OCK GROUP BERHAD
(955915-M)
(Incorporated in Malaysia)

REPORTS AND FINANCIAL STATEMENTS
31 DECEMBER 2012

Company No. 955915-M

OCK GROUP BERHAD
(Incorporated in Malaysia)

REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

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OCK GROUP BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT

The directors hereby submit their report together with the audited financial statements of the Group and the Company for the financial year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in Note 5 to the financial statements.

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

RESULTS

	Group RM	Company RM
Profit attributable to:		
Owners of the Company	13,148,135	1,862,652
Non-controlling interests	806,248	-
	13,954,383	1,862,652

DIVIDENDS

During the financial year, the Company paid an interim tax exempt (single tier) dividend of 0.5 sen, on 259,000,000 ordinary shares amounting to RM1,295,000/- in respect of the current financial year.

At the forthcoming Annual General Meeting, a final single tier dividend of 0.5 sen per ordinary share in respect of the financial year ended 31 December 2012 on 259,000,000 ordinary shares, amounting to dividends payable of RM1,295,000/- will be proposed for shareholders' approval. The financial statements for the current financial year will not reflect the proposed dividend. Such dividends, if approved by the shareholders, will be accounted for in equity as an appropriation of retained earnings in the financial year ending 31 December 2013.

RESERVES AND PROVISIONS

There were no material transfers to and from reserves and provisions during the financial year other than those disclosed in the financial statements.

BAD AND DOUBTFUL DEBTS

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 action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts, and had satisfied themselves that all known bad debts had been written off and adequate allowance had been made for doubtful debts.

At the date of this report, the directors are not aware of any circumstances that would render the amount written off for bad debts, or the amount of the allowance for doubtful debts, in the financial statements of the Group and of the Company inadequate to any substantial extent.

CURRENT ASSETS

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 ensure that any current assets, other than debts, which were unlikely to be realised in the ordinary course of business, their values as shown in the accounting records of the Group and of the Company had been written down to an amount that they might be expected to be realised.

At the date of this report, the directors are not aware of any circumstances that would render the values attributed to the current assets in the financial statements of the Group and of the Company misleading.

VALUATION METHODS

At the date of this report, the directors are not aware of any circumstances 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.

CONTINGENT AND OTHER LIABILITIES

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

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

(ii) any contingent liabilities in respect of the Group and of the Company that have arisen since the end of the financial year.

CONTINGENT AND OTHER LIABILITIES (Continued)

In the opinion of the directors, no contingent liabilities or other liabilities of the Group and of the Company have become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, will or may substantially affect the ability of the Group and of the Company to meet their obligations as and when they fall due.

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

The results of the operations of the Group and of the Company for the financial year were not, in the opinion of the directors, substantially affected by any item, transaction or event of a material and unusual nature.

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

ISSUE OF SHARES AND DEBENTURES

During the financial year, the Company had increased its:-

(i) authorised share capital from RM100,000/- to RM 50,000,000/- by the creation of an additional 499,000,000 ordinary shares of RM0.10/- each; and

(ii) issued and paid-up share capital from RM2/- to RM 25,900,000/- by way of:-

  a. the issuance of 183,999,980 of ordinary shares of RM0.10/- each for the acquisition of the entire interest in OCK Setia Engineering Sdn. Bhd. ; and

  b. the issuance of 75,000,000 of ordinary shares of RM0.10/- each being initial public offering.

The Company did not issue any debentures during the financial year.

DIRECTORS

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

Dato' Syed Norulzaman Bin Syed Kamarulzaman	- Appointed on 3 January 2013
Abdul Halim Bin Abdul Hamid	
Ooi Chin Khoon	
Low Hock Keong	
Chang Tan Chin	
Chong Wai Yew	
Fu Lit Fung	- Appointed on 8 June 2012
Lee Yow Fui	- Appointed on 8 June 2012
Datuk Zawawi Mahmuddin	- Appointed on 8 June 2012; Demised on 12 November 2012
Chow Kim Meng	- Resigned on 9 June 2012
Wee Chek Aik	- Resigned on 9 June 2012

DIRECTORS' INTERESTS

According to the register of directors' shareholdings kept by the Company under Section 134 of the Companies Act, 1965 in Malaysia, the interests of those directors who held office at the end of the financial year in shares in the Company and its related corporations during the financial year ended 31 December 2012 are as follows:-

	Number of ordinary shares of RM0.10/- each				
Name of director	**At 1.1.2012**	**Bought**	**Via acquisition of subsidiary**	**Sold**	**At 31.12.2012**
The Company					
Direct interest					
Wee Chek Aik	10	-	-	10	-
Chow Kim Meng	10	-	-	10	-
Low Hock Keong	-	-	7,360,000	-	7,360,000
Chang Tan Chin	-	-	5,520,000	-	5,520,000
Chong Wai Yew	-	-	5,520,000	-	5,520,000
Indirect interest					
Abdul Halim Bin Abdul Hamid *	-	20	165,599,980	-	165,600,000
Ooi Chin Khoon *	-	630,020	165,599,980	-	166,230,000

DIRECTORS' INTERESTS (Continued)

Name of director	At 1.1.2012	Bought	Via acquisition of subsidiary	Sold	At 31.12.2012
	Number of ordinary shares of RM0.10/- each				
The ultimate holding company					
Indirect interest					
Aliran Armada Sdn. Bhd.					
Abdul Halim Bin Abdul Hamid	1,200,000	-	-	-	1,200,000
Ooi Chin Khoon	600,000	-	-	-	600,000

* Deemed interest by virtue of Section 6A of the Companies Act, 1965 in Malaysia.

