

**Knusford Berhad**  
(Company No. 380100-D)  
(Incorporated in Malaysia)  
**and its subsidiaries**

**Financial statements for the year  
ended 31 December 2004**

Domiciled in Malaysia  
Registered office  
33-35, 2<sup>nd</sup> Floor  
Wisma Ekovest  
Jalan Desa Gombak 6  
Taman Sri Setapak  
Off Jalan Gombak  
53000 Kuala Lumpur

**Knusford Berhad**  
 (Company No. 380100-D)  
 (Incorporated in Malaysia)  
**and its subsidiaries**

## **Directors' report for the year ended 31 December 2004**

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the year ended 31 December 2004.

### **Principal activities**

The Company is principally engaged in investment holding whilst the principal activities of the subsidiaries are as stated in Note 24 to the financial statements. There has been no significant change in the nature of these activities during the financial year.

### **Results**

	<b>Group RM'000</b>	<b>Company RM'000</b>
Net profit for the year	8,573 =====	557 =====

### **Reserves and provisions**

There were no material transfers to or from reserves and provisions during the year.

### **Dividends**

Since the end of the previous financial year, the Company paid a first and final dividend of 1% less tax totalling RM713,873 in respect of the year ended 31 December 2003 on 23 September 2004.

The first and final dividend recommended by the Directors in respect of the year ended 31 December 2004 is 1% less tax totalling RM713,873.

### **Directors of the Company**

Directors who served since the date of the last report are:

Dato' Lim Kang Swee  
 Abdul Aziz bin Ismail  
 Dato' Lim Kang Hoo  
 Khoo Nang Seng @ Khoo Nam Seng  
 Aznam bin Mansor  
 Lim Ts-Fei  
 Dr. Wong Kai Fatt  
 Kang Hui Ling (appointed on 28 February 2005)  
 Chan Seng Chow (resigned on 26 February 2005)

The holdings and deemed holdings in the ordinary shares of the Company and of its related corporations (other than wholly-owned subsidiaries) of those who were Directors at year end as recorded in the Register of Directors' Shareholdings are as follows:

<b>Number of ordinary shares of RM1.00 each</b>				
	<b>At 1.1.2004</b>	<b>Bought</b>	<b>Sold</b>	<b>At 31.12.2004</b>
Shareholdings in which Directors have direct interest in the Company				
Dato' Lim Kang Swee	8,154,000	-	-	8,154,000
Abdul Aziz bin Ismail	60,000	320,000	-	380,000
Dato' Lim Kang Hoo	465,749	150,000	-	615,749
Khoo Nang Seng @ Khoo Nam Seng	7,824,122	-	-	7,824,122
Aznam bin Mansor	8,000	-	-	8,000
Lim Ts-Fei	10,000	-	-	10,000

Shareholdings in which Directors have indirect interest in the Company through:

i) Kinston Park Sdn. Bhd.

Abdul Aziz bin Ismail	32,410,000	-	(32,410,000)	-
Dato' Lim Kang Hoo	32,410,000	-	-	32,410,000
Aznam Bin Mansor	32,410,000	-	(32,410,000)	-

ii) Bidarcita Sdn. Bhd.

Dato' Lim Kang Swee	439,000	-	-	439,000
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**Number of options over ordinary shares of RM1.00 each**

	<b>Option price</b>	<b>At 1.1.2004</b>	<b>Granted</b>	<b>Exercised</b>	<b>At 31.12.2004</b>
Company,					
Dato' Lim Kang Swee	RM1.25	150,000	-	-	150,000
Abdul Aziz bin Ismail	RM1.25	690,000	-	(320,000)	370,000
Dato' Lim Kang Hoo	RM1.25	300,000	-	(150,000)	150,000
Khoo Nang Seng @ Khoo Nam Seng	RM1.25	300,000	-	-	300,000

By virtue of their interests in the shares of the Company, the above named Directors are also deemed interested in the shares of the subsidiaries during the financial year to the extent that Knusford Berhad has an interest.

None of the other Directors holding office at 31 December 2004 had any interest in the ordinary shares of the Company and of its related corporations during the financial year.

## **Directors' benefits**

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in the financial statements) 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, other than certain Directors who have significant financial interests in companies which traded with certain companies in the Group in the ordinary course of business as disclosed in Note 26 to the financial statements.

There were no arrangements during and at the end of the financial year which had the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate apart from the Employees' Share Option Scheme ("ESOS").

## **Issue of shares**

During the financial year, the Company issued 1,620,000 ordinary shares of RM1.00 each for cash arising from the exercise of the ESOS at the option price of RM1.25 per share.

There were no other changes in the issued and paid-up capital of the Company during the financial year.

## **Options granted over unissued shares**

No options were granted to any person to take up unissued shares of the Company during the year apart from the issue of options pursuant to the ESOS.

The Company had on 2 July 2003 established and implemented the ESOS for a period of 5 years expiring on 22 April 2008. The ESOS is governed by the ESOS Bye-laws which were approved by the shareholders on 29 January 2003.

Details of the ESOS are set out in Note 16 to the financial statements.

## **Other statutory information**

Before the financial statements of the Group and of the Company were made out, the Directors took reasonable steps to ascertain that:

- i) all known bad debts have been written off and adequate provision made for doubtful debts, and
- ii) all current assets have been stated at the lower of cost and net realisable value.

At the date of this report, the Directors are not aware of any circumstances:

- i) that would render the amount written off for bad debts, or the amount of the provision for doubtful debts, in the Group and in the Company inadequate to any substantial extent, or
- ii) that would render the value attributed to the current assets in the Group and in the Company financial statements misleading, or
- iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate, or
- iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Group and of the Company misleading.

At the date of this report, there does not exist:

- i) any charge on the assets of the Group or of the Company that has arisen since the end of the financial year which secures the liabilities of any other person, or
- ii) any contingent liability in respect of the Group or of the Company that has arisen since the end of the financial year.

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No contingent liability or other liability of any company in the Group has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Group and of the Company to meet their obligations as and when they fall due.

In the opinion of the Directors, the results of the operations of the Group and of the Company for the financial year ended 31 December 2004 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of the financial year and the date of this report.

## **Auditors**

The auditors, Messrs KPMG, have indicated their willingness to accept re-appointment.

Signed in accordance with a resolution of the Directors:

.....  
**Abdul Aziz bin Ismail**

.....  
**Dato' Lim Kang Hoo**

Kuala Lumpur,

Date:

**Knusford Berhad**  
 (Company No. 380100-D)  
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**and its subsidiaries**

**Statement by Directors pursuant to Section 169(15)  
 of the Companies Act, 1965**

In the opinion of the Directors, the financial statements set out on pages 10 to 50 are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of the state of affairs of the Group and of the Company at 31 December 2004 and of the results of their operations and cash flows for the year ended on that date.

