

Annual Report

2004



KPS Consortium Bhd

(143816-V)



KPS Consortium Bhd

(143816-V)

Annual Report '04 contents

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NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Nineteenth 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 Thursday, 30 June 2005 at 11.00 am for the following purposes:-

AGENDA

AS ORDINARY BUSINESS

1. To receive and adopt the Audited Financial Statements for the financial year ended 31 December 2004 together with the Reports of the Directors and Auditors thereon. **Resolution 1**
2. To re-elect the Director, Mr Lau Fook Meng retiring in accordance with the Article 80 of the Company's Articles of Association and being eligible, offers himself for re-election. **Resolution 2**
3. To re-elect the Director, Mr Su Ming Keat retiring in accordance with Article 87 of the Company's Articles of Association and being eligible, offers himself for re-election. **Resolution 3**
4. To re-elect the Director, Dr Wu Chin Foong retiring in accordance with Article 87 of the Company's Articles of Association and being eligible, offers himself for re-election. **Resolution 4**
5. To re-elect the Director, Dr Kow Cheong Wei, PhD, SIS, PJK retiring in accordance with Article 87 of the Company's Articles of Association and being eligible, offers himself for re-election. **Resolution 5**
6. To appoint :- **Resolution 6**
 - i) Retiring Auditors, Messrs Shamsir Jasani Grant Thornton as Auditors of the Company and to authorise the Directors to fix their remuneration; OR
 - ii) Messrs Ernst & Young in place of retiring Auditors, Messrs Shamir Jasani Grant Thornton for which Notice of Nomination as set out on page 77 of the Annual Report have been received and authorised the Directors to fix their remuneration.

AS SPECIAL BUSINESS

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

7. 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 7**

NOTICE OF ANNUAL GENERAL MEETING (CONT'D)

8. 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 (MAICSA 0799845)
M. CHANDRASEGARAN A/L S.MURUGASU (MAICSA 0781031)
Company Secretaries

Selangor Darul Ehsan

Dated this: 8 June 2005

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 7 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 INDIVIDUALS WHO ARE STANDING FOR RE-ELECTION:

- a) Mr Lau Fook Meng
- b) Mr Su Ming Keat
- c) Dr Wu Chin Foong
- d) Dr Kow Cheong Wei, PhD, SIS, PJK

(The abovenamed Directors are retiring pursuant to Article 80 and 87 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 2004 and the details of attendance by each of the Directors are noted in the Corporate Governance Statement in this 2004 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 2005

Time : 11 am

4. DETAILS OF DIRECTOR STANDING FOR RE-ELECTION:

- a) Mr Lau Fook Meng
- b) Mr Su Ming Keat
- c) Dr Wu Chin Foong
- d) Dr Kow Cheong Wei, PhD, SIS, PJK

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

CORPORATE INFORMATION

BOARD OF DIRECTORS

Chairman/Group Managing Director
Koh Poh Seng

Directors

Lau Fook Meng
Executive Director

Dr Kow Cheong Wei, *PhD, SIS, PJK*
Independent and Non-Executive Director

Dr Wu Chin Foong
Independent and Non-Executive Director

Su Ming Keat
Independent and Non-Executive Director

COMPANY SECRETARIES

Lim Seck Wah (F)
M. Chandrasegaran a/I S.Murugasu

STOCK EXCHANGE LISTING

Bursa Malaysia Securities Berhad,
Second Board

AUDIT COMMITTEE

Chairman

Dr Kow Cheong Wei, PhD, SIS, PJK

Member

Lau Fook Meng
Dr Wu Chin Foong
Su Ming Keat

NOMINATION COMMITTEE

Chairman

Dr Kow Cheong Wei, *PhD, SIS, PJK*

Member

Dr Wu Chin Foong
Su Ming Keat

REMUNERATION COMMITTEE

Chairman

Dr Kow Cheong Wei, *PhD, SIS, PJK*

Member

Koh Poh Seng
Dr Wu Chin Foong
Su Ming Keat

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

Lot 765, Jalan Haji Sirat Off Jalan Meru,
42100 Klang, Selangor
Tel : (603) 3291 5566
Fax : (603) 3291 4489

REGISTRAR

Insurban Corporate Services Sdn Bhd
149-B, Jalan Aminuddin Baki, Taman Tun Dr Ismail
60000 Kuala Lumpur
Tel : (603) 7729 5529
Fax : (603) 7728 5948
E-mail : leou@pc.jaring.my

AUDITORS

Shamsir Jasani Grant Thornton
(Member of Grant Thornton International)
Chartered Accountants
Level 11-1, Faber Imperial Court
Jalan Sultan Ismail, 50250 Kuala Lumpur
Tel : (603) 2692 4022
Fax : (603) 2691 5229
E-mail : sjgt@gt.com.my

PRINCIPAL BANKERS

United Overseas Bank (M) Berhad
HSBC Bank (M) Berhad
AmBank Berhad
OCBC Bank Berhad
Malayan Banking Berhad

SOLICITORS

Cheang & Ariff
39 Court
39 Jalan Yap Kwan Seng
50450 Kuala Lumpur
Tel : (603) 2161 0803
Fax : (603) 2161 4475/2162 1533/2163 0622
E-mail : yms@cheangariff.com

Messrs Soo Thien Ming & Nashrah
10th Floor, South Block, Wisma Selangor Dredging
142-A, Jalan Ampang, 50450 Kuala Lumpur
Tel : (603) 2161 2588
Fax : (603) 2161 8297
E-mail : stm@putra.net.my
stmnk1@po.jaring.my

WEBSITE

<http://www.haiming.com>

E-MAIL ADDRESS

enquiry@haiming.com

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 three (3) 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 2004.

Particulars of the Directors are as follows:



KOH POH SENG

Koh Poh Seng, age 49, 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.



LAU FOOK MENG

Lau Fook Meng, age 53, 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.



SU MING KEAT

Su Ming Keat, age 29 was appointed as an Independent Non-Executive Director of KPSCB on 9 July 2004. He has obtained Bachelor of Science majoring in Accounting and Finance from Manchester University, United Kingdom. He was the Operation Officer with Hock Hua Bank Berhad from 1997 till 1999 and currently attached as the General Manager of United Brem Sdn Bhd.



DR KOW CHEONG WEI

Dr Kow Cheong Wei, PhD, SIS, PJK age 39 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, 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.



DR WU CHIN FOONG

Dr Wu Chin Foong, age 56 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 26 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.

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.

CORPORATE GOVERNANCE STATEMENT

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 five (5) 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 five (5) members comprising one (1) Chairman/ Group Managing Director, one (1) Executive Director and three (3) Independent and 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.

CORPORATE GOVERNANCE STATEMENT (CONT'D)

1.5 Board Structures and Procedures

Four (4) Board of Directors' Meetings were held during the financial year ended 31 December 2004 and the details of attendance by each of the Directors are as follows:-

Name of Directors	No. of meetings attended / No. of meetings held during directors' tenure in office	% of Attendance
Mr Koh Poh Seng	4/4	100
Mr Lau Fook Meng	4/4	100
Mr Su Ming Keat (Appointed on 9 July 2004)	1/2	50
Dr Kow Cheong Wei, PhD, SIS, PJK (Appointed on 15 April 2005)	N/A	Nil
Dr Wu Chin Foong (Appointed on 15 April 2005)	N/A	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
24 February 2004	2.00 pm
28 May 2004	11.00 am
17 August 2004	11.00 am
29 November 2004	10.00 am

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

1.6 Directors' Training

The Board as a whole ensures that it recruits to the Board only individuals of sufficient calibre, knowledge and experience to fulfill the duties of a Director appropriately. There is no formal training programme for Directors. However, at the date of this Statement, except for newly appointed directors, the other Directors have attended and successfully completed the Mandatory Accreditation Programme ("MAP") organized by the Research Institute of Investment Analysis ("RIIAM") in accordance with the Listing Requirements of the Bursa Malaysia Securities Berhad.

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

CORPORATE GOVERNANCE STATEMENT (CONT'D)

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
- c. Mr Su Ming Keat

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's 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.

CORPORATE GOVERNANCE STATEMENT (CONT'D)

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 which operate within clearly defined terms of reference. The Committees are as follows:

- a. Audit Committee
- b. Remuneration Committee
- c. 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 2004 is set out below:

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

	Executive Director (RM) * a	Non-Executive Directors (RM)	Total (RM)
Fees	-	-	-
Salary & other emoluments	696,320	-	696,320
Total	696,320	-	696,320

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

CORPORATE GOVERNANCE STATEMENT (CONT'D)

2.1 The Level and Make-Up of Remuneration (Cont'd)

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

Range of Remuneration	Executive Director	Non-Executive Directors	Total
Below RM50,000	-	-	-
RM50,001 to RM100,000	1	-	1
RM600,000 to RM650,000	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 Su Ming Keat
- d. 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.

CORPORATE GOVERNANCE STATEMENT (CONT'D)

3.1 Dialogue between the Company and Investors (Cont'd)

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 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:

<u>Name</u>	<u>Contact No.</u>	<u>E-mail Address</u>
Mr Koh Poh Seng (Chairman/Group 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's and the Group's financial positions are included in the Financial Statements section of the Annual Report.

CORPORATE GOVERNANCE STATEMENT (CONT'D)

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 with the Listing Requirements of the BMSB. The terms of reference and activities of the Audit Committee during the financial year ended 31 December 2004 are provided separately in this Annual Report.

4.4 Relationship with Auditors

The Company's external auditors, Shamsir Jasani Grant Thornton 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.

CORPORATE GOVERNANCE STATEMENT (CONT'D)

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 (Cont'd)

- 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 staff 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 are 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 2004, 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**
The total amount of non-audit fee payable to the external auditors by the Company and its subsidiaries for the financial year ended 31 December 2004 amounted to RM62,800. These fees were incurred in respect of advisory work on tax matters undertaken by the Group.
- **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. The relevant regulatory bodies had imposed certain profit guarantee on the major shareholders for the previous financial years 2002 and 2003 pursuant to the debt restructuring exercise.

The major shareholders (previous Vendors of the newly acquired subsidiary companies) ("Vendors") had provided a profit guarantee of RM10.4 million and RM10.0 million for the financial years ended 31 December 2002 and 2003 respectively secured against shares of the Company.

The actual profit after tax for the years ended 31 December 2002 and 31 December 2003 achieved by the newly acquired subsidiary companies was RM8.8 million and RM8.5 million. Hence, a shortfall in profit guarantee of RM1,626,320 and RM1,576,896 for the financial years ended 31 December 2002 and 31 December 2003. The total shortfall in profit guarantee of RM3,203,216 had been fully settled by the Vendors.

- **Material Contracts**
Save for the profit guarantee agreement, (as described above) entered into between the Company and the Vendors (whereby Mr Koh Poh Seng who is the Chairman/ Company's Group Managing Director and major shareholder is deemed a connected party), there were no other 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.

AUDIT COMMITTEE

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
- Mr Su Ming Keat
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 1st 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 1st 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.

