

GENERAL MAGNETICS LIMITED AND ITS SUBSIDIARIES

Company Registration No. 197300630H

REPORT OF THE DIRECTORS

For The Financial Year Ended 31 December 2012

The directors are pleased to present this report to the members together with the audited consolidated financial statements of GENERAL MAGNETICS LIMITED (the Company) and its subsidiaries (the Group) and the statements of financial position and statements of changes in equity of the Company for the financial year ended 31 December 2012.

DIRECTORS

The directors holding office at the date of this report are:

OH LOON LIAN
YUEN YUET KHENG

ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES AND DEBENTURES

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

DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

The following directors, who held office at the end of the financial year, had, according to the register of directors' shareholdings required to be kept under section 164 of the Singapore Companies Act, Cap. 50, an interest in shares and share options of the Company and related corporations as stated below:

	Ordinary Shares Fully Paid			
	Direct Interest		Deemed Interest	
	As at 01-01-2012	As at 31-12-2012	As at 01-01-2012	As at 31-12-2012
<i>The Company</i>				
OH LOON LIAN	7,271,599	7,271,599	40,000,000	40,000,000
YUEN YUET KHENG	168,000	168,000	5,584,583	5,764,583

Except as disclosed in this report, no director who held office at the end of the financial year had interests in shares, share options, warrants or debentures of the Company, or of related corporations, either at beginning or at the end of the financial year.

DIRECTORS' CONTRACTUAL BENEFITS

Except as disclosed in the financial statements, since the end of the previous financial year, no director of the Company has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director, or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

GENERAL MAGNETICS LIMITED AND ITS SUBSIDIARIES

Company Registration No. 197300630H

REPORT OF THE DIRECTORS

For The Financial Year Ended 31 December 2012

OPTIONS

During the financial year, there were:

- (a) no option granted by the Company to any person to take up unissued shares in the Company or its subsidiaries; and
- (b) no shares issued by virtue of any exercise of option to take up unissued shares of the Company or its subsidiaries.

As at the end of the financial year, there were no unissued shares of the Company or its subsidiaries under option.

AUDITORS

CPA TRUST PAC have expressed their willingness to accept re-appointment as auditors.

ON BEHALF OF THE BOARD OF DIRECTORS

OH LOON LIAN
Director

YUEN YUET KHENG
Director

Date:

GENERAL MAGNETICS LIMITED AND ITS SUBSIDIARIES

Company Registration No. 197300630H

STATEMENT BY DIRECTORS

For The Financial Year Ended 31 December 2012

We, OH LOON LIAN and YUEN YUET KHENG, being two of the directors of GENERAL MAGNETICS LIMITED state that in the opinion of the board of directors:

- (a) the accompanying statements of financial position, statements of comprehensive income, statements of changes in equity and consolidated statement of cash flows together with the notes thereon are drawn up so as to give a true and fair view of the state of affairs and of the Group and of the Company as at **31 December 2012**, the results of the business and changes in equity of the Group and the Company and the cash flows of the Group for the financial year ended on that date; and
- (b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The Board of Directors has, on the date of this statement, authorised these financial statements for issue.

ON BEHALF OF THE BOARD OF DIRECTORS

OH LOON LIAN
Director

YUEN YUET KHENG
Director

Date:

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

GENERAL MAGNETICS LIMITED
Company Registration No. 197300630H

(Incorporated in the Republic of Singapore)

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of GENERAL MAGNETICS LIMITED (the Company) and its subsidiaries (the Group) set out on pages 6 to 43, which comprise the statements of financial position of the Group and the Company as at 31 December 2012, and the statements of comprehensive income and statement of changes in equity of the Group and the Company, and the consolidated statement of cash flows of the Group for the financial year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act (the "Act") and Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets.

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

GENERAL MAGNETICS LIMITED
Company Registration No. 197300630H

(Incorporated in the Republic of Singapore)

Opinion

In our opinion, the consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and the Company as at 31 December 2012 and the results and changes in equity of the Group and the Company, and cash flows of the Group, for the financial year ended on that date.

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

CPA TRUST PAC

Public Accountants and
Certified Public Accountants
Singapore

Date:

GENERAL MAGNETICS LIMITED AND ITS SUBSIDIARIES

Company Registration No. 197300630H

STATEMENTS OF FINANCIAL POSITION

as at 31 December 2012

	Note	Group		Company	
		2012 \$	2011 \$	2012 \$	2011 \$
NON-CURRENT ASSETS					
Property, plant & equipment	4	3,449,812	3,567,264	1,935,199	1,711,837
Investments in subsidiaries	5	-	-	50,001	50,001
Investment property	6	3,915,895	4,160,639	3,915,895	4,160,639
Club memberships	7	12,000	12,000	12,000	12,000
		<u>7,377,707</u>	<u>7,739,903</u>	<u>5,913,095</u>	<u>5,934,477</u>
CURRENT ASSETS					
Held for trading investments	8	2,125,204	398,933	2,125,204	398,933
Inventories	9	77,708	188,837	6,851	51,767
Trade and other receivables	10	843,567	1,409,962	564,429	1,006,065
Amounts owing by subsidiaries	11	-	-	2,854,861	5,161,453
Cash & cash equivalents	12	5,638,686	5,974,505	5,486,860	4,615,812
		<u>8,685,165</u>	<u>7,972,237</u>	<u>11,038,205</u>	<u>11,234,030</u>
LESS: CURRENT LIABILITIES					
Trade and other payables	13	1,005,610	2,536,062	812,020	1,343,573
Amounts owing to subsidiaries	11	-	-	-	1,140
Dividend payable		300,000	-	300,000	-
		<u>1,305,610</u>	<u>2,536,062</u>	<u>1,112,020</u>	<u>1,344,713</u>
NET CURRENT ASSETS		<u>7,379,555</u>	<u>5,436,175</u>	<u>9,926,185</u>	<u>9,889,317</u>
		<u>14,757,262</u>	<u>13,176,078</u>	<u>15,839,280</u>	<u>15,823,794</u>
EQUITY					
Share capital	14	38,771,033	38,771,033	38,771,033	38,771,033
Exchange fluctuation reserve	15	(36,640)	(44,821)	-	-
Accumulated losses		<u>(23,977,131)</u>	<u>(25,550,134)</u>	<u>(22,931,753)</u>	<u>(22,947,239)</u>
		<u>14,757,262</u>	<u>13,176,078</u>	<u>15,839,280</u>	<u>15,823,794</u>

