

11. ACCOUNTANTS' REPORT

(Prepared for the inclusion in this Prospectus)



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ACCOUNTANTS' REPORT

29 April 2009

The Board of Directors
Samchem Holdings Berhad
Lot 6, Jalan Sungai Kayu Ara 32/39
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Selangor Darul Ehsan

Dear Sirs

SAMCHEM HOLDINGS BERHAD ("SAMCHEM") ACCOUNTANTS' REPORT

1.0 INTRODUCTION

This report has been prepared by Ernst & Young, an approved company auditor, exclusively for the inclusion in the Prospectus of Samchem to be dated 22 May 2009 in connection with the listing of and quotation of the entire enlarged issued and paid-up share capital of Samchem and should not be relied upon for any other purposes.

2.0 ABBREVIATIONS

Unless the context otherwise requires, the following words and abbreviations shall apply throughout this report:

Eweny Chemicals	Eweny Chemicals Sdn. Bhd.
FPE	Financial period ended 31 December
FYE	Financial year ended 31 December
Samchem Group	Samchem and its subsidiaries namely SCSB, SC Industries, Eweny Chemicals, TN Chemie, TN Industries, SC Logistics, SCsphere, SC Enviro and associates namely Yong Tai Samchem Sdn. Bhd. and PT Multi Square respectively
SCSB	Samchem Sdn. Bhd.
SC Enviro	Samchem Enviro Cycle Sdn. Bhd.
SCsphere	Samchemsphere Export Sdn. Bhd.
SCsphere Indochina	Samchemsphere Indochina (Vietnam) Company Limited
SC Industries	Samchem Industries Sdn. Bhd.
SC Logistics	Samchem Logistics Services Sdn. Bhd.
TN Chemie	TN Chemie Sdn. Bhd.
TN Industries	TN Industries Sdn. Bhd.

11. ACCOUNTANTS' REPORT (Cont'd)



3.0 GENERAL INFORMATION

3.1 Background of Samchem

Samchem was incorporated in Malaysia on 29 November 2007 as a public limited liability company. The principal activity of Samchem is investment holding. Further details on its subsidiaries are set out in paragraph 3.3 below.

3.2 Share Capital of Samchem

At the date of incorporation, the authorised share capital of Samchem was RM100,000 comprising 100,000 ordinary shares of RM1.00 each. At that date, the issued and paid-up share capital of Samchem was RM2 comprising 2 ordinary shares of RM1.00 each ("Samchem Shares").

On 12 May 2008, Samchem sub-divided the authorised share capital of 100,000 ordinary shares of RM1.00 each into 200,000 ordinary shares of RM0.50 each and the issued and fully paid share capital of 2 ordinary shares of RM1.00 each into 4 ordinary shares of RM0.50 each.

On 28 May 2008, the authorised share capital of Samchem was increased from RM100,000 to RM100,000,000 by the creation of an additional 199,800,000 Samchem Shares.

Arising from the Acquisitions as mentioned in Section 4.1 below, the issued and paid-up share capital of Samchem was increased from RM2 to RM57,318,500 by way of the issuance of 114,636,996 Samchem Shares.

Pursuant to the Public Issue, the issued and paid-up share capital of Samchem will be increased further to RM65,094,000 comprising 130,188,000 Samchem Shares or RM68,000,000 comprising 136,000,000 Samchem shares under the minimum and maximum subscription respectively.

11. ACCOUNTANTS' REPORT (Cont'd)



3.3 Subsidiaries of Samchem

The details of the subsidiaries of Samchem at the date of this report are as follows:

Company	Date and Place of Incorporation	Issued and Paid-up Share Capital	Effective Equity Interest	Principal Activities
SCSB	13 January 1989 Malaysia	RM12,065,760	100%	Distribution of PU chemicals, intermediate chemicals and specialty chemicals and investment holding
SC Industries	27 October 2000 Malaysia	RM1,000,000	100%	Distribution of specialty chemicals
Eweny Chemicals	3 January 1990 Malaysia	RM500,000	100%	Distribution of intermediate and specialty chemicals
TN Chemie	19 March 2001 Malaysia	RM1,000,000	100%	Distribution of intermediate and specialty chemicals, and blending of customised solvents
TN Industries	20 May 2002 Malaysia	RM500,000	70%	Distribution of intermediate and specialty chemicals, and blending of customised solvents
SC Logistics	27 October 2000 Malaysia	RM250,000	70%	Provision of logistics services
SCsphere	10 November 2006 Malaysia	RM100,000	70%	Export of intermediate and specialty chemicals
SC Enviro	27 April 2007 Malaysia	RM500,000	76%	Dormant, intended to undertake collecting, recycling and supplying reconditioned drums

11. ACCOUNTANTS' REPORT (Cont'd)**3.3 Subsidiaries of Samchem (contd.)**

Company	Date and Place of Incorporation	Issued and Paid-up Share Capital	Effective Equity Interest	Principal Activities
# SCsphere Indochina	13 May 2008 Vietnam	USD 300,000	70%	Dormant, intended to undertake manufacture of petrochemicals solvents

held directly by SCsphere

3.4 Associates of Samchem

The details of the associates of Samchem at the date of this report are as follows:

Company	Date and Place of Incorporation	Issued and Paid-up Share Capital	Equity Interest	Principal Activities
[^] Yong Tai Samchem Sdn. Bhd.	31 March 2004 Malaysia	RM 2,000,000	40%	Investment holding
* PT Multi Square	11 May 2005 Indonesia	Rupiah 3,792 million	30%	Production of paint, varnish and lacquer

[^] held directly by SCSB

* held directly by TN Chemie

11. ACCOUNTANTS' REPORT (Cont'd)



4.0 LISTING SCHEME

The listing scheme comprises the following transactions:

4.1 Acquisitions

Samchem had entered into Shares Sales Agreement on 16 June 2008 and Supplemental Shares Sales Agreement on 22 January 2009 (collectively known as "Shares Sales Agreements") for the following acquisitions:

- (i) 1,000,000 shares in SC Industries representing 100% equity interest in SC Industries;
- (ii) 500,000 shares in Eweny Chemicals representing 100% equity interest in Eweny Chemicals;
- (iii) 1,000,000 shares in TN Chemie representing 100% equity interest in TN Chemie;
- (iv) 350,000 shares in TN Industries representing 70% equity interest in TN Industries;
- (v) 175,000 shares in SC Logistics representing 70% equity interest in SC Logistics;
- (vi) 70,000 shares in SCsphere representing 70% equity interest in SCsphere;
- (vii) 380,000 shares in SC Enviro representing 76% equity interest in SC Enviro; and
- (viii) 12,065,760 shares in SCSB representing 100% equity interest in SCSB (collectively known as Acquiree Companies).

from the respective vendors of the Acquiree Companies for an aggregate purchase consideration of RM69,244,317 to be satisfied:

- (i) by way of issuance of 114,636,996 new ordinary shares of RM0.50 each in Samchem ("Samchem Shares") at an issue price of RM0.50 per share; and
- (ii) the creation of amount owing by Samchem to SCSB amounting to RM11,925,826.

