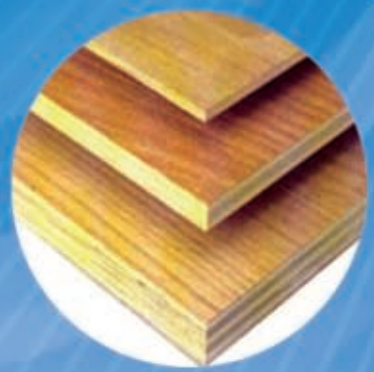




**KPS CONSORTIUM BERHAD** (143816-V)



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2005  
Annual Report

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## NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Twentieth Annual General Meeting of the Company will be held at Klang Executive Club, Persiaran Bukit Raja 2, Bandar Baru Klang, 41150 Klang, Selangor Darul Ehsan on Friday, 30 June 2006 at 11.00 am for the following purposes:-

### AGENDA

#### AS ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the financial year ended 31 December 2005 together with the Reports of the Directors and Auditors thereon.  
**Resolution 1**
2. To re-elect the Director, Mr Koh Poh Seng retiring in accordance with Article 80 of the Company's Articles of Association and being eligible, offers himself for re-election.  
**Resolution 2**
3. To re-appoint Messrs Ernst & Young as Auditors of the Company and to hold office until the conclusion of the next Annual General Meeting and to authorise the Directors to fix the Auditors' remuneration.  
**Resolution 3**

#### AS SPECIAL BUSINESS

To consider and, if thought fit, to pass the following resolution:-

##### 4. ORDINARY RESOLUTION – AUTHORITY TO ISSUE SHARES

“THAT pursuant to Section 132D of the Companies Act, 1965, and subject to the approval from other relevant governmental/regulatory authorities, the Directors be and are hereby empowered to issue shares in the Company from time to time and upon such terms and conditions and for such purposes as the Directors may deem fit provided that the aggregate number of shares issued pursuant to this resolution does not exceed 10% of the issued capital of the Company for the time being and that such authority shall continue in force until the conclusion of the next annual general meeting of the Company.”

**Resolution 4**

5. To transact any other business which may properly be transacted at an Annual General Meeting for which due notice shall have been given.

By order of the Board

**LIM SECK WAH (f)**  
**M. CHANDRASEGARAN A/L S.MURUGASU**  
*Company Secretaries*

**(MAICSA 0799845)**  
**(MAICSA 0781031)**

Selangor Darul Ehsan

Dated this: 5 June 2006

### NOTES:-

1. *A member shall be entitled to appoint more than one (1) proxy to attend and vote in his place. A proxy need not be a member of the Company.*
2. *Where a member appoints more than one (1) proxy, the appointments shall be invalid unless he specifies the proportions of his holdings to be represented by each proxy.*
3. *If the appointer is a corporation, the proxy form must be executed under its common seal or under the hand of its attorney.*
4. *The instrument appointing a proxy and the power of attorney, if any, under which it is signed or a certified copy thereof must be deposited at the Company's Registered Office, Lot 765, Jalan Haji Sirat Off Jalan Meru, 42100 Klang, Selangor Darul Ehsan not less than 48 hours before the time set for holding the Meeting or adjourned meeting as the case maybe.*
5. *Explanatory notes on the Special Business*

*Ordinary Resolution Pursuant to Section 132D of the Companies Act, 1965*

*The proposed Resolution 4 is primarily to give flexibility to the Board of Directors to issue and allot shares at any time in their absolute discretion and for such purposes as they consider would be in the interest of the Company without convening a general meeting. This authority, unless revoked or varied at a general meeting, will expire at the next annual general meeting of the Company.*

## STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

(Pursuant to paragraph 8.28 (2) of the Bursa Malaysia Securities Berhad)

### 1. NAMES OF INDIVIDUAL WHO IS STANDING FOR RE-ELECTION:

a) Mr Koh Poh Seng

(The above named Director is retiring pursuant to Article 80 of the Company's Articles of Association)

### 2. DETAILS OF ATTENDANCE OF DIRECTORS AT BOARD MEETINGS:

Four (4) Board of Directors' Meetings were held during the financial year ended 31 December 2005 and the details of attendance by each of the Directors are noted in the Corporate Governance Statement in this 2005 Annual Report.

### 3. THE PLACE, DATE AND HOUR OF THE GENERAL MEETING:

The annual general meeting will be held as follows:

Place : Klang Executive Club,  
Persiaran Bukit Raja 2,  
Bandar Baru Klang,  
41150 Klang

Date : 30 June 2006

Time : 11.00 am

### 4. DETAILS OF DIRECTOR STANDING FOR RE-ELECTION:

a) Mr Koh Poh Seng

Details of the above named Director is set out in the Profile of the Board of Directors in this Annual Report.

|  |  |
|--|--|
| <b>BOARD OF DIRECTORS</b>  |  |
| <b>Chairman/<br/>Group Managing Director</b>                     | Koh Poh Seng   |
| <b>Directors</b>   | Lau Fook Meng<br><i>Executive Director</i>   |
|  | Dr Kow Cheong Wei, PhD, SIS, PJK<br><i>Independent and Non-Executive Director</i>                                    |
|  | Dr Wu Chin Foong<br><i>Independent and Non-Executive Director</i>  |
|  | Mr Andrew Chin ( <i>Resigned 14.03.2005</i> )<br><i>Independent and Non-Executive Director</i>                       |
|  | Mr Su Ming Keat ( <i>Resigned 30.08.2005</i> )<br><i>Independent and Non-Executive Director</i>                      |
| <b>COMPANY SECRETARIES</b>                                       | Lim Seck Wah (f)<br>M. Chandrasegaran a/l S.Murugasu   |
| <b>STOCK EXCHANGE LISTING</b>                                    | Bursa Malaysia Securities Berhad,<br>Second Board  |
| <b>AUDIT COMMITTEE</b>   |  |
| <b>Chairman</b>  | Dr Kow Cheong Wei, PhD, SIS, PJK   |
| <b>Member</b>  | Lau Fook Meng<br>Dr Wu Chin Foong  |
| <b>NOMINATION COMMITTEE</b>                                      |  |
| <b>Chairman</b>  | Dr Kow Cheong Wei, PhD, SIS, PJK   |
| <b>Member</b>  | Dr Wu Chin Foong   |
| <b>REMUNERATION COMMITTEE</b>                                    |  |
| <b>Chairman</b>  | Dr Kow Cheong Wei, PhD, SIS, PJK   |
| <b>Member</b>  | Koh Poh Seng<br>Dr Wu Chin Foong   |
| <b>REGISTERED OFFICE AND<br/>PRINCIPAL PLACE OF<br/>BUSINESS</b> | Lot 765, Jalan Haji Sirat Off Jalan Meru,<br>42100 Klang, Selangor<br>Tel : (603) 3291 5566<br>Fax : (603) 3291 4489 |

|                          |  |
|--------------------------|--|
| <b>REGISTRAR</b>         | Insurban Corporate Services Sdn Bhd<br>149-B, Jalan Aminuddin Baki<br>Taman Tun Dr Ismail<br>60000 Kuala Lumpur<br>Tel : (603) 7729 5529<br>Fax : (603) 7728 5948<br>E-mail : <a href="mailto:leou@pc.jaring.my">leou@pc.jaring.my</a>   |
| <b>AUDITORS</b>          | Ernst & Young<br>(A Member of Ernst & Young Global)<br>Chartered Accountants<br>Level 23A, Menara Milenium<br>Jalan Damanlela<br>Pusat Bandar Damansara<br>50490 Kuala Lumpur<br>Tel : (603) 7495 8000<br>Fax : (603) 2095 9076/ 2095 9078<br>Website : <a href="http://www.ey.com/my">http://www.ey.com/my</a>  |
| <b>PRINCIPAL BANKERS</b> | United Overseas Bank (M) Berhad<br>HSBC Bank (M) Berhad<br>AmBank Berhad<br>OCBC Bank Berhad<br>Malayan Banking Berhad   |
| <b>SOLICITORS</b>        | Cheang & Ariff<br>39 Court<br>39 Jalan Yap Kwan Seng<br>50450 Kuala Lumpur<br>Tel : (603) 2161 0803<br>Fax : (603) 2161 4475/2162 1533/2163 0622<br>E-mail : <a href="mailto:yms@cheangariff.com">yms@cheangariff.com</a><br><br>Messrs Soo Thien Ming & Nashrah<br>10 <sup>th</sup> Floor, South Block<br>Wisma Selangor Dredging<br>142-A, Jalan Ampang<br>50450 Kuala Lumpur<br>Tel : (603) 2161 2588<br>Fax : (603) 2161 8297<br>E-mail : <a href="mailto:stmn@putra.net.my">stmn@putra.net.my</a><br><a href="mailto:stmnk1@po.jaring.my">stmnk1@po.jaring.my</a> |
| <b>WEBSITE</b>           | <a href="http://www.haiming.com">http://www.haiming.com</a>  |
| <b>E-MAIL ADDRESS</b>    | <a href="mailto:enquiry@haiming.com">enquiry@haiming.com</a>   |

## PROFILE OF THE BOARD OF DIRECTORS

The Board of Directors of KPS Consortium Berhad (“KPSCB” or the “Company”) comprises of a Chairman/ Group Managing Director, one (1) Executive Director and two (2) Independent Non-Executive Directors.

The Board meets quarterly and additional Board Meetings are held as and when required. The Board met four (4) times during the financial year ended 31 December 2005.

Particulars of the Directors are as follows:

**Koh Poh Seng**, age 50, is the founder and Managing Director of KPS Plywood Sdn Bhd (“KSB”) and also the Chairman/ Managing Director of KPS Consortium Berhad (“KPSCB”). He had completed his Secondary Education. He has more than twenty years of experience in trading of plywood and wood related products. In 1990, KSB was set up by Mr Koh to undertake the business of trading in plywood. The trading of cement and steel bars was undertaken by KSB commencing from 1998 to 1999 respectively.

Presently, Mr Koh is also a director of various other private companies, whereby their principal activities are that of construction and timber.

He is a member of the Remuneration Committee.

**Lau Fook Meng**, age 54, was appointed Executive Director of KPSCB on 19 September 2002. He is a chartered accountant who has obtained his Fellowship from the Institute of Chartered Accountant of England & Wales. Upon graduation, he joined Asiatic Development Bhd in 1981 as an Accountant until 1983. In 1984, he joined Unico Holdings Bhd as the Group Accountant and left in 1992. From 1993 to 2002, he was the General Manager of Nichmurni Sdn Bhd.

He is a member of the Audit Committee.

**Dr Kow Cheong Wei, PhD, SIS, PJK** age 40 was appointed as an Independent Non-Executive Director of KPSCB on 15 April 2005. He is a holder of Bc.Sains (Biotechnology), Universiti Pertanian Malaysia and Msc. (Special Promoted). He has also obtained a PhD in Biotechnology. Between 1997 and 1999, he worked as Special Assistant to Serdang Parliamentary Member Dato’ Yap Pian Hon and from 1999 to 2003 he was the Speaker in Higher Education Institution (Local & Overseas).

Currently, he is the Selangor State Assemblyman for Kinrara, Puchong and Municipal Councilor to Majlis Perbandaran Subang Jaya.

He is the Chairman of the Audit Committee, Nomination Committee and Remuneration Committee.

**Dr Wu Chin Foong**, age 57 was appointed as an Independent Non-Executive Director of KPSCB on 15 April 2005. He is a graduate of MBBS (Malaya) and had been in general medical practice for the past 27 years since 1979. He served in the military service in Kinrara Military Hospital, Puchong between the years 1977-1978. At present, he is the sole proprietor of Klinik Wu & Tang Lim and the Managing Director of Wu & Tang Lim Sdn Bhd.

He is a member of the Audit Committee, Nomination Committee and Remuneration Committee.

All the above directors are Malaysian, have not been convicted of any criminal offence (other than ordinary traffic offence) and are not related to each other.

None of the Directors have any conflict of interest with the Company.



The Board of Directors fully acknowledges the importance of good corporate governance and is taking steps to evaluate the status of the corporate governance practices adopted by the Group as tabulated below and its compliance with the code of best practices as set out in Part 1 and Part 2 of the Malaysian Code on Corporate Governance pursuant to Paragraph 15.26 of the Listing Requirements of the Bursa Malaysia Securities Berhad ("BMSB"). Any areas where the Company and Group have not complied with the Code are explained in this Annual Report.

### 1.0 DIRECTORS

#### 1.1 Composition of the Board of Directors

The Board presently has four (4) members and is headed by the Chairman/ Group Managing Director, Mr Koh Poh Seng. The profile of each Director is presented separately in the Annual Report.

#### 1.2 Board Balance

The Board has four (4) members comprising one (1) Chairman/ Group Managing Director, one (1) Executive Director and two (2) Independent Non-Executive Directors. The Company is in compliance with Paragraph 15.02 of the BMSB Listing Requirements whereby one-third of its Board members are independent directors.

All Board members participate fully in decisions on the key issues involving the Group. The Chairman/ Group Managing Director has primary responsibilities for managing the Group's day-to-day operations and together with the Executive Director and Non-Executive Directors ensure that the strategies proposed by the management are fully discussed and examined, and take into account the long term interests of the various stakeholders including shareholders, employees, clients, suppliers and the various communities in which the Group conducts its business.

The Board is assured of a balanced and independent view at all Board deliberations largely due to the presence of its Non-Executive Directors who are independent from Management and major shareholders of the Company. The Independent Directors are also free from any business or other relationships that could materially interfere with the exercise of their independent judgement. Together with the Chairman/ Group Managing Director and Executive Director who have intimate knowledge of the Company's and Group's business, the Board is constituted of individuals who are committed to business integrity and professionalism in all its activities.

As part of its commitment, the Board supports the highest standards of corporate governance and the development of the best practices for the Group.

In addition to the role of guidance by the Non-Executive Directors, each Director brings independent judgement to bear on issues of strategy, performance, resources and standard of conduct.

#### 1.3 Responsibilities of the Board of Directors

The Board retains full and effective control of the Company and the Group. This includes responsibility for determining the Group's overall strategic direction as well as development and control of the Group.

#### 1.4 Chairman and Group Managing Director

The Group Managing Director too undertakes the role of the Chairman. In spite that the roles are combined, there is a strong independent element on the Board as there are adequate number of independent director.

**1.5 Board Structures and Procedures**

Four (4) Board of Directors' Meetings were held during the financial year ended 31 December 2005 and the details of attendance by each of the Directors are as follows:-

| Name of Directors  | No. of meetings attended /<br>No. of meetings held during<br>directors' tenure in office |
|--|--|
| Mr Koh Poh Seng  | 4/4  |
| Mr Lau Fook Meng   | 4/4  |
| Dr Kow Cheong Wei, PhD, SIS, PJK (Appointed on 15.04.2005) | 3/3  |
| Dr Wu Chin Foong (Appointed on 15.04.2005)                 | 2/3  |
| Mr Andrew Chin (Resigned on 14.03.2005)                    | 1/1  |
| Mr Su Ming Keat (Resigned on 30.08.2005)                   | Nil  |

The Board of Directors' Meetings were held at No.3, Jalan BK 1/10, Bandar Kinrara Industrial Centre, Puchong, Selangor.

The date and time of the meetings held were as follows:

| Date             | Time     |
|------------------|----------|
| 28 February 2005 | 11.00 am |
| 30 May 2005      | 11.00 am |
| 30 August 2005   | 11.00 am |
| 30 November 2005 | 11.00 am |

All Directors have complied with the minimum attendance at Board meetings as stipulated in the Listing Requirements of the BMSB during the financial period.

**1.6 Directors' Training**

The Board as a whole ensures that it recruits to the Board only individuals of sufficient caliber, knowledge and experience to fulfill the duties of a Director appropriately. All Directors have completed the Mandatory Accreditation Programme (MAP). The Directors have attended the relevant training programme under the Continuing Education Programme conducted by the Research Institute of Investment Analysts Malaysia (RIIAM), Rating Agency Malaysia Berhad (RAM) and Bursatra Sdn Bhd. Directors who have met the CEP requirements will undergo relevant training programmes as determined by the Board commencing 1<sup>st</sup> January 2005 in line with the recent amendment to Practise Note No. 15/2003. KPSCB's Board of Directors shall on continuous basis, evaluate and determine the training needs of its Directors to enable the Directors to effectively discharge their duties.

The Directors will continue to undergo other relevant training programmes to further enhance their skills and knowledge.

***Continuing Education Programme (CEP) for Directors for the Financial Year 2005***

| Name                                      | List of Programme Attended   |
|---|--|
| Mr Koh Poh Seng                           | <p>Latest Trends In Corporate Governance, Internal Audit, Detection and Prevention of Fraud and Credit Rating<br/>Date: 22/11/05</p> <p>From Good Governance to Good Results<br/>Date: 24/11/05</p> <p>Company Valuation, Restructuring &amp; Funding - What You Should Know<br/>New Techniques &amp; Application to PLCs in Malaysia<br/>Date: 19/12/05</p> <p>Risk Management Seminar (Role of Internal Audit, Risk Management &amp; Compliance, Board Responsibilities &amp; BASEL II Guidelines for Board Members, Directors &amp; Senior Management of PLCs in Malaysia)<br/>Date: 22/12/05</p> |
| Mr Lau Fook Meng                          | <p>Latest Trends In Corporate Governance, Internal Audit, Detection and Prevention of Fraud and Credit Rating<br/>Date: 22/11/05</p> <p>From Good Governance to Good Results<br/>Date: 24/11/05</p> <p>Fundamental Principles of Deferred Taxation<br/>Date: 07/12/05</p> <p>Advanced Principles of Deferred Taxation-<br/>Date: 08/12/05</p> <p>Company Valuation, Restructuring &amp; Funding - What You Should Know<br/>New Techniques &amp; Application to PLCs in Malaysia<br/>Date: 19/12/05</p>   |
| Dr Kow Cheong Wei<br>(Appointed 15.04.05) | Mandatory Accreditation Programme (MAP)<br>Date: 06/07/05 & 07/07/05   |
| Dr Wu Chin Foong<br>(Appointed 15.04.05)  | Mandatory Accreditation Programme (MAP)<br>Date: 06/07/05 & 07/07/05   |

**1.7 Appointments to the Board**

The appointment of any additional Director is made as and when it is deemed necessary by the existing Board with due consideration given to the mix of expertise and experience required for an effective Board.

The Nomination Committee is empowered by the Board and its terms of reference to consider and evaluate the appointment of new Directors and Directors to Board Committees of the Company. The Nomination Committee will then recommend the candidates to the Board for the appointment. The Nomination Committee also keeps under review the Board structure, size and composition and the mix of skills and core competencies required for the Board to discharge its duties effectively. In addition, the Nomination Committee will deliberate on Board succession plan as and when appropriate.

The Nomination Committee will also assess the effectiveness of the Board as a whole, the Committees of the Board and the contribution of each individual Director on at least an annual basis.

The member of the Nomination Committee is as follows:

- a. Dr Kow Cheong Wei, PhD, SIS, PJK (Chairman)
- b. Dr Wu Chin Foong

### 1.8 Retirement and Re-election

In accordance with the Articles of Association of the Company, at least one-third of the Directors shall retire by rotation at each Annual General Meeting and can offer themselves for re-election at the Annual General Meeting ("AGM"). Directors who are appointed by the Board to fill casual vacancies or as additional directors during the financial year are subject to re-election by shareholders at the next AGM following their appointment. All Directors shall retire from office at least once in three years, but shall be eligible for re-election.

### 1.9 Supply of Information

The agenda and Board papers for each item as well as minutes of previous meetings are circulated prior to the Board meetings to give Directors time to deliberate on the issues to be raised at the Board meetings.

