,057**	3,258,899
Less : Allowance for impairment	**(3,589,262)**	(3,589,262)	**(2,972,675)**	(2,972,675)
	991,455	1,805,334	**287,382**	286,224

Included in other receivables of the Group are amounts due from companies in which certain Directors have interest amounting to NIL (2009 : RM1,002,352).

The amount of NIL (2009 : RM1,002,352) is due from a Directors' related company, Masteron Sdn Bhd. The amount due is unsecured, interest free and without any fixed term of repayment.

13. AMOUNTS DUE FROM / (TO) SUBSIDIARY COMPANIES

Amount due from Subsidiary Companies

	COMPANY	
	31/12/2010 RM	**31/12/2009 RM**
Unsecured, interest-free advances	**65,808,950**	70,168,984
Less : Allowance for impairment	**(17,446,618)**	(17,446,618)
	48,362,332	52,722,366

The amounts due from Subsidiary Companies are unsecured and without any fixed term of repayment.

Amount due to Subsidiary Companies

The amounts due to Subsidiary Companies are unsecured, interest free and without any fixed term of repayment.

14. FINANCIAL ASSETS HELD FOR TRADING

Marketable securities

	GROUP	
	31/12/2010 RM	**31/12/2009 RM**
Quoted shares on conversion of quoted Irredeemable Convertible Unsecured Loan Stock (ICULS), at market value	**87,892**	55,931

15. CASH AND CASH EQUIVALENTS

	GROUP		COMPANY	
	31/12/2010 RM	**31/12/2009 RM**	**31/12/2010 RM**	**31/12/2009 RM**
Cash and bank balances	**2,895,749**	3,303,735	**77,660**	20,111
Less : Bank overdraft (Note 20)	**(195,205)**	(186,115)	–	–
Cash and cash equivalents	**2,700,544**	3,117,620	**77,660**	20,111

16. SHARE CAPITAL

	GROUP AND COMPANY			
	31/12/2010		31/12/2009	
	Number of shares RM	Nominal value RM	Number of shares RM	Nominal value RM
Authorised :-				
Ordinary shares of RM0-50 each	**200,000,000**	**100,000,000**	200,000,000	100,000,000
Issued and fully paid :-				
Ordinary shares of RM0-50 each	**82,695,900**	**41,347,950**	82,695,900	41,347,950

17. SHARE PREMIUM

	GROUP AND COMPANY	
	31/12/2010 RM	31/12/2009 RM
At 1 January / 31 December	**3,440,941**	3,440,941

18. RESERVES

	GROUP		COMPANY	
	2010 RM	2009 RM	2010 RM	2009 RM
NON-DISTRIBUTABLE RESERVE				
Foreign exchange reserve				
At 1 January	**15,530**	15,530	**–**	–
Foreign currency translation	**–**	–	**–**	–
At 31 December	**15,530**	15,530	**–**	–
Revaluation reserve				
At 1 January / 31 December	**211,100**	211,100	**–**	–

18. RESERVES (CONT'D)

	GROUP		COMPANY	
	31/12/2010 RM	31/12/2009 RM	31/12/2010 RM	31/12/2009 RM
DISTRIBUTABLE RESERVE				
Accumulated losses	**(25,589,311)**	(26,148,512)	**(25,003,765)**	(24,635,493)
TOTAL RESERVES	**(25,362,681)**	(25,921,882)	**(25,003,765)**	(24,635,493)

a) Foreign currency translation reserve

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

b) Revaluation reserve

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

19. NON-CONTROLLING INTEREST

GROUP

This consists of share capital and the proportion of reserves attributable to minority shareholders in Subsidiary Companies.

20. BORROWINGS

	GROUP		COMPANY	
	31/12/2010 RM	31/12/2009 RM	31/12/2010 RM	31/12/2009 RM
Short-term borrowings				
Secured				
Bankers' acceptances (Note 20.1)	**867,000**	200,000	**–**	–
Hire purchase payables (Note 20.2)	**59,816**	30,318	**23,363**	17,292
Unsecured				
Bank overdrafts (Note 20.3)	**195,205**	186,115	**–**	–
Bankers' acceptances (Note 20.1)	**1,379,000**	1,507,000	**–**	–
Revolving credits (Note 20.1)	**350,000**	470,000	**–**	–
	2,851,021	2,393,433	**23,363**	17,292

20. BORROWINGS (cont'd)

	GROUP		COMPANY	
	31/12/2010 RM	31/12/2009 RM	31/12/2010 RM	31/12/2009 RM
Long-term borrowings				
Secured				
Hire purchase payables (Note 20.2)	**214,905**	102,597	**104,753**	24,459

20.1 Bankers' acceptance and revolving credit

The bank overdraft, bankers' acceptance and revolving credit facilities of the Group are secured by a combination of the following:-

a) corporate guarantees and indemnity from the Company;

b) a legal charge over properties of certain Subsidiary Companies; and

c) a negative pledge on certain Subsidiary Companies' assets.

