

**10. ACCOUNTANTS' REPORT****C. GENERAL INFORMATION (CONTINUED)**

(a) Acquisitions of Companies Not Owned by Old Town International which will involve the following:

| Companies   | %<br>acquired | Number of<br>shares at<br>RM1.00<br>each | Purchase<br>consideration<br>RM | Satisfied by way of:   |                   |
|---|---------------|--|---------------------------------|------------------------|-------------------|
|   |               |  |                                 | Shares<br>issued<br>RM | Cash<br>RM        |
| Emperor's Kitchen                                     | 100.0         | 200,002                                  | 16,353,000                      | 8,176,000              | 8,177,000         |
| Esquire Chef  | 100.0         | 1,000                                    | 10,759,000                      | 5,380,000              | 5,379,000         |
| Old Town Kopitiam<br>Butterworth Group <sup>(i)</sup> | 100.0         | 100,000                                  | 14,964,477                      | 5,985,000              | 8,979,477         |
| Old Town Kopitiam<br>Kuala Lumpur                     | 100.0         | 100,000                                  | 2,135,810                       | 1,495,000              | 640,810           |
| Dynasty Confectionery                                 | 100.0         | 200,000                                  | 4,179,000                       | 2,507,000              | 1,672,000         |
| Old Town Kopitiam Cheras                              | 100.0         | 160,000                                  | 11,911,000                      | 11,911,000             | -                 |
| Conneczone  | 80.0          | 40,000                                   | 3,900,000                       | 3,900,000              | -                 |
| Total   |               |  | <u>64,202,287</u>               | <u>39,354,000</u>      | <u>24,848,287</u> |

<sup>(i)</sup> Includes a wholly owned subsidiary company, Dynasty Kitchen.

Upon completion of the Acquisitions of Companies Not Owned by Old Town International, Emperor's Kitchen, Esquire Chef, Old Town Kopitiam Butterworth, Old Town Kopitiam Kuala Lumpur, Dynasty Confectionery and Old Town Kopitiam Cheras will become wholly owned subsidiary companies of Oldtown, and Dynasty Kitchen will become an indirect wholly owned subsidiary company of Oldtown. Oldtown will also hold 80% equity interest in Conneczone.

Apart from the issuance of 39,354,000 Shares for part settlement of the purchase considerations up to RM39,354,000, the remaining RM24,848,287 of the purchase considerations are to be satisfied in full by cash.

The completion of the Acquisitions of Companies Not Owned by Old Town International will result in an increase in the issued and paid up share capital of Oldtown from 2 to 39,354,002 Shares.

**10. ACCOUNTANTS' REPORT****C. GENERAL INFORMATION (CONTINUED)**

(b) Acquisitions of Companies Owned by Old Town International which will involve the following:

| Companies                                     | %<br>acquired | Number of<br>shares at<br>RM1.00<br>each | Purchase<br>consideration<br>RM | Satisfied by way of:<br>Shares<br>issued<br>RM | Cash<br>RM |
|---|---------------|--|---------------------------------|--|------------|
| White Cafe                                    | 100.0         | 1,000,000                                | 62,263,998                      | 62,263,998                                     | -          |
| Gongga Food                                   | 100.0         | 100,000                                  | 69,825,000                      | 69,825,000                                     | -          |
| White Cafe Marketing                          | 100.0         | 1,700,000                                | 21,156,000                      | 21,156,000                                     | -          |
| Kopitiam Asia Pacific<br>Group <sup>(2)</sup> | 100.0         | 1,250,000                                | 66,230,000                      | 66,230,000                                     | -          |
| Oldtown Singapore <sup>(3)</sup>              | 100.0         | SGD100,000                               | 6,676,000                       | 6,676,000                                      | -          |
| OTK Eatery                                    | 40.0          | 40,000                                   | 1,101,000                       | 1,101,000                                      | -          |
| <b>Total</b>                                  |               |  | <b>227,251,998</b>              | <b>227,251,998</b>                             | <b>-</b>   |

<sup>(2)</sup> Includes a wholly owned subsidiary company, Old Town Kopitiam.

<sup>(3)</sup> Includes a 50% owned associated company, OTK Singapore.

Upon completion of the Acquisitions of Companies Owned by Old Town International, White Cafe, Gongga Food, White Cafe Marketing, Kopitiam Asia Pacific and Oldtown Singapore will become wholly owned subsidiary companies of Oldtown, while Old Town Kopitiam will become an indirect wholly owned subsidiary company of Oldtown. Oldtown will also hold 50% of equity interest in OTK Singapore via Oldtown Singapore and 40% of direct equity interest in OTK Eatery.

The completion of the Acquisitions of Companies Owned by Old Town International will result in an increase in the issued and paid up share capital of Oldtown from 39,354,002 to 266,606,000 Shares.

(c) IPO involve:

- (i) a **Public Issue** of 63,394,000 new Shares at the IPO price; and
- (ii) an **Offer for Sale** of 33,000,000 Shares, representing 10.0% of the enlarged issued and paid-up share capital of Oldtown at the Offer Price, payable in full upon application, via private placement to identified investors.

The completion of the IPO will result in an enlarged issued and paid up share capital of Oldtown of RM330,000,000 comprising 330,000,000 Shares.

(d) **Listing of and Quotation for Shares** for its entire enlarged issued and paid-up share capital of RM330,000,000 comprising 330,000,000 Shares on the Main Market of Bursa Securities.

## 10. ACCOUNTANTS' REPORT

### C. GENERAL INFORMATION (CONTINUED)

#### 3. Share Capital

The authorised share capital of Oldtown as at the date of incorporation was RM100,000 comprising 100,000 ordinary shares of RM1.00 each. On December 28, 2009, the authorised share capital of Oldtown was increased to RM500,000,000 comprising 500,000,000 ordinary shares of RM1.00 each.

The details of changes in the issued and fully paid-up share capital of Oldtown since its incorporation are as follows:

| Date of allotment | Type of Issue       | No. of ordinary shares issued or to be issued | Par value RM | Cumulative Issued and Paid-up Share Capital RM |
|-------------------|---------------------|---|--------------|--|
| 30.11.2007        | Subscribers' shares | 2   | 1.00         | 2  |
| 16.05.2011        | Other than cash     | 266,605,998                                   | 1.00         | 266,606,000                                    |
| Upon listing      | Public issue        | 63,394,000                                    | 1.00         | 330,000,000                                    |

Upon completion of the Listing Scheme, the issued and paid-up share capital of Oldtown will be enlarged to RM330,000,000 comprising 330,000,000 ordinary shares of RM1.00 each.

#### 4. Subsidiary Companies

Oldtown has two (2) existing subsidiary companies, Oldtown Logistics and Old Town (M). Oldtown Logistics was incorporated by Oldtown on March 4, 2010 while Old Town (M) was acquired on July 7, 2010. Details of the subsidiary companies under the Oldtown Group upon listing are as follows:

| Company                        | Date/ Place of Incorporation | Effective Equity Interest (%) | Issued and paid up share capital RM | Principal Activities   |
|--------------------------------|------------------------------|-------------------------------|-------------------------------------|--|
| <b>Direct</b>                  |                              |                               |                                     |  |
| White Cafe                     | 11.02.1999/<br>Malaysia      | 100.0                         | 1,000,000                           | Manufacturing of beverages   |
| White Cafe Marketing           | 24.01.1996/<br>Malaysia      | 100.0                         | 1,700,000                           | Marketing of beverages   |
| Gongga Food                    | 13.10.2003/<br>Malaysia      | 100.0                         | 300,000                             | Manufacture of roasted coffee powder and procurement of food items |
| Kopitiam Asia Pacific          | 10.04.1990/<br>Malaysia      | 100.0                         | 1,250,000                           | Franchisor of cafe outlets and provision of management services    |
| Old Town Kopitiam Cheras       | 03.10.2006/<br>Malaysia      | 100.0                         | 160,000                             | Operator of cafe outlets   |
| Old Town Kopitiam Kuala Lumpur | 09.08.2005/<br>Malaysia      | 100.0                         | 100,000                             | Operator of cafe outlets   |
| Old Town Kopitiam Butterworth  | 14.06.2005/<br>Malaysia      | 100.0                         | 100,000                             | Operator of cafe outlets   |

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**10. ACCOUNTANTS' REPORT****C. GENERAL INFORMATION (CONTINUED)**

| <b>Company</b>   | <b>Date/ Place of Incorporation</b> | <b>Effective Equity Interest (%)</b> | <b>Issued and paid up share capital RM</b> | <b>Principal Activities</b>   |
|--|-------------------------------------|--------------------------------------|--|---|
| <b>Direct</b>  |                                     |                                      |  |   |
| Dynasty Confectionery                                      | 04.07.2007/<br>Malaysia             | 100.0                                | 200,000                                    | Central bakery and confectionery processing centre  |
| Emperor's Kitchen  | 21.06.2005/<br>Malaysia             | 100.0                                | 200,002                                    | Central food processing centre  |
| Esquire Chef   | 05.12.2006/<br>Malaysia             | 100.0                                | 1,000                                      | Central food processing centre  |
| Conneczone   | 16.11.2005/<br>Malaysia             | 80.0                                 | 50,000                                     | Operator of cafe outlets  |
| Oldtown Singapore  | 29.06.2007/<br>Singapore            | 100.0                                | SGD100,000                                 | Supply of food and beverages, provision of management services, licensor and operation of food and beverage outlets |
| Oldtown Logistics  | 04.03.2010/<br>Malaysia             | 100.0                                | 2  | Dormant   |
| Old Town (M)   | 08.08.2007/<br>Malaysia             | 100.0                                | 2  | Investment holding  |
| <b>Indirect held through Kopitiam Asia Pacific</b>         |                                     |                                      |  |   |
| Old Town Kopitiam  | 29.11.2005/<br>Malaysia             | 100.0                                | 200,000                                    | Operator of cafe outlets  |
| <b>Indirect held through Old Town Kopitiam Butterworth</b> |                                     |                                      |  |   |
| Dynasty Kitchen  | 21.12.2006/<br>Malaysia             | 100.0                                | 10   | Distribution centre   |

**10. ACCOUNTANTS' REPORT****C. GENERAL INFORMATION (CONTINUED)****5. Associated Companies**

Oldtown has one (1) existing associated company, PT Oldtown Indonesia, which was incorporated on August 13, 2010. Details of the associated companies under the Oldtown Group upon listing are as follows:

| Company  | Date/ Place of Incorporation | Effective Equity Interest (%) | Issued and paid up share capital RM | Principal Activities                   |
|--|------------------------------|-------------------------------|-------------------------------------|--|
| <b>Direct</b>                                  |                              |                               |                                     |  |
| OTK Eatery                                     | 20.08.2007/<br>Malaysia      | 40.0                          | 100,000                             | Operator of cafe outlets               |
| <b>Indirect held through Oldtown Singapore</b> |                              |                               |                                     |  |
| OTK Singapore                                  | 19.10.2007/<br>Singapore     | 50.0                          | SGD100,000                          | Operator of cafe outlets               |
| <b>Indirect held through Old Town (M)</b>      |                              |                               |                                     |  |
| PT Oldtown Indonesia                           | 13.08.2010/<br>Indonesia     | 35.0                          | Rp 6,923,374,800                    | Licensors and operator of cafe outlets |

**D. AUDITORS' REPORTS**

The external auditors who have audited the financial statements of Oldtown and its subsidiary companies for the respective financial years/periods are as follows:

| Companies             | FYE/ FPE   | External Auditors   |
|-----------------------|--|---------------------|
| Oldtown               | November 30, 2007 (date of incorporation) to December 31, 2008 | Deloitte KassimChan |
|                       | January 1, 2009 to December 31, 2009                           | Deloitte KassimChan |
|                       | January 1, 2010 to December 31, 2010                           | Deloitte KassimChan |
| White Cafe            | January 1, 2007 to December 31, 2007                           | KPMG                |
|                       | January 1, 2008 to December 31, 2008                           | Deloitte KassimChan |
|                       | January 1, 2009 to December 31, 2009                           | Deloitte KassimChan |
|                       | January 1, 2010 to December 31, 2010                           | Deloitte KassimChan |
| White Cafe Marketing  | January 1, 2007 to December 31, 2007                           | KPMG                |
|                       | January 1, 2008 to December 31, 2008                           | Deloitte KassimChan |
|                       | January 1, 2009 to December 31, 2009                           | Deloitte KassimChan |
|                       | January 1, 2010 to December 31, 2010                           | Deloitte KassimChan |
| Gongga Food           | January 1, 2007 to December 31, 2007                           | KPMG                |
|                       | January 1, 2008 to December 31, 2008                           | Deloitte KassimChan |
|                       | January 1, 2009 to December 31, 2009                           | Deloitte KassimChan |
|                       | January 1, 2010 to December 31, 2010                           | Deloitte KassimChan |
| Kopitiam Asia Pacific | January 1, 2007 to December 31, 2007                           | KPMG                |
|                       | January 1, 2008 to December 31, 2008                           | Deloitte KassimChan |
|                       | January 1, 2009 to December 31, 2009                           | Deloitte KassimChan |
|                       | January 1, 2010 to December 31, 2010                           | Deloitte KassimChan |

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**10. ACCOUNTANTS' REPORT****D. AUDITORS' REPORTS (CONTINUED)**

| <b>Companies</b>                  | <b>FYE/ FPE</b>   | <b>External Auditors</b>  |
|-----------------------------------|---|---|
| Old Town Kopitiam                 | January 1, 2007 to December 31, 2007<br>January 1, 2008 to December 31, 2008<br>January 1, 2009 to December 31, 2009<br>January 1, 2010 to December 31, 2010                              | KPMG<br>Deloitte KassimChan<br>Deloitte KassimChan<br>Deloitte KassimChan     |
| Old Town Kopitiam<br>Cheras       | October 3, 2006 (date of incorporation) to<br>December 31, 2007<br>January 1, 2008 to December 31, 2008<br>January 1, 2009 to December 31, 2009<br>January 1, 2010 to December 31, 2010   | KPMG<br><br>Deloitte KassimChan<br>Deloitte KassimChan<br>Deloitte KassimChan |
| Old Town Kopitiam<br>Kuala Lumpur | January 1, 2007 to December 31, 2007<br>January 1, 2008 to December 31, 2008<br>January 1, 2009 to December 31, 2009<br>January 1, 2010 to December 31, 2010                              | KPMG<br>Deloitte KassimChan<br>Deloitte KassimChan<br>Deloitte KassimChan     |
| Old Town Kopitiam<br>Butterworth  | January 1, 2007 to December 31, 2007<br>January 1, 2008 to December 31, 2008<br>January 1, 2009 to December 31, 2009<br>January 1, 2010 to December 31, 2010                              | KPMG<br>Deloitte KassimChan<br>Deloitte KassimChan<br>Deloitte KassimChan     |
| Dynasty Kitchen                   | December 21, 2006 (date of incorporation) to<br>December 31, 2007<br>January 1, 2008 to December 31, 2008<br>January 1, 2009 to December 31, 2009<br>January 1, 2010 to December 31, 2010 | KPMG<br><br>Deloitte KassimChan<br>Deloitte KassimChan<br>Deloitte KassimChan |
| Dynasty Confectionery             | July 4, 2007 (date of incorporation) to<br>December 31, 2007<br>January 1, 2008 to December 31, 2008<br>January 1, 2009 to December 31, 2009<br>January 1, 2010 to December 31, 2010      | KPMG<br><br>Deloitte KassimChan<br>Deloitte KassimChan<br>Deloitte KassimChan |
| Emperor's Kitchen                 | January 1, 2007 to December 31, 2007<br>January 1, 2008 to December 31, 2008<br>January 1, 2009 to December 31, 2009<br>January 1, 2010 to December 31, 2010                              | KPMG<br>Deloitte KassimChan<br>Deloitte KassimChan<br>Deloitte KassimChan     |
| Esquire Chef                      | December 5, 2006 (date of incorporation) to<br>December 31, 2007<br>January 1, 2008 to December 31, 2008<br>January 1, 2009 to December 31, 2009<br>January 1, 2010 to December 31, 2010  | KPMG<br><br>Deloitte KassimChan<br>Deloitte KassimChan<br>Deloitte KassimChan |
| Conneczone                        | January 1, 2007 to December 31, 2007<br>January 1, 2008 to December 31, 2008<br>January 1, 2009 to December 31, 2009<br>January 1, 2010 to December 31, 2010                              | KPMG<br>Deloitte KassimChan<br>Deloitte KassimChan<br>Deloitte KassimChan     |

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**10. ACCOUNTANTS' REPORT****D. AUDITORS' REPORTS (CONTINUED)**

| <b>Companies</b>  | <b>FYE/ FPE</b>   | <b>External Auditors</b> |
|-------------------|---|--------------------------|
| Oldtown Singapore | June 29, 2007 (date of incorporation) to December 31, 2007  | K.G. Tan & Co.           |
|                   | January 1, 2008 to December 31, 2008                        | K.G. Tan & Co.           |
|                   | January 1, 2009 to December 31, 2009                        | K.G. Tan & Co.           |
|                   | January 1, 2010 to December 31, 2010                        | K.G. Tan & Co.           |
| Oldtown Logistics | March 4, 2010 (date of incorporation) to December 31, 2010  | Deloitte KassimChan      |
| Old Town (M)      | August 8, 2007 (date of incorporation) to December 31, 2008 | Cheng & Co.              |
|                   | January 1, 2009 to December 31, 2009                        | Cheng & Co.              |
|                   | January 1, 2010 to December 31, 2010                        | Deloitte KassimChan      |

The auditors' reports on the financial statements of Oldtown and its subsidiary companies for the respective years/periods under review were not subject to any qualifications.

**E. BASIS OF PREPARATION OF THE AUDITED FINANCIAL STATEMENTS**

Except for the audited financial statements of Oldtown Singapore, a company incorporated in Singapore, for the financial period June 29, 2007 (date of incorporation) to December 31, 2007, the financial years ended December 31, 2008, 2009 and 2010, and Old Town (M) for the financial period August 8, 2007 (date of incorporation) to December 31, 2008 and for the financial year ended December 31, 2009, the audited financial statements of Oldtown and other subsidiary companies incorporated in Malaysia have been prepared in accordance with the provisions of the Companies Act, 1965 and FRS and are presented on the basis consistent with the accounting policies adopted by Oldtown Group. These companies have adopted all of the new and revised FRS and Interpretations issued by the MASB that are relevant to their operations.

The audited financial statements of Oldtown Singapore were prepared in accordance with the provisions of the Singapore Companies Act and Singapore Financial Reporting Standards and are presented on a basis consistent with the accounting policies adopted by Oldtown Group. Oldtown Singapore has adopted all the new/revised Singapore Financial Reporting Standards and Singapore Interpretations of Financial Reporting Standards that are relevant to its operations. There is no material difference between the Singapore Financial Reporting Standards that are relevant and adopted by Oldtown Singapore as compared to FRS which require adjustments to the audited figures.

The audited financial statements of Old Town (M) for the financial period August 8, 2007 (date of incorporation) to December 31, 2008 and for the financial year ended December 31, 2009 were prepared in accordance with the Private Entity Reporting Standards in Malaysia and are presented on a basis consistent with the accounting policies adopted by Oldtown Group. There is no material difference between the Private Entity Reporting Standards in Malaysia that are relevant and adopted by Old Town (M) as compared to FRS which require adjustments to the audited figures.

No group financial statements have been prepared by Oldtown to consolidate the financial results and financial position of Oldtown and its subsidiary companies as the acquisitions of the subsidiary companies not currently owned by Oldtown are to be viewed as one exercise undertaken to facilitate the Listing of Oldtown detailed in Section C2 above. As disclosed in Section C4 above, Oldtown has two existing subsidiary companies, Oldtown Logistics and Old Town (M) which were incorporated/ acquired in 2010 and as such, the consolidated financial statements of Oldtown were not included herein as comparative information is not available. Audited financial statements of subsidiary companies are therefore presented individually.

**10. ACCOUNTANTS' REPORT****F. DIVIDENDS**

No dividend has been paid by Oldtown since the date of its incorporation.

Details of dividend paid or declared by the subsidiary companies of Oldtown for the financial years/periods under review are as follows:

| Companies                      | FPE/FYE    | Type of dividend             | Dividend Rate<br>% | Net Amount<br>RM |
|--------------------------------|------------|------------------------------|--------------------|------------------|
| White Cafe                     | 31.12.2007 | Interim, less 27% tax        | 70.00              | 511,000          |
|                                | 31.12.2010 | Interim, tax-exempt          | 200.00             | 2,000,000        |
| Gongga Food                    | 31.12.2007 | Interim, tax-exempt          | 600.00             | 600,000          |
|                                | 31.12.2008 | First and final, tax-exempt  | 2,600.00           | 2,600,000        |
|                                | 31.12.2009 | First interim, tax-exempt    | 1,000.00           | 1,000,000        |
|                                | 31.12.2009 | Second interim, less 25% tax | 1,333.34           | 1,000,000        |
|                                | 31.12.2010 | First interim, tax-exempt    | 2,000.00           | 2,000,000        |
|                                | 31.12.2010 | Second interim, tax-exempt   | 666.67             | 2,000,000        |
| Kopitiam Asia Pacific          | 31.12.2007 | Interim, less 27% tax        | 11,424,657.00      | 250,200          |
| Old Town Kopitiam Cheras       | 31.12.2007 | Interim, less 27% tax        | 171.25             | 200,020          |
|                                | 31.12.2008 | First interim, single tier   | 125.47             | 200,750          |
|                                | 31.12.2008 | Second interim, single tier  | 62.50              | 100,000          |
|                                | 31.12.2009 | First interim, single tier   | 62.50              | 100,000          |
|                                | 31.12.2009 | Second interim, single tier  | 125.00             | 200,000          |
|                                | 31.12.2009 | Third interim, single tier   | 125.00             | 200,000          |
|                                | 31.12.2009 | Fourth interim, single tier  | 375.00             | 600,000          |
|                                | 31.12.2009 | Fifth interim, single tier   | 250.00             | 400,000          |
|                                | 31.12.2010 | First interim, single tier   | 250.00             | 400,000          |
|                                | 31.12.2010 | Second interim, single tier  | 250.00             | 400,000          |
| Old Town Kopitiam Kuala Lumpur | 31.12.2008 | Interim, single tier         | 200.00             | 200,000          |
|                                | 31.12.2009 | First interim, single tier   | 200.00             | 200,000          |
|                                | 31.12.2009 | Second interim, single tier  | 200.00             | 200,000          |
| Old Town Kopitiam Butterworth  | 31.12.2007 | Interim, less 27% tax        | 275.00             | 200,750          |
|                                | 31.12.2009 | Interim, less 25% tax        | 666.67             | 500,000          |
|                                | 31.12.2010 | First interim, less 25% tax  | 300.00             | 225,000          |
|                                | 31.12.2010 | Second interim, single tier  | 300.00             | 300,000          |
|                                | 31.12.2010 | Third interim, single tier   | 100.00             | 100,000          |

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**10. ACCOUNTANTS' REPORT****F. DIVIDENDS (CONTINUED)**

| Companies             | FPE/FYE    | Type of dividend             | Dividend Rate<br>% | Net Amount<br>RM |
|-----------------------|------------|------------------------------|--------------------|------------------|
| Dynasty Kitchen       | 31.12.2008 | Interim, less 26% tax        | 1,351,351.30       | 100,000          |
|                       | 31.12.2009 | First interim, less 25% tax  | 3,394,594.80       | 254,595          |
|                       | 31.12.2009 | Second interim, single tier  | 454,053.90         | 45,405           |
|                       | 31.12.2010 | Interim, single tier         | 1,000,000.00       | 100,000          |
| Emperor's Kitchen     | 31.12.2007 | First interim, less 27% tax  | 54.79              | 80,001           |
|                       | 31.12.2007 | Second interim, less 27% tax | 137.00             | 200,020          |
|                       | 31.12.2008 | First interim, less 26% tax  | 140.00             | 207,200          |
|                       | 31.12.2008 | Second interim, less 26% tax | 135.00             | 199,800          |
|                       | 31.12.2009 | First interim, less 25% tax  | 99.99              | 150,000          |
|                       | 31.12.2009 | Second interim, single tier  | 74.99              | 150,000          |
|                       | 31.12.2009 | Third interim, single tier   | 99.99              | 200,000          |
|                       | 31.12.2009 | Fourth interim, single tier  | 224.99             | 450,000          |
|                       | 31.12.2009 | Fifth interim, single tier   | 349.99             | 700,000          |
|                       | 31.12.2009 | Sixth interim, single tier   | 349.99             | 700,000          |
|                       | 31.12.2010 | First interim, single tier   | 249.99             | 500,000          |
|                       | 31.12.2010 | Second interim, single tier  | 249.99             | 500,000          |
| Dynasty Confectionery | 31.12.2009 | Interim, single tier         | 25.00              | 50,000           |
|                       | 31.12.2010 | First interim, single tier   | 75.00              | 150,000          |
|                       | 31.12.2010 | Second interim, single tier  | 75.00              | 150,000          |
| Esquire Chef          | 31.12.2007 | Interim, less 27% tax        | 5,500,000.00       | 80,300           |
|                       | 31.12.2008 | First interim, tax-exempt    | 4,500,000.00       | 90,000           |
|                       | 31.12.2008 | Second interim, single tier  | 20,000.00          | 200,000          |
|                       | 31.12.2008 | Third interim, single tier   | 10,000.00          | 100,000          |
|                       | 31.12.2009 | First interim, single tier   | 20,000.00          | 200,000          |
|                       | 31.12.2009 | Second interim, single tier  | 20,000.00          | 200,000          |
|                       | 31.12.2009 | Third interim, single tier   | 20,000.00          | 200,000          |
|                       | 31.12.2009 | Fourth interim, single tier  | 20,000.00          | 200,000          |
|                       | 31.12.2010 | First interim, single tier   | 40,000.00          | 400,000          |
|                       | 31.12.2010 | Second interim, single tier  | 20,000.00          | 200,000          |
| Conneczone            | 31.12.2007 | Interim, less 27% tax        | 550.00             | 200,750          |
|                       | 31.12.2008 | First interim, less 26% tax  | 292.00             | 108,151          |
|                       | 31.12.2008 | Second interim, single tier  | 400.00             | 200,000          |
|                       | 31.12.2008 | Third interim, single tier   | 400.00             | 200,000          |
|                       | 31.12.2009 | First interim, single tier   | 200.00             | 100,000          |
|                       | 31.12.2009 | Second interim, single tier  | 200.00             | 100,000          |
|                       | 31.12.2009 | Third interim, single tier   | 200.00             | 100,000          |
|                       | 31.12.2010 | First interim, single tier   | 400.00             | 200,000          |
|                       | 31.12.2010 | Second interim, single tier  | 400.00             | 200,000          |

## 10. ACCOUNTANTS' REPORT

### G. HISTORICAL FINANCIAL INFORMATION

The historical financial information has been presented based on audited financial statements of Oldtown and its subsidiary companies. The significant accounting policies adopted by Oldtown Group below are in line with those adopted by the subsidiary companies and disclosed in their respective audited financial statements.

#### 1.1 SIGNIFICANT ACCOUNTING POLICIES OF OLDTOWN GROUP

Other than disclosed in Section E above, during the financial year ended December 31, 2010, Oldtown and its subsidiary companies adopted all new and revised FRSs and IC Interpretations that are relevant to their operations for financial periods beginning on or after January 1, 2010. The adoption of these new and revised FRSs and IC Interpretations have not resulted in material changes to Oldtown Group's accounting policies except as follows:

(i) **FRS 7 Financial Instruments: Disclosures**

FRS 7 requires comprehensive disclosure on qualitative and quantitative information about exposure to risks from financial instruments, including specified minimum disclosure about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk.

Oldtown Group has applied FRS 7 prospectively in accordance with the transitional provisions. Hence, the new disclosures are included in Oldtown Group's financial statements for the year ended December 31, 2010.

(ii) **Revised FRS 101: Presentation of Financial Statements**

The revised FRS 101 introduces changes in the presentation and disclosure of financial statements. The revised standard requires owner and non-owner changes in equity to be presented separately. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line labelled as total comprehensive income. The revised standard also requires the presentation of the statement of comprehensive income. It presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. Oldtown Group has elected to present this statement as one single statement.

In addition, a statement of financial position is required at the beginning of the earliest comparative period following a change in accounting policy, the correction of an error or the classification of items in the financial statements.

The revised FRS 101 also requires Oldtown Group to make new disclosures to enable users of the financial statements to evaluate Oldtown Group's objective, policies and processes for managing capital.

The revised FRS 101 was adopted retrospectively by Oldtown Group.

(iii) **FRS 139 Financial Instruments: Recognition and Measurement**

FRS 139 sets out the requirements for the recognition and measurement of Oldtown Group's financial instruments. Financial instruments are recorded initially at fair value. Subsequent measurement of the financial instruments at the end of reporting period reflects the designation of the financial instruments. Oldtown Group has adopted FRS 139 prospectively in accordance with the transitional provision of FRS 139. Oldtown Group determines the classification of financial instruments at their initial recognition and for the purpose of the first adoption of the standard, as at transitional date on January 1, 2010.

The effects arising from the adoption of this standard is assessed as immaterial and has not been accounted for by adjusting the opening balance of retained earnings as of January 1, 2010.

## 10. ACCOUNTANTS' REPORT

### G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

#### 1.1 SIGNIFICANT ACCOUNTING POLICIES OF OLDTOWN GROUP (CONTINUED)

##### **Basis of Accounting**

The measurement basis applied in the preparation of the financial statements include historical cost, recoverable value, realisable value and fair value.

##### **Basis of Consolidation**

##### **(i) Subsidiary Companies**

##### **Business combination**

The consolidated financial statements incorporate the financial statements of Oldtown and of the subsidiary companies controlled by Oldtown made up to the respective financial period/ years ended.

A subsidiary company is an entity where Oldtown or its subsidiary companies have control over the financial and operating policies of that entity so as to obtain benefits therefrom. Control is presumed to exist when Oldtown owns, directly or indirectly through subsidiary companies, more than one half of the voting rights of the said entity.

Financial statements of subsidiary companies are consolidated using the acquisition method of accounting. Under the acquisition method, the results of the subsidiary companies acquired or disposed of are included in the consolidated profit or loss from the effective date of acquisition or up to the effective date of disposal. On acquisition, the assets and liabilities of the relevant subsidiary companies are measured at their fair values at the date of acquisition.

The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under FRS 3, Business Combinations are recognised at their fair values at the acquisition date.

Where necessary, adjustments are made to the financial statements of subsidiary companies to bring their accounting policies in line with those used by other members of Oldtown Group.

All intragroup transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in the subsidiary companies are identified separately from the Group's equity therein. Non-controlling interest consists of the amount of those interests at the date of the original business combination and the non-controlling party's share of changes in equity since the date of the combination. Losses attributable to the non-controlling party in excess of the non-controlling party's interest in the subsidiary's equity are allocated against the interest of the Group except to the extent that the non-controlling party has a binding obligation and is able to make an additional investment to cover the losses.

##### **Business combinations involving common control entities**

A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties, both before and after the business combination, and that control is not transitory.

The consolidated financial statements incorporate the financial statements items of the combining entities in which the common control combination occurs as if they had been combined from the date when the combining entities first came under the control of the controlling parties.

The cost of investment in Oldtown's book is recorded at the nominal value of shares acquired. A single uniform set of accounting policies is adopted by the combined entity. Therefore, the net assets of the combining entities are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling parties' interests.

## 10. ACCOUNTANTS' REPORT

### G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

#### 1.1 SIGNIFICANT ACCOUNTING POLICIES OF OLDTOWN GROUP (CONTINUED)

The consolidated statement of comprehensive income includes the results of each of the combining entities from the earliest date presented or since the date when the combining entities first came under the common control, where this is a shorter period, regardless of the date of the common control combination. Expenditure incurred in connection with the restructuring is recognised as an expense in profit or loss.

The effects of all transactions between the combining entities or businesses, whether occurring before or after the combination, are eliminated in preparing the combined financial statements of the combined entity.

Debit differences arising between the cost of acquisition and the nominal value of share capital of the subsidiary are included under Oldtown Group's reserve.

#### (ii) Associated Companies

An associated company is a non-subsiary company in which Oldtown or its subsidiary companies holds not less than 20% of the equity voting rights as long-term investment and in which Oldtown or its subsidiary companies is in a position to exercise significant influence in its management.

Oldtown Group's investment in an associated company is accounted for under the equity method of accounting based on the latest audited financial statements of the associated company made up to the respective financial period/ year ended. Under this method of accounting, Oldtown Group's interest in the post-acquisition profits and reserves of the associated company is included in the consolidated results while dividend received is reflected as a reduction of the investment in the consolidated statement of financial position.

Unrealised profits and losses arising on transactions between Oldtown Group and its associated company are eliminated to the extent of Oldtown Group's equity interest in the associated company except where unrealised losses provide evidence of an impairment of the asset transferred.

#### Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

#### *Sale of goods*

Revenue from sale of goods is recognised when the following conditions are satisfied:

- Oldtown Group have transferred to the buyer the significant risks and rewards of ownership of the goods;
- Oldtown Group retain neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to Oldtown Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### *Sale of food and beverages*

Sale of food and beverages are recognised when food and beverages are served, net of service tax.

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**10. ACCOUNTANTS' REPORT**

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**G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****1.1 SIGNIFICANT ACCOUNTING POLICIES OF OLDTOWN GROUP (CONTINUED)***Dividend and interest revenue*

Dividend income represents gross dividends from unquoted investments and is recognised when the shareholder's rights to receive payment is established.

Interest income is recognised when it is probable that the economic benefits will flow to Oldtown Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

*Rental income*

Rental income is accrued on a time basis, by reference to the agreements entered. Rental income from investment properties is recognised on a straight-line basis over the term of the relevant lease.

*Franchise, advertising and promotion, rights and royalty fees*

Franchise, advertising and promotion, rights and royalty fees are recognised on an accrual basis in accordance with the substance of the relevant agreement (provided that it is probable that the economic benefits will flow to Oldtown Group and the amount of revenue can be measured reliably). Franchise, advertising and promotion, rights and royalty fees are recognised on a straight-line basis over the period of the relevant agreement.

*Income from accounting services*

Income from rendering of accounting services is recognised as and when services are provided.

**Operating Lease**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

**Foreign Currencies**

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Ringgit Malaysia, which is the functional currency of Oldtown, and also the presentation currency for the consolidated financial statements.

In preparing the financial statements of Oldtown Group and Oldtown, transactions in currencies other than the Oldtown Group's and Oldtown's functional currency (foreign currencies) are initially recorded in Ringgit Malaysia at the rates of exchange prevailing on the date of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income. For such non-monetary items, any exchange component of that gain or loss is recognised directly in equity.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****1.1 SIGNIFICANT ACCOUNTING POLICIES OF OLDTOWN GROUP (CONTINUED)**

For the purpose of presenting consolidated financial statements, the assets and liabilities of Oldtown Group's foreign operations (including comparative figures) are expressed in Ringgit Malaysia using exchange rates prevailing at the end of each reporting period. Income and expense items (including comparative figures) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of transactions are used.

The closing rates per unit of Ringgit Malaysia used in the retranslation of subsidiary company's functional currency (foreign currencies) are as follows:

| <i>Currency</i> | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|-----------------|------------------|------------------|------------------|------------------|
| 100 Rp          | 0.0344           | -                | -                | -                |
| SGD             | 2.3867           | 2.4452           | 2.4139           | 2.3033           |

Exchange differences arising, if any, are classified as equity and transferred to Oldtown Group's translation reserve. Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

**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 for the period in which they are incurred.

**Government Grants**

Government grants are not recognised until there is reasonable assurance that Oldtown Group will comply with the conditions attaching to them and that the grants will be received.

Government grants whose primary condition is that Oldtown Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to Oldtown Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

**Current tax**

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Oldtown Group's and Oldtown's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****1.1 SIGNIFICANT ACCOUNTING POLICIES OF OLDTOWN GROUP (CONTINUED)***Deferred tax*

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner which Oldtown Group and Oldtown expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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 they relate to income taxes levied by the same taxation authority and Oldtown Group and Oldtown intend to settle their current tax assets and liabilities on a net basis.

*Current and deferred tax for the period/ year*

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss. Where they arise from the initial accounting for a business combination, in the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

**Employee Benefits***Short-term employee 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 of Oldtown Group. 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, and short-term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

*Defined contribution plan*

Oldtown Group is required by law to make monthly contributions to the Employees Provident Fund ("EPF"), a statutory defined contribution plan for all its eligible employees based on certain prescribed rates of the employees' salaries. Oldtown Group's contributions to the EPF are recognised as an expense when employees have rendered service entitling them to the contributions and are disclosed separately. The contributions of the employees to EPF are included in salaries and wages. Once the contributions have been paid, Oldtown Group has no further payment obligations.

## 10. ACCOUNTANTS' REPORT

### G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

#### 1.1 SIGNIFICANT ACCOUNTING POLICIES OF OLDTOWN GROUP (CONTINUED)

##### Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is charged so as to write off the cost of assets, other than freehold land and capital work-in-progress, less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each financial period, with the effect of any changes in estimate accounted for on a prospective basis.

Freehold land is not amortised.

Capital work-in-progress is stated at cost less accumulated impairment, if any, and is not depreciated. Capital work-in-progress comprises contractors' payments and directly attributable costs incurred in preparing these assets for their intended use. Depreciation on assets under construction commences when the assets are ready for their intended use.

Annual depreciation rates used to depreciate property, plant and equipment over their estimated remaining useful lives are as follows:

|   |            |
|---|------------|
| Buildings   | 2%         |
| Plant, machinery and equipment  | 5% to 20%  |
| Motor vehicles  | 10% to 20% |
| Air conditioning, computers, furniture, fixtures and fittings, and office equipment | 10% to 20% |
| Factory equipment, signboard and electrical fittings                                | 10% to 20% |
| Renovation  | 10% to 20% |

Assets held under hire-purchase arrangements are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant hire-purchase.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in profit or loss.

##### Property, Plant and Equipment Under Hire-Purchase Arrangements

Assets acquired under hire-purchase arrangements which transfer substantially all of the risks and rewards incident to ownership of the assets are capitalised under property, plant and equipment. The assets and the corresponding hire-purchase obligations are recorded at their fair values or, if lower, at the present value of the minimum hire-purchase payments of the assets at the inception of the respective arrangements.

Finance costs, which represent the difference between the total hire-purchase commitments and the fair values of the assets acquired, are charged to statement of comprehensive income over the term of the relevant hire-purchase so as to give a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

##### Non-current Assets Held For Sale

Non-current assets are classified as held for sale if their carrying amount will be recovered 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. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of the assets' previous carrying amounts and fair values less costs to sell. When the sale of such assets is expected to occur beyond one year, the costs to sell are measured at their present value.



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**10. ACCOUNTANTS' REPORT**

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**G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****1.1 SIGNIFICANT ACCOUNTING POLICIES OF OLDTOWN GROUP (CONTINUED)****Prepaid Lease Payments**

Leasehold land that normally has an indefinite economic life and where title is not expected to pass to the lessee by the end of the lease period is treated as an operating lease. The payment made on entering into or acquiring a leasehold interest is accounted for as prepaid lease payments at the end of the reporting period. In the case of a lease of land and buildings, the prepaid lease payments are allocated whenever necessary, between the land element and building element of the lease at the inception of the lease in proportion to their relative fair value.

Prepaid lease payments on leasehold land are stated at surrogate cost less accumulated amortisation and accumulated impairment losses, if any.

Leasehold land is amortised on a straight-line basis over the remaining terms of the lease ranging from 43 to 87 years.

**Investment Properties**

Investment properties, which are properties held to earn rentals and/or for capital appreciation, are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Fair value is arrived by reference to market evidence of transaction prices for similar properties. Gain or loss arising from changes in the fair values of investment properties is included in the profit or loss in the period in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment properties are permanently withdrawn from use and no future economic benefit is expected from their disposal. Gain or loss on the retirement or disposal of an investment property is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in profit or loss in the period in which the retirement or disposal arise.

**Investments**

Investments in subsidiary companies, which are eliminated on consolidation, and investment in associated companies, are stated in Oldtown's financial statements at cost less accumulated impairment losses, if any.

**Goodwill/Negative Goodwill**

Goodwill acquired in a business combination is initially recognised as an asset and is subsequently measured at cost less any accumulated impairment losses. Goodwill arising on consolidation represents the excess of cost of business combination over the Group's interest in the net fair values of the identifiable assets, liabilities and contingent liabilities recognised of the acquired at the date of the combination.

For the purpose of impairment testing, goodwill is allocated to each of Oldtown Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss is recognised immediately to profit or loss and any impairment loss recognised for goodwill is not subsequently reversed.

On disposal of an entity or operation, the goodwill associated with the entity or operation disposed of is included in the carrying amount of the entity or operation when determining the gain or loss on disposal.

Any excess of Oldtown Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over costs of acquisition (previously known as negative goodwill), after reassessed, is recognised immediately to profit or loss.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****1.1 SIGNIFICANT ACCOUNTING POLICIES OF OLDTOWN GROUP (CONTINUED)****Impairment of Assets excluding Goodwill**

At the end of each reporting period, Oldtown Group reviews the carrying amounts of their assets (other than goodwill, investment properties, other investments, inventories and financial assets, which are dealt with in their respective policies) to determine if there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Where it is not possible to estimate the recoverable amount of an individual asset, Oldtown Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but the increased carrying amount would not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

**Inventories**

Inventories are valued at the lower of cost and net realisable value. Cost is determined principally on the "First-in, First-out" method.

Costs of trading merchandise, raw materials and packing materials comprise the original purchase price plus cost incurred in bringing the inventories to their present conditions and location. Costs of finished goods and work-in-progress comprise the cost of direct materials, packing materials, direct labour and an appropriate proportion of manufacturing overheads. Net realisable value represents the estimated selling price in the ordinary course of business less selling and distribution costs and all other estimated costs to completion.

**Provisions**

Provisions are recognised when Oldtown Group and Oldtown has a present legal or constructive obligation as a result of past events, it is probable that Oldtown Group and Oldtown will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

**Financial Instruments**

Financial assets and financial liabilities are recognised on Oldtown Group's and Oldtown's statement of financial position when Oldtown Group and Oldtown become a party to the contractual provisions of the financial instrument.

## 10. ACCOUNTANTS' REPORT

### G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

#### 1.1 SIGNIFICANT ACCOUNTING POLICIES OF OLDTOWN GROUP (CONTINUED)

Where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, such financial assets are recognised and derecognised on trade date.

Financial instruments are initially measured at fair value, plus transaction costs.

##### *Effective Interest Method*

The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument, or a shorter period to the net carrying amount on initial recognition. Income and expense is recognised on an effective interest basis for debt instruments.

##### **Financial assets**

##### *Loans and receivables*

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

##### *Available-for-sale ("AFS") financial assets*

AFS financial assets are non-derivatives financial assets that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss ("FVTPL"). All AFS assets are measured at fair value at the end of the reporting period. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of impairment losses, interest calculated using the effective interest method which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of the reporting period.

Dividends on AFS equity instruments are recognised in profit or loss when the Company's right to receive the dividends is established.

##### **Impairment of Financial Assets**

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

AFS investments are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the AFS investments, the estimated future cash flows of the investments have been affected. For unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the investments below their costs is considered to be objective evidence of impairment. When an AFS investment is considered to be impaired, cumulative gains or losses previously recognised in investments revaluation reserve are reclassified to profit or loss even though the investment has not been derecognised. Impairment losses of AFS investments previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in investments revaluation reserve.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****1.1 SIGNIFICANT ACCOUNTING POLICIES OF OLDTOWN GROUP (CONTINUED)**

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account.

When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

**Derecognition of Financial Assets**

Oldtown Group and Oldtown derecognise a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If Oldtown Group and Oldtown neither transfer nor retain substantially all the risk and rewards of ownership and continues to control the transferred asset, Oldtown Group and Oldtown recognise their retained interest in the asset and an associated liability for amounts it may have to pay. If Oldtown Group and Oldtown retain substantially all the risk and rewards of ownership of a transferred financial asset, Oldtown Group and Oldtown continue to recognise the financial asset and also recognise a collateralised borrowing for the proceeds received.

**Financial liabilities and equity instruments***Classification as debt or equity*

Financial liabilities and equity instruments issued by Oldtown Group and Oldtown are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of Oldtown Group and Oldtown after deducting all of their liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

*Financial liabilities*

Financial liabilities of Oldtown Group and Oldtown are classified into the "other financial liabilities" category.

*Other financial liabilities*

Other financial liabilities are initially measured at fair value, net of transaction costs, and subsequently measured at amortised cost, using the effective interest method, with interest expense recognised on an effective yield basis.

**Derecognition of Financial Liabilities**

Oldtown Group and Oldtown derecognise financial liabilities when, and only when, Oldtown Group's and Oldtown's obligations are discharged, cancelled or expired.

**Preliminary Expenses**

Preliminary expenses are charged to profit or loss in the financial period in which they are incurred.

**Statements of Cash Flows**

Oldtown Group and Oldtown adopt the indirect method in the preparation of the statements of cash flows.

Cash equivalents are short-term, highly liquid investments with maturities of three months or less from the date of acquisition and are readily convertible to cash with insignificant risks of changes in value.

## 10. ACCOUNTANTS' REPORT

### G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

#### 1.2 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

(a) *Critical judgement made in applying accounting policies*

In the application of Oldtown Group's accounting policies, which are described in Section 1.1 above, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the accounts recognised in the financial statements.

(b) *Key sources of estimation uncertainty*

The following are key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets in the next financial year:

(i) Impairment of Property, Plant and Equipment

Oldtown Group assess impairment of assets whenever the events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable i.e. the carrying amount of the asset is more than the recoverable amount.

Recoverable amount is measured at the higher of the fair value less cost to sell for that asset and its value-in-use. The value-in-use is the net present value of the projected future cash flow derived from that asset discounted at an appropriate discount rate. Projected future cash flows are based on Oldtown Group's estimates calculated based on historical, sector and industry trends, general market and economic conditions, changes in technology and other available information. Management of Oldtown Group have carried out an impairment review on their property, plant and equipment and concluded that there is no indication of impairment.

(ii) Estimated Useful Lives of Property, Plant and Equipment

Oldtown Group regularly reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period based on factors such as business plan and strategies, expected level of usage and future technological developments. Future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned above. A reduction in the estimated useful lives of property, plant and equipment would increase the recorded depreciation and decrease the value of property, plant and equipment.

(iii) Recoverability of Receivables

An allowance is established when there is objective evidence that Oldtown Group will not be able to collect all amounts due according to the original term of receivables. This is determined based on the ageing profile and collection patterns.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****2. OLDTOWN****2.1 OLDTOWN - STATEMENTS OF COMPREHENSIVE INCOME**

|  | Note  | FYE<br>31.12.2010<br>(12 Months)<br>RM | FYE<br>31.12.2009<br>(12 Months)<br>RM | FPE<br>31.12.2008<br>(13 Months)<br>RM |
|--|-------|--|--|--|
| Revenue  |       | -                                      | -                                      | -                                      |
| Cost of sales  |       | -                                      | -                                      | -                                      |
| Gross profit   |       | -                                      | -                                      | -                                      |
| Other income   |       | 220,000                                | -                                      | -                                      |
| Directors' fees  |       | (156,000)                              | (22,225)                               | -                                      |
| Other operating expenses   |       | (107,733)                              | (1,141,601)                            | (18,638)                               |
| Loss from operations   |       | (43,733)                               | (1,163,826)                            | (18,638)                               |
| Finance cost - bank charges  |       | (180)                                  | (9)                                    | -                                      |
| Loss before tax  | 2.5.1 | (43,913)                               | (1,163,835)                            | (18,638)                               |
| Income tax expense   | 2.5.2 | -                                      | -                                      | -                                      |
| <b>Loss and total comprehensive loss for the year<br/>attributable to owner of Oldtown</b> |       | <b>(43,913)</b>                        | <b>(1,163,835)</b>                     | <b>(18,638)</b>                        |
| <i>Key financial ratios:</i>   |       |  |  |  |
| Weighted average number of ordinary shares<br>of RM1.00 each in issue (units)              |       | 2                                      | 2                                      | 2                                      |
| Gross profit margin (%)  |       | -                                      | -                                      | -                                      |
| Basic loss per share (sen)   |       | (2,195,650)                            | (58,191,750)                           | (931,900)                              |
| Effective tax rate (%)   |       | -                                      | -                                      | -                                      |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****2.2 OLDTOWN - STATEMENTS OF FINANCIAL POSITION**

| ASSETS                                   | Note  | 31.12.2010<br>RM   | 31.12.2009<br>RM   | 31.12.2008<br>RM |
|--|-------|--------------------|--------------------|------------------|
| <b>Non-current asset</b>                 |       |                    |                    |                  |
| Investment in subsidiary companies       | 2.5.3 | 4                  | -                  | -                |
| <b>Current assets</b>                    |       |                    |                    |                  |
| Amount owing by subsidiary companies     |       | 522,500            | -                  | -                |
| Other asset - prepaid expense            |       | 977,826            | 300                | 300              |
| Current tax assets                       |       | 5,500              | -                  | -                |
| Cash and bank balances                   |       | 96,064             | 54,639             | -                |
| <b>Total current assets</b>              |       | <b>1,601,890</b>   | <b>54,939</b>      | <b>300</b>       |
| <b>Total assets</b>                      |       | <b>1,601,894</b>   | <b>54,939</b>      | <b>300</b>       |
| <b>EQUITY AND LIABILITIES</b>            |       |                    |                    |                  |
| <b>Capital and reserves</b>              |       |                    |                    |                  |
| Issued capital                           | 2.5.5 | 2                  | 2                  | 2                |
| Accumulated loss                         |       | (1,226,386)        | (1,182,473)        | (18,638)         |
| <b>Capital deficiency</b>                |       | <b>(1,226,384)</b> | <b>(1,182,471)</b> | <b>(18,636)</b>  |
| <b>Current liabilities</b>               |       |                    |                    |                  |
| Other payable                            | 2.5.6 | 2,828,278          | 1,237,410          | 2,000            |
| Amount owing to a director               | 2.5.7 | -                  | -                  | 16,936           |
| <b>Total current liabilities</b>         |       | <b>2,828,278</b>   | <b>1,237,410</b>   | <b>18,936</b>    |
| <b>Total equity and liabilities</b>      |       | <b>1,601,894</b>   | <b>54,939</b>      | <b>300</b>       |
| <b>Key financial ratios:</b>             |       |                    |                    |                  |
| Net tangible liabilities per share (sen) |       | (61,319,200)       | (59,123,550)       | (931,800)        |
| Debt-equity ratio (times)                |       | -                  | -                  | -                |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****2.3 OLDTOWN - STATEMENTS OF CHANGES IN EQUITY**

|  | Issued<br>Capital<br>RM | Accumulated<br>Loss<br>RM | Capital<br>Deficiency<br>RM |
|--|-------------------------|---------------------------|-----------------------------|
| Balance as of November 30, 2007<br>(Date of incorporation) | 2                       | -                         | 2                           |
| Total comprehensive loss for the period                    | -                       | (18,638)                  | (18,638)                    |
| Balance as of December 31, 2008                            | 2                       | (18,638)                  | (18,636)                    |
| Total comprehensive loss for the year                      | -                       | (1,163,835)               | (1,163,835)                 |
| Balance as of December 31, 2009                            | 2                       | (1,182,473)               | (1,182,471)                 |
| Total comprehensive loss for the year                      | -                       | (43,913)                  | (43,913)                    |
| Balance as of December 31, 2010                            | 2                       | (1,226,386)               | (1,226,384)                 |

**2.4 OLDTOWN - SUMMARISED STATEMENTS OF CASH FLOWS**

|   | Note  | FYE<br>31.12.2010<br>(12 Months)<br>RM | FYE<br>31.12.2009<br>(12 Months)<br>RM | FPE<br>31.12.2008<br>(13 Months)<br>RM |
|---|-------|--|--|--|
| Net Cash Generated From/(Used In)<br>Operating Activities       |       | 564,109                                | 71,575                                 | (16,938)                               |
| Net Cash Used In Investing Activities                           |       | (522,504)                              | -                                      | -                                      |
| Net Cash (Used In)/Generated From<br>Financing Activities       |       | (180)                                  | (16,936)                               | 16,936                                 |
| <b>NET INCREASE/(DECREASE) IN CASH AND<br/>CASH EQUIVALENTS</b> |       | 41,425                                 | 54,639                                 | (2)                                    |
| <b>CASH AND CASH EQUIVALENTS<br/>AT BEGINNING OF YEAR</b>       |       | 54,639                                 | -                                      | 2                                      |
| <b>CASH AND CASH EQUIVALENTS<br/>AT END OF YEAR</b>             | 2.5.9 | 96,064                                 | 54,639                                 | -                                      |



**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****2.5 OLDTOWN - NOTES TO THE FINANCIAL STATEMENTS****2.5.1 LOSS BEFORE TAX**

|                                  | FYE<br>31.12.2010<br>(12 Months)<br>RM | FYE<br>31.12.2009<br>(12 Months)<br>RM | FPE<br>31.12.2008<br>(13 Months)<br>RM |
|----------------------------------|--|--|--|
| Listing fee recovered            | 220,000                                | -                                      | -                                      |
| Listing expenses                 | (60,253)                               | (1,076,705)                            | (10,500)                               |
| Audit fee                        | (1,500)                                | (2,500)                                | (1,000)                                |
| Preliminary expenses written off | -                                      | -                                      | (3,784)                                |

**2.5.2 INCOME TAX EXPENSE**

No income tax expense was charged to the financial statements in the current and previous financial years/period as Oldtown has not commenced business operations.

**2.5.3 INVESTMENT IN SUBSIDIARY COMPANIES**

|                                 | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM |
|---------------------------------|------------------|------------------|------------------|
| Unquoted equity shares, at cost | <u>4</u>         | <u>-</u>         | <u>-</u>         |

The subsidiary companies are as follows:

| Name of Company   | Country of<br>Incorporation | Effective<br>Equity Interest |                 |                 | Principal Activity |
|-------------------|-----------------------------|------------------------------|-----------------|-----------------|--------------------|
|                   |                             | 31.12.2010<br>%              | 31.12.2009<br>% | 31.12.2008<br>% |                    |
| Oldtown Logistics | Malaysia                    | 100.00                       | -               | -               | Dormant            |
| Old Town (M)      | Malaysia                    | 100.00                       | -               | -               | Dormant            |

On March 4, 2010, Oldtown incorporated the wholly-owned subsidiary company, Oldtown Logistics which comprising 2 shares of RM1 each.

On July 7, 2010, Oldtown acquired 100% of the equity interest comprising 2 shares of RM1 each in Old Town (M).

**2.5.4 RELATED PARTY TRANSACTIONS**

The amount owing by subsidiary companies arose from advances granted which are unsecured, interest-free and repayable upon demand.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****2.5 OLDTOWN - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****2.5.4 RELATED PARTY TRANSACTIONS (CONTINUED)**

|                               | <b>FYE</b><br><b>31.12.2010</b><br><b>(12 Months)</b><br><b>RM</b> | <b>FYE</b><br><b>31.12.2009</b><br><b>(12 Months)</b><br><b>RM</b> | <b>FPE</b><br><b>31.12.2008</b><br><b>(13 Months)</b><br><b>RM</b> |
|-------------------------------|--|--|--|
| <b>Subsidiary companies</b>   |  |  |  |
| <b>Old Town (M)</b>           |  |  |  |
| Advances granted              | 515,000  | -  | -  |
| <b>Oldtown Logistics</b>      |  |  |  |
| Advances granted              | 13,500   | -  | -  |
| Repayment of advances granted | 6,000  | -  | -  |
| <b>Related party</b>          |  |  |  |
| <b>Old Town International</b> |  |  |  |
| Advances received             | 1,590,000  | 500,000  | -  |

## 10. ACCOUNTANTS' REPORT

## G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

## 2.5 OLDTOWN - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 2.5.5 SHARE CAPITAL

|  | 31.12.2010<br>Number of<br>shares | 31.12.2009<br>Number of<br>shares | 31.12.2008<br>Number of<br>Shares | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM |
|--|-----------------------------------|-----------------------------------|-----------------------------------|------------------|------------------|------------------|
| Authorised:<br>Ordinary shares of RM1 each:            |                                   |                                   |                                   |                  |                  |                  |
| At beginning of year/period                            | 500,000,000                       | 100,000                           | 100,000                           | 500,000,000      | 100,000          | 100,000          |
| Increased during the year/period                       | -                                 | 499,900,000                       | -                                 | -                | 499,900,000      | -                |
| At end of period/year                                  | 500,000,000                       | 500,000,000                       | 100,000                           | 500,000,000      | 500,000,000      | 100,000          |
| Issued and fully paid:<br>Ordinary shares of RM1 each: |                                   |                                   |                                   |                  |                  |                  |
| At beginning of year/period                            | 2                                 | 2                                 | 2                                 | 2                | 2                | 2                |
| Issued during the year/period                          | -                                 | -                                 | -                                 | -                | -                | -                |
| At end of year/period                                  | 2                                 | 2                                 | 2                                 | 2                | 2                | 2                |

## 2.5.6 OTHER PAYABLES

|                  | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM |
|------------------|------------------|------------------|------------------|
| Other payables   | 2,825,778        | 1,212,185        | -                |
| Accrued expenses | 2,500            | 25,225           | 2,000            |
|                  | 2,828,278        | 1,237,410        | 2,000            |

The amount owing to other payables arose mainly from unsecured and interest-free advances received and payments on behalf made by a related party which are repayable upon demand.

Transactions with related parties are disclosed in Note 2.5.4 above.

## 10. ACCOUNTANTS' REPORT

### G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

#### 2.5 OLDTOWN - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

##### 2.5.7 AMOUNT OWING TO A DIRECTOR

Amount owing to a director in 2008 represents unsecured and interest-free advances which are repayable upon demand.

##### 2.5.8 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT

###### Categories of financial instruments

|  | 31.12.2010<br>RM |
|--|------------------|
| <i>Financial assets</i>                                      |                  |
| Loans and receivables - Amount owing by subsidiary companies | 522,500          |
| Cash and cash equivalents - cash and bank balances           | <u>96,064</u>    |
| <i>Financial liabilities</i>                                 |                  |
| Amortised cost - other payables                              | <u>2,828,278</u> |

###### Financial Risk Management Objectives and Policies

Risk management is integral to the whole business of Oldtown. Management continually monitors Oldtown's risk management process to ensure that an appropriate balance between risk and control is achieved. Risk management policies and systems are reviewed regularly to reflect changes in the market conditions and Oldtown's activities.

There has been no change to Oldtown's exposure to these financial risks or the manner in which it manages and measures the risk.

###### (a) Credit risk management

The maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as of December 31, 2010 in relation to each class of recognised financial assets of Oldtown is the carrying amount of those assets as stated in the statement of financial position.

At the end of the reporting date, Oldtown has minimal credit risk exposure as it has not commenced business operations.

###### (b) Liquidity and cash flow risk management

Ultimate responsibility for liquidity and cash flow risks management rests with the Board of Directors, which has established an appropriate liquidity and cash flow risks management framework for the management of Oldtown's short, medium and long-term funding, liquidity and cash flow management requirements. Oldtown manages liquidity and cash flow risks by obtaining financial support from its related party to finance daily operations as and when required.

Management is of the view that Oldtown's exposure to liquidity and cash flow risks are minimal as the continuous financial support from the related party will be obtained to finance its ongoing working capital requirements.

All non-derivative financial assets and liabilities are repayable on demand or due within 1 year from the end of the reporting date.

Oldtown have not committed for any derivative financial instruments during the financial year.

###### (c) Market risk

Oldtown's exposures to financial risks of changes in foreign currency exchange rates and interest rates are minimal as Oldtown has not commenced business operations during the current financial year. Hence, no sensitivity analysis to market risk was disclosed.

## 10. ACCOUNTANTS' REPORT

### G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

#### 2.5 OLDTOWN - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 2.5.8 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (CONTINUED)

##### (d) Capital risk management

Oldtown manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the equity balance. Oldtown's overall strategy remains unchanged from the prior year.

The capital structure of Oldtown consists of issued capital.

##### Fair Values of Financial Assets and Financial Liabilities

The carrying amounts of the financial assets and financial liabilities of Oldtown comprise of cash and cash equivalents, amount owing by subsidiary companies, other payables and amount owing to a director approximate their respective fair values due to the relatively short-term maturity of these financial instruments.

#### 2.5.9 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following:

|              | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM |
|--------------|------------------|------------------|------------------|
| Bank balance | 96,064           | 54,639           | -                |

#### 2.5.10 SIGNIFICANT EVENTS

On December 28, 2009, the Company entered into Sale and Purchase Agreements (as was supplemented by letters dated May 24, 2010 and June 11, 2010 respectively, and supplemental agreements dated December 9, 2010 and December 15, 2010 respectively) with the existing shareholders of the following companies for the acquisition of the issued and paid up ordinary shares of the respective companies for purchase consideration as follows:

|                                | Percentage<br>acquired<br>% | Purchase Consideration |                                    |
|--------------------------------|-----------------------------|------------------------|------------------------------------|
|                                |                             | In cash<br>RM          | Issuance of new<br>ordinary shares |
| Old Town Kopitiam Butterworth  | 100                         | 8,979,477              | 5,985,000                          |
| Old Town Kopitiam Kuala Lumpur | 100                         | 640,810                | 1,495,000                          |
| Emperor's Kitchen              | 100                         | 8,177,000              | 8,176,000                          |
| Esquire Chef                   | 100                         | 5,379,000              | 5,380,000                          |
| Dynasty Confectionery          | 100                         | 1,672,000              | 2,507,000                          |
| Old Town Kopitiam Cheras       | 100                         | -                      | 11,911,000                         |
| Conneczone                     | 80                          | -                      | 3,900,000                          |
| White Cafe                     | 100                         | -                      | 62,263,998                         |
| Gongga Food                    | 100                         | -                      | 69,825,000                         |
| White Cafe Marketing           | 100                         | -                      | 21,156,000                         |
| Kopitiam Asia Pacific          | 100                         | -                      | 66,230,000                         |
| Oldtown Singapore              | 100                         | -                      | 6,676,000                          |
| OTK Eatery                     | 40                          | -                      | 1,101,000                          |

On April 12, 2011, Securities Commission had granted Oldtown the approval for the proposed listing on the Main Market of Bursa Securities. Following the said approval, Oldtown intends to complete the transfer of shares before June 2011.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****3. WHITE CAFE****3.1 WHITE CAFE - STATEMENTS OF COMPREHENSIVE INCOME**

|   | Note  | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---|-------|-------------------------|-------------------------|-------------------------|-------------------------|
| Revenue   | 3.5.1 | 73,304,338              | 51,351,827              | 36,948,937              | 23,818,635              |
| Cost of sales   |       | <u>(54,048,265)</u>     | <u>(36,907,249)</u>     | <u>(28,221,415)</u>     | <u>(18,319,463)</u>     |
| Gross profit  |       | 19,256,073              | 14,444,578              | 8,727,522               | 5,499,172               |
| Other operating income  |       | 11,700                  | 226,469                 | 48,523                  | 126,720                 |
| Investment revenue  |       | 66,487                  | 117,508                 | 49,687                  | 24,419                  |
| Other gains and (losses)  |       | (1,360,350)             | (321,813)               | 352,628                 | (408,444)               |
| Selling and distribution expenses   |       | (5,232,405)             | (3,521,240)             | (2,348,355)             | (801,365)               |
| Administrative and general expenses   |       | (1,650,756)             | (1,384,979)             | (1,357,269)             | (741,005)               |
| Other operating expenses  |       | -                       | -                       | (522,576)               | (132,000)               |
| Profit from operations  |       | 11,090,749              | 9,560,523               | 4,950,160               | 3,567,497               |
| Finance costs   | 3.5.3 | <u>(546,601)</u>        | <u>(296,321)</u>        | <u>(417,708)</u>        | <u>(352,250)</u>        |
| Profit before tax   | 3.5.4 | 10,544,148              | 9,264,202               | 4,532,452               | 3,215,247               |
| Income tax expense  | 3.5.5 | <u>(1,766,530)</u>      | <u>(2,422,025)</u>      | <u>(1,016,225)</u>      | <u>(644,937)</u>        |
| <b>Profit and total comprehensive income for the year attributable to the owner of White Cafe</b> |       | <u><b>8,777,618</b></u> | <u><b>6,842,177</b></u> | <u><b>3,516,227</b></u> | <u><b>2,570,310</b></u> |
| <i>Key financial ratios:</i>  |       |                         |                         |                         |                         |
| Weighted average number of ordinary shares of RM1.00 each in issue (units)                        |       | 1,000,000               | 1,000,000               | 1,000,000               | 1,000,000               |
| Gross profit margin (%)   |       | 26.27                   | 28.13                   | 23.62                   | 23.09                   |
| Basic earnings per share (sen)  |       | 877.76                  | 684.22                  | 351.62                  | 257.03                  |
| Effective tax rate (%)  |       | <u>20.72</u>            | <u>18.66</u>            | <u>24.51</u>            | <u>25.89</u>            |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****3.2 WHITE CAFE - STATEMENTS OF FINANCIAL POSITION**

|  | Note   | 2010<br>RM        | 2009<br>RM        | 2008<br>RM        | 2007<br>RM        |
|--|--------|-------------------|-------------------|-------------------|-------------------|
| <b>ASSETS</b>  |        |                   |                   |                   |                   |
| <b>Non-current assets</b>                              |        |                   |                   |                   |                   |
| Property, plant and equipment                          | 3.5.6  | 7,192,219         | 5,854,742         | 4,629,764         | 3,813,665         |
| Prepaid lease payments                                 | 3.5.7  | 5,131,455         | 192,486           | 194,938           | 197,390           |
| Investment property                                    | 3.5.8  | 1,140,000         | 1,140,000         | 1,070,000         | -                 |
| <b>Total non-current assets</b>                        |        | <b>13,463,674</b> | <b>7,187,228</b>  | <b>5,894,702</b>  | <b>4,011,055</b>  |
| <b>Current assets</b>                                  |        |                   |                   |                   |                   |
| Inventories  | 3.5.9  | 4,733,924         | 3,109,049         | 3,150,079         | 1,966,896         |
| Trade and other receivables                            | 3.5.10 | 5,668,925         | 4,473,296         | 3,649,545         | 2,999,404         |
| Amount owing by holding company                        | 3.5.11 | 3,775,053         | 2,379,614         | 1,419,943         | 1,133,943         |
| Amount owing by related companies                      | 3.5.11 | 10,153,145        | 7,442,116         | 4,150,763         | 2,929,941         |
| Fixed deposits, cash and bank balances                 | 3.5.12 | 4,314,793         | 4,362,823         | 3,119,668         | 964,029           |
| <b>Total current assets</b>                            |        | <b>28,645,840</b> | <b>21,766,898</b> | <b>15,489,998</b> | <b>9,994,213</b>  |
| Non-current asset<br>classified as held for sale       | 3.5.13 | -                 | -                 | -                 | 857,073           |
|  |        | <b>28,645,840</b> | <b>21,766,898</b> | <b>15,489,998</b> | <b>10,851,286</b> |
| <b>Total assets</b>                                    |        | <b>42,109,514</b> | <b>28,954,126</b> | <b>21,384,700</b> | <b>14,862,341</b> |
| <b>EQUITY AND LIABILITIES</b>                          |        |                   |                   |                   |                   |
| <b>Capital and reserves</b>                            |        |                   |                   |                   |                   |
| Issued capital   | 3.5.14 | 1,000,000         | 1,000,000         | 1,000,000         | 1,000,000         |
| Retained earnings                                      | 3.5.15 | 23,211,814        | 16,434,196        | 9,592,019         | 6,075,792         |
| <b>Total equity</b>                                    |        | <b>24,211,814</b> | <b>17,434,196</b> | <b>10,592,019</b> | <b>7,075,792</b>  |
| <b>Non-current liabilities</b>                         |        |                   |                   |                   |                   |
| Hire-purchase payables                                 | 3.5.16 | 88,039            | 84,070            | 126,920           | 280,311           |
| Borrowings   | 3.5.17 | 6,664,375         | 1,381,673         | 1,508,620         | 1,139,325         |
| Deferred tax liabilities                               | 3.5.18 | 577,000           | 444,000           | 142,000           | 215,000           |
| <b>Total non-current liabilities</b>                   |        | <b>7,329,414</b>  | <b>1,909,743</b>  | <b>1,777,540</b>  | <b>1,634,636</b>  |
| <b>Current liabilities</b>                             |        |                   |                   |                   |                   |
| Trade and other payables                               | 3.5.19 | 6,974,634         | 5,766,794         | 3,546,807         | 2,815,484         |
| Hire-purchase payables                                 | 3.5.16 | 23,768            | 37,442            | 153,391           | 127,634           |
| Borrowings   | 3.5.17 | 3,240,012         | 2,963,613         | 4,699,083         | 2,847,792         |
| Current tax liabilities                                | 3.5.5  | 329,872           | 842,338           | 615,860           | 337,003           |
| <b>Total current liabilities</b>                       |        | <b>10,568,286</b> | <b>9,610,187</b>  | <b>9,015,141</b>  | <b>6,127,913</b>  |
| Non-current liabilities<br>classified as held for sale | 3.5.13 | -                 | -                 | -                 | 24,000            |
|  |        | <b>10,568,286</b> | <b>9,610,187</b>  | <b>9,015,141</b>  | <b>6,151,913</b>  |
| <b>Total liabilities</b>                               |        | <b>17,897,700</b> | <b>11,519,930</b> | <b>10,792,681</b> | <b>7,786,549</b>  |
| <b>Total equity and liabilities</b>                    |        | <b>42,109,514</b> | <b>28,954,126</b> | <b>21,384,700</b> | <b>14,862,341</b> |
| <i>Key financial ratios:</i>                           |        |                   |                   |                   |                   |
| Net tangible assets per share (sen)                    |        | 2,421.18          | 1,743.42          | 1,059.20          | 707.58            |
| Debt-equity ratio (times)                              |        | 0.41              | 0.26              | 0.61              | 0.62              |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****3.3 WHITE CAFE - STATEMENTS OF CHANGES IN EQUITY**

|   | Note | Issued<br>Capital<br>RM | Distributable<br>Reserve<br>Retained<br>Earnings<br>RM | Total<br>Shareholders'<br>Equity<br>RM |
|---|------|-------------------------|--|--|
| Balance as of January 1, 2007           |      | 1,000,000               | 4,016,482  | 5,016,482                              |
| Total comprehensive income for the year |      | -                       | 2,570,310  | 2,570,310                              |
| Dividend                                | F    | -                       | (511,000)  | (511,000)                              |
| Balance as of December 31, 2007         |      | 1,000,000               | 6,075,792  | 7,075,792                              |
| Total comprehensive income for the year |      | -                       | 3,516,227  | 3,516,227                              |
| Balance as of December 31, 2008         |      | 1,000,000               | 9,592,019  | 10,592,019                             |
| Total comprehensive income for the year |      | -                       | 6,842,177  | 6,842,177                              |
| Balance as of December 31, 2009         |      | 1,000,000               | 16,434,196   | 17,434,196                             |
| Total comprehensive income for the year |      | -                       | 8,777,618  | 8,777,618                              |
| Dividend                                | F    | -                       | (2,000,000)  | (2,000,000)                            |
| Balance as of December 31, 2010         |      | 1,000,000               | 23,211,814   | 24,211,814                             |

**3.4 WHITE CAFE - SUMMARISED STATEMENTS OF CASH FLOWS**

|   | Note   | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---|--------|-------------------------|-------------------------|-------------------------|-------------------------|
| Net Cash Generated From<br>Operating Activities                     |        | 6,973,557               | 6,204,124               | 2,831,181               | 2,944,766               |
| Net Cash Used In Investing Activities                               |        | (9,916,842)             | (2,715,340)             | (3,354,015)             | (1,779,094)             |
| Net Cash Generated From/(Used In)<br>Financing Activities           |        | 2,948,016               | (2,344,094)             | 1,292,352               | (1,320,433)             |
| <b>NET INCREASE/(DECREASE) IN<br/>CASH AND CASH<br/>EQUIVALENTS</b> |        | 4,731                   | 1,144,690               | 769,518                 | (154,761)               |
| <b>CASH AND CASH EQUIVALENTS<br/>AT BEGINNING OF YEAR</b>           |        | 1,671,426               | 526,736                 | (242,782)               | (88,021)                |
| <b>CASH AND CASH EQUIVALENTS<br/>AT END OF YEAR</b>                 | 3.5.21 | 1,676,157               | 1,671,426               | 526,736                 | (242,782)               |



**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****3.5 WHITE CAFE - NOTES TO THE FINANCIAL STATEMENTS****3.5.1 REVENUE**

|                     | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Manufacturing sales | <u>73,304,338</u>       | <u>51,351,827</u>       | <u>36,948,937</u>       | <u>23,818,635</u>       |

**3.5.2 OPERATING COSTS APPLICABLE TO REVENUE**

|   | Note  | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---|-------|-------------------------|-------------------------|-------------------------|-------------------------|
| Changes in inventories of finished goods and work-in-progress                             |       | (503,810)               | (900,300)               | (192,320)               | 188,902                 |
| Raw materials and consumables used  |       | 50,840,961              | 35,322,209              | 26,448,463              | 16,487,982              |
| Employee benefit expenses   |       | 2,427,496               | 1,583,290               | 1,124,560               | 847,450                 |
| Directors' remuneration:  |       |                         |                         |                         |                         |
| - salaries and bonuses  |       | 135,810                 | 95,450                  | 66,000                  | 69,990                  |
| - EPF contributions   |       | 14,916                  | 10,020                  | 6,480                   | 7,692                   |
| Depreciation of property, plant and equipment   | 3.5.6 | 754,672                 | 576,291                 | 635,139                 | 568,322                 |
| Amortisation of prepaid lease payment   | 3.5.7 | 86,205                  | 2,452                   | 2,452                   | 2,452                   |
| Other (gains) and losses  |       | 1,360,350               | 321,813                 | (352,628)               | 408,444                 |
| Other operating expenses  |       | <u>7,175,176</u>        | <u>5,124,056</u>        | <u>4,358,841</u>        | <u>1,821,043</u>        |
|   |       | <u>62,291,776</u>       | <u>42,135,281</u>       | <u>32,096,987</u>       | <u>20,402,277</u>       |
|   |       | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
| Estimated monetary value of benefits-in-kind received by directors otherwise than in cash |       | -                       | -                       | 6,600                   | 11,100                  |

**3.5.3 FINANCE COSTS**

|                             | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|-----------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Interest on:                |                         |                         |                         |                         |
| Term loans                  | 386,925                 | 84,363                  | 94,518                  | 92,629                  |
| Bankers' acceptances        | 74,906                  | 84,628                  | 139,479                 | 134,077                 |
| Bank overdrafts             | 43,552                  | 39,061                  | 38,731                  | 22,976                  |
| Hire-purchase               | 5,510                   | 15,113                  | 42,797                  | 32,319                  |
| Bank charges and commission | <u>35,708</u>           | <u>73,156</u>           | <u>102,183</u>          | <u>70,249</u>           |
|                             | <u>546,601</u>          | <u>296,321</u>          | <u>417,708</u>          | <u>352,250</u>          |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****3.5 WHITE CAFE - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****3.5.4 PROFIT BEFORE TAX**

Profit before tax has been arrived at after crediting/(charging):

|  | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| Grant received   | -                       | 127,044                 | 41,083                  | -                       |
| Foreign exchange gain/(loss):                                  |                         |                         |                         |                         |
| - Realised   | (1,378,062)             | (281,858)               | 48,146                  | (268,825)               |
| - Unrealised   | (59,238)                | (109,955)               | 186,556                 | (139,619)               |
| Interest income from fixed deposits                            | 20,887                  | 71,908                  | 33,384                  | 24,419                  |
| Rental income:   |                         |                         |                         |                         |
| Investment property (Note 3.5.8)                               | 45,600                  | 45,600                  | 16,303                  | -                       |
| Others   | 11,100                  | 7,000                   | -                       | -                       |
| Net gain from fair value adjustments<br>of investment property | -                       | 70,000                  | 60,000                  | -                       |
| Gain on disposal of asset held for sale                        | -                       | -                       | 52,927                  | -                       |
| Gain on disposal of property, plant and equipment              | 76,950                  | -                       | 4,999                   | -                       |
| Audit fee:   |                         |                         |                         |                         |
| - Current year   | (20,000)                | (36,000)                | (25,000)                | (18,000)                |
| - Prior year   | -                       | -                       | 1,860                   | -                       |
| Rental of:   |                         |                         |                         |                         |
| - Billboards   | (301,875)               | (126,944)               | (74,181)                | (36,929)                |
| - Factory  | (66,720)                | (10,400)                | -                       | -                       |
| - Hostel   | (15,765)                | (7,700)                 | (5,200)                 | (7,350)                 |
| Property, plant and equipment written off                      | -                       | -                       | (522,576)               | (132,000)               |
| Allowance for doubtful debts                                   | -                       | -                       | (80,110)                | -                       |
| Bad debts written off  | -                       | (9,330)                 | -                       | -                       |

Included in employee benefits expenses of White Cafe are the following:

|                           | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Contributions made to EPF | 136,697                 | 110,886                 | 82,884                  | 64,668                  |

**3.5.5 INCOME TAX EXPENSE**

|   | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| Income tax comprises:   |                         |                         |                         |                         |
| Current tax expense in respect of the<br>current year   | 2,018,534               | 1,963,000               | 800,000                 | 669,000                 |
| Adjustments recognised in the current year in<br>relation to the income tax of prior years        | (385,004)               | 157,025                 | 313,225                 | (7,163)                 |
|   | 1,633,530               | 2,120,025               | 1,113,225               | 661,837                 |
| Deferred tax (income)/expense relating to<br>origination and reversal of temporary<br>differences | 166,000                 | 184,000                 | 36,000                  | (16,900)                |
| Adjustments recognised in the current year in<br>relation to the deferred tax of prior years      | (33,000)                | 118,000                 | (133,000)               | -                       |
| (Note 3.5.18)   | 133,000                 | 302,000                 | (97,000)                | (16,900)                |
|   | 1,766,530               | 2,422,025               | 1,016,225               | 644,937                 |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****3.5 WHITE CAFE - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****3.5.5 INCOME TAX EXPENSE (CONTINUED)**

The statutory income tax rates for companies with a paid-up capital of above RM2,500,000 in years of assessment 2007, 2008, 2009 and 2010 are 27%, 26%, 25% and 25% respectively. In the previous years of assessments, for companies with a paid-up capital of RM2,500,000 and below, an income tax rate of 20% is applicable for chargeable income of up to RM500,000. However, with effect from year of assessment 2009, this preferential tax rate will no longer be applicable for companies that controls or being controlled directly or indirectly by, or are related to another company which has a paid-up ordinary share capital of more than RM2,500,000. As a result, income tax rate of White Cafe has also been revised accordingly.

