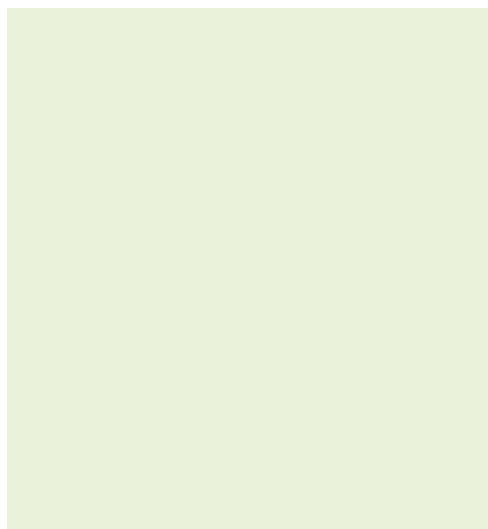
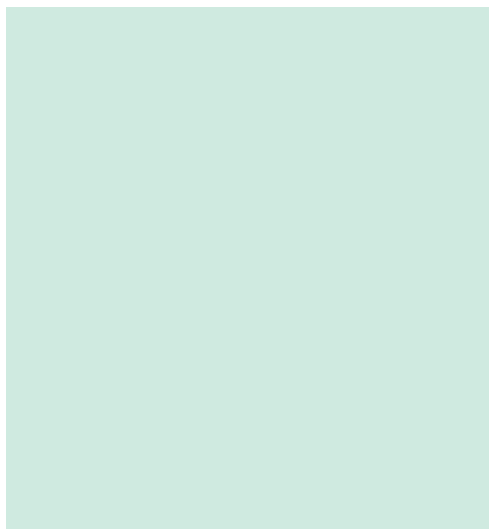
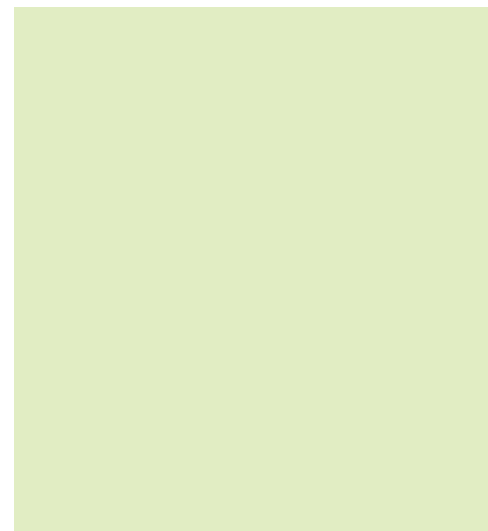


KAWAN FOOD BERHAD (640445-V)



# 10

ANNUAL REPORT



**KAWAN FOOD BERHAD** (640445-V)  
Lot 20, Jalan Pengapit 15/19, Shah Alam,  
Selangor Darul Ehsan, Malaysia.

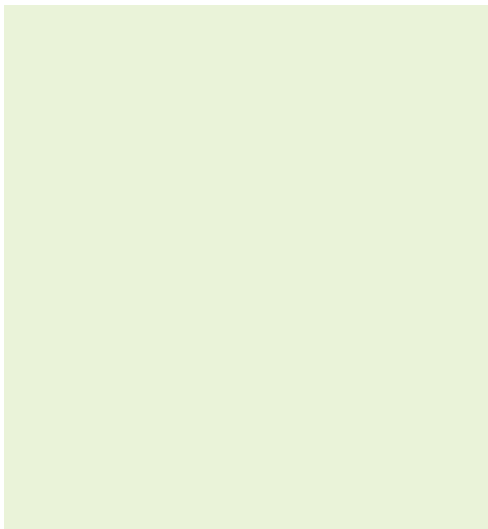
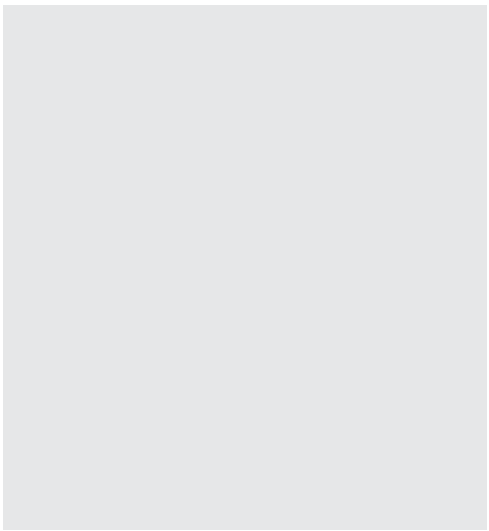
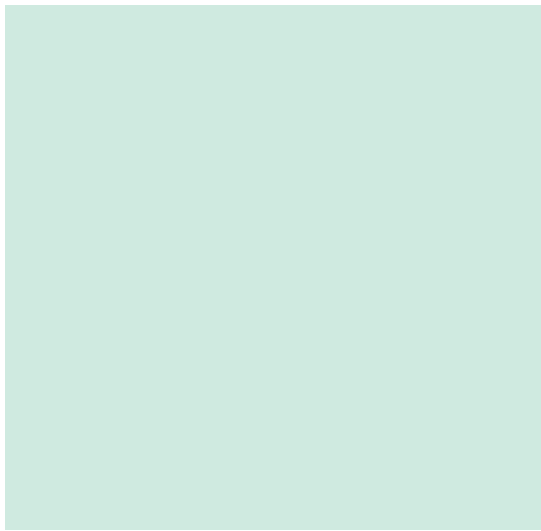
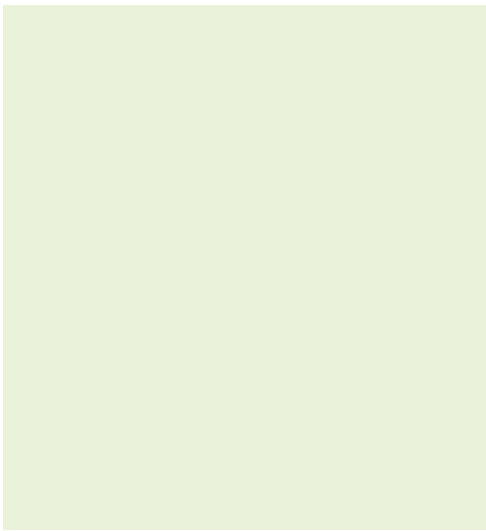
Tel : 603-5511 8388 (Hunting Line), 603-5519 2751 & 5519 2752  
Fax : 603-5519 3901 & 5511 6288  
E-mail : [info@kawanfood.com](mailto:info@kawanfood.com)  
http : [www.kawanfood.com](http://www.kawanfood.com)

ANNUAL REPORT 2010

**Fulfill Your Appetite**

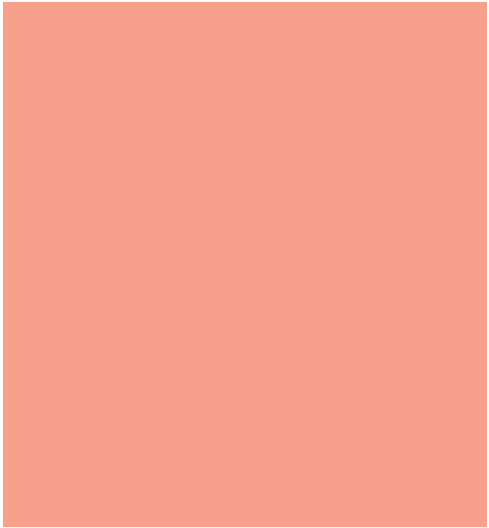
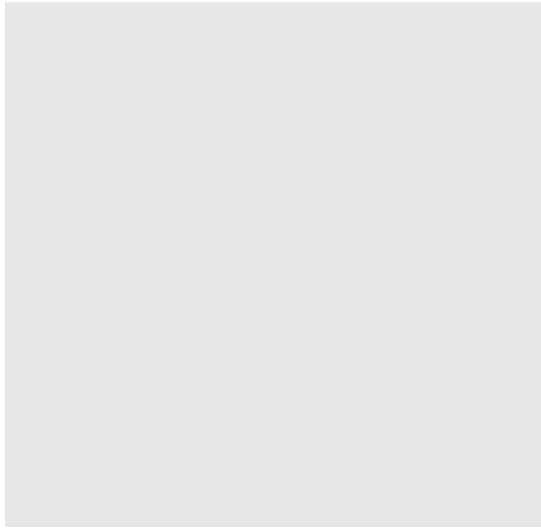
**KAWAN FOOD BERHAD**  
640445-V (Incorporated in Malaysia)



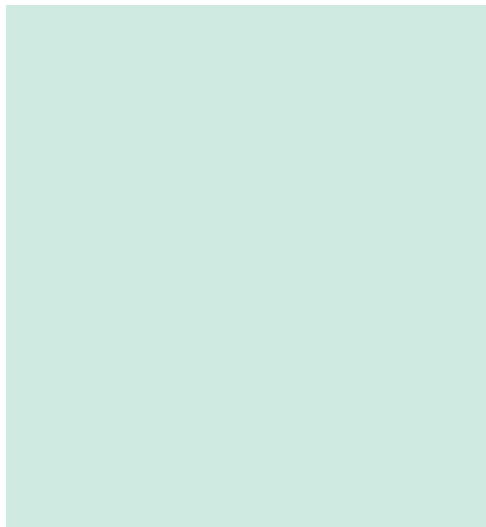


Kawan Food Berhad has been well-known for years as the creator of delicious, frozen ethnic food products. In line with the changing times whereby foods are no longer confined to its country of origin, religion and custom, we pledge to move forward into the new decade with a wider variety of great foods for the world.

Regardless as to whether you are young or old, male or female, Asian or Caucasian, a homemaker or a working parent, a student or a teacher, from small family or of a huge clan, we will continue to **'Fulfill Your Appetite'**, no matter where you are across the globe.







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## CORPORATE INFORMATION

### DIRECTORS

**GAN THIAM CHAI**

Executive Chairman

**KWAN SOK KAY**

Non-Independent Executive Director

**GAN THIAM HOCK**

Non-Independent Executive Director

**LIM PENG @ LIM PANG TUN**

Independent Non-Executive Director

**CHEN SENG CHONG**

Senior Independent Non-Executive Director

**SOO YOKE MUN**

Independent Non-Executive Director

**JAYENDRA JANARDAN VED**

Non-Independent Non-Executive Director

**NARESHCHANDRA GORDHANDAS NAGRECHA**

Non-Independent Non-Executive Director

### AUDIT COMMITTEE

**LIM PENG @ LIM PANG TUN**

Chairman of the Committee

**CHEN SENG CHONG**

Member of the Committee

**SOO YOKE MUN**

Member of the Committee

### REMUNERATION COMMITTEE

**GAN THIAM HOCK**

Chairman of the Committee

**LIM PENG @ LIM PANG TUN**

Member of the Committee

**CHEN SENG CHONG**

Member of the Committee

### NOMINATION COMMITTEE

**CHEN SENG CHONG**

Chairman of the Committee

**LIM PENG @ LIM PANG TUN**

Member of the Committee

**NARESHCHANDRA GORDHANDAS NAGRECHA**

Member of the Committee

### REGISTERED OFFICE

**C/O STRATEGY CORPORATE SECRETARIAT SDN. BHD.**

Unit 07-02, Level 7, Persoft Tower  
6B Persiaran Tropicana, 47410 Petaling Jaya  
Selangor Darul Ehsan, Malaysia

Tel: +603-7804 5929

Fax: +603-7805 2559

### REGISTRAR

**SYMPHONY SHARE REGISTRARS SDN. BHD.**

Level 6, Symphony House  
Block D13, Pusat Dagangan Dana 1  
Jalan PJU 1A/46, 47301 Petaling Jaya  
Selangor Darul Ehsan, Malaysia

Tel: +603-7841 8000

Fax: +603-7841 8008

### SECRETARY

**NG YIM KONG** (LS0009297)

### AUDITORS

**KPMG**

Level 10, KPMG Tower  
8, First Avenue, Bandar Utama  
47800 Petaling Jaya  
Selangor Darul Ehsan, Malaysia

Tel: +603-7721 3388

Fax: +603-7721 3399

### PRINCIPAL BANKERS

**RHB BANK BERHAD**

(Company No. 6171-M)

**UNITED OVERSEAS BANK (M) BERHAD**

(Company No. 271809-K)

**MALAYAN BANKING BERHAD**

(Company No. 3813-K)

**HSBC BANK (M) BERHAD**

(Company No. 127776-V)

### STOCK EXCHANGE LISTING

**MAIN MARKET OF BURSA MALAYSIA  
SECURITIES BERHAD**

Stock Short Name : KAWAN

Stock Code : 7216

### WEBSITE

[www.kawanfood.com](http://www.kawanfood.com)



## NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN THAT** the Seventh Annual General Meeting of KAWAN FOOD BERHAD (Company No.: 640445-V) will be held at Mauna Lani A, Level 1, Holiday Inn Kuala Lumpur Glenmarie, 1, Jalan Usahawan U1/8, 40250 Shah Alam, Selangor Darul Ehsan on Monday, 20 June 2011 at 10.00 a.m. for the following purposes:-

### AGENDA

#### ORDINARY BUSINESS:-

1. To receive the Audited Financial Statements for the year ended 31 December 2010 together with the Directors' and Auditors' Reports thereon.
2. To approve the payment of Directors' fees for the year ended 31 December 2010.
3. To re-elect the following Directors who are retiring in accordance with Article 80 of the Company's Articles of Association:-
  - 3.1 Mdm. Kwan Sok Kay
  - 3.2 Mr. Chen Seng Chong
  - 3.3 Mr. Soo Yoke Mun
4. To re-appoint Messrs KPMG as the Company's Auditors and to authorise the Board of Directors to fix their remuneration.

**Resolution 1****Resolution 2  
Resolution 3  
Resolution 4****Resolution 5**

#### SPECIAL BUSINESS:-

To consider and, if thought fit, pass with or without modifications, the following Resolutions:-

##### Ordinary Resolution

5. **Authority to Directors to Allot and Issue Shares Pursuant to Section 132D of the Companies Act, 1965**

**Resolution 6**

"**THAT** pursuant to Section 132D of the Companies Act, 1965, the Directors be and are hereby authorised to issue shares in the Company at any time until the conclusion of the next Annual General Meeting 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 to be issued does not exceed ten per centum of the issued and paid-up share capital of the Company for the time being, subject always to the approvals of the relevant regulatory authorities."

##### Ordinary Resolution

6. **Proposed Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature with Shana Foods Ltd. and Rubicon Food Products Limited ("Proposed Renewal of Shareholders' Mandate")**

**Resolution 7**

"**THAT** the Company and/or its subsidiaries be and are hereby authorised to enter into Recurrent Related Party Transactions of a revenue or trading nature with Shana Foods Ltd. and Rubicon Food Products Limited as specified in Section 2.2 (i) of the Circular to Shareholders dated 27 May 2011, provided that such arrangements and/or transactions which are necessary for the Group's day-to-day operations are undertaken in the ordinary course of business, at arm's length basis, on normal commercial terms and on prices and terms which are not more favourable to the Related Parties than those generally available to the public and not detrimental to the minority shareholders of the Company."



## NOTICE OF ANNUAL GENERAL MEETING (CONTINUED)

**AND THAT** the Directors of the Company be and are hereby authorised to complete and do all such acts and things (including executing such documents as may be required) as they may consider expedient or necessary or in the best interest of the Company to give effect to the Proposed Renewal of Shareholders' Mandate.

**AND THAT** such authority shall continue to be in force until:-

- (i) the conclusion of the next Annual General Meeting ("AGM") of the Company following the forthcoming AGM at which such Proposed Renewal of Shareholders' Mandate was passed, at which time it will lapse, unless by ordinary resolution passed at the meeting, the authority is renewed either unconditionally or subject to conditions;
- (ii) the expiration of the period within which the next AGM after the date it is required to be held pursuant to Section 143(1) of the Companies Act, 1965 ("the Act") (but must not extend to such extension as may be allowed pursuant to Section 143(2) of the Act); or
- (iii) revoked or varied by ordinary resolution passed by the shareholders of the Company in general meeting,

whichever is the earlier."

### Ordinary Resolution

#### 7. Proposed New Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature with K.C. Belight Food Industry (M) Sdn. Bhd. ("Proposed New Shareholders' Mandate")

**"THAT** the Company and/or its subsidiaries be and are hereby authorised to enter into Recurrent Related Party Transactions of a revenue or trading nature with K.C. Belight Food Industry (M) Sdn. Bhd. as specified in Section 2.2 (ii) of the Circular to Shareholders dated 27 May 2011, provided that such arrangements and/or transactions which are necessary for the Group's day-to-day operations are undertaken in the ordinary course of business, at arm's length basis, on normal commercial terms and on prices and terms which are not more favourable to the Related Parties than those generally available to the public and not detrimental to the minority shareholders of the Company.

**AND THAT** the Directors of the Company be and are hereby authorised to complete and do all such acts and things (including executing such documents as may be required) as they may consider expedient or necessary or in the best interest of the Company to give effect to the Proposed New Shareholders' Mandate.

**AND THAT** such authority shall continue to be in force until:

- (i) the conclusion of the next Annual General Meeting ("AGM") of the Company following the forthcoming AGM at which such Proposed New Shareholders' Mandate was passed, at which time it will lapse, unless by ordinary resolution passed at the meeting, the authority is renewed either unconditionally or subject to conditions;
- (ii) the expiration of the period within which the next AGM after the date it is required to be held pursuant to Section 143(1) of the Companies Act, 1965 ("the Act") (but must not extend to such extension as may be allowed pursuant to Section 143(2) of the Act); or
- (iii) revoked or varied by ordinary resolution passed by the shareholders of the Company in general meeting,

whichever is the earlier."

### Resolution 8



## NOTICE OF ANNUAL GENERAL MEETING (CONTINUED)

### ANY OTHER BUSINESS:-

8. To transact any other business for which due notice shall have been given in accordance with the Company's Articles of Association and the Companies Act, 1965.

### BY ORDER OF THE BOARD

**NG YIM KONG (LS 0009297)**

Company Secretary  
Selangor Darul Ehsan  
27 May 2011

### Notes:-

1. A member entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy/proxies, to attend and vote instead of him. A proxy may but need not be a member of the Company, and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply.
2. Where a member appoints two (2) or more proxies, the appointments shall be invalid unless he/she specifies the proportions of his/her shareholdings to be represented by each proxy.
3. The instrument appointing a proxy shall be in writing under the hand of the appointer or his/her attorney duly authorised in writing or, if the appointer is a corporation, either under its common seal or under the hand of an officer or attorney duly authorised.
4. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be deposited at the Registered Office at Strategy Corporate Secretariat Sdn Bhd, Unit 07-02, Level 7, Persoft Tower, 6B Persiaran Tropicana, 47410 Petaling Jaya, Selangor Darul Ehsan not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
5. **Explanatory Notes on Special Business of the Agenda**

#### **Resolution pursuant to the Authority for Directors to Allot and Issue Shares**

The Proposed Ordinary Resolution 6 under item 5 above, if passed, will empower the Directors of the Company from the date of the above Annual General Meeting, authority to allot and issue shares in the Company up to an aggregate amount of not exceeding 10% of the issued share capital of the Company for the time being for such purposes as they consider would be in the best interest of the Company and also to empower Directors to obtain approval from Bursa Malaysia Securities Berhad for the listing of and quotation for additional shares issued. This authority, unless revoked or varied at a general meeting, will expire at the next Annual General Meeting of the Company.

The general mandate sought to grant authority to Directors to allot and issue of shares is a renewal of the mandate that was approved by the shareholders at the Sixth Annual General Meeting held on 15 June 2010. The renewal of the general mandate is to provide flexibility to the Company to issue new shares without the need to convene a separate general meeting to obtain shareholders' approval so as to avoid incurring additional cost and time. The purpose of this general mandate is for possible fund raising exercises including but not limited to further placement of shares for purpose of funding current and/or future investment projects, working capital and/or acquisitions.

Up to the date of this Notice, the Company did not issue any shares pursuant to the mandate granted to the Directors at the Sixth Annual General Meeting because there were no investment(s), acquisition(s) or working capital that required fund raising activity.

#### **Resolutions pursuant to the Proposed Renewal of and New Shareholders' Mandate for Recurrent Related Party Transactions**

The Proposed Ordinary Resolution 7 under item 6 and Ordinary Resolution 8 under item 7 above, if passed, will enable the Company and its subsidiaries ("the Group") to enter into the specified Recurrent Related Party Transactions as set out in Section 2.2 of the Circular to Shareholders dated 27 May 2011 with the specified classes of the Related Parties mentioned therein which are necessary for the Group's day-to-day operations. For further information on the Proposed Renewal of and New Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature, please refer to the Circular to Shareholders dated 27 May 2011 enclosed together with the Company's 2010 Annual Report.