Signed in accordance with a resolution of the Directors:

.....  
**Abdul Aziz bin Ismail**

.....  
**Dato' Lim Kang Hoo**

Kuala Lumpur,

Date:

**Knusford Berhad**  
 (Company No. 380100-D)  
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**Statutory declaration pursuant to  
 Section 169(16) of the Companies Act, 1965**

I, **Lim Siong Seong**, the officer primarily responsible for the financial management of Knusford Berhad, do solemnly and sincerely declare that the financial statements set out on pages 10 to 50 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named in Kuala Lumpur on .....

.....  
**Lim Siong Seong**

Before me:



## **Report of the auditors to the members of Knusford Berhad**

(Company No. 380100-D)  
(Incorporated in Malaysia)

We have audited the financial statements set out on pages 10 to 50. The preparation of the financial statements is the responsibility of the Company's Directors.

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

We conducted our audit in accordance with approved Standards on Auditing in Malaysia. These standards require that we plan and perform the audit to obtain all the information and explanations, which we consider necessary to provide us with evidence to give reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the Directors as well as evaluating the overall adequacy of the presentation of information in the financial statements. We believe our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of:
  - i) the state of affairs of the Group and of the Company at 31 December 2004 and the results of their operations and cash flows for the year ended on that date; and
  - ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Group and of the Company; and
- (b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Company and the subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the said Act.

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The subsidiary in respect of which we have not acted as auditors are identified in Note 24 to the financial statements and we have considered their financial statements and the auditors' reports thereon.

We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The audit reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment made under subsection (3) of Section 174 of the Act.

**KPMG**

Firm Number: AF 0758

Chartered Accountants

**Johan Idris**

Partner

Approval Number: 2585/10/06(J)

Kuala Lumpur,

Date:

**Knusford Berhad**  
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**Balance sheets at 31 December 2004**

		<b>Group</b>		<b>Company</b>	
	<b>Note</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
		<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Property, plant and equipment</b>	2	40,104	40,654	2,231	-
<b>Investments in subsidiaries</b>	3	-	-	65,892	65,892
<b>Land held for property development</b>	4	27,528	28,942	-	-
<b>Deferred tax assets</b>	5	562	687	-	-
<b>Goodwill on consolidation</b>	14	277	-	-	-
		<u>68,471</u>	<u>70,283</u>	<u>68,123</u>	<u>65,892</u>
<b>Current assets</b>					
Inventories	6	26,835	25,337	-	-
Properties under development	7	23,759	21,440	-	-
Trade and other receivables	8	57,302	53,372	32,567	38,441
Tax recoverable		4,192	5,570	-	-
Cash and cash equivalents	9	44,336	45,834	21,688	24,209
		<u>156,424</u>	<u>151,553</u>	<u>54,255</u>	<u>62,650</u>
<b>Current liabilities</b>					
Trade and other payables	10	42,550	41,333	196	8,209
Borrowings	11	3,691	3,733	-	-
Taxation		586	646	55	70
		<u>46,827</u>	<u>45,712</u>	<u>251</u>	<u>8,279</u>
<b>Net current assets</b>		<u>109,597</u>	<u>105,841</u>	<u>54,004</u>	<u>54,371</u>
		<u>178,068</u>	<u>176,124</u>	<u>122,127</u>	<u>120,263</u>
		=====	=====	=====	=====

## Balance sheets at 31 December 2004

(continued)

	Note	Group		Company	
		2004	2003	2004	2003
		RM'000	RM'000	RM'000	RM'000
<b>Financed by:</b>					
<b>Capital and reserves</b>					
Share capital	12	99,149	97,529	99,149	97,529
Reserves	13	66,582	58,322	22,978	22,734
		<hr/>	<hr/>	<hr/>	<hr/>
<b>Shareholders' funds</b>		165,731	155,851	122,127	120,263
<b>Negative goodwill</b>	14	-	6,895	-	-
<b>Minority shareholders' interests</b>	15	311	-	-	-
<b>Long term and deferred liabilities</b>					
Borrowings	11	9,451	10,444	-	-
Deferred tax liabilities	5	2,575	2,934	-	-
		<hr/>	<hr/>	<hr/>	<hr/>
		178,068	176,124	122,127	120,263
		<hr/>	<hr/>	<hr/>	<hr/>

The financial statements were approved and authorised for issue by the Board of Directors on .....

The notes set out on pages 18 to 50 form an integral part of, and should be read in conjunction with, these financial statements.

**Knusford Berhad**  
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**Income statements for the year ended 31 December 2004**

	Note	<b>Group</b>		<b>Company</b>	
		<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
		<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Revenue</b>	17	97,422	124,750	1,000	745
		=====	=====	=====	=====
<b>Operating profit</b>	17	10,578	11,862	362	196
Interest income		1,051	882	630	638
Interest expense	19	(1,233)	(404)	-	-
		=====	=====	=====	=====
<b>Profit before taxation</b>		10,396	12,340	992	834
Tax expense	20	(1,679)	(1,586)	(435)	(362)
		=====	=====	=====	=====
<b>Profit after taxation</b>		8,717	10,754	557	472
Minority interests		(144)	-	-	-
		=====	=====	=====	=====
<b>Net profit for the year</b>		8,573	10,754	557	472
		=====	=====	=====	=====
Basic earnings per ordinary share (sen)	21	8.68	12.7		
		=====	=====		
Diluted earnings per ordinary share (sen)	21	8.62	12.5		
		=====	=====		

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**Statements of changes in equity for year ended  
 31 December 2004**

			<i>Non- distributable</i>	<i>Distributable</i>	
	Note	Share capital RM'000	Share premium RM'000	Retained profits RM'000	Total RM'000
<b>Group</b>					
<b>At 1 January 2003</b>		74,042	14,105	25,933	114,080
Issue of shares:					
Private placement		22,212	7,996	-	30,208
Share options		1,275	319	-	1,594
Net losses not recognised in the income statement:					
Shares issuance expenses		-	(252)	-	(252)
Dividends – 2002 final	22	-	-	(533)	(533)
Net profit for the year		-	-	10,754	10,754
<b>At 31 December 2003</b>		<u>97,529</u>	<u>22,168</u>	<u>36,154</u>	<u>155,851</u>
		=====	=====	=====	=====
<b>At 1 January 2004</b>		97,529	22,168	36,154	155,851
Issue of shares:					
Share options		1,620	401	-	2,021
Dividends – 2003 final	22	-	-	(714)	(714)
Net profit for the year		-	-	8,573	8,573
<b>At 31 December 2004</b>		<u>99,149</u>	<u>22,569</u>	<u>44,013</u>	<u>165,731</u>
		=====	=====	=====	=====
		Note 12	Note13	Note13	

## Statements of changes in equity for year ended 31 December 2004

(continued)

Company	Note	<i>Non-distributable</i>		<i>Distributable</i>	Total
		Share capital RM'000	Share premium RM'000	Retained profits RM'000	
<b>At 1 January 2003</b>		74,042	14,105	627	88,774
Issue of shares:					
Private placement		22,212	7,996	-	30,208
Share options		1,275	319	-	1,594
Net losses not recognised in the income statement:					
Shares issuance expenses		-	(252)	-	(252)
Dividends - 2003 final	22	-	-	(533)	(533)
Net profit for the year		-	-	472	472
		<hr/>	<hr/>	<hr/>	<hr/>
<b>At 31 December 2003</b>		97,529	22,168	566	120,263
Issue of shares:					
Share options		1,620	401		2,021
Dividends - 2004 final	22	-	-	(714)	(714)
Net profit for the year		-	-	557	557
		<hr/>	<hr/>	<hr/>	<hr/>
<b>At 31 December 2004</b>		99,149	22,569	409	122,127
		=====	=====	=====	=====
		Note 12	Note 13	Note 13	

The notes set out on pages 18 to 50 form an integral part of, and should be read in conjunction with, these financial statements.