Other than as stated above, the other directors in office at the end of the financial year had no interest in shares in the Company and its related corporations during the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial period, no director of the Company has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the directors shown in the financial statements) by reason of a contract made by the Company or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

Neither during nor at the end of the financial year was the Company a party to any arrangement whose object was to enable the directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SIGNIFICANT EVENTS DURING AND AFTER THE FINANCIAL YEAR

Significant events during and after the financial year are disclosed in Note 33 to the financial statements.

ULTIMATE HOLDING COMPANY

The directors of the Company regard Aliran Armada Sdn. Bhd., a company incorporated and domiciled in Malaysia, as the ultimate holding company.

AUDITORS

The auditors, Messrs. Baker Tilly Monteiro Heng, have expressed their willingness to continue in office.

On behalf of the Board,

....

OOI CHIN KHOON
Director

....

ABDUL HALIM BIN ABDUL HAMID
Director

Date: 25 APR 2013

OCK GROUP BERHAD
(Incorporated in Malaysia)

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

		Group	**Company**	
		31.12.2012	31.12.2012	31.12.2011
	Note	RM	RM	RM
ASSETS				
Non-Current Assets				
Property, plant and equipment	4	35,254,721	-	-
Investment in subsidiaries	5	-	18,399,998	-
Total Non-Current Assets		35,254,721	18,399,998	-
Current Assets				
Inventories	6	13,102,804	-	-
Trade and other receivables	7	60,131,291	16,437,574	-
Amounts due from customers for contract works	8	1,928,789	-	-
Deposits placed with licensed banks	9	7,130,505	464,807	-
Cash and bank balances	10	11,473,384	8,335,234	2
Total Current Assets		93,766,773	25,237,615	2
TOTAL ASSETS		129,021,494	43,637,613	2
EQUITY AND LIABILITIES				
Equity attributable to owners of the Company				
Share capital	11	25,900,000	25,900,000	2
Share premium	12	17,691,945	17,691,945	-
Foreign currency translationn reserve	13	(14,630)	-	-
Revaluation reserve	14	3,349,543	-	-
Reserve arising from reverse acquisition	15	(17,007,122)	-	-
Retained earnings/(accummulated losses)		25,898,100	(39,472)	(607,124)
		55,817,836	43,552,473	(607,122)
Non-controlling interests		2,078,183	-	-
Total Equity		57,896,019	43,552,473	(607,122)

OCK GROUP BERHAD
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STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2012 (Continued)

		Group	Company	
		31.12.2012	31.12.2012	31.12.2011
	Note	RM	RM	RM
Non-Current Liabilities				
Loans and borrowings	16	17,965,210	-	-
Deferred tax liabilities	19	437,884	-	-
Total Non-Current Liabilities		18,403,094	-	-
Current Liabilities				
Amounts due to customers for contract works	8	190,096	-	-
Trade and other payables	20	24,178,575	47,827	607,124
Loans and borrowings	16	25,283,653	-	-
Tax payables		3,070,057	37,313	-
Total Current Liabilities		52,722,381	85,140	607,124
Total Liabilities		71,125,475	85,140	607,124
TOTAL EQUITY AND LIABILITIES		129,021,494	43,637,613	2

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

OCK GROUP BERHAD
(Incorporated in Malaysia)

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR/PERIOD ENDED 31 DECEMBER 2012

	Note	Group 1.1.2012 to 31.12.2012 RM	Company 1.1.2012 to 31.12.2012 RM	Company 5.8.2011 to 31.12.2011 RM
Revenue	21	138,602,217	1,900,001	-
Cost of sales	22	(103,137,650)	-	-
Gross profit		35,464,567	1,900,001	-
Other income		1,441,988	158,353	-
Administrative expenses		(15,602,327)	(158,389)	(607,124)
Operating profits/(loss)		21,304,228	1,899,965	(607,124)
Finance costs	23	(2,261,061)	-	-
Profit/(loss) before taxation	24	19,043,167	1,899,965	(607,124)
Taxation	25	(5,088,784)	(37,313)	-
Net profit/(loss) for the financial year/period		13,954,383	1,862,652	(607,124)
Other comprehensive income:				
Realisation of revaluation reserve		69,976	-	-
Income tax relating to components of other comprehensive income	25	3,510	-	-
Foreign currency translation		(10,015)	-	-
Other comprehensive income, net of tax		63,471	-	-
Total comprehensive income/(loss) for the financial year/period		14,017,854	1,862,652	(607,124)
Profit/(loss) attributable to:				
Owners of the Company		13,148,135	1,862,652	(607,124)
Non-controlling interests		806,248	-	-
		13,954,383	1,862,652	(607,124)
Total comprehensive income/(loss) attributable to:				
Owners of the Company		13,211,606	1,862,652	(607,124)
Non-controlling interests		806,248	-	-
		14,017,854	1,862,652	(607,124)
Earning Per Share (Sen)	26	5.1		