The expense for the year can be reconciled to the accounting profit as follows:

|   | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| Profit before tax   | <u>10,544,148</u>       | <u>9,264,202</u>        | <u>4,532,452</u>        | <u>3,215,247</u>        |
| Income tax expense calculated at 25%<br>(31.12.2009: 25%; 31.12.2008: 26%<br>and 31.12.2007: 27%) | 2,636,000               | 2,316,000               | 1,178,000               | 868,000                 |
| Tax effects of:   |                         |                         |                         |                         |
| Expenses that are not deductible<br>in determining taxable profit                                 | 175,534                 | 140,000                 | 294,000                 | 78,000                  |
| Income that are not taxable<br>in determining taxable profit                                      | -                       | (49,000)                | (28,000)                | -                       |
| Expenses available for double deduction   | (387,000)               | -                       | (352,000)               | -                       |
| Reinvestment allowance utilised   | (240,000)               | (260,000)               | (218,000)               | (261,000)               |
| Adjustment for deferred tax due to<br>change in income tax rates                                  | -                       | -                       | (8,000)                 | (11,000)                |
| Unrecognised temporary differences<br>in prior year   | -                       | -                       | -                       | 13,100                  |
| Effect of difference in tax rate applicable to<br>small and medium scale companies                | -                       | -                       | (30,000)                | (35,000)                |
| Adjustments recognised in the current year<br>in relation to the taxes of prior years:            |                         |                         |                         |                         |
| Income tax  | (385,004)               | 157,025                 | 313,225                 | (7,163)                 |
| Deferred tax  | <u>(33,000)</u>         | <u>118,000</u>          | <u>(133,000)</u>        | <u>-</u>                |
| Income tax expense for the year   | <u>1,766,530</u>        | <u>2,422,025</u>        | <u>1,016,225</u>        | <u>644,937</u>          |
|   | <b>31.12.2010</b>       | <b>31.12.2009</b>       | <b>31.12.2008</b>       | <b>31.12.2007</b>       |
|   | <b>RM</b>               | <b>RM</b>               | <b>RM</b>               | <b>RM</b>               |
| <i>Current tax liabilities</i>  |                         |                         |                         |                         |
| Income tax payable  | <u>329,872</u>          | <u>842,338</u>          | <u>615,860</u>          | <u>337,003</u>          |

## 10. ACCOUNTANTS' REPORT

## G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

## 3.5 WHITE CAFE - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 3.5.6 PROPERTY, PLANT AND EQUIPMENT

| Cost                            | Factory buildings<br>RM | Plant and<br>machinery,<br>factory, racking<br>and storage<br>equipment<br>RM | Motor<br>vehicles<br>RM | Furniture,<br>fixtures and<br>fittings,<br>electrical<br>installation<br>and signboard<br>RM | Air-<br>conditioners,<br>computers<br>and office<br>equipment<br>RM | Renovation<br>RM | Capital<br>work-in-<br>progress<br>RM | Total<br>RM |
|---------------------------------|-------------------------|---|-------------------------|--|---|------------------|---------------------------------------|-------------|
| As of January 1, 2007           | 2,345,957               | 3,629,624   | 449,572                 | 325,012  | 207,832   | 290,906          | -                                     | 7,248,903   |
| Effects of adoption of FRS 117  | (203,520)               | -   | -                       | -  | -   | -                | -                                     | (203,520)   |
| Additions                       | 58,790                  | 308,060   | -                       | 26,428   | 13,795  | 228,212          | -                                     | 635,285     |
| Write off                       | -                       | -   | (165,000)               | -  | -   | -                | -                                     | (165,000)   |
| Transfer to asset held for sale | (971,340)               | -   | -                       | -  | -   | -                | -                                     | (971,340)   |
| As of December 31, 2007         | 1,229,887               | 3,937,684   | 284,572                 | 351,440  | 221,627   | 519,118          | -                                     | 6,544,328   |
| Additions                       | -                       | 1,624,713   | 138,000                 | 48,986   | 60,306  | 101,810          | -                                     | 1,973,815   |
| Disposals                       | -                       | -   | (5,000)                 | -  | -   | -                | -                                     | (5,000)     |
| Write off                       | -                       | (2,405,926)   | -                       | (61,017)   | (127,304)   | (151,826)        | -                                     | (2,746,073) |
| As of December 31, 2008         | 1,229,887               | 3,156,471   | 417,572                 | 339,409  | 154,629   | 469,102          | -                                     | 5,767,070   |
| Additions                       | -                       | 1,736,629   | -                       | 27,496   | 37,144  | -                | -                                     | 1,801,269   |
| As of December 31, 2009         | 1,229,887               | 4,893,100   | 417,572                 | 366,905  | 191,773   | 469,102          | -                                     | 7,568,339   |
| Additions                       | -                       | 1,602,712   | 141,467                 | -  | 12,092  | -                | 387,048                               | 2,143,319   |
| Disposals                       | -                       | (14,200)  | (215,000)               | -  | -   | -                | -                                     | (229,200)   |
| As of December 31, 2010         | 1,229,887               | 6,481,612   | 344,039                 | 366,905  | 203,865   | 469,102          | 387,048                               | 9,482,458   |

(Forward)

## 10. ACCOUNTANTS' REPORT

## G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

## 3.5 WHITE CAFE - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 3.5.6 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

|   | Factory buildings RM | Plant and machinery, factory, racking and storage equipment RM | Motor vehicles RM | Furniture, fixtures and fittings, electrical installation and signboard RM | Air-conditioners, computers and office equipment RM | Renovation RM | Capital work-in-progress RM | Total RM    |
|---|----------------------|--|-------------------|--|---|---------------|-----------------------------|-------------|
| <b>Accumulated depreciation and accumulated impairment loss</b> |                      |  |                   |  |   |               |                             |             |
| As of January 1, 2007   | 161,833              | 1,757,797  | 145,570           | 59,315   | 83,963  | 104,808       | -                           | 2,313,286   |
| Effects of adoption of FRS 117                                  | (3,678)              | -  | -                 | -  | -   | -             | -                           | (3,678)     |
| Depreciation charge for the year                                | 22,507               | 393,596  | 43,000            | 35,144   | 22,163  | 51,912        | -                           | 568,322     |
| Write off   | -                    | -  | (33,000)          | -  | -   | -             | -                           | (33,000)    |
| Transfer to asset held for sale                                 | (114,267)            | -  | -                 | -  | -   | -             | -                           | (114,267)   |
| As of December 31, 2007   | 66,395               | 2,151,393  | 155,570           | 94,459   | 106,126   | 156,720       | -                           | 2,730,663   |
| Depreciation charge for the year                                | 24,598               | 447,858  | 52,383            | 35,327   | 20,736  | 54,237        | -                           | 635,139     |
| Disposals   | -                    | -  | (4,999)           | -  | -   | -             | -                           | (4,999)     |
| Write off   | -                    | (1,965,554)  | -                 | (43,552)   | (96,921)  | (117,470)     | -                           | (2,223,497) |
| As of December 31, 2008   | 90,993               | 633,697  | 202,954           | 86,234   | 29,941  | 93,487        | -                           | 1,137,306   |
| Depreciation charge for the year                                | 24,598               | 380,979  | 70,600            | 35,429   | 17,775  | 46,910        | -                           | 576,291     |
| As of December 31, 2009   | 115,591              | 1,014,676  | 273,554           | 121,663  | 47,716  | 140,397       | -                           | 1,713,597   |
| Depreciation charge for the year                                | 24,598               | 575,294  | 51,178            | 36,691   | 20,001  | 46,910        | -                           | 754,672     |
| Disposals   | -                    | (6,030)  | (172,000)         | -  | -   | -             | -                           | (178,030)   |
| As of December 31, 2010   | 140,189              | 1,583,940  | 152,732           | 158,354  | 67,717  | 187,307       | -                           | 2,290,239   |
| <b>Carrying amounts</b>   |                      |  |                   |  |   |               |                             |             |
| As of December 31, 2007   | 1,163,492            | 1,786,291  | 129,002           | 256,981  | 115,501   | 362,398       | -                           | 3,813,665   |
| As of December 31, 2008   | 1,138,894            | 2,522,774  | 214,618           | 253,175  | 124,688   | 375,615       | -                           | 4,629,764   |
| As of December 31, 2009   | 1,114,296            | 3,878,424  | 144,018           | 245,242  | 144,057   | 328,705       | -                           | 5,854,742   |
| As of December 31, 2010   | 1,089,698            | 4,897,672  | 191,307           | 208,551  | 136,148   | 281,795       | 387,048                     | 7,192,219   |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****3.5 WHITE CAFE - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****3.5.6 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

Factory buildings of White Cafe are charged to certain local licensed banks for facilities granted to White Cafe as mentioned in Note 3.5.17.

Included in property, plant and equipment of White Cafe are fully depreciated assets which are still in use, with the following cost:

|                     | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---------------------|------------------|------------------|------------------|------------------|
| Plant and machinery | 87,000           | -                | -                | -                |
| Motor vehicles      | 64,572           | 64,572           | 64,572           | 64,572           |
|                     | <u>151,572</u>   | <u>64,572</u>    | <u>64,572</u>    | <u>64,572</u>    |

The carrying amounts of assets under hire-purchase arrangement are as follows:

|                     | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---------------------|------------------|------------------|------------------|------------------|
| Plant and machinery | -                | 237,180          | 315,630          | 360,720          |
| Motor vehicles      | 117,889          | 43,000           | 86,001           | 129,001          |
|                     | <u>117,889</u>   | <u>280,180</u>   | <u>401,631</u>   | <u>489,721</u>   |

**3.5.7 PREPAID LEASE PAYMENTS**

|                                 | 31.12.2010<br>RM | Long-term leasehold land<br>31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---------------------------------|------------------|--|------------------|------------------|
| <b>At cost</b>                  |                  |  |                  |                  |
| At beginning of year            | 203,520          | 203,520                                      | 203,520          | -                |
| Additions                       | 5,025,174        | -  | -                | -                |
| Effects of adoption of FRS 117  | -                | -  | -                | 203,520          |
| At end of year                  | <u>5,228,694</u> | <u>203,520</u>                               | <u>203,520</u>   | <u>203,520</u>   |
| <b>Accumulated amortisation</b> |                  |  |                  |                  |
| At beginning of year            | 11,034           | 8,582  | 6,130            | -                |
| Effects of adoption of FRS 117  | -                | -  | -                | 3,678            |
| Amortisation for the year       | 86,205           | 2,452  | 2,452            | 2,452            |
| At end of year                  | <u>97,239</u>    | <u>11,034</u>                                | <u>8,582</u>     | <u>6,130</u>     |
| <b>Carrying amount</b>          | <u>5,131,455</u> | <u>192,486</u>                               | <u>194,938</u>   | <u>197,390</u>   |

Leasehold land of White Cafe is charged to certain local licensed banks for facilities granted to White Cafe as mentioned in Note 3.5.17.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****3.5 WHITE CAFE - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****3.5.8 INVESTMENT PROPERTY**

|  | Long-term<br>leasehold land<br>and building<br>RM |
|--|---|
| <b>At fair value:</b>  |   |
| As of January 1, 2008  | -   |
| Additions  | 1,010,000   |
| Net gain from fair value adjustment recognised in profit or loss | <u>60,000</u>                                     |
| As of December 31, 2008  | 1,070,000   |
| Additions  | -   |
| Net gain from fair value adjustment recognised in profit or loss | <u>70,000</u>                                     |
| As of December 31, 2009  | 1,140,000   |
| Additions  | -   |
| As of December 31, 2010  | <u>1,140,000</u>                                  |

The fair value of the property was estimated based on valuation by an independent professionally qualified valuer. Valuation was arrived at by reference to market evidence of transaction prices for similar properties.

The investment property was charged to a local licensed bank for banking facilities granted to White Cafe as mentioned in Note 3.5.17.

The rental income and direct operating expenses arising from the investment property of White Café, all of which are leased out under operating leases, are as follows:

|                           |       | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---------------------------|-------|-------------------------|-------------------------|-------------------------|-------------------------|
| Rental income             | 3.5.4 | 45,600                  | 45,600                  | 16,303                  | -                       |
| Direct operating expenses |       | <u>5,080</u>            | <u>5,080</u>            | <u>5,080</u>            | <u>-</u>                |

There are no contractual obligations for future repairs and maintenance on the investment property of White Cafe.

**3.5.9 INVENTORIES**

|                   | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|-------------------|------------------|------------------|------------------|------------------|
| Raw materials     | 2,397,886        | 1,295,000        | 2,134,141        | 1,122,829        |
| Packing materials | 396,526          | 378,347          | 480,536          | 500,985          |
| Work-in-progress  | 136,996          | 136,735          | 150,243          | 28,901           |
| Finished goods    | 1,802,516        | 1,298,967        | 385,159          | 314,181          |
|                   | <u>4,733,924</u> | <u>3,109,049</u> | <u>3,150,079</u> | <u>1,966,896</u> |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****3.5 WHITE CAFE - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****3.5.9 INVENTORIES (CONTINUED)**

The cost of inventories of White Cafe recognised as an expense during the year was as follows:

|                     | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Cost of inventories | <u>54,048,265</u>       | <u>36,907,249</u>       | <u>28,221,415</u>       | <u>18,319,463</u>       |

**3.5.10 TRADE AND OTHER RECEIVABLES**

|                                     | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|-------------------------------------|------------------|------------------|------------------|------------------|
| Trade receivables                   | 4,296,265        | 3,746,088        | 3,652,079        | 2,744,271        |
| Allowance for doubtful debts        | -                | -                | (80,110)         | -                |
|                                     | <u>4,296,265</u> | <u>3,746,088</u> | <u>3,571,969</u> | <u>2,744,271</u> |
| Other receivables                   | 90,072           | 101,776          | 15,503           | -                |
| Refundable Deposits                 | 43,930           | 614,094          | 20,580           | 21,080           |
|                                     | <u>133,002</u>   | <u>716,870</u>   | <u>35,083</u>    | <u>21,080</u>    |
| Loans and receivables               | 4,430,267        | 4,461,958        | 3,608,052        | 2,765,351        |
| Prepaid expenses                    | -                | 11,338           | 41,493           | 11,338           |
| Advance payment for acquisition of: |                  |                  |                  |                  |
| Plant and machinery                 | 1,238,658        | -                | -                | -                |
| Investment property                 | -                | -                | -                | 101,000          |
| Commercial land                     | -                | -                | -                | 121,715          |
|                                     | <u>1,238,658</u> | <u>-</u>         | <u>-</u>         | <u>222,715</u>   |
|                                     | <u>5,668,925</u> | <u>4,473,296</u> | <u>3,649,545</u> | <u>2,999,404</u> |

The currency profile of trade receivables is as follows:

|                      | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|----------------------|------------------|------------------|------------------|------------------|
| United States Dollar | 3,538,461        | 3,404,326        | 2,961,798        | 2,592,783        |
| Singapore Dollar     | 743,724          | 299,546          | -                | -                |
| Ringgit Malaysia     | 14,080           | 42,216           | 690,281          | 151,488          |
|                      | <u>4,296,265</u> | <u>3,746,088</u> | <u>3,652,079</u> | <u>2,744,271</u> |

Trade receivables comprise amounts receivable for the sale of goods. Certain trade transactions were on cash terms and credit period for remaining non-interest bearing trade transactions ranged from 30 to 60 days. An allowance has been made for estimated irrecoverable amounts of trade receivables of RM80,110 in 2008 based on the default experience of White Cafe.

Included in trade receivables of White Cafe as of December 31, 2010 are receivables with total carrying amount of RM1,290,256 which are past due at the reporting date for which White Cafe has not provided for impairment loss. White Cafe does not hold any collateral over these balances nor does it have a legal right of offset against any amounts owed White Cafe to the counterparty.



**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****3.5 WHITE CAFE - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****3.5.10 TRADE AND OTHER RECEIVABLES (CONTINUED)**

Ageing of trade receivables which are past due but not impaired as at the reporting date:

|                    | 31.12.2010<br>RM |
|--------------------|------------------|
| Within 30 days     | 898,394          |
| 31 - 60 days       | <u>391,862</u>   |
|                    | <u>1,290,256</u> |
| Average age (days) | <u>22</u>        |

White Cafe seeks to maintain strict control over its outstanding trade receivables and has a credit period policy to minimise credit risk. Overdue balances are reviewed regularly by management. White Cafe has not provided for impairment loss on trade receivable accounts that are past due as there has not been a significant change in credit quality and the amounts are still considered recoverable.

Other receivables of White Cafe in 2010 and 2009 comprise mainly stakeholder sum held by a solicitor in relation to the legal suit claim which has not been received by White Cafe.

Transactions with related parties are disclosed in Note 3.5.11.

**3.5.11 HOLDING COMPANY AND RELATED PARTY TRANSACTIONS**

The amount owing by holding company arose mainly from management fee and advances which are unsecured and interest free. The amounts owing are repayable upon demand and have therefore been classified as current assets.

|   | 31.12.2010<br>RM  | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---|-------------------|------------------|------------------|------------------|
| Amount owing by related companies consist of: |                   |                  |                  |                  |
| Trade account                                 | 6,598,374         | 5,542,402        | 3,056,965        | 2,662,817        |
| Non-trade account                             | <u>3,554,771</u>  | <u>1,899,714</u> | <u>1,093,798</u> | <u>267,124</u>   |
|   | <u>10,153,145</u> | <u>7,442,116</u> | <u>4,150,763</u> | <u>2,929,941</u> |

The trade balances owing by related companies are subject to the normal trade terms. The balances of non-trade nature are unsecured, interest-free and repayable upon demand.

During the financial year, significant related party transactions are as follows:

|                               | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|-------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| <b>Holding company</b>        |                         |                         |                         |                         |
| Dividend payable/paid         | 2,000,000               | -                       | -                       | 511,000                 |
| Advances granted              | 1,760,000               | 1,310,000               | 484,000                 | 1,149,998               |
| Management fees paid/payable  | 348,000                 | 348,000                 | 348,000                 | 180,000                 |
| Repayment of advances granted | <u>-</u>                | <u>-</u>                | <u>198,000</u>          | <u>231,525</u>          |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****3.5 WHITE CAFE - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****3.5.11 HOLDING COMPANY AND RELATED PARTY TRANSACTIONS (CONTINUED)**

|   | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| <b>Related companies</b>                  |                         |                         |                         |                         |
| <b>Gongga Food</b>                        |                         |                         |                         |                         |
| Trade sales                               | 4,283,589               | 3,296,945               | 2,867,782               | 1,183,036               |
| Advances granted                          | 1,350,000               | 1,400,000               | 315,000                 | -                       |
| Repayment of advances granted             | -                       | -                       | 315,000                 | -                       |
| <b>Kopitiam Asia Pacific</b>              |                         |                         |                         |                         |
| Advances granted                          | 1,000,000               | -                       | 1,000,000               | 8,000                   |
| Repayment of advances granted             | 200,000                 | -                       | 500,000                 | 130,000                 |
| Sale of property, plant and equipment     | -                       | -                       | 5,000                   | -                       |
| Purchases of goods                        | 1,000                   | -                       | 140                     | -                       |
| <b>Old Town Kopitiam</b>                  |                         |                         |                         |                         |
| Advances granted                          | -                       | -                       | -                       | 120,000                 |
| Repayment of advances granted             | -                       | -                       | -                       | 280,000                 |
| <b>White Cafe Marketing</b>               |                         |                         |                         |                         |
| Trade sales                               | 30,026,968              | 22,039,925              | 17,522,360              | 11,462,645              |
| Rental received/receivables               | 12,000                  | 7,000                   | -                       | -                       |
| Rental deposits received                  | -                       | 2,500                   | -                       | -                       |
| <b>Other related parties</b>              |                         |                         |                         |                         |
| <b>Dynasty Confectionery</b>              |                         |                         |                         |                         |
| Rental received                           | 45,600                  | 45,600                  | 16,303                  | -                       |
| <b>Esquire Chef</b>                       |                         |                         |                         |                         |
| Laboratory fees received                  | 26,400                  | -                       | -                       | -                       |
| <b>Old Town Industries Sdn. Bhd.</b>      |                         |                         |                         |                         |
| Purchase of property, plant and equipment | -                       | 1,084,594               | -                       | -                       |
| Advances granted                          | -                       | 545,000                 | 775,130                 | 16,398                  |
| Repayment of advances granted             | -                       | -                       | 200,000                 | -                       |
| <b>Advanced City Limited</b>              |                         |                         |                         |                         |
| Trade sales                               | -                       | -                       | -                       | 5,472,624               |

The relationships of the related parties with Oldtown group of companies are disclosed in Chapters 5 and 7 of the Prospectus of Oldtown.

The outstanding balances arising from the non-trade transactions above are as follows:

|                          | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|--------------------------|------------------|------------------|------------------|------------------|
| <b>Other receivables</b> |                  |                  |                  |                  |
| Dynasty Confectionery    | -                | 11,703           | 15,503           | -                |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****3.5 WHITE CAFE - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****3.5.11 HOLDING COMPANY AND RELATED PARTY TRANSACTIONS (CONTINUED)***Compensation of key management personnel*

The remuneration of directors is disclosed in Note 3.5.2. The remuneration of key management personnel of White Cafe during the financial year are as follows:

|  | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| Salaries, bonuses and allowances   | 123,600                 | 94,850                  | 71,550                  | 64,800                  |
| EPF contributions  | 14,688                  | 11,064                  | 8,592                   | 7,776                   |
|  | <u>138,288</u>          | <u>105,914</u>          | <u>80,142</u>           | <u>72,576</u>           |
| Estimated monetary value of benefits-in-kind received and receivable otherwise in cash | <u>8,466</u>            | <u>3,011</u>            | <u>2,885</u>            | <u>-</u>                |

**3.5.12 FIXED DEPOSITS, CASH AND BANK BALANCES**

|                                    | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|------------------------------------|------------------|------------------|------------------|------------------|
| Fixed deposits with licensed banks | 2,030,857        | 2,011,397        | 1,939,489        | 906,105          |
| Cash on hand and at banks          | 2,283,936        | 2,351,426        | 1,180,179        | 57,924           |
|                                    | <u>4,314,793</u> | <u>4,362,823</u> | <u>3,119,668</u> | <u>964,029</u>   |

The effective interest rates per annum and maturity periods for fixed deposits of White Cafe are as follows:

|                             | 31.12.2010   | 31.12.2009        | 31.12.2008        | 31.12.2007       |
|-----------------------------|--------------|-------------------|-------------------|------------------|
| Effective interest rate (%) | 2.49 to 2.70 | 2.70 to 3.70      | 3.52 to 3.70      | 3.70 to 3.88     |
| Maturity period (days)      | <u>365</u>   | <u>180 to 360</u> | <u>180 to 360</u> | <u>90 to 360</u> |

The currency profile of fixed deposits, cash and bank balances are as follows:

|                      | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|----------------------|------------------|------------------|------------------|------------------|
| Ringgit Malaysia     | 3,790,778        | 4,356,847        | 2,364,372        | 964,029          |
| United States Dollar | 524,015          | 5,976            | 755,296          | -                |
|                      | <u>4,314,793</u> | <u>4,362,823</u> | <u>3,119,668</u> | <u>964,029</u>   |

Fixed deposits of White Cafe are pledged to local licensed banks for bank overdraft and other credit facilities granted to White Cafe as disclosed in Note 3.5.17.

Included in fixed deposits are amounts held in trust by a director of the holding company as follows:

|                  | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|------------------|------------------|------------------|------------------|------------------|
| Carrying amounts | <u>-</u>         | <u>80,291</u>    | <u>80,291</u>    | <u>77,561</u>    |

The fixed deposits held in trust by a director were transferred to White Café during the financial year ended December 31, 2010.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****3.5 WHITE CAFE - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****3.5.13 NON-CURRENT ASSETS/LIABILITIES CLASSIFIED AS HELD FOR SALE**

In 2007, a property was presented as an asset held for sale following the commitment of management of White Cafe to sell the building due to the relocation of its business. A sale and purchase agreement was signed on October 23, 2007. The assets and liabilities classified as held for sale were as follows:

|  | 31.12.2010 | 31.12.2009 | 31.12.2008 | 31.12.2007     |
|--|------------|------------|------------|----------------|
|  | RM         | RM         | RM         | RM             |
| <b>Asset classified as held for sale</b>     |            |            |            |                |
| Property:                                    |            |            |            |                |
| Cost   | -          | -          | -          | 971,340        |
| Accumulated depreciation                     | -          | -          | -          | (114,267)      |
|  | <u>-</u>   | <u>-</u>   | <u>-</u>   | <u>857,073</u> |
| <b>Liability classified as held for sale</b> |            |            |            |                |
| Deferred tax liability (Note 3.5.18)         | -          | -          | -          | 24,000         |
|  | <u>-</u>   | <u>-</u>   | <u>-</u>   | <u>24,000</u>  |

As disclosed in Note 3.5.17, the asset classified as held for sale was charged to a licensed bank for term loan and other credit facilities granted to White Cafe in 2007.

**3.5.14 SHARE CAPITAL**

|                                       | 31.12.2010       | 31.12.2009       | 31.12.2008       | 31.12.2007       |
|---------------------------------------|------------------|------------------|------------------|------------------|
|                                       | RM               | RM               | RM               | RM               |
| <b>Authorised:</b>                    |                  |                  |                  |                  |
| 5,000,000 ordinary shares of RM1 each | <u>5,000,000</u> | <u>5,000,000</u> | <u>5,000,000</u> | <u>5,000,000</u> |
| <b>Issued and fully paid:</b>         |                  |                  |                  |                  |
| 1,000,000 ordinary shares of RM1 each | <u>1,000,000</u> | <u>1,000,000</u> | <u>1,000,000</u> | <u>1,000,000</u> |

**3.5.15 RETAINED EARNINGS**

In accordance with the Finance Act, 2007, the single tier income tax system became effective from the year of assessment 2008. Under this system, tax on profit of a company is a final tax, and dividends paid are exempted from tax in the hands of the shareholders. Unlike the previous imputation system, the recipient of the dividend would no longer be able to claim any tax credit.

Companies without Section 108 tax credit balance will automatically move to the single tier income tax system on January 1, 2008. However, companies with such tax credits are given an irrevocable option to elect for the single tier tax system and disregard the tax credit or continue to use the tax credits under Section 108 account to frank the payment of cash dividends on ordinary shares for a period of 6 years ending December 31, 2013 or until the tax credits are fully utilised, whichever comes first. During the transitional period, any tax paid will not be added to the Section 108 account and any tax credits utilised will reduce the tax credit balance. All companies will be in the new system on January 1, 2014.

As of December 31, 2010, White Cafe has not opted to disregard the Section 108 tax credit balance in accordance with the Finance Act, 2007. White Cafe may utilise the Section 108 tax credit balance, which has been frozen as of December 31, 2007, to frank dividend payments during the six-year transitional period. Based on the prevailing tax rate applicable to dividend, White Cafe has sufficient Section 108 tax credit and tax-exempt account to frank dividends amounting to RM2,851,000 out of its retained earnings as of December 31, 2010. If the balance of the retained earnings of RM20,361,000 were to be distributed as dividends, White Cafe would switch to a single tier tax system and the balance of the dividends would be single tier dividend.

## 10. ACCOUNTANTS' REPORT

## G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

## 3.5 WHITE CAFE - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 3.5.16 HIRE-PURCHASE PAYABLES

|   | ← Minimum hire-purchase payments → |                |                |                | ← Present value of minimum hire-purchase payments → |                |                |                |
|---|------------------------------------|----------------|----------------|----------------|---|----------------|----------------|----------------|
|   | 31.12.2010                         | 31.12.2009     | 31.12.2008     | 31.12.2007     | 31.12.2010  | 31.12.2009     | 31.12.2008     | 31.12.2007     |
|   | RM                                 | RM             | RM             | RM             | RM  | RM             | RM             | RM             |
| Amounts payable under hire-purchase arrangements:                   |                                    |                |                |                |   |                |                |                |
| Within one year   | 28,644                             | 45,200         | 168,504        | 170,431        | 23,768  | 37,442         | 153,391        | 147,748        |
| In the second to fifth year inclusive                               | 95,452                             | 91,924         | 142,532        | 278,600        | 88,039  | 84,070         | 126,920        | 228,791        |
| More than five years  | -                                  | -              | -              | 32,436         | -   | -              | -              | 31,406         |
|   | <u>124,096</u>                     | <u>137,124</u> | <u>311,036</u> | <u>481,467</u> | <u>111,807</u>                                      | <u>121,512</u> | <u>280,311</u> | <u>407,945</u> |
| Less: Future finance charges  | (12,289)                           | (15,612)       | (30,725)       | (73,522)       | -   | -              | -              | -              |
| Present value of hire-purchase payables                             | <u>111,807</u>                     | <u>121,512</u> | <u>280,311</u> | <u>407,945</u> | <u>111,807</u>                                      | <u>121,512</u> | <u>280,311</u> | <u>407,945</u> |
| Less: Amount due within 12 months (shown under current liabilities) | -                                  | -              | -              | -              | (23,768)  | (37,442)       | (153,391)      | (127,634)      |
| Non-current portion   | -                                  | -              | -              | -              | 88,039  | 84,070         | 126,920        | 280,311        |

The non-current portion is repayable as follows:

|                         | 31.12.2010    | 31.12.2009    | 31.12.2008     | 31.12.2007     |
|-------------------------|---------------|---------------|----------------|----------------|
|                         | RM            | RM            | RM             | RM             |
| Financial years ending: |               |               |                |                |
| 2009                    | -             | -             | -              | 153,391        |
| 2010                    | -             | -             | 38,379         | 38,379         |
| 2011                    | -             | 27,934        | 27,617         | 27,617         |
| 2012                    | 24,930        | 29,834        | 29,518         | 29,518         |
| 2013                    | 26,173        | 26,302        | 31,406         | 31,406         |
| 2014                    | 27,466        | -             | -              | -              |
| 2015                    | 9,470         | -             | -              | -              |
|                         | <u>88,039</u> | <u>84,070</u> | <u>126,920</u> | <u>280,311</u> |

It is the policy of White Cafe to acquire certain of its property, plant and equipment under hire-purchase arrangements.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****3.5 WHITE CAFE - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****3.5.16 HIRE-PURCHASE PAYABLES (CONTINUED)**

The terms for hire-purchase and average effective borrowing rates per annum are as follows:

|                                       | FYE<br>31.12.2010 | FYE<br>31.12.2009 | FYE<br>31.12.2008 | FYE<br>31.12.2007 |
|---------------------------------------|-------------------|-------------------|-------------------|-------------------|
| Terms (years)                         | 5                 | 3 to 7            | 3 to 7            | 3 to 7            |
| Average effective financing rates (%) | <u>7.00</u>       | <u>7.73</u>       | <u>8.63</u>       | <u>8.63</u>       |

Interest rates are fixed at the inception of the hire-purchase arrangements.

Hire-purchase payables of White Cafe are secured by the assets under hire-purchase and guaranteed by a director of White Cafe.

The fair values of White Cafe's hire-purchase payables are approximately equal to their carrying amounts.

**3.5.17 BORROWINGS**

|  | 31.12.2010<br>RM   | 31.12.2009<br>RM   | 31.12.2008<br>RM   | 31.12.2007<br>RM   |
|--|--------------------|--------------------|--------------------|--------------------|
| Secured:   |                    |                    |                    |                    |
| Bankers' acceptances   | 1,865,000          | 2,177,000          | 3,953,000          | 2,477,000          |
| Term loans   | 7,431,608          | 1,488,286          | 1,601,260          | 1,209,411          |
| Bank overdrafts  | <u>607,779</u>     | <u>680,000</u>     | <u>653,443</u>     | <u>300,706</u>     |
|  | 9,904,387          | 4,345,286          | 6,207,703          | 3,987,117          |
| Less: Amount due within 12 months<br>(shown under current liabilities) | <u>(3,240,012)</u> | <u>(2,963,613)</u> | <u>(4,699,083)</u> | <u>(2,847,792)</u> |
| Non-current portion  | <u>6,664,375</u>   | <u>1,381,673</u>   | <u>1,508,620</u>   | <u>1,139,325</u>   |

The non-current portion is repayable as follows:

|                         | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|-------------------------|------------------|------------------|------------------|------------------|
| Financial years ending: |                  |                  |                  |                  |
| 2009                    | -                | -                | -                | 71,371           |
| 2010                    | -                | -                | 106,978          | 76,488           |
| 2011                    | -                | 72,761           | 69,642           | 29,273           |
| 2012                    | 792,753          | 66,564           | 68,480           | 31,352           |
| 2013                    | 833,433          | 70,216           | 72,612           | 33,578           |
| 2014                    | 876,336          | 74,074           | 76,994           | 35,962           |
| 2015                    | 921,592          | 78,149           | 81,641           | 38,516           |
| 2016 and above          | <u>3,240,261</u> | <u>1,019,909</u> | <u>1,032,273</u> | <u>822,785</u>   |
|                         | <u>6,664,375</u> | <u>1,381,673</u> | <u>1,508,620</u> | <u>1,139,325</u> |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****3.5 WHITE CAFE - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****3.5.17 BORROWINGS (CONTINUED)**

Total term loans and other facilities of White Café with local licensed banks are as follows:

|                       | 31.12.2010<br>RM  | 31.12.2009<br>RM  | 31.12.2008<br>RM | 31.12.2007<br>RM |
|-----------------------|-------------------|-------------------|------------------|------------------|
| Total approved limits | <u>25,709,000</u> | <u>25,083,000</u> | <u>6,768,000</u> | <u>6,517,000</u> |

The above facilities are secured by:

- i) Fixed legal charge over the leasehold land and buildings of White Cafe as mentioned in Notes 3.5.6, 3.5.7, 3.5.8 and 3.5.13;
- ii) Pledge of fixed deposits as disclosed in Note 3.5.12;
- iii) A stamped facilities agreement of RM5.858 million; and
- iv) Joint and several guarantees by the holding company and all the directors of White Cafe.

White Cafe has six (6) term loans that are repayable as follows:

- i) 120 monthly instalments of RM4,230 each commencing October 2000;
- ii) 60 monthly instalments of RM2,011 each commencing July 2003 which has been fully settled in 2008;
- iii) 240 monthly instalments of RM8,284 each commencing March 2006;
- iv) 180 monthly instalments of RM3,393 each commencing October 2008;
- v) 84 monthly instalments of RM58,051 each commencing April 2010; and
- vi) 120 monthly instalments of RM28,451 each commencing May 2010.

The effective interest rates per annum are as follows:

|                      | FYE<br>31.12.2010<br>% | FYE<br>31.12.2009<br>% | FYE<br>31.12.2008<br>% | FYE<br>31.12.2007<br>% |
|----------------------|------------------------|------------------------|------------------------|------------------------|
| Bank overdrafts      | 6.90 - 7.80            | 6.15 - 7.05            | 7.75 - 8.50            | 7.75 - 8.50            |
| Term loans           | 4.30 - 8.05            | 6.15 - 7.05            | 7.35 - 9.50            | 7.35 - 8.25            |
| Bankers' acceptances | <u>4.43 - 4.45</u>     | <u>2.21 - 3.67</u>     | <u>4.67 - 5.95</u>     | <u>4.75 - 6.18</u>     |

In 2007, White Cafe breached one of the loan covenants which stipulated that White Cafe shall not declare or make any payment to its shareholders by way of dividends without the consent of the lending bank during the tenure of the facility. No action was taken by the lending bank as of the date of this report.

The fair values of White Cafe's bank borrowings approximate their carrying amounts.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****3.5 WHITE CAFE - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****3.5.18 DEFERRED TAX LIABILITIES**

|   | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---|------------------|------------------|------------------|------------------|
| At beginning of year                          | 444,000          | 142,000          | 215,000          | 255,900          |
| Recognised in profit or loss (Note 3.5.5)     | 133,000          | 302,000          | (97,000)         | (16,900)         |
| Included in asset held for sale (Note 3.5.13) | -                | -                | 24,000           | (24,000)         |
| At end of year                                | <u>577,000</u>   | <u>444,000</u>   | <u>142,000</u>   | <u>215,000</u>   |

The deferred tax liabilities are in respect of the following:

|  | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|--|------------------|------------------|------------------|------------------|
| Tax effects of temporary differences arising from: |                  |                  |                  |                  |
| Property, plant and equipment                      | 576,000          | 425,000          | 142,000          | 215,000          |
| Trade receivables                                  | 13,000           | 19,000           | -                | -                |
| Unabsorbed tax capital allowances                  | (12,000)         | -                | -                | -                |
|  | <u>577,000</u>   | <u>444,000</u>   | <u>142,000</u>   | <u>215,000</u>   |

**3.5.19 TRADE AND OTHER PAYABLES**

|                              | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|------------------------------|------------------|------------------|------------------|------------------|
| Trade payables               | 5,586,457        | 4,192,273        | 2,416,595        | 2,499,389        |
| Other payables               | 815,246          | 1,070,439        | 742,472          | -                |
| Accrued expenses             | 559,831          | 490,982          | 377,140          | 225,095          |
| Refundable deposits received | 13,100           | 13,100           | 10,600           | 91,000           |
|                              | <u>6,974,634</u> | <u>5,766,794</u> | <u>3,546,807</u> | <u>2,815,484</u> |

Trade and other payables comprise amounts outstanding for trade purchases and ongoing costs. The credit terms granted to White Cafe for trade purchases ranged from 30 days to 60 days. No interest is charged on outstanding balance on the trade payables. White Cafe has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

The amounts owing to other payables are unsecured, interest-free and repayable upon demand.

The currency profile of other payables is as follows:

|                      | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|----------------------|------------------|------------------|------------------|------------------|
| Ringgit Malaysia     | 684,566          | 1,001,157        | 685,465          | -                |
| United States Dollar | 130,680          | 69,282           | -                | -                |
| Singapore Dollar     | -                | -                | 51,947           | -                |
| Hong Kong Dollar     | -                | -                | 5,060            | -                |
|                      | <u>815,246</u>   | <u>1,070,439</u> | <u>742,472</u>   | <u>-</u>         |



**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****3.5 WHITE CAFE - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****3.5.20 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT****Categories of financial instruments**

|  | 31.12.2010<br>RM |
|--|------------------|
| <b>Financial assets</b>  |                  |
| Loans and receivables:   |                  |
| Trade and other receivables  | 4,430,267        |
| Amount owing by holding company                                    | 3,775,053        |
| Amount owing by related companies                                  | 10,153,145       |
| Cash and cash equivalents - fixed deposits, cash and bank balances | <u>4,314,793</u> |
| <b>Financial liabilities</b>                                       |                  |
| Amortised cost:  |                  |
| Trade and other payables   | 6,974,634        |
| Hire purchase payables   | 111,807          |
| Borrowings   | <u>9,904,387</u> |

**Financial Risk Management Objectives and Policies**

Risk management is integral to the whole business of White Cafe. Management continually monitors White Cafe's risk management process to ensure that an appropriate balance between risk and control is achieved. Risk management policies and systems are reviewed regularly to reflect changes in the market conditions and White Cafe's activities.

There has been no change to White Cafe's exposure to these financial risks or the manner in which it manages and measures the risk.

**(a) Credit risk management**

The maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as of December 31, 2010 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the statement of financial position.

At the end of the reporting date, White Cafe is subject to significant concentration of credit risk as 71% of trade receivables are receivable from the top 3 customers. Majority of these amounts have been received since December 31, 2010.

**(b) Liquidity and cash flow risks management**

Ultimate responsibility for liquidity and cash flow risks management rests with the Board of Directors, which has established an appropriate liquidity and cash flow risks management framework for the management of the White Cafe's short, medium and long-term funding and liquidity and cash flow management requirements. White Cafe manages liquidity and cash flow risks by maintaining adequate reserves and banking facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and financial liabilities.

Management is of the view that White Cafe's exposure to liquidity and cash flow risks are minimal as White Cafe has sufficient funds to finance its ongoing working capital requirements.

The maturity profile for the non-derivative financial assets/liabilities of White Cafe at the reporting date based on the undiscounted cash flows of the respective financial assets/liabilities representing the earliest date on which White Cafe is entitled to receive/required to pay, is as follows:

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****3.5 WHITE CAFE - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****3.5.20 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (CONTINUED)**

|   | On demand<br>or within<br>one year<br>RM | One year to<br>five years<br>RM | Over five<br>years<br>RM | Total<br>RM       |
|---|--|---------------------------------|--------------------------|-------------------|
| <b>Non-derivative financial assets:</b>   |  |                                 |                          |                   |
| Trade and other receivables   | 4,430,267                                | -                               | -                        | 4,430,267         |
| Amount owing by holding company   | 3,775,053                                | -                               | -                        | 3,775,053         |
| Amount owing by related companies   | 10,153,145                               | -                               | -                        | 10,153,145        |
| Fixed deposits, cash and bank balances  | 4,314,793                                | -                               | -                        | 4,314,793         |
| <b>Total undiscounted<br/>non-derivative financial assets</b>                   | <b>22,673,258</b>                        | <b>-</b>                        | <b>-</b>                 | <b>22,673,258</b> |
| <b>Non-derivative financial liabilities:</b>                                    |  |                                 |                          |                   |
| Trade and other payables  | 6,974,634                                | -                               | -                        | 6,974,634         |
| Hire-purchase payables  | 23,768                                   | 88,039                          | -                        | 111,807           |
| Borrowings  | 3,240,012                                | 3,424,114                       | 3,240,261                | 9,904,387         |
| <b>Total undiscounted<br/>non-derivative financial liabilities</b>              | <b>10,238,414</b>                        | <b>3,512,153</b>                | <b>3,240,261</b>         | <b>16,990,828</b> |
| <b>Total net undiscounted<br/>non-derivative financial assets/(liabilities)</b> | <b>12,434,844</b>                        | <b>(3,512,153)</b>              | <b>(3,240,261)</b>       | <b>5,682,430</b>  |

White Cafe has not committed to any derivative financial instruments during the financial year ended December 31, 2010.

**(c) Market risk**

White Cafe's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

There has been no change to White Cafe's exposure to market risks or the manner in which these risks are managed and measured.

**(i) Foreign currency risk management**

White Cafe is exposed to the effects of foreign currency exchange rate fluctuation primarily in relation to the United States Dollar ("USD") and Singapore Dollar ("SGD") arising from normal trading and investment activities. Exposure to foreign currency risk is monitored on an ongoing basis and White Cafe endeavours to keep the net exposure at an acceptable level.

The carrying amounts of White Cafe's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting date are as follows:

|  | USD       | SGD     |
|--|-----------|---------|
| Trade and other receivables            | 3,538,461 | 743,724 |
| Fixed deposits, cash and bank balances | 524,015   | -       |
| Trade and other payables               | 130,680   | -       |

## 10. ACCOUNTANTS' REPORT

### G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

#### 3.5 WHITE CAFE - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

##### 3.5.20 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (CONTINUED)

###### Foreign currency sensitivity analysis

The following table details White Cafe's sensitivity to a 3% increase and decrease in RM against the relevant foreign currencies. 3% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonable possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 3% change in foreign currency rates. A positive number below indicates an increase in profit and other equity where RM strengthens 3% against the relevant currency. For a 3% weakening of RM against the relevant currency, there would be a comparable impact on the profit and other equity, and the balances below would be negative.

|     | 31.12.2010   |                         |
|-----|--------------|-------------------------|
|     | Changes<br>% | Profit before tax<br>RM |
| USD | +3           | 641,986                 |
| SGD | +3           | 22,315                  |

###### *(ii) Interest rate risk management*

Interest rate risk is the risk that the fair value or future cash flows of White Cafe's financial instruments will fluctuate because of changes in market interest rates. White Cafe's exposure to interest risk arises primarily from their loans.

###### Interest rate risk sensitivity analysis

As of December 31, 2010, if interest rates had been 100 basis points lower/higher, with all other variables held constant, White Cafe's profit net of tax would have been RM80,394 lower/higher arising mainly as a result of lower/higher interest expense on floating rate borrowings. The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment.

###### *(d) Capital risk management*

White Cafe manages its capital to ensure White Cafe will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. White Cafe's overall strategy remains unchanged from 2009.

The capital structure of White Cafe consists of net debts and equity of White Cafe. White Cafe is not subject to any externally imposed capital requirements.

###### **Fair Values of Financial Assets and Financial Liabilities**

The fair value of long-term financial assets and liabilities are determined by the present value of future cash flows estimated and discounted using the current interest rates for similar instruments at the end of the reporting date. There is no material difference between the fair values and carrying values of these assets and liabilities as of the reporting date.

The carrying amounts of cash and cash equivalents, trade and other receivables, trade and other payables and inter-company indebtedness approximate their respective fair values due to the relatively short-term maturity of these financial instruments. The fair values of other classes of financial assets and liabilities are disclosed in the respective notes to the financial statements.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****3.5 WHITE CAFE - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****3.5.21 CASH AND CASH EQUIVALENTS**

For the purposes of the statement of cash flows, cash and cash equivalents include cash on hand and at banks and net of outstanding bank overdraft. Cash and cash equivalents at the end of the reporting date as shown in the statement of cash flows can be reconciled to the related items in the statement of financial position as follows:

|                                       | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---------------------------------------|------------------|------------------|------------------|------------------|
| Fixed deposits with licensed banks    | 2,030,857        | 2,011,397        | 1,939,489        | 906,105          |
| Cash and bank balances                | 2,283,936        | 2,351,426        | 1,180,179        | 57,924           |
| Bank overdrafts                       | (607,779)        | (680,000)        | (653,443)        | (300,706)        |
|                                       | 3,707,014        | 3,682,823        | 2,466,225        | 663,323          |
| Less: Fixed deposits pledged to banks | (2,030,857)      | (2,011,397)      | (1,939,489)      | (906,105)        |
|                                       | <u>1,676,157</u> | <u>1,671,426</u> | <u>526,736</u>   | <u>(242,782)</u> |

**3.5.22 OPERATING LEASE ARRANGEMENTS**

Operating leases related to leases of factory, billboards and hostel with average lease terms as follows:

|                             | FYE<br>31.12.2010 | FYE<br>31.12.2009 | FYE<br>31.12.2008 | FYE<br>31.12.2007 |
|-----------------------------|-------------------|-------------------|-------------------|-------------------|
| Average lease terms (years) | 1 to 3            | 1 to 3            | 3                 | 3                 |

White Cafe does not have an option to purchase the leased factory, billboards and hostel at the expiry of the lease periods. All operating lease contracts contain clauses for market rental reviews in the event that the lessee exercises its option to renew.

Payment recognised as an expenses are as follows:

|                        | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Minimum lease payments | <u>73,605</u>           | <u>18,100</u>           | <u>18,696</u>           | <u>15,522</u>           |

Non-cancellable operating lease commitments are as follows:

|                                       | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---------------------------------------|------------------|------------------|------------------|------------------|
| Within one year                       | 114,030          | 31,800           | 9,474            | 18,696           |
| In the second to fifth year inclusive | <u>26,400</u>    | <u>54,600</u>    | <u>600</u>       | <u>10,074</u>    |
|                                       | <u>140,430</u>   | <u>86,400</u>    | <u>10,074</u>    | <u>28,770</u>    |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****3.5 WHITE CAFE - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****3.5.23 CAPITAL COMMITMENTS**

White Cafe has the following capital commitment in respect of property, plant and equipment at the respective financial years:

|                                   | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|-----------------------------------|------------------|------------------|------------------|------------------|
| Capital expenditure:              |                  |                  |                  |                  |
| - approved and contracted for     | 4,576,096        | 4,275,000        | -                | -                |
| - contracted but not provided for | -                | -                | -                | 909,000          |
|                                   | <u>4,576,096</u> | <u>4,275,000</u> | <u>-</u>         | <u>909,000</u>   |

**3.5.24 CONTINGENT ASSETS**

White Cafe had filed an application to the Intellectual Property Department of Hong Kong on December 31, 2004 for a declaration of invalidity of registration of trademark by a competitor on the grounds that the subject mark is very similar to White Cafe's trademark and is likely to deceive the public and such registration was made in bad faith.

On December 4, 2007, the Registrar of Trade Marks Registry mentioned that White Cafe is entitled to claim against the defendant for recovery of damages. With reference to without prejudice letter dated November 17, 2008, White Cafe accepted a payment of HK\$280,000 as full and final settlement. The amount was settled in 2009.

**3.5.25 SIGNIFICANT EVENTS**

On December 28, 2009, the ultimate holding company entered into Sale and Purchase Agreements (as was supplemented by letters dated May 24, 2010 and June 11, 2010 respectively, and supplemental agreement dated December 9, 2010) with Oldtown to dispose off its entire equity interest in White Cafe.

On April 12, 2011, Securities Commission had granted the Oldtown the approval for the proposed listing on the Main Market of Bursa Securities. Following the said approval, Oldtown intends to complete the transfer of shares before June 2011.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****4. WHITE CAFE MARKETING****4.1 WHITE CAFE MARKETING - STATEMENTS OF COMPREHENSIVE INCOME**

|   |       | FYE<br>31.12.2010   | FYE<br>31.12.2009   | FYE<br>31.12.2008   | FYE<br>31.12.2007   |
|---|-------|---------------------|---------------------|---------------------|---------------------|
|   | Note  | RM                  | RM                  | RM                  | RM                  |
| Revenue   | 4.5.1 | 47,344,478          | 36,317,365          | 26,884,625          | 18,601,932          |
| Cost of sales   |       | <u>(33,956,788)</u> | <u>(25,268,727)</u> | <u>(19,481,848)</u> | <u>(13,302,877)</u> |
| Gross profit  |       | 13,387,690          | 11,048,638          | 7,402,777           | 5,299,055           |
| Other operating income  |       | 46,669              | 72                  | -                   | 21,944              |
| Other gains and (losses)  |       | (90,390)            | -                   | 19,846              | -                   |
| Investment revenue  |       | 115,979             | 108,450             | 78,000              | 75,300              |
| Selling and distribution expenses   |       | (8,520,368)         | (6,567,861)         | (4,578,436)         | (3,281,579)         |
| Administrative and general expenses   |       | (1,521,315)         | (1,306,321)         | (1,181,885)         | (1,217,380)         |
| Other operating expenses  |       | -                   | -                   | (31,394)            | (706)               |
| Profit from operations  |       | 3,418,265           | 3,282,978           | 1,708,908           | 896,634             |
| Finance costs   | 4.5.3 | <u>(142,351)</u>    | <u>(122,326)</u>    | <u>(236,534)</u>    | <u>(166,676)</u>    |
| Profit before tax   | 4.5.4 | 3,275,914           | 3,160,652           | 1,472,374           | 729,958             |
| Income tax expense  | 4.5.5 | <u>(915,660)</u>    | <u>(835,849)</u>    | <u>(448,394)</u>    | <u>(210,352)</u>    |
| <b>Profit and total comprehensive income for the year attributable to owner of White Cafe Marketing</b> |       | <u>2,360,254</u>    | <u>2,324,803</u>    | <u>1,023,980</u>    | <u>519,606</u>      |
| <i>Key financial ratios:</i>  |       |                     |                     |                     |                     |
| Weighted average number of ordinary shares of RM1.00 each in issue (units)                              |       | 1,700,000           | 1,700,000           | 1,700,000           | 1,700,000           |
| Gross profit margin (%)   |       | 28.28               | 30.42               | 27.54               | 28.49               |
| Basic earnings per share (sen)  |       | 138.84              | 136.75              | 60.23               | 30.57               |
| Effective tax rate (%)  |       | <u>26.16</u>        | <u>28.56</u>        | <u>27.90</u>        | <u>36.04</u>        |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****4.2 WHITE CAFE MARKETING - STATEMENTS OF FINANCIAL POSITION**

|  | Note   | 31.12.2010<br>RM  | 31.12.2009<br>RM  | 31.12.2008<br>RM  | 31.12.2007<br>RM |
|--|--------|-------------------|-------------------|-------------------|------------------|
| <b>ASSETS</b>                          |        |                   |                   |                   |                  |
| <b>Non-current assets</b>              |        |                   |                   |                   |                  |
| Property, plant and equipment          | 4.5.6  | 2,318,311         | 1,626,526         | 1,354,369         | 1,276,158        |
| Investment property                    | 4.5.7  | 660,000           | 660,000           | 660,000           | 640,154          |
| <b>Total non-current assets</b>        |        | <b>2,978,311</b>  | <b>2,286,526</b>  | <b>2,014,369</b>  | <b>1,916,312</b> |
| <b>Current assets</b>                  |        |                   |                   |                   |                  |
| Inventories                            | 4.5.8  | 1,818,027         | 1,437,257         | 795,878           | 356,175          |
| Trade and other receivables            | 4.5.9  | 6,864,519         | 8,295,837         | 6,212,995         | 4,115,297        |
| Amount owing by holding company        | 4.5.10 | -                 | 100,000           | -                 | 122,040          |
| Amount owing by related companies      | 4.5.10 | 65,725            | 283,060           | 348,186           | 716,605          |
| Current tax asset                      | 4.5.5  | 286,670           | -                 | -                 | -                |
| Fixed deposits, cash and bank balances | 4.5.11 | 2,658,389         | 2,173,708         | 1,060,581         | 996,741          |
| <b>Total current assets</b>            |        | <b>11,693,330</b> | <b>12,289,862</b> | <b>8,417,640</b>  | <b>6,306,858</b> |
| <b>Total assets</b>                    |        | <b>14,671,641</b> | <b>14,576,388</b> | <b>10,432,009</b> | <b>8,223,170</b> |
| <b>EQUITY AND LIABILITIES</b>          |        |                   |                   |                   |                  |
| <b>Capital and reserves</b>            |        |                   |                   |                   |                  |
| Issued capital                         | 4.5.12 | 1,700,000         | 1,700,000         | 1,700,000         | 1,700,000        |
| Retained earnings                      | 4.5.13 | 6,227,078         | 3,866,824         | 1,542,021         | 518,041          |
| <b>Total equity</b>                    |        | <b>7,927,078</b>  | <b>5,566,824</b>  | <b>3,242,021</b>  | <b>2,218,041</b> |
| <b>Non-current liabilities</b>         |        |                   |                   |                   |                  |
| Hire-purchase payables                 | 4.5.14 | 991,474           | 415,572           | 440,127           | 478,061          |
| Borrowings                             | 4.5.15 | 226,448           | 246,166           | 266,528           | 286,969          |
| Deferred tax liability                 | 4.5.16 | 225,000           | 161,000           | 107,000           | 74,000           |
| <b>Total non-current liabilities</b>   |        | <b>1,442,922</b>  | <b>822,738</b>    | <b>813,655</b>    | <b>839,030</b>   |
| <b>Current liabilities</b>             |        |                   |                   |                   |                  |
| Trade and other payables               | 4.5.17 | 2,238,947         | 1,271,143         | 429,673           | 794,369          |
| Amount owing to holding company        | 4.5.10 | 2,038             | -                 | 87,504            | -                |
| Amount owing to related companies      | 4.5.10 | 2,547,880         | 4,685,540         | 2,737,340         | 2,389,972        |
| Hire-purchase payables                 | 4.5.14 | 290,045           | 165,644           | 155,411           | 186,969          |
| Borrowings                             | 4.5.15 | 222,731           | 1,622,105         | 2,794,843         | 1,779,449        |
| Current tax liabilities                | 4.5.5  | -                 | 442,394           | 171,562           | 15,340           |
| <b>Total current liabilities</b>       |        | <b>5,301,641</b>  | <b>8,186,826</b>  | <b>6,376,333</b>  | <b>5,166,099</b> |
| <b>Total liabilities</b>               |        | <b>6,744,563</b>  | <b>9,009,564</b>  | <b>7,189,988</b>  | <b>6,005,129</b> |
| <b>Total equity and liabilities</b>    |        | <b>14,671,641</b> | <b>14,576,388</b> | <b>10,432,009</b> | <b>8,223,170</b> |
| <i>Key financial ratios:</i>           |        |                   |                   |                   |                  |
| Net tangible assets per share (sen)    |        | 466.30            | 327.46            | 190.71            | 130.47           |
| Debt-equity ratio (times)              |        | 0.22              | 0.44              | 1.13              | 1.23             |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****4.3 WHITE CAFE MARKETING - STATEMENTS OF CHANGES IN EQUITY**

|   | Issued<br>Capital<br>RM | (Accumulated<br>Loss)/<br>Retained<br>Earnings<br>RM | Net<br>Shareholders'<br>Equity<br>RM |
|---|-------------------------|--|--------------------------------------|
| Balance as of January 1, 2007           | 1,700,000               | (1,565)  | 1,698,435                            |
| Total comprehensive income for the year | -                       | 519,606  | 519,606                              |
| Balance as of December 31, 2007         | 1,700,000               | 518,041  | 2,218,041                            |
| Total comprehensive income for the year | -                       | 1,023,980  | 1,023,980                            |
| Balance as of December 31, 2008         | 1,700,000               | 1,542,021  | 3,242,021                            |
| Total comprehensive income for the year | -                       | 2,324,803  | 2,324,803                            |
| Balance as of December 31, 2009         | 1,700,000               | 3,866,824  | 5,566,824                            |
| Total comprehensive income for the year | -                       | 2,360,254  | 2,360,254                            |
| Balance as of December 31, 2010         | 1,700,000               | 6,227,078  | 7,927,078                            |

**4.4 WHITE CAFE MARKETING - SUMMARISED STATEMENTS OF CASH FLOWS**

| Note  | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| Net Cash Generated From/(Used In)<br>Operating Activities       | 2,141,967               | 2,932,779               | (615,439)               | 342,259                 |
| Net Cash Generated From/(Used In)<br>Investing Activities       | 782,658                 | (277,350)               | (272,772)               | (124,872)               |
| Net Cash (Used In)/ Generated From<br>Financing Activities      | (1,992,559)             | (1,574,879)             | 726,799                 | 448,395                 |
| <b>NET INCREASE/(DECREASE) IN<br/>CASH AND CASH EQUIVALENTS</b> | 932,066                 | 1,080,550               | (161,412)               | 665,782                 |
| <b>CASH AND CASH EQUIVALENTS<br/>AT BEGINNING OF YEAR</b>       | 1,357,554               | 277,004                 | 438,416                 | (227,366)               |
| <b>CASH AND CASH EQUIVALENTS<br/>AT END OF YEAR</b>             | 4.5.19 2,289,620        | 1,357,554               | 277,004                 | 438,416                 |



**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****4.5 WHITE CAFE MARKETING - NOTES TO THE FINANCIAL STATEMENTS****4.5.1 REVENUE**

|               | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Trading sales | <u>47,344,478</u>       | <u>36,317,365</u>       | <u>26,884,625</u>       | <u>18,601,932</u>       |

**4.5.2 OPERATING COSTS APPLICABLE TO REVENUE**

|   | Note  | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---|-------|-------------------------|-------------------------|-------------------------|-------------------------|
| Changes in inventories of trading merchandise |       | (380,771)               | (641,379)               | (439,703)               | (212,640)               |
| Other gains and losses                        |       | 90,390                  | -                       | -                       | -                       |
| Purchase of trading merchandise               |       | 34,337,559              | 25,671,054              | 19,921,551              | 13,515,519              |
| Employee benefit expenses                     |       | 3,234,690               | 2,532,382               | 1,802,588               | 1,342,024               |
| Depreciation of property, plant and equipment | 4.5.6 | 411,345                 | 243,693                 | 187,587                 | 171,526                 |
| Amortisation of investment property           | 4.5.7 | -                       | -                       | -                       | 14,536                  |
| Other operating expenses                      |       | <u>6,395,648</u>        | <u>5,337,159</u>        | <u>3,801,540</u>        | <u>2,971,577</u>        |
|   |       | <u>44,088,861</u>       | <u>33,142,909</u>       | <u>25,273,563</u>       | <u>17,802,542</u>       |

**4.5.3 FINANCE COSTS**

|                             | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|-----------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Interest on:                |                         |                         |                         |                         |
| Hire-purchase               | 59,807                  | 37,960                  | 88,598                  | 43,267                  |
| Bankers' acceptances        | 37,932                  | 36,182                  | 85,537                  | 68,860                  |
| Term loans                  | 18,955                  | 19,441                  | 23,858                  | 25,037                  |
| Bank overdraft              | 277                     | 1,268                   | 2,348                   | 9,260                   |
| Bank charges and commission | <u>25,380</u>           | <u>27,475</u>           | <u>36,193</u>           | <u>20,252</u>           |
|                             | <u>142,351</u>          | <u>122,326</u>          | <u>236,534</u>          | <u>166,676</u>          |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****4.5 WHITE CAFE MARKETING - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****4.5.4 PROFIT BEFORE TAX**

Profit before tax has been arrived at after crediting/(charging):

|   | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| Interest income from fixed deposits                       | 43,979                  | 31,950                  | -                       | 13,344                  |
| Rental income from<br>investment property (Note 4.5.7)    | 72,000                  | 76,500                  | 78,000                  | 75,300                  |
| Allowance for doubtful debts no longer required           | 38,086                  | -                       | -                       | -                       |
| Interest income   | 2,687                   | -                       | -                       | -                       |
| Gain from fair value adjustment<br>of investment property | -                       | -                       | 19,846                  | -                       |
| Loss on disposal of property, plant and equipment         | (91,397)                | -                       | (31,394)                | (706)                   |
| Rental of:  |                         |                         |                         |                         |
| Office  | (77,995)                | (72,995)                | (45,073)                | (51,000)                |
| Warehouse   | (19,200)                | (18,500)                | (33,000)                | (38,000)                |
| Hostel  | (8,400)                 | (7,800)                 | -                       | -                       |
| Parking lot   | (750)                   | (500)                   | -                       | -                       |
| Promotion space   | -                       | (650)                   | -                       | -                       |
| Others  | -                       | -                       | -                       | (2,450)                 |
| Bad debts written off                                     | (5,763)                 | (46,901)                | (30,580)                | (35,028)                |
| Realised gain on foreign exchange                         | 1,007                   | -                       | -                       | -                       |
| Allowance for doubtful debts                              | -                       | (42,874)                | -                       | (53,276)                |
| Audit fee   | (20,000)                | (33,000)                | (26,000)                | (18,000)                |

Included in employee benefits expenses of White Cafe Marketing are the following:

|                           | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Contributions made to EPF | 248,885                 | 194,159                 | 135,769                 | 106,474                 |

**4.5.5 INCOME TAX EXPENSE**

|  | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| Income tax comprises:  |                         |                         |                         |                         |
| Current tax expense in respect of the current year   | 866,000                 | 790,000                 | 392,000                 | 217,000                 |
| Adjustments recognised in current year in relation<br>To the income tax of prior years         | (14,340)                | (8,151)                 | 23,394                  | (35,604)                |
|  | 851,660                 | 781,849                 | 415,394                 | 181,396                 |
| Deferred tax (income)/expense relating to<br>origination and reversal of temporary differences | (9,000)                 | 54,000                  | 27,000                  | 16,700                  |
| Adjustments recognised in current year in relation<br>to the deferred tax of prior years       | 73,000                  | -                       | 6,000                   | 12,256                  |
| (Note 4.5.16)  | 64,000                  | 54,000                  | 33,000                  | 28,956                  |
|  | 915,660                 | 835,849                 | 448,394                 | 210,352                 |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****4.5 WHITE CAFE MARKETING - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****4.5.5 INCOME TAX EXPENSE (CONTINUED)**

The statutory income tax rates for companies with a paid-up capital of above RM2,500,000 in years of assessment 2007, 2008, 2009 and 2010 are 27%, 26%, 25% and 25% respectively. In the previous years of assessments, for companies with a paid-up capital of RM2,500,000 and below, an income tax rate of 20% is applicable for chargeable income of up to RM500,000. However, with effect from year of assessment 2009, this preferential tax rate will no longer be applicable for companies that controls or being controlled directly or indirectly by, or are related to another company which has a paid-up ordinary share capital of more than RM2,500,000. As a result, income tax rate of White Cafe Marketing has also been revised accordingly.

The expense for the year can be reconciled to the accounting profit as follows:

|   | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| Profit before tax   | 3,275,914               | 3,160,652               | 1,472,374               | 729,958                 |
| Income tax expense calculated at 25%<br>(31.12.2009: 25%; 31.12.2008: 26%<br>and 31.12.2007: 27%) | 819,000                 | 790,000                 | 383,000                 | 197,100                 |
| Tax effects of:   |                         |                         |                         |                         |
| Expenses that are not deductible in determining<br>taxable profit                                 | 38,000                  | 54,000                  | 75,000                  | 74,500                  |
| Income that are not taxable in determining<br>taxable profit                                      | -                       | -                       | (5,000)                 | -                       |
| Adjustment for deferred tax due to change<br>in income tax rate                                   | -                       | -                       | (4,000)                 | (2,000)                 |
| Others  | -                       | -                       | -                       | (900)                   |
| Effect of difference in tax rate applicable to small<br>and medium scale companies                | -                       | -                       | (30,000)                | (35,000)                |
| Adjustments recognised in the current year<br>in relation to the taxes of prior years:            |                         |                         |                         |                         |
| Current tax   | (14,340)                | (8,151)                 | 23,394                  | (35,604)                |
| Deferred tax  | 73,000                  | -                       | 6,000                   | 12,256                  |
| Income tax expense for the year   | 915,660                 | 835,849                 | 448,394                 | 210,352                 |
|   | 31.12.2010<br>RM        | 31.12.2009<br>RM        | 31.12.2008<br>RM        | 31.12.2007<br>RM        |
| <i>Current tax asset</i>  |                         |                         |                         |                         |
| Income tax recoverable  | 286,670                 | -                       | -                       | -                       |
|   | 31.12.2010<br>RM        | 31.12.2009<br>RM        | 31.12.2008<br>RM        | 31.12.2007<br>RM        |
| <i>Current tax liability</i>  |                         |                         |                         |                         |
| Income tax payable  | -                       | 442,394                 | 171,562                 | 15,340                  |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****4.5 WHITE CAFE MARKETING - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****4.5.6 PROPERTY, PLANT AND EQUIPMENT**

|   | Motor<br>vehicles<br>RM | Factory<br>equipment,<br>electrical<br>appliances<br>and<br>electrical<br>installation<br>RM | Computers<br>and<br>programming<br>RM | Air-<br>conditioners,<br>furniture,<br>fittings<br>and office<br>equipment<br>RM | Total<br>RM |
|---|-------------------------|--|---------------------------------------|--|-------------|
| <b>Cnst</b>   |                         |  |                                       |  |             |
| As of January 1, 2007   | 1,455,134               | 72,568   | 107,633                               | 58,057   | 1,693,392   |
| Additions   | 51,404                  | 59,465   | 7,255                                 | 8,552  | 126,676     |
| Disposals   | (24,000)                | -  | -                                     | -  | (24,000)    |
| As of December 31, 2007   | 1,482,538               | 132,033  | 114,888                               | 66,609   | 1,796,068   |
| Additions   | 311,772                 | 135,318  | 6,497                                 | 4,605  | 458,192     |
| Disposals   | (248,250)               | -  | -                                     | -  | (248,250)   |
| As of December 31, 2008   | 1,546,060               | 267,351  | 121,385                               | 71,214   | 2,006,010   |
| Additions   | 306,008                 | 127,594  | 66,202                                | 16,046   | 515,850     |
| As of December 31, 2009   | 1,852,068               | 394,945  | 187,587                               | 87,260   | 2,521,860   |
| Additions   | 1,413,247               | 57,216   | 13,064                                | -  | 1,483,527   |
| Disposals   | (660,776)               | -  | -                                     | -  | (660,776)   |
| As of December 31, 2010   | 2,604,539               | 452,161  | 200,651                               | 87,260   | 3,344,611   |
| <b>Accumulated depreciation<br/>and accumulated impairment loss</b> |                         |  |                                       |  |             |
| As of January 1, 2007   | 275,371                 | 34,370   | 27,662                                | 18,615   | 356,018     |
| Depreciation charge for the year                                    | 144,827                 | 9,398  | 11,126                                | 6,175  | 171,526     |
| Disposals   | (7,634)                 | -  | -                                     | -  | (7,634)     |
| As of December 31, 2007   | 412,564                 | 43,768   | 38,788                                | 24,790   | 519,910     |
| Depreciation charge for the year                                    | 149,078                 | 19,472   | 12,037                                | 7,000  | 187,587     |
| Disposals   | (55,856)                | -  | -                                     | -  | (55,856)    |
| As of December 31, 2008   | 505,786                 | 63,240   | 50,825                                | 31,790   | 651,641     |
| Depreciation charge for the year                                    | 185,741                 | 33,632   | 15,853                                | 8,467  | 243,693     |
| As of December 31, 2009   | 691,527                 | 96,872   | 66,678                                | 40,257   | 895,334     |
| Depreciation charge for the year                                    | 340,555                 | 43,319   | 18,766                                | 8,705  | 411,345     |
| Disposals   | (280,379)               | -  | -                                     | -  | (280,379)   |
| As of December 31, 2010   | 751,703                 | 140,191  | 85,444                                | 48,962   | 1,026,300   |
| <b>Carrying amounts</b>   |                         |  |                                       |  |             |
| As of December 31, 2007   | 1,069,974               | 88,265   | 76,100                                | 41,819   | 1,276,158   |
| As of December 31, 2008   | 1,040,274               | 204,111  | 70,560                                | 39,424   | 1,354,369   |
| As of December 31, 2009   | 1,160,541               | 298,073  | 120,909                               | 47,003   | 1,626,526   |
| As of December 31, 2010   | 1,852,836               | 311,970  | 115,207                               | 38,298   | 2,318,311   |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****4.5 WHITE CAFE MARKETING - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****4.5.6 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

The carrying amounts of assets under hire-purchase arrangement are as follows:

|                | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|----------------|------------------|------------------|------------------|------------------|
| Motor vehicles | 1,552,689        | 829,291          | 874,762          | 1,069,974        |

**4.5.7 INVESTMENT PROPERTY**

|                                   | 31.12.2010<br>RM | Freehold Shoplot<br>31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|-----------------------------------|------------------|--------------------------------------|------------------|------------------|
| <b>At fair value/cost</b>         |                  |                                      |                  |                  |
| As of January 1                   | 660,000          | 660,000                              | 726,777          | 726,777          |
| Upon adoption of fair value model | -                | -                                    | (86,623)         | -                |
| Increase in fair value            | -                | -                                    | 19,846           | -                |
| As of December 31                 | 660,000          | 660,000                              | 660,000          | 726,777          |
| <b>Accumulated Amortisation</b>   |                  |                                      |                  |                  |
| As of January 1                   | -                | -                                    | 86,623           | 72,087           |
| Amortisation for the year         | -                | -                                    | -                | 14,536           |
| Upon adoption of fair value model | -                | -                                    | (86,623)         | -                |
| As of December 31                 | -                | -                                    | -                | 86,623           |
| <b>Carrying amount</b>            | 660,000          | 660,000                              | 660,000          | 640,154          |

In 2008, White Cafe Marketing changed the measurement basis of its investment property from previously used cost model to fair value model to be consistent with the group policy on investment property adopted by the holding company. The effect of the change has not been adjusted retrospectively as the directors considered the impact of fair value adjustment in the prior year as immaterial.

The fair value of the investment property was estimated based on valuation by an independent professionally qualified valuer. Valuation was arrived at by reference to market evidence of transaction prices for similar properties.

The investment property was charged to a local licensed bank to secure facilities granted to White Cafe Marketing as disclosed in Note 4.5.15.

The strata title for the shoplot has yet to be issued as of December 31, 2010.

The rental income and direct operating expenses arising from investment property are as follows:

|                           |       | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---------------------------|-------|-------------------------|-------------------------|-------------------------|-------------------------|
| Rental income             | 4.5.4 | 72,000                  | 76,500                  | 78,000                  | 75,300                  |
| Direct operating expenses |       | 11,309                  | 7,450                   | 7,354                   | 7,438                   |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****4.5 WHITE CAFE MARKETING - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****4.5.8 INVENTORIES**

|                     | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---------------------|------------------|------------------|------------------|------------------|
| Trading merchandise | <u>1,818,027</u> | <u>1,437,257</u> | <u>795,878</u>   | <u>356,175</u>   |

The cost of inventories of White Cafe Marketing recognised as an expense during the year are as follows:

|                     | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Cost of inventories | <u>33,956,788</u>       | <u>25,268,727</u>       | <u>19,481,848</u>       | <u>13,302,877</u>       |

**4.5.9 TRADE AND OTHER RECEIVABLES**

|                                    | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|------------------------------------|------------------|------------------|------------------|------------------|
| Trade receivables                  | 6,804,939        | 8,272,038        | 6,181,956        | 4,038,847        |
| Less: Allowance for doubtful debts | <u>(4,788)</u>   | <u>(42,874)</u>  | <u>-</u>         | <u>-</u>         |
|                                    | 6,800,151        | 8,229,164        | 6,181,956        | 4,038,847        |
| Other receivables                  | 24,000           | 11,054           | -                | 25,760           |
| Refundable deposits                | <u>40,368</u>    | <u>55,169</u>    | <u>31,039</u>    | <u>31,690</u>    |
| Loans and receivables              | 6,864,519        | 8,295,837        | 6,212,995        | 4,096,297        |
| Prepaid expenses                   | <u>-</u>         | <u>-</u>         | <u>-</u>         | <u>19,000</u>    |
|                                    | <u>6,864,519</u> | <u>8,295,837</u> | <u>6,212,995</u> | <u>4,115,297</u> |

Trade receivables comprise amounts receivable for the sale of goods. Certain trade transactions were on cash terms and credit period for remaining non-interest bearing trade transactions ranged from 14 to 120 days. An allowance has been made for estimated irrecoverable amounts of trade receivables of RM4,788 and RM42,874 in 2010 and 2009 respectively based on the default experience of White Cafe Marketing.

Other receivables of White Cafe Marketing comprise rental receivable from investment property which is unsecured, interest-free and repayable upon demand.

Included in other receivables in 2007 was an amount of RM25,760 owing by an associate of a related company in which the directors of White Cafe Marketing and persons connected to a director of White Cafe Marketing are deemed to have financial interest. The granting of non-trade advances to a company in which a director has financial interest was in contravention of Section 133A of the Companies Act, 1965. However, the amount had been fully recovered in 2008.

The currency profile of trade receivables is as follows:

|                      | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|----------------------|------------------|------------------|------------------|------------------|
| Ringgit Malaysia     | 6,802,479        | 8,267,233        | 6,175,107        | 4,035,475        |
| United States Dollar | -                | 1,929            | 6,849            | 3,372            |
| Singapore Dollar     | <u>2,460</u>     | <u>2,876</u>     | <u>-</u>         | <u>-</u>         |
|                      | <u>6,804,939</u> | <u>8,272,038</u> | <u>6,181,956</u> | <u>4,038,847</u> |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****4.5 WHITE CAFE MARKETING - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****4.5.9 TRADE AND OTHER RECEIVABLES (CONTINUED)**

Movement in the allowance for doubtful debts is as follows:

|   | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---|------------------|------------------|------------------|------------------|
| Balance at beginning of year                | 42,874           | -                | -                | -                |
| Impairment losses recognised on receivables | -                | 42,874           | -                | -                |
| Amounts recovered                           | (38,086)         | -                | -                | -                |
| Balance at end of year                      | <u>4,788</u>     | <u>42,874</u>    | <u>-</u>         | <u>-</u>         |

Included in trade receivables of White Cafe Marketing are related parties' balances as follows:

|                           | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---------------------------|------------------|------------------|------------------|------------------|
| Related parties' balances | <u>159,133</u>   | <u>149,947</u>   | <u>249,187</u>   | <u>93,559</u>    |

Included in trade receivables of White Cafe Marketing are receivables with total carrying amount of RM2,958,625 which are past due as of December 31, 2010 for which White Cafe Marketing has not provided for impairment loss. White Cafe Marketing does not hold any collateral over these balances nor does it have a legal right to offset against any amounts owed by White Cafe Marketing to the counterparty.

Ageing of trade receivables which are past due but not impaired as of December 31, 2010 are as follows:

|                    | 31.12.2010<br>RM |
|--------------------|------------------|
| 1 – 30 days        | 40,845           |
| 31 – 60 days       | 702,669          |
| 61 – 90 days       | 1,371,627        |
| 91 – 120 days      | 25,012           |
| More than 120 days | <u>818,472</u>   |
|                    | <u>2,958,625</u> |
| Average age (days) | <u>99</u>        |

White Cafe Marketing seeks to maintain strict control over its outstanding trade receivables and has a credit period policy to minimise credit risk. Overdue balances are reviewed regularly by management. White Cafe Marketing has not provided for impairment loss on trade receivable accounts that are past due as there has not been a significant change in credit quality and the amounts are still considered recoverable.

Transactions with related parties are disclosed in Note 4.5.10.

**4.5.10 HOLDING COMPANY AND RELATED PARTY TRANSACTIONS**

The amount owing by/(to) holding company arose from management fees and rental payable and advances which are unsecured, interest-free and are repayable upon demand.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****4.5 WHITE CAFE MARKETING - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****4.5.10 HOLDING COMPANY AND RELATED PARTY TRANSACTIONS (CONTINUED)**

|   | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---|------------------|------------------|------------------|------------------|
| Amount owing by related companies consist of: |                  |                  |                  |                  |
| Trade account                                 | 65,725           | 83,060           | 43,186           | 55,756           |
| Non-trade account                             | -                | 200,000          | 305,000          | 660,849          |
|   | <u>65,725</u>    | <u>283,060</u>   | <u>348,186</u>   | <u>716,605</u>   |
|   | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
| Amount owing to related companies consist of: |                  |                  |                  |                  |
| Trade account                                 | 2,547,880        | 4,665,904        | 2,737,340        | 2,389,972        |
| Non-trade account                             | -                | 19,636           | -                | -                |
|   | <u>2,547,880</u> | <u>4,685,540</u> | <u>2,737,340</u> | <u>2,389,972</u> |

The trade balances owing by related companies are subject to the normal trade terms. The balances of non-trade nature are unsecured, interest-free and repayable upon demand.

The amounts owing to related companies are unsecured, interest-free and are repayable upon demand.

During the financial year, significant related party transactions are as follows:

|   | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| <b>Holding company</b>                    |                         |                         |                         |                         |
| Management fees paid                      | 252,000                 | 252,000                 | 252,000                 | 120,000                 |
| Rental paid/payable                       | 56,995                  | 56,995                  | 21,374                  | -                       |
| Advances granted                          | -                       | 100,000                 | 54,086                  | 241,200                 |
| Repayment of advances granted             | -                       | -                       | 252,000                 | 120,000                 |
| <b>Other related companies</b>            |                         |                         |                         |                         |
| <b>Gongga Food</b>                        |                         |                         |                         |                         |
| Trade purchases                           | 1,867,432               | 1,486,300               | 1,389,349               | 1,257,444               |
| Purchase of property, plant and equipment | -                       | 50,350                  | -                       | -                       |
| Trade sales                               | -                       | -                       | 24,657                  | 18,874                  |
| Repayment of advances received            | -                       | -                       | -                       | 99,000                  |
| <b>Kopitiam Asia Pacific</b>              |                         |                         |                         |                         |
| Repayment of advances granted             | 200,000                 | -                       | 36,409                  | 500                     |
| Trade sales                               | 20,710                  | 3,928                   | -                       | -                       |
| Purchase of staff uniform                 | 785                     | -                       | -                       | -                       |
| Trade purchases                           | -                       | 18,160                  | 1,079                   | 100                     |
| Advances granted                          | -                       | -                       | 1,000                   | 200,500                 |
| <b>White Cafe</b>                         |                         |                         |                         |                         |
| Trade purchases                           | 30,026,968              | 22,039,925              | 17,522,360              | 11,462,645              |
| Rental paid                               | 12,000                  | 7,000                   | -                       | -                       |
| Rental deposits paid                      | -                       | 2,500                   | -                       | -                       |
| <b>Old Town Kopitiam</b>                  |                         |                         |                         |                         |
| Trade sales                               | 484,846                 | 384,256                 | 249,954                 | 142,969                 |
| Repayment of advances granted             | -                       | -                       | 200,000                 | -                       |



**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****4.5 WHITE CAFE MARKETING - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****4.5.10 HOLDING COMPANY AND RELATED PARTY TRANSACTIONS (CONTINUED)**

|                              | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| <b>Other related parties</b> |                         |                         |                         |                         |
| Acadian Gourmet KK Sdn. Bhd. |                         |                         |                         |                         |
| Trade sales                  | 13,101                  | 11,449                  | -                       | -                       |
| Acadian Gourmet PB Sdn. Bhd. |                         |                         |                         |                         |
| Trade sales                  | 11,132                  | 3,658                   | -                       | -                       |
| Acadian Gourmet Sdn. Bhd.    |                         |                         |                         |                         |
| Trade sales                  | 7,436                   | 15,486                  | 13,743                  | 3,307                   |
| CN Supplies Sdn. Bhd.        |                         |                         |                         |                         |
| Rental paid                  | 19,200                  | 18,500                  | 18,000                  | 7,500                   |
| Rental deposit paid          | -                       | 200                     | -                       | -                       |
| Connezone                    |                         |                         |                         |                         |
| Trade sales                  | 42,621                  | 42,742                  | 41,728                  | 30,974                  |
| Dynasty Kitchen              |                         |                         |                         |                         |
| Trade sales                  | -                       | 29,828                  | 120,442                 | 43,612                  |
| GC Ampang Sdn. Bhd.          |                         |                         |                         |                         |
| Trade sales                  | 10,216                  | 9,395                   | -                       | -                       |
| GC Alamanda Sdn. Bhd.        |                         |                         |                         |                         |
| Trade sales                  | 7,070                   | -                       | -                       | -                       |
| GC Bangsar Sdn. Bhd.         |                         |                         |                         |                         |
| Trade sales                  | 10,709                  | 14,003                  | 7,020                   | -                       |
| GC Bangsar Two Sdn. Bhd.     |                         |                         |                         |                         |
| Trade sales                  | 8,310                   | 4,031                   | -                       | -                       |
| GC Brickfields Sdn. Bhd.     |                         |                         |                         |                         |
| Trade sales                  | 8,488                   | -                       | -                       | -                       |
| GC Kapar Sdn. Bhd.           |                         |                         |                         |                         |
| Trade sales                  | 7,687                   | 7,435                   | 6,646                   | -                       |
| GC Port Klang Sdn. Bhd.      |                         |                         |                         |                         |
| Trade sales                  | -                       | 6,330                   | -                       | -                       |
| GC R Laut Sdn. Bhd.          |                         |                         |                         |                         |
| Trade sales                  | 15,120                  | 16,650                  | -                       | -                       |
| GC Selayang Sdn. Bhd.        |                         |                         |                         |                         |
| Trade sales                  | 13,178                  | 6,184                   | -                       | -                       |
| GC South City Sdn. Bhd.      |                         |                         |                         |                         |
| Trade sales                  | 5,659                   | 8,308                   | 7,696                   | -                       |

(Forward)

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****4.5 WHITE CAFE MARKETING - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****4.5.10 HOLDING COMPANY AND RELATED PARTY TRANSACTIONS (CONTINUED)**

|  | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| <b>Other related parties (continued)</b> |                         |                         |                         |                         |
| Gourmet Chef Sdn. Bhd.                   |                         |                         |                         |                         |
| Trade sales                              | 8,027                   | 13,125                  | 20,243                  | -                       |
| Gourmet Corner Ipoh Sdn. Bhd.            |                         |                         |                         |                         |
| Trade sales                              | 21,637                  | 27,764                  | 26,971                  | 27,419                  |
| Gourmet Corner KL Sdn. Bhd.              |                         |                         |                         |                         |
| Trade sales                              | 19,541                  | 22,246                  | 15,536                  | -                       |
| Gourmet Corner Sdn. Bhd.                 |                         |                         |                         |                         |
| Trade sales                              | 25,784                  | 32,039                  | 31,984                  | 28,007                  |
| Nam Heong                                |                         |                         |                         |                         |
| Trade sales                              | -                       | 128,318                 | 139,701                 | 38,888                  |
| Old Town Kopitiam Butterworth            |                         |                         |                         |                         |
| Trade sales                              | 154,032                 | 118,773                 | 13,618                  | 53,254                  |
| Old Town Kopitiam Cheras                 |                         |                         |                         |                         |
| Trade sales                              | 46,455                  | 69,390                  | 73,714                  | 40,381                  |
| Old Town Kopitiam Kuala Lumpur           |                         |                         |                         |                         |
| Trade sales                              | 39,484                  | 43,738                  | 45,808                  | 37,167                  |
| Old Town Kopitiam Pavilion Sdn. Bhd.     |                         |                         |                         |                         |
| Trade sales                              | -                       | 33,652                  | 4,529                   | -                       |
| OTK (Alam Damai) Sdn. Bhd.               |                         |                         |                         |                         |
| Trade sales                              | 3,461                   | -                       | -                       | -                       |
| OTK (Genting) Sdn. Bhd.                  |                         |                         |                         |                         |
| Trade sales                              | 292,937                 | 192,472                 | 23,438                  | 5,613                   |
| OTK (Intan) Sdn. Bhd.                    |                         |                         |                         |                         |
| Trade sales                              | 5,365                   | 5,839                   | -                       | -                       |
| OTK (Kuala Selangor) Sdn. Bhd.           |                         |                         |                         |                         |
| Trade sales                              | 4,723                   | -                       | -                       | -                       |
| OTK (Petaling Jaya) Sdn. Bhd.            |                         |                         |                         |                         |
| Trade sales                              | 23,069                  | 35,862                  | 40,641                  | 2,676                   |
| OTK (Rawang) Sdn. Bhd.                   |                         |                         |                         |                         |
| Trade sales                              | 9,376                   | 2,572                   | -                       | -                       |
| OTK (Shah Alam) Sdn. Bhd.                |                         |                         |                         |                         |
| Trade sales                              | 3,307                   | 2,939                   | -                       | -                       |
| (Forward)                                |                         |                         |                         |                         |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****4.5 WHITE CAFE MARKETING - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****4.5.10 HOLDING COMPANY AND RELATED PARTY TRANSACTIONS (CONTINUED)**

|   | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| <b>Other related parties (continued)</b>  |                         |                         |                         |                         |
| OTK Ipoh Road Sdn. Bhd.                   |                         |                         |                         |                         |
| Trade sales                               | 10,426                  | 7,478                   | -                       | -                       |
| OTK Logistics Sdn. Bhd.                   |                         |                         |                         |                         |
| Trade sales                               | 104,699                 | 51,044                  | 11,801                  | -                       |
| OTK Manjung Sdn. Bhd.                     |                         |                         |                         |                         |
| Trade sales                               | 6,656                   | 12,405                  | -                       | -                       |
| OTK Megah Sdn. Bhd.                       |                         |                         |                         |                         |
| Trade sales                               | 6,403                   | 4,148                   | -                       | -                       |
| OTK Northern Sdn. Bhd.                    |                         |                         |                         |                         |
| Trade sales                               | 8,370                   | 4,569                   | -                       | -                       |
| OTK Sunway Sdn. Bhd.                      |                         |                         |                         |                         |
| Trade sales                               | 14,766                  | 18,335                  | 10,166                  | -                       |
| OTK USJ Sdn. Bhd.                         |                         |                         |                         |                         |
| Trade sales                               | 8,823                   | 6,037                   | -                       | -                       |
| CN Properties Sdn. Bhd.                   |                         |                         |                         |                         |
| Purchase of property, plant and equipment | -                       | -                       | 125,000                 | -                       |
| Advances City Limited                     |                         |                         |                         |                         |
| Trade sales                               | -                       | -                       | -                       | 75,742                  |
| AC Montage Marketing Sdn. Bhd.            |                         |                         |                         |                         |
| Sale of property, plant and equipment     | -                       | -                       | -                       | 15,660                  |
| Old Town Industries Sdn. Bhd.             |                         |                         |                         |                         |
| Repayment of advances granted             | -                       | -                       | 120,440                 | -                       |
| Advances granted                          | -                       | -                       | -                       | 120,000                 |
| Emperor's Kitchen                         |                         |                         |                         |                         |
| Trade sales                               | -                       | -                       | -                       | 1,723                   |
| Mr. Lee Siew Heng                         |                         |                         |                         |                         |
| Rental paid                               | -                       | -                       | -                       | 10,500                  |

The relationships of the related parties with Oldtown group of companies are disclosed in Chapters 5 and 7 of the Prospectus of Oldtown.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****4.5 WHITE CAFE MARKETING - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****4.5.10 HOLDING COMPANY AND RELATED PARTY TRANSACTIONS (CONTINUED)***Compensation of key management personnel*

There is no directors' remuneration during the financial year. The remuneration of key management personnel of White Cafe Marketing during the financial year are as follows.

|  | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| Salaries, allowances and bonuses   | 366,050                 | 232,600                 | 175,746                 | 100,500                 |
| EPF contributions  | 42,708                  | 25,632                  | 19,901                  | 12,060                  |
|  | <u>408,758</u>          | <u>258,232</u>          | <u>195,647</u>          | <u>112,560</u>          |
| Estimated monetary value of benefits-in-kind received/receivable otherwise in cash | <u>28,439</u>           | <u>24,902</u>           | <u>30,140</u>           | <u>3,300</u>            |

**4.5.11 FIXED DEPOSITS, CASH AND BANK BALANCES**

|                                    | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|------------------------------------|------------------|------------------|------------------|------------------|
| Fixed deposits with licensed banks | 368,769          | 790,275          | 758,325          | 558,325          |
| Cash and bank balances             | <u>2,289,620</u> | <u>1,383,433</u> | <u>302,256</u>   | <u>438,416</u>   |
|                                    | <u>2,658,389</u> | <u>2,173,708</u> | <u>1,060,581</u> | <u>996,741</u>   |

The effective interest rates per annum and maturity periods for fixed deposits of White Cafe Marketing are as follows:

|                             | 31.12.2010 | 31.12.2009 | 31.12.2008 | 31.12.2007       |
|-----------------------------|------------|------------|------------|------------------|
| Effective interest rate (%) | 2.78       | 2.10       | 3.52       | 3.70 - 3.88      |
| Maturity period (days)      | <u>365</u> | <u>365</u> | <u>365</u> | <u>90 to 360</u> |

Fixed deposits of White Cafe Marketing are placed under lien to local licensed bank as security for banking facilities granted to White Cafe Marketing as disclosed in Note 4.5.15.