**Knusford Berhad**  
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**Cash flow statements for the year ended 31 December 2004**

		Group		Company	
	Note	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
<b>Cash flows from operating activities</b>					
Profit before taxation		10,396	12,340	992	834
Adjustments for:					
Amortisation of negative goodwill		(6,895)	(6,895)	-	-
Amortisation of goodwill		69	-	-	-
Depreciation		6,668	4,699	25	-
Dividend income		-	-	(1,000)	(745)
Property, plant and equipment written off		6	-	-	-
Gain on disposal of property, plant and equipment		(228)	(183)	-	-
Interest expense		1,233	404	-	-
Interest income		(1,051)	(882)	(630)	(638)
Operating profit/(loss) before working capital changes		10,198	9,483	(613)	(549)
Changes in working capital:					
Properties under development		(905)	4,990	-	-
Inventories		(1,277)	(996)	-	-
Trade and other receivables		(3,399)	8,286	5,874	80
Trade and other payables		886	(18,623)	(8,014)	8,073
Cash generated from/(used in) operations		5,503	3,140	(2,753)	7,604
Dividends received		-	-	1,000	745
Income taxes paid		(595)	(3,112)	(450)	(320)
<b>Net cash generated from/ (used in) operating activities</b>		4,908	28	(2,203)	8,029



## Cash flow statements for the year ended 31 December 2004

(continued)

		Group		Company	
		2004	2003	2004	2003
	Note	RM'000	RM'000	RM'000	RM'000
<b>Cash flows from investing activities</b>					
Interest received		1,051	882	630	638
Acquisitions of subsidiaries, net of cash acquired	25	(390)	(7,622)	-	(8,000)
Purchase of property, plant and equipment	(i)	(6,610)	(10,832)	(2,256)	-
Proceeds from disposal of property, plant and equipment		1,529	342	-	-
Deposits pledged with banks		(193)	(129)	(109)	(88)
<b>Net cash used in investing activities</b>		<b>(4,613)</b>	<b>(17,359)</b>	<b>(1,735)</b>	<b>(7,450)</b>
<b>Cash flows from financing activities</b>					
Advances to subsidiaries		-	-	-	(25,945)
Dividends paid	22	(714)	(533)	(714)	(533)
Interest paid		(1,233)	(404)	-	-
Proceeds from revolving credit		700	-	-	-
Proceeds from the issuance of shares		2,021	31,802	2,021	31,802
Repayments of hire purchase liabilities		(2,706)	(2,236)	-	-
Repayment of revolving credit		(500)	-	-	-
Shares issuance expenses paid		-	(252)	-	(252)
<b>Net cash (used in)/ generated from financing activities</b>		<b>(2,432)</b>	<b>28,377</b>	<b>1,307</b>	<b>5,072</b>
<b>Net (decrease)/ increase in cash and cash equivalents</b>		<b>(2,137)</b>	<b>11,046</b>	<b>(2,631)</b>	<b>5,651</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>39,573</b>	<b>28,527</b>	<b>20,898</b>	<b>15,247</b>
<b>Cash and cash equivalents at end of year (ii)</b>		<b>37,436</b>	<b>39,573</b>	<b>18,267</b>	<b>20,898</b>

## Cash flow statements for the year ended 31 December 2004

(continued)

(i) *Purchase of property, plant and equipment*

During the year, the Group and the Company acquired property, plant and equipment with an aggregate cost of RM7,563,000 and RM2,256,000 (2003 - RM23,228,000 and Nil) of which RM953,000 and Nil (2003 - RM12,396,000 and Nil) were acquired by means of hire purchase arrangements.

(ii) *Cash and cash equivalents*

Cash and cash equivalents included in the cash flow statements comprise the following balance sheet amounts:

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Cash and bank balances	5,788	13,613	17	131
Deposits with licensed banks (excluding deposits pledged)	32,094	25,960	18,250	20,767
Bank overdrafts	(446)	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	37,436	39,573	18,267	20,898
	=====	=====	=====	=====

The notes set out on pages 18 to 50 form an integral part of, and should be read in conjunction with, these financial statements.

**Knusford Berhad**  
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**Notes to the financial statements**

**1. Summary of significant accounting policies**

The following accounting policies are adopted by the Group and by the Company and are consistent with those adopted in previous years except for the adoption of MASB 32, Property Development Activities.

In addition to the new policy and extended disclosures where required by this new standard, the effects of the change in the above accounting policy is disclosed in Note 29 to these financial statements.

**(a) Basis of accounting**

The financial statements of the Group and of the Company are prepared on the historical cost basis except as disclosed in the notes to the financial statements and in compliance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia other than as disclosed in Note 1 (h).

**(b) Basis of consolidation**

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. Subsidiaries are consolidated using the acquisition method of accounting.

A subsidiary is excluded from consolidation when either control is intended to be temporary if the subsidiary is acquired and held exclusively with a view of its subsequent disposal in the near future and it has not previously been consolidated or it operates under severe long term restrictions which significantly impair its ability to transfer funds to the Company. Subsidiaries excluded on these grounds are accounted for as investments.

Under the acquisition method of accounting, the results of subsidiaries acquired or disposed off during the year are included from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair values of the subsidiaries' net assets are determined and these values are reflected in the Group financial statements. The difference between the acquisition cost and the fair values of the subsidiaries' net assets is reflected as goodwill or negative goodwill as appropriate.

## 1. Summary of significant accounting policies

### (b) Basis of consolidation (continued)

Intra-group transactions and balances and the resulting unrealised profits are eliminated on consolidation. Unrealised losses resulting from intragroup transactions are also eliminated unless cost cannot be recovered.

### (c) Property, plant and equipment

Freehold land is stated at cost. All other property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Property, plant and equipment retired from active use and held for disposal are stated at the carrying amount at the date when the asset is retired from active use, less impairment losses, if any.

#### *Depreciation*

Freehold land is not amortised. The straight line method is used to write off the cost of the assets over the term of their estimated useful lives at the following principal annual rates:

Buildings	2%
Equipment, furniture and fittings	10%
Plant and machinery	5%-20%
Motor vehicles	20%

### (d) Hire purchases

Assets acquired under hire purchase arrangements are capitalised at their purchase cost and depreciated on the same basis as owned assets. The total amount payable under hire purchase arrangements is shown under hire purchase liabilities. The interest element of the hire purchase arrangements is amortised over the period of the agreement using the sum-of-digits method.

### (e) Investments

Long term investments in subsidiaries are stated at cost less impairment loss where applicable.