The bankers' acceptance and revolving credit facilities incur weighted average effective interest rates at 3.82% (2009 : 5.12%) and 5.97% (2009 : 5.53%) per annum respectively.

20. BORROWINGS (cont'd)

20.2 Hire purchase payables

The amounts owing to hire purchase creditors of the Group and of the Company are repayable as follows :-

	GROUP		COMPANY	
	31/12/2010 RM	**31/12/2009 RM**	**31/12/2010 RM**	**31/12/2009 RM**
Minimum hire purchase payments :-				
- not later than one year	**75,408**	39,060	**29,520**	20,232
- later than one year but not later than five years	**237,311**	103,932	**115,570**	28,620
- later than five years	**–**	15,647	**–**	–
	312,719	158,639	**145,090**	48,852
Future finance charges	**(37,998)**	(25,724)	**(16,974)**	(7,101)
Present value of hire purchase payables	**274,721**	132,915	**128,116**	41,751
Present value of hire purchase payments :-				
- not later than one year	**59,816**	30,318	**23,363**	17,292
- later than one year but not later than five years	**214,905**	87,362	**104,753**	24,459
- later than five years	**–**	15,235	**–**	–
	274,721	132,915	**128,116**	41,751
Less : Amount repayable within one year	**(59,816)**	(30,318)	**(23,363)**	(17,292)
Amount repayable after one year	**214,905**	102,597	**104,753**	24,459

Hire purchase facilities incur weighted average effective interest at between 2.70% to 4.25% (2009 : 3.64% to 4.56%) per annum.

The maturity structure of the hire purchase facilities are as follows :-

	GROUP		COMPANY	
	31/12/2010 RM	**31/12/2009 RM**	**31/12/2010 RM**	**31/12/2009 RM**
Amount repayable :-				
Within one year	**59,816**	30,318	**23,363**	17,292
After one year but within two years	**64,261**	31,398	**24,744**	17,292
After two years but within three years	**64,182**	22,355	**26,125**	7,167
After three years but within four years	**44,850**	16,265	**27,506**	–
After four years but within five years	**41,612**	17,344	**26,378**	–
Later than five years	**–**	15,235	–	–
	274,721	132,915	**128,116**	41,751

20. BORROWINGS (cont'd)

20.3 Bank overdrafts

Bank overdraft facilities incur weighted average effective interest at 9.00% (2009 : 9.00%) per annum for the Group. The securities for bank overdraft are as disclosed in Note 20.1 to the financial statements.

21. REDEEMABLE SECURED LOAN STOCK ("RSLS")

	GROUP AND COMPANY	
	31/12/2010 RM	31/12/2009 RM
Nominal value	**1,900,000**	1,900,000
Interest expense recognised in statement of comprehensive income :		
At 1 January (Restated)		
- Effect on adoption of FRS 139	**303,980**	**
Recognised during the year	**125,840**	**
At 31 December	**429,820**	–
Carrying amount	**2,329,820**	1,900,000

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 of 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.

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 require the Securities Commission's approval.

** Interest expense in previous years has been accrued in other payables and accruals.

The effect on adoption of FRS 139 : Financial Instruments : Recognition and Measurement on the RSLS is as disclosed in note 3.1(f)(iv) of the significant accounting policies.

The comparative figures as at 31 December 2009 have not been presented based on the new categorisation of financial liabilities resulting from the adoption of FRS 139 by virtue of exemption given in Paragraph 44AA of FRS 7.

22. TRADE PAYABLES

The normal trade credit terms granted to the Group range from 30 days to 120 days.

23. OTHER PAYABLES, DEPOSITS AND ACCRUALS

	GROUP		COMPANY	
	31/12/2010 RM	31/12/2009 RM	31/12/2010 RM	31/12/2009 RM
Other payables	**2,140,641**	2,557,984	**648,102**	5,277,854
Deposits	**108,891**	454,178	**4,200**	4,200
Accruals :				
- interest	**–**	323,489	**–**	323,489
- others	**2,657,055**	1,867,796	**163,330**	161,965
	4,906,587	5,203,447	**815,632**	5,767,508

Included in other payables of the Group and the Company are :-

	GROUP		COMPANY	
	31/12/2010 RM	31/12/2009 RM	31/12/2010 RM	31/12/2009 RM
Amounts due to companies in which certain Directors have interest	**455,069**	–	**55,346**	3,975,383
Amounts due to Directors	**777,123**	817,658	**507,863**	483,085
	1,232,192	817,658	**563,209**	4,458,468

The amounts due are unsecured, interest free and without any fixed term of repayment.