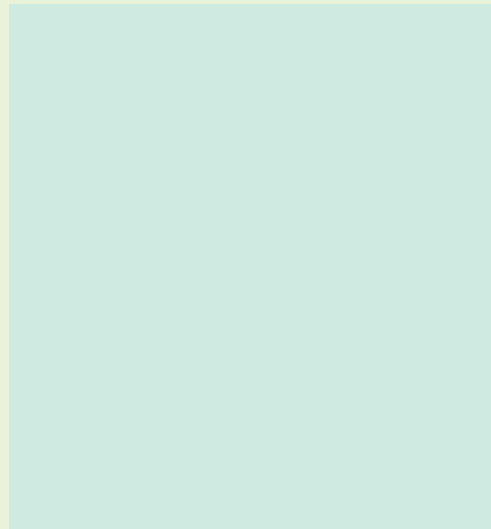




## STATEMENT ACCOMPANYING NOTICE OF SEVENTH ANNUAL GENERAL MEETING

Details of the Directors who are standing for election or re-election at the Seventh Annual General Meeting of Kawan Food Berhad are laid out on pages 9 to 11 of this Annual Report.

- (i) MDM. KWAN SOK KAY
- (ii) MR. CHEN SENG CHONG
- (iii) MR. SOO YOKE MUN









## DIRECTORS' PROFILE

### GAN THIAM CHAI

#### EXECUTIVE CHAIRMAN

Gan Thiam Chai, aged 57, a Malaysian, was re-designated as the Executive Chairman on 1 March 2010. He was formerly the Managing Director of KFB and was appointed to the Board of KFB on 1 June 2005.

Mr. T.C. Gan has accumulated more than 30 years of experience in the food processing industry. After leaving school in 1971, he joined Behn Meyer Industries Sdn Bhd as a Technical Assistant. He left the company in 1976 and set up Kian Guan Trading Co. in 1977. In 1984, he founded Kawan Food Manufacturing Sdn Bhd ("KFM"), and was appointed its Managing Director. The growth of KFM from small business to an award-winning enterprise is attributable to his efforts.

His business acumen and sound technical knowledge in the food industry is an invaluable asset to the Group. He is responsible for the overall business planning and development, product research and development, transformation and modernisation of food production process through automation, formulation of companies' strategic plans and policies.

Mr. T.C. Gan is the husband to Mdm. Kwan Sok Kay and brother to Mr. Gan Thiam Hock. He has no conflict of interests with the Company. He has never been convicted for any offence within the past ten (10) years. He attended all the Board Meetings held during the financial year ended 31 December 2010.

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### GAN THIAM HOCK

#### NON-INDEPENDENT EXECUTIVE DIRECTOR

Gan Thiam Hock, aged 48, a Malaysian, was appointed to the Board of KFB on 1 June 2005. He is also the Chairman to the Remuneration Committee.

Mr. T.H. Gan has more than 25 years of experience in the marketing of pastry and frozen food products. After leaving school in 1981, he joined Mr. T. C. Gan at Kian Guan Trading Co. He is also the co-founder of KFM and holding the position as the Sales Director until today.

Mr. T.H. Gan is responsible for the overall expansion and development of the marketing networks of the Group, as well as implementation of sales, distributions and promotional activities for the domestic market.

Mr. T.H. Gan is the brother to Mr. Gan Thiam Chai and brother-in-law to Mdm. Kwan Sok Kay. He has no conflict of interests with the Company. He has never been convicted for any offence within the past ten (10) years. He attended four (4) out of five (5) Board Meetings held during the financial year ended 31 December 2010.

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### KWAN SOK KAY

#### NON-INDEPENDENT EXECUTIVE DIRECTOR

Kwan Sok Kay, aged 55, a Malaysian, was appointed to the Board of KFB on 1 June 2005.

After leaving school in 1973, she was involved in book-keeping work in several companies until she joined Unic Plastics Industries Sdn Bhd, a plastic products manufacturing company, as an Account cum Administrative Assistant in 1975. Subsequently, she joined Kawan Food Manufacturing Sdn Bhd in 1984 as a Director, before holding the post of Finance Director in 1986.

Mdm. Kwan is responsible for the financial management and administrative functions of the Group, as well as the implementation of accounting and operational procedures and human resource policies.

Mdm. Kwan is the wife to Mr. Gan Thiam Chai and sister-in-law to Mr. Gan Thiam Hock. She has no conflict of interests with the Company. She has never been convicted for any offence within the past ten (10) years. She attended four (4) out of five (5) Board Meetings held during the financial year ended 31 December 2010.

**DIRECTORS' PROFILE (CONTINUED)****CHEN SENG CHONG***SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR*

Chen Seng Chong, aged 62, a Malaysian, was appointed to the Board of KFB on 16 May 2005. He is also the Chairman of the Nomination Committee, a member of the Audit Committee and the Remuneration Committee.

Mr. Chen graduated with a Bachelor of Engineering (Hons) degree from the University of Malaya in 1973. Upon graduation he started work with Impact Industries Sdn Bhd as Plant Engineer. Later in the year, he joined the then Federal Industrial Development Authority (now known as Malaysian Industrial Development Authority ("MIDA")) as a Project Evaluation Engineer. He was with MIDA for 24 years and his last held position in MIDA was Deputy Director of the Electrical and Electronics Industries Division. He took optional retirement in 1997 and joined Bright Rims Manufacturing Sdn Bhd as General Manager. In 2000, he left the company to become an independent Industrial Consultant. He is a Member of the Institution of Engineers, Malaysia.

Mr. Chen does not have any family relationship with any Director and/or major shareholder of the Company and has no conflict of interest with the Company. He has never been convicted for any offence within the past ten (10) years. He attended all the Board Meetings held during the financial year ended 31 December 2010.

**LIM PENG @ LIM PANG TUN***INDEPENDENT NON-EXECUTIVE DIRECTOR*

Lim Peng @ Lim Pang Tun, aged 55, a Malaysian, was appointed to the Board of KFB on 16 May 2005. He is also the Chairman of the Audit Committee, a member of the Remuneration Committee and the Nomination Committee.

Mr. Lim holds a Master in Business Administration degree from the Louisiana State University, United States of America. He is a Chartered Accountant of the Malaysian Institute of Accountants and an Associate Member of CPA Australia and the Chartered Institute of Management Accountants (UK).

He has over 25 years experience in corporate finance, accounting and general management; and has worked in the investment banking, healthcare, cruises, pharmaceuticals, chemicals and heavy equipments industry. He has held positions as Executive Director of Pantai Holdings Berhad, Paos Holdings Berhad and Vice-President, Finance and Treasury with Star Cruises Ltd. He was also previously the Vice-President, Business Development of Hwang-DBS Investment Bank Berhad and General Manager, Corporate Finance of Affin Investment Bank Berhad.

He is also a Director of UMS-Neiken Group Berhad, a company listed on Bursa Malaysia Securities Berhad.

Mr. Lim does not have any family relationship with any Director and/or major shareholder of the Company and has no conflict of interest with the Company. He has never been convicted for any offence within the past ten (10) years. He attended all the Board Meetings held during the financial year ended 31 December 2010.

**SOO YOKE MUN***INDEPENDENT NON-EXECUTIVE DIRECTOR*

Soo Yoke Mun, aged 61, a Malaysian, was appointed to the Board of KFB on 23 January 2009. He is a member of the Audit Committee.

Mr. Soo obtained his Bachelor degree in Economics from University of Malaya and he is a member of Malaysian Institute of Accountants. He is a Public Accountant by profession. He has more than 20 years of working experience in the field of accounting, auditing and taxation. He is the partner of Y M Soo & Co., an accounting firm which was established since 1978.

He is also an Independent Non-Executive Director in Biosis Group Berhad and The Ayer Molek Rubber Company Berhad; two companies listed on Bursa Malaysia Securities Berhad.

Mr. Soo does not have any family relationship with any Director and/or major shareholder of the Company and has no conflict of interest with the Company. He has never been convicted for any offence within the past ten (10) years. He attended all the Board Meetings held during the financial year ended 31 December 2010.





## DIRECTORS' PROFILE (CONTINUED)

### JAYENDRA JANARDAN VED

#### NON-INDEPENDENT NON-EXECUTIVE DIRECTOR

Jayendra Janardan Ved, aged 48, a British, was appointed to the Board of KFB on 9 November 2009.

Mr. Ved is a fellow of the Institute of Chartered Accountants in England and Wales. He is a general practitioner based in London advising a wide range of clients' on general business and commercial matters with emphasis on new business start-ups, UK inward investment, buying and selling companies as well as entrepreneurial businesses. His regular client work includes strategic tax advice, raising finance, corporate structuring and general commercial advice as well as accounting and audits of small and larger private companies.

He has assisted clients in the acquisition and sale of a clients' businesses, including initial negotiations, due diligence, tax structuring of the transaction and working with other professionals such as brokers, lawyers and top four accountancy practices.

Mr. Ved does not have any family relationship with any Director and/or major shareholder of the Company and has no conflict of interest with the Company. He has never been convicted for any offence within the past ten (10) years. He attended all the Board Meetings held during the financial year ended 31 December 2010.

### NARESHCHANDRA GORDHANDAS NAGRECHA

#### NON-INDEPENDENT NON-EXECUTIVE DIRECTOR

Nareshchandra Gordhandas Nagrecha, aged 60, a British, was appointed to the Board of KFB on 31 December 2009.

Mr. Nagrecha graduated with a degree in Chemistry Microbiology from Bombay University and completed Master of Science (M.Sc) degree in Food Science at the Reading University. He also obtained a Post-Graduate Diploma in Management Studies from Hendon College of Further Education.

In 1977, Mr. Nagrecha joined Schweppes International as Technical Manager within the R&D department, where he gained experience in the technology of soft drinks. In 1982, he left Schweppes with a colleague and jointly founded Rubicon Drinks Limited, a company incorporated in England and Wales, to produce and distribute Exotic Juice Drinks, for the ethnic community in UK. The company grew rapidly and is now considered to be part of the mainstream drinks chain in UK. Currently, the Rubicon ranges of drinks are exported to over 20 countries from the UK. In August 2008, the company was sold to AG Barr plc, the third largest drinks manufacturer in the UK.

Mr. Nagrecha currently jointly owns Rubicon Food Products Limited ("RFPL"), a company incorporated in Canada. RFPL manufactures and distributes the Rubicon range of drinks as well as imports and distributes Shana range of frozen vegetables and flat bread for the South Asian market in North America. He is also the beneficial owner of Shana Foods Limited, a company incorporated in England and Wales, which imports and distributes Shana range of frozen vegetables and flat bread for the South Asian market in Europe.

Mr. Nagrecha has now settled in India and is presently developing Rubicon business in the rest of the world. At the same time, he has diversified into hospitality industry and in 2009, started a project of setting up a hotel & service apartment in Goa. The "Sandalwood Hotel & Retreat" opened its doors to first customer at the beginning of April 2010.

Apart from his business activities, Mr. Nagrecha is actively involved in Sanskruit Foundation UK ("SF"), a charitable organisation, and has been its chairman from 2002 until 2008. SF is affiliated with Sandipani Vidya Niketan, an organisation inspired and led by revered Sant Shree Rameshbhai Oza, popularly known as "Bhaishree". He is keenly involved in charitable work with Sandipani, SF UK and Jamnaben Gordhandas Nagrecha foundation. His special interest is in educating the needy.

Mr. Nagrecha does not have any family relationship with any Director and/or major shareholder of the Company. The details of his related party transactions with KFB Group are disclosed in the Circular to shareholders dispatched together with the Annual Report. He has never been convicted for any offence within the past ten (10) years. He attended three (3) out of five (5) Board Meetings held during the financial year ended 31 December 2010.



## CHIEF EXECUTIVE OFFICER'S PROFILE

### JON FANG NEE CHOONG

#### CHIEF EXECUTIVE OFFICER

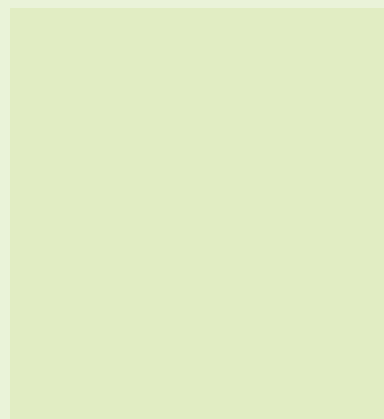
Jon Fang Nee Choong, aged 50, a Malaysian, is the Chief Executive Officer of KFB and was appointed to the post on 1 March 2010.

Mr. Jon Fang holds a Master in Business Administration from University of Strathclyde, United Kingdom. He is an Associate Member of Malaysian Institute of Management where he obtained his Diploma in Management.

He began his career in the pharmaceutical and healthcare products industry in 1979 and held various sales and marketing roles in multinational companies. His last senior management position at Boots Healthcare International was Divisional Head of Sales & Marketing for Malaysia, Singapore & Indonesia.

He also held General Management positions in two fast moving consumer goods companies including a stint in a subsidiary of a public listed company in Malaysia where he successfully executed turnaround management of the company. Prior to his appointment as the Chief Executive Officer, he was the General Manager having joined the Group in 2005.

Mr. Jon Fang does not have any family relationship with any Director and/or major shareholder of the Company and has no conflict of interest with the Company. He has never been convicted for any offence within the past ten (10) years.



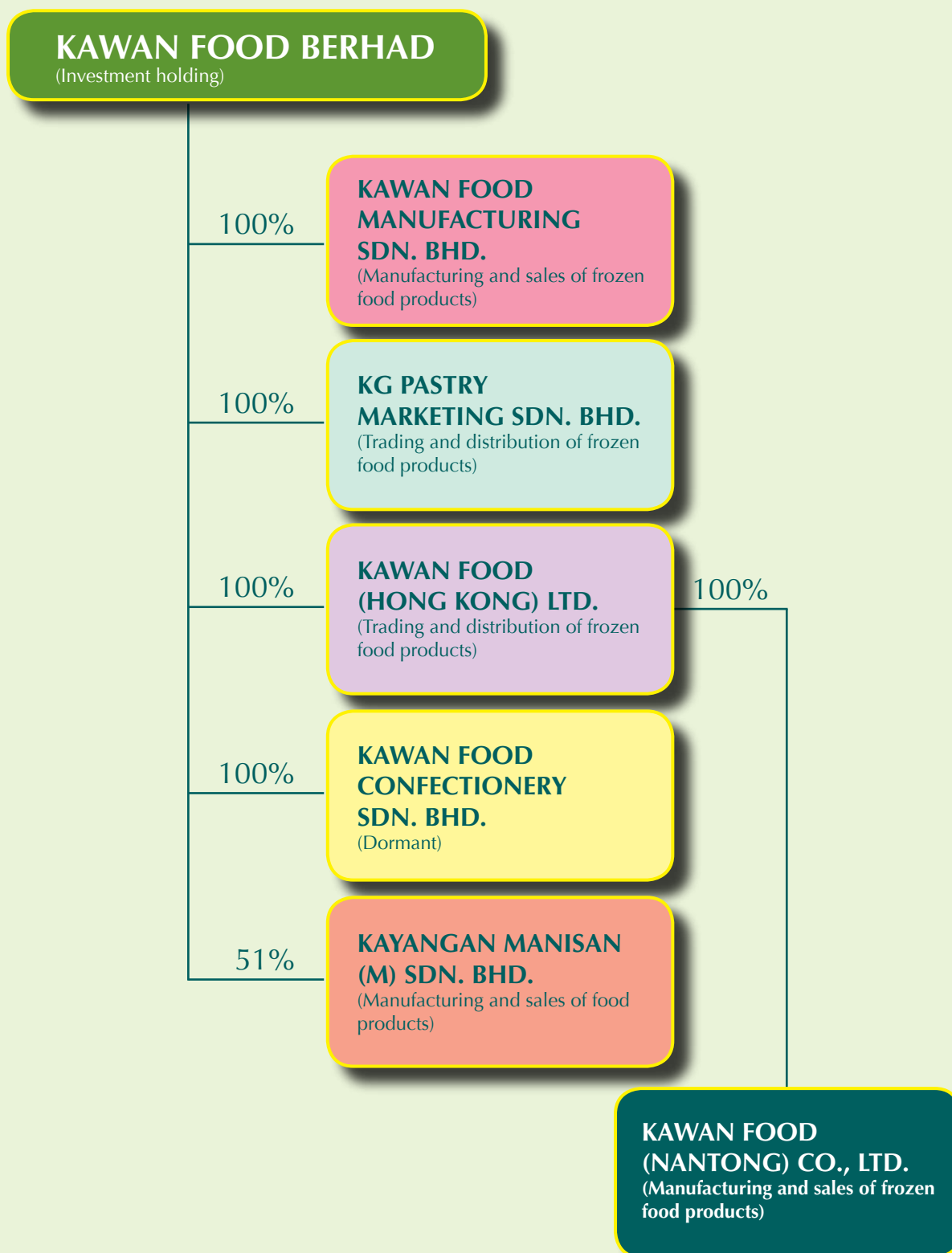






## GROUP CORPORATE STRUCTURE

(AS AT 30 APRIL 2011)





## GROUP FINANCIAL HIGHLIGHTS

### KAWAN FOOD BERHAD Group Financial Highlights

	2010	2009	2008	2007	2006
<b>KEY RESULTS (RM'000)</b>					
Revenue	<b>92,188</b>	87,635	75,225	60,361	52,524
Operating profit (EBITDA)	<b>23,450</b>	21,955	15,627	12,315	12,686
Profit before tax	<b>17,810</b>	17,749	12,102	9,191	10,015
Net profit attributable to shareholders of the Company	<b>14,163</b>	13,575	9,491	8,258	8,237
<b>BALANCE SHEET AND OTHER KEY DATA (RM'000)</b>					
Total Assets	<b>118,670</b>	109,070	89,878	74,368	66,985
Total Liabilities	<b>24,717</b>	25,952	18,312	13,939	12,180
Share capital (Ordinary shares of RM0.50 each)	<b>60,000</b>	60,000	60,000	40,000	40,000
Equity attributable to shareholders of the Company	<b>93,953</b>	83,113	71,549	60,398	54,805
Total borrowings	<b>5,995</b>	8,042	2,366	3,362	4,274
Total equity	<b>93,953</b>	83,117	71,565	60,429	54,805
Net cash from operating activities	<b>17,802</b>	16,532	15,399	12,619	14,317
Cash and cash equivalents	<b>23,034</b>	16,627	9,529	11,847	10,586
<b>FINANCIAL RATIOS</b>					
Revenue Growth (%)	<b>5.20</b>	16.50	24.62	14.92	15.36
Current Ratio (times)	<b>2.9</b>	2.3	2.2	3.6	4.3
Cash Ratio (times)	<b>1.3</b>	0.9	0.7	1.3	1.6
P/E ratio (times)	<b>12.29</b>	11.40	8.60	9.50	8.93
Total borrowings / Equity (%)	<b>6.38</b>	9.68	3.31	5.56	7.80
Long term borrowings / Equity (%)	<b>5.17</b>	7.21	1.84	3.92	6.08
<b>SHARE INFORMATION</b>					
Basic earnings per share (sen)	<b>11.80</b>	11.31	7.91	10.32	10.30
Dividend per share (sen)	<b>1.40</b>	—	1.40	1.83	2.18
Net assets per share attributable to shareholders of the Company (RM)	<b>0.78</b>	0.69	0.60	0.75	0.69
Share price - High (RM)	<b>1.67</b>	1.61	0.99	1.22	1.06
Share price - Low (RM)	<b>1.00</b>	0.85	0.315	0.91	0.91
Share price as at 31 December (RM)	<b>1.45</b>	1.29	0.68	0.98	0.92
Company Market Capitalisation (RM'000)	<b>174,000</b>	154,800	81,600	78,400	73,600





## EXECUTIVE CHAIRMAN'S STATEMENT

*On behalf of the Board of Directors, I have the pleasure to present the Annual Report and Audited Financial Statements of Kawan Food Berhad ("KFB") and its Group results for the financial year ended 31 December 2010.*



### FINANCIAL HIGHLIGHTS

2010 was a challenging year in terms of sustaining sales revenue and profitability growth. This is attributed mainly to the global economic uncertainties and arising from this, specifically the weakening of the US Dollar, which has an adverse impact on export sales. Currently, export sales account for close to 60% of Group's sales revenue and this is predominantly invoiced in US Dollar. On another front, we continue to manage unfavorable trends in input costs with the average prices of major raw materials such as wheat flour and palm oil-based margarine being higher in 2010 as compared to 2009.

