WWW.KELINGTON-GROUP.COM

KELINGTON GROUP BERHAD
(Company No.: 501386-P)

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KELINGTON GROUP BERHAD (501386-P)

Annual Report 2012

ANNUAL REPORT 2012

WE ENGINEER SOLUTION

KELINGTON GROUP BERHAD (501386-P)

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About US

Fast Facts on Kelington

> Established in 2000 • Listed on ACE Market in 2009 • Transferred to Main Market in 2012

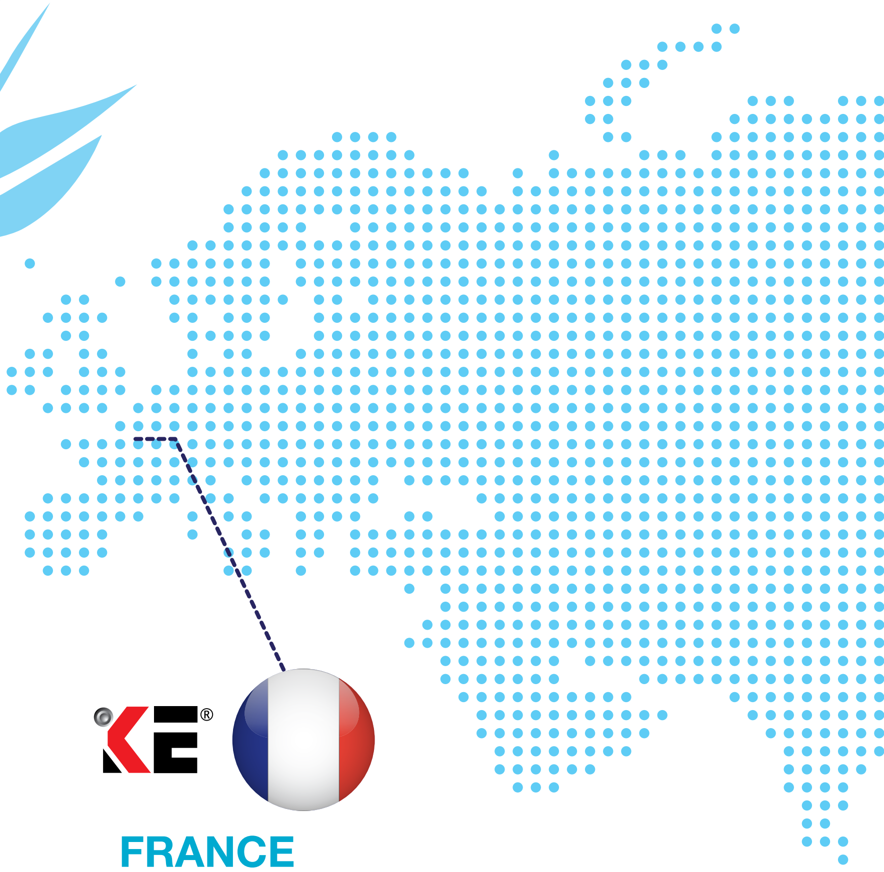
> Engaged in multifaceted disciplines including but not limited to end-to-end engineering solutions for Ultra High Purity (UHP) gas and chemical delivery systems • system design and installation • gas and chemical delivery equipment • quality assurance • control services • maintenance • mechanical and process installation • total facilities management

> Established presence in Malaysia • China • Taiwan • Singapore • Vietnam

> Serving a broad spectrum of industries including industrial gases • wafer fabrication • solar energy • TFT-LCD/LED • pharmaceutical • biotechnology • medical • infrastructure

> Garnered numerous awards and accreditations namely Pioneer Status for UHP System • Construction Industry Development Board (CIDB) Certified Contractor • Registration Certificate of Ministry of Finance • Emerging SMI Award 2004 • Recognition Award for Innovative Venture Capital Backed Company • Safety & Quality Awards by Hannstar (a Taiwanese Client)

> Have been distributing dividends exceeding the Company's dividend policy of paying out at least 25% of annual net profit since listing in 2009



FRANCE

Semiconductor

• Detailed Engineering Study for Altis Semiconductor

SINGAPORE

Renewable Energy

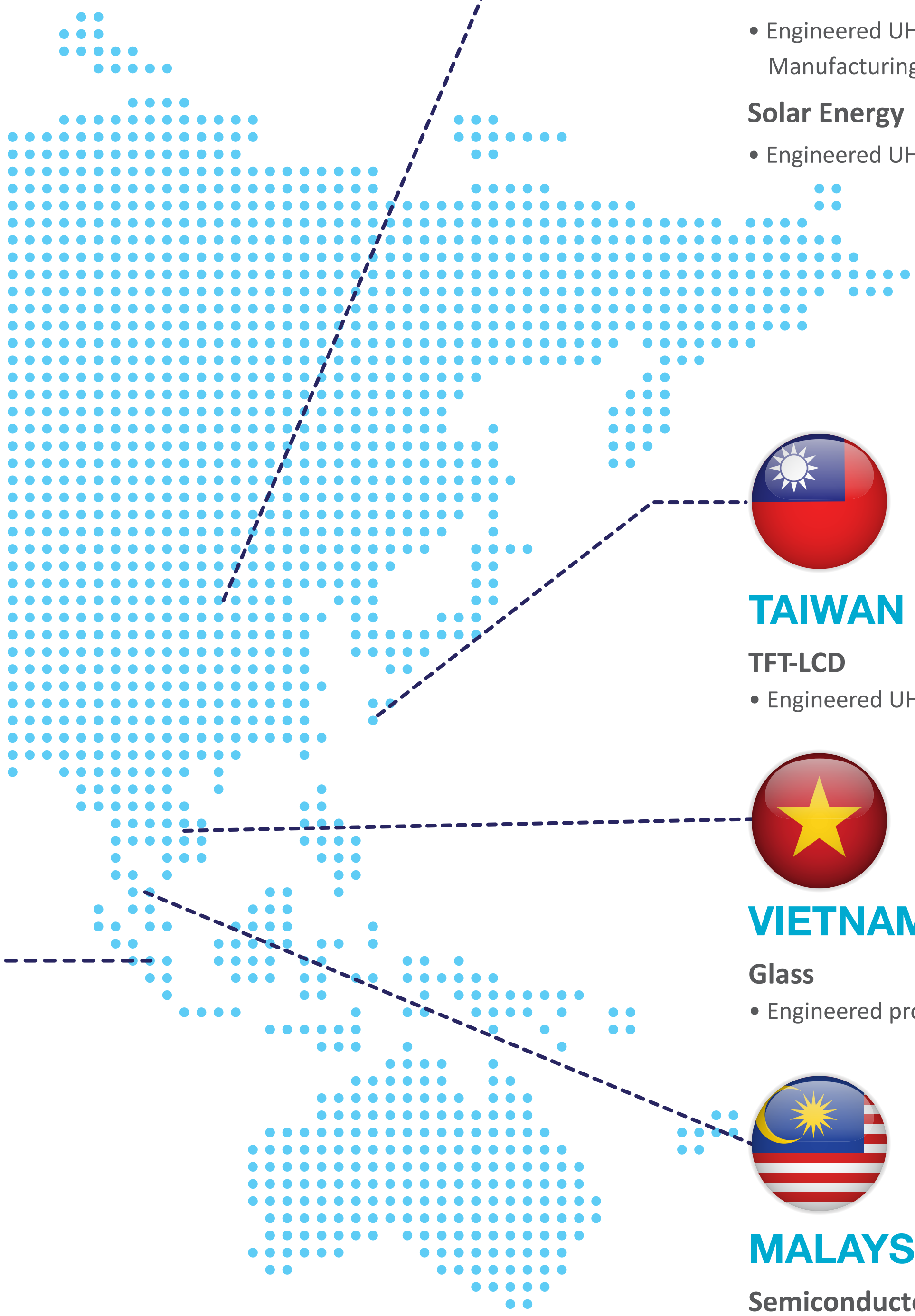
• Engineered chemical solutions for Renewable Energy Corporation

Bioscience

• Engineered chemical solutions for International Flavours & Fragrances

Exhaust

• Engineered exhaust solutions for STATS ChipPAC Singapore



CHINA

Semiconductor – Wafer

- Engineered UHP gas solutions for Semiconductor Manufacturing International Corporation (SMIC), largest wafer fabrication foundry in China
- Engineered UHP gas solutions for Taiwan Semiconductor Manufacturing Corporation (TSMC)

Solar Energy

- Engineered UHP gas solutions for Suntech Power Holdings

TAIWAN

TFT-LCD

- Engineered UHP gas solutions for HannStar Display

VIETNAM

Glass

- Engineered process mechanical solutions for Vietnam Glass

MALAYSIA

Semiconductor - Wafer

- Engineered UHP gas solutions for SilTerra Malaysia

Hard Disk Drive (HDD)

- Engineered turnkey bulk chemical solutions for Seagate

Corporate Information

BOARD OF DIRECTORS

Ir. Gan Hung Keng
Chairman/Chief Executive Officer

Ong Weng Leong
Executive Director/Chief Operating Officer

Chan Thian Kiat
Senior Independent Non-Executive Director

Tan Chuan Yong
Senior Independent Non-Executive Director

Soo Yuit Weng
Independent Non-Executive Director

Vice Admiral (Retired) Datuk Haji Jamil bin Haji Osman
Independent Non-Executive Director

AUDIT COMMITTEE

Chan Thian Kiat
Chairman
Senior Independent Non-Executive Director

Tan Chuan Yong
Member
Senior Independent Non-Executive Director

Soo Yuit Weng
Member
Independent Non-Executive Director

REMUNERATION COMMITTEE

Vice Admiral (Retired) Datuk Haji Jamil bin Haji Osman
Chairman
Independent Non-Executive Director

Tan Chuan Yong
Member
Senior Independent Non-Executive Director

Ong Weng Leong
Member
Executive Director/Chief Operating Officer

NOMINATION COMMITTEE

Tan Chuan Yong
Chairman
Senior Independent Non-Executive Director

Vice Admiral (Retired) Datuk Haji Jamil bin Haji Osman
Member
Independent Non-Executive Director

Soo Yuit Weng
Member
Independent Non-Executive Director

OPTION COMMITTEE

Ir. Gan Hung Keng
Chairman/Chief Executive Officer

Ong Weng Leong
Member
Executive Director/Chief Operating Officer

Tan Chuan Yong
Member
Senior Independent Non-Executive Director

SENIOR INDEPENDENT NON-EXECUTIVE DIRECTORS

Tan Chuan Yong
tcy@kllaw.com.my

Chan Thian Kiat
steventkchan@yahoo.com

COMPANY SECRETARIES

Teo Mee Hui *(MAICSA 7050642)*

Pang Chia Tyng *(MAICSA 7034545)*

REGISTERED OFFICE

10th Floor, Menara Hap Seng
No. 1 & 3, Jalan P. Ramlee
50250 Kuala Lumpur
Tel : +603-2382 4288
Fax : +603-2382 4170

MANAGEMENT OFFICE

3, Jalan Astaka U8/83
Seksyen U8
Bukit Jelutong Industrial Park
40150 Shah Alam
Selangor Darul Ehsan, Malaysia
Tel : +603-7845 5696
Fax : +603-7845 7097
Email : enquiry@kelington-group.com

INVESTOR RELATIONS

ZJ Advisory Sdn. Bhd. *(645449-V)*
Suite 22B, 22nd Floor
Sunway Tower
No. 86, Jalan Ampang
50450 Kuala Lumpur, Malaysia
Tel : +603-2032 2328
Fax : +603-2032 1328

SHARE REGISTRAR

Symphony Share Registrars Sdn. Bhd. *(378993-D)*
Level 6, Symphony House
Pusat Dagangan Dana 1
Jalan PJU 1A/46
47301 Petaling Jaya
Selangor Darul Ehsan.
Tel : +603-7841 8000
Fax : +603-7841 8151/8152

AUDITORS

Messrs. Crowe Horwath [AF 1018]
Chartered Accountants
Level 16, Tower C
Megan Avenue II
12, Jalan Yap Kwan Seng
50450 Kuala Lumpur
Tel : +603-2166 0000
Fax : +603-2166 1000

PRINCIPAL BANKER

HSBC Bank Malaysia Berhad *(127776-V)*
No. 43 & 45
Jalan Metro Perdana 7
Taman Usahawan, Kepong
Kepong Utara
52100 Kuala Lumpur
Tel : +603-6254 6890
Fax : +603-6259 5027

STOCK EXCHANGE LISTING

Main Market of Bursa Malaysia Securities Berhad
Date of Transfer Listing from ACE Market to Main Market of Bursa Malaysia Securities Berhad : 27 January 2012
Stock Name : KGB
Stock Code : 0151

Corporate Structure

KELINGTON GROUP BERHAD
(Incorporated in Malaysia)

KELINGTON GROUP BERHAD (TAIWAN) BRANCH
(Registered as branch office in Taiwan)

100%
KELINGTON TECHNOLOGIES SDN. BHD.
(Incorporated in Malaysia)

100%
KELINGTON ENGINEERING (S) PTE. LTD.
(Incorporated in Singapore)

100%
PURITEC TECHNOLOGIES (S) PTE. LTD.
(Incorporated in Singapore)

100%
PURITEC TECHNOLOGIES (M) SDN. BHD.
(Incorporated in Malaysia)

100%
KELINGTON HEALTHCARE TECHNOLOGIES (S) PTE. LTD.
(Incorporated in Singapore)

100%
KELINGTON ENGINEERING (SHANGHAI) CO., LTD.
(Incorporated in the People's Republic of China)

100%
KELINGTON TRADING (SHANGHAI) CO., LTD.
(Incorporated in the People's Republic of China)

100%
KELINGTON ENERGY SDN. BHD.
(Incorporated in Malaysia)

Our Strategic Intents

OUR Mission

Everything we do is inspired by our enduring mission. We strive to build KGB as a profitable organization that is continuously investing in new technology, delivering world class and quality services to meet our customers' requirement, safely and cost effectively.

OUR Vision

To be a leading and well-diversified high-technology Company in Asia Pacific region.

Our vision serves as a strategic intent and guides every aspect of our business describing the desired long-term future state of the company.

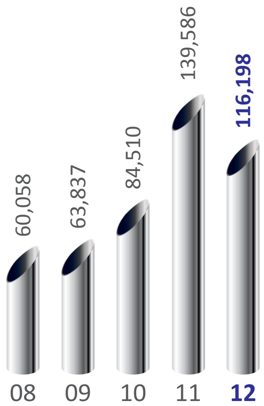
OUR Core Values

In our drive towards our vision, we uphold the following four core values

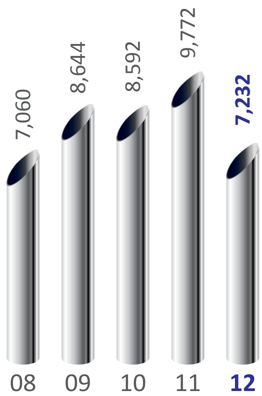
- Building Partnership
- Encourage Innovation
- Continuous Improvement
- Work Safety

Financial Highlights

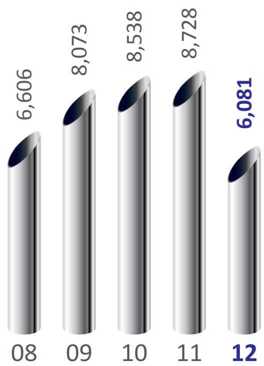
	2008	2009	2010	2011	2012
Revenue (RM'000)	60,058	63,837	84,510	139,586	**116,198**
Profit Before Taxation (RM'000)	7,060	8,644	8,592	9,772	**7,232**
Profit After Taxation (RM'000)	6,606	8,073	8,538	8,728	**6,081**
Shareholders' Funds (RM'000)	21,616	34,416	40,239	50,401	**53,824**
Total Assets (RM'000)	45,209	56,677	69,249	98,872	**109,181**
Number of Ordinary Share ('000)	6,500	74,710	74,710	79,110	**159,595**
Net Assets Per Share (RM)	3.33	0.46	0.54	0.64	**0.34**



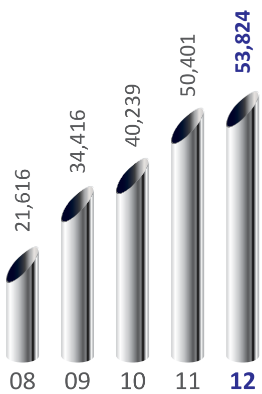
Revenue
(RM'000)



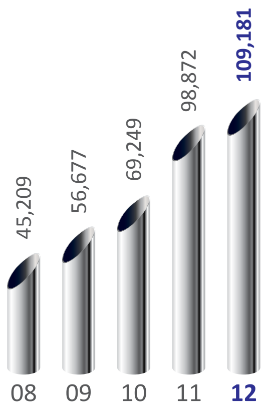
Profit Before Taxation
(RM'000)



Profit After Taxation
(RM'000)



Shareholders' Funds
(RM'000)



Total Assets
(RM'000)

Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present the Annual Report of Kelington Group Berhad ('KGB' or 'the Group') for the financial year ended ('FYE') 31 December 2012.

ECONOMICS OVERVIEW

The global economy in 2012 has yet to recover from the financial crisis of 2008-2009 and uncertainties continued to loom across the global markets. Weaker than expected economic growth and high unemployment rate in the United States of America ("USA"), recession and stagnation in the Euro zone as well as slower pace of economic growth in China impacted the global trade and tepid foreign direct investment.

Despite such challenging international economic environment, Bank Negara Malaysia ("BNM") reported that the Malaysian economy recorded a steady growth of 5.6% in 2012 underpinned by robust domestic demand and the Government's support of income and consumption-boosting measures.

The weak economies in USA, Europe and Japan had dampened the economic growth in the South East Asia region. Taiwan and Singapore, where KGB has operations recorded low-single-digit growth in their respective gross domestic product ("GDP") except China. These three countries including Malaysia are expected to do better in 2013 according to the internal forecasts by the respective governments.

BNM remains upbeat about Malaysia's growth momentum, pegging 2013's GDP's growth estimate in the range of 5% to 6% on the back of favourable domestic catalysts such as improved income growth, stable labour market conditions and an enhanced investment climate.

China being the world's second largest economy and the most populous country in the world projected its economy to grow by 7.5% supported by its government's proactive fiscal policy while Taiwan, the high technology hub projected its growth to be in the region of 3% to 4% in 2013.

Export-oriented Singapore on the other hand is predicting a slower growth between 1% to 3% in 2013 due to the challenging international economic landscape.

OPERATIONAL REVIEW

In 2012, some of the industries we were serving postponed investment decisions due to the challenging business environment. Case in point, the global wafer and semiconductor industries cut back on capital expenditure in view of the weaker consumer sentiment globally.

Chairman's Statement
cont'd

Despite the across-the-board slowdown in business investment, the Group successfully secured RM155.7 million worth of jobs, which was only a slight decline of 7% compared to 2011, whereby the Group secured RM167.4 million worth of orders. The year 2011 was a record breaking year for KGB in terms of top and bottom lines performance.

Over the years, we have demonstrated many times our ability to anticipate, understand and adapt to change and successfully serve new opportunities across our markets. Case in point, the Group ventured into the renewable energy and healthcare sectors, which are more resilient to economic fluctuations compared to the semiconductor sector. To tap into these two growth sectors, KGB has incorporated two wholly owned subsidiaries, Kelington Energy Sdn. Bhd. and Kelington Healthcare Technologies (S) Pte Ltd. This expansion plan is expected to create additional and recurring income streams for the Group as well as unlock more value for our shareholders, partners and customers.

In addition, we are also positioning KGB as our customers' strategic partner in total facility management services. Leveraging on our engineering expertise and technical knowledge in mechanical, process and electrical work, we are able to participate further in our customers' value chain, leading towards better recurring earnings delivery.

Infineon Technologies AG in Malaysia ("Infineon Malaysia") is a testament of our successful value chain enhancement business model. In 2012, we have been re-appointed by Infineon Malaysia for another two years with the option to extend for another year after completing an initial two years contract to deliver total facility management in mechanical and process installation services at its plant in Kulim, Kedah. In May 2013, we successfully secured another total facility management contract with the tenure of two years with an option to extend for one year from one of the world's largest chip manufacturers.

The Group is committed to the continuous pursuit of a higher proportion of steady and recurring income projects aimed at delivering better value to our shareholders.

FINANCIAL PERFORMANCE

For the financial year ended 31 December 2012, KGB reported revenue of RM116.4 million, representing a 17% decline from the previous year of RM139.6 million. The revenue decline was attributable to delays in commencement of new projects clinched in 2012. The management expects the recognition of revenue from these projects to materialise in the fiscal year of 2013.

Despite a decline in revenue, the Group's gross profit margin increased to 18% from 15% in the previous year due to better projects mix. However, expansion activities in Singapore contributed to the rise in expenses. Hence, the Group's profit after taxation declined by 31% to RM6.0 million from RM8.7 million.

In terms of geographical breakdown, revenue from the Malaysian operations reported the strongest growth and continues to be the major revenue driver contributing 49% to the Group. Revenue contributions breakdown from Taiwan, China and Singapore were 19%, 16% and 16% respectively.

Comparing year-on-year performance, the revenue and profit before taxation contribution from Malaysia increased by 30% and 34% to RM57.1 million and RM5.3 million respectively, while the rest of the countries recorded a decline due to the unfavourable economic climate. Although revenue from China declined 29%, its profit before taxation grew more than double due to better projects mix and size of the projects undertaken.

DIVIDEND

Committed to the Company's policy in rewarding shareholders, the Board has proposed a final tax exempt dividend of 2 sen per share or total dividend of RM3.2 million. This represents a dividend pay-out ratio of 53%, exceeding the Group's dividend policy which stipulates a minimum 25% of its annual net profit. The proposed pay-out is subject to shareholders' approval at the forthcoming Annual General Meeting.

Chairman's Statement
cont'd

FUTURE PROSPECTS

The steady year-on-year economic performance has made Malaysia an attractive destination for foreign direct investment ("FDI"). BNM's annual report 2012 stated that between 2010 and 2012, FDI inflows amounted to RM95.0 billion aided by recovery in global and domestic economic conditions as well as attractive investment policies. The stable economic fundamentals, Economic Transformation Programme ("ETP") projects and the country's regional integration via bilateral Free Trade Agreements ("FTA") are expected to be the driving forces behind FDI inflows in 2013. KGB will benefit greatly from the FDI inflows particularly in the high technology and renewable energy sectors.

Our Malaysian prime minister had announced that renewable energy is the country's new engine of economic growth and is expected to create RM70.0 billion worth of economic activities by Year 2020, supports 50,000 jobs and reduces carbon emission by approximately 40%. Not only in Malaysia, renewable energy is gaining prominence globally as a cleaner energy and an alternative to fuel. This spurs the developments in related sectors namely wind turbine, Light Emitting Diode ("LED") and solar panels. KGB has already established its presence in these sectors and is well placed to gain bigger market share in the emerging world-wide trend.

There are also signs of recovery in the Semiconductor sector which underperformed in 2012. The World Semiconductor Trade Statistics ("WSTS") Organisation projected global semiconductor sales to grow 4.5% and 5.2% year-on-year in 2013 and 2014 respectively. The growth is in tandem with the increased number of smartphones users globally. This is good news for UHP and chemical delivery systems players like KGB.

ACKNOWLEDGEMENTS

During the year under review, Yang Berbahagia Vice Admiral (Retired) Datuk Haji Jamil bin Haji Osman has been appointed to the Board as an Independent Non-Executive Director. YBhg Datuk is a representative from Lembaga Tabung Angkatan Tentera ("LTAT"), one of our major shareholders with 12.54% stake in KGB. The appointment demonstrates the long-term commitment and confidence LTAT has in our Group's prospects. In February 2013, Mr Soo Yuit Weng joined the Board as Independent Non-Executive Director. I warmly welcome YBhg Datuk and Mr Soo to the Board and look forward to their valuable inputs in the coming years.

We bid farewell to Mr Hsu Chung-Kuang and Mr Lai Cheng-Che, KGB's Non-Independent and Non-Executive Directors who have resigned from the Board. I would like to thank them for their services and wish them all the very best in their future undertakings.

I would also like to take the opportunity to express my heartfelt gratitude to my fellow Board of Directors and employees for the professionalism and dedication shown. I look forward to their valuable contributions and partnerships in taking the Group to a new height.

My gratitude is also extended to our customers, suppliers, business associates, government and relevant authorities, professionals in the financial community, members of the media, investors, shareholders and all our friends. I would like to thank them all for their support. Going forward, we will continue to grow our business and create enduring value for our shareholders.

Thank you.

IR. GAN HUNG KENG
Chairman

Board of Directors

From left to right:

Chan Thian Kiat, Ir. Gan Hung Keng, Ong Weng Leong, Tan Chuan Yong, Vice Admiral (Retired) Datuk Haji Jamil Bin Haji Osman, Soo Yuit Weng

Board of Directors' Profiles

IR. GAN HUNG KENG
aged 49, Malaysian
Chairman/Chief Executive Officer ("CEO")

Ir. Gan Hung Keng is a Company founder, Executive Director and Chairman of the Company since 14 February 2000 and was appointed as the Managing Director on 22 November 2004 and assumed the role of CEO with effect from 1 September 2009. As the CEO, he is responsible for the overall strategic direction and management functions of the Group and in particular, the Group's new ventures. He is also the Chairman of the Option Committee. He graduated with a Bachelor of Chemical & Process Engineering degree from Universiti Kebangsaan Malaysia, Malaysia. He is also a Professional Engineer on the Board of Engineers, Malaysia.

He has held various managerial roles beginning with a water treatment company in Singapore in 1988 as an Engineer responsible for engineering projects execution of pure water and waste water treatment. He then went on to lead various engineering projects as a Project Engineer until 1994 where he joined Malaysian Oxygen Berhad ("MOX") as a Project Manager for their Ultra Clean Division. He served in MOX for four (4) years before moving to Eastern Oxygen Berhad as the Project Manager for the Ultra Clean System. In 1999, he held the position of Manager (Process) in M+W Zander Pte Ltd (Singapore) for a year before taking up his current position.

Through the various positions held, he has acquired expertise in the detailed designing of all gas delivery system (inert and hazardous gases) for Semiconductor Wafer Fabrication and Flat Panel Display plants, engineering and construction management of large scale and fast track project for gas and chemical related projects, and general management of a business unit and a company.

Ir. Gan is a corporate representative of Palace Star Sdn. Bhd. ("Palace Star"), a substantial shareholder of the Company. He is also a Director of a few subsidiaries of the Company.

ONG WENG LEONG
aged 45, Malaysian
Executive Director/Chief Operating Officer ("COO")

Mr Ong Weng Leong has been a Director of the Company since 22 November 2004. He was appointed as the General Manager on 1 August 2005 and assumed the role of COO with effect from 1 September 2009. As the COO, he is responsible for the management of the day to-day functions and operations of the Group in Taiwan and China. He is also a member of the Remuneration Committee and Option Committee. He graduated in 1992 with a Bachelor of Chemical Engineering degree from Universiti Teknologi Malaysia, Malaysia. He also received a Master in Business Administration from the University of Bath, United Kingdom in 2002.

He began taking up managerial roles in 1996 while at MOX as the Production Manager after which he became the Operations Manager from 1998 to 2000, responsible for managing plant operations located in the central and east coast region. Later in 2000, he was promoted to National Engineering Manager at MOX which he carried out for 3 years until 2004 where he was promoted to the National Sales Manager (Electronics) at MOX. Soon after that, he joined the Company in 2005 as the General Manager.

Throughout more than ten (10) years at MOX and more than eight (8) years at KGB in management roles, he has acquired expertise in detailed designing of all gas system ranging from gas production plants to the supply stations of customers and engineering construction management of industrial gas related projects.

Mr Ong is a corporate representative of Palace Star, a substantial shareholder of the Company. He is also a Director of a few subsidiaries of the Company.

Board of Directors' Profiles
cont'd

CHAN THIAN KIAT
aged 57, Malaysian
Senior Independent Non-Executive Director

Mr Chan Thian Kiat was appointed as an Independent Non-Executive Director of the Company on 11 September 2009 and identified as a Senior Independent Non-Executive Director on 29 April 2013. He is the Chairman of the Audit Committee. He graduated with a Bachelor of Commerce degree from the University of Melbourne, Australia. He is also a fellow member of CPA Australia and an Associate of the Institute of Chartered Secretaries and Administrators (ACIS).