24. REVENUE

	GROUP	
	2010 RM	2009 RM
Revenue is categorised as follows :-		
Revenue from contract works	**28,132,766**	24,490,768
Sale of goods	**11,896,918**	11,921,345
	40,029,684	36,412,113

25. PROFIT / (LOSS) FROM OPERATIONS

Profit / (Loss) from operations is arrived at after charging :-

	GROUP		COMPANY	
	2010 RM	2009 RM	2010 RM	2009 RM
Allowance for doubtful debts	–	59,323	–	–
Auditors' remuneration				
- statutory audit	**50,000**	50,000	**13,000**	13,000
- other services	**8,575**	7,000	**8,575**	7,000
- (Over) / under provision in prior year	**(3,000)**	21,400	–	10,500
Bad debts written off	**108,629**	10,372	–	–
Depreciation	**1,072,402**	1,178,551	**21,173**	42,224
Loss in burglary	–	1,467	–	–
Loss on disposal of property, plant and equipment	–	1,435	–	–
Realised foreign exchange loss	**225,061**	2,292	–	–
Rental :				
- office	**125,312**	270,464	**48,384**	193,536
- factory	**66,000**	66,000	–	–
- lease	**7,230**	47,084	–	4 ,719
- showroom	**90,300**	89,600	–	–

and crediting :-

	GROUP 2010 RM	GROUP 2009 RM	COMPANY 2010 RM	COMPANY 2009 RM
Compensation fee	–	828,742	–	–
Dividend income	**1,563**	1,042	–	–
Gain on foreign exchange				
- realised	**5,086**	127,582	–	–
- unrealised	**527,751**	11,719	–	–
Gain on disposal of property, plant and equipment	**71,030**	–	**71,000**	–
Changes in value of marketable securities	**31,961**	32,655	–	–
Interest income	**18,370**	1,097	–	–
Management fees	–	–	**730,570**	1,640,535
Rental income	**9,600**	16,486	–	–
Reversal of allowance for doubtful debts	–	8,473	–	–
Sundry income	–	13,622	–	–
Writeback of provision no longer required	–	75,816	–	75,816

26. STAFF COSTS

	GROUP		COMPANY	
	2010 RM	2009 RM	2010 RM	2009 RM
Wages and salaries	**4,418,248**	4,832,487	**141,279**	418,040
SOCSO	**51,367**	51,106	**2,841**	3,050
EPF	**550,165**	546,913	**45,274**	47,016
Other staff related expenses	**996,984**	769,759	**13,800**	13,555
	6,016,764	6,200,265	**203,194**	481,661

27. DIRECTORS' REMUNERATION

	GROUP		COMPANY	
	2010 RM	2009 RM	2010 RM	2009 RM
Executive Directors				
- Salaries and other emoluments	**241,920**	875,520	**241,920**	875,520
- Fees	**54,000**	54,000	**54,000**	54,000
	295,920	929,520	**295,920**	929,520
Non-Executive Directors				
- Salaries and other emoluments	**53,040**	216,240	**53,040**	216,240
- Fees	**70,500**	61,000	**70,500**	61,000
	123,540	277,240	**123,540**	277,240
Total	**419,460**	1,206,760	**419,460**	1,206,760
Analysis excluding benefits-in-kind :-				
Total executive Directors' remuneration	**295,920**	929,520	**295,920**	929,520
Total non-executive Directors' remuneration	**123,540**	277,240	**123,540**	277,240
Total Directors' remuneration	**419,460**	1,206,760	**419,460**	1,206,760

The number of Directors of the Group whose total remuneration are analysed into the bands of RM50,000 is as follows :-

	Number of Directors	
	2010	2009
Executive Directors		
Less than RM50,000	**1**	–
RM50,001 - RM100,000	**2**	–
RM100,001 - RM150,000	**–**	–
RM150,001 - RM200,000	**–**	–
RM200,001 - RM250,000	**–**	1
RM250,001 - RM300,000	**–**	1
RM300,001 - RM350,000	**–**	1
	3	3
Non-executive Directors		
Less than RM50,000	**3**	2
RM200,001 - RM250,000	**–**	1
	3	3
Total	**6**	6

28. FINANCE COSTS

	GROUP		COMPANY	
	2010 RM	2009 RM	2010 RM	2009 RM
Interest expense	**250,544**	261,302	**132,685**	131,215

29. INCOME TAX EXPENSE

	GROUP		COMPANY	
	2010 RM	2009 RM	2010 RM	2009 RM
Income tax :-				
Current year's provision	**39,539**	81,043	**–**	–
Over provision in prior year	**(11,923)**	(153)	**–**	–
	27,616	80,890	**–**	–
Deferred tax :-				
Over provision in prior year	**(2,150)**	(15,730)	**–**	–
Relating to origination of temporary differences	**398,207**	227,216	**–**	–
	396,057	211,486	–	**–**
	423,673	292,376	–	–