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

OCK GROUP BERHAD
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STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

	Attributable to owners of the Company								
		Non-distributable				Distributable			
	Share Capital RM	Share Premium RM	Revaluation Reserve RM	Translation Reserve RM	Reserve arising from the Reverse Acquisition RM	Retained Earnings RM	Total RM	Non-controlling Interest RM	Total Equity RM
Group									
At 1 January 2012	2	-	-	-	-	(607,124)	(607,122)	-	(607,122)
Arising from the acquisition of OCKSE	18,399,998	-	3,419,519	(4,615)	(17,007,122)	14,578,603	19,386,383	1,137,362	20,523,745
Acquisition of subsidiaries	-	-	-	-	-	-	-	134,573	134,573
Issuance of shares									
- initial public offering	7,500,000	19,500,000	-	-	-	-	27,000,000	-	27,000,000
Listing expenses	-	(1,808,055)	-	-	-	-	(1,808,055)	-	(1,808,055)
Dividends (Note 27)	-	-	-	-	-	(1,295,000)	(1,295,000)	-	(1,295,000)
Realisation of revaluation reserve	-	-	(69,976)	-	-	73,486	3,510	-	3,510
Foreign currency translation	-	-	-	(10,015)	-	-	(10,015)	-	(10,015)
Total comprehensive income for the financial year	-	-	-	-	-	13,148,135	13,148,135	806,248	13,954,383
At 31 December 2012	25,900,000	17,691,945	3,349,543	(14,630)	(17,007,122)	25,898,100	55,817,836	2,078,183	57,896,019

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

OCK GROUP BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (Continued)

	Attributable to owners of the Company			
	Non-distributable		Distributable	
	Share Capital	Share Premium	Retained Earnings/ (Accummulated losses)	Total
	RM	RM	RM	RM
Company				
At 5 August 2011 (date of incorporation)	2	-	-	2
Total comprehensive loss for the financial period	-	-	(607,124)	(607,124)
At 31 December 2011	2	-	(607,124)	(607,122)
Issuance of shares				
- acquisition of subsidiaries	18,399,998	-	-	18,399,998
- initial public offering	7,500,000	19,500,000	-	27,000,000
Listing expenses	-	(1,808,055)	-	(1,808,055)
Dividends (Note 27)	-	-	(1,295,000)	(1,295,000)
Total comprehensive income for the financial year	-	-	1,862,652	1,862,652
At 31 December 2012	25,900,000	17,691,945	(39,472)	43,552,473

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

OCK GROUP BERHAD
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STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

	Group	Company	
	1.1.2012 to 31.12.2012	1.1.2012 to 31.12.2012	5.8.2011 to 31.12.2011
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit/(loss) before taxation	19,043,167	1,899,965	(607,124)
Adjustments for :			
Gain on disposal of property, plant and equipment	(1,133)	-	-
Depreciation on disposal of property, plant and equipment	1,393,177	-	-
Dividend income	-	(1,900,001)	-
Goodwill written off	12,936	-	-
Unrealised gain on foreign currency exchange	(50,015)	-	-
Interest income	(299,589)	(158,353)	-
Interest expenses	2,261,061	-	-
	22,359,604	(158,389)	(607,124)
Changes In Working Capital:			
Inventories	(4,242,890)	-	-
Receivables	(29,931,169)	(1,000)	-
Payables	7,090,158	(559,297)	4,000
Amount due from/to customers for contract works	(214,585)	-	-
	(4,938,882)	(718,686)	(603,124)
Tax paid	(3,445,576)	-	-
Tax refund	8,225	-	-
Interests received	299,589	158,353	-
Interests paid	(146,029)	-	-
Net Operating Cash Flows	(8,222,673)	(560,333)	(603,124)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from disposal of property, plant and equipment	2,600	-	-
Purchase of property, plant and equipment (Note A)	(6,572,035)	-	-
Net cash inflow from reverse acquisition (Note B)	2	-	-
Net cash outflow on acquisition of a subsidiary (Note C)	(29,622)	-	-
Net Investing Cash Flows	(6,599,055)	-	-

OCK GROUP BERHAD
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STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (Continued)

	Group	Company	
	1.1.2012 to 31.12.2012	1.1.2012 to 31.12.2012	5.8.2011 to 31.12.2011
CASH FLOWS FROM FINANCING ACTIVITES:			
Interests paid	(2,115,032)	-	-
Dividend paid	(1,295,000)	(1,295,000)	-
Dividend income received from a subsidiary	-	1,900,001	-
Deposits held for security values	(6,665,699)	-	-
Advance from subsidiaries	-	(16,436,574)	603,124
Listing expenses	(1,808,055)	(1,808,055)	-
Net proceeds from issuance of ordinary shares	27,000,000	27,000,000	-
Net proceeds from issuance of ordinary shares to non-controlling interest	24,500	-	-
Repayment to hire purchase payables	(841,242)	-	-
Drawdown of term loans	36,185,689	-	-
Repayment to term loans	(34,718,994)	-	-
Net Financing Cash Flows	15,766,167	9,360,372	603,124
NET CHANGE IN CASH AND CASH EQUIVALENTS	944,439	8,800,039	-
Effect of exchange rate changes in cash and cash equivalents	(10,609)	-	-
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR/ DATE OF INCORPORATION	11,004,360	2	2
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR/PERIOD	11,938,190	8,800,041	2
ANALYSIS OF CASH AND CASH EQUIVALENTS:			
Cash and bank balances	11,473,384	8,335,234	2
Deposits placed with licensed banks	7,130,505	464,807	-
	18,603,889	8,800,041	2
Less: Deposits held as security values	(6,665,699)	-	-
	11,938,190	8,800,041	2

STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (Continued)

A. PURCHASE OF PROPERTY, PLANT AND EQUIPMENT

	Group 1.1.2012 to 31.12.2012 RM
Purchase of property, plant and equipment	21,713,962
Financed by hire purchase arrangements	(841,927)
Financed by term loan arrangements	(14,300,000)
Cash payments on purchase of property, plant and equipment	6,572,035

B. EFFECTS ON REVERSE ACQUISITION

Group

Effects on acquisition of an OCK Setia Engineering Sdn. Bhd. ("OCKSE") under reverse acquisition accounting:-

On 31 October 2011, the Company had entered into a conditional shares sale agreement to acquire the entire equity interest in OCKSE of RM2,000,002/- comprising 2,000,002 ordinary shares of RM1/- each for a total purchase consideration of RM18,399,998/- to be satisfied by the issuance of 183,999,980 of ordinary shares at an issue price of RM0.10/- each. The said acquisition was completed on 8 June 2012 and OCKSE became a wholly-owned subsidiary company of the Company.

	Group 31.12.2012 RM
Cash and bank balances	2
Trade and other payables	(607,124)
Net identifiable liabilities	(607,122)
Reverse acquisition reserve	17,007,122
Issued equity of OCKSE	2,000,002
	18,400,002
Less:	
Portion discharged by issuance of 183,999,980 ordinary shares at RM0.10/- each	(18,399,998)
	4
Less: Cash and cash equivalents	(2)
Cash inflow from reverse acquisition	2

STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (Continued)

C. EFFECTS ON ACQUISITION OF SUBSIDIARIES

Group

(i) **Effects on acquisition of Smartbean Systems Sdn. Bhd.-**

On 23 October 2012, OCKSE had acquired 51% of the issued and paid up capital of Smartbean Systems Sdn, Bhd. The subsidiary was acquired through a total cash consideration of RM127,500/-.

	Group 31.12.2012 RM
Property, plant and equipment	61,325
Inventories	859
Trade and other receivables	110,722
Cash and bank balances	97,878
Trade and other payables	(48,147)
Tax payables	2,000
Non-controlling interest	(110,073)
Net identifiable assets	114,564
Goodwill written off	12,936
Total purchase consideration	127,500
Less: Cash and cash equivalenet of Smartbean	(97,878)
Cash outflow on acquisition	29,622

On 6 December 2012, the Company had further subscribed additional 25,500 of new ordinary shares of RM1/- each for a total cash consideration of RM25,500/- in the Smartbean Systems Sdn. Bhd..

(ii) **Effects on acquisition of Fortress Pte. Ltd.**

On 4 October 2012, OCKSE had subscribed additional 499,990 of new ordinary shares of SGD0.20/- each for a total cash consideration of SGD99,998/- (RM248,815/-) in the Fortress Pte. Ltd..

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

OCK GROUP BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in Note 5 to the financial statements.

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

The registered office of the Company is located at Level 2, Tower 1, Avenue 5, Bangsar South City, 59200 Kuala Lumpur.

The principal place of business of the Company is located at 11 & 13 Jalan Puteri 2/6, Bandar Puteri Puchong, 47100 Puchong, Selangor, Darul Ehsan.

The financial statements are expressed in Ringgit Malaysia ("RM").

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 25 April 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

The financial statements of the Group and of the Company have been prepared in accordance with the Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

The financial statements of the Group and of the Company have been prepared under the historical cost basis, except as disclosed in the significant accounting policies in Note 2.3.

The financial statements of the Group and of the Company for the financial year ended 31 December 2012 are the first set of financial statements prepared in accordance with the MFRSs, including MFRS 1 'First-time adoption of MFRSs'.

The statement of financial position of the Company as at the beginning of the earliest comparative period is disclosed in Note 35 to the financial statements.

This is the Group's first set of consolidated financial statements.

The Company was incorporated on 5 August 2011. The financial statements of the Company were prepared in accordance with the Financial Reporting Standards ("FRSs") in Malaysia in the previous financial period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of Preparation (Continued)

The preparation of financial statements in conformity with MFRSs requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of the revenue and expenses during the reporting period. It also requires Directors to exercise their judgment in the process of applying the Group's and the Company's accounting policies. Although these estimates and judgment are based on the Directors' best knowledge of current events and actions, actual results may differ.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

2.2 New, Revised and Amendments/Improvements to Accounting Standards and IC Int

(a) Explanation of Transition to MFRSs

In conjunction with the planned convergence of FRSs with International Financial Reporting Standards as issued by the International Accounting Standards Board on 1 January 2012, the Malaysian Accounting Standards Board ("MASB") had on 19 November 2011 issued a new MASB approved accounting standards, MFRSs ("MFRSs Framework") for application in the annual periods beginning on or after 1 January 2012.