The Acquisitions were completed on 21 February 2009.

4.2 Public Issue

Following the Acquisitions and in conjunction with the listing, Samchem undertakes a public offering of at least 15,551,000 ("minimum subscription") and up to 21,363,000 ("maximum subscription") new Samchem Shares of RM0.50 each at an issue price of RM0.71 per share.

4.3 Offer for Sale

Samchem undertakes an offer for sale of up to 19,500,000 Samchem Shares of RM0.50 each at an offer price of RM0.71 per share.

4.4 Listing

Upon completion of the Public Issue and Offer for Sale, Samchem will seek the listing of and quotation for its entire enlarged issued and paid-up share capital of Samchem Shares on the Main Board of Bursa Malaysia Securities Berhad.

11. ACCOUNTANTS' REPORT (Cont'd)



5.0 AUDITORS AND AUDITED FINANCIAL STATEMENTS

The auditors of Samchem and SCSB for the relevant financial years/periods are as follows:

Company	FPE/FYE	Auditors	Auditors' Report
Samchem	FPE 2007	Ernst & Young	Appendix I
	FYE 2008	Ernst & Young	Appendix II
SCSB	FYE 2006	Lee & Associates	Appendix III
	FYE 2007	Ernst & Young	Appendix IV
	FYE 2008	Ernst & Young	Appendix V

For the purpose of this report, the audited financial statements of Samchem since its date of incorporation on 29 November 2007 and for the financial year ended 31 December 2008 are presented.

The audited consolidated financial statements of SCSB and its subsidiaries ("SCSB Group"), for the four financial years ended 31 December 2008 are presented. The audited consolidated financial statements of SCSB Group are not adjusted to exclude the income statements and balance sheets of subsidiaries which do not form part of Samchem Group as they are not material.

The auditors' reports of all the subsidiaries were not subject to any qualifications or modifications for all the financial periods/years under review.

This report is prepared on a basis consistent with the accounting policies adopted by Samchem and its subsidiaries as disclosed in Section 8.0 of this report and in accordance with applicable Financial Reporting Standards ("FRS") in Malaysia.

11. ACCOUNTANTS' REPORT (Cont'd)



6.0 DIVIDENDS

No dividend has been paid or declared by Samchem since the date of incorporation.

Details of the dividends paid by SCSB for the financial years under review are as follows:

Subsidiaries	FYE	Rate %	Gross dividend RM	Net dividend RM
SCSB	2006	9.18	972,222	700,000
	2007	11.62	1,402,778	1,010,000
	2008	29.84	3,600,759	2,664,562

11. ACCOUNTANTS' REPORT (Cont'd)



7.0 HISTORICAL FINANCIAL INFORMATION

7.1 Samchem

Audited Income Statement of Samchem

	2007 RM	2008 RM
Revenue	-	-
Administrative expenses	(5,601)	(53,555)
Loss before tax	(5,601)	(53,555)
Income tax expense	-	-
Loss for the period/year	(5,601)	(53,555)
Loss before tax is analysed as follows:		
Loss before depreciation and interest expense	(5,601)	(53,555)
Depreciation	-	-
Interest expense	-	-
Loss before tax	(5,601)	(53,555)
Weighted average number of ordinary shares in issue	2	4
Gross loss per share (RM)	(2,801)	(13,389)
Net loss per share (RM)	(2,801)	(13,389)

11. ACCOUNTANTS' REPORT (Cont'd)



7.1 Samchem (contd.)

Audited Balance Sheet of Samchem

	2007 RM	2008 RM
ASSETS		
Current assets		
Cash and bank balances	2	1,467
TOTAL ASSETS	<u>2</u>	<u>1,467</u>
EQUITY AND LIABILITIES		
Equity		
Share capital	2	2
Accumulated losses	(5,601)	(59,156)
Shareholders' deficit	<u>(5,599)</u>	<u>(59,154)</u>
Current liabilities		
Sundry payables, representing total liabilities	5,601	60,621
TOTAL EQUITY AND LIABILITIES	<u>2</u>	<u>1,467</u>

Audited Statement of Changes in Equity of Samchem

	Share capital RM	Accumulated losses RM	Total RM
At 29 November 2007 (date of incorporation)	2	-	2
Loss for the period	-	(5,601)	(5,601)
At 31 December 2008	<u>2</u>	<u>(5,601)</u>	<u>(5,599)</u>
Loss for the year	-	(53,555)	(53,555)
At 31 December 2008	<u>2</u>	<u>(59,156)</u>	<u>(59,154)</u>

Audited Cash Flow Statement of Samchem

	2007 RM	2008 RM
Summarised Cash Flow Statement:		
Net cash generated from operating activities	-	1,465
Net cash generated from financing activities	2	-
Net increase in cash and bank balance	2	1,465
Cash and bank balance at beginning of financial period/year	-	2
Cash and bank balance at end of financial period/year	<u>2</u>	<u>1,467</u>

11. ACCOUNTANTS' REPORT (Cont'd)



7.2 SCSB

Audited Consolidated Income Statements of SCSB Group

We set out below the audited consolidated income statements of SCSB Group.