In arriving at any decision on recommendations by the Management, thorough deliberation and discussion by the Board is a pre-requisite. All proceedings of the Board Meetings are minuted and signed by the Chairman of the meeting in accordance with the provision of Section 156 of the Companies Act, 1965.

The Board is kept updated on the Company and Group's activities and its operations on a regular basis. The directors also have access to reports on the Group's activities, both financial and operational.

All directors have access to the advice and services of the Company Secretary who is responsible for ensuring that board procedures are followed and the Board may also take independence advice, at the Company's expense, in the furtherance of their duties if so required. The Board also has unlimited access to all information with regard to the activities of the Company.

### 1.10 Relationship of the Board to Management

- **Quality of Information**

Information plays a key role in the Board's decision-making and in setting up the policies and strategies of the Company. The Board has unrestricted access to timely and accurate information, which is not only confined to qualitative and quantitative information, but also to other information deemed suitable such as customer satisfaction, products and services quality, market share and market reaction and macro economic performance.

- **Access to information**

Prior to the board meetings, all Directors receive an agenda and Board Papers containing information relevant to the business of the meeting including information on major financial, operational and corporate matters relating to the activities and performance of the Group. This is issued in sufficient time to enable Directors to obtain further explanation, where necessary, in order to be properly informed before the meeting.

- **Use of Board Committees**

As appropriate, the Board has delegated certain responsibilities to Board Committees that operate within clearly defined terms of reference. The Committees are as follows:

- Audit Committee
- Remuneration Committee
- Nomination Committee

All the above Committees have written terms of reference and operating procedures.

### 1.11 The relationship between the Board and the shareholders

The principal forum for dialogue with shareholders is the AGM, during which shareholders are encouraged to participate and pose questions to the Board regarding operational and financial information. The AGM also allows shareholders an opportunity to interact directly with the Board and seek first-hand information on the above matters. Extraordinary General Meetings are held as and when shareholders' approvals are required on specific matters and shareholders are notified of such meetings requirements.

## 2.0 DIRECTORS' REMUNERATION

### 2.1 The Level and Make-Up of Remuneration

The remuneration of the Directors of the Company and its subsidiaries for the financial year ended 31 December 2005 is set out below:

(i) Aggregate remuneration of Directors with categorisation into appropriate components:

|                           | Executive Director<br>(RM)<br>*a | Non-Executive Directors<br>(RM) | Total<br>(RM) |
|---------------------------|----------------------------------|---------------------------------|---------------|
| Fees                      | -                                | -                               | -             |
| Salary & other emoluments | 679,596                          | -                               | 679,596       |
| Total                     | 679,596                          | -                               | 679,596       |

\*a The remuneration of the Executive Director was paid by a subsidiary Company.

(ii) Number of Directors whose remuneration falls into the following bands:

| Range of Remuneration  | Executive Director | Non-Executive Directors | Total |
|------------------------|--------------------|-------------------------|-------|
| Below RM50,000         | -                  | -                       | -     |
| RM100,001 to RM150,000 | 1                  | -                       | 1     |
| RM550,001 to RM600,000 | 1                  | -                       | 1     |

There is no contract of service between any Directors and the Company or its subsidiary Companies.

### 2.2 Procedure

In compliance with the Listing Requirements of the BMSB, the Board has established a Remuneration Committee comprising Independent Non-Executive Directors and the Chairman/ Group Managing Director. The Committee's primary responsibility is to recommend to the Board, the remuneration of Directors. However, the final decision on remuneration for Directors is a matter for the Board as a whole and individual directors are required to abstain from discussion of their own remuneration. The members of the Remuneration Committee are as follows:

- a. Dr Kow Cheong Wei, PhD, SIS, PJK (Chairman)
- b. Dr Wu Chin Foong
- c. Mr Koh Poh Seng

## 3.0 SHAREHOLDERS

### 3.1 Dialogue between the Company and Investors

The Group values dialogue with investors as a mean of effective communication that enables the Board to convey information about the Group's performance, corporate strategy and other matters affecting shareholders' interests.

The AGM is the principal forum for dialogue with individual shareholders. It is a crucial mechanism in shareholder communication for the Company. At the Company's AGM, shareholders have direct access to the Board and are given the opportunity to ask questions during the open questions and answers session prior to moving for approval of the Company's Audited Financial Statements and Directors' Report for the financial year and other businesses (if applicable). The shareholders are encouraged to ask questions both about the resolutions being proposed or about the Group's operations in general.

The Chairman/ Group Managing Director also addresses the shareholders on the review of the Group's operations for the financial year and outlines the prospects of the Group for the new financial year.

The Board is also committed to ensure that shareholders are well informed of major developments of the Company and the Group and the information is also communicated to them through the following channels:-

- a. the Annual Report;
- b. various disclosures and announcements made to the BMSB including the quarterly results and annual results; and
- c. the Company's website [www.haiming.com](http://www.haiming.com) through which shareholders and the public in general can gain access to the latest corporate and product information of the Group.

Shareholders and prospective investors who wish to contact the Company on any matters relating to the Group can channel their queries via the Group's website or contact the following personnel:

| <b>Name</b>  | <b>Contact No.</b> | <b>E-mail Address</b> |
|--|--------------------|-----------------------|
| Mr Koh Poh Seng<br>(Chairman/Group<br>Managing Director) | 03-32915566        | pskoh@haiming.com     |

### 3.2 Annual General Meeting ("AGM")

Notice of AGM and annual reports are sent out to shareholders at least 21 days before the date of the meeting.

At the AGM, the Board also provides opportunities for shareholders to raise questions pertaining to the business activities of the Group. Directors and senior management staff are available to provide responses to shareholders' questions during these meetings.

For the re-election of Directors, the Board will ensure that full information is disclosed through the notice of meeting regarding Directors who are retiring and who are willing to serve if re-elected.

Each item of special business included in the notice of meeting will be accompanied by an explanatory statement for the proposed resolution to facilitate full understanding and evaluation of issues involved.

## 4.0 ACCOUNTABILITY AND AUDIT

### 4.1 Financial Reporting

The Board is aware of its responsibilities to shareholders and the requirement to present a balanced and comprehensive assessment of the Group's financial position, by means of the annual and quarterly reports and other published information. In this regard, the Board is primarily responsible for the preparation of a financial statement to present a fair and balanced report of the financial state of affairs of the Group.

Before releasing to the Bursa Malaysia Securities Berhad, the quarterly financial results are reviewed by the Audit Committee and approved by the Board of Directors. The details of the Company and the Group's financial positions are included in the Financial Statements section of the Annual Report.

### 4.2 Internal Control

The Directors acknowledge their responsibilities for the internal control system in the Company and the Group, covering not only financial controls but also controls relating to operational, compliance and risk management. The system of internal controls involves each key business unit and its management, including the Board, and is designed to meet the business units' particular needs, and to manage the risks to which they are exposed. The system, by its nature, can only provide reasonable and not absolute assurance against material misstatement, loss or fraud. The concept of reasonable assurance recognises the costing aspect, whereby the cost of control procedures is not to exceed the expected benefits.

The Board recognises that risks cannot be fully eliminated. As such, the systems, processes and procedures being put in place are aimed at minimizing and managing them. Ongoing reviews are continuously being carried out to ensure that the effectiveness, adequacy and integrity of the system of internal controls in safeguarding the Company's assets.

### 4.3 Audit Committee

The Audit Committee meets periodically with senior financial management staff and the external auditors to review the Company's and the Group's financial reporting, the nature and scope of audit reviews, and the effectiveness of the systems of internal control and compliance.

The terms of reference of the Audit Committee have recently been revised to conform to the Listing Requirements of the BMSB. The terms of reference and activities of the Audit Committee during the financial year ended 31 December 2005 are provided separately in this Annual Report.

### 4.4 Relationship with Auditors

The Company's external auditors, Ernst & Young report to members of the Company on their findings which are included as part of the Company's financial reports with respect to each year's audit on the statutory financial statements. In doing so, the Company has established a transparent arrangement with the auditors to meet their professional requirements. From time to time, the auditors highlight to the Audit Committee and Board of Directors on matters that require the Board's attention.-

## 5.0 STATEMENT ON THE EXTENT OF COMPLIANCE WITH THE BEST PRACTICES IN CORPORATE GOVERNANCE SET OUT IN PART 2 OF THE MALAYSIAN CODE ON CORPORATE GOVERNANCE

Save as disclosed below, the Group has substantially complied with the Best Practices of the Code throughout the financial year:

- a) The Board does not have a formal schedule of matters specifically reserved to it for decision. However, it has been the practice for the Board to deliberate on matters that involve overall Group strategy and direction, acquisition and divestment policy, approval of major capital expenditure, consideration of significant financial matters and the review of the financial and operating performance of the Group.
- b) The Board has not developed position descriptions for the Board and the Group Chief Executive Officer. This is mainly due to the current set-up of the Board and the various Board Committees that are in place to facilitate the smooth functioning of the Group. Nevertheless, in order to enhance the existing corporate governance practice of the Company, the Board will consider adopting a Board Charter which delineates the role and function of the Board as well as the differing roles of Executive Directors and Non-Executive Directors.
- c) The Board, through various management committees, has been able to identify business risks and ensure the implementation of appropriate measures to manage these risks. Nevertheless, the Board is of the view that a more structured risk management process would need to be established to better identify, monitor and manage the business risks affecting the Group.
- d) Senior management staffs are co-opted to assist the Audit Committee in the discharge of its duties and responsibilities. The Board and the Audit Committee feel that although the current arrangement is not the best practice advocated, it provides sufficient assurance in obtaining regular review and / or appraisal of the effectiveness of the system of internal controls within the Group.
- e) Currently, the composition of the Company's Audit Committee complies with BMSB Listing Requirements.



## **6.0 DIRECTORS' RESPONSIBILITY STATEMENT ON ANNUAL AUDITED ACCOUNTS**

The Board of Directors is required under Paragraph 15.27(a) of the Listing Requirements of the BMSB to issue a statement explaining their responsibility in the preparation of the annual financial statements.

The Directors are required by the Companies Act, 1965 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year and of the profit and loss of the Company and of the Group for the financial year.

In preparing those financial statements, the Directors are required to:-

- a) use appropriate accounting policies and consistently apply them;
- b) make judgements and estimates that are reasonable and prudent; and
- c) state whether applicable accounting standards have been followed, subject to any material departures being disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records, which disclose, with reasonable accuracy at any time, the financial position of the Company and of the Group and to enable them to ensure that the accounts comply with the Companies Act, 1965. The Directors had also ensured that proper internal controls had been implemented.

The Directors are satisfied that in preparing the financial statements of the Group for the financial year ended 31 December 2005, the Group has used the appropriate accounting policies and applied them consistently and prudently. The Directors are of the opinion that all relevant approved accounting standards have been followed and confirm that the financial statements have been prepared on a going concern basis.

The above Statement has been signed in accordance with a resolution of the Directors.

## OTHER INFORMATION REQUIRED PURSUANT TO PART A

Appendix 9C of the BMSB Listing Requirements

In conformance with the Bursa Malaysia Securities Berhad Listing Requirements, the following information is provided:

- **Utilisation of Proceeds**

No proceeds were raised from any corporate proposal during the financial year.

- **Share buybacks**

During the financial year, there were no share buybacks by the Company.

- **Option, Warrants and Convertible Securities**

The Company has not issued any options, warrants or convertible securities during the financial year.

- **American Depository Receipt (“ADR”) / Global Depository Receipt (“GDR”)**

During the financial year, the Company did not sponsor any ADR or GDR programme.

- **Sanctions and / or Penalties**

There were no sanctions and/or penalties imposed on the Company and its subsidiaries, Directors or management staff by the relevant regulatory bodies during the financial year.

- **Non-Audit Fee**

There was no non-audit fee payable to the external auditors by the Company and its subsidiaries for the financial year ended 31 December 2005.

- **Variance from Profit Forecast or Unaudited Results Previously Made**

There were no variances exceeding 10% from the unaudited results previously released by the Company.

- **Profit Guarantee**

During the financial year, there were no profit guarantees given by the Company.

- **Material Contracts**

There were no material contracts (not being contracts entered into in the ordinary course of business) subsisting as at or entered into since the end of the previous financial year, by the Company or its subsidiaries, which involved the interests of the Directors and major shareholders.

- **Revaluation of landed properties**

The Group does not have a revaluation policy for its landed properties.

- **Recurrent related party transactions of a revenue nature**

There were no material recurrent related party transactions of a revenue nature during the year.

### Members

The current members of the Committee and their respective designations are as follows:

- Dr Kow Cheong Wei, PhD, SIS, PJK  
Chairman/ Independent and Non-Executive Director
- Mr Lau Fook Meng  
Member / Executive Director
- Dr Wu Chin Foong  
Member/ Independent and Non-Executive Director

### Terms of Reference

The terms of reference of the Audit Committee had been revised to conform to the Listing Requirements of the BMSB.

## COMPOSITION

The Audit Committee shall be appointed from among their members and should consist of no fewer than three (3) members, a majority of whom shall be independent directors.

At least one (1) member of the Committee:-

- i) must be a member of the Malaysian Institute of Accountants (“MIA”); or
- ii) if he is not a member of the MIA, he must have at least 3 years’ working experience and:-
  - he must have passed the examinations specified in Part 1 of the 1<sup>st</sup> Schedule of the Accountants Act 1968; or
  - he must be a member of one of the associations of accountants specified in Part II of the 1<sup>st</sup> Schedule of the Accountants Act 1967

The Chairman of the Committee shall be an independent non-executive Director appointed by the Board.

In the event of any vacancy in the Audit Committee resulting in the number of members being reduced to below three, the Company must fill the vacancy within three (3) months.

## AUTHORITY

The Audit Committee shall be granted the authority to investigate any activity of the Company and its subsidiaries within its terms of reference and all employees shall be directed to co-operate as and when required by the Audit Committee. The Committee shall also be empowered to consult independent experts, where necessary, to assist in executing its duties and shall have direct communication channels with the external and internal auditors.

## MEETINGS

The Committee shall meet at least four (4) times a year and such additional meetings as the Chairman shall decide in order to fulfill its duties. In addition, the Chairman may call a meeting of the Audit Committee if a request is made by any committee member, any Executive Director, or the external auditors.

In order to form a quorum, the majority of members present must be independent directors.

## RESPONSIBILITIES AND DUTIES OF THE COMMITTEE

The duties and responsibilities of the Committee shall include:-

1. To review:-
  - a) With the external auditors, the audit report, the audit plan and their evaluation of the system of internal controls of the Group and audit findings;
  - b) The adequacy of the scope, functions and resources on the internal audit functions and that it has the necessary authority to carry out its work;
  - c) The internal audit programme, processes, the results of the internal audit programme, processes or investigation undertaken and whether or not appropriate action is taken on the recommendations of the internal audit function (when formed);
  - d) The quarterly results and year end financial statements of the Company, prior to approval by the Board of Directors, focusing particularly on:-
    - i) changes in or implementation of major accounting policy changes;
    - ii) significant and unusual events; and
    - iii) compliance with accounting standards and other legal requirements.
  - e) Any related party transactions and conflict of interest situation that may arise within the Company or Group including any transaction, procedure or course of conduct that raises questions of management integrity.
2. To recommend the appointment of the external auditors and in relation thereto, to discuss their audit fees and any questions of resignation or dismissal.
3. To monitor organisational compliance with statutory and BMSB's requirements.
4. To perform any other functions as may be mutually agreed by the Committee and the Board of Directors.

## AUDIT COMMITTEE REPORT

During the financial year ended 31 December 2005, the Audit Committee comprising the following members held a total of four (4) meetings. The details of attendance of the Committee members are as follows:

| Name of Committee Member                                   | No. of Meetings attended/<br>held during member's tenure |
|--|--|
| Mr Lau Fook Meng   | 4/4  |
| Dr Kow Cheong Wei, PhD, SIS, PJK (Appointed on 15.04.2005) | 3/3  |
| Dr Wu Chin Foong (Appointed on 15.04.2005)                 | 2/3  |
| Mr Andrew Chin (Resigned on 14.03.2005)                    | 1/1  |
| Mr Su Ming Keat (Resigned on 30.08.2005)                   | Nil  |

In line with the terms of reference of the Audit Committee, the Audit Committee carried out the following activities during the financial year ended 31 December 2005 in the discharge of its functions and duties:

- a) Reviewed the external auditors' scope of work and audit plans for the period. Prior to the audit, representatives from the external auditors, presented their audit strategy and plan.
- b) Reviewed with the external auditors the results of the audit, the audit report and the management letter, including management's response.
- c) Consideration and recommendation to the Board for approval of the audit fees payable to the external auditors.
- d) Reviewed the quarterly unaudited financial results announcements before recommending them for the Board's approval.
- e) Reviewed the audited Financial Statements of the Group and the Company prior to submission to the Board for their consideration and approval. The review was to ensure that the audited Financial Statements were drawn up in accordance with the provisions of the Companies Act 1965 and the applicable accounting standards approved by the Malaysian Accounting Standard Board ("MASB").
- f) Reviewed the Company's compliance in particular the quarterly and year end financial statements with the Listing Requirements of the BMSB, MASB and other legal and regulatory requirements.
- g) Reviewed any related party transactions entered into by the Group.
- h) Reviewed the extent of the Group's compliance with the provisions set out under the Malaysian Code on Corporate Governance for the purpose of preparing the Corporate Governance Statement pursuant to the BMSB Listing Requirements.

### INTERNAL AUDIT FUNCTIONS

Senior management staffs are co-opted to assist the Audit Committee in the discharge of its duties and responsibilities. The Board and the Audit Committee feel that although the current arrangement is not the best practice advocated, it provides sufficient assurance in obtaining regular review and / or appraisal of the effectiveness of the system of internal controls within the Group.

## STATEMENT ON INTERNAL CONTROL

It is a requirement of the Malaysian Code of Corporate Governance that the Board of Directors should maintain a sound system of internal controls to safeguard shareholders' investments and the Group's assets.

Pursuant to paragraph 15.27(b) of the Bursa Malaysia Securities Berhad ("Bursa Malaysia") Listing Requirements and Statement on Internal Control: Guidance for Directors of Public-Listed Companies, the Board of Directors are pleased to present the Statement on Internal Control of the Group comprising KPS Consortium Berhad and its subsidiaries for the financial year ended 31 December 2005.

### BOARD RESPONSIBILITY

The Board of Directors Board affirms its responsibility in maintaining a sound system of internal control and risk management procedures within the Group and for reviewing its adequacy and integrity. However, the Board recognises that reviewing of the Group's system of internal controls is a concerted and continuing process, designed to manage rather than eliminate the risk of failure to achieve business objectives. In pursuing this objective, internal control can only provide reasonable and not absolute assurance against material misstatement or loss. In striving for continuous improvement, the Board will put in place appropriate action plans, when necessary, to further enhance the Group's system of internal controls.

### INTERNAL CONTROL

The internal controls system is established after considering the overall control environment of the Group. The system is designed to achieve proper balance between risks undertaken and the potential returns to shareholders. The key elements of the Group's system of internal controls are as described below:

- Key responsibilities and lines of accountability within the Group are defined, with clear reporting lines up to the Senior Management of the Group and to the Board of Directors. The Group's delegation of authority sets out the decisions that need to be taken and the appropriate authority levels of Management including matters that require Board approval.
- The Board of Directors reviews and approves the Group's Business Plan and Budget on an annual basis. The budget is reviewed and updated if appropriate, with performance monitored and explanations sought for significant variances.
- The Group's management teams carry out quarterly monitoring and review of financial results and forecasts for all businesses within the Group, including monitoring and reporting thereon, of performance against the operating plans and annual budgets. The Group's management teams communicate regularly to monitor operational and financial performance as well as formulate action plans to address any areas of concern.
- Operating Procedures Manuals that set out certain policies and procedures are maintained by certain companies in the Group, to ensure accountabilities and standard control procedures are in place. The manuals are regularly reviewed to ensure the alignment, standardisation and comprehensiveness of the procedures. Greater communication is ensured on key internal control procedures, including those relating to authorisation, accountability, monitoring and reconciliation processes.