In spite of these adverse conditions, the Group still achieved a commendable sales value growth of 5% bringing sales turnover to RM92.2 million. Profit before tax at RM17.8 million for the year under review was marginally higher than the RM17.7 million achieved in 2009. Arising from a lower effective tax rate, profit after tax of RM14.2 million is 4% higher as compared to a year ago. I am pleased to note that sales volume growth is much higher re-affirming that the Group's overall fundamentals and business prospects remain strong and stable.

For the year under review, the Group continued to

invest in its brands both in domestic and selected export markets to maintain its market leadership positions and growth strategies.

On the domestic front, our range of products enjoyed good growth across the board. These was extra emphasis on expanding distribution into new channels and these efforts will continue in 2011.

In export markets where the Group continued to have strong sales in the flatbreads category, competitor activities and presence intensified significantly from existing and new brands from companies based in the South Asian Subcontinent.

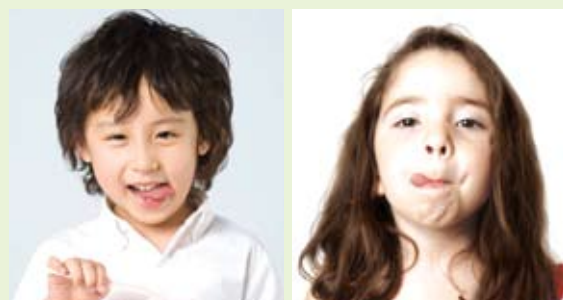
### DIVIDEND

On 15 March 2010, the Company declared a tax exempt interim dividend of 1.4 sen per ordinary share totaling RM1,680,000 in respect of the financial year ending 31 December 2010. The dividend was paid on 30 April 2010.

On 11 May 2011, the Company declared a tax exempt interim dividend of 1.4 sen per ordinary share totaling RM1,680,000 in respect of the financial year ending 31 December 2011 payable on 17 June 2011.

### CORPORATE SOCIAL RESPONSIBILITY

Continuing the Group's pledge to improve its employees' skill and knowledge, several training workshops were also organized for both its production team and middle management team. One of successful trainings





## EXECUTIVE CHAIRMAN'S STATEMENT (CONTINUED)

conducted was 'Managing Change for Organizational Growth' – which was attended by both the Group's top and middle management team members.

Under the initiative of the Group's Communications & Community Committee (COMM<sup>3</sup>), an internal Sports Day event was held in June 2010 which was aimed at cultivating the spirit of sportsmanship as well as to enhance better communications between the production employees and the middle management team.

In line with its objective to give back to the underprivileged society, the Group kicked start the year with gold cake donations to patients at maternity and pediatric wards of Hospital Tengku Ampuan Rahimah, Klang – bringing the festive joy of Chinese New Year to the staff and patients at the hospital.

The Group continues to provide contributions in the form of food products, books, stationeries as well as goodies bags and 'duit raya' for its adopted orphanage – the Pertubuhan Kebajikan Anak-Anak Yatim & Miskin. In conjunction with the Christmas celebration last year, the Group also donated school bags and festive packs to the orphans at Ozanam House in Klang – doing a small part in bringing smiles to the faces of these underprivileged children.

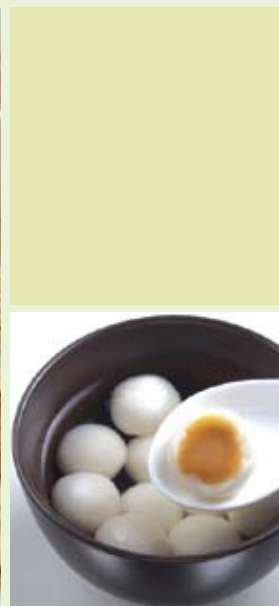
## OUTLOOK AND PROSPECTS

Moving forward, the Group has many exciting new products to be launched or are in the advanced stage of development. This is a competitive advantage and we pride ourselves in being a leader in innovations and provider of high quality and convenient foods to consumers worldwide. The Group keeps abreast with the latest trends in food consumption, consumer behavior and the ever-changing lifestyles in order to anticipate and satisfy consumer needs.

In the short term, there could be slight hiccups arising

from the volatility in currency movements and the uncertainties in the global economy but with our strong fundamentals in place, we are confident that the Group will continue to perform and grow from strength to strength.

**GAN THIAM CHAI**  
Executive Chairman





## STATEMENT ON CORPORATE GOVERNANCE

### INTRODUCTION

The Board of Directors (“the Board”) of Kawan Food Berhad (“KFB” or “the Company”) acknowledges the importance of practising good corporate governance in the Group. The Board is committed to ensuring that the principles and best practices of corporate governance as set out in the Malaysian Code of Corporate Governance (“the Code”) are observed and adopted as a fundamental part of discharging its responsibilities to protect and enhance shareholders’ value and the financial performance of the Group.

The following statement sets out how the Board has applied the principles of the Code and the extent of the compliance with the best practices during the financial year ended 31 December 2010.

### BOARD OF DIRECTORS

#### PRINCIPAL RESPONSIBILITIES OF THE BOARD

The Board of KFB retains its effective control and responsibility for the performance of the Group. The Board provides the Company with the stewardship of its overall strategic directions, development and operations of the Group. The Board is empowered to decide on all matters relating to the Company’s business and to delegate these powers to executive management as considered appropriate.

The Board has yet to establish a formal schedule of matters reserved to itself for decision, but will establish one taking into consideration the business size, its nature and complexities.

#### BOARD BALANCE

The Board currently has eight (8) members, comprising an Executive Chairman, two (2) Non-Independent Executive Directors, two (2) Non-Independent Non-Executive Directors, a Senior Independent Non-Executive Director and two (2) Independent Non-Executive Directors. The profile of each Director is presented on pages 9 to 11 of this Annual Report.

The composition of the Board has complied with the Main Market Listing Requirements (“Listing Requirements”) of Bursa Malaysia Securities Berhad (“Bursa Securities”) which requires that at least two Directors or one-third of the Board members of the Company, whichever is higher, are independent. The concept of independence adopted by the Board is in accordance with the definition of an Independent Director in Section 1.01 of the Listing Requirements of Bursa Securities.

All the Non-Executive Directors are free from all the management duties and they do not have any family relationship with any of the Executive Board members which could interfere with their independent judgements during the decision-making process of the Board.

The Board is satisfied that the current composition of the Board fairly reflects the investment of minority shareholders.

#### BOARD MEETINGS

The Board meets at least four (4) times a year which is scheduled at quarterly basis, with additional meetings convened as and when required.

During the financial year ended 31 December 2010, the Board met five (5) times, with details of the attendance as follows:





## STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

Name of Directors	No. of Board meetings attended
GAN THIAM CHAI	5/5
GAN THIAM HOCK	4/5
KWAN SOK KAY	4/5
LIM PENG @ LIM PANG TUN	5/5
CHEN SENG CHONG	5/5
SOO YOKE MUN	5/5
JAYENDRA JANARDAN VED	5/5
NARESHCHANDRA GORDHANDAS NAGRECHA	3/5

## DIRECTORS' TRAINING

All the Directors of the Company have attended the Mandatory Accreditation Programme ("MAP"). New directors will be briefed on the Company's history, operations and financial control system and plant visit to enable them to have in-depth understanding of the Company's operation.

Directors are encouraged to attend continuous education programmes and seminars to keep abreast of relevant changes in laws and regulations and the development in the industry. During the financial year ended 31 December 2010, the external training programmes and seminars attended by the Directors are as follows: -

Directors	Courses/Seminar/Conferences
1. GAN THIAM CHAI	<ul style="list-style-type: none"> <li>2010 End Products Collaborative Spring Roll Study</li> </ul>
2. KWAN SOK KAY	<ul style="list-style-type: none"> <li>Managing Change In Organizational Growth</li> </ul>
3. GAN THIAM HOCK	<ul style="list-style-type: none"> <li>The 4th Annual Congress Food Safety &amp; Quality</li> </ul>
4. LIM PENG @ LIM PANG TUN	<ul style="list-style-type: none"> <li>Business Sustainability</li> <li>Budget 2011 Briefing</li> </ul>
5. CHEN SENG CHONG	<ul style="list-style-type: none"> <li>Discharging The Audit Committee Oversight Duties In Strengthening The Governance Chain</li> <li>Audit Committee Institute Roundtable: Going Forward: Risk and Reform – Implications for Audit Committee Oversight</li> </ul>
6. SOO YOKE MUN	<ul style="list-style-type: none"> <li>Discharging The Audit Committee Oversight Duties In Strengthening The Governance Chain</li> <li>Budget 2011 Seminar</li> <li>National Tax Conference 2010</li> </ul>
7. JAYENDRA JANARDAN VED	<ul style="list-style-type: none"> <li>UK Business and Personal Quarterly Tax Updates</li> <li>UK Accounting and Audit Update</li> <li>UK Money Laundering Seminar</li> <li>UK Inheritance Tax Planning</li> <li>Development of Trust Planning In UK</li> <li>International Accounting Standards – Planning and Internal Controls</li> <li>UK Residency Rules Update</li> </ul>
8. NARESHCHANDRA GORDHANDAS NAGRECHA	<ul style="list-style-type: none"> <li>Mandatory Accreditation Programme for Directors of Public Listed Companies</li> </ul>



## STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

Other Directors who have not attended any training courses due to works commitments during the financial year will make efforts to participate in suitable courses, seminars and conferences that would help to enhance their skills and expertise to keep abreast with the development of the industry and regulations set by the authorities.

### SUPPLY OF INFORMATION

The Board is provided with sufficient and timely information to enable it to discharge its duties effectively. This information includes both verbal and written details. Senior Management would be invited to be present at the Board and Audit Committee Meetings, as and when required, to provide further explanation and representation to the Board. Besides Board Meetings, the Board also exercises control on matters that require Board's approval through circulation of the Directors' Circular Resolutions.

Prior to Board Meetings, relevant papers which include the agenda and reports are circulated to all members. All Directors have full and timely access to information with Board Papers distributed in advance of the meeting. This is to ensure that the Directors have sufficient time to appreciate the issues to be deliberated at the meetings and expedite the decision making process.

In order to discharge their responsibilities effectively, the Directors have access to all information within the Company and to the advice and services of the Company Secretary. There is no formal mechanism and procedure setting the manner in which independent professional advice may be resorted to by the Board as a whole or by an individual Director. However, the Board or the Directors may obtain independent professional advice from external consultants or advisers in furtherance of their duties, at the Company's expense.

### APPOINTMENT AND RE-ELECTION

Any proposed new appointments to the Board require deliberation by the full Board guided by and taking into consideration the recommendation of the Nomination Committee.

In accordance with the Company's Articles of Association, one-third (1/3) of the Directors shall retire from office provided always that all Directors (including the Managing Director) shall retire from office once at least in each three (3) years, but shall be eligible for re-election. Directors who are appointed by the Board to fill a casual vacancy shall hold office until the next following Annual General Meeting and shall then be eligible for re-election but shall not be taken into account in determining the Directors who are to retire by rotation at the meeting.

Directors over 70 of age are required to submit themselves for re-appointment in accordance with Section 129(6) of the Companies Act, 1965.

## BOARD COMMITTEES

The Board had established the following committees which have its own terms and reference to govern their responsibilities.

### (I) Audit Committee

This Committee was established on 29 July 2005, comprising a Senior Independent Non-Executive Director and two (2) Independent Non-Executive Directors: -

- |   |                                |                    |
|---|--------------------------------|--------------------|
| • | <b>LIM PENG @ LIM PANG TUN</b> | (Chairman)         |
| • | <b>CHEN SENG CHONG</b>         | (Committee Member) |
| • | <b>SOO YOKE MUN</b>            | (Committee Member) |

The detailed composition and functions of the Audit Committee are set out in the Audit Committee Report on pages 24 to 26 of this Annual Report.





## STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

### (II) Remuneration Committee

The Remuneration Committee has three (3) members comprising a Senior Independent Non-Executive Director, an Independent Non-Executive Director and a Non-Independent Executive Director: -

- **GAN THIAM HOCK** (Chairman)
- **LIM PENG @ LIM PANG TUN** (Committee Member)
- **CHEN SENG CHONG** (Committee Member)

The primary objective of the Remuneration Committee is to act as a committee of the full Board to assist in assessing the remuneration of the directors reflecting the responsibility and commitment undertaken by the Board membership.

The mechanism to determine the remuneration packages of the Directors has yet to be formalized. The Board as a whole will determine the remuneration packages of the Directors, with individual Directors abstaining from decisions in respect of their individual remuneration.

#### Details of Attendance

Meetings shall be held not less than one (1) time a year. There was one (1) meeting held during the financial year ended 31 December 2010. Details of the attendance are as follows: -

	Number of meetings attended
Chairman : <b>GAN THIAM HOCK</b> (Non-Independent Executive Director)	1/1
Members : <b>LIM PENG @ LIM PANG TUN</b> (Independent Non-Executive Director)	1/1
<b>CHEN SENG CHONG</b> (Senior Independent Non-Executive Director)	1/1

### (III) Nomination Committee

The Nomination Committee has three (3) members comprising a Senior Independent Non-Executive Director, an Independent Non-Executive Director and a Non-Independent Non-Executive Director: -

- **CHEN SENG CHONG** (Chairman)
- **LIM PENG @ LIM PANG TUN** (Committee Member)
- **NARESHCHANDRA GORDHANDAS NAGRECHA** (Committee Member; appointed on 28/04/2010)

The primary objective of the Nomination Committee is to act as a committee of the full Board to assist in discharging the following responsibilities: -

- (a) assessing the existing Directors' ability to contribute to the effective decision making of the Board;
- (b) identifying, appointing and orientating new Directors;
- (c) identifying the mix skills and experience and other qualities the Board requires for it to function completely and efficiently.



## STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

Meetings shall be held not less than one (1) time a year. There was one (1) meeting held during the financial year ended 31 December 2010. Details of the attendance are as follows: -

	Number of meetings attended
Chairman : <b>CHEN SENG CHONG</b> (Senior Independent Non-Executive Director)	1/1
Member : <b>LIM PENG @ LIM PANG TUN</b> (Independent Non-Executive Director)	1/1
<b>NARESHCHANDRA GORDHANDAS NAGRECHA</b> (Non-Independent Non-Executive Director)	1/1

There is no formalized mechanism for the annual assessment for Directors' performance.

## DIRECTORS' REMUNERATION

The aggregate Directors' remuneration paid to all Directors of the Company who served the Group during the year ended 31 December 2010 are as follows: -

	Fees RM'000	Benefits- in-kind RM'000	Salaries, Bonuses & EPF RM'000	Total RM'000
Executive Directors	77	43	1,121	1,241
Non-Executive Directors	149	—	—	149
Total	226	43	1,121	1,390

The number of Directors of the Company who served during the financial year ended 31 December 2010 and whose income derived from the Group falls within the following bands are: -

	Executive Director	Non-Executive Director
RM50,000 and below	—	5
RM250,000 to RM400,000	2	—
RM500,000 to RM600,000	1	—
Total	3	5

In respect of the non-disclosure of detailed remuneration of each director, the Board views that the transparency of the Directors' remuneration has been appropriately dealt with by the "band disclosure" presented above.





## STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

### SHAREHOLDERS COMMUNICATION AND INVESTORS RELATIONS

The Board acknowledges the need for the shareholders to be informed of all material business matters affecting the Company. In addition to various announcements made, the timely release of financial results on a quarterly basis provides shareholders with an overview of the Group's performance and operations.

The Annual General Meeting ("AGM") is the principal forum for dialogue with shareholders. Notice of AGM together with the copy of the Company's Annual Report will be sent to shareholders at least 21 days prior to the meeting. Shareholders who are unable to attend are allowed to appoint proxies to attend and vote on their behalf. Members of the Board as well as the external auditors will be present to answer questions relevant to the resolutions being proposed and the financial performance and business operations of the Company.

### ACCOUNTABILITY AND AUDIT

#### FINANCIAL REPORTING

The Board takes responsibility to present a balance, clear and fair assessment of the Group's annual financial statements and quarterly results to the shareholders, investors and regulatory authorities. The Board is assisted by the Audit Committee in reviewing the Group financial reporting processes information disclosed to ensure the accuracy, adequacy and completeness of its financial reporting.

A Statement on Directors' Responsibility for preparing the annual audited financial statements is set out on page 31 of this Annual Report.

#### INTERNAL CONTROL

The Board acknowledges its responsibilities and recognises the importance of ensuring a sound system of internal control to be in place in the Group. Currently, the Company has outsourced its internal audit function to a professional firm.

A Statement on Internal Control, which provides an overview of the state of internal control within the Group is set out on pages 29 to 30 of this Annual Report.

#### RELATIONSHIP WITH THE AUDITORS

The Company through the Audit Committee has established a transparent, professional and close working relationship with its internal and external auditors.

The role of the Audit Committee in relation to the internal and external auditors is set out in Audit Committee Report on pages 24 to 26 of this Annual Report.

This statement is made at the Board of Directors' Meeting held on 28 April 2011.



## AUDIT COMMITTEE REPORT

The Board of Directors ("Board") is pleased to present the Report of the Audit Committee for the financial year under review.

### TERMS OF REFERENCE OF THE AUDIT COMMITTEE

#### 1. MEMBERSHIP

The Audit Committee shall be appointed by the Board from amongst the Directors and shall consist of not less than three (3) members, all the members must be non-executive directors, with a majority of them being independent directors, and at least one member of the Committee must be a member of the Malaysian Institute of Accountants ("MIA"). If he is not a member of MIA, he must fulfill such other requirements as prescribed by Bursa Malaysia Securities Berhad ("Bursa Securities").

A quorum shall consist of two (2) members and a majority of the members present must be Independent Directors.

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

#### 2. CHAIRMAN

The Chairman of the Committee shall be an Independent Director appointed by the Board. He shall report on each meeting of the Committee to the Board.

#### 3. SECRETARY

The Company Secretary shall be the Secretary of the Committee and shall be responsible, in conjunction with the Chairman, for drawing up the agenda and circulating it, supported by explanatory documentation to the Committee members prior to each meeting.

The Secretary shall also be responsible for keeping the minutes of meetings of the Committee and circulating them to the Committee members and to the other members of the Board.

#### 4. FREQUENCY OF MEETINGS

Meetings shall be held not less than four (4) times a year and will normally be attended by the Director charged with the responsibility of the Group's financial condition. The presence of external auditors will be requested if required and the external auditors may also request a meeting if they consider it necessary.

#### DETAILS OF ATTENDANCE

Five (5) meetings were held during the financial year ended 31 December 2010. Details of the attendance are as follows: -

	Number of meetings attended
Chairman : <b>LIM PENG @ LIM PANG TUN</b> (Independent Non-Executive Director)	5/5
Member : <b>CHEN SENG CHONG</b> (Senior Independent Non-Executive Director)	5/5
<b>SOO YOKE MUN</b> (Independent Non-Executive Director)	5/5



## AUDIT COMMITTEE REPORT (CONTINUED)

### SUMMARY OF ACTIVITIES

The Committee carried out its duties in accordance with its terms of reference during the financial year. The main activities undertaken by the Committee were as follows: -

- a) Reviewed the Group's unaudited quarterly financial results with the management and recommended to the Board for approval prior to release to the Bursa Securities;
- b) Reviewed with the external auditors, the draft Audited Financial Statements for the financial year ended 31 December 2009 to ensure that the audited financial statements are drawn up in accordance with the provisions of the Companies Act, 1965 and the applicable accounting standards approved by Malaysian Accounting Standards Board ("MASB") prior to submission to the Board for consideration and approval;
- c) Reviewed with the external auditors, the audit plan, audit strategy and scope of work prior to commencement of annual audit;
- d) Reviewed the issues arising from the final audits;
- e) Reviewed the performance of external auditors before recommending to the Board their reappointment and remuneration;
- f) Reviewed with the external auditors, the impact of adopting the revised/new Financial Reporting Standards;
- g) Reviewed with the external auditors, the significant risk areas and the Group's exposure;
- h) Reviewed with the internal auditors, the internal audit plans to ensure the adequacy of scope and coverage of audit;
- i) Reviewed with the internal auditors, the internal audit reports together with management's response and proposed action plans;
- j) Reviewed the Statement on Internal Control prior to submission to external auditors for review and to the Board for consideration and inclusion in the Annual Report;
- k) Reviewed the related party transactions that may arise within the Company and the Group to ensure compliance with the Listing Requirements of Bursa Securities and the Accounting Standards; and
- l) Meeting with the external auditors.

### 5. AUTHORITY

The Committee is authorised by the Board to investigate any activity within its terms of reference and shall have unrestricted access to both the internal and external auditors and to all employees of the Group. The Committee is also authorised by the Board to obtain external legal or other independent professional advice as necessary.

The Committee is also authorised to convene meetings with the external auditors without the attendance of the executive members of the Board and Management, whenever deemed necessary.