GENERAL MAGNETICS LIMITED AND ITS SUBSIDIARIES

Company Registration No. 197300630H

STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 31 December 2012

	Note	Group		Company	
		2012 \$	2011 \$	2012 \$	2011 \$
Revenue	16	929,761	2,467,320	824,592	1,856,250
Other operating income	17	2,581,550	2,088,236	2,567,605	2,074,737
Change in inventories of finished goods & work-in-progress		(38,717)	(432,677)	(38,717)	6,860
Raw materials & consumables used		(642,010)	(1,587,693)	(642,010)	(1,287,827)
Gain on disposal of property, plant and equipment		1,863,391	-	173,193	-
Employee benefit costs	18	(1,253,002)	(1,370,721)	(987,369)	(1,275,062)
Depreciation of property, plant and equipment		(418,403)	(1,008,581)	(176,241)	(164,215)
Depreciation of investment property		(244,744)	(244,744)	(244,744)	(244,744)
Loss on disposal of investment in subsidiary		-	(3,085,309)	-	-
Other operating expenses		(865,663)	(1,304,272)	(1,160,823)	(1,132,843)
Profit/(loss) before tax	19	1,912,163	(4,478,441)	315,486	(166,844)
Income tax expense	20	(39,160)	(5,622)	-	-
Profit/(loss) for the year		1,873,003	(4,484,063)	315,486	(166,844)
Other comprehensive income, net of tax					
Currency translation differences		8,181	3,117,572	-	-
Total comprehensive income for the year		1,881,184	(1,366,491)	315,486	(166,844)
Total comprehensive income for the year attributable to:					
Owner of the Company		1,881,184	(1,366,491)	315,486	(166,844)
Earning/(Loss) per share attributable to owner of the Company:					
- Basic	21	1.87 cents	(4.48) cents		
- Diluted	21	1.87 cents	(4.48) cents		

GENERAL MAGNETICS LIMITED AND ITS SUBSIDIARIES

Company Registration No. 197300630H

STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 December 2012

	Note	Share Capital \$	Currency Translation Reserve \$	Accumulated Losses \$	Total \$
<u>Group</u>					
<u>2011</u>					
Balance at 01 January 2011		38,771,033	(3,162,393)	(21,066,071)	14,542,569
Currency translation differences		-	3,117,572	-	3,117,572
Loss for the year		-	-	(4,484,063)	(4,484,063)
Total comprehensive income for the year		-	3,117,572	(4,484,063)	(1,366,491)
Balance at 31 December 2011		<u>38,771,033</u>	<u>(44,821)</u>	<u>(25,550,134)</u>	<u>13,176,078</u>
<u>2012</u>					
Balance at 01 January 2012		38,771,033	(44,821)	(25,550,134)	13,176,078
Currency translation differences		-	8,181	-	8,181
Profit for the year		-	-	1,873,003	1,873,003
Total comprehensive income for the year		-	8,181	1,873,003	1,881,184
Transactions with owners, recorded directly in equity					
Dividend declared	22	-	-	(300,000)	(300,000)
Total contributions by and distributions to owners		-	-	(300,000)	(300,000)
Balance at 31 December 2012		<u>38,771,033</u>	<u>(36,640)</u>	<u>(23,977,131)</u>	<u>14,757,262</u>

GENERAL MAGNETICS LIMITED AND ITS SUBSIDIARIES

Company Registration No. 197300630H

STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 December 2012

	Note	Share Capital \$	Accumulated Losses \$	Total \$
<u>Company</u>				
<u>2011</u>				
Balance at 01 January 2011		38,771,033	(22,780,395)	15,990,638
Loss for the year		-	(166,844)	(166,844)
Total comprehensive income for the year		-	(166,844)	(166,844)
Balance at 31 December 2011		<u>38,771,033</u>	<u>(22,947,239)</u>	<u>15,823,794</u>
<u>2012</u>				
Balance at 01 January 2012		38,771,033	(22,947,239)	15,823,794
Profit for the year		-	315,486	315,486
Total comprehensive income for the year		-	315,486	315,486
Transactions with owners, recorded directly in equity				
Dividend declared	22	-	(300,000)	(300,000)
Total contributions by and distributions to owners		-	(300,000)	(300,000)
Balance at 31 December 2012		<u>38,771,033</u>	<u>(22,931,753)</u>	<u>15,839,280</u>

GENERAL MAGNETICS LIMITED AND ITS SUBSIDIARIES

Company Registration No. 197300630H

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2012

	Group	
	<u>2012</u>	<u>2011</u>
	\$	\$
Cash flows from operating activities		
Profit/(Loss) before tax	1,912,163	(4,478,441)
<u>Adjustments for:</u>		
Allowance for obsolete inventories	38,756	-
Depreciation of investment property	244,744	244,744
Depreciation of property, plant & equipment	418,403	1,008,581
Exchange differences on translation	(61,640)	75,591
(Gain)/Loss on disposal of property, plant and equipment	(1,863,391)	3,085,309
Interest income	(87,410)	(14,705)
<i>Operating cash flows before changes in working capital</i>	601,625	(78,921)
Change in inventories	72,373	571,926
Change in trade and other receivables	566,395	(451,478)
Change in trade and other payables	(1,230,452)	1,201,748
Change in fixed deposits subject to restriction	-	44,299
<i>Cash Flows From Operations</i>	9,941	1,287,574
Interest received	87,410	26,361
Tax paid	(954)	-
<i>Net Cash Flows From Operating Activities</i>	96,397	1,313,935
Cash flows from investing activities		
Acquisition of investment security	(1,726,271)	(398,933)
Acquisition of property, plant and equipment	(412,850)	(382,381)
Proceeds from disposal of property, plant and equipment	1,863,391	-
<i>Net Cash Flows Used In Investing Activities</i>	(275,730)	(781,314)
(Decrease)/Increase in cash and cash equivalents	(179,333)	532,621
Cash and cash equivalents at beginning of the year	5,974,505	5,444,588
Exchange differences on translation of cash and cash equivalents at beginning of the year	(156,486)	(2,704)
Cash and cash equivalents at end of the year	<u>5,638,686</u>	<u>5,974,505</u>

GENERAL MAGNETICS LIMITED AND ITS SUBSIDIARIES

Company Registration No. 197300630H

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

The financial statements were authorised for issue in accordance with a resolution of the directors as stated in the Statement by Directors.