## **1. Summary of significant accounting policies**

### **(f) Land held for property development**

Land held for property development consist of land or such portions thereof on which no development activities have been carried out or where development activities are not expected to be completed within the Group's normal operating cycle of 2 to 3 years. Such land is classified as non-current asset and is stated at cost less accumulated impairment losses.

Land held for property development is classified as property development costs at the point when development activities have commenced and where it can be demonstrated that the development activities can be completed within the Group's normal operating cycle of 2 to 3 years.

Cost associate with the acquisition of land includes the purchase price of the land, professional fees, stamp duties, commissions, conversion fees and other relevant levies. Where the Group had previously recorded the land at revalued amount, it continues to retain this amount as it surrogate cost as allowed by MASB 32.

### **(g) Goodwill/ Negative goodwill**

Goodwill represents the excess of the cost of acquisition over the fair values of the net identifiable assets acquired and is stated at cost less accumulated amortisation and accumulated impairment losses (refer Note 1(o)).

Goodwill is amortised from the date of initial recognition over five (5) years.

Negative goodwill represents the excess of the fair values of the net identifiable assets acquired over the cost of acquisition. Negative goodwill is stated at cost less accumulated amortisation.

Negative goodwill is amortised through the income statement of the Group over five (5) years from the date of initial recognition.

### **(h) Inventories**

Inventories are value at the lower of cost and net realisable value with first-in first-out being the main basis for cost. Cost of trading and rental inventories comprises purchase price plus associated costs.

Inventories of machinery held for trading, which are also being rented out, are amortised at a rate of 5% per annum.

The policy of not capitalising machinery being rented out is not in compliance with MASB 10 on Leases. The standard requires assets held for operating leases to be recorded as property, plant and equipment of lessors. The Directors are of the view that the machinery are mainly held for trading and therefore it is inappropriate to account for the machinery as property, plant and equipment. The non-compliance has no material effect on the financial statements.

## **1. Summary of significant accounting policies**

### **(i) Properties development costs**

Property development costs comprise costs associated with the acquisition of land and all costs that are directly attributable to development activities or that can be allocated on a reasonable basis to such activities.

Property development costs not recognised as an expense is recognised as an asset and is stated at the lower of cost and net realisable value.

The excess of revenue recognised in the income statement over billings to purchasers is shown as accrued billings under trade and other receivables and the excess of billings to purchasers over income recognised in the income statement is shown as progress billings under trade and other payables.

### **(j) Trade and other receivables**

Trade and other receivables are stated at cost less allowance for doubtful debts.

Known bad receivables are written off and specific allowance is made for any receivables considered to be doubtful of collection.

### **(k) Employee benefits**

#### ***(i) Short term employee benefits***

Wages, salaries and bonuses are recognised as expenses in the year in which the associated services are rendered by employees of the 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 absences occur.

#### ***(ii) Defined contribution plan***

Obligations for contributions to defined contribution plan are recognised as an expense in the income statement as incurred.

#### ***(ii) Equity and equity-related compensation benefits***

The share option programme allows Group employees to acquire shares of the Company. When the options are exercised, equity is increased by the amount of the proceeds received.

## **1. Summary of significant accounting policies**

### **(l) Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand balances and deposits with banks and highly liquid investments which have an insignificant risk of change in value. For the purpose of the cash flow statement, cash and cash equivalents are presented net of bank overdrafts and pledged deposits.

### **(m) Liabilities**

Borrowings and trade and other payables are stated at cost.

### **(n) Impairment**

The carrying amounts of assets, other than inventories, assets arising from construction contracts, deferred tax assets and financial assets (other than investments in subsidiaries), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount is the greater of the asset's net selling price and its value in use. In assessing value in use, 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 an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and it 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 has been recognised. The reversal is recognised in the income statement.

### **(o) Foreign currency transactions**

Transactions in foreign currencies are translated to Ringgit Malaysia at rates of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Ringgit Malaysia at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

The closing rate used in the translation of foreign currency monetary assets and liabilities is as follows:

USD 1: RM3.80      (2003- USD1: RM3.80)

## **1. Summary of significant accounting policies**

### **(p) Capitalisation of borrowing costs**

Borrowing costs incurred on capital work-in-progress, properties under development and gross amount due from contract customers are capitalised. Exchange differences arising from foreign currency borrowings, to the extent they are regarded as an adjustment to interest costs, are also capitalised. Capitalisation of borrowing costs will cease when the assets are ready for their intended use.

The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is the weighted average of the borrowing costs applicable to the Group's borrowings that are outstanding during the year, other than borrowings made specifically for the purpose of financing a specific capital work-in-progress, property under development or gross amount due from contract customers, in which case the actual borrowing cost incurred on that borrowing less any investment income on the temporary investment of that borrowing will be capitalised.

Capitalisation of borrowing costs is suspended during extended periods in which active development is interrupted.

### **(q) Income tax**

Tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Temporary differences are not recognised for goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that at the time of the transaction affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.



## 1. Summary of significant accounting policies

### (r) Revenue

#### *i) Goods sold and services rendered*

Revenue from the sale of goods are measured at the fair value of the consideration receivable and is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to survey of works performed. Where the outcome of the transaction cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

#### *ii) Rental of machinery*

Revenue from the rental of machinery is recognised in the income statement on an accrual basis in accordance with the substance of the rental agreements.

#### *iii) Construction contracts*

Revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the proportion that contract costs incurred for contract work performed to date that reflect work performed bear to the total estimated contract costs.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that is probable to be recoverable and contract costs are recognised as an expense in the period in which they are incurred.

An expected loss on a contract is recognised immediately in the income statement.

#### *iv) Property development*

Revenue from property development activities is recognised based on the stage of completion measured by reference to the proportion that property development costs incurred for work performed to date bear to the estimated total property development costs.

Where the financial outcome of a property development activity cannot be reliably estimated, property development revenue is recognised only to the extent of property development costs incurred that is probable will be recoverable, and property development costs on the development units sold are recognised as an expense in the period in which they are incurred.

## 1. Summary of significant accounting policies

### *iv) Property development (continued)*

Any expected loss on a development project, including costs to be incurred over the defects liability period, is recognised immediately in the income statement.

### *v) Interest income*

Interest income is recognised in the income statement on a time proportion basis taking into account the principal outstanding and the rate applicable.

### *vi) Dividend income*

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

### **(s) Financing costs**

All interest and other costs incurred in connection with borrowings other than that capitalised in accordance with Note 1(q), are expensed as incurred. The interest component of hire purchase payments is recognised in the income statement so as to give a constant periodic rate of interest on the outstanding liability at the end of each accounting period.