Certain fixed deposits, which were held in trust by a director of White Cafe Marketing prior to the financial year ended December 31, 2009, has been transferred to the name of White Cafe Marketing during the financial year ended December 31, 2010.

**4.5.12 SHARE CAPITAL**

|                                       | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---------------------------------------|------------------|------------------|------------------|------------------|
| Authorised:                           |                  |                  |                  |                  |
| 5,000,000 ordinary shares of RM1 each | <u>5,000,000</u> | <u>5,000,000</u> | <u>5,000,000</u> | <u>5,000,000</u> |
| Issued and fully paid:                |                  |                  |                  |                  |
| 1,700,000 ordinary shares of RM1 each | <u>1,700,000</u> | <u>1,700,000</u> | <u>1,700,000</u> | <u>1,700,000</u> |

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**10. ACCOUNTANTS' REPORT**

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**G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)**

**4.5 WHITE CAFE MARKETING - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**4.5.13 RETAINED EARNINGS**

In accordance with the Finance Act, 2007, the single tier income tax system became effective from the year of assessment 2008. Under this system, tax on a company's profit is a final tax, and dividends paid are exempted from tax in the hands of the shareholders. Unlike the previous imputation system, the recipient of the dividend would no longer be able to claim any tax credit.

Companies without Section 108 tax credit balance will automatically move to the single tier tax system on January 1, 2008. However, companies with such tax credits are given an irrevocable option to elect for the single tier tax system and disregard the tax credit or continue to use the tax credits under Section 108 account to frank the payment of cash dividends on ordinary shares for a period of 6 years ending December 31, 2013 or until the tax credits are fully utilised, whichever comes first. During the transitional period, any tax paid will not be added to the Section 108 account and any tax credits utilised will reduce the tax credit balance. All companies will be in the new system on January 1, 2014.

As of December 31, 2010, White Cafe Marketing has not opted to disregard the Section 108 tax credit in accordance with the Finance Act, 2007 and White Cafe Marketing may utilise the Section 108 tax credit balance, which has been frozen as of December 31, 2007, to frank dividend payments during the six-year transitional period. Based on the prevailing tax rate applicable to dividend, White Cafe Marketing has sufficient Section 108 tax credit to frank dividends amounting to RM1,638,000 out of its retained earnings as of December 31, 2010. If the balance of the retained earnings of RM4,589,000 were to be distributed as dividends, White Cafe Marketing would switch to a single tier tax system and the balance of dividends would be single tier dividend.



**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****4.5 WHITE CAFE MARKETING - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****4.5.14 HIRE-PURCHASE PAYABLES (CONTINUED)**

The terms for hire-purchase and average effective borrowing rates per annum are as follows:

|                                       | FYE<br>31.12.2010 | FYE<br>31.12.2009 | FYE<br>31.12.2008 | FYE<br>31.12.2007 |
|---------------------------------------|-------------------|-------------------|-------------------|-------------------|
| Terms (years)                         | 5 to 7            | 5 to 7            | 5 to 7            | 3 to 7            |
| Average effective financing rates (%) | 6.13              | 6.46              | 6.79              | 6.82              |

Interest rates are fixed at the inception of the hire-purchase arrangements.

Hire-purchase payables of White Cafe Marketing are secured by the assets under hire-purchase and guaranteed by all the directors of the Company.

The fair values of White Cafe Marketing's hire-purchase obligation approximately equal to their carrying amounts.

**4.5.15 BORROWINGS**

|  | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|--|------------------|------------------|------------------|------------------|
| Secured:   |                  |                  |                  |                  |
| Bankers' acceptances   | 200,000          | 1,573,000        | 2,747,000        | 1,762,000        |
| Term loan  | 249,179          | 269,392          | 289,119          | 304,418          |
| Bank overdraft   | -                | 25,879           | 25,252           | -                |
|  | 449,179          | 1,868,271        | 3,061,371        | 2,066,418        |
| Less: Amount due within 12 months<br>(shown under current liabilities) | (222,731)        | (1,622,105)      | (2,794,843)      | (1,779,449)      |
| Non-current portion  | 226,448          | 246,166          | 266,528          | 286,969          |

The non-current portion is repayable as follows:

|                         | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|-------------------------|------------------|------------------|------------------|------------------|
| Financial years ending: |                  |                  |                  |                  |
| 2009                    | -                | -                | -                | 18,957           |
| 2010                    | -                | -                | 24,700           | 20,842           |
| 2011                    | -                | 24,804           | 26,379           | 22,457           |
| 2012                    | 24,447           | 26,491           | 28,173           | 24,198           |
| 2013                    | 26,293           | 28,293           | 30,089           | 26,073           |
| 2014                    | 28,278           | 30,217           | 32,135           | 28,094           |
| 2015                    | 30,413           | 32,271           | 34,320           | 30,271           |
| 2016 and above          | 117,017          | 104,090          | 90,732           | 116,077          |
|                         | 226,448          | 246,166          | 266,528          | 286,969          |

Total term loan and other facilities of White Cafe Marketing with local licensed banks are as follows:

|                       | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|-----------------------|------------------|------------------|------------------|------------------|
| Total approved limits | 2,220,000        | 3,985,000        | 4,090,000        | 3,120,000        |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****4.5 WHITE CAFE MARKETING - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****4.5.15 BORROWINGS (CONTINUED)**

The above facilities are secured by:

- i) Investment property of White Cafe Marketing as disclosed in Note 4.5.7;
- ii) Letters of set off over fixed deposits as disclosed in Note 4.5.11;
- iii) A stamped facility agreement of RM1.5million; and
- iv) Guaranteed by the holding company and all the directors of White Cafe Marketing jointly and severally.

White Cafe Marketing has one (1) term loan which is repayable by 180 instalments as follows:

- i) 12 monthly instalments of RM3,073 each in the first year;
- ii) 12 monthly instalments of RM3,200 each in the second year; and
- iii) 156 monthly instalments of RM3,462 each thereafter.

The effective interest rates per annum are as follows:

|                      | FYE<br>31.12.2010<br>% | FYE<br>31.12.2009<br>% | FYE<br>31.12.2008<br>% | FYE<br>31.12.2007<br>% |
|----------------------|------------------------|------------------------|------------------------|------------------------|
| Bank overdrafts      | 7.80                   | 8.25                   | 8.25                   | 8.25                   |
| Term loan            | 7.55                   | 7.75                   | 7.75                   | 8.00                   |
| Bankers' acceptances | <u>2.23 to 3.39</u>    | <u>2.10 to 2.80</u>    | <u>3.47 to 5.28</u>    | <u>3.97 to 4.48</u>    |

The fair values of White Cafe Marketing's borrowings approximate their carrying amounts.

**4.5.16 DEFERRED TAX LIABILITY**

|   | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---|------------------|------------------|------------------|------------------|
| At beginning of year                      | 161,000          | 107,000          | 74,000           | 45,044           |
| Recognised in profit or loss (Note 4.5.5) | <u>64,000</u>    | <u>54,000</u>    | <u>33,000</u>    | <u>28,956</u>    |
| At end of year                            | <u>225,000</u>   | <u>161,000</u>   | <u>107,000</u>   | <u>74,000</u>    |

The deferred tax liability is in respect of temporary differences between tax capital allowances and book depreciation of property, plant and equipment.

**4.5.17 TRADE AND OTHER PAYABLES**

|                              | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|------------------------------|------------------|------------------|------------------|------------------|
| Trade payables               | 68,195           | 2,300            | 44,640           | 96,049           |
| Other payables               | 329,074          | 96,079           | 160,423          | 553,491          |
| Accrued expenses             | 1,821,018        | 1,172,104        | 224,250          | 144,829          |
| Refundable deposits received | <u>20,660</u>    | <u>660</u>       | <u>360</u>       | <u>-</u>         |
|                              | <u>2,238,947</u> | <u>1,271,143</u> | <u>429,673</u>   | <u>794,369</u>   |



**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****4.5 WHITE CAFE MARKETING - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****4.5.17 TRADE AND OTHER PAYABLES (CONTINUED)**

Trade and other payables comprise amounts outstanding for trade purchases and ongoing costs. The credit terms granted to White Cafe Marketing for trade purchases ranged from 30 days to 60 days. These amounts are non-interest bearing. White Cafe Marketing has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

The amounts owing to other payables are unsecured, interest-free and repayable upon demand. Transactions with related parties are disclosed in Note 4.5.10.

**4.5.18 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT****Categories of financial instruments**

|  | 31.12.2010<br>RM |
|--|------------------|
| <b>Financial assets</b>  |                  |
| Loans and receivables:   |                  |
| Trade and other receivables  | 6,864,519        |
| Amount owing by related companies                                  | 65,725           |
| Cash and cash equivalents - fixed deposits, cash and bank balances | <u>2,658,389</u> |
| <b>Financial liabilities</b>                                       |                  |
| Amortised cost:  |                  |
| Trade and other payables   | 2,238,947        |
| Amount owing to holding company                                    | 2,038            |
| Amount owing to related companies                                  | 2,547,880        |
| Hire-purchase payables   | 1,281,519        |
| Borrowings   | <u>449,179</u>   |

**Financial Risk Management Objectives and Policies**

Risk management is integral to the whole business of White Cafe Marketing. Management continually monitors White Cafe Marketing's risk management process to ensure that an appropriate balance between risk and control is achieved. Risk management policies and systems are reviewed regularly to reflect changes in the market conditions and White Cafe Marketing's activities.

There has been no change to White Cafe Marketing's exposure to these financial risks or the manner in which it manages and measures the risk.

**(a) Credit risk management**

The maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as of December 31, 2010 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the statement of financial position.

At the end of the reporting period, White Cafe Marketing is subject to significant concentration of credit risk as 68% of trade receivables were receivable from top 6 customers. Majority of these amounts have been received since December 31, 2010.

**(b) Liquidity and cash flow risks management**

Ultimate responsibility for liquidity and cash flow risks management rests with the Board of Directors, which has established an appropriate liquidity and cash flow risks management framework for the management of the Company's short, medium and long-term funding and liquidity and cash flow management requirements. The Company manages liquidity and cash flow risks by maintaining adequate reserves and banking facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and financial liabilities.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****4.5 WHITE CAFE MARKETING - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****4.5.18 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT (CONTINUED)**

Management is of the view that White Cafe Marketing's exposure to liquidity and cash flow risks are minimal as White Cafe Marketing has sufficient funds to finance its ongoing working capital requirements.

The maturity profile for the non-derivative financial assets/liabilities of White Cafe Marketing at the reporting date based on the undiscounted cash flows of the respective financial assets/liabilities representing the earliest date on which White Cafe Marketing is entitled to receive/required to pay, is as follows:

|   | On demand<br>or within<br>one year<br>RM | One year to<br>five years<br>RM | Over five<br>years<br>RM | Total<br>RM      |
|---|--|---------------------------------|--------------------------|------------------|
| <b>Non-derivative financial assets:</b>   |  |                                 |                          |                  |
| Trade and other receivables   | 6,864,519                                | -                               | -                        | 6,864,519        |
| Amount owing by related companies   | 65,725                                   | -                               | -                        | 65,725           |
| Fixed deposits, cash and bank balances  | 2,658,389                                | -                               | -                        | 2,658,389        |
| <b>Total undiscounted<br/>non-derivative financial assets</b>                   | <b>9,588,633</b>                         | <b>-</b>                        | <b>-</b>                 | <b>9,588,633</b> |
| <b>Non-derivative financial liabilities:</b>                                    |  |                                 |                          |                  |
| Trade and other payables  | 2,238,947                                | -                               | -                        | 2,238,947        |
| Amount owing to holding company   | 2,038                                    | -                               | -                        | 2,038            |
| Amount owing to related companies   | 2,547,880                                | -                               | -                        | 2,547,880        |
| Hire-purchase payables  | 290,045                                  | 991,474                         | -                        | 1,281,519        |
| Borrowings  | 222,731                                  | 109,431                         | 117,017                  | 449,179          |
| <b>Total undiscounted<br/>non-derivative financial liabilities</b>              | <b>5,301,641</b>                         | <b>1,100,905</b>                | <b>117,017</b>           | <b>6,519,563</b> |
| <b>Total net undiscounted<br/>non-derivative financial assets/(liabilities)</b> | <b>4,286,992</b>                         | <b>(1,100,905)</b>              | <b>(117,017)</b>         | <b>3,069,070</b> |

White Cafe Marketing has not committed to any derivative financial instruments during the financial year ended December 31, 2010.

**(c) Market risk**

White Cafe Marketing's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

There has been no change to White Cafe Marketing's exposure to market risks or the manner in which these risks are managed and measured.

**(i) Foreign currency risk management**

White Cafe Marketing has minimal foreign currency risk as most of its transactions are denominated in Ringgit Malaysia, which is the functional currency of White Cafe Marketing. The management does not consider White Cafe Marketing's exposure to foreign exchange risk significant as of December 31, 2010. Therefore, sensitivity analysis for foreign currency risk is not disclosed.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****4.5 WHITE CAFE MARKETING - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****4.5.18 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT (CONTINUED)***(ii) Interest rate risk management*

Interest rate risk is the risk that the fair value or future cash flows of White Cafe Marketing's financial instruments will fluctuate because of changes in market interest rates. White Cafe Marketing's exposure to interest risk arises primarily from their borrowings.

Interest rate sensitivity analysis

As of December 31, 2010, if interest rates had been 100 basis points lower/higher, with all other variables held constant, White Cafe Marketing's profit net of tax would have been RM2,492 lower/higher arising mainly as a result of lower/higher interest expense on floating rate borrowings. The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment.

*(d) Capital risk management*

White Cafe Marketing manages its capital to ensure White Cafe Marketing will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. White Cafe Marketing's overall strategy remains unchanged from 2009.

The capital structure of the Company consists of net debts and equity of White Cafe Marketing. White Cafe Marketing is not subject to any externally imposed capital requirements.

**Fair Values of Financial Assets and Financial Liabilities**

The fair value of long-term financial assets and liabilities are determined by the present value of future cash flows estimated and discounted using the current interest rates for similar instruments at the end of the reporting date. There is no material difference between the fair values and carrying values of these assets and liabilities as of the reporting date.

The carrying amounts of cash and cash equivalents, trade and other receivables, trade and other payables and inter-company indebtedness approximate their respective fair values due to the relatively short-term maturity of these financial instruments. The fair values of other classes of financial assets and liabilities are disclosed in the respective notes to the financial statements.

**4.5.19 CASH AND CASH EQUIVALENTS**

For the purposes of the statement of cash flows, cash and cash equivalents include cash on hand and at banks and net of outstanding bank overdraft. Cash and cash equivalents at the end of the reporting date as shown in the statement of cash flows can be reconciled to the related items in the statement of financial position as follows:

|                                    | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|------------------------------------|------------------|------------------|------------------|------------------|
| Fixed deposits with licensed banks | 368,769          | 790,275          | 758,325          | 558,325          |
| Cash and bank balances             | 2,289,620        | 1,383,433        | 302,256          | 438,416          |
| Bank overdraft                     | -                | (25,879)         | (25,252)         | -                |
|                                    | <u>2,658,389</u> | <u>2,147,829</u> | <u>1,035,329</u> | <u>996,741</u>   |
| Less: Fixed deposits held on lien  | (368,769)        | (790,275)        | (758,325)        | (558,325)        |
|                                    | <u>2,289,620</u> | <u>1,357,554</u> | <u>277,004</u>   | <u>438,416</u>   |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****4.5 WHITE CAFE MARKETING - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****4.5.20 CAPITAL COMMITMENT**

White Cafe Marketing has the following capital commitment in respect of property, plant and equipment at the respective financial years:

|                               | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|-------------------------------|------------------|------------------|------------------|------------------|
| Capital expenditure:          |                  |                  |                  |                  |
| - approved and contracted for | <u>212,000</u>   | <u>-</u>         | <u>-</u>         | <u>106,000</u>   |

**4.5.21 OPERATING LEASE ARRANGEMENTS**

Operating leases related to leases of hostels, offices and warehouses with average lease terms as follows:

|                             | FYE<br>31.12.2010 | FYE<br>31.12.2009 | FYE<br>31.12.2008 | FYE<br>31.12.2007 |
|-----------------------------|-------------------|-------------------|-------------------|-------------------|
| Average lease terms (years) | <u>1 to 3</u>     | <u>2 to 3</u>     | <u>2 to 3</u>     | <u>2 to 3</u>     |

White Cafe Marketing does not have an option to purchase the leased hostels, offices and warehouses at the expiry of the lease periods. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew.

Payment recognised as an expenses are as follows:

|                        | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Minimum lease payments | <u>105,595</u>          | <u>85,995</u>           | <u>47,248</u>           | <u>69,000</u>           |

Non-cancellable operating lease commitments are as follows:

|                                       | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---------------------------------------|------------------|------------------|------------------|------------------|
| Within one year                       | 53,098           | 77,995           | 66,334           | 55,950           |
| In the second to fifth year inclusive | <u>8,400</u>     | <u>34,498</u>    | <u>94,118</u>    | <u>339</u>       |
|                                       | <u>61,498</u>    | <u>112,493</u>   | <u>160,452</u>   | <u>56,289</u>    |

**4.5.22 SIGNIFICANT EVENTS**

On December 28, 2009, the ultimate holding company entered into Sale and Purchase Agreements (as was supplemented by letters dated May 24, 2010 and June 11, 2010 respectively, and supplemental agreement dated December 9, 2010) with Oldtown to dispose off its entire equity interest in White Cafe Marketing.

On April 12, 2011, Securities Commission had granted the Oldtown the approval for the proposed listing on the Main Market of Bursa Securities. Following the said approval, Oldtown intends to complete the transfer of shares before June 2011.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****5. GONGGA FOOD****5.1 GONGGA FOOD - STATEMENTS OF COMPREHENSIVE INCOME**

|  | Note  | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|--|-------|-------------------------|-------------------------|-------------------------|-------------------------|
| Revenue  | 5.5.1 | 81,026,286              | 64,718,815              | 47,459,182              | 24,631,888              |
| Cost of sales  |       | <u>(65,604,868)</u>     | <u>(52,584,709)</u>     | <u>(40,055,673)</u>     | <u>(19,711,540)</u>     |
| Gross profit   |       | 15,421,418              | 12,134,106              | 7,403,509               | 4,920,348               |
| Other gains and (losses)   |       | (23,667)                | 2,820                   | 35,718                  | -                       |
| Other income   |       | 990,807                 | 570,632                 | 311,423                 | -                       |
| Selling and distribution expenses  |       | (4,412,610)             | (2,542,259)             | (887,932)               | (178,215)               |
| Administrative and general expenses  |       | (1,220,438)             | (834,314)               | (669,456)               | (233,876)               |
| Other operating expenses   |       | -                       | (7,989)                 | (24,481)                | (41,211)                |
| Profit from operations   |       | 10,755,510              | 9,322,996               | 6,168,781               | 4,467,046               |
| Finance costs  | 5.5.3 | <u>(113,320)</u>        | <u>(76,885)</u>         | <u>(64,215)</u>         | <u>(43,705)</u>         |
| Profit before tax  | 5.5.4 | 10,642,190              | 9,246,111               | 6,104,566               | 4,423,341               |
| Income tax expense   | 5.5.5 | <u>(2,720,264)</u>      | <u>(1,572,992)</u>      | <u>(1,168,913)</u>      | <u>(642,797)</u>        |
| <b>Profit and total comprehensive income for the year attributable to owner of Gongga Food</b> |       | <u><u>7,921,926</u></u> | <u><u>7,673,119</u></u> | <u><u>4,935,653</u></u> | <u><u>3,780,544</u></u> |
| <i>Key financial ratios:</i>   |       |                         |                         |                         |                         |
| Weighted average number of ordinary shares of RM1.00 each in issue (units)                     |       | * 194,247               | 100,000                 | 100,000                 | 100,000                 |
| Gross profit margin (%)  |       | 19.03                   | 18.75                   | 15.60                   | 19.98                   |
| Basic earnings per share (sen)   |       | 4,078.27                | 7,673.12                | 4,935.65                | 3,780.54                |
| Effective tax rate (%)   |       | <u>25.56</u>            | <u>17.90</u>            | <u>17.68</u>            | <u>13.79</u>            |

\* Calculated based on 200,000 new ordinary shares of RM1 each issued at par on July 13, 2010

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****5.2 GONGGA FOOD - STATEMENTS OF FINANCIAL POSITION**

|                                      | Note   | 31.12.2010<br>RM  | 31.12.2009<br>RM  | 31.12.2008<br>RM  | 31.12.2007<br>RM  |
|--------------------------------------|--------|-------------------|-------------------|-------------------|-------------------|
| <b>ASSETS</b>                        |        |                   |                   |                   |                   |
| <b>Non-current assets</b>            |        |                   |                   |                   |                   |
| Property, plant and equipment        | 5.5.6  | 3,342,298         | 2,729,641         | 2,029,391         | 1,194,093         |
| Prepaid lease payments               | 5.5.7  | 6,758,736         | 488,986           | 439,506           | 445,201           |
| <b>Total non-current assets</b>      |        | <b>10,101,034</b> | <b>3,218,627</b>  | <b>2,468,897</b>  | <b>1,639,294</b>  |
| <b>Current assets</b>                |        |                   |                   |                   |                   |
| Inventories                          | 5.5.8  | 3,137,786         | 2,173,497         | 1,754,660         | 882,556           |
| Trade and other receivables          | 5.5.9  | 15,906,921        | 11,561,189        | 7,284,316         | 4,766,405         |
| Amount owing by related companies    | 5.5.10 | 12,753,693        | 7,629,076         | 6,407,987         | 4,202,100         |
| Cash and bank balances               |        | 4,115,075         | 2,028,041         | 1,026,434         | 2,518             |
| <b>Total current assets</b>          |        | <b>35,913,475</b> | <b>23,391,803</b> | <b>16,473,397</b> | <b>9,853,579</b>  |
| <b>Total assets</b>                  |        | <b>46,014,509</b> | <b>26,610,430</b> | <b>18,942,294</b> | <b>11,492,873</b> |
| <b>EQUITY AND LIABILITIES</b>        |        |                   |                   |                   |                   |
| <b>Capital and reserves</b>          |        |                   |                   |                   |                   |
| Issued capital                       | 5.5.11 | 300,000           | 100,000           | 100,000           | 100,000           |
| Retained earnings                    | 5.5.12 | 18,097,540        | 14,175,614        | 11,102,495        | 6,166,842         |
| <b>Total equity</b>                  |        | <b>18,397,540</b> | <b>14,275,614</b> | <b>11,202,495</b> | <b>6,266,842</b>  |
| <b>Non-current liabilities</b>       |        |                   |                   |                   |                   |
| Hire-purchase payables               | 5.5.13 | 180,374           | 211,446           | 218,532           | 93,374            |
| Borrowings                           | 5.5.14 | 831,810           | 1,012,847         | 220,419           | 231,441           |
| Deferred tax liability               | 5.5.15 | 319,000           | 200,000           | 153,000           | 84,500            |
| <b>Total non-current liabilities</b> |        | <b>1,331,184</b>  | <b>1,424,293</b>  | <b>591,951</b>    | <b>409,315</b>    |
| <b>Current liabilities</b>           |        |                   |                   |                   |                   |
| Trade and other payables             | 5.5.16 | 15,721,374        | 7,375,644         | 5,764,716         | 2,527,692         |
| Amount owing to holding company      | 5.5.10 | 25,310            | -                 | 30,781            | 639,000           |
| Amount owing to related companies    | 5.5.10 | 9,386,047         | 2,593,565         | 537,848           | 643,863           |
| Hire-purchase payables               | 5.5.13 | 79,859            | 101,811           | 79,450            | 40,953            |
| Borrowings                           | 5.5.14 | 190,195           | 439,003           | 458,785           | 577,583           |
| Current tax liabilities              | 5.5.5  | 883,000           | 400,500           | 276,268           | 387,625           |
| <b>Total current liabilities</b>     |        | <b>26,285,785</b> | <b>10,910,523</b> | <b>7,147,848</b>  | <b>4,816,716</b>  |
| <b>Total liabilities</b>             |        | <b>27,616,969</b> | <b>12,334,816</b> | <b>7,739,799</b>  | <b>5,226,031</b>  |
| <b>Total equity and liabilities</b>  |        | <b>46,014,509</b> | <b>26,610,430</b> | <b>18,942,294</b> | <b>11,492,873</b> |
| <b>Key financial ratios:</b>         |        |                   |                   |                   |                   |
| Net tangible assets per share (sen)  |        | 9,471.21          | 14,275.61         | 11,202.50         | 6,266.84          |
| Debt-equity ratio (times)            |        | 0.07              | 0.12              | 0.09              | 0.15              |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****5.3 GONGGA FOOD - STATEMENTS OF CHANGES IN EQUITY**

|   | Note | Issued<br>Capital<br>RM | Distributable<br>Reserve<br>Retained<br>Earnings<br>RM | Total<br>Shareholders'<br>Equity<br>RM |
|---|------|-------------------------|--|--|
| Balance as of January 1, 2007           |      | 100,000                 | 2,986,298  | 3,086,298                              |
| Total comprehensive income for the year |      | -                       | 3,780,544  | 3,780,544                              |
| Dividends                               | F    | -                       | (600,000)  | (600,000)                              |
| Balance as of December 31, 2007         |      | 100,000                 | 6,166,842  | 6,266,842                              |
| Total comprehensive income for the year |      | -                       | 4,935,653  | 4,935,653                              |
| Balance as of December 31, 2008         |      | 100,000                 | 11,102,495   | 11,202,495                             |
| Total comprehensive income for the year |      | -                       | 7,673,119  | 7,673,119                              |
| Dividends                               | F    | -                       | (4,600,000)  | (4,600,000)                            |
| Balance as of December 31, 2009         |      | 100,000                 | 14,175,614   | 14,275,614                             |
| Total comprehensive income for the year |      | -                       | 7,921,926  | 7,921,926                              |
| Issue of shares                         |      | 200,000                 | -  | 200,000                                |
| Dividends                               | F    | -                       | (4,000,000)  | (4,000,000)                            |
| Balance as of December 31, 2010         |      | 300,000                 | 18,097,540   | 18,397,540                             |

**5.4 GONGGA FOOD - SUMMARISED STATEMENTS OF CASH FLOWS**

|   | Note   | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---|--------|-------------------------|-------------------------|-------------------------|-------------------------|
| Net Cash Generated From/(Used In)<br>Operating Activities       |        | 5,347,939               | 4,567,905               | 2,894,539               | (225,216)               |
| Net Cash Used In Investing Activities                           |        | (2,467,294)             | (948,056)               | (727,318)               | (493,740)               |
| Net Cash Generated From/(Used In)<br>Financing Activities       |        | (793,611)               | (2,618,242)             | (1,021,038)             | 678,399                 |
| <b>NET INCREASE/(DECREASE) IN<br/>CASH AND CASH EQUIVALENTS</b> |        | 2,087,034               | 1,001,607               | 1,146,183               | (40,557)                |
| <b>CASH AND CASH EQUIVALENTS<br/>AT BEGINNING OF YEAR</b>       |        | 2,028,041               | 1,026,434               | (119,749)               | (79,192)                |
| <b>CASH AND CASH EQUIVALENTS<br/>AT END OF YEAR</b>             | 5.5.18 | 4,115,075               | 2,028,041               | 1,026,434               | (119,749)               |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****5.5 GONGGA FOOD - NOTES TO THE FINANCIAL STATEMENTS****5.5.1 REVENUE**

|                     | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Manufacturing sales | 8,026,842               | 6,933,168               | 5,212,189               | 4,523,390               |
| Trading sales       | <u>72,999,444</u>       | <u>57,785,647</u>       | <u>42,246,993</u>       | <u>20,108,498</u>       |
|                     | <u>81,026,286</u>       | <u>64,718,815</u>       | <u>47,459,182</u>       | <u>24,631,888</u>       |

**5.5.2 OPERATING COSTS APPLICABLE TO REVENUE**

|  | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| Changes in inventories of finished goods, trading merchandise and work-in-progress | (942,022)               | (352,027)               | (700,257)               | (337,911)               |
| Other gains and losses   | 23,667                  | -                       | -                       | -                       |
| Raw materials and consumables used   | 3,069,245               | 2,715,783               | 2,450,080               | 1,821,261               |
| Purchase of trading merchandise  | 62,610,899              | 49,596,418              | 37,788,103              | 17,836,275              |
| Employee benefit expenses  | 2,574,528               | 1,628,959               | 541,839                 | 239,631                 |
| Depreciation of property, plant and equipment                                      | 438,034                 | 283,077                 | 186,863                 | 94,532                  |
| Amortisation of prepaid lease payment  | 6,993                   | 6,340                   | 5,695                   | 5,695                   |
| Other operating expenses   | <u>3,480,239</u>        | <u>2,090,721</u>        | <u>1,365,219</u>        | <u>505,359</u>          |
|  | <u>71,261,583</u>       | <u>55,969,271</u>       | <u>41,637,542</u>       | <u>20,164,842</u>       |

**5.5.3 FINANCE COSTS**

|                             | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|-----------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Interest on:                |                         |                         |                         |                         |
| Term loans                  | 82,520                  | 35,966                  | 18,539                  | 12,812                  |
| Hire-purchase               | 21,601                  | 20,360                  | 18,582                  | 3,694                   |
| Bankers' acceptances        | -                       | 14,884                  | 25,313                  | 25,499                  |
| Bank overdrafts             | -                       | -                       | -                       | 5                       |
| Bank charges and commission | <u>9,199</u>            | <u>5,675</u>            | <u>1,781</u>            | <u>1,695</u>            |
|                             | <u>113,320</u>          | <u>76,885</u>           | <u>64,215</u>           | <u>43,705</u>           |



**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****5.5 GONGGA FOOD - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****5.5.4 PROFIT BEFORE TAX**

Profit before tax has been arrived at after crediting/(charging):

|   | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| Net foreign exchange (loss)/gain:                                   |                         |                         |                         |                         |
| Realised  | (6,248)                 | 740                     | 28,698                  | (18,770)                |
| Unrealised  | (559)                   | 2,080                   | 176                     | -                       |
| Rental of office  | (683,027)               | (530,127)               | (216,735)               | (34,752)                |
| Rental of motor vehicles  | (44,400)                | -                       | -                       | -                       |
| Rental of hostel  | (1,340)                 | (9,600)                 | (800)                   | -                       |
| Rental of others  | (216)                   | -                       | -                       | -                       |
| Rental of factory paid to:  |                         |                         |                         |                         |
| A close family member of<br>a director of Gongga Food               | (16,800)                | (16,800)                | (6,300)                 | -                       |
| A company in which a director<br>has substantial financial interest | (9,700)                 | (9,800)                 | (16,800)                | (12,600)                |
| Others  | (16,800)                | (16,800)                | (6,300)                 | (9,800)                 |
| Audit fee   | (23,000)                | (41,000)                | (30,000)                | (14,000)                |
| Bad debts written off   | -                       | -                       | (48,703)                | -                       |
| Loss on disposal of property,<br>plant and equipment                | (16,860)                | (3,958)                 | (11,165)                | (22,441)                |
| Property, plant and equipment written off                           | -                       | (3,951)                 | (6,473)                 | -                       |

Included in employee benefits expenses of Gongga Food are the following:

|                           | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Contributions made to EPF | 214,230                 | 142,139                 | 47,531                  | 21,022                  |

**5.5.5 INCOME TAX EXPENSE**

|   | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| Income tax comprises:   |                         |                         |                         |                         |
| Current tax expense in respect of the<br>current year   | 2,621,000               | 1,608,000               | 1,090,000               | 570,000                 |
| Adjustments recognised in the current year in<br>relation to the income tax of prior years        | (19,736)                | (82,008)                | 10,413                  | 15,425                  |
|   | 2,601,264               | 1,525,992               | 1,100,413               | 585,425                 |
| Deferred tax expense/(income) relating to<br>origination and reversal of<br>temporary differences | 99,000                  | 47,000                  | 71,500                  | 32,517                  |
| Adjustments recognised in the current year in<br>relation to the deferred tax of prior years      | 20,000                  | -                       | (3,000)                 | 24,855                  |
| (Note 5.5.15)   | 119,000                 | 47,000                  | 68,500                  | 57,372                  |
|   | 2,720,264               | 1,572,992               | 1,168,913               | 642,797                 |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****5.5 GONGGA FOOD - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****5.5.5 INCOME TAX EXPENSE (CONTINUED)**

The statutory income tax rate for companies with a paid-up capital of above RM2,500,000 in years of assessment 2007, 2008, 2009 and 2010 are 27%, 26%, 25% and 25% respectively. In the previous years of assessments, for companies with a paid-up capital of RM2,500,000 and below, an income tax rate of 20% is applicable for chargeable income of up to RM500,000. However, with effect from year of assessment 2009, this preferential tax rate will no longer be applicable for companies that controls or being controlled directly or indirectly by, or are related to another company which has a paid-up ordinary share capital of more than RM2,500,000. As a result, income tax rate of Gongga Food has also been revised accordingly.

The expense for the year can be reconciled to profit before tax as follows:

|   | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| Profit before tax   | 10,642,190              | 9,246,111               | 6,104,566               | 4,423,341               |
| Income tax expense calculated at 25%<br>(31.12.2009: 25%; 31.12.2008:26%<br>and 31.12.2007:27%) | 2,661,000               | 2,312,000               | 1,587,000               | 1,194,302               |
| Tax effects of:   |                         |                         |                         |                         |
| Expenses that are not deductible<br>in determining taxable profit                               | 59,000                  | 9,000                   | 57,000                  | 6,746                   |
| Income that are not taxable<br>in determining taxable profit                                    | -                       | (666,000)               | (446,500)               | (560,291)               |
| Reduction in deferred tax liabilities resulting<br>from reduction in tax rate                   | -                       | -                       | (6,000)                 | (3,240)                 |
| Effect of difference in tax rate applicable to<br>small and medium scale companies              | -                       | -                       | (30,000)                | (35,000)                |
| Adjustments recognised in the current year<br>in relation to the taxes of prior years:          |                         |                         |                         |                         |
| Income tax  | (19,736)                | (82,008)                | 10,413                  | 15,425                  |
| Deferred tax  | 20,000                  | -                       | (3,000)                 | 24,855                  |
| Income tax expense for the year   | 2,720,264               | 1,572,992               | 1,168,913               | 642,797                 |
|   | 31.12.2010<br>RM        | 31.12.2009<br>RM        | 31.12.2008<br>RM        | 31.12.2007<br>RM        |
| <i>Current tax liabilities</i>  |                         |                         |                         |                         |
| Income tax payable  | 883,000                 | 400,500                 | 276,268                 | 387,625                 |

## 10. ACCOUNTANTS' REPORT

## G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

## 5.5 GONGGA FOOD - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 5.5.6 PROPERTY, PLANT AND EQUIPMENT

| Cost                           | Leasehold building RM | Plant and machinery RM | Factory equipment RM | Motor vehicles RM | Furniture, fixtures, fittings and electrical fittings RM | Air-conditioners, computers and office equipment RM | Total RM  |
|--------------------------------|-----------------------|------------------------|----------------------|-------------------|--|---|-----------|
| As of January 1, 2007          | 650,000               | 526,583                | 39,788               | 37,548            | 42,435   | 3,175   | 1,299,529 |
| Effects of adoption of FRS 117 | (450,000)             | -                      | -                    | -                 | -  | -   | (450,000) |
| Additions                      | -                     | 232,005                | 109,653              | 167,948           | 120,335  | 16,908  | 646,849   |
| Disposals                      | -                     | (18,045)               | (448)                | -                 | (38,640)   | (2,790)   | (59,923)  |
| As of December 31, 2007        | 200,000               | 740,543                | 148,993              | 205,496           | 124,130  | 17,293  | 1,436,455 |
| Additions                      | -                     | 138,752                | 306,539              | 446,750           | 179,239  | 15,569  | 1,086,849 |
| Disposals                      | -                     | -                      | (63,369)             | -                 | (250)  | -   | (63,619)  |
| Write off                      | -                     | -                      | (11,163)             | -                 | (1,080)  | (225)   | (12,468)  |
| As of December 31, 2008        | 200,000               | 879,295                | 381,000              | 652,246           | 302,039  | 32,637  | 2,447,217 |
| Additions                      | 200,000               | 157,700                | 285,287              | 322,290           | 52,438   | 35,871  | 1,053,586 |
| Disposals                      | -                     | -                      | -                    | (90,548)          | -  | -   | (90,548)  |
| Write off                      | -                     | -                      | (3,985)              | -                 | -  | (2,622)   | (6,607)   |
| As of December 31, 2009        | 400,000               | 1,036,995              | 662,302              | 883,988           | 354,477  | 65,886  | 3,403,648 |
| Additions                      | -                     | 497,816                | 318,745              | 159,400           | 95,685   | 13,905  | 1,085,551 |
| Disposals                      | -                     | -                      | -                    | (49,800)          | -  | -   | (49,800)  |
| As of December 31, 2010        | 400,000               | 1,534,811              | 981,047              | 993,588           | 450,162  | 79,791  | 4,439,399 |

(Forward)

## 10. ACCOUNTANTS' REPORT

## G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

## 5.5 GONGGA FOOD - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 5.5.6 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

|                                  | Leasehold building RM | Plant and machinery RM | Factory equipment RM | Motor vehicles RM | Furniture, fixtures and electrical fittings RM | Air-conditioners, computers and office equipment RM | Total RM  |
|----------------------------------|-----------------------|------------------------|----------------------|-------------------|--|---|-----------|
| <b>Accumulated depreciation</b>  |                       |                        |                      |                   |  |   |           |
| As of January 1, 2007            | -                     | 132,038                | 8,979                | 11,265            | 12,588   | 937   | 165,807   |
| Depreciation charge for the year | 4,348                 | 64,725                 | 7,010                | 6,040             | 11,184   | 1,225   | 94,532    |
| Disposals                        | -                     | (5,414)                | (134)                | -                 | (11,592)                                       | (837)   | (17,977)  |
| As of December 31, 2007          | 4,348                 | 191,349                | 15,855               | 17,305            | 12,180   | 1,325   | 242,362   |
| Depreciation charge for the year | 4,348                 | 87,410                 | 26,327               | 46,081            | 20,285   | 2,412   | 186,863   |
| Disposals                        | -                     | -                      | (5,362)              | -                 | (42)   | -   | (5,404)   |
| Write off                        | -                     | -                      | (5,364)              | -                 | (522)  | (109)   | (5,995)   |
| As of December 31, 2008          | 8,696                 | 278,759                | 31,456               | 63,386            | 31,901   | 3,628   | 417,826   |
| Depreciation charge for the year | 6,673                 | 97,402                 | 52,843               | 88,023            | 32,962   | 5,174   | 283,077   |
| Disposals                        | -                     | -                      | -                    | (24,240)          | -  | -   | (24,240)  |
| Write off                        | -                     | -                      | (2,024)              | -                 | -  | (632)   | (2,656)   |
| As of December 31, 2009          | 15,369                | 376,161                | 82,275               | 127,169           | 64,863   | 8,170   | 674,007   |
| Depreciation charge for the year | 8,999                 | 140,800                | 90,835               | 146,364           | 43,202   | 7,834   | 438,034   |
| Disposals                        | -                     | -                      | -                    | (14,940)          | -  | -   | (14,940)  |
| As of December 31, 2010          | 24,368                | 516,961                | 173,110              | 258,593           | 108,065  | 16,004  | 1,097,101 |
| <b>Carrying amounts</b>          |                       |                        |                      |                   |  |   |           |
| As of December 31, 2007          | 195,652               | 549,194                | 133,138              | 188,191           | 111,950  | 15,968  | 1,194,093 |
| As of December 31, 2008          | 191,304               | 600,536                | 349,544              | 588,860           | 270,138  | 29,009  | 2,029,391 |
| As of December 31, 2009          | 384,631               | 660,834                | 580,027              | 756,819           | 289,614  | 57,716  | 2,729,641 |
| As of December 31, 2010          | 375,632               | 1,017,850              | 807,937              | 734,995           | 342,097  | 63,787  | 3,342,298 |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****5.5 GONGGA FOOD - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****5.5.6 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

Leasehold buildings of Gongga Food are charged to certain local licensed banks for facilities granted to Gongga Food as mentioned in Note 5.5.14.

The carrying amounts of assets under hire-purchase arrangements are as follows:

|                | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|----------------|------------------|------------------|------------------|------------------|
| Motor vehicles | 347,391          | 445,011          | 386,724          | 188,191          |

**5.5.7 PREPAID LEASE PAYMENTS**

|                                 | Short-term<br>leasehold<br>land<br>RM | Long-term<br>leasehold<br>land<br>RM | Total<br>RM |
|---------------------------------|---------------------------------------|--------------------------------------|-------------|
| <b>Cost</b>                     |                                       |                                      |             |
| As of January 1, 2007           | -                                     | -                                    | -           |
| Effect of adoption of FRS 117   | 50,000                                | 400,000                              | 450,000     |
| Additions                       | -                                     | 896                                  | 896         |
| As of December 31, 2007         | 50,000                                | 400,896                              | 450,896     |
| Additions                       | -                                     | -                                    | -           |
| As of December 31, 2008         | 50,000                                | 400,896                              | 450,896     |
| Additions                       | 55,820                                | -                                    | 55,820      |
| As of December 31, 2009         | 105,820                               | 400,896                              | 506,716     |
| Additions                       | -                                     | 6,276,743                            | 6,276,743   |
| As of December 31, 2010         | 105,820                               | 6,677,639                            | 6,783,459   |
| <b>Accumulated amortisation</b> |                                       |                                      |             |
| As of January 1, 2007           | -                                     | -                                    | -           |
| Amortisation for the year       | 1,087                                 | 4,608                                | 5,695       |
| As of December 31, 2007         | 1,087                                 | 4,608                                | 5,695       |
| Amortisation for the year       | 1,087                                 | 4,608                                | 5,695       |
| As of December 31, 2008         | 2,174                                 | 9,216                                | 11,390      |
| Amortisation for the year       | 1,732                                 | 4,608                                | 6,340       |
| As of December 31, 2009         | 3,906                                 | 13,824                               | 17,730      |
| Amortisation for the year       | 2,385                                 | 4,608                                | 6,993       |
| As of December 31, 2010         | 6,291                                 | 18,432                               | 24,723      |
| <b>Carrying amount</b>          |                                       |                                      |             |
| As of December 31, 2007         | 48,913                                | 396,288                              | 445,201     |
| As of December 31, 2008         | 47,826                                | 391,680                              | 439,506     |
| As of December 31, 2009         | 101,914                               | 387,072                              | 488,986     |
| As of December 31, 2010         | 99,529                                | 6,659,207                            | 6,758,736   |

Leasehold land of Gongga Food is charged to certain local licensed banks for facilities granted to Gongga Food as mentioned in Note 5.5.14.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****5.5 GONGGA FOOD - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****5.5.8 INVENTORIES**

|  | 31.12.2010       | 31.12.2009       | 31.12.2008       | 31.12.2007     |
|--|------------------|------------------|------------------|----------------|
|  | RM               | RM               | RM               | RM             |
| Raw materials                          | 396,971          | 335,370          | 227,887          | 157,899        |
| Packing materials                      | 143,824          | 183,158          | 223,831          | 121,972        |
| Work-in-progress                       | 18,205           | 16,285           | 19,003           | 25,599         |
| Finished goods and trading merchandise | 2,578,786        | 1,638,684        | 1,283,939        | 577,086        |
|  | <u>3,137,786</u> | <u>2,173,497</u> | <u>1,754,660</u> | <u>882,556</u> |

The cost of inventories of Gongga Food recognised as an expense during the year was as follows:

|                     | FYE<br>31.12.2010 | FYE<br>31.12.2009 | FYE<br>31.12.2008 | FYE<br>31.12.2007 |
|---------------------|-------------------|-------------------|-------------------|-------------------|
|                     | RM                | RM                | RM                | RM                |
| Cost of inventories | <u>65,604,868</u> | <u>52,584,709</u> | <u>40,055,673</u> | <u>19,711,540</u> |

**5.5.9 TRADE AND OTHER RECEIVABLES**

|   | 31.12.2010        | 31.12.2009        | 31.12.2008       | 31.12.2007       |
|---|-------------------|-------------------|------------------|------------------|
|   | RM                | RM                | RM               | RM               |
| Trade receivables   | 15,596,754        | 11,138,685        | 7,071,755        | 4,719,083        |
| Other receivables   | 4,500             | 10,500            | 3,000            | -                |
| Refundable deposits                                       | 302,367           | 196,227           | 157,527          | 43,815           |
| Loans and receivables                                     | 15,903,621        | 11,345,412        | 7,232,282        | 4,762,898        |
| Advance payment for acquisition<br>of plant and machinery | -                 | 194,242           | 26,000           | -                |
| Prepaid expenses  | 3,300             | 21,535            | 26,034           | 3,507            |
|   | <u>15,906,921</u> | <u>11,561,189</u> | <u>7,284,316</u> | <u>4,766,405</u> |

Trade receivables comprise amounts receivable for the sale of goods. Certain trade transactions were on cash terms and credit period for remaining non-interest bearing trade transactions were as follows:

|               | FYE<br>31.12.2010 | FYE<br>31.12.2009 | FYE<br>31.12.2008 | FYE<br>31.12.2007 |
|---------------|-------------------|-------------------|-------------------|-------------------|
|               | Days              | Days              | Days              | Days              |
| Credit period | <u>30 to 90</u>   | <u>30 to 60</u>   | <u>30</u>         | <u>30</u>         |

The currency profile of trade receivables is as follows:

|                      | 31.12.2010        | 31.12.2009        | 31.12.2008       | 31.12.2007       |
|----------------------|-------------------|-------------------|------------------|------------------|
|                      | RM                | RM                | RM               | RM               |
| Ringgit Malaysia     | 15,572,454        | 11,091,354        | 7,068,114        | 4,677,364        |
| United States Dollar | 13,975            | 25,414            | 3,641            | -                |
| Singapore Dollar     | 10,325            | 21,917            | -                | 41,719           |
|                      | <u>15,596,754</u> | <u>11,138,685</u> | <u>7,071,755</u> | <u>4,719,083</u> |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****5.5 GONGGA FOOD - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****5.5.9 TRADE AND OTHER RECEIVABLES (CONTINUED)**

Included in trade receivables of Gongga Food are related parties' balances as follows:

|                           | 31.12.2010 | 31.12.2009 | 31.12.2008 | 31.12.2007 |
|---------------------------|------------|------------|------------|------------|
|                           | RM         | RM         | RM         | RM         |
| Related parties' balances | 11,695,463 | 8,834,387  | 5,127,335  | 3,044,720  |

Included in trade receivables of Gongga Food are receivables with total carrying amount of RM1,847,678 which are past due as of December 31, 2010 for which Gongga Food has not provided for impairment loss. Gongga Food does not hold any collateral over these balances nor does it have a legal right to offset against any amounts owed by Gongga Food to the counterparty.

Ageing of trade receivables which are past due but not impaired as of December 31, 2010 are as follows:

|                     | 31.12.2010       |
|---------------------|------------------|
|                     | RM               |
| 91 – 120 days       | 705,937          |
| 121 days – 180 days | 769,189          |
| Over 180 days       | 372,552          |
|                     | <u>1,847,678</u> |
| Average age (days)  | <u>149</u>       |

Gongga Food seeks to maintain strict control over its outstanding trade receivables and has a credit period policy to minimise credit risk. Overdue balances are reviewed regularly by management. Gongga Food has not provided for impairment loss on trade receivable accounts that are past due as there has not been a significant change in credit quality and the amounts are still considered recoverable.

Transactions with related parties are disclosed in Note 5.5.10.

**5.5.10 HOLDING COMPANY AND RELATED PARTY TRANSACTIONS**

The amount owing to holding company arose from dividend payable, management fees and rental expenses, advances and expenses paid on behalf which are unsecured and interest-free and repayable upon demand.

|   | 31.12.2010        | 31.12.2009       | 31.12.2008       | 31.12.2007       |
|---|-------------------|------------------|------------------|------------------|
|   | RM                | RM               | RM               | RM               |
| Amount owing by related companies consist of: |                   |                  |                  |                  |
| Trade account                                 | 12,753,693        | 7,629,076        | 6,407,987        | 4,145,869        |
| Non-trade account                             | -                 | -                | -                | 56,231           |
|   | <u>12,753,693</u> | <u>7,629,076</u> | <u>6,407,987</u> | <u>4,202,100</u> |
| Amount owing to related companies consist of: |                   |                  |                  |                  |
| Trade account                                 | 4,331,276         | 1,193,062        | 537,848          | 395,407          |
| Non-trade account                             | 5,054,771         | 1,400,503        | -                | 248,456          |
|   | <u>9,386,047</u>  | <u>2,593,565</u> | <u>537,848</u>   | <u>643,863</u>   |

The trade balances owing to related companies are subject to the normal trade terms. The balances of non-trade nature are unsecured, interest-free and are repayable upon demand.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****5.5 GONGGA FOOD - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****5.5.10 HOLDING COMPANY AND RELATED PARTY TRANSACTIONS (CONTINUED)**

During the financial year, significant related party transactions are as follows:

|   | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| <b>Holding company</b>                                      |                         |                         |                         |                         |
| Dividend paid/payable                                       | 4,000,000               | 4,600,000               | -                       | -                       |
| Rental of premises paid/ payable                            | 496,627                 | 496,627                 | 186,235                 | -                       |
| Management fees paid/payable                                | 348,000                 | 348,000                 | 348,000                 | 144,000                 |
| Advances granted  | -                       | -                       | 99,000                  | 103,000                 |
| Repayment of advances granted                               | -                       | -                       | 60,000                  | 142,000                 |
| <b>Other related companies</b>                              |                         |                         |                         |                         |
| <b>Kopitiam Asia Pacific</b>                                |                         |                         |                         |                         |
| Advances received   | 2,800,000               | 230,000                 | -                       | -                       |
| Trade sales   | 382,544                 | 204,123                 | 46                      | 22,800                  |
| Trade purchases   | 50,136                  | 336                     | -                       | -                       |
| Repayment of advances received                              | -                       | 230,000                 | -                       | -                       |
| Advances granted  | -                       | -                       | -                       | 200,000                 |
| Repayment of advances granted                               | -                       | -                       | 56,231                  | 303,769                 |
| <b>Old Town Kopitiam</b>                                    |                         |                         |                         |                         |
| Trade sales   | 19,912,084              | 14,245,665              | 9,855,954               | 4,849,470               |
| Repayment of advances granted                               | -                       | -                       | -                       | 230,000                 |
| <b>Oldtown Singapore</b>                                    |                         |                         |                         |                         |
| Trade sales   | 2,458,801               | 1,622,589               | 912,417                 | 10,307                  |
| Transport charges received/receivable                       | 56,090                  | -                       | -                       | -                       |
| Invoicing and warehouse service charges received/receivable | 21,000                  | -                       | -                       | -                       |
| <b>White Cafe Marketing</b>                                 |                         |                         |                         |                         |
| Trade sales   | 1,867,432               | 1,486,300               | 1,389,349               | 1,257,444               |
| Sale of property, plant and equipment                       | -                       | 50,350                  | -                       | -                       |
| Trade purchases   | -                       | -                       | 24,657                  | 18,874                  |
| Repayment of advances granted                               | -                       | -                       | -                       | 99,000                  |
| <b>White Cafe</b>   |                         |                         |                         |                         |
| Trade purchases   | 4,283,589               | 3,296,945               | 2,867,782               | 970,103                 |
| Advances received   | 1,350,000               | 1,400,000               | -                       | -                       |
| Advances granted  | -                       | -                       | 315,000                 | -                       |
| Repayment of advances granted                               | -                       | -                       | 315,000                 | -                       |
| <b>Other related parties</b>                                |                         |                         |                         |                         |
| <b>AC Montage Marketing Sdn. Bhd.</b>                       |                         |                         |                         |                         |
| Rental of premises paid/payable                             | 35,300                  | 9,600                   | 800                     | -                       |
| Rental deposits paid/ payable                               | 6,600                   | -                       | -                       | -                       |
| Utilities deposit paid/payable                              | 1,000                   | -                       | -                       | -                       |

(Forward)



**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****5.5 GONGGA FOOD - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****5.5.10 HOLDING COMPANY AND RELATED PARTY TRANSACTIONS (CONTINUED)**

|  | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| <b>Other related companies (continued)</b> |                         |                         |                         |                         |
| <b>Acadian Gourmet KK Sdn. Bhd.</b>        |                         |                         |                         |                         |
| Trade sales                                | 501,390                 | 437,476                 | -                       | -                       |
| <b>Acadian Gourmet PB Sdn. Bhd.</b>        |                         |                         |                         |                         |
| Trade sales                                | 703,266                 | 34,133                  | -                       | -                       |
| <b>Acadian Gourmet Sdn. Bhd.</b>           |                         |                         |                         |                         |
| Trade sales                                | 369,945                 | 569,615                 | 462,265                 | 104,253                 |
| <b>CN Supplies Sdn. Bhd.</b>               |                         |                         |                         |                         |
| Purchase of property, plant and equipment  | -                       | 250,000                 | -                       | -                       |
| Rental paid/payable                        | -                       | 9,800                   | 16,800                  | 12,600                  |
| Trade purchases                            | -                       | -                       | -                       | 160,996                 |
| <b>Conneczone</b>                          |                         |                         |                         |                         |
| Trade sales                                | 2,316,761               | 2,161,153               | 1,670,640               | 986,581                 |
| <b>Dynasty Confectionery</b>               |                         |                         |                         |                         |
| Trade purchases                            | 4,389,666               | 4,208,736               | 3,534,631               | 673,350                 |
| Rental of motor vehicles paid/payable      | 44,400                  | -                       | -                       | -                       |
| Purchase of consumables                    | 616                     | -                       | -                       | -                       |
| <b>Dynasty Kitchen</b>                     |                         |                         |                         |                         |
| Trade sales                                | 6,145,225               | 5,003,397               | 4,736,185               | 2,078,022               |
| Sale of property, plant and equipment      | -                       | -                       | 46,000                  | -                       |
| <b>Emperor's Kitchen</b>                   |                         |                         |                         |                         |
| Trade purchases                            | 20,662,185              | 17,661,361              | 14,587,004              | 6,989,541               |
| Rental of premises paid/payable            | 1,340                   | -                       | -                       | -                       |
| Purchase of property, plant and equipment  | -                       | 8,841                   | 104,550                 | -                       |
| Trade sales                                | -                       | 172                     | -                       | -                       |
| <b>Esquire Chef</b>                        |                         |                         |                         |                         |
| Trade purchases                            | 5,145,514               | 4,750,522               | 3,084,364               | 862,779                 |
| Sale of property, plant and equipment      | -                       | -                       | -                       | 19,505                  |
| <b>GC Alamanda Sdn. Bhd.</b>               |                         |                         |                         |                         |
| Trade sales                                | 464,228                 | 129,875                 | -                       | -                       |
| <b>GC Ampang Sdn. Bhd.</b>                 |                         |                         |                         |                         |
| Trade sales                                | 648,788                 | 417,356                 | -                       | -                       |
| <b>GC Bangsar Sdn. Bhd.</b>                |                         |                         |                         |                         |
| Trade sales                                | 616,462                 | 655,356                 | 156,861                 | -                       |
| <b>(Forward)</b>                           |                         |                         |                         |                         |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****5.5 GONGGA FOOD - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****5.5.10 HOLDING COMPANY AND RELATED PARTY TRANSACTIONS (CONTINUED)**

|  | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| <b>Other related parties (continued)</b>       |                         |                         |                         |                         |
| GC Bangsar Two Sdn. Bhd.<br>Trade sales        | 573,372                 | 165,219                 | -                       | -                       |
| GC Brickfields Sdn. Bhd.<br>Trade sales        | 692,635                 | -                       | -                       | -                       |
| GC Kapar Sdn. Bhd.<br>Trade sales              | 454,317                 | 418,992                 | 222,319                 | -                       |
| GC Port Klang Sdn. Bhd.<br>Trade sales         | -                       | 227,764                 | -                       | -                       |
| GC R Lant Sdn. Bhd.<br>Trade sales             | 344,787                 | 325,211                 | -                       | -                       |
| GC Selayang Sdn. Bhd.<br>Trade sales           | 539,403                 | 279,643                 | -                       | -                       |
| GC South City Sdn. Bhd.<br>Trade sales         | 421,275                 | 502,830                 | 323,828                 | -                       |
| Gourmet Chef Sdn. Bhd.<br>Trade sales          | 495,401                 | 633,811                 | 728,727                 | -                       |
| Gourmet Corner Sdn. Bhd.<br>Trade sales        | 891,355                 | 912,464                 | 1,000,852               | 436,259                 |
| Gourmet Corner Ipoh Sdn. Bhd.<br>Trade sales   | 862,399                 | 1,037,591               | 1,046,912               | 727,338                 |
| Gourmet Corner KL Sdn. Bhd.<br>Trade sales     | 808,023                 | 732,517                 | 671,064                 | -                       |
| Natural Marketing Sdn. Bhd.<br>Trade purchases | 259,005                 | 254,189                 | 204,645                 | 94,374                  |
| Nam Heong<br>Trade sales                       | -                       | 7,138                   | 7,290                   | 14,938                  |
| Old Town Kopitiam Butterworth<br>Trade sales   | 1,928,186               | 1,475,770               | 675,362                 | 524,688                 |
| Old Town Kopitiam Cheras<br>Trade sales        | 2,957,404               | 3,776,586               | 4,174,628               | 1,993,698               |

(Forward)

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****5.5 GONGGA FOOD - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****5.5.10 HOLDING COMPANY AND RELATED PARTY TRANSACTIONS (CONTINUED)**

|  | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| <b>Other related parties (continued)</b>           |                         |                         |                         |                         |
| Old Town Kopitiam Kuala Lumpur<br>Trade sales      | 1,771,871               | 1,722,045               | 2,121,889               | 1,611,395               |
| OldTown Kopitiam Pavilion Sdn. Bhd.<br>Trade sales | -                       | 400,611                 | 52,186                  | -                       |
| OTK Ipoh Road Sdn. Bhd.<br>Trade sales             | 453,670                 | 250,538                 | -                       | -                       |
| OTK Logistics Sdn. Bhd.<br>Trade sales             | 2,127,665               | 798,755                 | 304,184                 | -                       |
| OTK Manjung Sdn. Bhd.<br>Trade sales               | 580,416                 | 625,892                 | -                       | -                       |
| OTK Megah Sdn. Bhd.<br>Trade sales                 | 366,757                 | 217,770                 | -                       | -                       |
| OTK Northern Sdn. Bhd.<br>Trade sales              | 89,351                  | 58,041                  | -                       | -                       |
| OTK Sarawak Sdn. Bhd.<br>Trade sales               | 16,886                  | -                       | -                       | -                       |
| OTK Sunway Sdn. Bhd.<br>Trade sales                | 652,104                 | 734,931                 | 324,389                 | -                       |
| OTK USJ Sdn. Bhd.<br>Trade sales                   | 529,405                 | 367,734                 | 17,933                  | -                       |
| OTK (Alam Damai) Sdn. Bhd.<br>Trade sales          | 343,465                 | -                       | -                       | -                       |
| OTK (Genting) Sdn. Bhd.<br>Trade sales             | 4,500,322               | 3,029,811               | 1,111,092               | 174,604                 |
| OTK (Intan) Sdn. Bhd.<br>Trade sales               | 573,020                 | 517,284                 | -                       | -                       |
| OTK (Kuala Selangor) Sdn. Bhd.<br>Trade sales      | 328,560                 | -                       | -                       | -                       |
| OTK (Petaling Jaya) Sdn. Bhd.<br>Trade sales       | 1,222,390               | 1,429,569               | 1,699,544               | 94,784                  |

(Forward)

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****5.5 GONGGA FOOD - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****5.5.10 HOLDING COMPANY AND RELATED PARTY TRANSACTIONS (CONTINUED)**

|  | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| <b>Other related parties (continued)</b> |                         |                         |                         |                         |
| OTK (Rawang) Sdn. Bhd.                   |                         |                         |                         |                         |
| Trade sales                              | 527,907                 | 71,837                  | -                       | -                       |
| OTK (Shah Alam) Sdn. Bhd.                |                         |                         |                         |                         |
| Trade sales                              | 465,651                 | 148,707                 | -                       | -                       |
| Lee Siew Ming                            |                         |                         |                         |                         |
| Rental paid                              | 16,800                  | 16,800                  | 6,300                   | -                       |
| OTK Eatery                               |                         |                         |                         |                         |
| Trade sales                              | -                       | -                       | 212,719                 | -                       |
| Advance City Limited                     |                         |                         |                         |                         |
| Trade sales                              | -                       | -                       | 33,279                  | 36,140                  |

The relationships of the related parties with Oldtown group of companies are disclosed in Chapters 5 and 7 of the Prospectus of Oldtown.

***Compensation of key management personnel***

There is no directors' remuneration paid during the financial year. Other than the directors, there are no other key management personnel in Gongga Food.

## 10. ACCOUNTANTS' REPORT

## G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

## 5.5 GONGGA FOOD - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 5.5.11 SHARE CAPITAL

|                              | 31.12.2010       | 31.12.2009       | 31.12.2008       | 31.12.2007       | 31.12.2010 | 31.12.2009 | 31.12.2008 | 31.12.2007 |
|------------------------------|------------------|------------------|------------------|------------------|------------|------------|------------|------------|
| Number of shares             | Number of shares | Number of shares | Number of shares | Number of shares | RM         | RM         | RM         | RM         |
| Authorized:                  |                  |                  |                  |                  |            |            |            |            |
| Ordinary shares of RM1 each: |                  |                  |                  |                  |            |            |            |            |
| At beginning of year         | 100,000          | 100,000          | 100,000          | 100,000          | 100,000    | 100,000    | 100,000    | 100,000    |
| Increased during the year    | 400,000          | -                | -                | -                | 400,000    | -          | -          | -          |
| At end of year               | 500,000          | 100,000          | 100,000          | 100,000          | 500,000    | 100,000    | 100,000    | 100,000    |
| Issued and fully paid:       |                  |                  |                  |                  |            |            |            |            |
| Ordinary shares of RM1 each: |                  |                  |                  |                  |            |            |            |            |
| At beginning of year         | 100,000          | 100,000          | 100,000          | 100,000          | 100,000    | 100,000    | 100,000    | 100,000    |
| Issued during the year       | 200,000          | -                | -                | -                | 200,000    | -          | -          | -          |
| At end of year               | 300,000          | 100,000          | 100,000          | 100,000          | 300,000    | 100,000    | 100,000    | 100,000    |

As approved by the shareholders at an Extraordinary General Meeting held on July 13, 2010:

- (i) the authorised share capital of Gongga Food was increased from RM100,000 consisting of 100,000 ordinary shares of RM1 each to RM500,000 consisting of 500,000 ordinary shares of RM1 each by the creation of an additional 400,000 new ordinary shares of RM1 each; and
- (ii) the issued and paid-up share capital of Gongga Food was increased from RM100,000 consisting of 100,000 ordinary shares of RM1 each to RM300,000 consisting of 300,000 ordinary shares of RM1 each by way of an additional allotment of 200,000 new ordinary shares of RM1 each at par for the purpose of increasing the working capital of Gongga Food. The new ordinary shares issued rank pari passu with the then existing ordinary shares of Gongga Food.

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## 10. ACCOUNTANTS' REPORT

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### G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

#### 5.5 GONGGA FOOD - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

##### 5.5.12 RETAINED EARNINGS

In accordance with the Finance Act, 2007, the single tier income tax system became effective from the year of assessment 2008. Under this system, tax on a company's profit is a final tax, and dividends paid are exempted from tax in the hands of the shareholders. Unlike the previous imputation system, the recipient of the dividend would no longer be able to claim any tax credit.

Companies without Section 108 tax credit balance will automatically move to the single tier tax system on January 1, 2008. However, companies with such tax credits are given an irrevocable option to elect for the single tier tax system and disregard the tax credit or continue to use the tax credits under Section 108 account to frank the payment of cash dividends on ordinary shares for a period of 6 years ending December 31, 2013 or until the tax credits are fully utilised, whichever comes first. During the transitional period, any tax paid will not be added to the Section 108 account and any tax credits utilised will reduce the tax credit balance. All companies will be in the new system on January 1, 2014.

As of December 31, 2010, Gongga Food has not opted to disregard the Section 108 tax credit in accordance with the Finance Act, 2007. Gongga Food may utilise the Section 108 tax credit balance which has been frozen as of December 31, 2007 to frank dividend payments during the six-year transitional period. Based on the prevailing tax rate applicable to dividend, Gongga Food has sufficient Section 108 tax credit and tax exempt income to frank dividends amounting to RM1,559,000 out of its retained earnings as of December 31, 2010. If the balance of the retained earnings of RM16,539,000 were to be distributed as dividends, Gongga Food would switch to a single tier tax system and the balance of the dividends would be single tier dividend.

## 10. ACCOUNTANTS' REPORT

## G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

## 5.5 GONGGA FOOD - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 5.5.13 HIRE-PURCHASE PAYABLES

|   | ← Minimum hire-purchase payments → |            |            | ← Present value of minimum hire-purchase payments → |            |            |
|---|------------------------------------|------------|------------|---|------------|------------|
|   | 31.12.2010                         | 31.12.2009 | 31.12.2008 | 31.12.2010  | 31.12.2009 | 31.12.2008 |
|   | RM                                 | RM         | RM         | RM  | RM         | RM         |
| Amounts payable under hire-purchase arrangements:                   |                                    |            |            |   |            |            |
| Within one year   | 94,560                             | 120,101    | 98,268     | 79,859  | 101,811    | 79,450     |
| In the second to fifth year inclusive                               | 195,072                            | 232,775    | 242,368    | 180,374   | 211,446    | 218,532    |
|   | 289,632                            | 352,876    | 340,636    | 260,233   | 313,257    | 297,982    |
| Less: Future finance charges  | (29,399)                           | (39,619)   | (42,654)   | -   | -          | -          |
| Present value of hire-purchase payables                             | 260,233                            | 313,257    | 297,982    | 260,233   | 313,257    | 297,982    |
| Less: Amount due within 12 months (shown under current liabilities) |                                    |            |            | (79,859)  | (101,811)  | (79,450)   |
| Non-current portion   |                                    |            |            | 180,374   | 211,446    | 218,532    |

The non-current portion is repayable as follows:

| Financial years ending: | 31.12.2010 |         | 31.12.2009 |    | 31.12.2008 |    | 31.12.2007 |    |
|-------------------------|------------|---------|------------|----|------------|----|------------|----|
|                         | RM         | RM      | RM         | RM | RM         | RM | RM         | RM |
| 2009                    | -          | -       | -          | -  | -          | -  | 37,072     | -  |
| 2010                    | -          | -       | -          | -  | 84,232     | -  | 38,911     | -  |
| 2011                    | -          | -       | 74,777     | -  | 56,010     | -  | 8,779      | -  |
| 2012                    | 85,292     | 79,137  | 59,111     | -  | 19,179     | -  | 8,612      | -  |
| 2013                    | 56,629     | 40,563  | -          | -  | -          | -  | -          | -  |
| 2014                    | 34,065     | 16,969  | -          | -  | -          | -  | -          | -  |
| 2015                    | 4,388      | -       | -          | -  | -          | -  | -          | -  |
|                         | 180,374    | 211,446 | 218,532    | -  | 93,374     | -  | -          | -  |

It is policy of Gongga Food to acquire certain of its property, plant and equipment under hire-purchase arrangements.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****5.5 GONGGA FOOD - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****5.5.13 HIRE-PURCHASE PAYABLES (CONTINUED)**

The terms for hire-purchase and average effective financing rates per annum are as follows:

|                                       | FYE<br>31.12.2010 | FYE<br>31.12.2009 | FYE<br>31.12.2008 | FYE<br>31.12.2007 |
|---------------------------------------|-------------------|-------------------|-------------------|-------------------|
| Terms (years)                         | 3 to 5            | 3 to 5            | 3 to 5            | 3 to 5            |
| Average effective financing rates (%) | <u>7.21</u>       | <u>7.39</u>       | <u>7.38</u>       | <u>7.87</u>       |

Interest rates are fixed at the inception of the hire-purchase arrangements.

Hire-purchase payables of Gongga Food are secured by the assets under hire-purchase.

The fair values of Gongga Food's hire-purchase payables are approximately equal to their carrying amounts.

**5.5.14 BORROWINGS**

|  | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|--|------------------|------------------|------------------|------------------|
| Secured:   |                  |                  |                  |                  |
| Term loan  | 1,022,005        | 1,199,850        | 229,204          | 236,757          |
| Bankers' acceptances   | -                | 252,000          | 450,000          | 450,000          |
| Bank overdrafts  | -                | -                | -                | 122,267          |
|  | <u>1,022,005</u> | <u>1,451,850</u> | <u>679,204</u>   | <u>809,024</u>   |
| Less: Amount due within 12 months<br>(shown under current liabilities) | <u>(190,195)</u> | <u>(439,003)</u> | <u>(458,785)</u> | <u>(577,583)</u> |
| Non-current portion  | <u>831,810</u>   | <u>1,012,847</u> | <u>220,419</u>   | <u>231,441</u>   |

The non-current portion is repayable as follows:

|                         | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|-------------------------|------------------|------------------|------------------|------------------|
| Financial years ending: |                  |                  |                  |                  |
| 2009                    | -                | -                | -                | 5,804            |
| 2010                    | -                | -                | 9,837            | 6,275            |
| 2011                    | -                | 199,719          | 10,506           | 6,777            |
| 2012                    | 204,555          | 213,300          | 11,220           | 7,319            |
| 2013                    | 219,999          | 227,804          | 11,983           | 8,865            |
| 2014                    | 219,371          | 203,989          | 12,798           | 9,575            |
| 2015                    | 8,611            | 13,399           | 13,669           | 10,341           |
| 2016 and above          | <u>179,274</u>   | <u>154,636</u>   | <u>150,406</u>   | <u>176,485</u>   |
|                         | <u>831,810</u>   | <u>1,012,847</u> | <u>220,419</u>   | <u>231,441</u>   |



**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****5.5 GONGGA FOOD - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****5.5.14 BORROWINGS (CONTINUED)**

Total term loan and other facilities with local licensed banks are as follows:

|                       | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|-----------------------|------------------|------------------|------------------|------------------|
| Total approved limits | <u>2,440,000</u> | <u>2,440,000</u> | <u>1,440,000</u> | <u>790,000</u>   |

These facilities are secured by land and buildings of Gongga Food as mentioned in Notes 5.5.6 and 5.5.7. Certain facilities are guaranteed by Syarikat Jaminan Pembiayaan Perniagaan. All the above facilities are also guaranteed by all the directors of Gongga Food jointly and severally.

Gongga Food has two (2) term loans that are repayable as follows:

- i) 240 monthly instalments of RM1,837 each commencing April 2006; and
- ii) 60 monthly instalments of RM19,707 each commencing November 2009.

In 2007, Gongga Food breached one of the loan covenants which stipulate that Gongga Food shall not declare or make any payment to its shareholders by way of dividends without the consent of the lending bank during the tenure of the facility. The matter has since been resolved as Gongga Food obtained from the bank, via letter dated April 17, 2009, its consent for the dividend payment made.

The effective interest rates per annum are as follows:

|                      | FYE<br>31.12.2010<br>% | FYE<br>31.12.2009<br>% | FYE<br>31.12.2008<br>% | FYE<br>31.12.2007<br>% |
|----------------------|------------------------|------------------------|------------------------|------------------------|
| Term loan            | 7.55                   | 6.80 to 7.05           | 8.00                   | 8.00                   |
| Bankers' acceptances | -                      | 2.34 to 4.22           | 3.68 to 5.79           | 3.80 to 3.90           |
| Bank overdrafts      | -                      | -                      | 8.00                   | 8.00                   |

The fair values of Gongga Food's borrowings approximate their carrying amounts.

**5.5.15 DEFERRED TAX LIABILITY**

|   | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---|------------------|------------------|------------------|------------------|
| At beginning of year                      | 200,000          | 153,000          | 84,500           | 27,128           |
| Recognised in profit or loss (Note 5.5.5) | <u>119,000</u>   | <u>47,000</u>    | <u>68,500</u>    | <u>57,372</u>    |
| At end of year                            | <u>319,000</u>   | <u>200,000</u>   | <u>153,000</u>   | <u>84,500</u>    |

The deferred tax liability is in respect of temporary differences between tax capital allowances and book depreciation of property, plant and equipment.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****5.5 GONGGA FOOD - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****5.5.16 TRADE AND OTHER PAYABLES**

|                  | 31.12.2010        | 31.12.2009       | 31.12.2008       | 31.12.2007       |
|------------------|-------------------|------------------|------------------|------------------|
|                  | RM                | RM               | RM               | RM               |
| Trade payables   | 10,574,266        | 7,085,163        | 5,503,207        | 2,426,874        |
| Other payables   | 4,902,793         | 92,341           | 49,167           | 79,220           |
| Accrued expenses | 244,315           | 198,140          | 212,342          | 21,598           |
|                  | <u>15,721,374</u> | <u>7,375,644</u> | <u>5,764,716</u> | <u>2,527,692</u> |

Trade and other payables comprise amounts outstanding for trade purchases and ongoing costs. The credit terms granted to Gongga Food for trade purchases ranged from 30 days to 60 days. These amounts are non-interest bearing. Gongga Food has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

Included in trade payables of Gongga Food are related parties' balances as follows:

|                           | 31.12.2010       | 31.12.2009       | 31.12.2008       | 31.12.2007       |
|---------------------------|------------------|------------------|------------------|------------------|
|                           | RM               | RM               | RM               | RM               |
| Related parties' balances | <u>5,320,691</u> | <u>3,248,287</u> | <u>3,117,279</u> | <u>1,262,564</u> |

The amounts owing to other payables are unsecured, interest-free and are repayable upon demand.

Transactions with related parties are disclosed in Note 5.5.10.

**5.5.17 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT****Categories of financial instruments**

|  | 31.12.2010       |
|--|------------------|
|  | RM               |
| <b>Financial assets</b>                            |                  |
| Loans and receivables:                             |                  |
| Trade and other receivables                        | 15,903,621       |
| Amount owing by related companies                  | 12,753,693       |
| Cash and cash equivalents – cash and bank balances | <u>4,115,075</u> |
| <b>Financial liabilities</b>                       |                  |
| Amortised costs:                                   |                  |
| Trade and other payables                           | 15,721,374       |
| Amount owing to holding company                    | 25,310           |
| Amount owing to related companies                  | 9,386,047        |
| Hire-purchase payables                             | 260,233          |
| Borrowings   | <u>1,022,005</u> |

**Financial Risk Management Objectives and Policies**

Risk management is integral to the whole business of Gongga Food. Management continually monitors the Gongga Food's risk management process to ensure that an appropriate balance between risk and control is achieved. Risk management policies and system are reviewed regularly to reflect changes in the market conditions and Gongga Food's activities.

There has been no change to Gongga Food's exposure to these financial risks or the manner in which it manages and measures the risk.

**(a) Credit risk management**

The maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as of December 31, 2010 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the statement of financial position.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****5.5 GONGGA FOOD - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****5.5.17 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (CONTINUED)**

At the end of the reporting date, Gongga Food is subject to significant concentration of credit risk as 75% of its trade receivables are with its related parties. Majority of these amounts have been received since the period end.

**(b) Liquidity and cash flow risks management**

Ultimate responsibility for liquidity and cash flow risks management rests with the Board of Directors, which has establish an appropriate liquidity and cash flow risks management framework for the management of Gongga Food's short, medium and long-term funding and liquidity and cash flow management requirements. Gongga Food manages liquidity and cash flow risks by maintaining adequate reserves and banking facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and financial liabilities.

Management is of the view that Gongga Food's exposure to liquidity and cash flow risks are minimal as Gongga Food has sufficient funds to finance its ongoing working capital requirements.

The maturity profile for the non-derivative financial assets/liabilities of Gongga Food at the reporting date based on the undiscounted cash flows of the respective financial assets/liabilities representing the earliest date on which Gongga Food is entitled to receive/required to pay, is as follows:

|   | On demand<br>or within<br>one year<br>RM | One year<br>to<br>five years<br>RM | Over five<br>years<br>RM | Total<br>RM       |
|---|--|------------------------------------|--------------------------|-------------------|
| <b>Non-derivative financial assets:</b>   |  |                                    |                          |                   |
| Trade and other receivables   | 15,903,621                               | -                                  | -                        | 15,903,621        |
| Amount owing by related companies   | 12,753,693                               | -                                  | -                        | 12,753,693        |
| Cash and bank balances  | 4,115,075                                | -                                  | -                        | 4,115,075         |
| <b>Total undiscounted non-derivative<br/>financial assets</b>                   | <b>32,772,389</b>                        | <b>-</b>                           | <b>-</b>                 | <b>32,772,389</b> |
| <b>Non-derivative financial liabilities:</b>                                    |  |                                    |                          |                   |
| Trade and other payables  | 15,721,374                               | -                                  | -                        | 15,721,374        |
| Amount owing to holding company   | 25,310                                   | -                                  | -                        | 25,310            |
| Amount owing to related companies   | 9,386,047                                | -                                  | -                        | 9,386,047         |
| Hire- purchase payables   | 79,859                                   | 180,374                            | -                        | 260,233           |
| Borrowings  | 190,195                                  | 661,798                            | 170,012                  | 1,022,005         |
| <b>Total undiscounted non-derivative<br/>financial liabilities</b>              | <b>25,402,785</b>                        | <b>842,172</b>                     | <b>170,012</b>           | <b>26,414,969</b> |
| <b>Total net undiscounted non-derivative<br/>financial assets/(liabilities)</b> | <b>7,369,604</b>                         | <b>(842,172)</b>                   | <b>(170,012)</b>         | <b>6,357,420</b>  |

Gongga Food has not committed to any derivative financial instruments during financial period ended December 31, 2010.