1 CORPORATE INFORMATION

GENERAL MAGNETICS LIMITED (the "Company") is a limited liability company which is incorporated and domiciled in Singapore.

The registered office and principal place of business of the Company is located at 625 Lorong 4, Toa Payoh, Singapore 319519.

The principal activities of the Company are to manufacture and the sale of optical and magnetic media products, lease and maintenance of factory premises, logistics and packaging and handling services. There have been no significant changes to the Company's principal activities during the financial year.

The principal activities of the subsidiaries are disclosed in note 5 on page 27.

2 BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements have been prepared in accordance with Singapore Financial Reporting Standards (FRSs).

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis except as otherwise described below.

2.3 Functional and presentation currency

The financial statements are presented in Singapore Dollar (SGD), which is the Group's functional currency.

2.4 Use of estimates and judgments

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

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

2 BASIS OF PREPARATION – cont'd

2.4 Use of estimates and judgments – cont'd

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 5 – estimation of recoverable amounts of investment in Company

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

3.1 Basis of consolidation and business combinations

Basis of consolidation

Basis of consolidation from 1 January 2010

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- De-recognises the assets (including goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost;
 - De-recognises the carrying amount of any non-controlling interest;
 - De-recognises the cumulative translation differences recorded in equity;
 - Recognises the fair value of the consideration received;
 - Recognises the fair value of any investment retained;
 - Recognises any surplus or deficit in profit or loss;
 - Re-classifies the Group's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate
-

3 SIGNIFICANT ACCOUNTING POLICIES – cont'd

3.1 Basis of consolidation and business combinations – cont'd

Basis of consolidation – cont'd

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisition of non-controlling interests, prior to 1 January 2010, were accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired were recognised in goodwill
- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further losses were attributed to the Group, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the owners of the Company.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying value of such investments as at 1 January 2010 have not been restated.

Business combinations

Business combinations from 1 January 2010

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

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with FRS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it is not to be remeasured until it is finally settled within equity

Certain of the above-mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

3 SIGNIFICANT ACCOUNTING POLICIES – cont'd

3.1 Basis of consolidation and business combinations – cont'd

Business combinations – cont'd

Business combinations from 1 January 2010 – cont'd

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

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

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

Business combinations prior to 1 January 2010

In comparison to the above mentioned requirements, the following differences applied:

Business combinations are accounted for by applying the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Adjustments to those fair values relating to previously held interests are treated as a revaluation and recognised in equity. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

3.2 Subsidiaries

A subsidiary is an entity over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities. In the Company's separate financial statements, investments in subsidiaries are accounted for at cost less impairment losses.

3 SIGNIFICANT ACCOUNTING POLICIES – cont'd

3.3 Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting date are retranslated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss.

Foreign Operations

For consolidation purpose, the assets and liabilities of foreign operations are translated into SGD at the rate of exchange ruling at the end of the reporting period and their profit or loss are translated at the exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss. In the case of a partial disposal without loss of control of a subsidiary that includes a foreign operation, the proportionate share of the cumulative amount of the exchange differences are re-attributed to non-controlling interest and are not recognised in profit or loss. For partial disposals of associates or jointly controlled entities that are foreign operations, the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

3.4 Financial instruments

Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets into the loans and receivables category.

3 SIGNIFICANT ACCOUNTING POLICIES – cont'd

3.4 Financial instruments – cont'd

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables, and cash and cash equivalents.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and at bank and demand deposits.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein, which takes into account any dividend income, are recognised in profit or loss.

Financial assets classified as held for trading comprise equity and debt securities and equity linked notes.

Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date they originate. All other financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise trade and other payables.

3 SIGNIFICANT ACCOUNTING POLICIES – cont'd

3.5 Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

3.6 Property, plant and equipment

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

Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

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

Subsequent costs

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

Depreciation

Depreciation is based on the cost of an asset less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over their estimated useful lives of each component of an item of property, plant and equipment.

The estimated useful lives for the current and comparative years are as follows:

Leasehold Factory Building	16 - 50 years
Furniture, Fixture & Office Equipment	3 - 14 years
Plant & Machinery	5 - 14 years
Motor Vehicles	5 years

Depreciation methods, useful lives and residual values are reviewed at end of each financial reporting report and adjusted if appropriate.

3 SIGNIFICANT ACCOUNTING POLICIES – cont'd

3.7 Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss. When an investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Property that is being constructed for future use as investment property is accounted for at fair value.

3.8 Club membership

Club memberships are stated at cost less any provision for impairment in value.

3.9 Impairment

Non-derivative financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at the end of each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event has a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, indications that a debtor or issuer will enter bankruptcy and economic conditions that correlate with defaults.

Loans and receivables

The Company considers evidence of impairment for loans and receivables at a specific asset level. All individually significant loans and receivables are assessed for specific impairment.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows, discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When a subsequent event (e.g. Repayment by a debtor) causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES – cont'd

3.9 Impairment – cont'd

Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

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

Impairment losses are recognised in profit or loss. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.10 Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost formula, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Cost may also include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of inventories.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

3.11 Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

3 SIGNIFICANT ACCOUNTING POLICIES – cont'd

3.11 Employee benefits – cont'd

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

3.12 Government grants

SME cash grants

SME cash grants received from the government are recognised upon receipt.

3.13 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received or receivable, excluding discounts, rebates and sales taxes or duty. The Group assesses its revenue arrangements to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

(i) Sales of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- (a) the entity has transferred to the buyer the significant risks and rewards of ownership of the goods;
 - (b) the entity does not retain continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
 - (c) the amount of revenue can be measured reliably;
 - (d) it is probable that the economic benefits associated with the transaction will flow to the entity; and
 - (e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.
-

3 SIGNIFICANT ACCOUNTING POLICIES – cont'd

3.13 Revenue recognition – cont'd

(ii) Interest income

Interest income is recognised using effective interest method.