	Note	2006 RM	2007 RM	2008 RM
Continuing operations				
Revenue	7.3(a)	309,638,351	336,558,261	355,365,233
Cost of sales	7.3(b)	(274,818,037)	(298,735,321)	(316,040,997)
Gross profit		34,820,314	37,822,940	39,324,236
Other income	7.3(c)	1,133,139	3,776,855	2,161,247
Selling and distribution expenses		(7,529,506)	(6,259,609)	(5,791,733)
Administrative expenses		(5,631,741)	(6,843,254)	(7,633,398)
Other expenses		(2,579,692)	(3,514,077)	(4,233,453)
Operating profit		20,212,514	24,982,855	23,826,899
Finance costs	7.3(d)	(4,933,713)	(5,726,546)	(7,482,374)
Share of profit of associates		135,720	510,113	586,314
Profit before tax		15,414,521	19,766,422	16,930,839
Income tax expense	7.3(e)	(4,447,526)	(5,305,114)	(4,644,406)
Profit for the year from continued operations		10,966,995	14,461,308	12,286,433
Discontinued operations				
Loss for the year from discontinued operations		-	(621,577)	-
Profit for the year		10,966,995	13,839,731	12,286,433
Attributable to:				
Equity holders of the Company		10,155,664	12,677,358	10,780,106
Minority interests		811,331	1,162,373	1,506,327
		10,966,995	13,839,731	12,286,433
<i>Profit before tax is analysed as follows:</i>				
Profit before depreciation, amortisation and interest expense		21,452,924	27,219,380	26,082,309
Depreciation		(1,099,603)	(1,718,228)	(1,628,524)
Amortisation		(5,087)	(8,184)	(40,572)
Interest expense		(4,933,713)	(5,726,546)	(7,482,374)
Profit before tax		15,414,521	19,766,422	16,930,839

11. ACCOUNTANTS' REPORT (Cont'd)



7.2 SCSB (contd.)

	2006	2007	2008
Weighted average number of ordinary shares in issue	11,201,400	12,065,760	12,065,760
Gross earnings per share (RM) *	1.38	1.64	1.40
Net earnings per share (RM) *	0.98	1.20	1.02
Gross profit margin (%)	11.25	11.24	11.07
Profit before tax margin (%)	4.98	5.87	4.76
Profit after tax margin (%)	3.54	4.30	3.46
Effective tax rate (%)	28.85	26.84	27.43
Gross dividend rate (%) ^	9.18	11.62	29.84

^ Based on gross dividends relating to a financial year divided by the number of ordinary shares in issue as at end of the financial year.

* The gross earnings per share is computed based on the profit before tax divided by the weighted average number of ordinary shares in issue during the financial years.

The net earnings per share is computed based on the profit after tax divided by the weighted average number of ordinary shares in issue during the financial years.

11. ACCOUNTANTS' REPORT (Cont'd)



7.2 SCSB (contd.)

Audited Consolidated Balance Sheets of SCSB Group

We set out below the audited consolidated balance sheets of SCSB Group.

	Note	2006 RM	2007 RM	2008 RM
ASSETS				
Non-current assets				
Property, plant and equipment	7.3(f)	16,580,415	15,909,313	25,724,653
Prepaid land lease payments	7.3(g)	317,373	1,317,649	3,159,670
Investment properties	7.3(h)	288,802	2,114,194	2,092,268
Investments in associates	7.3(i)	1,266,270	1,453,968	2,516,132
Other investments	7.3(j)	606,250	639,506	669,851
Goodwill	7.3(k)	275,421	275,421	275,421
Cash and bank balances	7.3(l)	111,454	120,628	-
		<u>19,445,985</u>	<u>21,830,679</u>	<u>34,437,995</u>
Current assets				
Inventories	7.3(m)	22,650,162	34,651,219	30,615,766
Trade receivables	7.3(n)	92,985,710	99,384,327	79,200,236
Other receivables	7.3(n)	3,007,072	4,909,624	4,242,879
Marketable securities	7.3(o)	-	50,170	21,921
Tax recoverable		-	-	624,250
Cash and bank balances	7.3(l)	32,228,064	39,492,245	41,521,059
		<u>150,871,008</u>	<u>178,487,585</u>	<u>156,226,111</u>
Non-current asset classified as held for sale	7.3(p)	-	562,578	562,578
		<u>150,871,008</u>	<u>179,050,163</u>	<u>156,788,689</u>
TOTAL ASSETS		<u>170,316,993</u>	<u>200,880,842</u>	<u>191,226,684</u>
EQUITY AND LIABILITIES				
Equity				
Share capital	7.3(q)	12,065,760	12,065,760	12,065,760
Foreign currency translation reserve	7.3(r)	(10,231)	(233,961)	155,630
Retained earnings	7.3(s)	16,722,665	28,390,023	36,505,567
		<u>28,778,194</u>	<u>40,221,822</u>	<u>48,726,957</u>
Minority interests		2,458,843	3,632,927	4,770,678
Total equity		<u>31,237,037</u>	<u>43,854,749</u>	<u>53,497,635</u>

11. ACCOUNTANTS' REPORT (Cont'd)



7.2 SCSB (contd.)

Audited Balance Sheet of SCSB Group (contd.)

	Note	2006 RM	2007 RM	2008 RM
Non-current liabilities				
Deferred tax liabilities	7.3(t)	230,491	204,263	104,349
Borrowings	7.3(u)	7,122,440	7,220,137	11,137,583
		<u>7,352,931</u>	<u>7,424,400</u>	<u>11,241,932</u>
Current liabilities				
Trade payables	7.3(v)	42,731,757	36,008,329	17,182,417
Other payables	7.3(v)	2,953,576	2,741,937	4,680,794
Borrowings	7.3(u)	84,707,374	108,524,983	104,436,604
Current tax payable		1,334,318	2,326,444	187,302
		<u>131,727,025</u>	<u>149,601,693</u>	<u>126,487,117</u>
Total liabilities		<u>139,079,956</u>	<u>157,026,093</u>	<u>137,729,049</u>
TOTAL EQUITY AND LIABILITIES		<u>170,316,993</u>	<u>200,880,842</u>	<u>191,226,684</u>

Key financial ratios:

Inventories turnover period (months)	0.99	1.39	1.16
Trade receivables turnover period (months)	3.60	3.54	2.67
Trade payables turnover period (months)	1.87	1.45	0.65
Current ratio (times)	1.15	1.20	1.24
Debt-equity ratio (times)	2.94	2.64	2.16
Net tangible assets per share (RM)	2.57	3.61	4.41

Notes:

- (i) The audited consolidated balance sheets have been re-presented to conform with the format required by FRS 101 Presentation of Financial Statements.