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		COMPANY	
	2010 RM	2009 RM	2010 RM	2009 RM
Profit / (Loss) before taxation	**1,011,124**	761,619	**(387,781)**	(728,277)
Taxation at Malaysian statutory tax rate :-				
- at 25%	**254,813**	192,343	**(96,945)**	(182,069)
Taxation at foreign tax rate	**(1,690)**	(1,745)	**–**	–
Expenses not deductible for tax purposes	**272,079**	133,464	**51,915**	69,191
Income not subject to tax	**–**	(207,185)	**–**	–
Utilisation of deferred tax assets not recognised in prior years	**(170,676)**	–	**–**	–
Deferred tax assets not recognised during the year	**83,220**	191,382	**45,030**	112,878
Over provision of taxation in prior year	**(11,923)**	(153)	**–**	–
Over provision of deferred tax in prior year	**(2,150)**	(15,730)	**–**	–
	423,673	292,376	**–**	–

29. INCOME TAX EXPENSE (cont'd)

Tax savings recognised during the year arising from :-

	GROUP	
	2010	**2009**
	RM	**RM**
Utilisation of tax losses brought forward from previous years	**454,390**	392,487
Utilisation of capital allowance brought forward from previous years	**62,369**	–
Utilisation of current year capital allowances	**126,924**	75,396

Subject to the agreement by the Inland Revenue Board, the unutilised tax losses and unabsorbed capital allowances available for utilisation against future taxable profits are approximated to be as follows :-

	GROUP		COMPANY	
	2010	**2009**	**2010**	**2009**
	RM	**RM**	**RM**	**RM**
Unutilised tax losses	**42,435,254**	33,321,532	**4,137,767**	3,838,550
Unabsorbed capital allowances	**35,789**	272,740	**35,789**	25,580

30. EARNINGS PER SHARE

(a) Basic earnings per share

The basic earnings per share is calculated by dividing the Group's net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the financial year.

	GROUP	
	2010	**2009**
Net profit attributable to owners of the parent (RM)	**539,692**	381,514
Weighted average number of ordinary shares in issue	**82,695,900**	82,695,900
Basic earnings per share (sen)	**0-65**	0-46

(b) Diluted

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

	GROUP	
	2010	**2009**
Net profit attributable to owners of the parent (RM)	**539,692**	381,514
Weighted average number of ordinary shares in issue	**114,267,328**	114,267,328
Diluted earnings per share (sen)	**0-47**	0-33

31. 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 follows :-

(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.

32. OPERATING LEASE ARRANGEMENTS

The Group as lessee

The Group has entered into several tenancy agreements for the rental of office, factory and showroom space, resulting in future rental commitments which may, subject to certain terms in the agreements, be revised accordingly or upon its maturity based on prevailing market rates.

The Group also leases various premises under cancellable operating lease agreements.

The future aggregate minimum lease payments under non-cancellable operating leases contracted for as at the reporting date but not recognised as liabilities are as follows :-

	GROUP	
	31/12/2010 RM	**31/12/2009 RM**
Future minimum rental payments :-		
Not later than one year	**19,328**	19,328
Later than one year and not later than five years	**–**	19,328
	19,328	38,656

32. OPERATING LEASE ARRANGEMENTS (cont'd)

The Group as lessor

The Group has entered into non-cancellable operating lease agreements on its investment property portfolio. These leases have remaining non-cancellable lease terms of one (1) year. All leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions and certain contracts include contingent rental arrangements computed based on sales achieved by tenants.

The future minimum lease payments receivable under non-cancellable operating leases contracted for as at the reporting date but not recognised as receivables, are as follows :-

	GROUP	
	31/12/2010 RM	31/12/2009 RM
Not later than one year	**19,200**	9,600
	19,200	9,600

33. CONTINGENT LIABILITIES

	COMPANY	
	31/12/2010 RM	31/12/2009 RM
Unsecured		
Corporate guarantees given to financial institutions for credit facilities granted to Subsidiary Companies	**2,791,205**	2,363,115

34. SIGNIFICANT RELATED PARTY TRANSACTIONS

34.1 Identify of Related Parties

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

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly. The key management personnel includes all the Directors of the Company.

34. SIGNIFICANT RELATED PARTY TRANSACTIONS (cont'd)

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

Related parties	Relationship
CIPTA SENTOSA SDN BHD ("CIPTA")	Company connected to Directors of the Company
MASTERON SDN BHD ("MASTERON")	Company connected to Directors of the Company

	GROUP		COMPANY	
	2010 RM	**2009 RM**	**2010 RM**	**2009 RM**
a) Rental payable to :-				
- CIPTA	**48,384**	193,536	**48,384**	193,536
b) Management fee received from :-				
- Subsidiary Companies	**–**	–	**730,570**	1,640,535

34.3 Compensation of Key Management Personnel

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

	GROUP		COMPANY	
	2010 RM	**2009 RM**	**2010 RM**	**2009 RM**
- Short-term employee benefits	**589,428**	1,223,028	**295,920**	929,520

Included in the total compensation of key management personnel are :-

	GROUP		COMPANY	
	2010 RM	**2009 RM**	**2010 RM**	**2009 RM**
- Directors' remuneration	**295,920**	929,520	**295,920**	929,520

35. SEGMENT INFORMATION

35.1 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.