(iii) Rental income

Rental income from investment properties is recognised in profit or loss on a straight-line basis over the term of lease. The aggregate costs of incentives provided to lessees are recognised as a reduction of rental income over the lease term on a straight-line basis.

3.14 Finance costs

Finance costs comprise interest expenses on borrowings.

3.15 Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expenses, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period under the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

3.16 Related parties

A related party is defined as follows:

(i) A person or a close member of that person's family is related to the Group and the Company if that person

(a) Has control or joint control over the Company;

(b) Has significant influence over the Company; or

(c) Is a member of the key management personnel of the Company or of a parent of the Company.

(ii) An entity is related to the Group and the Company if any of the following conditions applies:

(a) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(b) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(c) Both entities are joint ventures of the same third party.

(d) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

3 SIGNIFICANT ACCOUNTING POLICIES – cont'd

3.16 Related parties – cont'd

- (ii) An entity is related to the Group and the Company if any of the following conditions applies – cont'd:
- (e) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company;
 - (f) The entity is controlled or jointly controlled by a person identified in (i);
 - (g) A person identified in (i) (a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

3.17 Income tax

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

Current tax is the expected tax payable or receivable on the taxable income or loss for the financial year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3 SIGNIFICANT ACCOUNTING POLICIES – cont'd

3.17 Income tax – cont'd

In the ordinary course of business, there are many transactions and calculations for which the ultimate tax treatment is uncertain. Therefore, the Company recognises tax liabilities based on estimates of whether additional taxes will be due. These tax liabilities are recognised when the Company believes that certain positions may not be fully sustained upon review by tax authorities, despite the Company's belief that its tax return positions are supportable. The Company believes that its accrual for tax liabilities are adequate for all open tax years based on its assessment relies on estimates and assumptions and may involve a series of multifaceted judgements about future events. New information may become available that causes the Company to change its judgement regarding the adequacy of existing tax liabilities, such changes to tax liabilities will tax expense in the financial year that such a determination is made.

3.18 Earning per share

The Group presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share, is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the financial year. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, for the effects of all dilutive potential ordinary shares.

3.19 New standards and interpretations not adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Group and the Company.

GENERAL MAGNETICS LIMITED AND ITS SUBSIDIARIES

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NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

4 PROPERTY, PLANT AND EQUIPMENT

Group	<u>Land & buildings</u> \$	<u>Furniture & fittings</u> \$	<u>Plant & machinery</u> \$	<u>Motor vehicles</u> \$	<u>Total</u> \$
Cost					
At 01-01-2012	4,742,193	1,698,184	25,458,869	547,205	32,446,451
Additions	-	15,770	18,300	378,780	412,850
Disposals	-	-	(13,084,098)	(268,551)	(13,352,649)
Write off	-	-	(11,722,400)	-	(11,722,400)
Translation difference	(187,070)	(66,187)	(77,993)	(5,295)	(336,545)
At 31-12-2012	<u>4,555,123</u>	<u>1,647,767</u>	<u>592,678</u>	<u>652,139</u>	<u>7,447,707</u>
Accumulated Depreciation					
At 01-01-2012	1,888,231	1,248,181	25,220,535	522,240	28,879,187
Current period	95,963	100,990	205,964	15,486	418,403
Discharges	-	-	(12,994,966)	(263,842)	(13,258,808)
Write off	-	-	(11,722,400)	-	(11,722,400)
Translation difference	(45,227)	(69,844)	(201,200)	(2,216)	(318,487)
At 31-12-2012	<u>1,938,967</u>	<u>1,279,327</u>	<u>507,933</u>	<u>271,668</u>	<u>3,997,895</u>
Net Carrying Value					
At 31-12-2012	<u>2,616,156</u>	<u>368,440</u>	<u>84,745</u>	<u>380,471</u>	<u>3,449,812</u>

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4 PROPERTY, PLANT AND EQUIPMENT – cont'd

Group	<u>Land & buildings</u> \$	<u>Furniture & fittings</u> \$	<u>Plant & machinery</u> \$	<u>Motor vehicles</u> \$	<u>Total</u> \$
Cost					
At 01-01-2011	14,878,921	2,165,821	26,760,135	521,988	44,326,865
Additions	-	357,070	-	25,311	382,381
Disposals	-	(823,870)	(1,253,427)	-	(2,077,297)
Transferred to investment property	(10,118,477)	-	-	-	(10,118,477)
Translation difference	(18,251)	(837)	(47,839)	(94)	(67,021)
At 31-12-2011	<u>4,742,193</u>	<u>1,698,184</u>	<u>25,458,869</u>	<u>547,205</u>	<u>32,446,451</u>
Accumulated Depreciation					
At 01-01-2011	7,502,436	2,028,028	25,683,894	467,414	35,681,772
Current period	101,438	44,529	807,694	54,920	1,008,581
Discharges	-	(823,870)	(1,253,427)	-	(2,077,297)
Transferred to investment property	(5,713,094)	-	-	-	(5,713,094)
Translation difference	(2,549)	(506)	(17,626)	(94)	(20,775)
At 31-12-2011	<u>1,888,231</u>	<u>1,248,181</u>	<u>25,220,535</u>	<u>522,240</u>	<u>28,879,187</u>
Net Carrying Value					
At 31-12-2011	<u>2,853,962</u>	<u>450,003</u>	<u>238,334</u>	<u>24,965</u>	<u>3,567,264</u>

GENERAL MAGNETICS LIMITED AND ITS SUBSIDIARIES

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For The Financial Year Ended 31 December 2012