11. ACCOUNTANTS' REPORT (Cont'd)

7.2 SCSB (contd.)

Audited Consolidated Statement of Changes in Equity of SCSB Group

|----Attributable to Equity Holders of the Company----|

	Share Capital RM	Foreign Currency Translation Reserve RM	Retained Earnings RM	Total RM	Minority Interests RM	Total Equity RM
As at 1 January 2006	10,584,000	-	8,748,761	19,332,761	1,678,532	21,011,293
Bonus issue	1,481,760	-	(1,481,760)	-	-	-
Foreign currency translation	-	(10,231)	-	(10,231)	-	(10,231)
Dividends paid	-	-	(700,000)	(700,000)	-	(700,000)
Dividends paid to minority interests	-	-	-	-	(31,020)	(31,020)
Profit for the year	-	-	10,155,664	10,155,664	811,331	10,966,995
As at 31 December 2006	12,065,760	(10,231)	16,722,665	28,778,194	2,458,843	31,237,037



11. ACCOUNTANTS' REPORT (Cont'd)

7.2 SCSB (contd.)

Audited Consolidated Statement of Changes in Equity of SCSB Group (contd.)

|---Attributable to Equity Holders of the Company---|

	Share Capital RM	Foreign Currency Translation Reserve RM	Retained Earnings RM	Total RM	Minority Interests RM	Total Equity RM
As at 1 January 2007	12,065,760	(10,231)	16,722,665	28,778,194	2,458,843	31,237,037
Profit for the year	-	-	12,677,358	12,677,358	1,162,373	13,839,731
Foreign currency translation	-	(223,730)	-	(223,730)	(98,686)	(322,416)
Dividends paid to minority interests	-	-	-	-	(84,600)	(84,600)
Issuance of shares to minority interests	-	-	-	-	194,997	194,997
Dividends paid	-	-	(1,010,000)	(1,010,000)	-	(1,010,000)
As at 31 December 2007	12,065,760	(233,961)	28,390,023	40,221,822	3,632,927	43,854,749
Profit for the year	-	-	10,780,106	10,780,106	1,506,327	12,286,433
Foreign currency translation	-	389,591	-	389,591	86,259	475,850
Dividends paid to minority interests	-	-	-	-	(454,835)	(454,835)
Dividends	-	-	(2,664,562)	(2,664,562)	-	(2,664,562)
As at 31 December 2008	12,065,760	155,630	36,505,567	48,726,957	4,770,678	53,497,635

11. ACCOUNTANTS' REPORT (Cont'd)



7.2 SCSB (contd.)

Audited Consolidated Cash Flow Statements of SCSB Group

	2006 RM	2007 RM	2008 RM
Summarised Cash Flow Statements			
Net cash generated from/(used in) operating activities	(5,411,977)	(11,979,796)	17,202,315
Net cash used in investing activities	(5,533,557)	(3,552,155)	(12,003,799)
Net cash generated from/(used in) financing activities	17,159,051	20,529,511	(4,768,083)
Net increase in cash and cash equivalents	6,213,517	4,997,560	430,433
Cash and cash equivalents at beginning of financial year	18,552,082	24,765,599	29,763,159
Cash and cash equivalents at end of financial year	24,765,599	29,763,159	30,193,592
Cash and cash equivalents comprise:			
Cash and bank balances	32,239,518	39,612,873	41,521,059
Bank overdraft	(7,473,919)	(9,849,714)	(11,327,467)
	24,765,599	29,763,159	30,193,592

11. ACCOUNTANTS' REPORT (Cont'd)



7.3 NOTES TO THE AUDITED FINANCIAL STATEMENTS

(a) Revenue

Revenue represents income received and receivable from distribution of PU chemicals, intermediate chemicals, specialty chemicals and blending of customised solvents.

(b) Cost of sales

Cost of sales represents cost of inventories sold.

(c) Other income

	2006 RM	2007 RM	2008 RM
Gain on disposal of property, plant and equipment	32,623	79,878	192,207
Foreign exchange gain			
- realised	78,807	1,077,925	138,953
- unrealised	-	71,298	207,417
Rental income	36,000	171,000	216,000
Interest income	616,338	1,042,378	1,140,407
Dividend income from quoted shares	-	-	74
Commission received	130,338	125,925	177,143
Investment income	-	33,256	30,345
Sales commission	-	16,144	6,513
Gain on disposal of subsidiaries	-	1,107,995	-
Gain on disposal of investments	659	-	-
Provision for doubtful debts written back	956	-	-
Bad debts recovered	7,499	-	29,377
Miscellaneous	229,919	51,056	22,811
	<u>1,133,139</u>	<u>3,776,855</u>	<u>2,161,247</u>

(d) Finance costs

Letter of credit	24,645	27,448	29,707
Trust receipts	88,967	65,142	-
Bank guarantee fee	174,645	231,854	194,677
Bank overdrafts	459,410	744,032	864,394
Bankers' acceptances	3,762,343	3,961,590	5,664,538
Term loans	125,386	395,289	559,638
Hire purchase	143,545	142,551	124,815
Other interest charges	154,772	158,640	44,605
	<u>4,933,713</u>	<u>5,726,546</u>	<u>7,482,374</u>

11. ACCOUNTANTS' REPORT (Cont'd)



7.3 NOTES TO THE AUDITED FINANCIAL STATEMENTS (CONTD.)

(e) Income tax expense

	2006 RM	2007 RM	2008 RM
Continuing operations			
Income tax:			
Current year	4,417,625	5,340,083	4,569,453
(Over)/underprovision in prior year	(48,689)	(8,741)	174,867
	<u>4,368,936</u>	<u>5,331,342</u>	<u>4,744,320</u>
Deferred tax:			
Relating to origination and reversal of temporary difference	78,590	(17,852)	(60,423)
Relating to reduction in Malaysian income tax rate	-	(8,639)	(6,456)
Under/(over)provision in prior year	-	263	(33,035)
	<u>78,590</u>	<u>(26,228)</u>	<u>(99,914)</u>
	<u>4,447,526</u>	<u>5,305,114</u>	<u>4,644,406</u>

Income tax is calculated at the statutory tax rate as set out below:

	2006 %	2007 %	2008 %
Statutory tax rate	<u>28</u>	<u>27</u>	<u>26</u>

(f) Property, plant and equipment

At 31 December 2006

	Cost RM	Accumulated Depreciation RM	Net Carrying Amount RM
Freehold land	4,308,935	-	4,308,935
Buildings	2,257,144	(421,118)	1,836,026
Office equipment, furniture and fittings, machinery and motor vehicles	6,987,035	(3,061,653)	3,925,382
Building in progress	6,510,072	-	6,510,072
	<u>20,063,186</u>	<u>(3,482,771)</u>	<u>16,580,415</u>

11. ACCOUNTANTS' REPORT (Cont'd)



7.3 NOTES TO THE AUDITED FINANCIAL STATEMENTS (CONTD.)

(f) Property, plant and equipment (contd.)