The MFRSs Framework is mandatory for adoption by all Entities Other Than Private Entities for annual periods beginning on or after 1 January 2012, with the exception of entities subject to the application of MFRS 141 *Agriculture* and/or IC Int 15 *Agreements for the Construction of Real Estate* ("Transitioning Entities"). The Transitioning Entities are given an option to defer adoption of the MFRSs framework to financial periods beginning on or after 1 January 2014. Transitioning Entities also includes those entities that consolidate or equity account or proportionately consolidate another entity that has chosen to continue to apply the FRSs framework for annual periods beginning on or after 1 January 2012.

Accordingly, the Group and the Company which are not the Transitioning Entities have adopted the MFRSs framework including MFRS 1 First-time adoption of MFRSs for the current financial year ended 31 December 2012.

MFRS 1 requires comparative information to be restated as if the requirements of MFRSs effective for annual periods beginning on or after 1 January 2012 have always been applied, except when MFRS 1 allows certain elective exemptions from such full retrospective application or prohibits retrospective application of some aspects of MFRSs.

The Group and the Company have consistently applied the same accounting policies in its opening MFRSs statement of financial position as at 1 January 2011 (date of transition) and throughout all years presented, as if these policies had always been in effect.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 New, Revised and Amendments/Improvements to Accounting Standards and IC Int (Continued)

(a) Explanation of Transition to MFRSs (Continued)

As at 31 December 2011, all FRSs issued under the existing FRSs framework are equivalent to the MFRSs issued under MFRSs framework except for differences in relation to the transitional provisions, the adoption of MFRS 141 *Agriculture* and IC Int 15 *Agreements for the Construction of Real Estate* as well as differences in effective dates contained in certain of the existing FRSs.

The adoption of the MFRSs for the current financial year did not result in any changes in accounting policies and material adjustments to the Group's and the Company's statements of financial position, statements of comprehensive income and statements of cash flows which are reported in accordance with the previous FRSs.

(b) New, revised, amendments/improvement to accounting standards and IC Int that are issued, but not yet effective and have not been early adopted

The Group and the Company have not adopted the following new and revised MFRSs, amendments/improvements to MFRSs, new IC Int and amendments to IC Int that have been issued as at the date of authorisation of these financial statements but are not yet effective for the Group and the Company:-

		Effective for financial periods beginning on or after
<u>New MFRSs</u>		
MFRS 9	Financial Instruments	1 January 2015
MFRS 10	Consolidated Financial Statements	1 January 2013
MFRS 11	Joint Arrangements	1 January 2013
MFRS 12	Disclosure of Interests in Other Entities	1 January 2013
MFRS 13	Fair Value Measurement	1 January 2013
<u>Revised MFRSs</u>		
MFRS 119	Employee Benefits	1 January 2013
MFRS 127	Separate Financial Statements	1 January 2013
MFRS 128	Investments in Associates and Joint Ventures	1 January 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 New, Revised and Amendments/Improvements to Accounting Standards and IC Int (Continued)

(b) New, revised, amendments/improvement to accounting standards and IC Int that are issued, but not yet effective and have not been early adopted (Continued)

		Effective for financial periods beginning on or after
Amendments/Improvements to MFRSs		
MFRS 1	First-time Adoption of Financial Reporting Standards	1 January 2013
MFRS 7	Financial Instruments: Disclosures	1 January 2013
MFRS 10	Consolidated Financial Statements	1 January 2013 and 1 January 2014
MFRS 11	Joint Arrangements	1 January 2013
MFRS 12	Disclosure of Interests in Other Entities	1 January 2013 and 1 January 2014
MFRS 101	Presentation of Financial Statements	1 July 2012 and 1 January 2013
MFRS 116	Property, Plant and Equipment	1 January 2013
MFRS 127	Separate Financial Statements	1 January 2014
MFRS 132	Financial Instruments: Presentation	1 January 2013 and 1 January 2014
MFRS 134	Interim Financial Reporting	1 January 2013
New IC Int		
IC Int 20	Stripping Costs in the Production Phase of a Surface Mine	1 January 2013
Amendments to IC Int		
IC Int 2	Members' Shares in Co-operative Entities & Similar Instruments	1 January 2013

A brief discussion on the above significant new and revised MFRSs, amendments/improvements to MFRSs, new IC Int and amendments to IC Int are summarised below. Due to the complexity of these new standards, the financial effects of their adoption are currently still being assessed by the Group and the Company.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

2.2 **New, Revised and Amendments/Improvements to Accounting Standards and IC Int (Continued)**

(b) **New, revised, amendments/improvement to accounting standards and IC Int that are issued, but not yet effective and have not been early adopted (Continued)**

MFRS 9 Financial Instruments

MFRS 9 specifies how an entity should classify and measure financial assets and financial liabilities.

This standard requires all financial assets to be classified based on how an entity manages its financial assets (its business model) and the contractual cash flow characteristics of the financial asset. Financial assets are to be initially measured at fair value. Subsequent to initial recognition, depending on the business model under which these assets are acquired, they will be measured at either fair value or at amortised cost.