4 PROPERTY, PLANT AND EQUIPMENT – cont'd

Company	<u>Land & buildings</u> \$	<u>Furniture & fittings</u> \$	<u>Plant & machinery</u> \$	<u>Motor vehicles</u> \$	<u>Total</u> \$
Cost					
At 01-01-2012	2,957,186	1,551,458	11,739,687	504,082	16,752,413
Additions	-	15,770	18,300	378,780	412,850
Disposal	-	-	-	(249,551)	(249,551)
Write off	-	-	(11,722,400)	-	(11,722,400)
At 31-12-2012	<u>2,957,186</u>	<u>1,567,228</u>	<u>35,587</u>	<u>633,311</u>	<u>5,193,312</u>
Accumulated Depreciation					
At 01-01-2012	1,656,459	1,140,348	11,739,687	504,082	15,040,576
Current period	74,178	95,594	7,090	12,626	189,488
Discharges	-	-	(11,722,400)	(249,551)	(11,971,951)
At 31-12-2012	<u>1,730,637</u>	<u>1,235,942</u>	<u>24,377</u>	<u>267,157</u>	<u>3,258,113</u>
Net Carrying Value					
At 31-12-2012	<u>1,226,549</u>	<u>331,286</u>	<u>11,210</u>	<u>366,154</u>	<u>1,935,199</u>

Company	<u>Land & buildings</u> \$	<u>Furniture & fittings</u> \$	<u>Plant & machinery</u> \$	<u>Motor vehicles</u> \$	<u>Total</u> \$
Cost					
At 01-01-2011	13,075,663	2,006,297	12,988,846	504,082	28,574,888
Additions	-	369,031	4,268	-	373,299
Disposals	-	(823,870)	(1,253,427)	-	(2,077,297)
Transferred to investment property	(10,118,477)	-	-	-	(10,118,477)
At 31-12-2011	<u>2,957,186</u>	<u>1,551,458</u>	<u>11,739,687</u>	<u>504,082</u>	<u>16,752,413</u>
Accumulated Depreciation					
At 01-01-2011	7,296,479	1,931,286	12,987,240	451,747	22,666,752
Current period	73,074	32,932	5,874	52,335	164,215
Discharges	-	(823,870)	(1,253,427)	-	(2,077,297)
Transferred to investment property	(5,713,094)	-	-	-	(5,713,094)
At 31-12-2011	<u>1,656,459</u>	<u>1,140,348</u>	<u>11,739,687</u>	<u>504,082</u>	<u>15,040,576</u>
Net Carrying Value					
At 31-12-2011	<u>1,300,727</u>	<u>411,110</u>	<u>-</u>	<u>-</u>	<u>1,711,837</u>

GENERAL MAGNETICS LIMITED AND ITS SUBSIDIARIES

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NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

4 PROPERTY, PLANT AND EQUIPMENT – cont'd

The properties of the Group comprise:

Description	Location	Area sq. metres	Tenure
Freehold			
Residential Condominium Unit	Unit no. 1547 Genting Highlands, Pahang, Malaysia.	117	Freehold
Leasehold			
Land	PL 029, Senai Industrial Estate, Johor, Malaysia.	29,825	60 years commencing 1990
Land	625 Lorong 4, Toa Payoh, Singapore 319519	9,838	60 years commencing 1969
Factory Building	625 Lorong 4, Toa Payoh, Singapore 319519	12,752	60 years commencing 1969
Factory Building	Kawasan Industri Jababeka, Jl. Jababeka Raya Q-1, Cikarang Utara, Bekasi, Indonesia.	15,817	24 years commencing 1998

5 INVESTMENTS IN SUBSIDIARIES

	Company	
	2012	2011
	\$	\$
Unquoted shares, at cost	3,824,001	3,824,001
Allowance for impairment losses	(3,774,000)	(3,774,000)
	50,001	50,001

Impairment losses has been provided for investments in subsidiaries where they have been making losses for the current and past few years.

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NOTES TO THE FINANCIAL STATEMENTS

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5 INVESTMENTS IN SUBSIDIARIES – cont'd

Details of the subsidiary are as follows:

Name of subsidiary	Principal activities	Country of incorporation and place of business	Percentage of equity held by the Company		Cost of investment	
			<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
					\$	\$
General Magnetics (M) Sdn. Bhd.	Dormant *	Malaysia	100	100	1	1
General CD Pte Ltd	Dormant **	Singapore	100	100	50,000	50,000
General Media Pte Ltd	Manufacture and sale of optical and magnetic media products **	Singapore	100	100	300,000	300,000
PT Dynatech Perkasa	Manufacture and sale of optical and magnetic media products ***	Indonesia	100	100	3,474,000	3,474,000
					<u>3,824,001</u>	<u>3,824,001</u>

* Audited by Deloitte Kassim Chan

** Audited by CPA Trust PAC

*** Audited by member of Grant Thornton International

6 INVESTMENT PROPERTY

	Group & Company	
	<u>2012</u>	<u>2011</u>
	\$	\$
Cost:		
Balance at the beginning of the year	10,118,477	-
Transferred from property, plant and equipment	-	10,118,477
Balance at the end of the year	<u>10,118,477</u>	<u>10,118,477</u>

GENERAL MAGNETICS LIMITED AND ITS SUBSIDIARIES

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NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

6 INVESTMENT PROPERTY – cont'd

	<u>Group & Company</u>	
	<u>2012</u>	<u>2011</u>
	\$	\$
Accumulated Depreciation:		
Balance at the beginning of the year	5,957,838	-
Transferred from property, plant and equipment Current period	-	5,713,094
	<u>244,744</u>	<u>244,744</u>
Balance at the end of the year	<u>6,202,582</u>	<u>5,957,838</u>
Net Carrying Value	<u>3,915,895</u>	<u>4,160,639</u>

The investment property was previously used for the Group's business. However, in year 2011, the above mentioned property was rented out to third parties and, therefore, it was transferred/reclassified from property, plant and equipment <see Note 4>.

At the reporting date, the fair value of the property is \$20,000,000. The fair value of the property is based on desktop valuation by Asian Appraisal Company Pte Ltd, an independent valuer with a recognised and relevant professional qualification and with recent experience in the location and category of the properties being valued.

7 CLUB MEMBERSHIPS

	<u>Group & Company</u>	
	<u>2012</u>	<u>2011</u>
	\$	\$
Club membership, at cost	94,463	94,463
Less: Accumulated impairment	<u>(82,463)</u>	<u>(82,463)</u>
	<u>12,000</u>	<u>12,000</u>
Movement in accumulated impairment:		
Balance at beginning of the year	82,463	82,463
Change to income statement	<u>-</u>	<u>-</u>
Balance at end of the year	<u>82,463</u>	<u>82,463</u>
Market value of club membership	<u>12,150</u>	<u>12,150</u>

The club memberships are stated at cost less impairment losses.