AUDIT COMMITTEE (CONT'D)

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 (CONT'D)

AUDIT COMMITTEE REPORT

During the financial year ended 31 December 2004, 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/ held during member's tenure
Mr Andrew Chin (<i>Appointed on 9 July 2004 and Resigned on 14 March 2005</i>)	2/2 (100%)
Mr Lim Siong Huat (<i>Resigned on 8 September 2004</i>)	3/3 (100%)
Mr Su Ming Keat (<i>Appointed on 9 July 2004</i>)	1/2 (50%)
Mr Lau Fook Meng	4/4 (100%)
Dr Kow Cheong Wei, PhD, SIS, PJK (<i>Appointed on 15 April 2005</i>)	N/A
Dr Wu Chin Foong (<i>Appointed on 15 April 2005</i>)	N/A

In line with the terms of reference of the Audit Committee, the following activities were carried out by the Audit Committee during the financial year ended 31 December 2004 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 OF INTERNAL CONTROL

The Board of Directors is committed to maintaining a sound system of internal control in the Group and is pleased to provide the following Statement of Internal Control which outlines the nature and scope of internal control of the Group during the year pursuant to paragraph 15.27(b) of the BMSB Listing Requirements. To this end, the Board of Directors also ensures that the external auditors review the Statement of Internal Control and report the results thereto to the Board of Directors annually.

1. Internal Control

The Directors acknowledge their responsibility for the Group's system on internal controls covering not only financial controls but also operational and compliance controls as well as risk management. The internal control system involves each business and key management from each business, including the Board, and is designed to meet the Group's particular needs and to manage the risks to which it is exposed. This system, by its nature, can only provide reasonable but not absolute assurance against material loss or against the Group failing to achieve its objectives.

The key elements of the Group's internal control system are as described below:

- Clearly defined delegation of responsibilities to committees of the Board and to operating units, including authorisation levels for all aspects of the business which are set out in the Limit of Authority matrix.
- Documented internal procedures set out in circulars, and Operating Procedures Manuals. It is the intention of the Company to continuously review and update the Operating Procedures Manuals.
- The Group's management operates a risk management process that identifies the key risks by line of business and key functional activities.
- Regular visits to operating units by members of the Board and senior management whenever appropriate.

2. Internal Audit Functions

Senior management staffs are currently appointed 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.

3. Other Risks and Control Processes

The Group also has in place an organisational structure with defined line of responsibility, delegation of authority and a process of hierarchical reporting. The existence of Limits of Authority which provides the authority limits of the employees in the approval of various transactions and an Employee Handbook which highlights policies on Group's objectives, terms and conditions of employment, remuneration, training and development, performance review, safety and misconduct which are relevant across Group's operations.

The Executive Directors also reports to the Board on significant changes in the business and external environment which affect the Group. The Board is provided with financial information on a quarterly basis which includes key performance and risk indicators and amongst others, the monitoring of results against budget.

CHAIRMAN/GROUP MANAGING DIRECTOR'S STATEMENT

On behalf of the Board of Directors, I present the Annual Report and Audited Accounts of the Group and of the Company for the financial year ended 31 December 2004.

Overview of Group Results

Operating Results

For the financial year ended 31 Dec 2004, Group turnover was RM255.06 million (2003: RM290.7 million). We recorded a pre-tax profit of RM2.9 million as compared to a pre-tax profit of RM7.7 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 Dec 2004 (RM'm)	12mth Dec 2003 (RM'm)	12-mth Dec 2004 (RM'm)	12-mth Dec 2003 (RM'm)
Paper Milling	12.7	13.2	3.2	1.9
Paper Converting	23.9	18.4	0.5	(0.6)
Plywood	177.2	195.8	5.8	14.0
Timber Manufacturing	22.5	47.8	(1.2)	(1.8)
Others – Trading of paper products & general household products	18.7	15.5	0.4	0.1
Interest Income	–	–	0.7	0.6
Investment & Management	–	–	(2.4)	(2.3)
Total turnover	255.0	290.7		
Profit from Operations			7.0	11.9
Finance Cost			(4.1)	(4.2)
Profit Before Taxation			2.9	7.7

Paper Milling

The Group's tissue mill registered a slightly lower turnover RM12.7 million compared with previous period of RM13.2 million. This division registered higher operating profit before tax and finance cost of RM3.2 million as compared to profit of RM1.9 million in 2003. The improved profit margins was due to upgrading of the mill operations.

CHAIRMAN/GROUP MANAGING DIRECTOR'S STATEMENT (CONT'D)

Paper Converting and Trading of woodfree paper

I am glad to report that this division recorded higher turnover of RM23.9 million as compared to RM18.4 million previously. This division managed to show a slight profit before tax and finance cost of RM0.5 million as compared to operating loss of RM0.6 million in the previous year 2003.

Plywood and Building Materials Trading, and Timber Manufacturing

The Plywood and Building Materials Division recorded a lower turnover of RM177.2 million and operating profit before tax and finance cost of RM5.8 million. Timber manufacturing recorded turnover of RM22.5 million and operating loss before tax and finance cost of RM1.2 million compared with 2003 turnover of RM47.8 million and loss of RM1.8 million.

The lower turnover and profit was mainly due to shortage and price fluctuation of steel bars and general slow down in construction activities and write-off of bad debts.

Others - trading of paper products and general household products

In the previous year I announced that the Group had secured the distribution rights for BIC stationery products for a period of one year. This distribution rights was not renewed, as both parties were unable to agree to certain terms and conditions for renewal of the distribution rights.

Turnover for this division was RM18.7 million compared with RM15.5 million for the previous year due to the increase in turnover for paper products. This division made a profit before taxation of RM0.4million.

Human Resources

During the financial year, we continue to make good progress with relocating our manpower resources to enable us to manage our operations. I am pleased to report that we now have a lower number of employees, totaling 416 as compared to 464 previously.

We will continue to streamline our functions, processes and systems and to introduce new programmes to boost efficiency and effectiveness to promote a high performance corporate culture.

Going Forward

The Group hopes to expand its trading activities when opportunity arises and to expand its network for existing operations.

CHAIRMAN/GROUP MANAGING DIRECTOR'S STATEMENT (CONT'D)

Dividend

The Board is unable to propose any dividend.

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 Andrew Chin, Mr Lau Boon Seong and Mr Lim Siong Huat who had resigned on 14 March 2005 and 13 October 2004 and 8 September 2004 respectively for their past contribution to the Group. We wish them every success in their 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.

DIRECTORS' REPORT

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

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.

FINANCIAL RESULTS

	Group RM	Company RM
Net profit for the year	814,571	189,344
Interest expenses - ICULS	(604,786)	(21,687)
	<u>209,785</u>	<u>167,657</u>
- As previously reported	(20,813,243)	(41,186,769)
- Prior year adjustment (Note 26)	(5,363,476)	-
- Restated at 1 January 2005	(26,176,719)	(41,186,769)
Accumulated loss carried forward	<u>(25,966,934)</u>	<u>(41,019,112)</u>

DIVIDENDS

There were no dividends paid or declared since the end of the previous financial year.

RESERVES AND PROVISIONS

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

ISSUE OF SHARES AND DEBENTURES

During the financial year, the following shares were issued :-

Date of issue	Purpose of issue	Class of share	Number	Terms of issue
14.10.2004	Settlement of debt	Ordinary	1,228,025	Conversion of Irredeemable Convertible Unsecured Loan Stocks

There were no debentures issued during the financial year.

DIRECTORS' REPORT (CONT'D)

IRREDEEMABLE CONVERTIBLE UNSECURED LOAN STOCKS ("ICULS") AND REDEEMABLE CONVERTIBLE SECURED LOAN STOCKS ("RCSLS")

The terms of the conversion of the ICULS and RCSLS are disclosed in Note 6 to the Financial Statements.

As at end of the financial year, the number of ICULS and RCSLS in issue are 11,892,000 and 19,332,000 (2003: 13,820,000 and 19,332,000) respectively.

INFORMATION ON THE FINANCIAL STATEMENTS

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

- (a) to ascertain that action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and adequate allowance had been made for doubtful debts; and
- (b) to ensure that any current assets which were unlikely to be realised in the ordinary course of business including their values as shown in the accounting records of the Group and of the Company have been written down to an amount which they might be expected so to realise.

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

- (a) which would render the amount written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; or
- (b) which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading; or
- (c) 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.

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, in the opinion of the Directors, will or may affect the ability of the Group and of the Company to meet its obligations as and when they fall due.

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

- (a) any charge on the assets of the Group and of the Company which has arisen since the end of the financial year which secures the liability of any other person; or
- (b) any contingent liability of the Group and of the Company which has arisen since the end of the financial year.

DIRECTORS' REPORT (CONT'D)

OTHER STATUTORY INFORMATION

The Directors state that:-

At the date of this report, they are not aware of any circumstances not otherwise dealt with in this report or the financial statements which would render any amount stated in the financial statements misleading.

In the opinion of the Directors :-

- (a) 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; and
- (b) there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Group and of the Company for the current financial year in which this report is made other than as disclosed in Note 31 to the Financial Statements.

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

Significant events during the financial year are disclosed in Note 30 to the Financial Statements.

SIGNIFICANT EVENT SUBSEQUENT TO THE BALANCE SHEET DATE

Significant event subsequent to the balance sheet date is disclosed in Note 31 to the Financial Statements.

DIRECTORS OF THE COMPANY

The Directors in office since the date of the last report are:-

Koh Poh Seng	<i>(Group Managing Director and appointed as Chairman on 20.5.2004)</i>
Lau Fook Meng	<i>(Executive Director)</i>
Dr. Wu Chin Foong	<i>(appointed as Independent Non-Executive Director on 15.4.2005)</i>
Dr. Kow Cheong Wei, PhD, SIS, PJK	<i>(appointed as Independent Non-Executive Director on 15.4.2005)</i>
Su Ming Keat	<i>(Appointed as Independent Non-Executive Director on 9.7.2004)</i>
Andrew Chin	<i>(Appointed as Independent Non-Executive Director on 9.7.2004 and resigned on 14.3.2005)</i>
Lau Boon Seong	<i>(Non-Independent Non-Executive Director) (Resigned on 13.10.2004)</i>
Lim Siong Huat	<i>(Re-designated as Non-Independent Non-Executive Director on 9.7.2004 and resigned on 8.9.2004)</i>

Mr. Lau Fook Meng will retire by rotation in accordance with Article 80 whereas Mr. Su Ming Keat, Dr. Wu Chin Foong and Dr. Kow Cheong Wei, PhD, SIS, PJK will retire by rotation in accordance with Article 87 of the Company's Articles of Association at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

DIRECTORS' REPORT (CONT'D)

DIRECTORS OF THE COMPANY (CONT'D)

According to the Register of Directors' shareholdings, the beneficial interest of those who were Directors at the end of the financial year in the shares of the Company are as follows:-

	Ordinary shares of RM1.00 each			At 31.12.2004
	At 1.1.2004	Bought	Sold	
<u>Direct interest</u>				
Koh Poh Seng	56,390,800	-	4,868,000	51,522,800

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.

No other Directors at the end of the financial year held any interest in the shares of the Company during the financial year.

DIRECTORS' BENEFITS

During and at the end of the financial year, no arrangements subsisted to which the Company is a party, with the object or objects of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in the Company or any other body corporate.