### INTERNAL AUDIT

The Group had since September 2005 engaged an independent professional services firm to carry out the Internal Audit function within the Group. Internal audits are carried out by to review the adequacy and integrity of the internal control systems of certain business units in accordance with the Audit Plan approved by the Audit Committee. The internal audit team had completed the review of internal controls for selected subsidiaries in the Group for the financial year ended 31 December 2005 and had highlighted to the executive and operational management on

areas for improvement. The reports are submitted to the Audit Committee, which reviews the findings with management at the quarterly Audit Committee Meeting. In assessing the adequacy and effectiveness of the system of internal controls of the Group, the Audit Committee reports to the Board of Directors its activities, significant results, findings and the necessary recommendations or changes.

### RISK MANAGEMENT

The Group has established an ongoing process for identifying, evaluating, monitoring and managing significant risks affecting the achievement of its business objectives. The risk management practice ensures that significant risks are continuously identified and that instituted controls are appropriate and effectively applied by the Management.

A Group Risk Profile, which covers all major identified and significant risks associated with the Group's businesses have been adopted by the Board of Directors during the financial year ended 31 December 2005. This Risk Profile is subject to regular reviews in line with changes in the Group's business environment, strategies and activities.

### CONCLUSION

The Board of Directors is of the view that there is no significant breakdown or weaknesses in the system of internal control of the Group that may result in material losses incurred by the Group for the financial year ended 31 December 2005. The Group continues to take the necessary measures to ensure that the system of internal control is in place and functioning effectively.

On behalf of the Board of Directors, I am pleased to present the Annual Report and Audited Accounts of the Group and of the Company for the financial year ended 31 December 2005.

## OVERVIEW OF GROUP RESULTS

### Operating Results

For the financial year ended 31 Dec 2005, Group turnover was RM227.8 million (2004: RM255.06 million). We recorded a pre-tax loss of RM7.07 million as compared to a pre-tax profit of RM2.92 million in the previous year. The lower profits are explained under the various activity reports below.

At Company level, no turnover in term of dividend income from subsidiaries was recorded.

### Review of Operations

| Division  | Turnover                     |                              | Profit/ (Loss) Before Tax    |                              |
|---|------------------------------|------------------------------|------------------------------|------------------------------|
|   | 12-mth<br>DEC 2005<br>(RM'm) | 12-mth<br>DEC 2004<br>(RM'm) | 12-mth<br>DEC 2005<br>(RM'm) | 12-mth<br>DEC 2004<br>(RM'm) |
| Paper Milling   | 11.1                         | 12.7                         | 2.0                          | 3.2                          |
| Paper Converting  | 24.4                         | 23.9                         | (0.3)                        | 0.5                          |
| Plywood   | 168.2                        | 177.2                        | 1.8                          | 5.8                          |
| Timber Manufacturing                                      | 4.4                          | 22.5                         | (8.3)                        | (1.2)                        |
| Others –  | 19.7                         | 18.7                         | 0.2                          | 0.4                          |
| Trading of paper products<br>& general household products |                              |                              |                              |                              |
| Interest Income   | -                            | -                            | 0.4                          | 0.7                          |
| Investment & Management                                   | -                            | -                            | 0.6                          | (2.4)                        |
| <b>Total Turnover</b>                                     | <b>227.8</b>                 | <b>255.0</b>                 |                              |                              |
| Profit/(Loss) from Operations                             |                              |                              | (3.6)                        | 7.0                          |
| Finance Cost  |                              |                              | (3.4)                        | (4.1)                        |
| <b>Profit/(Loss) Before Taxation</b>                      |                              |                              | <b>(7.0)</b>                 | <b>2.9</b>                   |

### Paper Milling

The Group's tissue mill registered a slightly lower turnover RM11.1 million compared with previous period of RM12.7 million. This division registered lower operating profit before tax and finance cost of RM2.0 million as compared to profit of RM3.2 million in 2004. The lower profit margins was due to increase in raw material costs, operating costs and transport costs.

### Paper Converting and Trading of Woodfree Paper

I am glad to report that this division recorded higher turnover of RM24.4 million as compared to RM23.9 million previously. This division managed to show a slight loss before tax and finance cost of RM0.3 million as compared to operating profit of RM0.5 million in the previous year 2004.



### **Plywood and Building Materials Trading, and Timber Manufacturing**

The Plywood and Building Materials Division recorded a lower turnover of RM168.2 million and operating profit before tax and finance cost of RM1.8 million. Timber manufacturing recorded turnover of RM4.4 million and operating loss before tax and finance cost of RM8.3 million compared with 2004 turnover of RM22.5 million and loss of RM1.2 million.

The lower turnover and profit was mainly due to shortage and price increases of raw materials and general slow down in construction activities.

The timber manufacturing division's factory was destroyed by a fire on 2 January 2005. As a result fixed assets, plant and machineries and inventories amounting to RM16.58 million were written off and insurance claims received RM10.8 million. During the year timber manufacturing operations were restarted on a reduced scale until the factory can be rebuilt in 2006.

### **Others – trading of paper products and general household products**

Turnover for this division was RM19.7 million compared with RM18.7 million for the previous year due to the increase in turnover for paper products. This division made a profit before taxation of RM0.2 million.

### **Dividend**

The Board is unable to propose any dividend.

### **Outlook and Prospects**

The future outlook for trading of woodfree paper and trading of household products are expected to improve in terms of revenue and profit. Revenue and production of paper milling division are expected to remain as in previous year as it is already at maximum production capacity. Management is still reviewing plans on increasing production capacity.

Trading in building materials division for the next year will depend on the performance of the construction and furniture industry. Timber manufacturing division continues to be affected by lower production until the factory is rebuilt sometime at the end of 2006.

### **Acknowledgement**

The last few years have proven the resilience of the Company and I would like to thank the shareholders for their unwavering support so far.

The Board would like to thank Mr Su Ming Keat who had resigned on 30 August 2005 for his past contribution to the Group. We wish him every success in his future endeavours.

We owe a similar gratitude to our customers and business associates for their unwavering support throughout the difficult times of the last few years. I would also like to express our appreciation to all Government agencies and regulatory authorities for their assistance and guidance.

Finally and above all, on behalf of the Board, I wish to offer our heartfelt thanks to all our staff for their dedication and loyalty over the past year and their steadfastness and resilience in facing the new challenges.

The directors hereby submit their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2005.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiary companies are disclosed in Note 12 to the financial statements.

There have been no significant changes in the nature of the activities of the Company and its subsidiary companies during the financial year.

## RESULTS

|                              | <b>Group<br/>RM</b> | <b>Company<br/>RM</b> |
|------------------------------|---------------------|-----------------------|
| (Loss)/profit after taxation | (7,161,903)         | 13,319,344            |
| Minority interest            | 16,182              | -                     |
|                              | <hr/>               | <hr/>                 |
| (Loss)/profit for the year   | (7,145,721)         | 13,319,344            |

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

In the opinion of the directors, the results of the operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature, except for the inventories and property, plant and equipment destroyed in a fire and the insurance claim arising as disclosed in Note 29(a) to the financial statements.

## DIVIDENDS

There were no dividends paid or declared since the end of the previous financial year. The directors do not recommend the payment of any dividends from the current financial year.

## DIRECTORS

The names of the directors of the Company in office since the date of the last report and at the date of this report are:

|                    |  |
|--------------------|--|
| Koh Poh Seng       | (Group Managing Director and Chairman)                       |
| Lau Fook Meng      | (Executive Director)   |
| Dr. Wu Chin Foong  | (Independent Non-Executive Director)                         |
| Dr. Kow Cheong Wei | (Independent Non-Executive Director)                         |
| Su Ming Keat       | (Independent Non-Executive Director, resigned on 30.08.2005) |

## DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company was a party, whereby the directors might acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than as disclosed in Notes 6 to the financial statements) by reason of a contract made by the Company or a related corporation with any director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

## DIRECTORS' INTERESTS

According to the register of directors' shareholdings, the interests of directors in office at the end of the financial year in shares in the Company during the financial year were as follows:

|                        | At<br>1 January<br>2005 | Ordinary Shares of RM1 Each |           | At<br>31 December<br>2005 |
|------------------------|-------------------------|-----------------------------|-----------|---------------------------|
|                        |                         | Bought                      | Sold      |                           |
| <b>Direct interest</b> |                         |                             |           |                           |
| Koh Poh Seng           | 55,141,725              | 1,741,900                   | (228,000) | 56,655,625                |

By virtue of Mr. Koh Poh Seng's interest in the Company, he is also deemed to have interest in the shares of all the subsidiary companies to the extent that the Company has an interest under Section 6A of the Companies Act, 1965.

None of the other directors in office at the end of the financial year had any interest in shares in the Company or its related corporations during the financial year.

## OTHER STATUTORY INFORMATION

- (a) Before the income statements and balance sheets of the Group and of the Company were made out, the directors took reasonable steps:
  - (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and
  - (ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the directors are not aware of any circumstances which would render:
  - (i) the amount written off for bad debts or the amount of the provision for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; and
  - (ii) the values attributed to current assets in the financial statements of the Group and of the Company misleading.
- (c) At the date of this report, the directors are not aware of any circumstances 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.

### OTHER STATUTORY INFORMATION (Cont'd)

- (d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.
- (e) As at the date of this report, there does not exist:
- (i) any charge on the assets of the Group or of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
  - (ii) any contingent liability of the Group or of the Company which has arisen since the end of the financial year.
- (f) In the opinion of the directors:
- (i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group or of the Company to meet their obligations when they fall due; and
  - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group or of the Company for the financial year in which this report is made.

### SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

Significant events during the financial year are disclosed in Note 29(a) to the financial statements.

### AUDITORS

The auditors, Ernst & Young, have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the directors



**KOH POH SENG**

Puchong, Selangor Darul Ehsan, Malaysia.  
28 April 2006



**LAU FOOK MENG**

## STATEMENT BY DIRECTORS

### PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965

We, KOH POH SENG and LAU FOOK MENG, being two of the directors of KPS Consortium Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 25 to 80 are drawn up in accordance with applicable MASB Approved Accounting Standards in Malaysia and the provisions of the Companies Act, 1965 so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2005 and of the results and the cash flows of the Group and of the Company for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors



KOH POH SENG

Puchong, Selangor Darul Ehsan, Malaysia.  
28 April 2006



LAU FOOK MENG

## STATUTORY DECLARATION

### PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965

I, LAU FOOK MENG, being the director primarily responsible for the financial management of KPS Consortium Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 25 to 80 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declaration Act, 1960.

Subscribed and solemnly declared by  
the abovenamed LAU FOOK MENG at  
Kuala Lumpur in the Federal Territory  
on 28 April 2006



LAU FOOK MENG

Before me,



We have audited the financial statements set out on pages 25 to 80. These financial statements are the responsibility of the Company's directors.

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

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

As disclosed in Note 29(a) to the financial statements, on 2 January 2005, a fire broke out at the factory premises of a wholly owned subsidiary of the Company, Yap Swee Thiam & Sons Industries Sdn. Bhd. ("YST"), which substantially destroyed YST's inventories and property, plant and equipment resulting in a net loss of RM5,783,045, after insurance claims received of RM10,800,000. The auditors' report in respect of the financial statements of the Group for the year ended 31 December 2004 was qualified as the auditors were unable to satisfy themselves as to the amount of the said subsidiary's inventories destroyed by fire.

In respect of the financial statements for the year ended 31 December 2005, there were no procedures that we could perform to obtain sufficient appropriate audit evidence to satisfy ourselves as to:

- (a) the carrying value of inventories in YST as at 1 January 2005 amounting to RM10,417,623 included as part of the total inventories of the Group of RM31,066,767; and
- (b) the carrying value of inventories written off by the Group during the year amounting to RM10,417,623.

In our opinion, except for the effects of such adjustments on the financial statements of the Group, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the carrying value of inventories as at 1 January 2005 and the carrying value of inventories destroyed by fire written off during the financial year ended 31 December 2005, as described in the preceding paragraph:

- (a) the financial statements have been properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia so as to give a true and fair view of:
  - (i) the financial position of the Group and of the Company as at 31 December 2005 and of the results and the cash flows of the Group and of the Company for the year then ended; and
  - (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
- (b) the accounting and other records and the registers required by the Act to be kept by the Company and by its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

We have considered the financial statements and the auditors' report of the subsidiary company of which we have not acted as auditors, as indicated in Note 12 to the financial statements, being financial statements that have been included in the consolidated financial statements.

We are satisfied that the financial statements of the subsidiary companies that have been consolidated with the financial statements of the Company 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 auditors' reports on the financial statements of the subsidiary companies were not subject to any qualification material to the consolidated financial statements, other than as disclosed in Note 12 to the financial statements and in respect of subsidiary companies incorporated in Malaysia, did not include any comment made under Section 174(3) of the Act.



**Ernst & Young**  
AF: 0039  
Chartered Accountants



**Teoh Soo Hock**  
No. 2477/10/07 (J)  
Partner

Kuala Lumpur, Malaysia  
28 April 2006

## INCOME STATEMENTS

For The Year Ended 31 December 2005

|                                 | Note | Group         |               | Company     |            |
|---------------------------------|------|---------------|---------------|-------------|------------|
|                                 |      | 2005<br>RM    | 2004<br>RM    | 2005<br>RM  | 2004<br>RM |
| Revenue                         | 3    | 227,864,488   | 255,069,151   | -           | -          |
| Cost of sales                   |      | (211,415,577) | (227,828,213) | -           | -          |
| Gross profit                    |      | 16,448,911    | 27,240,938    | -           | -          |
| Other operating income          |      | 16,368,012    | 2,883,634     | 15,324,422  | 550,482    |
| Distribution costs              |      | (4,889,002)   | (5,073,821)   | -           | -          |
| Administrative expenses         |      | (11,199,199)  | (13,635,634)  | (375,198)   | (188,031)  |
| Other operating expenses        |      | (20,375,231)  | (4,376,902)   | (1,484,803) | -          |
| (Loss)/profit from operations   | 4    | (3,646,509)   | 7,038,215     | 13,464,421  | 362,451    |
| Finance costs                   | 7    | (3,423,898)   | (4,112,132)   | (145,077)   | (173,107)  |
| (Loss)/profit before taxation   |      | (7,070,407)   | 2,926,083     | 13,319,344  | 189,344    |
| Taxation                        | 8    | (91,496)      | (2,087,899)   | -           | -          |
| (Loss)/profit after taxation    |      | (7,161,903)   | 838,184       | 13,319,344  | 189,344    |
| Minority interests              |      | 16,182        | (23,613)      | -           | -          |
| Net (loss)/profit for the year  |      | (7,145,721)   | 814,571       | 13,319,344  | 189,344    |
| (Loss)/earnings per share (sen) |      |               |               |             |            |
| Basic                           | 9    | (5.09)        | 0.58          |             |            |

The accompanying notes form an integral part of these financial statements.



## BALANCE SHEETS

As At 31 December 2005

|                                       | Note | Group              |                    | Company            |                    |
|---------------------------------------|------|--------------------|--------------------|--------------------|--------------------|
|                                       |      | 2005<br>RM         | 2004<br>RM         | 2005<br>RM         | 2004<br>RM         |
| <b>ASSETS</b>                         |      |                    |                    |                    |                    |
| <b>Non-current assets</b>             |      |                    |                    |                    |                    |
| Property, plant and equipment         | 10   | 40,749,707         | 55,645,419         | -                  | -                  |
| Investment property                   | 11   | 3,717,000          | -                  | -                  | -                  |
| Investment in subsidiary companies    | 12   | -                  | -                  | 112,342,853        | 107,410,771        |
| Other investment                      | 13   | 12,024             | 12,024             | -                  | -                  |
| Goodwill                              | 14   | 32,840,685         | 34,801,317         | -                  | -                  |
|                                       |      | 77,319,416         | 90,458,760         | 112,342,853        | 107,410,771        |
| <b>Current assets</b>                 |      |                    |                    |                    |                    |
| Inventories                           | 16   | 27,841,349         | 31,066,767         | -                  | -                  |
| Trade receivables                     | 17   | 66,647,732         | 66,177,319         | -                  | -                  |
| Other receivables                     | 18   | 4,735,411          | 12,427,976         | -                  | 882,589            |
| Amounts due from subsidiary companies | 19   | -                  | -                  | 24,150,359         | 26,820,163         |
| Tax recoverable                       |      | 1,052,827          | 16,665             | -                  | -                  |
| Deposits with licensed banks          | 15   | 12,359,245         | 25,181,049         | -                  | -                  |
| Cash and bank balances                |      | 6,645,496          | 13,975,212         | 31,757             | 75,395             |
|                                       |      | 119,282,060        | 148,844,988        | 24,182,116         | 27,778,147         |
| <b>TOTAL ASSETS</b>                   |      | <b>196,601,476</b> | <b>239,303,748</b> | <b>136,524,969</b> | <b>135,188,918</b> |

## BALANCE SHEETS (Cont'd)

As At 31 December 2005

|  | Note | Group        |              | Company      |              |
|--|------|--------------|--------------|--------------|--------------|
|  |      | 2005<br>RM   | 2004<br>RM   | 2005<br>RM   | 2004<br>RM   |
| <b>EQUITY AND LIABILITIES</b>                              |      |              |              |              |              |
| <b>Equity attributable to equity holders of the parent</b> |      |              |              |              |              |
| Share capital  | 20   | 140,252,636  | 140,252,636  | 140,252,636  | 140,252,636  |
| Irredeemable Convertible Secured Loan Stock ("ICULS")      | 21   | 11,892,000   | 11,892,000   | 11,892,000   | 11,892,000   |
| Share premium  |      | 1,083,364    | 1,083,364    | 1,083,364    | 1,083,364    |
| Exchange fluctuation reserve                               |      | 115,176      | 113,780      | -            | -            |
| Accumulated losses   |      | (33,645,675) | (25,966,934) | (27,855,144) | (41,019,112) |
|  |      | 119,697,501  | 127,374,846  | 125,372,856  | 112,208,888  |
| <b>Minority interest</b>                                   |      | 51,339       | 67,521       | -            | -            |
| <b>Total equity</b>  |      | 119,748,840  | 127,442,367  | 125,372,856  | 112,208,888  |
| <b>Non-current liabilities</b>                             |      |              |              |              |              |
| Redeemable Convertible Secured Loan Stock ("RCSLS")        | 21   | -            | 19,332,000   | -            | 19,332,000   |
| Borrowings   | 22   | 1,727,106    | 2,600,873    | -            | -            |
| Deferred taxation  | 24   | 116,826      | 498,200      | -            | -            |
|  |      | 1,843,932    | 22,431,073   | -            | 19,332,000   |
| <b>Current liabilities</b>                                 |      |              |              |              |              |
| Trade payables   | 25   | 13,640,414   | 11,558,324   | -            | -            |
| Other payables   | 26   | 2,293,194    | 3,553,061    | 213,679      | 323,623      |
| Amounts due to subsidiary companies                        | 19   | -            | -            | 10,938,434   | 3,324,407    |
| Borrowings   | 22   | 57,840,664   | 72,648,687   | -            | -            |
| Tax payable  |      | 1,234,432    | 1,670,236    | -            | -            |
|  |      | 75,008,704   | 89,430,308   | 11,152,113   | 3,648,030    |
| <b>Total liabilities</b>                                   |      | 76,852,636   | 111,861,381  | 11,152,113   | 22,980,030   |
| <b>TOTAL EQUITY AND LIABILITIES</b>                        |      | 196,601,476  | 239,303,748  | 136,524,969  | 135,188,918  |

The accompanying notes form an integral part of the financial statements.