## 10. ACCOUNTANTS' REPORT

### G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

#### 5.5 GONGGA FOOD - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

##### 5.5.17 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (CONTINUED)

###### (c) *Market risk*

Gongga Food's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rate.

There has been no change to Gongga Food's exposure to market risks or the manner in which these risks are managed and measured.

###### (i) *Foreign currency risk management*

Gongga Food has minimal foreign currency risk exposure as most of its transactions are denominated in Ringgit Malaysia, which is the functional currency of Gongga Food. The management does not consider Gongga Food's exposure to foreign exchange risk significant as of December 31, 2010. Therefore, sensitivity analysis for foreign currency risk is not disclosed.

###### (ii) *Interest rate risk management*

Interest rate risk is the risk that the fair value or future cash flows of Gongga Food's financial instruments will fluctuate because of changes in market interest rates. Gongga Food's exposure to interest rate risk arises primarily from their loans.

###### Interest rate sensitivity analysis

As of December 31, 2010, if interest rates had been 100 basis points lower/higher, with all other variables held constant, Gongga Food's profit net of tax would have been RM10,220 lower/higher arising mainly as a result of lower/higher interest expenses on floating rate borrowings. The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment.

###### (d) *Capital risk management*

Gongga Food manages its capital to ensure Gongga Food will be able to continue as going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. Gongga Food's overall strategy remains unchanged from 2009.

The capital structure of Gongga Food consists of net debt and equity of Gongga Food. Gongga Food is not subject to any externally imposed capital requirements.

#### **Fair Values of Financial Assets and Financial Liabilities**

The fair value of long-term financial assets and liabilities are determined by the present value of future cash flows estimated and discounted using the current interest rates for similar instruments at the end of the reporting date. There is no material difference between the fair values and carrying values of these assets and liabilities as of the reporting date.

The carrying amounts of cash and cash equivalents, trade and other receivables, trade and other payables and inter-company indebtedness approximate their respective fair values due to the relatively short-term maturity of these financial instruments. The fair values of other classes of financial assets and liabilities are disclosed in the respective notes to the financial statements.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****5.5 GONGGA FOOD - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****5.5.18 CASH AND CASH EQUIVALENTS**

|                        | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|------------------------|------------------|------------------|------------------|------------------|
| Cash and bank balances | 4,115,075        | 2,028,041        | 1,026,434        | 2,518            |
| Bank overdrafts        | -                | -                | -                | (122,267)        |
|                        | <u>4,115,075</u> | <u>2,028,041</u> | <u>1,026,434</u> | <u>(119,749)</u> |

**5.5.19 CAPITAL COMMITMENT**

Gongga Food has the following capital commitments in respect of property, plant and equipment:

|  | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|--|------------------|------------------|------------------|------------------|
| Capital expenditure<br>Contracted but not provided for | -                | 410,553          | 39,000           | 116,122          |
|  | <u>-</u>         | <u>410,553</u>   | <u>39,000</u>    | <u>116,122</u>   |

**5.5.20 OPERATING LEASE ARRANGEMENTS**

Operating leases relates to leases of offices and warehouses with average lease term of 2 to 3 years. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. Gongga Food does not have an option to purchase the leased offices and warehouses at the expiry of the lease period.

Payment recognised as an expenses are as follows:

|                        | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Minimum lease payments | <u>720,527</u>          | <u>555,327</u>          | <u>246,935</u>          | <u>57,152</u>           |

Non-cancellable operating lease commitments are as follows:

|                                       | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---------------------------------------|------------------|------------------|------------------|------------------|
| Within one year                       | 505,914          | 725,727          | 567,627          | 38,675           |
| In the second to fifth year inclusive | 255,200          | 598,528          | 809,841          | 9,800            |
|                                       | <u>761,114</u>   | <u>1,324,255</u> | <u>1,377,468</u> | <u>48,475</u>    |

**5.5.21 SIGNIFICANT EVENTS**

On December 28, 2009, the ultimate holding company entered into Sale and Purchase Agreement (as was supplemented by letters dated May 24, 2010 and June 11, 2010 respectively, and supplemental agreement dated December 9, 2010) with Oldtown to dispose off its entire equity interest in Gongga Food.

On April 12, 2011, Securities Commission had granted Oldtown the approval for the proposed listing on the Main Market of Bursa Securities. Following the said approval, Oldtown intends to complete the transfer of shares before June 2011.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****6. KOPITIAM ASIA PACIFIC****6.1 KOPITIAM ASIA PACIFIC - STATEMENTS OF COMPREHENSIVE INCOME**

|  | Note  | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|--|-------|-------------------------|-------------------------|-------------------------|-------------------------|
| Revenue  | 6.5.1 | 34,707,872              | 28,362,996              | 18,092,237              | 7,269,425               |
| Direct expenses  |       | (654,579)               | (435,225)               | -                       | -                       |
| Cost of sales  |       | <u>(10,619,376)</u>     | <u>(9,102,309)</u>      | <u>(5,840,227)</u>      | <u>(3,053,252)</u>      |
| Gross profit   |       | 23,433,917              | 18,825,462              | 12,252,010              | 4,216,173               |
| Other income - net   |       | 673,552                 | 433,448                 | 695,806                 | 144,021                 |
| Selling and distribution expenses  |       | (10,403,613)            | (9,538,171)             | (6,036,437)             | (2,515,450)             |
| Administrative and general expenses  |       | (3,379,192)             | (2,730,852)             | (1,870,802)             | (1,096,479)             |
| Other expenses   |       | <u>(17,918)</u>         | <u>(16,258)</u>         | <u>(8,490)</u>          | <u>(106,094)</u>        |
| Profit from operations   |       | 10,306,746              | 6,973,629               | 5,032,087               | 642,171                 |
| Finance costs  | 6.5.3 | <u>(256,028)</u>        | <u>(220,413)</u>        | <u>(102,195)</u>        | <u>(12,970)</u>         |
| Profit before tax  | 6.5.4 | 10,050,718              | 6,753,216               | 4,929,892               | 629,201                 |
| Income tax expense   | 6.5.5 | <u>(2,874,669)</u>      | <u>(1,467,060)</u>      | <u>(1,391,246)</u>      | <u>(188,058)</u>        |
| <b>Profit and total comprehensive<br/>income for the year attributable<br/>to owner of Kopitiam Asia Pacific</b> |       | <u>7,176,049</u>        | <u>5,286,156</u>        | <u>3,538,646</u>        | <u>441,143</u>          |
| <i>Key financial ratios:</i>   |       |                         |                         |                         |                         |
| Weighted average number of<br>ordinary shares of RM1.00 each<br>in issue (units)                                 |       | 1,250,000               | 1,250,000               | 1,250,000               | * 247,945               |
| Gross profit margin (%)  |       | 67.52                   | 66.37                   | 67.72                   | 58.00                   |
| Basic earnings per share (sen)   |       | 574.08                  | 422.89                  | 283.09                  | 177.92                  |
| Effective tax rate (%)   |       | <u>26.07</u>            | <u>29.53</u>            | <u>22.25</u>            | <u>28.74</u>            |

\* Calculated based on 249,997 new ordinary shares of RM1 each issued at par on January 24, 2007 and 1,000,000 new ordinary shares of RM1 each issued at par on December 27, 2007

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****6.2 KOPITIAM ASIA PACIFIC - STATEMENTS OF FINANCIAL POSITION**

| ASSETS (Note 6.5.18)                     | Note   | 31.12.2010<br>RM  | 31.12.2009<br>RM  | 31.12.2008<br>RM  | 31.12.2007<br>RM |
|--|--------|-------------------|-------------------|-------------------|------------------|
| <b>Non-current assets</b>                |        |                   |                   |                   |                  |
| Property, plant and equipment            | 6.5.6  | 2,581,567         | 2,261,035         | 1,797,935         | 1,062,057        |
| Investment in a subsidiary company       | 6.5.7  | 1,199,998         | 1,199,998         | 1,199,998         | 1,199,998        |
| Investment in associated companies       | 6.5.8  | 60,000            | 60,000            | 60,000            | 60,000           |
| Other investments                        | 6.5.9  | 29,000            | 29,000            | 29,000            | 29,000           |
| Deferred tax asset                       | 6.5.10 | 1,065,000         | 768,000           | 515,000           | 435,246          |
| <b>Total non-current assets</b>          |        | <b>4,935,565</b>  | <b>4,318,033</b>  | <b>3,601,933</b>  | <b>2,786,301</b> |
| <b>Current assets</b>                    |        |                   |                   |                   |                  |
| Inventories                              | 6.5.11 | 1,760,682         | 1,009,423         | 539,122           | 345,722          |
| Trade and other receivables              | 6.5.12 | 6,028,300         | 5,535,759         | 5,596,979         | 2,269,959        |
| Amount owing by ultimate holding Company | 6.5.13 | 1,454,652         | 620,304           | 418,912           | 9,880            |
| Amount owing by subsidiary company       | 6.5.13 | 13,724,698        | 9,857,793         | 3,078,055         | 654,582          |
| Amount owing by related company          | 6.5.13 | 3,797,943         | 193,037           | 79,824            | 100              |
| Amount owing by associated companies     | 6.5.13 | 976,654           | 828,190           | 659,684           | 562,495          |
| Current tax asset                        | 6.5.5  | -                 | -                 | -                 | 38,666           |
| Fixed deposit, cash and bank balances    | 6.5.14 | 2,333,890         | 1,846,905         | 1,688,965         | 152,812          |
| <b>Total current assets</b>              |        | <b>30,076,819</b> | <b>19,891,411</b> | <b>12,061,541</b> | <b>4,034,216</b> |
| <b>Total assets</b>                      |        | <b>35,012,384</b> | <b>24,209,444</b> | <b>15,663,474</b> | <b>6,820,517</b> |
| <b>EQUITY AND LIABILITIES</b>            |        |                   |                   |                   |                  |
| <b>Capital and reserves</b>              |        |                   |                   |                   |                  |
| Issued capital                           | 6.5.15 | 1,250,000         | 1,250,000         | 1,250,000         | 1,250,000        |
| Retained earnings                        | 6.5.16 | 16,568,940        | 9,392,891         | 4,106,735         | 568,089          |
| <b>Total equity</b>                      |        | <b>17,818,940</b> | <b>10,642,891</b> | <b>5,356,735</b>  | <b>1,818,089</b> |
| <b>Non-current liabilities</b>           |        |                   |                   |                   |                  |
| Hire-purchase payables                   | 6.5.17 | 486,651           | 576,956           | 620,054           | 504,020          |
| Borrowings                               | 6.5.18 | 2,077,650         | 2,261,712         | 798,687           | -                |
| Deferred income                          | 6.5.19 | 3,597,590         | 2,617,318         | 1,838,069         | 1,256,510        |
| <b>Total non-current liabilities</b>     |        | <b>6,161,891</b>  | <b>5,455,986</b>  | <b>3,256,810</b>  | <b>1,760,530</b> |
| <b>Current liabilities</b>               |        |                   |                   |                   |                  |
| Trade and other payables                 | 6.5.20 | 6,438,169         | 5,550,977         | 4,562,688         | 2,200,231        |
| Amount owing to related companies        | 6.5.13 | 1,419,626         | 750,388           | 805,000           | 408,789          |
| Amount owing to a director               | 6.5.13 | -                 | -                 | -                 | 40,982           |
| Hire-purchase payables                   | 6.5.17 | 213,193           | 178,833           | 144,940           | 119,896          |
| Borrowings                               | 6.5.18 | 678,207           | -                 | -                 | -                |
| Current tax liability                    | 6.5.5  | 775,500           | 423,000           | 778,901           | -                |
| Deferred income                          | 6.5.19 | 1,506,858         | 1,207,369         | 758,400           | 472,000          |
| <b>Total current liabilities</b>         |        | <b>11,031,553</b> | <b>8,110,567</b>  | <b>7,049,929</b>  | <b>3,241,898</b> |
| <b>Total liabilities</b>                 |        | <b>17,193,444</b> | <b>13,566,553</b> | <b>10,306,739</b> | <b>5,002,428</b> |
| <b>Total equity and liabilities</b>      |        | <b>35,012,384</b> | <b>24,209,444</b> | <b>15,663,474</b> | <b>6,820,517</b> |
| <b>Key financial ratios:</b>             |        |                   |                   |                   |                  |
| Net tangible assets per share (sen)      |        | 1,425.52          | 851.43            | 428.54            | 733.26           |
| Debt-equity ratio (times)                |        | 0.19              | 0.28              | 0.29              | 0.34             |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****6.3 KOPITIAM ASIA PACIFIC - STATEMENTS OF CHANGES IN EQUITY**

|   | Note   | Issued<br>Capital<br>RM | Distributable<br>Reserve<br>Retained<br>Earnings<br>RM | Total<br>Shareholders'<br>Equity<br>RM |
|---|--------|-------------------------|--|--|
| Balance as of January 1, 2007           |        | 3                       | 377,146  | 377,149                                |
| Total comprehensive income for the year |        | -                       | 441,143  | 441,143                                |
| Issue of shares                         | 6.5.15 | 1,249,997               | -  | 1,249,997                              |
| Dividend                                | F      | -                       | (250,200)  | (250,200)                              |
| <b>Balance as of December 31, 2007</b>  |        | <b>1,250,000</b>        | <b>568,089</b>   | <b>1,818,089</b>                       |
| Total comprehensive income for the year |        | -                       | 3,538,646  | 3,538,646                              |
| <b>Balance as of December 31, 2008</b>  |        | <b>1,250,000</b>        | <b>4,106,735</b>                                       | <b>5,356,735</b>                       |
| Total comprehensive income for the year |        | -                       | 5,286,156  | 5,286,156                              |
| <b>Balance as of December 31, 2009</b>  |        | <b>1,250,000</b>        | <b>9,392,891</b>                                       | <b>10,642,891</b>                      |
| Total comprehensive income for the year |        | -                       | 7,176,049  | 7,176,049                              |
| <b>Balance as of December 31, 2010</b>  |        | <b>1,250,000</b>        | <b>16,568,940</b>                                      | <b>17,818,940</b>                      |

**6.4 KOPITIAM ASIA PACIFIC - SUMMARISED STATEMENTS OF CASH FLOWS**

|   | Note   | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---|--------|-------------------------|-------------------------|-------------------------|-------------------------|
| Net Cash Generated From<br>Operating Activities                     |        | 4,399,406               | 265,009                 | 1,873,851               | 768,281                 |
| Net Cash Used In Investing Activities                               |        | (4,596,270)             | (1,172,369)             | (1,881,486)             | (1,749,282)             |
| Net Cash Generated From<br>Financing Activities                     |        | 327,879                 | 1,009,407               | 543,788                 | 925,563                 |
| <b>NET INCREASE/(DECREASE)<br/>IN CASH AND CASH<br/>EQUIVALENTS</b> |        | <b>131,015</b>          | <b>102,047</b>          | <b>536,153</b>          | <b>(55,438)</b>         |
| <b>CASH AND CASH<br/>EQUIVALENTS AT<br/>BEGINNING OF YEAR</b>       |        | <b>791,012</b>          | <b>688,965</b>          | <b>152,812</b>          | <b>208,250</b>          |
| <b>CASH AND CASH<br/>EQUIVALENTS AT<br/>END OF YEAR</b>             | 6.5.22 | <b>922,027</b>          | <b>791,012</b>          | <b>688,965</b>          | <b>152,812</b>          |



**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****6.5 KOPITIAM ASIA PACIFIC - NOTES TO THE FINANCIAL STATEMENTS****6.5.1 REVENUE**

|                                | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|--------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Trading sales                  | 12,780,825              | 11,561,516              | 6,851,410               | 3,268,640               |
| Royalty fees                   | 11,633,922              | 9,101,525               | 6,568,622               | 3,426,210               |
| Advertising and promotion fees | 6,717,638               | 5,349,729               | 3,721,263               | -                       |
| Franchise fees                 | 1,512,446               | 1,036,715               | 674,042                 | 394,050                 |
| Accounting fees                | 464,066                 | 327,900                 | 216,900                 | 120,300                 |
| Sale of food and beverages     | 505,399                 | 373,944                 | -                       | -                       |
| Rights fee                     | 500,000                 | 291,667                 | -                       | -                       |
| Initial training fee           | 321,570                 | -                       | -                       | -                       |
| Dividend income                | 210,000                 | 320,000                 | 60,000                  | 60,225                  |
| Outlet opening fee             | 62,006                  | -                       | -                       | -                       |
|                                | <u>34,707,872</u>       | <u>28,362,996</u>       | <u>18,092,237</u>       | <u>7,269,425</u>        |

**6.5.2 OPERATING COSTS APPLICABLE TO REVENUE**

|  | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| Changes in inventories of trading merchandise, food, beverages and consumables | (751,259)               | (470,301)               | (193,400)               | (215,264)               |
| Purchase of trading merchandise  | 11,388,429              | 9,537,287               | 6,033,627               | 3,268,516               |
| Purchase of food, beverages and consumables                                    | 261,090                 | 195,133                 | -                       | -                       |
| Employee benefit expenses  | 5,078,503               | 8,559,529               | 4,759,479               | 2,106,043               |
| Depreciation of property, plant and equipment                                  | 6.5.6 840,985           | 612,502                 | 398,408                 | 179,715                 |
| Impairment of property, plant and equipment                                    | 6.5.6 -                 | -                       | -                       | 106,094                 |
| Other operating expenses   | 8,338,674               | 8,199,215               | 5,035,844               | 1,954,734               |
|  | <u>25,156,422</u>       | <u>26,633,365</u>       | <u>16,033,958</u>       | <u>7,399,838</u>        |

**6.5.3 FINANCE COSTS**

|                                  | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|----------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Interest on:                     |                         |                         |                         |                         |
| Term loan                        | 175,994                 | 142,029                 | 14,600                  | -                       |
| Hire-purchase                    | 43,839                  | 44,966                  | 55,847                  | 11,225                  |
| Bank overdraft                   | 20,380                  | 14,157                  | 21,762                  | -                       |
| Bank charges and commitment fees | 15,815                  | 19,261                  | 9,986                   | 1,745                   |
|                                  | <u>256,028</u>          | <u>220,413</u>          | <u>102,195</u>          | <u>12,970</u>           |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****6.5 KOPITIAM ASIA PACIFIC - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****6.5.4 PROFIT BEFORE TAX**

Profit before tax has been arrived at after crediting/(charging):

|   | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| Rental income                             | 50,750                  | 112,790                 | 79,320                  | 72,430                  |
| Fixed deposit interest                    | 28,477                  | 55,893                  | -                       | -                       |
| Bad debts recovered                       | 6,227                   | -                       | -                       | -                       |
| Rental of:                                |                         |                         |                         |                         |
| Office                                    | (196,261)               | (118,135)               | (230,063)               | (155,000)               |
| Hostel                                    | (117,230)               | (123,875)               | (61,900)                | (31,420)                |
| Outlets                                   | (31,200)                | (31,200)                | -                       | -                       |
| Shop                                      | (17,250)                | (84,000)                | -                       | -                       |
| Store                                     | (16,000)                | (52,800)                | -                       | -                       |
| Warewashing machine                       | (9,600)                 | (6,400)                 | -                       | -                       |
| Audit fee                                 | (28,000)                | (27,000)                | (20,000)                | (14,000)                |
| Unrealised loss on foreign exchange       | (5,021)                 | -                       | -                       | -                       |
| Realised (loss)/gain on foreign exchange  | (4,917)                 | (13,608)                | 11,990                  | -                       |
| Property, plant and equipment written off | (301)                   | (3,482)                 | -                       | -                       |
| Allowance for doubtful debts              | -                       | (12,331)                | -                       | -                       |
| Deferred expenditure written off          | -                       | -                       | -                       | (11,845)                |

Included in employee benefits expenses of Kopitiam Asia Pacific are the following:

|                           | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Contributions made to EPF | 467,412                 | 325,907                 | 213,215                 | 115,483                 |

**6.5.5 INCOME TAX EXPENSE**

|   | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| Income tax comprises:   |                         |                         |                         |                         |
| Current tax expense in respect of the current year  | 2,953,000               | 1,971,000               | 1,477,874               | 278,000                 |
| Adjustments recognised in the current year in relation to the current tax of prior years    | 218,669                 | (250,940)               | (6,874)                 | 322                     |
|   | 3,171,669               | 1,720,060               | 1,471,000               | 278,322                 |
| Deferred tax income/(expense) relating to origination and reversal of temporary differences | (333,000)               | (231,400)               | (108,633)               | (90,264)                |
| Adjustments recognised in the current year in relation to the deferred tax of prior years   | 36,000                  | (21,600)                | 28,879                  | -                       |
| (Note 6.5.10)   | (297,000)               | (253,000)               | (79,754)                | (90,264)                |
|   | 2,874,669               | 1,467,060               | 1,391,246               | 188,058                 |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****6.5 KOPITIAM ASIA PACIFIC - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****6.5.5 INCOME TAX EXPENSE (CONTINUED)**

The statutory income tax rate for companies with a paid-up capital of above RM2,500,000 in years of assessment 2007, 2008, 2009 and 2010 are 27%, 26%, 25% and 25% respectively. In the previous years of assessments, for companies with a paid-up capital of RM2,500,000 and below, an income tax rate of 20% is applicable for chargeable income of up to RM500,000. However, with effect from year of assessment 2009, this preferential tax rate will no longer be applicable for companies that controls or being controlled directly or indirectly by, or are related to another company which has a paid-up ordinary share capital of more than RM2,500,000. As a result, Kopitiam Asia Pacific's income tax rate has also been revised accordingly.

The expense for the year can be reconciled to the profit before tax as follows:

|   | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| Profit before tax   | <u>10,050,718</u>       | <u>6,753,216</u>        | <u>4,929,892</u>        | <u>629,201</u>          |
| Income tax expense calculated at 25%<br>(31.12.2009: 25%; 31.12.2008: 26%<br>and 31.12.2007: 27%) | 2,513,000               | 1,688,300               | 1,282,000               | 169,884                 |
| Tax effects of:   |                         |                         |                         |                         |
| Expenses that are not deductible<br>in determining taxable profit                                 | 137,000                 | 81,300                  | 117,241                 | 23,481                  |
| Income that are not taxable in<br>determining taxable profit                                      | (30,000)                | (30,000)                | -                       | -                       |
| Reduction in deferred tax liabilities<br>resulting from reduction in tax rate                     | -                       | -                       | 28,879                  | 29,061                  |
| Others  | -                       | -                       | -                       | 310                     |
| Effect of difference in tax rate applicable to<br>small and medium scale companies                | -                       | -                       | (30,000)                | (35,000)                |
| Adjustments recognised in the current year<br>in relation to the taxes of prior years:            |                         |                         |                         |                         |
| Income tax  | 218,669                 | (250,940)               | (6,874)                 | 322                     |
| Deferred tax  | <u>36,000</u>           | <u>(21,600)</u>         | <u>-</u>                | <u>-</u>                |
| Taxation recognised in profit or loss   | <u>2,874,669</u>        | <u>1,467,060</u>        | <u>1,391,246</u>        | <u>188,058</u>          |
| <i>Current tax asset</i>  | 31.12.2010<br>RM        | 31.12.2009<br>RM        | 31.12.2008<br>RM        | 31.12.2007<br>RM        |
| Tax refund receivable   | <u>-</u>                | <u>-</u>                | <u>-</u>                | <u>38,666</u>           |
| <i>Current tax liability</i>  | 31.12.2010<br>RM        | 31.12.2009<br>RM        | 31.12.2008<br>RM        | 31.12.2007<br>RM        |
| Income tax payable  | <u>775,500</u>          | <u>423,000</u>          | <u>778,901</u>          | <u>-</u>                |

## 10. ACCOUNTANTS' REPORT

## G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

## 6.5 KOPITIAM ASIA PACIFIC - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 6.5.6 PROPERTY, PLANT AND EQUIPMENT

|                                  | Machinery<br>RM | Furniture,<br>fixtures<br>and<br>fittings<br>RM | Motor<br>vehicles<br>RM | Kitchen<br>equipment,<br>store and<br>office<br>equipment<br>RM | Computers<br>RM | Electrical<br>fitting<br>RM | Air-<br>conditioners<br>RM | Signboard<br>RM | Renovation<br>RM | Total<br>RM |
|----------------------------------|-----------------|---|-------------------------|---|-----------------|-----------------------------|----------------------------|-----------------|------------------|-------------|
| <b>Cost</b>                      |                 |   |                         |   |                 |                             |                            |                 |                  |             |
| As of January 1, 2007            | -               | 19,837  | 272,500                 | 21,702  | 92,762          | 8,660                       | 1,000                      | -               | -                | 416,461     |
| Additions                        | -               | 98,279  | 545,412                 | 49,306  | 251,568         | 11,559                      | 24,255                     | -               | 24,905           | 1,005,284   |
| As of December 31, 2007          | -               | 118,116   | 817,912                 | 71,008  | 344,330         | 20,219                      | 25,255                     | -               | 24,905           | 1,421,745   |
| Additions                        | 5,000           | 88,361  | 277,474                 | 60,873  | 511,552         | 20,661                      | 24,670                     | 19,070          | 126,625          | 1,134,286   |
| As of December 31, 2008          | 5,000           | 206,477   | 1,095,386               | 131,881   | 855,882         | 40,880                      | 49,925                     | 19,070          | 151,530          | 2,556,031   |
| Additions                        | -               | 151,836   | 164,000                 | 134,529   | 432,900         | 63,580                      | 20,780                     | 1,800           | 109,659          | 1,079,084   |
| Write off                        | -               | -   | -                       | (2,388)   | (4,509)         | -                           | -                          | -               | -                | (6,897)     |
| As of December 31, 2009          | 5,000           | 358,313   | 1,259,386               | 264,022   | 1,284,273       | 104,460                     | 70,705                     | 20,870          | 261,189          | 3,628,218   |
| Additions                        | 46,868          | 186,085   | 139,200                 | 156,767   | 403,607         | 73,838                      | 47,760                     | -               | 107,693          | 1,161,818   |
| Write off                        | -               | -   | -                       | (645)   | -               | -                           | -                          | -               | -                | (645)       |
| As of December 31, 2010          | 51,868          | 544,398   | 1,398,586               | 420,144   | 1,687,880       | 178,298                     | 118,465                    | 20,870          | 368,882          | 4,789,391   |
| <b>Accumulated depreciation</b>  |                 |   |                         |   |                 |                             |                            |                 |                  |             |
| As of January 1, 2007            | -               | 1,798   | 51,233                  | 2,911   | 15,990          | 1,780                       | 167                        | -               | -                | 73,879      |
| Depreciation charge for the year | -               | 16,522  | 96,854                  | 11,743  | 43,937          | 3,429                       | 3,783                      | -               | 3,447            | 179,715     |
| As of December 31, 2007          | -               | 18,320  | 148,087                 | 14,654  | 59,927          | 5,209                       | 3,950                      | -               | 3,447            | 253,594     |
| Depreciation charge for the year | 83              | 31,145  | 198,048                 | 20,760  | 112,231         | 6,444                       | 9,460                      | 1,560           | 18,677           | 398,408     |
| As of December 31, 2008          | 83              | 49,465  | 346,135                 | 35,414  | 172,158         | 11,653                      | 13,410                     | 1,560           | 22,124           | 652,002     |
| Depreciation charge for the year | 1,000           | 62,567  | 227,277                 | 43,872  | 200,018         | 17,028                      | 11,573                     | 4,084           | 45,083           | 612,502     |
| Write off                        | -               | -   | -                       | (1,274)   | (2,141)         | -                           | -                          | -               | -                | (3,415)     |
| As of December 31, 2009          | 1,083           | 112,032   | 573,412                 | 78,012  | 370,035         | 28,681                      | 24,983                     | 5,644           | 67,207           | 1,261,089   |
| Depreciation charge for the year | 4,444           | 101,335   | 258,836                 | 70,211  | 279,962         | 31,923                      | 22,813                     | 4,174           | 67,287           | 840,985     |
| Write off                        | -               | -   | -                       | (344)   | -               | -                           | -                          | -               | -                | (344)       |
| As of December 31, 2010          | 5,527           | 213,367   | 832,248                 | 147,879   | 649,997         | 60,604                      | 47,796                     | 9,818           | 134,494          | 2,101,730   |

(Forward)

## 10. ACCOUNTANTS' REPORT

## G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

## 6.5 KOPITIAM ASIA PACIFIC - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 6.5.6 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

|                             | Machinery<br>RM | Furniture,<br>and<br>fixtures<br>RM | Motor<br>vehicles<br>RM | Kitchen<br>equipment,<br>store and<br>office<br>equipment<br>RM | Computers<br>RM | Electrical<br>fitting<br>RM | Air-<br>conditioners<br>RM | Signboard<br>RM | Renovation<br>RM | Total<br>RM |
|-----------------------------|-----------------|-------------------------------------|-------------------------|---|-----------------|-----------------------------|----------------------------|-----------------|------------------|-------------|
| Accumulated impairment loss |                 |                                     |                         |   |                 |                             |                            |                 |                  |             |
| As of January 1, 2007       | -               | -                                   | -                       | -   | -               | -                           | -                          | -               | -                | -           |
| Charge for the year         | -               | -                                   | -                       | -   | 106,094         | -                           | -                          | -               | -                | 106,094     |
| As of December 31, 2007     | -               | -                                   | -                       | -   | 106,094         | -                           | -                          | -               | -                | 106,094     |
| Charge for the year         | -               | -                                   | -                       | -   | -               | -                           | -                          | -               | -                | -           |
| As of December 31, 2008     | -               | -                                   | -                       | -   | 106,094         | -                           | -                          | -               | -                | 106,094     |
| Charge for the year         | -               | -                                   | -                       | -   | -               | -                           | -                          | -               | -                | -           |
| As of December 31, 2009     | -               | -                                   | -                       | -   | 106,094         | -                           | -                          | -               | -                | 106,094     |
| Charge for the year         | -               | -                                   | -                       | -   | -               | -                           | -                          | -               | -                | -           |
| As of December 31, 2010     | -               | -                                   | -                       | -   | 106,094         | -                           | -                          | -               | -                | 106,094     |
| Carrying amounts            |                 |                                     |                         |   |                 |                             |                            |                 |                  |             |
| As of December 31, 2007     | -               | 99,796                              | 669,825                 | 56,354  | 178,309         | 15,010                      | 21,305                     | -               | 21,458           | 1,062,057   |
| As of December 31, 2008     | 4,917           | 157,012                             | 749,251                 | 96,467  | 577,630         | 29,227                      | 36,515                     | 17,510          | 129,406          | 1,797,935   |
| As of December 31, 2009     | 3,917           | 246,281                             | 685,974                 | 186,010   | 808,144         | 75,779                      | 45,722                     | 15,226          | 193,982          | 2,261,035   |
| As of December 31, 2010     | 46,341          | 331,031                             | 566,338                 | 272,265   | 931,789         | 117,694                     | 70,669                     | 11,052          | 234,388          | 2,581,567   |

The carrying amounts of assets under hire-purchase arrangements are as follows:

|                | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|----------------|------------------|------------------|------------------|------------------|
| Motor vehicles | 563,070          | 677,806          | 736,184          | 651,858          |

The impairment loss on computers is in respect of the discontinued use of certain software subsequent to December 31, 2007 based on management's assessment that the software no longer meets the operational requirements of Kopitiam Asia Pacific.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****6.5 KOPITIAM ASIA PACIFIC - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****6.5.7 INVESTMENT IN A SUBSIDIARY COMPANY**

|                          | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|--------------------------|------------------|------------------|------------------|------------------|
| Unquoted shares, at cost | <u>1,199,998</u> | <u>1,199,998</u> | <u>1,199,998</u> | <u>1,199,998</u> |

The subsidiary company is as follows:

| Name of Company   | Country of Incorporation | 2010<br>% | Effective Equity Interest |           |           |                          | Principal Activity |
|-------------------|--------------------------|-----------|---------------------------|-----------|-----------|--------------------------|--------------------|
|                   |                          |           | 2009<br>%                 | 2008<br>% | 2007<br>% |                          |                    |
| Old Town Kopitiam | Malaysia                 | 100.00    | 100.00                    | 100.00    | 100.00    | Operator of cafe outlets |                    |

**6.5.8 INVESTMENT IN ASSOCIATED COMPANIES**

|                          | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|--------------------------|------------------|------------------|------------------|------------------|
| Unquoted shares, at cost | <u>60,000</u>    | <u>60,000</u>    | <u>60,000</u>    | <u>60,000</u>    |

The associated companies are as follows:

| Name of Company                | Country of Incorporation | 2010<br>% | Effective Equity Interest |           |           |                            | Principal Activities |
|--------------------------------|--------------------------|-----------|---------------------------|-----------|-----------|----------------------------|----------------------|
|                                |                          |           | 2009<br>%                 | 2008<br>% | 2007<br>% |                            |                      |
| Old Town Kopitiam Butterworth  | Malaysia                 | 30.00     | 30.00                     | 30.00     | 30.00     | Operator of cafe outlets   |                      |
| Old Town Kopitiam Kuala Lumpur | Malaysia                 | 30.00     | 30.00                     | 30.00     | 30.00     | Operator of cafe outlets   |                      |
| Gourmet Corner Sdn. Bhd.       | Malaysia                 | -         | -                         | -         | *         | Sale of food and beverages |                      |

\* In 2007, Kopitiam Asia Pacific disposed off 1% of its investment in Gourmet Corner Sdn. Bhd. reducing its total investment in Gourmet Corner Sdn. Bhd. to 19%. Accordingly, Gourmet Corner Sdn. Bhd. ceased to be an associated company of Kopitiam Asia Pacific and Kopitiam Asia Pacific's investment had been reclassified as investment in unquoted shares in 2007 as disclosed in 6.5.9.

The summarised financial information of the associated companies based on audited financial statements is as follows:

|                         | Old Town Kopitiam Butterworth |                  |                  |                  |
|-------------------------|-------------------------------|------------------|------------------|------------------|
|                         | 31.12.2010<br>RM              | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
| Total assets            | 9,438,056                     | 8,553,599        | 6,237,998        | 4,181,553        |
| Total liabilities       | (4,952,516)                   | (5,435,126)      | (4,447,265)      | (3,465,779)      |
| Revenue                 | 23,169,920                    | 19,092,585       | 15,568,247       | 9,298,685        |
| Net profit for the year | <u>1,992,067</u>              | <u>1,827,740</u> | <u>1,074,959</u> | <u>657,150</u>   |
| Share of net assets     | 1,345,662                     | 935,542          | 537,220          | 214,732          |
| Share of profit         | <u>597,620</u>                | <u>548,322</u>   | <u>322,488</u>   | <u>197,145</u>   |

(Forward)

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****6.5 KOPITIAM ASIA PACIFIC - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****6.5.8 INVESTMENT IN ASSOCIATED COMPANIES (CONTINUED)**

|                                | Old Town Kopitiam Kuala Lumpur |                  |                  |                  |
|--------------------------------|--------------------------------|------------------|------------------|------------------|
|                                | 31.12.2010<br>RM               | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
| Total assets                   | 2,132,551                      | 1,280,812        | 1,375,990        | 1,687,443        |
| Total liabilities              | (1,911,240)                    | (964,271)        | (894,178)        | (1,628,220)      |
| Revenue                        | 4,620,735                      | 4,840,803        | 6,017,234        | 4,517,448        |
| Net (loss)/profit for the year | (95,230)                       | 234,729          | 622,589          | 240,644          |
| Share of net assets            | 66,393                         | 94,962           | 144,544          | 17,767           |
| Share of (loss)/profit         | (28,569)                       | 70,419           | 186,777          | 72,193           |

**6.5.9 OTHER INVESTMENTS**

|                                      | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|--------------------------------------|------------------|------------------|------------------|------------------|
| Unquoted shares in Malaysia, at cost | 29,000           | 29,000           | 29,000           | 29,000           |

**6.5.10 DEFERRED TAX ASSET**

|   | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---|------------------|------------------|------------------|------------------|
| At beginning of year                      | 768,000          | 515,000          | 435,246          | 344,982          |
| Recognised in profit or loss (Note 6.5.5) | 297,000          | 253,000          | 79,754           | 90,264           |
| At end of year                            | 1,065,000        | 768,000          | 515,000          | 435,246          |

The net deferred tax asset is in respect of the following:

|  | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|--|------------------|------------------|------------------|------------------|
| Tax effects of temporary differences arising from: |                  |                  |                  |                  |
| Property, plant and equipment                      | (254,666)        | (194,695)        | (134,509)        | (14,167)         |
| Unabsorbed tax capital allowances                  | 43,554           | 27,357           | -                | -                |
| Deferred franchise fees                            | 1,276,112        | 935,338          | 649,509          | 449,413          |
|  | 1,065,000        | 768,000          | 515,000          | 435,246          |

**6.5.11 INVENTORIES**

|                                 | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---------------------------------|------------------|------------------|------------------|------------------|
| Trading merchandise             | 1,743,154        | 974,100          | 539,122          | 345,722          |
| Food, beverages and consumables | 17,528           | 35,323           | -                | -                |
|                                 | 1,760,682        | 1,009,423        | 539,122          | 345,722          |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****6.5 KOPITIAM ASIA PACIFIC - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****6.5.11 INVENTORIES (CONTINUED)**

The cost of inventories of Kopitiam Asia Pacific recognised as an expense during the year was as follows:

|                     | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Cost of inventories | <u>10,898,260</u>       | <u>9,262,119</u>        | <u>5,840,227</u>        | <u>3,053,252</u>        |

**6.5.12 TRADE AND OTHER RECEIVABLES**

|                                    | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|------------------------------------|------------------|------------------|------------------|------------------|
| Trade receivables                  | 5,515,926        | 4,511,208        | 4,270,606        | 1,717,144        |
| Less: Allowance for doubtful debts | <u>(6,104)</u>   | <u>(12,331)</u>  | <u>-</u>         | <u>-</u>         |
|                                    | 5,509,822        | 4,498,877        | 4,270,606        | 1,717,144        |
| Other receivables                  | 51,611           | -                | 301,862          | 1,190            |
| Refundable deposits                | <u>99,022</u>    | <u>125,033</u>   | <u>370,541</u>   | <u>339,854</u>   |
| Loans and receivables              | 5,660,455        | 4,623,910        | 4,943,009        | 2,058,188        |
| Prepaid expenses                   | <u>367,845</u>   | <u>911,849</u>   | <u>653,970</u>   | <u>211,771</u>   |
|                                    | <u>6,028,300</u> | <u>5,535,759</u> | <u>5,596,979</u> | <u>2,269,959</u> |

Trade receivables comprise mainly amounts receivable for the sale of kitchen equipment, royalty fees, and advertising and promotion fees receivable. The terms granted on sale of goods are as follows:

|            | Average<br>credit period<br>Days |
|------------|----------------------------------|
| 31.12.2010 | Cash to 90                       |
| 31.12.2009 | Cash to 30                       |
| 31.12.2008 | Cash to 30                       |
| 31.12.2007 | <u>Cash to 30</u>                |

No interest is charged on the outstanding balances.

An allowance has been made for estimated irrecoverable amounts of trade receivables of RM6,104 and RM12,331 in 2010 and 2009 respectively based on the default experience of Kopitiam Asia Pacific. Movement in the allowance for doubtful debts is as follows:

|   | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---|------------------|------------------|------------------|------------------|
| Balance at beginning of year                | 12,331           | -                | -                | -                |
| Impairment losses recognised on receivables | -                | 12,331           | -                | -                |
| Amounts recovered                           | <u>(6,227)</u>   | <u>-</u>         | <u>-</u>         | <u>-</u>         |
| Balance at end of year                      | <u>6,104</u>     | <u>12,331</u>    | <u>-</u>         | <u>-</u>         |



**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****6.5 KOPITIAM ASIA PACIFIC - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****6.5.12 TRADE AND OTHER RECEIVABLES (CONTINUED)**

The currency profile of trade and other receivables are as follows:

|                        | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|------------------------|------------------|------------------|------------------|------------------|
| Ringgit Malaysia       | 5,080,689        | 4,511,208        | 4,572,468        | 1,718,334        |
| United States Dollar   | 486,848          | -                | -                | -                |
| Balance at end of year | <u>5,567,537</u> | <u>4,511,208</u> | <u>4,572,468</u> | <u>1,718,334</u> |

Included in trade receivables of Kopitiam Asia Pacific are related parties' balances as follows:

|                           | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---------------------------|------------------|------------------|------------------|------------------|
| Related parties' balances | <u>3,279,017</u> | <u>3,488,211</u> | <u>2,873,848</u> | <u>910,514</u>   |

Included in trade receivables of Kopitiam Asia Pacific are receivables with total carrying amount of RM1,176,083 which is past due as of December 31, 2010 for which Kopitiam Asia Pacific has not provided for impairment loss. Kopitiam Asia Pacific does not hold any collateral over these balances nor does it have a legal right to offset against any amounts owed by Kopitiam Asia Pacific to the counterparty.

Ageing of trade receivables which are past due but not impaired are as follows:

|                     | 31.12.2010<br>RM |
|---------------------|------------------|
| 31 days to 60 days  | 643,641          |
| 61 days to 90 days  | 195,818          |
| 91 days to 120 days | 210,278          |
| Over 121 days       | <u>126,346</u>   |
|                     | <u>1,176,083</u> |
| Average age (days)  | <u>75</u>        |

Kopitiam Asia Pacific seeks to maintain strict control over its outstanding trade receivables and has a credit period policy to minimise credit risk. Overdue balances are reviewed regularly by management. Kopitiam Asia Pacific has not provided for impairment loss on trade receivable accounts that are past due as there has not been a significant change in credit quality and the amounts are still considered recoverable.

Included in other receivables is an amount of RM190 in 2007 owing by a company in which the directors have financial interest. The granting of non-trade advances to a company in which a director has financial interest was in contravention of Section 133A of the Companies Act, 1965. However, the amount had been fully recovered in 2008.

Transactions with related parties are disclosed in Note 6.5.13.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****6.5 KOPITIAM ASIA PACIFIC - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****6.5.13 HOLDING COMPANY AND RELATED PARTY TRANSACTIONS (CONTINUED)**

|  | 31.12.2010         | 31.12.2009       | 31.12.2008       | 31.12.2007       |
|--|--------------------|------------------|------------------|------------------|
|  | RM                 | RM               | RM               | RM               |
| Amount owing by ultimate holding company consist of: |                    |                  |                  |                  |
| Non-trade account                                    | 1,454,652          | 620,304          | 418,912          | 9,880            |
| Amount owing by a subsidiary company consists of:    |                    |                  |                  |                  |
| Trade account  | 13,731,000         | 9,857,793        | 3,080,755        | 529,566          |
| Non-trade account                                    | (6,302)            | -                | (2,700)          | 125,016          |
|  | <u>13,724,698</u>  | <u>9,857,793</u> | <u>3,078,055</u> | <u>654,582</u>   |
| Amount owing by related company consists of:         |                    |                  |                  |                  |
| Trade account  | 997,943            | 193,037          | 79,824           | 100              |
| Non-trade account                                    | 2,800,000          | -                | -                | -                |
|  | <u>3,797,943</u>   | <u>193,037</u>   | <u>79,824</u>    | <u>100</u>       |
| Amount owing by associated companies consists of:    |                    |                  |                  |                  |
| Trade account  | 976,654            | 828,190          | 659,684          | 357,795          |
| Non-trade account                                    | -                  | -                | -                | 204,700          |
|  | <u>976,654</u>     | <u>828,190</u>   | <u>659,684</u>   | <u>562,495</u>   |
| Amount owing to related companies consists of:       |                    |                  |                  |                  |
| Trade account  | (119,626)          | (50,388)         | (45,000)         | (12,150)         |
| Non-trade account                                    | (1,300,000)        | (700,000)        | (760,000)        | (396,639)        |
|  | <u>(1,419,626)</u> | <u>(750,388)</u> | <u>(805,000)</u> | <u>(408,789)</u> |

The amount owing by ultimate holding company arose mainly from advances granted and management fee payable which are unsecured and interest-free. The amounts owing are repayable upon demand and has therefore been classified as current asset.

The trade balances owing by subsidiary company and associate companies, and by/(to) related companies are subject to the normal trade terms. The balances of non-trade accounts are unsecured and interest-free. The amounts owing by/(to) are repayable upon demand and have therefore been classified as current assets/(liabilities).

The amount owing to a director in the 2007 represents unsecured and interest-free advances. The amount owing was repayable upon demand and had therefore been classified as current liability.

During the financial year, significant related party transactions are as follows:

|                                 | FYE        | FYE        | FYE        | FYE        |
|---------------------------------|------------|------------|------------|------------|
|                                 | 31.12.2010 | 31.12.2009 | 31.12.2008 | 31.12.2007 |
|                                 | RM         | RM         | RM         | RM         |
| <b>Ultimate holding company</b> |            |            |            |            |
| Advances granted                | 1,340,000  | 186,690    | 819,474    | 109,880    |
| Management fees paid/payable    | 348,000    | 348,000    | 348,000    | 180,000    |
| Rental paid/payable             | 149,686    | 76,435     | 28,663     | -          |
| Repayment of advances granted   | -          | -          | 400,083    | 100,000    |
| Dividend paid                   | -          | -          | -          | 250,200    |

(Forward)

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****6.5 KOPITIAM ASIA PACIFIC - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****6.5.13 HOLDING COMPANY AND RELATED PARTY TRANSACTIONS (CONTINUED)**

|  | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| <b>Subsidiary company</b>                          |                         |                         |                         |                         |
| Trade sales  | 3,632,196               | 3,313,305               | 1,877,771               | 982,439                 |
| Royalty fees received/receivable                   | 2,730,236               | 1,893,392               | 1,238,075               | 612,310                 |
| Advertising and promotion fees received/receivable | 1,638,141               | 1,136,035               | 742,845                 | -                       |
| Franchise fee received/receivable                  | 1,120,000               | 400,000                 | -                       | -                       |
| Security deposit received/receivable               | 420,000                 | 150,000                 | -                       | -                       |
| Accounting fees received/receivable                | 170,100                 | 109,500                 | 66,000                  | 38,100                  |
| Incentives paid/payable                            | 25,125                  | 41,083                  | -                       | -                       |
| Staff training fees received/receivable            | 21,800                  | -                       | -                       | -                       |
| Rental received/receivable                         | 14,750                  | 72,000                  | 66,000                  | 66,000                  |
| Rental paid/payable                                | 13,000                  | -                       | -                       | -                       |
| Contract wages received/receivable                 | 1,464                   | 3,311,938               | 1,054,008               | 115,245                 |
| Advances granted                                   | -                       | 1,114,682               | 192,708                 | 50,000                  |
| Repayment of advances granted                      | -                       | 1,114,682               | 239,615                 | 280,000                 |
| <b>Associated companies</b>                        |                         |                         |                         |                         |
| <b>Old Town Kopitiam Kuala Lumpur</b>              |                         |                         |                         |                         |
| Trade sales  | 380,655                 | 162,925                 | 86,125                  | 113,666                 |
| Royalty fees received/receivable                   | 229,331                 | 238,947                 | 297,957                 | 229,180                 |
| Advertising and promotion fees received/receivable | 137,599                 | 143,368                 | 178,774                 | -                       |
| Accounting fees received/receivable                | 14,400                  | 14,400                  | 14,400                  | 12,300                  |
| Incentives paid/payable                            | 2,833                   | 5,000                   | -                       | -                       |
| Staff training fees received                       | 500                     | -                       | -                       | -                       |
| Dividends received                                 | -                       | 120,000                 | -                       | -                       |
| Contract wages received/receivable                 | -                       | 1,069                   | -                       | 12,910                  |
| Repayment of advances granted                      | -                       | -                       | 165,000                 | -                       |
| Franchise fees received                            | -                       | -                       | 50,000                  | -                       |
| Advances granted                                   | -                       | -                       | -                       | 165,000                 |
| <b>Old Town Kopitiam Butterworth</b>               |                         |                         |                         |                         |
| Royalty fees received/receivable                   | 1,074,816               | 887,910                 | 770,051                 | 456,591                 |
| Advertising and promotion fees received/receivable | 644,890                 | 532,746                 | 462,031                 | -                       |
| Trade sales  | 590,224                 | 679,361                 | 681,349                 | 332,830                 |
| Dividend received/receivable                       | 187,500                 | 150,000                 | -                       | -                       |
| Franchise fees received/receivable                 | 160,000                 | 80,000                  | 230,000                 | 190,000                 |
| Security deposit received/receivable               | 60,000                  | 30,000                  | -                       | -                       |
| Accounting fees received/receivable                | 49,500                  | 43,500                  | 36,600                  | 26,700                  |
| Incentives paid/payable                            | 8,583                   | 19,583                  | -                       | -                       |
| Staff training fees received                       | 4,350                   | -                       | -                       | -                       |
| Rental paid/payable                                | 3,000                   | -                       | -                       | -                       |
| <b>Related companies</b>                           |                         |                         |                         |                         |
| <b>White Cafe</b>                                  |                         |                         |                         |                         |
| Advances received                                  | 1,000,000               | -                       | 1,000,000               | 8,000                   |
| Repayment of advances received                     | 200,000                 | -                       | 500,000                 | 130,000                 |
| Purchase of property, plant and equipment          | -                       | -                       | 5,000                   | -                       |
| Trade sales  | -                       | -                       | 140                     | -                       |

(Forward)

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****6.5 KOPITIAM ASIA PACIFIC - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****6.5.13 HOLDING COMPANY AND RELATED PARTY TRANSACTIONS (CONTINUED)**

|  | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| <b>Related companies (continued)</b>               |                         |                         |                         |                         |
| <b>Gongga Food</b>                                 |                         |                         |                         |                         |
| Advances granted                                   | 2,800,000               | 230,000                 | -                       | -                       |
| Trade purchases                                    | 382,544                 | 204,123                 | 46                      | 22,800                  |
| Trade sales  | 50,136                  | 336                     | -                       | -                       |
| Repayment of advances granted                      | -                       | 230,000                 | -                       | -                       |
| Repayment of advances received                     | -                       | -                       | 56,231                  | 303,769                 |
| Advances received                                  | -                       | -                       | -                       | 200,000                 |
| <b>Oldtown Singapore</b>                           |                         |                         |                         |                         |
| Trade sales  | 684,773                 | 28,789                  | -                       | -                       |
| Royalty fees received/receivable                   | 251,022                 | 159,804                 | 65,143                  | -                       |
| Repayment of advances granted                      | 73,263                  | -                       | -                       | -                       |
| Accounting fees received/receivables               | 17,666                  | -                       | -                       | -                       |
| Contract wages received/receivable                 | -                       | -                       | 65,031                  | -                       |
| <b>White Cafe Marketing</b>                        |                         |                         |                         |                         |
| Repayment of advances received                     | 200,000                 | -                       | 36,409                  | 500                     |
| Trade purchases                                    | 20,710                  | 3,928                   | -                       | -                       |
| Trade sales  | 785                     | 18,160                  | 1,079                   | 100                     |
| Advances received                                  | -                       | -                       | 1,000                   | 200,500                 |
| <b>Oldtown Kopitiam Pavilion Sdn. Bhd.</b>         |                         |                         |                         |                         |
| Trade sales  | -                       | -                       | 469,942                 | -                       |
| Franchise fee received                             | -                       | -                       | 80,000                  | -                       |
| Contract wages received/receivable                 | -                       | -                       | 11,870                  | -                       |
| Royalty fees received/receivable                   | -                       | -                       | 6,013                   | -                       |
| Advertising and promotion fees received/receivable | -                       | -                       | 3,608                   | -                       |
| Accounting fees received/receivable                | -                       | -                       | 300                     | -                       |
| <b>Related parties</b>                             |                         |                         |                         |                         |
| <b>Oldtown Kopitiam Pavilion Sdn. Bhd.</b>         |                         |                         |                         |                         |
| Royalty fees received/receivable                   | -                       | 68,038                  | -                       | -                       |
| Contract wages received/receivable                 | -                       | 67,944                  | -                       | -                       |
| Trade sales  | -                       | 49,578                  | -                       | -                       |
| Advertising and promotion fees received/receivable | -                       | 40,823                  | -                       | -                       |
| Accounting fees received/receivable                | -                       | 3,300                   | -                       | -                       |
| <b>Dynasty Confectionery</b>                       |                         |                         |                         |                         |
| Accounting fees received/receivable                | 8,400                   | 8,400                   | 8,400                   | 2,100                   |
| Trade purchases                                    | -                       | 120                     | -                       | -                       |
| <b>Dynasty Kitchen</b>                             |                         |                         |                         |                         |
| Trade sales  | 25,568                  | 43,775                  | 45,074                  | 28,284                  |
| Accounting fees received/receivable                | 7,200                   | 7,200                   | 7,200                   | 6,600                   |
| <b>Esquire Chef</b>                                |                         |                         |                         |                         |
| Accounting fees received/receivable                | 8,400                   | 8,400                   | 8,400                   | 5,600                   |
| Trade purchases                                    | 65                      | -                       | -                       | -                       |

(Forward)

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****6.5 KOPITIAM ASIA PACIFIC - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****6.5.13 HOLDING COMPANY AND RELATED PARTY TRANSACTIONS (CONTINUED)**

|  | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| <b>Related parties (continued)</b>                 |                         |                         |                         |                         |
| <b>Emperor's Kitchen</b>                           |                         |                         |                         |                         |
| Accounting fees received/receivable                | 9,600                   | 9,600                   | 9,600                   | 4,000                   |
| Rental paid/payable                                | 1,230                   | -                       | -                       | -                       |
| Trade purchases                                    | 974                     | -                       | -                       | -                       |
| <b>Acadian Gourmet Sdn. Bhd.</b>                   |                         |                         |                         |                         |
| Royalty fees received/receivable                   | 50,354                  | 79,284                  | 64,430                  | 11,796                  |
| Advertising and promotion fees received/receivable | 30,213                  | 47,570                  | 38,658                  | -                       |
| Trade sales  | 23,300                  | 179,209                 | 17,032                  | 119,451                 |
| Accounting fees received/receivable                | 3,600                   | 4,500                   | 4,200                   | -                       |
| Incentives paid/payable                            | 1,000                   | 2,417                   | -                       | -                       |
| Staff training fees received                       | 500                     | -                       | -                       | -                       |
| Franchise fees received                            | -                       | 60,000                  | 50,000                  | -                       |
| Rental received                                    | -                       | -                       | -                       | 1,480                   |
| <b>GC Bangsar Two Sdn. Bhd.</b>                    |                         |                         |                         |                         |
| Royalty fees received/receivable                   | 98,048                  | 22,541                  | -                       | -                       |
| Advertising and promotion fees received/receivable | 58,829                  | 13,525                  | -                       | -                       |
| Trade sales  | 19,362                  | 202,161                 | -                       | -                       |
| Accounting fees received/receivable                | 3,600                   | 1,200                   | -                       | -                       |
| Incentives paid/payable                            | 1,000                   | 250                     | -                       | -                       |
| Staff training fees received                       | 350                     | -                       | -                       | -                       |
| Franchise fees received                            | -                       | 80,000                  | -                       | -                       |
| Security deposit received                          | -                       | 30,000                  | -                       | -                       |
| <b>Old Town Kopitiam Cheras</b>                    |                         |                         |                         |                         |
| Royalty fees received/receivable                   | 413,081                 | 508,479                 | 532,853                 | 259,309                 |
| Advertising and promotion fees received/receivable | 247,849                 | 305,087                 | 319,712                 | -                       |
| Trade sales  | 215,815                 | 225,059                 | 492,387                 | 351,345                 |
| Accounting fees received/receivable                | 14,400                  | 14,400                  | 13,800                  | 6,000                   |
| Rental paid/payable                                | 6,800                   | -                       | -                       | -                       |
| Staff training fees received                       | 5,100                   | -                       | -                       | -                       |
| Incentives paid/payable                            | 4,000                   | 10,333                  | -                       | -                       |
| Contract wages received/receivable                 | 152                     | 780,585                 | 335,602                 | 78,345                  |
| Franchise fees received                            | -                       | -                       | 200,000                 | -                       |
| <b>Acadian Gourmet KK Sdn. Bhd.</b>                |                         |                         |                         |                         |
| Royalty fees received/receivable                   | 76,627                  | 68,188                  | -                       | -                       |
| Advertising and promotion fees received/receivable | 45,976                  | 40,913                  | -                       | -                       |
| Trade sales  | 18,778                  | 17,575                  | -                       | -                       |
| Accounting fees received/receivable                | 3,600                   | 2,700                   | -                       | -                       |
| Rental paid/payable                                | 1,200                   | -                       | -                       | -                       |
| Incentives paid/payable                            | 1,000                   | 2,417                   | -                       | -                       |
| Staff training fees received                       | 500                     | -                       | -                       | -                       |

(Forward)

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****6.5 KOPITIAM ASIA PACIFIC - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****6.5.13 HOLDING COMPANY AND RELATED PARTY TRANSACTIONS (CONTINUED)**

|  | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| <b>Related parties (continued)</b>                 |                         |                         |                         |                         |
| <b>OTK Northern Sdn. Bhd.</b>                      |                         |                         |                         |                         |
| Royalty fees received/receivable                   | 80,857                  | 26,209                  | -                       | -                       |
| Advertising and promotion fees received/receivable | 48,514                  | 15,726                  | -                       | -                       |
| Trade sales  | 17,314                  | 328,723                 | -                       | -                       |
| Accounting fees received/receivable                | 3,600                   | 1,200                   | -                       | -                       |
| Incentives paid/payable                            | 1,000                   | 250                     | -                       | -                       |
| Staff training fees received                       | 550                     | -                       | -                       | -                       |
| Franchise fees received                            | -                       | 80,000                  | -                       | -                       |
| Security deposit received                          | -                       | 30,000                  | -                       | -                       |
| <b>GC Ampang Sdn. Bhd.</b>                         |                         |                         |                         |                         |
| Royalty fees received/receivable                   | 96,847                  | 59,939                  | -                       | -                       |
| Advertising and promotion fees received/receivable | 58,108                  | 35,964                  | -                       | -                       |
| Trade sales  | 19,522                  | 215,071                 | -                       | -                       |
| Accounting fees received/receivable                | 3,600                   | 1,800                   | -                       | -                       |
| Rental paid/payable                                | 2,200                   | -                       | -                       | -                       |
| Incentives paid/payable                            | 1,000                   | 2,250                   | -                       | -                       |
| Staff training fees received                       | 850                     | -                       | -                       | -                       |
| Franchise fees received                            | -                       | 60,000                  | -                       | -                       |
| <b>GC Port Klang Sdn. Bhd.</b>                     |                         |                         |                         |                         |
| Trade sales  | -                       | 171,270                 | -                       | -                       |
| Franchise fees received/receivable                 | -                       | 60,000                  | -                       | -                       |
| Royalty fees received/receivable                   | -                       | 29,231                  | -                       | -                       |
| Advertising and promotion fees received/receivable | -                       | 17,538                  | -                       | -                       |
| Accounting fees received/receivable                | -                       | 2,700                   | -                       | -                       |
| Incentives paid/payable                            | -                       | 500                     | -                       | -                       |
| <b>GC R Laut Sdn. Bhd.</b>                         |                         |                         |                         |                         |
| Royalty fees received/receivable                   | 48,571                  | 45,935                  | -                       | -                       |
| Advertising and promotion fees received/receivable | 29,143                  | 27,561                  | -                       | -                       |
| Trade sales  | 16,437                  | 188,051                 | -                       | -                       |
| Accounting fees received/receivable                | 3,600                   | 2,700                   | -                       | -                       |
| Incentives paid/payable                            | 1,000                   | 2,250                   | -                       | -                       |
| Staff training fees received                       | 350                     | -                       | -                       | -                       |
| Franchise fees received                            | -                       | 60,000                  | -                       | -                       |
| <b>GC Selayang Sdn. Bhd.</b>                       |                         |                         |                         |                         |
| Royalty fees received/receivable                   | 81,088                  | 39,081                  | -                       | -                       |
| Advertising and promotion fees received/receivable | 48,653                  | 23,449                  | -                       | -                       |
| Trade sales  | 24,036                  | 180,496                 | -                       | -                       |
| Accounting fees received/receivable                | 3,600                   | 1,800                   | -                       | -                       |
| Incentives paid/payable                            | 1,000                   | 2,250                   | -                       | -                       |
| Staff training fees received                       | 350                     | -                       | -                       | -                       |
| Franchise fees received                            | -                       | 60,000                  | -                       | -                       |

(Forward)

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****6.5 KOPITIAM ASIA PACIFIC - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****6.5.13 HOLDING COMPANY AND RELATED PARTY TRANSACTIONS (CONTINUED)**

|  | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| <b>Related parties (continued)</b>                 |                         |                         |                         |                         |
| <b>GC Alamanda Sdn. Bhd.</b>                       |                         |                         |                         |                         |
| Royalty fees received/receivable                   | 68,471                  | 17,054                  | -                       | -                       |
| Advertising and promotion fees received/receivable | 41,083                  | 10,232                  | -                       | -                       |
| Trade sales  | 21,562                  | 104,947                 | -                       | -                       |
| Accounting fees received/receivable                | 3,600                   | 600                     | -                       | -                       |
| Staff training fees received                       | 250                     | -                       | -                       | -                       |
| <b>OTK Ipoh Road Sdn. Bhd.</b>                     |                         |                         |                         |                         |
| Royalty fees received/receivable                   | 62,376                  | 33,305                  | -                       | -                       |
| Advertising and promotion fees received/receivable | 37,426                  | 19,983                  | -                       | -                       |
| Trade sales  | 20,473                  | 182,836                 | -                       | -                       |
| Accounting fees received/receivable                | 3,600                   | 1,800                   | -                       | -                       |
| Rental paid/payable                                | 2,200                   | -                       | -                       | -                       |
| Incentives paid/payable                            | 1,000                   | 2,250                   | -                       | -                       |
| Staff training fees received/receivable            | 450                     | -                       | -                       | -                       |
| Franchise fees received                            | -                       | 60,000                  | -                       | -                       |
| <b>Connecczone</b>                                 |                         |                         |                         |                         |
| Royalty fees received/receivable                   | 365,260                 | 339,185                 | 246,130                 | 166,365                 |
| Advertising and promotion fees received/receivable | 219,156                 | 203,511                 | 147,678                 | -                       |
| Trade sales  | 96,408                  | 477,316                 | 341,350                 | 139,941                 |
| Accounting fees received/receivable                | 14,400                  | 14,400                  | 11,400                  | 8,100                   |
| Incentives paid/payable                            | 4,000                   | 10,000                  | -                       | -                       |
| Staff training fees received                       | 2,000                   | -                       | -                       | -                       |
| Rental paid/payable                                | 1,200                   | -                       | -                       | -                       |
| Franchise fees received                            | -                       | -                       | 60,000                  | 90,000                  |
| <b>GC Bangsar Sdn. Bhd.</b>                        |                         |                         |                         |                         |
| Royalty fees received/receivable                   | 98,477                  | 23,269                  | -                       | -                       |
| Advertising and promotion fees received/receivable | 59,086                  | 63,526                  | 900                     | -                       |
| Trade sales  | 29,407                  | 30,328                  | 382,459                 | -                       |
| Accounting fees received/receivable                | 3,600                   | 3,600                   | 14,136                  | -                       |
| Incentives paid/payable                            | 1,000                   | 2,500                   | -                       | -                       |
| Staff training fees received/receivable            | 700                     | -                       | -                       | -                       |
| <b>GC Kapar Sdn. Bhd.</b>                          |                         |                         |                         |                         |
| Royalty fees received/receivable                   | 66,965                  | 62,110                  | 30,703                  | -                       |
| Advertising and promotion fees received/receivable | 40,179                  | 37,266                  | 18,422                  | -                       |
| Trade sales  | 21,239                  | 15,439                  | 198,361                 | -                       |
| Accounting fees received/receivable                | 3,600                   | 3,600                   | 1,200                   | -                       |
| Incentives paid/payable                            | 1,000                   | 2,500                   | -                       | -                       |
| Staff training fees received/receivable            | 300                     | -                       | -                       | -                       |
| Franchise fees received                            | -                       | -                       | 50,000                  | -                       |

(Forward)

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****6.5 KOPITIAM ASIA PACIFIC - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****6.5.13 HOLDING COMPANY AND RELATED PARTY TRANSACTIONS (CONTINUED)**

|  | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| <b>Related parties (continued)</b>                 |                         |                         |                         |                         |
| <b>GC South City Sdn. Bhd.</b>                     |                         |                         |                         |                         |
| Royalty fees received/receivable                   | 63,985                  | 74,490                  | 45,540                  | -                       |
| Advertising and promotion fees received/receivable | 38,391                  | 44,694                  | 27,324                  | -                       |
| Trade sales  | 21,475                  | 17,680                  | 194,797                 | -                       |
| Accounting fees received/receivable                | 3,600                   | 3,600                   | 1,800                   | -                       |
| Staff training fees received/receivable            | 300                     | -                       | -                       | -                       |
| Franchise fees received                            | -                       | -                       | 50,000                  | -                       |
| <b>Gourmet Chef Sdn. Bhd.</b>                      |                         |                         |                         |                         |
| Royalty fees received/receivable                   | 74,641                  | 95,430                  | 109,337                 | -                       |
| Advertising and promotion fees received/receivable | 44,784                  | 57,258                  | 65,602                  | -                       |
| Trade sales  | 26,448                  | 21,296                  | 148,394                 | -                       |
| Rental paid/payable                                | 1,200                   | -                       | -                       | -                       |
| Incentives paid/payable                            | 1,000                   | 2,500                   | -                       | -                       |
| Staff training fees received/receivable            | 150                     | -                       | -                       | -                       |
| Franchise fees received                            | -                       | -                       | 60,000                  | -                       |
| <b>Gourmet Corner Ipoh Sdn. Bhd.</b>               |                         |                         |                         |                         |
| Trade sales  | 131,992                 | 75,587                  | 72,476                  | 84,116                  |
| Royalty fees received/receivable                   | 131,879                 | 146,726                 | 149,645                 | 110,649                 |
| Advertising and promotion fees received/receivable | 79,127                  | 88,036                  | 89,787                  | -                       |
| Incentives paid/payable                            | 2,000                   | 5,000                   | -                       | -                       |
| Rental paid/payable                                | 1,000                   | -                       | -                       | -                       |
| Staff training fees received/receivable            | 150                     | -                       | -                       | -                       |
| Franchise fees received                            | -                       | -                       | -                       | 50,000                  |
| <b>Body Revolution Sdn. Bhd.</b>                   |                         |                         |                         |                         |
| Rental received/receivable                         | 36,000                  | 36,000                  | 6,000                   | -                       |
| <b>Gourmet Corner KL Sdn. Bhd.</b>                 |                         |                         |                         |                         |
| Royalty fees received/receivable                   | 133,650                 | 120,373                 | 105,683                 | -                       |
| Advertising and promotion fees received/receivable | 80,190                  | 72,224                  | 63,410                  | -                       |
| Trade sales  | 75,825                  | 34,271                  | 138,305                 | -                       |
| Accounting fees received/receivable                | 3,600                   | 3,600                   | 1,800                   | -                       |
| Staff training fees received/receivable            | 300                     | -                       | -                       | -                       |
| Franchise fees received                            | -                       | -                       | 50,000                  | -                       |
| <b>Gourmet Corner Sdn. Bhd.</b>                    |                         |                         |                         |                         |
| Trade sales  | 161,060                 | 52,747                  | 70,260                  | 149,606                 |
| Royalty fees received/receivable                   | 131,800                 | 131,677                 | 147,528                 | 67,941                  |
| Advertising and promotion fees received/receivable | 79,080                  | 79,006                  | 88,517                  | -                       |
| Incentives paid/payable                            | 2,000                   | 5,000                   | -                       | -                       |
| Rental paid/payable                                | 1,200                   | -                       | -                       | -                       |
| Staff training fees received/receivable            | 100                     | -                       | -                       | -                       |
| Franchise fees received                            | -                       | -                       | 50,000                  | -                       |

(Forward)



**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****6.5 KOPITIAM ASIA PACIFIC - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****6.5.13 HOLDING COMPANY AND RELATED PARTY TRANSACTIONS (CONTINUED)**

|  | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| <b>Related parties (continued)</b>                 |                         |                         |                         |                         |
| <b>OTK (Genting) Sdn. Bhd.</b>                     |                         |                         |                         |                         |
| Royalty fees received/receivable                   | 835,014                 | 514,935                 | 175,523                 | 20,324                  |
| Trade sales  | 580,205                 | 490,926                 | 53,152                  | 87,672                  |
| Advertising and promotion fees received/receivable | 501,008                 | 308,961                 | 105,314                 | -                       |
| Franchise fees received                            | 160,000                 | 140,000                 | -                       | -                       |
| Security deposit received                          | 60,000                  | 30,000                  | -                       | -                       |
| Accounting fees received/receivable                | 16,500                  | 6,900                   | 3,600                   | 600                     |
| Rental received/receivable                         | -                       | 2,840                   | 1,250                   | -                       |
| <b>OTK (Petaling Jaya) Sdn. Bhd.</b>               |                         |                         |                         |                         |
| Royalty fees received/receivable                   | 167,238                 | 203,829                 | 221,695                 | 8,352                   |
| Advertising and promotion fees received/receivable | 100,343                 | 122,297                 | 133,017                 | -                       |
| Trade sales  | 39,772                  | 70,199                  | 388,205                 | 112,843                 |
| Accounting fees received/receivable                | 7,200                   | 8,700                   | 9,300                   | 900                     |
| Rental paid/payable                                | 3,400                   | -                       | -                       | -                       |
| Incentives paid/payable                            | 2,000                   | 5,000                   | -                       | -                       |
| Staff training fees received/receivable            | 550                     | -                       | -                       | -                       |
| Contract wages received/receivable                 | -                       | 466                     | -                       | -                       |
| Franchise fees received                            | -                       | -                       | 150,000                 | -                       |
| <b>OTK Eatery</b>                                  |                         |                         |                         |                         |
| Trade sales  | 632,136                 | 75,903                  | 155,083                 | 160,178                 |
| Royalty fees received/receivable                   | 361,478                 | 178,860                 | 117,792                 | -                       |
| Franchise fees received                            | 320,000                 | -                       | 140,000                 | -                       |
| Advertising and promotion fees received/receivable | 216,887                 | 107,316                 | 70,675                  | -                       |
| Security deposit received                          | 120,000                 | -                       | -                       | -                       |
| Logistic and loading fees paid/payable             | 89,541                  | -                       | -                       | -                       |
| Accounting fees received/receivable                | 15,600                  | 7,200                   | 5,700                   | 300                     |
| Incentives paid/payable                            | 1,583                   | -                       | -                       | -                       |
| Rental received/receivable                         | -                       | -                       | 1,900                   | 1,120                   |
| <b>OTK Logistics Sdn. Bhd.</b>                     |                         |                         |                         |                         |
| Trade sales  | 76,431                  | 37,944                  | 2,565                   | -                       |
| <b>OTK (Shah Alam) Sdn. Bhd.</b>                   |                         |                         |                         |                         |
| Royalty fees received/receivable                   | 53,745                  | 14,126                  | -                       | -                       |
| Advertising and promotion fees received/receivable | 32,247                  | 8,475                   | -                       | -                       |
| Trade sales  | 29,138                  | 217,802                 | -                       | -                       |
| Accounting fees received/receivable                | 3,600                   | 900                     | -                       | -                       |
| Incentives paid/payable                            | 1,000                   | 250                     | -                       | -                       |
| Staff training fees received/receivable            | 200                     | -                       | -                       | -                       |
| Franchise fees received                            | -                       | 80,000                  | -                       | -                       |
| Security deposit received                          | -                       | 30,000                  | -                       | -                       |

(Forward)

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****6.5 KOPITIAM ASIA PACIFIC - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****6.5.13 HOLDING COMPANY AND RELATED PARTY TRANSACTIONS (CONTINUED)**

|  | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| <b>Related parties (continued)</b>                 |                         |                         |                         |                         |
| <b>OTK (Rawang) Sdn. Bhd.</b>                      |                         |                         |                         |                         |
| Trade sales  | 74,811                  | 238,174                 | -                       | -                       |
| Royalty fees received/receivable                   | 64,552                  | 3,826                   | -                       | -                       |
| Advertising and promotion fees received/receivable | 38,731                  | 2,296                   | -                       | -                       |
| Accounting fees received/receivable                | 3,600                   | 300                     | -                       | -                       |
| Incentives paid/payable                            | 1,000                   | 83                      | -                       | -                       |
| Staff training fees received/receivable            | 600                     | -                       | -                       | -                       |
| Franchise fees received                            | -                       | 80,000                  | -                       | -                       |
| Security deposit received                          | -                       | 30,000                  | -                       | -                       |
| <b>OTK Manjung Sdn. Bhd.</b>                       |                         |                         |                         |                         |
| Royalty fees received/receivable                   | 74,593                  | 76,471                  | -                       | -                       |
| Advertising and promotion fees received/receivable | 44,756                  | 45,883                  | -                       | -                       |
| Trade sales  | 22,900                  | 171,717                 | 2,930                   | -                       |
| Accounting fees received/receivable                | 3,600                   | 3,600                   | -                       | -                       |
| Incentives paid/payable                            | 1,000                   | 2,500                   | -                       | -                       |
| Franchise fees received                            | -                       | 60,000                  | -                       | -                       |
| <b>OTK Sunway Sdn. Bhd.</b>                        |                         |                         |                         |                         |
| Royalty fees received/receivable                   | 90,339                  | 102,379                 | 45,109                  | -                       |
| Advertising and promotion fees received/receivable | 54,203                  | 61,427                  | 27,065                  | -                       |
| Trade sales  | 16,518                  | 23,627                  | 199,191                 | -                       |
| Accounting fees received/receivable                | 3,600                   | 3,600                   | 1,200                   | -                       |
| Rental paid/payable                                | 1,200                   | -                       | -                       | -                       |
| Incentives paid/payable                            | 1,000                   | 2,500                   | -                       | -                       |
| Staff training fees received/receivable            | 450                     | -                       | -                       | -                       |
| Contract wages received/receivable                 | -                       | 742                     | -                       | -                       |
| Franchise fees received                            | -                       | -                       | 60,000                  | -                       |
| <b>OTK USJ Sdn. Bhd.</b>                           |                         |                         |                         |                         |
| Trade sales  | 84,815                  | 101,517                 | 59,581                  | -                       |
| Royalty fees received/receivable                   | 85,206                  | 56,204                  | 949                     | -                       |
| Advertising and promotion fees received/receivable | 51,123                  | 33,722                  | 569                     | -                       |
| Accounting fees received/receivable                | 3,600                   | 3,600                   | 300                     | -                       |
| Staff training fees received/receivable            | 150                     | -                       | -                       | -                       |
| Franchise fees received                            | -                       | -                       | 60,000                  | -                       |
| <b>OTK Singapore</b>                               |                         |                         |                         |                         |
| Trade sales  | 267,046                 | 303,357                 | 238,811                 | 104,424                 |
| Rental received/receivable                         | -                       | 300                     | 2,970                   | 560                     |
| Repayment of advances granted                      | -                       | -                       | 2,320                   | -                       |
| Advances granted                                   | -                       | -                       | -                       | 2,320                   |
| <b>OTK Megah Sdn. Bhd.</b>                         |                         |                         |                         |                         |
| Royalty fees received/receivable                   | 49,182                  | 30,345                  | -                       | -                       |
| Advertising and promotion fees received/receivable | 29,509                  | 18,207                  | -                       | -                       |
| Trade sales  | 23,055                  | 129,504                 | -                       | -                       |
| Accounting fees received/receivable                | 3,600                   | 2,100                   | -                       | -                       |
| Incentives paid/payable                            | 1,000                   | 2,250                   | -                       | -                       |
| Staff training fees received/receivable            | 300                     | -                       | -                       | -                       |
| <b>(Forward)</b>                                   |                         |                         |                         |                         |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****6.5 KOPITIAM ASIA PACIFIC - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****6.5.13 HOLDING COMPANY AND RELATED PARTY TRANSACTIONS (CONTINUED)**

|  | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| <b>Related parties (continued)</b>                 |                         |                         |                         |                         |
| <b>OTK (Intan) Sdn. Bhd.</b>                       |                         |                         |                         |                         |
| Royalty fees received/receivable                   | 75,902                  | 58,556                  | -                       | -                       |
| Advertising and promotion fees received/receivable | 45,541                  | 35,134                  | -                       | -                       |
| Trade sales  | 15,073                  | 204,268                 | -                       | -                       |
| Accounting fees received/receivable                | 3,600                   | 2,100                   | -                       | -                       |
| Incentives paid/payable                            | 1,000                   | 2,250                   | -                       | -                       |
| Franchise fees received                            | -                       | 60,000                  | -                       | -                       |
|  |                         |                         |                         |                         |
| <b>Oldtown Asia Pacific Limited</b>                |                         |                         |                         |                         |
| Licence fees received                              | -                       | 223,600                 | -                       | -                       |
|  |                         |                         |                         |                         |
| <b>Acadian Gourmet PB Sdn. Bhd.</b>                |                         |                         |                         |                         |
| Trade sales  | 71,731                  | 252,163                 | -                       | -                       |
| Royalty fees received/receivable                   | 90,331                  | 169                     | -                       | -                       |
| Advertising and promotion fees received/receivable | 54,199                  | 101                     | -                       | -                       |
| Accounting fees received/receivable                | 3,600                   | -                       | -                       | -                       |
| Incentives paid/payable                            | 1,000                   | -                       | -                       | -                       |
| Staff training fees received/receivable            | 500                     | -                       | -                       | -                       |
| Franchise fees received                            | -                       | 80,000                  | -                       | -                       |
| Security deposit received                          | -                       | 30,000                  | -                       | -                       |
|  |                         |                         |                         |                         |
| <b>AC Montage Marketing Sdn. Bhd.</b>              |                         |                         |                         |                         |
| Rental paid  | 11,200                  | 33,600                  | 33,600                  | 25,200                  |
|  |                         |                         |                         |                         |
| <b>Mayson Trade (M) Sdn. Bhd.</b>                  |                         |                         |                         |                         |
| Trade purchases                                    | 201,731                 | 251,278                 | 180,280                 | -                       |
|  |                         |                         |                         |                         |
| <b>GC Brickfields Sdn. Bhd.</b>                    |                         |                         |                         |                         |
| Trade sales  | 268,947                 | -                       | -                       | -                       |
| Royalty fees received/receivable                   | 103,183                 | -                       | -                       | -                       |
| Franchise fees received                            | 80,000                  | -                       | -                       | -                       |
| Advertising and promotion fees received/receivable | 61,910                  | -                       | -                       | -                       |
| Security deposit received                          | 30,000                  | -                       | -                       | -                       |
| Accounting fees received/receivable                | 3,600                   | -                       | -                       | -                       |
| Incentives paid/payable                            | 1,000                   | -                       | -                       | -                       |
| Staff training fees received                       | 250                     | -                       | -                       | -                       |
|  |                         |                         |                         |                         |
| <b>OTK (Alam Damai) Sdn. Bhd.</b>                  |                         |                         |                         |                         |
| Trade sales  | 206,580                 | -                       | -                       | -                       |
| Franchise fees received                            | 80,000                  | -                       | -                       | -                       |
| Royalty fees received/receivable                   | 44,796                  | -                       | -                       | -                       |
| Security deposit received                          | 30,000                  | -                       | -                       | -                       |
| Advertising and promotion fees received/receivable | 26,877                  | -                       | -                       | -                       |
| Accounting fees received/receivable                | 3,300                   | -                       | -                       | -                       |
| Incentives paid/payable                            | 833                     | -                       | -                       | -                       |
| Staff training fees received                       | 200                     | -                       | -                       | -                       |

(Forward)

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****6.5 KOPITIAM ASIA PACIFIC - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****6.5.13 HOLDING COMPANY AND RELATED PARTY TRANSACTIONS (CONTINUED)**

|  | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| <b>Related parties (continued)</b>                 |                         |                         |                         |                         |
| <b>OTK (Sarawak) Sdn. Bhd.</b>                     |                         |                         |                         |                         |
| Trade sales  | 130,576                 | -                       | -                       | -                       |
| Franchise fees received                            | 80,000                  | -                       | -                       | -                       |
| Royalty fees received/receivable                   | 60,846                  | -                       | -                       | -                       |
| Advertising and promotion fees received/receivable | 36,508                  | -                       | -                       | -                       |
| Security deposit received                          | 30,000                  | -                       | -                       | -                       |
| Accounting fees received/receivable                | 2,700                   | -                       | -                       | -                       |
| <b>OTK (Kuala Selangor) Sdn. Bhd.</b>              |                         |                         |                         |                         |
| Trade sales  | 187,800                 | -                       | -                       | -                       |
| Franchise fees received                            | 80,000                  | -                       | -                       | -                       |
| Royalty fees received/receivable                   | 45,633                  | -                       | -                       | -                       |
| Security deposit received                          | 30,000                  | -                       | -                       | -                       |
| Advertising and promotion fees received/receivable | 27,380                  | -                       | -                       | -                       |
| Accounting fees received/receivable                | 2,400                   | -                       | -                       | -                       |
| Incentives paid/payable                            | 667                     | -                       | -                       | -                       |
| <b>PT Oldtown Indonesia</b>                        |                         |                         |                         |                         |
| Initial training fees received                     | 311,570                 | -                       | -                       | -                       |
| Trade sales  | 273,335                 | -                       | -                       | -                       |
| Licence fee received/receivable                    | 155,540                 | -                       | -                       | -                       |
| Outlet opening fees received/receivable            | 62,006                  | -                       | -                       | -                       |

The relationships of the related parties with Oldtown group of companies are disclosed in Chapters 5 and 7 of the Prospectus of Oldtown.