## AUDIT COMMITTEE REPORT (CONTINUED)

### 6. DUTIES

The duties of the Committee shall be:-

- a) To review and recommend the appointment of external auditors, the audit fee and any questions of resignation or dismissal including the nomination of person or persons as external auditors;
- b) To discuss with the external auditors where necessary, the nature and scope of audit and to ensure coordination of audit where more than one audit firm is involved;
- c) To review the quarterly results and year end financial statements prior to approval by the Board, focusing on:-
  - going concern assumption
  - compliance with accounting standards and regulatory requirements
  - any changes in accounting policies and practices
  - significant issues arising from the audit
  - major judgmental areas
- d) To prepare Audit Committee Report at the end of each financial year;
- e) To discuss problems and reservations arising from the interim and final external audits, and any matters the external auditors may wish to discuss (in the absence of management and Executive Board Members, where necessary);
- f) To review the external auditors' management letter and management's response;
- g) To review any related party transaction 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;
- h) To carry out such other responsibilities, functions or assignments as may be defined jointly by the Committee and the Board of Directors from time to time;
- i) In compliance with Paragraph 15.16 of the Main Market Listing Requirements of Bursa Securities, where the Committee is of the view that a matter reported by it to the Board has not been satisfactorily resolved resulting in a breach of the Listing Requirements of Bursa Securities, the Committee must promptly report such matter to Bursa Securities.

### 7. INTERNAL AUDIT FUNCTION

The Committee recognises that an internal audit function is essential to ensure the effectiveness of the Group's system of internal control and is an integral part of the risk management process. The Group has outsourced its internal audit function to an external consultant during the financial year.

For the financial year ended 31 December 2010, the amount of fees incurred in respect of the internal audit reviews performed by the external consultant was RM46,500.

Details pertaining to internal audit function are set out in the Statement on Internal Control on pages 29 to 30 of this Annual Report.



## OTHER INFORMATION PURSUANT TO THE LISTING REQUIREMENTS OF BURSA SECURITIES

### SHARE BUY-BACK

The Company did not carry out any share buy-back during the financial year.

### OPTIONS, WARRANTS OR CONVERTIBLE SECURITIES

There were no options, warrant or convertible securities issued during financial year.

### AMERICAN DEPOSITORY RECEIPT ("ADR") OR GLOBAL DEPOSITORY RECEIPT ("GDR") PROGRAMME

The Company has not sponsored any ADR or GDR programme during the financial year.

### SANCTIONS AND/OR PENALTIES

There were no sanctions and/or penalties imposed on the Company and/or its subsidiaries, Directors or management of the Company and its subsidiaries by any regulatory bodies during the financial year except for the following:

On 7 June 2010, Soo Yoke Mun was issued a public reprimand by Bursa Malaysia Securities Berhad ("Bursa Securities") for breach of paragraph 16.11(b) in respect of compliance by a listed company of its obligations under paragraph 9.22(1) of the Listing Requirements of Bursa Securities – Quarterly Report. This breach was related to an interim financial report that is prepared on quarterly basis by another listed company in Bursa Securities of which he is an Independent Non-Executive Director. The said listed company failed to submit quarterly report for the financial period ended 31 March 2009 on or before 31 May 2009.

### NON-AUDIT FEE

The amount of non-audit fees paid and payable to the external auditors, Messrs KPMG for the financial year ended 31 December 2010 amounted to RM 13,000.

### VARIATION IN RESULTS

There is no material variance between the audited financial statements for the year ended 31 December 2010 and the announced unaudited financial statements for the fourth quarter ended 31 December 2010.

### PROFIT GUARANTEE

There was no profit guarantee given by the Company.

### MATERIAL CONTRACTS

There are no material contracts entered into by the Company and its subsidiaries involving the interest of Directors and major shareholders.

### REVALUATION POLICY ON LANDED PROPERTIES

There is no revaluation policy on landed properties adopted by the Company and its subsidiaries during the financial year.

Particulars of the Group's properties are set out on pages 95 to 98 of this Annual Report.



## OTHER INFORMATION PURSUANT TO THE LISTING REQUIREMENTS OF BURSA SECURITIES (CONTINUED)

### RECURRENT RELATED PARTY TRANSACTIONS

The Company has on its Annual General Meeting held on 15 June 2010 sought approval for a shareholders mandate for the Group to enter into recurrent related party transactions of a revenue or trading nature.

The aggregate value of recurrent related party transactions conducted during the financial year ended 31 December 2010 in accordance with the shareholders' mandate obtained in the last Annual General Meeting were as follows:-

Related Parties involved with Kawan Food Berhad ("KFB")/ or its Subsidiaries	Nature of Transaction	Relationship of Related Parties with KFB	Aggregate value of Transaction (RM)
Shana Foods Ltd. ("Shana")	Purchase of frozen food products from Kawan Food Berhad/or its Subsidiaries	<p>Goshenite Limited ("Goshenite")</p> <ul style="list-style-type: none"> <li>Substantial Shareholder of KFB</li> <li>100% shareholder of Shana</li> </ul> <p>Mr. Nareshchandra Gordhandas Nagrecha ("Mr. Nagrecha")</p> <ul style="list-style-type: none"> <li>49% shareholder of Goshenite</li> <li>Director of KFB and deemed interested in KFB through Goshenite</li> <li>Director of Shana and deemed interested in Shana through his shareholdings in Goshenite, which owns 100% interest in Shana</li> </ul> <p>Mr. Jayendra Janardan Ved ("Mr. Ved")</p> <ul style="list-style-type: none"> <li>Deemed interested by virtue of him being a person connected to Mr. Nagrecha</li> </ul>	9,051,869
Rubicon Food Products Limited ("Rubicon")	Purchase of frozen food products from Kawan Food Berhad/or its Subsidiaries	<p>Mr. Nagrecha</p> <ul style="list-style-type: none"> <li>49% shareholder of Goshenite</li> <li>Director of KFB and deemed interested in KFB through Goshenite</li> <li>Director and 25% shareholder of Rubicon</li> </ul> <p>Mr. Ved</p> <ul style="list-style-type: none"> <li>Deemed interested by virtue of him being a person connected to Mr. Nagrecha</li> </ul>	1,797,925





## STATEMENT ON INTERNAL CONTROL

### INTRODUCTION

The Malaysian Code on Corporate Governance stipulates that the Board of Directors of listed companies should maintain a sound system of internal control to safeguard shareholders' investments and the Group's assets. In pursuance thereof, the Board of Directors (the "Board") of Kawan Food Berhad is pleased to set out below its Statement on Internal Control that was prepared in accordance with Bursa Securities' Statement on Internal Control – Guidance for Directors of Public Listed Companies ("Internal Control Guidance") and Paragraph 15.26(b) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities"). The Board believes the practice of good corporate governance is an important continuous process and not just a matter to be covered as compliance in its annual report.

### BOARD RESPONSIBILITY

The Board acknowledges its responsibilities and recognises the importance of ensuring a sound system of internal control and effective risk management practices to be in place in the Group. The Board is aware that ultimately, the responsibility for the Group's system of internal control, which includes the establishment of an appropriate control environment and framework as well as reviewing its adequacy and integrity, rests with the Board.

As there are limitations inherent in any system of internal control, the system is therefore designed to manage rather than eliminate risks that may impede the Group in achieving its business objectives. The Board acknowledges that the system can only provide reasonable and not absolute assurance against any material misstatement, losses or fraud. The Board confirms that appropriate initiatives to implement a system of internal control with the elements highlighted above are currently being implemented. There is an ongoing process for identifying and managing the significant risks faced by the Group. The process is reviewed by the Board through the Audit Committee which is assisted by the internal audit function.

### RISK MANAGEMENT FRAMEWORK

The Board recognises that effective risk management framework is an integral part of the business operations. An Enterprise Risk Management framework has been established since December 2005. The framework allows the key management personnel to identify, evaluate and manage risks that affect the achievement of the Group's business objectives within defined risk parameters in a timely and effective manner.

All residual risks were individually ranked as high, significant, moderate or low, having regard to:

- the magnitude of the impact of an identified risk occurring;
- the likelihood of such a risk occurring; and
- the effectiveness of the risk mitigation strategies and controls currently in place to manage such risks.

### INTERNAL AUDIT FUNCTION

With the establishment of the risk management framework, the Group has outsourced its internal audit function to an external consultant simultaneously to provide the Board with assurance in respect of the adequacy of risk management, internal control and governance system.

The internal auditors have had a discussion with the management for the purpose of identifying the auditable areas. A three (3) years' audit plan for the Group has been established by the internal auditors and approved by the Audit Committee in the 1st quarter of 2009. During the financial year ended 31 December 2010, three (3) internal control reviews and one (1) follow up review had been carried out by the internal auditors. Internal audit reports which include audit findings, recommendations and management's response were presented to the Audit Committee during the Audit Committee meetings.



## STATEMENT ON INTERNAL CONTROL (CONTINUED)

### OTHER KEY ELEMENTS OF INTERNAL CONTROL

Apart from risk management and internal audit, the other key elements of the Group's internal control system are described below:

1. The Board has put in place an organisation structure with defined lines of responsibility and delegation of authority.
2. There were two (2) surveillance audits conducted in January and November 2010 in respect of ISO22000:2005 Food Safety Management Systems, and one (1) surveillance audit conducted in respect of British Retail Consortium ("BRC") Global Standard for Food Safety in January 2010 by Lloyd's Register Quality Assurance ("LRQA").

ISO22000:2005 specifies requirements for a food safety management system where an organisation in the food chain needs to demonstrate its ability to control food safety hazards in order to ensure that food is safe at the time of human consumption.

BRC specifies the safety, quality and operational criteria required to be placed within a food manufacturing organization to fulfill obligations with regard to legal compliance and protection of the consumers. The format and content of the Standard is designed to allow an assessment of a company's premises, operational systems and procedures by a competent third party – the certification body – against the requirements of the Standard.

Internal audit was also carried out in August 2010 and agendas covered were comprehensive to cover both the elements of ISO22000:2005 and BRC.

3. The Board is provided with quarterly performance report that contains information on financial performance and key business indicators for monitoring.
4. Operations Committee Meetings are held by the management approximately once a month to review and evaluate any issues that have impact on the Group or its stakeholders, either by a breach of process / procedure, or where beneficial opportunities may be missed.

### CONCLUSION

There were no material losses reported during the current financial year as a result of weaknesses in internal control. The Board and management will continue to take measures to strengthen the internal control environment.

This Statement is made in accordance with a resolution of the Board of Directors dated 28 April 2011.



## STATEMENT ON DIRECTORS' RESPONSIBILITY

The Board of Directors is required under Paragraph 15.26(a) of Main Market Listing Requirements of Bursa Malaysia Securities Berhad to issue a statement explaining the Board's responsibility in preparing the annual audited financial statements.

In preparing the annual financial statements of the Company and the Group, the Directors are collectively responsible to ensure that these financial statements have been properly drawn up in accordance with the applicable approved Financial Reporting Standard ("FRS") issued by the Malaysian Accounting Standards Board ("MASB") and the provisions of the Companies Act, 1965 ("the Act") so as to give a true and fair view of the financial position of the Company and the Group at the end of the financial year and the financial performance and cash flows of the Company and the Group for the year then ended.

In preparing the financial statements for the year ended 31 December 2010 set out on pages 38 to 90 of this Annual Report, the Directors have: -

- i) adopted appropriate accounting policies and applied them consistently;
- ii) made judgements and estimates that are reasonable and prudent;
- iii) ensured that all applicable approved FRS issued by MASB and the directive dated 25 March 2010 issued by Bursa Malaysia Securities Berhad have been followed; and
- iv) prepared financial statements on the going concern basis.

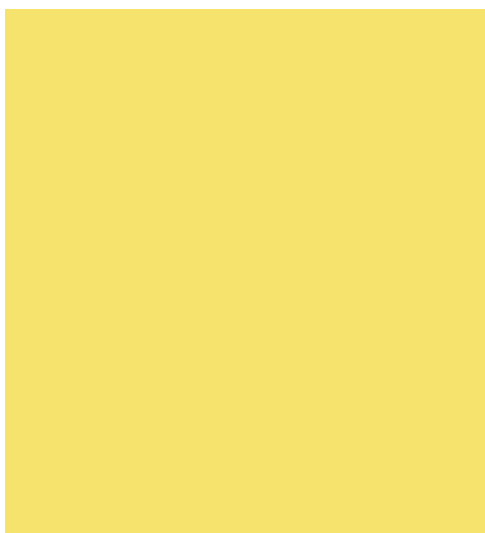
The Directors have the responsibility for ensuring that the proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and the Group and which enable them to ensure that the financial statements comply with the Act.

The Directors are also responsible for taking reasonable steps to safeguard the assets of the Company and the Group and to prevent and detect fraud and other irregularities.

This Statement is made in accordance with a resolution of the Board of Directors dated 28 April 2011.







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## DIRECTORS' REPORT

### FOR THE YEAR ENDED 31 DECEMBER 2010

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 investment holding, whilst the principal activities of its subsidiaries are as stated in Note 6 to the financial statements. There has been no significant change in the nature of these activities during the financial year.

## RESULTS

	Group RM	Company RM
Profit for the year attributable to:		
Owners of the Company	14,163,461	9,631,582
Minority interests	(4,260)	–
	<u>14,159,201</u>	<u>9,631,582</u>

## RESERVES AND PROVISIONS

There were no material transfers to or from reserves and provisions during the year under review except as disclosed in the financial statements.

## DIVIDENDS

Since the end of the previous financial year, the Company paid an interim tax exempt dividend of 1.4 sen per ordinary share totalling RM1,680,000 in respect of the financial year ended 31 December 2010 on 30 April 2010.

The Directors do not recommend any final dividend to be paid for the year under review.

## DIRECTORS OF THE COMPANY

Directors who served since the date of the last report are:

CHEN SENG CHONG  
LIM PENG @ LIM PANG TUN  
GAN THIAM CHAI  
GAN THIAM HOCK  
KWAN SOK KAY  
SOO YOKE MUN  
JAYENDRA JANARDAN VED  
NARESHCHANDRA GORDHANDAS NAGRECHA



**DIRECTORS' REPORT**

FOR THE YEAR ENDED 31 DECEMBER 2010 (CONTINUED)

**DIRECTORS' INTERESTS IN SHARES**

The interests and deemed interests in the ordinary shares of the Company and of its related corporations (other than wholly-owned subsidiaries) of those who were Directors at year end as recorded in the Register of Directors' Shareholdings are as follows:

	Number of ordinary shares of RM0.50 each			
	Balance at 1.1.2010	Bought	Sold	Balance at 31.12.2010
<b>Direct interests in the Company</b>				
CHEN SENG CHONG	225,000	—	—	225,000
LIM PENG @ LIM PANG TUN	150,000	—	—	150,000
GAN THIAM CHAI	39,959,994	—	—	39,959,994
GAN THIAM HOCK	10,080,000	—	—	10,080,000
KWAN SOK KAY	10,060,500	—	—	10,060,500
<b>Deemed interests through Goshenite Limited</b>				
NARESHCHANDRA GORDHANDAS NAGRECHA	28,800,000	—	—	28,800,000

By virtue of their interests in the shares of the Company, Chen Seng Chong, Lim Peng @ Lim Pang Tun, Gan Thiam Chai, Gan Thiam Hock, Kwan Sok Kay and Nareshchandra Gordhandas Nagrecha are also deemed interested in the shares of the subsidiaries during the financial year to the extent that Kawan Food Berhad has an interest.

None of the other Directors holding office at 31 December 2010 had any interest in the ordinary shares of the Company and of its related corporations during the financial year.

**DIRECTORS' BENEFITS**

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by certain Directors as shown in the financial statements or the fixed salaries of full time employees of related corporations) by reason of a contract made by the Company or a related company 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, other than a Director and the spouse of a Director who have significant financial interests in companies which traded with certain companies within the Group in the ordinary course of business as disclosed in Note 28 to the financial statements.

There were no arrangements during and at the end of the financial year which had the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

**ISSUE OF SHARES AND DEBENTURES**

There were no changes in the authorised, issued and paid-up capital of the Company during the financial year.

There were no debentures issued during the financial year.

**DIRECTORS' REPORT**

FOR THE YEAR ENDED 31 DECEMBER 2010 (CONTINUED)

**OPTIONS GRANTED OVER UNISSUED SHARES**

No options were granted to any person to take up unissued shares of the Company during the year.

**OTHER STATUTORY INFORMATION**

Before the statements of comprehensive income and statements of financial position of the Group and of the Company were made out, the Directors took reasonable steps to ascertain that:

- i) all known bad debts have been written off and adequate provision made for doubtful debts, and
- ii) any current assets which were unlikely to be realised in the ordinary course of business have been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances:

- i) that would render the amount written off for bad debts, or the amount of the provision for doubtful debts in the Group and in the Company inadequate to any substantial extent, or
- ii) that would render the value attributed to the current assets in the financial statements of the Group and of the Company misleading, or
- iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate, or
- iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Group and of the Company misleading.

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

- i) any charge on the assets of the Group or of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person, or
- ii) any contingent liability in respect of the Group or of the Company that has arisen since the end of the financial year.

No contingent liability or other liability of any company in the Group has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Group and of the Company to meet their obligations as and when they fall due.

In the opinion of the Directors, the financial performance of the Group and of the Company for the financial year ended 31 December 2010 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.



**DIRECTORS' REPORT**  
FOR THE YEAR ENDED 31 DECEMBER 2010 (CONTINUED)

**AUDITORS**

The auditors, Messrs KPMG, have indicated their willingness to accept re-appointment.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

.....  
**GAN THIAM CHAI**

.....  
**KWAN SOK KAY**

Petaling Jaya,

Date: 28 April 2011



## STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2010

		31.12.2010 RM	Group 31.12.2009 RM Restated	1.1.2009 RM Restated
	Note			
<b>Assets</b>				
Property, plant and equipment	3	65,463,447	65,331,946	56,339,842
Investment properties	4	2,756,977	1,996,408	2,031,940
Goodwill	5	–	204,230	204,230
Investments in subsidiaries	6	–	–	–
Deferred tax assets	7	88,433	100,043	21,212
Trade and other receivables	8	–	–	–
<b>Total non-current assets</b>		<b>68,308,857</b>	<b>67,632,627</b>	<b>58,597,224</b>
Other investments, including derivatives	9	763,770	–	–
Inventories	10	5,530,480	5,575,501	3,296,373
Current tax assets		2,425,358	701,797	1,796,715
Trade and other receivables	8	18,377,777	18,213,455	16,533,346
Prepayments		229,445	319,513	125,203
Dividend receivables		–	–	–
Cash and cash equivalents	11	23,034,299	16,626,907	9,528,745
<b>Total current assets</b>		<b>50,361,129</b>	<b>41,437,173</b>	<b>31,280,382</b>
<b>Total assets</b>		<b>118,669,986</b>	<b>109,069,800</b>	<b>89,877,606</b>
<b>Equity</b>				
Share capital		60,000,000	60,000,000	60,000,000
Reserves		33,953,423	23,113,124	11,549,376
<b>Total equity attributable to owners of the Company</b>	12	<b>93,953,423</b>	<b>83,113,124</b>	<b>71,549,376</b>
Minority interests		–	4,260	16,074
<b>Total equity</b>		<b>93,953,423</b>	<b>83,117,384</b>	<b>71,565,450</b>
<b>Liabilities</b>				
Loans and borrowings	13	4,858,897	5,993,038	1,317,573
Deferred tax liabilities	7	2,348,430	1,935,645	2,606,000
<b>Total non-current liabilities</b>		<b>7,207,327</b>	<b>7,928,683</b>	<b>3,923,573</b>
Loans and borrowings	13	1,136,291	2,048,580	1,048,729
Trade and other payables	14	16,174,635	15,637,437	11,838,011
Current tax liabilities		198,310	337,716	1,501,843
<b>Total current liabilities</b>		<b>17,509,236</b>	<b>18,023,733</b>	<b>14,388,583</b>
<b>Total liabilities</b>		<b>24,716,563</b>	<b>25,952,416</b>	<b>18,312,156</b>
<b>Total equity and liabilities</b>		<b>118,669,986</b>	<b>109,069,800</b>	<b>89,877,606</b>

The notes on pages 44 to 90 are an integral part of these financial statements.