## STATEMENTS OF CHANGES IN EQUITY

For The Year Ended 31 December 2005

| Group   | ← Non-Distributable →  |             |                        |  | Accumulated<br>losses<br>RM | Total<br>RM |
|---|------------------------|-------------|------------------------|--|-----------------------------|-------------|
|   | Share<br>capital<br>RM | ICULS<br>RM | Share<br>premium<br>RM | Exchange<br>fluctuation<br>reserve<br>RM |                             |             |
| <b>At 1 January 2004</b>                      | 139,024,611            | 13,820,000  | 383,389                | 65,627                                   | (26,176,719)                | 127,116,908 |
| Conversion of<br>ICULS at RM1.57<br>per ICULS | 1,228,025              | (1,928,000) | 699,975                | -  | -                           | -           |
| Currency translation<br>differences           | -                      | -           | -                      | 48,153                                   | -                           | 48,153      |
| Distribution to<br>holders of ICULS           | -                      | -           | -                      | -  | (604,786)                   | (604,786)   |
| Net profit for the year                       | -                      | -           | -                      | -  | 814,571                     | 814,571     |
| <b>At 31 December 2004</b>                    | 140,252,636            | 11,892,000  | 1,083,364              | 113,780                                  | (25,966,934)                | 127,374,846 |
| <b>At 1 January 2005</b>                      | 140,252,636            | 11,892,000  | 1,083,364              | 113,780                                  | (25,966,934)                | 127,374,846 |
| Currency translation<br>differences           | -                      | -           | -                      | 1,396                                    | -                           | 1,396       |
| Distribution to<br>holders of ICULS           | -                      | -           | -                      | -  | (533,020)                   | (533,020)   |
| Net loss for the year                         | -                      | -           | -                      | -  | (7,145,721)                 | (7,145,721) |
| <b>At 31 December 2005</b>                    | 140,252,636            | 11,892,000  | 1,083,364              | 115,176                                  | (33,645,675)                | 119,697,501 |

The accompanying notes form an integral part of the financial statements.

## STATEMENTS OF CHANGES IN EQUITY (Cont'd)

For The Year Ended 31 December 2005

|  | Share<br>capital<br>RM | ← Non-Distributable →<br>ICULS<br>RM | Share<br>premium<br>RM | Accumulated<br>losses<br>RM | Total<br>RM |
|--|------------------------|--------------------------------------|------------------------|-----------------------------|-------------|
| <b>Company</b>                             |                        |                                      |                        |                             |             |
| <b>At 1 January 2004</b>                   | 139,024,611            | 13,820,000                           | 383,389                | (41,186,769)                | 112,041,231 |
| Conversion of ICULS at<br>RM1.57 per ICULS | 1,228,025              | (1,928,000)                          | 699,975                | -                           | -           |
| Distribution to<br>holders of ICULS        | -                      | -                                    | -                      | (21,687)                    | (21,687)    |
| Profit for the year                        | -                      | -                                    | -                      | 189,344                     | 189,344     |
| <b>At 31 December 2004</b>                 | 140,252,636            | 11,892,000                           | 1,083,364              | (41,019,112)                | 112,208,888 |
| <b>At 1 January 2005</b>                   | 140,252,636            | 11,892,000                           | 1,083,364              | (41,019,112)                | 112,208,888 |
| Distribution to<br>holders of ICULS        | -                      | -                                    | -                      | (155,376)                   | (155,376)   |
| Profit for the year                        | -                      | -                                    | -                      | 13,319,344                  | 13,319,344  |
| <b>At 31 December 2005</b>                 | 140,252,636            | 11,892,000                           | 1,083,364              | (27,855,144)                | 125,372,856 |

The accompanying notes form an integral part of the financial statements.

## CASH FLOW STATEMENTS

For The Year Ended 31 December 2005

|  | Group       |            | Company      |            |
|--|-------------|------------|--------------|------------|
|  | 2005<br>RM  | 2004<br>RM | 2005<br>RM   | 2004<br>RM |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>              |             |            |              |            |
| (Loss)/Profit before taxation                            | (7,070,407) | 2,926,083  | 13,319,344   | 189,344    |
| Adjustments for:   |             |            |              |            |
| Amortisation of goodwill                                 | 1,960,632   | 2,141,100  | -            | -          |
| Depreciation of property, plant and equipment            | 2,708,960   | 4,410,950  | -            | -          |
| Bad debts written off                                    | 125,883     | 3,001,132  | -            | -          |
| Property, plant and equipment written off                | 6,146,090   | 174,147    | -            | -          |
| Loss on disposal of property, plant and equipment        | 1,376,896   | 840,525    | -            | -          |
| Interest expenses  | 3,423,898   | 4,112,132  | 145,077      | 173,107    |
| Inventories written down                                 | 1,014,574   | -          | -            | -          |
| Inventories written off                                  | 10,417,623  | -          | -            | -          |
| Provision for impairment losses                          | -           | -          | 1,371,869    | -          |
| Allowance for doubtful debts                             |             |            |              |            |
| - current year   | 1,527,250   | 1,075,671  | -            | -          |
| - no longer required                                     | (7,440)     | (179,208)  | (11,138,366) | (550,482)  |
| Allowance for slow moving inventories no longer required | (21,960)    | (186,057)  | -            | -          |
| Gain from debt waiver received from a subsidiary company | -           | -          | (1,202,541)  | -          |
| Gain on disposal of property, plant and equipment        | (724,460)   | (348,931)  | -            | -          |
| Interest income  | (455,624)   | (668,754)  | -            | -          |
| Operating profit/(loss) before working capital changes   | 20,421,915  | 17,298,790 | 2,495,383    | (188,031)  |

## CASH FLOW STATEMENTS (Cont'd)

For The Year Ended 31 December 2005

|  | Group       |             | Company    |            |
|--|-------------|-------------|------------|------------|
|  | 2005<br>RM  | 2004<br>RM  | 2005<br>RM | 2004<br>RM |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES (Cont'd)</b>       |             |             |            |            |
| Changes in working capital:                                |             |             |            |            |
| Inventories  | (8,206,779) | (1,802,721) | -          | -          |
| Receivables  | 5,599,815   | (2,364,458) | 882,589    | (992,372)  |
| Payables   | 1,019,157   | (580,022)   | 86,990     | (42,713)   |
| Subsidiary companies                                       | -           | -           | 16,320,787 | 673,853    |
| Shareholders   | -           | 681,923     | -          | 681,923    |
| Cash generated from operations                             | 18,834,108  | 13,059,365  | 19,785,749 | 132,660    |
| Interest paid  | (4,153,852) | (4,436,847) | (497,387)  | (194,794)  |
| Interest received  | 455,624     | 668,754     | -          | -          |
| Taxes paid   | (1,944,836) | (7,820,382) | -          | -          |
| Net cash generated from/<br>(used in) operating activities | 13,191,044  | 1,645,037   | 19,288,362 | (62,134)   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                |             |             |            |            |
| Purchase of property, plant<br>and equipment (Note A)      | (2,591,753) | (1,134,949) | -          | -          |
| Purchase of investment property                            | (3,717,000) | -           | -          | -          |
| Proceeds from disposal of<br>property, plant and equipment | 7,979,979   | 3,268,820   | -          | -          |
| Net cash generated from<br>investing activities            | 1,671,226   | 2,133,871   | -          | -          |

## CASH FLOW STATEMENTS (Cont'd)

For The Year Ended 31 December 2005

|   | Group        |             | Company      |            |
|---|--------------|-------------|--------------|------------|
|   | 2005<br>RM   | 2004<br>RM  | 2005<br>RM   | 2004<br>RM |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                 |              |             |              |            |
| Drawdown of term loan                                       | -            | 4,787,859   | -            | -          |
| Repayment of term loan                                      | (4,646,824)  | (1,630,350) | -            | -          |
| Repayment of finance creditors                              | (169,587)    | (446,273)   | -            | -          |
| Repayment of bankers' acceptances and trust receipts        | (10,619,772) | (969,723)   | -            | -          |
| Redemption of RCSLS   | (19,332,000) | -           | (19,332,000) | -          |
| Net cash used in financing activities                       | (34,768,183) | 1,741,513   | (19,332,000) | -          |
| <b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b> | (19,905,913) | 5,520,421   | (43,638)     | (62,134)   |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>       | 38,910,654   | 33,390,233  | 75,395       | 137,529    |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR (NOTE B)</b>    | 19,004,741   | 38,910,654  | 31,757       | 75,395     |

## CASH FLOW STATEMENTS (Cont'd)

For The Year Ended 31 December 2005

### NOTES TO THE CASH FLOW STATEMENTS

#### A. PROPERTY, PLANT AND EQUIPMENT

During the financial year, the Group acquired property, plant and equipment with an aggregate cost of RM2,591,753 (2004: RM1,329,963) of which RM Nil (2004: RM195,014) was acquired by means of hire purchase. Cash payments of RM2,591,753 (2004: RM1,134,949) were made by the Group to purchase the property, plant and equipment.

#### B. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the Cash Flow Statements comprise the following balance sheets amounts:

|                              | Group      |            | Company    |            |
|------------------------------|------------|------------|------------|------------|
|                              | 2005<br>RM | 2004<br>RM | 2005<br>RM | 2004<br>RM |
| Cash and bank balances       | 6,645,496  | 13,975,212 | 31,757     | 75,395     |
| Deposits with licensed banks | 12,359,245 | 25,181,049 | -          | -          |
| Bank overdrafts              | -          | (245,607)  | -          | -          |
|                              | 19,004,741 | 38,910,654 | 31,757     | 75,395     |

The accompanying notes form an integral part of the financial statements.



## 1. CORPORATION INFORMATION

The principal activity of the Company is investment holding. The principal activities of the subsidiary companies are disclosed in Note 12.

There have been no significant changes in the nature of the activities of the Company and its subsidiary companies during the financial year.

The Company is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Second Board of Bursa Malaysia Securities Berhad. The registered office and the principal place of business of the Company are located at Lot 765, Jalan Haji Sirat Off Jalan Meru, 42100 Klang, Selangor Darul Ehsan.

The number of employees in the Group and in the Company at the end of the financial year were 336 (2004: 416) and Nil (2004: Nil) respectively.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 28 April 2006.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of Preparation

The financial statements of the Group and of the Company have been prepared under the historical cost convention except the following, which are stated at valuation:

- (i) Investments in subsidiary companies, as disclosed in Note 2 (d); and
- (ii) Freehold and leasehold land and buildings, as disclosed in Note 2 (e).

The financial statements comply with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia.

### (b) Basis of Consolidation

#### (i) Subsidiaries

The consolidated financial statements include the financial statements of the Company and all its subsidiaries. Subsidiaries are those entities in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from their activities.

Subsidiary companies are consolidated using the acquisition method of accounting. Under the acquisition method of accounting, the results of subsidiaries acquired or disposed of during the financial year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. The assets and liabilities of the subsidiaries are measured at their fair values at the date of acquisition. The difference between the cost of an acquisition and the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition is included in the consolidated balance sheet as goodwill or negative goodwill arising on consolidation.

All intercompany transactions, balances and resulting unrealised gains are eliminated on consolidation and the consolidated financial statements reflect external transactions only. Unrealised losses are eliminated on consolidation unless costs cannot be recovered.

The gain or loss on disposal of a subsidiary company is the difference between net disposal proceeds and the Group's share of its net assets together with any unamortised balance of goodwill on acquisition and exchange differences.

**2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)****(b) Basis of Consolidation (Cont'd)****(i) Subsidiaries (Cont'd)**

Minority interests in the consolidated balance sheet consist of the minorities' share of the fair value of the identifiable assets and liabilities of the acquiree as at acquisition date and the minorities' share of movements in the acquiree's equity since then.

**(c) Goodwill**

Goodwill represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill is stated at cost less accumulated amortisation and impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2 (o).

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition.

To the extent that negative goodwill relates to expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which are not identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the income statement when the future losses and expenses are recognised.

Goodwill and negative goodwill are amortised on a straight-line basis over its estimated useful life of 20 years.

**(d) Investment in Subsidiaries**

The Company's investments in subsidiaries are stated at cost and valuation less impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2 (o).

On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is recognised in the income statement.

**(e) Property, Plant and Equipment, and Depreciation**

Property, plant and equipment are stated at cost and valuation less accumulated depreciation and impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2 (o).

Freehold land is stated at cost and less impairment losses. Freehold land is not depreciated.

Certain freehold land and buildings of the Group were revalued in year 1992 and year 1993 by the directors based on the valuation done by independent professional valuers on an open market value basis and have not been revalued ever since. The Company does not adopt a policy of regular revaluation as required by MASB 15, Property, plant and equipment and is applying the transitional provision for assets revalued before the coming into force of the accounting standard as permitted by International Accounting Standards 16: Property, Plant and Equipment. These assets are stated at their respective valuation in year 1992 and year 1993.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### (e) Property, Plant and Equipment, and Depreciation (Contd.)

Leasehold lands are depreciated over the term of the respective lease, which range from 58 to 99 years. Depreciation on other property, plant and equipment is provided for on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life, at the following annual rates:

|  |             |
|--|-------------|
| Buildings                                | 2% - 5%     |
| Furniture, fittings and office equipment | 10% - 33.3% |
| Plant and machineries                    | 6% - 10%    |
| Motor vehicles                           | 10% - 20%   |

Upon the disposal of an item of property, plant or equipment, the difference between the net disposal proceeds and the net carrying amount is recognised in the income statement.

### (f) Investment Properties

Investment properties consist of investments in land and buildings that are not substantially occupied for use by, or in the operations, of the Group.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost and impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2 (o).

### (g) Inventories

Inventories are stated at the lower of cost and net realisable value after adequate specific allowance has been made for deteriorated, obsolete and slow moving inventories.

Cost of raw materials is determined using weighted average method. Cost of work-in-progress and finished goods includes direct materials, labour and an appropriate proportion of manufacturing overheads.

### (h) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, bank balances, demand deposits and highly liquid investments which are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts.

### (i) Leases

A lease is recognised as a finance lease if it transfers substantially to the Group all the risks and rewards incident to ownership. All other leases are classified as operating leases.

#### (i) Finance leases

Assets acquired by way of hire purchase or finance leases are stated at an amount equal to the lower of their fair values and the present value of the minimum lease payments at the inception of the leases, less accumulated depreciation. The corresponding liability is included in the balance sheet as hire purchase liability. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease.

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

**2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)****(i) Leases (Cont'd)****(ii) Operating leases**

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the term of the relevant lease.

**(j) Provisions for Liabilities**

Provisions for liabilities are recognised when the Group has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

**(k) Income Tax**

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

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

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also recognised directly in equity.

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

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees 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 the absences occur.

**(ii) Defined contribution plan**

As required by law, companies in Malaysia make contributions to the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the income statement as incurred.

**2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**(m) Revenue Recognition**

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably.

**(i) Sale of goods**

Revenue from sale of goods is recognised net of sales taxes and discounts upon the transfer of risks and rewards.

**(ii) Rental income**

Rental income is recognised on the accrual basis.

**(iii) Interest income**

Interest income is on a time proportion basis that reflects the effective yield on the asset.

**(iv) Dividend income**

Dividend income is recognised when the right to receive has been established.

**(n) Foreign Currencies**

**(i) Foreign currency transactions**

Transactions in foreign currencies are initially recorded in Ringgit Malaysia at rates of exchange ruling at the date of the transaction. At each balance sheet date, foreign currency monetary items are translated into Ringgit Malaysia at exchange rates ruling at that date. All exchange rate differences are taken to the income statement.

**(ii) Foreign entities**

Financial statements of foreign consolidated subsidiaries are translated at year-end exchange rates with respect to the assets and liabilities, and at exchange rates at the dates of the transactions with respect to the income statement. All resulting translation differences are recognised in equity.

The principal exchange rates used for each respective unit of foreign currency ruling at the balance sheet date are as follows:

|                      | <b>2005<br/>RM</b> | <b>2004<br/>RM</b> |
|----------------------|--------------------|--------------------|
| United States Dollar | 3.76               | 3.80               |
| Singapore Dollar     | 2.30               | 2.21               |

**(o) Impairment of Assets**

The carrying values of assets are reviewed for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. The recoverable amount is the higher of net realisable value and value in use, which is measured by reference to discounted future cash flows. Recoverable amounts are estimated for individual assets, or if it is not possible, for the cash-generating unit.

**2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)****(o) Impairment of Assets (Cont'd)**

An impairment loss is recognised as an expense in the income statement immediately, unless the asset is carried at revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of any unutilised previously recognised revaluation surplus for the same asset.

Subsequent increase in the recoverable amount of an asset is treated as reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the income statement immediately, unless the asset is carried at revalued amount, in which case, the reversal of impairment loss is credited directly to revaluation surplus, to the extent of impairment loss previously recognised as an expense in the income statement in respect of the same revalued asset.

**(p) Financial Instruments**

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

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

**(i) Other non-current investments**

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

**(ii) Receivables**

Receivables are carried at anticipated realisable value. Bad debts are written off in the period in which they are identified. An estimate is made for doubtful debts based on a review of all outstanding amounts at the financial year end.

**(iii) Payables**

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

**(iv) Interest-bearing borrowings**

Interest-bearing borrowing is recorded at the amount of proceeds received, net of transaction costs.

All borrowings costs are recognised as an expense in the income statement in the period in which they are incurred.

**(v) Convertible loan stocks**

As permitted under the transitional provision of MASB 24: Financial Instruments: Disclosure and Presentation, the convertible loan stocks, which were issued before 1 January 2004 are classified in accordance to the predominant nature of the convertible loan stock of either equity or liability.

### 2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### (p) Financial Instruments (Cont'd)

##### (vi) Equity instruments

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

#### (q) Segmental Results

Segment revenues and expenses are those directly attributable to the segments and include any joint revenue and expenses where a reasonable basis of allocation exists. Segment assets include all operating assets used by a segment and consist principally of cash, receivables, inventories, intangible assets and property, plant and equipment, net of allowances and accumulated depreciation and amortisation. Segment assets and liabilities do not include tax recoverable and deferred income taxes.

Segment revenues, expenses and result include transfers between segments. The prices charged on intersegment transactions are the same as those charged for similar goods to parties outside of the Group at an arm's length transactions. These transfers are eliminated on consolidation.

### 3. REVENUE

Revenue for the Group represents sales of goods outside the Group net of discounts, returns and sales tax.