In respect of the financial liabilities, the requirements are generally similar to the former MFRS 139. However, this standard requires that for financial liabilities designated as at fair value through profit or loss, changes in fair value attributable to the credit risk of that liability are to be presented in other comprehensive income, whereas the remaining amount of the change in fair value will be presented in the profit or loss.

MFRS 10 Consolidated Financial Statements and MFRS 127 Separate Financial Statements (Revised)

MFRS 10 replaces the consolidation part of the former MFRS 127 Consolidated and Separate Financial Statements. The revised MFRS 127 will deal only with accounting for investment in subsidiaries, joint ventures and associates in the separate financial statements of an investor and requires the entity to account for such investments either at cost, or in accordance with MFRS 9.

MFRS 10 brings about convergence between MFRS 127 and IC Int 12 Consolidation-Special Purpose Entities, which interprets the requirements of MFRS 10 in relation to special purpose entities. MFRS 10 introduces a new single control model to identify a parent-subsidiary relationship by specifying that "an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee". It provides guidance on situations when control is difficult to assess such as those involving potential voting rights, or in circumstances involving agency relationships, or where the investor has control over specific assets of the entity, or where the investee entity is designed in such a manner where voting rights are not the dominant factor in determining control.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

2.2 **New, Revised and Amendments/Improvements to Accounting Standards and IC Int (Continued)**

(b) **New, revised, amendments/improvement to accounting standards and IC Int that are issued, but not yet effective and have not been early adopted (Continued)**

MFRS 11 Joint Arrangements

MFRS 11 supersedes the former MFRS 131 Interests in Joint Ventures. Under MFRS 11, an entity accounts for its interest in a jointly controlled entity based on the type of joint arrangement, as determined based on an assessment of its rights and obligations arising from the arrangement. There are two types of joint arrangement namely joint venture or joint operation as specified in this new standard. A joint venture recognises its interest in the joint venture as an investment and account for it using the equity method. The proportionate consolidation method is disallowed in such joint arrangement. A joint operator accounts for the assets, liabilities, revenue and expenses related to its interest directly.

MFRS 12 Disclosures of Interests in Other Entities

MFRS 12 is a single disclosure standard for interests in subsidiary companies, joint ventures, associated companies and unconsolidated structured entities. The disclosure requirements in this MFRS are aimed at providing standardised and comparable information that enable users of financial statements to evaluate the nature of, and risks associated with, the entity's interests in other entities, and the effects of those interests on its financial position, financial performance and cash flows.

MFRS 13 Fair Value Measurement

MFRS 13 defines fair value and sets out a framework for measuring fair value, and the disclosure requirements about fair value. This standard is intended to address the inconsistencies in the requirements for measuring fair value across different accounting standards. As defined in this standard, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

MFRS 128 Investments in Associates and Joint Ventures (Revised)

This revised MFRS 128 incorporates the requirements for accounting for joint ventures into the same accounting standard as that for accounting for investments in associated companies, as the equity method was applicable for both investments in joint ventures and associated companies. However, the revised MFRS 128 exempts the investor from applying equity accounting where the investment in the associated company or joint venture is held indirectly via venture capital organisations or mutual funds and similar entities. In such cases, the entity shall measure the investment at fair value through profit or loss, in accordance with MFRS 9.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 New, Revised and Amendments/Improvements to Accounting Standards and IC Int (Continued)

(b) New, revised, amendments/improvement to accounting standards and IC Int that are issued, but not yet effective and have not been early adopted (Continued)

Amendments to MFRS10, MFRS12 and MFRS127 Investment Entities

These amendments introduce an exception to consolidation for investment entities. Investment entities are entities whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both. The amendments require investment entities to measure particular subsidiaries at fair value through profit or loss in accordance with MFRS 139 Financial Instruments: Recognition and Measurement instead of consolidating them. In addition, the amendments also introduce new disclosure requirements related to investment entities in MFRS 12 Disclosure of Interests in Other Entities and MFRS 127 Separate Financial Statements.

2.3 Significant Accounting Policies

The accounting policies set out below applied consistently to the periods presented in these financial statements and in preparing the opening MFRS statements of financial position of the Group and of the Company, unless otherwise stated.

(a) Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to the end of the financial year. The financial statements of the parent and its subsidiaries are all drawn up to the same reporting date.

The financial statements of the subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

Acquisitions of subsidiaries are accounted for by applying the acquisition method. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

In business combination achieved in stages, previously held equity interests in the acquiree are re-measured to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Significant Accounting Policies (Continued)

(a) Basis of Consolidation (Continued)

The Group elects for each individual business combination, whether non-controlling interest in the acquiree (if any) is recognised on the acquisition date at fair value, or at the non-controlling interest's proportionate share of the acquiree net identifiable assets.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of the non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill in the statements of financial position. The accounting policy for goodwill is set out in the Note 2.3(b) to the financial statements. In instances where the latter amount exceeds the former, the excess is recognised as a gain on bargain purchase in profit or loss on the acquisition date.