Since the end of the previous financial year, no Director has received or become entitled to receive any benefit (other than as disclosed in Note 23 and 29 to the Financial Statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

AUDIT COMMITTEE

The Audit Committee comprises the following members:-

Dr. Kow Cheong Wei, PhD, SIS, PJK

- *Independent Non-Executive Director (appointed as Chairman of Audit Committee on 15.4.2005)*

Lau Fook Meng

- *Executive Director*

Dr. Wu Ching Foong

- *Independent Non-Executive Director (appointed on 15.4.2005)*

Su Ming Keat

- *Independent Non-Executive Director (appointed on 9.7.2004)*

Andrew Chin

- *Independent Non-Executive Director (appointed as Chairman of Audit Committee on 9.7.2004 and resigned on 14.3.2005)*

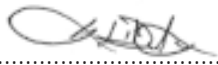
Lim Siong Huat

- *Independent Non-Executive Director (re-designated as Non-Independent Non-Executive Director on 9.7.2004 and resigned on 8.9.2004)*

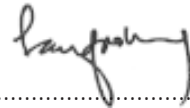
STATEMENT BY DIRECTORS

In the opinion of the Directors, the financial statements set out on pages 23 to 72 are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2004, results of operations and cash flows of the Group and of the Company for the financial year then ended.

On behalf of the Board



KOH POH SENG



LAU FOOK MENG

Klang
29 April 2005

STATUTORY DECLARATION

I, **Lau Fook Meng**, being the Director primarily responsible for the financial management of KPS Consortium Berhad, do solemnly and sincerely declare that to the best of my knowledge and belief, the financial statements set out on pages 23 to 72 are correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

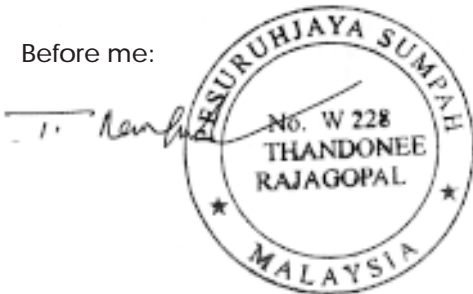
Subscribed and solemnly declared by
the abovenamed at Kuala Lumpur in
the Federal Territory this day of 29 Apr 2005

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LAU FOOK MENG

Before me:



Commissioner for Oaths
Lot LG 27B, Lower Ground Floor,
Wilayah Complex,
2, Jalan Munshi Abdullah,
50100 Kuala Lumpur,
Malaysia.

REPORT OF THE AUDITORS TO THE MEMBERS OF KPS CONSORTIUM BERHAD

We have audited the financial statements of the Group and of the Company set out on pages 23 to 72 of KPS Consortium Berhad.

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 these 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 towards any other person for the content of this report.

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

As disclosed in Note 31 to the Financial Statements, a fire broke out at the subsidiary company, Yap Swee Thiam & Sons Industries Sdn. Bhd.'s factory premises on 2 January 2005 and destroyed the subsidiary company's inventories substantially.

We did not carry out a physical count on the inventories destroyed by fire and there were no practicable alternative auditing procedures that we could apply to confirm the quantities. Accordingly, we are unable to satisfy ourselves as to the existence of inventories valued at RM10,417,623 destroyed by fire which is included as part of the total inventories of RM14,020,933 in the balance sheet of the subsidiary company concerned and RM31,066,767 in the balance sheet of the Group.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the amount of the subsidiary company's inventories destroyed by fire:-

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

and

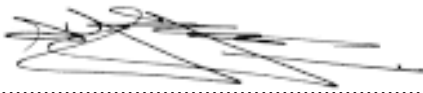
- b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Company and by the subsidiary companies of which we have acted as auditors have been properly kept in accordance with the provisions of the said Act.

We have considered the financial statements and the auditors' reports of the subsidiary companies of which we have not acted as auditors, as disclosed in Note 12 to the Financial Statements.

**REPORT OF THE AUDITORS
TO THE MEMBERS OF KPS CONSORTIUM BERHAD (CONT'D)**

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

The auditor's reports on the financial statements of the subsidiary companies were not subject to any qualification 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.



.....
SHAMSIR JASANI GRANT THORNTON
(NO. AF : 0737)
CHARTERED ACCOUNTANTS



.....
DATO' N.K. JASANI
CHARTERED ACCOUNTANT
(NO: 708/03/06 (J/PH))
PARTNER

Kuala Lumpur
29 April 2005

BALANCE SHEETS

AS AT 31 DECEMBER 2004

	Note	Group		Company	
		2004 RM	Restated 2003 RM	2004 RM	2003 RM
SHARE CAPITAL	5	140,252,636	139,024,611	140,252,636	139,024,611
IRREDEEMABLE CONVERTIBLE UNSECURED LOAN STOCK ("ICULS")	6	11,892,000	13,820,000	11,892,000	13,820,000
SHARE PREMIUM		1,083,364	383,389	1,083,364	383,389
EXCHANGE FLUCTUATION RESERVE	7	113,780	65,627	-	-
ACCUMULATED LOSS		(25,966,934)	(26,176,719)	(41,019,112)	(41,186,769)
		127,374,846	127,116,908	112,208,888	112,041,231
MINORITY INTEREST		67,521	43,906	-	-
NON-CURRENT LIABILITIES					
Redeemable Convertible Secured Loan Stock ("RCSLS")	6	19,332,000	19,332,000	19,332,000	19,332,000
Term loan	8	2,494,780	3,049,618	-	-
Finance creditors	9	106,093	125,252	-	-
Deferred taxation	10	498,200	1,052,055	-	-
		149,873,440	150,719,739	131,540,888	131,373,231
REPRESENTED BY :-					
NON-CURRENT ASSETS					
Property, plant and equipment	11	55,645,419	62,660,967	-	-
Investment in subsidiary companies	12	-	-	107,410,771	110,613,987
Other investment	13	12,024	12,024	-	-
Goodwill	14	34,801,317	40,145,633	-	-
Deposits with licensed banks	15	24,821,049	24,281,368	-	-
		115,279,809	127,099,992	107,410,771	110,613,987
CURRENT ASSETS					
Inventories	16	31,066,767	29,077,989	-	-
Trade receivables	17	66,177,319	74,049,664	-	-
Other receivables	18	12,427,976	6,231,385	882,589	80,789
Amount due from subsidiary companies	19	-	-	26,820,163	29,367,096
Tax recoverable		16,665	384	-	-
Deposits with licensed banks	15	360,000	500,000	-	-
Cash and bank balances		13,975,212	11,045,551	75,395	137,529
Total current assets		124,023,939	120,904,973	27,778,147	29,585,414

BALANCE SHEETS (CONT'D)

AS AT 31 DECEMBER 2004

	Note	Group		Company	
		2004 RM	Restated 2003 RM	2004 RM	2003 RM
LESS: CURRENT LIABILITIES					
Trade payables		11,558,324	11,351,007	-	-
Other payables	20	3,716,570	4,455,938	323,623	366,336
Amount due to subsidiary companies	19	-	-	3,324,407	5,747,969
Amount due to a Director	21	-	2,712,065	-	2,711,865
Term loans	8	5,652,360	1,940,013	-	-
Bank borrowings	8	66,832,818	69,993,620	-	-
Tax payable		1,670,236	6,832,583	-	-
		<hr/>	<hr/>	<hr/>	<hr/>
Total current liabilities		89,430,308	97,285,226	3,648,030	8,826,170
		<hr/>	<hr/>	<hr/>	<hr/>
NET CURRENT ASSETS		34,593,631	23,619,747	24,130,117	20,759,244
		<hr/>	<hr/>	<hr/>	<hr/>
		149,873,440	150,719,739	131,540,888	131,373,231
		<hr/>	<hr/>	<hr/>	<hr/>

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

INCOME STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004

	Note	Group		Company	
		2004 RM	Restated 2003 RM	2004 RM	2003 RM
Revenue	22	255,069,151	290,764,132	-	-
Cost of sales		(227,828,213)	(260,672,562)	-	-
Gross profit		27,240,938	30,091,570	-	-
Other operating income		2,883,634	13,977,931	550,482	1,361,391
Distribution costs		(5,073,821)	(5,128,239)	-	-
Administration expenses		(13,635,634)	(15,213,833)	(187,822)	(183,200)
Other operating expenses		(4,376,902)	(11,862,973)	-	-
Profit from operations		7,038,215	11,864,456	362,660	1,178,191
Finance costs		(4,112,132)	(4,150,413)	(173,316)	(907,856)
Profit before taxation	23	2,926,083	7,714,043	189,344	270,335
Taxation	24	(2,087,899)	(1,193,113)	-	-
Profit after taxation		838,184	6,520,930	189,344	270,335
Minority interest		(23,613)	(27,342)	-	-
Net profit for the year		814,571	6,493,588	189,344	270,335
Earnings per share (sen) - Basic	25	0.58	4.69		

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

STATEMENTS OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004

	Share capital RM	ICULS RM	Share premium RM	Exchange fluctuation reserve RM	Accumulated loss RM	Total RM
Group						
Balance at 1 January 2003	138,352,000	14,876,000	-	47,443	(32,007,007)	121,268,436
Conversion of ICULS at RM1.57 per ICULS	672,611	(1,056,000)	383,389	-	-	-
Currency translation differences	-	-	-	18,184	-	18,184
Interest expenses - ICULS	-	-	-	-	(663,300)	(663,300)
Net profit for the year	-	-	-	-	11,857,064	11,857,064
Balance at 31 December 2003	<u>139,024,611</u>	<u>13,820,000</u>	<u>383,389</u>	<u>65,627</u>	<u>(20,813,243)</u>	<u>132,480,384</u>
Balance at 1 January 2004						
- As previously reported	139,024,611	13,820,000	383,389	65,627	(20,813,243)	132,480,384
- Prior year adjustment (Note 26)	-	-	-	-	(5,363,476)	(5,363,476)
- As restated at 1 January 2004	<u>139,024,611</u>	<u>13,820,000</u>	<u>383,389</u>	<u>65,627</u>	<u>(26,176,719)</u>	<u>127,116,908</u>
Conversion of ICULS at RM1.57 per ICULS	1,228,025	(1,928,000)	699,975	-	-	-
Currency translation differences	-	-	-	48,153	-	48,153
Interest expenses - ICULS	-	-	-	-	(604,786)	(604,786)
Net profit for the year	-	-	-	-	814,571	814,571
Balance at 31 December 2004	<u>140,252,636</u>	<u>11,892,000</u>	<u>1,083,364</u>	<u>113,780</u>	<u>(25,966,934)</u>	<u>127,374,846</u>
Company						
Balance at 1 January 2003	138,352,000	14,876,000	-	-	(40,793,804)	112,434,196
Conversion of ICULS at RM1.57 per ICULS	672,611	(1,056,000)	383,389	-	-	-
Interest expenses - ICULS	-	-	-	-	(663,300)	(663,300)
Net profit for the year	-	-	-	-	270,335	270,335
Balance at 31 December 2003	<u>139,024,611</u>	<u>13,820,000</u>	<u>383,389</u>	<u>-</u>	<u>(41,186,769)</u>	<u>112,041,231</u>
Conversion of ICULS at RM1.57 per ICULS	1,228,025	(1,928,000)	699,975	-	-	-
Interest expenses - ICULS	-	-	-	-	(21,687)	(21,687)
Net profit for the year	-	-	-	-	189,344	189,344
Balance at 31 December 2004	<u>140,252,636</u>	<u>11,892,000</u>	<u>1,083,364</u>	<u>-</u>	<u>(41,019,112)</u>	<u>112,208,888</u>