At 31 December 2007			
	Cost RM	Accumulated Depreciation RM	Net Carrying Amount RM
Freehold land	3,096,200	-	3,096,200
Buildings	9,147,100	(509,853)	8,637,247
Office equipment, furniture and fittings, machinery and motor vehicles	8,179,173	(4,009,012)	4,170,161
Building in progress	5,705	-	5,705
	<u>20,428,178</u>	<u>(4,518,865)</u>	<u>15,909,313</u>

At 31 December 2008			
	Cost RM	Accumulated Depreciation RM	Net Carrying Amount RM
Freehold land	7,609,669	-	7,609,669
Buildings	9,280,207	(708,570)	8,571,637
Office equipment, furniture and fittings, machinery and motor vehicles	9,195,979	(4,789,482)	4,406,497
Building in progress	5,136,850	-	5,136,850
	<u>31,222,705</u>	<u>(5,498,052)</u>	<u>25,724,653</u>

As at 31 December 2008, the net carrying amounts of property, plant and equipment pledged as securities for borrowings are as follows:

	RM
Freehold land	7,609,669
Building	8,127,678
Building in progress	5,136,850
	<u>20,874,197</u>

11. ACCOUNTANTS' REPORT (Cont'd)



7.3 NOTES TO THE AUDITED FINANCIAL STATEMENTS (CONTD.)

(g) Prepaid land lease payments

	2006 RM	2007 RM	2008 RM
At 1 January	-	317,373	1,317,649
Effect of adopting FRS 117	322,460	-	-
Additions	-	1,138,475	1,882,593
Amortisation	(5,087)	(8,184)	(40,572)
Impairment loss recognised in profit or loss	-	(130,015)	-
At 31 December	<u>317,373</u>	<u>1,317,649</u>	<u>3,159,670</u>

(h) Investment properties

Cost

At 1 January	-	339,024	2,277,423
Transfer from property, plant and equipment	339,024	1,938,399	-
At 31 December	<u>339,024</u>	<u>2,277,423</u>	<u>2,277,423</u>

Accumulated depreciation

At 1 January	-	50,222	163,229
Transfer from property, plant and equipment	43,442	91,051	-
Depreciation	6,780	21,956	21,926
At 31 December	<u>50,222</u>	<u>163,229</u>	<u>185,155</u>

Net carrying amount

<u>288,802</u>	<u>2,114,194</u>	<u>2,092,268</u>
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(i) Investments in associates

Unquoted shares, at cost	1,253,346	1,253,346	1,253,346
Foreign currency translation differences	(10,231)	(322,784)	153,066
Share of post-acquisition reserves	23,155	523,406	1,109,720
	<u>1,266,270</u>	<u>1,453,968</u>	<u>2,516,132</u>

11. ACCOUNTANTS' REPORT (Cont'd)



7.3 NOTES TO THE AUDITED FINANCIAL STATEMENTS (CONTD.)

(j) Other investments

	2006 RM	2007 RM	2008 RM
Shares quoted in Malaysia, at cost	6,250	6,250	6,250
Investment-linked policy	600,000	633,256	663,601
	<u>606,250</u>	<u>639,506</u>	<u>669,851</u>
Market value of quoted shares	<u>3,200</u>	<u>4,475</u>	<u>3,100</u>

(k) Goodwill

At 1 January/31 December	<u>275,421</u>	<u>275,421</u>	<u>275,421</u>
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(l) Cash and cash equivalents

Non-current

Fixed deposits with licensed banks	<u>111,454</u>	<u>120,628</u>	<u>-</u>
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Current

Fixed deposits with licensed banks	24,953,047	33,445,287	34,219,091
Cash on hand and at banks	7,275,017	6,046,958	7,301,968
	<u>32,228,064</u>	<u>39,492,245</u>	<u>41,521,059</u>
Cash and bank balances	<u>32,339,518</u>	<u>39,612,873</u>	<u>41,521,059</u>

(m) Inventories

Trading goods	22,035,863	34,531,036	30,615,766
Goods-in-transit	614,299	120,183	-
	<u>22,650,162</u>	<u>34,651,219</u>	<u>30,615,766</u>

11. ACCOUNTANTS' REPORT (Cont'd)



7.3 NOTES TO THE AUDITED FINANCIAL STATEMENTS (CONTD.)

(n) Trade and other receivables

	2006 RM	2007 RM	2008 RM
Trade receivables			
Third parties	92,985,710	98,865,781	80,954,383
Director related companies	-	773,827	27,223
	<u>92,985,710</u>	<u>99,639,608</u>	<u>80,981,606</u>
Less: Provision for doubtful debts	-	(255,281)	(1,781,370)
Trade receivables, net	<u>92,985,710</u>	<u>99,384,327</u>	<u>79,200,236</u>
Other receivables			
Deposits	268,753	732,664	654,334
Prepayments	2,115,865	3,525,368	2,001,559
Sundry receivables	622,454	651,592	1,366,689
Director related companies	-	-	220,297
	<u>3,007,072</u>	<u>4,909,624</u>	<u>4,242,879</u>
	<u>95,992,782</u>	<u>104,293,951</u>	<u>83,443,115</u>

The credit terms granted to the customers range from 30 days to 120 days. The amount due from director related companies is unsecured, interest-free and repayable on demand.

(o) Marketable securities

	2006 RM	2007 RM	2008 RM
Shares quoted in Malaysia, at cost	-	50,170	50,170
Less: Provision for diminution in value	-	-	(28,249)
	<u>-</u>	<u>50,170</u>	<u>21,921</u>
Market value of quoted shares	<u>-</u>	<u>51,000</u>	<u>21,921</u>

(p) Non-current asset classified as held for sale

On 29 December 2006, a subsidiary, Eweny Chemicals Sdn. Bhd. ("Eweny") acquired 100% equity interest in Heng Li Trading Co. Sdn. Bhd., a company incorporated in Malaysia for a cash consideration of RM800,000. Eweny is in the process of disposing this subsidiary. The disposal of the subsidiary has been completed on 16 January 2009.