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2005

### 4. (LOSS)/PROFIT FROM OPERATIONS

|  | Group      |            | Company    |            |
|--|------------|------------|------------|------------|
|  | 2005<br>RM | 2004<br>RM | 2005<br>RM | 2004<br>RM |
| (Loss)/Profit from operations is stated after charging as follows: |            |            |            |            |
| Auditors' remuneration   |            |            |            |            |
| - statutory audits   | 128,638    | 108,350    | 18,000     | 11,000     |
| - Underprovision in prior years                                    | 25,790     | -          | -          | -          |
| - others   | 23,400     | 62,800     | 23,400     | 16,500     |
| Allowance for doubtful debts                                       | 1,527,250  | 1,075,671  | -          | -          |
| Amortisation of goodwill   | 1,960,632  | 2,141,100  | -          | -          |
| Bad debts written off  | 125,883    | 3,001,132  | -          | -          |
| Depreciation of property, plant and equipment                      | 2,708,960  | 4,410,950  | -          | -          |
| Inventories written down   | 1,014,574  | -          | -          | -          |
| Inventories written off  |            |            |            |            |
| - destroyed by fire (Note 29(a)(i))                                | 10,417,623 | -          | -          | -          |
| - others   | 19,966     | -          | -          | -          |
| Loss on disposal of property, plant and equipment                  | 1,376,896  | 840,525    | -          | -          |
| Realised loss on foreign exchange                                  | 1,785      | 590        | 112,934    | -          |
| Property, plant and equipment written off                          |            |            |            |            |
| - destroyed by fire (Note 29(a)(i))                                | 6,144,048  | -          | -          | -          |
| - others   | 2,042      | 174,147    | -          | -          |
| Provision for impairment losses on investment in subsidiaries      | -          | -          | 1,371,869  | -          |
| Rental expenses  |            |            |            |            |
| - equipment  | -          | 16,500     | -          | -          |
| - warehouse  | 206,400    | 176,830    | -          | -          |
| Staff costs (Note 5)   | 7,384,999  | 10,363,493 | -          | -          |



## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2005

### 4. PROFIT FROM OPERATIONS (Cont'd.)

|  | Group       |            | Company      |            |
|--|-------------|------------|--------------|------------|
|  | 2005<br>RM  | 2004<br>RM | 2005<br>RM   | 2004<br>RM |
| And crediting as follows:  |             |            |              |            |
| Allowance for doubtful debts<br>no longer required   |             |            |              |            |
| - trade  | (7,440)     | (179,208)  | -            | -          |
| - subsidiaries   | -           | -          | (11,138,366) | (550,482)  |
| Allowance for slow moving<br>inventories no longer required  | (21,960)    | (186,057)  | -            | -          |
| Bad debts recovered  | (53,465)    | (7,578)    | -            | -          |
| Discount gain on redemption<br>of RCSLS  | -           | -          | (2,983,515)  | -          |
| Gain on disposal of property,<br>plant and equipment   | (724,460)   | (348,931)  | -            | -          |
| Interest income  |             |            |              |            |
| - fixed deposits   | (403,504)   | (658,971)  | -            | -          |
| - short term deposits  | (28,767)    | (7,226)    | -            | -          |
| - others   | (23,353)    | (2,557)    | -            | -          |
| Proceeds received on<br>insurance claims on inventories<br>and property, plant and equipment<br>destroyed by fire (Note 29(a)(ii)) | 10,800,000  | -          | -            | -          |
| Rental income  | (1,206,472) | (846,853)  | -            | -          |
| Waiver of debt from a<br>subsidiary company  | -           | -          | (1,202,541)  | -          |

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2005

### 5. STAFF COSTS

|                              | Group            |                   | Company    |            |
|------------------------------|------------------|-------------------|------------|------------|
|                              | 2005<br>RM       | 2004<br>RM        | 2005<br>RM | 2004<br>RM |
| Wages and salaries           | 6,468,161        | 9,426,435         | -          | -          |
| Defined contribution plans   | 717,039          | 773,360           | -          | -          |
| Other staff related expenses | 199,798          | 163,698           | -          | -          |
|                              | <b>7,384,999</b> | <b>10,363,493</b> | -          | -          |

Included in staff costs of the Group and of the Company are executive directors' remuneration amounting to RM790,106 (2004: RM819,365) and RM Nil (2004: RM Nil) respectively as further disclosed in Note 6.

### 6. DIRECTORS' REMUNERATION

|   | Group          |                | Company    |            |
|---|----------------|----------------|------------|------------|
|   | 2005<br>RM     | 2004<br>RM     | 2005<br>RM | 2004<br>RM |
| <b>Directors of the Company</b>           |                |                |            |            |
| <b>Executive:</b>                         |                |                |            |            |
| Salaries and other emoluments             | 669,180        | 761,864        | -          | -          |
| Defined contribution plans                | 10,416         | 15,501         | -          | -          |
|   | <b>679,596</b> | <b>777,365</b> | -          | -          |
| <b>Directors of Subsidiaries</b>          |                |                |            |            |
| <b>Executive:</b>                         |                |                |            |            |
| Salaries and other emoluments             | 56,181         | -              | -          | -          |
| Fees                                      | 47,532         | 42,000         | -          | -          |
| Pension costs - defined contribution plan | 6,797          | -              | -          | -          |
|   | <b>110,510</b> | <b>42,000</b>  | -          | -          |
| Total                                     | <b>790,106</b> | <b>819,365</b> | -          | -          |

The number of directors of the Company whose total remuneration during the financial year fell within the following bands is analysed below:

|                       | Number of Directors |      |
|-----------------------|---------------------|------|
|                       | 2005                | 2004 |
| <b>Executive:</b>     |                     |      |
| RM50,001 - RM100,000  | -                   | 1    |
| RM100,001 - RM150,000 | 1                   | -    |
| RM550,001 - RM600,000 | 1                   | -    |
| RM600,001 - RM650,000 | -                   | 1    |

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2005

### 7. FINANCE COSTS

|   | Group            |                  | Company        |                |
|---|------------------|------------------|----------------|----------------|
|   | 2005<br>RM       | 2004<br>RM       | 2005<br>RM     | 2004<br>RM     |
| Interest expense on:                                      |                  |                  |                |                |
| - bank overdraft  | 94,006           | 120,917          | -              | -              |
| - term loans  | 824,350          | 927,165          | -              | -              |
| - hire purchase   | 19,817           | 64,028           | -              | -              |
| - bankers acceptance and trust receipts                   | 2,321,126        | 2,135,774        | -              | -              |
| - redeemable convertible<br>secured loan stocks ("RCSLs") | 164,599          | 864,248          | 145,077        | 173,107        |
|   | <b>3,423,898</b> | <b>4,112,132</b> | <b>145,077</b> | <b>173,107</b> |

### 8. TAXATION

|  | Group          |                  | Company    |            |
|--|----------------|------------------|------------|------------|
|  | 2005<br>RM     | 2004<br>RM       | 2005<br>RM | 2004<br>RM |
| <b>Income tax:</b>   |                |                  |            |            |
| Current year provision   | 465,039        | 1,301,913        | -          | -          |
| Underprovision in prior years                                    | 7,831          | 1,339,841        | -          | -          |
|  | <b>472,870</b> | <b>2,641,754</b> | <b>-</b>   | <b>-</b>   |
| <b>Deferred taxation (Note 24):</b>                              |                |                  |            |            |
| Relating to origination and reversal of<br>temporary differences | (9,797)        | (553,855)        | -          | -          |
| Overprovision in prior year                                      | (371,577)      | -                | -          | -          |
|  | <b>91,496</b>  | <b>2,087,899</b> | <b>-</b>   | <b>-</b>   |

Domestic income tax is calculated at the Malaysian statutory tax rate of 28% (2004: 28%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Corporate tax rate for certain subsidiary companies of the Group with paid-up capital of RM2.5 million and below at the beginning of the basis period for the Year of Assessment 2005 and 2004 are as follows:

| Chargeable Income          | Rate |
|----------------------------|------|
| First RM500,000            | 20%  |
| Amount exceeding RM500,000 | 28%  |

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2005

### 8. TAXATION (Cont'd)

A reconciliation of income tax expenses applicable to (loss)/profit before taxation at the statutory income tax rate to income tax expenses at the effective income tax rate of the Group and of the Company is as follows:

|   | 2005<br>RM  | 2004<br>RM  |
|---|-------------|-------------|
| <b>Group</b>  |             |             |
| (Loss)/Profit before taxation   | (7,070,407) | 2,926,083   |
| Taxation at Malaysian statutory tax rate of 28% (2004: 28%)                           | (1,979,714) | 819,303     |
| Tax effect in respect of:   |             |             |
| Tax incentives of 20% for small-medium enterprise                                     | (40,280)    | (61,924)    |
| Double tax deduction  | -           | (73,485)    |
| Expenses not deductible for tax purposes  | 1,171,566   | 1,095,129   |
| Tax losses not allowed for future utilisation   | 4,167       | -           |
| Income not subject to tax   | (835,384)   | (88,165)    |
| Deferred tax assets not recognised on unutilised tax losses<br>and capital allowances | 2,685,125   | 28,000      |
| Utilisation of previously unrecognised tax losses<br>and capital allowances           | (550,238)   | (1,030,800) |
| Underprovision of income tax in prior years   | 7,831       | 1,339,841   |
| Overprovision of deferred taxation in prior year                                      | (371,577)   | -           |
| Tax expense for the year  | 91,496      | 2,027,899   |
| <b>Company</b>  |             |             |
| Profit before taxation  | 13,319,344  | 189,344     |
| Taxation at Malaysian statutory tax rate of 28% (2004: 28%)                           | 3,729,416   | 53,016      |
| Tax effect in respect of:   |             |             |
| Expenses not deductible for tax purposes  | 561,422     | 101,119     |
| Income not subject to tax   | (4,290,838) | (154,135)   |
| Tax expense for the year  | -           | -           |

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2005

### 9. EARNINGS PER SHARE

#### (a) Basic

Basic earnings per share is calculated by dividing the net profit for the year by the weighted average number of ordinary shares in issue during the financial year held by the Company.

|  | 2005    | 2004    |
|--|---------|---------|
| Net (loss)/profit for the year (RM'000)                    | (7,146) | 815     |
| Weighted average number of ordinary shares in issue ('000) | 140,253 | 139,290 |
| Basic (loss)/earnings per share (sen)                      | (5.09)  | 0.58    |

#### (b) Diluted

For the purpose of calculating diluted earnings per share, the net profit for the year and the weighted average number of ordinary shares in issue during the financial year have been adjusted for the dilutive effects of all potential ordinary shares, i.e. irredeemable convertible unsecured loan stocks ("ICULS") (in respect of financial years 2004 and 2005) and redeemable convertible secured loan stocks ("RCSLS") (in respect of financial year 2004).

For the current financial year, there is an anti-dilutive effect in the ICULS to be exercised.

### 10. PROPERTY, PLANT AND EQUIPMENT

| Group                    | Land and<br>buildings<br>RM | Plant and<br>machineries<br>RM | Motor<br>vehicles<br>RM | Furniture,<br>fittings<br>and office<br>equipment<br>RM | Total<br>2005<br>RM | Total<br>2004<br>RM |
|--------------------------|-----------------------------|--------------------------------|-------------------------|---|---------------------|---------------------|
| <b>Cost or valuation</b> |                             |                                |                         |   |                     |                     |
| At 1 January             |                             |                                |                         |   |                     |                     |
| - cost                   | 37,508,425                  | 31,533,673                     | 3,851,240               | 2,749,852   | 75,643,190          | 81,994,830          |
| - valuation              | 13,767,235                  | -                              | -                       | -   | 13,767,235          | 13,767,235          |
|                          | 51,275,660                  | 31,533,673                     | 3,851,240               | 2,749,852   | 89,410,425          | 95,762,065          |
| Additions                | -                           | 1,849,958                      | 420,563                 | 321,232   | 2,591,753           | 1,329,963           |
| Disposals                | (9,104,185)                 | (549,861)                      | (431,166)               | -   | (10,085,212)        | (7,267,556)         |
| Written off              | (4,604,505)                 | (8,705,338)                    | -                       | (280,198)   | (13,590,041)        | (414,047)           |
| At 31 December           | 37,566,970                  | 24,128,432                     | 3,840,637               | 2,790,886   | 68,326,925          | 89,410,425          |
| <b>Representing:</b>     |                             |                                |                         |   |                     |                     |
| At cost                  | 23,799,735                  | 24,128,432                     | 3,840,637               | 2,790,886   | 54,559,690          | 75,643,190          |
| At valuation             | 13,767,235                  | -                              | -                       | -   | 13,767,235          | 13,767,235          |
|                          | 37,566,970                  | 24,128,432                     | 3,840,637               | 2,790,886   | 68,326,925          | 89,410,425          |

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2005

### 10. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

|   | Land and<br>buildings<br>RM | Plant and<br>machineries<br>RM | Motor<br>vehicles<br>RM | Furniture,<br>fittings<br>and office<br>equipment<br>RM | Total<br>2005<br>RM | Total<br>2004<br>RM |
|---|-----------------------------|--------------------------------|-------------------------|---|---------------------|---------------------|
| <b>Accumulated Depreciation</b>                               |                             |                                |                         |   |                     |                     |
| At 1 January  | 8,308,794                   | 20,046,924                     | 3,330,641               | 2,078,647   | 33,765,006          | 33,101,098          |
| Charge for the year   | 792,374                     | 1,530,752                      | 230,228                 | 155,606   | 2,708,960           | 4,410,950           |
| Disposals   | (632,504)                   | (494,545)                      | (325,748)               | -   | (1,452,797)         | (3,506,142)         |
| Written off   | (1,283,326)                 | (5,954,952)                    | -                       | (205,673)   | (7,443,951)         | (239,900)           |
| At 31 December  | 7,185,338                   | 15,128,179                     | 3,235,121               | 2,028,580   | 27,577,218          | 33,766,006          |
| <b>Net Book Value</b>   |                             |                                |                         |   |                     |                     |
| 31 December 2005  | 30,381,632                  | 9,000,253                      | 605,516                 | 762,306   | 40,749,707          | -                   |
| 31 December 2004  | 42,966,866                  | 11,486,749                     | 520,599                 | 671,205   | -                   | 55,644,419          |
| Depreciation charge<br>for the year ended<br>31 December 2004 | 1,158,555                   | 2,900,663                      | 184,970                 | 166,762   | -                   | 4,410,950           |

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2005

### 10. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

#### Analysis of Land and Buildings

| Group                    | Freehold<br>land<br>RM | Long<br>leasehold<br>land<br>RM | Short<br>leasehold<br>land<br>RM | Freehold<br>buildings<br>RM | Long<br>leasehold<br>buildings<br>RM | Short<br>leasehold<br>buildings<br>RM | Total<br>2005<br>RM | Total<br>2004<br>RM |
|--------------------------|------------------------|---------------------------------|----------------------------------|-----------------------------|--------------------------------------|---------------------------------------|---------------------|---------------------|
| <b>Cost or valuation</b> |                        |                                 |                                  |                             |                                      |                                       |                     |                     |
| At 1 January 2005        |                        |                                 |                                  |                             |                                      |                                       |                     |                     |
| -Cost                    | 5,303,173              | 1,556,876                       | 450,192                          | 11,162,941                  | 13,488,474                           | 5,546,769                             | 37,508,425          | 37,735,345          |
| -Valuation               | 2,328,709              | -                               | 1,549,000                        | 7,437,328                   | -                                    | 2,452,198                             | 13,767,235          | 13,767,235          |
|                          | 7,631,882              | 1,556,876                       | 1,999,192                        | 18,600,269                  | 13,488,474                           | 7,998,967                             | 51,275,660          | 51,502,580          |
| Reclassification         | (902,498)              | 3,476,206                       | -                                | (3,702,008)                 | 1,128,300                            | -                                     | -                   | -                   |
| Additions                | -                      | -                               | -                                | -                           | -                                    | -                                     | -                   | 714,084             |
| Disposals                | -                      | (3,476,206)                     | -                                | (1,320,000)                 | (4,307,979)                          | -                                     | (9,104,185)         | (941,004)           |
| Written Off              | -                      | -                               | -                                | -                           | (4,604,505)                          | -                                     | (4,604,505)         | -                   |
| At 31 December 2005      | 6,729,384              | 1,556,876                       | 1,999,192                        | 13,578,261                  | 5,704,290                            | 7,998,967                             | 37,566,970          | 51,275,660          |
| Representing:            |                        |                                 |                                  |                             |                                      |                                       |                     |                     |
| At cost                  | 4,400,675              | 1,556,876                       | 450,192                          | 6,140,933                   | 5,704,290                            | 5,546,769                             | 23,799,735          | 37,508,425          |
| At Valuation             | 2,328,709              | -                               | 1,549,000                        | 7,437,328                   | -                                    | 2,452,198                             | 13,767,235          | 13,767,235          |
|                          | 6,729,384              | 1,556,876                       | 1,999,192                        | 13,578,261                  | 5,704,290                            | 7,998,967                             | 37,566,970          | 51,275,660          |

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2005

### 10. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

#### Analysis of Land and Buildings (Contd.)

| Group                                  | Freehold<br>land<br>RM | Long<br>leasehold<br>land<br>RM | Short<br>leasehold<br>land<br>RM | Freehold<br>buildings<br>RM | Long<br>leasehold<br>buildings<br>RM | Short<br>leasehold<br>buildings<br>RM | Total<br>2005<br>RM | Total<br>2004<br>RM |
|--|------------------------|---------------------------------|----------------------------------|-----------------------------|--------------------------------------|---------------------------------------|---------------------|---------------------|
| <b>Accumulated Depreciation</b>        |                        |                                 |                                  |                             |                                      |                                       |                     |                     |
| At 1 January                           | -                      | 285,475                         | 692,309                          | 3,958,059                   | 1,334,510                            | 2,038,441                             | 8,308,794           | 7,188,043           |
| Charge for the year                    | -                      | 37,853                          | 140,963                          | 312,042                     | 139,386                              | 162,130                               | 792,374             | 1,158,555           |
| Reclassification                       | -                      | 142,181                         | -                                | (1,283,325)                 | 1,141,144                            | -                                     | -                   | -                   |
| Disposal                               | -                      | (154,084)                       | -                                | (85,294)                    | (393,126)                            | -                                     | (632,504)           | (37,804)            |
| Written off                            | -                      | -                               | -                                | -                           | (1,283,326)                          | -                                     | (1,283,326)         | -                   |
| At 31 December                         | -                      | 311,425                         | 833,272                          | 2,901,482                   | 2,221,914                            | 2,200,571                             | 7,185,338           | 8,308,794           |
| <b>Net Book Value</b>                  |                        |                                 |                                  |                             |                                      |                                       |                     |                     |
| 31 December 2005                       | 6,729,384              | 1,245,451                       | 1,165,920                        | 10,676,779                  | 3,482,376                            | 5,798,396                             | 30,381,632          | -                   |
| 31 December 2004                       | 7,631,882              | 1,271,401                       | 1,306,883                        | 14,642,210                  | 12,153,964                           | 5,960,526                             | -                   | 42,966,866          |
| Depreciation charge for the year ended |                        |                                 |                                  |                             |                                      |                                       |                     |                     |
| 31 December 2004                       | -                      | 25,948                          | 62,754                           | 555,810                     | 279,400                              | 234,643                               | -                   | 1,158,555           |



**10. PROPERTY, PLANT AND EQUIPMENT (Cont'd)**

- (a) Certain land and buildings of the Group were revalued in year 1992 and year 1993 by the directors based on the valuation done by independent professional valuers on an open market value basis and have not been revalued ever since. The Group does not adopt a policy of regular revaluation as required by MASB 15, Property, plant and equipment and is applying the transitional provision for assets revalued before the coming into force of the accounting standard.