He has held various positions at Bank of America Malaysia Berhad during his 17-year tenure before joining BA Associates Sdn Bhd ("BA Associates") as a Principal and KGB as a Director. He left Bank of America Malaysia Berhad as the Principal, Head of Corporate Finance which he held from 1997 to 2001. At BA Associates, he provides corporate finance consultancy services, assist clients in debt and equity capital raising and mergers and acquisitions. He is also a Director of a few private limited companies.

TAN CHUAN YONG
aged 57, Malaysian
Senior Independent Non-Executive Director

Mr Tan Chuan Yong was appointed as an Independent Non-Executive Director of the Company on 11 September 2009 and identified as a Senior Independent Non-Executive Director on 29 April 2013. He is the Chairman of the Nomination Committee. He is also a member of the Audit Committee, Remuneration Committee and Option Committee. He holds a Barrister-at-Law from the Honourable Society of Lincoln's Inn. He was admitted to the English Bar in 1982 and the Malaysian Bar in 1983. He is currently an Advocate & Solicitor and practising as a Partner in Messrs Tan Chuan Yong & S.M. Chan, Advocates & Solicitors. He has been a member of the Malaysian Bar since 1983. He is also a Notary Public.

Mr Tan is currently an Independent Non-Executive Director of TAFI Industries Berhad, a public company listed on the Main Market of Bursa Malaysia Securities Berhad and also a Director of a few private limited companies.

Board of Directors' Profiles
cont'd

VICE ADMIRAL (RETIRED) DATUK HAJI JAMIL BIN HAJI OSMAN
Aged 55, Malaysian
Independent Non-Executive Director

Vice Admiral (Retired) Datuk Haji Jamil bin Haji Osman was appointed to the Board as an Indpendent Non-Executive Director on 25 June 2012. He is the Chairman of the Remuneration Committee and a member of the Nomination Committee.

He is a highly decorated navy officer who opted for an early retirement from the Royal Malaysian Navy ("RMN") in March 2012. Prior to his retirement, he was the RMN Fleet Commander in charge of the marine operations and responsible for the sovereignty of Malaysia Maritime Area. Before that, he has been assigned to several leadership positions namely, Chief of Staff at the Malaysian Armed Forces ("MAF") Joint Force Headquarters, and a Commander Officer responsible for peace keeping operations under the United Nations banner, and special missions in aid of disasters struck areas in the region.

He also attended various professional and career courses locally and abroad. Among them were Executive MBA, Ohio University and University Technology Mara in 1998 and Masters in Defense and Strategic Studies at Deakin University Australia in December 2002.

With his extension knowledge and leadership skills, he was also appointed as a Director of a few private limited companies.

SOO YUIT WENG
Aged 45, Malaysian
Independent Non-Executive Director

Mr Soo Yuit Weng was appointed as an Independent Non-Executive Director on 1 February 2013. He is also a member of the Audit Committee and the Nomination Committee.

He holds a Bachelor of Economics from Monash University, Australia majoring in Accounting. He is a member of Malaysian Institute of Accountants (MIA) and a fellow of Chartered Tax Institute of Malaysia ("CTIM"). Mr Soo is also a licensed Auditor and Tax Agent in Malaysia.

He is a Chartered Accountant and is currently practicing under his own firm namely Y W Soo & Co. Prior to that, Mr Soo was attached to various professional firms and has been more than 23 years' experience in the field of audit and taxation.

He is currently a Perak Branch Committee Member of CTIM, and also the panel member for Advocates & Solicitors Disciplinary Board of the Malaysian Bar.

He is also a Director of Soo Seng Sooi Holding Berhad.

Notes to the Board of Directors' Profile:

Family Relationship
None of the Directors have any family relationship with any other Directors and/or major shareholders of the Company.

Conviction of Offences
None of the Directors have been convicted for any offences (other than traffic offences) within the past 10 years.

Conflict of Interest
None of the Directors have any conflict of interest involving the Company save as disclosed above and its subsidiaries.

Attendance at Board Meetings
The details of attendance of the Directors at the Board Meetings are set out on page 27 of this Annual Report

Shareholdings
The details of Directors' shareholdings are set out in the Analysis of Shareholding on page 128 of this Annual Report.

Corporate Highlights

KGB- Annual Dinner 2012 : Back to School

KGB- Corporate Social Responsibility
Staff donation for the purpose of construction of a Four-Storey Building and e- Classroom was officially handed over to the board of SJK (Cina) Subang on 1 March 2012.

KGB- Corporate Presentation
Presented by Mr Gan Hung Keng during Bursa Malaysia's Market Chat held at Empire Hotel on 24 March 2012

KGB- Malaysian Investor Relations Association Investors Relations Day (MIRA IR Day), 17 April 2012 (From left) MIRA executive director Ma Kin Hoong, Greenyield group managing director Don Tham, ECS managing director Foo Sen Chin, Kelington Group chief operating officer Steven Ong, Tasco corporate director Andy Lee, Bursa Malaysia investor relation director Arulnathan Michael Dass and ZJ investor relations director Keow Mei-Lynn.

KGB – Corporate Presentation
Presented by Mr Ong Weng Leong on 17 April 2012 during MIRA IR Day

Corporate Highlights
cont'd

KGB – 12th Annual General Meeting held at Sime Darby Convention Centre on 25 June 2012

KE Malaysia - Good Practice Safety Award on Safety and Health, 12 July 2012
The Project and Construction Manager, Richard Lee handling over prize to the most discipline worker, Mr Hartono.

18 November 2012 – Penang Bridge International Marathon

Remarkable Safety Achievement 3,000,000 Man-Hours without Lost Time Injury in December 2012

Personnel in KE Shanghai have been awarded for their long Service at a presentation ceremony

Corporate Governance Statement

The Board of Directors ("the Board") of Kelington Group Berhad ("the Company" or "KGB") recognises the importance of adopting a good corporate governance culture in the organisation. The Board also took cognizant of the fact that appropriate standard of corporate governance will generate long term values to the shareholders of the Company as well as other stakeholders. Therefore, the Board is committed to implement the Principles and Recommendations as set out in the Malaysian Code on Corporate Governance 2012 ("MCCG 2012") with reference to the Corporate Governance Guide ("the Guide") issued by Bursa Malaysia Securities Berhad ("Bursa Securities").

The Board is pleased to provide the following statement which outlined the principles and recommendations of the MCCG 2012 that have been in place throughout the financial year 2012:-

1. ESTABLISH CLEAR ROLES AND RESPONSIBILITIES

1.1 Clear functions of the Board and those delegated to Management

The Board is responsible for formulating and reviewing KGB's strategic plans and key policies, and charting the course of the Group of Companies' business operations whilst providing effective oversight of Management's performance, risk assessment and controls over business operations.

The role of Management is to support the Executive Directors and implement the running of the general operations and financial business of the Company, in accordance with the delegated authority of the Board.

The responsibility for the operation and administration of the Group of Companies is delegated by the Board to the Executive Directors.

The Board delegates and confers some of the Board's authorities and discretion on the Executive Directors as well as on properly constituted Committees comprising Non-Executive Directors which operates within clearly defined terms and reference. The Board Committees consist of Audit Committee ("AC"), Nomination Committee ("NC"), Remuneration Committee ("RC"), and Option Committee ("OC"). Key matters that reserved for the Board's approval include, amongst others the following:

- Key corporate announcements including annual financial statements and interim reports.
- Declaration of dividends.
- Board strategy, business plans and annual operating budget and of any subsequent material changes in strategic direction or material deviations in business plans.
- Treasury policies and bank mandate.
- The prosecution, defence or settlement of legal or arbitration proceedings where material and except in the ordinary course of business.
- The approval and authority to issue circulars to shareholders of the Company.
- Key human resource issue and Succession Planning.
- Material acquisitions and disposition of assets not in the ordinary course of business.
- Investments in capital projects.
- Authority levels.
- Risk management policies.

The Board has established the roles and responsibilities of the Chairman which is distinct and separate from the duties and responsibilities of the CEO as set out in the Board Charter. This segregation between the duties of the Chairman and CEO, ensures an appropriate balance of role, responsibility and accountability at Board level. The Chairman of the Board is Ir. Gan Hung Keng, an Executive Chairman cum CEO. He will continue to carry out his roles as Executive Chairman cum CEO of the Company given his wide experience in engineering services until the appropriate candidate is identified and the roles will be segregated.

Corporate Governance Statement
cont'd

1. ESTABLISH CLEAR ROLES AND RESPONSIBILITIES *cont'd*

1.1 Clear functions of the Board and those delegated to Management *cont'd*

The Non-Executive Directors are independent of Management. Their roles are to constructively challenge Management and monitor the success of Management in delivering the approved targets and business plans within the risk appetite set by the Board. They have free and open contact with Management at all levels, and they engage with the external and internal auditors to address matters concerning Management and oversight of the Company's business and operations.

1.2 Clear roles and responsibilities in discharging fiduciary and leadership functions

The Board has discharged its responsibilities in the best interests of the Company. The following are among the key responsibilities of the Board:

a. Reviewing and adopting the Company's strategic plans

The Board had on 29 April 2013 in place a strategy planning process, whereby Management presents to the Board its recommended strategy annually, together with its proposed business plans for the ensuing year for the Board's review and approval.

The Board deliberates both Management's and its own perspectives, and challenges the Management's views and assumptions to ensure the best outcome.

In the year 2012, prior to the implementation of the strategy planning process, the Executive Directors are responsible for the setting of overall strategic policy and direction of the Group's business operations.

b. Overseeing the conduct of the Company's business

The CEO is responsible for the day-to-day management of the business and operations of the Group to ensure the smooth and effective running of the Group. He is supported by the COO, the key personnel and Management and other Board Committees.

Management's performance, under the leadership of CEO, is assessed by the Board through monitoring the success of Management in delivering the approved targets and business plans against the performance of the Group.

c. Identifying principal risks and ensuring the implementation of appropriate internal controls and mitigation measures

Through the AC, the Board oversees the Risk Management framework of the Group. The AC advises the Board on areas of high risk faced by the Group and the adequacy of compliance and control throughout the organisation. The AC reviews the action plan implemented and makes relevant recommendations to the Board to manage residual risks.

d. Succession Planning

The Board has entrusted the NC and RC with the responsibility to review candidates for the Board and key management positions and to determine compensation packages for these appointments, and to formulate nomination, selection compensation and succession policies for the Group.

1. ESTABLISH CLEAR ROLES AND RESPONSIBILITIES *cont'd*

1.2 Clear roles and responsibilities in discharging fiduciary and leadership functions *cont'd*

d. Succession Planning *cont'd*

The NC also undertakes yearly evaluation of the performance of the Chief Financial Officer ("CFO") whose remunerations are directly linked to performance, based on his score sheet. For this purpose, the performance evaluation for the year 2012 of the CFO was reviewed by the NC in April 2013.

e. Overseeing the development and implementation of a shareholder communications policy for the Company

The Company strongly believes that transparency and effective and timely communication are essential in maintaining good relations with the investors and investment community. The Company carried out its Investor Relations ("IR") activities with reference to its stated Corporate Disclosure Policy, which is available on its website.

The Company has identified Mr Tan Chuan Yong and Mr Chan Thian Kiat, as the Senior Independent Non-Executive Directors to whom concerns of shareholders and other stakeholders may be conveyed.

In addition to the above, shareholders and investors can make inquiries about investor relations matters with designated management personnel directly responsible for investor relations, via dedicated email addresses. These email addresses are made available on the Group's corporate website.

f. Reviewing the adequacy and integrity of management information and internal control system of the Company

The Board is ultimately responsible for the adequacy and integrity of the Company's internal control system. Details pertaining to the Company's internal control system and the reviews of its effectiveness are set out in the Statement on Risk Management and Internal Control of this Annual Report.

1.3 Formalised ethical standards through Code of Ethics

The Board is guided by the Directors' Code of Ethics in discharging its oversight role effectively. The Code of Ethics requires all Directors to observe high ethical business standards, honesty and integrity and to apply these values to all aspects of the Group's business and professional practice and act in good faith in the best interests of the Group and its shareholders. A summary of the Code of Ethics was published on the corporate website.

In addition, the Company's Whistleblowing Policy as published in the Company's website seek to foster an environment where integrity and ethical behaviour are maintained and any illegal or improper action and/or wrong doing in the Company may be exposed.

1.4 Strategies promoting sustainability

The Board formalise the Company's strategies on promoting sustainability. A detailed report on sustainability is appeared in the Corporate Sustainability Statement of this Annual Report and the corporate website.

Corporate Governance Statement
cont'd

1. ESTABLISH CLEAR ROLES AND RESPONSIBILITIES *cont'd*

1.5 Access to information and advice

The Directors have individual and independent access to the advice and dedicated support services of the Company Secretaries in ensuring the effective functioning of the Board. The Directors may seek advice from Management on issues under their respective purview. The Directors may also interact directly with Management, or request further explanation, information or updates on any aspect of the Company's operations or business concerns from them.

In addition, the Board may seek independent professional advice at the Company's expense on specific issues to enable it to discharge its duties in relation to matters being deliberated.

1.6 Qualified and competent Company Secretaries

The Directors have ready and unrestricted access to the advice and services of the Company Secretary to enable them to discharge their duties effectively.

The Board is regularly updated and apprised by the Company Secretary on new regulation issued by the regulatory authorities. The Company Secretary also serves notice to the Directors and Principal Officers to notify them of closed periods for trading in KGB shares.

The Company Secretary attend and ensure that all Board meetings are properly convened, and that accurate and proper records of the proceedings and resolutions passed are taken and maintained in the statutory register of the Company.

The Company Secretary works closely with Management to ensure that there are timely and appropriate information flows within and to the Board and Board Committees, and between the Non-Executive Directors and Management.

1.7 Board Charter

In discharging its duties, the Board of KGB is constantly mindful of the need to safeguard the interests of the Group's stakeholders. In order to facilitate the effective discharge of its duties, the Board is guided by the Board Charter together with a Board Manual. The Board Charter was adopted by the Board on 27 February 2013 and the same was published on the corporate website.

The Board Charter serves to ensure that all Board members acting on the Group's behalf are aware of their expanding roles and responsibilities. It sets out the strategic intents and specific responsibilities to be discharged by the Board members collectively and individually. It also regulates on how the Board conducts business in accordance with sound corporate governance principles.

The Board Manual provides reference for Directors in relation to the Directors' duties and obligations and outlines processes and procedures to ensure the Group's Board and their Committees' effectiveness and efficiency. It shall be updated from time to time to reflect changes to the amendments of relevant rules and regulations, or to be reviewed at least once in two years, whichever is earlier.

1. ESTABLISH CLEAR ROLES AND RESPONSIBILITIES *cont'd*

1.7 Board Charter *cont'd*

The chapters covered under the Board Manual are as follows:-

- Group's Standard of Business Conduct
- Directors' Duties and Obligations
- Appointment and Resignation of Directors
- Board and Board Committee proceedings
- Remuneration and Benefits for Directors
- Supply of Information to the Board
- Delegation of Authority Table
- Training and Induction Programmes
- Annual Board Assessment
- Conflict of Interest and Related Party Transactions
- Code of Ethics and Conduct for Company Director
- Whistle Blowing Policy
- Corporate Disclosure Policy
- Gender Diversity Policy

2 STRENGTHEN COMPOSITION

2.1 NC

The NC comprises exclusively Non-Executive Directors, the majority of whom are Independent Directors.

The terms of reference of the NC are as follows:-

- To recommend candidates for all directorships to be filled by shareholders or the Board;
- To recommend candidates to fill the seats on Board Committees;
- To recruit and retain the best available Directors;
- To assess the contribution of each individual Director;
- To review annually the Board structure, size, composition and the balance between Executive Directors, Non-Executive Directors and Independent Directors to ensure that the Board has the appropriate mix of skills and experience including core competencies which Directors should bring to the Board and other qualities to function effectively and efficiently;
- To take the necessary steps to ensure that women candidates are sought as part of the Company's recruitment exercise to meet its gender diversity policy;
- To review annually the independence of Independent Directors;
- To ensure existence of an appropriate framework and succession plan for the Executive Director and Senior Management of the Company;
- To recommend Directors who are retiring (by rotation) for re-election and termination of Board membership for appropriate reasons;
- To recommend to the Board the removal of a Director from the Board or Management if the Director or Management is inefficient, errant and negligent in discharging his/her responsibilities;
- To ensure that all Board appointees undergo the necessary training programmes prescribed by the applicable statutory and regulatory bodies;
- To ensure adequate training and orientation is given to new Directors with respect to the business, structure and management of the Group as well as the expectations of the Board with regards to their contribution to the Board and Group;
- To establish and implement processes for assessing the effectiveness of the Board as a whole, the Committees of the Board and assessing the contribution of each Director;

Corporate Governance Statement
cont'd

2 STRENGTHEN COMPOSITION *cont'd*

2.1 NC *cont'd*

The terms of reference of the NC are as follows:- *cont'd*

- To consider other matters as referred to the Committee by the Board; and
- To identify suitable orientation, educational and training programmes for continuous developments of Directors.

2.2 Senior Independent Non-Executive Directors

The Board has identified the Independent Non-Executive Directors, Mr Tan Chuan Yong and Mr Chan Thian Kiat, as the Senior Independent Non-Executive Directors to whom concerns of shareholders and other stakeholders may be conveyed. Both Mr Tan Chuan Yong and Mr Chan Thian Kiat have been appointed as Independent Non-Executive Directors of KGB since it was listed in 2009. The NC was chaired by Mr Tan Chuan Yong since it was established.

They can be contacted by e-mail at tcy@kllaw.com.my and steventkchan@yahoo.com.

2.3 Develop, maintain and review criteria for recruitment and annual assessment of Directors

a. Board appointment process

The appointment of new Directors to the Board is set out in a formal and transparent procedure as stipulated in the Board Manual, the primary responsibility of which has been delegated to the NC.

The NC is responsible for identifying and recommending suitable candidates for Board membership and also for assessing the performance of the Directors on an ongoing basis. The Board will have the ultimate responsibility and final decision on the appointment. This process shall ensure that the Board membership was accurately reflects the long-term strategic direction and needs of the Company and determines skills matrix to support strategic direction and needs of the Company.

Management shall then engage broadly to develop a pool of interested potential candidates meeting the skills, expertise, personal qualities and diversity requirements for both the Board and the Committee appointments.

The NC evaluates and matches the criteria of the candidate, and will consider diversity, including gender, where appropriate, and recommends to the Board for appointment.

Consideration will be given to those individuals possessing the identified skill, talent and experience.

The NC will contact those persons identified to determine interest in serving the Company. This communication will ensure that prospective Board members have clarity regarding the nomination process as well as Director/Board profiles, roles and responsibilities, expectations of time commitments and other information as required.

According to the Articles of Association of the Company, all Directors are require to submit themselves for re-election at intervals of not more than three (3) years. The Articles of Association also state that one-third (1/3) of the Board members shall retire from office at the Annual General Meeting ("AGM") and shall be eligible for re-election at the same AGM.

2 STRENGTHEN COMPOSITION *cont'd*

2.3 Develop, maintain and review criteria for recruitment and annual assessment of Directors *cont'd*

a. *Board appointment process* *cont'd*

The new Director(s) duly appointed by the Board are then recommended for re-election at the AGM.

The Company shall then provide orientation and on-going education to the Board.

In making the selection, the Board is assisted by the NC to consider the following aspects:

(i) Probity, personal integrity and reputation – the person must have the personal qualities such as honesty, integrity, diligence and independence of mind and fairness.

(ii) Competence and capability – the person must have the necessary skills, ability and commitment to carry out the role.

b. *Annual Assessment*

The Board reviews and evaluates its own performance and the performance of its Committees on an annual basis. The Board evaluation comprises a Board Assessment, an Individual (Self & Peer) Assessment and an Assessment of Independence of Independent Directors.

The assessment of the Board is based on specific criteria, covering areas such as the Board structure, Board operations, roles and responsibilities of the Board, the Board Committee and the Chairman's role and responsibilities.

For Individual (Self & Peer) Assessment, the assessment criteria include contribution to interaction, quality of inputs, and understanding of role.

The results of the assessment would form the basis of the NC's recommendation to the Board for the re-election of Directors at the next AGM.

In addition, the NC has reviewed and evaluated the performance of CFO during the financial year.

c. *Gender diversity policy*

The Board has approved the establishment of a gender diversity policy, and has set the target to have at least one female director by 2018. The Company will endeavour to achieve this target through the progressive refreshing of the Board as it implements the nine-year policy for Independent Non-Executive Directors.

Corporate Governance Statement
cont'd

2 STRENGTHEN COMPOSITION *cont'd*

2.4 Remuneration Policies and Procedures

The RC and the Board ensure that the Company's remuneration policy remains supportive of the Company's corporate objectives and is aligned with the interest of shareholders, and further that the remuneration packages of Directors and key Senior Management Officers are sufficiently attractive to attract and to retain persons of high calibre.

The RC reviews annually the performance of the Executive Directors and submits recommendations to the Board on specific adjustments in remuneration and/or reward payments that reflect their respective contributions for the year, and which are depend on the performance of the Group, achievement of the goals and/or quantified organisational targets as well as strategic initiatives set at the beginning of each year.

The Board as a whole determines the remuneration of Non-Executive Directors and recommends the same for shareholders' approval.

The Non-Executive Directors are paid annual fees, and an attendance allowance for each Board meeting that they attend.

The Executive Directors are not entitled to the above Director's fee and any meeting allowance for Board or Board Committee Meetings they attend. The remuneration package of the Executive Directors consists of monthly salary, bonus and benefits-in-kind such as company car and the benefit of Directors and Officers Liability Insurance in respect of any liabilities arising from acts committed in their capacity as Directors and Officers of the Company. The Directors and principal officers are required to contribute jointly towards the premium of the said policy.

Details of the Directors' remuneration (including benefits-in-kind) of each Director during the financial year 2012 are as follows:

	Salary RM	Fees RM	Bonus RM	Benefits in- kind RM
Executive Director				
Ir. Gan Hung Keng	315,000	-	143,175	15,000
Ong Weng Leong	315,000	-	143,175	15,000
Non-Executive Director				
Chan Thian Kiat	-	36,000	-	-
Tan Chuan Yong	-	36,000	-	-
Lai, Cheng-Che[2]	-	36,000	-	-
Hsu, Chung-Kuang[1]	-	25,300	-	-
Vice Admiral (Retired) Datuk Haji Jamil bin Haji Osman[3]	-	13,640	-	-
Soo Yuit Weng[4]	-	-	-	-
Total	630,000	146,940	286,350	30,000

Notes:
1. *Resigned on 15 December 2012*
2. *Resigned on 1 February 2013*
3. *Appointed on 25 June 2012*
4. *Appointed on 1 February 2013*

2 STRENGTHEN COMPOSITION *cont'd*

2.4 Remuneration Policies and Procedures *cont'd*

The number of Directors whose remuneration falls within the following bands is tabulated as below:

Range of Remuneration (RM)	Executive Directors	Non-Executive Directors
50,000 and below	-	4
50,001 to 150,000	-	-
150,001 to 300,000	-	-
300,001 to 400,000	-	-
400,001 to 500,000	-	-
500,001 to 600,000	2	-

3. REINFORCE INDEPENDENCE

3.1 Annual Assessment of Independence

The Board, through the NC, assesses the independence of Independent Directors annually. The criteria for assessing the independence of an Independent Director include the relationship between the Independent Director and the Company and his involvement in any significant transaction with the Company.

Based on the above assessment in 2012, the Board is generally satisfied with the level of independence demonstrated by all the Independent Directors, and their ability to bring independent and objective judgement to board deliberations.

With respect to the two (2) Independent Non-Executive Directors who are seeking re-appointment at the forthcoming Thirteenth AGM, the NC is satisfied that Mr Tan Chuan Yong and Vice Admiral (Retired) Datuk Haji Jamil bin Haji Osman have demonstrated that they are independent of management and free from any business or other relationship which could interfere with the exercise of independent judgement. The Board therefore recommends and supports their proposed re-appointment.

3.2 Tenure of Independent Directors

The Board has adopted a nine-year policy for Independent Non-Executive Directors. An Independent Director may continue to serve on the Board subject to the Director's re-designation as a Non-Independent Director. Otherwise, the Board shall justify and seek shareholders' approval at the AGM in the event it retains the Director as an Independent Director.

None of the Independent Non-Executive Directors served more than 9 years in the Company.

3.3 Shareholders' approval for the Continuance Office as Independent Directors

The Board would seek shareholders' approval at the AGM if the Independent Director who has served in that capacity for more than nine years shall remain as an Independent Director.

The NC will assess the independence of the Independent Director based on the assessment criteria developed by the NC, and recommended to the Board for recommendation to shareholders for approval. Justification for the Board's recommendation would be provided to shareholders.

Corporate Governance Statement
cont'd

3. REINFORCE INDEPENDENCE *cont'd*

3.4 Separation of the Positions of the Chairman and the CEO

One of the recommendations of the MCCG 2012 states that the position of the Chairman and the CEO should be held by different individuals, and the Chairman must be a non-executive member of the Board. However, the roles of the Chairman and the CEO have not been separated and both functions continue to be held by Ir. Gan Hung Keng.

As at todate, KGB has yet to identify an Independent Chairman who is sufficiently suitable for the role with the right experience, strength and understanding of the Group's business operations as KGB involves in the high-technologies industry which provides end-to-end engineering solutions for Ultra High Purify gas and chemical delivery systems. To go beyond box ticking and fulfil the aspiration and objective of the MCCG 2012, KGB is working on a 5-years succession plan to identify and develop potential personnel to increase KGB's standards of corporate governance in line with the MCCG 2012.

To ensure balance of power and authority on the Board, the Board comprises a majority of Independent Directors since 1 February 2013. The Board is satisfied and assured that no individual or group of Directors has unfettered powers of decision that could create a potential conflict of interest.

3.5 Composition of the Board

The Board currently consists of six (6) members, comprising one (1) Executive Chairman, one (1) Executive Director and four (4) Independent Non-Executive Directors. The size of the Board is appropriate given the complexity and geographical spread of KGB's business.

The present composition of the Board is in compliance with Paragraph 15.02 of the Main Market Listing Requirements as more than half of its members are Independent Directors.

The six (6) members of the Board are persons of high calibre and integrity, and they possess the appropriate skills and provide a wealth of knowledge, experience and skills in the key areas of accountancy, law, business operations and development, finance and risk management, amongst others.

Jointly with the Executive Director cum COO, the Executive Chairman cum CEO is accountable to the Board over the daily management and development of the Company.

The profile of each of the Member of the Board is presented on the pages 12 to 14 of this Annual Report.

4. FOSTER COMMITMENT

4.1 Time Commitment

The Board is satisfied with the level of time commitment given by the Directors towards fulfilling their roles and responsibilities as Directors of KGB. This is evidenced by the attendance record of the Directors at Board Meetings, as set out in the table.

Name of Director	Attendance (As at 31/12/2012)
Ir. Gan Hung Keng *(Chairman)*	7/7
Ong Weng Leong	6/7
Chan Thian Kiat	6/7
Tan Chuan Yong	7/7
Lai, Cheng-Che *(resigned on 1 February 2013)*	4/7
Hsu, Chung-Kuang *(resigned on 15 December 2012)*	4/7
Vice Admiral (Retired) Datuk Haji Jamil bin Haji Osman *(appointed on 25 June 2012)*	3/7
Soo Yuit Weng *(appointed on 1 February 2013)*	-

To ensure that the Directors have the time to focus and fulfil their roles and responsibilities effectively, the Directors must not hold directorships at more than five (5) public listed companies and shall notify the Chairman before accepting any new directorship.

To facilitate the Directors' time planning, an annual meeting schedule is prepared and circulated at the beginning of every year, as well as the tentative closed periods for dealings in securities by Directors based on the targeted dated of announcements of the Group's quarterly results.

4.2 Training

All Directors have completed the Mandatory Accreditation Programme ("MAP") as prescribed by Bursa Securities. The Company will continue to identify suitable training for the Directors to equip and update themselves with the necessary knowledge in discharging their duty and responsibilities as Directors.