The carrying amount of the investment in this subsidiary has been presented as a non-current asset held for sale as at 31 December 2007 and 31 December 2008.

11. ACCOUNTANTS' REPORT (Cont'd)



7.3 NOTES TO THE AUDITED FINANCIAL STATEMENTS (CONTD.)

(q) Share capital

At 31 December 2008	Number of ordinary shares of RM1 Each	Amount RM
Authorised share capital	25,000,000	25,000,000
Issued and fully paid	12,065,760	12,065,760

(r) Foreign currency translation reserve

Foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statement of an associate whose functional currency is different from that of the Group's presentation currency.

(s) Retained earnings

Prior to the year of assessment 2008, Malaysian companies adopted the full imputation system. In accordance with the Finance Act 2007 which was gazetted on 28 December 2007, companies shall not be entitled to deduct tax on dividend paid, credited or distributed to its shareholders, and such dividends will be exempted from tax in the hands of the shareholders ("single tier system"). However, there is a transitional period of six years, expiring on 31 December 2013, to allow companies to pay franked dividends to their shareholders under limited circumstances. Companies also have an irrevocable option to disregard the 108 balance and opt to pay dividends under the single tier system. The change in the tax legislation also provides for the 108 balance to be locked-in as at 31 December 2007 in accordance with Section 39 of the Finance Act 2007.

SCSB did not elect for the irrevocable option to disregard the 108 balance. Accordingly, during the transitional period, SCSB may utilise the credit in the 108 balance as at 31 December 2008 and 2007 to distribute cash dividend payments to ordinary shareholdings as defined under the Finance Act 2007. As at 31 December 2008 and 2007, SCSB has sufficient credit in the 108 balance to pay franked dividends out of its entire retained earnings.

11. ACCOUNTANTS' REPORT (Cont'd)



7.3 NOTES TO THE AUDITED FINANCIAL STATEMENTS (CONTD.)

(t) Deferred tax liabilities

	2006 RM	2007 RM	2008 RM
At 1 January	151,901	230,491	204,263
Recognised in income statement	78,590	(26,228)	(99,914)
At 31 December	<u>230,491</u>	<u>204,263</u>	<u>104,349</u>

(u) Borrowings

Short term borrowings

Secured:

Bank overdrafts	7,328,492	9,849,714	11,327,467
Bankers acceptance	73,669,240	97,297,000	91,325,000
Bills payables	1,069,380	-	-
Trust receipts	1,306,357	-	-
Term loans	492,247	548,577	963,239
Hire purchase payables	696,231	829,692	820,898
	<u>84,561,947</u>	<u>108,524,983</u>	<u>104,436,604</u>

Unsecured:

Bank overdraft	145,427	-	-
	<u>84,707,374</u>	<u>108,524,983</u>	<u>104,436,604</u>

Long term borrowings

Secured:

Term loans	5,725,849	6,007,329	9,666,500
Hire purchase payables	1,396,591	1,212,808	1,471,083
	<u>7,122,440</u>	<u>7,220,137</u>	<u>11,137,583</u>

Total borrowings

Bank overdrafts	7,473,919	9,849,714	11,327,467
Bankers acceptance	73,669,240	97,297,000	91,325,000
Bills payables	1,069,380	-	-
Trust receipts	1,306,357	-	-
Term loans	6,218,096	6,555,906	10,629,739
Hire purchase payables	2,092,822	2,042,500	2,291,981
	<u>91,829,814</u>	<u>115,745,120</u>	<u>115,574,187</u>

11. ACCOUNTANTS' REPORT (Cont'd)



7.3 NOTES TO THE AUDITED FINANCIAL STATEMENTS (CONTD.)

(u) Borrowings (contd.)

The repayment periods of the term loans as at 31 December 2008 are as follows:

	RM
Not later than 1 year	963,239
Later than 1 year and not later than 2 years	999,972
Later than 2 years and not later than 5 years	3,131,888
Later than 5 years	5,534,640
	<u>10,629,739</u>

The bank overdrafts, bankers acceptances, bills payable, trust receipts and term loans of the Group are secured by the following:

- (i) First party Letter of Set-Off over the fixed deposits of the Group;
- (ii) First party first fixed legal charge over the investment properties of the Group;
- (iii) First party first fixed legal charge over the freehold land and buildings of the Group;
- (iv) First party first fixed legal charge over the leasehold land of the Group;
- (v) Investment-linked policy of the Group held in trust by a director, Mr Ng Thin Poh;
- (vi) Third party legal charges over a freehold land and building;
- (vii) Third party time deposit;
- (viii) Guarantee extended by Credit Guarantee Corporation Malaysia Bhd;
- (ix) Corporate Guarantee by SCSB; and
- (x) Joint and several guarantee by the directors.

11. ACCOUNTANTS' REPORT (Cont'd)



7.3 NOTES TO THE AUDITED FINANCIAL STATEMENTS (CONTD.)

(v) Trade and other payables

	2006 RM	2007 RM	2008 RM
Trade payables			
Third parties	42,731,757	35,903,096	17,181,476
Director related companies	-	105,233	941
	<u>42,731,757</u>	<u>36,008,329</u>	<u>17,182,417</u>
Other payables			
Accruals	1,073,495	717,108	568,960
Sundry payables	1,757,710	2,024,829	852,604
Dividend payables	-	-	2,697,231
Due to a director	122,371	-	-
Director related companies	-	-	561,999
	<u>2,953,576</u>	<u>2,741,937</u>	<u>4,680,794</u>
	<u>45,685,333</u>	<u>38,750,266</u>	<u>21,863,211</u>

The amount due to director related companies is unsecured, non-interest bearing and repayable on demand.

(w) Capital commitments

	2006 RM	2007 RM	2008 RM
Capital expenditure			
Approved and contracted for:			
Property, plant and equipment	1,170,948	-	855,335
Approved but not contracted for:			
Property, plant and equipment	-	8,353,469	17,603,000

11. ACCOUNTANTS' REPORT (Cont'd)

**8.0 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****(a) Basis of Preparation**

The financial statements have been prepared on a historical basis and comply with the provisions of the Companies Act, 1965 and applicable Financial Reporting Standards in Malaysia.