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

CASH FLOW STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004

	Group		Company	
	2004 RM	Restated 2003 RM	2004 RM	2003 RM
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before taxation	2,926,083	7,714,043	189,344	270,335
Adjustments for:				
Amortisation of goodwill	2,141,100	2,141,100	-	-
Bad debts written off	3,001,132	78,366	-	-
Depreciation	4,410,950	4,974,794	-	-
Property, plant and equipment written off	174,147	542,890	-	-
Loss/(Gain) on disposal of property, plant and equipment	491,594	(2,047,348)	-	-
Interest expenses	3,495,513	4,189,394	173,107	892,373
Inventories written down	-	2,770,620	-	-
Inventories written off	-	2,993,197	-	-
Investment in subsidiary company written off	-	9,759,432	-	-
Allowance for doubtful debts - subsidiary companies	-	-	-	851
Allowance for diminution in value no longer required	-	(9,759,431)	-	-
Allowance for doubtful debts				
- current year	1,075,671	1,563,972	-	-
- no longer required	(179,208)	(140,512)	(550,482)	-
Allowance for slow moving inventories no longer required	(186,057)	(62,940)	-	-
Interest income	(668,754)	(650,649)	-	-
Operating profit/(loss) before working capital changes	16,682,171	24,066,928	(188,031)	1,163,559
Changes in working capital:-				
Bankers' acceptances and trust receipts	(969,723)	7,212,758	-	-
Inventories	(1,802,721)	(4,826,809)	-	-
Receivables	(2,364,458)	(9,156,886)	(992,372)	(42,872)
Payables	(299,951)	(2,793,434)	(42,713)	(120,758)
Subsidiary companies	-	-	673,853	1,330,382
Shareholders	681,923	200	681,923	-
Cash generated from operations	11,927,241	14,502,757	132,660	2,330,311

CASH FLOW STATEMENTS (CONT'D)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004

	Note	Group		Company	
		2004 RM	Restated 2003 RM	2004 RM	2003 RM
Interest paid		(4,100,299)	(3,006,144)	(194,794)	(1,579,147)
Interest received		668,754	595,732	-	-
Tax paid		(7,820,382)	(5,243,196)	-	-
Net cash generated from/(used in) operating activities		675,314	6,849,149	(62,134)	751,164
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment	A	(1,134,949)	(4,411,904)	-	-
Proceeds from disposal of investment		-	(12,024)	-	-
Proceeds from disposal of property, plant and equipment		3,268,820	5,311,929	-	-
Disposal of subsidiary		-	-	-	1
Net cash generated from investing activities		2,133,871	888,001	-	1
CASH FLOWS FROM FINANCING ACTIVITIES					
Drawdown of term loan		4,787,859	4,000,000	-	-
Placement of fixed deposits		(539,681)	(1,408,077)	-	-
Repayment of term loan		(1,630,350)	(2,282,881)	-	-
Repayment of finance creditors		(446,273)	(977,890)	-	-
Uplift of fixed deposit		-	1,165,092	-	-
Redemption of RCSLS		-	(621,000)	-	(621,000)
Net cash generated from/(used in) financing activities		2,171,555	(124,756)	-	(621,000)
CASH AND CASH EQUIVALENTS					
Net increase/(decrease)		4,980,740	7,612,394	(62,134)	130,165
Brought forward		9,108,865	1,496,471	137,529	7,364
Carried forward	B	14,089,605	9,108,865	75,395	137,529

CASH FLOW STATEMENTS (CONT'D)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004

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 RM1,329,963 (2003: RM5,021,904) of which RM195,014 (2003: RM610,000) was acquired by means of hire purchase. Cash payments of RM1,134,949 (2003: RM4,411,904) 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 sheet amounts:-

	Group		Company	
	2004 RM	2003 RM	2004 RM	2003 RM
Cash and bank balances	13,975,212	11,045,551	75,395	137,529
Deposits with licensed banks	360,000	500,000	-	-
Bank overdrafts	(245,607)	(2,436,686)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Cash and cash equivalents	14,089,605	9,108,865	75,395	137,529

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2004

1. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the Group and of the Company have been prepared in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia.

2. FINANCIAL RISK MANAGEMENT POLICIES

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's business 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 :-

(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) *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 to reduce the impact of an upward change in interest rates while enabling benefits to be enjoyed if interest rates fall.

(c) *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.

(d) *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.

(e) *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.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

- 31 DECEMBER 2004

3. SIGNIFICANT ACCOUNTING POLICIES

(a) *Accounting convention*

The financial statements of the Group and of the Company are prepared under the historical cost convention unless, otherwise indicated in the other significant accounting policies.

(b) *Basis of consolidation*

The Group financial statements consolidate the audited financial statements of the Company and all of its subsidiary companies, which have been prepared in accordance with the Group's accounting policies.

All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated on consolidation unless cost cannot be recovered.

The financial statements of the Company and its subsidiary companies are all drawn up to the same reporting date.

Minority interest is measured at the minorities' share of the post acquisition fair values of the identifiable assets and liabilities of the subsidiary companies.

Subsidiary companies are consolidated using the acquisition method of accounting from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The differences between the acquisition cost and the fair values of the subsidiary companies' net assets is reflected as goodwill or reserve on consolidation. It is retained in the consolidated balance sheet and will be amortised over 20 years. Goodwill will be written off immediately when the Directors are of the opinion that there is a permanent diminution in value.

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.

(c) *Subsidiary companies*

A subsidiary company is a company in which the Group or the Company has the power to exercise control over the financial and operating policies so as to obtain benefits therefrom.

Investment in subsidiary companies is stated at cost and/or valuation. Where an indication of impairment exist, the carrying amount of the subsidiary companies is assessed and written down immediately to their recoverable amount.

(d) *Other investment*

Non-current investments other than investment in subsidiary companies are shown at cost and allowance is only made where, in the opinion of the Directors, there is a permanent diminution in value. Permanent diminution in the value of an investment is recognised as an expense in the period in which the diminution is identified.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

- 31 DECEMBER 2004

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(d) *Other investment (Cont'd)*

Marketable securities are carried at the lower of cost and market value, determined on an aggregate portfolio basis by category of investment. Cost is derived using the weighted average basis. Market value is calculated by reference to stock exchange quoted selling prices at the close of business on the balance sheet date. Increases or decreases in the carrying amount of marketable securities are credited or charged to the income statement.

On disposal of an investment, the difference between net disposal proceeds and its carrying amount is charged or credited to the income statement.

(e) *Foreign currency transactions and balances*

Transactions in foreign currencies are recorded in Ringgit Malaysia at rates of exchange ruling at the date of the transactions. Foreign currency monetary assets and liabilities are translated at exchange rates ruling at balance sheet date.

Gains and losses from conversion of short term assets and liabilities, whether realised or unrealised, are included in income statement as they arise.

The assets and liabilities of foreign entities, including goodwill and fair value adjustments arising on the acquisitions, is translated to Ringgit Malaysia at the closing rates. The operating results are translated to Ringgit Malaysia at the exchange rates at the date of the transactions. Gains and losses arising from translation are taken directly to exchange fluctuation reserve.

All other foreign exchange differences are taken to the income statement in the financial year in which they arise.

The principal closing rates of exchange of the foreign currencies applicable in the preparation of the financial statements were as follows:-

	2004 RM	2003 RM
US Dollar	3.80	3.80
Singapore Dollar	2.21	2.21

(f) *Property, plant and equipment*

Property, plant and equipment are stated at cost. Land and buildings are subsequently shown at market value, based on valuations by external valuers, less subsequent amortisation and any accumulated impairment losses. All other property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment losses.

Revaluation are made based on valuation by an independent valuer on an open market value basis. Any revaluation increase is credited to equity as a revaluation surplus, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case, the increase is recognised in the income statement to the extent of the decrease previously recognised. A revaluation decrease is first offset against an increase on unutilised revaluation surplus previously recognised in respect of the same asset and is thereafter recognised as an expense. Upon the disposal of revalued assets, the attributable revaluation surplus remaining in the revaluation reserve is transferred to unappropriated profit.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

- 31 DECEMBER 2004

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(f) *Property, plant and equipment (Cont'd)*

Depreciation is provided on the straight line method in order to write off the cost of each asset over its estimated useful life. No depreciation is provided on the freehold land.

The principal annual depreciation rates used are as follows:-

Buildings	2% - 5%
Furniture, fittings and others	10% - 33.3%
Leasehold land	Amortised over the lease terms of 30-60 years
Plant and machineries	6% - 10%
Motor vehicles	10% - 20%

Leasehold land and building is amortised over the term of the lease, 72 years.

Property, plant and equipment are written down to recoverable amount if, in the opinion of the Directors, it is less than their carrying value. Recoverable amount is the net selling price of the property, plant and equipment i.e. the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

(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.

Cost of finished goods of paper mills is determined using standard costing which approximates the actual cost.

(h) *Deferred tax liabilities and assets*

Deferred tax liabilities and assets are provided for under the liability method at the current tax rate in respect of all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base including unused tax losses and capital allowances.

A deferred tax asset is recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. The carrying amount of a deferred tax asset is reviewed at each balance sheet date. If it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised, the carrying amount of the deferred tax asset will be reduced accordingly. When it becomes probable that sufficient taxable profit will be available, such reductions will be reversed to the extent of the taxable profit.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

- 31 DECEMBER 2004

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(i) *Assets acquired under hire purchase*

The cost of property, plant and equipment acquired under hire purchase which transfer substantially all the risks and rewards of ownership to the Group are capitalised. The depreciation policy on these assets is similar to that of the Group's property, plant and equipment depreciation policy. Outstanding obligation due under the hire purchase or finance lease arrangements after deducting finance expenses are included as liabilities in the financial statements. Finance charges on hire purchase or finance lease arrangements are allocated to income statement over the period of the respective agreements.

Leased payments for operating leases, where substantially all the risk and benefits remain with the lessor, are charged as expenses in the period in which they are incurred.

(j) *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.

(k) *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.

(l) *Revenue recognition*

Revenue from sale of goods is recognised when the goods are delivered.

Income from investments is included in the income statement when the right to receive has been established.

Interest income is recognised on an accrual basis (taking into account the effective yield on the asset) unless its collectibility is in doubt.

Rental income is recognised when the rent is due.

Sales between Group companies are excluded from revenue of the Group.

(m) *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.

(n) *Financial instruments*

Financial instruments carried on the balance sheet include cash and bank balances, receivables, investments, payables and borrowings. The particular recognition methods adopted are disclosed in the individual accounting policy statements associated with each item.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

- 31 DECEMBER 2004

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(n) Financial instruments (Cont'd)

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

(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.

An impairment loss is charged to the income statement immediately, unless the assets is carried at revalued amount, in which case, the impairment loss is treated as a revaluation decrease to the extent of revaluation surplus previously recognised 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) Employee benefits

(i) Short term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the financial 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

The Group's contributions to defined contribution plan are charged to the income statement in the period to which they relate.

(q) Interest-bearing borrowings

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

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

- 31 DECEMBER 2004

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(q) Interest-bearing borrowings (Cont'd)

All borrowing cost are recognised as an expense in the income statement in the period in which they are incurred.

(r) Provisions

Provisions are recognised when there is a present obligation, legal or constructive, as a result of a past event, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

(s) 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.