The Directors are encouraged to attend briefing, conferences, forums, trade fairs (locally and internationally), seminars and training to keep abreast with the latest developments in the industry and to enhance their skills and knowledge.

Corporate Governance Statement
cont'd

4. FOSTER COMMITMENT *cont'd*

4.2 Training *cont'd*

During the financial year ended 31 December 2012, the Directors have attended the following training, seminars, conferences and exhibitions which they considered vital in keeping abreast with changes in laws and regulation, business environment, and corporate government development:-

No.	Name of Director	Course Attended	Date
1.	Ir. Gan Hung Keng	Role of the Audit Committee in Assuring Audit Quality	22/05/2012
2.	Ong Weng Leong	Making the Most of the Chief Financial Officer Role: Every One's responsibility	04/07/2012
3.	Chan Thian Kiat	Role of the Audit Committee in Assuring Audit Quality	22/05/2012
		Making the Most of the Chief Financial Officer Role: Every One's responsibility	04/07/2012
4.	Tan Chuan Yong	Debt Collection Procedure and Protection	22/05/2012
5.	Vice Admiral (Retired) Datuk Haji Jamil bin Haji Osman (appointed on 25 June 2012)	Making the Most of the Chief Financial Officer Role: Every One's responsibility	04/07/2012

5. UPHOLD INTEGRITY IN FINANCIAL REPORTING

5.1 Compliance with applicable financial reporting standards

The Board is committed to provide a balanced, clear and meaningful assessment of the financial performance and prospects of the Company via all disclosures and announcements made.

The Board is assisted by the AC to oversee and scrutinise the process and quality of the financial reporting, includes reviewing and monitoring the integrity of the financial statements and the appropriateness of the Company's accounting policies to ensure accuracy, adequacy and completeness of the report, as well as in compliance with the relevant accounting standards.

5.2 Assessment of suitability and independence of External Auditors

The AC is responsible for reviewing audit, recurring audit-related and non-audit services provided by the External Auditors. These recurring audit-related and non-audit services comprise regulatory reviews and reporting, interim reviews, tax advisory and compliance services.

The terms of engagement for services provided by the External Auditors are reviewed by the AC prior to submission to the Board for approval.

The AC has reviewed the provision of non-audit services by the External Auditors during the year and concluded that the provision of these services did not compromise the External Auditors' independence and objectivity as the amount of the fees paid for these services was not significant when compared to the total fees paid to the External Auditors.

5. UPHOLD INTEGRITY IN FINANCIAL REPORTING *cont'd*

5.2 Assessment of suitability and independence of External Auditors *cont'd*

Having satisfied itself with Messrs Crowe Horwath's performance, the AC will recommend their re-appointment to the Board, upon which the shareholders' approval will be sought at the AGM.

6. RECOGNISE AND MANAGE RISKS

6.1 Sound framework to manage risks

The Board oversees, reviews and monitors the operation, adequacy and effectiveness of the Group's system of internal controls.

The Board defines the level of risk appetite, approving and overseeing the operation of the Group's Risk Management Framework, assessing its effectiveness and reviewing any major/significant risk facing the Group.

The AC oversees the risk management framework of the Group and advises the Board on areas of high risk faced by the Group and the adequacy of compliance and control throughout the organisation. The AC also reviews the action plan implemented and makes relevant recommendations to the Board to manage residual risks.

The Company continues to maintain and review its internal control procedures to ensure the protection of its assets and its shareholders' investment.

6.2 Internal Audit Function

Since 2009, the Company has outsourced its Internal audit function to a professional services firm named Audex Governance Sdn. Bhd. to assist the AC in discharging its duties and responsibilities in respect of reviewing the adequacy and effectiveness of the Group's risk management and internal control systems.

The Statement on Risk Management and Internal Control as included on pages 32 to 34 of this Annual Report provides the overview of the internal control framework adopted by the Company during the financial year ended 31 December 2012.

7. ENSURE TIMELY AND HIGH QUALITY DISCLOSURE

7.1 Corporate Disclosure Policy and Procedures

The Company has put in place a Corporate Disclosure Policy with the objective to ensure communications to the public are timely, factual, accurate, complete, broadly disseminated and where necessary, filed with regulators in accordance with applicable laws.

A Disclosure Committee comprises of Executive Directors and CFO was established on 29 April 2013 and responsible for determining materiality of information and ensuring timely, complete and accurate disclosure of material information to the investing public in accordance with securities laws and stock exchange rules and regulations, monitoring compliance with this policy and overseeing the disclosure controls and procedures.

Corporate Governance Statement
cont'd

7. ENSURE TIMELY AND HIGH QUALITY DISCLOSURE *cont'd*

7.1 Corporate Disclosure Policy and Procedures *cont'd*

Sufficient information would be provided to the Company Secretary for drafting of necessary announcement. The Committee will conduct proper verification and due diligence on the disclosure of material information to the public.

Clear roles and responsibilities of Directors, Management, and employees are provided in the policy to ensure that the confidential information is handled properly to avoid leakage and improper use of such information.

The Board is mindful that information which is expected to be material must be announced immediately.

7.2 Leverage on information technology for effective dissemination of information

KGB's website provides all relevant corporate information and it is accessible by the public. The Company's website enhances the IR function by including share price information, all announcements made by KGB, Annual Reports, financial results, corporate calendar as well as the corporate governance statement of KGB.

Through the Company's website, the stakeholders are able to direct queries to the Company.

8. STRENGTHEN RELATIONSHIP BETWEEN COMPANY AND SHAREHOLDERS

8.1 Encourage shareholder participation at general meetings

In an effort to encourage greater shareholders' participation at AGMs, the Board takes cognisance in serving longer than the required minimum notice period for AGMs, when possible. The Chairman together with the Senior Independent Directors ensure that the Board is accessible to shareholders and an open channel of communication is cultivated.

KGB encloses the Annual Report together with the Circulars to Shareholders and notice of AGM with regard to, amongst others, details of the AGM, their entitlement to attend the AGM, the right to appoint proxy and also qualification of proxy.

The Company allows a shareholder to appoint a proxy who may not be a member of the Company. If the proxy is not a member of the Company, he/she need not be an advocate, an approved company auditors or a person approved by the Registrar of Companies.

To further promote participation of members through proxies, which in line with the insertion of Paragraph 7.21A(2) of the Main Market Listing Requirements, the Company had amended its Articles of Association to include explicitly the right of proxies to speak at general meetings.

8.2 Encourage poll voting

At the Twelfth AGM of the Company held on 25 June 2012, all resolutions put forth for shareholders' approval at the meeting were voted on by show of hands.

The Chairman would ensure that shareholders were informed of their rights to demand a poll vote at the commencement of the AGM.

8. STRENGTHEN RELATIONSHIP BETWEEN COMPANY AND SHAREHOLDERS *cont'd*

8.3 Effective communication and proactive engagement

At the Twelfth AGM, Directors were present in person to engage directly with, and be accountable to the shareholders for their stewardship of the Company. The Directors, Management and External Auditors were in attendance to respond to the shareholders' queries.

From the Company's perspective, the AGM also serves as a forum for Directors and Management to engage with the shareholders personally to understand their needs and seek their feedback. The Board welcomes questions and feedback from shareholders during and at the end of shareholders' meeting and ensures their queries are responded in a proper and systematic manner.

COMPLIANCE STATEMENT

The Board is satisfied that the Company has in 2012 complied with the principles and recommendations of the MCCG 2012 save for one of the recommendations that the position of the Chairman and the CEO should be held by different individuals, and the Chairman must be a non-executive member of the Board.

This statement is made in accordance with the resolution of the Board dated 29 April 2013.

STATEMENT OF DIRECTORS' RESPONSIBILITY

Directors are legally required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and of the Company at the end of the financial year and of the results of the Group and of the Company for the financial year then ended.

In preparing those financial statements, the Directors of the Company have:

- adopted suitable accounting policies and then applied them consistently;
- made judgements and estimates that are prudent and reasonable;
- ensured applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepared the financial statement on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for ensuring that proper accounting and other records are kept which enable the preparation of the financial statement with reasonable accuracy on the disclosure of the financial position of the Group and of the Company, and to enable them to ensure that the financial statements comply with the provisions of the Companies Act, 1965 and the applicable accounting standards approved by the Malaysian Accounting Standards Board in Malaysia for Entities other than Private Entities. The Directors are also responsible for taking reasonable steps to ensure that appropriate systems are in place to safeguard the assets of the Group and of the Company and hence, to prevent and detect fraud and other irregularities.

Statement on Risk Management and Internal Control

INTRODUCTION

The Board of Directors ("Board") of Kelington Group Berhad is pleased to present its Statement on Risk Management and Internal Control for the financial year ended 31 December 2012, which has been prepared pursuant to paragraph 15.26 (b) of Bursa Securities' Listing Requirements for the Main Market and as guided by Statement on Risk Management and Internal Control: Guidance for Directors of Listed Issuers ("the Guidance"). This statement outlines the nature and state of the system of risk management and internal controls of the Group during the financial year.

BOARD RESPONSIBILITY

The Board acknowledges its responsibility and re-affirms its commitment for the Group's system of risk management and internal control and for reviewing its adequacy and to ensure that the Group's assets and shareholders' interests are safeguarded.

Due to the inherent limitations in any system of risk management and internal control, such system put in place by Management can only manage rather than eliminate the risks that may impede the achievement of the Group's business objectives or goals. Therefore, such system of risk management and internal control can only provide reasonable and not absolute assurance against material misstatement or loss.

RISK MANAGEMENT FRAMEWORK

The Board acknowledges that the Group's business activities involve some degree of risk and Key Management staff and Head of Departments are delegated with the responsibility to manage identified risks within defined parameters and standards.

The Board has an on-going process for identifying, evaluating and managing the significant risks it faces. The Board regularly reviews the results of this process, including measures taken by Management to address areas of key risks as identified. This process has been in place for the financial year under review and up to the date of approval of this statement.

During the financial year under review, Management with the assistance of external consultants updated the Group's key risk profile. The results of the risk assessment update exercise were presented to the AC on 27 February 2013. Risk identified were prioritised in terms of the possibility of likelihood of their occurrence and the impact on the achievement of the Group's business objective/goals. This allows Management to allocate appropriate resources in the mitigation of risks.

The abovementioned practices and initiatives by Management serves as the on-going process used to identify, evaluate and managed significant risks.

Statement on Risk Management and Internal Control

cont'd

INTERNAL CONTROL

Presently, the Group's Internal Audit function is outsourced to a professional services firm to review the adequacy and effectiveness of the Group's internal control system. The Internal Audit function reports directly to the AC.

A risk based internal audit plan is tabled to the AC for review and approval. The internal audit function executes the audits based on the approved plan for financial year ended 31 December 2012 and the results of the audit reviews are periodically reported to the AC. Based on results of the review, discussions with the Management were held to deliberate on the actions that are required to be taken to address internal control matters identified by the outsourced internal audit function.

The AC will examine the adequacy and effectiveness of the Group's system of internal control via the review of internal audit reports, quarterly financial reports and annual financial statements. Although a number of internal control weaknesses were identified, none of the weaknesses have resulted in any material losses that would require a separate disclosure in this annual report.

The total cost incurred by the internal audit function is at RM55,847 for the financial year ended 31 December 2012.

OTHER KEY ELEMENTS OF INTERNAL CONTROL

The other key elements of the Group's System of internal control are:

a) Management Structure

The Group maintains a formal organisation structure with clear lines of accountability and responsibility. The daily running of the businesses is entrusted to the Executive Directors and their Management teams. The heads of each operating subsidiary and department are empowered with the responsibility of managing their respective operations.

b) Periodical and/or Annual Budget

Periodic business planning and budgeting are performed to establish Group's plans and targets according to the Group's business objectives. This activity examines strengths, weaknesses, opportunities, threats and key business risk of the Group. Deviation from plans and budget are reported to the Board on a periodic basis.

c) Reporting and Review

Periodic operational and financial reports are prepared and presented to the Board for discussion and review based on the established reporting hierarchy within the Group. Ad-hoc and scheduled meetings are held at operational and management levels to identify operational issues, discuss and review the business plans, budgets, financial and operational performances of the Group, and etc.

d) ISO ("International Organisation for Standardisation") Quality

Both Kelington Group Berhad and Kelington Technologies Sdn. Bhd. have been certified with ISO 9001:2008 Quality Management System since March 2010. Yearly surveillance audits and periodic re-assessments are carried out to ensure its adherence and application of the ISO quality policies and procedures.

Statement on Risk Management and Internal Control
cont'd

OTHER KEY ELEMENTS OF INTERNAL CONTROL *cont'd*

e) Internal Policies and Procedures

Policy and procedures, handbook, guidelines and authority limits have been established to guide personnel on day-to-day operational activities.

f) External Audit

In accordance with Paragraph 15.23 of Bursa Securities' Listing Requirements for the Main Market, the External Auditors have performed a review on the statement on risk management and internal control for its inclusion into the annual report of the Company for financial year ended 31 December 2012, and reported to the Board that nothing has come to their attention that cause them to believe that the statement is inconsistent with their understanding of the state of system of risk management and internal control of the Group.

ASSURANCE PROVIDED BY THE GROUP CEO AND CFO

In line with the Guidelines, the CEO and CFO have provided assurance to the Board that the Group's risk management and internal control systems have operated adequately and effectively, in all material aspects, to meet the Group's objectives during the financial year under review.

CONCLUSION

The Board is of the view that the risk management and internal control systems are satisfactory and have not resulted in any material losses, contingencies or uncertainties that would require a separate disclosure in the Group's annual report.

The Board recognises the necessity to continuously improve the Group's system of risk management and internal control practices to safeguard shareholders' investments and the Group's assets. Therefore, the Board will continuously evolve the Group's system of risk management and internal control to meet the changing and challenging business environment and put in place appropriate action plans to further enhance the system of internal control if necessary.

This Statement on Risk Management and Internal Control is made in accordance with the resolution of the Board of Directors dated 29th day of April, 2013.

Audit Committee Report

The Board presents the AC Report to provide insights on the discharge of the AC's functions for the Group in the year 2012.

COMPOSITION AND ATTENDANCE

The AC comprises three members, all of whom are Independent Non-Executive Directors who satisfies the test of independence under the Main Market Listing Requirements ("MMLR") of Bursa Securities. This meets the requirements of Paragraph 15.09(1)(b) of the MMLR.

The AC members and details of attendance of each member at the AC meetings held during the financial year ended 31 December 2012 are as follows:

Audit Committee	Meeting Attendance
Chan Thian Kiat *(Senior Independent Non-Executive Director)* *Chairman*	5 / 5
Tan Chuan Yong *(Senior Independent Non-Executive Director)* *Member*	5 / 5
Lai, Cheng-Che *(Non-Independent Non-Executive Director)* *Member* *(Resigned on 1 February 2013)*	3 / 5
Soo Yuit Weng *(Independent Non-Executive Director)* *Member* *(Appointed on 1 February 2013)*	-

The AC Chairman, Chan Thian Kiat, is a fellow member of CPA Australia and an Associate of the Institute of Chartered Secretaries and Administrators ("ACIS"). Accordingly, KGB complies with Paragraph 15.09(1)(c)(ii)(bb) of the MMLR.

The Board assesses the performance of the AC and its members through an annual Board Committee effectiveness evaluation and is satisfied that they are able to discharge their functions, duties and responsibilities in accordance with the Terms of Reference ("TOR") of the AC which are available on KGB's website, thereby supporting the Board in ensuring appropriate Corporate Governance ("CG") standards within the Group.

MEETINGS

The AC held five (5) meetings in the year 2012 and the Executive Directors were invited to all AC meetings to facilitate direct communication and to provide clarification on audit issues and the operations of the Group. The Internal Auditors were present four (4) out of five (5) AC meetings to table the respective Internal Audit ("IA") reports. Relevant Management of the audit subjects were invited to brief the AC on specific issues arising from relevant audit reports.

The AC met with the External Auditors two (2) times in the year 2012 without the presence of the Executive Directors, Management or Internal Auditors. At this meeting, the AC enquired about Management's cooperation with the External Auditors, sharing of information and proficiency and adequacy of resources in financial reporting functions. During the AC meetings, the External Auditors were invited to raise any matter they considered important for the AC's attention.

The AC Chairman obtained confirmation from the External Auditors that Management had given its full support and unrestricted access to information as required by the External Auditors to perform their duties.

Audit Committee Report
cont'd

MEETINGS *cont'd*

Deliberations during the AC meetings, including the issues tabled and rationale adopted for decisions, were recorded. Minutes of the AC meetings were tabled for confirmation at the following AC meeting. In the year 2012, the AC Chairman presented the recommendations of the Committee to the Board for approval of the annual and quarterly financial statements as well as the circulars to shareholders. The AC Chairman also conveyed to the Board matters of significant concern as and when raised by the External Auditors or Internal Auditors.

SUMMARY OF ACTIVITIES

In the year 2012, the AC carried out its duties in accordance with the TOR of the AC. The activities of the AC for financial year 2012 are summarised as follows:-

i) Reviewed the annual audited financial statements for the financial year ended 31 December 2012 and other significant accounting issues arising during the financial year ended 31 December 2012;

ii) Reviewed the quarterly financial statements of the Company and the Group which focusing particularly on significant changes to accounting policies and practices, adjustments arising from the audits, compliance with accounting standards and other legal requirements;

iii) Reviewed the External Auditors' audit review memorandum for the financial year ended 31 December 2011 covered the significant audit findings, report on deficiencies in internal control, status of audit, independence of auditors, communication with the AC, summary of audit adjustments and unadjusted differences;

iv) Reviewed the audit planning memorandum for the financial year ended 31 December 2012 which covered the engagement and reporting requirements, audit approach, significant events, areas of audit emphasis, communication with Management, engagement team, reporting and deliverables and proposed fee;

v) Reviewed the risk management update report and IA plan prepared by Audex Governance Sdn. Bhd.;

vi) Reviewed the specific scope review report prepared by Audex Governance Sdn. Bhd. in relation to the Recurrent Related Party Transactions entered into pursuant to the Shareholders' Mandate;

vii) Reviewed the IA reports on Kelington Engineering (Shanghai) Co., Ltd and Kelington Technologies Sdn. Bhd. prepared by Audex Governance Sdn. Bhd;

viii) Reviewed the AC Report, Statement of Corporate Governance and Statement of internal control before recommending to the Board of Directors for their approval, for inclusion in the Annual Report;

xi) Reviewed the performance of the External Auditors and made recommendation to the Board of Directors on appointment and remuneration of the External Auditors; and

x) Conducted two (2) meetings with the External Auditors without the presence of the Executive Directors and Management of the Group.

Audit Committee Report
cont'd

IA Functions

The Company does not have an IA department. Since the year 2009, the Company has outsourced its IA functions to a professional services firm named Audex Governance Sdn. Bhd. to assist the AC in discharging its duties and responsibilities in respect of reviewing the adequacy and effectiveness of the Group's risk management and internal control systems.

The role of the IA functions is totally independent and not related to the Group's External Auditors. The IA will include evaluation of the processes by which significant risks are identified, assessed and managed and ensuring that instituted controls are appropriate and effectively applied and the risk exposures are consistent with the Company's risk management policy.

During the financial year ended 31 December 2012, the areas audited included audits of the various departments covering all the factories and subsidiaries within the Group. IA reports were issued to the AC regularly and tabled in the AC meetings. The reports were also issued to the respective operations management, incorporating audit recommendations and Management's responses with regards to any audit findings on the weaknesses in the systems and controls of the operations. The Internal Auditors also follows up with Management on the implementation of the agreed audit recommendations. The total costs incurred for IA function of the Group for the financial year ended 31 December 2012 was amounted to RM55,847.

The AC Report is made in accordance with the resolution of the Board of Directors' Meeting held on 29 April 2013.

Statement of Allocation of Employees' Share Option Scheme ("ESOS")

There was no options allocated during the financial year ended 31 December 2012 except for the adjustment of options granted pursuant to ESOS after Bonus Issue exercise.

SUMMARY OF TOR

1 Composition

The AC shall be appointed amongst the Board members and shall comprise no fewer than three (3) members; a majority of whom, including the Chairman, shall be Independent Directors and all members should be Non-Executive Directors. At least one (1) member must be a member of the Malaysian Institute of Accountants or possess such other qualifications and/or experience as approved and prescribed by Bursa Securities. No Alternate Director shall be appointed as a member of the AC.

In the event of any vacancy with the result that the number of members is reduced to below three (3), the vacancy shall be filled within three (3) months. Therefore, a member of the AC who wishes to retire or resign should provide sufficient written notice to the Company so that a replacement may be appointed before he leaves.

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

Audit Committee Report
cont'd

SUMMARY OF TOR *cont'd*

2. Quorum and Frequency of Meetings

The AC shall meet at least four (4) times in each financial year and may regulate its own procedure in lieu of convening a formal meeting by means of video or teleconference. The quorum for a meeting shall be the majority of members present, who shall be independent directors.

The AC may call for a meeting as and when required with reasonable notice as the Committee Members deem fit.

All decisions at such meeting shall be decided by a majority of votes.

3. Rights

The AC is accorded with the following rights in the performance of its duties and responsibilities:-

(a) has the authority to investigate any matter within its TOR;

(b) has the resources which are required to perform its duties and has full and unrestricted access to any information pertaining to the Group;

(c) has direct communication channels with the External Auditors and person(s) carrying out the IA function or activity;

(d) has the right to obtain independent professional or other advice at the Company's expense and the right to convene meetings with the External Auditors, excluding the presence of the executive board members, at least twice a year and whenever deemed necessary;

(e) promptly report to Bursa Securities, or such other name(s) as may be adopted by Bursa Securities, matters which have not been satisfactorily resolved by the Board of Directors resulting in a breach of the MMLR;

(f) has the right to pass resolutions by a simple majority vote from the Committee and that the Chairman shall have the casting vote should a tie arise; and

(g) the Chairman shall call for a meeting upon the request of the External Auditors and the AC can meets as and when required on a reasonable notice.

4. Duties and Responsibilities

The AC, as required by applicable laws, rules, or regulations and otherwise to the extent it deems necessary or appropriate, shall carry out the following key matters:-

External Audit

(a) To consider the appointment and/or re-appointment of auditors, the audit fee and any questions of resignation or dismissal including recommending the nomination of person or persons as auditors to the Board and to have policies and procedures to assess the suitability and independence of External Auditors.

(b) To review with the External Auditors on the nature and scope of the audit plan, evaluation of accounting policies and system of internal accounting controls within the Group, audit reports and the assistance given by the officers of the Company to the External Auditors.

SUMMARY OF TOR *cont'd*

4. Duties and Responsibilities *cont'd*

External Audit *cont'd*

(c) To review with Management the audit report and management letter issued by the External Auditors and implementation of audit recommendations, interim financial information report and the assistance given by the officers of the Company to the External Auditors.

IA

(d) To discuss problems and reservations arising from interim and final audits, and any matter the auditor may wish to discuss (in the absence of management where necessary).

(e) To review the adequacy of the scope, functions, competency and resources of the IA function, and the IA programme and results of the IA processes or investigation undertaken to ensure that appropriate actions are taken on the recommendations of the IA functions.

Risk Management and Internal Control

(f) To recommend such measures as to be taken by the Board on the effectiveness of the system of internal control and risk management practices of the Group and recommend to the Board the Directors' Statement on Internal Control and any changes to the said Statement.

(g) To evaluate the quality and effectiveness of Company's internal control system and management information systems.

Whistleblowing and fraud

(k) To review the Company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters and ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action; and review the Company's procedures for detecting fraud.

Overseeing Financial Reporting

(h) To monitor the integrity of the financial statements of the Company, including the quarterly reports on consolidated results and annual financial statements before recommendation to the Board for approval for releasing to the Bursa Securities.

Reviewing conflict of interest situations and related party transactions

(i) To monitor related party transactions entered into by the Company or the Group and to determine if such transactions are undertaken on an arm's length basis and normal commercial terms and on terms not more favourable to the related parties than those generally available to the public, and to ensure that the Directors report such transactions annually to the shareholders via the annual report, and to review conflicts of interest that may arise within the Company or the Group including any transaction, procedure or course of conduct that raises questions of management integrity.

Audit Committee Report
cont'd

SUMMARY OF TOR *cont'd*

4. Duties and Responsibilities *cont'd*

Other Matters

(j) To verify the allocation of options pursuant to a share scheme for employees as being in compliance with the criteria for allocation of options under the share scheme, at the end of each financial year.

5. TOR

The TOR should be assessed, reviewed and updated at least once every three (3) years by the AC or as and when there are changes to the CG Code and the MMLR.

The AC should recommend any change to the TOR to the Board for approval.

The assessment of the AC's TOR should be a vigorous process taking into consideration the Company's circumstances and any new regulations that may have an effect on the AC's responsibilities.

Corporate Sustainability Statement

PROVEN PERFORMANCE

The Group had completed process engineering projects in Malaysia and abroad totalling more than **RM654 MILLION** since year 1999.

FINANCIAL STRENGTH

The Group's consolidated total assets of more than RM109.3 million, with shareholders' funds standing in excess of RM 54 million as at 31 December 2012.

OUR GROUP OF COMPANIES

The Group operates through nine (9) companies. Most of the overseas projects are carried out in collaboration with the overseas subsidiaries.

OUR GREATEST ASSETS

The Group engaged the intellectual knowledge, technological capabilities, and the skilled workforce. Human resource capacity comprises more than 212 employees throughout the entire Group.

OUR FOCUS AREAS

The Group has committed to focus sustainability efforts on the following six (6) main areas:-

Corporate Sustainability Statement
cont'd

OUR FOCUS AREAS *cont'd*

Corporate Governance	Providing a rigorous system of policies, practices and internal controls upheld by our Board, Management and employees.	**Safety and Health**	Ensuring a safe and secure workplace as well as proactively managing health and safety risks.
Education and Human Capital Development	Creating a culture of excellence, competitiveness and knowledgeable society through continual development of stakeholders.	**Environmental Care and Protection**	Protecting and conserving the environment.
Productivity and Innovation	Delivering value-added and quality solutions that meet our customers' needs.	**Corporate Community Development**	Making a positive difference to the communities we operate in.

MANAGING SUSTAINABILITY

KGB's vision, mission, and four (4) core values form the guiding principles in the way the Group manages sustainability and interaction with stakeholders.

The Group recognised that the business operations are intertwined with various stakeholders and their valuable contribution and significant impact on the Company's market value. A robust stakeholder engagement approach helps the Company and its' Group to communicate openly which makes it easier to build trust between the Company and its stakeholders.

This dialogue with relevant stakeholders is a critical process to promote learning, share ideas and improve the Group's understanding of the business environment.

STAKEHOLDERS	COMMUNICATION PLATFORMS	
Employees	• Safety Briefing & Toolbox Meeting • Corporate Quarterly Newsletters • Monthly Safety & Health Newsletters	• Workshops, seminar & training • Annual staff meeting • Posters/Memos
Customers	• Corporate Website • Strategic alliance and regular meeting	
Contractors and Industry Partners	• Formal & Informal dialogue sessions • Inspections • Safety Briefing & Toolbox Meeting	• Training seminar and workshops
Suppliers	• Formal & Informal dialogue sessions	
Investors, Regulators, and Media	• Corporate Website • General Meetings • Quarterly Reports	• Annual Report • Press Release • Press Conference
Local Communities	• Corporate Contribution	

Corporate Sustainability Statement
cont'd

APPROACH TO SUSTAINABILITY

The following table provides the details of the identified material issues which were classified in seven (7) categories and approaches:-

CLASSIFICATION	ISSUE	OUR APPROACH
Economic Performance	**Profitability**	• Executing the Company's strategic plan. • Top Management to keep abreast with local and global economic climate through economic reports and media. • Create solution to all sort of engineering enquiries. • Continuous efforts in improving efficiency and quality of projects. • To reduce rates of injury, occupational diseases, lost days and absenteeism by establishment of OHSAS 18001:2007 Management System.
Business Conduct and Governance	**Legal Compliance**	• Access to information and professional advice. • Review of legal requirements for contracts. • Keep abreast with new accounting standard by attending seminar. • Updating relevant staff on new changes of laws and regulations. • Formation of Safety and Health Committee. • Managing operations to ensure compliance to all legal requirements.
	Crisis and business continuity management	• Establish a sound framework to manage risks.
	Ethics	• Formalise ethical standards through code of ethics and conduct. • Ensure adequate safety measures and provide proper protection to workers and employees at the workplace. • Create environmentally beneficial products/services. • Ensure activities of the Company do not harm the interest and well-being of society at large. • Improve quality of life by promoting corporate social responsibilities.
Safety and Security	**Workers' Safety**	• Establishment of OHSAS 18001:2007 Management System • Employees are provided with training to equip them with knowledge to handle hazardous gas/chemicals and are also adequately insured. • Employees are required to adhere strictly to Standard Operating Procedures at all times. • Disseminate safety information via Safety Handbook and Posters. • Promote a safety culture: Safety First, Quality Always. • Impeccable safety record to date is a testament of commitment to safety.
	Workers' Health	• Disseminate health news, articles and information via monthly safety newsletter. • Minimise workplace health hazards. • Create culture of enhance wellbeing.
	Security Issue	• Installation of closed-circuit television within office boundaries.