Had the land and buildings of the Group not been revalued in year 1992 and 1993, the net book value would be as follows:

|                                | <b>2005<br/>RM</b> | <b>Group<br/>2004<br/>RM</b> |
|--------------------------------|--------------------|------------------------------|
| At cost                        | 11,868,075         | 11,868,075                   |
| Less: accumulated depreciation | (2,613,209)        | (2,417,864)                  |
| <b>Net book value</b>          | <b>9,254,866</b>   | <b>9,450,211</b>             |

- (b) Land and buildings of the Group with net book value of RM17,766,000 (2004: RM29,824,000) have been pledged to banks for credit facilities granted to certain subsidiary companies and third party and term loans granted to certain subsidiary companies.
- (c) Land and buildings of the Group with net book value of RM Nil (2004: RM7,137,000) have been pledged to a licensed bank as partial security of RM1,534,000 nominal value of 5 year 4.5% Redeemable Convertible Secured Loan Stocks issued by the Company.
- (d) Plant and machineries of the Group with net book value of RM199,000 (2004: RM263,000) have been pledged to licensed bank for banking facilities granted to a subsidiary company.
- (e) The net book value of property, plant and equipment which are under hire purchase or finance lease arrangement is as follows:

|                       | <b>Company</b>     |                    |
|-----------------------|--------------------|--------------------|
|                       | <b>2005<br/>RM</b> | <b>2004<br/>RM</b> |
| Plant and machineries | -                  | 36,841             |
| Motor vehicles        | 44,433             | 315,676            |
|                       | <b>44,433</b>      | <b>352,517</b>     |

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2005

### 11. INVESTMENT PROPERTIES

|                                | Group      |            |
|--------------------------------|------------|------------|
|                                | 2005<br>RM | 2004<br>RM |
| Investment properties, at cost | 3,717,000  | -          |
| Market value                   | 3,717,000  | -          |

Investment properties were acquired during the financial year and relate to 31 units of apartments located at Mukim Bukit Baru, Daerah Melaka Tengah, Melaka. The strata titles in respect of these apartments have yet to be issued to a wholly owned subsidiary.

### 12. INVESTMENT IN SUBSIDIARY COMPANIES

|  | Company      |              |
|--|--------------|--------------|
|  | 2005<br>RM   | 2004<br>RM   |
| Unquoted shares:   |              |              |
| At directors' valuation  | 20,222,837   | 20,222,837   |
| Less: Provision for impairment losses                                    | (10,473,855) | (10,473,855) |
|  | 9,748,982    | 9,748,982    |
| At cost  | 110,728,850  | 107,628,115  |
| Less: Shortfall of profit guarantee received from a shareholder (Note a) | -            | (3,203,216)  |
| Less: Provision for impairment losses                                    | (8,134,979)  | (6,763,110)  |
|  | 102,593,871  | 97,661,789   |
|  | 112,342,853  | 107,410,771  |

#### (a) Profit guarantee by a shareholder

Pursuant to the acquisition of the entire equity interest in KPS Plywood Sdn. Bhd. ("KPSP"), 60% of the equity interest in Yap Swee Thiam & Sons Industries Sdn. Bhd. ("YST") and approximately 50% equity interest in Akateak Sdn. Bhd. in year 2002, the Vendors have entered into a Profit Guarantee Agreement with the Company in order to comply with Securities Commission's conditions on the acquisition of these companies.

In accordance with the Stakeholder and Profit Guarantee Agreement, the Vendors have jointly and severally guarantee to the Company that the audited profit after tax of KPSP group of companies for the financial year ended 31 December 2002 and 2003 shall not be less than RM10,394,400 and RM10,049,600 respectively. Any shortfall in respect of the profit guarantee in the respective years, the Company will require the Vendors to make payment to the Company.

The actual audited profit after tax of KPSP group of companies for the financial year ended 31 December 2002 and 2003 were RM8,768,080 and RM8,472,704 respectively. Hence, a shortfall in profit guarantee of RM1,626,320 and RM1,576,896 for the financial years ended 31 December 2002 and 2003.

**12. INVESTMENT IN SUBSIDIARY COMPANIES (Cont'd)**
**(a) Profit guarantee by a shareholder (Cont'd)**

The total shortfall in profit guarantee of RM3,203,216 has been fully settled by the Vendors in 2004. In accordance with MASB 21: Business Combinations, the shortfall in profit guarantee have been recognised as a reduction in the cost of investment, with a consequential effect on goodwill.

The details of the subsidiary companies are as follows:

| Name of company                                     | Place of incorporation | Group effective interest |        | Principal activities   |
|---|------------------------|--------------------------|--------|--|
|   |                        | 2005 %                   | 2004 % |  |
| Hai Ming Capital Sdn. Bhd.                          | Malaysia               | 100                      | 100    | Investment holding   |
| Hai Ming Development Sdn. Bhd.                      | Malaysia               | 100                      | 100    | Dormant  |
| Hai Ming Enterprise Sdn. Bhd.                       | Malaysia               | 100                      | 100    | Trading in paper paper products                                      |
| Hai Ming Industries Sdn. Bhd.                       | Malaysia               | 100                      | 100    | Converting of paper into related products                            |
| Hai Ming Management Sdn. Bhd.                       | Malaysia               | 100                      | 100    | Providing management services  |
| Hai Ming Paper Products Sdn. Bhd.                   | Malaysia               | 100                      | 100    | Dormant  |
| Hai Ming Paper Mills Sdn. Bhd.                      | Malaysia               | 100                      | 100    | Manufacturing of tissue paper and tissue related products            |
| Hai Ming Trading Co. Sdn. Bhd.                      | Malaysia               | 100                      | 100    | Trading in paper products, stationery and general household products |
| KPS Food Industries Sdn. Bhd.                       | Malaysia               | 100                      | 100    | Dormant  |
| Paragon Paper Mill Sdn. Bhd (Note 29 (b))           | Malaysia               | 99.9                     | 51     | Manufacturing of tissue paper and tissue related products            |
| Hai Ming Impex (S) Pte. Ltd. *                      | Singapore              | 100                      | 100    | Dormant  |
| KPS Plywood Sdn. Bhd.                               | Malaysia               | 100                      | 100    | Trading of plywood and investment holding                            |
| Subsidiary company of Paragon Paper Mill Sdn. Bhd.: |                        |                          |        |  |
| Paragon Marketing Sdn. Bhd.                         | Malaysia               | 99.9                     | 51     | Trading in tissue related products                                   |

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2005

### 12. INVESTMENT IN SUBSIDIARY COMPANIES (Cont'd)

| Name of company                                | Place of incorporation | Group effective interest |        | Principal activities   |
|--|------------------------|--------------------------|--------|--|
|  |                        | 2005 %                   | 2004 % |  |
| Subsidiary companies of KPS Plywood Sdn. Bhd.: |                        |                          |        |  |
| Akateak Sdn. Bhd.                              | Malaysia               | 100                      | 100    | Distributor and retailer of wooden doors, plywood and related building materials       |
| Yap Swee Thiam & Sons Industries Sdn. Bhd. **  | Malaysia               | 100                      | 100    | Manufacturing and sale of timber doors, window frame and other timber related products |
| Vector Marketing Sdn. Bhd.                     | Malaysia               | 60                       | 60     | Trading in plywood and related products  |
| Hai Ming Marketing Sdn. Bhd                    | Malaysia               | 100                      | 100    | Trading in paper products  |

\* Subsidiary company not audited by Ernst & Young, Malaysia.

\*\* The auditors' report on the financial statements of the subsidiary company contained an "except for" qualification arising from the inability to perform audit procedures to obtain sufficient appropriate audit evidence on the value of the inventories written off during the year and the value of inventories recognised in the balance sheet of the said subsidiary company as at 1 January 2005.

### 13. OTHER INVESTMENTS

|                                 | Group   |         |
|---------------------------------|---------|---------|
|                                 | 2005 RM | 2004 RM |
| <b>At cost:</b>                 |         |         |
| Quoted investment in Malaysia   | 6,012   | 6,012   |
| Unquoted investment in Malaysia | 6,012   | 6,012   |
|                                 | <hr/>   | <hr/>   |
|                                 | 12,024  | 12,024  |
| <b>Market value:</b>            |         |         |
| Quoted investment in Malaysia   | 812     | 1,383   |

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2005

### 14. GOODWILL

|  | Goodwill<br>RM | Group<br>Negative<br>Goodwill<br>RM | Total<br>RM |
|--|----------------|-------------------------------------|-------------|
| At 1 January 2004  | 51,601,581     | (11,455,948)                        | 40,145,633  |
| Less: Shortfall of profit guarantee received<br>from a shareholder | (3,203,216)    | -                                   | (3,203,216) |
| Less: Amortisation during the year                                 | (2,713,897)    | 572,797                             | (2,141,100) |
| At 31 December 2004  | 45,684,468     | (10,883,151)                        | 34,801,317  |
| Less: Amortisation during the year                                 | (2,533,429)    | 572,797                             | (1,960,632) |
| At 31 December 2005  | 43,151,039     | (10,310,354)                        | 32,840,685  |
| Analysed as follows:   |                |                                     |             |
| <b>At 31 December 2005</b>   |                |                                     |             |
| Goodwill at acquisition  | 54,277,956     | (11,455,948)                        | 42,822,008  |
| Less: Shortfall of profit guarantee received<br>from a shareholder | (3,203,216)    | -                                   | (3,203,216) |
| Less: Accumulated amortisation                                     | (8,639,698)    | 1,861,591                           | (6,778,107) |
|  | 42,435,042     | (9,594,357)                         | 32,840,685  |
| <b>At 31 December 2004</b>   |                |                                     |             |
| Goodwill at acquisition  | 54,277,956     | (11,455,948)                        | 42,822,008  |
| Less: Shortfall of profit guarantee received<br>from a shareholder | (3,203,216)    | -                                   | (3,203,216) |
| Less: Accumulated amortisation                                     | (6,106,269)    | 1,288,794                           | (4,817,475) |
|  | 44,968,471     | (10,167,154)                        | 34,801,317  |

### 15. DEPOSITS WITH LICENSED BANKS

|  | 2005<br>RM | Group<br>2004<br>RM |
|--|------------|---------------------|
| Pledged to licensed banks for banking facilities | 12,359,245 | 24,821,049          |
| Short term deposits                              | -          | 360,000             |
|  | 12,359,245 | 25,181,049          |

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2005

### 16. INVENTORIES

|                                 | Group      |            |
|---------------------------------|------------|------------|
| At cost:                        | 2005<br>RM | 2004<br>RM |
| Raw materials                   | 7,415,291  | 11,267,586 |
| Consumables                     | 149,448    | 476,145    |
| Work-in-progress                | 134,546    | 1,312,592  |
| Finished goods                  | 13,965,459 | 14,942,601 |
|                                 | 21,664,744 | 27,998,924 |
| <b>At net realisable value:</b> |            |            |
| Finished goods                  | 6,176,605  | 3,067,843  |
|                                 | 27,841,349 | 31,066,767 |

### 17. TRADE RECEIVABLES

|   | Group       |             | Company    |            |
|---|-------------|-------------|------------|------------|
|   | 2005<br>RM  | 2004<br>RM  | 2005<br>RM | 2004<br>RM |
| Trade receivables                           | 73,411,580  | 72,369,772  | -          | -          |
| Less: Specific allowance for doubtful debts | (6,763,848) | (6,192,453) | -          | -          |
|   | 66,647,732  | 66,177,319  | -          | -          |

The Group's normal trade credit term ranges from 30 days to 90 days. Other credit terms are assessed and approved on a case-by-case basis.

The Group has no significant concentration of credit risk that may arise from exposures to a single debtor or to groups of debtors.

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2005

### 18. OTHER RECEIVABLES

|  | Group      |            | Company    |            |
|--|------------|------------|------------|------------|
|  | 2005<br>RM | 2004<br>RM | 2005<br>RM | 2004<br>RM |
| Non-trade receivables  | 3,874,436  | 2,020,892  | -          | 190,772    |
| Less: Allowance for doubtful debts                                       | (155,784)  | (842,055)  | -          | -          |
|  | 3,718,652  | 1,178,837  | -          | 190,772    |
| Trustee for loan stock   | -          | 4,787,858  | -          | -          |
| Outstanding purchase consideration<br>on disposal of plant and equipment | -          | 1,382,967  | -          | -          |
| Advance for timber concession rights                                     | -          | 3,460,400  | -          | -          |
| Management fee receivable  | -          | 204,000    | -          | -          |
| Deposits   | 612,891    | 1,197,415  | -          | 623,900    |
| Prepayments  | 105,705    | 175,199    | -          | 67,917     |
| Others   | 298,163    | 41,300     | -          | -          |
|  | 4,735,411  | 12,427,976 | -          | 882,589    |

Included in non-trade receivables of the Group are amounts of RM280,000 (2004: RM484,000) and RM56,659 (2004: RM60,478) due from Great Business Venture Sdn. Bhd. and Mastellium Sdn. Bhd., companies in which a substantial shareholder and directors, Koh Poh Seng has interest.

The Group has no significant concentration of credit risk that may arise from exposures to a single debtor or to groups of debtors.

### 19. AMOUNT DUE FROM/TO SUBSIDIARY COMPANIES

|                                      | Company      |              |
|--------------------------------------|--------------|--------------|
|                                      | 2005<br>RM   | 2004<br>RM   |
| Amount due from subsidiary companies | 47,654,665   | 61,462,835   |
| Less: Allowance for doubtful debts   | (23,504,306) | (34,642,672) |
|                                      | 24,150,359   | 26,820,163   |

The amount due from/to subsidiary companies is unsecured, interest free and has no fixed terms of repayment.

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2005

### 20. SHARE CAPITAL

|                               | Number of Ordinary<br>Shares of RM1 Each |             | Amount      |             |
|-------------------------------|--|-------------|-------------|-------------|
|                               | 2005                                     | 2004        | 2005<br>RM  | 2004<br>RM  |
| <b>Authorised:</b>            |  |             |             |             |
| At 1 January/31 December      | 200,000,000                              | 200,000,000 | 200,000,000 | 200,000,000 |
| <b>Issued and fully paid:</b> |  |             |             |             |
| At 1 January                  | 140,252,636                              | 139,024,611 | 140,252,636 | 139,024,611 |
| Issued during the year        | -  | 1,228,025   | -           | 1,228,025   |
| At 31 December                | 140,252,636                              | 140,252,636 | 140,252,636 | 140,252,636 |

### 21. CONVERTIBLE LOAN STOCKS

|  | Group and Company |             |
|--|-------------------|-------------|
|  | 2005<br>RM        | 2004<br>RM  |
| <b>Equity instrument</b>                               |                   |             |
| Irredeemable Convertible Secured Loan Stocks ("ICULS") |                   |             |
| At 1 January   | 11,892,000        | 13,820,000  |
| Conversion into ordinary shares at RM1.57 per ICULS    | -                 | (1,928,000) |
| At 31 December   | 11,892,000        | 11,892,000  |
| <b>Liability instrument</b>                            |                   |             |
| Redeemable Convertible Secured Loan Stock ("RCSLS")    |                   |             |
| At 1 January   | 19,332,000        | 19,332,000  |
| Redemption   | (19,332,000)      | -           |
| At 31 December   | -                 | 19,332,000  |

(a) The terms of the conversion and redemption of the ICULS and RCSLS are as follows:

**(i) Conversion Price**

The conversion price shall be set at RM1.57 for each share, subject to adjustment in accordance with the Trust Deed.

**(ii) Conversion Rights**

The registered holder of the ICULS and RCSLS shall have the rights at any time during the conversion period to convert the ICULS and RCSLS at the conversion price into new ordinary shares of RM1 each in the Company.

**(iii) Conversion Period**

The ICULS and RCSLS can be converted into new ordinary shares of RM1 each in the Company at anytime during the 5 years from the date of issue and maturing on 31 October 2007.



**21. CONVERTIBLE LOAN STOCKS (Cont'd)**

(a) The terms of the conversion and redemption of the ICULS and RCSLS are as follows (Cont'd):

**(iv) Redeemability**

ICULS - It is not redeemable. All outstanding ICULS will be automatically converted by the Company into new ordinary shares of RM1 each in the Company on the last day of the conversion period.

RCSLS - The RCSLS will be redeemed in cash at the times and in the manner as follows:

2nd anniversary of the Issued Date - 10% of the total RCSLS issued

3rd anniversary of the Issued Date - 20% of the total RCSLS issued

4th anniversary of the Issued Date - 30% of the total RCSLS issued

5th anniversary of the Issued Date - Balance of the outstanding RCSLS

**(v) Interest**

The ICULS and RCSLS bear interest at the rate of 4.5% per annum and are payable semi-annually in arrears.

**(vi) Security**

RCSLS was secured by charge on factories, office and residential buildings, warehouse owned by certain subsidiary companies of the Company. A debenture was created which consists of fixed and floating charges over the present and future assets of a subsidiary company.

(b) The ICULS was classified as equity in accordance with the provisions of MASB 24: Financial Instruments: Disclosure and Presentation. Accordingly, the distribution to the holders of the ICULS is disclosed as a distribution of equity.

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2005

### 22. BORROWINGS

|   | 2005<br>RM | Group<br>2004<br>RM |
|---|------------|---------------------|
| <b>Short Term Borrowings</b>                          |            |                     |
| Secured:  |            |                     |
| Bank overdraft  | -          | 245,607             |
| Bankers' acceptances and trust receipts               | 45,154,948 | 60,183,464          |
| Finance creditors                                     | 61,225     | 163,509             |
| Term loans  | -          | 864,501             |
|   | 45,216,173 | 61,457,081          |
| Unsecured:  |            |                     |
| Bankers' acceptances and trust receipts               | 10,812,491 | 6,403,747           |
| Term loans  | 1,812,000  | 4,787,859           |
|   | 12,624,491 | 11,191,606          |
|   | 57,840,664 | 72,648,687          |
| <b>Long Term Borrowings</b>                           |            |                     |
| Secured:  |            |                     |
| Finance creditors                                     | 38,790     | 106,093             |
| Term loans  | 1,688,316  | 2,494,780           |
|   | 1,727,106  | 2,600,873           |
| <b>Total Borrowings</b>                               |            |                     |
| Bank overdrafts                                       | -          | 245,607             |
| Bankers' acceptances and trust receipts               | 55,967,439 | 66,587,211          |
| Finance creditors                                     | 100,015    | 269,602             |
| Term loans  | 3,500,316  | 8,147,140           |
|   | 59,567,770 | 75,249,560          |
| Maturity of borrowings (excluding finance creditors): |            |                     |
| Within one year                                       | 57,779,439 | 72,485,178          |
| More than 1 year and less than 2 years                | 1,688,316  | 1,812,000           |
| More than 2 years and less than 5 years               | -          | 682,780             |
|   | 59,467,755 | 74,979,958          |

**22. BORROWINGS (Cont'd)**

The term loans are secured in the following manner:

- (i) Charge and deeds of assignment over the land and buildings of certain subsidiary companies as disclosed in Note 10;
- (ii) Registered charge over third party's properties;
- (iii) Jointly and severally guarantee by certain directors and a third party; and
- (iv) Corporate guarantee by the Company.

The unsecured term loans are obtained by way of:

- (i) A lien holder caveat on the long leasehold land and buildings of a subsidiary company;
- (ii) Corporate guarantee of RM8 million by the Company and a subsidiary company; and
- (iii) Personal guarantee of RM8 million by a director of the Company.

Repayments of term loan are on monthly instalments basis.

The bankers' acceptances and trust receipts are secured in the following manner:

- (i) Charge and deeds of assignment over the land and properties of certain subsidiary companies;
- (ii) Pledge of deposits with licensed banks of subsidiary companies;
- (iii) Jointly and severally guarantee by certain directors and a third party; and
- (iv) Corporate guarantee by the Company.

The unsecured bankers' acceptances and trust receipts are guaranteed by the Company and a personal guarantee of a director of the Company.