Intra-group transactions, balances and resulting unrealised gains on transactions within the Group are eliminated in full on consolidation. Unrealised losses resulting from intra-group transactions are also eliminated on consolidation unless costs cannot be recovered. When necessary, adjustments are made to the financial statements of the subsidiaries to ensure consistency of accounting policies with those adopted by the Group.

Non-controlling interest represents that portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned by the Company, directly or indirectly through subsidiary. It is measured at the non-controlling interest holders' share of the fair values of the subsidiary's identifiable assets and liabilities at the acquisition date and the non-controlling interest holders' share of changes in the subsidiary's equity since that date.

Any loss applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

In accordance with FRS 127, Consolidated and Separate Financial Statements (revised), upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as equity accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

2.3 **Significant Accounting Policies (Continued)**

(a) **Basis of Consolidation (Continued)**

The Group treats all changes in its ownership interest in a subsidiary that do not result in a loss of control as equity transactions between the Group and its non-controlling interests. Any difference 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 reserve.

(b) **Goodwill**

i. **Acquisition before 1st January 2011**

Goodwill arising on acquisition represents the excess of cost of business combination over the Group's share of the net fair values of the identifiable assets, liabilities and contingent liabilities. Following the initial recognition, goodwill is stated at cost less impairment losses, if any.

Goodwill is not amortised but is reviewed for impairment, annually or more frequently for impairment in value and is written down where it is considered necessary. Gain or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the business combination in which the goodwill arise.

Negative goodwill represents the excess of the fair value of the Group's share of net assets acquired over the cost of acquisition. Negative goodwill is recognised directly in profit or loss.

ii. **Acquisition on or after 1st January 2011**

For acquisitions on or after 1 January 2011, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquire; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquire; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Significant Accounting Policies (Continued)

(b) Goodwill (Continued)

ii. Acquisition on or after 1st January 2011 (Continued)

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

(c) Subsidiaries

Subsidiaries are entities in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from its activities, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has such power over another entity.

An investment in subsidiary which is eliminated on consolidation, is stated in the Company's separate financial statements at cost less impairment losses, if any. The policy for the recognition and measurement of impairment losses is in accordance with Note 2.3(h) to the financial statements. On disposal of such an investment, the difference between the net disposal proceeds and its carrying amount is recognised in the profit or loss.

(d) Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses, if any. The policy for the recognition and measurement of impairment losses is in accordance with Note 2.3(h).

Cost includes expenditure that is directly attributable to the acquisition of the asset. When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Significant Accounting Policies (Continued)

(d) Property, Plant and Equipment and Depreciation

The cost of replacing part of an item of property, plant and equipment is included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit or loss as incurred.

Valuations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from the fair value of the land and buildings at the reporting date.

Any revaluation surplus is recognised in other comprehensive income and accumulated in equity under the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except to the extent that it offsets an existing surplus on the same asset carried in the asset revaluation reserve.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to revalued amount of the asset. The revaluation surplus included in the asset revaluation reserve in respect of an asset is transferred directly to retained earnings on retirement or disposal of the asset.

Property, plant and equipment are depreciated on the straight-line basis to write off the cost of each asset to its residual value over the estimated useful lives of the assets concerned. The annual rates used for this purpose are as follows:-

Freehold building	2%
Leasehold land and building	2%
Furniture and fittings	10%
Computers and software	33 1/3%
Office equipment	10% to 20%
Motor vehicles	20%
Renovation	10%
Engineering equipment	20%
Network facilities	4%

No depreciation is provided on freehold land as it has indefinite useful life.

Capital work-in-progress is not depreciated as these assets are not ready for its intended use.

The residual values and useful lives of property, plant and equipment are reviewed, and adjusted if appropriate, at each reporting date. The effects of any revisions of the residual values and useful lives are included in the profit or loss for the financial year in which the changes arise.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Significant Accounting Policies (Continued)

(d) Property, Plant and Equipment and Depreciation (Continued)

Fully depreciated assets are retained in the accounts until the assets are no longer in use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the profit or loss in the financial year the asset is derecognised.

(e) Construction Contracts

Construction works are stated at cost plus attributable profits less progress billings. Cost comprises direct labour, material costs, sub-contract sum and an allocated proportion of directly related overheads. Administrative and general expenses are charged to the profit or loss as and when incurred.

When the outcome of a construction contract can be reliably estimated, contract revenue are recognised by using the stage of completion method. The stage of completion is measured by reference to the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. Costs incurred in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

When the outcome of a construction contract cannot be reliably estimated, contract revenue is recognised only to the extent of contract costs incurred that is probable will be recoverable.

Irrespective of whether the outcome of a construction contract can be estimated reliably, when it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. Provision is made for all anticipated losses on construction work. Provision for warranties is made for expected/estimated repair costs for making good certain defects and damages during the warranty periods.

When costs incurred on construction contracts plus recognised profits (less recognised losses) exceed progress billings, the balance is shown as amount due from customers for contract works. When progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is shown as amount due to customers for contract works.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Significant Accounting Policies (Continued)

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of raw material comprise the purchase price plus costs in bringing this inventory to their present location and condition. Cost is determined on the average cost basis.

Work-in-progress includes the cost of raw materials, direct labour and appropriate portion of fixed and variable overheads.

