

Message from The Chairman

On behalf of the Board of Directors of Classic Scenic Berhad (“CScenic”), I am pleased to present the Annual Report and the Audited Financial Statements of CSCENIC for the financial year ended 31 December 2010.



On dire expectations of a double dip recession in 2010, the world's largest economy, USA, implemented new expansionary monetary and fiscal policy measures, which thankfully seems to have produced positive results to nudge the economy into a self-sustaining recovery. The Group, CScenic, will surely benefit from this broad economic recovery, and is confident of weathering this unprecedented global economic crisis with a resilience borne on a culture of continuous improvement, and total quality management.

The financial troubles have led to a major shakeout not only in the local wooden picture frame moulding industry, but also some major overseas players. The effect is directly, or indirectly, a difficult entry barrier has been created whereby new players are averse to venturing into this field due to negative business perceptions of high risks and start-up costs involved. However, for the Group, these circumstances positively positioned the Group in a favorable situation to further gain more market shares.

The economic recovery in the European Union remains subdued due to the escalating turmoil in the sovereign debt markets. Nevertheless, the contribution from the European market to group's sales is relatively small compared to North America and hence the Group was unaffected by the sovereign debt turmoil.

Asian countries currency, including Ringgit Malaysia, significantly appreciated against the USD due to the commendable recovery in economic growth underpinned by strong domestic demand and exports recovery. The strengthening Ringgit is not showing sign of abating and in anticipation of this challenge, the Group has been continuously hedging most of the export proceeds to mitigate foreign exchange losses in year 2010.

Capitalizing on the increasingly optimistic economic outlook in USA, and the consolidation within the wooden picture frame industry coupled with the Group's effective strategies, the Group achieved higher sales revenue and profit after tax of RM56.8 million, and RM11.9 million respectively, for the financial year ended 31 December 2010.

Message from The Chairman (cont'd)

FINANCIAL PERFORMANCE REVIEW

Even as advanced economies such as North America, the Group's main market, experienced moderate recoveries, the pace of recovery remain limited by a persistently weak labor market. As such, the Group has had to put greater efforts in devising sustainable business models and strategies to address these challenges, in order to continue on its path of sustainable growth.

Gladly, the Group achieved a total revenue of RM56.8 million for the financial year ended 31 December 2010, an increase of RM14.3 million or 33.6%, mainly driven by the sterling growth in export sales of wooden picture frame moulding to North America. Corresponding to the increase in revenue and the gain from disposal of a property and foreign currency exchange, we are pleased to announce a profit after-tax of RM11.9 million, an increase of RM3.7 million or 45.1%, compared to RM8.2 million in the preceding financial year 2009.

The Group will continue to focus on its core business and pursue its proven organic growth strategies which are good antidotes to economic adversities. CScenic will strengthen partnerships with major customers by studying the changes in their needs & understanding their preferences, and also of their customers as well, whilst continuing on its firmly entrenched path of more innovative & highly marketable products, consistent high quality at competitive prices, improving upon overall productivity, procurement optimization, and operational efficiency, to enhance profitability and sustain business growth.

DIVIDEND

Maximization of shareholder value remains a high priority for the Group and with the Group's ability in generating healthy cash flows, the Board proposed a second interim dividend comprising franked dividend of 10% or 5 sen, less 25% tax per ordinary share and tax exempt dividend of 2.5% or 1.25 sen per ordinary share in respect of the financial year ended 31 December 2010 (2009: First and final tax-exempt dividend of 14%). The dividend will be payable on 19 May 2011 to depositors registered in the Record of Depositors on 11 May 2011. The Board does not propose final dividend for the financial year ended 31 December 2010.

On 16 November 2010, an interim tax-exempt dividend of 8% or 4.0 sen per ordinary share totalling RM4.8 million in respect of the financial year ended 31 December 2010 was paid. Therefore, the total net dividend paid or to be paid to shareholders for the financial year ended 31 December 2010 would amount to RM 10.8 million or 9 sen per ordinary share.

The first and final tax-exempt dividend of 14% or 7.0 sen per ordinary share totalling RM8.4 million in respect of the previous financial year ended 31 December 2009 was also duly paid out on 8 July 2010.



Message from The Chairman (cont'd)



CORPORATE SOCIAL RESPONSIBILITY

We have been a firm believer in Corporate Social Responsibility ("CSR") being not only good for business, but more importantly, the principles and practices of CSR make for a long term sustainable creation of shared value among CScenic, and its network of both suppliers and buyers.

Product – The Group's technical team diligently carried out various studies and tests in accordance to the standard procedures, to ensure the safety level of raw materials are in compliance with safety & health standards. Here, the finished products are also sent for lab tests to ensure compliance. For instance, finished products are sent to certified labs for Lead and Formaldehyde tests in order to ensure the content of these matters are within permissible safety levels, and in compliance with Code of Federal Regulations, Chapter II – Consumer Products Safety Commission of U.S.A. and USA Environmental Protection Agency Air Resources Board - Airborne Toxic Control Measure (ATCM).