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2005

### 23. FINANCE CREDITORS

|  | Group      |            |
|--|------------|------------|
|  | 2005<br>RM | 2004<br>RM |
| Minimum lease payments:                        |            |            |
| - within 1 year                                | 77,207     | 179,834    |
| - more than 1 year but not later than 2 years  | 13,717     | 77,207     |
| - more than 2 years but not later than 5 years | 29,448     | 41,070     |
| - later than 5 years                           | 772        | 10,588     |
|  | 121,144    | 308,699    |
| Interest-in-suspense                           | (21,129)   | (39,097)   |
|  | 100,015    | 269,602    |
| Present value of lease liabilities:            |            |            |
| - within 1 year                                | 61,225     | 163,509    |
| - more than 1 year but not later than 2 years  | 11,458     | 61,225     |
| - more than 2 years but not later than 5 years | 26,564     | 34,653     |
| - later than 5 years                           | 768        | 10,215     |
|  | 100,015    | 269,602    |
| <b>Analysed as:</b>                            |            |            |
| Due within 12 months                           | 61,225     | 163,509    |
| Due after 12 months                            | 38,790     | 106,093    |
|  | 100,015    | 269,602    |

**24. DEFERRED TAXATION**

|   | <b>2005<br/>RM</b> | <b>Group<br/>2004<br/>RM</b> |
|---|--------------------|------------------------------|
| At 1 January                            | 498,200            | 1,052,055                    |
| Recognised in income statement (Note 8) | (381,374)          | (553,855)                    |
| <b>At 31 December</b>                   | <b>116,826</b>     | <b>498,200</b>               |

The components and movements of deferred tax assets and liabilities prior to offsetting are as follows:

| <b>Deferred tax assets</b>     | <b>Unutilised<br/>capital<br/>allowance<br/>&amp; business<br/>losses<br/>RM</b> | <b>Other<br/>payables<br/>RM</b> | <b>Provision<br/>for doubtful<br/>debts<br/>RM</b> | <b>Total<br/>RM</b> |
|--------------------------------|--|----------------------------------|--|---------------------|
| At 1 January 2005              | 454,000  | 16,800                           | -  | 470,800             |
| Recognised in income statement | 1,874,450  | 97,075                           | 48,857   | 2,020,382           |
| <b>At 31 December 2005</b>     | <b>2,328,450</b>   | <b>113,875</b>                   | <b>48,857</b>                                      | <b>2,491,182</b>    |
| At 1 January 2004              | 403,000  | 3,145                            | -  | 406,145             |
| Recognised in income statement | 51,000   | 13,655                           | -  | 64,655              |
| <b>At 31 December 2004</b>     | <b>454,000</b>   | <b>16,800</b>                    | <b>-</b>   | <b>470,800</b>      |

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2005

### 24. DEFERRED TAXATION (Cont'd)

#### Deferred tax liabilities

|                                | Accelerated<br>capital allowance<br>RM | Total<br>RM |
|--------------------------------|--|-------------|
| At 1 January 2005              | 969,000                                | 969,000     |
| Recognised in income statement | 1,639,008                              | 1,639,008   |
| <hr/>                          |  |             |
| At 31 December 2005            | 2,608,008                              | 2,608,008   |
| <hr/>                          |  |             |
| At 1 January 2004              | 1,458,200                              | 1,458,200   |
| Recognised in income statement | (489,200)                              | (489,200)   |
| <hr/>                          |  |             |
| At 31 December 2004            | 969,000                                | 969,000     |

The temporary differences for which deferred taxation assets have not been accounted for are as follows:

|  | Group      |            | Company    |            |
|--|------------|------------|------------|------------|
|  | 2005<br>RM | 2004<br>RM | 2005<br>RM | 2004<br>RM |
| Unabsorbed business losses                                 | 30,072,201 | 21,756,550 | -          | -          |
| Unutilised capital allowances                              | 5,471,870  | 6,034,400  | -          | -          |
| Allowance for doubtful debts<br>and inventory obsolescence | 88,071     | 22,408     | -          | -          |
| Unutilised reinvestment<br>allowances                      | 140,790    | 122,057    | -          | -          |
| <hr/>  |            |            |            |            |
|  | 35,772,932 | 27,935,415 | -          | -          |

### 25. TRADE PAYABLES

The normal trade credit term granted by suppliers of the Group ranges from 30 days to 90 days.

### 26. OTHER PAYABLES

|                                 | Group      |            | Company    |            |
|---------------------------------|------------|------------|------------|------------|
|                                 | 2005<br>RM | 2004<br>RM | 2005<br>RM | 2004<br>RM |
| Other payables                  | 1,074,164  | 1,728,101  | 89,392     | 4,852      |
| Accrual of expenses             | 1,033,672  | 1,104,962  | 41,150     | 38,700     |
| Deposits                        | 102,221    | 439,927    | -          | -          |
| Interest payable on loan stocks | 83,137     | 280,071    | 83,137     | 280,071    |
| <hr/>                           |            |            |            |            |
|                                 | 2,293,194  | 3,553,061  | 213,679    | 323,623    |

The normal credit term granted by suppliers of the Group ranges from 30 days to 90 days.

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2005

### 27. CONTINGENT LIABILITIES

|   | Company    |            |
|---|------------|------------|
|   | 2005<br>RM | 2004<br>RM |
| Unsecured:  |            |            |
| Guarantee given to financial institutions for credit facilities granted to subsidiary companies | 59,567,770 | 75,249,560 |

### 28. SIGNIFICANT RELATED PARTY TRANSACTIONS

Significant related party transactions during the financial year were as follows:

|   | Group          |                | Company        |                |
|---|----------------|----------------|----------------|----------------|
|   | 2005<br>RM'000 | 2004<br>RM'000 | 2005<br>RM'000 | 2004<br>RM'000 |
| Management fees received from a company in which a substantial shareholder and director of the Company, Koh Poh Seng has interest |                |                |                |                |
| - Great Business Ventures Sdn. Bhd.   | -              | 240,000        | -              | -              |
| - Mastellium Sdn. Bhd.  | -              | 77,889         | -              | -              |

The directors of the Company are of the opinion that the terms of these transactions were entered into on a negotiated basis.

**29. SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR**

- (a) (i) On 2 January 2005, a subsidiary company, Yap Swee Thiam & Sons Industries Sdn. Bhd. ("YST")'s factory located at Lot 46082, Jalan Sungei Tua, Batu 9, Batu Caves, Selangor Darul Ehsan, Malaysia was substantially destroyed by fire.

The net loss as a result of the fire is as follows:

|  | <b>Group<br/>RM</b> |
|--|---------------------|
| Factory building                           | 3,321,179           |
| Plant and machinery                        | 2,771,760           |
| Office equipment                           | 60,898              |
| Furniture and fittings                     | 11,585              |
|  | <hr/>               |
|  | 6,165,422           |
| Inventories                                | 10,417,623          |
|  | <hr/>               |
| Total loss                                 | 16,583,045          |
| Insurance claims receivable (Note (a)(ii)) | (10,800,000)        |
|  | <hr/>               |
| Net loss                                   | 5,783,045           |
|  | <hr/>               |

Included in plant and machinery written off was RM21,376 which was previously included in other receivables.

- (ii) The proceeds on the insurance claim for the assets destroyed by the fire amounted to RM10,800,000 was received during the financial year.
- (iii) YST's claim on consequential loss of RM3,868,518 is pending negotiation with the insurer. Accordingly, no income has been recognised pending the outcome of the negotiation with the insurer.
- (b) (i) On 12 January 2005, a subsidiary company, Paragon Paper Mill Sdn. Bhd. ("PPM") completed a capital reduction exercise to reduce its issued and paid-up ordinary share capital from 8,200,000 ordinary shares of RM1.00 each to 10,000 ordinary shares of RM1.00 each.
- (ii) On 9 June 2005, the Company subscribed for a rights issue in PPM of 6,303,951 ordinary shares of RM1.00 each via the capitalisation of amount owing by PPM to the Company of RM6,303,951 thereby increasing the Company's investment in PPM from 5,121 ordinary shares to 6,309,072 ordinary shares of RM1.00 each. This represents an increase in the Company's equity interest in PPM from 51.0% to 99.9%.

**30. FINANCIAL INSTRUMENTS**

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's businesses whilst managing its risks. The Group operates within policies that are approved by the Board and the Group's policy is not to engage in speculative transactions.

The main areas of financial risks faced by the Group and the policy in respect of the major areas of treasury activity are set out as follows:



**30. FINANCIAL INSTRUMENTS (Cont'd)****(a) Foreign Currency Risk**

The Group is exposed to foreign currency risk as a result of its normal operating activities, both external and intra-Group where the currency denomination differs from the local currency, Ringgit Malaysia (RM). The Group's policy is to minimise the exposure of overseas operating activities to transaction risk by matching local currency income against local currency costs.

**(b) Credit Risk**

The credit risk is controlled by the application of credit approvals, limits and monitoring procedures. An internal credit review is conducted if the credit risk is material.

The maximum credit risk associated with recognised financial assets is the carrying amount shown in the balance sheet.

The Group and the Company have no significant concentrations of credit risk with any single counterparty.

**(c) Market Risk**

For key product purchases, the Group establishes floating and fixed price levels that the Group considers acceptable and enters into physical supply agreements, where necessary, to achieve these levels. The Group does not face significant exposure from the risk from changes in price level.

**(d) Liquidity and Cash Flow Risks**

The Group seeks to achieve a balance between certainty of funding even in difficult times for the markets of the Group and a flexible, cost-effective borrowing structure. This is to ensure that at the minimum, all projected net borrowing needs are covered by committed facilities. Also, the objective for debt maturity is to ensure that the amount of debt maturing in any one period is not beyond the Group's means to repay and refinance.

**(e) Interest Rate Risk**

The Group's policy is to borrow principally on the floating rate basis but to retain a proportion of fixed rate debt. The objectives for the mix between fixed and floating rate borrowings are set up to reduce the impact of an upward change in interest rates while enabling benefits to be enjoyed if interest rates fall.

The interest rate risk that financial instruments' values will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, are as follows:

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2005

### 30. FINANCIAL INSTRUMENTS (Cont'd)

#### (e) Interest Rate Risk (Cont'd)

| Group                                      | Less than<br>1 year<br>RM | Above<br>1 year<br>RM | Total<br>RM | Range of interest<br>rates during the<br>financial year |
|--|---------------------------|-----------------------|-------------|---|
| <b>2005</b>                                |                           |                       |             |   |
| <b>Financial assets</b>                    |                           |                       |             |   |
| Deposits with licensed banks               | 12,359,245                | -                     | 12,359,245  | 2.20% - 3.65%   |
| <b>Financial liabilities</b>               |                           |                       |             |   |
| Bankers' acceptances and<br>trust receipts | 55,967,439                | -                     | 55,967,439  | 2.81% - 7.75%   |
| Term loan                                  | 1,812,000                 | 1,688,316             | 3,500,316   | 6.50% - 8.00%   |
| ICULS                                      | -                         | 11,892,000            | 11,892,000  | 4.50%   |
| Finance creditors                          | 61,225                    | 38,790                | 100,015     | 3.90% - 7.90%   |
| <b>Company</b>                             |                           |                       |             |   |
| <b>2005</b>                                |                           |                       |             |   |
| <b>Financial liabilities</b>               |                           |                       |             |   |
| ICULS                                      | -                         | 11,892,000            | 11,892,000  | 4.50%   |
| <b>2004</b>                                |                           |                       |             |   |
| <b>Financial assets</b>                    |                           |                       |             |   |
| Deposits with licensed banks               | 25,181,049                | -                     | 25,181,049  | 2.20% - 3.65%   |
| <b>Financial liabilities</b>               |                           |                       |             |   |
| Bankers' acceptances and<br>trust receipts | 66,587,211                | -                     | 66,587,211  | 2.90% - 8.00%   |
| Term loan                                  | 5,652,360                 | 2,494,780             | 8,147,140   | 6.50% - 8.00%   |
| ICULS                                      | -                         | 11,892,000            | 11,892,000  | 4.50%   |
| RCCLS                                      | -                         | 19,332,000            | 19,332,000  | 4.50%   |
| Finance creditors                          | 163,509                   | 106,093               | 269,602     | 3.90% - 7.90%   |
| <b>Company</b>                             |                           |                       |             |   |
| <b>2004</b>                                |                           |                       |             |   |
| <b>Financial liabilities</b>               |                           |                       |             |   |
| ICULS                                      | -                         | 11,892,000            | 11,892,000  | 4.50%   |
| RCCLS                                      | -                         | 19,332,000            | 19,332,000  | 4.50%   |

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2005

### 30. FINANCIAL INSTRUMENTS (Cont'd)

#### (f) Fair Values

The carrying amounts of financial assets and liabilities of the Group and of the Company at balance sheet date approximate their fair values except as set out below:

| 2005                                    | Group                 |                  | Company               |                  |
|---|-----------------------|------------------|-----------------------|------------------|
|   | Carrying amount<br>RM | Fair value<br>RM | Carrying amount<br>RM | Fair value<br>RM |
| <b>Financial assets</b>                 |                       |                  |                       |                  |
| Unquoted shares in subsidiary companies | -                     | -                | 112,342,853           | *                |
| Amounts due from subsidiary companies   | -                     | -                | 24,150,359            | **               |
| Investments in Malaysia                 |                       |                  |                       |                  |
| - Quoted                                | 6,012                 | 812              | -                     | -                |
| - Unquoted                              | 6,012                 | *                | -                     | -                |
| <b>Financial liabilities</b>            |                       |                  |                       |                  |
| Amounts due to subsidiary companies     | -                     | -                | 10,938,434            | *                |
| <b>2004</b>                             |                       |                  |                       |                  |
| <b>Financial assets</b>                 |                       |                  |                       |                  |
| Unquoted shares in subsidiary companies | -                     | -                | 107,410,771           | *                |
| Amounts due from subsidiary companies   | -                     | -                | 26,820,163            | **               |
| Investments in Malaysia                 |                       |                  |                       |                  |
| - Quoted                                | 6,012                 | 1,383            | -                     | -                |
| - Unquoted                              | 6,012                 | *                | -                     | -                |
| <b>Financial liabilities</b>            |                       |                  |                       |                  |
| Amounts due to subsidiary companies     | -                     | -                | 3,324,407             | *                |

\* It was not practicable within the constraints of timeliness and cost to estimate these fair values reliably. The Group does not anticipate the carrying amounts recorded at the balance sheet date to be significantly different from the values that would be eventually be received or settled.

\*\* It is also not practical to estimate the fair values of amounts due to and from subsidiary companies due principally to a lack of fixed repayment terms entered by the parties involved and cannot be estimated without incurring excessive costs. The Group does not anticipate the carrying amounts recorded at the balance sheet date to be significantly different from the values that would be eventually be received or settled.

**31. SEGMENTAL REPORTING**

**(a) Primary segmental reporting - Business segment**

The Group is organised based on six major business segments as follows:

| <b>Business segments</b>  | <b>Business activities</b>   |
|---------------------------|--|
| Paper milling             | Manufacture of various types of tissue paper and tissue related products.  |
| Paper converting          | Converting of paper into related products and trading in paper related products.   |
| Plywood                   | Distributor and retailer of wooden doors, plywood and related building materials. This segment also deals with trading in tissue related products and plywood. |
| Timber related products   | Manufacturing and sale of timber doors, window frames and other timber related products.   |
| Investment and management | Providing management services, investment holding and dormant companies.   |
| Others                    | Trading in paper, paper products, stationery, general household products and other unclassified companies of diversified activities.                           |

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2005

### 31. SEGMENTAL REPORTING (Cont'd)

#### (a) Primary segmental reporting – Business segment (Cont'd)

|                                      | Paper<br>Milling<br>RM | Paper<br>converting<br>RM | Plywood<br>RM      | Timber<br>related<br>products<br>RM | Investment<br>and<br>management<br>RM | Others<br>RM      | Eliminations<br>RM  | Consolidated<br>RM |
|--------------------------------------|------------------------|---------------------------|--------------------|-------------------------------------|---------------------------------------|-------------------|---------------------|--------------------|
| <b>2005</b>                          |                        |                           |                    |                                     |                                       |                   |                     |                    |
| <b>Revenue</b>                       |                        |                           |                    |                                     |                                       |                   |                     |                    |
| External revenue                     | 11,100,178             | 24,398,984                | 168,244,850        | 4,427,802                           | -                                     | 19,692,674        | -                   | 227,864,488        |
| Inter-segment revenue                | 8,608,302              | 215,011                   | 31,780,633         | 26,795                              | -                                     | 889,157           | (41,519,898)        | -                  |
| <b>Total revenue</b>                 | <b>19,708,480</b>      | <b>24,613,995</b>         | <b>200,025,483</b> | <b>4,454,597</b>                    | <b>-</b>                              | <b>20,581,831</b> | <b>(41,519,898)</b> | <b>227,864,488</b> |
| <b>Results</b>                       |                        |                           |                    |                                     |                                       |                   |                     |                    |
| Segment results                      | 1,978,984              | (338,368)                 | 1,750,777          | (8,338,899)                         | 12,486,189                            | 246,380           | (9,911,627)         | (2,126,564)        |
| Interest income                      | 31                     | 8,385                     | 380,704            | 33,770                              | 14,937                                | 2,860             | -                   | 440,687            |
| Unallocated<br>corporate<br>expenses | -                      | -                         | -                  | -                                   | (1,960,632)                           | -                 | -                   | (1,960,632)        |
| Profit/(loss) from<br>operations     | 1,979,015              | (329,983)                 | 2,131,481          | (8,305,129)                         | 10,540,494                            | 249,240           | (9,911,627)         | (3,646,509)        |
| Finance costs                        | (420,294)              | (326,402)                 | (1,987,431)        | (888,965)                           | (300,453)                             | (33,373)          | 533,020             | (3,423,898)        |
| Profit/(loss)<br>before taxation     | 1,558,721              | (656,385)                 | 144,050            | (9,194,094)                         | 10,240,041                            | 215,867           | (9,378,607)         | (7,070,407)        |
| Taxation                             |                        |                           |                    |                                     |                                       |                   |                     | (91,496)           |
| Loss after taxation                  |                        |                           |                    |                                     |                                       |                   |                     | (7,161,903)        |
| Minority interests                   |                        |                           |                    |                                     |                                       |                   |                     | 16,182             |
| Net loss for the year                |                        |                           |                    |                                     |                                       |                   |                     | (7,145,721)        |

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2005

### 31. SEGMENTAL REPORTING (Cont'd)

#### (a) Primary segmental reporting – Business segment (Cont'd)

|   | Paper<br>Milling<br>RM | Paper<br>converting<br>RM | Plywood<br>RM | Timber<br>related<br>products<br>RM | Investment<br>and<br>management<br>RM | Others<br>RM | Consolidated<br>RM |
|---|------------------------|---------------------------|---------------|-------------------------------------|---------------------------------------|--------------|--------------------|
| <b>2005</b>   |                        |                           |               |                                     |                                       |              |                    |
| <b>Assets</b>   |                        |                           |               |                                     |                                       |              |                    |
| Segment assets  | 24,045,343             | 25,079,707                | 91,739,222    | 11,672,775                          | 66,415                                | 10,104,502   | 162,707,964        |
| Tax recoverable   | -                      | 4,013                     | 1,048,430     | -                                   | 384                                   | -            | 1,052,827          |
|   | 24,045,343             | 25,083,720                | 92,787,652    | 11,672,775                          | 66,799                                | 10,104,502   | 163,760,791        |
| Unallocated corporate assets                            |                        |                           |               |                                     |                                       |              | 32,840,685         |
| Consolidated total assets                               |                        |                           |               |                                     |                                       |              | 196,601,476        |
| <b>Liabilities</b>                                      |                        |                           |               |                                     |                                       |              |                    |
| Segment liabilities                                     | 8,968,815              | 742,697                   | 60,242,277    | 3,519,446                           | 295,270                               | 1,732,873    | 75,501,378         |
| Tax payable   | -                      | -                         | 17,212        | 1,217,220                           | -                                     | -            | 1,234,432          |
| Deferred taxation                                       | -                      | -                         | 57,990        | -                                   | -                                     | 58,836       | 116,826            |
| Consolidated total liabilities                          | 8,968,815              | 742,697                   | 60,317,479    | 4,736,666                           | 295,270                               | 1,791,709    | 76,852,636         |
| <b>Other information</b>                                |                        |                           |               |                                     |                                       |              |                    |
| Capital expenditure on<br>property, plant and equipment | 33,665                 | 15,000                    | 587,572       | 1,842,426                           | -                                     | 113,090      | 2,591,753          |
| Depreciation and amortisation                           | 1,471,487              | 294,220                   | 2,365,243     | 400,965                             | 4,077                                 | 133,600      | 4,669,592          |
| Inventories written off                                 | 7,816                  | -                         | -             | 10,417,623                          | -                                     | 12,150       | 10,437,589         |
| Property, plant and<br>equipment written off            | -                      | -                         | -             | 6,696,090                           | -                                     | -            | 6,696,090          |
| Other non-cash expenses                                 | -                      | 1,134,574                 | 2,488,402     | 393,986                             | 2,042                                 | 25,599       | 4,044,603          |