GENERAL MAGNETICS LIMITED AND ITS SUBSIDIARIES

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NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

8 HELD FOR TRADING INVESTMENTS

	<u>Group & Company</u>	
	<u>2012</u>	<u>2011</u>
	\$	\$
Quoted equity securities	246,829	398,933
Quoted debt securities	743,500	-
Equity linked notes	1,134,875	-
	<u>2,125,204</u>	<u>398,933</u>

9 INVENTORIES

	<u>Group</u>		<u>Company</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
	\$	\$	\$	\$
At cost:				
Raw material	74,649	145,810	3,792	8,740
Work in progress	153	1,404	153	1,404
Finished goods	2,906	41,623	2,906	41,623
	<u>77,708</u>	<u>188,837</u>	<u>6,851</u>	<u>51,767</u>

The amounts are after allowance for obsolete inventories which is as follows:

	<u>Group</u>		<u>Company</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
	\$	\$	\$	\$
Allowance for obsolete inventories:				
Balance at beginning of year	266,187	266,187	2,127	2,127
Allowance during the year	38,756	-	-	-
Allowance no longer required	-	-	-	-
Balance at end of year	<u>304,943</u>	<u>266,187</u>	<u>2,127</u>	<u>2,127</u>

The Group's and Company's cost of inventories recognised as expenses and included in 'cost of turnover' amounted to \$ 725,914 and \$725,914 (2011: \$1,891,144 and \$1,248,085) respectively.

GENERAL MAGNETICS LIMITED AND ITS SUBSIDIARIES

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NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

10 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2012	2011	2012	2011
	\$	\$	\$	\$
Trade receivables:				
Not past due and not impaired	167,411	132,395	167,411	132,395
Past due but not impaired	185,388	98,255	185,388	98,255
	352,799	230,650	352,799	230,650
Other receivables:				
Deposits	37,482	128,857	35,276	126,512
Interest receivables	18,270	570	18,270	570
Loan to employees	56,250	-	56,000	-
Prepayment	102,084	121,267	102,084	118,417
Sundry receivables	542	554,262	-	529,916
Tax recoverable	276,140	374,356	-	-
	490,768	1,179,312	211,630	775,415
Total	843,567	1,409,962	564,429	1,006,065

Trade receivables are non-interest bearing and are generally on 90 days terms. They are recognised and carried at their original invoice amounts which represent their fair values on initial recognition.

Receivables that are past due but not impaired

The aging of trade receivables that are past due but not impaired at the reporting date is as follows:

	Group		Company	
	2012	2011	2012	2011
	\$	\$	\$	\$
Trade receivables past due:				
Less than 90 days	127,329	-	127,329	-
90 – 180 days	-	-	-	-
More than 180 days	58,059	98,255	58,059	98,255
	185,388	98,255	185,388	98,255

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10 TRADE AND OTHER RECEIVABLES – cont'd***Receivables that are impaired***

The Company's trade receivables that are impaired at the end of the reporting date and the movement of the allowance accounts used to record the impairment are as follows:

	Group		Company	
	2012 \$	2011 \$	2012 \$	2011 \$
Impaired receivables	178,032	178,032	3,814	3,814
Less: Accumulated Impairment losses	(178,032)	(178,032)	(3,814)	(3,814)
	-	-	-	-
Movements in accumulated impairment:				
Balance at beginning of year	178,032	201,554	3,814	3,814
Allowance no longer required	-	(22,485)	-	-
Exchange difference on translation	-	(1,037)	-	-
Balance at end of year	178,032	178,032	3,814	3,814

The carrying amounts of trade and other receivables are denominated in the following currencies:

	Group		Company	
	2012 \$	2011 \$	2012 \$	2011 \$
Indonesian Rupiah	278,446	391,955	-	-
Singapore Dollar	508,050	833,666	507,358	821,724
United States Dollar	57,071	184,341	57,071	184,341
	843,567	1,409,962	564,429	1,006,065

The loans to employees under an approved scheme are unsecured, interest-free and are repayable in monthly instalments. The carrying value approximates the fair value of the loans. The loans are denominated in Singapore dollar.

The tax recoverable relates to value added tax of \$276,140 (2011: \$374,356) by an overseas subsidiary.

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11 AMOUNTS OWING BY / (TO) SUBSIDIARIES

The amounts owing by/(to) subsidiaries are non-trade in nature, unsecured, interest free and repayable on demand.

During the financial year, the Company has no significant transactions with its subsidiaries.

12 CASH & CASH EQUIVALENTS

	Group		Company	
	2012	2011	2012	2011
	\$	\$	\$	\$
Cash & bank balances	2,207,107	5,891,971	2,064,408	4,615,812
Fixed deposits	3,431,579	82,534	3,422,452	-
	5,638,686	5,974,505	5,486,860	4,615,812

The carrying amounts of cash & cash equivalents are denominated in the following currencies:

	Group		Company	
	2012	2011	2012	2011
	\$	\$	\$	\$
Hong Kong Dollar	3,784	-	3,784	-
Indonesia Rupiah	11,019	54,913	1,881	2,711
Japanese Yuan	-	261	-	261
Singapore Dollar	3,452,117	4,300,224	3,349,984	4,214,920
Ringgit Malaysia	3,708	-	-	-
United States Dollar	2,168,058	1,619,107	2,131,211	397,920
	5,638,686	5,974,505	5,486,860	4,615,812

The fixed deposits have an average maturity of 3 (2011: 3) months from the end of the financial year. The approximate annual effective interest rates applicable for the financial year was 1% (2011:1.03%) for Company and 1.59% (2011: 1.35%) for overseas subsidiaries.