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

(g) Financial Assets

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

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

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

(i) Financial assets at fair value through profit or loss

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

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

Financial assets at fair value through profit or loss could be presented as current or non-current. Financial assets that are held primarily for trading purposes are presented as current whereas financial assets that are not held primarily for trading purposes are presented as current or non-current based on the settlement date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Significant Accounting Policies (Continued)

(g) Financial Assets (Continued)

(ii) Loans and receivables

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

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

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

(iii) Held-to-maturity investments

Financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group and the Company have the positive intention and ability to hold the investment to maturity.

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the held-to-maturity investments are derecognised or impaired, and through the amortisation process.

Held-to-maturity investments are classified as non-current assets, except for those having maturity within 12 months after the reporting date which are classified as current.

(iv) Available-for-sale financial assets

Available-for-sale are financial assets that are designated as available for sale or are not classified in any of the three preceding categories.

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

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

2.3 **Significant Accounting Policies (Continued)**

(g) **Financial Assets (Continued)**

(iv) **Available-for-sale financial assets (Continued)**

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

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

A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired or 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 and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Regular way of purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place concerned. All regular way purchases or sales of financial assets are derecognised on the trade date i.e., the date that the Company commits to purchase or sell the asset.

(h) **Impairment of Assets**

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

*(i) **Trade and other receivables and other financial assets carried at amortised cost***

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Significant Accounting Policies (Continued)

(h) Impairment of Assets (Continued)

(i) Trade and other receivables and other financial assets carried at amortised cost (Continued)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable becomes uncollectible, it is written off against the allowance account.

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

(ii) Impairment of Non-Financial Assets

The Group and the Company assess at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment assessment for an asset is required, the Group and the Company make an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows cash-generating units ("CGU").

In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated to first to reduce the carrying amount of any goodwill allocated to those units or groups of the units and then, to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

Impairment losses are recognised in profit or loss except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Significant Accounting Policies (Continued)

(h) Impairment of Assets (Continued)

(ii) Impairment of Non-Financial Assets (Continued)

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount.

That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase. Impairment loss on goodwill is not reversed in a subsequent period.

(i) Financial Liabilities

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

Financial liabilities, within the scope of FRS 139, are recognised in the statements of financial position when, and only when, the Group and the Company become a party to the contractual provisions of the financial instrument. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

(i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities held for trading include derivatives entered into by the Group and the Company that do not meet the hedge accounting criteria. Derivative liabilities are initially measured at fair value and subsequently stated at fair value, with any resulted gains or losses recognised in profit or loss. Net gains or losses on derivatives include exchange differences.

The Group and the Company have not designated any financial liabilities as at fair value through profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Significant Accounting Policies (Continued)

(i) Financial Liabilities (Continued)

(ii) Other financial liabilities

The Group's and the Company's other financial liabilities include trade payables, other payables and loans and borrowings.

Trade and other payables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

Loans and borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method. Borrowings are classified as current liabilities unless the group has an unconditional right to defer the settlement of the liability for at least 12 months after the reporting date.

For other financial liabilities, gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

A financial liability is derecognised 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 and the consideration paid is recognised in profit or loss.

(j) Financial Guarantee Contracts

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

Financial guarantee contracts are classified as deferred income and are amortised to profit or loss over the contractual period or, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Significant Accounting Policies (Continued)

(k) Leases

(i) Finance leases

Leases of property, plant and equipment where the Group and the Company assume substantially all the benefits and risks of ownership are classified as finance leases.

Assets acquired by way of finance lease are stated at an amount equal to the lower of their fair values and the present value of minimum lease payments at the inception of the leases, less accumulated depreciation and impairment losses, if any. The corresponding liability is included in the statement of financial position as borrowings. In calculating the present value of minimum lease payments, the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Group's and the Company's incremental borrowing rates are used. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the estimated useful life of the asset and the lease term.

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

(ii) Operating leases

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

(l) Contingent Liabilities

A contingent liability is a possible obligation that arises from past event and whose existence will only be confirmed by the occurrence of one or more uncertain future events not wholly within the control of the Group and the Company. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Significant Accounting Policies (Continued)

(m) Taxation

(i) Current tax

The tax expense in the statements of comprehensive income represents the aggregate amount of current tax and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the reporting date.

(ii) Deferred tax

Deferred tax is provided for, using the liability method, on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

The carrying amount of deferred tax assets, if any, is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group and the Company intend to settle their current tax assets and current tax liabilities on a net basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Significant Accounting Policies (Continued)

(n) Revenue Recognition

The Group and the Company recognise revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's and the Company's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group and the Company base its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Revenue from telecommunication network services

Revenue is recognised upon services rendered and customer's acceptance.

(ii) Revenue from contract works

Revenue from contract works is recognised on the percentage of completion method as described in Note 2.3(e).

(iii) Sales of goods

Revenue is recognised upon delivery of products and customer's acceptance.

(iv) Other income

Interest income is recognised on an accruals basis.

Rental income is recognised on an accruals basis in accordance with the substance of the relevant agreements.

(o) Borrowing Costs

Borrowing costs are recognised as an expense in the statement of comprehensive income in the period in which they are incurred.