(b) Subsidiaries and Basis of Consolidation**(i) Subsidiaries**

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

In the Company's separate financial statements, investments in subsidiaries are stated at cost less impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

(ii) Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the balance sheet date. The financial statements of the subsidiaries are prepared for the same reporting date as the Company.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. In preparing the consolidated financial statements, intragroup balances, transactions and unrealised gains or losses are eliminated in full. Uniform accounting policies are adopted in the consolidated financial statements for like transactions and events in similar circumstances.

Acquisitions of subsidiaries are accounted for using the purchase method. The purchase method of accounting involves allocating the cost of the acquisition to the fair value of the assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The cost of an acquisition is measured as the aggregate of the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued, plus any costs directly attributable to the acquisition.

11. ACCOUNTANTS' REPORT (Cont'd)

**8.0 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)****(b) Subsidiaries and Basis of Consolidation (Contd.)****(ii) Basis of Consolidation (Contd.)**

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

Minority interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group. It is measured at the minorities' share of the fair value of the subsidiaries' identifiable assets and liabilities at the acquisition date and the minorities' share of changes in the subsidiaries' equity since then.

(c) Associates

Associates are entities in which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not in control or joint control over those policies.

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting. Under the equity method, the investment in associate is carried in the consolidated balance sheet at cost adjusted for post-acquisition changes in the Group's share of net assets of the associate. The Group's share of the net profit or loss of the associate is recognised in the consolidated profit or loss. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of such changes.

In applying the equity method, unrealised gains and losses on transactions between the Group and the associate are eliminated to the extent of the Group's interest in the associate. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate. The associate is equity accounted for from the date the Group obtains significant influence until the date the Group ceases to have significant influence over the associate.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any long-term interests that, in substance, form part of the Group's net investment in the associates, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

11. ACCOUNTANTS' REPORT (Cont'd)



8.0 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(c) Associates (Contd.)

The most recent available audited financial statements of the associates are used by the Group in applying the equity method. Where the dates of the audited financial statements used are not coterminous with those of the Group, the share of results is arrived at from the last audited financial statements available and management financial statements to the end of the accounting period. Uniform accounting policies are adopted for like transactions and events in similar circumstances.

In the Company's separate financial statements, investments in associates are stated at cost less impairment losses.

On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

(d) Intangible Asset

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following the initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but instead, it is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

11. ACCOUNTANTS' REPORT (Cont'd)



8.0 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(e) Property, Plant and Equipment and Depreciation

All items of property, plant and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

Freehold land has an unlimited useful life and therefore is not depreciated. Buildings-in-progress are also not depreciated as these assets are not available for use. Depreciation of other property, plant and equipment is provided for on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life, at the following annual rates:

Buildings	2% - 5%
Office equipment, furniture and fittings, machinery and motor vehicles	5% - 20%

The residual values, useful life and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any and the net carrying amount is recognised in profit or loss.

11. ACCOUNTANTS' REPORT (Cont'd)

**8.0 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)****(f) Investment Properties**

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

Depreciation of the investment properties is provided for at 2% per annum on a straight line basis to write off the cost of each asset to its residual value over the estimated useful life.

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

(g) Impairment of Non-financial Assets

The carrying amounts of the Group's assets, other than investment properties, inventories and non-current assets held for sale, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss.

For goodwill, the recoverable amount is estimated at each balance sheet date or more frequently when indicators of impairment are identified.

For the purpose of impairment testing of these assets, recoverable amount is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs to. Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGUs, or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

11. ACCOUNTANTS' REPORT (Cont'd)**8.0 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)****(g) Impairment of Non-financial Assets (Contd.)**

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

An impairment loss is recognised in profit or loss in the period in which it arises.

Impairment loss on goodwill is not reversed in a subsequent period. An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset other than goodwill is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset other than goodwill is recognised in profit or loss.

(h) Inventories

Inventories are stated at lower of cost and net realisable value.

Cost is determined using the weighted average cost method. The cost of finished goods comprises costs of purchase.

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

11. ACCOUNTANTS' REPORT (Cont'd)

**8.0 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)****(i) Financial Instruments**

Financial instruments are recognised in the balance sheet when the Group has become a party to the contractual provisions of the instrument.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends and gains and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are recognised directly in equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

(i) Cash and Cash Equivalents

For the purposes of the cash flow statements, cash and cash equivalents comprise cash on hand and at bank and fixed deposits pledged to financial institutions, net of outstanding bank overdrafts.

(ii) Other Non-current Investments

Non-current investments other than investments in subsidiaries, associates and investment properties are stated at cost less impairment losses. On disposal of an investment, the difference between net disposal proceeds and its carrying amount is recognised in profit or loss.

(iii) Marketable Securities

Marketable securities are carried at the lower of cost and market value, determined on an aggregate basis. Cost is determined on the weighted average basis while market value is determined based on quoted market values. Increases or decreases in the carrying amount of marketable securities are credited or charged to the income statement. On disposal of marketable securities, the difference between net disposal proceeds and the carrying amount is charged or credited to the income statement.

(iv) Receivables

Receivables are carried at anticipated realisable values. Bad debts are written off when identified. An estimate is made for doubtful debts based on a review of all outstanding amounts as at the balance sheet date.

11. ACCOUNTANTS' REPORT (Cont'd)**8.0 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)****(i) Financial Instruments (Contd.)****(v) Payables**

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

(vi) Equity Instruments

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

(vii) Interest Bearing Loans and Borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

(j) Leases**(i) Classification**

A lease is recognised as a finance lease if it transfers substantially to the Group all the risks and rewards incidental to ownership. Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets and the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. All leases that do not transfer substantially all the risks and rewards are classified as operating leases.

(ii) Hire Purchase - the Group as Lessee

Assets acquired by way of hire purchase are stated at an amount equal to the lower of their fair values and the present value of the minimum hire purchase payments at the inception of the hire purchase, less accumulated depreciation and impairment losses. The corresponding liability is included in the balance sheet as borrowings. In calculating the present value of the minimum hire purchase payments, the discount factor used is the interest rate implicit in the hire purchase, when it is practicable to determine; otherwise, the Group's incremental borrowing rate is used. Any initial direct costs are also added to the carrying amount of such assets.