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 those obtainable in transactions with unrelated parties. Inter-segment pricing is determined based on terms mutually agreed between the respective companies.

35. **SEGMENT INFORMATION (cont'd)**

35.1 Business Segments (cont'd)

As at 31 December 2010	Manufacturing and Trading of Furniture RM	Renovation and Interior Design RM	Investment Holding RM	Others RM	Eliminations RM	Consolidated RM
Revenue						
External sales	11,896,918	28,132,766	–	–	–	40,029,684
Inter-segment sales	7,077,766	–	–	–	(7,077,766)	–
Total revenue	18,974,684	28,132,766	–	–	(7,077,766)	40,029,684
Results						
Segment results	861,559	1,486,882	(1,075,955)	(10,818)	–	1,261,668
Finance costs	(12,076)	(105,784)	(132,684)	–	–	(250,544)
Income tax expense	(36,055)	(387,618)	–	–	–	(423,673)
Profit / (Loss) for the year	813,428	993,480	(1,208,639)	(10,818)	–	587,451
Non-controlling interest	–	(47,759)	–	–	–	(47,759)
Net profit / (loss) for the year	813,428	945,721	(1,208,639)	(10,818)	–	539,692
Assets						
Segment assets	25,228,636	12,548,567	196,265	757	–	37,974,225
Liabilities						
Segment liabilities	4,884,553	9,670,522	3,436,646	56,993	–	18,048,714
Other information						
Depreciation and amortisation	(947,456)	(103,773)	(21,173)	–	–	(1,072,402)

35. SEGMENT INFORMATION (cont'd)

35.1 Business Segments (cont'd)

As at 31 December 2009	Manufacturing and Trading of Furniture RM	Renovation and Interior Design RM	Investment Holding RM	Others RM	Eliminations RM	Consolidated RM
Revenue						
External sales	11,921,345	24,490,768	–	–	–	36,412,113
Inter-segment sales	6,386,257	–	–	–	(6,386,257)	–
Total revenue	18,307,602	24,490,768	–	–	(6,386,257)	36,412,113
Results						
Segment results	922,060	1,606,150	(2,243,530)	738,241	–	1,022,921
Finance costs	(26,738)	(103,349)	(131,215)	–	–	(261,302)
Income tax expense	(60,000)	(226,333)	–	(6,043)	–	(292,376)
Profit / (Loss) for the year	835,322	1,276,468	(2,374,745)	732,198	–	469,243
Non-controlling interest	–	(87,729)	–	–	–	(87,729)
Net profit / (loss) for the year	835,322	1,188,739	(2,374,745)	732,198	–	381,514
Assets						
Segment assets	25,853,337	7,950,781	341,296	506	–	34,145,920
Liabilities						
Segment liabilities	2,815,168	8,065,477	3,888,975	57,749	–	14,827,369
Other information						
Depreciation and amortisation	(1,005,960)	(130,367)	(42,224)	–	–	(1,178,551)

35.2 Geographical Segments

No geographical segment is presented as the Group operates principally in Malaysia.

36. FINANCIAL INSTRUMENTS

36.1 Classification of Financial Instruments

The following table analyses the financial assets and liabilities of the Group and the Company in the statement of financial position as at 31 December 2010 by class of financial instrument to which they are assigned and therefore by measurement basis.

- Available-for-sale financial assets ("AFS")
- Financial assets at fair value through profit or loss ("FVTPL")
- Loan and receivables ("L&R")
- Other financial liabilities measured at amortised cost ("OL")

GROUP

31/12/2010	AFS RM	FVTPL RM	L&R RM	TOTAL RM
Available-for-sale investments ("AFSI")	**	–	–	–
Trade receivables	–	–	9,568,423	9,568,423
Amount due from contract customers	–	–	1,887,773	1,887,773
Other receivables and deposits	–	–	848,720	848,720
Financial assets held for trading	–	87,892	–	87,892
Cash and bank balances	–	–	2,895,749	2,895,749
Total financial assets	–	87,892	15,200,665	15,288,557

	OL RM	TOTAL RM
Long-term borrowings	214,905	214,905
Redeemable secured loan stock	2,329,820	2,329,820
Trade payables	6,653,814	6,653,814
Other payables, deposits and accruals	4,906,587	4,906,587
Amounts due to contract customers	217,187	217,187
Short-term borrowings	2,851,021	2,851,021
Total financial liabilities	17,173,334	17,173,334