## 2. Property, plant and equipment

Group	Freehold land RM'000	Buildings RM'000	Equipment, furniture and fittings RM'000	Plant and machinery RM'000	Motor vehicles RM'000	Total RM'000
<b>Cost</b>						
At 1 January 2004	5,173	2,852	1,597	51,689	7,006	68,317
Acquisition of subsidiaries	-	-	8	-	75	83
Additions	52	2,625	157	3,374	1,355	7,563
Disposals	-	(671)	-	(765)	(786)	(2,222)
Written off	-	-	(7)	(492)	-	(499)
Transfer to inventories	-	-	-	(431)	-	(431)
At 31 December 2004	5,225	4,806	1,755	53,375	7,650	72,811
<b>Accumulated depreciation</b>						
At 1 January 2004	-	253	756	22,124	4,530	27,663
Charge for the year	-	79	156	5,506	927	6,668
Disposals	-	-	-	(351)	(570)	(921)
Written off	-	-	(1)	(492)	-	(493)
Transfer to inventories	-	-	-	(210)	-	(210)
At 31 December 2004	-	332	911	26,577	4,887	32,707
<b>Net book value</b>						
At 31 December 2004	5,225	4,474	844	26,798	2,763	40,104
At 31 December 2003	5,173	2,599	841	29,565	2,476	40,654
Depreciation charge for the year ended 31 December 2003	-	43	143	3,710	803	4,699

## 2. Property, plant and equipment (continued)

Company	Equipment, furniture and fittings RM'000	Buildings RM'000	Total RM'000
<b>Cost</b>			
At 1 January 2004	-	-	-
Additions	13	2,243	2,256
	<hr/>	<hr/>	<hr/>
At 31 December 2004	13	2,243	2,256
	<hr/>	<hr/>	<hr/>
<b>Accumulated depreciation</b>			
At 1 January 2004	-	-	-
Charge for the year	-	25	25
	<hr/>	<hr/>	<hr/>
At 31 December 2004	-	25	25
	<hr/>	<hr/>	<hr/>
<b>Net book value</b>			
At 31 December 2004	13	2,218	2,231
	<hr/>	<hr/>	<hr/>
At 31 December 2003	-	-	-
	<hr/>	<hr/>	<hr/>
Depreciation charge for the year ended 31 December 2003	-	-	-
	<hr/>	<hr/>	<hr/>

Motor vehicles of the Group with an aggregate net book value of RM174,000 (2003 - RM435,000) have not been registered in the name of the subsidiaries.

Certain buildings of the Group and the Company with an aggregate net book value of RM2,218,000 (2003- Nil) are still in the process of being registered under the name of the Company.

### *Assets under hire purchase*

Included in the property, plant and equipment of the Group are assets acquired under hire purchase arrangements with an aggregate net book value as follows:

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<b>RM'000</b>	<b>RM'000</b>
Motor vehicles	2,020	1,403
Plant and machinery	16,441	18,763
	<hr/>	<hr/>
	18,461	20,166
	<hr/>	<hr/>

## 2. Property, plant and equipment (continued)

### *Security*

Certain freehold land and buildings with an aggregate net book value amounting to RM4,909,000 (2003 - RM4,689,000) of a subsidiary are charged to secure banking facilities of the subsidiary (Note 11).

## 3. Investments in subsidiaries

	<b>Company</b>	
	<b>2004</b>	<b>2003</b>
	<b>RM'000</b>	<b>RM'000</b>
Unquoted shares, at cost	65,892	65,892
	=====	=====

Details of the subsidiaries are shown in Note 24.

## 4. Land held for property development

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<b>RM'000</b>	<b>RM'000</b>
<i>Cost</i>		
At 1 January	28,942	37,456
Additions	116	6,128
Disposal	-	(7,190)
Transfer to property development costs (Note 7)	(1,530)	(7,452)
	=====	=====
At 31 December	27,528	28,942
	=====	=====

### *Security*

The land is charged to a licensed bank to secure banking facilities of the subsidiary.

## 5. Deferred tax

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<b>RM'000</b>	<b>RM'000</b>
Deferred tax liabilities	2,575	2,934
	=====	=====
Deferred tax assets	(562)	(687)
	=====	=====

The recognised deferred tax assets and liabilities (before offsetting) are as follows:

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<b>RM'000</b>	<b>RM'000</b>
Properties under development	2,320	2,870
Property, plant and equipment		
- capital allowances	255	672
Provisions	-	(420)
Unabsorbed capital allowances	-	(132)
Other items	-	(56)
	=====	=====
Deferred tax liabilities	2,575	2,934
	=====	=====
Property, plant and equipment		
- capital allowances	-	53
Provisions	(562)	(740)
	=====	=====
Deferred tax assets	(562)	(687)
	=====	=====

No deferred tax asset has been recognised for the following items:

Deductible temporary differences	7,715	6,720
Taxable temporary differences	(2,250)	(2,721)
Unabsorbed capital allowances	4,418	3,443
Unutilised tax losses	1,532	1,596
	=====	=====
	11,415	9,038
	=====	=====

## 5. Deferred tax (continued)

The deductible temporary differences mainly relate to the accumulated amortisation on rental inventories. Deferred tax assets have not been recognised in respect of these items because under the Group's current accounting practice, the temporary differences are not reversed upon the disposals of the rental inventories.

The unutilised tax losses, unabsorbed capital allowances and temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which certain subsidiaries of the Group can utilise the benefits.

## 6. Inventories

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<b>RM'000</b>	<b>RM'000</b>
Trading and rental inventories, at cost	34,550	32,057
Less: Accumulated amortisation	(7,715)	(6,720)
	<hr/>	<hr/>
	26,835	25,337
	=====	=====

Inventories of machinery held for trading, which are also rented out, net of amortisation at year end were RM14,397,000 (2003 - RM15,246,000).

As at balance sheet date, amount of trading and rental inventories in transit amounted to RM3,000,000 (2003- Nil).

## 7. Properties development costs

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>At 1 January</b>		
Land	11,574	-
Development costs	16,196	5,312
Accumulated costs charged to income statement	(6,330)	-
	<hr/>	<hr/>
	21,440	5,312
	<hr/>	<hr/>
Land additional costs	-	4,969
Transfer from land held for property development (Note 4)	1,530	7,452
Development costs incurred during the year	20,474	10,884
	<hr/>	<hr/>
	22,004	23,305
	<hr/>	<hr/>
Costs charged to income statement	(19,685)	(7,177)
	<hr/>	<hr/>
	23,759	21,440
	=====	=====

## 7. Properties development costs (continued)

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>At 31 December</b>		
Land	13,104	11,574
Development costs	36,670	16,196
Accumulated costs charged to income statement	(26,015)	(6,330)
	<u>23,759</u>	<u>21,440</u>
	=====	=====

Additions to development costs during the year include rental of equipment of RM695,000 (2003 - RM380,000).

### *Security*

The properties development costs are charged to secure banking facilities of a subsidiary.

## 8. Trade and other receivables

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Accrued billings	467	-	-	-
Amount due from contract customers	4,325	118	-	-
Trade receivables	48,823	47,439	-	-
Other receivables, deposits and prepayments	3,687	5,815	29	5
Subsidiaries	-	-	32,538	38,436
	<u>57,302</u>	<u>53,372</u>	<u>32,567</u>	<u>38,441</u>
	=====	=====	=====	=====

Included in the trade receivables of the Group are amounts due from companies deemed related to Directors as defined in Note 26 amounting to RM21,300,000 (2003 - RM4,281,000).