11. ACCOUNTANTS' REPORT (Cont'd)

**8.0 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)****(j) Leases (Contd.)****(ii) Hire Purchase - the Group as Lessee (Contd.)**

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

The depreciation policy for hire purchase assets is in accordance with that for depreciable property, plant and equipment as described in Paragraph 8.0 (e).

(iii) Operating Leases - the Group as Lessee

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

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

(iv) Operating Leases - the Group as Lessor

Assets leased out under operating leases are presented on the balance sheets according to the nature of the assets. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

11. ACCOUNTANTS' REPORT (Cont'd)**8.0 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)****(k) Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

(l) Income Tax

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred tax is provided for, using the liability method. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised as income or an expense and included in the profit or loss for the period, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also recognised directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or the amount of any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the combination.

11. ACCOUNTANTS' REPORT (Cont'd)

**8.0 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)****(m) Provisions**

Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, provision are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost.

(n) Employee Benefits**(i) Short term benefits**

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences. Short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities or funds and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years. Such contributions are recognised as an expense in the profit or loss as incurred. As required by law, companies in Malaysia make such contributions to the Employees Provident Fund ("EPF").

11. ACCOUNTANTS' REPORT (Cont'd)**8.0 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)****(o) Foreign Currencies****(i) Functional and Presentation Currency**

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

(ii) Foreign Currency Transactions

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded in the functional currencies using the exchange rates prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in profit or loss for the period except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operation. These are initially taken directly to the foreign currency translation reserve within equity until the disposal of the foreign operations, at which time they are recognised in profit or loss. Exchange differences arising on monetary items that form part of the Group's net investment in foreign operation are recognised in profit or loss in the Group's separate financial statements or the individual financial statements of the foreign operation, as appropriate.

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

11. ACCOUNTANTS' REPORT (Cont'd)**8.0 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)****(p) Revenue Recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Sale of goods

Revenue is recognised net of sales taxes and upon transfer of significant risks and rewards of ownership to the buyer. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

(ii) Dividend income

Dividend income is recognised when the Group's right to receive payment is established.

(iii) Interest income

Interest income is recognised on an accrual basis using the effective interest method.

(iv) Rental income

Rental income from investment properties is recognised on a straight-line basis over the term of the lease.

(v) Management fees

Management fees are recognised when services are rendered.

(q) Non-current Assets Held for Sale and Discontinued Operation

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

Immediately before classification as held for sale, the measurement of the non-current assets is brought up-to-date in accordance with applicable FRSs. Then, on initial classification as held for sale, non-current assets are measured in accordance with FRS 5 that is at the lower of carrying amount and fair value less costs to sell. Any differences are included in profit or loss.

11. ACCOUNTANTS' REPORT (Cont'd)



8.0 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(q) Non-current Assets Held for Sale and Discontinued Operation (contd.)

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

9.0 AUDITED FINANCIAL STATEMENTS

No audited financial statements have been prepared in respect of any period subsequent to 31 December 2008 for Samchem Group.

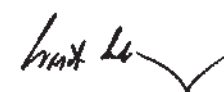
10.0 CAPITAL COMMITMENTS

As at 31 December 2008, Samchem Group has an approved commitment and contracted for capital expenditure amounting to RM855,335.


11.0 SIGNIFICANT POST BALANCE SHEET EVENT

There were no material events which have arisen subsequent to the balance sheet date, which requires disclosure in this Report.

Yours faithfully


Ernst & Young
AF: 0039
Chartered Accountants

Kuala Lumpur, Malaysia


Abraham Verghese a/l T.V. Abraham
No. 1664/10/10(J)
Chartered Accountant

11. ACCOUNTANTS' REPORT (Cont'd)



Appendix I

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Level 23A, Menara Milenium
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**REPORT OF THE AUDITORS TO THE MEMBERS OF
SAMCHEM HOLDINGS BERHAD
(Incorporated in Malaysia)**

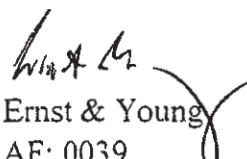
We have audited the financial statements set out on pages 6 to 14. These financial statements are the responsibility of the Company's directors.

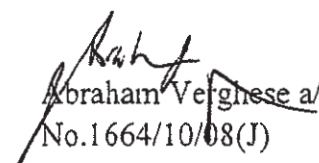
It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with applicable Approved Standards on Auditing in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements have been properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable Financial Reporting Standards in Malaysia so as to give a true and fair view of:
 - (i) the financial position of the Company as at 31 December 2007 and of the results and the cash flows of the Company for the period then ended; and
 - (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
- (b) the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.


Ernst & Young
AF: 0039
Chartered Accountants


Abraham Vefghese a/l T.V. Abraham
No.1664/10/08(J)
Partner

Kuala Lumpur, Malaysia
2 April 2008

11. ACCOUNTANTS' REPORT (Cont'd)



Appendix II

Ernst & Young
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**Independent auditors' report to the members of
Samchem Holdings Berhad
(Incorporated in Malaysia)**

Report on the financial statements

We have audited the financial statements of Samchem Holdings Berhad, which comprise the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 7 to 16.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with Financial Reporting Standards and the Companies Act 1965 in Malaysia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the 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.

11. ACCOUNTANTS' REPORT (Cont'd)



Independent auditors' report to the members of
Samchem Holdings Berhad (cont'd.)
(Incorporated in Malaysia)

Report on the financial statements (cont'd.)

Opinion

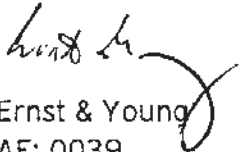
In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards and the Companies Act 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as at 31 December 2008 and of its financial performance and cash flows for the year then ended.

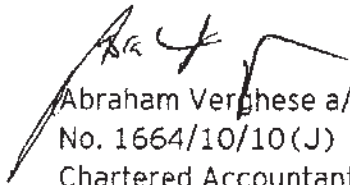
Report on other legal and regulatory requirements

In accordance with the requirements of the Companies Act 1965 in Malaysia, we also report that in our opinion, the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other matters

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


Ernst & Young
AF: 0039
Chartered Accountants


Abraham Verghese a/l T.V. Abraham
No. 1664/10/10(J)
Chartered Accountant

Kuala Lumpur, Malaysia

- 3 APR 2009