***Compensation of key management personnel***

There is no director's remuneration during the financial year. The remuneration of other members of key management personnel of Kopitiam Asia Pacific during the financial year are as follows:

|   | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| Short-term employee benefits  | 254,026                 | 250,100                 | 95,325                  | 18,600                  |
| Post-employment benefits:   |                         |                         |                         |                         |
| Defined contribution plan   | 27,557                  | 29,184                  | 11,280                  | 2,088                   |
|   | <u>281,583</u>          | <u>279,284</u>          | <u>106,605</u>          | <u>20,688</u>           |
| Estimated monetary value of benefits-in-kind received/receivable otherwise than in cash | <u>36,836</u>           | <u>25,436</u>           | <u>6,774</u>            | <u>-</u>                |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****6.5 KOPITIAM ASIA PACIFIC - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****6.5.14 FIXED DEPOSIT, CASH AND BANK BALANCES**

|                                    | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|------------------------------------|------------------|------------------|------------------|------------------|
| Fixed deposit with a licensed bank | 1,084,370        | 1,055,893        | 1,000,000        | -                |
| Cash on hand and at banks          | 1,249,520        | 791,012          | 688,965          | 152,812          |
|                                    | <u>2,333,890</u> | <u>1,846,905</u> | <u>1,688,965</u> | <u>152,812</u>   |

The effective interest rates per annum and maturity periods for fixed deposits of Kopitiam Asia Pacific are as follows:

|                             | FYE<br>31.12.2010 | FYE<br>31.12.2009 | FYE<br>31.12.2008 | FYE<br>31.12.2007 |
|-----------------------------|-------------------|-------------------|-------------------|-------------------|
| Effective interest rate (%) | 2.60 to 2.80      | 2.50 to 3.70      | 3.70              | -                 |
| Maturity period (days)      | <u>365</u>        | <u>365</u>        | <u>365</u>        | <u>-</u>          |

The fixed deposit of Kopitiam Asia Pacific is on lien to a licensed bank for banking facility granted to Kopitiam Asia Pacific as disclosed in Note 6.5.18.

## 10. ACCOUNTANTS' REPORT

## G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

## 6.5 KOPTIAM ASIA PACIFIC - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 6.5.15 SHARE CAPITAL

|                              | 31.12.2010       | 31.12.2009       | 31.12.2008       | 31.12.2007       | 31.12.2010 | 31.12.2009 | 31.12.2008 | 31.12.2007 |
|------------------------------|------------------|------------------|------------------|------------------|------------|------------|------------|------------|
| Number of shares             | Number of shares | Number of shares | Number of shares | Number of shares | RM         | RM         | RM         | RM         |
| Authorised:                  |                  |                  |                  |                  |            |            |            |            |
| Ordinary shares of RM1 each: |                  |                  |                  |                  |            |            |            |            |
| At beginning of year         | 5,000,000        | 5,000,000        | 5,000,000        | 300,000          | 5,000,000  | 5,000,000  | 5,000,000  | 300,000    |
| Increased during the year    | -                | -                | -                | 4,700,000        | -          | -          | -          | 4,700,000  |
| At end of year               | 5,000,000        | 5,000,000        | 5,000,000        | 5,000,000        | 5,000,000  | 5,000,000  | 5,000,000  | 5,000,000  |
| Issued and fully paid:       |                  |                  |                  |                  |            |            |            |            |
| Ordinary shares of RM1 each: |                  |                  |                  |                  |            |            |            |            |
| At beginning of year         | 1,250,000        | 1,250,000        | 1,250,000        | 3                | 1,250,000  | 1,250,000  | 1,250,000  | 3          |
| Issued during the year       | -                | -                | -                | 1,249,997        | -          | -          | -          | 1,249,997  |
| At end of year               | 1,250,000        | 1,250,000        | 1,250,000        | 1,250,000        | 1,250,000  | 1,250,000  | 1,250,000  | 1,250,000  |

## 6.5.16 RETAINED EARNINGS

In accordance with the Finance Act, 2007, the single tier income tax system became effective from the year of assessment 2008. Under this system, tax on a company's profit is a final tax, and dividends paid are exempted from tax in the hands of the shareholders. Unlike the previous imputation system, the recipient of the dividend would no longer be able to claim any tax credit.

Companies without Section 108 tax credit balance will automatically move to the single tier tax system on January 1, 2008. However, companies with such tax credits are given an irrevocable option to elect for the single tier tax system and disregard the tax credit or continue to use the tax credits under Section 108 account to frank the payment of cash dividends on ordinary shares for a period of 6 years ending December 31, 2013 or until the tax credits are fully utilised, whichever comes first. During the transitional period, any tax paid will not be added to the Section 108 account and any tax credits utilised will reduce the tax credit balance. All companies will be in the new system on January 1, 2014.

As of December 31, 2010, Kopitiam Asia Pacific has not opted to disregard the Section 108 tax credit in accordance with the Finance Act, 2007. Kopitiam Asia Pacific may utilise the Section 108 tax credit balance which has been frozen as of December 31, 2007 to frank dividend payments during the six-year transitional period. Based on the prevailing tax rate applicable to dividend, Kopitiam Asia Pacific has sufficient Section 108 tax credit to frank dividends amounting to RM1,849,000 out of its retained earnings as of December 31, 2010. If the balance of the retained earnings of RM14,720,000 were to be distributed as dividends, Kopitiam Asia Pacific would switch to a single tier tax system and the balance of the dividends would be single tier dividend.

## 10. ACCOUNTANTS' REPORT

## G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

## 6.5 KOPITIAM ASIA PACIFIC - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 6.5.17 HIRE-PURCHASE PAYABLES

|   | ← Minimum hire-purchase payments → |                | ← Present value of minimum hire-purchase payments → |                |                |                |                |                |
|---|------------------------------------|----------------|---|----------------|----------------|----------------|----------------|----------------|
|   | 31.12.2010                         | 31.12.2009     | 31.12.2008  | 31.12.2007     | 31.12.2010     | 31.12.2009     | 31.12.2008     | 31.12.2007     |
|   | RM                                 | RM             | RM  | RM             | RM             | RM             | RM             | RM             |
| Amounts payable under hire-purchase arrangements:                   |                                    |                |   |                |                |                |                |                |
| Within one year   | 250,944                            | 221,712        | 188,664   | 143,636        | 213,193        | 178,833        | 144,940        | 119,896        |
| In the second to fifth year inclusive                               | 533,774                            | 622,538        | 609,246   | 542,191        | 486,651        | 556,376        | 527,867        | 451,920        |
| After fifth year  | -                                  | 20,915         | 96,227  | 65,805         | -              | 20,580         | 92,187         | 52,100         |
|   | <u>784,718</u>                     | <u>865,165</u> | <u>894,137</u>                                      | <u>751,632</u> | <u>699,844</u> | <u>755,789</u> | <u>764,994</u> | <u>623,916</u> |
| Less: Future finance charges  | (84,874)                           | (109,376)      | (129,143)   | (127,716)      | -              | -              | -              | -              |
| Present value of hire-purchase payables                             | <u>699,844</u>                     | <u>755,789</u> | <u>764,994</u>                                      | <u>623,916</u> | <u>699,844</u> | <u>755,789</u> | <u>764,994</u> | <u>623,916</u> |
| Less: Amount due within 12 months (shown under current liabilities) |                                    |                |   |                | (213,193)      | (178,833)      | (144,940)      | (119,896)      |
| Non-current portion   |                                    |                |   |                | <u>486,651</u> | <u>576,956</u> | <u>620,054</u> | <u>504,020</u> |

The non-current portion is repayable as follows:

|                         | 31.12.2010     | 31.12.2009     | 31.12.2008     | 31.12.2007     |
|-------------------------|----------------|----------------|----------------|----------------|
|                         | RM             | RM             | RM             | RM             |
| Financial years ending: |                |                |                |                |
| 2009                    | -              | -              | -              | 110,888        |
| 2010                    | -              | -              | 154,276        | 116,803        |
| 2011                    | -              | 190,508        | 164,224        | 123,098        |
| 2012                    | 191,228        | 167,190        | 139,065        | 101,131        |
| 2013                    | 125,868        | 100,405        | 70,293         | 52,100         |
| 2014                    | 125,271        | 98,273         | 71,616         | -              |
| 2015                    | 44,284         | 20,580         | 20,580         | -              |
|                         | <u>486,651</u> | <u>576,956</u> | <u>620,054</u> | <u>504,020</u> |

It is policy of Kopitiam Asia Pacific to acquire certain of its property, plant and equipment under hire-purchase arrangements.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****6.5 KOPITIAM ASIA PACIFIC - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****6.5.17 HIRE-PURCHASE PAYABLES (CONTINUED)**

The terms for hire-purchase and effective borrowing rates per annum are as follows:

|                               | FYE<br>31.12.2010 | FYE<br>31.12.2009 | FYE<br>31.12.2008 | FYE<br>31.12.2007 |
|-------------------------------|-------------------|-------------------|-------------------|-------------------|
| Terms (years)                 | 5 to 7            | 5 to 7            | 5 to 7            | 5 to 7            |
| Effective borrowing rates (%) | 4.27 to 8.03      | 4.27 to 8.03      | 4.24 to 7.09      | 4.24 to 7.09      |

Interest rates are fixed at the inception of the hire-purchase arrangements. Hire-purchase payables of Kopitiam Asia Pacific are secured by the assets under hire-purchase.

The fair values of the hire-purchase payables of Kopitiam Asia Pacific approximate their carrying amounts.

**6.5.18 BORROWINGS**

|  | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|--|------------------|------------------|------------------|------------------|
| Secured:   |                  |                  |                  |                  |
| Term loan  | 2,428,364        | 2,261,712        | 798,687          | -                |
| Bank overdraft   | 327,493          | -                | -                | -                |
|  | <u>2,755,857</u> | <u>2,261,712</u> | <u>798,687</u>   | <u>-</u>         |
| Less: Amount due within 12 months<br>(shown under current liabilities) | (678,207)        | -                | -                | -                |
| Non-current portion  | <u>2,077,650</u> | <u>2,261,712</u> | <u>798,687</u>   | <u>-</u>         |

Kopitiam Asia Pacific is granted term loan and overdraft facilities by a local licensed bank to the extent of:

|           | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|-----------|------------------|------------------|------------------|------------------|
| Term loan | 2,500,000        | 2,500,000        | 2,500,000        | -                |
| Overdraft | 1,500,000        | 1,500,000        | 1,500,000        | -                |
|           | <u>4,000,000</u> | <u>4,000,000</u> | <u>4,000,000</u> | <u>-</u>         |

Included in the non-current portion of borrowings of Kopitiam Asia Pacific in previous years was a six (6) year term loan which was repayable by equal monthly instalments commencing after the full drawdown of the term loan. In 2010, Kopitiam Asia Pacific has fully drawn down the RM2,500,000 term loan facility and the repayment commenced in October 2010 and will continue until September 2016. The non-current portion of other borrowings is repayable as follows:

|                                     | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|-------------------------------------|------------------|------------------|------------------|------------------|
| Financial years ending December 31: |                  |                  |                  |                  |
| 2012                                | 379,966          | -                | -                | -                |
| 2013                                | 411,753          | -                | -                | -                |
| 2014                                | 446,150          | -                | -                | -                |
| 2015                                | 483,420          | -                | -                | -                |
| 2016 and above                      | 356,361          | -                | -                | -                |
|                                     | <u>2,077,650</u> | <u>-</u>         | <u>-</u>         | <u>-</u>         |



**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****6.5.1 KOPITIAM ASIA PACIFIC - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****6.5.18 BORROWINGS (CONTINUED)**

The overdraft and term loan facilities are secured by:

- (i) Letter of Set-off over first party fixed deposit of Kopitiam Asia Pacific of RM1,000,000; and
- (ii) Debenture over fixed and floating assets of Kopitiam Asia Pacific, both present and future.

The above facilities are also guaranteed by the ultimate holding company and the directors of Kopitiam Asia Pacific jointly and severally for RM4,000,000.

The average effective interest rates per annum are as follows:

|                | FYE<br>31.12.2010<br>% | FYE<br>31.12.2009<br>% | FYE<br>31.12.2008<br>% | FYE<br>31.12.2007<br>% |
|----------------|------------------------|------------------------|------------------------|------------------------|
| Term loan      | 7.60                   | 7.32                   | 8.25                   | -                      |
| Bank overdraft | 8.05                   | -                      | -                      | -                      |

The fair values of the bank borrowings of Kopitiam Asia Pacific approximate their carrying amount.

**6.5.19 DEFERRED INCOME**

|                         | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|-------------------------|------------------|------------------|------------------|------------------|
| Non-current portion:    |                  |                  |                  |                  |
| Deferred franchise fees | 3,597,590        | 2,617,318        | 1,838,069        | 1,256,510        |
| Current portion:        |                  |                  |                  |                  |
| Deferred franchise fees | 1,506,858        | 1,124,036        | 758,400          | 472,000          |
| Deferred rights fees    | -                | 83,333           | -                | -                |
|                         | 1,506,858        | 1,207,369        | 758,400          | 472,000          |
|                         | 5,104,448        | 3,824,687        | 2,596,469        | 1,728,510        |

Deferred franchise fees represent franchise fees received in advance from franchisees. The revenue is recognised in the statement of comprehensive income on a straight-line basis over the term of the franchise agreement of 5 years.

Deferred right fees represent payment received in advance on a quarterly basis for the rights to display and sell products in the outlets. The revenue is recognised in statement comprehensive income on a straight line basis over the term of agreement of 3 years.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****6.5 KOPITIAM ASIA PACIFIC - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****6.5.20 TRADE AND OTHER PAYABLES**

|                              | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|------------------------------|------------------|------------------|------------------|------------------|
| Trade payables               | 2,885,754        | 2,327,850        | 2,529,500        | 559,696          |
| Other payables               | 623,511          | 1,080,903        | 779,139          | 931,716          |
| Accrued expenses             | 889,488          | 857,934          | 533,974          | 78,069           |
| Refundable deposits received | 2,039,416        | 1,284,290        | 720,075          | 630,750          |
|                              | <u>6,438,169</u> | <u>5,550,977</u> | <u>4,562,688</u> | <u>2,200,231</u> |

Trade and other payables comprise amounts outstanding for trade purchases and ongoing costs. The credit terms granted to Kopitiam Asia Pacific for trade purchases ranged from 30 days to 60 days. These amounts are non-interest bearing. Kopitiam Asia Pacific has financial risk management policies to ensure that all payables are paid within the pre-agreed credit terms.

Included in trade payables of Kopitiam Asia Pacific are related parties' balances as follows:

|                           | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---------------------------|------------------|------------------|------------------|------------------|
| Related parties' balances | <u>548</u>       | <u>413</u>       | <u>3,263</u>     | <u>-</u>         |

The amounts owing to other payables are unsecured, interest-free and are repayable upon demand.

Transactions with related parties are disclosed in Note 6.5.13.

**6.5.21 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT****Categories of financial instruments**

|  | 31.12.2010<br>RM |
|--|------------------|
| <b>Financial assets</b>                  |                  |
| Loans and receivables:                   |                  |
| Trade and other receivables              | 5,660,455        |
| Amount owing by ultimate holding company | 1,454,652        |
| Amount owing by subsidiary company       | 13,724,698       |
| Amount owing by related company          | 3,797,943        |
| Amount owing by associated companies     | 976,654          |
| Available-for-sale:                      |                  |
| Other investments                        | 29,000           |
| Cash and cash equivalents:               |                  |
| Fixed deposit, cash and bank balances    | <u>2,333,890</u> |
| <b>Financial liabilities</b>             |                  |
| Amortised cost:                          |                  |
| Trade and other payables                 | 6,438,169        |
| Amount owing to related companies        | 1,419,626        |
| Hire-purchase payables                   | 699,844          |
| Borrowings                               | <u>2,755,857</u> |

## 10. ACCOUNTANTS' REPORT

### G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

#### 6.5 KOPITIAM ASIA PACIFIC - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

##### 6.5.21 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (CONTINUED)

###### **Financial Risk Management Objectives and Policies**

Risk management is integral to the whole business of Kopitiam Asia Pacific. Management continually monitors Kopitiam Asia Pacific's risk management process to ensure that an appropriate balance between risk and control is achieved. Risk management policies and systems are reviewed regularly to reflect changes in the market conditions and Kopitiam Asia Pacific's activities.

There has been no change to Kopitiam Asia Pacific's exposure to these financial risks or the manner in which it manages and measures the risk.

###### *(a) Credit risk management*

The maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as of December 31, 2010 in relation to each class of recognised financial assets of Kopitiam Asia Pacific is the carrying amount of those assets, grossed up for any allowances for losses, as stated in the statement of financial position.

Kopitiam Asia Pacific is exposed to credit risk mainly from trade and other receivables as well as cash and bank balances. Kopitiam Asia Pacific established policies on credit control which involve regular review of customers' outstanding balances and payment trends.

As of December 31, 2010, Kopitiam Asia Pacific is not subject to significant concentration of credit risk as Kopitiam Asia Pacific transacts with numerous franchisees which are located widely across different states of Malaysia. The subsidiary company has minimal credit risk exposure as most transactions are on cash terms.

Management's policies and processes for managing the credit risk are disclosed in Note 6.5.12.

Kopitiam Asia Pacific places its cash and cash equivalents with a number of creditworthy financial institutions. Kopitiam Asia Pacific policy limits the concentration of financial exposure to any single financial institution.

###### *(b) Liquidity and cash flow risks management*

Ultimate responsibility for liquidity and cash flow risks management rests with the Board of Directors, which has established an appropriate liquidity and cash flow risks management framework for the management of Kopitiam Asia Pacific's short, medium and long-term funding and liquidity and cash flow management requirements. Kopitiam Asia Pacific manages liquidity and cash flow risks by maintaining adequate reserves and banking facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and financial liabilities.

Management is of the view that Kopitiam Asia Pacific's exposure to liquidity and cash flow risks are minimal as Kopitiam Asia Pacific has sufficient funds to finance its ongoing working capital requirements.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****6.5 KOPITIAM ASIA PACIFIC - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****6.5.21 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (CONTINUED)**

The maturity profile for the non-derivative financial assets/liabilities of Kopitiam Asia Pacific as of December 31, 2010 based on the undiscounted cash flows of the respective financial assets/liabilities representing the earliest date on which Kopitiam Asia Pacific is entitled to receive/required to pay, is as follows:

|   | On demand<br>or within<br>one year<br>RM | One year<br>to five years<br>RM | Over five<br>years<br>RM | Total<br>RM       |
|---|--|---------------------------------|--------------------------|-------------------|
| <b>Non-derivative financial assets:</b>                                     |  |                                 |                          |                   |
| Other investments   | -  | -                               | 29,000                   | 29,000            |
| Trade and other receivables   | 5,660,455                                | -                               | -                        | 5,660,455         |
| Amount owing by ultimate holding company                                    | 1,454,652                                | -                               | -                        | 1,454,652         |
| Amount owing by subsidiary company  | 13,724,698                               | -                               | -                        | 13,724,698        |
| Amount owing by related company   | 3,797,943                                | -                               | -                        | 3,797,943         |
| Amount owing by associated companies  | 976,654                                  | -                               | -                        | 976,654           |
| Fixed deposits, cash and cash equivalents                                   | 2,333,890                                | -                               | -                        | 2,333,890         |
| <b>Total undiscounted non-derivative financial assets</b>                   | <b>27,948,292</b>                        | <b>-</b>                        | <b>29,000</b>            | <b>27,977,292</b> |
| <b>Non-derivative financial liabilities:</b>                                |  |                                 |                          |                   |
| Trade and other payables  | 6,438,169                                | -                               | -                        | 6,438,169         |
| Amount owing to related companies   | 1,419,626                                | -                               | -                        | 1,419,626         |
| Hire-purchase payables  | 213,193                                  | 486,651                         | -                        | 699,844           |
| Borrowings  | 678,207                                  | 1,721,289                       | 356,361                  | 2,755,857         |
| <b>Total undiscounted non-derivative financial liabilities</b>              | <b>8,749,195</b>                         | <b>2,207,940</b>                | <b>356,361</b>           | <b>11,313,496</b> |
| <b>Total net undiscounted non-derivative financial assets/(liabilities)</b> | <b>19,199,097</b>                        | <b>(2,207,940)</b>              | <b>(327,361)</b>         | <b>16,663,796</b> |

Kopitiam Asia Pacific has not committed to any derivative financial instruments during the financial period ended December 31, 2010.

**(c) Market risk**

Kopitiam Asia Pacific's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rate.

There has been no change to Kopitiam Asia Pacific's exposure to market risks or the manner in which these risks are managed and measured.

**(i) Foreign currency risk management**

Kopitiam Asia Pacific has minimal foreign currency risk exposure as most of their transactions are denominated in Ringgit Malaysia, which is the functional currency of Kopitiam Asia Pacific.

## 10. ACCOUNTANTS' REPORT

### G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

#### 6.5 KOPITIAM ASIA PACIFIC - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

##### 6.5.21 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (CONTINUED)

###### (ii) *Interest rate risk management*

Kopitiam Asia Pacific's exposure to interest rate risks relates primarily to floating rate borrowings. All Kopitiam Asia Pacific bank borrowings are floating rate borrowings.

Kopitiam Asia Pacific's outstanding borrowings as at year end at variable rates are denominated mainly in Ringgit Malaysia. Please refer to Note 6.5.18 for details of the Kopitiam Asia Pacific's borrowings.

###### Interest rate sensitivity analysis

As of December 31, 2010, if interest rates had been 100 basis points lower/higher, with all other variables held constant, the Company's profit net of tax would have been RM27,559 higher/lower arising mainly as a result of lower/higher interest expense on floating interest rate loans of Kopitiam Asia Pacific. The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment.

###### (d) *Capital risk management*

Kopitiam Asia Pacific manages its capital to ensure Kopitiam Asia Pacific will be able to continue as going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. Kopitiam Asia Pacific's overall strategy remains unchanged from 2009.

The capital structure of Kopitiam Asia Pacific consists of net debt and equity of Kopitiam Asia Pacific. Kopitiam Asia Pacific is not subject to any externally imposed capital requirements.

###### **Fair Values of Financial Assets and Financial Liabilities**

The carrying amounts of cash and cash equivalents, trade and other receivables, amount owing by/(to) holding company, amount owing by subsidiary company, amount owing by/(to) related companies, amount owing by associated companies, and trade and other payables approximate their respective fair values due to the relatively short-term maturity of these financial instruments.

The fair value of long-term financial assets and liabilities are determined by the present value of future cash flows estimated and discounted using the current interest rates for similar instruments at the end of the reporting date. There is no material difference between the fair values and carrying values of these assets and liabilities as of the reporting date.

The fair values of other investments are not established as they cannot be measured reliably.

The fair values of other classes of financial assets and liabilities are disclosed in the respective notes to the financial statements.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****6.5 KOPITIAM ASIA PACIFIC - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****6.5.22 CASH AND CASH EQUIVALENTS**

For the purposes of the statement of cash flows, cash and cash equivalents include cash on hand and at banks and net of outstanding bank overdrafts. Cash and cash equivalents at the end of the reporting date as shown in the statement of cash flows can be reconciled to the related items in the statement of financial position as follows:

|  | 31.12.2010<br>RM   | 31.12.2009<br>RM   | 31.12.2008<br>RM   | 31.12.2007<br>RM |
|--|--------------------|--------------------|--------------------|------------------|
| Fixed deposit with a licensed bank                   | 1,084,370          | 1,055,893          | 1,000,000          | -                |
| Cash on hand and at banks                            | 1,249,520          | 791,012            | 688,965            | 152,812          |
| Bank overdraft                                       | (327,493)          | -                  | -                  | -                |
|  | <u>2,006,397</u>   | <u>1,846,905</u>   | <u>1,688,965</u>   | <u>152,812</u>   |
| Less: Fixed deposit on lien to a local licensed bank | <u>(1,084,370)</u> | <u>(1,055,893)</u> | <u>(1,000,000)</u> | <u>-</u>         |
|  | <u>922,027</u>     | <u>791,012</u>     | <u>688,965</u>     | <u>152,812</u>   |

**6.5.23 OPERATING LEASE ARRANGEMENTS**

Operating leases relate to leases of shops, outlets, hostels, stores and kitchen equipment with average lease term of 1 to 3 years. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the leased shops, outlets, hostels, stores and kitchen equipment at the expiry of the lease period.

Payment recognised as an expense for Kopitiam Asia Pacific was as follows:

|                        | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Minimum lease payments | <u>387,540</u>          | <u>416,410</u>          | <u>291,963</u>          | <u>186,420</u>          |

Kopitiam Asia Pacific has non-cancellable operating lease commitments as follows:

|                                       | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---------------------------------------|------------------|------------------|------------------|------------------|
| Within one year                       | 188,635          | 328,935          | 310,935          | 698,744          |
| In the second to fifth year inclusive | <u>14,063</u>    | <u>126,518</u>   | <u>299,407</u>   | <u>1,355,156</u> |
|                                       | <u>202,698</u>   | <u>455,453</u>   | <u>610,342</u>   | <u>2,053,900</u> |

**6.5.24 CAPITAL COMMITMENT**

As of December 31, 2007, Kopitiam Asia Pacific had capital commitment in respect of property, plant and equipment which was contracted but not provided for of RM396,540.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****6.5 KOPITIAM ASIA PACIFIC - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****6.5.25 CONTINGENT LIABILITIES**

Kopitiam Asia Pacific entered into non-cancellable operating lease rental agreements with a third party on behalf of its franchisees. The lease rentals are borne by the respective franchisees and run for a period of three years. The Directors are of the opinion that provisions are not required in respect of this matter, as it is not probable that there will be an outflow of resources embodying economic benefits.

Contingent liabilities in respect of non-cancellable operating lease rental agreements entered into by Kopitiam Asia Pacific were as follows:

|                           | 31.12.2010       | 31.12.2009       | 31.12.2008       | 31.12.2007       |
|---------------------------|------------------|------------------|------------------|------------------|
|                           | RM               | RM               | RM               | RM               |
| Less than one year        | 2,166,087        | 1,288,103        | 1,567,785        | 1,225,094        |
| Between one to five years | <u>1,687,509</u> | <u>590,061</u>   | <u>1,230,427</u> | <u>1,635,375</u> |
|                           | <u>3,853,596</u> | <u>1,878,164</u> | <u>2,798,212</u> | <u>2,860,469</u> |

**6.5.26 SIGNIFICANT EVENTS**

On December 28, 2009, the ultimate holding company entered into Sale and Purchase Agreement (as was supplemented by letters dated May 24, 2010 and June 11, 2010 respectively, and supplemental agreement dated December 9, 2010) with Oldtown to dispose off its entire equity interest in Kopitiam Asia Pacific.

On April 12, 2011, Securities Commission had granted the Oldtown the approval for the proposed listing on the Main Market of Bursa Securities. Following the said approval, Oldtown intends to complete the transfer of shares before June 2011.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****7. OLD TOWN KOPITIAM****7.1 OLD TOWN KOPITIAM - STATEMENTS OF COMPREHENSIVE INCOME**

|  | Note  | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|--|-------|-------------------------|-------------------------|-------------------------|-------------------------|
| Revenue  |       | 55,323,224              | 38,451,124              | 25,063,490              | 12,415,761              |
| Direct expenses  |       | <u>(50,756,578)</u>     | <u>(34,002,428)</u>     | <u>(23,496,792)</u>     | <u>(11,722,360)</u>     |
| Gross profit   |       | 4,566,646               | 4,448,696               | 1,566,698               | 693,401                 |
| Other income - net   |       | 3,395,318               | 2,084,314               | 1,277,782               | 519,210                 |
| Other gains  |       | -                       | -                       | 499                     | -                       |
| Administrative and general expenses  |       | <u>(6,670,299)</u>      | <u>(3,371,863)</u>      | <u>(1,844,524)</u>      | <u>(858,129)</u>        |
| Profit from operations   |       | 1,291,665               | 3,161,147               | 1,000,455               | 354,482                 |
| Finance costs  | 7.5.2 | <u>(320,450)</u>        | <u>(166,766)</u>        | <u>(31,777)</u>         | <u>(3,482)</u>          |
| Profit before tax  | 7.5.3 | 971,215                 | 2,994,381               | 968,678                 | 351,000                 |
| Income tax expense   | 7.5.4 | <u>(776,141)</u>        | <u>(1,002,502)</u>      | <u>(370,000)</u>        | <u>(118,000)</u>        |
| <b>Profit and comprehensive income for<br/>the year attributable to owners<br/>of Oldtown Kopitiam</b> |       | <u>195,074</u>          | <u>1,991,879</u>        | <u>598,678</u>          | <u>233,000</u>          |
| <i>Key financial ratios:</i>   |       |                         |                         |                         |                         |
| Weighted average number of ordinary<br>shares of RM1.00 each in issue (units)                          |       | 200,000                 | 200,000                 | 200,000                 | * 2,742                 |
| Gross profit margin (%)  |       | 8.25                    | 11.57                   | 6.25                    | 5.58                    |
| Basic earnings per share (sen)   |       | 97.54                   | 995.94                  | 299.34                  | 8,497.45                |
| Effective tax rate (%)   |       | <u>76.50</u>            | <u>33.60</u>            | <u>40.21</u>            | <u>36.47</u>            |

\* Calculated based on 199,998 new ordinary shares of RM1 each issued at par on December 27, 2007



**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****7.2 OLD TOWN KOPITIAM - STATEMENTS OF FINANCIAL POSITION**

| ASSETS                                    | Note   | 31.12.2010<br>RM  | 31.12.2009<br>RM  | 31.12.2008<br>RM  | 31.12.2007<br>RM |
|---|--------|-------------------|-------------------|-------------------|------------------|
| <b>Non-current assets</b>                 |        |                   |                   |                   |                  |
| Property, plant and equipment             | 7.5.5  | 28,193,189        | 22,315,357        | 8,930,745         | 4,606,826        |
| Prepaid lease payments                    | 7.5.6  | 2,288,352         | 2,319,176         | 2,350,000         | -                |
| Deferred franchise fee                    | 7.5.7  | 1,285,480         | 390,488           | -                 | -                |
| <b>Total non-current assets</b>           |        | <b>31,767,021</b> | <b>25,025,021</b> | <b>11,280,745</b> | <b>4,606,826</b> |
| <b>Current assets</b>                     |        |                   |                   |                   |                  |
| Inventories                               | 7.5.8  | 889,599           | 826,335           | 366,772           | 269,837          |
| Other receivables                         | 7.5.9  | 4,516,968         | 3,467,401         | 1,929,396         | 1,013,153        |
| Current tax assets                        | 7.5.4  | -                 | 329,313           | 294,815           | 144,750          |
| Cash and bank balances                    |        | 1,144,944         | 1,121,645         | 703,702           | 608,790          |
| <b>Total current assets</b>               |        | <b>6,551,511</b>  | <b>5,744,694</b>  | <b>3,294,685</b>  | <b>2,036,530</b> |
| <b>Total assets</b>                       |        | <b>38,318,532</b> | <b>30,769,715</b> | <b>14,575,430</b> | <b>6,643,356</b> |
| <b>EQUITY AND LIABILITIES</b>             |        |                   |                   |                   |                  |
| <b>Capital and reserves</b>               |        |                   |                   |                   |                  |
| Issued capital                            | 7.5.11 | 200,000           | 200,000           | 200,000           | 200,000          |
| Retained earnings                         | 7.5.12 | 2,792,412         | 2,597,338         | 605,459           | 6,781            |
| <b>Total equity</b>                       |        | <b>2,992,412</b>  | <b>2,797,338</b>  | <b>805,459</b>    | <b>206,781</b>   |
| <b>Non-current liabilities</b>            |        |                   |                   |                   |                  |
| Borrowings                                | 7.5.13 | 5,989,492         | 6,146,629         | 1,281,821         | -                |
| Deferred tax liability                    | 7.5.14 | 804,000           | 677,000           | 412,000           | 118,000          |
| <b>Total non-current liabilities</b>      |        | <b>6,793,492</b>  | <b>6,823,629</b>  | <b>1,693,821</b>  | <b>118,000</b>   |
| <b>Current liabilities</b>                |        |                   |                   |                   |                  |
| Trade and other payables                  | 7.5.15 | 3,935,634         | 3,026,664         | 2,987,149         | 1,693,133        |
| Amount owing to immediate holding company | 7.5.10 | 13,724,698        | 9,857,793         | 3,078,055         | 568,764          |
| Amount owing to other related companies   | 7.5.10 | 9,613,446         | 6,998,854         | 5,895,465         | 4,056,678        |
| Current tax liability                     | 7.5.4  | 47,001            | -                 | -                 | -                |
| Borrowings                                | 7.5.13 | 1,211,849         | 1,265,437         | 115,481           | -                |
| <b>Total current liabilities</b>          |        | <b>28,532,628</b> | <b>21,148,748</b> | <b>12,076,150</b> | <b>6,318,575</b> |
| <b>Total liabilities</b>                  |        | <b>35,326,120</b> | <b>27,972,377</b> | <b>13,769,971</b> | <b>6,436,575</b> |
| <b>Total equity and liabilities</b>       |        | <b>38,318,532</b> | <b>30,769,715</b> | <b>14,575,430</b> | <b>6,643,356</b> |
| <b>Key financial ratios:</b>              |        |                   |                   |                   |                  |
| Net tangible assets per share (sen)       |        | 1,496.21          | 1,398.67          | 402.73            | 7,541.25         |
| Debt-equity ratio (times)                 |        | 2.41              | 2.65              | 1.73              | -                |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****7.3 OLD TOWN KOPITIAM - STATEMENTS OF CHANGES IN EQUITY**

|   | Note   | Issued<br>Capital<br>RM | Distributable<br>Reserve<br>Retained<br>Earnings<br>RM | (Capital<br>Deficiency)/<br>Total<br>Shareholders'<br>Equity<br>RM |
|---|--------|-------------------------|--|--|
| Balance as of January 1, 2007           |        | 2                       | (226,219)  | (226,217)  |
| Total comprehensive income for the year |        | -                       | 233,000  | 233,000  |
| Issue of shares                         | 7.5.11 | 199,998                 | -  | 199,998  |
| Balance as of December 31, 2007         |        | 200,000                 | 6,781  | 206,781  |
| Total comprehensive income for the year |        | -                       | 598,678  | 598,678  |
| Balance as of December 31, 2008         |        | 200,000                 | 605,459  | 805,459  |
| Total comprehensive income for the year |        | -                       | 1,991,879  | 1,991,879  |
| Balance as of December 31, 2009         |        | 200,000                 | 2,597,338  | 2,797,338  |
| Total comprehensive income for the year |        | -                       | 195,074  | 195,074  |
| Balance as of December 31, 2010         |        | 200,000                 | 2,792,412  | 2,992,412  |

**7.4 OLD TOWN KOPITIAM - SUMMARISED STATEMENTS OF CASH FLOWS**

|   | Note   | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---|--------|-------------------------|-------------------------|-------------------------|-------------------------|
| Net Cash Generated From<br>Operating Activities                 |        | 7,998,612               | 7,252,614               | 4,154,137               | 2,474,662               |
| Net Cash Used In Investing Activities                           |        | (7,444,138)             | (12,885,536)            | (5,424,750)             | (2,305,513)             |
| Net Cash (Used In)/Generated From<br>Financing Activities       |        | (415,988)               | 5,228,431               | 1,365,525               | 246,905                 |
| <b>NET INCREASE/(DECREASE) IN<br/>CASH AND CASH EQUIVALENTS</b> |        | 138,486                 | (404,491)               | 94,912                  | 416,054                 |
| <b>CASH AND CASH EQUIVALENTS<br/>AT BEGINNING OF YEAR</b>       |        | 299,211                 | 703,702                 | 608,790                 | 192,736                 |
| <b>CASH AND CASH EQUIVALENTS<br/>AT END OF YEAR</b>             | 7.5.17 | 437,697                 | 299,211                 | 703,702                 | 608,790                 |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****7.5 OLD TOWN KOPITIAM - NOTES TO THE FINANCIAL STATEMENTS****7.5.1 OPERATING COSTS APPLICABLE TO REVENUE**

|   | Note  | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---|-------|-------------------------|-------------------------|-------------------------|-------------------------|
| Changes in inventories of food, beverages and consumables |       | (63,264)                | (459,563)               | (96,935)                | (188,875)               |
| Purchase of food, beverages and consumables               |       | 21,324,722              | 15,575,586              | 11,080,352              | 5,798,043               |
| Employee benefit expenses                                 |       | 12,062,709              | 8,177,101               | 5,913,935               | 3,207,938               |
| Depreciation of property, plant and equipment             | 7.5.5 | 5,551,041               | 2,905,219               | 1,485,723               | 731,668                 |
| Amortisation of prepaid lease payment                     | 7.5.6 | 30,824                  | 30,824                  | -                       | -                       |
| Amortisation of deferred franchise fee                    | 7.5.7 | 225,008                 | 9,512                   | -                       | -                       |
| Other operating expenses                                  |       | 19,200,209              | 11,892,587              | 7,614,241               | 3,294,184               |
|   |       | <u>58,331,249</u>       | <u>38,131,266</u>       | <u>25,997,316</u>       | <u>12,842,958</u>       |

**7.5.2 FINANCE COSTS**

|                                  | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|----------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Interest on:                     |                         |                         |                         |                         |
| Term loans                       | 277,410                 | 131,151                 | 17,366                  | -                       |
| Bank overdraft                   | 18,132                  | 16,257                  | 4,868                   | -                       |
| Bank charges and commitment fees | 24,908                  | 19,358                  | 9,543                   | 3,482                   |
|                                  | <u>320,450</u>          | <u>166,766</u>          | <u>31,777</u>           | <u>3,482</u>            |

**7.5.3 PROFIT BEFORE TAX**

Profit before tax has been arrived at after crediting/(charging):

|   | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| Rental income                             | 169,150                 | 90,595                  | 26,800                  | -                       |
| Realised gain on foreign exchange         | -                       | -                       | 499                     | -                       |
| Rental of:                                |                         |                         |                         |                         |
| Shops                                     | (7,401,097)             | (4,489,032)             | (2,806,706)             | (1,252,042)             |
| Hostel                                    | (540,905)               | (370,750)               | (221,765)               | (110,990)               |
| Kitchen equipment                         | (48,200)                | (42,980)                | (18,050)                | -                       |
| Office equipment                          | (1,200)                 | (600)                   | -                       | -                       |
| Property, plant and equipment written off | (322,499)               | (96,712)                | (82,788)                | -                       |
| Audit fee                                 | (24,000)                | (35,000)                | (25,000)                | (9,000)                 |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****7.5 OLD TOWN KOPITIAM - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****7.5.3 PROFIT BEFORE TAX (CONTINUED)**

Included in employee benefits expenses of Old Town Kopitiam are the following:

|                           | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Contributions made to EPF | <u>476,969</u>          | <u>268,509</u>          | <u>193,208</u>          | <u>107,130</u>          |

**7.5.4 INCOME TAX EXPENSE**

|  | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| Current tax expense in respect of:   |                         |                         |                         |                         |
| Current year   | 647,000                 | 668,000                 | 76,000                  | -                       |
| Adjustments recognised in current year in relation to income tax of prior year | <u>2,141</u>            | <u>69,502</u>           | <u>-</u>                | <u>-</u>                |
|  | 649,141                 | 737,502                 | 76,000                  | -                       |
| Deferred tax (Note 7.5.14):  |                         |                         |                         |                         |
| Relating to origination and reversal of temporary differences:                 |                         |                         |                         |                         |
| Current year   | 96,000                  | 305,000                 | 284,000                 | 118,000                 |
| Prior year adjustment recognised in the current year                           | <u>31,000</u>           | <u>(40,000)</u>         | <u>10,000</u>           | <u>-</u>                |
|  | <u>127,000</u>          | <u>265,000</u>          | <u>294,000</u>          | <u>118,000</u>          |
|  | <u>776,141</u>          | <u>1,002,502</u>        | <u>370,000</u>          | <u>118,000</u>          |

The statutory income tax rate for companies with a paid-up capital of above RM2,500,000 in years of assessment 2007, 2008, 2009 and 2010 are 27%, 26%, 25% and 25% respectively. In the previous years of assessments, for companies with a paid-up capital of RM2,500,000 and below, an income tax rate of 20% is applicable for chargeable income of up to RM500,000. However, with effect from year of assessment 2009, this preferential tax rate will no longer be applicable for companies that controls or being controlled directly or indirectly by, or are related to another company which has a paid-up ordinary share capital of more than RM2,500,000. As a result, income tax rate of Old Town Kopitiam has also been revised accordingly.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****7.5 OLD TOWN KOPITIAM - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****7.5.4 INCOME TAX EXPENSE (CONTINUED)**

The tax expense for the year can be reconciled to profit before tax as follows:

|  | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| Profit before tax  | 971,215                 | 2,994,381               | 968,678                 | 351,000                 |
| Income tax expense calculated at 25%<br>(31.12.2009: 25%; 31.12.2008: 26%<br>and 31.12.2007: 27%)                                | 243,000                 | 749,000                 | 252,000                 | 94,770                  |
| Tax effects of:  |                         |                         |                         |                         |
| Expenses that are not deductible<br>in determining taxable profit  | 500,000                 | 224,000                 | 138,000                 | 63,472                  |
| Temporary differences between tax capital<br>allowances and book depreciation of<br>property, plant and equipment not recognised | -                       | -                       | -                       | (34,381)                |
| Effect of difference in tax rate applicable to<br>small and medium scale companies   | -                       | -                       | (30,000)                | (5,861)                 |
| (Over)/Underprovision in prior year:   |                         |                         |                         |                         |
| Income tax   | 2,141                   | 69,502                  | -                       | -                       |
| Deferred tax   | 31,000                  | (40,000)                | 10,000                  | -                       |
| Income tax expense for the year  | 776,141                 | 1,002,502               | 370,000                 | 118,000                 |
|  | 31.12.2010<br>RM        | 31.12.2009<br>RM        | 31.12.2008<br>RM        | 31.12.2007<br>RM        |
| <i>Current tax asset</i>   |                         |                         |                         |                         |
| Tax refund receivable  | -                       | 329,313                 | 294,815                 | 144,750                 |
|  | 31.12.2010<br>RM        | 31.12.2009<br>RM        | 31.12.2008<br>RM        | 31.12.2007<br>RM        |
| <i>Current tax liabilities</i>   |                         |                         |                         |                         |
| Tax payable  | 47,001                  | -                       | -                       | -                       |

## 10. ACCOUNTANTS' REPORT

## G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

## 7.5 OLD TOWN KOPITIAM - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 7.5.5 PROPERTY, PLANT AND EQUIPMENT

|                         | Freehold Land RM | Buildings RM | Furniture, fixtures and fittings RM | Shop and counter equipment RM | Kitchen equipment and utensils RM | Motor Vehicle RM | Signboards, electrical fittings RM | Air-conditioners RM | Renovation RM | Capital work-in-progress RM | Total RM   |
|-------------------------|------------------|--------------|-------------------------------------|-------------------------------|-----------------------------------|------------------|------------------------------------|---------------------|---------------|-----------------------------|------------|
| <b>Cost</b>             |                  |              |                                     |                               |                                   |                  |                                    |                     |               |                             |            |
| As of January 1, 2007   | -                | -            | 644,988                             | 178,086                       | 213,261                           | -                | 61,697                             | 21,080              | 736,462       | -                           | 1,855,574  |
| Additions               | -                | -            | 1,736,767                           | 337,218                       | 335,440                           | -                | 436,951                            | 167,622             | 623,126       | -                           | 3,637,124  |
| As of December 31, 2007 | -                | -            | 2,381,755                           | 515,304                       | 548,701                           | -                | 498,648                            | 188,702             | 1,359,588     | -                           | 5,492,698  |
| Additions               | -                | -            | 1,393,131                           | 607,756                       | 1,327,877                         | -                | 758,623                            | 94,249              | 681,503       | 1,029,291                   | 5,892,430  |
| Write off               | -                | -            | -                                   | -                             | -                                 | -                | -                                  | -                   | (121,100)     | -                           | (121,100)  |
| As of December 31, 2008 | -                | -            | 3,774,886                           | 1,123,060                     | 1,876,578                         | -                | 1,257,271                          | 282,951             | 1,919,991     | 1,029,291                   | 11,264,028 |
| Additions               | 5,000,000        | 1,381,744    | 2,736,049                           | 909,875                       | 2,324,317                         | -                | 1,289,332                          | 318,091             | 2,427,135     | -                           | 16,386,543 |
| Write off               | -                | -            | (33,289)                            | (26,961)                      | (38,044)                          | -                | (3,235)                            | -                   | (100,776)     | -                           | (202,305)  |
| Reclassification        | -                | 1,029,291    | -                                   | -                             | -                                 | -                | -                                  | -                   | -             | (1,029,291)                 | -          |
| As of December 31, 2009 | 5,000,000        | 2,411,035    | 6,477,646                           | 2,005,974                     | 4,162,851                         | -                | 2,543,368                          | 601,042             | 4,246,350     | -                           | 27,448,266 |
| Additions               | -                | -            | 2,988,393                           | 1,223,242                     | 2,747,446                         | 451,935          | 1,527,503                          | 296,815             | 2,516,038     | -                           | 11,751,372 |
| Write off               | -                | -            | (87,147)                            | (52,227)                      | (50,051)                          | -                | (38,956)                           | -                   | (471,802)     | -                           | (700,183)  |
| As of December 31, 2010 | 5,000,000        | 2,411,035    | 9,378,892                           | 3,176,989                     | 6,860,246                         | 451,935          | 4,031,915                          | 897,857             | 6,290,586     | -                           | 38,499,455 |

(Forward)

## 10. ACCOUNTANTS' REPORT

## G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

## 7.5 OLD TOWN KOPIITIAM - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 7.5.5 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

|  | Freehold<br>Land<br>RM | Buildings<br>RM | Furniture,<br>fixtures<br>and<br>fittings<br>RM | Shop and<br>counter<br>equipment<br>RM | Kitchen<br>equipment<br>and<br>utensils<br>RM | Motor<br>Vehicle<br>RM | Signboards,<br>electrical<br>and<br>fittings<br>RM | Air-<br>conditioners<br>RM | Renovation<br>RM | Capital<br>work-in-<br>progress<br>RM | Total<br>RM |
|--|------------------------|-----------------|---|--|---|------------------------|--|----------------------------|------------------|---------------------------------------|-------------|
| Accumulated<br>depreciation<br>As of January 1, 2007 | -                      | -               | 55,376  | 14,216                                 | 18,560  | -                      | 4,481  | 1,825                      | 59,746           | -                                     | 154,204     |
| Depreciation charge for<br>the year                  | -                      | -               | 301,017   | 71,065                                 | 78,464  | -                      | 57,811   | 22,829                     | 200,482          | -                                     | 731,668     |
| As of December 31, 2007                              | -                      | -               | 356,393   | 85,281                                 | 97,024  | -                      | 62,292   | 24,654                     | 260,228          | -                                     | 885,872     |
| Depreciation charge for<br>the year                  | -                      | -               | 622,113   | 156,585                                | 201,216                                       | -                      | 156,602  | 46,062                     | 303,145          | -                                     | 1,485,723   |
| Write off  | -                      | -               | -   | -                                      | -   | -                      | -  | -                          | (38,312)         | -                                     | (38,312)    |
| As of December 31, 2008                              | -                      | -               | 978,506   | 241,866                                | 298,240                                       | -                      | 218,894  | 70,716                     | 525,061          | -                                     | 2,333,283   |
| Depreciation charge for<br>the year                  | -                      | 29,752          | 993,014   | 311,996                                | 583,548                                       | -                      | 375,409  | 78,714                     | 532,786          | -                                     | 2,905,219   |
| Write off  | -                      | -               | (16,995)  | (12,515)                               | (18,234)                                      | -                      | (1,502)  | -                          | (56,347)         | -                                     | (105,593)   |
| As of December 31, 2009                              | -                      | 29,752          | 1,954,525                                       | 541,347                                | 863,554                                       | -                      | 592,801  | 149,430                    | 1,001,500        | -                                     | 5,132,909   |
| Depreciation charge for<br>the year                  | -                      | 48,221          | 1,689,113                                       | 544,314                                | 1,178,702                                     | 82,855                 | 711,416  | 162,236                    | 1,134,184        | -                                     | 5,551,041   |
| Write off  | -                      | -               | (32,107)  | (21,809)                               | (12,222)                                      | -                      | (4,701)  | -                          | (306,845)        | -                                     | (377,684)   |
| As of December 31, 2010                              | -                      | 77,973          | 3,611,531                                       | 1,063,852                              | 2,030,034                                     | 82,855                 | 1,299,516  | 311,666                    | 1,828,839        | -                                     | 10,306,266  |

## 10. ACCOUNTANTS' REPORT

## G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

## 7.5 OLD TOWN KOPITIAM - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 7.5.5 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

|                         | Freehold<br>Land<br>RM | Buildings<br>RM | Furniture,<br>fixtures<br>and<br>fittings<br>RM | Shop and<br>counter<br>equipment<br>RM | Kitchen<br>equipment<br>and<br>utensils<br>RM | Motor<br>Vehicle<br>RM | Signboards,<br>electrical<br>and<br>fittings<br>RM | Air-<br>conditioners<br>RM | Renovation<br>RM | Capital<br>work-in-<br>progress<br>RM | Total<br>RM |
|-------------------------|------------------------|-----------------|---|--|---|------------------------|--|----------------------------|------------------|---------------------------------------|-------------|
| Carrying amounts        |                        |                 |   |  |   |                        |  |                            |                  |                                       |             |
| As of December 31, 2007 | -                      | -               | 2,025,362                                       | 430,023                                | 451,677                                       | -                      | 436,356  | 164,048                    | 1,099,360        | -                                     | 4,606,826   |
| As of December 31, 2008 | -                      | -               | 2,796,380                                       | 881,194                                | 1,578,338                                     | -                      | 1,038,377  | 212,235                    | 1,394,930        | 1,029,291                             | 8,930,745   |
| As of December 31, 2009 | 5,000,000              | 2,381,283       | 4,523,121                                       | 1,464,627                              | 3,299,297                                     | -                      | 1,950,567  | 451,612                    | 3,244,850        | -                                     | 22,315,357  |
| As of December 31, 2010 | 5,000,000              | 2,333,062       | 5,767,361                                       | 2,113,137                              | 4,830,212                                     | 369,080                | 2,732,399  | 586,191                    | 4,461,747        | -                                     | 28,193,189  |

Freehold land and shop-office buildings of Old Town Kopitiam are charged to a local licensed bank for facilities granted to Old Town Kopitiam as disclosed in Note 7.5.13.



**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****7.5 OLD TOWN KOPITIAM - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****7.5.6 PREPAID LEASE PAYMENTS**

|                      | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|----------------------|------------------|------------------|------------------|------------------|
| At cost:             |                  |                  |                  |                  |
| At beginning of year | 2,350,000        | 2,350,000        | -                | -                |
| Additions            | -                | -                | 2,350,000        | -                |
| At end of year       | <u>2,350,000</u> | <u>2,350,000</u> | <u>2,350,000</u> | <u>-</u>         |
| Less: Amortisation   |                  |                  |                  |                  |
| At beginning of year | 30,824           | -                | -                | -                |
| Charge for the year  | 30,824           | 30,824           | -                | -                |
| At end of year       | <u>61,648</u>    | <u>30,824</u>    | <u>-</u>         | <u>-</u>         |
| Net                  | <u>2,288,352</u> | <u>2,319,176</u> | <u>2,350,000</u> | <u>-</u>         |

The leasehold land of Old Town Kopitiam is charged to a local licensed bank for facilities granted to Old Town Kopitiam as disclosed in Note 7.5.13.

**7.5.7 DEFERRED FRANCHISE FEE**

|                         | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|-------------------------|------------------|------------------|------------------|------------------|
| At cost:                |                  |                  |                  |                  |
| At beginning of year    | 400,000          | -                | -                | -                |
| Additions               | 1,120,000        | 400,000          | -                | -                |
| At end of year          | <u>1,520,000</u> | <u>400,000</u>   | <u>-</u>         | <u>-</u>         |
| Cumulative amortisation |                  |                  |                  |                  |
| At beginning of year    | 9,512            | -                | -                | -                |
| Charge for the year     | 225,008          | 9,512            | -                | -                |
| At end of year          | <u>234,520</u>   | <u>9,512</u>     | <u>-</u>         | <u>-</u>         |
| Net                     | <u>1,285,480</u> | <u>390,488</u>   | <u>-</u>         | <u>-</u>         |

Deferred franchise fee comprises fee paid/payable to immediate holding company to operate the franchise business under the trade name and using the trade mark for a period of 5 years.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****7.5 OLD TOWN KOPITIAM - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****7.5.8 INVENTORIES**

|                                 | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---------------------------------|------------------|------------------|------------------|------------------|
| At cost:                        |                  |                  |                  |                  |
| Food, beverages and consumables | <u>889,599</u>   | <u>826,335</u>   | <u>366,772</u>   | <u>269,837</u>   |

The cost of inventories of Old Town Kopitiam recognised as an expense during the year was as follows:

|                     | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Cost of inventories | <u>21,261,458</u>       | <u>15,116,023</u>       | <u>10,983,417</u>       | <u>5,609,168</u>        |

**7.5.9 OTHER RECEIVABLES**

|                                       | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---------------------------------------|------------------|------------------|------------------|------------------|
| Other receivables                     | 26,598           | 29,758           | 53,101           | 124,188          |
| Refundable deposits                   | <u>3,500,265</u> | <u>2,761,544</u> | <u>1,833,493</u> | <u>773,349</u>   |
| Loans and receivables                 | 3,526,863        | 2,791,302        | 1,886,594        | 897,537          |
| Down payments for acquisition of:     |                  |                  |                  |                  |
| - landed properties                   | 52,000           | 52,000           | -                | -                |
| - outlet's operation inclusive assets | -                | 100,000          | -                | -                |
| Prepaid expenses                      | <u>938,105</u>   | <u>524,099</u>   | <u>42,802</u>    | <u>115,616</u>   |
|                                       | <u>4,516,968</u> | <u>3,467,401</u> | <u>1,929,396</u> | <u>1,013,153</u> |

Other receivables comprise mainly expenses paid on behalf, which are unsecured and interest-free and repayable upon demand.

Refundable deposits include franchise deposits paid/payable to immediate holding company as follows:

|                    | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|--------------------|------------------|------------------|------------------|------------------|
| Franchise deposits | <u>570,000</u>   | <u>150,000</u>   | <u>-</u>         | <u>-</u>         |

Transactions with related parties are disclosed in Note 7.5.10.

**7.5.10 HOLDING COMPANIES AND RELATED PARTY TRANSACTIONS**

|   | 31.12.2010<br>RM  | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---|-------------------|------------------|------------------|------------------|
| Amount owing to immediate holding company consist of: |                   |                  |                  |                  |
| Trade account   | 13,724,698        | 9,657,626        | 3,080,755        | 568,764          |
| Non-trade account                                     | -                 | 200,167          | (2,700)          | -                |
|   | <u>13,724,698</u> | <u>9,857,793</u> | <u>3,078,055</u> | <u>568,764</u>   |
| Amount owing to other related companies consist of:   |                   |                  |                  |                  |
| Trade account   | <u>9,613,446</u>  | <u>6,998,854</u> | <u>5,895,465</u> | <u>4,056,678</u> |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****7.5 OLD TOWN KOPITIAM - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****7.5.10 HOLDING COMPANIES AND RELATED PARTY TRANSACTIONS (CONTINUED)**

The trade balances owing to immediate holding company and other related companies are subject to normal trade terms. The balances of non-trade nature are unsecured and interest-free. The amounts owing by/(to) are repayable upon demand and have therefore been classified as current liabilities.

During the financial year, significant related party transactions are as follows:

|   | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| <b>Holding company</b>                      |                         |                         |                         |                         |
| <b>Kopitiam Asia Pacific</b>                |                         |                         |                         |                         |
| Purchase of property, plant and equipment   | 2,970,623               | 2,592,148               | 1,562,124               | 503,351                 |
| Royalty fee paid/payable                    | 2,730,236               | 1,893,392               | 1,238,075               | 612,310                 |
| Franchise fee paid/ payable                 | 1,120,000               | 400,000                 | -                       | -                       |
| Advertising and promotion fees paid/payable | 1,638,141               | 1,136,035               | 742,845                 | -                       |
| Trade purchases                             | 661,573                 | 721,157                 | 315,647                 | 479,088                 |
| Franchise deposits paid/payable             | 420,000                 | 150,000                 | -                       | -                       |
| Accounting fee paid/payable                 | 170,100                 | 109,500                 | 66,000                  | 38,100                  |
| Incentives received/receivable              | 25,125                  | 41,083                  | -                       | -                       |
| Staff training fee paid/payable             | 21,800                  | -                       | -                       | -                       |
| Rental paid/payable                         | 14,750                  | 72,000                  | 66,000                  | 66,000                  |
| Rental received/receivable                  | 13,000                  | -                       | -                       | -                       |
| Contract wages paid/payable                 | 1,464                   | 3,311,938               | 1,054,008               | 115,245                 |
| Advances received                           | -                       | 1,114,682               | 192,708                 | 50,000                  |
| Repayment of advances received              | -                       | 1,114,682               | 239,615                 | 280,000                 |
| <b>Related companies</b>                    |                         |                         |                         |                         |
| <b>White Cafe</b>                           |                         |                         |                         |                         |
| Advances received                           | -                       | -                       | -                       | 120,000                 |
| Repayment of advances received              | -                       | -                       | -                       | 280,000                 |
| <b>Gongga Food</b>                          |                         |                         |                         |                         |
| Trade purchases                             | 19,912,084              | 14,245,665              | 9,855,954               | 4,849,470               |
| Repayment of advances received              | -                       | -                       | -                       | 230,000                 |
| <b>White Cafe Marketing</b>                 |                         |                         |                         |                         |
| Trade purchases                             | 484,846                 | 384,256                 | 249,954                 | 142,969                 |
| Repayment of advances received              | -                       | -                       | -                       | 200,000                 |
| <b>Body Revolution Sdn. Bhd.</b>            |                         |                         |                         |                         |
| Rental received/receivable                  | 27,606                  | 51,995                  | -                       | -                       |
| Rental deposits received                    | -                       | 22,080                  | -                       | -                       |
| <b>Dynasty Confectionery</b>                |                         |                         |                         |                         |
| Trade purchases                             | 4,440                   | 5,680                   | 9,760                   | -                       |
| <b>OTK (Genting) Sdn. Bhd.</b>              |                         |                         |                         |                         |
| Trade purchases                             | 241                     | -                       | -                       | -                       |

(Forward)

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****7.5 OLD TOWN KOPITIAM - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****7.5.10 HOLDING COMPANIES AND RELATED PARTY TRANSACTIONS (CONTINUED)**

|   | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| <b>Other related parties</b>              |                         |                         |                         |                         |
| Old Town Kopitiam Cheras                  |                         |                         |                         |                         |
| Rental received                           | 5,100                   | -                       | -                       | -                       |
| Purchase of property, plant and equipment | -                       | 1,750                   | -                       | -                       |
| <b>Oldtown Kopitiam Pavilion Sdn Bhd</b>  |                         |                         |                         |                         |
| Rental paid/payable                       | 11,500                  | 2,300                   | -                       | -                       |
| Purchase of property, plant and equipment | -                       | 922,087                 | -                       | -                       |
| Trade purchases                           | -                       | 28,026                  | -                       | -                       |
| <b>Emperor's Kitchen</b>                  |                         |                         |                         |                         |
| Trade purchases                           | -                       | -                       | 306                     | 1,155                   |
| <b>Nam Heong Food Sdn. Bhd.</b>           |                         |                         |                         |                         |
| Trade purchases                           | -                       | -                       | 6,046                   | 7,564                   |

The relationships of the related parties with Oldtown group of companies are disclosed in Chapters 5 and 7 of the Prospectus of Oldtown.

The outstanding balances arising from non-trade transactions above are as follows:

|                                     | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|-------------------------------------|------------------|------------------|------------------|------------------|
| <b>Other receivables</b>            |                  |                  |                  |                  |
| Old Town Kopitiam Cheras            | 6,894            | 557              | 24,971           | -                |
| OTK (Shah Alam) Sdn. Bhd.           | 47               | -                | -                | -                |
| Old Town Kopitiam Kuala Lumpur      | 14               | -                | -                | -                |
| Connecczone                         | 7                | -                | -                | -                |
| OldTown Kopitiam Pavilion Sdn. Bhd. | -                | 94               | 4,148            | -                |
| <b>Other payables</b>               |                  |                  |                  |                  |
| Old Town Kopitiam Cheras            | 1,100            | -                | -                | -                |
| Dynasty Confectionery               | -                | 700              | -                | -                |

**Compensation of key management personnel**

There is no directors' remuneration during the financial year. Other than directors, there is no other key management personnel in Old Town Kopitiam.

## 10. ACCOUNTANTS' REPORT

## G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

## 7.5 OLD TOWN KOPITIAM - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 7.5.11 SHARE CAPITAL

|  | 31.12.2010       | 31.12.2009       | 31.12.2008       | 31.12.2007       | 31.12.2010 | 31.12.2009 | 31.12.2008 | 31.12.2007 |
|--|------------------|------------------|------------------|------------------|------------|------------|------------|------------|
| Number of shares                                       | Number of shares | Number of shares | Number of shares | Number of shares | RM         | RM         | RM         | RM         |
| Authorised:<br>Ordinary shares of RM1 each:            |                  |                  |                  |                  |            |            |            |            |
| At beginning of year                                   | 500,000          | 500,000          | 500,000          | 100,000          | 500,000    | 500,000    | 500,000    | 100,000    |
| Increased during the year                              | -                | -                | -                | 400,000          | -          | -          | -          | 400,000    |
| At end of year   | 500,000          | 500,000          | 500,000          | 500,000          | 500,000    | 500,000    | 500,000    | 500,000    |
| Issued and fully paid:<br>Ordinary shares of RM1 each: |                  |                  |                  |                  |            |            |            |            |
| At beginning of year                                   | 200,000          | 200,000          | 200,000          | 2                | 200,000    | 200,000    | 200,000    | 2          |
| Issued during the year                                 | -                | -                | -                | 199,998          | -          | -          | -          | 199,998    |
| At end of year   | 200,000          | 200,000          | 200,000          | 200,000          | 200,000    | 200,000    | 200,000    | 200,000    |

## 7.5.12 RETAINED EARNINGS

In accordance with the Finance Act, 2007, the single tier income tax system became effective from the year of assessment 2008. Under this system, tax on a company's profit is a final tax, and dividends paid are exempted from tax in the hands of the shareholders. Unlike the previous imputation system, the recipient of the dividend would no longer be able to claim any tax credit.

Companies without Section 108 tax credit balance will automatically move to the single tier tax system on January 1, 2008. However, companies with such tax credits are given an irrevocable option to elect for the single tier tax system and disregard the tax credit or continue to use the tax credits under Section 108 account to frank the payment of cash dividends on ordinary shares for a period of 6 years ending December 31, 2013 or until the tax credits are fully utilised, whichever comes first. During the transitional period, any tax paid will not be added to the Section 108 account and any tax credits utilised will reduce the tax credit balance. All companies will be in the new system on January 1, 2014.

Old Town Kopitiam did not have Section 108 tax credit balance and has automatically moved to single tier system in accordance with Finance Act, 2007.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****7.5 OLD TOWN KOPITIAM - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****7.5.13 BORROWINGS**

|  | 31.12.2010         | 31.12.2009         | 31.12.2008       | 31.12.2007 |
|--|--------------------|--------------------|------------------|------------|
|  | RM                 | RM                 | RM               | RM         |
| Secured:   |                    |                    |                  |            |
| Term loans   | 6,494,094          | 6,589,632          | 1,397,302        | -          |
| Bank overdraft   | 707,247            | 822,434            | -                | -          |
|  | <u>7,201,341</u>   | <u>7,412,066</u>   | <u>1,397,302</u> | <u>-</u>   |
| Less: Amount due within 12 months<br>(shown under current liabilities) | <u>(1,211,849)</u> | <u>(1,265,437)</u> | <u>(115,481)</u> | <u>-</u>   |
| Non-current portion  | <u>5,989,492</u>   | <u>6,146,629</u>   | <u>1,281,821</u> | <u>-</u>   |

The non-current portion is repayable as follows:

|                         | 31.12.2010       | 31.12.2009       | 31.12.2008       | 31.12.2007 |
|-------------------------|------------------|------------------|------------------|------------|
|                         | RM               | RM               | RM               | RM         |
| Financial years ending: |                  |                  |                  |            |
| 2010                    | -                | -                | 120,786          | -          |
| 2011                    | -                | 460,089          | 126,335          | -          |
| 2012                    | 517,091          | 480,121          | 132,008          | -          |
| 2013                    | 540,542          | 501,775          | 132,794          | -          |
| 2014                    | 565,792          | 528,976          | 125,043          | -          |
| 2015                    | 608,405          | 555,516          | 135,086          | -          |
| 2016 and above          | 3,757,662        | 3,620,152        | 509,769          | -          |
|                         | <u>5,989,492</u> | <u>6,146,629</u> | <u>1,281,821</u> | <u>-</u>   |

Term loans and other facilities with licensed banks of Old Town Kopitiam amounting to RM8,580,000 (31.12.2009: RM8,580,000; 31.12.2008: RM2,830,000) are secured by fixed legal charges over landed property of Old Town Kopitiam as mentioned in Notes 7.5.5 and 7.5.6. The facilities are jointly and severally guaranteed by all the directors of Old Town Kopitiam.

Old Town Kopitiam has five (5) term loans which were repayable as follows:

- 60 monthly instalments of RM14,665 each in the 1st to 5th year commencing October 30, 2008 and 60 monthly instalments of RM15,025 each in the 6th to 10th year commencing October 30, 2013;
- 60 monthly instalments of RM11,893 each for the 1st to 5th year commencing October 14, 2009 and 60 monthly instalments of RM12,185 each for the 6th to 10th year commencing October 14, 2014;
- 60 monthly instalments of RM5,726 each for the 1st to 5th year commencing September 14, 2009 and 60 monthly instalments of RM5,867 each for the 6th to 10th year commencing September 14, 2014;
- 180 equal monthly instalments of RM26,907 each commencing September 14, 2009; and
- 60 equal monthly instalments of RM6,493 each commencing January 16, 2011.

The average effective interest rates per annum are as follows:

|                | FYE        | FYE        | FYE        | FYE        |
|----------------|------------|------------|------------|------------|
|                | 31.12.2010 | 31.12.2009 | 31.12.2008 | 31.12.2007 |
|                | %          | %          | %          | %          |
| Term loans     | 4.29       | 4.38       | 4.50       | -          |
| Bank overdraft | 4.50       | 4.50       | 4.50       | -          |

The fair values of the Old Town Kopitiam's bank borrowings approximate their carrying amount.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****7.5 OLD TOWN KOPITIAM - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****7.5.14 DEFERRED TAX LIABILITY**

|   | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---|------------------|------------------|------------------|------------------|
| At beginning of year                      | 677,000          | 412,000          | 118,000          | -                |
| Recognised in profit or loss (Note 7.5.4) | 127,000          | 265,000          | 294,000          | 118,000          |
| At end of year                            | <u>804,000</u>   | <u>677,000</u>   | <u>412,000</u>   | <u>118,000</u>   |

The deferred tax liability is in respect of the following:

|  | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|--|------------------|------------------|------------------|------------------|
| Tax effects of:  |                  |                  |                  |                  |
| Temporary differences arising from property, plant and equipment | 804,000          | 677,000          | 412,000          | 212,000          |
| Unabsorbed tax capital allowances and unutilised tax losses      | -                | -                | -                | (94,000)         |
|  | <u>804,000</u>   | <u>677,000</u>   | <u>412,000</u>   | <u>118,000</u>   |

**7.5.15 TRADE AND OTHER PAYABLES**

|                              | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|------------------------------|------------------|------------------|------------------|------------------|
| Trade payables               | 127,169          | 97,150           | 77,863           | 137,739          |
| Other payables               | 1,821,777        | 1,637,877        | 1,691,846        | 1,009,130        |
| Accrued expenses             | 1,883,888        | 1,223,557        | 1,195,890        | 530,864          |
| Refundable deposits received | 102,800          | 68,080           | 21,550           | 15,400           |
|                              | <u>3,935,634</u> | <u>3,026,664</u> | <u>2,987,149</u> | <u>1,693,133</u> |

Trade and other payables comprise amounts outstanding for trade purchases and ongoing costs. The terms granted to Old Town Kopitiam for trade purchases ranged from cash to credit period of 30 days. These amounts are non-interest bearing. Old Town Kopitiam has financial risk management policies to ensure that all payables are paid within the credit time frame.

The amounts owing to other payables are unsecured and interest-free and repayable upon demand.

Transactions with related parties are disclosed in Note 7.5.10.

**7.5.16 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT****Categories of financial instruments**

|  | 31.12.2010<br>RM |
|--|------------------|
| Financial assets                                   |                  |
| Loans and receivables - Other receivables          | 3,526,863        |
| Cash and cash equivalents - cash and bank balances | <u>1,144,944</u> |

(Forward)

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****7.5 OLD TOWN KOPITIAM - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****7.5.16 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (CONTINUED)**

|   | 31.12.2010<br>RM |
|---|------------------|
| <b>Financial liabilities</b>              |                  |
| Amortised cost:                           |                  |
| Trade and other payables                  | 3,935,634        |
| Amount owing to immediate holding company | 13,724,698       |
| Amount owing to other related companies   | 9,613,446        |
| Borrowings                                | <u>7,201,341</u> |

**Financial Risk Management Objectives and Policies**

Risk management is integral to the whole business of Old Town Kopitiam. Management continually monitors Old Town Kopitiam's risk management process to ensure that an appropriate balance between risk and control is achieved. Risk management policies and systems are reviewed regularly to reflect changes in the market conditions and Old Town Kopitiam's activities.

**(a) Market risk**

Old Town Kopitiam's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rate.

There has been no change to Old Town Kopitiam's exposure to market risks or the manner in which these risks are managed and measured.

**(i) Foreign currency risk**

Old Town Kopitiam has minimal foreign currency risk exposure as most of its transactions are denominated in Ringgit Malaysia, which is the functional currency of Old Town Kopitiam.

**(ii) Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of Old Town Kopitiam's financial instruments will fluctuate because of changes in market interest rates. Old Town Kopitiam's exposure to interest rate risk arises primarily from their loans.

**Sensitivity analysis for interest rate risk**

As of December 31, 2010, if interest rates had been 100 basis points lower/higher, with all other variables held constant, Old Town Kopitiam's profit net of tax would have been RM72,000 lower/higher arising mainly as a result of lower/higher interest expense on floating rate borrowings. The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment.

**(b) Credit risk**

The maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as at the end of the financial period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the statement of financial position.

Old Town Kopitiam has minimal credit risk exposure as most transactions are on cash terms.



**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****7.5 OLD TOWN KOPITIAM - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****7.5.16 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (CONTINUED)****(c) Liquidity and Capital risk**

Old Town Kopitiam practices prudent liquidity risk management to minimise the mismatch of financial assets and liabilities and to maintain sufficient credit facilities for contingent funding requirement of working capital.

Old Town Kopitiam's principal source of liquidity has historically been cash flows from operations, funds obtained from long and short-term borrowings and advances from related companies. Old Town Kopitiam principally applies cash flows for capital expenditures, working capital and debt servicing obligations. Historically, Old Town Kopitiam has applied a significant portion of its cash flows to fund its capital expenditures and working capital.

Old Town Kopitiam's expects that the cash generated from its operations, advances from related companies, its existing credit facilities and the trade terms provided by its suppliers will be sufficient to meet Old Town Kopitiam's currently anticipated capital expenditure and working capital needs for at least the next 12 months.

The maturity profile of Old Town Kopitiam's non-derivative financial assets and liabilities as of December 31, 2010 based on contractual undiscounted repayment obligations are as follows:

|  | On<br>demand<br>or within<br>one year<br>RM | One year to<br>five years<br>RM | Over five<br>years<br>RM | Total<br>RM         |
|--|---|---------------------------------|--------------------------|---------------------|
| Non-derivative financial assets:                                       |   |                                 |                          |                     |
| Other receivables  | 3,526,863                                   | -                               | -                        | 3,526,863           |
| Cash and bank balances   | 1,144,944                                   | -                               | -                        | 1,144,944           |
| <b>Total undiscounted non-derivative<br/>financial assets</b>          | <b>4,671,807</b>                            | <b>-</b>                        | <b>-</b>                 | <b>4,671,807</b>    |
| Non-derivative financial liabilities:                                  |   |                                 |                          |                     |
| Trade and other payables   | 3,935,634                                   | -                               | -                        | 3,935,634           |
| Amount owing to immediate<br>holding company                           | 13,724,698                                  | -                               | -                        | 13,724,698          |
| Amount owing to other related companies                                | 9,613,446                                   | -                               | -                        | 9,613,446           |
| Long and short-term borrowings   | 1,211,849                                   | 2,775,895                       | 3,213,597                | 7,201,341           |
| <b>Total undiscounted non-derivative<br/>financial liabilities</b>     | <b>28,485,627</b>                           | <b>2,775,895</b>                | <b>3,213,597</b>         | <b>34,475,119</b>   |
| <b>Total net undiscounted non-derivative<br/>financial liabilities</b> | <b>(23,813,820)</b>                         | <b>(2,775,895)</b>              | <b>(3,213,597)</b>       | <b>(29,803,312)</b> |

Old Town Kopitiam has not committed to any derivative financial instruments during the financial year.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****7.5 OLD TOWN KOPITIAM - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****7.5.16 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (CONTINUED)***(d) Capital risk management*

Old Town Kopitiam manages its capital to ensure Old Town Kopitiam will be able to continue as going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. Old Town Kopitiam's overall strategy remains unchanged from 2009.

The capital structure of Old Town Kopitiam consists of net debt and equity of Old Town Kopitiam. Old Town Kopitiam is not subject to any externally imposed capital requirements.

**Fair values of financial instruments**

The carrying amounts of the short-term financial assets and liabilities recognised at amortised cost in the financial statements approximate their fair values.

The fair value of long-term financial assets and liabilities are determined by the present value of future cash flows estimated and discounted using the current interest rates for similar instruments at December 31, 2010. There is no material difference between the fair values and carrying values of these assets and liabilities as of the reporting date.

**7.5.17 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprise the following:

|                        | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|------------------------|------------------|------------------|------------------|------------------|
| Cash and bank balances | 1,144,944        | 1,121,645        | 703,702          | 608,790          |
| Bank overdraft         | (707,247)        | (822,434)        | -                | -                |
|                        | <u>437,697</u>   | <u>299,211</u>   | <u>703,702</u>   | <u>608,790</u>   |

**7.5.18 OPERATING LEASE ARRANGEMENTS**

Operating leases relate to leases of shops, hostels and kitchen equipment with average lease term of 3 years. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the leased shops, hostels and kitchen equipment at the expiry of the lease period.

Payment recognised as an expense for Old Town Kopitiam was as follows:

|                        | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Minimum lease payments | <u>7,991,402</u>        | <u>4,903,362</u>        | <u>3,046,521</u>        | <u>1,363,032</u>        |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****7.5 OLD TOWN KOPITIAM - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****7.5.18 OPERATING LEASE ARRANGEMENTS (CONTINUED)**

Old Town Kopitiam has outstanding commitments under non-cancellable operating leases as follows:

|                                       | 31.12.2010<br>RM  | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---------------------------------------|-------------------|------------------|------------------|------------------|
| Within one year                       | 6,726,056         | 5,524,323        | 3,731,236        | 1,598,841        |
| In the second to fifth year inclusive | 5,826,753         | 4,421,471        | 2,761,330        | 1,597,601        |
| After five years                      | -                 | -                | 1,022,187        | -                |
|                                       | <u>12,552,809</u> | <u>9,945,794</u> | <u>7,514,753</u> | <u>3,196,442</u> |

**7.5.19 CAPITAL COMMITMENT**

Old Town Kopitiam has the following capital commitment in respect of property, plant and equipment:

|                                 | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---------------------------------|------------------|------------------|------------------|------------------|
| Capital expenditure:            |                  |                  |                  |                  |
| Approved and contracted for     | 457,150          | 433,935          | 1,827,000        | -                |
| Approved but not contracted for | -                | 600,000          | -                | -                |
|                                 | <u>457,150</u>   | <u>1,033,935</u> | <u>1,827,000</u> | <u>-</u>         |

**7.5.20 SIGNIFICANT EVENTS**

On December 28, 2009, the ultimate holding company entered into Sale and Purchase Agreement (as was supplemented by letters dated May 24, 2010 and June 11, 2010 respectively, and supplemental agreement dated December 9, 2010) with Oldtown to dispose off its entire equity interest in the immediate holding company.