The amounts due from subsidiaries comprise advances that are unsecured, interest free and have no fixed terms of repayment.



## 9. Cash and cash equivalents

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Cash and bank balances	5,788	13,613	18	131
Deposits with licensed banks	38,548	32,221	21,670	24,078
	<u>44,336</u>	<u>45,834</u>	<u>21,688</u>	<u>24,209</u>
	=====	=====	=====	=====

Deposits with licensed banks amounting to RM6,454,000 (2003 - RM6,261,000) and RM3,420,000 (2003 - RM3,311,000) of the Group and the Company respectively are pledged to banks to secure bank borrowings and facilities granted to subsidiaries.

Included in the Group's cash and bank balances is an amount of RM950,000 (2003 - RM1,822,000), the utilisation of which is subject to the Housing Development (Housing Development Account) Regulations 2002.

## 10. Trade and other payables

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Trade payables	33,828	27,684	-	-
Progress billings	-	1,978	-	-
Directors	72	1,050	69	70
Other payables and accrued expenses	8,650	10,621	127	8,139
	<u>42,550</u>	<u>41,333</u>	<u>196</u>	<u>8,209</u>
	=====	=====	=====	=====

Included in trade payables of the Group are amounts due to companies deemed related to Directors as defined in Note 26 amounting to RM11,240,000 (2003 - RM5,806,000).

Included in other payables and accrued expenses of the Group are amounts due to companies deemed related to Directors as defined in Note 26 amounting to RM3,343,000 (2003 - Nil).

The amounts due to Directors comprise advances that are unsecured, interest free and have no fixed terms of repayment.

## 11. Borrowings

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<b>RM'000</b>	<b>RM'000</b>
Current		
Bank overdrafts	446	-
Hire purchase liabilities	2,045	2,733
Revolving credit - secured	1,200	1,000
	<hr/>	<hr/>
	3,691	3,733
	<hr/>	<hr/>
Non-current		
Hire purchase liabilities	9,451	10,444
	<hr/>	<hr/>

### *Terms and debt repayment schedule*

Hire purchase liabilities are subject to fixed interest rates ranging from 2.65% to 11.00% (2003 - 4.00% to 9.31%) per annum.

Revolving credit of the subsidiaries are subject to interest at 0.5% (2003 - 0.5%) per annum above the Kuala Lumpur Interbank Offer Rates and is secured by bank guarantee and certain freehold land and buildings of a subsidiary (Note 2).

Hire purchase liabilities are payable as follows:

	<b>Payments</b>	<b>Interest</b>	<b>Principal</b>	<b>Payments</b>	<b>Interest</b>	<b>Principal</b>
	<b>2004</b>	<b>2004</b>	<b>2004</b>	<b>2003</b>	<b>2003</b>	<b>2003</b>
<b>Group</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Less than one year	2,953	908	2,045	3,829	1,096	2,733
Between one and five years	9,670	2,093	7,577	9,311	2,591	6,720
More than five years	1,963	89	1,874	4,067	343	3,724
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	14,586	3,090	11,496	17,207	4,030	13,177
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

## 12. Share capital

	<b>Group and Company</b>	
	<b>2004</b>	<b>2003</b>
	<b>RM'000</b>	<b>RM'000</b>
Ordinary shares of RM1.00 each		
Authorised	200,000	200,000
	=====	=====
Issued and fully paid		
Opening balance	97,529	74,042
Shares issued under share option scheme	1,620	1,275
Shares issued under private placement exercise	-	22,212
	-----	-----
	99,149	97,529
	=====	=====

## 13. Reserves

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Non-distributable				
Share premium	22,569	22,168	22,569	22,168
Distributable				
Retained profits	44,013	36,154	409	566
	-----	-----	-----	-----
	66,582	58,322	22,978	22,734
	=====	=====	=====	=====

Subject to agreement by the Inland Revenue Board, the Company has sufficient Section 108 tax credit to frank all of its retained profits at 31 December 2004 if paid out as dividends.

## 14. Goodwill/Negative goodwill

Group	Goodwill		Negative goodwill	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
<i>At cost</i>				
At 1 January	-	-	34,475	34,475
Acquisition of subsidiary	346	-	-	-
At 31 December	346	-	34,475	34,475
<i>Accumulated amortisation</i>				
At 1 January	-	-	27,580	20,685
Current year amortisation	69	-	6,895	6,895
At 31 December	69	-	34,475	27,580
	277	-	-	6,895
	=====	=====	=====	=====

The negative goodwill was derived from the acquisition of the subsidiaries in 2000 where the fair values of the subsidiaries were higher than the cost of investment.

## 15. Minority shareholders' interests

This consists of minority shareholders' proportion of share capital and reserve of subsidiaries, net of their share of subsidiary's goodwill on consolidation.

## 16. Employee benefits

	Group		Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Expenses recognised in the income statement under defined contribution plan	785	973	36	36
	=====	=====	=====	=====

### *Equity compensation benefits*

#### *Share option plan*

The Company had on 2 July 2003 established and implemented the ESOS which expiring on 22 April 2008. The ESOS is governed by the ESOS Bye-laws which were approved by the shareholders on 29 January 2003.

## 16. Employee benefits (continued)

The salient features of the scheme are as follows:

- i) The total number of new shares which may be made available under the ESOS shall not exceed ten per centum (10%) of the issued share capital of the
- ii) Eligible employees are those who are employed full time by and on the payroll of a company within the Group as at the date of offer.
- iii) The option is personal to the grantee and is non-assignable.
- iv) The options granted may be exercised at any time within a period of five (5) years from the date of offer of the option or such shorter period as may be specifically stated in the offer upon giving notice in writing.
- v) The options granted may be exercised in full or in lesser number of ordinary shares provided that the number shall be in multiples of 1,000 shares.

The persons to whom the options have been granted have no right to participate by virtue of the options in any share issue of any other company.

The Group offers vested share options over ordinary shares to eligible employees.

Details of options over the ordinary shares of the Company granted under the ESOS are as follows:

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<b>RM'000</b>	<b>RM'000</b>
Outstanding at 1 January	8,350,000	-
Granted	-	9,625,000
Exercised	(1,620,000)	(1,275,000)
	<hr/>	<hr/>
Outstanding at 31 December	6,730,000	8,350,000
	<hr/>	<hr/>

Terms of the options outstanding at 31 December 2004:

<b>Granted date</b>	<b>Expiry date</b>	<b>Option price</b>	<b>Opening balance</b>	<b>Granted</b>	<b>Exercised</b>	<b>Closing balance</b>
2.7.2003	22.4.2008	RM1.25	8,350,000	-	(1,620,000)	6,730,000

The Group received proceeds of RM2,021,000 in respect of the 1,620,000 options exercised during the year of which RM1,620,000 was credited to share capital and RM401,000 was credited to share premium.