(t) 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. Segments assets include all assets used by a segment and consist principally of cash, receivables, inventories, intangibles assets and property, plant and equipment, net of allowances and accumulated depreciation and amortisation. The majority of the segment assets can be directly attributed to the segments on a reasonable basis. Segment assets and liabilities do not include tax recoverable and deferred income taxes.

(u) Intersegment transfers

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.

4. PRINCIPAL ACTIVITIES AND GENERAL INFORMATION

The principal activity of the Company is investment holding.

The principal activities of the subsidiary companies are mentioned in Note 12 to the Financial Statements.

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 financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 29 April 2005.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

- 31 DECEMBER 2004

5. SHARE CAPITAL

	Group and Company	
	2004 RM	2003 RM
Authorised:-		
Ordinary shares of RM1 each		
At beginning/end of year	200,000,000	200,000,000
Issued and fully paid :-		
Ordinary shares of RM1 each		
At beginning of year	139,024,611	138,352,000
Issued during the year	1,228,025	672,611
At end of year	140,252,636	139,024,611

6. CONVERTIBLE LOAN STOCKS

	Group and Company	
	2004 RM	2003 RM
<u>Equity Instrument</u>		
Irredeemable Convertible Secured Loan Stocks ("ICULS")		
At beginning of year	13,820,000	14,876,000
Conversion into ordinary shares at RM1.57 er ICULS	(1,928,000)	(1,056,000)
At end of year	11,892,000	13,820,000
<u>Liability Instrument</u>		
Redeemable Convertible Secured Loan Stock ("RCSLS")		
At beginning of year	19,332,000	19,953,000
Redemption	-	(621,000)
At end of year	19,332,000	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 shares, subject to adjustment in accordance with 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.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

- 31 DECEMBER 2004

6. CONVERTIBLE LOAN STOCKS (CONT'D)

(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.

(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 payable semi-annually in arrears.

(vi) *Security*

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

- (b) The ICULS was reclassified 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.

7. EXCHANGE FLUCTUATION RESERVE

This reserve is not available for distribution as dividends.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

- 31 DECEMBER 2004

8. TERM LOANS AND BORROWINGS

(a) Term loans

	2004 RM	2003 RM
<u>Current:-</u>		
Secured	864,501	1,940,013
Unsecured	4,787,859	-
	5,652,360	1,940,013
 <u>Non-current:-</u>		
Secured	2,494,780	3,049,618

The term loans are secured in the following manner:-

- (i) Charged and deeds of assignment over the land and properties of certain subsidiary companies;
- (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.

(b) Bank Borrowings

	Group	
	2004 RM	2003 RM
(i) Bills payable / Bankers acceptance		
Secured	60,183,464	67,556,934
Unsecured	6,403,747	-
	66,587,211	67,556,934
(ii) Bank overdraft (secured)	245,607	2,436,686
	66,832,818	69,993,620

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

- 31 DECEMBER 2004

8. TERM LOANS AND BORROWINGS (CONT'D)

The bank borrowings are secured in the following manner:-

- (i) Charged and deeds of assignment over the land and properties of certain subsidiary companies;
- (ii) Pledge of fixed deposits of subsidiary companies;
- (iii) Jointly and severally guarantee by certain Directors and a third party; and
- (iv) Corporate guarantee by the Company.

The unsecured bank borrowings are guaranteed by the Company and a personal guarantee of a Director of the Company.

Interest is charged at rates ranging from 2.9% to 8.0% (2003: 2.9% to 8.0%) per annum.

9. FINANCE CREDITORS

	Group	
	2004 RM	2003 RM
Minimum lease payment		
- within 1 year	179,834	447,842
- after 1 year but not later than 5 years	128,865	144,462
	308,699	592,304
Interest-in-suspense	(39,097)	(71,443)
	269,602	520,861
Total principal sum payable		
- within 1 year	163,509	395,609
- after 1 year but not later than 5 years	106,093	125,252
	269,602	520,861

The amount payable within 12 months has been included in other payables.

10. DEFERRED TAXATION

	Group	
	2004 RM	Restated 2003 RM
At beginning of year	1,052,055	1,507,055
Transferred to income statement	(553,855)	(455,000)
At end of year	498,200	1,052,055

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

- 31 DECEMBER 2004

10. DEFERRED TAXATION (CONT'D)

The deferred taxation arose principally due to the following:-

	2004	Restated
	RM	2003
		RM
Carrying amount of qualifying property, plant and equipment in excess of their tax base	913,000	1,402,200
Unabsorbed capital allowances	(151,000)	(337,000)
Unutilised business losses	(303,000)	(66,000)
Revaluation of properties	56,000	56,000
Others	(16,800)	(3,145)
	498,200	1,052,055

The tax effects of temporary differences which would give rise to net future tax benefit are generally recognised only where there is a reasonable expectation of realisation. As at 31 December 2004, the estimated deferred tax assets calculated at current tax rate, which have not been recognised in the financial statements, are as follows:-

	2004	Restated
	RM	2003
		RM
Carrying amount of qualifying property, plant and equipment in excess of their tax base	2,349,500	3,350,800
Unabsorbed capital allowances	(3,991,214)	(5,323,516)
Unutilised business losses	(5,911,634)	(6,586,831)
Revaluation of properties	419,000	419,000
	(7,134,348)	(8,140,547)

The potential deferred tax assets are not recognised in the financial statements as it is anticipated that the effects of such deferrals will not reverse in the near future.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

- 31 DECEMBER 2004

11. PROPERTY, PLANT AND EQUIPMENT

Group	Land and buildings RM	Plant and machineries RM	Motor vehicles RM	Furniture, fittings and others RM	Total 2004 RM	Total 2003 RM
Cost or valuation						
At beginning of year						
- cost	37,735,345	37,346,950	4,253,249	2,659,286	81,994,830	82,688,958
- valuation	13,767,235	-	-	-	13,767,235	13,767,235
	51,502,580	37,346,950	4,253,249	2,659,286	95,762,065	96,456,193
Additions	714,084	220,165	274,742	120,972	1,329,963	5,021,904
Disposals	(941,004)	(5,652,213)	(672,389)	(1,950)	(7,267,556)	(4,297,552)
Written off	-	(381,229)	(4,362)	(28,456)	(414,047)	(1,418,480)
At end of year	51,275,660	31,533,673	3,851,240	2,749,852	89,410,425	95,762,065
Accumulated depreciation						
At beginning of year	7,188,043	20,213,529	3,769,859	1,929,667	33,101,098	30,034,865
Charge for the year	1,158,555	2,900,663	184,970	166,762	4,410,950	4,974,794
Disposals	(37,804)	(2,845,589)	(622,043)	(1,706)	(3,507,142)	(1,032,971)
Written off	-	(221,679)	(2,145)	(16,076)	(239,900)	(875,590)
At end of year	8,308,794	20,046,924	3,330,641	2,078,647	33,765,006	33,101,098
Net book value						
31 December 2004	42,966,866	11,486,749	520,599	671,205	55,645,419	-
31 December 2003	44,314,537	17,133,421	483,390	729,619	-	62,660,967
Depreciation charge for the year ended						
31 December 2003	1,149,976	3,472,981	159,896	191,941	-	4,974,794
Cost or valuation at 31 December 2004						
- cost	37,508,425	31,533,673	3,851,240	2,749,852	75,643,190	81,994,830
- valuation: 1993	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

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

- 31 DECEMBER 2004

11. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Analysis of land:-

Group	Freehold land RM	Long leasehold land RM	Short leasehold land RM	Total 2004 RM	Total 2003 RM
Cost or valuation					
At beginning of year					
- cost	5,218,535	1,556,876	450,192	7,225,603	8,335,022
- valuation	2,328,709	-	1,549,000	3,877,709	3,877,709
	7,547,244	1,556,876	1,999,192	11,103,312	12,212,731
Addition	550,000	-	-	550,000	-
Disposal	(465,362)	-	-	(465,362)	(1,109,419)
At end of year	7,631,882	1,556,876	1,999,192	11,187,950	11,103,312
Accumulated depreciation					
At beginning of year	-	259,527	629,555	889,082	748,410
Charge for the year	-	25,948	62,754	88,702	165,154
Disposal	-	-	-	-	(24,482)
At end of year	-	285,475	692,309	977,784	889,082
Net book value					
31 December 2004	7,631,882	1,271,401	1,306,883	10,210,166	-
31 December 2003	7,547,244	1,297,349	1,369,637	-	10,214,230
Depreciation charge for the year ended 31 December 2003					
	-	29,496	135,658	-	165,154
Cost or valuation at 31 December 2004					
- cost	5,272,977	1,556,876	450,192	7,280,045	7,225,603
- valuation: 1993	2,358,905	-	1,549,000	3,907,905	3,877,709
	7,631,882	1,556,876	1,999,192	11,187,950	11,103,312

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

- 31 DECEMBER 2004

11. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Analysis of buildings:-

Group	Freehold buildings RM	Long leasehold buildings RM	Short leasehold buildings RM	Total 2004 RM	Total 2003 RM
Cost or valuation					
At beginning of year					
- cost	11,461,183	13,628,494	5,420,065	30,509,742	29,396,142
- valuation	7,437,328	-	2,452,198	9,889,526	9,889,526
	18,898,511	13,628,494	7,872,263	40,399,268	39,285,668
Additions	12,000	25,380	126,704	164,084	1,853,211
Disposal	(310,242)	(165,400)	-	(475,642)	(739,611)
At end of year	18,600,269	13,488,474	7,998,967	40,087,710	40,399,268
Accumulated depreciation					
At beginning of year	3,431,783	1,063,380	1,803,798	6,298,961	5,415,908
Charge for the year	555,810	279,400	234,643	1,069,853	984,822
Disposal	(29,534)	(8,270)	-	(37,804)	(101,769)
At end of year	3,958,059	1,334,510	2,038,441	7,331,010	6,298,961
Net book value					
31 December 2004	14,642,210	12,153,964	5,960,526	32,756,700	-
31 December 2003	15,466,728	12,565,114	6,068,465	-	34,100,307
Depreciation charge for the year ended 31 December 2003	541,289	288,768	154,765	-	984,822
Cost or valuation at 31 December 2004					
- cost	11,162,941	13,488,474	5,546,769	30,198,184	30,509,742
- valuation: 1993	7,437,328	-	2,452,198	9,889,526	9,889,526
	18,600,269	13,488,474	7,998,967	40,087,710	40,399,268

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

- 31 DECEMBER 2004

11. 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 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.

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

	Group	
	2004 RM	2003 RM
At cost	17,768,336	17,768,336
Less: Accumulated depreciation	(3,946,005)	(3,514,829)
Net book value	13,822,331	14,253,507

- (b) Land and buildings of the Group with net book value of RM29,824,469 (2003: RM19,050,710) 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 RM7,137,139 (2003: RM7,658,556) 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 RM262,503 (2003: RM339,870) 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:-

	Group	
	2004 RM	2003 RM
Plant and machineries	36,841	1,628,757
Motor vehicles	315,676	196,942
	352,517	1,825,699

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

- 31 DECEMBER 2004

12. INVESTMENT IN SUBSIDIARY COMPANIES

(a) The particulars of the subsidiary companies are as follows:-

Name of company	Place of incorporation	Group effective interest		Principal activities
		2004 %	2003 %	
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 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, paper products, stationery and general household products
KPS Food Industries Sdn. Bhd.	Malaysia	100	100	Dormant
Paragon Paper Mill Sdn. Bhd.	Malaysia	51	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	51	51	Trading in tissue related products

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

- 31 DECEMBER 2004

12. INVESTMENT IN SUBSIDIARY COMPANIES (CONT'D)

Name of company	Place of incorporation	Group effective interest		Principal activities
		2004 %	2003 %	
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 frames 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 Shamsir Jasani Grant Thornton.