## STATEMENT OF FINANCIAL POSITION

### AS AT 31 DECEMBER 2010

		31.12.2010 RM	Company 31.12.2009 RM Restated	1.1.2009 RM
	Note			
<b>Assets</b>				
Investments in subsidiaries	6	53,507,888	55,825,938	52,051,882
Trade and other receivables	8	3,486,530	5,431,777	—
<b>Total non-current assets</b>		<b>56,994,418</b>	<b>61,257,715</b>	<b>52,051,882</b>
Current tax assets		421,971	225,453	225,286
Trade and other receivables	8	7,062,400	3,589,345	9,231,075
Dividends receivable		7,875,000	—	—
Cash and cash equivalents	11	357,450	91,209	1,116,095
<b>Total current assets</b>		<b>15,716,821</b>	<b>3,906,007</b>	<b>10,572,456</b>
<b>Total assets</b>		<b>72,711,239</b>	<b>65,163,722</b>	<b>62,624,338</b>
<b>Equity</b>				
Share capital		60,000,000	60,000,000	60,000,000
Reserves		12,165,088	4,213,506	2,336,338
<b>Total equity</b>	12	<b>72,165,088</b>	<b>64,213,506</b>	<b>62,336,338</b>
<b>Liabilities</b>				
Deferred tax liabilities	7	207,151	—	—
<b>Total non-current liabilities</b>		<b>207,151</b>	<b>—</b>	<b>—</b>
Trade and other payables	14	339,000	950,216	288,000
<b>Total current liabilities</b>		<b>339,000</b>	<b>950,216</b>	<b>288,000</b>
<b>Total liabilities</b>		<b>546,151</b>	<b>950,216</b>	<b>288,000</b>
<b>Total equity and liabilities</b>		<b>72,711,239</b>	<b>65,163,722</b>	<b>62,624,338</b>

The notes on pages 44 to 90 are an integral part of these financial statements.

## STATEMENTS OF COMPREHENSIVE INCOME

### FOR THE YEAR ENDED 31 DECEMBER 2010

		Group		Company	
	Note	2010 RM	2009 RM Restated	2010 RM	2009 RM Restated
<b>Revenue</b>	15	<b>92,187,892</b>	87,634,892	<b>17,500,000</b>	5,000,000
Cost of sales		(51,742,253)	(49,555,244)	–	–
<b>Gross profit</b>		<b>40,445,639</b>	38,079,648	<b>17,500,000</b>	5,000,000
Other income		1,984,655	1,551,557	–	–
Selling and distribution expenses		(12,543,550)	(12,814,238)	–	–
Administrative expenses		(11,591,242)	(8,688,353)	(3,963,721)	(620,893)
<b>Results from operating activities</b>		<b>18,295,502</b>	18,128,614	<b>13,536,279</b>	4,379,107
Finance income	18	115,231	190,816	481,168	412,175
Finance costs	19	(600,785)	(570,474)	(232)	(1,695)
<b>Profit before tax</b>		<b>17,809,948</b>	17,748,956	<b>14,017,215</b>	4,789,587
Income tax expense	20	(3,650,747)	(4,185,429)	(4,385,633)	(1,232,419)
<b>Profit for the year</b>	16	<b>14,159,201</b>	13,563,527	<b>9,631,582</b>	3,557,168
<b>Other comprehensive income, net of tax</b>	21				
Foreign currency translation differences for foreign operations		(1,795,690)	(331,593)	–	–
<b>Total comprehensive income for the year</b>		<b>12,363,511</b>	13,231,934	<b>9,631,582</b>	3,557,168
<b>Profit attributable to:</b>					
Owners of the Company		14,163,461	13,575,341	9,631,582	3,557,168
Minority interests		(4,260)	(11,814)	–	–
<b>Profit for the year</b>		<b>14,159,201</b>	13,563,527	<b>9,631,582</b>	3,557,168
<b>Total comprehensive income attributable to:</b>					
Owners of the Company		12,367,771	13,243,748	9,631,582	3,557,168
Minority interests		(4,260)	(11,814)	–	–
<b>Total comprehensive income for the year</b>		<b>12,363,511</b>	13,231,934	<b>9,631,582</b>	3,557,168
Basic earnings per ordinary share (sen)	22	11.80	11.31		

The notes on pages 44 to 90 are an integral part of these financial statements.



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

### FOR THE YEAR ENDED 31 DECEMBER 2010

Group	Note	<----- Attributable to owners of the Company ----->					Total equity RM
		<----- Non-distributable ---->		Distributable		Minority interests RM	
		Share capital RM	Translation reserve RM	Retained earnings RM	Total RM		
<b>At 1 January 2009</b>		60,000,000	1,505,012	10,044,364	71,549,376	16,074	71,565,450
Total comprehensive income for the year		–	(331,593)	13,575,341	13,243,748	(11,814)	13,231,934
Dividends to owners of the Company	23	–	–	(1,680,000)	(1,680,000)	–	(1,680,000)
<b>At 31 December 2009/ 1 January 2010</b>							
- as previously stated		60,000,000	1,173,419	21,939,705	83,113,124	4,260	83,117,384
- effect of adopting FRS 139		–	–	152,528	152,528	–	152,528
<b>At 1 January 2010, restated</b>		60,000,000	1,173,419	22,092,233	83,265,652	4,260	83,269,912
Total comprehensive income for the year		–	(1,795,690)	14,163,461	12,367,771	(4,260)	12,363,511
Dividends to owners of the Company	23	–	–	(1,680,000)	(1,680,000)	–	(1,680,000)
<b>At 31 December 2010</b>		60,000,000	(622,271)	34,575,694	93,953,423	–	93,953,423
		Note 12	Note 12				

## STATEMENT OF CHANGES IN EQUITY

### FOR THE YEAR ENDED 31 DECEMBER 2010

Company	Note	Non-distributable Share capital RM	Distributable Retained earnings RM	Total equity RM
<b>At 1 January 2009</b>		60,000,000	2,336,338	62,336,338
Total comprehensive income for the year		–	3,557,168	3,557,168
Dividends to owners of the Company	23	–	(1,680,000)	(1,680,000)
<b>At 31 December 2009/1 January 2010</b>		60,000,000	4,213,506	64,213,506
Total comprehensive income for the year		–	9,631,582	9,631,582
Dividends to owners of the Company	23	–	(1,680,000)	(1,680,000)
<b>At 31 December 2010</b>		60,000,000	12,165,088	72,165,088
		Note 12	Note 12	

The notes on pages 44 to 90 are an integral part of these financial statements.



## STATEMENTS OF CASH FLOWS

### FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	Group		Company	
		2010 RM	2009 RM Restated	2010 RM	2009 RM Restated
<b>Cash flows from operating activities</b>					
Profit before tax		17,809,948	17,748,956	14,017,215	4,789,587
Adjustments for:					
Depreciation of investment properties	4	35,532	35,532	–	–
Depreciation of property, plant and equipment	3	5,126,821	3,989,416	–	–
Dividend income	15	–	–	(17,500,000)	(5,000,000)
Finance income	18	(115,231)	(190,816)	(481,168)	(412,175)
Interest expense	19	317,722	372,196	–	–
Impairment loss on investments in subsidiaries		–	–	255,000	–
Impairment loss on goodwill		204,230	–	–	–
Loss/(Gain) on disposal of property, plant and equipment		196,788	(64,853)	–	–
Unrealised foreign exchange differences		119,699	599,306	3,118,532	127,449
<b>Operating profit/(loss) before changes in working capital</b>		<b>23,695,509</b>	<b>22,489,737</b>	<b>(590,421)</b>	<b>(495,139)</b>
Change in inventories		45,021	(2,279,128)	–	–
Change in trade and other payables		537,198	3,799,426	(611,216)	662,216
Change in trade and other receivables, prepayments and other financial assets		(1,438,091)	(2,473,725)	(2,103,400)	488,826
<b>Cash generated from/(used in) operations</b>		<b>22,839,637</b>	<b>21,536,310</b>	<b>(3,305,037)</b>	<b>655,903</b>
Dividend received		–	–	5,250,000	3,750,000
Income tax paid		(5,765,678)	(5,646,512)	–	–
Income tax refund		728,138	642,688	–	17,414
<b>Net cash from operating activities</b>		<b>17,802,097</b>	<b>16,532,486</b>	<b>1,944,963</b>	<b>4,423,317</b>
<b>Cash flows from investing activities</b>					
Acquisition of property, plant and equipment	(i)	(7,688,849)	(13,068,812)	–	–
Increase in investments in subsidiaries		–	–	–	(3,774,056)
Proceeds from disposal of property, plant and equipment		15,200	113,327	–	–
Finance income from fixed deposits		115,231	190,816	1,278	5,853
<b>Net cash (used in)/from investing activities</b>		<b>(7,558,418)</b>	<b>(12,764,669)</b>	<b>1,278</b>	<b>(3,768,203)</b>





**STATEMENTS OF CASH FLOWS**  
FOR THE YEAR ENDED 31 DECEMBER 2010 (CONTINUED)

	Note	Group		Company	
		2010 RM	2009 RM Restated	2010 RM	2009 RM Restated
<b>Cash flows from financing activities</b>					
Dividends paid to owners of the Company		(1,680,000)	(1,680,000)	(1,680,000)	(1,680,000)
(Repayment)/ Drawdown of borrowings		(1,911,421)	5,483,203	—	—
Payment of finance lease liability		(135,009)	(77,887)	—	—
Finance costs on finance lease liability		(8,775)	(4,737)	—	—
Finance costs on term loans		(308,947)	(367,459)	—	—
Net cash (used in)/from financing activities		(4,044,152)	3,353,120	(1,680,000)	(1,680,000)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>6,199,527</b>	<b>7,120,937</b>	<b>266,241</b>	<b>(1,024,886)</b>
Effect of exchange rate fluctuations on cash held		207,865	(22,775)	—	—
Cash and cash equivalents at 1 January		16,626,907	9,528,745	91,209	1,116,095
<b>Cash and cash equivalents at 31 December</b>	(ii)	<b>23,034,299</b>	<b>16,626,907</b>	<b>357,450</b>	<b>91,209</b>

**(i) Acquisition of property, plant and equipment**

Included in acquisition of property, plant and equipment are deposits and progress payments of RM632,896 (2009: Nil) incurred in prior years and capitalised in 2010.

In financial year 2009, the Group acquired property, plant and equipment with an aggregate cost of RM13,338,812, of which RM270,000 were acquired by means of finance leases.

**(ii) Cash and cash equivalents**

Cash and cash equivalents included in the statements of cash flow comprise the following statement of financial position amounts:

	Note	Group		Company	
		2010 RM	2009 RM	2010 RM	2009 RM
Deposits placed with licensed banks	11	2,671,977	4,908,875	344,708	17,922
Cash and bank balances	11	20,362,322	11,718,032	12,742	73,287
		<b>23,034,299</b>	<b>16,626,907</b>	<b>357,450</b>	<b>91,209</b>

The notes on pages 44 to 90 are an integral part of these financial statements.



## NOTES TO THE FINANCIAL STATEMENTS

Kawan Food Berhad is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Main Market of the Bursa Malaysia Securities Berhad. The addresses of the principal place of business and registered office of the Company are as follows:

### PRINCIPAL PLACE OF BUSINESS

Lot 20, Jalan Pengapit 15/19  
40200 Shah Alam  
Selangor Darul Ehsan  
Malaysia

### REGISTERED OFFICE

Unit 07-02, Level 7 Persoft Tower  
6B Persiaran Tropicana  
47410 Petaling Jaya  
Selangor Darul Ehsan  
Malaysia

The consolidated financial statements of the Company as at and for the year ended 31 December 2010 comprise the Company and its subsidiaries (together referred to as the “Group” and individually referred to as “Group entities”). The financial statements of the Company as at and for the year ended 31 December 2010 do not include other entities.

The Company is principally engaged in investment holding activities while the other Group entities are primarily involved in the manufacturing, sale, trading and distribution of frozen food products.

These financial statements were authorised for issue by the Board of Directors on 28 April 2011.

## 1. BASIS OF PREPARATION

### (a) Statement of compliance

The financial statements have been prepared in accordance with Financial Reporting Standards (FRSs), generally accepted accounting principles and the Companies Act, 1965 in Malaysia.

The Group and the Company have not applied the following accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board (MASB) but are not yet effective for the Group and the Company:

#### ***FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 March 2010***

- Amendments to FRS 132, *Financial Instruments: Presentation – Classification of Rights Issues*

#### ***FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2010***

- FRS 1, *First-time Adoption of Financial Reporting Standards* (revised)
- FRS 3, *Business Combinations* (revised)
- FRS 127, *Consolidated and Separate Financial Statements* (revised)
- 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*
- IC Interpretation 12, *Service Concession Agreements*
- IC Interpretation 16, *Hedges of a Net Investment in a Foreign Operation*
- IC Interpretation 17, *Distributions of Non-cash Assets to Owners*
- Amendments to IC Interpretation 9, *Reassessment of Embedded Derivatives*



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 1. BASIS OF PREPARATION (CONTINUED)

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

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

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

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

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

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

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

The Group and the Company plan to apply the abovementioned standards, amendments and interpretations from the annual period beginning 1 January 2011 for those standards, amendments or interpretations that will be effective for annual periods beginning on or after 1 March 2010, 1 July 2010 and 1 January 2011, except for FRS 1, Amendments to FRS 2, Amendments to FRS 5, IC Interpretation 12, IC Interpretation 16, Amendments to FRS 1, Amendments to FRS 2 and IC Interpretation 18 which are not applicable to the Group and the Company.

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

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

Following the announcement by the MASB on 1 August 2008, the Group's and the Company's financial statements will be prepared in accordance with the International Financial Reporting Standards (IFRS) framework for annual periods beginning on 1 January 2012.

#### (b) Basis of measurement

The financial statements have been prepared on the historical cost basis other than those disclosed in Note 2.

#### (c) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia (RM), which is the Company's functional currency. All financial information is presented in RM unless otherwise stated.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 1. BASIS OF PREPARATION (CONTINUED)

#### (d) Use of estimates and judgments

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

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

There are no significant areas of estimation uncertainty and critical judgments in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed in Note 5 – measurement of the recoverable amounts of cash-generating units.

### 2. SIGNIFICANT ACCOUNTING POLICIES

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

- Note 2(c) – Financial instruments
- Note 2(e) – Leased assets
- Note 2(g) – Investment properties
- Note 2(s) – Operating segments

#### (a) Basis of consolidation

##### (i) Subsidiaries

Subsidiaries are entities, including unincorporated entities, controlled by the Group. Control exists when the Group has the ability to exercise its power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. Subsidiaries are consolidated using the purchase method of accounting.

Under the purchase method of accounting, the financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are stated in the Company's statement of financial position at cost less any impairment losses, unless the investment is held for sale.

##### (ii) Changes in Group composition

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

##### (iii) Minority interests

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





## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

##### (iii) Minority interests (continued)

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated with all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

##### (iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

#### (b) Foreign currency

##### (i) Foreign currency transactions

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

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

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

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

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

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

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

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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (c) Financial instruments

Arising from the adoption of FRS 139, *Financial Instruments: Recognition and Measurement*, with effect from 1 January 2010, financial instruments are categorised and measured using accounting policies as mentioned below. Before 1 January 2010, different accounting policies were applied. Significant changes to the accounting policies are discussed in Note 30.

##### (i) Initial recognition and measurement

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

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

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

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

The Group and the Company categorise financial instruments as follows:

#### **Financial assets**

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

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

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

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

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

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

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

##### (c) Loans and receivables

Loans and receivables category comprises debt instruments that are not quoted in an active market, trade and other receivables and cash and cash equivalents.

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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (c) Financial instruments (continued)

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

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

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

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

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

###### ***Financial liabilities***

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

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

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

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

##### (iii) Financial guarantee contract

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

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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (c) Financial instruments (continued)

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

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

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

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

##### (v) Derecognition

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

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

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

##### (i) Recognition and measurement

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

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

Costs also may include transfers from other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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





## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

##### (i) Recognition and measurement (continued)

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

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" or "other expenses" respectively in profit or loss.

##### (ii) Subsequent costs

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

##### (iii) Depreciation

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

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

Buildings	50 years
Apartments	50 years
Motor vehicles	5 years
Furniture, fittings and office equipment	5 to 10 years
Plant and machineries	10 years
Renovation	10 years
Signage	10 years

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

#### (e) Leased assets

##### (i) Finance lease

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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (e) Leased assets (continued)

##### (i) Finance lease (continued)

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

##### (ii) Operating lease

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

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

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

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

#### (f) Goodwill

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

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

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

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

##### Amortisation

Goodwill is not amortised but is tested for impairment annually and whenever there is an indication that it may be impaired.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (g) Investment properties

##### (i) Investment properties carried at cost

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

Investment properties are stated at cost less any accumulated depreciation and any accumulated impairment losses.

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

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of 50 years for buildings and over the remaining lease periods for leasehold land.

##### (ii) Determination of fair value

The Directors estimate the fair values of the Group's investment properties without the involvement of independent valuers.

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

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

Valuations reflect, where appropriate:

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

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

#### (h) Inventories

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

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

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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (i) Receivables

Prior to 1 January 2010, receivables were initially recognised at their costs and subsequently stated at cost less allowance for doubtful debts.

Following the adoption of FRS 139, trade and other receivables are categorised and measured as loans and receivables in accordance with Note 2(c).

#### (j) Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, balances and deposits with banks which have an insignificant risk of changes in value.

Cash and cash equivalents are categorised and measured as loans and receivables in accordance with policy Note 2(c).

#### (k) Impairment

##### (i) Financial assets

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

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

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

An impairment loss in respect of unquoted equity instrument that is carried at cost is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

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

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





## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (k) Impairment (continued)

##### (ii) Other assets

The carrying amounts of other assets (except for inventories, assets arising from construction contract, deferred tax assets and assets arising from employee benefits) are reviewed at the end of each reporting period to determine whether there is any indication of impairment.

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

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

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

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

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

#### (l) Equity instruments

Instruments classified as equity are stated at cost on initial recognition and are not remeasured subsequently.

#### (m) Employee benefits

##### Short term employee benefits

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

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

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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (n) Provisions

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

#### (o) Revenue and other income

##### (i) Goods sold

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

##### (ii) Dividend income

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

##### (iii) Rental income

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

##### (iv) Finance income

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

#### (p) Borrowing costs

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

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

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

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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (q) Income tax

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

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

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

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

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

#### (r) Earnings per ordinary share

The Group presents basic earnings per share data for its ordinary shares (EPS).

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is not presented as there are no dilutive potential ordinary shares.

#### (s) Operating segments

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

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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 3. PROPERTY, PLANT AND EQUIPMENT

Group	Land RM	Buildings RM	Apartments RM	Motor vehicles RM	Furniture, fittings and office equipment RM	Plant and machineries RM	Renovation RM	Signage RM	Capital work- in- progress RM	Total RM
<b>Cost</b>										
At 1 January 2009, restated	10,190,913	7,592,821	982,278	1,274,634	1,954,289	23,709,529	831,399	22,300	20,576,826	67,134,989
Additions	1,224,636	359,109	—	392,334	1,804,721	2,015,511	3,510,419	17,500	4,014,582	13,338,812
Disposals	—	—	—	(63,041)	—	(37,184)	—	—	—	(100,225)
Effect of movements in exchange rates	(25,856)	—	(5,963)	(1,564)	(880)	—	—	—	(276,720)	(310,983)
Reclassification	—	11,189,856	522,466	135,205	521,967	4,644,671	—	—	(17,014,165)	—
At 31 December 2009/ 1 January 2010, restated	11,389,693	19,141,786	1,498,781	1,737,568	4,280,097	30,332,527	4,341,818	39,800	7,300,523	80,062,593
Additions	—	553,675	—	644,218	150,553	6,566,854	404,231	—	2,214	8,321,745
Transfer to investment properties	(78,000)	(310,306)	(472,530)	—	—	—	—	—	—	(860,836)
Disposals	—	—	—	—	(22,810)	(316,248)	—	—	—	(339,058)
Written off	—	—	—	—	(2,500)	—	—	—	—	(2,500)
Effect of movements in exchange rates	(221,415)	(807,391)	(67,561)	(18,049)	(59,105)	(324,474)	—	—	(582,742)	(2,080,737)
Reclassification	—	2,687,510	—	—	—	633,123	—	—	(3,320,633)	—
At 31 December 2010	11,090,278	21,265,274	958,690	2,363,737	4,346,235	36,891,782	4,746,049	39,800	3,399,362	85,101,207
<b>Depreciation</b>										
At 1 January 2009, restated	513,446	551,577	92,719	100,889	974,576	8,400,282	154,493	7,165	—	10,795,147
Depreciation for the year	209,195	163,489	(19,130)	184,546	447,110	2,720,678	280,131	3,397	—	3,989,416
Disposals	—	—	—	(28,367)	—	(23,384)	—	—	—	(51,751)
Effect of movements in exchange rates	(1,034)	—	(693)	(305)	(133)	—	—	—	—	(2,165)
At 31 December 2009/ 1 January 2010, restated	721,607	715,066	72,896	256,763	1,421,553	11,097,576	434,624	10,562	—	14,730,647
Depreciation for the year	155,782	611,459	27,216	207,983	491,915	3,165,464	463,022	3,980	—	5,126,821
Transfer to investment properties	—	(56,229)	(8,506)	—	—	—	—	—	—	(64,735)
Disposals	—	—	—	—	(18,607)	(110,963)	—	—	—	(129,570)
Effect of movements in exchange rates	(13,284)	(1,628)	—	(5,255)	(5,236)	—	—	—	—	(25,403)
At 31 December 2010	864,105	1,268,668	91,606	459,491	1,889,625	14,152,077	897,646	14,542	—	19,637,760
<b>Carrying amounts</b>										
At 1 January 2009, restated	9,677,467	7,041,244	889,559	1,173,745	979,713	15,309,247	676,906	15,135	20,576,826	56,339,842
At 31 December 2009/ 1 January 2010, restated	10,668,086	18,426,720	1,425,885	1,480,805	2,858,544	19,234,951	3,907,194	29,238	7,300,523	65,331,946
At 31 December 2010	10,226,173	19,996,606	867,084	1,904,246	2,456,610	22,739,705	3,848,403	25,258	3,399,362	65,463,447





## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

#### 3.1 Leased motor vehicles

The net carrying amount of leased motor vehicles is RM278,000 (2009: RM320,000).