Shareholders - Good Corporate Governance, as disclosed in Statement on Corporate Governance, is periodically reviewed & enhanced by the Group to protect the interest of shareholders. Besides the in-placed Code of Ethics, which has been adopted to inculcate ethical values among all at CScenic, CScenic further embarked on a proactive risk based approach to fraud in year 2010. An Anti-Fraud and Whistle blowing policy has been developed in promoting and cultivating an honest environment; to enhance the awareness of the Group's stand on illegal, unethical and dishonest acts and the consequences of such acts to its employees; and to create employees' awareness of their roles, rights and responsibilities pertaining to illegal, unethical and dishonest acts. The strict enforcement of the anti-fraud policy would reduce the risk to the Group's reputation from fraudulent acts and protect the shareholders interest.

Environment - We have been awarded with the Forest Stewardship Council (FSC) Chain-of-Custody (CoC) certification since January 2009, a clear reflection of our commitment to responsible management of the world's forests. This certification is also an affirmation of our long established policy in buying legally verified lumber, FSC CoC lumber, from well managed forested areas which practice responsible forest management. The Company also continue to be committed to ensure all timbers are from legal and traceable sources, and support and promote forest sustainability through practising good forestry practises in its management system which is well aligned to the Group's mission.

Wood waste has been considerably utilized as it is used to produce steam and generate energy. Besides, the saw dust generated during the production processes is also being compressed into wood briquette and used to generate heat energy.

During the year 2010, the Group established an Environmental Green Fund Scheme to encourage all staff to reuse and recycle all kind of wastages, such as product packaging material wastages, plastic & metal drums, papers etc. The wastages collected are either reused internally or returned to the suppliers to be recycled, and all proceeds collected from the recycling activities will be used for social or charitable activities.

Workplace - Code of business conducts and ethics was established & adopted to instill ethical values into employees. The Code of business conducts and ethics clearly defined the Group's stand on the integrity, honesty and ethical behaviour – zero tolerance on unethical business conduct and fraud.

Message from The Chairman (cont'd)

Employees' emoluments & benefits are well taken care of. The remuneration package is reviewed and benchmarked against marketplace periodically to ensure the package is competitive in labour market and the employees are equitable remunerated with their contribution. Various emoluments & benefits are provided to lower income level staff such as Cost of Living Allowance (COLA), transport allowances. Long service award is also awarded to long service employees as a gesture of appreciation from the Group.

Human Capital Development – Training is provided to employees to enhance their skills & competencies and to prepare them for the progression of career path. Team building activities are also organized to further develop and instill team spirit among team members which would facilitate the team achievement in the Group's objectives and goals. All employees have equal opportunities in career advancement based on the performance of the staff and it is free from discrimination.

A safe & healthy environment culture is actively promoted to all employees. In this respect, a Safety and Health Committee was established and meetings conducted periodically to review all safety & health related matters. Policies were also set to ensure all employees are aware of their roles & responsibilities in the aspect of safety & health. Periodic in-house safety and health audit is conducted to ensure the enforcement and compliance of the Group's safety rules & regulation.

CScenic's commitment to provide a safe and healthy environment for its employees saw an adoption of an open door concept, whereby staff can easily find and talk to management at all levels on their problems and difficulties faced. Employees are the Groups' valuable assets and their voices and opinions are very critical, and thus their feedback are always given due and serious consideration. A yearly Employee Job Satisfaction Survey is conducted in order for the employee to voice out any grievances and dissatisfaction with the current work conditions, and thereafter the management will look into improving the current situation.

Community - In conjunction with Chinese New Year, the Group supported some of the underprivileged by distributing ang paws to senior citizen during an event hosted by a district association. During the year, CScenic also participated in some associations' charity events by contributing its beautiful wooden picture frames as an 'in-kind' for funds raising.

OUTLOOK AND PROSPECTS

With the introduction & implementation of stimulus packages from government of various countries, such as quantitative easing I & II, the adverse impact of the financial crisis had been abated and the improving market is bringing much relief to us. Nevertheless, the high unemployment rate in developed economies, volatile crude oil price and foreign currency exchange and greater demand of timber due to the natural disaster in Japan, continue to pose great challenges to the Group.

Some major players had left the field during the financial crisis and the market had been consolidated. With this opportunity, the Group will continue to put its effort in securing and gaining more market shares in pursuit of sustainable profitability and growth.

Although the year ahead is expected to be challenging, the Group will continue to strive for greater business innovation, productivity and operational efficiency optimization to deliver better value to all of its stakeholders.

Barring any unforeseen circumstances, the Group's performance for the financial year ending 31 December 2011 is expected to remain favourable.

APPRECIATION TO STAKEHOLDERS

We had a good year and certainly the good achievement is a result of the unfaltering commitment, dedication and loyalty from the management and all staff of CScenic.

On behalf of the Board, I also would like to express my deepest appreciation to our shareholders, customers and suppliers for their support and confidence in us. Lastly, I wish to put on record my sincere gratitude to my fellow directors for their invaluable counsel, and strong support.

Lim Chee Keong
Executive Chairman

Kuala Lumpur
19 May 2011