Corporate Sustainability Statement
cont'd

APPROACH TO SUSTAINABILITY *cont'd*

CLASSIFICATION	ISSUE	OUR APPROACH
Environmental Impact	Energy Management	• Renewable energy solution. • Install and maintain photovoltaic system on top of office building. • Create environmentally beneficial products/services.
	Materials Usage	• Disseminate information on how to lower environmental footprint via newsletter. • Ensure effective use of natural resources.
	Waste Management and recycling potential	• Adopting green practices and using natural resources responsibly. • Manage consumption of direct and indirect sources of energy used in the operations. • Use raw materials such as steel efficiently and reduce different types of waste. • Encourage recycling for materials including steel scrap and paper.
Employee Welfare and Health	Talent retention	• Attractive remuneration packages and advancement opportunities for talented employees.
	Staff welfare	• Standardised Human Resources policies and implementation of minimum wage policy. • Promote professionalism and improve the competency of Management, employees and skill workers via continuous training. • Stringent Health and Safety programmes at the workplace. • Provide Insurance plan, ESOS and Bonus to supplement higher costs of living.
	Learning and Development	• An employee's professional development continues throughout his/her career with us, mainly through on-the-job training in the form of technical and skills courses conducted by external experts in their respective fields.
Business Excellence	Productivity	• Engage closely with customers and contractor partners to solicit feedback and improve processes through a number of channels including customer surveys, project discussions, on-site visits and other events. • Continuous improving in engineering processes.
	Investment in Technology	• Keep abreast with technological changes through the constant upgrading of senior staff by sending them abroad to attend international trade fairs and meeting with leading specialists. • Incorporate new technology into research and development.
	Research and Development	• A dedicated Technology Development Division led by Ir. Gan Hung Keng and the division consist of Section Head and an R&D Engineer, and is support by a process engineering team. • Continuous Research and Development according to the Company's R&D policies which are based on the Group's aspirations and anticipated developments in the industry based on 3 years cycles. • Sharing of knowledge/know-how with strategic partners & clients.
	Project Quality	• Meeting and exceeding customer's requirement and expectations. • Consistently review Quality Management System to ensure compliance to ISO 9001:2008 requirements.
Community Involvement	Community Initiative	• Create Jobs. • Create beneficial products/services. • Corporate contribution to local school.

Additional Compliance Information

1. **UTILISATION OF PROCEEDS**

No proceeds were raised by the Company from any corporate proposal during the financial year.

2. **SHARE BUY-BACK**

During the financial year ended 31 December 2012, the Company have purchased 62,000 KGB's Shares for a total consideration of RM32,053 and all Purchased Shares have been retained as treasury shares. None of the shares purchased has been resold or cancelled during the financial year.

Details of the shares purchased during the year are as follows:-

Date of Purchase	No. of shares purchased	Lowest Purchase Price (RM)	Highest Purchase Price (RM)	Purchase Consideration (RM)
2 July 2012	1,000	1.17	1.17	1,212.36
2 October 2012	60,000	0.5	0.5	30,219
3 December 2012	1,000	0.58	0.58	621.17

3. **TRANSFER LISTING**

The Company had on 27 January 2012 transferred the entire issued and paid-up share capital from the ACE Market to the Main Market of Bursa Securities. We have met the requirements for the transfer to Main Market as set out in the Securities Commission's Equity Guidelines and the Listing Requirements.

4. **OPTIONS, WARRANTS OR CONVERTIBLE SECURITIES**

During the financial year, the Company has issued 833,900 Ordinary Shares of RM0.10 each arising from the exercised of Options under the ESOS of the Company.

5. **DEPOSITORY RECEIPT PROGRAMME**

During the financial year, the Company did not sponsor any depository receipt programme.

6. **IMPOSITION OF SANCTIONS AND/OR PENALTIES**

There were no material sanction and/or penalties imposed on the Company and its subsidiary companies, Directors or Management by the regulatory bodies.

7. **NON-AUDIT FEES**

There was RM4,000 non-audit fee being payment for reviewing of statement of risk management and internal control paid to the external auditors for financial year ended 31 December 2012.

8. **VARIATION IN RESULTS**

There was no variation of 10% or more between the audited results and unaudited results of the Group for the financial year ended 31 December 2012.

Additional Compliance Information
cont'd

9. LIST OF PROPERTIES

The list of properties is not included in this annual report as the net book value of the Company's or its subsidiaries' properties is less than 5.0% of the Group's total assets.

10. MATERIAL CONTRACTS

Except for what is disclosed in the Related Party Transaction as stated below, there were no other material contracts entered into by the Group involving Directors' and major shareholders' interests either still subsisting as at 31 December 2012 or entered into since the end of the previous financial year.

11. RECURRENT RELATED PARTY TRANSACTIONS ("RRPT") OF REVENUE OR TRADING NATURE

At the last AGM held on 25 June 2012, the Company had obtained a general mandate from its shareholders to enter into RRPT with a persons who are considered to be a Related Party as defined in Chapter 10 of Main Market Listing Requirements. Details of the RRPT during the financial year ended 31 December 2012 pursuant to Shareholders' Mandate are as follows:-

Transacting parties	Interested directors or major shareholders	Nature of transactions	Actual Value transacted (RM)
Provider: KGB Group **Recipient:** BOCLH Group	1) Sky Walker (5) 2) CTC (6) 3) UIGC (6) 4) BOCLH (6)	KGB Group is supplying services in relation to UHP delivery systems solution to BOCLH Group	RM24,708,795
Provider: VSR Group **Recipient:** KGB Group	1) Gan Hung Keng (1) 2) Ong Weng Leong (2) 3) Lim Hock San (3) 4) Palace Star (4) 5) Sky Walker (5) 6) CTC (6) 7) UIGC (6) 8) BOCLH (6)	KGB Group is purchasing UHP delivery system materials, and other general sub-contracting works from VSR Group	RM1,422,840
Provider: KGB Group **Recipient:** Goal Reach Group	1) Lai, Cheng-Che (7) 2) Hsu, Chung-Kuang (8)	KGB Group is supplying tools and equipments (i.e valves and regulators) used in the fabrication of UHP delivery systems to Goal Reach Group	RM511,268
Provider: Goal Reach Group **Recipient:** KGB Group	1) Lai, Cheng-Che (7) 2) Hsu, Chung-Kuang (8)	KGB Group is purchasing tools and equipments (i.e purifier) used in the fabrication of UHP delivery systems from Goal Reach Group	RM1,842,097

Notes:-

i) BOCLH refers to BOC Lien Hwa Industrial Gases Co., Ltd.
ii) CTC refers to Confederate Technology Co., Ltd.
iii) Palace Star refers to Palace Star Sdn. Bhd.
iv) Sky Walker refers to Sky Walker Group Limited.
v) UIGC refers to United Industrial Gases Co., Ltd.
vi) VSR refers to VSR Technologies Sdn. Bhd.
vii) Goal Reach refers to Goal Reach Ltd.

Additional Compliance Information
cont'd

11. RECURRENT RELATED PARTY TRANSACTIONS ("RRPT") OF REVENUE OR TRADING NATURE *cont'd*

Nature of Interest:-

1. *Mr Gan Hung Keng is a Major Shareholder of the Company and VSR with an indirect interest through Palace Star.*
2. *Mr Ong Weng Leong is a Major Shareholder of the Company and VSR with an indirect interest through Palace Star.*
3. *Mr Lim Hock San is a Major Shareholder of the Company and VSR with an indirect interest through Palace Star.*
4. *Palace Star is a Major Shareholder of the Company and VSR.*
5. *Sky Walker is a Major Shareholder of the Company and VSR.*
6. *CTC, UIGC and BOCLH are Major shareholders of the Company and VSR through Sky Walker.*
7. *Lai Cheng-Che, who resigned as a Director of KGB on 1 February 2013, is a Director of Goal Reach with an indirect interest through his spouse's Lin Hsiu-Fen's substantial shareholdings in Allied Moral, which in turn holds 85% shareholdings in Goal Reach.*
8. *Hsu, Chung-Kuang, who resigned as a Director of KGB on 15 December 2012, is a Director of Goal Reach.*

12. PROFIT GUARANTEES

There were no profit guarantees given by the Company for the financial year ended 31 December 2012.

13. CORPORATE SOCIAL RESPONSIBILITIES

The Company recognises its role as a responsible corporate citizen and has therefore intensified its corporate social responsibilities ("CSR") initiatives throughout financial year ended 2012 as follows:-

i) The Workplace

The Company continue recognise the importance of its human capital and the role of their staff played in the overall success of the Company.

The Group organises and sponsors various welfare activities to promote camaraderie and teamwork amongst our employees. These include Departmental and Company outings.

The Company places strong emphasis on personal development and had been sending relevant staff to various training courses to equip them with the necessary knowledge and skills.

ii) The Community

The Company aims to contribute and provide real benefit to the community as a whole which can make them a better place to live.

During the year, the employees of KGB have contributed in the form of staff donation to SJK (Cina) Subang for the purpose of construction of a four-storey building and e-classroom.

iii) The Environment

KGB recognises that effective environmental management is one of the most important corporate priorities. The Company is committed in protecting and respecting the environment through efficiency in the conduct of its operations. As part of the ongoing efforts to attain this objective, the Company has focused on the following initiatives:

- Adopting green practices and using natural resources responsibly.
- Encourage recycling for materials including steel scrap and paper.
- Use raw materials such as steel efficiently and reduce different types of waste.
- Provide renewable energy solutions.

Additional Compliance Information
cont'd

13. CORPORATE SOCIAL RESPONSIBILITIES *cont'd*

iv) The Marketplace

KGB Group recognises the importance of building and maintaining positive relationships with its stakeholders.

KGB Group believed its business is holding high standard of behaviour and integrity. Management and staff of the Company will continuously uphold high standards of conduct in the performance of their duties and practise good business ethics.

14. ESOS

The ESOS was approved by the shareholders at an Extraordinary General Meeting held on 26 October 2010 and governed by the By-Laws. The ESOS is to be in force for a period of five (5) years, subject however, to an extension at the discretion of the Board of Directors upon the recommendation of the Option Committee for a period up to five (5) years commencing from the date of expiration of the original five (5) years period.

There is one (1) ESOS in existence during the financial year ended 31 December 2012 with information as follows:-

Since commencement of the ESOS on 26 October 2010	Total number of options or shares granted during the financial year ended 31 December 2012	Total number of options exercised during the financial year ended 31 December 2012	Total options/shares outstanding as at 31 December 2012
7,232,000	*6,690,100	833,900	13,088,200

Options granted to Directors and Chief Executive

Since commencement of the ESOS on 26 October 2010	Aggregate options or shares granted during the financial year ended 31 December 2012	Aggregate options exercised or vested during the financial year ended 31 December 2012	Aggregate options/shares outstanding as at 31 December 2012
1,860,000	*1,820,000	332,000	3,348,000

* *Adjustment of options granted pursuant to ESOS after Bonus Issue exercise.*

Options granted to Directors

	During the financial year ended 31 December 2012	Since commencement of the ESOS on 26 October 2010
Aggregate maximum allocation in percentage	50%	50%
Actual percentage granted	26%	26%

Breakdown of the options offered to and exercised by non-executive directors pursuant to ESOS in respect of the financial year are as follows:

Name of Director	Amount of Options Granted	Amount of Options Exercised	Bonus Options
Lai, Cheng-Che *(Resigned on 1 February 2013)*	100,000	10,000	90,000
Hsu, Chung-Kuang *(Resigned on 15 December 2012)*	100,000	10,000	90,000
Chan Thian Kiat	100,000	10,000	90,000
Tan Chuan Yong	100,000	10,000	90,000

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Directors' Report

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

PRINCIPAL ACTIVITIES

The Company is principally engaged in the business of providing engineering services and general trading. The principal activities of the subsidiaries are set out in Note 5 to the financial statements. There have been no significant changes in the nature of these activities during the financial year.

RESULTS

	The Group RM'000	The Company RM'000
Profit after taxation for the financial year	6,081	3,082
Attributable to:		
Owners of the Company	6,081	3,082

DIVIDENDS

A final tax-exempt dividend of 4 sen per ordinary share amounting to RM3,186,036 for the financial year ended 31 December 2011 was approved by the shareholders at the Annual General Meeting held on 25 June 2012 and was paid on 8 August 2012.

The directors recommend the payment of a final tax-exempt dividend of 2 sen per ordinary share amounting to RM3,191,896 in respect of the current financial year. The proposed dividend is subject to the approval of the shareholders at the forthcoming Annual General Meeting.

RESERVES AND PROVISIONS

All material transfers to or from reserves or provisions during the financial year are disclosed in the financial statements.

ISSUES OF SHARES AND DEBENTURES

During the financial year,

(a) there were no changes in the authorised share capital of the Company;

(b) the Company increased its issued and paid-up share capital from RM7,911,000 to RM15,959,480 by:-

    (i) the issuance of 833,900 new ordinary shares of RM0.10 each for cash pursuant to the exercise of share options under the Employees' Share Option Scheme ("ESOS");

ISSUES OF SHARES AND DEBENTURES *cont'd*

(b) the Company increased its issued and paid-up share capital from RM7,911,000 to RM15,959,480 by:- *cont'd*

(ii) the issuance of 79,650,900 new ordinary shares of RM0.10 each as bonus issues on the basis of one bonus share for every one existing share held by the Company by the capitalisation of RM6,550,636 and RM1,414,454 from the share premium account and retained profits respectively; and

The new shares issued rank pari passu in all respects with the existing shares of the Company

(c) there were no issues of debentures by the Company.

TREASURY SHARES

The shares purchased are being held as treasury shares in accordance with Section 67A of the Companies Act 1965 in Malaysia.

During the financial year, the Company purchased 62,000 of its issued ordinary shares from the open market at a weighted average price of RM0.51 per share. The total consideration paid for the purchase including transaction costs amounted to RM31,750.

As at 31 December 2012, the Company held a total of 62,000 treasury shares out of the total 159,594,800 issued and fully paid-up ordinary shares. The treasury shares are held at a carrying amount of RM31,750.

Relevant details on the treasury shares are disclosed in Note 15(e) to the financial statements.

OPTIONS GRANTED OVER UNISSUED SHARES

During the financial year, no options were granted by the Company to any person to take up any unissued shares in the Company.

EMPLOYEES' SHARE OPTION SCHEME ("ESOS")

The ESOS is governed by the by-laws approved by the shareholders at an Extraordinary General Meeting held on 26 October 2010. The ESOS is to be in force for a period of 5 years.

The Company granted 7,232,000 share options under the ESOS on 29 March 2011. These options expire on 30 May 2016 and are exercisable if the employee has been confirmed in service for regular full time employment of any company within the Group.

The exercise price and the details in the movement of the options granted are as follows:-

		Number Of Options over Ordinary Shares Of RM0.10 Each			
Date of Offer	**Exercise Price**	**1.1.2012**	**Bonus Options**	**Exercised**	**At 31.12.2012**
29.3.2011	RM0.34*	7,232,000	6,690,100	(833,900)	13,088,200

The main features of the ESOS are disclosed in Note 15(d) to the financial statements.

Directors' Report
cont'd

EMPLOYEES' SHARE OPTION SCHEME ("ESOS") *cont'd*

The Company has been granted exemption by the Companies Commission of Malaysia from having to disclose in this report the names of holders to whom options have been granted to subscribe for less than 600,000 ordinary shares of RM0.10 each. The names of option holders granted options to subscribe for 600,000 or more ordinary shares of RM0.10 each during the financial year, other than directors whose details are disclosed in the section on Directors' Interests in this report, are as follows:-

				Number of Share Options			
Name	**Grant Date**	**Expiry Date**	**Exercise Price***	**Granted**	**Exercised**	**Bonus Options**	**At 31 December 2012**
Lim Seng Chuan	29.3.2011	30.5.2016	RM0.34	585,000	(58,500)	526,500	1,053,000
Wan Siew Chuan	29.3.2011	30.5.2016	RM0.34	561,000	(56,100)	504,900	1,009,800
Jong Yu Huat	29.3.2011	30.5.2016	RM0.34	468,000	(46,800)	421,200	842,400
Tan Tong Kai	29.3.2011	30.5.2016	RM0.34	468,000	(46,800)	421,200	842,400
Soo Wei Keong	29.3.2011	30.5.2016	RM0.34	468,000	(46,800)	421,200	842,400
Ong Seng Heng	29.3.2011	30.5.2016	RM0.34	396,000	(39,600)	356,400	712,800
Tea Chee Hean	29.3.2011	30.5.2016	RM0.34	360,000	(36,000)	324,000	648,000

Notes:

* *The exercise price per share option was revised from RM0.68 to RM0.34 due to the issuance of bonus shares during the financial year.*

BAD AND DOUBTFUL DEBTS

Before the financial statements 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 impairment losses on receivables, and satisfied themselves that there are no known bad debts and that adequate allowance had been made for impairment losses on receivables.

At the date of this report, the directors are not aware of any circumstances that would require the writing off of bad debts, or the additional allowance for impairment losses on receivables in the financial statements of the Group and of the Company.

CURRENT ASSETS

Before the financial statements of the Group and of the Company were made out, the directors took reasonable steps to ascertain that any current assets other than debts, which were unlikely to be realised in the ordinary course of business, including their value as shown in the accounting records of the Group and of the Company, 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 which would render the values attributed to the current assets in the financial statements 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 methods of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.

CONTINGENT AND OTHER LIABILITIES

The contingent liabilities are disclosed in Note 36 to the financial statements. 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 year which secures the liabilities of any other person; or

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

No contingent or other liability of the Group and of the Company 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 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 which 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 during 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.

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors, to affect substantially the results of the operations of the Group and of the Company for the financial year.

DIRECTORS

The directors who served since the date of the last report are as follows:-

Gan Hung Keng
Ong Weng Leong
Chan Thian Kiat
Tan Chuan Yong
Vice Admiral (Retired) Datuk Haji Jamil Bin Haji Osman (Appointed on 25.6.2012)
Soo Yuit Weng (Appointed on 1.2.2013)
Hsu, Chung-Kuang (Resigned on 15.12.2012)
Lai, Cheng-Che (Resigned on 1.2.2013)

Directors' Report
cont'd

DIRECTORS' INTERESTS

According to the register of directors' shareholdings, the interests of directors holding office at the end of the financial year in shares in the Company and its related corporations during the financial year are as follows:-

	Number Of Ordinary Shares Of RM0.10 Each					
	At 1.1.2012	**Exercise of Share Options**	**Bought**	**Bonus Issue**	**Sold**	**At 31.12.2012**
Direct Interests						
Gan Hung Keng	-	146,000	-	-	-	146,000
Ong Weng Leong	-	146,000	-	-	-	146,000
Chan Thian Kiat	-	10,000	-	10,000	-	20,000
Tan Chuan Yong	-	10,000	-	10,000	-	20,000
Lai, Cheng-Che	-	10,000	-	10,000	-	20,000
Indirect Interests						
Gan Hung Keng *	36,733,225	-	2,837,784	37,596,709	(2,100,000)	75,067,718
Ong Weng Leong *	36,733,225	-	2,837,784	37,596,709	(2,100,000)	75,067,718
Lai, Cheng-Che **	1,963,484	-	-	-	(1,963,484)	-

* *Deemed interested under Section 6A of the Companies Act 1965 by virtue of their shareholdings in Palace Star Sdn. Bhd.*

** *Deemed interested under Section 134(12)(c) of the Companies Act 1965 by virtue of his spouse, Lin Hsiu-Fen's shareholding in Allied Moral Investments Limited.*

	Number Of Options Over Ordinary Shares Of RM0.10 Each			
	At 1.1.2012	**Exercised**	**Bonus Issue**	**At 31.12.2012**
Share Options Of The Company				
Gan Hung Keng	730,000	(146,000)	730,000	1,314,000
Ong Weng Leong	730,000	(146,000)	730,000	1,314,000
Chan Thian Kiat	100,000	(10,000)	90,000	180,000
Tan Chuan Yong	100,000	(10,000)	90,000	180,000
Lai, Cheng-Che	100,000	(10,000)	90,000	180,000

DIRECTORS' BENEFITS

Since the end of the previous financial year, no director has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by directors as shown in the financial statements, or the fixed salary of a full-time employee of the Company) by reason of a contract made by the Group or 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 except for any benefits which may be deemed to arise from transactions entered into in the ordinary course of business with companies in which certain directors have substantial financial interests as disclosed in Note 33 to the financial statements.

Neither during nor at the end of the financial year was the Group or the Company a party to any arrangements whose object is to enable the directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate other than the options granted to certain directors pursuant to the Employees' Share Option Scheme of the Company.

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

The significant events during the financial year are disclosed in Note 38 to the financial statements.

AUDITORS

The auditors, Messrs. Crowe Horwath, have expressed their willingness to continue in office.

Signed in accordance with a resolution of the directors dated 29 April 2013

Gan Hung Keng **Ong Weng Leong**

Statement By Directors

We, Gan Hung Keng and Ong Weng Leong, being two of the directors of Kelington Group Berhad, state that, in the opinion of the directors, the financial statements set out on pages 59 to 126 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia so as to give a true and fair view of the state of affairs of the Group and of the Company at 31 December 2012 and of their results and cash flows for the financial year ended on that date.

The supplementary information set out in Note 40, which is not part of the financial statements, is prepared in all material respects, in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants and the directive of Bursa Malaysia Securities Berhad.

Signed in accordance with a resolution of the directors dated 29 April 2013

Gan Hung Keng

Ong Weng Leong

Statutory Declaration

I, Gan Hung Keng, I/C No. 640223-06-5385, being the director primarily responsible for the financial management of Kelington Group Berhad, do solemnly and sincerely declare that the financial statements set out on pages 59 to 126 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
Gan Hung Keng, I/C No. 640223-06-5385,
at Kuala Lumpur in the Federal Territory
on this 29 April 2013

Gan Hung Keng

Before me
Yap Lee Chin (No. W591)
Commissioner for Oaths

Independent Auditors' Report

to the Members of Kelington Group Berhad

(Incorporated in Malaysia) Company No : 501386 - P

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Kelington Group Berhad, which comprise the statements of financial position as at 31 December 2012 of the Group and of the Company, and the statements of comprehensive income, statements of changes in equity and statements of 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 59 to 126.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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 give a true and fair view of the financial position of the Group and of the Company as of 31 December 2012 and of their financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia.

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 financial statements and the auditors' reports of the subsidiaries of which we have not acted as auditors, which are indicated in Note 5 to the financial statements.

Independent Auditors' Report

to the Members of Kelington Group Berhad

(Incorporated in Malaysia) Company No : 501386 - P
cont'd

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS *cont'd*

(c) We are satisfied that the financial statements 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 financial statements of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

OTHER REPORTING RESPONSIBILITIES

The supplementary information set out in Note 40 on page 126 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

OTHER MATTERS

1. As stated in Note 3.1 to the financial statements, Kelington Group Berhad adopted Malaysian Financial Reporting Standards on 1 January 2012 with a transition date of 1 January 2011. These standards were applied retrospectively by directors to the comparative information in these financial statements, including the statements of financial position as at 31 December 2011 and 1 January 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year ended 31 December 2011 and related disclosures. We were not engaged to report on the comparative information and it is unaudited. Our responsibilities as part of our audit of the financial statements of the Group and of the Company for the financial year ended 31 December 2012 have, in these circumstances, included obtaining sufficient appropriate audit evidence that the opening balances as at 1 January 2012 do not contain misstatements that materially affect the financial position as of 31 December 2012 and financial performance and cash flows for the financial year then ended.

2. 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.