#### 3.2 Security

Buildings with a carrying amount of RM6,460,190 (2009: RM6,617,472) are assigned to licensed banks for banking facilities granted to a subsidiary (see Note 13).

Leasehold land with a carrying amount of RM7,466,460 (2009: RM7,562,251) have been assigned to licensed banks for banking facilities (see Note 13).

#### 3.3 Buildings

Building with a carrying amount of RM13,733,228 (2009: RM11,745,778) in respect of a subsidiary is pending the issuance of certificate of ownership by the relevant authorities in Mainland China.

#### 3.4 Apartments

Apartments with a carrying amount of RM455,937 (2009: RM466,678) have yet to be issued with strata title to a subsidiary.

#### 3.5 Land

Included in the carrying amounts of land are:

Group	31.12.2010 RM	31.12.2009 RM Restated	1.1.2009 RM Restated
Freehold land	–	78,000	78,000
Long term leasehold land	<b>10,226,173</b>	10,590,086	9,599,467
	<b>10,226,173</b>	10,668,086	9,677,467

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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 4. INVESTMENT PROPERTIES

Group	Note	RM
<b>Cost</b>		
At 1 January 2009/31 December 2009/1 January 2010, restated		2,345,100
Transfer from property, plant and equipment		860,836
At 31 December 2010		3,205,936
<b>Depreciation</b>		
At 1 January 2009, restated		313,160
Depreciation for the year	16	35,532
At 31 December 2009/1 January 2010, restated		348,692
Depreciation for the year	16	35,532
Transfer from property, plant and equipment		64,735
At 31 December 2010		448,959
<b>Carrying amounts</b>		
At 1 January 2009, restated		2,031,940
At 31 December 2009/1 January 2010, restated		1,996,408
At 31 December 2010		2,756,977
<b>Fair values</b>		
At 1 January 2009/31 December 2009		4,720,000
At 31 December 2010		5,882,000

Included in the above are:

	Group	
	2010 RM	2009 RM
At cost:		
Freehold land	78,000	—
Leasehold land with unexpired lease period of:		
- more than 50 years	1,053,842	1,066,601
Buildings	1,161,113	929,807
Apartments	464,022	—
	2,756,977	1,996,408

Investment properties comprise two commercial properties that are leased to a third party and an apartment that is vacant. The lease is renewable on a yearly basis. No contingent rents are charged.

#### Estimation uncertainty and assumptions

The Group estimates the fair value of its investment properties based on the following key assumptions:

- the comparison of the Group's investment properties with similar properties that were listed for sale within the same locality or other comparable localities; or
- enquiries from relevant property valuers and real estate agents on market conditions and changing market trends.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 4. INVESTMENT PROPERTIES (CONTINUED)

#### Estimation uncertainty and assumptions (continued)

The following are recognised in profit or loss in respect of investment properties:

	Group	
	2010 RM	2009 RM
Rental income	342,000	103,483
Direct operating expenses:		
- income generating investment properties	(41,227)	(36,923)
- non-income generating investment properties	(5,244)	—
	<u>295,529</u>	<u>66,560</u>

As at 31 December 2010, investment property with a carrying amount of RM1,960,876 (2009: RM1,996,408) has been assigned to a licensed bank for credit facilities granted to a subsidiary (see Note 13).

### 5. GOODWILL

Cost	Group RM
At 1 January 2009/31 December 2009/31 December 2010	<u>204,230</u>
<b>Impairment loss</b>	
At 1 January 2009/31 December 2009	—
Impairment loss	<u>(204,230)</u>
At 31 December 2010	<u>(204,230)</u>
<b>Carrying amounts</b>	
At 1 January 2009/31 December 2009	<u>204,230</u>
At 31 December 2010	<u>—</u>

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

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

The recoverable amount for the above was based on its value in use calculations. These calculations use pre-tax cash flow projections based on financial budgets covering a five-year period and were based on the following key assumptions:

- Cash flows were projected based on actual operating results and a 5 year projection.
- Revenue was projected at an anticipated annual revenue growth of 5% (2009: 5%) per annum for 5 years.
- Administrative and other operating expenses were projected at an anticipated annual increase of 5% (2009: 5%).
- A pre-tax discount rate of 9.88% (2009: 11.15%) was applied in determining the recoverable amount of the unit. The discount rate was estimated based on the Group's existing rate of borrowings.

The value assigned to the key assumptions represents management's assessment of future trends in the industry.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 6. INVESTMENTS IN SUBSIDIARIES

	Company	
	2010 RM	2009 RM Restated
Unquoted shares, at cost	35,095,616	35,095,616
Less : Accumulated impairment loss	(255,000)	—
	<b>34,840,616</b>	35,095,616
Advances receivable (Quasi-equity)	18,667,272	20,730,322
	<b>53,507,888</b>	55,825,938

Details of the subsidiaries are as follows:

Name of subsidiaries	Country of incorporation	Principal activities	Effective ownership interest	
			2010	2009
<u>Held by the Company</u>				
Kawan Food Manufacturing Sdn. Bhd.	Malaysia	Manufacturing and sales of frozen food products	100%	100%
KG Pastry Marketing Sdn. Bhd.	Malaysia	Trading and distribution of frozen food products	100%	100%
Kayangan Manisan (M) Sdn. Bhd.	Malaysia	Manufacturing and sales of food products	51%	51%
Kawan Food Confectionary Sdn. Bhd.	Malaysia	Dormant	100%	100%
Kawan Food (Hong Kong) Limited*	Hong Kong	Trading and distribution of frozen food products	100%	100%
<u>Held by Kawan Food (Hong Kong) Limited</u>				
Kawan Food (Nantong) Co., Ltd.*	China	Manufacturing and sale of frozen food products	100%	100%

\* Not audited by KPMG.

The advances receivable from Kawan Food (Hong Kong) Limited are interest free and are determined to form part of the Company's net investment in the subsidiary, hence are deemed as quasi-equity.





## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 7. DEFERRED TAX ASSETS/(LIABILITIES)

#### Recognised deferred tax assets /(liabilities)

Deferred tax assets and liabilities are attributable to the following:

Group	Assets		Liabilities		Net	
	2010 RM	2009 RM	2010 RM	2009 RM	2010 RM	2009 RM
Property, plant and equipment	–	–	(3,233,518)	(2,826,302)	(3,233,518)	(2,826,302)
Inventories	56,023	88,042	–	–	56,023	88,042
Provisions	917,183	887,084	–	–	917,183	887,084
Tax loss carry-forwards	–	6,000	–	–	–	6,000
Other items	315	9,574	–	–	315	9,574
Deferred tax assets/(liabilities)	973,521	990,700	(3,233,518)	(2,826,302)	(2,259,997)	(1,835,602)
Set off	(885,088)	(890,657)	885,088	890,657	–	–
Net deferred tax assets/(liabilities)	88,433	100,043	(2,348,430)	(1,935,645)	(2,259,997)	(1,835,602)
<b>Company</b>						
Other items	–	–	(207,151)	–	(207,151)	–

#### Unrecognised deferred tax assets

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

	Group	
	2010 RM	2009 RM
Plant and equipment	(102,715)	–
Tax loss carry-forwards	186,206	347,454
Capital allowance carry-forwards	160,332	26,230
Other deductible temporary differences	1,981,331	1,607,310
	<u>2,225,154</u>	<u>1,980,994</u>



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 7. DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

#### Movement in temporary differences during the year

Group	At 1.1.2009 RM	Recognised in profit or loss (Note 20) RM	At 31.12.2009 RM	Recognised in profit or loss (Note 20) RM	At 31.12.2010 RM
Property, plant and equipment	(2,708,914)	(117,388)	(2,826,302)	(407,216)	(3,233,518)
Inventories	12,706	75,336	88,042	(32,019)	56,023
Provisions	57,000	830,084	887,084	30,099	917,183
Tax loss carry-forwards	7,420	(1,420)	6,000	(6,000)	–
Other items	47,000	(37,426)	9,574	(9,259)	315
	(2,584,788)	749,186	(1,835,602)	(424,395)	(2,259,997)

#### Company

Other items	–	–	–	(207,151)	(207,151)
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### 8. TRADE AND OTHER RECEIVABLES

	Note	Group 2010 RM	2009 RM Restated	Company 2010 RM	2009 RM Restated
<b>Non-current</b>					
Advances to subsidiary	8.1	–	–	3,486,530	5,431,777
<b>Current</b>					
<b>Trade</b>					
Trade receivables	8.2	16,270,543	16,423,009	–	–
<b>Non-trade</b>					
Advances to subsidiary	8.1	–	–	7,061,400	3,540,795
Other receivables	8.3	2,107,234	1,790,446	1,000	48,550
		2,107,234	1,790,446	7,062,400	3,589,345
<b>Total current</b>		18,377,777	18,213,455	7,062,400	3,589,345
<b>Total</b>		18,377,777	18,213,455	10,548,930	9,021,122



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 8. TRADE AND OTHER RECEIVABLES (CONTINUED)

#### 8.1 Advances to subsidiary

Advances to subsidiary bear interest at 5% per annum (2009: 5%). The repayment terms are as follow:

Agreement date	Year of maturity	Total RM	Less than 1 year RM	1-2 years RM	2-5 years RM
<b>2010</b>					
22 October 2010 (renewal)	2011	3,342,696	3,342,696	–	–
22 October 2008	2011	1,636,097	1,636,097	–	–
5 December 2008	2013	3,486,530	–	1,542,750	1,943,780
22 December 2010	2011	2,082,607	2,082,607	–	–
		<b>10,547,930</b>	<b>7,061,400</b>	<b>1,542,750</b>	<b>1,943,780</b>
<b>2009</b>					
22 October 2009 (renewal)	2010	3,540,795	3,540,795	–	–
22 October 2008	2011	1,739,817	–	1,739,817	–
5 December 2008	2013	3,691,960	–	–	3,691,960
		<b>8,972,572</b>	<b>3,540,795</b>	<b>1,739,817</b>	<b>3,691,960</b>

#### 8.2 Trade receivables

Included in trade receivables of the Group is an amount of RM321,021 (2009: RM294,635) due from a company in which certain Directors have interests.

#### 8.3 Other receivables

Included in other receivables of the Group is an amount of RM590,963 (2009: RM453,173) being deposit paid for the acquisition of plant and machineries.

### 9. OTHER INVESTMENTS, INCLUDING DERIVATIVES

	Group 2010 RM	2009 RM
<b>Current</b>		
Financial assets at fair value through profit or loss		
- Held for trading : Derivatives	<b>763,770</b>	–



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 10. INVENTORIES

At cost	Group	
	2010 RM	2009 RM
Raw materials	923,547	962,748
Packaging materials	1,621,137	1,707,429
Finished goods	2,985,796	2,905,324
	<u>5,530,480</u>	<u>5,575,501</u>
Recognised in profit or loss:		
Inventories recognised as cost of sales	<u>37,907,454</u>	<u>38,530,701</u>

### 11. CASH AND CASH EQUIVALENTS

	Group		Company	
	2010 RM	2009 RM	2010 RM	2009 RM
Deposits placed with licensed banks	2,671,977	4,908,875	344,708	17,922
Cash and bank balances	<u>20,362,322</u>	<u>11,718,032</u>	<u>12,742</u>	<u>73,287</u>
	<u>23,034,299</u>	<u>16,626,907</u>	<u>357,450</u>	<u>91,209</u>

Deposits placed with licensed banks of the Group and of the Company comprise placements in fixed income trusts of which RM1,921,691 (2009: RM1,716,104) and RM339,070 (2009: RM12,431) respectively are redeemable at call whereas RM750,286 (2009: RM3,192,771) and RM5,638 (2009: RM5,491) respectively are redeemable upon 7 days notice.

### 12. CAPITAL AND RESERVES

#### Share capital

	Group and Company			
	2010	2009	2010	2009
	Number of shares	Amount RM	Number of shares	Amount RM
<b>Authorised:</b>				
Ordinary shares of RM0.50 each	<u>200,000,000</u>	<u>100,000,000</u>	<u>200,000,000</u>	<u>100,000,000</u>
<b>Issued and fully paid:</b>				
Ordinary shares of RM0.50 each	<u>120,000,000</u>	<u>60,000,000</u>	<u>120,000,000</u>	<u>60,000,000</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 12. CAPITAL AND RESERVES (CONTINUED)

#### Translation reserve

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

#### Section 108 tax credit

Subject to agreement by the Inland Revenue Board, the Company has sufficient Section 108 tax credit and tax exempt income to frank all of its distributable reserves at 31 December 2010 if paid out as dividends.

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

### 13. LOANS AND BORROWINGS

	Group	
	2010 RM	2009 RM
<b>Non-current</b>		
Term loans	4,858,897	5,914,301
Finance lease liability	–	78,737
	<u>4,858,897</u>	<u>5,993,038</u>
<b>Current</b>		
Term loans	1,057,554	1,913,571
Finance lease liability	78,737	135,009
	<u>1,136,291</u>	<u>2,048,580</u>
	<u>5,995,188</u>	<u>8,041,618</u>

#### Finance lease liability

Finance lease liability is payable as follows:

Group	Minimum lease payments 2010 RM	Interest 2010 RM	Principal 2010 RM	Minimum lease payments 2009 RM	Interest 2009 RM	Principal 2009 RM
Less than one year	83,856	5,119	78,737	143,784	8,775	135,009
Between one and five years	–	–	–	83,856	5,119	78,737
	<u>83,856</u>	<u>5,119</u>	<u>78,737</u>	<u>227,640</u>	<u>13,894</u>	<u>213,746</u>

#### Security

The Group's term loans are secured over leasehold land and buildings of a subsidiary (see Notes 3 and 4).





## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 14. TRADE AND OTHER PAYABLES

		Group		Company	
	Note	2010 RM	2009 RM	2010 RM	2009 RM
<b>Trade</b>					
Trade payables	14.1	<b>6,146,272</b>	6,340,822	–	–
<b>Non-trade</b>					
Other payables		<b>2,994,671</b>	2,162,890	–	–
Accruals		<b>6,699,465</b>	6,837,336	<b>75,000</b>	59,273
Amount due to Directors	14.2	<b>334,227</b>	296,389	<b>264,000</b>	231,750
Amount due to subsidiaries	14.3	–	–	–	659,193
		<b>16,174,635</b>	15,637,437	<b>339,000</b>	950,216

#### 14.1 Trade payables

- (i) Credit terms of trade payables range from 30 - 60 days (2009: 30 - 60 days).
- (ii) Included in trade payables of the Group is an amount of RM13,224 (2009: RM200,375) due to a company in which certain Directors have interests.

#### 14.2 Amount due to Directors

The amount due to Directors is non-trade in nature, unsecured, interest free and has no fixed terms of repayment.

#### 14.3 Amount due to subsidiaries

The amount due to subsidiaries were non-trade in nature, unsecured, interest free and has no fixed terms of repayment.

### 15. REVENUE

	Group		Company	
	2010 RM	2009 RM	2010 RM	2009 RM
Revenue				
- Sales of goods	<b>92,187,892</b>	87,634,892	–	–
- Dividends	–	–	<b>17,500,000</b>	5,000,000
	<b>92,187,892</b>	87,634,892	<b>17,500,000</b>	5,000,000



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 16. PROFIT FOR THE YEAR

	Note	Group		Company	
		2010 RM	2009 RM	2010 RM	2009 RM
<b>Profit for the year is arrived at after charging:</b>					
Allowance for doubtful debts		–	100,930	–	–
Auditors' remuneration:					
- Statutory audit					
KPMG		107,500	100,500	55,000	53,000
Over provision in prior year		(4,000)	–	(4,000)	–
Other auditors		65,125	51,348	–	–
- Other services					
KPMG		13,000	8,000	13,000	8,000
Bad debts written off		–	95	–	–
Depreciation of investment properties	4	35,532	35,532	–	–
Depreciation of property, plant and equipment	3	5,126,821	3,989,416	–	–
Impairment loss					
- Goodwill		204,230	–	–	–
- Trade receivables		79,047	–	–	–
- Other receivables		94,203	–	47,550	–
- Investment in subsidiary		–	–	255,000	–
Inventories written off		560,463	362,683	–	–
Loss on disposal of property, plant and equipment		196,788	–	–	–
Personnel expenses (including key management personnel):					
- Contributions to Employees Provident Fund		771,954	623,574	–	–
- Wages, salaries and others		10,468,712	8,245,649	–	–
Realised foreign exchange loss		1,580,128	186,187	–	237
Rental expense in respect of:					
- Coldroom		271,913	29,993	–	–
- Equipment		81,372	43,449	–	–
- Factory		–	23,780	–	–
- Hostel		30,800	32,200	–	–
- Premises		36,890	–	–	–
Net unrealised foreign exchange loss		119,699	599,306	3,118,532	127,449
<b>and after crediting:</b>					
Gain on disposal of property, plant and equipment		–	64,853	–	–
Realised foreign exchange gain		115	–	115	–
Reimbursement from government for acquisition of land		–	1,224,636	–	–
Rental income from property		342,000	145,484	–	–
Reversal of impairment loss:					
- Trade receivables		112,496	–	–	–



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 17. KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel compensations are as follows:

	Group		Company	
	2010 RM	2009 RM	2010 RM	2009 RM
Directors:				
- Fees	257,750	282,710	257,750	282,710
- Other emoluments	1,671,595	1,194,909	–	–
- Other short term employee benefits (including estimated monetary value of benefits-in-kind)	42,524	35,025	–	–
	<u>1,971,869</u>	<u>1,512,644</u>	<u>257,750</u>	<u>282,710</u>
Other key management personnel:				
- Short term employee benefits	2,003,980	1,627,392	–	–
- Other short term employee benefits (including estimated monetary value of benefits-in-kind)	17,317	16,500	–	–
	<u>2,021,297</u>	<u>1,643,892</u>	<u>–</u>	<u>–</u>

Other key management personnel comprise persons other than the Directors of Group entities, having authority and responsibility for planning, directing and controlling the activities of the Group entities either directly or indirectly.

### 18. FINANCE INCOME

	Group		Company	
	2010 RM	2009 RM Restated	2010 RM	2009 RM Restated
Interest income of financial assets that are not at fair value through profit or loss	<u>115,231</u>	<u>190,816</u>	<u>481,168</u>	<u>412,175</u>



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 19. FINANCE COSTS

	Group		Company	
	2010 RM	2009 RM	2010 RM	2009 RM
Interest expense of financial liabilities that are not at fair value through profit or loss:				
Finance lease liability	8,775	4,737	—	—
Term loans	308,947	367,459	—	—
	317,722	372,196	—	—
Other bank charges	283,063	198,278	232	1,695
	600,785	570,474	232	1,695

## 20. INCOME TAX EXPENSE

	Group		Company	
	2010 RM	2009 RM	2010 RM	2009 RM
<b>Recognised in profit or loss</b>				
Major components of income tax expense include:				
<b>Current tax expense</b>				
Malaysian - current year	2,220,787	4,138,044	4,271,645	1,232,419
- prior years	590,961	460,341	(93,163)	—
Overseas - current year	414,604	336,230	—	—
Total current tax recognised in the profit or loss	3,226,352	4,934,615	4,178,482	1,232,419
<b>Deferred tax expense</b>				
Origination and reversal of temporary differences	750,976	(226,158)	105,571	—
Under/(Over) provided in prior years	(326,581)	(523,028)	101,580	—
Total deferred tax recognised in the profit or loss	424,395	(749,186)	207,151	—
Total income tax expense	3,650,747	4,185,429	4,385,633	1,232,419



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 20. INCOME TAX EXPENSE (CONTINUED)

	Group		Company	
	2010 RM	2009 RM	2010 RM	2009 RM
<b>Reconciliation of effective tax expense</b>				
Profit for the year	14,159,201	13,563,527	9,631,582	3,557,168
Total income tax expense	3,650,747	4,185,429	4,385,633	1,232,419
Profit excluding tax	17,809,948	17,748,956	14,017,215	4,789,587
Income tax calculated using Malaysian tax rate of 25%	4,452,487	4,437,239	3,504,304	1,197,397
Effect of tax rate in foreign jurisdiction	(208,590)	(174,013)	–	–
Non-deductible expenses	325,585	453,013	872,912	35,022
Tax exempt income	(14,295)	(45,418)	–	–
Tax incentives	(301,085)	(288,449)	–	–
Double deduction on qualifying expenditures	(915,324)	(134,256)	–	–
Recognition of previously unrecognised tax losses	(72,205)	–	–	–
Change in unrecognised temporary differences	119,708	–	–	–
Other items	86	–	–	–
Under/(Over) provided in prior years				
- current tax expense	590,961	460,341	(93,163)	–
- deferred tax expense	(326,581)	(523,028)	101,580	–
	3,650,747	4,185,429	4,385,633	1,232,419
<b>Income tax savings arising from tax losses</b>				
Income tax savings arising from utilisation of prior year tax losses previously unrecognised	72,205	–	–	–

### 21. OTHER COMPREHENSIVE INCOME

Group	Before tax RM	2010 Tax (expense)/ benefit RM	Net of tax RM	Before tax RM	2009 Tax (expense)/ benefit RM	Net of tax RM
Foreign currency translation differences for foreign operations						
- Loss arising during the year	(1,795,690)	–	(1,795,690)	(331,593)	–	(331,593)





## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 22. EARNINGS PER ORDINARY SHARE

#### Basic earnings per ordinary share

The calculation of basic earnings per ordinary share for the year ended 31 December 2010 was based on the profit attributable to ordinary shareholders of RM14,163,461 (2009: RM13,575,341) and a weighted average number of ordinary shares outstanding of 120,000,000 (2009: 120,000,000).