^ The auditors' report on the financial statements of the subsidiary company is qualified on an except for basis on the existence of the subsidiary company's inventories as at the balance sheet date.

(b) Investment in subsidiary companies:-

	Company	
	2004 RM	2003 RM
Unquoted shares :-		
At Directors' valuation	20,222,837	20,222,837
Less : Allowance for diminution in value	(10,473,855)	(10,473,855)
	<u>9,748,982</u>	<u>9,748,982</u>
At cost	107,628,115	107,628,115
Less : Shortfall of profit guarantee received from a shareholder	(3,203,216)	-
Less : Allowance for diminution in value	(6,763,110)	(6,763,110)
	<u>97,661,789</u>	<u>100,865,005</u>
Total	<u>107,410,771</u>	<u>110,613,987</u>

As disclosed in Note 30 to the Financial Statements, there is a shortfall of profit guarantee received from a shareholder amounting to RM3,203,216.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

- 31 DECEMBER 2004

12. INVESTMENT IN SUBSIDIARY COMPANIES (CONT'D)

In accordance with MASB 21 : Business Combinations, the shortfall in profit guarantee is recognised as a reduction in the cost of investment, with a consequential effect on goodwill.

13. OTHER INVESTMENTS

	Group	
	2004 RM	2003 RM
At cost:-		
Quoted investment in Malaysia	6,012	6,012
Unquoted investment in Malaysia	6,012	6,012
	12,024	12,024
At market value:-		
Quoted investment in Malaysia	1,383	3,156
	1,383	3,156

14. GOODWILL

	Group	
	2004 RM	Restated 2003 RM
At beginning of year	40,145,633	42,286,733
Less : Shortfall of profit guarantee received from a shareholder	(3,203,216)	-
Less : Amortisation during the year	(2,141,100)	(2,141,100)
At end of year	34,801,317	40,145,633

15. DEPOSITS WITH LICENSED BANKS

	Group	
	2004 RM	2003 RM
Pledged to licensed banks for banking facilities	24,821,049	24,281,368
REPO	360,000	500,000
	25,181,049	24,781,368
Non-current	24,821,049	24,281,368
Current	360,000	500,000
	25,181,049	24,781,368

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

- 31 DECEMBER 2004

16. INVENTORIES

	Group	
	2004 RM	Restated 2003 RM
At cost:-		
Raw materials	11,267,586	4,214,243
Consumables	476,145	119,422
Work-in-progress	1,312,592	412,292
Finished goods	18,330,101	16,882,610
	31,386,424	21,628,567
Less : Allowance for slow moving inventories	(319,657)	(505,714)
	31,066,767	21,122,853
At net realisable value:-		
Raw materials	-	7,661,320
Finished goods	-	293,816
	31,066,767	29,077,989

17. TRADE RECEIVABLES

	Group	
	2004 RM	2003 RM
Trade receivables	69,925,887	76,898,252
Less: Specific allowance for doubtful debts	(3,688,568)	(2,848,588)
Less: General allowance for doubtful debts	(60,000)	-
	66,177,319	74,049,664

18. OTHER RECEIVABLES

The other receivables comprise the following items:-

	Group		Company	
	2004 RM	Restated 2003 RM	2004 RM	2003 RM
Non-trade receivables	2,020,892	2,535,037	190,772	-
Trustee for loan stock	4,787,858	-	-	-
Outstanding purchase consideration on disposal of plant and equipment	1,382,967	-	-	-
Advance for timber concession rights	3,460,400	3,500,000	-	-
Management fee receivable	204,000	60,000	-	-
Deposits	1,197,415	622,083	623,900	-

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

- 31 DECEMBER 2004

18. OTHER RECEIVABLES (CONT'D)

	Group		Company	
	2004 RM	Restated 2003 RM	2004 RM	2003 RM
Prepayments	175,199	337,886	67,917	80,667
Others	41,300	18,434	-	122
	13,270,031	7,073,440	882,589	80,789
Less: Allowance for doubtful debts	(842,055)	(842,055)	-	-
	12,427,976	6,231,385	882,589	80,789

Group

Included in the above is an amount of RM484,000 (2003: RM340,000) and RM60,478 (2003: RM26,508) due from Great Business Venture Sdn. Bhd. and Mastellium Sdn. Bhd., companies in which a Director has interest.

19. AMOUNT DUE FROM/TO SUBSIDIARY COMPANIES

	Company	
	2004 RM	2003 RM
Amount due from subsidiary companies	61,462,835	64,560,250
Less: Allowance for doubtful debts	(34,642,672)	(35,193,154)
	26,820,163	29,367,096

The amount due from/to subsidiary companies is unsecured, interest free and no scheme of repayment has been arranged.

20. OTHER PAYABLES

The other payables comprise the following items:-

	Group		Company	
	2004 RM	2003 RM	2004 RM	2003 RM
Accruals of expenses	1,104,962	1,410,433	-	-
Deposits	466,661	492,213	-	-
Interest payable on loan stocks	280,071	298,575	280,071	298,575
Finance creditors due within 1 year	163,509	395,609	-	-
Non-trade payables	1,701,367	1,859,108	43,552	67,761
	3,716,570	4,455,938	323,623	366,336

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

- 31 DECEMBER 2004

21. AMOUNT DUE TO A DIRECTOR

Group and Company

The amount due to Director is unsecured, interest free and has no scheme of repayment.

22. REVENUE

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

23. PROFIT BEFORE TAXATION

Profit before taxation has been determined:-

	Group		Company	
	2004 RM	Restated 2003 RM	2004 RM	2003 RM
After charging:-				
Amortisation of goodwill	2,141,100	2,141,100	-	-
Auditors' remuneration				
- statutory	105,800	102,100	11,000	11,000
- under provision n previous year	-	383	-	-
- other auditors	2,550	2,450	-	-
- others	62,800	43,300	16,500	-
Bad debts written off	3,001,132	78,366	-	-
Depreciation	4,410,950	4,974,794	-	-
Directors' emoluments	696,320	318,040	-	-
Property, plant and equipment written off	174,147	542,890	-	-
Interest expenses				
- bank overdrafts	120,917	721,278	-	-
- bankers' acceptances/ trust receipts	2,135,774	1,393,831	-	-
- hire purchase	64,028	157,317	-	-
- RCSLS	864,248	892,373	173,107	892,373
- term loans	309,663	359,235	-	-
- others	883	2,060	-	-
- subsidiary companies	-	-	-	15,035
Inventories written down	-	2,770,620	-	-
Inventories written off	-	2,993,197	-	-
Allowance for doubtful debts				
- specific (trade)	1,015,671	863,972	-	-
- specific (non-trade)	-	700,000	-	-
- general (trade)	60,000	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

- 31 DECEMBER 2004

23. PROFIT BEFORE TAXATION (CONT'D)

	Group		Company	
	2004 RM	Restated 2003 RM	2004 RM	2003 RM
After charging:- (Cont'd)				
Loss on disposal of property, plant and equipment	840,525	-	-	-
Rental expenses				
- equipment	16,500	20,073	-	-
- warehouse	176,830	144,641	-	-
Loss on foreign exchange				
- realised	590	-	-	-
Investment in subsidiary company written off	-	9,759,432	-	-
	-----	-----	-----	-----
And crediting:-				
Allowance for amount due from subsidiary company no longer required	-	-	550,482	851
Bad debts recovered	7,578	6,055	-	-
Gain on disposal of property, plant and equipment	348,931	2,047,348	-	-
Allowance for diminution in value of subsidiary company no longer required	-	9,759,431	-	-
Interest income				
- fixed deposits	658,971	641,858	-	-
- repo	7,226	6,832	-	410
- subsidiary companies	-	-	-	1,360,130
- others	2,557	1,959	-	-
Allowance for doubtful debts no longer required				
- specific	179,208	140,512	-	-
Allowance for slow moving inventories no longer required	186,057	62,940	-	-
Rental income	846,853	485,343	-	-
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NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

- 31 DECEMBER 2004

24. TAXATION

	Group		Company	
	2004 RM	Restated 2003 RM	2004 RM	2003 RM
In Malaysia:-				
Current year provision	1,301,913	3,478,852	-	-
Under/(Over) provision in prior years	1,339,841	(1,830,739)	-	-
Deferred taxation	(553,855)	(455,000)	-	-
Total	2,087,899	1,193,113	-	-

The provision for current year's taxation is determined by applying the Malaysian Statutory tax rate on the chargeable income.

There is no provision for taxation for the Company as the Company has no chargeable income.

The Group's unabsorbed business losses, unutilised capital allowances and reinvestment allowances which can be carried forward to offset against future taxable profit amounted to approximately RM23,545,000 (2003: RM23,383,700), RM15,023,500 (2003: RM20,187,100) and RM1,712,000 (2003: RM2,346,000) respectively.

The amount of tax savings for which credit is taken by the Group as a result of the realisation of unabsorbed business losses and unutilised capital allowances brought forward that had not been accounted for previously amounted to RM93,000 (2003: RM Nil) and RM937,000 (2003: RM Nil) respectively.

However, the above amounts are subject to the agreement of Inland Revenue Board of Malaysia.

A reconciliation of income tax expenses applicable to profit before taxation at the statutory tax rate to income tax expenses at the effective tax rate of Group is as follows:-

	Group	
	2004 RM	2003 RM
Taxation at Malaysia statutory tax rate of 28%	819,303	2,159,932
Tax effect in respect of:-		
Expenses not deductible for tax purposes	1,095,129	1,322,170
Income not subject to tax	(88,165)	(302,131)
Under/(Over) provision of tax in prior year	1,399,841	(1,830,739)
Change in the first tranche of chargeable income	(61,924)	(16,000)
Deferred tax not recognised	28,000	-
Utilisation of deferred tax assets previously not recognised	(1,030,800)	-
Tax effect on double deduction	(73,485)	(140,119)
	2,087,899	1,193,113

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

- 31 DECEMBER 2004

25. EARNINGS PER SHARE

Group

The earnings per share is calculated based on Group's profit after taxation and minority interest of RM814,571 (2003: RM6,493,588) and the weighted average number of shares in issue during the financial year of 139,290,403 (2003: 138,440,453).

The fully diluted profit per share is not shown as the effect is antidilutive.

26. PRIOR YEAR ADJUSTMENT

Group

In the previous financial year, the Group's financial statements were consolidated based on audited financial statements of its subsidiary companies except for a subsidiary company, Yap Swee Thiam & Sons Industries Sdn. Bhd., which has been consolidated based on unaudited management financial statements made up to 31 December 2003. The total contribution of the total assets, liabilities, revenue and profit after taxation of this subsidiary company to the Group were RM56,102,116, RM32,159,919, RM47,885,027 and RM3,596,833 respectively.

Based on the subsidiary company's audited financial statements for the financial year ended 31 December 2003, the total contribution of the total assets, liabilities, revenue and loss after taxation of this subsidiary company to the Group were RM49,638,299, RM31,552,234, RM47,885,027 and RM1,674,300 respectively.