On April 12, 2011, Securities Commission had granted the Oldtown the approval for the proposed listing on the Main Market of Bursa Securities. Following the said approval, Oldtown intends to complete the transfer of shares before June 2011.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****8. OLD TOWN KOPITIAM CHERAS****8.1 OLD TOWN KOPITIAM CHERAS - STATEMENTS OF COMPREHENSIVE INCOME**

|  |       | <b>FYE</b><br><b>31.12.2010</b><br><b>(12 Months)</b><br><b>RM</b> | <b>FYE</b><br><b>31.12.2009</b><br><b>(12 Months)</b><br><b>RM</b> | <b>FYE</b><br><b>31.12.2008</b><br><b>(12 Months)</b><br><b>RM</b> | <b>FPE</b><br><b>31.12.2007</b><br><b>(15 Months)</b><br><b>RM</b> |
|--|-------|--|--|--|--|
| Revenue  |       | 8,403,338  | 10,323,192   | 10,746,102   | 5,266,126  |
| Direct expenses  |       | <u>(7,198,670)</u>   | <u>(8,241,356)</u>   | <u>(8,986,978)</u>   | <u>(4,572,649)</u>   |
| Gross profit   |       | 1,204,668  | 2,081,836  | 1,759,124  | 693,477  |
| Other income - net   |       | 339,095  | 394,423  | 397,848  | 151,704  |
| Investment revenue   |       | -  | 2,138  | 2,040  | -  |
| Administrative and general expenses  |       | <u>(732,178)</u>   | <u>(673,274)</u>   | <u>(638,679)</u>   | <u>(308,548)</u>   |
| Profit from operations   |       | 811,585  | 1,805,123  | 1,520,333  | 536,633  |
| Finance costs  | 8.5.2 | <u>(1,901)</u>   | <u>(22,546)</u>  | <u>(45,155)</u>  | <u>(1,289)</u>   |
| Profit before tax  | 8.5.3 | 809,684  | 1,782,577  | 1,475,178  | 535,344  |
| Income tax expense   | 8.5.4 | <u>(212,380)</u>   | <u>(473,625)</u>   | <u>(383,553)</u>   | <u>(138,800)</u>   |
| <b>Profit and total comprehensive income for the year attributable to owners of Old Town Kopitiam Cheras</b> |       | <u>597,304</u>   | <u>1,308,952</u>   | <u>1,091,625</u>   | <u>396,544</u>   |
| <i>Key financial ratios:</i>   |       |  |  |  |  |
| Weighted average number of ordinary shares of RM1.00 each in issue (units)                                   |       | 160,000  | 160,000  | 160,000  | * 60,138   |
| Gross profit margin (%)  |       | 14.34  | 20.17  | 16.37  | 13.17  |
| Basic earnings per share (sen)   |       | 373.32   | 818.10   | 682.27   | 659.39   |
| Effective tax rate (%)   |       | <u>26.18</u>   | <u>24.93</u>   | <u>27.09</u>   | <u>28.46</u>   |

\* Calculated based on 149,998 new ordinary shares of RM1 each issued at par on August 16, 2007 and 10,000 new ordinary shares of RM1 each issued at par on August 29, 2007.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****8.2 OLD TOWN KOPITIAM CHERAS - STATEMENTS OF FINANCIAL POSITION**

|  | Note   | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|--|--------|------------------|------------------|------------------|------------------|
| <b>ASSETS</b>                          |        |                  |                  |                  |                  |
| <b>Non-current assets</b>              |        |                  |                  |                  |                  |
| Property, plant and equipment          | 8.5.5  | 1,467,954        | 1,566,987        | 1,944,439        | 1,370,555        |
| Deferred franchise fee                 | 8.5.6  | 82,959           | 122,959          | 162,959          | -                |
| <b>Total non-current assets</b>        |        | <b>1,550,913</b> | <b>1,689,946</b> | <b>2,107,398</b> | <b>1,370,555</b> |
| <b>Current assets</b>                  |        |                  |                  |                  |                  |
| Inventories                            | 8.5.7  | 102,644          | 154,099          | 169,140          | 51,492           |
| Other receivables                      | 8.5.8  | 417,468          | 329,775          | 268,121          | 333,729          |
| Amount owing by directors              | 8.5.9  | -                | -                | -                | 160,000          |
| Current tax assets                     | 8.5.4  | 188,540          | 1,420            | -                | 5,200            |
| Fixed deposits, cash and bank balances | 8.5.10 | 836,379          | 696,279          | 381,597          | 274,319          |
| <b>Total current assets</b>            |        | <b>1,545,031</b> | <b>1,181,573</b> | <b>818,858</b>   | <b>824,740</b>   |
| <b>Total assets</b>                    |        | <b>3,095,944</b> | <b>2,871,519</b> | <b>2,926,256</b> | <b>2,195,295</b> |
| <b>EQUITY AND LIABILITIES</b>          |        |                  |                  |                  |                  |
| <b>Capital and reserves</b>            |        |                  |                  |                  |                  |
| Issued capital                         | 8.5.11 | 160,000          | 160,000          | 160,000          | 160,000          |
| Retained earnings                      | 8.5.12 | 593,655          | 796,351          | 987,399          | 196,524          |
| <b>Total equity</b>                    |        | <b>753,655</b>   | <b>956,351</b>   | <b>1,147,399</b> | <b>356,524</b>   |
| <b>Non-current liabilities</b>         |        |                  |                  |                  |                  |
| Term loans                             | 8.5.13 | -                | -                | 382,029          | 485,436          |
| Deferred tax liability                 | 8.5.14 | 23,000           | 42,000           | 77,000           | 69,000           |
| <b>Total non-current liabilities</b>   |        | <b>23,000</b>    | <b>42,000</b>    | <b>459,029</b>   | <b>554,436</b>   |
| <b>Current liabilities</b>             |        |                  |                  |                  |                  |
| Trade and other payables               | 8.5.15 | 2,319,289        | 1,873,168        | 1,173,671        | 1,184,771        |
| Term loans                             | 8.5.13 | -                | -                | 104,990          | 99,564           |
| Current tax liabilities                | 8.5.4  | -                | -                | 41,167           | -                |
| <b>Total current liabilities</b>       |        | <b>2,319,289</b> | <b>1,873,168</b> | <b>1,319,828</b> | <b>1,284,335</b> |
| <b>Total liabilities</b>               |        | <b>2,342,289</b> | <b>1,915,168</b> | <b>1,778,857</b> | <b>1,838,771</b> |
| <b>Total equity and liabilities</b>    |        | <b>3,095,944</b> | <b>2,871,519</b> | <b>2,926,256</b> | <b>2,195,295</b> |
| <i>Key financial ratios:</i>           |        |                  |                  |                  |                  |
| Net tangible assets per share (sen)    |        | 471.03           | 597.72           | 717.12           | 592.84           |
| Debt-equity ratio (times)              |        | -                | -                | 0.42             | 1.64             |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****8.3 OLD TOWN KOPTIAM CHERAS - STATEMENTS OF CHANGES IN EQUITY**

|  | Note | Issued<br>Capital<br>RM | Distributable<br>Reserve<br>Retained<br>Earnings<br>RM | Total<br>Shareholders'<br>Equity<br>RM |
|--|------|-------------------------|--|--|
| Balance as of October 3, 2006<br>(date of incorporation) |      | 2                       | -  | 2                                      |
| Total comprehensive income for the period                |      | -                       | 396,544  | 396,544                                |
| Issue of shares  |      | 159,998                 | -  | 159,998                                |
| Dividends  | F    | -                       | (200,020)  | (200,020)                              |
| <b>Balance as of December 31, 2007</b>                   |      | <b>160,000</b>          | <b>196,524</b>   | <b>356,524</b>                         |
| Total comprehensive income for the year                  |      | -                       | 1,091,625  | 1,091,625                              |
| Dividends  | F    | -                       | (300,750)  | (300,750)                              |
| <b>Balance as of December 31, 2008</b>                   |      | <b>160,000</b>          | <b>987,399</b>   | <b>1,147,399</b>                       |
| Total comprehensive income for the year                  |      | -                       | 1,308,952  | 1,308,952                              |
| Dividends  | F    | -                       | (1,500,000)  | (1,500,000)                            |
| <b>Balance as of December 31, 2009</b>                   |      | <b>160,000</b>          | <b>796,351</b>   | <b>956,351</b>                         |
| Total comprehensive income for the year                  |      | -                       | 597,304  | 597,304                                |
| Dividends  | F    | -                       | (800,000)  | (800,000)                              |
| <b>Balance as of December 31, 2010</b>                   |      | <b>160,000</b>          | <b>593,655</b>   | <b>753,655</b>                         |

**8.4 OLD TOWN KOPTIAM CHERAS - SUMMARISED STATEMENTS OF CASH FLOWS**

|  | Note   | FYE<br>31.12.2010<br>(12 Months)<br>RM | FYE<br>31.12.2009<br>(12 Months)<br>RM | FYE<br>31.12.2008<br>(12 Months)<br>RM | FPE<br>31.12.2007<br>(15 Months)<br>RM |
|--|--------|--|--|--|--|
| Net Cash Generated From<br>Operating Activities                  |        | 1,144,151                              | 2,508,222                              | 1,502,012                              | 1,351,911                              |
| Net Cash Used In Investing Activities                            |        | (137,972)                              | (186,113)                              | (952,888)                              | (1,681,283)                            |
| Net Cash (Used In)/ Generated<br>From Financing Activities       |        | (801,901)                              | (2,009,565)                            | (443,886)                              | 543,691                                |
| <b>NET INCREASE IN CASH<br/>AND CASH EQUIVALENTS</b>             |        | <b>204,278</b>                         | <b>312,544</b>                         | <b>105,238</b>                         | <b>214,319</b>                         |
| <b>CASH AND CASH EQUIVALENTS<br/>AT BEGINNING OF YEAR/PERIOD</b> |        | <b>632,101</b>                         | <b>319,557</b>                         | <b>214,319</b>                         | <b>-</b>                               |
| <b>CASH AND CASH EQUIVALENTS<br/>AT END OF YEAR/PERIOD</b>       | 8.5.17 | <b>836,379</b>                         | <b>632,101</b>                         | <b>319,557</b>                         | <b>214,319</b>                         |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****8.5 OLD TOWN KOPITIAM CHERAS - NOTES TO THE FINANCIAL STATEMENTS****8.5.1 OPERATING COSTS APPLICABLE TO REVENUE**

|  |       | FYE<br>31.12.2010<br>(12 Months)<br>RM | FYE<br>31.12.2009<br>(12 Months)<br>RM | FYE<br>31.12.2008<br>(12 Months)<br>RM | FPE<br>31.12.2007<br>(15 Months)<br>RM |
|--|-------|--|--|--|--|
| Changes in inventories of food,<br>beverages and consumables |       | 51,455                                 | 15,041                                 | (117,648)                              | (51,492)                               |
| Purchase of food,<br>beverages and consumables               |       | 3,249,360                              | 4,125,378                              | 4,608,832                              | 2,301,290                              |
| Director's fee   |       | 20,000                                 | -                                      | -                                      | -                                      |
| Employee benefit expenses                                    |       | 1,586,152                              | 1,780,012                              | 2,204,151                              | 1,180,597                              |
| Depreciation of property,<br>plant and equipment             | 8.5.5 | 606,049                                | 563,565                                | 533,264                                | 250,728                                |
| Amortisation of deferred franchise fee                       | 8.5.6 | 40,000                                 | 40,000                                 | 37,041                                 | -                                      |
| Other operating expenses                                     |       | 2,502,404                              | 2,567,836                              | 2,552,226                              | 1,308,038                              |
|  |       | <u>8,055,420</u>                       | <u>9,091,832</u>                       | <u>9,817,866</u>                       | <u>4,989,161</u>                       |

**8.5.2 FINANCE COSTS**

|                        | FYE<br>31.12.2010<br>(12 Months)<br>RM | FYE<br>31.12.2009<br>(12 Months)<br>RM | FYE<br>31.12.2008<br>(12 Months)<br>RM | FPE<br>31.12.2007<br>(15 Months)<br>RM |
|------------------------|--|--|--|--|
| Interest on term loans | -                                      | 20,688                                 | 43,535                                 | -                                      |
| Bank charges           | 1,901                                  | 1,858                                  | 1,620                                  | 1,289                                  |
|                        | <u>1,901</u>                           | <u>22,546</u>                          | <u>45,155</u>                          | <u>1,289</u>                           |

**8.5.3 PROFIT BEFORE TAX**

Profit before tax has been arrived at after crediting/(charging):

|   | FYE<br>31.12.2010<br>(12 Months)<br>RM | FYE<br>31.12.2009<br>(12 Months)<br>RM | FYE<br>31.12.2008<br>(12 Months)<br>RM | FPE<br>31.12.2007<br>(15 Months)<br>RM |
|---|--|--|--|--|
| Rental income                             | 18,900                                 | 20,309                                 | -                                      | -                                      |
| Interest income from fixed deposits       | -                                      | 2,138                                  | 2,040                                  | -                                      |
| Rental of:                                |  |  |  |  |
| Shops                                     | (717,560)                              | (691,740)                              | (653,600)                              | (399,300)                              |
| Hostel                                    | (74,400)                               | (89,853)                               | (94,975)                               | (54,450)                               |
| Parking lot                               | (60,840)                               | (47,040)                               | (6,720)                                | -                                      |
| Kitchen equipment                         | (19,200)                               | (19,200)                               | (19,200)                               | (13,342)                               |
| Motor vehicle                             | (6,000)                                | -                                      | -                                      | -                                      |
| Plants                                    | (4,993)                                | (4,330)                                | (950)                                  | -                                      |
| Audit fee                                 | (10,000)                               | (15,000)                               | (12,000)                               | (7,000)                                |
| Property, plant and equipment written off | -                                      | -                                      | (5,740)                                | -                                      |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****8.5 OLD TOWN KOPITIAM CHERAS - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****8.5.3 PROFIT BEFORE TAX (CONTINUED)**

Included in employee benefits expenses of Old Town Kopitiam Cheras are the following:

|                           | FYE<br>31.12.2010<br>(12 Months)<br>RM | FYE<br>31.12.2009<br>(12 Months)<br>RM | FYE<br>31.12.2008<br>(12 Months)<br>RM | FPE<br>31.12.2007<br>(15 Months)<br>RM |
|---------------------------|--|--|--|--|
| Contributions made to EPF | <u>44,137</u>                          | <u>41,904</u>                          | <u>49,471</u>                          | <u>21,693</u>                          |

**8.5.4 INCOME TAX EXPENSE**

|   | FYE<br>31.12.2010<br>(12 Months)<br>RM | FYE<br>31.12.2009<br>(12 Months)<br>RM | FYE<br>31.12.2008<br>(12 Months)<br>RM | FPE<br>31.12.2007<br>(15 Months)<br>RM |
|---|--|--|--|--|
| Current tax expense in respect of:  |  |  |  |  |
| Current period/year   | 234,000                                | 482,000                                | 362,000                                | 69,800                                 |
| Adjustments recognised in current year in relation to income tax of prior period/year   | <u>(2,620)</u>                         | <u>26,625</u>                          | <u>13,553</u>                          | <u>-</u>                               |
|   | 231,380                                | 508,625                                | 375,553                                | 69,800                                 |
| Deferred tax (Note 8.5.14):   |  |  |  |  |
| Relating to origination and reversal of temporary differences:                          |  |  |  |  |
| Current period/year   | (22,000)                               | (38,000)                               | 8,000                                  | 69,000                                 |
| Adjustments recognised in current year in relation to deferred tax of prior period/year | <u>3,000</u>                           | <u>3,000</u>                           | <u>-</u>                               | <u>-</u>                               |
|   | <u>(19,000)</u>                        | <u>(35,000)</u>                        | <u>8,000</u>                           | <u>69,000</u>                          |
|   | <u>212,380</u>                         | <u>473,625</u>                         | <u>383,553</u>                         | <u>138,800</u>                         |

The statutory income tax rate for companies with a paid-up capital of above RM2,500,000 in years of assessment 2007, 2008, 2009 and 2010 are 27%, 26%, 25% and 25% respectively. In the previous years of assessments, for companies with a paid-up capital of RM2,500,000 and below, an income tax rate of 20% is applicable for chargeable income of up to RM500,000. However, with effect from year of assessment 2009, this preferential tax rate will no longer be applicable for companies that controls or being controlled directly or indirectly by, or are related to another company which has a paid-up ordinary share capital of more than RM2,500,000. As a result, income tax rate of Old Town Kopitiam Cheras has also been revised accordingly.



**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****8.5 OLD TOWN KOPITIAM CHERAS - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****8.5.4 INCOME TAX EXPENSE (CONTINUED)**

The income tax expense for the year/period can be reconciled to profit before tax as follows:

|  | <b>FYE<br/>31.12.2010<br/>(12 Months)<br/>RM</b> | <b>FYE<br/>31.12.2009<br/>(12 Months)<br/>RM</b> | <b>FYE<br/>31.12.2008<br/>(12 Months)<br/>RM</b> | <b>FPE<br/>31.12.2007<br/>(15 Months)<br/>RM</b> |
|--|--|--|--|--|
| Profit before tax  | <u>809,684</u>                                   | <u>1,782,577</u>                                 | <u>1,475,178</u>                                 | <u>535,344</u>                                   |
| Income tax expense calculated at 25%<br>(31.12.2009: 25%; 31.12.2008: 26%;<br>31.12.2007: 27%)                             | 202,000  | 446,000  | 384,000  | 144,600  |
| Tax effects of:  |  |  |  |  |
| Expenses that are not deductible in<br>determining taxable profit  | 35,000   | 26,000   | 19,000   | 21,400   |
| Adjustment for deferred tax due<br>to change in income tax rates   | -  | (3,000)  | (3,000)  | (2,700)  |
| Effect of difference in tax rate applicable to<br>small and medium scale companies<br>(Over)/Underprovision in prior year: | (25,000)   | (25,000)   | (30,000)   | (24,500)   |
| Income tax   | (2,620)  | 26,625   | 13,553   | -  |
| Deferred tax   | <u>3,000</u>                                     | <u>3,000</u>                                     | <u>-</u>   | <u>-</u>   |
| Income tax expense for the year/period   | <u>212,380</u>                                   | <u>473,625</u>                                   | <u>383,553</u>                                   | <u>138,800</u>                                   |
| <i>Current tax asset</i>   | <b>31.12.2010<br/>RM</b>                         | <b>31.12.2009<br/>RM</b>                         | <b>31.12.2008<br/>RM</b>                         | <b>31.12.2007<br/>RM</b>                         |
| Tax refund receivable  | <u>188,540</u>                                   | <u>1,420</u>                                     | <u>-</u>   | <u>5,200</u>                                     |
| <i>Current tax liability</i>   | <b>31.12.2010<br/>RM</b>                         | <b>31.12.2009<br/>RM</b>                         | <b>31.12.2008<br/>RM</b>                         | <b>31.12.2007<br/>RM</b>                         |
| Income tax payable   | <u>-</u>   | <u>-</u>   | <u>41,167</u>                                    | <u>-</u>   |

## 10. ACCOUNTANTS' REPORT

## G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

## 8.5 OLD TOWN KOPITIAM CHERAS - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 8.5.5 PROPERTY, PLANT AND EQUIPMENT

| Cost  | Furniture,<br>fixtures and<br>fittings<br>RM | Shop and<br>counter<br>equipment<br>RM | Kitchen<br>equipment<br>and utensils<br>RM | Signboards<br>RM | Air-<br>conditioners,<br>electrical and<br>fittings<br>RM | Renovation<br>RM | Total<br>RM |
|---|--|--|--|------------------|---|------------------|-------------|
| As of October 3, 2006 (date of incorporation) | -  | -                                      | -  | -                | -   | -                | -           |
| Additions                                     | 574,469                                      | 215,579                                | 350,188                                    | 52,850           | 192,722   | 235,475          | 1,621,283   |
| As of December 31, 2007                       | 574,469                                      | 215,579                                | 350,188                                    | 52,850           | 192,722   | 235,475          | 1,621,283   |
| Additions                                     | 353,403                                      | 145,034                                | 310,251                                    | 53,490           | 154,898   | 95,812           | 1,112,888   |
| Write off                                     | (8,400)                                      | -                                      | -  | -                | -   | -                | (8,400)     |
| As of December 31, 2008                       | 919,472                                      | 360,613                                | 660,439                                    | 106,340          | 347,620   | 331,287          | 2,725,771   |
| Additions                                     | 54,411                                       | 46,816                                 | 50,821                                     | -                | 31,315  | 4,500            | 187,863     |
| Disposals                                     | (2,500)                                      | -                                      | -  | -                | -   | -                | (2,500)     |
| As of December 31, 2009                       | 971,383                                      | 407,429                                | 711,260                                    | 106,340          | 378,935   | 335,787          | 2,911,134   |
| Additions                                     | 185,027                                      | 65,433                                 | 46,943                                     | 10,110           | 73,148  | 126,355          | 507,016     |
| As of December 31, 2010                       | 1,156,410                                    | 472,862                                | 758,203                                    | 116,450          | 452,083   | 462,142          | 3,418,150   |

## 10. ACCOUNTANTS' REPORT

## G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

## 8.5 OLD TOWN KOPI TIAM CHERAS - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 8.5.5 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

|   | Furniture,<br>fixtures<br>and<br>fittings<br>RM | Shop and<br>counter<br>equipment<br>RM | Kitchen<br>equipment<br>and<br>utensils<br>RM | Signboards<br>RM | Air-<br>conditioners,<br>electrical<br>and<br>fittings<br>RM | Renovation<br>RM | Total<br>RM |
|---|---|--|---|------------------|--|------------------|-------------|
| Accumulated depreciation and<br>accumulated impairment loss<br>As of October 3, 2006<br>(date of incorporation) | -   | -                                      | -   | -                | -  | -                | -           |
| Depreciation charge for the period  | 84,365  | 34,645                                 | 57,721  | 8,112            | 28,643   | 37,242           | 250,728     |
| As of December 31, 2007   | 84,365  | 34,645                                 | 57,721  | 8,112            | 28,643   | 37,242           | 250,728     |
| Depreciation charge for the year  | 181,918   | 65,740                                 | 122,293                                       | 20,142           | 68,702   | 74,469           | 533,264     |
| Write off   | (2,660)   | -                                      | -   | -                | -  | -                | (2,660)     |
| As of December 31, 2008   | 263,623   | 100,385                                | 180,014                                       | 28,254           | 97,345   | 111,711          | 781,332     |
| Depreciation charge for the year  | 189,827   | 76,810                                 | 136,451                                       | 21,268           | 72,801   | 66,408           | 563,565     |
| Disposals   | (750)   | -                                      | -   | -                | -  | -                | (750)       |
| As of December 31, 2009   | 452,700   | 177,195                                | 316,465                                       | 49,522           | 170,146  | 178,119          | 1,344,147   |
| Depreciation charge for the year  | 200,299   | 87,822                                 | 146,521                                       | 21,665           | 78,615   | 71,127           | 606,049     |
| As of December 31, 2010   | 652,999   | 265,017                                | 462,986                                       | 71,187           | 248,761  | 249,246          | 1,950,196   |
| Carrying amounts  |   |  |   |                  |  |                  |             |
| As of December 31, 2007   | 490,104   | 180,934                                | 292,467                                       | 44,738           | 164,079  | 198,233          | 1,370,555   |
| As of December 31, 2008   | 655,849   | 260,228                                | 480,425                                       | 78,086           | 250,275  | 219,576          | 1,944,439   |
| As of December 31, 2009   | 518,683   | 230,234                                | 394,795                                       | 56,818           | 208,789  | 157,668          | 1,566,987   |
| As of December 31, 2010   | 503,411   | 207,845                                | 295,217                                       | 45,263           | 203,322  | 212,896          | 1,467,954   |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****8.5 OLD TOWN KOPITIAM CHERAS - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****8.5.6 DEFERRED FRANCHISE FEE**

|                             | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|-----------------------------|------------------|------------------|------------------|------------------|
| At cost:                    |                  |                  |                  |                  |
| At beginning of year/period | 200,000          | 200,000          | -                | -                |
| Additions                   | -                | -                | 200,000          | -                |
| At end of year/period       | 200,000          | 200,000          | 200,000          | -                |
| Cumulative amortisation:    |                  |                  |                  |                  |
| At beginning of year/period | (77,041)         | (37,041)         | -                | -                |
| Charge for the year/period  | (40,000)         | (40,000)         | (37,041)         | -                |
| At end of year/period       | (117,041)        | (77,041)         | (37,041)         | -                |
|                             | <u>82,959</u>    | <u>122,959</u>   | <u>162,959</u>   | <u>-</u>         |

Deferred licence fee comprises fee paid to a related party to operate the licensed business under the trade name and using the trade mark for a period of 5 years.

**8.5.7 INVENTORIES**

|                                 | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---------------------------------|------------------|------------------|------------------|------------------|
| Food, beverages and consumables | <u>102,644</u>   | <u>154,099</u>   | <u>169,140</u>   | <u>51,492</u>    |

The cost of inventories of Old Town Kopitiam Cheras recognised as an expense during the year/period was as follows:

|                     | FYE<br>31.12.2010<br>(12 Months)<br>RM | FYE<br>31.12.2009<br>(12 Months)<br>RM | FYE<br>31.12.2008<br>(12 Months)<br>RM | FPE<br>31.12.2007<br>(15 Months)<br>RM |
|---------------------|--|--|--|--|
| Cost of inventories | <u>3,300,815</u>                       | <u>4,140,419</u>                       | <u>4,491,184</u>                       | <u>2,249,798</u>                       |

**8.5.8 OTHER RECEIVABLES**

|                       | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|-----------------------|------------------|------------------|------------------|------------------|
| Other receivables     | 5,606            | 2,170            | 4,608            | 86,884           |
| Refundable deposits   | <u>332,272</u>   | <u>227,857</u>   | <u>238,097</u>   | <u>235,395</u>   |
| Loans and receivables | 337,878          | 230,027          | 242,705          | 322,279          |
| Prepaid expenses      | <u>79,590</u>    | <u>99,748</u>    | <u>25,416</u>    | <u>11,450</u>    |
|                       | <u>417,468</u>   | <u>329,775</u>   | <u>268,121</u>   | <u>333,729</u>   |

Other receivables comprise mainly expenses paid on behalf which are unsecured, interest-free and are repayable upon demand.

Transactions with related parties are disclosed in Note 8.5.9.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****8.5 OLD TOWN KOPITIAM CHERAS - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****8.5.9 RELATED PARTY TRANSACTIONS**

The amount owing by directors in 2007 represent unsecured and interest-free advances which are repayable upon demand.

During the financial year/period, significant related party transactions are as follows:

|  | FYE<br>31.12.2010<br>(12 Months)<br>RM | FYE<br>31.12.2009<br>(12 Months)<br>RM | FYE<br>31.12.2008<br>(12 Months)<br>RM | FPE<br>31.12.2007<br>(15 Months)<br>RM |
|--|--|--|--|--|
| <b>Related parties</b>                       |  |  |  |  |
| <b>Gongga Food</b>                           |  |  |  |  |
| Trade purchases                              | 2,957,404                              | 3,776,586                              | 4,174,628                              | 2,122,064                              |
| <b>Kopitiam Asia Pacific</b>                 |  |  |  |  |
| Royalty fees paid/payable                    | 413,081                                | 508,479                                | 532,853                                | 259,309                                |
| Advertisement and promotion fee paid/payable | 247,849                                | 305,087                                | 319,712                                | -                                      |
| Purchase of property, plant and equipment    | 151,828                                | 89,684                                 | 389,993                                | 233,855                                |
| Trade purchases                              | 63,987                                 | 135,375                                | 102,394                                | 117,490                                |
| Accounting fee paid/payable                  | 14,400                                 | 14,400                                 | 13,800                                 | 6,000                                  |
| Rental received/receivable                   | 6,800                                  | -                                      | -                                      | -                                      |
| Staff training fees paid                     | 5,100                                  | -                                      | -                                      | -                                      |
| Incentive received/ receivable               | 4,000                                  | 10,333                                 | -                                      | -                                      |
| Contract wages paid/payable                  | 152                                    | 780,585                                | 335,602                                | 78,345                                 |
| Franchise fee paid/payable                   | -                                      | -                                      | 200,000                                | -                                      |
| <b>White Cafe Marketing</b>                  |  |  |  |  |
| Trade purchases                              | 46,455                                 | 69,390                                 | 73,714                                 | 40,365                                 |
| <b>Dynasty Confectionery</b>                 |  |  |  |  |
| Trade purchase                               | -                                      | 200                                    | 2,460                                  | -                                      |
| <b>Old Town Kopitiam</b>                     |  |  |  |  |
| Rental paid                                  | 5,100                                  | -                                      | -                                      | -                                      |
| Sale of property, plant and equipment        | -                                      | 1,750                                  | -                                      | -                                      |
| <b>Emperor's Kitchen</b>                     |  |  |  |  |
| Purchase of tools and utensils               | -                                      | -                                      | 306                                    | 677                                    |

The relationships of the related parties with Oldtown group of companies are disclosed in Chapters 5 and 7 of the Prospectus of Oldtown.

The outstanding balances arising from non-trade transactions above are as follows:

|                                     | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|-------------------------------------|------------------|------------------|------------------|------------------|
| <b>Other receivables</b>            |                  |                  |                  |                  |
| Kopitiam Asia Pacific               | -                | -                | 2,383            | -                |
| OTK Singapore                       | -                | -                | 1,283            | -                |
| OldTown Kopitiam Pavilion Sdn. Bhd. | -                | -                | 942              | -                |
| <b>Other payables</b>               |                  |                  |                  |                  |
| Old Town Kopitiam                   | 5,794            | 177              | 24,971           | -                |
| Dynasty Confectionery               | -                | -                | 2,180            | -                |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****8.5 OLD TOWN KOPITIAM CHERAS - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****8.5.9 RELATED PARTY TRANSACTIONS (CONTINUED)***Compensation of key management personnel*

There is no directors' remuneration during the financial year/period. Other than directors, there are no other key management personnel in Old Town Kopitiam Cheras.

**8.5.10 FIXED DEPOSITS, CASH AND BANK BALANCES**

|                                     | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|-------------------------------------|------------------|------------------|------------------|------------------|
| Fixed deposits with a licensed bank | -                | 64,178           | 62,040           | 60,000           |
| Cash on hand and at banks           | <u>836,379</u>   | <u>632,101</u>   | <u>319,557</u>   | <u>214,319</u>   |
|                                     | <u>836,379</u>   | <u>696,279</u>   | <u>381,597</u>   | <u>274,319</u>   |

Fixed deposits of Old Town Kopitiam Cheras were pledged to a local licensed bank as security for term loans facilities as disclosed in Note 8.5.13.

The effective interest rates per annum and maturity periods for fixed deposits of Old Town Kopitiam Cheras are as follows:

|                             | FYE<br>31.12.2010<br>(12 Months) | FYE<br>31.12.2009<br>(12 Months) | FYE<br>31.12.2008<br>(12 Months) | FPE<br>31.12.2007<br>(15 Months) |
|-----------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| Effective interest rate (%) | -                                | 3.20                             | 3.20 to 3.40                     | 3.40 to 3.88                     |
| Maturity periods (days)     | -                                | <u>365</u>                       | <u>90 to 360</u>                 | <u>90 to 360</u>                 |

## 10. ACCOUNTANTS' REPORT

## G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

## 8.5 OLD TOWN KOPI TIAM CHERAS - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 8.5.11 SHARE CAPITAL

|                                  | 31.12.2010       | 31.12.2009       | 31.12.2008       | 31.12.2007       | 31.12.2010 | 31.12.2009 | 31.12.2008 | 31.12.2007 |
|----------------------------------|------------------|------------------|------------------|------------------|------------|------------|------------|------------|
|                                  | Number of shares | Number of shares | Number of shares | Number of shares | RM         | RM         | RM         | RM         |
| <b>Authorised:</b>               |                  |                  |                  |                  |            |            |            |            |
| Ordinary shares of RM1 each:     |                  |                  |                  |                  |            |            |            |            |
| At beginning of year/period      | 500,000          | 500,000          | 500,000          | 100,000          | 500,000    | 500,000    | 500,000    | 100,000    |
| Increased during the year/period | -                | -                | -                | 400,000          | -          | -          | -          | 400,000    |
| At end of year/period            | 500,000          | 500,000          | 500,000          | 500,000          | 500,000    | 500,000    | 500,000    | 500,000    |
| <b>Issued and fully paid:</b>    |                  |                  |                  |                  |            |            |            |            |
| Ordinary shares of RM1 each:     |                  |                  |                  |                  |            |            |            |            |
| At beginning of year/period      | 160,000          | 160,000          | 160,000          | 2                | 160,000    | 160,000    | 160,000    | 2          |
| Issued during the year/period    | -                | -                | -                | 159,998          | -          | -          | -          | 159,998    |
| At end of year/period            | 160,000          | 160,000          | 160,000          | 160,000          | 160,000    | 160,000    | 160,000    | 160,000    |

## 8.5.12 RETAINED EARNINGS

In accordance with the Finance Act, 2007, the single tier income tax system became effective from the year of assessment 2008. Under this system, tax on a company's profit is a final tax, and dividends paid are exempted from tax in the hands of the shareholders. Unlike the previous imputation system, the recipient of the dividend would no longer be able to claim any tax credit.

Companies without Section 108 tax credit balance will automatically move to the single tier tax system on January 1, 2008. However, companies with such tax credits are given an irrevocable option to elect for the single tier tax system and disregard the tax credit or continue to use the tax credits under Section 108 account to frank the payment of cash dividends on ordinary shares for a period of 6 years ending December 31, 2013 or until the tax credits are fully utilised, whichever comes first. During the transitional period, any tax paid will not be added to the Section 108 account and any tax credits utilised will reduce the tax credit balance. All companies will be in the new system on January 1, 2014.

Old Town Kopitiam Cheras has opted to disregard the Section 108 tax credit balance and switched to a single tier tax system.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****8.5 OLD TOWN KOPITIAM CHERAS - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****8.5.13 TERM LOANS**

|  | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|--|------------------|------------------|------------------|------------------|
| <b>Secured:</b>  |                  |                  |                  |                  |
| Term loans   | -                | -                | 487,019          | 585,000          |
| Less: Amount due within 12 months<br>(shown under current liabilities) | -                | -                | (104,990)        | (99,564)         |
| Non-current portion  | -                | -                | 382,029          | 485,436          |

The non-current portion is repayable as follows:

|                                       | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---------------------------------------|------------------|------------------|------------------|------------------|
| <b>Financial years/period ending:</b> |                  |                  |                  |                  |
| 2009                                  | -                | -                | -                | 107,690          |
| 2010                                  | -                | -                | 112,864          | 109,506          |
| 2011                                  | -                | -                | 121,329          | 117,993          |
| 2012                                  | -                | -                | 147,836          | 150,247          |
|                                       | -                | -                | 382,029          | 485,436          |

Term loans of Old Town Kopitiam Cheras with a local licensed bank amounting to RM585,000 in 2008 (2007: RM585,000) were secured by:

- i) Pledge of fixed deposits as disclosed in Note 8.5.10;
- ii) A debenture for all the fixed and floating assets of Old Town Kopitiam Cheras, both present and future to be stamped for RM585,000;
- iii) Security of trust deed;
- iv) Joint and severally guarantees by all the directors of Old Town Kopitiam Cheras;
- v) Against CGC (M) Bhd. guarantee cover for RM585,000 under the Direct Access Guaranteed Scheme; and
- vi) Against Facility Agreement to be stamped for RM585,000.

Old Town Kopitiam Cheras had two (2) term loans that were fully settled in 2009 and were repayable as follows:

- i) 60 monthly instalments of RM2,137 each with effect from December 2007; and
- ii) 60 monthly instalments of RM9,656 each with effect from December 2007.

The effective interest rate of term loans was 6.65% (2008: 7.50%; 2007: 7.75%) per annum.

In 2007, Old Town Kopitiam Cheras breached one of the loan covenants which stipulate that Old Town Kopitiam Cheras shall not declare or make any payment to its shareholders by way of dividends without the consent of the lending bank during the tenure of the facility. The matter has since been resolved as the loans were fully repaid in 2009.



**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****8.5 OLD TOWN KOPITIAM CHERAS - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****8.5.14 DEFERRED TAX LIABILITY**

|   | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---|------------------|------------------|------------------|------------------|
| At beginning of year/period               | 42,000           | 77,000           | 69,000           | -                |
| Recognised in profit or loss (Note 8.5.4) | (19,000)         | (35,000)         | 8,000            | 69,000           |
| At end of year/period                     | <u>23,000</u>    | <u>42,000</u>    | <u>77,000</u>    | <u>69,000</u>    |

The deferred tax liability is in respect of temporary differences between tax capital allowances and book depreciation of property, plant and equipment.

**8.5.15 TRADE AND OTHER PAYABLES**

|                              | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|------------------------------|------------------|------------------|------------------|------------------|
| Trade payables               | 1,789,713        | 1,589,132        | 686,757          | 842,166          |
| Other payables               | 247,910          | 66,797           | 222,929          | 217,385          |
| Accrued expenses             | 273,716          | 210,789          | 261,914          | 125,220          |
| Refundable deposits received | 7,950            | 6,450            | 2,071            | -                |
|                              | <u>2,319,289</u> | <u>1,873,168</u> | <u>1,173,671</u> | <u>1,184,771</u> |

Trade and other payables comprise amounts outstanding for trade purchases and ongoing costs.

The credit terms granted to Old Town Kopitiam Cheras for trade purchases are as follows:

|                     | FYE<br>31.12.2010<br>(12 Months) | FYE<br>31.12.2009<br>(12 Months) | FYE<br>31.12.2008<br>(12 Months) | FPE<br>31.12.2007<br>(15 Months) |
|---------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| Credit terms (days) | <u>Cash to 90</u>                | <u>Cash to 30</u>                | <u>Cash to 30</u>                | <u>30 to 90</u>                  |

These amounts are non-interest bearing. Old Town Kopitiam Cheras has financial risk management policies to ensure that all payables are paid within the credit time frame.

Included in trade payables of Old Town Kopitiam Cheras are related parties' balances as follows:

|                           | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---------------------------|------------------|------------------|------------------|------------------|
| Related parties' balances | <u>1,749,406</u> | <u>1,558,077</u> | <u>689,985</u>   | <u>957,423</u>   |

The amounts owing to other payables are unsecured, interest-free and are repayable upon demand.

Transactions with related parties are disclosed in Note 8.5.9.

## 10. ACCOUNTANTS' REPORT

### G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

#### 8.5 OLD TOWN KOPITIAM CHERAS - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

##### 8.5.16 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT

###### Categories of financial Instruments

|  | 31.12.2010       |
|--|------------------|
|  | RM               |
| <b>Financial assets</b>                            |                  |
| Loans and receivables - other receivables          | 337,878          |
| Cash and cash equivalents - cash and bank balances | <u>836,379</u>   |
| <b>Financial liabilities</b>                       |                  |
| Amortised cost - trade and other payables          | <u>2,319,289</u> |

###### Financial Risk Management Objectives and Policies

Risk management is integral to the whole business of Old Town Kopitiam Cheras. Management continually monitors Old Town Kopitiam Cheras's risk management process to ensure that an appropriate balance between risk and control is achieved. Risk management policies and systems are reviewed regularly to reflect changes in the market conditions and Old Town Kopitiam Cheras's activities.

There has been no change to Old Town Kopitiam Cheras's exposure to these financial risks or the manner in which it manages and measures the risk.

###### (a) Market risk

There has been no change to Old Town Kopitiam Cheras's exposure to market risks or the manner in which these risks are managed and measured.

###### (i) Foreign currency risk management

Old Town Kopitiam Cheras has minimal foreign currency risk exposure as most of its transactions are denominated in Ringgit Malaysia, which is the functional currency of Old Town Kopitiam Cheras.

###### (ii) Interest rate risk management

Old Town Kopitiam Cheras's exposure to interest rate risk is limited as Old Town Kopitiam Cheras has no interest-bearing balances.

###### (b) Credit risk management

The maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as at the end of the financial period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the statement of financial position.

Old Town Kopitiam Cheras has minimal credit risk exposure as most transactions are on cash terms.

###### (c) Liquidity and cash flow risks management

The management of Old Town Kopitiam Cheras is of the view that liquidity risk is minimal as Old Town Kopitiam Cheras has sufficient funds to finance its ongoing working capital requirement and when necessary, funding is obtained from its related parties.

All non-derivative financial assets and financial liabilities are repayable on demand or due within 1 year from the end of the reporting date.

Old Town Kopitiam Cheras has not committed to any derivative financial instruments during the financial period.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****8.5 OLD TOWN KOPITIAM CHERAS - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****8.5.16 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (CONTINUED)***(d) Capital risk management*

Old Town Kopitiam Cheras manages its capital to ensure that Old Town Kopitiam Cheras will be able to continue as going concern while maximising the return to stakeholders through the optimisation of equity balance. Old Town Kopitiam Cheras's overall strategy remains unchanged from 2009.

The capital structure of Old Town Kopitiam Cheras consists of issued capital. Old Town Kopitiam Cheras is not subject to any externally imposed capital requirements.

**Fair Values of Financial Assets and Financial Liabilities**

The carrying amounts of other receivables, cash and cash equivalents and trade and other payables approximate their respective fair values due to the short-term maturity of these financial instruments.

**8.5.17 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprise the following:

|                                       | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---------------------------------------|------------------|------------------|------------------|------------------|
| Fixed deposits with a licensed bank   | -                | 64,178           | 62,040           | 60,000           |
| Cash and bank balances                | 836,379          | 632,101          | 319,557          | 214,319          |
|                                       | 836,379          | 696,279          | 381,597          | 274,319          |
| Less: Fixed deposits pledged to banks | -                | (64,178)         | (62,040)         | (60,000)         |
|                                       | <u>836,379</u>   | <u>632,101</u>   | <u>319,557</u>   | <u>214,319</u>   |

**8.5.18 OPERATING LEASE ARRANGEMENTS**

Operating leases relates to leases of shops, hostel and kitchen equipment with average lease term of 3 years. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the leased shops, hostels and kitchen equipment at the expiry of the lease period.

Payment recognised as an expense for Old Town Kopitiam Cheras was as follows:

|                        | FYE<br>31.12.2010<br>(12 Months)<br>RM | FYE<br>31.12.2009<br>(12 Months)<br>RM | FYE<br>31.12.2008<br>(12 Months)<br>RM | FPE<br>31.12.2007<br>(15 Months)<br>RM |
|------------------------|--|--|--|--|
| Minimum lease payments | <u>878,000</u>                         | <u>800,793</u>                         | <u>767,775</u>                         | <u>467,092</u>                         |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****8.5 OLD TOWN KOPITIAM CHERAS - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****8.5.18 OPERATING LEASE ARRANGEMENTS (CONTINUED)**

Old Town Kopitiam Cheras has outstanding commitments under non-cancellable operating leases as follows:

|                                       | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---------------------------------------|------------------|------------------|------------------|------------------|
| Within one year                       | 608,160          | 787,830          | 646,200          | 694,600          |
| In the second to fifth year inclusive | 647,220          | 802,480          | 349,000          | 958,200          |
|                                       | <u>1,255,380</u> | <u>1,590,310</u> | <u>995,200</u>   | <u>1,652,800</u> |

**8.5.19 CAPITAL COMMITMENTS**

As of December 31, 2007, Old Town Kopitiam Cheras has capital expenditure in respect of property, plant and equipment which were contracted but not provided for of RM421,062.

**8.5.20 SIGNIFICANT EVENTS**

On December 28, 2009, the shareholders of Old Town Kopitiam Cheras entered into Sale and Purchase Agreement (as was supplemented by letters dated May 24, 2010 and June 11, 2010 respectively, and supplemental agreement dated December 9, 2010) with Oldtown to dispose off its entire equity interest in Old Town Kopitiam Cheras.

On April 12, 2011, Securities Commission had granted the Oldtown the approval for the proposed listing on the Main Market of Bursa Securities. Following the said approval, Oldtown intends to complete the transfer of shares before June 2011.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****9. OLD TOWN KOPITIAM KUALA LUMPUR****9.1 OLD TOWN KOPITIAM KUALA LUMPUR - STATEMENTS OF COMPREHENSIVE INCOME**

|  | Note  | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|--|-------|-------------------------|-------------------------|-------------------------|-------------------------|
| Revenue  |       | 4,620,735               | 4,840,803               | 6,017,234               | 4,517,448               |
| Direct expenses  |       | <u>(4,275,587)</u>      | <u>(4,384,179)</u>      | <u>(5,113,624)</u>      | <u>(3,970,087)</u>      |
| Gross profit   |       | 345,148                 | 456,624                 | 903,610                 | 547,361                 |
| Other income - net   |       | 238,233                 | 272,784                 | 339,214                 | 182,068                 |
| Administrative and general expenses  |       | <u>(655,525)</u>        | <u>(431,582)</u>        | <u>(393,950)</u>        | <u>(430,045)</u>        |
| (Loss)/Profit from operations  |       | (72,144)                | 297,826                 | 848,874                 | 299,384                 |
| Finance cost - bank charges  |       | <u>(2,239)</u>          | <u>(2,208)</u>          | <u>(1,973)</u>          | <u>(740)</u>            |
| (Loss)/Profit before tax   | 9.5.2 | (74,383)                | 295,618                 | 846,901                 | 298,644                 |
| Income tax expense   | 9.5.3 | <u>(20,847)</u>         | <u>(60,889)</u>         | <u>(224,312)</u>        | <u>(58,000)</u>         |
| <b>(Loss)/Profit and total<br/>comprehensive (loss)/income<br/>for the year attributable<br/>to owners of Old Town<br/>Kopitiam Kuala Lumpur</b> |       | <u>(95,230)</u>         | <u>234,729</u>          | <u>622,589</u>          | <u>240,644</u>          |
| <i>Key financial ratios:</i>   |       |                         |                         |                         |                         |
| Weighted average number of ordinary<br>shares of RM1.00 each in issue (units)  |       | 100,000                 | 100,000                 | 100,000                 | * 53,426                |
| Gross profit margin (%)  |       | 7.47                    | 9.43                    | 15.02                   | 12.12                   |
| Basic (loss)/earnings per share (sen)  |       | (95.23)                 | 234.73                  | 622.59                  | 450.42                  |
| Effective tax rate (%)   |       | <u>(25.54)</u>          | <u>24.12</u>            | <u>26.08</u>            | <u>17.52</u>            |

\* Calculated based on 99,998 new ordinary shares of RM1 each issued at par on June 20, 2007

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****9.2 OLD TOWN KOPITIAM KUALA LUMPUR - STATEMENTS OF FINANCIAL POSITION**

|                                      | Note   | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|--------------------------------------|--------|------------------|------------------|------------------|------------------|
| <b>ASSETS</b>                        |        |                  |                  |                  |                  |
| <b>Non-current assets</b>            |        |                  |                  |                  |                  |
| Property, plant and equipment        | 9.5.4  | 1,503,535        | 777,084          | 698,698          | 860,891          |
| Deferred license fee                 | 9.5.5  | 16,667           | 26,667           | 36,667           | -                |
| <b>Total non-current assets</b>      |        | <b>1,520,202</b> | <b>803,751</b>   | <b>735,365</b>   | <b>860,891</b>   |
| <b>Current assets</b>                |        |                  |                  |                  |                  |
| Inventories                          | 9.5.6  | 53,380           | 74,374           | 63,030           | 63,609           |
| Other receivables                    | 9.5.7  | 231,513          | 236,784          | 348,073          | 511,966          |
| Amount owing by a director           | 9.5.8  | -                | -                | -                | 133,074          |
| Current tax asset                    | 9.5.3  | 80,000           | 28,000           | -                | -                |
| Cash and bank balances               |        | 247,456          | 137,903          | 229,522          | 117,903          |
| <b>Total current assets</b>          |        | <b>612,349</b>   | <b>477,061</b>   | <b>640,625</b>   | <b>826,552</b>   |
| <b>Total assets</b>                  |        | <b>2,132,551</b> | <b>1,280,812</b> | <b>1,375,990</b> | <b>1,687,443</b> |
| <b>EQUITY AND LIABILITIES</b>        |        |                  |                  |                  |                  |
| <b>Capital and reserves</b>          |        |                  |                  |                  |                  |
| Issued capital                       | 9.5.9  | 100,000          | 100,000          | 100,000          | 100,000          |
| Retained earnings/(Accumulated loss) | 9.5.10 | 121,311          | 216,541          | 381,812          | (40,777)         |
| <b>Total equity</b>                  |        | <b>221,311</b>   | <b>316,541</b>   | <b>481,812</b>   | <b>59,223</b>    |
| <b>Non-current liabilities</b>       |        |                  |                  |                  |                  |
| Deferred tax liability               | 9.5.11 | 48,000           | 12,000           | 22,000           | 31,000           |
| <b>Current liabilities</b>           |        |                  |                  |                  |                  |
| Trade and other payables             | 9.5.12 | 1,863,240        | 952,271          | 791,198          | 1,417,229        |
| Amount owing to a director           | 9.5.8  | -                | -                | -                | 152,991          |
| Current tax liabilities              | 9.5.3  | -                | -                | 80,980           | 27,000           |
| <b>Total current liabilities</b>     |        | <b>1,863,240</b> | <b>952,271</b>   | <b>872,178</b>   | <b>1,597,220</b> |
| <b>Total liabilities</b>             |        | <b>1,911,240</b> | <b>964,271</b>   | <b>894,178</b>   | <b>1,628,220</b> |
| <b>Total equity and liabilities</b>  |        | <b>2,132,551</b> | <b>1,280,812</b> | <b>1,375,990</b> | <b>1,687,443</b> |
| <i>Key financial ratios:</i>         |        |                  |                  |                  |                  |
| Net tangible assets per share (sen)  |        | 221.31           | 316.54           | 481.81           | 110.85           |
| Debt-equity ratio (times)            |        | -                | -                | -                | -                |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****9.3 OLD TOWN KOPITIAM KUALA LUMPUR - STATEMENTS OF CHANGES IN EQUITY**

|   | Note  | Issued<br>Capital<br>RM | Share<br>Application<br>Monies<br>RM | Retained<br>Earnings/<br>(Accumulated<br>Loss)<br>RM | (Capital<br>Deficiency)/<br>Net<br>Shareholders'<br>Equity<br>RM |
|---|-------|-------------------------|--------------------------------------|--|--|
| Balance as of January 1, 2007           |       | 2                       | 100,000                              | (281,421)  | (181,419)  |
| Total comprehensive income for the year |       | -                       | -                                    | 240,644  | 240,644  |
| Reclassified to other payables          |       | -                       | (2)                                  | -  | (2)  |
| Issue of shares                         | 9.5.9 | 99,998                  | (99,998)                             | -  | -  |
| Balance as of December 31, 2007         |       | 100,000                 | -                                    | (40,777)   | 59,223   |
| Total comprehensive income for the year |       | -                       | -                                    | 622,589  | 622,589  |
| Dividend paid                           | F     | -                       | -                                    | (200,000)  | (200,000)  |
| Balance as of December 31, 2008         |       | 100,000                 | -                                    | 381,812  | 481,812  |
| Total comprehensive income for the year |       | -                       | -                                    | 234,729  | 234,729  |
| Dividend paid                           | F     | -                       | -                                    | (400,000)  | (400,000)  |
| Balance as of December 31, 2009         |       | 100,000                 | -                                    | 216,541  | 316,541  |
| Total comprehensive loss for the year   |       | -                       | -                                    | (95,230)   | (95,230)   |
| Balance as of December 31, 2010         |       | 100,000                 | -                                    | 121,311  | 221,311  |

**9.4 OLD TOWN KOPITIAM KUALA LUMPUR - SUMMARISED STATEMENTS OF CASH FLOWS**

|   | Note   | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---|--------|-------------------------|-------------------------|-------------------------|-------------------------|
| Net Cash Generated From Operating Activities                |        | 1,110,834               | 588,371                 | 405,229                 | 702,271                 |
| Net Cash (Used In)/Generated From Investing Activities      |        | (999,042)               | (277,782)               | 61,354                  | (474,257)               |
| Net Cash Used In Financing Activities                       |        | (2,239)                 | (402,208)               | (354,964)               | (181,188)               |
| <b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b> |        | 109,553                 | (91,619)                | 111,619                 | 46,826                  |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>       |        | 137,903                 | 229,522                 | 117,903                 | 71,077                  |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>             | 9.5.14 | 247,456                 | 137,903                 | 229,522                 | 117,903                 |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****9.5 OLD TOWN KOPITIAM KUALA LUMPUR - NOTES TO THE FINANCIAL STATEMENTS****9.5.1 OPERATING COSTS APPLICABLE TO REVENUE**

|  | Note  | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|--|-------|-------------------------|-------------------------|-------------------------|-------------------------|
| Changes in food,<br>beverages and consumables    |       | 20,994                  | (11,344)                | 579                     | (21,497)                |
| Purchase of food,<br>beverages and consumables   |       | 1,927,495               | 2,082,355               | 2,579,827               | 1,961,249               |
| Employee benefit expense                         |       | 925,397                 | 963,784                 | 1,093,356               | 978,047                 |
| Director's remuneration                          |       |                         |                         |                         |                         |
| - Fee  |       | -                       | -                       | -                       | 30,000                  |
| - Salaries and bonuses                           |       | 83,361                  | 89,154                  | 88,335                  | 28,000                  |
| - EPF contributions                              |       | 7,485                   | 6,866                   | 6,166                   | 3,360                   |
| Depreciation of property,<br>plant and equipment | 9.5.4 | 446,460                 | 256,965                 | 230,207                 | 188,400                 |
| Amortisation of<br>deferred franchise fee        | 9.5.5 | 10,000                  | 10,000                  | 13,333                  | -                       |
| Other operating expenses                         |       | 1,559,112               | 1,474,714               | 1,564,345               | 1,325,062               |
|  |       | <u>4,980,304</u>        | <u>4,872,494</u>        | <u>5,576,148</u>        | <u>4,492,621</u>        |

**9.5.2 (LOSS)/PROFIT BEFORE TAX**

(Loss)/Profit before tax has been arrived at after charging:

|   | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| Rental of:                                |                         |                         |                         |                         |
| Shops                                     | 502,688                 | 591,360                 | 589,897                 | 510,725                 |
| Hostel                                    | 40,200                  | 54,960                  | 54,960                  | 45,400                  |
| Audit fee                                 | 10,000                  | 11,000                  | 10,000                  | 7,000                   |
| Property, plant and equipment written off | 50,811                  | -                       | -                       | 133,956                 |
| Security deposits written off             | -                       | -                       | -                       | 30,000                  |
|   | <u>653,699</u>          | <u>717,320</u>          | <u>664,857</u>          | <u>727,081</u>          |

Included in employee benefits expenses of Old Town Kopitiam Kuala Lumpur are the following:

|                           | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Contributions made to EPF | <u>28,376</u>           | <u>24,129</u>           | <u>21,512</u>           | <u>21,284</u>           |

**9.5.3 INCOME TAX EXPENSE**

|  | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| Income tax :   |                         |                         |                         |                         |
| Current year   | -                       | 82,000                  | 230,000                 | 27,000                  |
| Adjustments recognised in the current year in<br>relation to income tax of prior years | <u>(15,153)</u>         | <u>(11,111)</u>         | <u>3,312</u>            | <u>-</u>                |
| (Forward)  | <u>(15,153)</u>         | <u>70,889</u>           | <u>233,312</u>          | <u>27,000</u>           |



**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****9.5 OLD TOWN KOPITIAM KUALA LUMPUR - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****9.5.3 INCOME TAX EXPENSE**

|   | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| Deferred tax (Note 9.5.11):   |                         |                         |                         |                         |
| Relating to origination and reversal of temporary differences:                        |                         |                         |                         |                         |
| Current year  | 19,000                  | (12,000)                | -                       | 31,000                  |
| Adjustments recognised in the current year in relation to deferred tax of prior years | 17,000                  | 2,000                   | (9,000)                 | -                       |
|   | <u>36,000</u>           | <u>(10,000)</u>         | <u>(9,000)</u>          | <u>31,000</u>           |
|   | <u>20,847</u>           | <u>60,889</u>           | <u>224,312</u>          | <u>58,000</u>           |

The statutory income tax rate for companies with a paid-up capital of above RM2,500,000 in years of assessment 2007, 2008, 2009 and 2010 are 27%, 26%, 25% and 25% respectively. In the previous years of assessments, for companies with a paid-up capital of RM2,500,000 and below, an income tax rate of 20% is applicable for chargeable income of up to RM500,000. However, with effect from year of assessment 2009, this preferential tax rate will no longer be applicable for companies that controls or being controlled directly or indirectly by, or are related to another company which has a paid-up ordinary share capital of more than RM2,500,000. As a result, income tax rate of Old Town Kopitiam Kuala Lumpur has also been revised accordingly.

The income tax expense for the year can be reconciled to profit before tax as follows:

|  | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| (Loss)/Profit before tax   | <u>(74,383)</u>         | <u>295,618</u>          | <u>846,901</u>          | <u>298,644</u>          |
| (Loss)/Income tax expense calculated at 25% (31.12.2009: 25%; 31.12.2008:26% and 31.12.2007:27%) | (19,000)                | 74,000                  | 220,000                 | 80,700                  |
| Tax effects of:  |                         |                         |                         |                         |
| Expenses that are not deductible in determining taxable profit                                   | 38,000                  | 11,000                  | 18,000                  | 62,000                  |
| Utilisation of previously unrecognised deferred tax assets                                       | -                       | -                       | -                       | (71,400)                |
| Effect of difference in tax rate applicable to small and medium scale companies                  | -                       | (15,000)                | (8,000)                 | (13,300)                |
| (Over)/Underprovision in prior year:   |                         |                         |                         |                         |
| Income tax   | (15,153)                | (11,111)                | 3,312                   | -                       |
| Deferred tax   | 17,000                  | 2,000                   | (9,000)                 | -                       |
| Income tax expense for the year  | <u>20,847</u>           | <u>60,889</u>           | <u>224,312</u>          | <u>58,000</u>           |
|  | <u>31.12.2010</u>       | <u>31.12.2009</u>       | <u>31.12.2008</u>       | <u>31.12.2007</u>       |
|  | <u>RM</u>               | <u>RM</u>               | <u>RM</u>               | <u>RM</u>               |
| Current tax asset  |                         |                         |                         |                         |
| Tax refund receivable  | <u>80,000</u>           | <u>28,000</u>           | <u>-</u>                | <u>-</u>                |
|  | <u>31.12.2010</u>       | <u>31.12.2009</u>       | <u>31.12.2008</u>       | <u>31.12.2007</u>       |
|  | <u>RM</u>               | <u>RM</u>               | <u>RM</u>               | <u>RM</u>               |
| Current tax liability  |                         |                         |                         |                         |
| Income tax payable   | <u>-</u>                | <u>-</u>                | <u>80,980</u>           | <u>27,000</u>           |

## 10. ACCOUNTANTS' REPORT

## G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

## 9.5 OLD TOWN KOPITIAM KUALA LUMPUR - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 9.5.4 PROPERTY, PLANT AND EQUIPMENT

|                         | Furniture,<br>fixtures<br>and<br>fittings<br>RM | Shop and<br>counter<br>equipment<br>RM | Kitchen<br>equipment<br>and<br>utensils<br>RM | Office<br>equipment<br>RM | Signboards<br>RM | Renovation<br>RM | Total<br>RM |
|-------------------------|---|--|---|---------------------------|------------------|------------------|-------------|
| <b>Cost</b>             |   |  |   |                           |                  |                  |             |
| As of January 1, 2007   | 156,284   | 34,790                                 | 115,806                                       | 9,063                     | 38,262           | 360,189          | 714,394     |
| Additions               | 288,133   | 69,705                                 | 54,305  | 3,030                     | 21,880           | 120,869          | 557,922     |
| Write off               | -   | -                                      | -   | -                         | (17,062)         | (139,042)        | (156,104)   |
| As of December 31, 2007 | 444,417   | 104,495                                | 170,111                                       | 12,093                    | 43,080           | 342,016          | 1,116,212   |
| Additions               | 12,891  | 23,888                                 | 36,119  | 1,155                     | -                | -                | 74,053      |
| Discount                | (6,039) *                                       | -                                      | -   | -                         | -                | -                | (6,039) *   |
| As of December 31, 2008 | 451,269   | 128,383                                | 206,230                                       | 13,248                    | 43,080           | 342,016          | 1,184,226   |
| Additions               | 109,868   | 25,010                                 | 65,601  | 2,656                     | 26,216           | 106,000          | 335,351     |
| As of December 31, 2009 | 561,137   | 153,393                                | 271,831                                       | 15,904                    | 69,296           | 448,016          | 1,519,577   |
| Additions               | 524,124   | 105,525                                | 147,917                                       | -                         | 63,637           | 382,519          | 1,223,722   |
| Write off               | (58,388)  | (7,743)                                | (960)   | -                         | -                | (63,011)         | (130,102)   |
| As of December 31, 2010 | 1,026,873                                       | 251,175                                | 418,788                                       | 15,904                    | 132,933          | 767,524          | 2,613,197   |

\* The discount was received from the supplier for assets purchased in year 2007.

## 10. ACCOUNTANTS' REPORT

## G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

## 9.5 OLD TOWN KOPITIAM KUALA LUMPUR - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 9.5.4 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

|   | Furniture,<br>fixtures<br>and<br>fittings<br>RM | Shop and<br>counter<br>equipment<br>RM | Kitchen<br>equipment<br>and<br>utensils<br>RM | Office<br>equipment<br>RM | Signboards<br>RM | Renovation<br>RM | Total<br>RM |
|---|---|--|---|---------------------------|------------------|------------------|-------------|
| Accumulated depreciation and<br>accumulated impairment loss |   |  |   |                           |                  |                  |             |
| As of January 1, 2007                                       | 17,045  | 7,515                                  | 13,323  | 1,082                     | 4,667            | 45,437           | 89,069      |
| Depreciation charge for the year                            | 70,154  | 14,214                                 | 29,596  | 2,413                     | 7,289            | 64,734           | 188,400     |
| Write off   | -   | -                                      | -   | -                         | (2,450)          | (19,698)         | (22,148)    |
| As of December 31, 2007                                     | 87,199  | 21,729                                 | 42,919  | 3,495                     | 9,506            | 90,473           | 255,321     |
| Depreciation charge for the year                            | 88,729  | 23,358                                 | 38,452  | 2,649                     | 8,616            | 68,403           | 230,207     |
| As of December 31, 2008                                     | 175,928   | 45,087                                 | 81,371  | 6,144                     | 18,122           | 158,876          | 485,528     |
| Depreciation charge for the year                            | 97,343  | 27,091                                 | 48,378  | 2,726                     | 9,490            | 71,937           | 256,965     |
| As of December 31, 2009                                     | 273,271   | 72,178                                 | 129,749                                       | 8,870                     | 27,612           | 230,813          | 742,493     |
| Depreciation charge for the year                            | 178,844   | 44,239                                 | 75,746  | 3,181                     | 22,224           | 122,226          | 446,460     |
| Write off   | (34,082)  | (4,473)                                | (624)   | -                         | -                | (40,112)         | (79,291)    |
| As of December 31, 2010                                     | 418,033   | 111,944                                | 204,871                                       | 12,051                    | 49,836           | 312,927          | 1,109,662   |
| Carrying amounts  |   |  |   |                           |                  |                  |             |
| As of December 31, 2007                                     | 357,218   | 82,766                                 | 127,192                                       | 8,598                     | 33,574           | 251,543          | 860,891     |
| As of December 31, 2008                                     | 275,341   | 83,296                                 | 124,859                                       | 7,104                     | 24,958           | 183,140          | 698,698     |
| As of December 31, 2009                                     | 287,866   | 81,215                                 | 142,082                                       | 7,034                     | 41,684           | 217,203          | 777,084     |
| As of December 31, 2010                                     | 608,840   | 139,231                                | 213,917                                       | 3,853                     | 83,097           | 454,597          | 1,503,535   |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****9.5 OLD TOWN KOPITIAM KUALA LUMPUR - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****9.5.5 DEFERRED FRANCHISE FEE**

|                          | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|--------------------------|------------------|------------------|------------------|------------------|
| At cost:                 |                  |                  |                  |                  |
| At beginning of year     | 50,000           | 50,000           | -                | -                |
| Additions                | -                | -                | 50,000           | -                |
| At end of year           | 50,000           | 50,000           | 50,000           | -                |
| Cumulative amortisation: |                  |                  |                  |                  |
| At beginning of year     | (23,333)         | (13,333)         | -                | -                |
| Charge for the year      | (10,000)         | (10,000)         | (13,333)         | -                |
|                          | <u>(33,333)</u>  | <u>(23,333)</u>  | <u>(13,333)</u>  | <u>-</u>         |
| At end of year           | <u>16,667</u>    | <u>26,667</u>    | <u>36,667</u>    | <u>-</u>         |

Deferred franchise fee comprises fee paid to a related party to operate the franchise business under the trade name and using the trade mark for a period of 5 years.

**9.5.6 INVENTORIES**

|                                 | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---------------------------------|------------------|------------------|------------------|------------------|
| Food, beverages and consumables | <u>53,380</u>    | <u>74,374</u>    | <u>63,030</u>    | <u>63,609</u>    |

The cost of inventories of Old Town Kopitiam Kuala Lumpur recognised as an expense during the year was as follows:

|                     | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Cost of inventories | <u>1,948,489</u>        | <u>2,071,011</u>        | <u>2,580,406</u>        | <u>1,939,752</u>        |

**9.5.7 OTHER RECEIVABLES**

|                       | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|-----------------------|------------------|------------------|------------------|------------------|
| Other receivables     | -                | -                | 73,360           | 260,504          |
| Refundable deposits   | <u>208,862</u>   | <u>199,600</u>   | <u>197,640</u>   | <u>195,515</u>   |
| Loans and receivables | 208,862          | 199,600          | 271,000          | 456,019          |
| Prepaid expenses      | <u>22,651</u>    | <u>37,184</u>    | <u>77,073</u>    | <u>55,947</u>    |
|                       | <u>231,513</u>   | <u>236,784</u>   | <u>348,073</u>   | <u>511,966</u>   |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****9.5 OLD TOWN KOPITIAM KUALA LUMPUR - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****9.5.7 OTHER RECEIVABLES (CONTINUED)**

Other receivables in 2008 comprise mainly expenses paid on behalf, which are unsecured and interest-free.

Other receivables in 2007 relate to an amount owed by a company in which a director of Old Town Kopitiam Kuala Lumpur has financial interest. The granting of non-trade advances to a company in which a director has financial interest was in contravention of Section 133A of the Companies Act, 1965. However, the amount had been fully recovered in 2008.

Transactions with related parties are disclosed in Note 9.5.8

**9.5.8 RELATED PARTY TRANSACTIONS**

The amount owing by/(to) a director in 2007 represents unsecured and interest-free advances which are repayable upon demand.

Advances to a director in 2007 contravened Section 133 of the Companies Act, 1965, which states that a company other than private exempt company shall not make a loan to a director of the company. However, the amount had been fully recovered in 2008.

During the financial year, significant related party transactions are as follows:

|   | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| <b>Related parties</b>                        |                         |                         |                         |                         |
| Gongga Food                                   |                         |                         |                         |                         |
| Trade purchases                               | 1,771,871               | 1,722,045               | 2,121,889               | 1,611,395               |
| <b>Kopitiam Asia Pacific</b>                  |                         |                         |                         |                         |
| Purchase of property, plant and equipment     | 331,559                 | 101,750                 | 55,002                  | 9,426                   |
| Royalty fees paid/payable                     | 229,331                 | 238,947                 | 297,957                 | 229,180                 |
| Advertisement and promotion fees paid/payable | 137,599                 | 143,368                 | 178,774                 | -                       |
| Trade purchases                               | 48,997                  | 61,175                  | 31,122                  | 104,241                 |
| Accounting fees paid/payables                 | 14,400                  | 14,400                  | 14,400                  | 12,300                  |
| Incentives received/receivable                | 2,833                   | 5,000                   | -                       | -                       |
| Staff training fees paid                      | 500                     | -                       | -                       | -                       |
| Dividend paid/payable                         | -                       | 120,000                 | -                       | -                       |
| Contract wages paid/payable                   | -                       | 1,069                   | -                       | 12,910                  |
| Repayment of advances received                | -                       | -                       | 165,000                 | -                       |
| Franchise fees paid/payable                   | -                       | -                       | 50,000                  | -                       |
| Advances received                             | -                       | -                       | -                       | 165,000                 |
| <b>White Cafe Marketing</b>                   |                         |                         |                         |                         |
| Trade purchases                               | 39,484                  | 43,738                  | 45,808                  | 37,167                  |

(Forward)

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****9.5 OLD TOWN KOPITIAM KUALA LUMPUR - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****9.5.8 RELATED PARTY TRANSACTIONS (CONTINUED)**

|   | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| <b>Related parties (continued)</b>        |                         |                         |                         |                         |
| <b>Dynasty Confectionery</b>              |                         |                         |                         |                         |
| Trade purchases                           | -                       | 400                     | 1,180                   | -                       |
| Purchase of property, plant and equipment | 340                     | -                       | -                       | -                       |
| <b>OTK (Petaling Jaya) Sdn. Bhd.</b>      |                         |                         |                         |                         |
| Repayment of advances granted             | -                       | -                       | 260,504                 | -                       |
| Advances granted                          | -                       | -                       | -                       | 260,504                 |

The relationships of the related parties with Oldtown group of companies are disclosed in Chapters 5 and 7 of the Prospectus of Oldtown.

The outstanding balances arising from non-trade transactions above are as follows:

|                               | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|-------------------------------|------------------|------------------|------------------|------------------|
| <b>Other receivables</b>      |                  |                  |                  |                  |
| OTK (Petaling Jaya) Sdn. Bhd. | -                | -                | 52,660           | 260,504          |
| OTK Sunway Sdn. Bhd.          | -                | -                | 9,150            | -                |
| <b>Other payables</b>         |                  |                  |                  |                  |
| OTK (Petaling Jaya) Sdn. Bhd. | 7,920            | 15,093           | -                | -                |
| Old Town Kopitiam             | 14               | -                | -                | -                |

***Compensation of key management personnel***

The remuneration of directors is disclosed in Note 9.5.1. Other than directors, there are no other key management personnel in Old Town Kopitiam Kuala Lumpur during the year.

## 10. ACCOUNTANTS' REPORT

## G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

## 9.5 OLD TOWN KOPITIAM KUALA LUMPUR - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 9.5.9 SHARE CAPITAL

|                               | 31.12.2010       | 31.12.2009       | 31.12.2008       | 31.12.2007       | 31.12.2010 | 31.12.2009 | 31.12.2008 | 31.12.2007 |
|-------------------------------|------------------|------------------|------------------|------------------|------------|------------|------------|------------|
| Number of shares              | Number of shares | Number of shares | Number of shares | Number of shares | RM         | RM         | RM         | RM         |
| 100,000                       | 100,000          | 100,000          | 100,000          | 100,000          | 100,000    | 100,000    | 100,000    | 100,000    |
| <b>Authorised:</b>            |                  |                  |                  |                  |            |            |            |            |
| Ordinary shares of RM1 each   |                  |                  |                  |                  |            |            |            |            |
| <b>Issued and fully paid:</b> |                  |                  |                  |                  |            |            |            |            |
| Ordinary shares of RM1 each:  |                  |                  |                  |                  |            |            |            |            |
| 100,000                       | 100,000          | 100,000          | 100,000          | 2                | 100,000    | 100,000    | 100,000    | 2          |
| -                             | -                | -                | -                | 99,998           | -          | -          | -          | 99,998     |
| 100,000                       | 100,000          | 100,000          | 100,000          | 100,000          | 100,000    | 100,000    | 100,000    | 100,000    |
| At end of year                |                  |                  |                  |                  |            |            |            |            |

## 9.5.10 RETAINED EARNINGS

In accordance with the Finance Act, 2007, the single tier income tax system became effective from the year of assessment 2008. Under this system, tax on a company's profit is a final tax, and dividends paid are exempted from tax in the hands of the shareholders. Unlike the previous imputation system, the recipient of the dividend would no longer be able to claim any tax credit.

Companies without Section 108 tax credit balance will automatically move to the single tier tax system on January 1, 2008. However, companies with such tax credits are given an irrevocable option to elect for the single tier tax system and disregard the tax credit or continue to use the tax credits under Section 108 account to frank the payment of cash dividends on ordinary shares for a period of 6 years ending December 31, 2013 or until the tax credits are fully utilised, whichever comes first. During the transitional period, any tax paid will not be added to the Section 108 account and any tax credits utilised will reduce the tax credit balance. All companies will be in the new system on January 1, 2014.

Old Town Kopitiam Kuala Lumpur has opted to disregard the Section 108 tax credit balance in accordance with the Finance Act, 2007 and switched to a single tier tax system.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****9.5 OLD TOWN KOPITIAM KUALA LUMPUR - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****9.5.11 DEFERRED TAX LIABILITY**

|   | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---|------------------|------------------|------------------|------------------|
| At beginning of year                      | 12,000           | 22,000           | 31,000           | -                |
| Recognised in profit or loss (Note 9.5.3) | 36,000           | (10,000)         | (9,000)          | 31,000           |
| At end of year                            | 48,000           | 12,000           | 22,000           | 31,000           |

The deferred tax liability is in respect of the following:

|  | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|--|------------------|------------------|------------------|------------------|
| Tax effect of:   |                  |                  |                  |                  |
| Temporary differences arising from property, plant and equipment | 52,000           | 12,000           | 22,000           | 31,000           |
| Unabsorbed tax capital allowance                                 | (4,000)          | -                | -                | -                |
|  | 48,000           | 12,000           | 22,000           | 31,000           |

**9.5.12 TRADE AND OTHER PAYABLES**

|                  | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|------------------|------------------|------------------|------------------|------------------|
| Trade payables   | 1,556,821        | 707,563          | 543,890          | 608,084          |
| Other payables   | 177,431          | 115,687          | 160,300          | 657,448          |
| Accrued expenses | 128,988          | 129,021          | 87,008           | 151,697          |
|                  | 1,863,240        | 952,271          | 791,198          | 1,417,229        |

Trade and other payables comprise amounts outstanding for trade purchases and ongoing costs. The terms granted to Old Town Kopitiam Kuala Lumpur for trade purchases are as follows:

|                     | FYE<br>31.12.2010 | FYE<br>31.12.2009 | FYE<br>31.12.2008 | FYE<br>31.12.2007 |
|---------------------|-------------------|-------------------|-------------------|-------------------|
| Credit terms (days) | Cash to 90        | Cash to 30        | Cash to 30        | 30 to 120         |

These amounts are non-interest bearing, Old Town Kopitiam Kuala Lumpur has financial risk management policies to ensure that all payables are paid within the credit time frame.

Included in trade payables of Old Town Kopitiam Kuala Lumpur are related parties' balances as follows:

|                           | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---------------------------|------------------|------------------|------------------|------------------|
| Related parties' balances | 1,546,478        | 686,981          | 512,899          | 574,570          |

The amounts owing to other payables are unsecured and interest-free and repayable upon demand. Included in other payables were loans obtained from shareholders of RM320,569 in 2007 which were unsecured, interest-free and were repayable upon demand. The outstanding loans were fully repaid in 2008.

Transactions with related parties are disclosed in Note 9.5.8.



**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****9.5 OLD TOWN KOPITIAM KUALA LUMPUR - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****9.5.13 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT****Categories of financial instruments**

|  | 31.12.2010<br>RM |
|--|------------------|
| <b>Financial assets</b>                            |                  |
| Loans and receivables- refundable deposits         | 208,862          |
| Cash and cash equivalents – cash and bank balances | <u>247,456</u>   |
| <b>Financial liabilities</b>                       |                  |
| Amortised cost- trade and other payables           | <u>1,863,240</u> |

**Financial Risk Management Objectives and Policies**

Risk management is integral to the whole business of Old Town Kopitiam Kuala Lumpur. Management continually monitors Old Town Kopitiam Kuala Lumpur's risk management process to ensure that an appropriate balance between risk and control is achieved. Risk management policies and systems are reviewed regularly to reflect changes in the market conditions and Old Town Kopitiam Kuala Lumpur's activities.

There has been no change to Old Town Kopitiam Kuala Lumpur's exposure to these financial risks or the manner in which it manages and measures the risk.

**(a) Market risk**

Old Town Kopitiam Kuala Lumpur's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

There has been no change to Old Town Kopitiam Kuala Lumpur's exposure to market risks or the manner in which these risks are managed and measured.

**(i) Foreign currency risk management**

Old Town Kopitiam Kuala Lumpur has minimal foreign currency risk exposure as most of its transactions are denominated in Ringgit Malaysia, which is the functional currency of Old Town Kopitiam Kuala Lumpur.

**(ii) Interest rate risk management**

Old Town Kopitiam Kuala Lumpur's exposure to interest rate risk is limited as Old Town Kopitiam Kuala Lumpur has no interest-bearing balances.

**(b) Credit risk management**

The maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as at the end of the financial period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the statement of financial position.

Old Town Kopitiam Kuala Lumpur has minimal credit risk as most transactions are on cash terms.

**(c) Liquidity and cash flow risks management**

The management of Old Town Kopitiam Kuala Lumpur is of the view that liquidity risk is minimal as Old Town Kopitiam Kuala Lumpur has sufficient funds to finance its ongoing working capital requirement and when necessary, funding is obtained from its related parties.

All non-derivative financial assets and financial liabilities are repayable on demand or due within 1 year from the end of the reporting date.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****9.5 OLD TOWN KOPITIAM KUALA LUMPUR - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****9.5.13 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (CONTINUED)**

Old Town Kopitiam Kuala Lumpur has not committed to any derivative financial instruments during the financial year.

**(d) Capital risk management**

Old Town Kopitiam Kuala Lumpur manages its capital to ensure Old Town Kopitiam Kuala Lumpur will be able to continue as going concern while maximising the return to stakeholders through the optimising of equity balance. Old Town Kopitiam Kuala Lumpur's overall strategy remains unchanged from 2009.

The capital structure of Old Town Kopitiam Kuala Lumpur consists of issued capital. Old Town Kopitiam Kuala Lumpur is not subject to any externally imposed capital requirements.

**Fair Value of Financial Assets and Financial Liabilities**

The carrying amounts of other receivables, cash and cash equivalents and trade and other payables approximate their respective fair values due to the short-term maturity of these financial instruments.

**9.5.14 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprise cash and bank balances of Old Town Kopitiam Kuala Lumpur for the respective financial year ended.

**9.5.15 OPERATING LEASE ARRANGEMENTS**

Operating leases relates to leases of outlets and hostel with average lease term of 3 years. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the leased outlets and hostels at the expiry of the lease period.

Payment recognised as an expense for Old Town Kopitiam Kuala Lumpur was as follows:

|                        | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Minimum lease payments | 542,888                 | 646,230                 | 644,857                 | 556,125                 |

Old Town Kopitiam Kuala Lumpur has outstanding commitments under non-cancellable operating leases follows:

|                                       | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---------------------------------------|------------------|------------------|------------------|------------------|
| Within one year                       | 536,753          | 351,086          | 402,958          | 339,400          |
| In the second to fifth year inclusive | 291,109          | 224,850          | 224,336          | 255,450          |
|                                       | 827,862          | 575,936          | 627,294          | 594,850          |

**9.5.16 SIGNIFICANT EVENTS**

On December 28, 2009, the shareholders of Old Town Kopitiam Kuala Lumpur entered into Sale and Purchase Agreement (as was supplemented by letters dated May 24, 2010 and June 11, 2010 respectively, and supplemental agreement dated December 9, 2010) with Oldtown to dispose off its entire equity interest in Old Town Kopitiam Kuala Lumpur.

On April 12, 2011, Securities Commission had granted the Oldtown the approval for the proposed listing on the Main Market of Bursa Securities. Following the said approval, Oldtown intends to complete the transfer of shares before June 2011.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****10 OLD TOWN KOPITIAM BUTTERWORTH****10.1 OLD TOWN KOPITIAM BUTTERWORTH - STATEMENTS OF COMPREHENSIVE INCOME**

|   | Note   | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---|--------|-------------------------|-------------------------|-------------------------|-------------------------|
| Revenue   |        | 21,734,628              | 17,987,160              | 15,568,247              | 9,298,685               |
| Direct expenses   |        | <u>(18,686,668)</u>     | <u>(15,332,276)</u>     | <u>(13,599,989)</u>     | <u>(8,063,859)</u>      |
| Gross profit  |        | 3,047,960               | 2,654,884               | 1,968,258               | 1,234,826               |
| Other income - net  |        | 1,019,154               | 812,215                 | 636,210                 | 347,248                 |
| Investment revenue  |        | 105,467                 | 4,335                   | 2,222                   | -                       |
| Other gains/(loss)  |        | 13,750                  | (6,545)                 | -                       | 18,017                  |
| Administrative and general expenses   |        | <u>(1,885,288)</u>      | <u>(1,562,611)</u>      | <u>(1,068,998)</u>      | <u>(624,052)</u>        |
| Other operating expenses  |        | -                       | <u>(9,850)</u>          | -                       | -                       |
| Profit from operations  |        | 2,301,043               | 1,892,428               | 1,537,692               | 976,039                 |
| Finance costs   | 10.5.2 | <u>(42,715)</u>         | <u>(61,524)</u>         | <u>(81,407)</u>         | <u>(29,939)</u>         |
| Profit before tax   | 10.5.3 | 2,258,328               | 1,830,904               | 1,456,285               | 946,100                 |
| Income tax expense  | 10.5.4 | <u>(619,039)</u>        | <u>(536,586)</u>        | <u>(381,326)</u>        | <u>(288,950)</u>        |
| <b>Profit and total comprehensive income for the year attributable to owners of Old Town Kopitiam Butterworth</b> |        | <u>1,639,289</u>        | <u>1,294,318</u>        | <u>1,074,959</u>        | <u>657,150</u>          |
| <b>Key financial ratios:</b>  |        |                         |                         |                         |                         |
| Weighted average number of ordinary shares of RM1.00 each in issue (units)  |        | 100,000                 | 100,000                 | 100,000                 | 100,000                 |
| Gross profit margin (%)   |        | 14.02                   | 14.76                   | 12.64                   | 13.28                   |
| Basic earnings per share (sen)  |        | 1,639.29                | 1,294.32                | 1,074.96                | 657.15                  |
| Effective tax rate (%)  |        | <u>27.85</u>            | <u>28.13</u>            | <u>29.01</u>            | <u>27.41</u>            |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****10.2 OLD TOWN KOPITIAM BUTTERWORTH - STATEMENTS OF FINANCIAL POSITION**

| ASSETS                                | Note    | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---------------------------------------|---------|------------------|------------------|------------------|------------------|
| <b>Non-current assets</b>             |         |                  |                  |                  |                  |
| Property, plant and equipment         | 10.5.5  | 5,159,233        | 5,258,717        | 4,492,905        | 3,048,501        |
| Investment in subsidiary company      | 10.5.6  | 600,000          | 600,000          | -                | -                |
| Deferred franchise fee                | 10.5.7  | 367,295          | 344,666          | 380,705          | 217,033          |
| <b>Total non-current assets</b>       |         | <b>6,126,528</b> | <b>6,203,383</b> | <b>4,873,610</b> | <b>3,265,534</b> |
| <b>Current assets</b>                 |         |                  |                  |                  |                  |
| Inventories                           | 10.5.8  | 276,600          | 311,054          | 181,945          | 124,458          |
| Other receivables                     | 10.5.9  | 969,491          | 636,001          | 604,574          | 423,398          |
| Current tax asset                     | 10.5.4  | -                | -                | -                | 104,000          |
| Fixed deposit, cash and bank balances | 10.5.11 | 1,734,816        | 1,294,202        | 577,869          | 264,163          |
| <b>Total current assets</b>           |         | <b>2,980,907</b> | <b>2,241,257</b> | <b>1,364,388</b> | <b>916,019</b>   |
| <b>Total assets</b>                   |         | <b>9,107,435</b> | <b>8,444,640</b> | <b>6,237,998</b> | <b>4,181,553</b> |
| <b>EQUITY AND LIABILITIES</b>         |         |                  |                  |                  |                  |
| <b>Capital and reserves</b>           |         |                  |                  |                  |                  |
| Issued capital                        | 10.5.12 | 100,000          | 100,000          | 100,000          | 100,000          |
| Retained earnings                     | 10.5.13 | 3,499,340        | 2,485,051        | 1,690,733        | 615,774          |
| <b>Total equity</b>                   |         | <b>3,599,340</b> | <b>2,585,051</b> | <b>1,790,733</b> | <b>715,774</b>   |
| <b>Non-current liabilities</b>        |         |                  |                  |                  |                  |
| Hire-purchase payables                | 10.5.14 | 21,090           | 89,169           | 122,622          | 114,071          |
| Borrowings                            | 10.5.15 | 352,151          | 419,434          | 646,200          | 652,510          |
| Deferred tax liability                | 10.5.16 | 193,000          | 168,000          | 155,000          | 174,346          |
| <b>Total non-current liabilities</b>  |         | <b>566,241</b>   | <b>676,603</b>   | <b>923,822</b>   | <b>940,927</b>   |
| <b>Current liabilities</b>            |         |                  |                  |                  |                  |
| Trade and other payables              | 10.5.17 | 2,287,353        | 2,720,271        | 3,319,828        | 2,327,720        |
| Amount owing to subsidiary company    | 10.5.10 | 2,468,632        | 2,130,186        | -                | -                |
| Amount owing to a director            |         | -                | -                | -                | 50,000           |
| Hire-purchase payables                | 10.5.14 | 20,296           | 33,464           | 31,345           | 26,011           |
| Borrowings                            | 10.5.15 | 71,573           | 283,065          | 144,098          | 121,121          |
| Current tax liabilities               | 10.5.4  | 94,000           | 16,000           | 28,172           | -                |
| <b>Total current liabilities</b>      |         | <b>4,941,854</b> | <b>5,182,986</b> | <b>3,523,443</b> | <b>2,524,852</b> |
| <b>Total liabilities</b>              |         | <b>5,508,095</b> | <b>5,859,589</b> | <b>4,447,265</b> | <b>3,465,779</b> |
| <b>Total equity and liabilities</b>   |         | <b>9,107,435</b> | <b>8,444,640</b> | <b>6,237,998</b> | <b>4,181,553</b> |
| <b>Key financial ratios:</b>          |         |                  |                  |                  |                  |
| Net tangible assets per share (sen)   |         | 3,599.34         | 2,585.05         | 1,790.73         | 715.77           |
| Debt-equity ratio (times)             |         | 0.13             | 0.32             | 0.53             | 1.28             |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****10.3 OLD TOWN KOPITIAM BUTTERWORTH - STATEMENTS OF CHANGES IN EQUITY**

|   | Note | Issued<br>Capital<br>RM | Distributable<br>Reserve<br>Retained<br>Earnings<br>RM | Net<br>Shareholders'<br>Equity<br>RM |
|---|------|-------------------------|--|--------------------------------------|
| Balance as of January 1, 2007           |      | 100,000                 | 159,374  | 259,374                              |
| Total comprehensive income for the year |      | -                       | 657,150  | 657,150                              |
| Dividends                               | F    | -                       | (200,750)  | (200,750)                            |
| Balance as of December 31, 2007         |      | 100,000                 | 615,774  | 715,774                              |
| Total comprehensive income for the year |      | -                       | 1,074,959  | 1,074,959                            |
| Balance as of December 31, 2008         |      | 100,000                 | 1,690,733  | 1,790,733                            |
| Total comprehensive income for the year |      | -                       | 1,294,318  | 1,294,318                            |
| Dividends                               | F    | -                       | (500,000)  | (500,000)                            |
| Balance as of December 31, 2009         |      | 100,000                 | 2,485,051  | 2,585,051                            |
| Total comprehensive income for the year |      | -                       | 1,639,289  | 1,639,289                            |
| Dividends                               | F    | -                       | (625,000)  | (625,000)                            |
| Balance as of December 31, 2010         |      | 100,000                 | 3,499,340  | 3,599,340                            |

**10.4 OLD TOWN KOPITIAM BUTTERWORTH - SUMMARISED STATEMENTS OF CASH FLOWS**

|   | Note    | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---|---------|-------------------------|-------------------------|-------------------------|-------------------------|
| Net Cash Generated From<br>Operating Activities                 |         | 2,207,163               | 3,120,642               | 2,629,924               | 1,468,461               |
| Net Cash Used In Investing Activities                           |         | (742,744)               | (1,813,187)             | (2,177,585)             | (2,023,054)             |
| Net Cash (Used In)/ Generated From<br>Financing Activities      |         | (813,273)               | (895,121)               | (140,855)               | 476,359                 |
| <b>NET INCREASE/(DECREASE) IN<br/>CASH AND CASH EQUIVALENTS</b> |         | 651,146                 | 412,334                 | 311,484                 | (78,234)                |
| <b>CASH AND CASH EQUIVALENTS<br/>AT BEGINNING OF YEAR</b>       |         | 927,981                 | 515,647                 | 204,163                 | 282,397                 |
| <b>CASH AND CASH EQUIVALENTS<br/>AT END OF YEAR</b>             | 10.5.19 | 1,579,127               | 927,981                 | 515,647                 | 204,163                 |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****10.5 OLD TOWN KOPITIAM BUTTERWORTH - NOTES TO THE FINANCIAL STATEMENTS****10.5.1 OPERATING COSTS APPLICABLE TO REVENUE**

|  | Note   | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|--|--------|-------------------------|-------------------------|-------------------------|-------------------------|
| Changes in inventories of food,<br>beverages, and consumables  |        | 34,454                  | (129,109)               | (57,487)                | (13,838)                |
| Purchase of food,<br>beverages and consumables   |        | 9,376,701               | 8,042,734               | 7,444,907               | 4,475,658               |
| Employee benefit expenses  | 10.5.3 | 4,387,362               | 3,479,372               | 3,098,158               | 2,039,535               |
| Director's remuneration  |        |                         |                         |                         |                         |
| - Salaries and bonuses   |        | 146,800                 | 132,000                 | 112,600                 | 84,716                  |
| - EPF contributions  |        | 13,296                  | 11,520                  | 9,192                   | 5,160                   |
| Depreciation of property,<br>plant and equipment   | 10.5.5 | 1,459,624               | 1,133,308               | 771,378                 | 392,046                 |
| Amortisation of deferred franchise fee   | 10.5.7 | 137,371                 | 116,039                 | 66,328                  | 61,767                  |
| Other operating expenses   |        | 5,284,330               | 4,393,836               | 3,485,277               | 1,837,048               |
|  |        | <u>20,839,938</u>       | <u>17,179,700</u>       | <u>14,930,353</u>       | <u>8,882,092</u>        |
|  |        | FYE<br>2010<br>RM       | FYE<br>2009<br>RM       | FYE<br>2008<br>RM       | FYE<br>2007<br>RM       |
| Estimated monetary value of<br>benefit-in-kind received/receivable<br>by the directors otherwise than in<br>cash |        | 3,755                   | 105,000                 | 105,000                 | -                       |

**10.5.2 FINANCE COSTS**

|                                 | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Interest on:                    |                         |                         |                         |                         |
| Term loans                      | 25,064                  | 34,448                  | 54,828                  | 15,548                  |
| Hire-purchase                   | 5,197                   | 9,106                   | 10,440                  | 7,328                   |
| Bank overdraft                  | 1,435                   | 7,442                   | 964                     | -                       |
| Fixed loan                      | -                       | -                       | -                       | 3,756                   |
| Bank charges and commitment fee | 11,019                  | 10,528                  | 6,325                   | 3,307                   |
| Bank guarantee fee              | -                       | -                       | 8,850                   | -                       |
|                                 | <u>42,715</u>           | <u>61,524</u>           | <u>81,407</u>           | <u>29,939</u>           |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****10.5 OLD TOWN KOPITIAM BUTTERWORTH - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****10.5.3 PROFIT BEFORE TAX**

Profit before tax has been arrived at after crediting/(charging):

|  | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| Interest income from fixed deposits                  | 5,467                   | 4,335                   | 2,222                   | -                       |
| Rental income  | 9,000                   | 4,755                   | -                       | -                       |
| Dividend income                                      | 100,000                 | -                       | -                       | -                       |
| Gain on disposal of property,<br>plant and equipment | -                       | -                       | -                       | 18,017                  |
| Rental of:   |                         |                         |                         |                         |
| Shops  | (1,413,128)             | (1,173,745)             | (822,300)               | (529,051)               |
| Hostel   | (127,155)               | (118,870)               | (99,690)                | (54,310)                |
| Store  | (510)                   | (4,116)                 | (8,064)                 | (8,864)                 |
| Office   | -                       | (2,000)                 | (12,000)                | (19,550)                |
| Property, plant and equipment written off            | (681)                   | (15,060)                | (1,803)                 | -                       |
| Audit fee  | (13,000)                | (19,000)                | (15,000)                | (7,000)                 |

Included in employee benefits expenses of Old Town Kopitiam Butterworth are the following:

|                           | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Contributions made to EPF | 132,549                 | 112,780                 | 105,924                 | 72,225                  |

**10.5.4 INCOME TAX EXPENSE**

|   | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| Income tax expense in respect of:   |                         |                         |                         |                         |
| Current year  | 634,000                 | 501,000                 | 348,000                 | 166,000                 |
| Adjustments recognised in the current year in<br>relation to the current tax of prior years     | (39,961)                | 22,586                  | 52,672                  | (50)                    |
|   | 594,039                 | 523,586                 | 400,672                 | 165,950                 |
| Deferred tax (Note 10.5.16):  |                         |                         |                         |                         |
| Relating to origination and reversal<br>of temporary differences:                               |                         |                         |                         |                         |
| Current year  | (5,000)                 | 24,000                  | 63,000                  | 123,000                 |
| Adjustments recognised in the current<br>year in relation to the deferred tax of<br>prior years | 30,000                  | (11,000)                | (82,346)                | -                       |
|   | 25,000                  | 13,000                  | (19,346)                | 123,000                 |
|   | 619,039                 | 536,586                 | 381,326                 | 288,950                 |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****10.5 OLD TOWN KOPITIAM BUTTERWORTH - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****10.5.4 INCOME TAX EXPENSE (CONTINUED)**

The statutory income tax rate for companies with a paid-up capital of above RM2,500,000 in years of assessment 2007, 2008, 2009 and 2010 are 27%, 26%, 25% and 25% respectively. In the previous years of assessments, for companies with a paid-up capital of RM2,500,000 and below, an income tax rate of 20% is applicable for chargeable income of up to RM500,000. However, with effect from year of assessment 2009, this preferential tax rate will no longer be applicable for companies that controls or being controlled directly or indirectly by, or are related to another company which has a paid-up ordinary share capital of more than RM2,500,000. As a result, income tax rate of Old Town Kopitiam Butterworth has also been revised accordingly.