### 23. DIVIDENDS

Dividend recognised in the current year by the Company is:-

	Sen per share (net of tax)	Total amount RM	Date of payment
<b>2010</b>			
Interim 2010 ordinary - tax exempt	<u>1.4</u>	<u>1,680,000</u>	30 April 2010
<b>2009</b>			
Interim 2008 ordinary - tax exempt	<u>1.4</u>	<u>1,680,000</u>	30 April 2009

### 24. OPERATING SEGMENTS

The accounting policies of the reportable segments are as described in Note 2(s).

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

The Group's business segments comprise mainly the manufacturing and sale of frozen food products.

Business segmental information therefore has not been prepared as all the Group's revenue, operating profit, assets employed, liabilities, depreciation and amortisation, and non-cash expenses are mainly confined to one business segment.

#### Segment assets

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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 24. OPERATING SEGMENTS (CONTINUED)

#### Segment liabilities

Segment liabilities information is neither included in the internal management reports nor provided regularly to the Chief Executive Officer. Hence no disclosure is made on segment liabilities.

#### Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items

	Group	
	2010 RM	2009 RM
<b>Profit or loss</b>		
Total profit or loss for reportable segments	38,597,847	27,456,864
Elimination of inter-segment profits	(15,139,992)	(5,303,302)
Depreciation and amortisation	(5,162,353)	(4,024,948)
Finance income	115,231	190,816
Finance costs	(600,785)	(570,474)
Consolidated profit before tax	17,809,948	17,748,956

	External revenue RM	Depreciation RM	Finance costs RM	Finance income RM	Segment assets RM
<b>2010</b>					
Total reportable segments	194,761,688	(5,162,353)	(1,080,097)	595,121	215,855,127
Elimination of inter-segment transactions or balance	(102,573,796)	–	479,312	(479,890)	(97,185,141)
Consolidated total	92,187,892	(5,162,353)	(600,785)	115,231	118,669,986
<b>2009</b>					
Total reportable segments	136,219,882	(4,024,948)	(976,796)	597,138	183,443,846
Elimination of inter-segment transactions or balance	(48,584,990)	–	406,322	(406,322)	(74,374,046)
Consolidated total	87,634,892	(4,024,948)	(570,474)	190,816	109,069,800



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 24. OPERATING SEGMENTS (CONTINUED)

#### Geographical segments

The manufacturing of frozen food products is carried out solely in Malaysia and China.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers while segment assets are based on the geographical location of assets. The amounts of non-current assets do not include financial instruments (including investments in subsidiaries) and deferred tax assets.

	2010		2009	
	Revenue RM	Non-current assets RM	Revenue RM	Non-current assets RM
Malaysia	38,292,023	40,680,576	34,578,663	38,215,127
Rest of Asia	12,776,386	27,539,848	12,499,179	29,317,457
Europe	10,247,460	—	11,117,317	—
North America	24,619,873	—	22,875,953	—
Oceania	6,252,150	—	6,444,296	—
Africa	—	—	119,484	—
	<u>92,187,892</u>	<u>68,220,424</u>	<u>87,634,892</u>	<u>67,532,584</u>

#### Major customers

The Group has one (2009: one) major customer contributing revenue greater than 10% of the Group's total revenue.

### 25. FINANCIAL INSTRUMENTS

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

#### 25.1 Categories of financial instruments

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

- (a) Loans and receivables (L&R);
- (b) Fair value through profit or loss (FVTPL):
  - Held for trading (HFT);
- (c) Other financial liabilities measured at amortised cost (OL).



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 25. FINANCIAL INSTRUMENTS (CONTINUED)

#### 25.1 Categories of financial instruments (continued)

2010	Carrying amount RM	L&R/ (OL) RM	FVTPL -HFT RM
<b>Financial assets</b>			
<b>Group</b>			
Other investments, including derivatives	763,770	–	763,770
Trade and other receivables	18,377,777	18,377,777	–
Cash and cash equivalents	23,034,299	23,034,299	–
	<u>42,175,846</u>	<u>41,412,076</u>	<u>763,770</u>
<b>Company</b>			
Trade and other receivables	10,548,930	10,548,930	–
Cash and cash equivalents	357,450	357,450	–
	<u>10,906,380</u>	<u>10,906,380</u>	<u>–</u>
<b>Financial liabilities</b>			
<b>Group</b>			
Loans and borrowings	(5,995,188)	(5,995,188)	–
Trade and other payables	(16,174,635)	(16,174,635)	–
	<u>(22,169,823)</u>	<u>(22,169,823)</u>	<u>–</u>
<b>Company</b>			
Trade and other payables	(339,000)	(339,000)	–
	<u>(339,000)</u>	<u>(339,000)</u>	<u>–</u>

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

	Group RM	Company RM
Net gains/(losses) arising on:		
Fair value through profit or loss:		
- Held for trading	611,242	–
Loans and receivables	(2,148,499)	(621,749)
Financial liabilities measured at amortised cost	(356,973)	–
	<u>(1,894,230)</u>	<u>(621,749)</u>



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 25. FINANCIAL INSTRUMENTS (CONTINUED)

#### 25.3 Financial risk management

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

- Credit risk
- Liquidity risk
- Market risk

#### 25.4 Credit risk

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

##### Receivables

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

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Normally financial guarantees given by banks, shareholders or directors of customers are obtained, and credit evaluations are performed on customers requiring credit over a certain amount.

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

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

Management has taken reasonable steps to ensure that receivables that are neither past due nor impaired are stated at their realisable values. A significant portion of these receivables are regular customers that have been transacting with the Group. The Group uses ageing analysis to monitor the credit quality of the receivables. Any receivables having significant balances past due more than 90 days, which are deemed to have higher credit risk, are monitored individually.

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

	Group	
	2010 RM	2009 RM
Domestic	8,576,921	8,100,646
North America	3,590,676	4,385,780
Europe	556,994	900,397
Rest of Asia	1,638,582	1,564,994
Oceania	1,907,370	1,471,192
	<u>16,270,543</u>	<u>16,423,009</u>





## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 25. FINANCIAL INSTRUMENTS (CONTINUED)

#### 25.4 Credit risk (continued)

##### Receivables (continued)

##### Impairment losses

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

Group	Gross RM	Individual impairment RM	Net RM
<b>2010</b>			
0 – 30 days	9,667,524	–	9,667,524
31 – 60 days	3,174,698	–	3,174,698
61 – 90 days	1,241,579	–	1,241,579
More than 90 days	2,309,705	(122,963)	2,186,742
	<u>16,393,506</u>	<u>(122,963)</u>	<u>16,270,543</u>
<b>2009</b>			
0 – 30 days	6,686,471	–	6,686,471
31 – 60 days	4,213,355	–	4,213,355
61 – 90 days	2,871,091	–	2,871,091
More than 90 days	2,858,428	(206,336)	2,652,092
	<u>16,629,345</u>	<u>(206,336)</u>	<u>16,423,009</u>

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

	Group	
	2010 RM	2009 RM
At 1 January, as previously stated	206,336	145,406
Effect of adoption of FRS 139	–	–
At 1 January, restated	<u>206,336</u>	<u>145,406</u>
Impairment loss recognised	79,047	201,045
Impairment loss reversed	(112,496)	(140,115)
Impairment loss written off	<u>(49,924)</u>	<u>–</u>
At 31 December	<u>122,963</u>	<u>206,336</u>

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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 25. FINANCIAL INSTRUMENTS (CONTINUED)

#### 25.4 Credit risk (continued)

##### Financial Guarantees

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

The Company provides unsecured financial guarantees to banks in respect of banking facilities granted to a subsidiary.

The Company monitors on an ongoing basis the results of the subsidiary and repayments made by the subsidiary.

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

The maximum exposure to credit risk amounts to RM5,916,451 (2009: RM7,827,872) representing the outstanding banking facilities of the subsidiary as at end of the reporting period.

As at end of the reporting period, there was no indication that the subsidiary would default on repayment.

The financial guarantees have not been recognised since the fair value on initial recognition was nil.

##### Inter Company Balances

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

The Company provides unsecured advances to a subsidiary. The Company monitors the results of the subsidiary regularly.

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

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

Advances are only provided to subsidiaries which are wholly owned by the Company.

##### *Impairment losses*

As at the end of the reporting period, there was no indication that the advances to the subsidiary are not recoverable.

#### 25.5 Liquidity risk

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

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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 25. FINANCIAL INSTRUMENTS (CONTINUED)

#### 25.5 Liquidity risk (continued)

##### *Maturity analysis*

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

2010	Carrying amount RM	Contractual interest rate %	Contractual cash flows RM	Less than year RM	1-2 years RM	2-5 years RM
<b>Group</b>						
<i>Non-derivative financial liabilities</i>						
Secured term loans	5,916,451	4.65% to 5.2%	6,763,000	1,298,186	1,092,736	4,372,078
Finance lease liability	78,737	6.5%	83,856	83,856	–	–
Trade and other payables	16,174,635	–	16,174,635	16,174,635	–	–
	<u>22,169,823</u>		<u>23,021,491</u>	<u>17,556,677</u>	<u>1,092,736</u>	<u>4,372,078</u>
<b>Company</b>						
<i>Non-derivative financial liabilities</i>						
Trade and other payables	<u>339,000</u>	–	<u>339,000</u>	<u>339,000</u>	<u>–</u>	<u>–</u>

#### 25.6 Market risk

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

##### 25.6.1 Currency risk

The Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of Group entities. The currencies giving rise to this risk are primarily U.S. Dollar (USD).

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

The Group manages its foreign currency exposure by a policy of matching as far as possible receipts and payments in each individual currency. The Group's exposure to foreign currency risk is monitored on an ongoing basis. The Group enters into forward exchange contracts in the normal course of business, where appropriate, to manage its exposure against foreign currency fluctuations on sales and purchases transactions denominated in foreign currencies.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 25. FINANCIAL INSTRUMENTS (CONTINUED)

## 25.6 Market risk (continued)

## 25.6.1 Currency risk (continued)

*Exposure to foreign currency risk*

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

Group Denominated in	<-----2010----->		<-----2009----->	
	USD RM	SGD RM	USD RM	SGD RM
Trade receivables	43,061	662,162	504,851	986,948
Trade payables	(341,706)	—	(205,827)	—
Forward exchange contracts	763,770	—	—	—
	<u>465,125</u>	<u>662,162</u>	<u>299,024</u>	<u>986,948</u>

Company	Denominated in USD	
	2010 RM	2009 RM
Investment in a subsidiary	18,667,272	20,730,322
Advances to a subsidiary	<u>10,547,930</u>	<u>8,972,572</u>

*Currency risk sensitivity analysis*

Foreign currency risk arises from Group entities which have a RM functional currency.

A 10% strengthening of the RM against the following currencies at the end of the reporting period would have increased (decreased) equity and post-tax profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

2010	Group		Company	
	Equity RM	Profit or loss RM	Equity RM	Profit or loss RM
USD	(1,102,319)	764,106	(2,190,914)	(2,190,914)
SGD	(49,662)	(49,662)	—	—
	<u>(1,151,981)</u>	<u>714,444</u>	<u>(2,190,914)</u>	<u>(2,190,914)</u>

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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 25. FINANCIAL INSTRUMENTS (CONTINUED)

#### 25.6 Market risk (continued)

##### 25.6.2 Interest rate risk

The Group's fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. The Group's variable rate borrowings are exposed to a risk of changes in cash flows due to changes in interest rates. Short term receivables and payables are not significantly exposed to interest rate risk.

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

The Group's exposure to interest rate risk mainly arises from its short term funds, fixed deposits and borrowings and is managed through effective negotiation with financial institutions for best available rates.

##### *Exposure to interest rate risk*

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

	Group		Company	
	2010 RM	2009 RM	2010 RM	2009 RM
<b>Fixed rates instruments</b>				
Financial assets	2,671,977	4,908,875	344,708	17,922
Financial liabilities	(282,779)	(1,519,250)	—	—
	<u>2,389,198</u>	<u>3,389,625</u>	<u>344,708</u>	<u>17,922</u>
<b>Floating rates instruments</b>				
Financial liabilities	<u>(5,712,409)</u>	<u>(6,522,368)</u>	<u>—</u>	<u>—</u>

##### *Interest rate risk sensitivity analysis*

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

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

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

As interest rate risk arising from Group's operations is not material, sensitivity analysis is not presented.





## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 25. FINANCIAL INSTRUMENTS (CONTINUED)

#### 25.7 Fair values of financial instruments

The carrying amounts of cash and cash equivalents, short term receivables and payables approximate fair values due to the relatively short term nature of these financial instruments.

It was not practicable to estimate the fair value of the Company's investment in unquoted shares due to the lack of comparable quoted market prices and the inability to estimate fair value without incurring excessive costs.

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

Group	2010		2009	
	Carrying amount RM	Fair value RM	Carrying amount RM	Fair value RM
Forward exchange contracts: Assets	763,770	763,770	–	152,528
Secured term loans	5,916,451	5,916,451	7,827,872	7,417,161
Finance lease liability	78,737	78,737	213,746	213,746
	<u>6,758,958</u>	<u>6,758,958</u>	<u>8,041,618</u>	<u>7,783,435</u>
<b>Company</b>				
Advances to a subsidiary (interest bearing)	<u>10,547,930</u>	<u>10,547,930</u>	<u>8,972,572</u>	<u>8,972,572</u>

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

#### *Derivatives*

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

#### *Non-derivative financial liabilities*

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the end of the reporting period. For finance leases the market rate of interest is determined by reference to similar lease agreements.

#### *Interest rates used to determine fair value*

The interest rates used to discount estimated cash flows, when applicable, are as follows:

	2010	2009
Fixed rate loans	5.2%	5.2%
Finance leases	<u>6%</u>	<u>6%</u>



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 26. CAPITAL MANAGEMENT

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

There were no changes in the Group's approach to capital management during the year.

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

### 27. CAPITAL AND OTHER COMMITMENTS

	Group	
	2010 RM	2009 RM
<b>Capital expenditure commitments</b>		
<b>Property, plant and equipment</b>		
Authorised but not contracted for	28,293,000	–
Contracted but not provided for and payable:		
Within one year	4,049,700	967,000
	<b>32,342,700</b>	<b>967,000</b>

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## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 28. RELATED PARTIES

## Identity of related parties

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

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

		Amount transacted for the year ended 31 December RM	Gross balance outstanding as at 31 December RM	Net balance outstanding as at 31 December RM
	Note			
<b>Company - 2010</b>				
<b>Subsidiaries</b>				
Kawan Food Manufacturing Sdn. Bhd.				
Advances payable		659,193	—	—
Dividend receivable		(17,500,000)	7,875,000	7,875,000
Kawan Food (Nantong) Co., Ltd.				
Advances receivable	(i)	(2,150,950)	9,719,325	9,719,325
Interest income on advances receivables	(i)	(479,890)	828,605	828,605
<b>Company - 2009</b>				
<b>Subsidiaries</b>				
Kawan Food Manufacturing Sdn. Bhd.				
Advances payable		3,295,413	(659,193)	(659,193)
Dividend receivable		(5,000,000)	—	—
Kawan Food (Nantong) Co., Ltd.				
Advances receivable	(i)	(3,018,250)	8,566,250	8,566,250
Interest income on advances receivables	(i)	(406,322)	406,322	406,322
<b>Group - 2010</b>				
A company in which				
Gan Thiam Chai, a Director				
of the Company has interests:				
Hot & Roll Sdn Bhd				
Sales		(235,446)	21,872	21,872
A company in which the spouse				
of Gan Thiam Hock, a Director				
of the Company has interests:				
K.C. Belight Food Industry (M) Sdn. Bhd.				
Sales		(779,862)	299,149	299,149
Purchases		463,952	(13,224)	(13,224)



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 28. RELATED PARTIES (CONTINUED)

#### Identity of related parties (continued)

	Note	Amount transacted for the year ended 31 December RM	Gross balance outstanding as at 31 December RM	Net balance outstanding as at 31 December RM
<b>Group – 2010 (continued)</b>				
A company in which				
Nareshchandra Gordhandas,				
a Director of the Company has interests:				
Shana Foods Limited				
Sales		(9,051,869)	360,686	360,686
Rubicon Food Products Limited				
Sales		(1,797,925)	92,056	92,056
<b>Group - 2009</b>				
A company in which				
Gan Thiam Chai, a Director				
of the Company has interests:				
Hot & Roll Sdn Bhd				
Sales		(224,211)	21,338	21,338
A company in which the spouse				
of Gan Thiam Hock, a Director				
of the Company has interests:				
K.C. Belight Food Industry (M) Sdn. Bhd.				
Sales		(621,859)	273,297	273,297
Purchases		833,109	(200,375)	(200,375)

All of the above outstanding balances are expected to be settled in cash by/to the related parties.

(i) Advances receivables are unsecured, subject to interest at 5% (2009: 5%) and repayable in 2011 and 2013.

### 29. BUSINESS COMBINATIONS

#### Prior year business combination involving entities under common control

In December of 2009, the Group undertook an internal reorganisation and restructured the entire interest in shares of Kawan Food (Nantong) Co., Ltd. ("KFN"), a wholly-owned subsidiary of the Company, to Kawan Food (Hong Kong) Limited ("KFHK"), another wholly-owned subsidiary of the Company, thereby resulting in KFN becoming a wholly-owned subsidiary of KFHK.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 30. SIGNIFICANT CHANGES IN ACCOUNTING POLICIES

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

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

##### *Derivatives*

Prior to the adoption of FRS 139, derivative contracts were recognised in the financial statements on settlement date. With the adoption of FRS 139, derivative contracts are now categorised as fair value through profit or loss and measured at their fair values with the gain or loss recognised in profit or loss.

##### *Financial guarantee contracts*

Prior to the adoption of FRS 139, financial guarantee contracts were not recognised in the statement of financial position unless it becomes probable that the guarantee may be called upon. With the adoption of FRS 139, financial guarantee contracts are now recognised initially at their fair values and subsequently stated at their initially measured amount less cumulative amortisation. When settlement of a financial guarantee contract becomes probable, an estimate of the obligation is made.

##### *Advances to subsidiaries*

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

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

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

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

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

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

As of 1 January 2010, the Group determines and presents operating segments based on the information that internally is provided to the Chief Executive Officer, who is the Group's chief operating decision maker. This change in accounting policy is due to the adoption of FRS 8. Previously operating segments were determined and presented in accordance with FRS 114<sup>2004</sup>, *Segment Reporting*.

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





## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

#### 30.4 FRS 117, *Leases*

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

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

### 31. COMPARATIVE FIGURES

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

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

Balance sheets as at 31 December 2009 have been re-presented as statements of financial position.