Crowe Horwath
Firm No: AF 1018
Chartered Accountants

Ngiam Mia Teck
Approval No: 3000/07/14(J)
Chartered Accountant

29 April 2013

Kuala Lumpur

Statements of Financial Position
at 31 December 2012

		The Group			The Company		
		31.12.2012	31.12.2011	1.1.2011	31.12.2012	31.12.2011	1.1.2011
	Note	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
ASSETS							
NON-CURRENT ASSETS							
Investments in subsidiaries	5	-	-	-	1,595	1,430	1,265
Property, plant and equipment	6	7,282	7,683	7,389	2,724	2,791	3,326
Development costs		194	285	184	157	285	184
Goodwill	7	5,056	199	199	-	-	-
Other receivables	8	2,420	-	-	-	-	-
		14,952	8,167	7,772	4,476	4,506	4,775
CURRENT ASSETS							
Amount owing by contract customers	9	23,736	26,312	11,551	7,659	13,415	832
Inventories	10	1,696	270	1,044	-	-	-
Trade receivables	11	38,432	36,793	24,819	2,554	6,245	5,279
Other receivables, deposits and prepayments	8	15,376	1,714	1,512	475	637	233
Amount owing by subsidiaries	12	-	-	-	15,377	508	2,247
Tax refundable		385	383	411	367	367	367
Fixed deposits with licensed banks	13	2,605	10,869	12,547	1,570	9,866	5,269
Cash and bank balances		11,999	14,364	9,593	4,116	7,073	5,377
		94,229	90,705	61,477	32,118	38,111	19,604
TOTAL ASSETS		109,181	98,872	69,249	36,594	42,617	24,379
EQUITY AND LIABILITIES							
EQUITY							
Share capital	14	15,959	7,911	7,471	15,959	7,911	7,471
Reserves	15	37,865	42,490	32,767	4,890	12,253	7,181
TOTAL EQUITY		53,824	50,401	40,238	20,849	20,164	14,652
NON-CURRENT LIABILITIES							
Deferred tax liabilities	16	601	524	203	509	432	111
Long-term borrowings	17	848	1,178	1,197	571	671	713
		1,449	1,702	1,400	1,080	1,103	824

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

Statements of Financial Position
at 31 December 2012
cont'd

		The Group			The Company		
		31.12.2012	31.12.2011	1.1.2011	31.12.2012	31.12.2011	1.1.2011
	Note	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
CURRENT LIABILITIES							
Amount owing to contract customers	9	4,760	5,575	3,222	-	562	8
Trade payables	20	29,923	34,156	18,694	7,446	18,126	6,157
Other payables and accruals	21	3,876	4,386	3,207	900	1,279	551
Amount owing to a subsidiary	12	-	-	-	1,866	-	-
Short-term borrowings	22	13,444	1,604	2,341	4,453	1,383	2,187
Bank overdraft	23	1,251	-	-	-	-	-
Provision for taxation		654	1,048	147	-	-	-
		53,908	46,769	27,611	14,665	21,350	8,903
TOTAL LIABILITIES		55,357	48,471	29,011	15,745	22,453	9,727
TOTAL EQUITY AND LIABILITIES		109,181	98,872	69,249	36,594	42,617	24,379

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

Statements of Comprehensive Income
for the Financial Year Ended 31 December 2012

	Note	The Group 2012 RM'000	The Group 2011 RM'000	The Company 2012 RM'000	The Company 2011 RM'000
REVENUE	24	116,198	139,586	21,774	34,863
COST OF SALES		(95,500)	(118,701)	(19,748)	(31,204)
GROSS PROFIT		20,698	20,885	2,026	3,659
OTHER INCOME		751	673	5,998	6,314
		21,449	21,558	8,024	9,973
SELLING AND DISTRIBUTION EXPENSES		(971)	(814)	(331)	(363)
ADMINISTRATIVE EXPENSES		(11,734)	(9,474)	(4,145)	(4,337)
OTHER EXPENSES		(1,303)	(1,387)	(221)	(203)
FINANCE COSTS		(209)	(111)	(122)	(78)
PROFIT BEFORE TAXATION	25	7,232	9,772	3,205	4,992
INCOME TAX EXPENSE	26	(1,151)	(1,044)	(123)	(321)
PROFIT AFTER TAXATION		6,081	8,728	3,082	4,671
OTHER COMPREHENSIVE (EXPENSES)/ INCOME, NET OF TAX					
Foreign currency translation		(258)	598	3	4
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR		5,823	9,326	3,085	4,675
PROFIT AFTER TAXATION ATTRIBUTABLE TO:-					
Owners of the Company		6,081	8,728	3,082	4,671
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:-					
Owners of the Company		5,823	9,326	3,085	4,675
EARNINGS PER SHARE (SEN)					
- Basic	28	3.8	5.6		
- Diluted	28	3.7	5.5		

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

Statements of Changes in Equity
for the Financial Year Ended 31 December 2012

	Note	← Non-Distributable					→	Distributable	
	Note	Share Capital RM'000	Share Premium RM'000	Capital Reserve RM'000	Employees' Share Option Reserve RM'000	Treasury Shares RM'000	Exchange Fluctuation Reserve RM'000	Retained Profits RM'000	Total Equity RM'000
The Group									
Balance at 1.1.2011		7,471	3,816	2,401	-	-	(16)	26,566	40,238
Profit after taxation for the financial year		-	-	-	-	-	-	8,728	8,728
Other comprehensive income for the financial year, net of tax:									
- Foreign currency translation		-	-	-	-	-	598	-	598
Total comprehensive income for the financial year		-	-	-	-	-	598	8,728	9,326
Contributions by and distribution to owners of the Company:									
- Dividend paid	30	-	-	-	-	-	-	(2,373)	(2,373)
- Employees' share option reserve		-	-	-	350	-	-	-	350
- Reclassification to capital reserve		-	-	100	-	-	-	(100)	-
- Shares issued via private placement		440	2,420	-	-	-	-	-	2,860
Total transactions with owners		440	2,420	100	350	-	-	(2,473)	837
Balance at 31.12.2011		7,911	6,236	2,501	350	-	582	32,821	50,401

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

Statements of Changes in Equity
for the Financial Year Ended 31 December 2012
cont'd

	Note	← Non-Distributable					→	Distributable	
	Note	Share Capital RM'000	Share Premium RM'000	Capital Reserve RM'000	Employees' Share Option Reserve RM'000	Treasury Shares RM'000	Exchange Fluctuation Reserve RM'000	Retained Profits RM'000	Total Equity RM'000
The Group									
Balance at 31.12.2011/ 1.1.2012		7,911	6,236	2,501	350	-	582	32,821	50,401
Profit after taxation for the financial year		-	-	-	-	-	-	6,081	6,081
Other comprehensive expenses for the financial year, net of tax:									
- Foreign currency translation		-	-	-	-	-	(258)	-	(258)
Total comprehensive income for the financial year		-	-	-	-	-	(258)	6,081	5,823
Contributions by and distribution to owners of the Company:									
- Dividend paid	30	-	-	-	-	-	-	(3,186)	(3,186)
- Bonus issue									
- by Company		7,965	(6,550)	-	-	-	-	(1,415)	-
- by subsidiaries		-	-	3,126	-	-	-	(3,126)	-
- by branch		-	-	1,044	-	-	-	(1,044)	-
- Employees' share option reserve		-	-	-	350	-	-	-	350
- Reclassification to capital reserve		-	-	43	-	-	-	(43)	-
- Share options exercised		83	528	-	(144)	-	-	-	467
- Purchase of treasury shares		-	-	-	-	(31)	-	-	(31)
Total transactions with owners		8,048	(6,022)	4,213	206	(31)	-	(8,814)	(2,400)
Balance at 31.12.2012		15,959	214	6,714	556	(31)	324	30,088	53,824

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

Statements of Changes in Equity
for the Financial Year Ended 31 December 2012
cont'd

	Note	Share Capital RM'000	Share Premium RM'000	Capital Reserve RM'000	Employees' Share Option Reserve RM'000	Treasury Shares RM'000	Exchange Fluctuation Reserve RM'000	Retained Profits RM'000	Total Equity RM'000
		Non-Distributable						Distributable	
The Company									
Balance at 1.1.2011		7,471	3,816	-	-	-	(29)	3,394	14,652
Profit after taxation for the financial year		-	-	-	-	-	-	4,671	4,671
Other comprehensive income for the financial year, net of tax:									
- Foreign currency translation		-	-	-	-	-	4	-	4
Total comprehensive income for the financial year		-	-	-	-	-	4	4,671	4,675
Contributions by and distribution to owners of the Company:									
- Dividend paid	30	-	-	-	-	-	-	(2,373)	(2,373)
- Employees' share option reserve		-	-	-	350	-	-	-	350
- Shares issued via private placement		440	2,420	-	-	-	-	-	2,860
Total transactions with owners		440	2,420	-	350	-	-	(2,373)	837
Balance at 31.12.2011		7,911	6,236	-	350	-	(25)	5,692	20,164

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

Statements of Changes in Equity
for the Financial Year Ended 31 December 2012
cont'd

	Note	Share Capital RM'000	Share Premium RM'000	Capital Reserve RM'000	Employees' Share Option Reserve RM'000	Treasury Shares RM'000	Exchange Fluctuation Reserve RM'000	Retained Profits RM'000	Total Equity RM'000
		← Non-Distributable					→	Distributable	
The Company									
Balance at 31.12.2011/ 1.1.2012		7,911	6,236	-	350	-	(25)	5,692	20,164
Profit after taxation for the financial year		-	-	-	-	-	-	3,082	3,082
Other comprehensive income for the financial year, net of tax:									
- Foreign currency translation		-	-	-	-	-	3	-	3
Total comprehensive income for the financial year		-	-	-	-	-	3	3,082	3,085
Contributions by and distribution to owners of the Company:									
- Dividend paid	30	-	-	-	-	-	-	(3,186)	(3,186)
- Bonus issue									
- by Company		7,965	(6,550)	-	-	-	-	(1,415)	-
- by branch		-	-	1,044	-	-	-	(1,044)	-
- Employees' share option reserve		-	-	-	350	-	-	-	350
- Share options exercised		83	528	-	(144)	-	-	-	467
- Purchase of treasury shares		-	-	-	-	(31)	-	-	(31)
		8,048	(6,022)	1,044	206	(31)	-	(5,645)	(2,400)
Balance at 31.12.2012		15,959	214	1,044	556	(31)	(22)	3,129	20,849

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

Statements of Cash Flows
for the Financial Year Ended 31 December 2012

	The Group		The Company	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
CASH FLOWS (FOR)/FROM OPERATING ACTIVITIES				
Profit before taxation	7,232	9,772	3,205	4,992
Adjustments for:-				
Amortisation of development costs	128	82	128	82
Depreciation of property, plant and equipment	1,132	1,094	137	185
Equipment written off	13	3	*	2
Fair value loss on advances to employees	609	-	-	-
Impairment loss on trade receivables	13	1	13	1
Interest expense	209	111	122	78
Provision for warranty costs	65	226	8	-
Share-based payments	350	350	185	185
Gain on disposal of equipment	-	(4)	-	-
Unrealised loss/(gain) on foreign exchange	57	(172)	(25)	1
Dividend income	-	-	(4,000)	(5,000)
Interest income	(110)	(258)	(71)	(182)
Writeback of impairment loss on trade receivables	(1)	(15)	(1)	(15)
Writeback of provision of warranty costs	(119)	-	-	-
Operating profit/(loss) before working capital changes	9,578	11,190	(299)	329
(Increase)/Decrease in inventories	(1,426)	774	-	-
Decrease/(Increase) in amount owing by/to contract customers	1,211	(12,408)	5,194	(12,030)
(Increase)/Decrease in trade and other receivables	(16,128)	(12,162)	3,866	(1,356)
(Decrease)/Increase in trade and other payables	(6,920)	16,415	(11,067)	12,697
Increase in amount owing by subsidiaries	-	-	(14,955)	(86)
CASH (FOR)/FROM OPERATIONS	(13,685)	3,809	(17,261)	(446)
Income tax (paid)/refunded	(1,468)	204	(44)	2
Interest paid	(209)	(111)	(122)	(78)
Interest received	110	258	71	182
NET CASH (FOR)/FROM OPERATING ACTIVITIES CARRIED FORWARD	(15,252)	4,160	(17,356)	(340)

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

Statements of Cash Flows
for the Financial Year Ended 31 December 2012
cont'd

		The Group		The Company	
		2012	2011	2012	2011
	Note	RM'000	RM'000	RM'000	RM'000
NET CASH (FOR)/FROM OPERATING ACTIVITIES BROUGHT FORWARD		(15,252)	4,160	(17,356)	(340)
CASH FLOWS (FOR)/FROM INVESTING ACTIVITIES					
Acquisition of subsidiaries, net of cash and cash equivalents acquired	29	(4,562)	-	-	-
Purchase of plant and equipment	31	(524)	(1,068)	(69)	(50)
Development costs paid		(37)	(183)	-	(183)
Dividend received		-	-	4,000	5,000
Repayment from subsidiaries		-	-	-	1,824
Proceeds from disposal of equipment		-	93	-	465
NET CASH (FOR)/FROM INVESTING ACTIVITIES		(5,123)	(1,158)	3,931	7,056
CASH FLOWS FROM/(FOR) FINANCING ACTIVITIES					
Advances from subsidiaries		-	-	1,952	-
Repayment of trust receipts		-	(2,122)	-	(2,122)
(Repayment)/Drawdown of factoring, net		(937)	1,288	(937)	1,288
Repayment of hire purchase obligations		(241)	(226)	(20)	(10)
Drawdown of revolving credits		6,503	-	4,000	-
Drawdown/(Repayment) of term loans, net		6,185	(69)	(73)	(69)
Proceeds from issuance of shares		-	2,860	-	2,860
Proceeds from exercise of employees' share options		467	-	467	-
Purchase of treasury shares		(31)	-	(31)	-
Dividend paid	30	(3,186)	(2,373)	(3,186)	(2,373)
NET CASH FROM/(FOR) FINANCING ACTIVITIES		8,760	(642)	2,172	(426)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS/BALANCE CARRIED FORWARD		(11,615)	2,360	(11,253)	6,290
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		(265)	733	-	3
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR		25,233	22,140	16,939	10,646
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR	32	13,353	25,233	5,686	16,939

Note:
** - Less than RM1,000.*

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

Notes to the Financial Statements
for the Financial Year Ended 31 December 2012

1. GENERAL INFORMATION

The Company is a public company limited by shares and is incorporated under the Companies Act 1965 in Malaysia. The domicile of the Company is Malaysia. The registered office and principal place of business are as follows:-

Registered office	:	10th Floor, Menara Hap Seng, No. 1 & 3, Jalan P. Ramlee, 50250 Kuala Lumpur.
Principal place of business	:	3, Jalan Astaka U8/83, Seksyen 8, Bukit Jelutong Industrial Park, 40150 Shah Alam, Selangor Darul Ehsan.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors dated 29 April 2013.

2. PRINCIPAL ACTIVITIES

The Company is principally engaged in the business of providing engineering services and general trading. The principal activities of the subsidiaries are set out in Note 5 to the financial statements. There have been no significant changes in the nature of these activities during the financial year.

3. BASIS OF PREPARATION

The financial statements of the Group are prepared under the historical cost convention and modified to include other bases of valuation as disclosed in other sections under significant accounting policies, and in compliance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia.

3.1 These are the Group's first set of financial statements prepared in accordance with MFRSs, which are also in line with International Financial Reporting Standards as issued by the International Accounting Standards Board.

In the previous financial year, the financial statements of the Group were prepared in accordance with Financial Reporting Standards ("FRSs"). There were no material financial impacts on the transition from FRSs to MFRSs.

3. BASIS OF PREPARATION *cont'd*

3.2 The Group has not applied in advance the following accounting standards and interpretations (including the consequential amendments) that have been issued by the Malaysian Accounting Standards Board (MASB) but are not yet effective for the current financial year:-

MFRSs and IC Interpretations (Including The Consequential Amendments)	Effective Date
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
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
Amendments to MFRS 1: Government Loans	1 January 2013
Amendments to MFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013
Amendments to MFRS 9: Mandatory Effective Date of MFRS 9 and Transition Disclosures	1 January 2015
Amendments to MFRS 10, MFRS 11 and MFRS 12: Transition Guidance	1 January 2013
Amendments to MFRS 10, MFRS 12 and MFRS 127: Investment Entities	1 January 2014
Amendments to MFRS 101: Presentation of Items of Other Comprehensive Income	1 July 2012
Amendments to MFRS 132: Offsetting Financial Assets and Financial Liabilities	1 January 2014
IC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine	1 January 2013
Annual Improvements to MFRSs 2009 – 2011 Cycle	1 January 2013

The above accounting standards and interpretations (including the consequential amendments) are not relevant to the Group's operations except as follows:-

MFRS 9 replaces the parts of MFRS 139 that relate to the classification and measurement of financial instruments. MFRS 9 divides all financial assets into 2 categories – those measured at amortised cost and those measured at fair value, based on the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instruments. For financial liabilities, the standard retains most of the MFRS 139 requirement. An entity choosing to measure a financial liability at fair value will present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income rather than within profit or loss.

MFRS 10 replaces the consolidation guidance in MFRS 127 and IC Interpretation 112. Under MFRS 10, there is only one basis for consolidation, which is control. Extensive guidance has been provided in the standard to assist in the determination of control.

MFRS 12 is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. MFRS 12 is a disclosure standard and the disclosure requirements in this standard are more extensive than those in the current standards. Accordingly, there will be no financial impact on the financial statements of the Group upon its initial application but may impact its future disclosures.

Notes to the Financial Statements
for the Financial Year Ended 31 December 2012
cont'd

3. BASIS OF PREPARATION *cont'd*

3.2 The above accounting standards and interpretations (including the consequential amendments) are not relevant to the Group's operations except as follows:- *cont'd*

MFRS 13 defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. The scope of MFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other MFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in MFRS 13 are more extensive than those required in the current standards and therefore there will be no financial impact on the financial statements of the Group upon its initial application but may impact its future disclosures.

The amendments to MFRS 7 (Disclosures - Offsetting Financial Assets and Financial Liabilities) require disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.

The amendments to MFRS 101 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. In addition, items presented in other comprehensive income section are to be grouped based on whether they are potentially re-classifiable to profit or loss subsequently i.e. those that might be reclassified and those that will not be reclassified. Income tax on items of other comprehensive income is required to be allocated on the same basis. There will be no financial impact on the financial statements of the Group upon its initial application other than the presentation format of the statements of profit or loss and other comprehensive income.

The amendments to MFRS 132 provide the application guidance for criteria to offset financial assets and financial liabilities.

The Annual Improvements to MFRSs 2009 – 2011 Cycle contain amendments to MFRS 1, MFRS 101, MFRS 116, MFRS 132 and MFRS 134. These amendments are expected to have no material impact on the financial statements of the Group upon their initial application.

4. SIGNIFICANT ACCOUNTING POLICIES

4.1 Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated by the directors and management and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and judgements that affect the application of the Group's accounting policies and disclosures, and have a significant risk of causing a material adjustment to the carrying amounts of assets, liabilities, income and expenses are discussed below:-

(a) Depreciation of Property, Plant and Equipment

The estimates for the residual values, useful lives and related depreciation charges for the property, plant and equipment are based on commercial factors which could change significantly as a result of technical innovations and competitors' actions in response to the market conditions. The Group anticipates that the residual values of its property, plant and equipment will be insignificant. As a result, residual values are not being taken into consideration for the computation of the depreciable amount. Changes in the expected level of usage and technological development could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

4. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

4.1 Critical Accounting Estimates and Judgements *cont'd*

(b) Income Taxes

There are certain transactions and computations for which the ultimate tax determination may be different from the initial estimate. The Group recognises tax liabilities based on its understanding of the prevailing tax laws and estimates of whether such taxes will be due in the ordinary course of business. Where the final outcome of these matters is different from the amounts that were initially recognised, such difference will impact the income tax and deferred tax provisions in the year in which such determination is made.

(c) Impairment of Non-financial Assets

When the recoverable amount of an asset is determined based on the estimate of the value-in-use of the cash-generating unit to which the asset is allocated, the management is required to make an estimate of the expected future cash flows from the cash-generating unit and also to apply a suitable discount rate in order to determine the present value of those cash flows.

(d) Amortisation of Development Costs

Changes in the expected level of usage and technological development could impact the economic useful lives and therefore, future amortisation charges could be revised.

(e) Write-down of Inventories

Reviews are made periodically by management on damaged, obsolete and slow-moving inventories. These reviews require judgement and estimates. Possible changes in these estimates could result in revisions to the valuation of inventories.

(f) Impairment of Trade and Other Receivables

An impairment loss is recognised when there is objective evidence that a financial asset is impaired. Management specifically reviews its loans and receivables financial assets and analyses historical bad debts, customer concentrations, customer creditworthiness, current economic trends and changes in the customer payment terms when making a judgment to evaluate the adequacy of the allowance for impairment losses. Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. If the expectation is different from the estimation, such difference will impact the carrying value of receivables.

(g) Impairment of Goodwill

Goodwill is tested for impairment annually and at other times when such indicators exist. This requires management to estimate the expected future cash flows of the cash-generating unit to which goodwill is allocated and to apply a suitable discount rate in order to determine the present value of those cash flows. The future cash flows are most sensitive to budgeted gross margins, growth rates estimated and discount rate used. If the expectation is different from the estimation, such difference will impact the carrying value of goodwill.

4. **SIGNIFICANT ACCOUNTING POLICIES** *cont'd*

4.1 Critical Accounting Estimates and Judgements *cont'd*

(h) Fair Value Estimates for Certain Financial Assets and Liabilities

The Group carries certain financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgement. While significant components of fair value measurement were determined using verifiable objective evidence, the amount of changes in fair value would differ if the Group uses different valuation methodologies. Any changes in fair value of these assets and liabilities would affect profit and/or equity.

(i) Construction Contracts

The Group recognises contract revenue and expenses in the profit or loss by using the stage of completion method. The stage of completion is determined by the proportion that the contract costs incurred for work performed to date bear to the estimated total contract cost.

Significant judgement is required in determining the stage of completion, the extent of the contract costs incurred, the estimated total contract revenue and costs, as well as the recoverability of the projects. In making the judgement, the Group evaluates based on past experience.

(j) Provisions

The Group recognises a provision for liabilities associated with completed contract based on past experience of the level of repairs and return. The Group's provision for warranty is affected by claims due to actual repairs and return, which may result in the actual costs differing from the Group estimates.

(k) Share-based Payments

The Group measures the cost of equity settled transactions with employees by reference to the fair value of the equity investments at the date at which they are granted. The estimation of the fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option volatility and dividend yield and making assumptions about them.

4.2 Basis Of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December 2012.

A subsidiary is defined as a company in which the parent company has the power, directly or indirectly, to exercise control over its financial and operating policies so as to obtain benefits from its activities.

Subsidiaries are consolidated from the date on which control is transferred to the Group up to the effective date on which control ceases, as appropriate.

Intragroup transactions, balances, income and expenses are eliminated on consolidation. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency of accounting policies with those of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

4.2 Basis Of Consolidation *cont'd*

(a) Business Combinations

Acquisitions of businesses are accounted for using the acquisition method. Under the acquisition method, the consideration transferred for acquisition of a subsidiary is the fair value of the assets transferred, liabilities incurred and the equity interests issued by the Group at the acquisition date. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs, other than the costs to issue debt or equity securities, are recognised in profit or loss when incurred.

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

Non-controlling interests in the acquiree may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets at the date of acquisition. The choice of measurement basis is made on a transaction-by-transaction basis.

(b) Non-controlling Interests

Non-controlling interests are presented within equity in the consolidated statement of financial position, separately from the equity attributable to owners of the Company. Transactions with non-controlling interests are accounted for as transactions with owners and are recognised directly in equity. Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

At the end of each reporting period, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

(c) Acquisitions of Non-controlling Interests

All changes in the parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of consideration paid or received is recognised directly in equity and attributed to owners of the parent.

(d) Loss of Control

Upon loss of control of a subsidiary, the profit or loss on disposal is calculated as the difference between:-

(i) the aggregate of the fair value of the consideration received and the fair value of any retained interest in the former subsidiary; and

(ii) the previous carrying amount of the assets (including goodwill), and liabilities of the former subsidiary and any non-controlling interests.

4. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

4.2 Basis Of Consolidation *cont'd*

(d) Loss of Control *cont'd*

Amounts previously recognised in other comprehensive income in relation to the former subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained profits) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investments retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under MFRS 139 or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

4.3 Goodwill

Goodwill is measured at cost less accumulated impairment losses, if any. The carrying value of goodwill is reviewed for impairment annually. The impairment value of goodwill is recognised immediately in profit or loss. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Under the acquisition method, any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interests recognised 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 at the date of acquisition is recorded as goodwill.

Where the latter amount exceeds the former, after reassessment, the excess represents a bargain purchase gain and is recognised as a gain in profit or loss.

4.4 Functional And Foreign Currencies

(a) Functional and Presentation Currency

The individual financial statements of each entity in the Group are presented in the currency of the primary economic environment in which the entity operates, which is the functional currency.

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

(b) Transactions and Balances

Transactions in foreign currencies are converted into the respective functional currencies on initial recognition, using the exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities at the end of the reporting period are translated at the rates ruling as of that date. Non-monetary assets and liabilities are translated using exchange rates that existed when the values were determined. All exchange differences are recognised in profit or loss.

(c) Foreign Operations

Assets and liabilities of foreign operations are translated to RM at the rates of exchange ruling at the end of the reporting period. Revenues and expenses of foreign operations are translated at exchange rates ruling at the dates of the transactions. All exchange differences arising from translation are taken directly to other comprehensive income and accumulated in equity under the translation reserve. On the disposal of a foreign operation, the cumulative amount recognised in other comprehensive income relating to that particular foreign operation is reclassified from equity to profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

4.4 Functional And Foreign Currencies *cont'd*

(c) Foreign Operations *cont'd*

Goodwill and fair value adjustments arising from the acquisition of foreign operations are treated as assets and liabilities of the foreign operations and are recorded in the functional currency of the foreign operations and translated at the closing rate at the end of the reporting period.

4.5 Financial Instruments

Financial instruments are recognised in the statements of financial position when the Group has become a party to the contractual provisions of the instruments.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability, are reported as an expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity.

Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

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.

Financial instruments recognised in the statements of financial position are disclosed in the individual policy statement associated with each item.

(a) Financial Assets

On initial recognition, financial assets are classified as either financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables financial assets, or available-for-sale financial assets, as appropriate.

(i) Financial Assets at Fair Value through Profit or Loss

Financial assets are classified as financial assets at fair value through profit or loss when the financial asset is either held for trading or is designated to eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise. Derivatives are also classified as held for trading unless they are designated as hedges.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. Dividend income from this category of financial assets is recognised in profit or loss when the Group's right to receive payment is established.

4. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

4.5 Financial Instruments *cont'd*

(a) Financial Assets *cont'd*

(ii) Held-to-maturity Investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the management has the positive intention and ability to hold to maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment loss, with revenue recognised on an effective yield basis.

(iii) Loans and Receivables Financial Assets

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables financial assets. Loans and receivables financial assets are measured at amortised cost using the effective interest method, less any impairment loss. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

(iv) Available-for-sale Financial Assets

Available-for-sale financial assets are non-derivative financial assets that are designated in this category or are not classified in any of the other categories.

After initial recognition, available-for-sale financial assets are remeasured to their fair values at the end of each reporting period. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the fair value reserve, with the exception of impairment losses. On derecognition, the cumulative gain or loss previously accumulated in the fair value reserve is reclassified from equity into profit or loss.

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payments is established.

Investments in equity instruments whose fair value cannot be reliably measured are measured at cost less accumulated impairment losses, if any.

(b) Financial Liabilities

All financial liabilities are initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprises financial liabilities that are either held for trading or are designated to eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise. Derivatives are also classified as held for trading unless they are designated as hedges.

4. **SIGNIFICANT ACCOUNTING POLICIES** *cont'd*

4.5 Financial Instruments *cont'd*

(c) Equity Instruments

Instruments classified as equity are measured at cost and are not remeasured subsequently.

(i) Ordinary Shares

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from proceeds.

Dividends on ordinary shares are recognised as liabilities when approved for appropriation.

(ii) Treasury Shares

When the Company's own shares recognised as equity are bought back, the amount of the consideration paid, including all costs directly attributable, are recognised as a deduction from equity. Own shares purchased that are not subsequently cancelled are classified as treasury shares and are presented as a deduction from total equity. Where such shares are subsequently sold or reissued, any consideration received, net of any direct costs, is included in equity.

Where such shares are subsequently sold or reissued, any consideration received, net of any direct costs, is included in equity.

4.6 Investments in Subsidiaries

Investments in subsidiaries are stated at cost plus the fair value of share options granted to employees of the subsidiaries over the vesting period deemed as capital contribution in the statement of financial position of the Company, and are reviewed for impairment at the end of the reporting period if events or changes in circumstances indicate that the carrying values may not be recoverable.

On the disposal of the investments in subsidiaries, the difference between the net disposal proceeds and the carrying amount of the investments is recognised in profit or loss.

4.7 Property, Plant and Equipment

Property, plant and equipment, other than freehold land, are stated at cost less accumulated depreciation and impairment losses, if any. Freehold land is stated at cost less impairment losses, if any, and is not depreciated.

Depreciation is calculated under the straight-line method to write off the depreciable amount of the assets over their estimated useful lives. Depreciation of an asset does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated. The principal annual rates used for this purpose are:-

Buildings	2%
Motor vehicles	10%
Office and computer equipment	10% - 20%
Tools and equipment	10%
Furniture, fittings and renovation	10%

4. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

4.7 Property, Plant and Equipment

The depreciation method, useful lives and residual values are reviewed, and adjusted if appropriate, at the end of each reporting period to ensure that the amounts, method and periods of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of the property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when the cost is incurred and it is probable that the future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. The carrying amount of parts that are replaced is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred. Cost also comprises the initial estimate of dismantling and removing the asset and restoring the site on which it is located for which the Group is obligated to incur when the asset is acquired, if applicable.

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

4.8 Development Costs

Research expenditure is recognised as an expense when it is incurred.

Development cost is recognised as an expense except that costs incurred on development projects are capitalised as long-term assets to the extent that such expenditure is expected to generate future economic benefits. Development cost is capitalised if, and only if an entity can demonstrate all of the following:-

(i) its ability to measure reliably the expenditure attributable to the asset under development;

(ii) the product or process is technically and commercially feasible;

(iii) its future economic benefits are probable;

(iv) its ability to use or sell the developed asset;

(v) the availability of adequate technical, financial and other resources to complete the asset under development; and

(vi) its intention to complete the intangible asset and use or sell it.

Capitalised development cost is measured at cost less accumulated amortisation and impairment losses, if any. Development cost initially recognised as an expense is not recognised as assets in the subsequent period.

The development cost is amortised on a straight-line method over a period of 3 years when the products are ready for sale or use. In the event that the expected future economic benefits are no longer probable of being recovered, the development cost is written down to its recoverable amount.

4. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

4.9 Impairment

(a) Impairment of Financial Assets

All financial assets (other than those categorised at fair value through profit or loss), are assessed at the end of each reporting period 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. For an equity instrument, a significant or prolonged decline in the fair value below its cost is considered to be objective evidence of impairment.

An impairment loss in respect of held-to-maturity investments and loans and receivables financial assets 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 financial asset's original effective interest rate.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. In respect of available-for-sale equity instruments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss made is recognised in other comprehensive income.

(b) Impairment of Non-Financial Assets

The carrying values of assets, other than those to which MFRS 136 - Impairment of Assets does not apply, are reviewed at the end of each reporting period for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. The recoverable amount of the assets is the higher of the assets' fair value less costs to sell and their value in use, which is measured by reference to discounted future cash flow.

An impairment loss is recognised in profit or loss.

In respect of assets other than goodwill, When there is a change in the estimates used to determine the recoverable amount, a subsequent increase in the recoverable amount of an asset is treated as a reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in profit or loss immediately.