**17. Operating profit**

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Revenue				
- Sale of goods	45,987	68,827	-	-
- Rental of machinery	20,374	33,955	-	-
- Construction	112	2,475	-	-
- Other services	9,442	11,627	-	-
- Property development	21,507	7,866	-	-
- Dividends from unquoted subsidiaries	-	-	1,000	745
	<u>97,422</u>	<u>124,750</u>	<u>1,000</u>	<u>745</u>
Cost of sales/services	(77,778)	(104,507)	-	-
	<u>19,644</u>	<u>20,243</u>	<u>1,000</u>	<u>745</u>
Gross profit				
Administration expenses	(16,813)	(16,562)	(649)	(549)
Other operating income	921	1,286	11	-
Amortisation of:				
- goodwill (Note 14)	(69)	-	-	-
- negative goodwill (Note 14)	6,895	6,895	-	-
	<u>10,578</u>	<u>11,862</u>	<u>362</u>	<u>196</u>
Operating profit	=====	=====	=====	=====
Operating profit is arrived at after charging:				
Auditors' remuneration	79	74	10	10
Allowance for doubtful debts	105	1,100	-	-
Amortisation of inventories	995	919	-	-
Depreciation (Note 2)	6,668	4,699	25	-
Directors' emoluments				
- fees	20	20	20	20
- remuneration	1,190	1,244	336	336
Goodwill amortisation	69	-	-	-
Property, plant and equipment written off	6	-	-	-
Rental of motor vehicles	227	210	-	-
Rental of premises	1,463	1,480	-	-
Rental of equipment	3,080	7,238	-	-
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>
and crediting:				
Amortisation of negative goodwill	6,895	6,895	-	-
Bad debts recovered	254	-	-	-
Gain on disposal of property, plant and equipment	228	183	-	-
Rental of premises	410	387	-	-
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>

The estimated monetary value of Directors' benefits-in-kind is RM61,500 (2003 - RM56,000).

**18. Employee information**

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Staff costs	10,650	12,650	363	361
	=====	=====	=====	=====
Number of employees (including Directors) as at end of the year	317	326	8	8
	=====	=====	=====	=====

**19. Interest expense**

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<b>RM'000</b>	<b>RM'000</b>
Revolving credit	65	33
Bank overdrafts	41	42
Hire purchase	1,127	329
	-----	-----
	1,233	404
	=====	=====

**20. Tax expense**

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Current tax expense				
- current	1,859	2,303	436	370
- prior years underprovision	52	(698)	(1)	(8)
	-----	-----	-----	-----
	1,911	1,605	435	362
Deferred tax expense				
- origination and reversal of temporary differences	(111)	(19)	-	-
- prior years overprovision	(121)	-	-	-
	-----	-----	-----	-----
	1,679	1,586	435	362
	=====	=====	=====	=====

## 20. Tax expense (continued)

### Reconciliation of effective tax expense

	Group		Company	
	2004	2003	2004	2003
	RM'000	RM'000	RM'000	RM'000
Profit before taxation	10,396	12,340	992	834
	=====	=====	=====	=====
Income tax using Malaysian tax rate	2,911	3,455	278	234
Non-deductible expenses	441	336	159	136
Non-taxable items	(2,054)	(2,110)	-	-
Deferred tax assets not recognised	666	776	-	-
Effect of tax losses recognised	(13)	(10)	-	-
Effect of deferred tax rates for				
first RM500,000 (2003: RM100,000)	(166)	-	-	-
Other items	(37)	(163)	(1)	-
	-----	-----	-----	-----
	1,748	2,284	436	370
Under/(Over) provision in prior years				
- provision for tax	52	(698)	(1)	(8)
- deferred tax	(121)	-	-	-
	-----	-----	-----	-----
Tax expense	1,679	1,586	435	362
	=====	=====	=====	=====

## 21. Earnings per ordinary share

### *Basic earnings per share*

The calculation of basic earnings per share is based on net profit attributable to ordinary shareholders of approximately RM8,573,000 (2003 - RM10,754,000) and the weighted average number of ordinary shares outstanding during the year of approximately 98,696,000 (2003 - 84,611,000).

### *Weighted average number of ordinary shares*

	Group	
	2004	2003
	RM'000	RM'000
Issued ordinary shares at beginning of the year		97,529
74,042		
Effect of shares issued during the year	1,167	10,569
	-----	-----
	98,696	84,611
	=====	=====



## 21. Earnings per ordinary share (continued)

### *Diluted earnings per share*

The calculation of diluted earnings per share is based on the net profit attributable to ordinary shareholders of RM8,573,000 (2003 – RM10,754,000) and the weighted average number of ordinary shares outstanding during the year of 105,879,000 (2003 - 85,995,000) calculated as follows:

### *Net profit attributable to ordinary shareholders (diluted)*

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<b>RM'000</b>	<b>RM'000</b>
Net profit attributable to ordinary shareholders	8,573	10,754
	=====	=====
<b><i>Weighted average number of ordinary shares (diluted)</i></b>		
Weighted average number of ordinary shares as above	98,696	84,611
Effect of share options	7,183	1,384
	=====	=====
Weighted average number of ordinary shares (diluted)	105,879	85,995
	=====	=====

## 22. Dividends

	<b>Company</b>	
	<b>2004</b>	<b>2003</b>
	<b>RM'000</b>	<b>RM'000</b>
Ordinary		
Final paid		
2004 - 1% (2003 - 1%) per share	714	533
	=====	=====

Since the end of the previous financial year, the Company paid a first and final dividend of 1% less tax totalling RM713,873 in respect of the year ended 31 December 2003 on 23 September 2004.

The proposed first and final dividend of 1% less tax totalling RM713,873 in respect of the financial year ended 31 December 2004 has not been accounted for in the financial statements.

## 23. Segmental information

Segment information is presented in respect of the Group's business and geographical segments. The primary format and business segments are based on the Group's management and internal reporting structure. Inter-segment pricing is determined based on negotiated terms.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise interest-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one year.

### *Business segments*

The Group comprises the following main business segments:

Trading and services of	Reconditioning, sales and rental of light and heavy machinery, trading of building materials and provision transportation services.
Property development	Development of residential properties.
Construction	Construction work under contract.

### *Geographical segments*

The activities of the Group are carried out in Malaysia and accordingly no segmental reporting by geographical location is presented.

[illegible]

[illegible]

## 24. Subsidiaries

The principal activities of the subsidiaries, which are all incorporated in Malaysia, and the interest of Knusford Berhad are shown below:

Name of Company	Principal activities	Effective ownership interest	
		2004	2003
Wengcon Holdings Sdn. Bhd.	Reconditioning, sales and rental of heavy machinery	100%	100%
Wengcon Equipment Sdn. Bhd.	Rental of machinery and equipment, provision of transportation services and trading of building materials	100%	100%
Segi Tiara Sdn. Bhd.	Construction work under contract	100%	100%
D-Hill Sdn. Bhd.	Property development	100%	100%
Subsidiaries of Wengcon Holdings Sdn. Bhd.			
Wengcon Machinery Sdn. Bhd.	Reconditioning, sales and rental of light and medium machinery	100%	100%
Wengcon Marketing Sdn. Bhd.	Trading in building materials	100%	100%
Hi-Plus Development Sdn. Bhd.	Rental of machinery and equipment	51%	51%
Endau Prima Sdn. Bhd.	Processing and sale of wood chips	100%	100%
Segi Gemilang Sdn. Bhd.	Rental of machinery	100%	100%
Ikhlas Kekal Sdn. Bhd.*	Rebuilding and refurbishing of heavy machinery	51%	-
Subsidiaries of Wengcon Equipment Sdn. Bhd.			
Radiant Seas Sdn. Bhd.	Rental of machinery and equipment	100%	100%
Yasmin Marine Technology Sdn. Bhd.	Rental of machinery and equipment	80%	80%

\*Not audited by KPMG.