#### 31.2 FRS 117, *Leases*

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

	31.12.2009		Group		1.1.2009	
	As restated RM	As previously stated RM	As restated RM	As previously stated RM	As restated RM	As previously stated RM
<b>Statements of financial position</b>						
Property, plant and equipment	65,331,946	54,741,860	56,339,842	46,740,375		
Prepaid lease payments	—	11,656,687	—	10,678,829		
Investment properties	1,996,408	929,807	2,031,940	952,578		



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 31. COMPARATIVE FIGURES (CONTINUED)

## 31.3 Conform with current year's presentation

Certain comparative figures have been restated to conform with current year's presentation. The changes in comparative figures are as stated below:

	Group 31.12.2009		Company 31.12.2009	
	As restated RM	As previously stated RM	As restated RM	As previously stated RM
<b>Statements of financial position</b>				
Investments in subsidiaries	–	–	55,825,938	35,095,616
Current tax assets	701,797	1,357,303	–	–
Trade and other receivables				
- Non-current assets	–	–	5,431,777	–
- Current assets	18,213,455	17,557,949	3,589,345	29,751,444
<b>Statements of comprehensive income</b>				
Other income	1,551,557	1,742,373	–	412,175
Finance income	190,816	–	412,175	–
<b>Statements of cash flows</b>				
Unrealised foreign exchange loss	–	–	127,449	127,686
Changes in trade and other receivables, prepayments and other financial assets	(2,473,725)	(1,818,219)	488,826	(20,648,055)
Income tax paid	(5,646,512)	(6,302,018)	–	–
Disposal of subsidiary, net of cash acquired	–	–	–	20,650,000
Increase in investments in subsidiaries	–	–	(3,774,056)	(3,693,734)
Finance income from advances to a subsidiary	–	–	–	406,322



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 32. SUPPLEMENTARY INFORMATION ON THE BREAKDOWN OF REALISED AND UNREALISED PROFIT OR LOSS

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

	Group 2010 RM	Company 2010 RM
The retained earnings of the Company and its subsidiaries:		
- Realised	63,249,625	15,768,720
- Unrealised	(7,027,593)	(3,603,632)
	56,222,032	12,165,088
Less: Consolidation adjustments	(21,646,338)	-
Total group retained earnings as per consolidated accounts	34,575,694	12,165,088

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



## STATEMENT BY DIRECTORS

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

In the opinion of the Directors, the financial statements set out on pages 38 to 89 are 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 financial year then ended.

In the opinion of the Directors, the information set out in Note 32 to the financial statements 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 Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants, and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

.....  
**GAN THIAM CHAI**

.....  
**KWAN SOK KAY**

Petaling Jaya,

Date: 28 April 2011



## STATUTORY DECLARATION

PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965

I, **TEOH SOON TEK**, the officer primarily responsible for the financial management of Kawan Food Berhad, do solemnly and sincerely declare that the financial statements set out on pages 38 to 90 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 the above named in Petaling Jaya on 28 April 2011.

.....  
**TEOH SOON TEK**

Before me:





## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KAWAN FOOD BERHAD

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Kawan Food Berhad, which comprise the statements of financial position as at 31 December 2010 of the Group and of the Company, and the statements of comprehensive income, changes in equity and cash flows of the Group and of the Company for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 38 to 89.

#### *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 are 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 judgment, 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 subsidiaries 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' reports of all the subsidiaries of which we have not acted as auditors, which are indicated in Note 6 to the financial statements.
- c) We are satisfied that the accounts of the subsidiaries 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 subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.



## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KAWAN FOOD BERHAD (CONTINUED)

### OTHER REPORTING RESPONSIBILITIES

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The information set out in Note 32 to the financial statements has been compiled by the Company as required by the Bursa Malaysia Securities Berhad Listing Requirements and is not required by the Financial Reporting Standards. We have extended our audit procedures to report on the process of compilation of such information. In our opinion, the information has been properly compiled, in all material respects, in accordance with the Guidance on Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants and presented based on the format prescribed by 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.

.....  
**KPMG**

Firm Number: AF 0758  
Chartered Accountants

.....  
**CHIN SHOON CHONG**

Approval Number: 2823/04/13(J)  
Chartered Accountant

Petaling Jaya,

Date: 28 April 2011



## LIST OF PROPERTIES

Location / Title details	Description / Existing use	Tenure of Lease	Approx. age of building	Date of Acquisition	Approx. Land Area / of Built-up Area	Issuance of Certificate of Fitness	Net Book Value RM
* Held under H.S. (D) No. 98527, Bandar Shah Alam, Daerah Petaling, Negeri Selangor, with address at Lot 20, Jalan Pengapit 15/19, 40000 Shah Alam, Selangor Darul Ehsan	A double storey factory for manufacturing activities with cold storage facilities, and a double storey office attached	Leasehold interest for a term of 99 years expiring on 6 August 2074	31 years	28 May 2004	7,337.24 sq. metres / 6,417.91 sq. metres	23 May 2007	6,303,762
** Held under PTD No. 59709 H.S. (D) 207237 Mukim of Tebrau, Negeri Johor with address at No.52, Jalan Mutiara Emas 5/12, Taman Mount Austin, 81100 Johor Bahru	A one and a half storey terrace factory with cold storage facilities, and an office annexed	Freehold	12 years	31 May 2005	289.86 sq. metres / 254 sq. metres	2 November 1998	332,077
* Held under H.S. (D) 98490, P.T. No. .617, Seksyen 16, Bandar Shah Alam, Negeri Selangor, with address at Lot 4, Jalan Lada Hitam 16/12A, 40000 Shah Alam, Selangor Darul Ehsan	A single storey factory with an office annexed	Leasehold interest for a term of 99 years expiring on 20 July 2094	21 years	28 June 1999	4,484 sq. metres / 3,149.43 sq. metres	24 September 1990	1,960,877
* Held under H.S. (D) 98500 for P.T. No. 714, Seksyen 16, Bandar Shah Alam, Negeri Selangor, with address at Lot 2A, Persiaran Kemajuan, Seksyen 16, 40000 Shah Alam, Selangor Darul Ehsan	A single storey factory with cold storage facilities; and a single storey office attached	Leasehold interest for a term of 99 years expiring on 20 July 2094	21 years	25 May 2005	21,796 sq. metres / 3,584.91 sq. metres	7 May 1990	7,622,888
* Parcel No. 2F-41C with address at 41C-2F, Jalan Datuk Dagang 31, Taman Sentosa, 41200 Klang, Selangor Darul Ehsan  Held under Master Title H.S. (D) 56067 PT 59174 in the Mukim of Klang, District of Klang, State of Selangor Darul Ehsan	Shop apartment occupied as staff hostel	Freehold	11 years	16 May 2003	67.85 sq. metres	27 March 2003	55,026



## LIST OF PROPERTIES (CONTINUED)

Location / Title details	Description / Existing use	Tenure of Lease	Approx. age of building	Date of Acquisition	Approx. Land Area / of Built-up Area	Issuance of Certificate of Fitness	Net Book Value RM
<p>* Parcel No. 2B-41D with address at 41D-2B, Jalan Datuk Dagang 31, Taman Sentosa, 41200 Klang, Selangor Darul Ehsan</p> <p>Held under Master Title H.S. (D) 56067 PT 59174 in the Mukim of Klang, District of Klang, State of Selangor Darul Ehsan</p>	Shop apartment occupied as staff hostel	Freehold	11 years	29 July 2003	67.85 sq. metres	27 March 2003	51,194
<p>* Parcel No. 2F-31C with address at 31C-2F, Jalan Datuk Dagang 31, Taman Sentosa, 41200 Klang, Selangor Darul Ehsan</p> <p>Held under Master Title H.S. (D) 56062 PT 59169 in the Mukim of Klang, District of Klang, State of Selangor Darul Ehsan</p>	Shop apartment occupied as staff hostel	Freehold	11 years	16 May 2003	67.85 sq. metres	27 March 2003	55,026
<p>* Parcel No. 2B-21D with address at 21D-2B, Jalan Datuk Dagang 31, Taman Sentosa, 41200 Klang, Selangor Darul Ehsan</p> <p>Held under Master Title H.S. (D) 56057 PT 59164 in the Mukim of Klang, District of Klang, State of Selangor Darul Ehsan</p>	Shop apartment occupied as staff hostel	Freehold	11 years	29 July 2003	67.85 sq. metres	27 March 2003	51,194
<p>* Shop Apartment Parcel No. B3/3F with address at 57-3A, Jalan Bendahara 13, Taman Sri Sentosa, Jaya Business Park, 41200 Klang, Selangor Darul Ehsan</p> <p>Held under Master Title H.S. (D) 67189 Lot No. P.T. No. 65634 in the Mukim Klang District of Klang State of Selangor</p>	Shop apartment occupied as staff hostel	Freehold	10 years	21 February 2001	69.52 sq. metres	26 October 2004	48,700



## LIST OF PROPERTIES (CONTINUED)

Location / Title details	Description / Existing use	Tenure of Lease	Approx. age of building	Date of Acquisition	Approx. Land Area / of Built-up Area	Issuance of Certificate of Fitness	Net Book Value RM
<p>* Shop Apartment Parcel No. B4/3F with address at 55-3A, Jalan Bendahara 13, Taman Sri Sentosa, Jaya Business Park, 41200 Klang, Selangor Darul Ehsan</p> <p>Held under Master Title H.S. (D) 67190 Lot No. P.T. No. 65635 in the Mukim Klang District of Klang State of Selangor</p>	Shop apartment occupied as staff Hostel	Freehold	10 years	21 February 2001	69.52 sq. metres	26 October 2004	48,700
<p>* Shop Apartment Parcel No. D4/3F with address at 7-3A, Jalan Bendahara 13, Taman Sri Sentosa, Jaya Business Park, 41200 Klang, Selangor Darul Ehsan</p> <p>Held under Master Title H.S. (D) 67206 Lot No. P.T. No. 65651 in the Mukim Klang District of Klang State of Selangor</p>	Shop apartment occupied as staff hostel	Freehold	10 years	21 February 2001	69.52 sq. metres	26 October 2004	48,700
<p>* Shop Apartment Parcel No. D3/3F with address at 5-3A, Jalan Bendahara 13, Taman Sri Sentosa, Jaya Business Park, 41200 Klang, Selangor Darul Ehsan</p> <p>Held under Master Title H.S. (D) 67207 Lot No. P.T. No. 65652 in the Mukim Klang District of Klang State of Selangor</p>	Shop apartment occupied as staff hostel	Freehold	10 years	21 February 2001	69.52 sq. metres	26 October 2004	48,700



# LIST OF PROPERTIES (CONTINUED)

Location / Title details	Description / Existing use	Tenure of Lease	Approx. age of building	Date of Acquisition	Approx. Land Area / of Built-up Area	Issuance of Certificate of Fitness	Net Book Value RM
* Shop Apartment Parcel No. D2/3F with address at 57-3A, Jalan Bendahara 13, Taman Sri Sentosa, Jaya Business Park, 41200 Klang, Selangor Darul Ehsan  Held under Master Title H.S. (D) 67208 Lot No. P.T. No. 65663 in the Mukim Klang District of Klang State of Selangor	Shop apartment occupied as staff hostel	Freehold	10 years	21 February 2001	69.52 sq. metres	26 October 2004	48,700
*** Industrial Land at 13, Kexing Road North, Nantong Economic & Technology Development Area ("NETDA"), China  Held under Lot No. 03-10-(001)-338, Land Registry No. 35.45-92.10	A double storey factory for manufacturing activities with cold storage facilities; and a double storey office attached	Leasehold interest for a term of 50 years expiring on 25 December 2056	2 year	26 December 2006	40,773.90 sq. metres / 16,000 sq. metres	N/A	16,492,940
*** Apartment at Unit 306, Building No. 11, 107 Xinkai Road, NETDA, Jiangsu Province, 226009 China	Apartment	Leasehold interest for a term of 70 years expiring on 19 August 2074	5 years	19 January 2007	223.44 sq. metres	N/A	411,147
*** Apartment at Unit 2904 Building No. 9, Zhongnan Century City, Chongchuan District, Nantong, Jiangsu Province, 226009 China	Apartment	Leasehold interest for a term of 75 years expiring on 1 April 2075	2 year	30 December 2006	179.42 sq. metres	N/A	464,024

- \* Held under Kawan Food Manufacturing Sdn Bhd  
\*\* Held under KG Pastry Marketing Sdn Bhd  
\*\*\* Held under Kawan Food (Nantong) Co., Ltd.





## ANALYSIS OF SHAREHOLDINGS

(AS PER RECORD OF DEPOSITORS AS AT 29 APRIL 2011)

### ORDINARY SHARES

Authorised Share Capital	:	RM100,000,000 (200,000,000 Ordinary Shares of RM0.50 each)
Paid-up & Issued Share Capital	:	RM 60,000,000 (120,000,000 Ordinary Shares of RM0.50 each)
Class of Share	:	Ordinary Share of RM0.50 each
Voting Rights	:	1 vote per Ordinary Share

### DISTRIBUTION OF SHAREHOLDINGS

Size of Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares Held	% of Shareholdings
Less than 100	28	2.43	907	0.00
100 – 1,000	652	56.50	119,654	0.10
1,001 – 10,000	284	24.61	1,279,950	1.07
10,001 – 100,000	137	11.87	4,630,795	3.86
100,001 to less than 5% of issued shares	49	4.24	26,848,700	22.37
5% and above of issued shares	4	0.35	87,119,994	72.60
<b>Total</b>	<b>1,154</b>	<b>100.00</b>	<b>120,000,000</b>	<b>100.00</b>

### SUBSTANTIAL SHAREHOLDERS

(as per Register of Substantial Shareholders as at 29 April 2011)

Name	Direct Interest		Indirect Interest	
	No. of Shares	%	No. of Shares	%
1. Gan Thiam Chai	39,959,994	33.30	-	-
2. Goshenite Limited	28,800,000	24.00	-	-
3. Gan Thiam Hock	10,080,000	8.40	-	-
4. Kwan Sok Kay	10,060,500	8.38	-	-
5. Nareshchandra Gordhandas Nagrecha	-	-	28,800,000*	24.00

Note:

\* Deemed interest pursuant to Section 6A of the Companies Act, 1965 by virtue of his shareholdings in Goshenite Limited.

### DIRECTORS' SHAREHOLDINGS

(as per Register of Directors' Shareholdings as at 29 April 2011)

Name	Direct Interest		Indirect Interest	
	No. of Shares	%	No. of Shares	%
1. Gan Thiam Chai	39,959,994	33.30	-	-
2. Gan Thiam Hock	10,080,000	8.40	-	-
3. Kwan Sok Kay	10,060,500	8.38	-	-
4. Chen Seng Chong	225,000	0.19	-	-
5. Lim Peng @ Lim Pang Tun	150,000	0.13	-	-
6. Soo Yoke Mun	-	-	-	-
7. Jayendra Janardan Ved	-	-	-	-
8. Nareshchandra Gordhandas Nagrechan	-	-	28,800,000*	24.00

Note:

\* Deemed interest pursuant to Section 6A of the Companies Act, 1965 by virtue of his shareholdings in Goshenite Limited.

# ANALYSIS OF SHAREHOLDINGS (CONTINUED)

(AS PER RECORD OF DEPOSITORS AS AT 29 APRIL 2011)

## Thirty (30) Largest Shareholders as at 29 April 2011

(Without aggregating the securities from different securities accounts belonging to same person)

No.	Name of Shareholders	No. of Ordinary Shares of RM0.50 each	% of Shares
1.	Gan Thiam Chai	39,959,994	33.30
2.	Goshenite Limited	28,800,000	24.00
3.	Gan Thiam Hock	10,080,000	8.40
4.	Kwan Sok Kay	8,280,000	6.90
5.	Niels John Madsen	4,009,500	3.34
6.	HLG Nominee (Asing) Sdn Bhd (Hong Leong Bank Bhd for Wu Chung Chen)	2,000,000	1.67
7.	Kong Poh Yin	1,993,500	1.66
8.	Kwan Sok Kay	1,780,500	1.48
9.	Yap Sook Chen	1,075,200	0.90
10.	HLG Nominee (Asing) Sdn Bhd (Hong Leong Bank Bhd for Chen Tsai Tien)	1,018,050	0.85
11.	HLG Nominee (Asing) Sdn Bhd (Hong Leong Bank Bhd for Chiang Peter)	868,000	0.72
12.	Lai Yew Chung	793,000	0.66
13.	Mayban Securities Nominees (Asing) Sdn Bhd (Pledged Securities Account for Shah Kamal Kant Zaverchand (Dealer 065))	772,350	0.64
14.	Kong Poh Kheng	739,050	0.62
15.	HLG Nominee (Asing) Sdn Bhd (Hong Leong Bank Bhd for Wu Chia Lung)	719,850	0.60
16.	HLG Nominee (Asing) Sdn Bhd (Hong Leong Bank Bhd for Wong Chi Fu)	655,200	0.55
17.	Mayban Nominees (Tempatan) Sdn Bhd Etiqa Insurance Berhad (Growth Fund)	650,000	0.54
18.	Loh Ah Heng	645,500	0.54
19.	Mayban Nominees (Tempatan) Sdn Bhd Etiqa Insurance Berhad (Balance Fund)	600,000	0.50
20.	Mayban Nominees (Tempatan) Sdn Bhd Etiqa Insurance Berhad (Prem Equity Fund)	600,000	0.50
21.	Lai Yew Weng	570,200	0.48
22.	TA Securities Holdings Berhad IVT (DDG)	532,700	0.44
23.	Lydia Claire Lim Lih Yueah	475,000	0.40
24.	Lim Seong Tin	474,000	0.40
25.	Amanahraya Trustees Berhad Public Far-East Consumer Themes Fund	438,800	0.37
26.	Leong Kim Mooi	384,500	0.32
27.	Min Seng Realty Sdn Bhd	352,150	0.29
28.	Lim Chai Chang	330,000	0.28
29.	Chua Sook Ming	324,350	0.27
30.	Lorna Marie Koh	262,500	0.22
<b>Total</b>		<b>110,183,894</b>	<b>91.82</b>

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I/We \_\_\_\_\_ of \_\_\_\_\_  
\_\_\_\_\_ being a member/members of **KAWAN FOOD BERHAD**  
hereby appoint\* the Chairman of the meeting or \_\_\_\_\_ of \_\_\_\_\_  
\_\_\_\_\_ or  
failing whom \_\_\_\_\_ of \_\_\_\_\_

as my/our Proxy(ies) to vote for me/us and on my/our behalf at the Seventh Annual General Meeting of the Company to be held at Mauna Lani A, Level 1, Holiday Inn Kuala Lumpur Glenmarie, 1, Jalan Usahawan U1/8, 40250 Shah Alam, Selangor Darul Ehsan on Monday, 20 June 2011 at 10.00 a.m. and at any adjournment thereof.

\*My/\*Our proxy(ies) is/are to vote as indicated below:-

RESOLUTIONS		FOR	AGAINST
<b>ORDINARY BUSINESS</b>			
1.	To approve the payment of Directors' fees for the year ended 31 December 2010.	Ordinary Resolution 1	
2.	To re-elect the following Directors who are retiring in accordance with Article 80 of the Company's Articles of Association:- 2.1 Mdm. Kwan Sok Kay 2.2 Mr. Chen Seng Chong 2.3 Mr. Soo Yoke Mun	Ordinary Resolution 2 Ordinary Resolution 3 Ordinary Resolution 4	
3.	To re-appoint Messrs KPMG as the Company's Auditors and to authorise the Board of Directors to fix their remuneration.	Ordinary Resolution 5	
<b>SPECIAL BUSINESS</b>			
4.	Authority to Directors to allot and issue shares pursuant to Section 132D of the Companies Act, 1965.	Ordinary Resolution 6	
5.	Proposed Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature with Shana Foods Ltd. and Rubicon Food Products Limited.	Ordinary Resolution 7	
6.	Proposed New Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature with K.C. Belight Food Industry (M) Sdn. Bhd.	Ordinary Resolution 8	

[Please indicate with (X) how you wish your vote to be casted. If no specific direction as to voting is given, the proxy will vote or abstain at his/her discretion]

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2011

NO. OF SHARES HELD

Signature / Common Seal of Shareholder(s)

[\* Delete if not applicable]

#### NOTES:

- A member entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy/proxies, to attend and vote instead of him. A proxy may but need not be a member of the Company, and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply.
- Where a member appoints two (2) or more proxies, the appointments shall be invalid unless he/she specifies the proportions of his/her shareholdings to be represented by each proxy.
- The instrument appointing a proxy shall be in writing under the hand of the appointer or his/her attorney duly authorised in writing or, if the appointer is a corporation, either under its common seal or under the hand of an officer or attorney duly authorised.
- The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be deposited at the Registered Office at Strategy Corporate Secretariat Sdn Bhd, Unit 07-02, Level 7, Persoft Tower, 6B Persiaran Tropicana, 47410 Petaling Jaya, Selangor Darul Ehsan not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.



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STAMP

The Company Secretary  
**KAWAN FOOD BERHAD** (640445-V)  
Unit 07-02, Level 7, Persoft Tower  
6B Persiaran Tropicana  
47410 Petaling Jaya, Selangor Darul Ehsan

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