The prior year adjustment incorporates the effects on the Group's financial statements based on audited financial statements of this subsidiary company. The comparative figures have been restated as disclosed in Note 32 to the Financial Statements.

27. EMPLOYEES INFORMATION

	Group	
	2004	Restated 2003
	RM	RM
Staff costs	<u>10,449,762</u>	<u>11,149,648</u>

The number of employees of the Group at the end of the financial year was 416 (2003: 464) persons.

The Company has no employee as at end of the financial year.

28. CONTINGENT LIABILITIES

UNSECURED:-

These represent guarantees provided by the Company for banking and other credit facilities extended to subsidiary companies amounting to RM22,490,422 (2003: RM8,307,429).

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

- 31 DECEMBER 2004

29. SIGNIFICANT RELATED PARTY TRANSACTIONS

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

	Group		Company	
	2004 RM	2003 RM	2004 RM	2003 RM
Interest expenses payable to subsidiary companies	-	-	-	15,035
Interest received from subsidiary companies	-	-	-	1,360,131
Directors' emoluments	696,320	318,040	-	-
Sales to a Company in which certain Directors have interest	-	7,372,196	-	-
Purchase from a Company in which certain Directors have interest	-	4,218,043	-	-
Management fees received - company in which a Director has interest				
- Great Business Ventures Sdn. Bhd.	240,000	340,000	-	-
- 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.

30. SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

- (a) On 5 April 2004, pursuant to Article 43 of Paragon Paper Mill Sdn. Bhd., a subsidiary company's Articles of Association and subject to the sanction of the Court, the issued and paid-up share capital of the subsidiary company be reduced from RM8,200,000 ordinary shares of RM0.0012195 each representing a capital reduction of RM0.9987805 for every existing ordinary shares of RM1.00 each and that the credit of RM8,190,000 in the share capital account of the Company arising from the capital reduction be set-off against the subsidiary company's accumulated losses.

Further, upon reduction of the paid-up share capital, the issued and paid-up share capital of the Company of 8,200,000 shares of RM0.0012195 each shall be consolidated into 10,000 shares of RM1.00 each to be credited as fully paid up by the consolidation of every 820 shares of RM0.0012195 into one (1) share of RM1.00 each.

The subsidiary company has obtained the Court's sanction to reduce its issued and paid up capital on 5 January 2005.

On 30 March 2005, a condition is attached to the capital reduction exercise of the subsidiary company whereby the exercise is subject to recapitalisation of advances of RM7 million from the Company or any other amount subject to 15% of the current market value of ordinary shares of the Company at the time of recapitalisation consistent with the terms and conditions with the acceptance of banking facilities by the subsidiary company.

- (b) On 29 May 2004, a subsidiary company, Yap Swee Thiam & Sons Industries Sdn. Bhd. ("YST") entered into a Sale and Purchase Agreement with Chin Lai Hardware Sdn. Bhd. ("Chin Lai") to dispose a land held under title Pajakan Mukim No. 443, Lot 189, Bandar Selayang, Daerah Gombak, Negeri Selangor together with the building erected thereon for a total consideration of RM5,700,000.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

- 31 DECEMBER 2004

30. SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR (CONT'D)

However, at the subsidiary company's Extraordinary General Meeting on 20 August 2004, the disposal was not approved by the members of the subsidiary company. As such, this transaction was not effected.

Subsequently, YST and Chin Lai had agreed to continue with the said Sales and Purchase Agreement dated 29 May 2004. A supplementary agreement was signed on 28 October 2004, which included a clause whereby YST agreed to reimburse Chin Lai RM280,000 for the cost and expenses incurred in applying to the relevant authority for the necessary approval for the erection of the building and the issuance of certificate of fitness. Approval from the shareholders of YST for the Sale and Purchase Agreement dated 29 May 2004 and supplementary agreement dated 28 October 2004 had been obtained via Members' Circular Resolution dated 28 October 2004.

(c) Profit guarantee by a shareholder.

Pursuant to the acquisition of the entire equity interest in KPS Plywood Sdn. Bhd. ("KPSPSB"), 60% of the equity interest in Yap Swee Thiam & Sons Industries Sdn. Bhd. ("YSTSB") 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 KPSPSB 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 KPSPSB 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.

The total shortfall in profit guarantee of RM3,203,216 has been fully settled by the Vendors. The shortfall in profit guarantee have been treated as a reduction in cost of investment with a consequential effect on goodwill during the year.

31. SIGNIFICANT EVENT SUBSEQUENT TO THE BALANCE SHEET DATE

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

The estimated extent of losses as a result of the fire is as follows:-

	RM
Factory building	3,321,177
Plant and machinery	2,757,623
Office equipment	86,855
Furniture and fittings	11,585
	<hr/>
	6,177,240
Inventories	10,417,623
	<hr/>
	16,594,863

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

- 31 DECEMBER 2004

32. COMPARATIVE INFORMATION

The following comparative figures have been restated on the face of the Group balance sheet and Group income statement as a result of incorporating the audited financial statements of a subsidiary company, Yap Swee Thiam & Sons Industries Sdn. Bhd. as disclosed in Note 26 to the Financial Statements.

	Group	
	As restated RM	As previously reported RM
Balance Sheets		
Accumulated loss	26,176,719	20,813,243
Deferred taxation	1,052,055	663,055
Goodwill	40,145,633	39,652,977
Inventories	29,077,989	34,841,806
Other receivables	6,231,385	6,931,385
Tax payable	6,832,583	7,829,268
Income Statements		
Cost of sales – existing	260,672,562	254,908,745
Administration expenses	15,213,833	15,180,989
Other operating expenses	11,862,973	11,688,473
Taxation	1,193,113	1,800,798
Profit before taxation	7,714,043	11,884,406
Net profit for the year	6,493,588	11,857,064
Staff costs	11,149,648	10,704,701

33. FINANCIAL INSTRUMENTS

(a) Interest rate risk

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:-

					Effective interest rate during the financial year 2004
Group 2004	Less than 1 year RM	1 to 5 years RM	More than 5 years RM	Total RM	
<u>Financial assets</u>					
Deposit, cash and bank balances	14,335,212	24,821,049	-	39,156,261	2.20% - 3.65%
<u>Financial liabilities</u>					
Borrowings	66,832,818	-	-	66,832,818	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 creditor	163,509	106,093	-	269,602	3.90% - 7.90%

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

- 31 DECEMBER 2004

33. FINANCIAL INSTRUMENTS (CONT'D)

	Less than 1 year RM	1 to 5 years RM	More than 5 years RM	Total RM	Effective interest rate during the financial year 2004
Company 2004					
<u>Financial assets</u>					
Cash and bank balances	75,395	-	-	75,395	-
<u>Financial liabilities</u>					
ICULS	-	11,892,000	-	11,892,000	4.50%
RCSLS	-	19,332,000	-	19,332,000	4.50%
Group 2003					
<u>Financial assets</u>					
Deposit, cash and bank balances	11,545,551	24,281,368	-	35,826,919	2.15% - 3.97%
<u>Financial liabilities</u>					
Borrowings	69,993,620	-	-	69,993,620	2.90% - 8.00%
Term loan	1,940,013	3,049,618	-	4,989,631	6.50% - 7.90%
ICULS	-	13,820,000	-	13,820,000	4.50%
RCSLS	-	19,332,000	-	19,332,000	4.50%
Finance creditor	395,609	125,252	-	520,861	3.80% - 7.90%
Company 2003					
<u>Financial assets</u>					
Cash and bank balances	137,529	-	-	137,529	-
<u>Financial liabilities</u>					
ICULS	-	13,820,000	-	13,820,000	4.50%
RCSLS	-	19,332,000	-	19,332,000	4.50%

(b) Credit risk

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

- 31 DECEMBER 2004

33. FINANCIAL INSTRUMENTS (CONT'D)

(c) Fair values

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

	Group		Company	
	Carrying Amount RM	Fair value RM	Carrying amount RM	Fair value RM
2004				
Unquoted shares in subsidiary companies	-	-	<u>107,410,771</u>	*
Quoted investments in Malaysia	<u>6,012</u>	<u>1,383</u>	-	-
Unquoted investments in Malaysia	<u>6,012</u>	#	-	-
2003				
Unquoted shares in subsidiary companies	-	-	<u>110,613,987</u>	*
Quoted investments in Malaysia	<u>6,012</u>	<u>3,156</u>	-	-
Unquoted investments in Malaysia	<u>6,012</u>	#	-	-

* *It was not practicable within the constraints of timeliness and cost to estimate these fair values reliably. However, at the end of the financial year, the net tangible assets reported by the subsidiary companies were as follows:-*

	Company	
	2004 RM	2003 RM
Unquoted shares in subsidiary companies	<u>60,496,000</u>	<u>53,136,000</u>

It was not practicable within the constraints of timeliness and cost to estimate these fair values reliably. However, at the end of the financial year, the fair value of the other unquoted investments is assumed to be the same as carrying amount as it is immaterial in the context of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

- 31 DECEMBER 2004

34. SEGMENTAL REPORTING – GROUP

(a) Primary segmental reporting – Business Segment

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

Business segments	Business activities
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 manufacturing	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 2004

34. SEGMENTAL REPORTING – GROUP (CONT'D)

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

2004	Paper milling RM	Paper converting RM	Plywood RM	Timber manufacturing RM	Investment and management RM	Others RM	Eliminations RM	Consolidated RM
Revenue								
External revenue	12,716,618	23,888,969	177,196,966	22,490,404	-	18,776,194	-	255,069,151
Intersegment revenue	5,264,214	1,380,924	35,846,551	3,241,048	158,400	93,739	(45,984,876)	-
Total revenue	17,980,832	25,269,893	213,043,517	25,731,452	158,400	18,869,933	(45,984,876)	255,069,151
Results								
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)	(261,506)	428,981	(2,141,100)	7,038,215
Finance cost	(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)	(434,822)	281,681	(1,558,001)	2,926,083
Taxation								(2,087,899)
Profit after taxation								838,184
Minority interest								(23,613)
Net profit for the year								814,571

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

- 31 DECEMBER 2004

34. SEGMENTAL REPORTING – GROUP (CONT'D)

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

2004	Paper milling RM	Paper converting RM	Plywood RM	Timber manufacturing RM	Investment and management RM	Others RM	Consolidated RM
Other information							
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
Unallocated corporate asset	-	-	-	-	-	-	34,801,317
Consolidated total assets	29,440,109	19,240,790	104,884,766	39,423,103	1,058,731	10,454,932	239,303,748
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
Capital expenditure on property, plant and equipment	164,395	12,296	181,458	675,426	-	296,388	1,329,963
Depreciation	1,506,482	531,335	653,032	1,580,007	4,318	135,776	4,410,950
Property, plant and equipment written off	16,288	155,642	2,217	-	-	-	174,147