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2005

### 31. SEGMENTAL REPORTING (Cont'd)

(a) Primary segmental reporting – Business segment (Cont'd)

|                                | Paper<br>Milling<br>RM | Paper<br>converting<br>RM | Plywood<br>RM      | Timber<br>related<br>products<br>RM | Investment<br>and<br>management<br>RM | Others<br>RM      | Eliminations<br>RM  | Consolidated<br>RM |
|--------------------------------|------------------------|---------------------------|--------------------|-------------------------------------|---------------------------------------|-------------------|---------------------|--------------------|
| <b>2004</b>                    |                        |                           |                    |                                     |                                       |                   |                     |                    |
| <b>Revenue</b>                 |                        |                           |                    |                                     |                                       |                   |                     |                    |
| External revenue               | 12,716,618             | 23,888,969                | 177,196,966        | 22,490,404                          | -                                     | 18,776,194        | -                   | 255,069,151        |
| Inter-segment revenue          | 5,264,214              | 1,380,924                 | 35,846,551         | 3,241,048                           | 158,400                               | 93,739            | (45,984,876)        | -                  |
| <b>Total revenue</b>           | <b>17,980,832</b>      | <b>25,269,893</b>         | <b>213,043,517</b> | <b>25,731,452</b>                   | <b>158,400</b>                        | <b>18,869,933</b> | <b>(45,984,876)</b> | <b>255,069,151</b> |
| <b>Results</b>                 |                        |                           |                    |                                     |                                       |                   |                     |                    |
| Segment results                | 3,263,089              | 456,887                   | 5,824,816          | (1,194,481)                         | (261,506)                             | 421,755           | -                   | 8,510,560          |
| Interest income                | -                      | 2,558                     | 518,891            | 140,080                             | -                                     | 7,226             | -                   | 668,755            |
| Unallocated corporate expenses | -                      | -                         | -                  | -                                   | (2,141,100)                           | -                 | -                   | (2,141,100)        |
| Profit/(loss) from operations  | 3,263,089              | 459,445                   | 6,343,707          | (1,054,401)                         | (2,402,606)                           | 428,981           | -                   | 7,038,215          |
| Finance costs                  | (462,035)              | (786,582)                 | (2,141,002)        | (984,996)                           | (173,316)                             | (147,300)         | 583,099             | (4,112,132)        |
| Profit/(loss) before taxation  | 2,801,054              | (327,137)                 | 4,202,705          | (2,039,397)                         | (2,575,922)                           | 281,681           | 583,099             | 2,926,083          |
| Taxation                       |                        |                           |                    |                                     |                                       |                   |                     | (2,087,899)        |
| Profit after taxation          |                        |                           |                    |                                     |                                       |                   |                     | 838,184            |
| Minority interests             |                        |                           |                    |                                     |                                       |                   |                     | (23,163)           |
| Net profit for the year        |                        |                           |                    |                                     |                                       |                   |                     | 814,571            |

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2005

### 31. SEGMENTAL REPORTING (Cont'd)

#### (a) Primary segmental reporting – Business segment (Cont'd)

|   | Paper<br>Milling<br>RM | Paper<br>converting<br>RM | Plywood<br>RM | Timber<br>related<br>products<br>RM | Investment<br>and<br>management<br>RM | Others<br>RM | Consolidated<br>RM |
|---|------------------------|---------------------------|---------------|-------------------------------------|---------------------------------------|--------------|--------------------|
| <b>2004</b>   |                        |                           |               |                                     |                                       |              |                    |
| <b>Assets</b>   |                        |                           |               |                                     |                                       |              |                    |
| Segment assets  | 29,440,109             | 19,236,777                | 104,872,498   | 39,423,103                          | 1,058,347                             | 10,454,932   | 204,485,766        |
| Tax recoverable   | -                      | 4,013                     | 12,268        | -                                   | 384                                   | -            | 16,665             |
|   | 29,440,109             | 19,240,790                | 104,884,766   | 39,423,103                          | 1,058,731                             | 10,454,932   | 204,502,431        |
| Unallocated corporate assets                            |                        |                           |               |                                     |                                       |              | 34,801,317         |
| Consolidated total assets                               |                        |                           |               |                                     |                                       |              | 239,303,748        |
| <b>Liabilities</b>                                      |                        |                           |               |                                     |                                       |              |                    |
| Segment liabilities                                     | 8,528,931              | 565,166                   | 56,304,943    | 23,383,561                          | 19,733,929                            | 1,176,415    | 109,692,945        |
| Tax payable   | -                      | -                         | 363,405       | 1,306,831                           | -                                     | -            | 1,670,236          |
| Deferred taxation                                       | -                      | -                         | 109,200       | 276,000                             | -                                     | 113,000      | 498,200            |
| Consolidated total liabilities                          | 8,528,931              | 565,166                   | 56,777,548    | 24,966,392                          | 19,733,929                            | 1,289,415    | 111,861,381        |
| <b>Other information</b>                                |                        |                           |               |                                     |                                       |              |                    |
| Capital expenditure on<br>property, plant and equipment | 164,395                | 12,296                    | 181,458       | 675,426                             | -                                     | 296,388      | 1,329,963          |
| Depreciation and amortisation                           | 1,506,482              | 531,335                   | 2,794,132     | 1,580,007                           | 4,318                                 | 135,776      | 6,552,050          |
| Inventories written off                                 | -                      | 83,012                    | -             | -                                   | -                                     | -            | 83,012             |
| Property, plant and<br>equipment written off            | 16,288                 | 155,642                   | 2,217         | -                                   | -                                     | -            | 174,147            |
| Other non-cash expenses                                 | -                      | 680,176                   | 583,244       | 3,650,505                           | -                                     | 3,403        | 4,917,328          |



## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2005

### 31. SEGMENTAL REPORTING (Cont'd)

#### (b) Secondary segmental reporting - Geographical segment

No geographical segments have been prepared as the Group's operations are mainly based in Malaysia.

### 32. COMPARATIVES

(a) The following comparative amounts as at 31 December 2004 have been reclassified to conform with current year's presentation:

|                                | Group          |                         | Company        |                         |
|--------------------------------|----------------|-------------------------|----------------|-------------------------|
|                                | As Restated RM | As previously stated RM | As Restated RM | As previously stated RM |
| <b>Income Statement</b>        |                |                         |                |                         |
| Administration expenses        | -              | -                       | (188,031)      | (187,822)               |
| Finance costs                  | -              | -                       | (173,107)      | (173,316)               |
| <b>Balance Sheet</b>           |                |                         |                |                         |
| <b>Non-current assets</b>      |                |                         |                |                         |
| Deposits with licensed banks   | -              | 24,821,049              | -              | -                       |
| <b>Current assets</b>          |                |                         |                |                         |
| Deposits with licensed banks   | 25,181,049     | 360,000                 | -              | -                       |
| <b>Non-current liabilities</b> |                |                         |                |                         |
| Borrowings                     | (2,600,873)    | -                       | -              | -                       |
| Term loan                      | -              | (2,494,780)             | -              | -                       |
| Finance creditors              | -              | (106,093)               | -              | -                       |
| <b>Current liabilities</b>     |                |                         |                |                         |
| Other payables                 | (3,553,061)    | (3,716,570)             | -              | -                       |
| Borrowings                     | (72,648,687)   | -                       | -              | -                       |
| Term loans                     | -              | (5,652,360)             | -              | -                       |
| Bank borrowings                | -              | (66,832,818)            | -              | -                       |

(b) The comparatives have been audited by a firm of auditors other than Ernst & Young Malaysia.

## LIST OF PROPERTIES

(As at 31 December 2005)

| Location   | Description  | Tenure                            | Land Area<br>(meter sq) | Approximate<br>Age of<br>Building<br>(year) | Net<br>Book<br>Value<br>(RM'000) | Year of<br>Acquisition or<br>Revaluation* |
|--|--|-----------------------------------|-------------------------|---|----------------------------------|---|
| 1. Lot 67, SEDCO Industrial Estate, Phase 2 Kota Kinabalu, Sabah.                      | Office/residential building, factory and warehouse | 60-year lease to 31/12/2034       | 5,632                   | 19  | 1,396                            | 1993*                                     |
| 2. Lot 292 & 294, Block 36, Muara Tuang Land District, Sarawak                         | Factory, office building and warehouse             | 58-year lease to 30/01/2030       | 22,784                  | 26 & 8                                      | 5,568                            | 1993* & 1992                              |
| 3. Lot 765, Mukim of Kapar, District of Klang, Selangor                                | Factory and office building                        | Freehold                          | 17,705                  | 13  | 8,040                            | 1993*                                     |
| 4. Lot PT129942, Kawasan Perusahaan Kanthan, Chemor, Perak                             | Factory and office building                        | 60-year lease to 14/03/2055       | 53,174                  | 7   | 5,959                            | 1992                                      |
| 5. Lot 2191, Industrial Land Mentakab, Temerloh, Pahang                                | Vacant Land  | Freehold                          | 105,645 sq ft           | N/A   | 231                              | 1997                                      |
| 6. Lot 3144C Agriculture Land, Batu 6½, Puchong, Selangor                              | Vacant Land  | Freehold                          | 15,700 sq ft            | N/A   | 249                              | 1995                                      |
| 7. Lot 14374 Bandar Kinrara Industrial Centre, Selangor                                | 3-storey office block & 2-storey open warehouse    | Freehold                          | 186,590 sq ft           | 9   | 8,633                            | 1995                                      |
| 8. Lot 68.2C, 1-2C, Jln PS6, Prima Selayang, Mukim Batu, Selangor                      | Shop/office apartment                              | 99-year (Strata, title not ready) | 975 sq ft               | 7   | 52                               | 1994                                      |
| 9. Unit No B2F-19, Mukim Petaling, B-2-1 Megan Phoenix, Jalan 2/142A, Off Jalan Cheras | Office Premise                                     | Freehold                          | 1,606 sq ft             | 8   | 282                              | 2002                                      |

## SHAREHOLDINGS STRUCTURE

As at 05.05.2006 (pursuant to paragraph 22, Part A, Appendix 9C Listing Requirements)

|  |   |   |
|--|---|---|
| Authorised Share Capital               | : | 200,000,000                               |
| Issued and Fully Paid-Up Share Capital | : | 140,252,636                               |
| Class of Shares                        | : | Ordinary Shares of RM1.00 each fully paid |
| Voting Rights                          | : | One vote per ordinary share               |
| No. of shareholders                    | : | 5,166                                     |

### DISTRIBUTION OF SHAREHOLDINGS AS AT 05.05.2006

| Size of Holdings          | No. of Shareholders | Total Holdings | % of Paid-up Capital |
|---------------------------|---------------------|----------------|----------------------|
| Less than 100             | 5                   | 120            | 0.00                 |
| 100 -1,000                | 1,099               | 1,084,294      | 0.77                 |
| 1,001-10,000              | 2,939               | 14,222,915     | 10.14                |
| 10,001-100,000            | 1,008               | 31,987,900     | 22.81                |
| 100,001 and below         | 112                 | 42,415,582     | 30.24                |
| 5% of share capital       |                     |                |                      |
| Above 5% of share capital | 3                   | 50,541,825     | 36.04                |
|                           | 5,166               | 140,252,636    | 100.00               |

### SUBSTANTIAL SHAREHOLDERS AS AT 05.05.2006

| Shareholders  | No. of Shares Held |          | Percentage Holding |
|---|--------------------|----------|--------------------|
|   | Direct             | Indirect |                    |
| Koh Poh Seng  | 42,770,935         | -        | 30.50              |
| Alliance Group Nominees (Tempatan) Sdn Bhd - Koh Poh Seng | 7,770,890          | -        | 5.54               |

### DIRECTORS' SHAREHOLDINGS AND INTEREST IN SHARES AS AT 05.05.2006

| No. | Name of Directors               | No. of Shares | Percentage Holding |
|-----|---------------------------------|---------------|--------------------|
| 1   | Koh Poh Seng                    | 56,988,225*   | 40.63              |
| 2   | Lau Fook Meng                   | Nil           | Nil                |
| 3   | Dr Kow Cheong Wei, PhD,SIS, PJK | Nil           | Nil                |
| 4   | Dr Wu Chin Foong                | Nil           | Nil                |

Save as disclosed, none of the other Directors in office have any interests in the shares of related corporations and subsidiary companies of the Company as at 05.05.2006

\* - Held directly and through nominee companies.

## SHAREHOLDINGS STRUCTURE (Cont'd)

As at 05.05.2006 (pursuant to paragraph 22, Part A, Appendix 9C Listing Requirements)

### LIST OF THIRTY (30) LARGEST SHAREHOLDERS AS AT 05.05.2006

| No. | Name of Shareholders   | No. of Shares     | Percentage Holding |
|-----|--|-------------------|--------------------|
| 1   | Koh Poh Seng   | 27,904,049        | 19.90              |
| 2   | Koh Poh Seng   | 14,866,886        | 10.60              |
| 3   | Alliance Group Nominees (Tempatan) Sdn Bhd<br>- Koh Poh Seng     | 7,770,890         | 5.54               |
| 4   | Citi Group Nominees (Tempatan) Sdn Bhd<br>- Koh Poh Seng         | 2,691,400         | 1.92               |
| 5   | Alliance Group Nominees (Tempatan) Sdn Bhd<br>- Koh Poh Seng     | 2,500,000         | 1.78               |
| 6   | HDM Nominees (Tempatan) Sdn Bhd<br>- Lim Chai Beng               | 2,499,300         | 1.78               |
| 7   | Lim Chai Beng  | 2,433,000         | 1.73               |
| 8   | Yap Swee Thiam   | 1,893,310         | 1.35               |
| 9   | Lau Yau Tong   | 1,829,900         | 1.30               |
| 10  | Keng Poh Im  | 1,655,000         | 1.18               |
| 11  | Mayban Nominees (Tempatan) Sdn Bhd<br>- Low Ngok Ming            | 1,535,700         | 1.09               |
| 12  | TA Nominees (Tempatan) Sdn Bhd<br>- Lee Tiam Ket                 | 1,360,000         | 0.97               |
| 13  | Public Nominees (Tempatan) Sdn Bhd<br>- Koh Poh Seng             | 1,250,000         | 0.89               |
| 14  | Pacific Strike Sdn Bhd   | 866,600           | 0.62               |
| 15  | Kuala Lumpur City Nominees (Tempatan) Sdn Bhd<br>- Hee Yuen Sang | 771,000           | 0.55               |
| 16  | Lim Yen Yen  | 736,576           | 0.53               |
| 17  | Chan Kim Kiok  | 702,100           | 0.50               |
| 18  | Tan Poay Jong  | 700,000           | 0.50               |
| 19  | RHB Capital Nominees (Tempatan) Sdn Bhd<br>- Sin Huan Kwang      | 693,800           | 0.49               |
| 20  | Chung Shan Kwang   | 614,000           | 0.44               |
| 21  | RC Nominees (Tempatan) Sdn Bhd<br>- Lau Kou Seong                | 600,000           | 0.43               |
| 22  | HDM Nominees (Tempatan) Sdn Bhd<br>- Chooi Chin                  | 599,700           | 0.43               |
| 23  | Gan Ah Huat  | 560,000           | 0.40               |
| 24  | TA Nominees (Tempatan) Sdn Bhd<br>- Oh Kim Hoe                   | 593,500           | 0.38               |
| 25  | Mayban Nominees (Tempatan) Sdn Bhd<br>- Neoh Soon Kee            | 371,000           | 0.26               |
| 26  | Mercsec Nominees (Tempatan) Sdn Bhd<br>- Lee Chong Choon         | 337,400           | 0.24               |
| 27  | Lim Kian Wat   | 324,200           | 0.23               |
| 28  | Tan Peng Chung   | 320,000           | 0.23               |
| 29  | Citi Group Nominees (Tempatan) Sdn Bhd<br>- Cheong Fook Chee     | 287,000           | 0.20               |
| 30  | Lim Yong Hua   | 286,000           | 0.20               |
|     |  | <b>79,495,311</b> | <b>56.68</b>       |

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**KPS CONSORTIUM BERHAD** (143816-V)

|                                    |
|------------------------------------|
| <b>No. of ordinary shares held</b> |
|                                    |

*(Before completing this form please refer to the notes below)*

I/We.....NRIC No./Passport No./Company No.....  
 (Full name in block letters) CDS. A/C No. ....

of .....  
 (Full address)

being a member/members of **KPS CONSORTIUM BERHAD** hereby appoint the following person(s):-

| <u>Name of proxy, NRIC No. &amp; Address</u> | <u>No. of shares to be represented by proxy</u> |
|--|---|
| 1.....                                       | .....   |
| 2.....                                       | .....   |

or failing him/her, the Chairman of the Meeting as \*my/our proxy/proxies to attend and vote for \*me/us on my/our behalf at the Twentieth Annual General Meeting of the Company to be held at Klang Executive Club, Persiaran Bukit Raja 2, Bandar Baru Klang, 41150 Klang, Selangor Darul Ehsan on Friday, 30<sup>th</sup> June 2006 at 11:00 a.m. and at any adjournment thereof to vote as indicated below:-

|                       | <b>FOR</b> | <b>AGAINST</b> |
|-----------------------|------------|----------------|
| Ordinary Resolution 1 |            |                |
| Ordinary Resolution 2 |            |                |
| Ordinary Resolution 3 |            |                |
| Ordinary Resolution 4 |            |                |

(Please indicate with an "x" in the space provided above on how you wish your vote to be cast. If you do not do so, the proxy will vote or abstain from voting at his/her discretion).

In case of a vote taken by a show of hands, the First-named Proxy shall vote on \*my/our behalf.

Dated this.....day of.....2006

.....  
 Signature/Common Seal of shareholder

\* Strike out whichever is not desired.

**Notes:**

1. A member shall be entitled to appoint more than one (1) proxy to attend and vote in his place. A proxy needs not be a member of the Company.
2. Where a member appoints more than one proxy, the appointments shall be invalid unless he specifies the proportions of his holdings to be represented by each proxy.
3. If the appointer is a corporation, the proxy form must be executed under its common seal or under the hand of its attorney.
4. The instrument appointing a proxy and the power of attorney, if any, under which it is signed or a certified copy thereof must be deposited at the Company's Registered Office, Lot 765, Jalan Haji Sirat, Off Jalan Meru, 42100 Klang, Selangor Darul Ehsan not less than 48 hours before the time set for holding the Meeting or adjourned meeting as the case maybe.