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13 TRADE AND OTHER PAYABLES

	Group		Company	
	2012	2011	2012	2011
	\$	\$	\$	\$
Trade payables:				
Outside parties	342,082	745,734	190,832	549,560
Other payables:				
Deposits received	400,146	415,527	398,346	415,527
Sundry payables	263,382	1,374,801	222,842	378,486
	663,528	1,790,328	621,188	794,013
Total	1,005,610	2,536,062	812,020	1,343,573

The carrying amounts of trade payables are denominated in the following currencies:

	Group		Company	
	2012	2011	2012	2011
	\$	\$	\$	\$
Indonesian Rupiah	163,449	1,184,847	-	-
Ringgit Malaysia	1,197	1,227	-	-
Singapore Dollar	812,495	1,248,539	783,551	1,242,124
United States Dollar	28,469	101,449	28,469	101,449
	1,005,610	2,536,062	812,020	1,343,573

14 SHARE CAPITAL

	Group & Company			
	2012		2011	
	Number of share	\$	Number of share	\$
Issued & fully paid ordinary shares, with no par value				
At beginning and end of the year	100,000,000	38,771,033	100,000,000	38,771,033

The holder of ordinary shares is entitled to receive dividends as declared from time to time and is entitled to one vote per share at General Meetings of the Company. All shares rank equally with regards to the Company's residual assets.

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14 SHARE CAPITAL – cont'd***Capital management***

The Group defines capital as the total equity of the Group. The Group's primary objectives when managing capital are to achieve sustainable growth and ensure that the Company has adequate capital to fund its operations.

The management regularly assess and quantify the potential capital requirements of the Group in order to ensure the Group has adequate capital.

15 TRANSLATION RESERVE

The translation reserve comprises foreign currency differences arising from the translation of the financial statements of foreign operations, as well as from the translation of liabilities that hedge the Company's net investment in a foreign operation.

16 REVENUE

Turnover represents invoiced sales of optical and magnetics media products less discount allowed. Group turnover has excluded inter-company transactions.

17 OTHER OPERATING INCOME

	Group		Company	
	2012	2011	2012	2011
	\$	\$	\$	\$
Rental income	1,831,234	1,078,383	1,831,234	1,078,383
Interest income	87,410	14,705	86,848	13,588
Foreign exchange differences	-	170,588	-	170,588
Compensation from legal suits	-	500,000	-	500,000
Sundry income	662,906	324,560	649,523	312,178
	<u>2,581,550</u>	<u>2,088,236</u>	<u>2,567,605</u>	<u>2,074,737</u>

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18 EMPLOYEE BENEFIT COSTS

Salaries and employee benefits (including directors) comprise the following:

	Group		Company	
	2012	2011	2012	2011
	\$	\$	\$	\$
Contributions to defined contribution plans	72,164	99,577	71,892	99,577
Salaries and related costs	1,180,838	1,271,144	915,477	1,175,485
	1,253,002	1,370,721	987,369	1,275,062
Number of employees	32	39	9	23

19 PROFIT/(LOSS) BEFORE TAX

	Group		Company	
	2012	2011	2012	2011
	\$	\$	\$	\$
The above is arrived at after charging:				
Allowance for impairment loss of investment in subsidiaries	-	-	-	2
Amortisation of investment property	244,744	244,744	244,744	244,744
Depreciation of property, plant and equipment	418,403	1,008,581	189,488	164,215
Loss on foreign exchange	263,834	210,807	879,869	192,342

20 INCOME TAX EXPENSE

	Group		Company	
	2012	2011	2012	2011
	\$	\$	\$	\$
Current year's taxation	39,160	-	-	-
Deferred taxation	-	5,622	-	-
	39,160	5,622	-	-

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20 INCOME TAX EXPENSE – cont'd

The income tax expense varied from the amount of income tax expense determined by applying the Singapore income tax rate of 17% (2011: 17%) to profit/(loss) before income tax as a result of the following differences:

	Group		Company	
	2012	2011	2012	2011
	\$	\$	\$	\$
Profit/(Loss) before tax	1,912,163	(4,478,441)	315,486	(166,844)
Income tax expense at statutory rate	325,068	(410,000)	53,633	(28,000)
Non-allowable items	119,323	42,000	71,567	5,000
Non-taxable items	(336,856)	(24,000)	-	-
Utilisation of deferred tax assets not recognised previously	-	-	(125,200)	-
Deferred assets not recognised	-	878,000	-	17,000
Other items	(68,375)	(480,378)	-	6,000
	39,160	5,622	-	-

As at 31 December 2012, the Company had tax losses and capital allowances amounting to \$14,621,579 (2011: \$15,358,050) and \$5,072,000 (2011: \$5,072,000) respectively that were available for offset against future taxable profits. No deferred tax assets were recognised due to uncertainty of their realisation.

The realisation of the future income tax benefits from tax losses and unabsorbed wear and tear allowances carried forward is available for an unlimited future financial year subject to agreement with the Comptroller of Income Tax and compliance with the provisions for the Income Tax Act Cap 134.

21 EARNING/(LOSS) PER SHARE

The earning per share is calculated based on the consolidated profit attributable to members of the Company of \$1,873,003 on 100,000,000 shares in issue during the financial year. There are no factors giving rise to dilution.

22 DIVIDENDS

An interim dividend of \$0.003 per ordinary share under the one-tier system amounting to \$300,000 in respect of financial year ended 31 December 2012 was declared payable on 18 January 2013.

23 RELATED PARTIES TRANSACTIONS***Compensation of key management personnel***

Key management personnel of the Group and of the Company are those persons having those authority and responsibilities for planning, directing and controlling the activities of the Group and of the Company. The directors are considered as key management of the Group.

	Group & Company	
	2012	2011
	\$	\$
Directors		
Salaries and related cost	345,950	352,808
Contributions to defined contribution plans	11,025	11,416
Key management personnel (other than Directors)		
Salaries and related cost	134,935	385,892
Contributions to defined contribution plans	6,771	31,844
	<u>498,681</u>	<u>781,960</u>

24 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group has no formal risk management policies and guidelines, which set out its overall business strategies, its tolerance for risk and its general risk management philosophy. It has however established informal processes to monitor and control such risks on a timely and accurate manner. Such policies are monitored and undertaken by the directors.

Risk management is integral to the whole business of the Group. The management continually monitors the Group'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 market conditions and the Group's activities.

No derivatives shall be undertaken except for the use as hedging instruments where appropriate and cost-efficient. The Company does not apply hedge accounting.

The key financial risks include interest rate risk, foreign currency risk, credit risk and liquidity risk. The following provide details regarding the Group's exposure to the risks and the objectives, policies and processes for the management of these risks.