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

- 31 DECEMBER 2004

34. SEGMENTAL REPORTING – GROUP (CONT'D)

(a) Primary segmental reporting – Business Segment (Cont'd)		Paper milling RM	Paper converting RM	Plywood RM	Timber manufacturing RM	Investment and management RM	Others RM	Eliminations RM	Consolidated RM
2003	Revenue								
	External revenue	13,213,389	18,388,439	195,786,817	47,885,028	-	15,490,459	-	290,764,132
	Intersegment revenue	2,364,029	1,613,681	20,116,597	559,912	369,500	400,334	(25,424,053)	-
	Total revenue	15,577,418	20,002,120	215,903,414	48,444,940	369,500	15,890,793	(25,424,053)	290,764,132
	Results								
	Segment results	1,879,212	(659,226)	14,023,103	(1,851,919)	(178,937)	142,674	-	13,354,907
	Interest income	1,556	17,464	475,863	148,934	410	6,422	-	650,649
	Unallocated corporate expenses	-	-	-	-	-	-	(2,141,100)	(2,141,100)
	Profit/(loss) from operations	1,880,768	(641,762)	14,498,966	(1,702,985)	(178,527)	149,096	(2,141,100)	11,864,456
	Finance cost								(4,150,413)
	Profit before taxation								7,714,043
	Taxation								(1,193,113)
	Profit after taxation								6,520,930
	Minority interest								(27,342)
	Net profit for the year								6,493,588

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

- 31 DECEMBER 2004

34. SEGMENTAL REPORTING – GROUP (CONT'D)

(a) Primary segmental reporting – Business Segment (Cont'd)		Paper milling RM	Paper converting RM	Plywood RM	Timber manufacturing RM	Investment and management RM	Others RM	Consolidated RM
2003	Other information							
Segment assets		25,756,549	19,676,444	104,598,656	49,503,309	290,924	8,033,066	207,858,948
Tax recoverable		-	-	-	-	384	-	384
Unallocated corporate asset		-	-	-	-	-	-	40,145,633
Consolidated total assets		25,756,549	19,676,444	104,598,656	49,503,309	291,308	8,033,066	248,004,965
Segment liabilities		1,380,438	2,446,649	59,597,292	26,211,729	22,480,601	842,804	112,959,513
Tax payable		-	4,500	3,126,095	3,652,816	-	49,172	6,832,583
Deferred taxation		-	-	109,200	829,855	-	113,000	1,052,055
Consolidated total liabilities		1,380,438	2,451,149	62,832,587	30,694,400	22,480,601	1,004,976	120,844,151
Capital expenditure on property, plant and equipment		1,255,478	45,088	102,020	3,611,833	-	7,485	5,021,904
Depreciation		1,483,184	655,244	663,103	2,064,665	4,068	104,530	4,974,794
Property, plant and equipment written off		-	538,901	3,989	-	-	-	542,890

(b) Secondary segmental reporting – Geographical segment

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

KPS CONSORTIUM BERHAD & GROUP OF COMPANIES

List of Properties as at 31 December 2004

Location	Description	Tenure	Land Area (meter sq)	Approximate Age of Building (year)	Net Book Value (RM'000)	Year of Acquisition or 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	1,450	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	5,817	1993* & 1992
3. Lot 765, Mukim of Kapar, District of Klang, Selangor	Factory and office building	Freehold	17,705	12	8,192	1993*
4. Lot PT129942, Kawasan Perusahaan Kanthan, Chemor, Perak	Factory and office building	60-year lease to 14/03/2055	53,174	6	6,098	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 6 1/2, Puchong, Selangor	Vacant Land	Freehold	15,700 sq ft	N/A	251	1995
7. No. 44, Lot 33893 Bandar Puchong Utama, Puchong, Selangor	4-storey shop/office	Freehold	1,760 sq ft	5	733	1996
8. Lot 14374 Bandar Kinrara Industrial Centre, Selangor	3-storey office block & 2-storey open warehouse	Freehold	186,590 sq ft	8	8,753	1995
9. Lot 4 Section 91A, Block B, Tmn Miharja UE3	Office suite	-	7,396 sq ft	8	2,377	1997
10. Unit E2-103, Block E Apartment Merak, Bukit Idaman, Mukim Batu, Selangor	Ground floor flat	99-year to 17.10.2089	600 sq ft	13	27	1990
11. Lot 68.2C, 1-2C, Jln PS6, Prima Selayang, Mukim Batu, Selangor	Shop/office apartment	99-year (Strata, title not ready)	975 sq ft	6	55	1994
12. Unit No B2F-19, Mukim Petaling, B-2-1 Megan Phoenix, Jalan 2/142A, Off Jalan Cheras	Office Premise	Freehold	1,606 sq ft	7	299	2002
13. HS(D) 14885, PT310, Bandar Port Dickson	3-storey shoplot	Freehold sq meter	187.4	8	522	2004

SHAREHOLDINGS STRUCTURE

As at 19th May 2005

(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	:	5,550

Distribution of Shareholdings as at 19th May 2005

Size of Holdings	No. of Shareholders	Total Holdings	% of Paid-up Capital
Less than 100	5	120	0.00
100 -1000	1,165	1,152,683	0.82
1001-10,000	3,211	15,643,715	11.15
10,001-100,000	1,060	32,843,800	23.42
100,001 and below 5% of share capital	105	39,937,493	28.48
Above 5% of share capital	4	50,674,825	36.13
	5,550	140,252,636	100.00

Substantial Shareholders as at 19th May 2005

Shareholders	No. of Shares Held		Percentage Holding
	Direct	Indirect	
Koh Poh Seng	34,282,535	-	24.44
AMMB Nominees (Tempatan) Sdn Bhd – <i>AmTrustee Berhad for Koh Poh Seng</i>	8,488,400	-	6.05
Alliance Group Nominees (Tempatan) Sdn Bhd – <i>Koh Poh Seng</i>	10,403,890	-	7.42

List of Thirty (30) Largest Shareholders as at 19th May 2005

No.	Name of Shareholders	No. of Shares	Percentage Holding
1	Koh Poh Seng	19,415,649	13.84
2	Koh Poh Seng	14,866,886	10.60
3	AMMB Nominees (Tempatan) Sdn Bhd - <i>AmTrustee Berhad for Koh Poh Seng</i>	8,488,400	6.05
4	Alliance Group Nominees (Tempatan) Sdn Bhd - <i>Koh Poh Seng</i>	7,903,890	5.64
5	HDM Nominees (Tempatan) Sdn Bhd - <i>Lim Chai Beng</i>	3,069,300	2.19
6	Alliance Group Nominees (Tempatan) Sdn Bhd - <i>Koh Poh Seng</i>	2,500,000	1.78
7	Lim Chai Beng	2,433,000	1.73

SHAREHOLDINGS STRUCTURE (CONT'D)

As at 19th May 2005
(pursuant to paragraph 22, Part A, Appendix 9C Listing Requirements)

List of Thirty (30) Largest Shareholders as at 19th May 2005 (Cont'd)
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No.	Name of Shareholders	No. of Shares	Percentage Holding
8	Yap Swee Thiam	1,893,310	1.35
9	CitiCorp Nominees (Tempatan) Sdn Bhd - <i>Koh Poh Seng</i>	1,800,000	1.28
10	Keng Poh Im	1,655,000	1.18
11	TA Nominees (Tempatan) Sdn Bhd - <i>Lee Tiam Ket</i>	1,357,200	0.97
12	Public Nominees (Tempatan) Sdn Bhd - <i>Koh Poh Seng</i>	1,250,000	0.89
13	Lau Yau Tong	1,002,000	0.71
14	Pacific Strike Sdn Bhd	866,600	0.62
15	Foo Ah Kow @ Foo Lee Onn	769,000	0.55
16	Lim Yen Yen	736,576	0.53
17	Kuala Lumpur City Nominees (Tempatan) Sdn Bhd - <i>Hee Yuen Sang</i>	704,000	0.50
18	Chan Kim Kiok	702,100	0.50
19	RHB Capital Nominees (Tempatan) Sdn Bhd - <i>Sin Huan Kwang</i>	693,800	0.49
20	HSBC Bank Malaysia Berhad	672,611	0.48
21	Chung Shan Kwang	614,000	0.44
22	Tan Poay Jong	600,000	0.43
23	RC Nominees (Tempatan) Sdn Bhd - <i>Lau Kou Seong</i>	575,400	0.41
24	Gan Ah Huat	560,000	0.40
25	TA Nominees (Tempatan) Sdn Bhd - <i>Oh Kim Hoe</i>	560,000	0.40
26	Mayban Nominees (Tempatan) Sdn Bhd - <i>Lim Chai Beng</i>	466,800	0.33
27	Mayban Nominees (Tempatan) Sdn Bhd - <i>Low Ngok Ming</i>	435,000	0.31
28	Mayban Nominees (Tempatan) Sdn Bhd - <i>Neoh Soon Kee</i>	371,000	0.26
29	Lim Kian Wat	324,200	0.23
30	Tan Peng Chung	320,000	0.23
		77,605,722	55.33

SHAREHOLDINGS STRUCTURE (CONT'D)
 As at 19th May 2005
 (pursuant to paragraph 22, Part A, Appendix 9C Listing Requirements)

Directors' Shareholdings and Interest in Shares as at 19th May 2005
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No.	Name of Directors	No. of Shares	Percentage Holding
1	Koh Poh Seng	56,254,825*	40.11
2	Lau Fook Meng	Nil	Nil
3	Su Ming Keat	Nil	Nil
4	Dr Kow Cheong Wei, PhD,SIS, PJK	Nil	Nil
5	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 19 May 2005.

* - Held directly and through nominee companies.

NOTICE OF NOMINATION

Koh Poh Seng,
34 Jalan Hujan Gerimis Dua,
Taman Overseas Union,
58200 Kuala Lumpur

19 May 2005

The Board Of Directors,
KPS Consortium Bhd,
Lot 765, Jalan Haji Sirat,
Off Jalan Meru,
42100 Klang

Dear Sirs,

Notice of Nomination of Messrs Ernst & Young as Auditors

I, a shareholder of **KPS Consortium Bhd**, hereby give notice, pursuant to Section 172 (11) of the Companies Act, 1965 of our nomination of Messrs Ernst & Young of Level 23A Menara Milenium, Jalan Damansara, 50490 Kuala Lumpur as Auditors of the Company and its subsidiaries in place of the retiring auditors.

Yours truly,



Koh Poh Seng

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KPS CONSORTIUM BERHAD (143816-V)

Incorporated in Malaysia

No. of shares held

PROXY FORM

(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):-

Name of proxy, NRIC No. & Address	No. of shares to be represented by proxy
1. _____	_____
2. _____	_____

or failing him/her, the Chairman of the Meeting as *my/our proxy/proxies to attend and vote for *me/us and on my/our behalf at the Nineteenth 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 Thursday, 30th June 2005 at 11.00 a.m and at every adjournment thereof to vote as indicated below:-

	FOR	AGAINST
Ordinary Resolution 1		
Ordinary Resolution 2		
Ordinary Resolution 3		
Ordinary Resolution 4		
Ordinary Resolution 5		
Ordinary Resolution 6 (i) <u>OR</u>		
6 (ii)		
Ordinary Resolution 7		

(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.

As witness my hand this _____ day of _____ 2005.

Signature/Common Seal

● **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 need 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.
5. Explanatory notes on the Special Business

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

The proposed Resolution 7 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.

PLEASE FOLD HERE

AFFIX STAMP

KPS CONSORTIUM BERHAD (143816-V)
Lot 765, Jalan Haji Sirat Off Jalan Meru
42100 Klang, Selangor Darul Ehsan
Malaysia

PLEASE FOLD HERE