4.10 Assets Under Hire Purchase

Assets acquired under hire purchase are capitalised in the financial statements and are depreciated in accordance with the policy set out in Note 4.7 above. Each hire purchase payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. Finance charges are recognised in profit or loss over the period of the respective hire purchase agreements.

Notes to the Financial Statements
for the Financial Year Ended 31 December 2012
cont'd

4. **SIGNIFICANT ACCOUNTING POLICIES** *cont'd*

4.11 Amounts Owing by/to Contract Customers

The amounts owing by/to contract customers are stated at cost plus profits attributable to contracts in progress less progress billings and allowance for foreseeable losses, if any. Cost includes direct materials, labour and applicable overheads.

4.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in-first-out basis and comprises the purchase price and incidentals incurred in bringing the inventories to their present location and condition. Cost of finished goods and work-in-progress includes the cost of materials, labour and an appropriate proportion of production overheads.

Net realisable value represents the estimated selling price less the estimated costs of completion and the estimated costs necessary to make the sale.

Where necessary, due allowance is made for all damaged, obsolete and slow-moving items. The Group writes down its obsolete or slow moving inventories based on assessment of the condition and the future demand for the inventories. These inventories are written down when events or changes in circumstances indicate that the carrying amounts may not be recovered.

4.13 Borrowing Costs

Borrowing costs, directly attributable to the acquisition and construction of property, plant and equipment are capitalised as part of the cost of those assets, until such time as the assets are ready for their intended use or sale. Capitalisation of borrowing costs is suspended during extended periods in which active development is interrupted.

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

The Group writes down its obsolete or slow moving inventories based on assessment of the condition and the future demand for the inventories. These inventories are written down when events or changes in circumstances indicate that the carrying amounts may not be recovered.

4.14 Income Taxes

Income tax for the year comprises current and deferred tax.

Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax liabilities are recognised for all taxable temporary differences other than those that arise from goodwill or excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the business combination costs or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

4. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

4.14 Income Taxes *cont'd*

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 profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. The carrying amounts of deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred tax assets to be utilised.

Deferred tax assets and liabilities are 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 the tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same taxation authority.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transactions either in other comprehensive income or directly in equity and deferred tax arising from a business combination is included in the resulting goodwill or excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the business combination costs.

4.15 Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand, bank balances, demand deposits, deposits pledged with financial institutions, bank overdrafts and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

4.16 Provisions

Provisions are recognised when the Group has a present obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount can be made. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the provision is the present value of the estimated expenditure required to settle the obligation.

4.17 Employee Benefits

(a) Short-term Benefits

Wages, salaries, paid annual leave and sick leave, bonuses and non-monetary benefits are recognised in profit or loss in the period in which the associated services are rendered by employees of the Group.

(b) Defined Contribution Plans

The Group's contributions to defined contribution plans are recognised in profit or loss in the period to which they relate. Once the contributions have been paid, the Group has no further liability in respect of the defined contribution plans.

Notes to the Financial Statements
for the Financial Year Ended 31 December 2012
cont'd

4. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

4.17 Employee Benefits *cont'd*

(c) Share-based Payment Transactions

At grant date, the fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that are expected to vest.

In the separate financial statements of the Company, the grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

4.18 Related Parties

A party is related to an entity (referred to as the "reporting entity") if:-

(a) A person or a close member of that person's family is related to a reporting entity if that person:-

(i) has control or joint control over the reporting entity;
(ii) has significant influence over the reporting entity; or
(iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies:-

(i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
(iii) Both entities are joint ventures of the same third party.
(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
(v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
(vi) The entity is controlled or jointly controlled by a person identified in (a) above.
(vii) A person identified in (a)(i) above has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

4.19 Contingent Liabilities

A contingent liability is a possible obligation that arises from past events 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. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

4. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

4.19 Contingent Liabilities *cont'd*

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.

4.20 Revenue And Other Income

(a) Contracts

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

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

(b) Sale of Goods

Revenue is recognised upon delivery of goods and customers' acceptance and where applicable, net of returns and trade discounts.

(c) Interest Income

Interest income is recognised on an accrual basis.

(d) Dividend Income

Dividend income from investment is recognised when the right to receive dividend payment is established.

4.21 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 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
for the Financial Year Ended 31 December 2012
cont'd

5. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2012	2011
	RM'000	RM'000
Unquoted shares, at cost		
- in Malaysia	186	103
- outside Malaysia	1,409	1,327
	1,595	1,430

Included in the investments in subsidiaries is an amount of RM330,202 (2011 - RM165,114) relating to the share options granted by the Company to the employees of the subsidiaries.

The details of the subsidiaries are as follows:-

Name of Company	Country of Incorporation	Effective Equity Interest 2012 %	2011 %	Principal Activities
Kelington Technologies Sdn. Bhd. ("KTSB")	Malaysia	100	100	Provision of engineering services.
Kelington Engineering (Shanghai) Co. Ltd. ("KESH") *	The People's Republic Of China ("PRC")	100	100	Provision of engineering services.
Kelington Trading (Shanghai) Co. Ltd. *#	PRC	100	100	Trading of machinery equipment and related parts and components.
Kelington Energy Sdn. Bhd. ("KESB") *(formerly known as Lunar Etnik Construction Sdn. Bhd.)*	Malaysia	100	-	Provision of engineering services and general trading.
Kelington Engineering (S) Pte. Ltd. ("KESG") *	Singapore	100	100	Provision of engineering services.
Puritec Technologies (S) Pte. Ltd. ("PTS") ^*	Singapore	100	-	Provision of engineering services in clean energy system.
Puritec Technologies (M) Sdn. Bhd. ("PTM") +	Malaysia	100	-	Provision of engineering services.
Kelington Healthcare Technologies (S) Pte. Ltd. ^*	Singapore	100	-	Dormant.

Notes:
** - These subsidiaries were audited by other firms of auditors.*
 # - Interest held by KESH.
^ - Interest held by KESG.
+ - Interest held by PTS.

Notes to the Financial Statements
for the Financial Year Ended 31 December 2012
cont'd

6. PROPERTY, PLANT AND EQUIPMENT

The Group	At 1.1.2012 RM'000	Acquisition Of Subsidiaries RM'000	Additions RM'000	Written Off RM'000	Exchange Fluctuation Differences RM'000	Depreciation Charge RM'000	At 31.12.2012 RM'000
Net Book Value							
Freehold land	1,300	-	-	-	-	-	1,300
Buildings	1,148	-	-	-	-	(28)	1,120
Motor vehicles	1,098	-	126	-	-	(155)	1,069
Office and computer equipment	368	57	122	(13)	4	(149)	389
Tools and equipment	3,497	-	254	-	(6)	(667)	3,078
Furniture, fittings and renovation	272	158	22	-	7	(133)	326
	7,683	215	524	(13)	5	(1,132)	7,282

The Group	At 1.1.2011 RM'000	Additions RM'000	Disposal RM'000	Written Off RM'000	Exchange Fluctuation Differences RM'000	Depreciation Charge RM'000	At 31.12.2011 RM'000
Net Book Value							
Freehold land	1,300	-	-	-	-	-	1,300
Buildings	1,176	-	-	-	-	(28)	1,148
Motor vehicles	860	470	(89)	-	1	(144)	1,098
Office and computer equipment	378	131	-	(3)	8	(146)	368
Tools and equipment	3,263	837	-	-	27	(630)	3,497
Furniture, fittings and renovation	412	4	-	-	2	(146)	272
	7,389	1,442	(89)	(3)	38	(1,094)	7,683

Notes to the Financial Statements
for the Financial Year Ended 31 December 2012
cont'd

6. PROPERTY, PLANT AND EQUIPMENT *cont'd*

	At Cost RM'000	Accumulated Depreciation RM'000	Net Book Value RM'000
The Group			
At 31.12.2012			
Freehold land	1,300	-	1,300
Buildings	1,400	(280)	1,120
Motor vehicles	1,480	(411)	1,069
Office and computer equipment	941	(552)	389
Tools and equipment	5,504	(2,426)	3,078
Furniture, fittings and renovation	1,008	(682)	326
	11,633	(4,351)	7,282
At 31.12.2011			
Freehold land	1,300	-	1,300
Buildings	1,400	(252)	1,148
Motor vehicles	1,354	(256)	1,098
Office and computer equipment	1,037	(669)	368
Tools and equipment	5,273	(1,776)	3,497
Furniture, fittings and renovation	813	(541)	272
	11,177	(3,494)	7,683

The Company	At 1.1.2012 RM'000	Additions RM'000	Written Off RM'000	Exchange Fluctuation Differences RM'000	Depreciation Charge RM'000	At 31.12.2012 RM'000
Net Book Value						
Freehold land	1,300	-	-	-	-	1,300
Buildings	1,148	-	-	-	(28)	1,120
Motor vehicles	83	-	-	-	(15)	68
Office and computer equipment	61	18	*	-	(25)	54
Tools and equipment	116	45	-	1	(23)	139
Furniture, fittings and renovation	83	6	-	-	(46)	43
	2,791	69	-	1	(137)	2,724

Note:
** - Less than RM1,000.*

Notes to the Financial Statements
for the Financial Year Ended 31 December 2012
cont'd

6. PROPERTY, PLANT AND EQUIPMENT *cont'd*

The Company	At 1.1.2011 RM'000	Additions RM'000	Disposals RM'000	Written Off RM'000	Exchange Fluctuation Differences RM'000	Depreciation Charge RM'000	At 31.12.2011 RM'000
Net Book Value							
Freehold land	1,300	-	-	-	-	-	1,300
Buildings	1,176	-		-	-	(28)	1,148
Motor vehicles	68	90	(67)	-	-	(8)	83
Office and computer equipment	86	22	-	(2)	-	(45)	61
Tools and equipment	566	6	(398)	-	(1)	(57)	116
Furniture, fittings and renovation	130	-	-	-	-	(47)	83
	3,326	118	(465)	(2)	(1)	(185)	2,791

The Company	At Cost RM'000	Accumulated Depreciation RM'000	Net Book Value RM'000
At 31.12.2012			
Freehold land	1,300	-	1,300
Buildings	1,400	(280)	1,120
Motor vehicles	91	(23)	68
Office and computer equipment	259	(205)	54
Tools and equipment	509	(370)	139
Furniture, fittings and renovation	481	(438)	43
	4,040	(1,316)	2,724
At 31.12.2011			
Freehold land	1,300	-	1,300
Buildings	1,400	(252)	1,148
Motor vehicles	91	(8)	83
Office and computer equipment	477	(416)	61
Tools and equipment	460	(344)	116
Furniture, fittings and renovation	474	(391)	83
	4,202	(1,411)	2,791

Notes to the Financial Statements
for the Financial Year Ended 31 December 2012
cont'd

6. PROPERTY, PLANT AND EQUIPMENT *cont'd*

The freehold land and buildings of the Group and of the Company have been pledged to a licensed bank as securities for banking facilities granted to the Group and the Company.

Certain motor vehicles of the Group and of the Company with a net book value of RM956,989 (2011 - RM1,066,506) and RM67,879 (2011 - RM82,530) respectively were acquired under hire purchase terms.

7. GOODWILL

	The Group	
	2012	**2011**
	RM'000	**RM'000**
At 1 January	199	199
Acquisition of new subsidiaries	4,857	-
At 31 December	5,056	199

(a) The carrying amounts of goodwill allocated to each cash-generating unit are as follows:-

	The Group	
	2012	**2011**
	RM'000	**RM'000**
PTS		
- provision of engineering services in clean energy system	4,857	-
Others	199	199
	5,056	199

(b) The Group has assessed the recoverable amounts of goodwill allocated and determined that no impairment is required. The recoverable amounts of the cash-generating units are determined using the value-in-use approach, and this is derived from the present value of the future cash flows computed based on the projections of financial budgets approved by management covering a period of 5 years. The key assumptions used in the determination of the recoverable amounts are as follows:-

Gross Margin	Growth Rates	Discount Rate
19%	5.0% - 11.2%	6.71%

(i) Budgeted gross profit margin	The basis used to determine the value assigned to the budgeted gross profit margin is the gross profit margin achieved in the current financial year.
(ii) Growth rates	The growth rates used are based on the expected projection of the engineering services industry.
(iii) Discount rate	The discount rate used is the weighted average cost of capital of the Company obtained from Bloomberg as at 31 December 2012.

The management believes that no reasonable change in the above key assumptions would cause the carrying amount of the goodwill to exceed its recoverable amounts.

8. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	The Group		The Company	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Non-current portion:				
Other receivables:-				
Advances to employees	2,420	-	-	-
Current portion:				
Other receivables:-				
Third parties	677	840	289	34
Advances to employees	729	-	-	-
	1,406	840	289	34
Deposits	13,817	368	124	133
Prepayments	153	506	62	470
	15,376	1,714	475	637

The advances to employees are unsecured, interest-free and are repayable between 36 to 60 months.

Included in the deposits of the Group at the end of the reporting period is an amount of RM12,607,777 paid to a customer as project deposit from September 2012 to September 2013.

9. AMOUNTS DUE BY/(TO) CONTRACT CUSTOMERS

	The Group		The Company	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Contract costs incurred	142,883	134,181	26,161	35,039
Attributable profits	28,748	32,802	4,299	8,844
	171,631	166,983	30,460	43,883
Progress billings	(152,655)	(146,246)	(22,801)	(31,030)
	18,976	20,737	7,659	12,853
Amount owing by contract customers	23,736	26,312	7,659	13,415
Amount owing to contract customers	(4,760)	(5,575)	-	(562)
	18,976	20,737	7,659	12,853

Notes to the Financial Statements
for the Financial Year Ended 31 December 2012
cont'd

10. INVENTORIES

	The Group	
	2012	2011
	RM'000	RM'000
At cost:-		
Materials for contracts	1,696	270

None of the inventories is carried at net realisable value.

11. TRADE RECEIVABLES

	The Group		The Company	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Trade receivables	38,449	36,798	2,571	6,250
Impairment loss				
At 1 January	(5)	(19)	(5)	(19)
Addition during the financial year	(13)	(1)	(13)	(1)
Writeback during the financial year	1	15	1	15
Effect of foreign exchange translation	*	*	*	*
At 31 December	(17)	(5)	(17)	(5)
	38,432	36,793	2,554	6,245

The Group's normal trade credit terms range from 30 to 120 days (2011 - 30 to 120 days). Other credit terms are assessed and approved on a case-by-case basis.

Included in the trade receivables of the Group at the end of the reporting period is an amount of RM1,698,456 (2011 - RM1,212,295) project retention sum receivable from customers between 12 and 24 months.

Note:
** - Less than RM1,000.*

12. AMOUNTS OWING BY/TO SUBSIDIARIES

	The Company	
	2012	2011
	RM'000	RM'000
Amount owing by:-		
- Trade balances	-	86
- Non-trade balances	15,377	422
	15,377	508
Amount owing to:-		
Non-trade balance	1,866	-

The normal trade credit term granted was 30 days.

The non-trade balances are unsecured, interest-free and repayable on demand.

The amounts owing are to be settled in cash.

13. FIXED DEPOSITS WITH LICENSED BANKS

	The Group		The Company	
	2012	2011	2012	2011
Weighted average effective interest rate (%)	3.1	2.9	3.1	2.8
Average maturity (days)	365	30 - 365	365	30 - 365

Included in fixed deposits with licensed banks of the Group and the Company at the end of the reporting period are amounts of RM2,605,403 (2011 - RM2,342,547) and RM1,570,815 (2011 - RM1,339,150) respectively which have been pledged with licensed banks as security for banking facilities granted to the Group and the Company.

14. SHARE CAPITAL

	2012	2011	2012	2011
	Number of Shares		RM'000	RM'000
Authorised				
Ordinary shares of RM0.10 each	250,000,000	250,000,000	25,000	25,000

Notes to the Financial Statements
for the Financial Year Ended 31 December 2012
cont'd

14. SHARE CAPITAL *cont'd*

	2012	2011	2012	2011
	Number of Shares		RM'000	RM'000
Issued And Fully Paid-up				
Ordinary shares of RM0.10 each:				
At 1 January	79,110,000	74,710,000	7,911	7,471
Shares issued via private placement	-	4,400,000	-	440
Share options exercised	833,900	-	83	-
Bonus issue	79,650,900	-	7,965	-
At 31 December	159,594,800	79,110,000	15,959	7,911

During the financial year, the Company increased its issued and paid-up share capital from RM7,911,000 to RM15,959,480 by:-

(i) the issuance of 833,900 new ordinary shares of RM0.10 each for cash pursuant to the exercise of share options under the Employees' Share Option Scheme ("ESOS"); and

(ii) the issuance of 79,650,900 new ordinary shares of RM0.10 each as bonus issues on the basis of one bonus share for every one existing share held by the Company by the capitalisation of RM6,550,636 and RM1,415,454 from the share premium account and retained profits respectively.

The new shares issued rank pari passu in all respects with the existing shares of the Company.

15. RESERVES

		The Group		The Company	
		2012	2011	2012	2011
		RM'000	RM'000	RM'000	RM'000
Non-distributable reserves:-	Note				
Share premium	(a)	214	6,236	214	6,236
Capital reserve	(b)	6,714	2,501	1,044	-
Exchange fluctuation reserve	(c)	324	582	(22)	(25)
Employees' share option reserve	(d)	556	350	556	350
Treasury shares	(e)	(31)	-	(31)	-
		7,777	9,669	1,761	6,561
Distributable reserve:-					
Retained profits	(f)	30,088	32,821	3,129	5,692
		37,865	42,490	4,890	12,253

15. RESERVES *cont'd*

(a) Share Premium

The share premium is not distributable by way of dividends and may be utilised in the manner set out in Section 60(3) of the Companies Act 1965.

(b) Capital Reserve

	The Group		The Company	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Capital reserve is represented by:-				
Transfer of non-distributable reserve funds by a subsidiary	564	521	-	-
Bonus shares issued by:				
- branch	1,044	-	1,044	-
- subsidiaries	5,106	1,980	-	
	6,714	2,501	1,044	-

According to the prevailing PRC laws and regulations applicable to the foreign subsidiary in the PRC, discretionary dedicated capital, which includes a general reserve fund and an enterprise expansion fund, should be maintained by the subsidiary. The Board of Directors of the subsidiary determines the amount of the annual appropriations to the dedicated capital. Such appropriations are reflected in the subsidiary's statement of financial position under equity. The appropriations will not be available for distribution to shareholders once appropriated, but may be used to set off losses or be converted into paid-up capital.

(c) Exchange Fluctuation Reserve

The exchange translation reserve arose from the translation of the financial statements of foreign subsidiaries and a foreign branch and is not distributable by way of dividends.

(d) Employees' Share Option Reserve

The Company granted 7,232,000 share options under the ESOS on 29 March 2011. These options expire on 30 May 2016 and are exercisable in 5 window option periods. The fair value of the share options measured at grant date and the respective exercise window periods are as below:-

	Exercise Window Period	Fair Value per Option (RM)
Lot 1	30 March - 30 May 2012	0.1725
Lot 2	30 March - 30 May 2013	0.1778
Lot 3	30 March - 30 May 2014	0.1793
Lot 4	30 March - 30 May 2015	0.1784
Lot 5	30 March - 30 May 2016	0.1732

Notes to the Financial Statements
for the Financial Year Ended 31 December 2012
cont'd

15. RESERVES *cont'd*

(d) Employees' Share Option Reserve *cont'd*

The fair values of the share options granted were estimated using a binomial option pricing model, taking into account the terms and conditions upon which the options were granted. The assumptions used are as follows:-

	The Group/The Company
Weighted average share price (RM)	0.34*
Exercise price (RM)	0.34*
Expected volatility (%)	41.37
Expected life (years)	5
Risk free rate (%)	3.656
Expected dividend yield (%)	4.406

The salient terms and conditions of the ESOS are as follows:-

1. The ESOS shall be in force for a duration of five (5) years from the implementation date;

2. The aggregate number of options exercised and offered and to be offered under the ESOS shall not exceed 10% of the issued and paid-up ordinary share capital of the Company at any one time during the duration of the ESOS, and further the following shall be complied with:-

    a) the aggregate allocation to the directors of the Group and senior management of the Company must not exceed 50% of the total number of the Company shares to be issued under the ESOS;

    b) the allocation to a director of the Company or eligible employee of the Group who, either singly or collectively through persons connected with the said director or eligible employee holds 20% or more of the issued and paid-up capital of the Company, must not exceed 10% of the total number of the Company shares to be issued under the ESOS;

3. Any employee of the Group or director of the Company who is at least 18 years of age and has been confirmed in service for regular full time employment of any company within the Group shall be eligible to participate in the ESOS;

4. The price at which the option holder is entitled to subscribe for each new ordinary share of the Company may be at a discount of not more than 10% from the 5 days weighted average market price of ordinary shares as at the offer date provided that the subscription price shall in no event be less than the par value of the ordinary shares;

5. The ESOS shall be administered by the Option Committee appointed by the board of directors to administer the ESOS; and

6. All the new ordinary shares issued arising from the ESOS shall rank pari passu in all respects with the existing ordinary shares of the Company.

15. **RESERVES** *cont'd*

(d) **Employees' Share Option Reserve** *cont'd*

The expenses recognised for employee services received during the financial year are as follows:-

	The Group		The Company	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Expenses arising from equity-settled share-based payment transaction	350	350	185	185

The excercise price and the details in the movement of the options granted are as follows:-

Date of Offer	Exercise Price	1.1.2012	Bonus Options	Exercised	At 31.12.2012
29.3.2011	RM0.34*	7,232,000	6,690,100	(833,900)	13,088,200

Note:
** - The exercise price per share option was revised from RM0.68 to RM0.34 due to the issuance of bonus shares during the financial year.*

(e) **Treasury Shares**

The shares purchased are being held as treasury shares in accordance with Section 67A of the Companies Act 1965 in Malaysia.

During the financial year, the Company purchased 62,000 of its issued ordinary shares from the open market at a weighted average price of RM0.51 per share. The total consideration paid for the purchase including transaction costs amounted to RM31,750.

As at 31 December 2012, the Company held a total of 62,000 treasury shares out of the total 159,594,800 issued and fully paid-up ordinary shares. The treasury shares are held at a carrying amount of RM31,750.

(f) **Retained Profits**

Subject to the agreement of the tax authorities, at the end of the reporting period, the Company has sufficient tax credits under Section 108 of the Income Tax Act, 1967 and tax-exempt income to frank the payment of dividends out of its entire retained profits without incurring any additional tax liabilities.

At the end of the reporting period, the Company has not elected for the single tier tax system. When the tax credit balance is fully utilised, or by 31 December 2013 at the latest, the Company will automatically move to the single tier tax system. Under the single tier tax system, tax on the Company's profits is a final tax, and dividends distributed to the shareholders will be exempted from tax.

Notes to the Financial Statements
for the Financial Year Ended 31 December 2012
cont'd

16. DEFERRED TAX LIABILITIES

	The Group		The Company	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
At 1 January	524	203	432	111
Recognised in profit or loss (Note 26)	75	319	75	319
Effect of foreign exchange	2	2	2	2
At 31 December	601	524	509	432

The components of the deferred tax asset and liabilities are as follows:-

	The Group		The Company	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Deferred tax liabilities:-				
Accelerated capital allowances	92	92	-	-
Amount owing by contract customers	671	534	671	534
Unrealised gain on foreign exchange	6	4	6	4
	769	630	677	538
Deferred tax asset:-				
Unutilised tax losses	(168)	(106)	(168)	(106)
	601	524	509	432

No deferred tax assets are recognised on the following items:-

	The Group		The Company	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Unabsorbed capital allowances	301	468	301	283
Unutilised tax losses	2,545	1,793	2,054	1,725
Investment tax allowance	123	-	123	-
	2,969	2,261	2,478	2,008

17. LONG-TERM BORROWINGS

	The Group		The Company	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Hire purchase payables (Note 18)	292	543	15	36
Term loans (Note 19)	556	635	556	635
	848	1,178	571	671

18. HIRE PURCHASE PAYABLES

	The Group		The Company	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Minimum hire purchase payments:				
- not later than one year	279	279	25	25
- later than one year and not later than two years	268	279	16	25
- later than two years and not later than five years	73	338	-	13
	620	896	41	63
Less: Future finance charges	(75)	(110)	(3)	(5)
Present value of hire purchase payables	545	786	38	58
Current portion:				
- not later than one year (Note 22)	253	243	23	22
Non-current portion (Note 17):				
- later than one year and not later than two years	245	243	15	22
- later than two years and not later than five years	47	300	-	14
	292	543	15	36
	545	786	38	58

Notes to the Financial Statements
for the Financial Year Ended 31 December 2012
cont'd

19. TERM LOANS

	The Group		The Company	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Current portion:				
- not later than one year (Note 22)	6,337	73	79	73
Non-current portion (Note 17):				
- later than one year and not later than two years	85	79	85	79
- later than two years and not later than five years	291	272	291	272
- later than five years	180	284	180	284
	556	635	556	635
	6,893	708	635	708

The repayment terms of the term loans are as follows:-

Term Loan	Number of Monthly Instalments	Monthly Instalment Amount RM	Commencement Date of Repayment	Amount Outstanding The Group 2012 RM'000	The Group 2011 RM'000	The Company 2012 RM'000	The Company 2011 RM'000
1	12	8,277	September 2008				
	12	9,403	September 2009				
	122	10,081	September 2011	635	708	635	708
2	*	*	October 2013	6,258	-	-	-
				6,893	708	635	708

Note:
** - The term loan 2 is repayable in one bullet payment.*

The term loans are secured by:-

(i) legal charges over the freehold land and building of the Company;

(ii) a lien over certain fixed deposits of the Company;

(iii) a joint and several guarantee of certain directors of the Company; and

(iv) a corporate guarantee of the Company.

20. TRADE PAYABLES

The normal trade credit terms granted to the Group and the Company range from 30 to 60 days (2011 - 30 to 60 days).

21. OTHER PAYABLES AND ACCRUALS

	The Group		The Company	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Other payables	1,185	1,446	496	449
Accruals	1,264	2,400	396	830
Advance payments	1,254	314	-	-
Provision for warranty costs				
At 1 January	226	-	-	-
Addition during the financial year	65	226	8	-
Writeback during the financial year	(119)	-	-	-
Effect of foreign exchange translation	1	*	*	-
	173	226	8	-
	3,876	4,386	900	1,279

Note:
** - Less than RM1,000.*

Provision for warranty costs is recognised for expected claims on the contract revenue during the year that is based on past experience of the level of repairs and returns. It is expected that most of these costs will be incurred in the next financial year. The assumptions used to calculate the provision for warranty are based on current revenue and current information available about returns based on one year warranty period.

22. SHORT-TERM BORROWINGS

	The Group		The Company	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Factoring	351	1,288	351	1,288
Hire purchase payables (Note 18)	253	243	23	22
Term loans (Note 19)	6,337	73	79	73
Revolving credits	6,503	-	4,000	-
	13,444	1,604	4,453	1,383

Notes to the Financial Statements
for the Financial Year Ended 31 December 2012
cont'd

22. SHORT-TERM BORROWINGS *cont'd*

The factoring is secured by a director of the Company and a third party.

The revolving credits are secured in the same manner as the term loans disclosed in Note 19 to the financial statements.

The revolving credits are rolled over automatically until demand for payment.

23. BANK OVERDRAFT

The bank overdraft is secured by a corporate guarantee of the Company.