The expense for the year can be reconciled to profit before tax as follows:

|  | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| Profit before tax  | 2,258,328               | 1,830,904               | 1,456,285               | 946,100                 |
| Income tax expense calculated at 25%<br>(31.12.2009: 25%; 31.12.2008:26%<br>and 31.12.2007:27%)                                  | 565,000                 | 458,000                 | 379,000                 | 255,447                 |
| Tax effects of:  |                         |                         |                         |                         |
| Expenses that are not deductible in<br>determining taxable profit  | 114,000                 | 92,000                  | 62,000                  | 50,280                  |
| Income that are not taxable<br>in determining taxable profit   | (25,000)                | -                       | -                       | -                       |
| Temporary differences between tax capital<br>allowances and book depreciation of property,<br>plant and equipment not recognised | -                       | -                       | -                       | 18,273                  |
| Effect of difference in tax rate applicable to<br>small and medium scale companies   | (25,000)                | (25,000)                | (30,000)                | (35,000)                |
| (Over)/Under provision in prior years  |                         |                         |                         |                         |
| Income tax   | (39,961)                | 22,586                  | 52,672                  | (50)                    |
| Deferred tax   | 30,000                  | (11,000)                | (82,346)                | -                       |
| Income tax expense for the year  | 619,039                 | 536,586                 | 381,326                 | 288,950                 |
|  | 31.12.2010<br>RM        | 31.12.2009<br>RM        | 31.12.2008<br>RM        | 31.12.2007<br>RM        |
| <i>Current tax asset</i>   |                         |                         |                         |                         |
| Tax refund receivable  | -                       | -                       | -                       | 104,000                 |
|  | 31.12.2010<br>RM        | 31.12.2009<br>RM        | 31.12.2008<br>RM        | 31.12.2007<br>RM        |
| <i>Current tax liability</i>   |                         |                         |                         |                         |
| Income tax payable   | 94,000                  | 16,000                  | 28,172                  | -                       |



## 10. ACCOUNTANTS' REPORT

## G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

## 10.5 OLD TOWN KOPTIAM BUTTERWORTH - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 10.5.5 PROPERTY, PLANT AND EQUIPMENT

|                         | Shoplots<br>RM | Office<br>equipment,<br>furniture,<br>fixtures<br>and<br>fittings<br>RM | Motor<br>vehicles<br>RM | Motor<br>vehicles<br>under<br>hire-<br>purchase<br>RM | Shop and<br>counter<br>equipment<br>RM | Kitchen<br>equipment<br>and<br>utensils<br>RM | Signboards,<br>electrical<br>and<br>fittings<br>RM | Air-<br>conditioners<br>RM | Renovation<br>RM | Total<br>RM |
|-------------------------|----------------|---|-------------------------|---|--|---|--|----------------------------|------------------|-------------|
| <b>Cost</b>             |                |   |                         |   |  |   |  |                            |                  |             |
| As of January 1, 2007   | -              | 494,208   | 30,000                  | 80,500  | 134,888                                | 238,385                                       | 143,354  | 66,716                     | 314,912          | 1,502,963   |
| Additions               | 816,636        | 683,862   | -                       | 166,500   | 83,333                                 | 111,103                                       | 114,463  | 51,013                     | 209,642          | 2,236,552   |
| Disposals               | -              | (61,610)  | -                       | (80,500)  | (5,570)                                | (2,219)                                       | -  | (790)                      | -                | (150,689)   |
| As of December 31, 2007 | 816,636        | 1,116,460   | 30,000                  | 166,500   | 212,651                                | 347,269                                       | 257,817  | 116,939                    | 524,554          | 3,588,826   |
| Additions               | -              | 794,119   | -                       | 48,500  | 249,757                                | 406,794                                       | 285,765  | 110,721                    | 321,929          | 2,217,585   |
| Write off               | -              | -   | -                       | -   | -                                      | -   | -  | (3,490)                    | -                | (3,490)     |
| As of December 31, 2008 | 816,636        | 1,910,579   | 30,000                  | 215,000   | 462,408                                | 754,063                                       | 543,582  | 224,170                    | 846,483          | 5,802,921   |
| Additions               | -              | 842,678   | -                       | -   | 103,522                                | 380,367                                       | 221,978  | 42,640                     | 340,240          | 1,931,425   |
| Disposals               | -              | (16,204)  | -                       | -   | -                                      | -   | (11,192)   | -                          | (28,700)         | (56,096)    |
| Write off               | -              | -   | -                       | -   | (756)                                  | -   | (1,600)  | -                          | (40,000)         | (42,356)    |
| As of December 31, 2009 | 816,636        | 2,737,053   | 30,000                  | 215,000   | 565,174                                | 1,134,430                                     | 752,768  | 266,810                    | 1,118,023        | 7,635,894   |
| Additions               | -              | 446,298   | -                       | -   | 154,186                                | 411,931                                       | 129,548  | 45,180                     | 230,898          | 1,418,041   |
| Disposals               | -              | -   | -                       | (105,000)   | -                                      | -   | (2,970)  | -                          | -                | (107,970)   |
| Write off               | -              | (1,834)   | -                       | -   | -                                      | -   | -  | -                          | -                | (1,834)     |
| As of December 31, 2010 | 816,636        | 3,181,517   | 30,000                  | 110,000   | 719,360                                | 1,546,361                                     | 879,346  | 311,990                    | 1,348,921        | 8,944,131   |

## 10. ACCOUNTANTS' REPORT

## G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

## 10.5 OLD TOWN KOPITIAM BUTTERWORTH - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 10.5.5 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

|   | Shoplots<br>RM | Office<br>equipment,<br>furniture,<br>fixtures<br>and<br>fittings<br>RM | Motor<br>vehicles<br>RM | Motor<br>vehicles<br>under<br>hire-<br>purchase<br>RM | Shop and<br>counter<br>equipment<br>RM | Kitchen<br>equipment<br>and<br>utensils<br>RM | Signboards,<br>electrical<br>and<br>fittings<br>RM | Air-<br>conditioners<br>RM | Renovation<br>RM | Total<br>RM |
|---|----------------|---|-------------------------|---|--|---|--|----------------------------|------------------|-------------|
| Accumulated depreciation and<br>accumulated impairment loss |                |   |                         |   |  |   |  |                            |                  |             |
| As of January 1, 2007                                       | -              | 64,597  | 3,334                   | 14,758  | 15,054                                 | 32,888  | 17,522   | 7,553                      | 32,781           | 188,487     |
| Depreciation charge<br>for the year                         | 4,379          | 149,590   | 6,000                   | 23,383  | 33,806                                 | 53,007  | 36,919   | 16,692                     | 68,270           | 392,046     |
| Disposals   | -              | (9,847)   | -                       | (29,517)  | (564)                                  | (201)   | -  | (79)                       | -                | (40,208)    |
| As of December 31, 2007                                     | 4,379          | 204,340   | 9,334                   | 8,624   | 48,296                                 | 85,694  | 54,441   | 24,166                     | 101,051          | 540,325     |
| Depreciation charge<br>for the year                         | 16,334         | 291,239   | 6,000                   | 40,575  | 69,930                                 | 99,794  | 82,332   | 35,003                     | 130,171          | 771,378     |
| Write offs  | -              | -   | -                       | -   | -                                      | -   | -  | (1,687)                    | -                | (1,687)     |
| As of December 31, 2008                                     | 20,713         | 495,579   | 15,334                  | 49,199  | 118,226                                | 185,488                                       | 136,773  | 57,482                     | 231,222          | 1,310,016   |
| Depreciation charge<br>for the year                         | 16,332         | 438,127   | 6,000                   | 43,000  | 97,423                                 | 178,442                                       | 124,363  | 49,359                     | 180,262          | 1,133,308   |
| Disposals   | -              | (9,305)   | -                       | -   | -                                      | -   | (8,021)  | -                          | (21,525)         | (38,851)    |
| Write offs  | -              | -   | -                       | -   | (176)                                  | -   | (1,120)  | -                          | (26,000)         | (27,296)    |
| As of December 31, 2009                                     | 37,045         | 924,401   | 21,334                  | 92,199  | 215,473                                | 363,930                                       | 251,995  | 106,841                    | 363,959          | 2,377,177   |
| Depreciation charge<br>for the year                         | 16,333         | 569,607   | 5,999                   | 27,250  | 126,277                                | 257,161                                       | 159,402  | 58,145                     | 239,450          | 1,459,624   |
| Disposals   | -              | -   | -                       | (50,750)  | -                                      | -   | -  | -                          | -                | (50,750)    |
| Write offs  | -              | (1,153)   | -                       | -   | -                                      | -   | -  | -                          | -                | (1,153)     |
| As of December 31, 2010                                     | 53,378         | 1,492,855   | 27,333                  | 68,699  | 341,750                                | 621,091                                       | 411,397  | 164,986                    | 603,409          | 3,784,898   |

## 10. ACCOUNTANTS' REPORT

## G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

## 10.5 OLD TOWN KOPITIAM BUTTERWORTH - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 10.5.5 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

|                         | Shoplots<br>RM | Office<br>equipment,<br>furniture,<br>fixtures<br>and<br>fittings<br>RM | Motor<br>vehicles<br>RM | Motor<br>vehicles<br>under<br>hire-<br>purchase<br>RM | Shop and<br>counter<br>equipment<br>RM | Kitchen<br>equipment<br>and<br>utensils<br>RM | Signboards,<br>electrical<br>and<br>fittings<br>RM | Air-<br>conditioners<br>RM | Renovation<br>RM | Total<br>RM |
|-------------------------|----------------|---|-------------------------|---|--|---|--|----------------------------|------------------|-------------|
| Carrying amounts        |                |   |                         |   |  |   |  |                            |                  |             |
| As of December 31, 2007 | 812,257        | 912,120   | 20,666                  | 157,876   | 164,355                                | 261,575                                       | 203,376  | 92,773                     | 423,503          | 3,048,501   |
| As of December 31, 2008 | 795,923        | 1,415,000   | 14,666                  | 165,801   | 344,182                                | 568,575                                       | 406,809  | 166,688                    | 615,261          | 4,492,905   |
| As of December 31, 2009 | 779,591        | 1,812,652   | 8,666                   | 122,801   | 349,701                                | 770,500                                       | 500,773  | 159,969                    | 754,064          | 5,258,717   |
| As of December 31, 2010 | 763,258        | 1,688,662   | 2,667                   | 41,301  | 377,610                                | 925,270                                       | 467,949  | 147,004                    | 745,512          | 5,159,233   |

The strata title for the shoplots has not been issued as of December 31, 2010. Shoplots of Old Town Kopitiam Butterworth are charged to certain local licensed banks for facilities granted to Old Town Kopitiam Butterworth as disclosed in Note 10.5.15.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****10.5 OLD TOWN KOPITIAM BUTTERWORTH - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****10.5.6 INVESTMENT IN SUBSIDIARY COMPANY**

|                          | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|--------------------------|------------------|------------------|------------------|------------------|
| Unquoted shares, at cost | 600,000          | 600,000          | -                | -                |

The subsidiary company is as follows:

| Name of Company | Country of Incorporation | Effective Equity Interest |                 |                 |                 | Activities           |
|-----------------|--------------------------|---------------------------|-----------------|-----------------|-----------------|----------------------|
|                 |                          | 31.12.2010<br>%           | 31.12.2009<br>% | 31.12.2008<br>% | 31.12.2007<br>% |                      |
| Dynasty Kitchen | Malaysia                 | 100.00                    | 100.00          | -               | -               | Distribution centre. |

During the financial year ended December 31, 2009, Old Town Kopitiam Butterworth acquired 100% equity interest comprising 10 shares of RM1 each in Dynasty Kitchen. The acquisition was completed on January 2, 2009.

**10.5.7 DEFERRED FRANCHISE FEE**

|                          | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|--------------------------|------------------|------------------|------------------|------------------|
| At cost:                 |                  |                  |                  |                  |
| At beginning of year     | 608,000          | 528,000          | 298,000          | 108,000          |
| Additions                | 160,000          | 80,000           | 230,000          | 190,000          |
| At end of year           | 768,000          | 608,000          | 528,000          | 298,000          |
| Cumulative amortisation: |                  |                  |                  |                  |
| At beginning of year     | 263,334          | 147,295          | 80,967           | 19,200           |
| Charge for the year      | 137,371          | 116,039          | 66,328           | 61,767           |
| At end of year           | 400,705          | 263,334          | 147,295          | 80,967           |
|                          | 367,295          | 344,666          | 380,705          | 217,033          |

Deferred franchise fee comprises fee paid to a related party to operate the franchise business under the trade name and using the trade mark for a period of 5 years.

**10.5.8 INVENTORIES**

|                                 | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---------------------------------|------------------|------------------|------------------|------------------|
| At cost:                        |                  |                  |                  |                  |
| Food, beverages and consumables | 276,600          | 311,054          | 181,945          | 124,458          |

The cost of inventories of Old Town Kopitiam Butterworth recognised as an expense during the year are as follows:

|                     | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Cost of inventories | 9,411,155               | 7,913,625               | 7,387,420               | 4,461,820               |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****10.5 OLD TOWN KOPITIAM BUTTERWORTH - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****10.5.9 OTHER RECEIVABLES**

|                       | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|-----------------------|------------------|------------------|------------------|------------------|
| Other receivables     | -                | 3,355            | 7,329            | 22,845           |
| Refundable deposits   | 761,284          | 494,565          | 417,733          | 273,318          |
| Loans and receivables | 761,284          | 497,920          | 425,062          | 296,163          |
| Prepaid expenses      | 208,207          | 138,081          | 179,512          | 127,235          |
|                       | <u>969,491</u>   | <u>636,001</u>   | <u>604,574</u>   | <u>423,398</u>   |

Other receivable comprised mainly dividend receivable and expenses paid on behalf, which are unsecured and interest-free and repayable upon demand.

Transactions with related parties are disclosed in Note 10.5.10.

**10.5.10 RELATED COMPANIES AND RELATED PARTY TRANSACTIONS**

The amount owing to subsidiary company arose mainly from trade transactions which are unsecured, interest-free and subject to the normal trade terms.

During the financial year, significant related party transactions are as follows:

|   | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| <b>Subsidiary company</b>                 |                         |                         |                         |                         |
| Dynasty Kitchen                           |                         |                         |                         |                         |
| Trade purchases                           | <u>7,476,856</u>        | <u>6,420,192</u>        | <u>-</u>                | <u>-</u>                |
| <b>Related parties</b>                    |                         |                         |                         |                         |
| Dynasty Confectionery                     |                         |                         |                         |                         |
| Trade purchases                           | <u>1,200</u>            | <u>700</u>              | <u>7,180</u>            | <u>-</u>                |
| Dynasty Kitchen                           |                         |                         |                         |                         |
| Trade purchases                           | -                       | -                       | 6,853,634               | 3,562,257               |
| Purchase of property, plant and equipment | -                       | -                       | 6,226                   | -                       |
| Sale of property, plant and equipment     | -                       | -                       | -                       | 59,497                  |
| White Cafe Marketing                      |                         |                         |                         |                         |
| Trade purchase                            | <u>154,032</u>          | <u>118,773</u>          | <u>13,618</u>           | <u>53,254</u>           |
| Gongga Food                               |                         |                         |                         |                         |
| Trade purchases                           | <u>1,928,186</u>        | <u>1,475,770</u>        | <u>675,362</u>          | <u>524,688</u>          |
| Noble Virtue Sdn. Bhd.                    |                         |                         |                         |                         |
| Rental paid                               | <u>52,800</u>           | <u>52,000</u>           | <u>48,000</u>           | <u>48,000</u>           |

(Forward)

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****10.5 OLD TOWN KOPITIAM BUTTERWORTH - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****10.5.10 RELATED COMPANIES AND RELATED PARTY TRANSACTIONS (CONTINUED)**

|  | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| <b>Related parties</b>                       |                         |                         |                         |                         |
| Kopitiam Asia Pacific                        |                         |                         |                         |                         |
| Royalty fees paid/payable                    | 1,074,816               | 887,910                 | 770,051                 | 456,591                 |
| Advertisement and promotion fee paid/payable | 644,890                 | 532,746                 | 462,031                 | -                       |
| Purchase of property, plant and equipment    | 520,975                 | 508,215                 | 605,740                 | 276,050                 |
| Dividend paid/payable                        | 187,500                 | 150,000                 | -                       | -                       |
| Franchise fee paid/payable                   | 160,000                 | 80,000                  | 230,000                 | 190,000                 |
| Trade purchases                              | 66,099                  | 171,146                 | 75,609                  | 56,780                  |
| Security deposit paid                        | 60,000                  | 30,000                  | -                       | -                       |
| Accounting fee paid/payable                  | 49,500                  | 43,500                  | 36,600                  | 26,700                  |
| Rental received/receivable                   | 3,000                   | -                       | -                       | -                       |
| Incentives received/receivable               | 8,583                   | 19,583                  | -                       | -                       |
| Staff training fees paid                     | 4,350                   | -                       | -                       | -                       |
| Licence fee paid                             | 3,150                   | -                       | -                       | -                       |

The relationships of the related parties with Oldtown group of companies are disclosed in Chapters 5 and 7 of the Prospectus of Oldtown.

**Compensation of key management personnel**

The remuneration of directors is disclosed in Note 10.5.1. Other than the directors, there are no other key management personnel in Old Town Kopitiam Butterworth during the year.

**10.5.11 FIXED DEPOSIT, CASH AND BANK BALANCES**

|                                    | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|------------------------------------|------------------|------------------|------------------|------------------|
| Fixed deposit with a licensed bank | 222,024          | 216,557          | 62,222           | 60,000           |
| Cash on hand and at banks          | 1,512,792        | 1,077,645        | 515,647          | 204,163          |
|                                    | <u>1,734,816</u> | <u>1,294,202</u> | <u>577,869</u>   | <u>264,163</u>   |

Fixed deposit of Old Town Kopitiam Butterworth are pledged to local licensed banks for bank overdraft and other credit facilities as mentioned in Note 10.5.15 as follows:

|                 | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|-----------------|------------------|------------------|------------------|------------------|
| Carrying amount | <u>155,689</u>   | <u>151,757</u>   | <u>62,222</u>    | <u>60,000</u>    |

The effective interest rates per annum and maturity periods for fixed deposits of Old Town Kopitiam Butterworth are as follows:

|                             | FYE<br>31.12.2010 | FYE<br>31.12.2009 | FYE<br>31.12.2008 | FYE<br>31.12.2007 |
|-----------------------------|-------------------|-------------------|-------------------|-------------------|
| Effective interest rate (%) | 1.90              | 2.65              | 3.40              | 3.70              |
| Maturity periods (days)     | <u>365</u>        | <u>365</u>        | <u>365</u>        | <u>365</u>        |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****10.5 OLD TOWN KOPITIAM BUTTERWORTH - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****10.5.12 SHARE CAPITAL**

|                                     | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|-------------------------------------|------------------|------------------|------------------|------------------|
| <b>Authorised:</b>                  |                  |                  |                  |                  |
| 100,000 ordinary shares of RM1 each | <u>100,000</u>   | <u>100,000</u>   | <u>100,000</u>   | <u>100,000</u>   |
| <b>Issued and fully paid:</b>       |                  |                  |                  |                  |
| 100,000 ordinary shares of RM1 each | <u>100,000</u>   | <u>100,000</u>   | <u>100,000</u>   | <u>100,000</u>   |

**10.5.13 RETAINED EARNINGS**

In accordance with the Finance Act, 2007, the single tier income tax system became effective from the year of assessment 2008. Under this system, tax on a company's profit is a final tax, and dividends paid are exempted from tax in the hands of the shareholders. Unlike the previous imputation system, the recipient of the dividend would no longer be able to claim any tax credit.

Companies without Section 108 tax credit balance will automatically move to the single tier tax system on January 1, 2008. However, companies with such tax credits are given an irrevocable option to elect for the single tier tax system and disregard the tax credit or continue to use the tax credits under Section 108 account to frank the payment of cash dividends on ordinary shares for a period of 6 years ending December 31, 2013 or until the tax credits are fully utilised, whichever comes first. During the transitional period, any tax paid will not be added to the Section 108 account and any tax credits utilised will reduce the tax credit balance. All companies will be in the new system on January 1, 2014.

Old Town Kopitiam Butterworth has opted to disregard the Section 108 tax credit balance in accordance with the Financial Act, 2007 and switched to a single tier tax system.

## 10. ACCOUNTANTS' REPORT

## G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

## 10.5 OLD TOWN KOPITIAM BUTTERWORTH - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 10.5.14 HIRE-PURCHASE PAYABLES

|   | ← Minimum hire-purchase payments → |            | ← Present value of minimum hire-purchase payments → |            |
|---|------------------------------------|------------|---|------------|
|   | RM                                 | RM         | RM  | RM         |
|   | 31.12.2010                         | 31.12.2009 | 31.12.2010  | 31.12.2009 |
| Amounts payable under hire-purchase arrangements:                   |                                    |            |   |            |
| Within one year   | 22,420                             | 40,440     | 20,296  | 33,464     |
| In the second to fifth year inclusive                               | 21,908                             | 96,839     | 21,090  | 89,169     |
| More than five years  | -                                  | -          | -   | -          |
|   |                                    | 16,468     |   | 13,704     |
|   | 44,328                             | 137,279    | 41,386  | 153,967    |
| Less: Future finance charges  | (2,942)                            | (14,646)   | -   | -          |
|   | 41,386                             | 122,633    | 41,386  | 153,967    |
| Present value of hire-purchase payables                             |                                    | 140,082    |   | 140,082    |
| Less: Amount due within 12 months (shown under current liabilities) |                                    |            | (20,296)  | (31,345)   |
| Non-current portion   |                                    |            | 21,090  | 122,622    |
|   |                                    |            |   | 114,071    |

The non-current portion is repayable as follows:

|                         | 31.12.2010 | 31.12.2009 | 31.12.2008 | 31.12.2007 |
|-------------------------|------------|------------|------------|------------|
|                         | RM         | RM         | RM         | RM         |
| Financial years ending: |            |            |            |            |
| 2008                    | -          | -          | -          | 24,036     |
| 2009                    | -          | -          | -          | 25,690     |
| 2010                    | -          | 33,660     | 35,992     | 27,458     |
| 2011                    | -          | 35,717     | 37,480     | 23,183     |
| 2012                    | 17,283     | 33,719     | 15,490     | 13,704     |
| 2013                    | 3,807      | 19,733     | 122,622    | 114,071    |
|                         | 21,090     | 89,169     | 122,622    | 114,071    |

It is policy of Old Town Kopitiam Butterworth to acquire certain of its property, plant and equipment under hire-purchase arrangements.



**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****10.5 OLD TOWN KOPITIAM BUTTERWORTH - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****10.5.14 HIRE-PURCHASE PAYABLES (CONTINUED)**

The terms for hire-purchase and average effective financing rates per annum are as follows:

|                                       | FYE<br>31.12.2010 | FYE<br>31.12.2009 | FYE<br>31.12.2008 | FYE<br>31.12.2007 |
|---------------------------------------|-------------------|-------------------|-------------------|-------------------|
| Terms (years)                         | 5 to 6            | 5 to 6            | 5 to 6            | 5 to 6            |
| Average effective financing rates (%) | 6.50              | 6.50              | 6.50              | 6.50              |

Interest rates are fixed at the inception of the hire-purchase arrangements. Old Town Kopitiam Butterworth's hire-purchase payables are secured by the assets under hire-purchase.

The fair values of Old Town Kopitiam Butterworth's hire-purchase obligations approximate their carrying amounts.

**10.5.15 BORROWINGS**

|   | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---|------------------|------------------|------------------|------------------|
| Secured:  |                  |                  |                  |                  |
| Term loans  | 423,724          | 488,035          | 790,298          | 773,631          |
| Bank overdraft  | -                | 214,464          | -                | -                |
|   | 423,724          | 702,499          | 790,298          | 773,631          |
| Less: Amount due within 12 months (shown under current liabilities) | (71,573)         | (283,065)        | (144,098)        | (121,121)        |
| Non-current portion   | 352,151          | 419,434          | 646,200          | 652,510          |

The non-current portions are repayable as follows:

|                         | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|-------------------------|------------------|------------------|------------------|------------------|
| Financial years ending: |                  |                  |                  |                  |
| 2009                    | -                | -                | -                | 130,229          |
| 2010                    | -                | -                | 154,220          | 140,291          |
| 2011                    | -                | 72,592           | 165,146          | 150,889          |
| 2012                    | 73,557           | 76,831           | 126,000          | 135,115          |
| 2013                    | 77,147           | 81,563           | 36,467           | 95,986           |
| 2014                    | 73,661           | 65,789           | 38,002           | -                |
| 2015                    | 40,490           | 42,627           | 126,365          | -                |
| 2016                    | 43,162           | 45,287           | -                | -                |
| 2017 and above          | 44,134           | 34,745           | -                | -                |
|                         | 352,151          | 419,434          | 646,200          | 652,510          |

Total term loans and other facilities with local licensed banks are as follows:

|                       | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|-----------------------|------------------|------------------|------------------|------------------|
| Total approved limits | 1,135,000        | 1,135,000        | 1,275,000        | 970,000          |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****10.5 OLD TOWN KOPITIAM BUTTERWORTH - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****10.5.15 BORROWINGS (CONTINUED)**

These facilities are secured by:

- i) Fixed legal charges over shoplots of Old Town Kopitiam Butterworth as mentioned in Note 10.5.5;
- ii) Pledge of fixed deposits as mentioned in Note 10.5.11;
- iii) Facility Agreement of RM685,000
- iv) These facilities are jointly and severally guaranteed by a related party and all the directors of Old Town Kopitiam Butterworth.

Old Town Kopitiam Butterworth has three (3) term loans that are repayable as follows:

- i) 60 monthly instalments of RM2,280 each for 1st to 5th year commencing September 2007 and 60 monthly instalments of RM2,424 each for 6th to 10th year commencing September 2012;
- ii) 60 monthly instalments of RM1,555 each for 1st to 5th year commencing January 2008 and 60 monthly instalments of RM1,653 each for 6th to 10th year commencing February 2013; and
- iii) 60 monthly instalments of RM3,941 each commencing from July 2009.

The average effective interest rates per annum are as follows:

|                | FYE<br>31.12.2010<br>% | FYE<br>31.12.2009<br>% | FYE<br>31.12.2008<br>% | FYE<br>31.12.2007<br>% |
|----------------|------------------------|------------------------|------------------------|------------------------|
| Term loans     | 5.16                   | 5.27                   | 7.50                   | 7.75                   |
| Bank overdraft | -                      | 5.78                   | -                      | -                      |

The fair values of Old Town Kopitiam Butterworth's borrowings approximate their carrying amounts.

**10.5.16 DEFERRED TAX LIABILITY**

|  | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|--|------------------|------------------|------------------|------------------|
| At beginning of year                       | 168,000          | 155,000          | 174,346          | 51,346           |
| Recognised in profit or loss (Note 10.5.4) | 25,000           | 13,000           | (19,346)         | 123,000          |
| At end of year                             | 193,000          | 168,000          | 155,000          | 174,346          |

The deferred tax liability provided in the financial statement is in respect of temporary differences between tax capital allowances and book depreciation of property, plant and equipment.

**10.5.17 TRADE AND OTHER PAYABLES**

|                              | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|------------------------------|------------------|------------------|------------------|------------------|
| Trade payables               | 1,117,857        | 1,118,452        | 2,076,382        | 1,045,579        |
| Other payables               | 525,350          | 1,055,704        | 804,055          | 999,799          |
| Accrued expenses             | 636,046          | 538,365          | 432,941          | 275,142          |
| Refundable deposits received | 8,100            | 7,750            | 6,450            | 7,200            |
|                              | 2,287,353        | 2,720,271        | 3,319,828        | 2,327,720        |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****10.5 OLD TOWN KOPITIAM BUTTERWORTH - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****10.5.17 TRADE AND OTHER PAYABLES (CONTINUED)**

Trade and other payables comprise amounts outstanding for trade purchases and ongoing costs. The credit terms granted to Old Town Kopitiam Butterworth for trade purchases are as follows:

|                     | FYE<br>31.12.2010 | FYE<br>31.12.2009 | FYE<br>31.12.2008 | FYE<br>31.12.2007 |
|---------------------|-------------------|-------------------|-------------------|-------------------|
| Credit terms (days) | Cash to 30        | Cash to 30        | Cash to 30        | 30 to 60          |

Included in trade payables of Old Town Kopitiam Butterworth are related parties' balances as follows:

|                           | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---------------------------|------------------|------------------|------------------|------------------|
| Related parties' balances | 1,110,053        | 1,108,635        | 2,068,061        | 1,043,389        |

The amounts owing to other payables are unsecured, interest-free and repayable upon demand.

Transactions with related parties are disclosed in Note 10.5.10.

**10.5.18 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT****Categories of financial instruments**

|  | 31.12.2010 |
|--|------------|
| <b>Financial assets</b>  |            |
| Loans and receivables - trade and other receivables                | 761,284    |
| Cash and cash equivalents – fixed deposits, cash and bank balances | 1,734,816  |
| <b>Financial liabilities</b>                                       |            |
| Amortised cost:  |            |
| Trade and other payables   | 2,287,353  |
| Amount owing to subsidiary company                                 | 2,468,632  |
| Hire-purchase payables   | 41,386     |
| Borrowings   | 423,724    |

**Financial Risk Management Objectives and Policies**

Risk management is integral to the whole business of Old Town Kopitiam Butterworth. Management continually monitors Old Town Kopitiam Butterworth's risk management process to ensure that an appropriate balance between risk and control is achieved. Risk management policies and systems are reviewed regularly to reflect changes in the market conditions and Old Town Kopitiam Butterworth's activities.

There has been no change to Old Town Kopitiam Butterworth's exposure to these financial risks or the manner in which it manages and measures the risk.

**Foreign currency risk management**

Old Town Kopitiam Butterworth have minimal foreign currency risk exposure as most of their transactions are denominated in Ringgit Malaysia, which is the functional currency of Old Town Kopitiam Butterworth.

## 10. ACCOUNTANTS' REPORT

### G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

#### 10.5 OLD TOWN KOPITIAM BUTTERWORTH - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

##### 10.5.18 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (CONTINUED)

###### *Credit risk management*

The maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as at December 31, 2010 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the statement of financial position.

As of December 31, 2010, Old Town Kopitiam Butterworth is subject to significant concentration of credit risk as 66% of its receivable is with a related party.

###### *Interest rate risk management*

Interest rate risk is the risk that the fair value of future cash flows of Old Town Kopitiam Butterworth's financial instruments will fluctuate because of changes in market interest rates. Old Town Kopitiam Butterworth's exposure to interest rate risk arises primarily from their borrowings.

###### *Sensitivity analysis for interest rate risk*

At the December 31, 2010, if interest rates had been 100 basis point lower/higher, with all other variables held constant, Old Town Kopitiam Butterworth's profit net of tax would have been RM4,000 higher/lower arising mainly as a result of lower/higher interest expense on floating rate loans and borrowings. The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment.

###### *Liquidity and cash flow risks management*

Old Town Kopitiam Butterworth practices prudent liquidity risk management to minimise the mismatch of financial assets and liabilities and to maintain sufficient credit facilities for contingent funding requirement of working capital.

Old Town Kopitiam Butterworth's principal source of liquidity has historically been cash flows from operations, funds obtained from long and short-term borrowings and advances from related companies. Old Town Kopitiam Butterworth principally applies cash flows for capital expenditures, working capital and debt servicing obligations. Historically, Old Town Kopitiam Butterworth has applied a significant portion of its cash flows to fund its capital expenditures and working capital.

Old Town Kopitiam Butterworth expects that the cash generated from its operations, advances from related companies, its existing credit facilities and the trade terms provided by its suppliers will be sufficient to meet Old Town Kopitiam Butterworth's currently anticipated capital expenditure and working capital needs for at least the next 12 months.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****10.5 OLD TOWN KOPITIAM BUTTERWORTH - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****10.5.18 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (CONTINUED)**

The maturity profile of Old Town Kopitiam Butterworth's non-derivative financial assets and liabilities at the reporting date based on contractual undiscounted repayment obligations are as follows:-

|  | On demand<br>or within<br>one year<br>RM | One year<br>to<br>five year<br>RM | Over five<br>years<br>RM | Total<br>RM        |
|--|--|-----------------------------------|--------------------------|--------------------|
| <b>Non-derivative financial assets:</b>                                |  |                                   |                          |                    |
| Other receivables  | 761,284                                  | -                                 | -                        | 761,284            |
| Fixed deposits, cash and bank balances                                 | 1,734,816                                | -                                 | -                        | 1,734,816          |
| <b>Total undiscounted<br/>non-derivative financial assets</b>          | <b>2,496,100</b>                         | <b>-</b>                          | <b>-</b>                 | <b>2,496,100</b>   |
| <b>Non-derivative financial liabilities:</b>                           |  |                                   |                          |                    |
| Trade and other payables   | 2,287,353                                | -                                 | -                        | 2,287,353          |
| Amount owing to subsidiary company                                     | 2,468,632                                | -                                 | -                        | 2,468,632          |
| Hire-purchase payables   | 20,296                                   | 21,090                            | -                        | 41,386             |
| Borrowings   | 71,573                                   | 308,017                           | 44,134                   | 423,724            |
| <b>Total undiscounted<br/>non-derivative financial liabilities</b>     | <b>4,847,854</b>                         | <b>329,107</b>                    | <b>44,134</b>            | <b>5,221,095</b>   |
| <b>Total net undiscounted<br/>non-derivative financial liabilities</b> | <b>(2,351,754)</b>                       | <b>(329,107)</b>                  | <b>(44,134)</b>          | <b>(2,724,995)</b> |

Old Town Kopitiam Butterworth has not committed to any derivative financial instruments during the financial year.

**Capital risk management**

Old Town Kopitiam Butterworth manages its capital to ensure that Old Town Kopitiam Butterworth will be able to continue as going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. Old Town Kopitiam Butterworth's overall strategy remains unchanged from 2009.

The capital structure of Old Town Kopitiam Butterworth consists of net debt and equity of Old Town Kopitiam Butterworth. Old Town Kopitiam Butterworth is not subject to any externally imposed capital requirements.

**Fair Values of Financial Assets and Financial Liabilities**

The carrying amounts of the short-term financial assets and liabilities recognised at amortised cost in the financial statements approximate their fair values.

The fair value of long-term financial assets and liabilities are determined by the present value of future cash flows estimated and discounted using the current interest rates for similar instruments at the end of the reporting date. There is no material difference between the fair values and carrying values of these assets and liabilities as of December 31, 2010.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****10.5 OLD TOWN KOPITIAM BUTTERWORTH - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****10.5.19 CASH AND CASH EQUIVALENTS**

For the purposes of the statement of cash flows, cash and cash equivalents include cash on hand and at banks and net of outstanding bank overdraft. Cash and cash equivalents at the end of the reporting date as shown in the statement of cash flows can be reconciled to the related items in the statement of financial position as follows:

|                                      | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|--------------------------------------|------------------|------------------|------------------|------------------|
| Fixed deposits with a licensed bank  | 222,024          | 216,557          | 62,222           | 60,000           |
| Cash and bank balances               | 1,512,792        | 1,077,645        | 515,647          | 204,163          |
| Bank overdraft                       | -                | (214,464)        | -                | -                |
|                                      | <u>1,734,816</u> | <u>1,079,738</u> | <u>577,869</u>   | <u>264,163</u>   |
| Less: Fixed deposit on lien to banks | (155,689)        | (151,757)        | (62,222)         | (60,000)         |
|                                      | <u>1,579,127</u> | <u>927,981</u>   | <u>515,647</u>   | <u>204,163</u>   |

**10.5.20 OPERATING LEASE ARRANGEMENTS**

Operating leases relates to leases of outlets and hostels with average lease term of 2 to 3 years. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the leased outlets and hostels at the expiry of the lease period.

Payment recognised as an expense for Old Town Kopitiam Butterworth was as follows:

|                        | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Minimum lease payments | <u>1,540,793</u>        | <u>1,298,731</u>        | <u>942,054</u>          | <u>611,775</u>          |

Old Town Kopitiam Butterworth has outstanding commitments under non-cancellable operating leases as follows:

|                                       | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---------------------------------------|------------------|------------------|------------------|------------------|
| Within one year                       | 1,380,137        | 1,109,138        | 883,302          | 383,826          |
| In the second to fifth year inclusive | <u>1,059,813</u> | <u>810,939</u>   | <u>772,706</u>   | <u>190,683</u>   |
|                                       | <u>2,439,950</u> | <u>1,920,077</u> | <u>1,656,008</u> | <u>574,509</u>   |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****10.5 OLD TOWN KOPITIAM BUTTERWORTH - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****10.5.21 CAPITAL COMMITMENT**

Old Town Kopitiam Butterworth has capital commitment in respect of property, plant and equipment as follows:

|                             | 31.12.2010 | 31.12.2009 | 31.12.2008 | 31.12.2007 |
|-----------------------------|------------|------------|------------|------------|
|                             | RM         | RM         | RM         | RM         |
| Capital expenditure:        |            |            |            |            |
| Approved and contracted for | 80,370     | -          | -          | -          |

**10.5.22 SIGNIFICANT EVENTS**

On December 28, 2009, the shareholders of Old Town Kopitiam Butterworth entered into Sale and Purchase Agreement (as was supplemented by letters dated May 24, 2010 and June 11, 2010 respectively, and supplemental agreement dated December 9, 2010) with Oldtown to dispose off its entire equity interest in Old Town Kopitiam Butterworth.

On April 12, 2011, Securities Commission had granted the Oldtown the approval for the proposed listing on the Main Market of Bursa Securities. Following the said approval, Oldtown intends to complete the transfer of shares before June 2011.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****11 DYNASTY KITCHEN****11.1 DYNASTY KITCHEN - STATEMENTS OF COMPREHENSIVE INCOME**

|  |        | <b>FYE</b><br><b>31.12.2010</b><br><b>(12 Months)</b><br><b>RM</b> | <b>FYE</b><br><b>31.12.2009</b><br><b>(12 Months)</b><br><b>RM</b> | <b>FYE</b><br><b>31.12.2008</b><br><b>(12 Months)</b><br><b>RM</b> | <b>FPE</b><br><b>31.12.2007</b><br><b>(12 ½ Months)</b><br><b>RM</b> |
|--|--------|--|--|--|--|
| Revenue  |        | 8,912,148  | 7,525,617  | 7,811,952  | 4,017,517  |
| Cost of sales  |        | <u>(7,888,187)</u>   | <u>(6,680,512)</u>   | <u>(6,639,369)</u>   | <u>(3,125,299)</u>   |
| Gross profit   |        | 1,023,961  | 845,105  | 1,172,583  | 892,218  |
| Selling and distribution expenses  |        | (379,021)  | (341,561)  | (288,218)  | (175,109)  |
| Administrative and general expenses  |        | <u>(59,162)</u>  | <u>(63,903)</u>  | <u>(48,503)</u>  | <u>(31,618)</u>  |
| Profit from operations   |        | 585,778  | 439,641  | 835,862  | 685,491  |
| Finance cost - bank charges  |        | <u>(203)</u>   | <u>(150)</u>   | <u>(153)</u>   | <u>(104)</u>   |
| Profit before tax  | 11.5.2 | 585,575  | 439,491  | 835,709  | 685,387  |
| Income tax expense   | 11.5.3 | <u>(132,797)</u>   | <u>(89,312)</u>  | <u>(185,263)</u>   | <u>(152,600)</u>   |
| <b>Profit and total comprehensive<br/>income for the year/period<br/>attributable to owners of<br/>Dynasty Kitchen</b> |        | <u>452,778</u>   | <u>350,179</u>   | <u>650,446</u>   | <u>532,787</u>   |
| <i>Key financial ratios:</i>   |        |  |  |  |  |
| Weighted average number of ordinary<br>shares of RM1.00 each in issue (units)  |        | 10   | 10   | 10   | 10   |
| Gross profit margin (%)  |        | 11.49  | 11.23  | 15.01  | 22.21  |
| Basic earnings per share (sen)   |        | 4,527,780  | 3,501,790  | 6,504,460  | 5,327,870  |
| Effective tax rate (%)   |        | <u>22.61</u>   | <u>20.70</u>   | <u>22.38</u>   | <u>21.83</u>   |



**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****11.2 DYNASTY KITCHEN - STATEMENTS OF FINANCIAL POSITION**

|                                     | Note    | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|-------------------------------------|---------|------------------|------------------|------------------|------------------|
| <b>ASSETS</b>                       |         |                  |                  |                  |                  |
| <b>Non-current assets</b>           |         |                  |                  |                  |                  |
| Property, plant and equipment       | 11.5.4  | 87,215           | 121,340          | 122,780          | 80,846           |
| <b>Current assets</b>               |         |                  |                  |                  |                  |
| Inventories                         | 11.5.5  | 227,010          | 198,997          | 153,916          | 125,078          |
| Trade receivables                   | 11.5.6  | 240,699          | 281,322          | 1,523,937        | 904,749          |
| Amount owing by holding company     | 11.5.7  | 2,468,632        | 2,130,186        | -                | -                |
| Current tax asset                   | 11.5.3  | -                | 19,417           | -                | -                |
| Cash and bank balances              |         | 375,697          | 87,883           | 291,341          | 98,400           |
| <b>Total current assets</b>         |         | <b>3,312,038</b> | <b>2,717,805</b> | <b>1,969,194</b> | <b>1,128,227</b> |
| <b>Total assets</b>                 |         | <b>3,399,253</b> | <b>2,839,145</b> | <b>2,091,974</b> | <b>1,209,073</b> |
| <b>EQUITY AND LIABILITIES</b>       |         |                  |                  |                  |                  |
| <b>Capital and reserves</b>         |         |                  |                  |                  |                  |
| Issued capital                      | 11.5.8  | 10               | 10               | 10               | 10               |
| Retained earnings                   | 11.5.9  | 1,486,190        | 1,133,412        | 1,083,233        | 532,787          |
| <b>Total equity</b>                 |         | <b>1,486,200</b> | <b>1,133,422</b> | <b>1,083,243</b> | <b>532,797</b>   |
| <b>Non-current liability</b>        |         |                  |                  |                  |                  |
| Deferred tax liability              | 11.5.10 | 2,000            | 3,600            | 3,600            | 3,600            |
| <b>Current liabilities</b>          |         |                  |                  |                  |                  |
| Trade and other payables            | 11.5.11 | 1,897,803        | 1,702,123        | 990,354          | 613,676          |
| Current tax liabilities             | 11.5.3  | 13,250           | -                | 14,777           | 59,000           |
| <b>Total current liabilities</b>    |         | <b>1,911,053</b> | <b>1,702,123</b> | <b>1,005,131</b> | <b>672,676</b>   |
| <b>Total liabilities</b>            |         | <b>1,913,053</b> | <b>1,705,723</b> | <b>1,008,731</b> | <b>676,276</b>   |
| <b>Total equity and liabilities</b> |         | <b>3,399,253</b> | <b>2,839,145</b> | <b>2,091,974</b> | <b>1,209,073</b> |
| <b>Key financial ratios:</b>        |         |                  |                  |                  |                  |
| Net tangible assets per share (sen) |         | 14,862,000       | 11,334,220       | 10,832,430       | 5,327,970        |
| Debt-equity ratio (times)           |         | -                | -                | -                | -                |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****11.3 DYNASTY KITCHEN - STATEMENTS OF CHANGES IN EQUITY**

|  | Note | Issued<br>Capital<br>RM | Distributable<br>Reserve<br>Retained<br>Earnings<br>RM | Total<br>Shareholders'<br>Equity<br>RM |
|--|------|-------------------------|--|--|
| Balance as of December 21,<br>2006 (Date of incorporation) |      | 2                       | -  | 2                                      |
| Total comprehensive income for the period                  |      | -                       | 532,787  | 532,787                                |
| Issue of shares  |      | 8                       | -  | 8                                      |
| Balance as of December 31, 2007                            |      | 10                      | 532,787  | 532,797                                |
| Total comprehensive income for the year                    |      | -                       | 650,446  | 650,446                                |
| Dividends  | F    | -                       | (100,000)  | (100,000)                              |
| Balance as of December 31, 2008                            |      | 10                      | 1,083,233  | 1,083,243                              |
| Total comprehensive income for the year                    |      | -                       | 350,179  | 350,179                                |
| Dividends  | F    | -                       | (300,000)  | (300,000)                              |
| Balance as of December 31, 2009                            |      | 10                      | 1,133,412  | 1,133,422                              |
| Total comprehensive income for the year                    |      | -                       | 452,778  | 452,778                                |
| Dividends  | F    | -                       | (100,000)  | (100,000)                              |
| Balance as of December 31, 2010                            |      | 10                      | 1,486,190  | 1,486,200                              |

**11.4 DYNASTY KITCHEN - SUMMARISED STATEMENTS OF CASH FLOWS**

|  | Note    | FYE<br>31.12.2010<br>(12 Months)<br>RM | FYE<br>31.12.2009<br>(12 Months)<br>RM | FYE<br>31.12.2008<br>(12 Months)<br>RM | FPE<br>31.12.2007<br>(12 ½ Months)<br>RM |
|--|---------|--|--|--|--|
| Net Cash Generated From<br>Operating Activities                      |         | 392,595                                | 127,752                                | 359,241                                | 193,919                                  |
| Net Cash Used In Investing Activities                                |         | (4,578)                                | (31,060)                               | (66,147)                               | (95,425)                                 |
| Net Cash Used In Financing<br>Activities                             |         | (100,203)                              | (300,150)                              | (100,153)                              | (94)                                     |
| <b>NET INCREASE/(DECREASE)<br/>IN CASH AND CASH<br/>EQUIVALENTS</b>  |         | 287,814                                | (203,458)                              | 192,941                                | 98,400                                   |
| <b>CASH AND CASH<br/>EQUIVALENTS AT BEGINNING<br/>OF YEAR/PERIOD</b> |         | 87,883                                 | 291,341                                | 98,400                                 | -  |
| <b>CASH AND CASH<br/>EQUIVALENTS AT END<br/>OF YEAR/PERIOD</b>       | 11.5.13 | 375,697                                | 87,883                                 | 291,341                                | 98,400                                   |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****11.5 DYNASTY KITCHEN - NOTES TO THE FINANCIAL STATEMENTS****11.5.1 OPERATING COSTS APPLICABLE TO REVENUE**

|   |             | <b>FYE</b><br><b>31.12.2010</b><br><b>(12 Months)</b> | <b>FYE</b><br><b>31.12.2009</b><br><b>(12 Months)</b> | <b>FYE</b><br><b>31.12.2008</b><br><b>(12 Months)</b> | <b>FPE</b><br><b>31.12.2007</b><br><b>(12 ½ Months)</b> |
|---|-------------|---|---|---|---|
|   | <b>Note</b> | <b>RM</b>   | <b>RM</b>   | <b>RM</b>   | <b>RM</b>   |
| Changes in inventories of trading merchandise |             | (28,013)  | (45,081)  | (28,838)  | (125,078)   |
| Purchase of trading merchandise               |             | 7,916,200   | 6,725,593   | 6,668,207   | 3,250,377   |
| Employee benefit expenses                     |             | 245,077   | 232,078   | 209,892   | 116,101   |
| Depreciation of property, plant and equipment | 11.5.4      | 38,650  | 32,500  | 24,213  | 14,579  |
| Other operating expenses                      |             | 154,456   | 140,886   | 102,616   | 76,047  |
|   |             | <u>8,326,370</u>                                      | <u>7,085,976</u>                                      | <u>6,976,090</u>                                      | <u>3,332,026</u>  |

**11.5.2 PROFIT BEFORE TAX**

Profit before tax has been arrived at after charging:

|   | <b>FYE</b><br><b>31.12.2010</b><br><b>(12 Months)</b> | <b>FYE</b><br><b>31.12.2009</b><br><b>(12 Months)</b> | <b>FYE</b><br><b>31.12.2008</b><br><b>(12 Months)</b> | <b>FPE</b><br><b>31.12.2007</b><br><b>(12 ½ Months)</b> |
|---|---|---|---|---|
|   | <b>RM</b>   | <b>RM</b>   | <b>RM</b>   | <b>RM</b>   |
| Rental of store                           | 28,800  | 25,000  | 12,000  | 8,800   |
| Audit fee                                 | 5,000   | 14,000  | 10,000  | 7,000   |
| Property, plant and equipment written off | 53  | -   | -   | -   |

Included in employee benefits expenses of Dynasty Kitchen are the following:

|                           | <b>FYE</b><br><b>31.12.2010</b><br><b>(12 Months)</b> | <b>FYE</b><br><b>31.12.2009</b><br><b>(12 Months)</b> | <b>FYE</b><br><b>31.12.2008</b><br><b>(12 Months)</b> | <b>FPE</b><br><b>31.12.2007</b><br><b>(12 ½ Months)</b> |
|---------------------------|---|---|---|---|
|                           | <b>RM</b>   | <b>RM</b>   | <b>RM</b>   | <b>RM</b>   |
| Contributions made to EPF | 15,856  | 18,025  | 15,807  | 9,412   |

**11.5.3 INCOME TAX EXPENSE**

|   | <b>FYE</b><br><b>31.12.2010</b><br><b>(12 Months)</b> | <b>FYE</b><br><b>31.12.2009</b><br><b>(12 Months)</b> | <b>FYE</b><br><b>31.12.2008</b><br><b>(12 Months)</b> | <b>FPE</b><br><b>31.12.2007</b><br><b>(12 ½ Months)</b> |
|---|---|---|---|---|
|   | <b>RM</b>   | <b>RM</b>   | <b>RM</b>   | <b>RM</b>   |
| Current tax expense in respect of:<br>Current year/period                             | 135,000   | 90,583  | 188,277   | 149,000   |
| Adjustment recognised in current year/period in relation to income tax of prior years | (603)   | (1,271)   | (3,014)   | -   |
|   | <u>134,397</u>  | <u>89,312</u>   | <u>185,263</u>  | <u>149,000</u>  |

(Forward)

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****11.5 DYNASTY KITCHEN - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****11.5.3 INCOME TAX EXPENSE (CONTINUED)**

|  | FYE<br>31.12.2010<br>(12 Months)<br>RM | FYE<br>31.12.2009<br>(12 Months)<br>RM | FYE<br>31.12.2008<br>(12 Months)<br>RM | FPE<br>31.12.2007<br>(12 ½ Months)<br>RM |
|--|--|--|--|--|
| Deferred tax relating to origination and reversal of temporary differences:<br>(Note 11.5.10)            |  |  |  |  |
| Current year   | (2,600)                                | -                                      | -                                      | 3,600                                    |
| Adjustment recognised in the current year/<br>period in relation to deferred tax of prior<br>year/period | 1,000                                  | -                                      | -                                      | -  |
|  | (1,600)                                | -                                      | -                                      | 3,600                                    |
|  | <u>132,797</u>                         | <u>89,312</u>                          | <u>185,263</u>                         | <u>152,600</u>                           |

The statutory income tax rate for companies with a paid-up capital of above RM2,500,000 in years of assessment 2007, 2008, 2009 and 2010 are 27%, 26%, 25% and 25% respectively. In the previous years of assessments, for companies with a paid-up capital of RM2,500,000 and below, an income tax rate of 20% is applicable for chargeable income of up to RM500,000. However, with effect from year of assessment 2009, this preferential tax rate will no longer be applicable for companies that controls or being controlled directly or indirectly by, or are related to another company which has a paid-up ordinary share capital of more than RM2,500,000. As a result, income tax rate of Dynasty Kitchen has also been revised accordingly.

The income tax expense for the year/period can be reconciled to profit before tax as follows:

|  | FYE<br>31.12.2010<br>(12 Months)<br>RM | FYE<br>31.12.2009<br>(12 Months)<br>RM | FYE<br>31.12.2008<br>(12 Months)<br>RM | FPE<br>31.12.2007<br>(12 ½ Months)<br>RM |
|--|--|--|--|--|
| Profit before tax  | <u>585,575</u>                         | <u>439,491</u>                         | <u>835,709</u>                         | <u>685,387</u>                           |
| Income tax expense calculated at 25%<br>(31.12.2009: 25%; 31.12.2008: 26%;<br>31.12.2007: 27%)                             | 147,000                                | 110,000                                | 217,000                                | 185,000                                  |
| Tax effects of:  |  |  |  |  |
| Expenses that are not deductible in<br>determining taxable profit  | 10,400                                 | 2,583                                  | 1,277                                  | 2,600                                    |
| Effect of difference in tax rate applicable to<br>small and medium scale companies<br>(Over)/Underprovision in prior year: | (25,000)                               | (22,000)                               | (30,000)                               | (35,000)                                 |
| Income tax   | (603)                                  | (1,271)                                | (3,014)                                | -  |
| Deferred tax   | 1,000                                  | -                                      | -                                      | -  |
| Income tax expense for the year/period   | <u>132,797</u>                         | <u>89,312</u>                          | <u>185,263</u>                         | <u>152,600</u>                           |
| <i>Current tax asset</i>   |  |  |  |  |
| Tax refund receivable  | <u>-</u>                               | <u>19,417</u>                          | <u>-</u>                               | <u>-</u>                                 |
| <i>Current tax liability</i>   |  |  |  |  |
| Income tax payable   | <u>13,250</u>                          | <u>-</u>                               | <u>14,777</u>                          | <u>59,000</u>                            |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****11.5 DYNASTY KITCHEN - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****11.5.4 PROPERTY, PLANT AND EQUIPMENT**

|  | Kitchen<br>equipment<br>and<br>utensils<br>RM | Fixture<br>and<br>fittings<br>RM | Computer<br>RM | Electrical<br>and<br>fittings<br>RM | Office<br>equipment<br>and furniture<br>RM | Total<br>RM |
|--|---|----------------------------------|----------------|-------------------------------------|--|-------------|
| <b>Cost</b>  |   |                                  |                |                                     |  |             |
| As of December 21, 2006<br>(Date of incorporation) | -   | -                                | -              | -                                   | -  | -           |
| Additions  | 63,183  | 23,117                           | 2,360          | 2,272                               | 4,493                                      | 95,425      |
| As of December 31, 2007                            | 63,183  | 23,117                           | 2,360          | 2,272                               | 4,493                                      | 95,425      |
| Additions  | 66,691  | -                                | 3,000          | 265                                 | 3,166                                      | 73,122      |
| Disposals  | (8,785)                                       | -                                | -              | -                                   | -  | (8,785)     |
| As of December 31, 2008                            | 121,089                                       | 23,117                           | 5,360          | 2,537                               | 7,659                                      | 159,762     |
| Additions  | 26,600  | 900                              | -              | 3,560                               | -  | 31,060      |
| As of December 31, 2009                            | 147,689                                       | 24,017                           | 5,360          | 6,097                               | 7,659                                      | 190,822     |
| Additions  | 195   | -                                | 2,425          | 220                                 | 1,738                                      | 4,578       |
| Write off  | -   | -                                | -              | -                                   | (150)                                      | (150)       |
| As of December 31, 2010                            | 147,884                                       | 24,017                           | 7,785          | 6,317                               | 9,247                                      | 195,250     |
| <b>Accumulated depreciation</b>                    |   |                                  |                |                                     |  |             |
| As of December 21, 2006<br>(Date of incorporation) | -   | -                                | -              | -                                   | -  | -           |
| Depreciation charge<br>for the period              | 8,901   | 4,238                            | 433            | 294                                 | 713  | 14,579      |
| As of December 31, 2007                            | 8,901   | 4,238                            | 433            | 294                                 | 713  | 14,579      |
| Depreciation charge<br>for the year                | 17,442  | 4,623                            | 572            | 472                                 | 1,104                                      | 24,213      |
| Disposals  | (1,810)                                       | -                                | -              | -                                   | -  | (1,810)     |
| As of December 31, 2008                            | 24,533  | 8,861                            | 1,005          | 766                                 | 1,817                                      | 36,982      |
| Depreciation charge<br>for the year                | 24,661  | 4,668                            | 1,072          | 567                                 | 1,532                                      | 32,500      |
| As of December 31, 2009                            | 49,194  | 13,529                           | 2,077          | 1,333                               | 3,349                                      | 69,482      |
| Depreciation charge<br>for the year                | 29,577  | 4,804                            | 1,275          | 1,263                               | 1,731                                      | 38,650      |
| Write off  | -   | -                                | -              | -                                   | (97)                                       | (97)        |
| As of December 31, 2010                            | 78,771  | 18,333                           | 3,352          | 2,596                               | 4,983                                      | 108,035     |
| <b>Carrying amounts</b>                            |   |                                  |                |                                     |  |             |
| As of December 31, 2007                            | 54,282  | 18,879                           | 1,927          | 1,978                               | 3,780                                      | 80,846      |
| As of December 31, 2008                            | 96,556  | 14,256                           | 4,355          | 1,771                               | 5,842                                      | 122,780     |
| As of December 31, 2009                            | 98,495  | 10,488                           | 3,283          | 4,764                               | 4,310                                      | 121,340     |
| As of December 31, 2010                            | 69,113  | 5,684                            | 4,433          | 3,721                               | 4,264                                      | 87,215      |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****11.5 DYNASTY KITCHEN - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****11.5.5 INVENTORIES**

|                     | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---------------------|------------------|------------------|------------------|------------------|
| Trading merchandise | <u>227,010</u>   | <u>198,997</u>   | <u>153,916</u>   | <u>125,078</u>   |

The cost of inventories of Dynasty Kitchen recognised as an expense during the period/year are as follows:

|                     | FYE<br>31.12.2010<br>(12 Months)<br>RM | FYE<br>31.12.2009<br>(12 Months)<br>RM | FYE<br>31.12.2008<br>(12 Months)<br>RM | FPE<br>31.12.2007<br>(12 ½ Months)<br>RM |
|---------------------|--|--|--|--|
| Cost of inventories | <u>7,888,187</u>                       | <u>6,680,512</u>                       | <u>6,639,369</u>                       | <u>3,125,299</u>                         |

**11.5.6 TRADE RECEIVABLES**

|                       | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|-----------------------|------------------|------------------|------------------|------------------|
| Trade receivables     | 225,814          | 267,446          | 1,513,383        | 900,243          |
| Refundable deposits   | <u>13,160</u>    | <u>13,160</u>    | <u>5,610</u>     | <u>3,700</u>     |
| Loans and receivables | 238,974          | 280,606          | 1,518,993        | 903,943          |
| Prepaid expenses      | <u>1,725</u>     | <u>716</u>       | <u>4,944</u>     | <u>806</u>       |
|                       | <u>240,699</u>   | <u>281,322</u>   | <u>1,523,937</u> | <u>904,749</u>   |

The terms granted on sale of goods are as follows:

|            | Average<br>credit period<br>Days |
|------------|----------------------------------|
| 31.12.2010 | Cash to 90                       |
| 31.12.2009 | Cash to 30                       |
| 31.12.2008 | Cash to 30                       |
| 31.12.2007 | <u>Cash to 30</u>                |

No interest is charged on the outstanding balance.

Dynasty Kitchen seeks to maintain strict control over its outstanding trade receivables and has a credit period policy to minimise credit risk. Overdue balances are reviewed regularly by management.

Included in trade receivables of Dynasty Kitchen are related parties' balances as follows:

|                           | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---------------------------|------------------|------------------|------------------|------------------|
| Related parties' balances | <u>150,091</u>   | <u>166,726</u>   | <u>1,436,702</u> | <u>799,704</u>   |

Transactions with related parties are disclosed in Note 11.5.7.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****11.5 DYNASTY KITCHEN - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****11.5.7 HOLDING COMPANY AND RELATED PARTY TRANSACTIONS**

The amount owing by holding company arose mainly from trade transactions which are unsecured, interest-free and are subject to the normal trade terms.

During the financial year/period, significant related party transactions are as follows:

|   | <b>FYE<br/>31.12.2010<br/>(12 Months)<br/>RM</b> | <b>FYE<br/>31.12.2009<br/>(12 Months)<br/>RM</b> | <b>FYE<br/>31.12.2008<br/>(12 Months)<br/>RM</b> | <b>FPE<br/>31.12.2007<br/>(12 ½ Months)<br/>RM</b> |
|---|--|--|--|--|
| <b>Holding company</b>                    |  |  |  |  |
| Old Town Kopitiam Butterworth             |  |  |  |  |
| Trade sales                               | <u>7,476,856</u>                                 | <u>6,420,192</u>                                 | <u>-</u>   | <u>-</u>   |
| <b>Related parties</b>                    |  |  |  |  |
| Gongga Food                               |  |  |  |  |
| Trade purchases                           | 6,145,225  | 5,003,397  | 4,736,185  | 2,078,022  |
| Purchase of property, plant and equipment | <u>-</u>   | <u>-</u>   | <u>46,000</u>                                    | <u>-</u>   |
| Kopitiam Asia Pacific                     |  |  |  |  |
| Trade purchases                           | 25,568   | 43,775   | 45,074   | 28,284   |
| Accounting services paid/payable          | <u>7,200</u>                                     | <u>7,200</u>                                     | <u>7,200</u>                                     | <u>6,600</u>                                       |
| OTK Northern Sdn. Bhd.                    |  |  |  |  |
| Trade sales                               | <u>593,413</u>                                   | <u>189,289</u>                                   | <u>-</u>   | <u>-</u>   |
| White Cafe Marketing                      |  |  |  |  |
| Trade purchases                           | <u>-</u>   | <u>29,828</u>                                    | <u>120,442</u>                                   | <u>43,612</u>                                      |
| Old Town Kopitiam Butterworth             |  |  |  |  |
| Trade sales                               | -  | -  | 6,853,634  | 3,562,257  |
| Sale of property, plant and equipment     | -  | -  | 6,226  | -  |
| Purchase of property, plant and equipment | <u>-</u>   | <u>-</u>   | <u>-</u>   | <u>59,497</u>                                      |
| Dynasty Confectionery                     |  |  |  |  |
| Trade purchases                           | <u>-</u>   | <u>-</u>   | <u>4,000</u>                                     | <u>-</u>   |
| Esquire Chef                              |  |  |  |  |
| Sale of property, plant and equipment     | <u>-</u>   | <u>-</u>   | <u>749</u>                                       | <u>-</u>   |

The relationships of the related parties with Oldtown group of companies are disclosed in Chapters 5 and 7 of the Prospectus of Oldtown.

***Compensation of key management personnel***

There is no directors' remuneration during the financial year/period. Other than the directors, there are no other key management personnel in Dynasty Kitchen.

## 10. ACCOUNTANTS' REPORT

## G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

## 11.5 DYNASTY KITCHEN - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 11.5.8 SHARE CAPITAL

|   | 31.12.2010       | 31.12.2009       | 31.12.2008       | 31.12.2007       | 31.12.2010 | 31.12.2009 | 31.12.2008 | 31.12.2007 |
|---|------------------|------------------|------------------|------------------|------------|------------|------------|------------|
|   | Number of shares | Number of shares | Number of shares | Number of shares | RM         | RM         | RM         | RM         |
| Authorised:                             |                  |                  |                  |                  |            |            |            |            |
| Ordinary shares of RM1 each             | 100,000          | 100,000          | 100,000          | 100,000          | 100,000    | 100,000    | 100,000    | 100,000    |
| Issued and fully paid:                  |                  |                  |                  |                  |            |            |            |            |
| Ordinary shares of RM1 each:            |                  |                  |                  |                  |            |            |            |            |
| At beginning year/date of incorporation | 10               | 10               | 10               | 2                | 10         | 10         | 10         | 2          |
| Issued during the year/ period          | -                | -                | -                | 8                | -          | -          | -          | 8          |
| At end of the year/period               | 10               | 10               | 10               | 10               | 10         | 10         | 10         | 10         |

## 11.5.9 RETAINED EARNINGS

In accordance with the Finance Act, 2007, the single tier income tax system became effective from the year of assessment 2008. Under this system, tax on a company's profit is a final tax, and dividends paid are exempted from tax in the hands of the shareholders. Unlike the previous imputation system, the recipient of the dividend would no longer be able to claim any tax credit.

Companies without Section 108 tax credit balance will automatically move to the single tier tax system on January 1, 2008. However, companies with such tax credits are given an irrevocable option to elect for the single tier tax system and disregard the tax credit or continue to use the tax credits under Section 108 account to frank the payment of cash dividends on ordinary shares for a period of 6 years ending December 31, 2013 or until the tax credits are fully utilised, whichever comes first. During the transitional period, any tax paid will not be added to the Section 108 account and any tax credits utilised will reduce the tax credit balance. All companies will be in the new system on January 1, 2014.

Dynasty Kitchen has fully utilised its Section 108 tax credit balance which has been frozen as of December 31, 2007 to frank dividend payments in 2009, and has automatically moved to the single tier tax system in accordance with the Finance Act, 2007.



**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****11.5 DYNASTY KITCHEN - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****11.5.10 DEFERRED TAX LIABILITY**

|  | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|--|------------------|------------------|------------------|------------------|
| At beginning of year/period                | 3,600            | 3,600            | 3,600            | -                |
| Recognised in profit or loss (Note 11.5.3) | (1,600)          | -                | -                | 3,600            |
| At end of year/period                      | <u>2,000</u>     | <u>3,600</u>     | <u>3,600</u>     | <u>3,600</u>     |

The deferred tax liability provided in the financial statements is in respect of temporary differences between tax capital allowances and book depreciation of property, plant and equipment.

**11.5.11 TRADE AND OTHER PAYABLES**

|                              | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|------------------------------|------------------|------------------|------------------|------------------|
| Trade payables               | 1,845,512        | 1,673,915        | 957,246          | 599,324          |
| Other payables               | 1,759            | 5,681            | 2,509            | -                |
| Accrued expenses             | 50,432           | 22,427           | 30,599           | 14,352           |
| Refundable deposits received | 100              | 100              | -                | -                |
|                              | <u>1,897,803</u> | <u>1,702,123</u> | <u>990,354</u>   | <u>613,676</u>   |

Trade and other payables comprise amounts outstanding for trade purchases and ongoing costs. The terms granted to Dynasty Kitchen for trade purchases are as follows:

|                     | FYE<br>31.12.2010<br>(12 Months) | FYE<br>31.12.2009<br>(12 Months) | FYE<br>31.12.2008<br>(12 Months) | FPE<br>31.12.2007<br>(12 ½ Months) |
|---------------------|----------------------------------|----------------------------------|----------------------------------|------------------------------------|
| Credit terms (days) | <u>Cash to 30</u>                | <u>Cash to 30</u>                | <u>Cash to 30</u>                | <u>30 to 60</u>                    |

These amounts are non-interest bearing. Dynasty Kitchen has financial risk management policies in place to ensure that all payables are paid within the credit time frame.

Included in trade payables of Dynasty Kitchen are related parties' balances as follows:

|                           | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---------------------------|------------------|------------------|------------------|------------------|
| Related parties' balances | <u>1,756,814</u> | <u>1,574,574</u> | <u>866,570</u>   | <u>499,109</u>   |

The amounts owing to other payables are unsecured, interest-free and repayable upon demand.

Transactions with related parties are disclosed in Note 11.5.7.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****11.5 DYNASTY KITCHEN - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****11.5.12 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT****Categories of financial instruments**

|  | <b>31.12.2010</b> |
|--|-------------------|
| <b>Financial assets</b>                            | <b>RM</b>         |
| Loans and receivables:                             |                   |
| Trade receivables                                  | 238,974           |
| Amount owing by holding company                    | 2,468,632         |
| Cash and cash equivalents – cash and bank balances | <u>375,697</u>    |
| <b>Financial liabilities</b>                       |                   |
| Amortised cost - trade and other payables          | <u>1,897,803</u>  |

**Financial Risk Management Objectives and Policies**

Risk management is integral to the whole business of Dynasty Kitchen. Management continually monitors Dynasty Kitchen's risk management process to ensure that an appropriate balance between risk and control is achieved. Risk management policies and systems are reviewed regularly to reflect changes in the market conditions and the Company's activities.

There has been no change to Dynasty Kitchen's exposure to these financial risks or the manner in which it manages and measures the risk.

**(a) Market risk**

Dynasty Kitchen's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

There has been no change to the Dynasty Kitchen's exposure to market risks or the manner in which these risks are managed and measured.

**(i) Foreign currency risk management**

Dynasty Kitchen has minimal foreign currency risk exposure as most of its transactions are denominated in Ringgit Malaysia, which is the functional currency of Dynasty Kitchen.

**(ii) Interest rate risk management**

Dynasty Kitchen's exposure to interest rate risk is limited as Dynasty Kitchen has no interest-bearing balances.

**(b) Credit risk**

The maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as at December 31, 2010 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the statement of financial position.

As of December 31, 2010, Dynasty Kitchen is subject to significant concentration of credit risk as 66% of its receivable is with a related party.

**(c) Liquidity and cash flow risks management**

The management of Dynasty Kitchen is of the view that liquidity risk is minimal as Dynasty Kitchen has sufficient funds to finance its ongoing working capital requirement and when necessary, funding is obtained from its holding company.

All non-derivative financial assets and financial liabilities are repayable on demand or due within 1 year from the end of the reporting date. Dynasty Kitchen has not committed to any derivative financial instruments during the financial year.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****11.5 DYNASTY KITCHEN - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****11.5.12 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (CONTINUED)***(d) Capital risk management*

Dynasty Kitchen manages its capital to ensure that Dynasty Kitchen will be able to continue as going concern while maximising the return to stakeholders through the optimisation of equity balance. Dynasty Kitchen's overall strategy remains unchanged from 2009.

The capital structure of Dynasty Kitchen consists of issued capital. Dynasty Kitchen is not subject to any externally imposed capital requirements.

**Fair Values of Financial Assets and Financial Liabilities**

The carrying amounts of cash and cash equivalents, trade receivables, amount owing by holding company and trade and other payables approximate their respective fair values due to the relatively short-term maturity of these financial instruments.

**11.5.13 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprise cash and bank balances of Dynasty Kitchen for the respective financial period/ year ended.

**11.5.14 OPERATING LEASE ARRANGEMENTS**

Operating leases relates to leases of stores with average lease term of 2 years. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the leased stores at the expiry of the lease period.

Payment recognised as an expense for Dynasty Kitchen was as follows:

|                        | FYE<br>31.12.2010<br>(12 Months)<br>RM | FYE<br>31.12.2009<br>(12 Months)<br>RM | FYE<br>31.12.2008<br>(12Months)<br>RM | FYE<br>31.12.2007<br>(12 ½ Months)<br>RM |
|------------------------|--|--|---------------------------------------|--|
| Minimum lease payments | 28,800                                 | 25,000                                 | 12,000                                | 8,800                                    |

Dynasty Kitchen has outstanding commitments under non-cancellable operating leases as follows:

|                                       | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---------------------------------------|------------------|------------------|------------------|------------------|
| Within one year                       | 24,200           | 28,800           | 7,800            | 12,000           |
| In the second to fifth year inclusive | 23,400           | 6,500            | 6,000            | 1,800            |
|                                       | 47,600           | 35,300           | 13,800           | 13,800           |

**11.5.15 SIGNIFICANT EVENTS**

On December 28, 2009, shareholders of the holding company entered into a Sale and Purchase Agreement (as was supplemented by letters dated May 24, 2010 and June 11, 2010 respectively, and a supplemental agreement dated December 9, 2010) with Oldtown to dispose off its entire equity interests in the holding company.