COMPANY

31/12/2010	AFS RM	FVTPL RM	L&R RM	TOTAL RM
Available-for-sale investments ("AFSI")	**	–	–	–
Other receivables and deposits	–	–	284,492	284,492
Amounts due from Subsidiary Companies	–	–	48,362,332	48,362,332
Cash and bank balances	–	–	77,660	77,660
Total financial assets	–	–	48,724,484	48,724,484

36. FINANCIAL INSTRUMENTS (cont'd)

36.1 Classification of Financial Instruments (cont'd)

	OL RM	TOTAL RM
Long-term borrowings	**104,753**	**104,753**
Redeemable secured loan stock	**2,329,820**	**2,329,820**
Other payables, deposits and accruals	**815,632**	**815,632**
Amounts due to Subsidiary Companies	**40,628,655**	**40,628,655**
Short-term borrowings	**23,363**	**23,363**
Total financial liabilities	**43,902,223**	**43,902,223**

** The carrying amount of AFSI classified as AFS of the Group's and of Company's statement of financial position is carried at NIL, as the amount was fully impaired since year 2008.

36.2 Financial risk management objectives and policies

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's businesses whilst managing its interest rate, credit, foreign exchange, liquidity and market risks. The Group operates within clearly defined guidelines that are approved by the Board.

i) Interest rate risk

The Group's primary interest rate risk relates to interest-bearing financial instruments.

The Group manages its interest rate exposure by maintaining a prudent mix of fixed and floating rate borrowings. The Group actively reviews its debt portfolio, taking into account the investment holding period and nature of its assets. This strategy allows it to capitalise on cheaper funding in a low interest rate environment and achieve a certain level of protection against rate hikes.

The information on maturity dates and effective interest rates on financial assets and liabilities are disclosed in their respective notes. As at 31 December 2010, the Group has not entered into any hedging instruments arrangement to minimise its exposure to interest rate volatility.

No sensitivity analysis was prepared as the Group's loan and borrowings are accounted at amortised cost. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss on equity.

ii) Credit risk

Credit risk, or the risk of counterparties defaulting is controlled by the application of credit approvals, limits and monitoring procedures. Credit risks are minimised and monitored by strictly limiting the Group's associations to business partners with high creditworthiness. Trade receivables are monitored on an on going basis via the Group's management reporting procedures.

The Group does not have any significant exposure to any individual customer or counterparty nor does it have any major concentration of credit risk related to any financial instruments.

The age analysis of trade receivables is disclosed in Note 10.

In addition, the Company provides unsecured financial guarantees to banks in respect of banking facilities granted to certain Subsidiary Companies. The maximum exposure to credit risk is disclosed in Note 20 representing the outstanding banking facilities of the Company as at the reporting date.

36. FINANCIAL INSTRUMENTS (cont'd)

36.2 Financial risk management objectives and policies (cont'd)

iii) Foreign exchange risk

The Group's export business is exposed to foreign exchange risk arising from various currencies. Foreign currency denominated assets and liabilities together with expected cash flows from highly probable purchases and sales give rise to foreign exchange exposures.

The Group maintains a natural hedge, whenever possible, by borrowing in the currency of the country in which the property or investment is located or by borrowing in currencies that match the future revenue stream to be generated from its investments.

Foreign exchange exposures in transactional currencies other than functional currencies of the operating entities are kept to an acceptable level.

iv) Liquidity risk

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

The maturity analysis for financial liabilities that shows the remaining contractual maturities are disclosed in Note 20.

v) Market risk

The Group has in place policies to manage its exposure to fluctuation in the prices of the key raw materials used in the operations through close monitoring and buying ahead in anticipating of significant price increase, where possible.

36.3 Fair values

It is not practical to estimate the fair value of the Group's investment in unquoted shares because of the non-availability of a market price and the inability to estimate fair value without incurring excessive costs.

It is also not practical to estimate the fair values of the amounts due from / (to) Subsidiary Companies, principally due to a lack of fixed repayment term entered by the parties involved and without incurring excessive costs. However, the Group does not anticipate the carrying amounts recorded at the reporting date to be significantly different from the values that would eventually be received or settled.

The following methods and assumptions are used to estimate the fair values of the following classes of financial instruments :-

i) Cash and cash equivalents, trade and other receivables / payables and short-term borrowings.

The carrying amounts approximate fair values due to the relatively short-term maturity of these financial instruments.

ii) Borrowings and hire purchase payables.

The fair values of borrowings and hire purchase payables are estimated using discounted cash flow analysis, based on the current interest rates for similar types of borrowing arrangements.

The carrying amounts of long term borrowings and hire purchase payables are approximate their fair values.