24. REVENUE

	The Group		The Company	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Contract revenue	111,885	128,520	21,774	34,863
Sale of goods	4,313	11,066	-	-
	116,198	139,586	21,774	34,863

25. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):-

	The Group		The Company	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Amortisation of development costs	128	82	128	82
Auditors' remuneration:				
- statutory audit for the financial year	221	149	87	77
- under/(over)provision in the financial year	1	(2)	(4)	(2)
- other services	3	3	3	3
Depreciation of property, plant and equipment	1,132	1,094	137	185
Directors' remuneration (Note 27):				
- fee	147	102	147	102
- salaries, wages, bonus, allowances and others	918	1,192	918	1,101
- defined contribution plan	110	132	110	132
- share-based payments	90	90	90	90
Equipment written off	13	3	*	2
Fair value loss on advances to employees	609	-	-	-
Impairment loss on trade receivables	13	1	13	1
Interest expense:				
- bank overdraft	45	23	-	23
- factoring	42	3	42	2
- hire purchase	36	34	3	2
- revolving credits	30	-	30	-
- term loans	56	51	47	51
Provision for warranty costs	65	226	8	-
Rental expense:				
- offices	520	253	84	81
- equipment	762	296	-	-
Staff costs:				
- salaries, wages, bonus, allowances and others	11,724	9,627	2,263	1,501
- defined contribution plans	1,197	717	249	90
- share-based payments	260	260	95	95
Gain on disposal of equipment	-	(4)	-	-
(Gain)/Loss on foreign exchange:				
- realised	(35)	3	(72)	(26)
- unrealised	57	(172)	(25)	1
Dividend income	-	-	(4,000)	(5,000)
Interest income	(110)	(258)	(71)	(182)
Writeback of impairment loss on trade receivables	(1)	(15)	(1)	(15)
Writeback of provision for warranty costs	(119)	-	-	-

Note:
** - Less than RM1,000.*

Notes to the Financial Statements

for the Financial Year Ended 31 December 2012

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26. INCOME TAX EXPENSE

	The Group		The Company	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Current tax expense:				
- Malaysian tax	412	20	-	-
- Foreign tax	600	781	-	-
	1,012	801	-	-
Under/(Over)provision in the previous financial year				
- Foreign tax	64	(76)	48	2
	1,076	725	48	2
Deferred tax expense (Note 16):				
- relating to originating and recognition of temporary differences	75	319	75	319
	1,151	1,044	123	321

A reconciliation of income tax expense applicable to the profit before taxation at the statutory tax rates to income tax expense at the effective tax rate of the Group and of the Company is as follows:-

	The Group		The Company	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Profit before taxation	7,232	9,772	3,205	4,992
Tax at Malaysian statutory tax rate of 25%	1,808	2,443	801	1,248
Tax effects of:-				
Differential in tax rates	(109)	(372)	(31)	(131)
Non-deductible expenses	547	564	183	451
Tax-exempt income	(1,336)	(1,517)	(996)	(1,251)
Under/(Over)provision of current tax in the previous financial year	64	(76)	48	2
Deferred tax assets not recognised during the financial year	177	2	118	2
Tax for the financial year	1,151	1,044	123	321

26. INCOME TAX EXPENSE *cont'd*

Subject to agreement with the tax authorities, the Group and of the Company has unabsorbed capital allowances and unutilised tax losses available at the balance sheet date to be carried forward for offset against future taxable business income as follows:-

	The Group		The Company	
	2012	**2011**	**2012**	**2011**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Unabsorbed capital allowances	301	468	301	283
Unutilised tax losses	3,216	2,217	2,725	2,149
Investment tax allowance	123	-	123	-
	3,640	2,685	3,149	2,432

27. DIRECTORS' REMUNERATION

(a) The aggregate amounts of emoluments received and receivable by directors of the Group and the Company during the financial year are as follows:-

	The Group		The Company	
	2012	**2011**	**2012**	**2011**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Directors of the Company				
- Executive:				
- salaries, wages, bonus allowances and others	918	1,192	918	1,101
- defined contribution plan	110	132	110	132
- share-based payments	71	71	71	71
	1,099	1,395	1,099	1,304
- Non-executive:				
- fee	147	102	147	102
- share-based payments	19	19	19	19
	1,265	1,516	1,265	1,425

Notes to the Financial Statements

for the Financial Year Ended 31 December 2012
cont'd

27. DIRECTORS' REMUNERATION *cont'd*

(b) Details of directors' emoluments of the Group and the Company received/receivable for the financial year in bands of RM50,000 are as follows:-

	The Group		The Company	
	2012	**2011**	**2012**	**2011**
Executive directors:				
- RM550,001-RM600,000	2	2	2	2
Non-executive directors:				
- < RM50,000	5	4	5	4

28. EARNINGS PER SHARE

	The Group	
	2012	**2011**
Basic earnings per share		
Profit attributable to owners of the Company (RM'000)	6,081	8,728
Number of shares in issue as of January 1	79,110,000	74,710,000
Effects through:-		
- treasury shares acquired	(15,497)	-
- private placement	-	3,339,178
- share options exercised	444,605	-
- bonus issue	79,650,900	79,110,000
Weighted average number of ordinary shares for basic earnings per share computation	159,190,008	157,159,178
Effects of dilution - employees' share options	4,492,932	1,253,054
Weighted average number of ordinary shares for diluted earnings per share computation	163,682,940	158,412,232
Basic earnings per ordinary share attributable to equity holders of the Company (sen)	3.8	5.6
Diluted earnings per ordinary share attributable to equity holders of the Company (sen)	3.7	5.5

The weighted average number of ordinary shares in the previous financial year was derived after taking into account the bonus issue of 79,650,900 new ordinary shares of RM0.10 each which was completed on 8 August 2012.

29. ACQUISITION OF SUBSIDIARIES

(i) On 14 February 2012, a subsidiary of the Group, KES acquired 100% of the equity interests in PTS, a company incorporated in The Republic of Singapore for a total cash consideration of SGD2,100,000 or equivalent to RM5,069,400; and

(ii) On 25 July 2012, the Company acquired 100% of the equity interests in KESB (formerly known as Lunar Etnik Construction Sdn. Bhd.), a company incorporated in Malaysia for a total cash consideration of RM2.

The fair values of the identifiable assets and liabilities of the subsidiaries at the date of acquisition were as follows:-

	At Date of Acquisition		
	Carrying Amount RM'000	Fair Value Adjustment RM'000	Fair Value Recognised RM'000
Equipment	215	-	215
Amount owing by contract customers	29	-	29
Trade and other receivables	2,251	-	2,251
Cash and cash equivalents	507	-	507
Amount owing to contract customers	(579)	-	(579)
Trade payables and accruals	(2,211)	-	(2,211)
Net identifiable assets and liabilities	212	-	212
Add: Goodwill on acquisition			4,857
Total purchase consideration			5,069
Less: Cash and cash equivalents of subsidiaries acquired			(507)
Net cash outflow for acquisition of subsidiaries			4,562

The goodwill recognised on the acquisition is attributable mainly to the profit guarantee of approximately SGD1,171,000 of the profit after tax of PTS and its subsidiary, PTM (collectively defined as "PTS Group").

The acquisition of PTS Group will enhance the Group's current business by extending services offered in ultra high purity delivery system and is expected to contribute positively to the future financial performance of the Group.

The acquired subsidiaries have contributed the following results to the Group:-

	2012 RM'000
Revenue	20,965
Profit after taxation	247

If the acquisition had taken place at the beginning of the financial year, the Group's revenue and profit after taxation would have been approximately RM117,075,000 and RM6,218,000 respectively.

Notes to the Financial Statements
for the Financial Year Ended 31 December 2012
cont'd

30. DIVIDEND

	The Group/The Company	
	2012	2011
	RM'000	RM'000
Paid:-		
Final tax-exempt dividend of 4 sen (2011 - 3 sen) per ordinary share in respect of the financial year ended 31 December 2011/2010	3,186	2,373

At the forthcoming Annual General Meeting, a final tax-exempt dividend of 2 sen per ordinary share amounting to RM3,191,896 in respect of the current financial year will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for as a liability in the financial year ending 31 December 2013.

31. PURCHASE OF PLANT AND EQUIPMENT

	The Group		The Company	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Cost of plant and equipment purchased	524	1,442	69	118
Amount financed through hire purchase	-	(374)	-	(68)
Cash disbursed for purchase of plant and equipment	524	1,068	69	50

32. CASH AND CASH EQUIVALENTS

For the purpose of the statements of cash flows, cash and cash equivalents comprise the following:-

	The Group		The Company	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Fixed deposits with licensed banks (Note 13)	2,605	10,869	1,570	9,866
Cash and bank balances	11,999	14,364	4,116	7,073
Bank overdraft (Note 23)	(1,251)	-	-	-
	13,353	25,233	5,686	16,939

33. RELATED PARTY DISCLOSURES

(a) Identities of related parties

The Company has related party relationships with:-

(i) its subsidiaries as disclosed in Note 5 to the financial statements;

(ii) the directors who are the key management personnel; and

(iii) entities controlled by certain key management personnel, directors and/or substantial shareholders.

(b) In addition to the information detailed elsewhere in the financial statements, the Group and the Company carried out the following transactions with the related parties during the financial year:-

	The Group		The Company	
	2012	**2011**	**2012**	**2011**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Subsidiaries				
- Dividend received	-	-	4,000	5,000
- Management fees received	-	-	1,585	1,056
- Progress billings	-	-	39	356
- Sales of equipment	-	-	-	398
Entities in which certain directors are key management personnel				
- Progress billings	12,873	17,098	12,873	17,098
- Purchases	1,842	-	1,842	-
A related party of the entities in which certain directors are key management personnel				
- Progress billings	12,347	4,416	793	1,369
- Purchases	34	-	34	-
Entities in which certain directors are shareholders				
- Purchases	1,388	713	572	325

Notes to the Financial Statements
for the Financial Year Ended 31 December 2012
cont'd

33. RELATED PARTY DISCLOSURES *cont'd*

(c) Key management personnel compensation

	The Group		The Company	
	2012	**2011**	**2012**	**2011**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Short-term employee benefits				
- salaries, wages, allowances and bonus	2,364	2,587	1,728	1,791
- defined contribution plans	212	247	170	217
- share-based payments	221	194	166	139

(d) Outstanding balances

	The Group		The Company	
	2012	**2011**	**2012**	**2011**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Entities controlled by the key management personnel as included in:				
- trade receivables	851	5,355	851	5,354
- trade payables	387	-	387	-
- other receivables	12	-	12	-
A related party of the entities in which certain directors are key management personnel as included in:				
- trade receivables	73	1,242	33	65
- trade payables	-	-	-	-
- other payables	32	33	-	-
Entities in which certain directors are shareholders as included in:				
- trade payables	217	206	13	105
- other payables	-	1	-	-

34. FOREIGN EXCHANGE RATES

The principal closing foreign exchange rates used (expressed on the basis of one unit of foreign currency to RM equivalent) for the translation of foreign currency balances at the end of the reporting period are as follows:-

	The Group/The Company	
	2012	**2011**
Euro	-	4.11
New Taiwan Dollar	0.11	0.10
Chinese Renminbi	0.49	0.50
Singapore Dollar	2.50	2.45
United States Dollar	3.06	3.17

35. OPERATING SEGMENT

The operating segment reporting is not presented as the Group is principally involved in engineering services.

Geographical Information

In presenting the information on the basis of geographical segments, segment revenue is based on the geographical location of customers. The carrying values of segment assets are based on the geographical location of the assets.

	Revenue		Non-current Assets	
	2012	**2011**	**2012**	**2011**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Malaysia	56,819	43,828	6,370	7,079
Singapore	18,882	29,011	5,532	350
Taiwan	21,735	34,501	276	262
PRC	18,445	25,858	354	476
Others	317	6,388	-	-
	116,198	139,586	12,532	8,167

Major Customers

Revenue from one major customer, with revenue equal more than 10% of the Group's revenue, amounted to RM13,547,268 (2011 - RM31,056,080).

Notes to the Financial Statements
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36. CONTINGENT LIABILITIES

	The Group		The Company	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Performance bond and warranty bond granted to contract customers	4,454	5,465	76	5,465
Corporate guarantee given to licensed banks for credit facilities granted to subsidiaries	-	-	10,012	-

37. FINANCIAL INSTRUMENTS

The Group's activities are exposed to a variety of market risks (including foreign currency risk, interest rate risk and equity price risk), credit risk and liquidity risk. The Group's overall financial risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

37.1 Financial Risk Management Policies

The Group's policies in respect of the major areas of treasury activity are as follows:-

(a) Market Risk

(i) Foreign Currency Risk

The Group is exposed to foreign currency risk on transactions and balances that are denominated in foreign currencies. The currencies giving rise to this risk are primarily, Chinese Renminbi ("RMB"), United States Dollar ("USD"), New Taiwan Dollar ("NTD"), Singapore Dollar ("SGD") and Euro. Foreign currency risk is monitored closely on an ongoing basis to ensure that the net exposure is kept at an acceptable level.

The Group's exposure to foreign currency is as follows:-

	RMB	USD	NTW	SGD
The Group	RM'000	RM'000	RM'000	RM'000
2012				
Financial assets				
Trade receivables	10,068	3,563	2,554	3,674
Other receivables and deposits	1,392	-	380	15,747
Cash and bank balances	1,148	1,140	2,691	301
	12,608	4,703	5,625	19,722

37. FINANCIAL INSTRUMENTS *cont'd*

37.1 Financial Risk Management Policies *cont'd*

(a) Market Risk *cont'd*

(i) Foreign Currency Risk cont'd

The Group	RMB RM'000	USD RM'000	NTW RM'000	SGD RM'000
2012				
Financial liabilities				
Hire purchase payables	-	-	38	-
Factoring	-	-	351	-
Term loans	-	-	-	6,258
Revolving credits	-	-	-	2,503
Bank overdraft	-	-	-	1,251
Trade payables	4,653	1,485	6,774	4,239
Other payables and accruals	850	-	265	1,184
	5,503	1,485	7,428	15,435
Net financial assets/(liabilities)	7,105	3,218	(1,803)	4,287
Less: Net financial (assets)/liabilities denominated in the respective entities' functional currencies	(7,105)	-	1,803	(4,324)
Net currency exposure	-	3,218	-	(37)

The Group	RMB RM'000	USD RM'000	NTW RM'000	SGD RM'000	JPY RM'000	EURO RM'000
2011						
Financial assets						
Trade receivables	7,991	5,999	6,245	4,606	-	-
Other receivables and deposits	712	-	611	155	-	-
Cash and bank balances	1,464	1,811	4,788	669	-	2
	10,167	7,810	11,644	5,430	-	2

Notes to the Financial Statements
for the Financial Year Ended 31 December 2012
cont'd

37. FINANCIAL INSTRUMENTS *cont'd*

37.1 Financial Risk Management Policies *cont'd*

(a) Market Risk *cont'd*

(i) Foreign Currency Risk cont'd

The Group	RMB RM'000	USD RM'000	NTW RM'000	SGD RM'000	JPY RM'000	EURO RM'000
2011						
Financial liabilities						
Hire purchase payables	-	-	58	-	-	-
Factoring	-	-	1,288	-	-	-
Trade payables	3,434	3,735	16,175	6,329	12	132
Other payables and accruals	949	-	449	881	-	-
	4,383	3,735	17,970	7,210	12	132
Net financial assets/ (liabilities)	5,784	4,075	(6,326)	(1,780)	(12)	(130)
Less: Net financial (assets)/ liabilities denominated in the respective entities' functional currencies	(5,784)	-	6,326	1,938	-	-
Net currency exposure	-	4,075	-	158	(12)	(130)

37. **FINANCIAL INSTRUMENTS** *cont'd*

37.1 Financial Risk Management Policies *cont'd*

(a) Market Risk *cont'd*

(i) Foreign Currency Risk cont'd

The Company	USD RM'000	NTW RM'000	SGD RM'000
2012			
Financial assets			
Trade receivables	-	2,554	-
Other receivables and deposits	-	380	-
Cash and bank balances	329	2,691	54
	329	5,625	54
Financial liabilities			
Hire purchase payables	-	38	-
Factoring	-	351	-
Trade payables	672	6,774	-
Other payables and accruals	-	265	-
	672	7,428	-
Net financial (liabilities)/assets	(343)	(1,803)	54
Less: Net financial liabilities denominated in the entity's functional currency	-	1,803	-
Net currency exposure	(343)	-	54

Notes to the Financial Statements
for the Financial Year Ended 31 December 2012
cont'd

37. FINANCIAL INSTRUMENTS *cont'd*

37.1 Financial Risk Management Policies *cont'd*

(a) Market Risk *cont'd*

(i) Foreign Currency Risk cont'd

The Company	USD RM'000	NTW RM'000	SGD RM'000	JPY RM'000
2011				
Financial assets				
Trade receivables	-	6,245	-	-
Other receivables and deposits	-	611	-	-
Amount owing by subsidiaries	86	-	211	-
Cash and bank balances	64	4,965	1	-
	150	11,821	212	-
Financial liabilities				
Hire purchase payables	-	58	-	-
Factoring	-	1,288	-	-
Trade payables	1,940	16,175	-	12
Other payables and accruals	-	448	-	-
	1,940	17,969	-	12
Net financial (liabilities)/assets	(1,790)	(6,148)	212	(12)
Less: Net financial liabilities denominated in the entity's functional currency	-	6,148	-	-
Net currency exposure	(1,790)	-	212	(12)

37. FINANCIAL INSTRUMENTS *cont'd*

37.1 Financial Risk Management Policies *cont'd*

(a) Market Risk *cont'd*

(i) Foreign Currency Risk cont'd

Foreign currency risk sensitivity analysis

The following table details the sensitivity analysis to a reasonably possible change in the foreign currencies as at the end of the reporting period, with all other variables held constant:-

	The Group		The Company	
	2012	2011	2012	2011
	Increase/ (Decrease)	Increase/ (Decrease)	(Decrease)/ Increase	(Decrease)/ Increase
	RM'000	RM'000	RM'000	RM'000
Effects on profit after taxation/ equity				
USD				
- strengthened by 10%	321	408	(34)	(179)
- weakened by 10%	(321)	(408)	34	179
SGD				
- strengthened by 10%	(4)	16	5	21
- weakened by 10%	4	(16)	(5)	(21)
JPY				
- strengthened by 10%	-	(1)	-	(1)
- weakened by 10%	-	1	-	1
Euro				
- strengthened by 10%	-	(13)	-	-
- weakened by 10%	-	13	-	-

(ii) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to interest rate risk arises mainly from interest-bearing financial assets and liabilities. The Group's policy is to obtain the most favourable interest rates available. Any surplus funds of the Group will be placed with licensed financial institutions to generate interest income.

Information relating to the Group's exposure to the interest rate risk of the financial liabilities is disclosed in Note 37.1(c) to the financial statements.

37. FINANCIAL INSTRUMENTS *cont'd*

37.1 Financial Risk Management Policies *cont'd*

(a) Market Risk *cont'd*

(ii) Interest Rate Risk cont'd

The following table details the sensitivity analysis to a reasonably possible change in the interest rates at the end of the reporting period, with all other variables held constant:-

	The Group		The Company	
	2012	**2011**	**2012**	**2011**
	(Decrease)/ Increase	**(Decrease)/ Increase**	**(Decrease)/ Increase**	**(Decrease)/ Increase**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Effects on profit after taxation/ equity				
Increase of 100 basic points (bp)	(150)	(20)	(50)	(20)
Decrease of 100 bp	150	20	50	20

(iii) Equity Price Risk

The Group and the Company does not have any quoted investments and hence is not exposed to equity price risk.

(b) Credit Risk

The Group's exposure to credit risk, or the risk of counterparties defaulting, arises mainly from trade and other receivables. The Group manages its exposure to credit risk by the application of credit approvals, credit limits and monitoring procedures on an ongoing basis. The Group minimises credit risk by dealing exclusively with high credit rating counterparties.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of the trade and other receivables as appropriate. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. Impairment is estimated by management based on prior experience and the current economic environment.

(i) Credit risk concentration profile

The Group's major concentration of credit risk relates to the trade receivables at the end of the reporting period is as follows:-

	2012	**2011**
Major concentration of credit risk	12%	15%
Number of customers	1	1

37. FINANCIAL INSTRUMENTS *cont'd*

37.1 Financial Risk Management Policies *cont'd*

(b) Credit Risk *cont'd*

(ii) Exposure to credit risk

As the Group does not hold any collateral, the maximum exposure to credit risk is represented by the carrying amount of the financial assets as at the end of the reporting period.

The exposure of credit risk for trade receivables by geographical region is as follows:-

	The Group		The Company	
	2012	**2011**	**2012**	**2011**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Malaysia	18,574	11,952	-	-
Indonesia	5	1,322	-	-
PRC	11,552	10,982	-	-
Singapore	5,747	5,372	-	-
Taiwan	2,554	6,245	2,554	6,245
Vietnam	-	920	-	-
	38,432	36,793	2,554	6,245

(iii) Ageing analysis

The ageing analysis of the Group's trade receivables as at 31 December 2012 is as follows:-

The Group	**Gross Amount RM'000**	**Collective Impairment RM'000**	**Carrying Value RM'000**
2012			
Not past due	25,454	-	25,454
Past due:-			
- less than 3 months	6,944	(17)	6,927
- 3 to 6 months	3,671	-	3,671
- over 6 months	2,380	-	2,380
	38,449	(17)	38,432

Notes to the Financial Statements
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37. FINANCIAL INSTRUMENTS *cont'd*

37.1 Financial Risk Management Policies *cont'd*

(b) *Credit Risk* *cont'd*

(iii) Ageing analysis cont'd

The Group	Gross Amount RM'000	Collective Impairment RM'000	Carrying Value RM'000
2011			
Not past due	24,357	-	24,357
Past due:-			
- less than 3 months	7,547	(5)	7,542
- 3 to 6 months	2,675	-	2,675
- over 6 months	2,219	-	2,219
	36,798	(5)	36,793

The ageing analysis of the Company's trade receivables as at 31 December 2012 is as follows:-

The Company	Gross Amount RM'000	Collective Impairment RM'000	Carrying Value RM'000
2012			
Not past due	1,328	-	1,328
Past due:-			
- less than 3 months	191	(17)	174
- 3 to 6 months	1,052	-	1,052
	2,571	(17)	2,554
2011			
Not past due	5,280	-	5,280
Past due:-			
- less than 3 months	970	(5)	965
	6,250	(5)	6,245

The collective impairment allowance is determined based on estimated irrecoverable amounts from the services rendered, determined by reference to past default experience.

37. FINANCIAL INSTRUMENTS *cont'd*

37.1 Financial Risk Management Policies *cont'd*

(b) Credit Risk *cont'd*

(iii) Ageing analysis cont'd

Trade receivables that are past due but not impaired

The Group believes that no impairment allowance is necessary in respect of these trade receivables. They are substantial companies with good collection track record and no recent history of default.

Trade receivables that are neither past due nor impaired

A significant portion of trade receivables that are neither past due nor impaired are regular customers that have been transacting with the Group. The Group uses ageing analysis to monitor the credit quality of the trade receivables. Any receivables having significant balances past due are deemed to have higher credit risk, are monitored individually.

(c) Liquidity Risk

Liquidity risk arises mainly from general funding and business activities. The Group practises prudent risk management by maintaining sufficient cash balances and the availability of funding through certain committed credit facilities.

The following table sets out the maturity profile of the financial liabilities as at the end of the reporting period based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on the rates at the end of the reporting period):-

	Weighted Average Effective Rate	Carrying Amount	Contractual Undiscounted Cash Flows	Within 1 Year	2 – 5 Years	Over 5 Years
	%	RM'000	RM'000	RM'000	RM'000	RM'000
The Group						
2012						
Hire purchase payables	5.5	545	620	279	341	-
Term loans	3.4	6,893	7,127	6,592	484	51
Factoring	2.4	351	359	359	-	-
Revolving credits	3.8	6,503	6,750	6,750	-	-
Bank overdraft	5.5	1,251	1,320	1,320	-	-
Trade payables	-	29,923	29,923	29,923	-	-
Other payables and accruals	-	2,622	2,622	2,622	-	-
		48,088	48,721	47,845	825	51

Notes to the Financial Statements
for the Financial Year Ended 31 December 2012
cont'd

37. FINANCIAL INSTRUMENTS *cont'd*

37.1 Financial Risk Management Policies *cont'd*

(c) *Liquidity Risk* *cont'd*

The following table sets out the maturity profile of the financial liabilities as at the end of the reporting period based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on the rates at the end of the reporting period):- *cont'd*

	Weighted Average Effective Rate	Carrying Amount	Contractual Undiscounted Cash Flows	Within 1 Year	2 – 5 Years	Over 5 Years
	%	RM'000	RM'000	RM'000	RM'000	RM'000
The Group						
2011						
Hire purchase payables	5.5	786	896	279	617	-
Term loan	6.9	708	758	121	484	153
Factoring	2.9	1,288	1,325	1,325	-	-
Trade payables	-	34,156	34,156	34,156	-	-
Other payables and accruals	-	4,072	4,072	4,072	-	-
		41,010	41,207	39,953	1,101	153
The Company						
2012						
Hire purchase payables	6.5	38	41	25	16	-
Term loans	6.9	635	679	121	484	74
Factoring	2.4	351	359	359	-	-
Revolving credit	4.2	4,000	4,168	4,168	-	-
Amount owing to a subsidiary	-	1,866	1,866	1,866	-	-
Trade payables	-	7,446	7,446	7,446	-	-
Other payables and accruals	-	900	900	900	-	-
		15,236	15,459	14,885	500	74

37. FINANCIAL INSTRUMENTS *cont'd*

37.1 Financial Risk Management Policies *cont'd*

(c) Liquidity Risk *cont'd*

The following table sets out the maturity profile of the financial liabilities as at the end of the reporting period based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on the rates at the end of the reporting period):- *cont'd*

	Weighted Average Effective Rate	Carrying Amount	Contractual Undiscounted Cash Flows	Within 1 Year	2 – 5 Years	Over 5 Years
	%	RM'000	RM'000	RM'000	RM'000	RM'000
The Company						
2011						
Hire purchase payables	6.5	58	63	25	38	-
Term loan	6.9	708	758	121	484	153
Factoring	2.9	1,288	1,325	1,325	-	-
Trade payables	-	18,126	18,126	18,126	-	-
Other payables and accruals	-	1,279	1,279	1,279	-	-
		21,459	21,551	20,876	522	153

37.2 Capital Risk Management

The Group manages its capital to ensure that entities within the Group will be able to maintain an optimal capital structure so as to support their businesses and maximise shareholders' value. To achieve this objective, the Group may make adjustments to the capital structure in view of changes in economic conditions, such as adjusting the amount of dividend payment, returning of capital to shareholders or issuing new shares.

The Group manages its capital based on debt-to-equity ratio. The Group's strategies were unchanged from the previous financial year. The debt-to-equity ratio is calculated as net debt divided by total equity. Net debt is calculated as borrowings less cash and cash equivalents.

Notes to the Financial Statements
for the Financial Year Ended 31 December 2012
cont'd

37. FINANCIAL INSTRUMENTS *cont'd*

37.2 Capital Risk Management *cont'd*

The debt-to-equity ratio of the Group as at the end of the reporting period was as follows:-

	The Group	
	2012	**2011**
	RM'000	**RM'000**
Hire purchase payables	545	786
Term loans	6,893	708
Factoring	351	1,288
Revolving credits	6,503	-
Bank overdraft	1,251	-
	15,543	2,782
Less: Fixed deposits with licensed banks	(2,605)	(10,869)
Less: Cash and bank balances	(11,999)	(14,364)
Net debt/(surplus)	939	(22,451)
Total equity	53,824	50,401
Debt-to-equity ratio	0.02	Not applicable

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

37.3 Classification of Financial Instruments

	The Group		The Company	
	2012	**2011**	**2012**	**2011**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Financial assets				
Loans and receivables financial assets				
Trade receivables	38,432	36,793	2,554	6,245
Other receivables and deposits	17,643	1,208	413	167
Amount owing by subsidiaries	-	-	15,377	508
Fixed deposits with licensed banks	2,605	10,869	1,570	9,866
Cash and bank balances	11,999	14,364	4,116	7,073
	70,679	63,234	24,030	23,859

37. FINANCIAL INSTRUMENTS *cont'd*

37.3 Classification of Financial Instruments *cont'd*

	The Group		The Company	
	2012	**2011**	**2012**	**2011**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Financial liabilities				
Other financial liabilities				
Hire purchase payables	545	786	38	58
Term loans	6,893	708	635	708
Factoring	351	1,288	351	1,288
Revolving credits	6,503	-	4,000	
Bank overdraft	1,251	-	-	-
Amount owing to a subsidiary	-	-	1,866	-
Trade payables	29,923	34,156	7,446	18,126
Other payables and accruals	2,622	4,072	900	1,279
	48,088	41,010	15,236	21,459

37.4 Fair Values of Financial Instruments

The carrying amounts of the financial assets and financial liabilities reported in the financial statements approximated their fair values.