## 25. Acquisitions of subsidiaries

On 12 May 2004, the Group's wholly owned subsidiary, Wengcon Holdings Sdn. Bhd., subscribed for 520,000 ordinary shares of RM1 each representing 51% effective equity interest of the enlarged issued and paid-up capital of Ikhlas Kekal Sdn. Bhd. for a cash consideration of RM520,000.

The fair value of assets and liabilities assumed in the acquisition of the subsidiaries and their cash flow effects are as follows:

	<b>2004 RM'000</b>
Property, plant and equipment (Note 2)	83
Current assets	661
Current liabilities	(403)
	<hr/>
Net assets	341
Less: Minority interests	(167)
Goodwill on acquisition	346
	<hr/>
Consideration paid, satisfied in cash	520
Cash acquired	(130)
	<hr/>
Net cash outflow	(390)
	<hr/> <hr/>

### *Effect of acquisition*

The acquisition of subsidiaries had the following effect on the Group's results and net assets for year ended 31 December 2004:

	<b>2004 RM'000</b>
Income statement:	
Revenue	3,980
Operating costs	(3,631)
	<hr/>
Profit before taxation	349
Tax expense	(55)
	<hr/>
Increase in the Group's net profit for the year	294
	<hr/> <hr/>

## 25. Acquisitions of subsidiaries (continued)

	<b>2004 RM'000</b>
Balance sheet:	
Property, plant and equipment	294
Non-current assets	
Current assets	3,153
Current liabilities	(2,661)
Long term liabilities	(151)
	<hr/>
Increase in the Group's net assets	635
	=====

## 26. Related parties

The Group has controlling related party relationship with its subsidiaries as disclosed in Note 24.

The Group has related party relationships with the following companies, which are deemed related to the Directors and major shareholders as follows:

- i) Ekovest Berhad, Ekovest Construction Sdn. Bhd., Binawani Sdn. Bhd. and Felda Ekovest Sdn. Bhd. are deemed related to Dato' Lim Kang Hoo, Khoo Nang Seng @ Khoo Nam Seng and Dato' Rahmat bin Abu Bakar. Dato' Rahmat bin Abu Bakar has a 7.36% direct shareholding in the Company;
- ii) Aramijaya Sdn. Bhd. and Pestarena Industri Sdn. Bhd. are deemed related to Dato' Lim Kang Hoo and Dato' Lim Kang Swee; and
- iii) Pembinaan Sahabatjaya Sdn. Bhd. is deemed related to Dato' Rahmat bin Abu Bakar.

## 26. Related parties (continued)

Significant transactions with related parties, other than those disclosed elsewhere in the financial statements, are as follows:

Type of transactions	Related party	Group	
		2004 RM'000	2003 RM'000
Sale and rental of machinery and equipment, transportation charges and sale of building materials	Ekovest Berhad	5	43
	Felda Ekovest Sdn. Bhd	601	545
	Ekovest Construction Sdn. Bhd.	18,449	7,505
	Aramijaya Sdn. Bhd.	4,272	2,966
	Pembinaan Sahabatjaya Sdn. Bhd.	4,863	-
Purchase and rental of machinery and equipment and purchase of building materials	Ekovest Berhad	1,887	2,372
	Binawani Sdn. Bhd.	8	47
	Aramijaya Sdn. Bhd.	10	729
	Felda Ekovest Sdn. Bhd.	17	11
	Pembinaan Sahabatjaya Sdn. Bhd.	736	-
Rental of premises	Ekovest Berhad	96	114
	Pestarena Industri Sdn. Bhd.	1,110	1,110
Progress billings for construction work	Pembinaan Sahabatjaya Sdn. Bhd.	10,150	-
		=====	=====

These transactions have been entered into in the normal course of business and are undertaken on an arms' length basis.

## 27. Capital commitments

	Group	
	2004 RM'000	2003 RM'000
Property, plant and equipment		
Authorised but not contracted for	17,300	17,300
	=====	=====



## **28. Financial instruments**

### **Financial risk management objectives and policies**

Exposure to credit, interest rate and currency risk arises in the normal course of the Group and the Company's business. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

### **Credit risk**

The exposure to credit risk is monitored and credit evaluations are performed on an ad hoc basis. Fixed deposits are placed only with licensed financial institutions.

At balance sheet date, the Group has no significant concentrations of credit risk. The maximum exposure to credit risk for the Group and for the Company are represented by the carrying amount of each financial asset.

### **Foreign currency risk**

There is no significant exposure of foreign currency risk as supplies are mainly sourced locally whilst the Group is primarily operating in Malaysia

### **Liquidity risk**

The Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and to mitigate the effects of fluctuations in cash flows.

### **Interest rate risk**

In the current low interest rate scenario, the Group borrows for operations at variable rates using its revolving credit. The Group's finance lease liabilities are subject to interest at fixed rates. At balance sheet date, there was no significant exposure of interest rate risk.

## 28. Financial instruments (continued)

### *Effective interest rates and repricing analysis*

In respect of interest-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the period in which they reprice or mature, whichever is earlier.

Group	←	2004	→	←	2003	→
	Effective interest rate per annum %	Total RM'000	Within 1 year RM'000	Effective interest rate per annum %	Total RM'000	Within 1 year RM'000
<b>Financial assets</b>						
Deposits with licensed banks	2.36	38,547	38,546	2.70	32,221	32,221
<b>Financial liabilities</b>						
Revolving credit (secured) - variable rate of 0.5% above Kuala Lumpur Interbank Offer Rates	4.05	1,200	1,200	4.05	1,000	1,000
<b>Company</b>						
<b>Financial assets</b>						
Deposits with licensed banks	2.52	21,670	21,670	2.58	24,078	24,078

## 28. Financial instruments (continued)

### Fair values

#### *Recognised financial instruments*

The fair values of cash and cash equivalents, trade and other receivables, trade and other payables and short terms borrowings approximate their carrying amounts due to the relatively short term nature of these financial instruments.

## 29. Comparative figures

The following comparatives have been restated to reflect the adoption of MASB 32, Property Development Activities.

	<b>Group</b>	
	<b>As restated</b>	<b>As previously</b>
	<b>RM'000</b>	<b>stated</b>
		<b>RM'000</b>
<b>Balance sheet</b>		
Properties under development- non-current	-	32,874
- current	-	15,530
Land held for property development	28,942	-
Property development costs	21,440	-
Trade and other payables	41,333	39,355
	=====	=====