37. CAPITAL RISK MANAGEMENT

The Group defines capital as cash and bank balances (Note 15), borrowings (Note 20) and equity attributable to owners of parent excluding non-distributable reserve.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders, and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group assesses its financial capacity by reference to cash flow and interest cover. Group policies include a set of financing principles including the monitoring of credit ratings, interest cover and liquidity. These provide a framework within the Group's capital base is managed and in particular, the policies on dividends and share buy-back are decided.

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

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

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

The breakdown of the accumulated profits/(losses) of the Group and of the Company as at 31 December 2010, into realised and unrealised profits, pursuant to the directive, is as follows :-

	2010	
	GROUP RM	**COMPANY RM**
Total accumulated profits / (losses) of the Company and its Subsidiaries :-		
- realised	**(28,573,752)**	**(24,996,362)**
- unrealised	**2,984,441**	**(7,403)**
	(25,589,311)	**(25,003,765)**
Less : Consolidation adjustments	**–**	**–**
Total accumulated losses	**(25,589,311)**	**(25,003,765)**

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

Shareholders' Statistics

As at 6 May 2011

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	14	0.57	296	0.00
100 - 1,000	1,055	42.82	946,386	1.14
1,001 - 10,000	1,102	44.72	4,245,973	5.13
10,001 - 100,000	230	9.34	7,798,700	9.44
100,001 to less than 5% of issued shares	58	2.35	34,276,856	41.45
5% and above of issued shares	5	0.20	35,427,689	42.84
Total	**2,464**	**100.00**	**82,695,900**	**100.00**

SUBSTANTIAL SHAREHOLDERS

	Ordinary Shares of RM0.50 Each Held			
	Direct	**%**	**Indirect**	**%**
Dato' Dr. Choy Fook On	6,042,120	7.31	12,408,140 *#	15.00
Datin Tan Geok Foong	4,476,120	5.41	12,408,140 *#	15.00
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.*
\# *Deemed interested by virtue of his/her child's interest in shares of the Company*

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 GROUP NOMINEES (TEMPATAN) SDN BHD *CIMB BANK BERHAD*	10,356,255	12.52
3	AL WAKALAH NOMINEES (TEMPATAN) SDN BHD *BANK ISLAM MALAYSIA BERHAD*	5,231,567	6.33
4	DATIN TAN GEOK FOONG	4,476,120	5.41
5	ABB NOMINEE (TEMPATAN) SDN BHD *AFFIN BANK BERHAD (LOAN RECOVERY)*	4,316,407	5.22
6	MEGA GOLD HARVEST SDN BHD	2,845,000	3.44
7	ABB NOMINEE (TEMPATAN) SDN BHD *PLEDGED SECURITIES ACCOUNT FOR CHOY FOOK ON*	2,022,407	2.45
8	DATO' DR. 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

THIRTY (30) LARGEST SECURITIES ACCOUNT HOLDERS (cont'd)

No.	Name	No. of Shares	%
11	DATO' DR. CHOY FOOK ON	1,400,000	1.69
12	TAN HAN 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 *PLEDGED SECURITIES ACCOUNT FOR CHOY WAI HIN*	1,252,000	1.51
16	FOO FONG MAN @ FOO CHEE CHEE	1,103,800	1.33
17	MAYBAN NOMINEES (TEMPATAN) SDN BHD *PLEDGED SECURITIES ACCOUNT FOR ONG KOK THYE*	1,083,800	1.31
18	YEOH SOO KENG	1,052,800	1.27
19	LEOW HONG YEN	1,050,000	1.27
20	ABB NOMINEE (TEMPATAN) SDN BHD *PLEDGED SECURITIES ACCOUNT FOR CHOY WAI CEONG*	1,042,000	1.26
21	CIMB NOMINEES (TEMPATAN) SDN BHD *CIMB INVESTMENT BANK BERHAD*	1,031,070	1.25
22	MIDF AMANAH INVESTMENT BANK BERHAD *IVT FOR MIDF AMANAH INVESTMENT BANK BERHAD (ACCOUNT 4)*	1,003,776	1.21
23	LIEW SOON HIN	926,500	1.12
24	NG CHWEE PHO	685,400	0.83
25	DATO' DR. CHOY FOOK ON	621,313	0.75
26	YEOH CHEW KIAT	492,000	0.59
27	TAN KIM KUAN	470,700	0.57
28	LIM POH FONG	448,300	0.54
29	RHB CAPITAL NOMINEES (TEMPATAN) SDN BHD *PLEDGED SECURITIES ACCOUNT FOR TEH WING KEE*	366,900	0.44
30	TEY GHEE KIAN	350,000	0.42
	TOTAL	**63,840,125**	**77.20**