On April 12, 2011, Securities Commission had granted Oldtown the approval for the proposed listing on the Main Market of Bursa Securities. Following the said approval, Oldtown intends to complete the transfer of shares before June 2011.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****12 DYNASTY CONFECTIONERY****12.1 DYNASTY CONFECTIONERY - STATEMENTS OF COMPREHENSIVE INCOME**

|  |        | FYE<br>31.12.2010<br>(12 Months)<br>RM | FYE<br>31.12.2009<br>(12 Months)<br>RM | FYE<br>31.12.2008<br>(12 Months)<br>RM | FPE<br>31.12.2007<br>(6 Months)<br>RM |
|--|--------|--|--|--|---------------------------------------|
| Revenue  |        | 4,405,767                              | 4,174,415                              | 3,493,903                              | 672,865                               |
| Cost of sales  |        | <u>(3,329,723)</u>                     | <u>(3,183,366)</u>                     | <u>(2,771,951)</u>                     | <u>(572,240)</u>                      |
| Gross profit   |        | 1,076,044                              | 991,049                                | 721,952                                | 100,625                               |
| Other operating income   |        | 44,421                                 | 55,788                                 | 88,959                                 | -                                     |
| Selling and distribution expenses  |        | (4,073)                                | (267,112)                              | (422,381)                              | (59,769)                              |
| Administrative and general expenses  |        | <u>(174,695)</u>                       | <u>(169,317)</u>                       | <u>(136,765)</u>                       | <u>(31,222)</u>                       |
| Profit from operations   |        | 941,697                                | 610,408                                | 251,765                                | 9,634                                 |
| Finance costs  | 12.5.2 | <u>(22,663)</u>                        | <u>(12,115)</u>                        | <u>(1,378)</u>                         | <u>(77)</u>                           |
| Profit before tax  | 12.5.3 | 919,034                                | 598,293                                | 250,387                                | 9,557                                 |
| Income tax expense   | 12.5.4 | <u>(229,994)</u>                       | <u>(139,106)</u>                       | <u>(56,080)</u>                        | <u>(3,600)</u>                        |
| <b>Profit and total comprehensive income for the year/period the attributable to owners of Dynasty Confectionery</b> |        | <u>689,040</u>                         | <u>459,187</u>                         | <u>194,307</u>                         | <u>5,957</u>                          |
| <i>Key financial ratios:</i>   |        |  |  |  |                                       |
| Weighted average number of ordinary shares of RM1.00 each in issue (units)   |        | 200,000                                | 200,000                                | *192,350                               | 2                                     |
| Gross profit margin (%)  |        | 24.42                                  | 23.74                                  | 20.66                                  | 14.95                                 |
| Basic earnings per share (sen)   |        | 344.52                                 | 229.59                                 | 101.02                                 | 297,850.00                            |
| Effective tax rate (%)   |        | <u>24.92</u>                           | <u>23.48</u>                           | <u>22.24</u>                           | <u>37.67</u>                          |

\* Calculated based on 199,998 new ordinary shares of RM1 each issued at par on January 15, 2008.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****12.2 DYNASTY CONFECTIONERY - STATEMENTS OF FINANCIAL POSITIONS**

|                                      | Note    | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|--------------------------------------|---------|------------------|------------------|------------------|------------------|
| <b>ASSETS</b>                        |         |                  |                  |                  |                  |
| <b>Non-current assets</b>            |         |                  |                  |                  |                  |
| Property, plant and equipment        | 12.5.5  | 1,418,141        | 887,652          | 804,200          | 299,006          |
| <b>Current assets</b>                |         |                  |                  |                  |                  |
| Inventories                          | 12.5.6  | 136,728          | 116,781          | 120,687          | 43,685           |
| Trade and other receivables          | 12.5.7  | 586,332          | 257,168          | 283,262          | 136,812          |
| Current tax assets                   | 12.5.4  | -                | 8,450            | 89,770           | 11,450           |
| Cash and bank balances               |         | 180,291          | 237,726          | 120,836          | 17,767           |
| <b>Total current assets</b>          |         | <b>903,351</b>   | <b>620,125</b>   | <b>614,555</b>   | <b>209,714</b>   |
| <b>Total assets</b>                  |         | <b>2,321,492</b> | <b>1,507,777</b> | <b>1,418,755</b> | <b>508,720</b>   |
| <b>EQUITY AND LIABILITIES</b>        |         |                  |                  |                  |                  |
| <b>Capital and reserves</b>          |         |                  |                  |                  |                  |
| Issued capital                       | 12.5.9  | 200,000          | 200,000          | 200,000          | 2                |
| Retained earnings                    | 12.5.10 | 998,491          | 609,451          | 200,264          | 5,957            |
| <b>Total equity</b>                  |         | <b>1,198,491</b> | <b>809,451</b>   | <b>400,264</b>   | <b>5,959</b>     |
| <b>Non-current liabilities</b>       |         |                  |                  |                  |                  |
| Hire-purchase payables               | 12.5.11 | 294,377          | 115,795          | 75,753           | -                |
| Deferred tax liabilities             | 12.5.12 | 59,000           | 20,000           | 26,000           | 3,600            |
| <b>Total non-current liabilities</b> |         | <b>353,377</b>   | <b>135,795</b>   | <b>101,753</b>   | <b>3,600</b>     |
| <b>Current liabilities</b>           |         |                  |                  |                  |                  |
| Trade and other payables             | 12.5.13 | 558,113          | 453,308          | 629,733          | 302,161          |
| Hire-purchase payables               | 12.5.11 | 168,788          | 33,724           | 16,040           | -                |
| Amount owing to directors            | 12.5.8  | -                | 75,499           | 270,965          | 197,000          |
| Current tax liability                | 12.5.4  | 42,723           | -                | -                | -                |
| <b>Total current liabilities</b>     |         | <b>769,624</b>   | <b>562,531</b>   | <b>916,738</b>   | <b>499,161</b>   |
| <b>Total liabilities</b>             |         | <b>1,123,001</b> | <b>698,326</b>   | <b>1,018,491</b> | <b>502,761</b>   |
| <b>Total equity and liabilities</b>  |         | <b>2,321,492</b> | <b>1,507,777</b> | <b>1,418,755</b> | <b>508,720</b>   |
| <i>Key financial ratios:</i>         |         |                  |                  |                  |                  |
| Net tangible assets per share (sen)  |         | 599.25           | 404.73           | 208.09           | 297,950.00       |
| Debt-equity ratio (times)            |         | 0.39             | 0.18             | 0.23             | -                |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****12.3 DYNASTY CONFECTIONERY - STATEMENTS OF CHANGES IN EQUITY**

|   | Note   | Issued<br>Capital<br>RM | Distributable<br>Reserve<br>Retained<br>Earnings<br>RM | Total<br>Shareholders'<br>Equity<br>RM |
|---|--------|-------------------------|--|--|
| Balance as of July 4, 2007<br>(date of incorporation) |        | 2                       | -  | 2                                      |
| Total comprehensive income for the<br>period          |        | -                       | 5,957  | 5,957                                  |
| Balance as of December 31, 2007                       |        | 2                       | 5,957  | 5,959                                  |
| Total comprehensive income for the year               |        | -                       | 194,307  | 194,307                                |
| Issue of shares                                       | 12.5.9 | 199,998                 | -  | 199,998                                |
| Balance as of December 31, 2008                       |        | 200,000                 | 200,264  | 400,264                                |
| Total comprehensive income for the year               |        | -                       | 459,187  | 459,187                                |
| Dividend  | F      | -                       | (50,000)   | (50,000)                               |
| Balance as of December 31, 2009                       |        | 200,000                 | 609,451  | 809,451                                |
| Total comprehensive income for the year               |        | -                       | 689,040  | 689,040                                |
| Dividend  | F      | -                       | (300,000)  | (300,000)                              |
| Balance as of December 31, 2010                       |        | 200,000                 | 998,491  | 1,198,491                              |

**12.4 DYNASTY CONFECTIONERY - SUMMARISED STATEMENTS OF CASH FLOWS**

|  | Note    | FYE<br>31.12.2010<br>(12 Months)<br>RM | FYE<br>31.12.2009<br>(12 Months)<br>RM | FYE<br>31.12.2008<br>(12 Months)<br>RM | FPE<br>31.12.2007<br>(6 Months)<br>RM |
|--|---------|--|--|--|---------------------------------------|
| Net Cash Generated From<br>Operating Activities                      |         | 896,192                                | 642,708                                | 403,439                                | 137,607                               |
| Net Cash Used In Investing<br>Activities                             |         | (458,711)                              | (237,963)                              | (570,248)                              | (316,765)                             |
| Net Cash (Used In)/Generated From<br>Financing Activities            |         | (494,916)                              | (287,855)                              | 269,878                                | 196,925                               |
| <b>NET (DECREASE)/INCREASE<br/>IN CASH AND CASH<br/>EQUIVALENTS</b>  |         | <b>(57,435)</b>                        | <b>116,890</b>                         | <b>103,069</b>                         | <b>17,767</b>                         |
| <b>CASH AND CASH<br/>EQUIVALENTS AT BEGINNING<br/>OF YEAR/PERIOD</b> |         | <b>237,726</b>                         | <b>120,836</b>                         | <b>17,767</b>                          | <b>-</b>                              |
| <b>CASH AND CASH<br/>EQUIVALENTS AT END<br/>OF YEAR/PERIOD</b>       | 12.5.15 | <b>180,291</b>                         | <b>237,726</b>                         | <b>120,836</b>                         | <b>17,767</b>                         |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****12.5 DYNASTY CONFECTIONERY - NOTES TO THE FINANCIAL STATEMENTS****12.5.1 OPERATING COSTS APPLICABLE TO REVENUE**

|  |        | FYE<br>31.12.2010<br>(12 Months)<br>RM | FYE<br>31.12.2009<br>(12 Months)<br>RM | FYE<br>31.12.2008<br>(12 Months)<br>RM | FPE<br>31.12.2007<br>(6 Months)<br>RM |
|--|--------|--|--|--|---------------------------------------|
|  | Note   |  |  |  |                                       |
| Changes in inventories of finished goods         |        | (4,311)                                | 15,957                                 | (18,351)                               | (2,101)                               |
| Other gains and losses                           |        | (21)                                   | -                                      | -                                      | -                                     |
| Raw materials and consumables used               |        | 2,016,276                              | 2,030,917                              | 1,854,465                              | 393,424                               |
| Employee benefit expenses                        |        | 586,066                                | 603,231                                | 500,896                                | 70,172                                |
| Directors' remuneration                          |        |  |  |  |                                       |
| - salaries and bonuses                           |        | 4,000                                  | 50,875                                 | 36,556                                 | 9,000                                 |
| - EPF contributions                              |        | 480                                    | 6,106                                  | 4,320                                  | 1,080                                 |
| Depreciation of property,<br>plant and equipment | 12.5.5 | 379,964                                | 237,791                                | 157,981                                | 17,759                                |
| Other operating expenses                         |        | 526,016                                | 674,918                                | 795,230                                | 173,897                               |
|  |        | <u>3,508,470</u>                       | <u>3,619,795</u>                       | <u>3,331,097</u>                       | <u>663,231</u>                        |

**12.5.2 FINANCE COSTS**

|                           | FYE<br>31.12.2010<br>(12 Months)<br>RM | FYE<br>31.12.2009<br>(12 Months)<br>RM | FYE<br>31.12.2008<br>(12 Months)<br>RM | FPE<br>31.12.2007<br>(6 Months)<br>RM |
|---------------------------|--|--|--|---------------------------------------|
| Interest on hire-purchase | 22,298                                 | 11,760                                 | 1,105                                  | -                                     |
| Bank charges              | 365                                    | 355                                    | 273                                    | 77                                    |
|                           | <u>22,663</u>                          | <u>12,115</u>                          | <u>1,378</u>                           | <u>77</u>                             |

**12.5.3 PROFIT BEFORE TAX**

Profit before tax has been arrived at after crediting/(charging):

|   | FYE<br>31.12.2010<br>(12 Months)<br>RM | FYE<br>31.12.2009<br>(12 Months)<br>RM | FYE<br>31.12.2008<br>(12 Months)<br>RM | FPE<br>31.12.2007<br>(6 Months)<br>RM |
|---|--|--|--|---------------------------------------|
| Rental of:  |  |  |  |                                       |
| Factory   | (45,600)                               | (45,600)                               | (45,600)                               | (12,885)                              |
| Machinery   | (24,424)                               | (73,272)                               | (73,322)                               | (24,570)                              |
| Hostel  | (7,200)                                | (7,050)                                | (4,950)                                | -                                     |
| Motor vehicles  | -                                      | (49,324)                               | (70,248)                               | (16,933)                              |
| Audit fee   | (8,000)                                | (10,000)                               | (8,000)                                | (7,000)                               |
| Property, plant and equipment written off                   | -                                      | (4,720)                                | -                                      | -                                     |
| Bad debt written off  | -                                      | (180)                                  | -                                      | -                                     |
| Gain/(Loss) on disposal of property,<br>plant and equipment | 21                                     | -                                      | (1,573)                                | -                                     |

Included in employee benefits expenses of Dynasty Confectionery are the following:

|                           | FYE<br>31.12.2010<br>(12 Months)<br>RM | FYE<br>31.12.2009<br>(12 Months)<br>RM | FYE<br>31.12.2008<br>(12 Months)<br>RM | FPE<br>31.12.2007<br>(6 Months)<br>RM |
|---------------------------|--|--|--|---------------------------------------|
| Contributions made to EPF | <u>28,126</u>                          | <u>29,924</u>                          | <u>27,513</u>                          | <u>2,213</u>                          |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****12.5 DYNASTY CONFECTIONERY - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****12.5.4 INCOME TAX EXPENSE**

|   | FYE<br>31.12.2010<br>(12 Months)<br>RM | FYE<br>31.12.2009<br>(12 Months)<br>RM | FYE<br>31.12.2008<br>(12 Months)<br>RM | FPE<br>31.12.2007<br>(6 Months)<br>RM |
|---|--|--|--|---------------------------------------|
| Income tax comprises:   |  |  |  |                                       |
| Current tax expense in respect of the current year/period   | 227,000                                | 143,000                                | 33,680                                 | -                                     |
| Adjustments recognised in the current year/period in relation to the income tax of prior years/period | (36,006)                               | 2,106                                  | -                                      | -                                     |
|   | 190,994                                | 145,106                                | 33,680                                 | -                                     |
| Deferred tax relating to origination and reversal of temporary differences                            |  |  |  |                                       |
| Current year/period   | 2,000                                  | (3,500)                                | 22,400                                 | 3,600                                 |
| Adjustments recognised in the current year in relation to the deferred tax of prior years/period      | 37,000                                 | (2,500)                                | -                                      | -                                     |
| (Note: 12.5.12)   | 39,000                                 | (6,000)                                | 22,400                                 | 3,600                                 |
|   | 229,994                                | 139,106                                | 56,080                                 | 3,600                                 |

The statutory income tax rate for companies with a paid-up capital of above RM2,500,000 in years of assessment 2007, 2008, 2009 and 2010 are 27%, 26%, 25% and 25% respectively. In the previous years of assessments, for companies with a paid-up capital of RM2,500,000 and below, an income tax rate of 20% is applicable for chargeable income of up to RM500,000. However, with effect from year of assessment 2009, this preferential tax rate will no longer be applicable for companies that controls or being controlled directly or indirectly by, or are related to another company which has a paid-up ordinary share capital of more than RM2,500,000. As a result, income tax rate of Dynasty Confectionery has also been revised accordingly.

The tax expense for the year can be reconciled to profit before tax as follows:

|   | FYE<br>31.12.2010<br>(12 Months)<br>RM | FYE<br>31.12.2009<br>(12 Months)<br>RM | FYE<br>31.12.2008<br>(12 Months)<br>RM | FPE<br>31.12.2007<br>(6 Months)<br>RM |
|---|--|--|--|---------------------------------------|
| Profit before tax   | 919,034                                | 598,293                                | 250,387                                | 9,557                                 |
| Income tax expense calculated at 25% (31.12.2009: 25%; 31.12.2008: 20% and 31.12.2007: 20%) | 230,000                                | 150,000                                | 50,000                                 | 1,911                                 |
| Tax effects of expenses that are not deductible in determining taxable profit               | 24,000                                 | 14,500                                 | 6,080                                  | 1,689                                 |
| Effect of differences in tax rate applicable to small and medium scale companies            | (25,000)                               | (25,000)                               | -                                      | -                                     |
| Adjustments recognised in the current year in relation to the taxes of prior years/period:  |  |  |  |                                       |
| Income tax  | (36,006)                               | 2,106                                  | -                                      | -                                     |
| Deferred tax  | 37,000                                 | (2,500)                                | -                                      | -                                     |
| Income tax expense for the year/period  | 229,994                                | 139,106                                | 56,080                                 | 3,600                                 |
| <i>Current tax asset</i>  |  |  |  |                                       |
| Tax refund receivable   | -                                      | 8,450                                  | 89,770                                 | 11,450                                |
| <i>Current tax liability</i>  |  |  |  |                                       |
| Income tax payable  | 42,723                                 | -                                      | -                                      | -                                     |



## 10. ACCOUNTANTS' REPORT

## G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

## 12.5 DYNASTY CONFECTIONERY - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 12.5.5 PROPERTY, PLANT AND EQUIPMENT

| Cost  | Plant and machinery RM | Plant and machinery under hire-purchase RM | Factory equipment RM | Motor vehicles under hire-purchase RM | Computer and programming RM | Signboard, electrical and fittings RM | Air-conditioners, Office equipment, furniture and fittings RM | Renovation RM | Total RM  |
|---|------------------------|--|----------------------|---------------------------------------|-----------------------------|---------------------------------------|---|---------------|-----------|
| As of July 4, 2007<br>(date of incorporation) | -                      | -  | -                    | -                                     | -                           | -                                     | -   | -             | -         |
| Additions                                     | 206,300                | -  | 9,080                | -                                     | 10,222                      | 1,950                                 | 10,554  | 78,659        | 316,765   |
| As of December 31, 2007                       | 206,300                | -  | 9,080                | -                                     | 10,222                      | 1,950                                 | 10,554  | 78,659        | 316,765   |
| Additions                                     | 72,923                 | -  | 190,364              | 99,000                                | 5,873                       | 40,691                                | 151,518   | 106,879       | 667,248   |
| Disposals                                     | -                      | -  | (4,700)              | -                                     | -                           | -                                     | -   | -             | (4,700)   |
| As of December 31, 2008                       | 279,223                | -  | 194,744              | 99,000                                | 16,095                      | 42,641                                | 162,072   | 185,538       | 979,313   |
| Additions                                     | 99,450                 | -  | 89,881               | 92,000                                | 7,760                       | -                                     | 36,872  | -             | 325,963   |
| Write off                                     | (5,900)                | -  | -                    | -                                     | -                           | -                                     | -   | -             | (5,900)   |
| As of December 31, 2009                       | 372,773                | -  | 284,625              | 191,000                               | 23,855                      | 42,641                                | 198,944   | 185,538       | 1,299,376 |
| Additions                                     | 253,300                | 513,000                                    | 84,226               | -                                     | 3,354                       | 1,000                                 | 47,418  | 8,750         | 911,048   |
| Disposals                                     | -                      | -  | (616)                | -                                     | -                           | -                                     | -   | -             | (616)     |
| As of December 31, 2010                       | 626,073                | 513,000                                    | 368,235              | 191,000                               | 27,209                      | 43,641                                | 246,362   | 194,288       | 2,209,808 |

## 10. ACCOUNTANTS' REPORT

## G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

## 12.5 DYNASTY CONFECTIONERY - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 12.5.5 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

|  | Plant and machinery RM | Plant and machinery under hire-purchase RM | Factory equipment RM | Motor vehicles under hire-purchase RM | Computer and programming RM | Signboard, electrical and fittings RM | Air-conditioners, office equipment, furniture, fixtures and fittings RM | Renovation RM | Total RM  |
|--|------------------------|--|----------------------|---------------------------------------|-----------------------------|---------------------------------------|---|---------------|-----------|
| Accumulated depreciation As of July 4, 2007                | -                      | -  | -                    | -                                     | -                           | -                                     | -   | -             | -         |
| Depreciation charge for the period (date of incorporation) | 12,233                 | -  | 381                  | -                                     | 460                         | 130                                   | 420   | 4,135         | 17,759    |
| As of December 31, 2007                                    | 12,233                 | -  | 381                  | -                                     | 460                         | 130                                   | 420   | 4,135         | 17,759    |
| Depreciation charge for the year                           | 52,534                 | -  | 28,549               | 4,950                                 | 3,219                       | 6,294                                 | 29,588  | 32,847        | 157,981   |
| Disposals  | -                      | -  | (627)                | -                                     | -                           | -                                     | -   | -             | (627)     |
| As of December 31, 2008                                    | 64,767                 | -  | 28,303               | 4,950                                 | 3,679                       | 6,424                                 | 30,008  | 36,982        | 175,113   |
| Depreciation charge for the year                           | 65,932                 | -  | 48,823               | 38,200                                | 3,748                       | 8,528                                 | 35,452  | 37,108        | 237,791   |
| Write off  | (1,180)                | -  | -                    | -                                     | -                           | -                                     | -   | -             | (1,180)   |
| As of December 31, 2009                                    | 129,519                | -  | 77,126               | 43,150                                | 7,427                       | 14,952                                | 65,460  | 74,090        | 411,724   |
| Depreciation charge for the year                           | 105,903                | 76,950                                     | 61,923               | 38,200                                | 5,394                       | 8,678                                 | 44,204  | 38,712        | 379,964   |
| Disposals  | -                      | -  | (21)                 | -                                     | -                           | -                                     | -   | -             | (21)      |
| As of December 31, 2010                                    | 235,422                | 76,950                                     | 139,028              | 81,350                                | 12,821                      | 23,630                                | 109,664   | 112,802       | 791,667   |
| Carrying amounts   |                        |  |                      |                                       |                             |                                       |   |               |           |
| As of December 31, 2007                                    | 194,067                | -  | 8,699                | -                                     | 9,762                       | 1,820                                 | 10,134  | 74,524        | 299,006   |
| As of December 31, 2008                                    | 214,456                | -  | 166,441              | 94,050                                | 12,416                      | 36,217                                | 132,064   | 148,556       | 804,200   |
| As of December 31, 2009                                    | 243,254                | -  | 207,499              | 147,850                               | 16,428                      | 27,689                                | 133,484   | 111,448       | 887,652   |
| As of December 31, 2010                                    | 390,651                | 436,050                                    | 229,207              | 109,650                               | 14,388                      | 20,011                                | 136,698   | 81,486        | 1,418,141 |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****12.5 DYNASTY CONFECTIONERY - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****12.5.6 INVENTORIES**

|                               | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|-------------------------------|------------------|------------------|------------------|------------------|
| At cost:                      |                  |                  |                  |                  |
| Raw materials and consumables | 127,922          | 112,286          | 100,235          | 41,584           |
| Finished goods                | 8,806            | 4,495            | 20,452           | 2,101            |
|                               | <u>136,728</u>   | <u>116,781</u>   | <u>120,687</u>   | <u>43,685</u>    |

The cost of inventories of Dynasty Confectionery recognised as an expense during the year/period was as follows:

|                     | FYE<br>31.12.2010<br>(12 Months)<br>RM | FYE<br>31.12.2009<br>(12 Months)<br>RM | FYE<br>31.12.2008<br>(12 Months)<br>RM | FPE<br>31.12.2007<br>(6 Months)<br>RM |
|---------------------|--|--|--|---------------------------------------|
| Cost of inventories | <u>3,329,723</u>                       | <u>3,183,366</u>                       | <u>2,771,951</u>                       | <u>572,240</u>                        |

**12.5.7 TRADE AND OTHER RECEIVABLES**

|                       | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|-----------------------|------------------|------------------|------------------|------------------|
| Trade receivables     | 533,906          | 224,840          | 197,379          | 104,599          |
| Other receivables     | 12,120           | 11,703           | 12,883           | -                |
| Refundable deposits   | 19,800           | 19,800           | 15,850           | 14,000           |
|                       | <u>565,826</u>   | <u>256,343</u>   | <u>226,112</u>   | <u>118,599</u>   |
| Loans and receivables | 20,506           | 825              | 57,150           | 18,213           |
| Prepaid expenses      | <u>586,332</u>   | <u>257,168</u>   | <u>283,262</u>   | <u>136,812</u>   |

Trade receivables comprise amount receivable for the sale of goods. The terms granted on sale of goods are as follows:

|            | Average<br>credit period<br>Days |
|------------|----------------------------------|
| 31.12.2010 | Cash to 90                       |
| 31.12.2009 | Cash to 30                       |
| 31.12.2008 | Cash to 30                       |
| 31.12.2007 | <u>Cash to 30</u>                |

No interest is charged on the outstanding balance. There is no trade receivable which is past due as of December 31, 2010 for which Dynasty Confectionery has not provided for impairment loss. Dynasty Confectionery seeks to maintain strict control over its outstanding trade receivables and has a credit period policy to minimise credit risk. Overdue balances are reviewed regularly by management.

Included in trade receivables of Dynasty Confectionery are related parties' balances as follows:

|                           | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---------------------------|------------------|------------------|------------------|------------------|
| Related parties' balances | <u>533,666</u>   | <u>221,980</u>   | <u>191,060</u>   | <u>104,600</u>   |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****12.5 DYNASTY CONFECTIONERY - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****12.5.7 TRADE AND OTHER RECEIVABLES (CONTINUED)**

Other receivables comprise mainly refundable deposits owed by the previous landlord, which are unsecured, interest-free and repayable upon demand.

Transactions with related parties are disclosed in Note 12.5.8.

**12.5.8 RELATED PARTY TRANSACTIONS**

The amount owing to directors represents unsecured and interest-free advances which are repayable upon demand.

During the financial year/period, significant related party transactions are as follows:

|   | <b>FYE<br/>31.12.2010<br/>(12 Months)<br/>RM</b> | <b>FYE<br/>31.12.2009<br/>(12 Months)<br/>RM</b> | <b>FYE<br/>31.12.2008<br/>(12 Months)<br/>RM</b> | <b>FPE<br/>31.12.2007<br/>(6 Months)<br/>RM</b> |
|---|--|--|--|---|
| <b>Related parties</b>                      |  |  |  |   |
| Connezone                                   |  |  |  |   |
| Trade sales                                 | -  | 400  | 1,460  | -   |
| Acadian Gourmet PB Sdn. Bhd.                |  |  |  |   |
| Trade sales                                 | 680  | 280  | -  | -   |
| Acadian Gourmet (KK) Sdn. Bhd.              |  |  |  |   |
| Trade sales                                 | -  | 200  | -  | -   |
| Dynasty Kitchen                             |  |  |  |   |
| Trade sales                                 | -  | -  | 4,000  | -   |
| Esquire Chef                                |  |  |  |   |
| Trade purchase                              | -  | -  | 1,535  | -   |
| Purchase of property, plant and equipment   | -  | -  | 700  | -   |
| Gongga Food                                 |  |  |  |   |
| Trade sales                                 | 4,389,666  | 4,152,948  | 3,534,631  | 673,350   |
| Rental of motor vehicle received/receivable | 44,400   | -  | -  | -   |
| Sales of property, plant and equipment      | 616  | -  | -  | -   |
| Transport charges received/receivable       | -  | 55,788   | -  | -   |
| Old Town Kopitiam Butterworth               |  |  |  |   |
| Trade sales                                 | 1,200  | 700  | 7,180  | -   |
| Kopitiam Asia Pacific                       |  |  |  |   |
| Accounting fee paid/payable                 | 8,400  | 8,400  | 8,400  | 2,100   |
| Trade sales                                 | -  | 120  | -  | -   |
| Contract wages paid/payable                 | -  | -  | -  | 12,002  |
| Old Town Kopitiam Cheras                    |  |  |  |   |
| Trade sales                                 | -  | 200  | 2,460  | -   |

(Forward)

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****12.5 DYNASTY CONFECTIONERY - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****12.5.8 RELATED PARTY TRANSACTIONS (CONTINUED)**

|   | FYE<br>31.12.2010<br>(12 Months)<br>RM | FYE<br>31.12.2009<br>(12 Months)<br>RM | FYE<br>31.12.2008<br>(12 Months)<br>RM | FPE<br>31.12.2007<br>(6 Months)<br>RM |
|---|--|--|--|---------------------------------------|
| <b>Related parties (continued)</b>            |  |  |  |                                       |
| Old Town Kopitiam Kuala Lumpur<br>Trade sales | 340                                    | 400                                    | 1,180                                  | -                                     |
| Old Town Kopitiam<br>Trade sales              | 4,440                                  | 5,680                                  | 9,760                                  | -                                     |
| Oldtown Singapore<br>Trade Sales              | 1,580                                  | -                                      | -                                      | -                                     |
| OTK Eatery<br>Trade sales                     | -                                      | -                                      | 1,000                                  | -                                     |
| White Cafe<br>Rental of factory paid/payable  | 45,600                                 | 45,600                                 | 16,303                                 | -                                     |
| OTK Singapore<br>Trade sales                  | 640                                    | 1,840                                  | 1,900                                  | -                                     |
| Acadian Gourmet Sdn. Bhd.<br>Trade sales      | -                                      | 300                                    | 200                                    | -                                     |
| GC Bangsar Sdn. Bhd.<br>Trade sales           | -                                      | 240                                    | 280                                    | -                                     |
| GC Kapar Sdn. Bhd.<br>Trade sales             | -                                      | 120                                    | 160                                    | -                                     |
| GC Brickfields Sdn. Bhd.<br>Trade sales       | 300                                    | -                                      | -                                      | -                                     |
| GC South City Sdn. Bhd.<br>Trade sales        | -                                      | -                                      | 360                                    | -                                     |
| Gourmet Corner Ipoh Sdn. Bhd.<br>Trade sales  | -                                      | 100                                    | 460                                    | -                                     |
| Gourmet Chef Sdn. Bhd.<br>Trade sales         | -                                      | -                                      | 680                                    | -                                     |
| Gourmet Corner KL Sdn. Bhd.<br>Trade sales    | -                                      | -                                      | 540                                    | -                                     |
| GC Port Klang Sdn. Bhd.<br>Trade sales        | -                                      | 200                                    | -                                      | -                                     |
| GC Ampang Sdn. Bhd.<br>Trade sales            | -                                      | 400                                    | -                                      | -                                     |

(Forward)

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****12.5 DYNASTY CONFECTIONERY - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****12.5.8 RELATED PARTY TRANSACTIONS (CONTINUED)**

|   | FYE<br>31.12.2010<br>(12 Months)<br>RM | FYE<br>31.12.2009<br>(12 Months)<br>RM | FYE<br>31.12.2008<br>(12 Months)<br>RM | FPE<br>31.12.2007<br>(6 Months)<br>RM |
|---|--|--|--|---------------------------------------|
| <b>Related parties (continued)</b>        |  |  |  |                                       |
| GC Selayang Sdn. Bhd.                     |  |  |  |                                       |
| Trade sales                               | -                                      | 220                                    | -                                      | -                                     |
| Oldtown Kopitiam Pavilion Sdn. Bhd.       |  |  |  |                                       |
| Trade sales                               | -                                      | -                                      | 540                                    | -                                     |
| OTK (Alam Damai) Sdn. Bhd.                |  |  |  |                                       |
| Trade sales                               | 360                                    | -                                      | -                                      | -                                     |
| Marich Food Distribution Enterprise       |  |  |  |                                       |
| Trade purchases                           | -                                      | -                                      | 246,762                                | 106,221                               |
| Purchase of property, plant and equipment | 175,000                                | -                                      | 56,228                                 | 158,800                               |
| Sundry wages                              | -                                      | -                                      | 8,449                                  | -                                     |
| Rental of motor vehicle                   | -                                      | -                                      | 6,000                                  | 16,933                                |
| Carriage outwards                         | -                                      | -                                      | 1,580                                  | -                                     |
| Rental of machinery                       | -                                      | -                                      | -                                      | 24,570                                |
| Renovation work                           | -                                      | -                                      | -                                      | 16,289                                |
| Rental of depot                           | -                                      | -                                      | -                                      | 852                                   |
| OTK (Genting) Sdn. Bhd.                   |  |  |  |                                       |
| Trade sales                               | 900                                    | 1,260                                  | 1,600                                  | -                                     |
| OTK (Intan) Sdn. Bhd.                     |  |  |  |                                       |
| Trade sales                               | -                                      | 700                                    | -                                      | -                                     |
| OTK (Petaling Jaya) Sdn. Bhd.             |  |  |  |                                       |
| Trade sales                               | -                                      | -                                      | 660                                    | -                                     |
| OTK Manjung Sdn. Bhd.                     |  |  |  |                                       |
| Trade sales                               | -                                      | 720                                    | -                                      | -                                     |
| OTK Sunway Sdn. Bhd.                      |  |  |  |                                       |
| Trade sales                               | -                                      | -                                      | 480                                    | -                                     |
| OTK (Kuala Selangor) Sdn. Bhd.            |  |  |  |                                       |
| Trade sales                               | 500                                    | -                                      | -                                      | -                                     |
| OTK USJ Sdn. Bhd.                         |  |  |  |                                       |
| Trade sales                               | -                                      | -                                      | 260                                    | -                                     |
| GC Alamanda Sdn. Bhd.                     |  |  |  |                                       |
| Trade sales                               | -                                      | 260                                    | -                                      | -                                     |
| GC Bangsar Two Sdn. Bhd.                  |  |  |  |                                       |
| Trade sales                               | -                                      | 400                                    | -                                      | -                                     |
| Gourmet Corner Sdn. Bhd.                  |  |  |  |                                       |
| Trade sales                               | -                                      | 120                                    | 360                                    | -                                     |
| (Forward)                                 |  |  |  |                                       |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****12.5 DYNASTY CONFECTIONERY - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****12.5.8 RELATED PARTY TRANSACTIONS (CONTINUED)**

|                                    | FYE<br>31.12.2010<br>(12 Months)<br>RM | FYE<br>31.12.2009<br>(12 Months)<br>RM | FYE<br>31.12.2008<br>(12 Months)<br>RM | FPE<br>31.12.2007<br>(6 Months)<br>RM |
|------------------------------------|--|--|--|---------------------------------------|
| <b>Related parties (continued)</b> |  |  |  |                                       |
| OTK Megah Sdn. Bhd.                |  |  |  |                                       |
| Trade sales                        | -                                      | 160                                    | -                                      | -                                     |
| OTK (Shah Alam) Sdn. Bhd.          |  |  |  |                                       |
| Trade sales                        | -                                      | 400                                    | -                                      | -                                     |
| OTK (Rawang) Sdn. Bhd.             |  |  |  |                                       |
| Trade sales                        | -                                      | 520                                    | -                                      | -                                     |
| OTK Ipoh Road Sdn. Bhd.            |  |  |  |                                       |
| Trade sales                        | -                                      | 240                                    | -                                      | -                                     |
| GC R Laut Sdn. Bhd.                |  |  |  |                                       |
| Trade sales                        | 120                                    | 300                                    | -                                      | -                                     |
| Looi Kar Min                       |  |  |  |                                       |
| Renovation work                    | -                                      | -                                      | -                                      | 15,000                                |
| Purchase of equipment              | -                                      | -                                      | -                                      | 10,500                                |

The relationships of the related parties with Oldtown group of companies are disclosed in Chapters 5 and 7 of the Prospectus of Oldtown.

The outstanding balance arising from non-trade transactions is as follows:

|                       | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|-----------------------|------------------|------------------|------------------|------------------|
| <b>Other payables</b> |                  |                  |                  |                  |
| Kopitiam Asia Pacific | 700              | 700              | -                | -                |
| White Cafe            | -                | 11,703           | 11,703           | -                |

***Compensation of key management personnel***

The remuneration of directors is disclosed in Note 12.5.1. Other than the directors, there are no other key management personnel of Dynasty Confectionery during the year/period.

## 10. ACCOUNTANTS' REPORT

## G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

## 12.5 DYNASTY CONFECTIONERY - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 12.5.9 SHARE CAPITAL

|  | 31.12.2010       | 31.12.2009       | 31.12.2008       | 31.12.2007       | 31.12.2007 | 31.12.2008 | 31.12.2007 |
|--|------------------|------------------|------------------|------------------|------------|------------|------------|
|  | Number of shares | Number of shares | Number of shares | Number of shares | RM         | RM         | RM         |
| Authorised:<br>Ordinary shares of RM1 each:            |                  |                  |                  |                  |            |            |            |
| At beginning of year/period                            | 500,000          | 500,000          | 100,000          | 100,000          | 500,000    | 100,000    | 100,000    |
| Increased during the year/period                       | -                | -                | 400,000          | -                | -          | 400,000    | -          |
| At end of year/period                                  | 500,000          | 500,000          | 500,000          | 100,000          | 500,000    | 500,000    | 100,000    |
| Issued and fully paid:<br>Ordinary shares of RM1 each: |                  |                  |                  |                  |            |            |            |
| At beginning of year/period                            | 200,000          | 200,000          | 2                | 2                | 200,000    | 2          | 2          |
| Issued during the year/period                          | -                | -                | 199,998          | -                | -          | 199,998    | -          |
| At end of year/period                                  | 200,000          | 200,000          | 200,000          | 2                | 200,000    | 200,000    | 2          |

## 12.5.10 RETAINED EARNINGS

In accordance with the Finance Act, 2007, the single tier income tax system became effective from the year of assessment 2008. Under this system, tax on a company's profit is a final tax, and dividends paid are exempted from tax in the hands of the shareholders. Unlike the previous imputation system, the recipient of the dividend would no longer be able to claim any tax credit.

Companies without Section 108 tax credit balance will automatically move to the single tier tax system on January 1, 2008. However, companies with such tax credits are given an irrevocable option to elect for the single tier tax system and disregard the tax credit or continue to use the tax credits under Section 108 account to frank the payment of cash dividends on ordinary shares for a period of 6 years ending December 31, 2013 or until the tax credits are fully utilised, whichever comes first. During the transitional period, any tax paid will not be added to the Section 108 account and any tax credits utilised will reduce the tax credit balance. All companies will be in the new system on January 1, 2014.

Dynasty Confectionery did not have Section 108 tax credit balance and had automatically moved to the single tier tax system in accordance with the Finance Act, 2007.



## 10. ACCOUNTANTS' REPORT

## G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

## 12.5 DYNASTY CONFECTIONERY - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 12.5.11 HIRE-PURCHASE PAYABLES

|   | ← Minimum hire-purchase payments → |            | ← Present value of minimum hire-purchase payments → |            |            |            |            |            |
|---|------------------------------------|------------|---|------------|------------|------------|------------|------------|
|   | 31.12.2010                         | 31.12.2009 | 31.12.2008  | 31.12.2007 | 31.12.2010 | 31.12.2009 | 31.12.2008 | 31.12.2007 |
|   | RM                                 | RM         | RM  | RM         | RM         | RM         | RM         | RM         |
| Amounts payable under hire-purchase arrangements:                   |                                    |            |   |            |            |            |            |            |
| Within one year   | 194,328                            | 43,776     | 22,872  | -          | 168,788    | 33,724     | 16,040     | -          |
| In the second to fifth year inclusive                               | 311,287                            | 129,223    | 87,661  | -          | 294,377    | 115,795    | 75,753     | -          |
|   | 505,615                            | 172,999    | 110,533   | -          | 463,165    | 149,519    | 91,793     | -          |
| Less: Future finance charges  | (42,450)                           | (23,480)   | (18,740)  | -          | -          | -          | -          | -          |
| Present value of hire-purchase payables                             | 463,165                            | 149,519    | 91,793  | -          | 463,165    | 149,519    | 91,793     | -          |
| Less: Amount due within 12 months (shown under current liabilities) |                                    |            |   |            | (168,788)  | (33,724)   | (16,040)   | -          |
| Non-current portion   |                                    |            |   |            | 294,377    | 115,795    | 75,753     | -          |

The non-current portion is repayable as follows:

| Financial years/period ending: | 31.12.2010 | 31.12.2009 | 31.12.2008 | 31.12.2007 |
|--------------------------------|------------|------------|------------|------------|
|                                | RM         | RM         | RM         | RM         |
| 2010                           | -          | -          | 17,602     | -          |
| 2011                           | -          | 36,377     | 19,163     | -          |
| 2012                           | 180,270    | 39,222     | 20,725     | -          |
| 2013                           | 112,395    | 38,484     | 18,263     | -          |
| 2014                           | 1,712      | 1,712      | -          | -          |
|                                | 294,377    | 115,795    | 75,753     | -          |

It is the policy of Dynasty Confectionery to acquire certain of its property, plant and equipment under hire-purchase arrangements.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****12.5 DYNASTY CONFECTIONERY - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****12.5.11 HIRE-PURCHASE PAYABLES (CONTINUED)**

The term for hire-purchase is 3 to 5 years (2009 and 2008: 5 years). The effective borrowing rate was for 2010 was 7.16% (2009: 7.56%; 2008: 7.34%) per annum. Interest rates are fixed at the inception of the hire-purchase arrangements.

Hire-purchase payables of Dynasty Confectionery are secured by the assets under hire-purchase.

The fair values of the hire-purchase payables of Dynasty Confectionery approximate their carrying amounts.

**12.5.12 DEFERRED TAX LIABILITIES**

|  | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|--|------------------|------------------|------------------|------------------|
| At beginning of year/period                | 20,000           | 26,000           | 3,600            | -                |
| Recognised in profit or loss (Note 12.5.4) | 39,000           | (6,000)          | 22,400           | 3,600            |
| At end of year/period                      | 59,000           | 20,000           | 26,000           | 3,600            |

The deferred tax liabilities are in respect of:

|   | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---|------------------|------------------|------------------|------------------|
| Tax effect of:  |                  |                  |                  |                  |
| Temporary differences between tax capital allowances and book depreciation of property, plant and equipment | 59,000           | 20,000           | 26,000           | 13,800           |
| Unabsorbed tax capital allowances carried forward   | -                | -                | -                | (10,200)         |
| At end of year/period   | 59,000           | 20,000           | 26,000           | 3,600            |

**12.5.13 TRADE AND OTHER PAYABLES**

|                  | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|------------------|------------------|------------------|------------------|------------------|
| Trade payables   | 379,598          | 311,179          | 545,487          | 229,645          |
| Other payables   | 76,805           | 72,055           | 15,903           | 28,904           |
| Accrued expenses | 101,710          | 70,074           | 68,343           | 43,612           |
|                  | 558,113          | 453,308          | 629,733          | 302,161          |

Trade and other payables comprise amounts outstanding for trade purchases and ongoing costs. The terms granted to Dynasty Confectionery for trade purchases are as follows:

|                     | FYE<br>31.12.2010<br>(12 Months) | FYE<br>31.12.2009<br>(12 Months) | FYE<br>31.12.2008<br>(12 Months) | FPE<br>31.12.2007<br>(6 Months) |
|---------------------|----------------------------------|----------------------------------|----------------------------------|---------------------------------|
| Credit terms (days) | 14 to 60                         | 14 to 60                         | 14 to 60                         | 30 to 60                        |

The amounts owing to other payables are unsecured, interest-free and repayable upon demand. Dynasty Confectionery has financial risk management policies to ensure that all payables are paid within the credit time frame.

Transactions with related parties are disclosed in Note 12.5.8.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****12.5 DYNASTY CONFECTIONERY - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****12.5.14 FINANCIAL INSTRUMENTS, FINANCIAL RISK AND CAPITAL RISKS MANAGEMENT**

| Categories of financial instruments                 | 31.12.2010<br>RM |
|---|------------------|
| <b>Financial assets</b>                             |                  |
| Loans and receivables – trade and other receivables | 565,826          |
| Cash and cash equivalents – cash and bank balances  | <u>180,291</u>   |
| <b>Financial liabilities</b>                        |                  |
| Amortised cost:                                     |                  |
| Trade and other payables                            | 558,113          |
| Hire-purchase payables                              | <u>463,165</u>   |

**Financial Risk Management Objectives and Policies**

Risk management is integral to the whole business of Dynasty Confectionery. Management continually monitors Dynasty Confectionery's risk management process to ensure that an appropriate balance between risk and control is achieved. Risk management policies and systems are reviewed regularly to reflect changes in the market conditions and Dynasty Confectionery's activities.

There has been no change to Dynasty Confectionery's exposure to these financial risks or the manner in which it manages and measures the risk.

**(a) Credit risk management**

The maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as at the end of the financial period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the statement of financial position.

As of December 31, 2010, Dynasty Confectionery is subject to significant concentration of credit risk as 99% of its trade receivables are with 2 related parties. Majority of these amounts have been received since the year end.

**(b) Liquidity and cash flow risks management**

Ultimate responsibility for liquidity and cash flow risks management rests with the Board of Directors, which has established an appropriate liquidity and cash flow risks management framework for the management of Dynasty Confectionery's short, medium and long-term funding and liquidity and cash flow management requirements. Dynasty Confectionery manage liquidity and cash flow risks by maintaining adequate reserves and banking facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and financial liabilities.

Management is of the view that Dynasty Confectionery's exposure to liquidity and cash flow risks are minimal as Dynasty Confectionery has sufficient funds to finance its ongoing working capital requirements.

## 10. ACCOUNTANTS' REPORT

### G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

#### 12.5 DYNASTY CONFECTIONERY - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

##### 12.5.14 FINANCIAL INSTRUMENTS, FINANCIAL RISK AND CAPITAL RISKS MANAGEMENT (CONTINUED)

The maturity profile for the non-derivative financial assets/liabilities of Dynasty Confectionery as of December 31, 2010 based on the undiscounted cash flows of the respective financial assets/liabilities representing the earliest date on which the Company is entitled to receive/required to pay, is as follows:

|  | On demand<br>or within<br>one year<br>RM | One to<br>five years<br>RM | Over five<br>years<br>RM | Total<br>RM      |
|--|--|----------------------------|--------------------------|------------------|
| Non-derivative financial assets:   |  |                            |                          |                  |
| Trade and other receivables  | 565,826                                  | -                          | -                        | 565,826          |
| Cash and bank balances   | 180,291                                  | -                          | -                        | 180,291          |
| <b>Total undiscounted non-derivative<br/>financial assets</b>                  | <b>746,117</b>                           | <b>-</b>                   | <b>-</b>                 | <b>746,117</b>   |
| Non-derivative financial liabilities   |  |                            |                          |                  |
| Trade and other payables   | 558,113                                  | -                          | -                        | 558,113          |
| Hire-purchase payables   | 168,788                                  | 294,377                    | -                        | 463,165          |
| <b>Total undiscounted non-derivative<br/>financial liabilities</b>             | <b>726,901</b>                           | <b>294,377</b>             | <b>-</b>                 | <b>1,021,278</b> |
| <b>Total net undiscounted non-derivative<br/>financial asset/(liabilities)</b> | <b>19,216</b>                            | <b>(294,377)</b>           | <b>-</b>                 | <b>(275,161)</b> |

Dynasty Confectionery has not committed to any derivative financial instruments during the financial period ended December 31, 2010.

#### (c) Market risk

Dynasty Confectionery's exposure to financial risk of changes in foreign currency exchange rates and interest rates are minimal. Dynasty Confectionery's transactions are mainly denominated in Ringgit Malaysia and interest bearing balances are minimal. Hence, no sensitivity analysis to market risk was disclosed.

#### (d) Capital risk management

Dynasty Confectionery manages its capital to ensure Dynasty Confectionery will be able to continue as going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. Dynasty Confectionery's overall strategy remains unchanged from 2009.

The capital structure of the Company consists of net debt and equity of Dynasty Confectionery. Dynasty Confectionery is not subject to any externally imposed capital requirements.

#### Fair Values of Financial Assets and Financial Liabilities

The fair value of long-term financial assets and liabilities are determined by the present value of future cash flows estimated and discounted using the current interest rates for similar instruments at the end of the reporting date. There is no material difference between the fair values and carrying values of these assets and liabilities as of December 31, 2010.

The carrying amounts of cash and cash equivalents, trade and other receivables and trade and other payables approximate their respective fair values due to the relatively short-term maturity of these financial instruments. The fair values of other classes of financial assets and liabilities are disclosed in the respective notes to the financial statements.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****12.5 DYNASTY CONFECTIONERY - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****12.5.15 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprise cash and bank balances of Dynasty Confectionery for the respective financial year/period ended.

**12.5.16 OPERATING LEASE ARRANGEMENTS**

Operating leases relates to leases of factory and hostels with average lease term of 3 years. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the leased factory and hostels at the expiry of the lease period.

Payment recognised as an expense for Dynasty Confectionery was as follows:

|                        | FYE<br>31.12.2010<br>(12 Months)<br>RM | FYE<br>31.12.2009<br>(12 Months)<br>RM | FYE<br>31.12.2008<br>(12 Months)<br>RM | FPE<br>31.12.2007<br>(6 Months)<br>RM |
|------------------------|--|--|--|---------------------------------------|
| Minimum lease payments | 52,800                                 | 52,650                                 | 50,550                                 | 12,885                                |

Dynasty Confectionery has outstanding commitments under non-cancellable operating leases as follows:

|                                       | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---------------------------------------|------------------|------------------|------------------|------------------|
| Within one year                       | 32,200           | 47,400           | 47,250           | -                |
| In the second to fifth year inclusive | -                | 30,400           | 76,000           | -                |
|                                       | 32,200           | 77,800           | 123,250          | -                |

**12.5.17 SIGNIFICANT EVENT**

On December 28, 2009, the shareholders of Dynasty Confectionery entered into a Sale and Purchase Agreement (as was supplemented by letters dated May 24, 2010 and June 11, 2010 respectively, and a supplemental agreement dated December 9, 2010) with Oldtown to dispose off their equity interests in Dynasty Confectionery.

On April 12, 2011, Securities Commission had granted Oldtown the approval for the proposed listing on the Main Market of Bursa Securities. Following the said approval, Oldtown intends to complete the transfer of shares before June 2011.

## 10. ACCOUNTANTS' REPORT

### G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

#### 13 EMPEROR'S KITCHEN

#### 13.1 EMPEROR'S KITCHEN – STATEMENTS OF COMPREHENSIVE INCOME

|   | Note   | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---|--------|-------------------------|-------------------------|-------------------------|-------------------------|
| Revenue   | 13.5.1 | 20,771,671              | 17,671,858              | 14,601,585              | 6,986,580               |
| Cost of sales   |        | <u>(17,750,228)</u>     | <u>(14,601,784)</u>     | <u>(11,444,971)</u>     | <u>(5,149,357)</u>      |
| Gross profit  |        | 3,021,443               | 3,070,074               | 3,156,614               | 1,837,223               |
| Investment revenue  |        | 5,919                   | 2,392                   | -                       | -                       |
| Other operating income  |        | 57,759                  | 18,659                  | 8,731                   | -                       |
| Other loss  |        | (6,717)                 | -                       | (20,128)                | -                       |
| Selling and distribution costs  |        | -                       | -                       | (3,061)                 | (2,818)                 |
| Administrative and general expenses   |        | <u>(640,758)</u>        | <u>(750,629)</u>        | <u>(625,730)</u>        | <u>(372,979)</u>        |
| Profit from operations  |        | 2,437,646               | 2,340,496               | 2,516,426               | 1,461,426               |
| Finance cost - term loan interest   | 13.5.3 | <u>(15,034)</u>         | <u>(11,414)</u>         | -                       | -                       |
| Profit before tax   | 13.5.4 | 2,422,612               | 2,329,082               | 2,516,426               | 1,461,426               |
| Income tax expense  | 13.5.5 | <u>(608,568)</u>        | <u>(532,005)</u>        | <u>(685,080)</u>        | <u>(371,380)</u>        |
| <b>Profit and total comprehensive income for the year attributable to owners of Emperor's Kitchen</b> |        | <u><b>1,814,044</b></u> | <u><b>1,797,077</b></u> | <u><b>1,831,346</b></u> | <u><b>1,090,046</b></u> |
| <i>Key financial ratios:</i>  |        |                         |                         |                         |                         |
| Weighted average number of ordinary shares of RM1.00 each in issue (units)                            |        | 200,002                 | 200,002                 | 200,002                 | 200,002                 |
| Gross profit margin (%)   |        | 14.55                   | 17.37                   | 21.62                   | 26.30                   |
| Basic earnings per share (sen)  |        | 907.01                  | 898.53                  | 915.66                  | 545.02                  |
| Effective tax rate (%)  |        | <u>24.50</u>            | <u>25.61</u>            | <u>25.35</u>            | <u>25.26</u>            |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****13.2 EMPEROR'S KITCHEN - STATEMENTS OF FINANCIAL POSITIONS**

|                                       | Note    | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---------------------------------------|---------|------------------|------------------|------------------|------------------|
| <b>ASSETS</b>                         |         |                  |                  |                  |                  |
| <b>Non-current asset</b>              |         |                  |                  |                  |                  |
| Property, plant and equipment         | 13.5.6  | 2,587,714        | 2,427,707        | 1,911,850        | 409,479          |
| <b>Current assets</b>                 |         |                  |                  |                  |                  |
| Inventories                           | 13.5.7  | 283,911          | 215,403          | 264,309          | 206,014          |
| Trade and other receivables           | 13.5.8  | 3,304,056        | 2,395,781        | 2,267,292        | 1,413,172        |
| Current tax assets                    | 13.5.5  | -                | 21,852           | -                | -                |
| Fixed deposit, cash and bank balances | 13.5.10 | 618,933          | 341,857          | 1,114,991        | 594,541          |
| <b>Total current assets</b>           |         | <b>4,206,900</b> | <b>2,974,893</b> | <b>3,646,592</b> | <b>2,213,727</b> |
| <b>Total assets</b>                   |         | <b>6,794,614</b> | <b>5,402,600</b> | <b>5,558,442</b> | <b>2,623,206</b> |
| <b>EQUITY AND LIABILITIES</b>         |         |                  |                  |                  |                  |
| <b>Capital and reserves</b>           |         |                  |                  |                  |                  |
| Issued capital                        | 13.5.11 | 200,002          | 200,002          | 200,002          | 200,002          |
| Retained earnings                     | 13.5.12 | 2,777,272        | 1,963,228        | 2,516,151        | 1,091,805        |
| <b>Total equity</b>                   |         | <b>2,977,274</b> | <b>2,163,230</b> | <b>2,716,153</b> | <b>1,291,807</b> |
| <b>Non-current liabilities</b>        |         |                  |                  |                  |                  |
| Deferred tax liabilities              | 13.5.13 | 245,000          | 135,000          | 110,000          | 27,500           |
| Term loan                             | 13.5.14 | -                | 165,007          | -                | -                |
| Deferred capital grants               | 13.5.16 | 64,583           | -                | -                | -                |
| <b>Total non-current liabilities</b>  |         | <b>309,583</b>   | <b>300,007</b>   | <b>110,000</b>   | <b>27,500</b>    |
| <b>Current liabilities</b>            |         |                  |                  |                  |                  |
| Trade and other payables              | 13.5.15 | 3,111,176        | 2,665,308        | 2,697,980        | 1,109,012        |
| Deferred capital grant                | 13.5.16 | 22,143           | -                | -                | -                |
| Term loan                             | 13.5.14 | 165,007          | 274,055          | -                | -                |
| Amount owing to directors             | 13.5.9  | -                | -                | -                | 31,690           |
| Current tax liabilities               | 13.5.5  | 209,431          | -                | 34,309           | 163,197          |
| <b>Total current liabilities</b>      |         | <b>3,507,757</b> | <b>2,939,363</b> | <b>2,732,289</b> | <b>1,303,899</b> |
| <b>Total liabilities</b>              |         | <b>3,817,340</b> | <b>3,239,370</b> | <b>2,842,289</b> | <b>1,331,399</b> |
| <b>Total equity and liabilities</b>   |         | <b>6,794,614</b> | <b>5,402,600</b> | <b>5,558,442</b> | <b>2,623,206</b> |
| <b>Key financial ratios:</b>          |         |                  |                  |                  |                  |
| Net tangible assets per share (sen)   |         | 1,488.62         | 1,081.60         | 1,358.06         | 645.90           |
| Debt-equity ratio (times)             |         | 0.06             | 0.20             | -                | -                |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****13.3 EMPEROR'S KITCHEN - STATEMENTS OF CHANGES IN EQUITY**

|   | Note | Issued<br>Capital<br>RM | Distributable<br>Reserve<br>Retained<br>Earnings<br>RM | Total<br>Shareholders'<br>Equity<br>RM |
|---|------|-------------------------|--|--|
| Balance as of January 1, 2007           |      | 200,002                 | 281,780  | 481,782                                |
| Total comprehensive income for the year |      | -                       | 1,090,046  | 1,090,046                              |
| Dividends                               | F    | -                       | (280,021)  | (280,021)                              |
| Balance as of December 31, 2007         |      | 200,002                 | 1,091,805  | 1,291,807                              |
| Total comprehensive income for the year |      | -                       | 1,831,346  | 1,831,346                              |
| Dividends                               | F    | -                       | (407,000)  | (407,000)                              |
| Balance as of December 31, 2008         |      | 200,002                 | 2,516,151  | 2,716,153                              |
| Total comprehensive income for the year |      | -                       | 1,797,077  | 1,797,077                              |
| Dividends                               | F    | -                       | (2,350,000)  | (2,350,000)                            |
| Balance as of December 31, 2009         |      | 200,002                 | 1,963,228  | 2,163,230                              |
| Total comprehensive income for the year |      | -                       | 1,814,044  | 1,814,044                              |
| Dividends                               | F    | -                       | (1,000,000)  | (1,000,000)                            |
| Balance as of December 31, 2010         |      | 200,002                 | 2,777,272  | 2,977,274                              |

**13.4 EMPEROR'S KITCHEN - SUMMARISED STATEMENTS OF CASH FLOWS**

|   | Note    | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---|---------|-------------------------|-------------------------|-------------------------|-------------------------|
| Net Cash Generated From<br>Operating Activities                 |         | 2,354,290               | 2,233,687               | 2,768,758               | 1,046,390               |
| Net Cash Used In Investing Activities                           |         | (969,757)               | (1,291,861)             | (1,809,618)             | (187,878)               |
| Net Cash Used In Financing Activities                           |         | (1,178,375)             | (1,922,352)             | (438,690)               | (269,971)               |
| <b>NET INCREASE/(DECREASE) IN<br/>CASH AND CASH EQUIVALENTS</b> |         | 206,158                 | (980,526)               | 520,450                 | 588,541                 |
| <b>CASH AND CASH EQUIVALENTS<br/>AT BEGINNING OF YEAR</b>       |         | 134,465                 | 1,114,991               | 594,541                 | 6,000                   |
| <b>CASH AND CASH EQUIVALENTS<br/>AT END OF YEAR</b>             | 13.5.18 | 340,623                 | 134,465                 | 1,114,991               | 594,541                 |



**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****13.5 EMPEROR'S KITCHEN - NOTES TO THE FINANCIAL STATEMENTS****13.5.1 REVENUE**

|                     | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Trading sales       | 7,774,725               | 6,124,230               | 4,360,655               | -                       |
| Manufacturing sales | 12,996,946              | 11,547,628              | 10,240,930              | 6,986,580               |
|                     | <u>20,771,671</u>       | <u>17,671,858</u>       | <u>14,601,585</u>       | <u>6,986,580</u>        |

**13.5.2 OPERATING COSTS APPLICABLE TO REVENUE**

| Note   | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| Changes in inventories of finished goods and trading goods | 29,726                  | 70,335                  | (14,076)                | (60,439)                |
| Raw materials and consumables used                         | 6,560,718               | 5,867,900               | 9,498,744               | 4,334,763               |
| Purchase of trading goods                                  | 7,400,598               | 5,674,783               | -                       | -                       |
| Employee benefit expenses                                  | 1,858,270               | 1,413,667               | 1,037,511               | 566,966                 |
| Directors' remuneration:                                   |                         |                         |                         |                         |
| - salaries and bonuses                                     | 107,600                 | 110,000                 | 97,500                  | 60,620                  |
| - EPF contributions  | 12,912                  | 13,200                  | 11,700                  | 7,200                   |
| Depreciation of property, plant and equipment              | 13.5.6 734,357          | 551,661                 | 263,605                 | 98,298                  |
| Other loss   | 6,717                   | -                       | 20,128                  | -                       |
| Other operating expenses                                   | 1,686,805               | 1,650,867               | 1,178,778               | 517,746                 |
|  | <u>18,397,703</u>       | <u>15,352,413</u>       | <u>12,093,890</u>       | <u>5,525,154</u>        |

**13.5.3 FINANCE COSTS**

|                       | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|-----------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Interest on term loan | 12,549                  | 9,445                   | -                       | -                       |
| Bank charges          | 2,485                   | 1,969                   | -                       | -                       |
|                       | <u>15,034</u>           | <u>11,414</u>           | <u>-</u>                | <u>-</u>                |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****13.5 EMPEROR'S KITCHEN - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****13.5.4 PROFIT BEFORE TAX**

Profit before tax has been arrived at after crediting/(charging):

|   | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| Interest income on:   |                         |                         |                         |                         |
| Fixed deposits  | 5,919                   | 2,392                   | -                       | -                       |
| Deposits refunded   | -                       | -                       | 544                     | -                       |
| Deferred capital grants                                     | 23,988                  | -                       | -                       | -                       |
| Rental income   | 2,569                   | -                       | -                       | -                       |
| Rental of:  |                         |                         |                         |                         |
| Kitchens and warehouses                                     | (420,077)               | (420,077)               | (267,079)               | (99,100)                |
| Hostels   | (40,175)                | (8,275)                 | (23,375)                | (14,933)                |
| Office  | (22,625)                | (95,875)                | (44,753)                | (13,200)                |
| Plant and machinery   | -                       | (480)                   | (3,200)                 | -                       |
| Office equipment  | -                       | -                       | (1,911)                 | (2,424)                 |
| Property, plant and equipment written off                   | (677)                   | (19,343)                | (23,514)                | -                       |
| Audit fee:  |                         |                         |                         |                         |
| - Current year  | (10,000)                | (15,000)                | (13,000)                | (12,000)                |
| - Prior year  | -                       | -                       | 300                     | -                       |
| (Loss)/Gain on disposal of property,<br>plant and equipment | (6,717)                 | -                       | 20,128                  | -                       |

Included in employee benefits expenses of Emperor's Kitchen are the following:

|                           | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Contributions made to EPF | 107,230                 | 70,864                  | 45,960                  | 12,910                  |

**13.5.5 INCOME TAX EXPENSE**

|  | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| Income tax comprises:  |                         |                         |                         |                         |
| Current tax expense in respect of current year   | 631,560                 | 556,369                 | 604,863                 | 362,000                 |
| Adjustments recognised in the current year in<br>relation to the income tax of prior years   | (132,992)               | (49,364)                | (2,283)                 | -                       |
|  | 498,568                 | 507,005                 | 602,580                 | 362,000                 |
| Deferred tax relating to origination and reversal<br>of temporary differences (Note 13.5.13) |                         |                         |                         |                         |
| Current year   | (38,000)                | 25,000                  | 82,500                  | 9,380                   |
| Adjustments recognised in the current year in<br>relation to the deferred tax of prior years | 148,000                 | -                       | -                       | -                       |
|  | 110,000                 | 25,000                  | 82,500                  | 9,380                   |
|  | 608,568                 | 532,005                 | 685,080                 | 371,380                 |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****13.5 EMPEROR'S KITCHEN - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****13.5.5 INCOME TAX EXPENSE (CONTINUED)**

The statutory income tax rate for companies with a paid-up capital of above RM2,500,000 in years of assessment 2007, 2008, 2009 and 2010 are 27%, 26%, 25% and 25% respectively. In the previous years of assessments, for companies with a paid-up capital of RM2,500,000 and below, an income tax rate of 20% is applicable for chargeable income of up to RM500,000. However, with effect from year of assessment 2009, this preferential tax rate will no longer be applicable for companies that controls or being controlled directly or indirectly by, or are related to another company which has a paid-up ordinary share capital of more than RM2,500,000. As a result, income tax rate of Emperor's Kitchen has also been revised accordingly.

The income tax expense for the year can be reconciled to profit before tax as follows:

|   | FYE<br>31.12.2010<br>RM  | FYE<br>31.12.2009<br>RM  | FYE<br>31.12.2008<br>RM  | FYE<br>31.12.2007<br>RM  |
|---|--------------------------|--------------------------|--------------------------|--------------------------|
| Profit before tax   | <u>2,422,612</u>         | <u>2,329,082</u>         | <u>2,516,426</u>         | <u>1,461,426</u>         |
| Income tax expense calculated at 25%<br>(31.12.2009: 25%; 31.12.2008: 26%<br>and 31.12.2007: 27%) | 606,000                  | 582,000                  | 654,000                  | 395,000                  |
| Tax effects of:   |                          |                          |                          |                          |
| Expenses that are not deductible<br>in determining taxable profit                                 | 12,560                   | 24,369                   | 56,963                   | 6,000                    |
| Adjustment for deferred tax due to change<br>in income tax rate                                   | -                        | -                        | 6,400                    | -                        |
| Unrecognised temporary differences<br>in prior year   | -                        | -                        | -                        | 5,380                    |
| Effect of difference in tax rate applicable to<br>small and medium scale companies                | (25,000)                 | (25,000)                 | (30,000)                 | (35,000)                 |
| Adjustments recognised in the current year in<br>relation to the taxes of prior years:            |                          |                          |                          |                          |
| Income tax  | (132,992)                | (49,364)                 | (2,283)                  | -                        |
| Deferred tax  | <u>148,000</u>           | <u>-</u>                 | <u>-</u>                 | <u>-</u>                 |
| Income tax expense for the year   | <u>608,568</u>           | <u>532,005</u>           | <u>685,080</u>           | <u>371,380</u>           |
|   | <b>31.12.2010<br/>RM</b> | <b>31.12.2009<br/>RM</b> | <b>31.12.2008<br/>RM</b> | <b>31.12.2007<br/>RM</b> |
| <i>Current tax asset</i>  |                          |                          |                          |                          |
| Tax refund receivable   | <u>-</u>                 | <u>21,852</u>            | <u>-</u>                 | <u>-</u>                 |
|   | <b>31.12.2010<br/>RM</b> | <b>31.12.2009<br/>RM</b> | <b>31.12.2008<br/>RM</b> | <b>31.12.2007<br/>RM</b> |
| <i>Current tax liability</i>  |                          |                          |                          |                          |
| Income tax payable  | <u>209,431</u>           | <u>-</u>                 | <u>34,309</u>            | <u>163,197</u>           |

## 10. ACCOUNTANTS' REPORT

## G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

## 13.5 EMPEROR'S KITCHEN - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 13.5.6 PROPERTY, PLANT AND EQUIPMENT

| Cost                    | Plant and machinery RM | Kitchen and warehouse equipment RM | Electrical installation and furniture and fittings RM | Computers and programming RM | Office equipment RM | Renovation RM | Total RM  |
|-------------------------|------------------------|------------------------------------|---|------------------------------|---------------------|---------------|-----------|
| As of January 1, 2007   | -                      | 276,276                            | 19,307  | 26,151                       | 15,957              | 25,085        | 362,776   |
| Additions               | 34,980                 | 102,752                            | 10,106  | 7,970                        | 3,860               | 28,210        | 187,878   |
| As of December 31, 2007 | 34,980                 | 379,028                            | 29,413  | 34,121                       | 19,817              | 53,295        | 550,654   |
| Additions               | 285,261                | 1,135,734                          | 191,245   | 33,207                       | 62,200              | 213,850       | 1,921,497 |
| Disposals               | -                      | (145,990)                          | -   | -                            | (1,499)             | (5,050)       | (152,539) |
| Write off               | -                      | -                                  | (11,650)  | -                            | -                   | (21,000)      | (32,650)  |
| As of December 31, 2008 | 320,241                | 1,368,772                          | 209,008   | 67,328                       | 80,518              | 241,095       | 2,286,962 |
| Additions               | 501,319                | 334,826                            | 105,762   | 35,022                       | 13,711              | 98,165        | 1,088,805 |
| Disposals               | -                      | (2,430)                            | -   | -                            | -                   | -             | (2,430)   |
| Write off               | -                      | (550)                              | (5,719)   | (9,277)                      | -                   | (27,245)      | (42,791)  |
| As of December 31, 2009 | 821,560                | 1,700,618                          | 309,051   | 93,073                       | 94,229              | 312,015       | 3,330,546 |
| Additions               | 390,353                | 95,066                             | 107,329   | 6,809                        | 26,515              | 313,468       | 939,540   |
| Disposals               | -                      | -                                  | (16,424)  | -                            | (5,750)             | (30,289)      | (52,463)  |
| Write off               | -                      | (2,900)                            | -   | -                            | -                   | -             | (2,900)   |
| Discount                | -                      | (3,000) *                          | -   | -                            | -                   | -             | (3,000) * |
| As of December 31, 2010 | 1,211,913              | 1,789,784                          | 399,956   | 99,882                       | 114,994             | 595,194       | 4,211,723 |

\* The discount was received from the supplier for assets purchased in year 2009

## 10. ACCOUNTANTS' REPORT

## G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

## 13.5 EMPEROR'S KITCHEN - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 13.5.6 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

|   | Plant and machinery<br>RM | Kitchen and warehouse<br>equipment<br>RM | Electrical<br>installation<br>and furniture<br>and fittings<br>RM | Computers<br>and<br>programming<br>RM | Office<br>equipment<br>RM | Renovation<br>RM | Total<br>RM |
|---|---------------------------|--|---|---------------------------------------|---------------------------|------------------|-------------|
| Accumulated depreciation and<br>accumulated impairment loss |                           |  |   |                                       |                           |                  |             |
| As of January 1, 2007                                       | -                         | 30,303                                   | 2,780   | 4,603                                 | 1,728                     | 3,463            | 42,877      |
| Depreciation charge for the year                            | 2,224                     | 69,977                                   | 4,817   | 9,164                                 | 3,338                     | 8,778            | 98,298      |
| As of December 31, 2007                                     | 2,224                     | 100,280                                  | 7,597   | 13,767                                | 5,066                     | 12,241           | 141,175     |
| Depreciation charge for the year                            | 33,189                    | 175,205                                  | 19,340  | 14,879                                | 6,639                     | 14,353           | 263,605     |
| Disposals   | -                         | (18,033)                                 | -   | -                                     | (563)                     | (1,936)          | (20,532)    |
| Write off   | -                         | -  | (2,136)   | -                                     | -                         | (7,000)          | (9,136)     |
| As of December 31, 2008                                     | 35,413                    | 257,452                                  | 24,801  | 28,646                                | 11,142                    | 17,658           | 375,112     |
| Depreciation charge for the year                            | 103,168                   | 310,626                                  | 46,344  | 10,641                                | 17,298                    | 63,584           | 551,661     |
| Disposals   | -                         | (486)                                    | -   | -                                     | -                         | -                | (486)       |
| Write off   | -                         | (257)                                    | (2,386)   | (4,803)                               | -                         | (16,002)         | (23,448)    |
| As of December 31, 2009                                     | 138,581                   | 567,335                                  | 68,759  | 34,484                                | 28,440                    | 65,240           | 902,839     |
| Depreciation charge for the year                            | 197,416                   | 351,620                                  | 69,824  | 14,368                                | 18,896                    | 82,233           | 734,357     |
| Disposals   | -                         | -  | (3,204)   | -                                     | (1,342)                   | (6,418)          | (10,964)    |
| Write off   | -                         | (2,223)                                  | -   | -                                     | -                         | -                | (2,223)     |
| As of December 31, 2010                                     | 335,997                   | 916,732                                  | 135,379   | 48,852                                | 45,994                    | 141,055          | 1,624,009   |
| Carrying amounts  |                           |  |   |                                       |                           |                  |             |
| As of December 31, 2007                                     | 32,756                    | 278,748                                  | 21,816  | 20,354                                | 14,751                    | 41,054           | 409,479     |
| As of December 31, 2008                                     | 284,828                   | 1,111,320                                | 184,207   | 38,682                                | 69,376                    | 223,437          | 1,911,850   |
| As of December 31, 2009                                     | 682,979                   | 1,133,283                                | 240,292   | 58,589                                | 65,789                    | 246,775          | 2,427,707   |
| As of December 31, 2010                                     | 875,916                   | 873,052                                  | 264,577   | 51,030                                | 69,000                    | 454,139          | 2,587,714   |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****13.5 EMPEROR'S KITCHEN - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****13.5.6 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

Property, plant and equipment of Emperor's Kitchen are pledged to a local licensed bank for term loan facility granted to Emperor's Kitchen as disclosed in Note 13.5.14.

Included in property, plant and equipment of Emperor's Kitchen are fully depreciated assets which are still in use, with the following cost:

|  | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|--|------------------|------------------|------------------|------------------|
| Kitchen and warehouse equipment                    | 33,239           | -                | -                | -                |
| Electrical installation and furniture and fittings | 9,159            | -                | -                | -                |
| Computers  | 1,990            | 1,990            | 6,157            | -                |
| Office equipment                                   | 3,239            | -                | -                | -                |
|  | <u>47,627</u>    | <u>1,990</u>     | <u>6,157</u>     | <u>-</u>         |

**13.5.7 INVENTORIES**

|                   | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|-------------------|------------------|------------------|------------------|------------------|
| Raw materials     | 152,942          | 99,282           | 113,886          | 78,168           |
| Packing materials | 101,779          | 57,205           | 21,172           | 12,671           |
| Finished goods    | 21,706           | 58,454           | 129,251          | 115,175          |
| Trading goods     | 7,484            | 462              | -                | -                |
|                   | <u>283,911</u>   | <u>215,403</u>   | <u>264,309</u>   | <u>206,014</u>   |

The cost of inventories of Emperor's Kitchen recognised as an expense during the year was as follows:

|                     | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|---------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Cost of inventories | <u>17,750,228</u>       | <u>14,601,784</u>       | <u>11,444,971</u>       | <u>5,149,357</u>        |

**13.5.8 TRADE AND OTHER RECEIVABLES**

|   | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---|------------------|------------------|------------------|------------------|
| Trade receivables   | 3,056,396        | 2,239,666        | 2,100,054        | 1,289,702        |
| Other receivables   | 7,226            | 3,951            | 1,243            | -                |
| Refundable deposits   | 120,074          | 139,187          | 136,133          | 51,950           |
|   | <u>3,183,696</u> | <u>2,382,804</u> | <u>2,237,430</u> | <u>1,341,652</u> |
| Loans and receivables   | 3,183,696        | 2,382,804        | 2,237,430        | 1,341,652        |
| Advances payment for acquisition of property, plant and machinery | 77,600           | -                | -                | -                |
| Prepaid expenses  | 42,760           | 12,977           | 29,862           | 71,520           |
|   | <u>3,304,056</u> | <u>2,395,781</u> | <u>2,267,292</u> | <u>1,413,172</u> |

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****13.5 EMPEROR'S KITCHEN - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****13.5.8 TRADE AND OTHER RECEIVABLES (CONTINUED)**

Trade receivables comprise amount receivable for the sale of goods. The terms granted are as follows:

|            | Average<br>credit period<br>Days |
|------------|----------------------------------|
| 31.12.2010 | 45 to 90                         |
| 31.12.2009 | 45                               |
| 31.12.2008 | 45                               |
| 31.12.2007 | <u>45</u>                        |

No interest is charged on the outstanding balance. There is no trade receivable which is past due as of December 31, 2010 for which Emperor's Kitchen has not provided for impairment loss.

Included in trade receivables of Emperor's Kitchen are related parties' balances as follows:

|                           | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---------------------------|------------------|------------------|------------------|------------------|
| Related parties' balances | <u>2,976,363</u> | <u>2,237,334</u> | <u>2,100,054</u> | <u>1,275,930</u> |

Emperor's Kitchen seeks to maintain strict control over its outstanding trade receivables and has a credit period policy to minimise credit risk. Overdue balances are reviewed regularly by management.

Transactions with related parties are disclosed in Note 13.5.9.

**13.5.9 RELATED PARTY TRANSACTIONS**

The amount owing to directors in 2007 comprised unsecured and interest-free advances which were repayable upon demand.

During the financial year, significant related party transactions are as follows:

|  | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| <b>Other related parties</b>           |                         |                         |                         |                         |
| <b>Kopitiam Asia Pacific</b>           |                         |                         |                         |                         |
| Accounting fee paid/payable            | 9,600                   | 9,600                   | 9,600                   | 4,000                   |
| Trade sales                            | 974                     | -                       | -                       | -                       |
| Rental of premises received/receivable | <u>1,230</u>            | <u>-</u>                | <u>-</u>                | <u>-</u>                |
| <b>Gongga Food</b>                     |                         |                         |                         |                         |
| Trade sales                            | 20,662,185              | 17,661,361              | 14,587,004              | 6,989,541               |
| Rental of premises received/receivable | 1,340                   | -                       | -                       | -                       |
| Sales of property, plant and equipment | -                       | 8,841                   | 104,550                 | -                       |
| Trade purchase                         | <u>-</u>                | <u>172</u>              | <u>-</u>                | <u>-</u>                |
| <b>Old Town International</b>          |                         |                         |                         |                         |
| Rental paid and payable                | 442,702                 | 515,952                 | 193,482                 | -                       |
| Sales of property, plant and equipment | <u>34,602</u>           | <u>1,944</u>            | <u>961</u>              | <u>-</u>                |
| <b>Old Town Kopitiam Cheras</b>        |                         |                         |                         |                         |
| Sale of tools and utensils             | <u>-</u>                | <u>-</u>                | <u>306</u>              | <u>154</u>              |

(Forward)

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****13.5 EMPEROR'S KITCHEN - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****13.5.9 RELATED PARTY TRANSACTIONS (CONTINUED)**

|  | FYE<br>31.12.2010<br>RM | FYE<br>31.12.2009<br>RM | FYE<br>31.12.2008<br>RM | FYE<br>31.12.2007<br>RM |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| <b>Other related parties (continued)</b> |                         |                         |                         |                         |
| Old Town Kopitiam                        |                         |                         |                         |                         |
| Sale of tools and utensils               | -                       | -                       | 306                     | 1,056                   |
| Trade sales                              | -                       | -                       | -                       | 99                      |
|  | <u>-</u>                | <u>-</u>                | <u>-</u>                | <u>1,155</u>            |
| Gourmet Corner KL Sdn. Bhd.              |                         |                         |                         |                         |
| Sale of tools and utensils               | -                       | -                       | 153                     | -                       |
|  | <u>-</u>                | <u>-</u>                | <u>153</u>              | <u>-</u>                |
| OTK (Petaling Jaya) Sdn. Bhd.            |                         |                         |                         |                         |
| Sale of tools and utensils               | -                       | -                       | 155                     | 145                     |
|  | <u>-</u>                | <u>-</u>                | <u>155</u>              | <u>145</u>              |

The relationships of the related parties with Oldtown group of companies are disclosed in Chapters 5 and 7 of the Prospectus of Oldtown.

The outstanding balances arising from non-trade transactions are as follows:

|                         | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|-------------------------|------------------|------------------|------------------|------------------|
| <b>Other receivable</b> |                  |                  |                  |                  |
| Gongga Food Sdn. Bhd.   | -                | 171              | -                | -                |
|                         | <u>-</u>         | <u>171</u>       | <u>-</u>         | <u>-</u>         |
| <b>Other payable</b>    |                  |                  |                  |                  |
| Old Town International  | 73,400           | 36,053           | 138,185          | -                |
| Kopitiam Asia Pacific   | 800              | 800              | 2,400            | -                |
|                         | <u>74,200</u>    | <u>36,853</u>    | <u>140,585</u>   | <u>-</u>         |

**Compensation of key management personnel**

The remuneration of directors is disclosed in Note 13.5.2. There are no other members of key management during the year.

**13.5.10 FIXED DEPOSITS, CASH AND BANK BALANCES**

|                                     | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|-------------------------------------|------------------|------------------|------------------|------------------|
| Fixed deposits with a licensed bank | 278,310          | 207,392          | -                | -                |
| Cash and bank balances              | 340,623          | 134,465          | 1,114,991        | 594,541          |
|                                     | <u>618,933</u>   | <u>341,857</u>   | <u>1,114,991</u> | <u>594,541</u>   |

The effective interest rate for fixed deposits of Emperor's Kitchen during the financial period was 2.41% (31.12.2009: 1.88%) per annum with maturity period of 30 days (31.12.2009: 30 days).

Fixed deposits of Emperor's Kitchen are pledged to a local licensed bank for term loan and other credit facilities granted to Emperor's Kitchen as disclosed in Note 13.5.14.



## 10. ACCOUNTANTS' REPORT

## G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

## 13.5 EMPEROR'S KITCHEN - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 13.5.11 SHARE CAPITAL

|  | 31.12.2010       | 31.12.2009       | 31.12.2008       | 31.12.2007       | 31.12.2010 | 31.12.2009 | 31.12.2008 | 31.12.2007 |
|--|------------------|------------------|------------------|------------------|------------|------------|------------|------------|
| Number of shares                                       | Number of shares | Number of shares | Number of shares | Number of shares | RM         | RM         | RM         | RM         |
| Authorised:<br>Ordinary shares of RM1 each:            |                  |                  |                  |                  |            |            |            |            |
| At beginning of year                                   | 500,000          | 500,000          | 500,000          | 500,000          | 500,000    | 500,000    | 500,000    | 500,000    |
| Increased during the year                              | -                | -                | -                | -                | -          | -          | -          | -          |
| At end of year   | 500,000          | 500,000          | 500,000          | 500,000          | 500,000    | 500,000    | 500,000    | 500,000    |
| Issued and fully paid:<br>Ordinary shares of RM1 each: |                  |                  |                  |                  |            |            |            |            |
| At beginning of year                                   | 200,002          | 200,002          | 200,002          | 200,002          | 200,002    | 200,002    | 200,002    | 200,002    |
| Issued during the year                                 | -                | -                | -                | -                | -          | -          | -          | -          |
| At end of year   | 200,002          | 200,002          | 200,002          | 200,002          | 200,002    | 200,002    | 200,002    | 200,002    |

## 13.5.12 RETAINED EARNINGS

In accordance with the Finance Act, 2007, the single tier income tax system became effective from the year of assessment 2008. Under this system, tax on a company's profit is a final tax, and dividends paid are exempted from tax in the hands of the shareholders. Unlike the previous imputation system, the recipient of the dividend would no longer be able to claim any tax credit.

Companies without Section 108 tax credit balance will automatically move to the single tier tax system on January 1, 2008. However, companies with such tax credits are given an irrevocable option to elect for the single tier tax system and disregard the tax credit or continue to use the tax credits under Section 108 account to frank the payment of cash dividends on ordinary shares for a period of 6 years ending December 31, 2013 or until the tax credits are fully utilised, whichever comes first. During the transitional period, any tax paid will not be added to the Section 108 account and any tax credits utilised will reduce the tax credit balance. All companies will be in the new system on January 1, 2014.

Emperor's Kitchen has opted to disregard the Section 108 tax credit balance in 2009 and switched to a single tier tax system.

**10. ACCOUNTANTS' REPORT****G. HISTORICAL FINANCIAL INFORMATION (CONTINUED)****13.5 EMPEROR'S KITCHEN - NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****13.5.13 DEFERRED TAX LIABILITIES**

|  | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|--|------------------|------------------|------------------|------------------|
| At beginning of year                       | 135,000          | 110,000          | 27,500           | 18,120           |
| Recognised in profit or loss (Note 13.5.5) | 110,000          | 25,000           | 82,500           | 9,380            |
| At end of year                             | <u>245,000</u>   | <u>135,000</u>   | <u>110,000</u>   | <u>27,500</u>    |

The deferred tax liabilities are in respect of temporary differences between tax capital allowances and book depreciation of property, plant and equipment.

**13.5.14 TERM LOAN**

|   | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|---|------------------|------------------|------------------|------------------|
| Secured:  |                  |                  |                  |                  |
| Term loan   | 165,007          | 439,062          | -                | -                |
| Less: Amount due within 12 months (shown under current liabilities) | <u>(165,007)</u> | <u>(274,055)</u> | <u>-</u>         | <u>-</u>         |
|   | <u>-</u>         | <u>165,007</u>   | <u>-</u>         | <u>-</u>         |

The non-current portion is repayable as follows:

| Financial year ending: | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|------------------------|------------------|------------------|------------------|------------------|
| 2011                   | <u>-</u>         | <u>165,007</u>   | <u>-</u>         | <u>-</u>         |

Term loan and other credit facilities of Emperor's Kitchen to the extent of RM1,150,000 (31.12.2009: RM1,150,000) obtained from a local licensed bank are secured by:

- a stamped facility agreement of RM1,150,000;
- specific debenture over all property, plant and equipment of Emperor's Kitchen located at Lot 896, Jalan Subang 10, Taman Perindustrian Subang, 47600 Subang Jaya, Selangor Darul Ehsan;
- CGC (M) Bhd. guarantee up to 80% of the unsecured portion of the loan amount; and
- pledged of fixed deposits as disclosed in Note 13.5.10.

The facilities are also guaranteed by all the directors jointly and severally.

Emperor's Kitchen has one (1) term loan that is repayable by 24 monthly instalments of RM23,884 each commencing August 15, 2009.

The effective interest rate for term loan in 2010 is 3.04% per annum (31.12.2009: 3.04% per annum).

The fair value of Emperor's Kitchen's term loan approximates its carrying amount.

**13.5.15 TRADE AND OTHER PAYABLES**

|                              | 31.12.2010<br>RM | 31.12.2009<br>RM | 31.12.2008<br>RM | 31.12.2007<br>RM |
|------------------------------|------------------|------------------|------------------|------------------|
| Trade payables               | 2,724,788        | 1,978,083        | 1,986,314        | 909,032          |
| Other payables               | 252,148          | 568,113          | 635,672          | 111,015          |
| Accrued expenses             | 129,082          | 114,112          | 69,210           | 88,965           |
| Refundable deposits received | <u>5,158</u>     | <u>5,000</u>     | <u>6,784</u>     | <u>-</u>         |
|                              | <u>3,111,176</u> | <u>2,665,308</u> | <u>2,697,980</u> | <u>1,109,012</u> |

Trade and other payables comprise amounts outstanding for trade purchases and ongoing costs. The credit terms granted to Emperor's Kitchen for trade purchases ranged from 30 days to 60 days. These amounts are non-interest bearing. Emperor's Kitchen has financial risk management policies in place to ensure that all payables are paid within the credit time frame.