The following summarises the methods used to determine the fair values of the financial instruments:-

(i) The financial assets and financial liabilities maturing within the next 12 months approximated their fair values due to the relatively short-term maturity of the financial instruments.

(ii) The carrying amounts of long-term bank loans and hire purchase payables approximated their fair value of the instruments. The fair values of the long-term bank loans and hire purchase payables are determined by discounting the relevant cash flows using current interest rates for similar instruments at the end of the reporting period.

37.5 Fair Value Hierarchy

The fair values of the financial assets and liabilities are analysed into level 1 to 3 as follows:-

Level 1: Fair value measurements derive from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair value measurements derive from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Fair value measurements derive from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes to the Financial Statements
for the Financial Year Ended 31 December 2012
cont'd

37. FINANCIAL INSTRUMENTS *cont'd*

37.5 Fair Value Hierarchy *cont'd*

Fair value hierarchy analysis

The Group	Level 3 RM'000
2012	
Financial assets	
Other receivables:	
- Advances to employees	3,149

Reconciliation of level 3 of the fair value hierarchy

The Group	Advances To Employees RM'000
Balance at 31.12.2011/1.1.2012	-
Total loss recognised in profit or loss, under other operating expenses	609
Balance at 31.12.2012	609

The fair value of the advances to employees is derived from the present value of the future cash flows computed based on the projections of financial budgets approved by management covering a period of 5 years. The key assumptions used in the determination of the recoverable amounts are as follows:-

	Gross Margin	Growth Rates	Discount Rate
	19%	5.0% - 11.2%	6.71%

(i)	Budgeted gross profit margin	The basis used to determine the value assigned to the budgeted gross profit margin is the gross profit margin achieved in the current financial year.
(ii)	Growth rates	The growth rates used are based on the expected projection of the engineering services industry.
(iii)	Discount rate	The discount rate used is the weighted average cost of capital of the Company as at 31 December 2012.

The management believes that no reasonable change in the above key assumptions would cause the carrying amount of the fair value of the advances to employees to exceed its recoverable amounts.

38. SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

The significant events during the financial year are as follows:-

(a) On 14 February 2012, a subsidiary of the Group, KES acquired 100% of the equity interest in PTS, a company incorporated in The Republic of Singapore for a total cash consideration of SGD2,100,000 or equivalent to RM5,069,400;

(b) On 25 July 2012, the Company acquired 100% of the equity interest in KESB (formerly known as Lunar Etnik Construction Sdn. Bhd.), a company incorporated in Malaysia for a total cash consideration of RM2;

(c) On 9 August 2012, the Company issued 79,650,900 new ordinary shares of RM0.10 each as bonus issues on the basis of one bonus share for every one existing share held by the Company by the capitalisation of RM6,550,000 and RM1,415,000 from the share premium account and retained profits respectively on 8 August 2012. The new shares issued rank pari passu in all respects with the existing shares of the Company; and

(d) On 7 September 2012, KES subscribed for 100,000 ordinary shares of SGD1.00 each representing 100% equity interest in Kelington Healthcare Technologies (S) Pte. Ltd. in The Republic of Singapore.

39. COMPARATIVE FIGURES

The following comparative figures have been reclassified to conform with the presentation of the current financial year:

	The Group		The Company	
	As Restated	As Previously Reported	As Restated	As Previously Restated
	RM'000	RM'000	RM'000	RM'000
Statements of Financial Position (Extract):-				
Intangible assets	-	484	-	285
Development costs	285	-	285	-
Goodwill	199	-	-	-

Notes to the Financial Statements
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cont'd

40. SUPPLEMENTARY INFORMATION - DISCLOSURE OF REALISED AND UNREALISED PROFITS/LOSSES

The breakdown of the retained profits of the Group and of the Company as at the end of the reporting period into realised and unrealised profits/(losses) are presented in accordance with the directive issued by Bursa Malaysia Securities Berhad and prepared in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants, as follows:-

	The Group		The Company	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Total retained profits:				
- realised	31,002	33,399	3,188	6,125
- unrealised	(914)	(578)	(59)	(433)
At 31 December	30,088	32,821	3,129	5,692

Analysis of Shareholdings
as at 6 May 2013

Authorised Share Capital	:	RM25,000,000 comprising of 250,000,000 ordinary shares of RM0.10 each
Issued and Paid-Up Share Capital	:	RM15,959,480 comprising of 159,594,800 ordinary shares of RM0.10 each (Including 72,000 treasury shares)
Class of Shares	:	Ordinary Shares of RM0.10 each
Voting Rights	:	One Vote per Ordinary Share

DISTRIBUTION OF SHAREHOLDINGS

Holdings	No. of Holders	Percentage (%)	No. of Shares	Percentage (%)
Less than 100	5	1.05	108	0.00
100-1,000	48	10.08	18,692	0.01
1,001-10,000	223	46.85	1,064,700	0.67
10,001-100,000	144	30.25	5,058,500	3.17
100,001- less than 5%	52	10.92	39,246,782	24.60
5% and above	4	0.84	114,134,018	71.55
TOTAL	**476**	**100.00**	**159,522,800 ***	**100.00**

* *Excluding 72,000 treasury shares.*

LIST OF SUBSTANTIAL SHAREHOLDERS AS AT 6 MAY 2013

Names	Direct Interest		Indirect Interest	
	No. of Shares	%	No. of Shares	%
Palace Star Sdn. Bhd.	75,157,718	47.11	-	-
Lembaga Tabung Angkatan Tentera	20,000,000	12.54	-	-
Sky Walker Group Limited	18,976,300	11.90	-	-
Gan Hung Keng	146,000	0.09	75,157,718 (1)	47.11 (1)
Ong Weng Leong	146,000	0.09	75,157,718 (1)	47.11 (1)
Lim Hock San	-	-	75,157,718 (1)	47.11 (1)
Confederate Technology Co., Ltd	-	-	18,976,300 (2)	11.90 (2)
United Industrial Gases Co., Ltd	-	-	18,976,300 (3)	11.90 (3)
BOC Lien Hwa Industrial Gases Co., Ltd	-	-	18,976,300 (4)	11.90 (4)

Notes:

(1) *Deemed interested under Section 6A of the Act by virtue of their direct interests in Palace Star Sdn Bhd.*
(2) *Deemed interested under Section 6A of the Act by virtue of its direct interest in Sky Walker Group Limited.*
(3) *Deemed interested under Section 6A of the Act by virtue of its direct interest in Confederate Technology Co., Ltd.*
(4) *Deemed interested under Section 6A of the Act by virtue of its direct interest in United Industrial Gases Co., Ltd.*

Analysis of Shareholdings
as at 6 May 2013
cont'd

LIST OF DIRECTORS' SHAREHOLDING IN THE COMPANY AS AT 6 MAY 2013

Names	Direct Interest		Indirect Interest	
	No. of Shares	%	No. of Shares	%
Gan Hung Keng(1)	146,000	0.09	75,157,718(1)	47.11(1)
Ong Weng Leong(1)	146,000	0.09	75,157,718(1)	47.11(1)
Chan Thian Kiat	20,000	0.01	-	-
Tan Chuan Yong	20,000	0.01	-	-
Vice Admiral (Retired) Datuk Haji Jamil bin Haji Osman	-	-	-	-
Soo Yuit Weng	239,000	0.15	-	-

Note:

(1) Deemed interested under Section 6A of the Act by virtue of their direct shareholding interests in Palace Star Sdn. Bhd.

DIRECTORS' INTEREST IN OPTIONS OVER ORDINARY SHARES

Directors	No. of Shares
Gan Hung Keng	1,314,000
Ong Weng Leong	1,314,000
Chan Thian Kiat	180,000
Tan Chuan Yong	180,000
Vice Admiral (Retired) Datuk Haji Jamil bin Haji Osman	-
Soo Yuit Weng	-

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

No.	Name of Shareholders	No. of Shares	%
1	Palace Star Sdn. Bhd.	55,462,550	34.77
2	Lembaga Tabung Angkatan Tentera	20,000,000	12.54
3	Palace Star Sdn. Bhd.	19,695,168	12.35
4	Sky Walker Group Limited	18,976,300	11.90
5	Grandworth Group Ltd	7,382,600	4.63
6	Hantech Venture Capital Corporation	4,636,400	2.91
7	An-Jih Co., Ltd	3,860,000	2.42
8	Alliancegroup Nominees (Tempatan) Sdn. Bhd. *Pledged Securities Account for Chew Siow Geok (8041848)*	3,837,282	2.41
9	TA Securities Holdings Berhad *IVT (DDG)*	1,840,000	1.15

Analysis of Shareholdings
as at 6 May 2013
cont'd

THIRTY LARGEST SHAREHOLDERS *cont'd*
(Without aggregating securities from different securities accounts belonging to the same person) cont'd

No.	Name of Shareholders	No. of Shares	%
10	Cimsec Nominees (Tempatan) Sdn. Bhd. *CIMB for Tan Kok Pin @ Kok Khong (PB)*	1,115,000	0.70
11	TA Nominees (Asing) Sdn. Bhd. *Pledged Securities Account for Leong Fatt On*	1,061,300	0.67
12	Lew You Sen	1,000,000	0.63
13	Cimsec Nominees (Asing) Sdn. Bhd. *Bank of Singapore Ltd for Clarion Valley Capital Ltd*	1,000,000	0.63
14	Public Invest Nominees (Tempatan) Sdn. Bhd. *Pledged Securities Account for Tan Kok Pin @ Kok Khong (M)*	950,000	0.60
15	Amsec Nominees (Tempatan) Sdn. Bhd. *Pledged Securities Account for Chew Siow Geok*	890,800	0.56
16	Leong Ee Nung	761,000	0.48
17	TA Nominees (Asing) Sdn. Bhd. *Pledged Securities Account for Hu Keqin*	736,900	0.46
18	Goh Seow Khong	650,000	0.41
19	Loy Boon Chen	600,000	0.38
20	Liew Wai Kiat	600,000	0.38
21	Chea Kok Keong	600,000	0.38
22	Sin Huat Hing Farm Sdn. Bhd.	500,000	0.31
23	Amsec Nominees (Tempatan) Sdn. Bhd. *Pledged Securities Account for Ong Teik Hoe*	475,100	0.30
24	Wan Siew Chuan	472,200	0.30
25	Cheong Yee Mun	453,000	0.28
26	Lim Mui Wah	420,000	0.26
27	Tan Tong Kai	388,000	0.24
28	Wong Yin Kee	357,000	0.22
29	Public Nominees (Tempatan) Sdn. Bhd. *Pledged Securities Account for Too Pei Chen (E-SJA)*	275,000	0.17
30	Ong Seng Heng	251,800	0.16
		149,247,400	93.56

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Thirteenth Annual General Meeting ("AGM") of **Kelington Group Berhad** (KGB" or "Company") will be held at **Function Room 2, Mezzanine Floor, Setia City Convention Centre, No.1, Jalan Setia Dagang AG U13/AG, Setia Alam, Section U13, 40170 Shah Alam, Selangor** on Wednesday, 26 June 2013 at 10.00 a.m., for the purpose of considering the following businesses:-

A G E N D A

Ordinary Business

1. To receive the Audited Financial Statements for the financial year ended 31 December 2012 together with the Reports of the Directors and the Auditors thereon. ***(Refer to Explanatory Note (a))***

2. To re-elect the following Directors who are retiring in accordance with the Article 69 of the Company's Articles of Association, and being eligible, have offered themselves for re-election:

   (i) Mr Gan Hung Keng ***(Ordinary Resolution 1)***

   (ii) Mr Tan Chuan Yong ***(Ordinary Resolution 2)***

3. To elect the following Directors who are retiring in accordance with the Article 74 of the Company's Articles of Association, and being eligible, have offered themselves for re-election:

   (i) Vice Admiral (Retired) Datuk Haji Jamil bin Haji Osman ***(Ordinary Resolution 3)***

   (ii) Mr Soo Yuit Weng ***(Ordinary Resolution 4)***

4. To approve the payment of Directors' fees of RM140,400.00 for the financial year ended 31 December 2012. ***(Ordinary Resolution 5)***

5. To approve the payment of a final tax-exempt dividend of 2 sen per ordinary share of RM0.10 each for the financial year ended 31 December 2012. ***(Ordinary Resolution 6)***

6. To re-appoint Messrs Crowe Horwath as Auditors of the Company until the conclusion of the next AGM and authorise the Directors to fix their remuneration. ***(Ordinary Resolution 7)***

Special Business

To consider and if thought fit, pass the following resolutions with or without any modifications:

7. **Authority to Issue Shares Pursuant to Section 132D of the Companies Act, 1965 ("the Act")**

   "THAT subject to Section 132D of the Act, and approvals of the relevant governmental/ regulatory authorities, the Directors be and are hereby empowered to issue shares in the Company, at any time to such persons and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit, provided that the aggregate number of shares issued pursuant to this resolution does not exceed ten per centum (10%) of the issued and paid-up share capital (excluding treasury shares) of the Company for the time being and the Directors be and are also empowered to obtain the approval for the listing of and quotation for the additional shares so issued on Bursa Malaysia Securities Berhad; AND THAT such authority shall commence immediately upon the passing of this resolution and continue to be in force until the conclusion of the next Annual General Meeting of the Company." ***(Ordinary Resolution 8)***

8. **Proposed Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature**

"THAT subject to Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad, approval be and is hereby given to the Company and/or its subsidiaries ("the Group") to enter into recurrent related party transactions of a revenue or trading nature ("RRPT") with the related party(ies) as set out in Section 3.1 of the Circular to Shareholders of the Company dated 4 June 2013 ("the Circular") provided that such transactions are:-

(a) Necessary for the day-to-day operations;

(b) The transactions are in the ordinary course of business and are on normal commercial terms which are not more favourable to the related parties than those generally available to the public; and

(c) Not prejudicial to the minority shareholders of the Company.

("Shareholders' Mandate")

THAT such approval shall continue to be in force and effect until:

(a) the conclusion of the next Annual General Meeting ("AGM") of the Company at which time it will lapse, unless the authority is renewed by a resolution passed at the said AGM, such authority is renewed;

(b) the expiration of the period within which the next AGM of the Company is required to be held pursuant to Section 143(1) of the Companies Act, 1965 ("the Act") (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Act); or

(c) revoked or varied by resolution passed by the shareholders in a general meeting;

whichever is the earlier;

AND THAT the Directors of the Company be and are hereby empowered and authorised to complete and to do all such acts, deeds and things as they may consider expedient or necessary or in the best interest of the Company to give effect to the Shareholders' Mandate, with full power to assent to any condition, modification, revaluation, variation and/or amendment (if any) as may be imposed or permitted by the relevant authorities." ***(Ordinary Resolution 9)***

9. **Proposed Renewal of Authority for Purchase of Own Shares by the Company**

"THAT subject to the Companies Act, 1965 (the "Act"), rules, regulations and orders made pursuant to the Act, provisions of the Company's Memorandum and Articles of Association and the requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") and any other relevant authorities, the Company be and is hereby authorised, to the fullest extent permitted by law, to purchase such amount of ordinary shares of RM0.10 each in the Company as may be determined by the Directors of the Company from time to time through Bursa Securities upon such terms and conditions as the Directors may deem fit and expedient in the interest of the Company provided that:-

Notice of Annual General Meeting
cont'd

(i) the aggregate number of shares purchased does not exceed ten per centum (10%) of the total issued and paid-up share capital of the Company as quoted on Bursa Securities as at the point of purchase;

(ii) the maximum fund to be allocated by the Company for the purpose of purchasing the shares shall be backed by an equivalent amount of retained profits and share premium; and

(iii) the Directors of the Company may decide either to retain the shares purchased as treasury shares or cancel the shares or retain part of the shares so purchased as treasury shares and cancel the remainder or to resell the shares or distribute the shares as dividends.

AND THAT the authority conferred by this resolution will commence after the passing of this ordinary resolution and will continue to be in force until:-

(i) the conclusion of the next Annual General Meeting ("AGM") at which time it shall lapse unless by ordinary resolution passed at the meeting, the authority is renewed, either unconditionally or subject to conditions; or
(ii) the expiration of the period within which the next AGM after that date is required by law to be held; or
(iii) revoked or varied by ordinary resolution passed by the shareholders of the Company in a general meeting;

whichever occurs first.

AND THAT the Directors of the Company be and are hereby authorised to take all such steps as are necessary or expedient to implement or to effect the purchase(s) of the shares with full power to assent to any condition, modification, variation and/or amendment as may be imposed by the relevant authorities and to take all such steps as they may deem necessary or expedient in order to implement, finalise and give full effect in relation thereto." ***(Ordinary Resolution 10)***

10. **Proposed Granting of Options to Vice Admiral (Retired) Datuk Haji Jamil Bin Haji Osman**

"THAT authority be and is hereby given to the Option Committee, appointed by the Board of Directors of the Company to specifically administer Employees' Share Option Scheme ("ESOS"), at any time, and from time to time, to offer and grant to Vice Admiral (Retired) Datuk Haji Jamil bin Haji Osman, being an Independent Non-Executive Director of the Company, options to subscribe for such number of new ordinary shares of RM0.10 each in the Company ("KGB shares") under the ESOS, and to allot and issue such number of new KGB Shares to him upon exercise of the options subject always to:-

a) the aggregate allocation to the Directors and senior management of the Group must not exceed 50% of the total number of KGB shares to be issued under the ESOS;
b) the allocation to a Director or Eligible Employee who, either singly or collectively through person connected with the Director or Eligible Employee, holds 20% or more of the issued and paid-up capital of the Company, must not exceed 10% of the total number of KGB Shares to be issued under the ESOS; and
c) the aggregate number of options exercised and options offered and to be offered under the ESOS shall not in aggregate exceed 10% of the issued and paid-up ordinary share capital of the Company at any point of time during the duration of the ESOS.

Such terms and conditions and/or any adjustments which may be made in accordance with the provisions of the By-Laws of the ESOS." ***(Ordinary Resolution 11)***

11. **Proposed Granting of Options to Mr Soo Yuit Weng**

    "THAT authority be and is hereby given to the Option Committee, appointed by the Board of Directors of the Company to specifically administer Employees' Share Option Scheme ("ESOS"), at any time, and from time to time, to offer and grant to Mr Soo Yuit Weng, being an Independent Non-Executive Director of the Company, options to subscribe for such number of new ordinary shares of RM0.10 each in the Company ("KGB shares") under the ESOS, and to allot and issue such number of new KGB Shares to him upon exercise of the options subject always to:-

    a) the aggregate allocation to the Directors and senior management of the Group must not exceed 50% of the total number of KGB shares to be issued under the ESOS;
    b) the allocation to a Director or Eligible Employee who, either singly or collectively through person connected with the Director or Eligible Employee, holds 20% or more of the issued and paid-up capital of the Company, must not exceed 10% of the total number of KGB Shares to be issued under the ESOS; and
    c) the aggregate number of options exercised and options offered and to be offered under the ESOS shall not in aggregate exceed 10% of the issued and paid-up ordinary share capital of the Company at any point of time during the duration of the ESOS.

    Such terms and conditions and/or any adjustments which may be made in accordance with the provisions of the By-Laws of the ESOS." ***(Ordinary Resolution 12)***

12. To transact any other business of which due notice shall have been given in accordance with the Companies Act, 1965.

Notice of Dividend Entitlement

NOTICE IS HEREBY GIVEN THAT subject to the approval of the shareholders at Thirteenth AGM, a final tax-exempt dividend of 2 sen per ordinary share of RM0.10 each for the financial year ended 31 December 2012, if approved, will be paid on 12 August 2013 to holders of ordinary shares registered in the Record of Depositors of the Company at the close of business on 15 July 2013.

A depositor shall qualify for entitlement to the dividend only in respect of:-

a) Securities transferred into the Depositor's Securities Account before 4.00 p.m. on 15 July 2013 in respect of transfers; and

b) Securities bought on Bursa Malaysia Securities Berhad ("Bursa Securities") on a cum entitlement basis according to the Rules of Bursa Securities.

BY ORDER OF THE BOARD

TEO MEE HUI (MAICSA 7050642)
PANG CHIA TYNG (MAICSA 7034545)
Company Secretaries

Kuala Lumpur
Dated this 4 June 2013

Notice of Annual General Meeting
cont'd

Notes:

1. *A member may appoint up to two (2) proxies to attend and vote at the meeting. If a member appoints more than one (1) proxy, the appointments shall be invalid unless he/she specifies the proportions of his/her holding to be represented by each proxy. A proxy may but need not be a member of the Company. If the proxy is not a member, the proxy need not be an advocate, an approved company auditor or a person approved by the Registrar of Companies. There shall be no restriction as to the qualification of the proxy.*

2. *The instrument appointing a proxy shall be in writing, executed by or on behalf of the appointor or his attorney duly authorised in writing or, if the appointor is a corporation, either under the corporation's seal or under the hand of an officer or attorney duly authorised.*

3. *Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991 ("SICDA"), it may appoint at least one (1) proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.*

4. *Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one (1) securities account ("Omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds. An exempt authorised nominee refers to an authorised nominee defined under the SICDA which is exempted from compliance with the provisions of subsection 25A(1) of the SICDA.*

5. *The instrument appointing a proxy must be deposited at the Registered Office of the Company at 10th Floor, Menara Hap Seng, No. 1 & 3, Jalan P. Ramlee, 50250 Kuala Lumpur at least forty-eight (48) hours before the time for holding the meeting or any adjournment thereof.*

6. *For the purpose of determining who shall be entitled to attend this meeting, the Company shall be requesting the Bursa Malaysia Depository Sdn. Bhd. to make available to the Company pursuant to Article 50(f) of the Articles of Association of the Company, a Record of Depositors as at 20 June 2013 and only a Depositor whose name appear on such Record of Depositors shall be entitled to attend this meeting.*

Explanatory notes on Ordinary and Special Business

a) *Item 1 of the Agenda*
Audited Financial Statements for the financial year ended 31 December 2012.

The Audited Financial Statements under this agenda item is meant for discussion only as the provision of Section 169(1) of the Companies Act, 1965 ("the Act") does not require a formal approval of the shareholders and hence this item is not put forward for voting.

b) *Ordinary Resolution 8*
Authority to Issue Shares pursuant to Section 132D of the Act

The proposed Ordinary Resolution 8 is proposed for the purpose of granting a renewed general mandate ("General Mandate") and empowering the Directors of the Company, pursuant to Section 132D of the Act, to issue new shares in the Company from time to time provided that the aggregate number of shares issued pursuant to the General Mandate does not exceed 10% of the issued and paid-up share capital of the Company for the time being. The General Mandate, unless revoked or varied by the Company in General Meeting, will expire at the conclusion of the next AGM of the Company.

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 as to avoid incurring additional cost and time. The proceeds raised from the General Mandate will provide flexibility to the Company for any possible fund raising activities, including but not limited to further placing of shares, for purposes of funding future investment project(s), working capital and/or acquisitions(s).

The previous mandate was not utilised and accordingly no proceeds were raised.

c) *Ordinary Resolution 9*
Proposed Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature

The proposed Ordinary Resolution 9, if passed, will allow the Group enter into recurrent related party transactions made on an arm's length basis on normal commercial terms and which are not prejudicial to the interest of the minority shareholders. For more information, please refer to the Circular to Shareholders dated 4 June 2013.

d) *Ordinary Resolution 10*
Proposed Renewal of Authority for Purchase of Own Shares by the Company

The proposed Ordinary Resolution 10, if approved, will empower the Company to purchase and/or hold up to ten per centum (10%) of the issued and paid-up share of the Company through Bursa Malaysia Securities Berhad. For more information, please refer to the Share Buy-Back Statement dated 4 June 2013.

e) *Ordinary Resolution 11*
Proposed Granting of Options to Vice Admiral (Retired) Datuk Haji Jamil bin Haji Osman

The proposed Ordinary Resolution 11, if passed, will allow the aforesaid Director to participate in the Company's Employees' Share Option Sheme in accordance with the provisions of the By-Laws of the Scheme.

f) *Ordinary Resolution 12*
Proposed Granting of Options to Mr Soo Yuit Weng

The proposed Ordinary Resolution 12, if passed, will allow the aforesaid Director to participate in the Company's Employees' Share Option Sheme in accordance with the provisions of the By-Laws of the Scheme.

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KELINGTON GROUP BERHAD
(501386-P)
(Incorporated in Malaysia)

Proxy Form

CDS Account No.	Number of Shares Held

* I/We ______________________________NRIC No./Passport No./Company No.______________of______________________________

being a Member(s) of KELINGTON GROUP BERHAD (501386-P), hereby appoint #THE CHAIRMAN OF THE MEETING or ____________ ______________________________NRIC No./Passport No.______________________________

of ______________________________or failing him/her______________________________NRIC No./Passport No.______________________________

of______________________________as *my/our proxy to vote for *me/us on *my/our behalf at the Thirteenth Annual General Meeting of the Company to be held at Function Room 2, Mezzanine Floor, Setia City Convention Centre, No.1, Jalan Setia Dagang AG U13/AG, Setia Alam, Section U13, 40170 Shah Alam, Selangor on Wednesday, 26 June 2013 at 10.00 a.m or at any adjournment thereof and to vote as indicated below:

	Ordinary Resolutions	For	Against
1	To re-elect Mr Gan Hung Keng as Director		
2	To re-elect Mr Tan Chuan Yong as Director		
3	To elect Vice Admiral (Retired) Datuk Haji Jamil bin Haji Osman as Director		
4	To elect Mr Soo Yuit Weng as Director		
5	To approve the payment of Directors' fees for the financial year ended 31 December 2012		
6	To approve Final Tax-Exempt Dividend		
7	To re-appoint Messrs Crowe Horwath as Auditors of the Company		
	Special Business		
8	Authority to Issue Shares Pursuant to Section 132D of the Companies Act, 1965		
9	Proposed Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature		
10	Proposed Renewal of Authority for Purchase of Own Shares by the Company		
11	Proposed Granting of Options to Vice Admiral (Retired) Datuk Haji Jamil bin Haji Osman		
12	Proposed Granting of Options to Mr Soo Yuit Weng		

Mark either box if you wish to direct the proxy how to vote. If no mark is made the proxy may vote on the resolution or abstain from voting as the proxy thinks fit. If you appoint two proxies and wish them to vote differently this should be specified.

If you wish to appoint other person(s) to be your proxy/proxies, kindly delete the words "The Chairman of the Meeting" and insert the name(s) of the person(s) desired.
* *Delete if not applicable.*

Signed this ______________ day of ______________ 2013

____
Signature/Common Seal of Shareholder

Notes:

1. *A member may appoint up to two (2) proxies to attend and vote at the meeting. If a member appoints more than one (1) proxy, the appointments shall be invalid unless he/she specifies the proportions of his/her holding to be represented by each proxy. A proxy may but need not be a member of the Company. If the proxy is not a member, the proxy need not be an advocate, an approved company auditor or a person approved by the Registrar of Companies. There shall be no restriction as to the qualification of the proxy.*
2. *The instrument appointing a proxy shall be in writing, executed by or on behalf of the appointor or his attorney duly authorised in writing or, if the appointor is a corporation, either under the corporation's seal or under the hand of an officer or attorney duly authorised.*
3. *Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991 ("SICDA"), it may appoint at least one (1) proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.*
4. *Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one (1) securities account ("Omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds. An exempt authorised nominee refers to an authorised nominee defined under the SICDA which is exempted from compliance with the provisions of subsection 25A(1) of the SICDA.*
5. *The instrument appointing a proxy must be deposited at the Registered Office of the Company at 10th Floor, Menara Hap Seng, No. 1 & 3, Jalan P. Ramlee, 50250 Kuala Lumpur at least forty-eight (48) hours before the time for holding the meeting or any adjournment thereof.*
6. *For the purpose of determining who shall be entitled to attend this meeting, the Company shall be requesting the Bursa Malaysia Depository Sdn. Bhd. to make available to the Company pursuant to Article 50(f) of the Articles of Association of the Company, a Record of Depositors as at 20 June 2013 and only a Depositor whose name appear on such Record of Depositors shall be entitled to attend this meeting.*

Fold This Flap For Sealing

Then Fold Here

AFFIX
STAMP

The Company Secretary
KELINGTON GROUP BERHAD (501386-P)
10 Floor, Menara Hap Seng
No. 1& 3 Jalan P. Ramlee
50250 Kuala Lumpur

1st Fold Here