DIRECTORS' SHAREHOLDINGS

		Ordinary Shares of RM0.50 Each Held			
No.	**Directors**	**Direct**	**%**	**Indirect**	**%**
1.	Dato' Dr. Choy Fook On	6,042,120	7.31	12,408,140 *#	15.00
2.	Choy Wai Hin	3,004,800	3.63	11,047,340 *	13.36
3.	Datin Tan Geok Foong	4,476,120	5.41	12,408,140 *#	15.00
4.	Choy Wai Ceong	2,500,800	3.02	11,047,340 *	13.36
5.	Haji Hussein bin Hamzah	–	–	–	–
6.	Mohd Arif bin Mastol	–	–	–	–

* *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.*

\# *Deemed interested by virtue of his/her child's interest in shares of the Company*

Warrantholders' Statistics

As at 6 May 2011

ANALYSIS BY SIZE OF WARRANTHOLDINGS

Category	No. of Holders	%	No. of Warrants	%
Less than 100	5	2.05	279	0.00
100 - 1,000	56	22.95	9,636	0.03
1,001 - 10,000	114	46.72	471,094	1.49
10,001 - 100,000	54	22.13	1,754,993	5.56
100,001 to less than 5% of issued warrants	8	3.28	4,937,220	15.64
5% and above of issued warrants	7	2.87	24,398,206	77.28
Total	**244**	**100.00**	**31,571,428**	**100.00**

THIRTY (30) LARGEST WARRANTHOLDERS

No.	Name	No. of Warrants	%
1	CHOY FOOK ON & SONS REALTY SDN BHD	11,277,986	35.72
2	DATIN TAN GEOK FOONG	3,170,585	10.04
3	DATO' DR. CHOY FOOK ON	2,407,200	7.62
4	CHOY WAI HIN	2,128,400	6.74
5	DATO' DR. 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	3.03
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	MUHAMMAD SHAFIQ BALJIT BIN ABDULLAH	85,000	0.27
17	YEO LEE HWA	83,700	0.27
18	SUNITA SUBASHINI G.P.ZECHARIAH	70,000	0.22
19	CHOY SOOK KUEN	69,700	0.22
20	NG CHWEE PHO	65,500	0.21
21	NG SUET MEI	60,000	0.19
22	CHEAH KOK WENG	60,000	0.19
23	MAYBAN NOMINEES (TEMPATAN) SDN BHD *PLEDGED SECURITIES ACCOUNT FOR TAN CHENG GUAN*	56,700	0.18
24	CHEW TECK LEONG	55,000	0.17
25	TOH CHEW HENG	50,000	0.16
26	PONG PEI CHING	50,000	0.16
27	LEE BOK LEONG	49,200	0.16
28	TAN KIM KHUAT	47,300	0.15
29	HDM NOMINEES (TEMPATAN) SDN BHD *PLEDGED SECURITIES ACCOUNT FOR LING TUNG MING*	46,914	0.15
30	FOO FONG MAN @ FOO CHEE CHEE	43,600	0.14
	TOTAL	**30,228,040**	**95.74**

DIRECTORS' WARRANTHOLDINGS

		No. of Warrants			
No.	**Directors**	**Direct**	**%**	**Indirect**	**%**
1.	Dato' Dr. Choy Fook On	4,279,835	13.56	12,241,886 *#	37.78
2.	Choy Wai Hin	2,128,400	6.74	11,277,986 *	35.72
3.	Datin Tan Geok Foong	3,170,585	10.04	12,241,886 *#	38.78
4.	Choy Wai Ceong	1,771,400	5.61	11,277,986 *	35.72
5.	Haji Hussein bin Hamzah	–	–	–	–
6.	Mohd Arif bin Mastol	–	–	–	–

* *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*

\# *Deemed interested by virtue of his/her child's interest in shares of the Company*

List of Properties

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

LOCATION	TENURE	AREA	DESCRIPTION	APPROXIMATE AGE OF BUILDINGS	NET BOOK VALUE (31.12.2010) RM
Lot 104 Jalan Satu Tapak Perusahaan Kompleks Perabot Olak Lempit, Banting Selangor Darul Ehsan*	99 years' lease expiring in 2087	217,800	Factory	18 years	10,224,861
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	8 years	62,400

*	All the above properties were revalued on 10 April 2009.
**	Acquired on 31 July 2000.

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FEDERAL FURNITURE HOLDINGS (M) BERHAD
(97092-W) (Incorporated in Malaysia)

Proxy Form

NO. OF SHARES	

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-Eighth 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 Wednesday, 29 June 2011 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:

	ORDINARY RESOLUTIONS	FOR	AGAINST
Resolution 1	To receive the Audited Financial Statements for the financial year ended 31 December 2010 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 2010.		
Resolution 3	To re-appoint Dato' Dr. Choy Fook On who is due to retire pursuant to Section 129(6) of the Companies Act, 1965.		
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 GEP Associates, as Auditors of the Company until the conclusion of the next Annual General Meeting and to authorise the Directors to fix their remuneration.		
As Special Business 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 ____________ 2011

____
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 either be 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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www.federal-furniture.com