24 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – cont'd**24.1 Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market interest rates.

The Group has exposure to interest rate risk arises primarily from fixed deposits. The Group's policy is to obtain comparative interest rates under the most favourable terms and conditions without increasing its foreign currency exposure. Cash and cash equivalents are placed with reputable banks.

Sensitivity analysis for interest rate risk

At the reporting date, an increase of 100 basis point in interest rate at the reporting date would decrease profit/loss before tax by \$34,315 (2011: \$825). A decrease in 100 basis point in interest rate would have an equal but opposite effect. This analysis assumes that all variables, in particular foreign currency rates, remain constant.

24.2 Foreign currency risk

The Group's foreign currency exposures arise mainly from the exchange rate movements of Singapore Dollar (SGD). There is no formal hedging policy with respect to foreign exchange exposure. Exposure to currency risk is monitored on an ongoing basis and the Group endeavours to keep the net exposure at an acceptable level.

The Group incurs foreign currency risk on cash and cash equivalents, trade and other receivables, trade and other payables that are denominated in currencies other than SGD. The currencies giving rise to this risk are primarily Indonesia Rupiah (IDR) and United States Dollar (USD), etc.

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity of the Group's profit/loss before tax to a reasonable change in IDR and USD against the SGD, with all other variables held constant.

	Group	
	2012	2011
	\$	\$
USD Strengthened by 5% (2011: 5%)	109,833	91,410
USD Weakened by 5% (2011: 5%)	(109,833)	(91,410)
IDR Strengthened by 5% (2011: 5%)	6,301	135
IDR Weakened by 5% (2011: 5%)	(6,301)	(135)

24 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – cont'd

24.3 Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's exposure to credit risk arises primarily from trade and other receivables. For other financial assets (including available for sale investment, held for trading investments, amounts owing from related parties, and cash and cash equivalents), the Group minimise credit risk by dealing with high credit rating counterparties.

The Group's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Group trades with recognised and creditworthy third parties. Receivable balances are monitored on an ongoing basis with the objective of reducing the Group's exposure to bad debts to an insignificant level.

At reporting date, the carrying amounts of trade and other receivables, and cash & cash equivalents represent the Group's maximum exposure to credit risk. No other financial assets carry a significant exposure to credit risk. There was no significant concentration of credit risk.

Financial assets that are neither past due but nor impaired

Trade and other receivables that are neither past due nor impaired are creditworthy receivables. Cash and cash equivalent, held for trading investments and short term deposits are placed with or entered with reputable financial institutions and Group with high credit ratings and no history of default.

Financial assets that are past due but not impaired

There is no other class of financial assets that is past due and/or impaired except for trade receivables <see note 10>.

24.4 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds.

To manage liquidity risk, the Group monitors its net operating cash flows and maintains an adequate level of cash and cash equivalents and funding facilities from the bank. In assessing the funding facilities, the management reviews its working capital requirements regularly.

The undiscounted contractual cash flows of trade and other payables are equivalent to their carrying amounts and are repayable within one year.

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25 FINANCIAL INSTRUMENTS

The fair value of financial assets and liabilities is at the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in forced or liquidation sale.

The following table shows an analysis of financial instruments carried at fair value by level of fair value hierarchy as at the reporting date <Note 8>:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	\$	\$	\$	\$
Financial assets:				
As at 31 December 2012				
Held for trading investments				
- Quoted equity securities	246,829	-	-	246,829
- Quoted debt securities	743,500	-	-	743,500
- Equity linked notes	-	1,134,875	-	1,134,875
As at 31 December 2012	<u>990,329</u>	<u>1,134,875</u>	<u>-</u>	<u>2,125,204</u>

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	\$	\$	\$	\$
Financial assets:				
As at 31 December 2011				
Held for trading investments				
- Quoted equity securities	<u>398,933</u>	<u>-</u>	<u>-</u>	<u>398,933</u>

Fair value hierarchy

The Group classifies fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

25 FINANCIAL INSTRUMENTS – cont'd

Fair value of financial instruments that are carried at fair value – cont'd

Determination of fair value

Quoted equity and debt securities – Fair value is determined directly by reference to their published market bid price at the report date.

Equity linked notes – The fair value of equity linked notes are based on broker's quoted at the reporting date.

Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value

The carrying amounts of investment security, trade and other receivables, cash & cash equivalents, trade and other payables, reasonable approximation of fair values, either due to their short-term nature or that they are floating rate instruments that are re-priced to market interest rates on or near the reporting date.

The carrying amounts of financial instruments in each of the following categories are as follows:

	<u>Group</u>	
	<u>2012</u>	<u>2011</u>
	\$	\$
FINANCIAL ASSETS		
Held for trading investments	<u>2,125,204</u>	<u>398,933</u>
Loans and receivables		
Trade and other receivables (excluding prepayment)	741,483	1,288,695
Cash & cash equivalents	<u>5,638,686</u>	<u>5,974,505</u>
	<u>6,380,169</u>	<u>7,263,200</u>
FINANCIAL LIABILITIES		
Financial liabilities through amortised cost		
Trade and other payables	<u>1,005,610</u>	<u>2,536,062</u>

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26 LEASE COMMITMENTS***Lease receivables***

As at the reporting date, the Group was committed to the following amount of future minimum lease receivables under non-cancellable leases with third party. The lease includes a clause for revision of rental charge on a periodic basis based on prevailing market conditions.

	Group	
	<u>2012</u>	<u>2011</u>
	\$	\$
Minimum operating lease payments receivable:		
Within one year	1,349,787	1,553,928
After one year but not more than five years	<u>554,170</u>	<u>1,624,485</u>

Rental income recognised during the year was \$1,831,234 (2011: \$1,078,383).

Operating lease receivables represent rentals receivable by the Group for its investment properties. Rentals are fixed for an average term of 2 years.

27 CONTINGENT LIABILITIES

The Company has following unsecured contingent liabilities not provided for in the financial statements.

The Company has given letters of financial support for the following subsidiaries to continue to operate as going concerns and to meet their respective obligations as and when they fall due:

1. General Media Pte Ltd
2. General Magnetics (M) Sdn. Bhd.