notes to the financial statements

31 DECEMBER 2004

1. CORPORATE INFORMATION

The principal activity of the Company is that of investment holding. The principal activities of the subsidiaries are described in Note 4. There have been no significant changes in the nature of these activities during the financial year.

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and listed on the Second Board of the Bursa Malaysia Securities Berhad. The principal place of business of the Company is located at Lot 4A Jalan Sultan Mohamed 3, Kawasan Perindustrian Bandar Sultan Suleiman, 42000 Port Klang, Selangor Darul Ehsan. The registered office of the Company is located at Level 11-2, Faber Imperial Court, Jalan Sultan Ismail, 50250 Kuala Lumpur.

The Company's holding company is The Grande Holdings Limited ("GHL"), a company incorporated in Bermuda and its shares are listed on the Stock Exchange of Hong Kong. The Company's ultimate holding company is The Grande International Holdings Limited,a company incorporated in The British Virgin Islands.

The number of employees in the Group at the end of the year was 214 (2003 : 326). The accounting records of the Company are maintained by the employees of a subsidiary company.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 21 February 2005.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial statements of the Group and of the Company have been prepared under the historical cost convention and comply with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia.

(b) Revenue Recognition

(i) Sale of goods

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

Revenue relating to sale of goods is recognised net of returns and discounts when transfer of risks and rewards has been completed.

(ii) Dividend income

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(c) Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries. Subsidiaries are those companies in which the Group has a long term equity interest and where it has power to exercise control over the financial and operating policies so as to obtain benefits therefrom.

Acquisition of subsidiaries which meet the criteria for merger are accounted for using merger accounting principles. When the merger method is used, the cost of investment in the Company's books is recorded at the nominal value of shares issued and the difference between the carrying value of the investment and the nominal value of shares acquired is treated as merger reserve or merger deficit. The resulting debit difference between the carrying value of the investments and the nominal value of shares acquired was treated as a merger deficit. The merger deficit had been adjusted against the retained profits pursuant to the requirement of MASB 21: Business Combinations.

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

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

The gain or loss on disposal of a subsidiary company is the difference between net disposal proceeds and the Group's share of its net assets together with any unamortised balance of goodwill and exchange differences which were not previously recognised in the consolidated income statement.

(d) Investments in Subsidiaries

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

On disposal of such investments, the difference between the net disposal proceeds and their carrying amounts is charged or credited to the income statement.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(e) Foreign Currencies

(i) Foreign currency transactions

Transactions in foreign currencies are initially recorded in Ringgit Malaysia at rates of exchange ruling at the date of transaction. At each balance sheet date, foreign currency monetary items are translated into Ringgit Malaysia at exchange rates ruling at that date. Non-monetary items initially denominated in foreign currencies, which are carried at historical cost are translated using the historical rate as of the date of acquisition and non monetary items which are carried at fair value are translated using the exchange rates that existed when the values were determined. All exchange rate differences are taken to the income statement.

(ii) Foreign entities

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

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the Company and translated at the exchange rate ruling at the date of the transaction.

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

	2004 RM	2003 RM
United States Dollar	3.8000	3.8000
Japanese Yen	0.0371	0.0353
Hong Kong Dollar	0.4888	0.4894

(f) Property, Plant and Equipment and Depreciation

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

Long term leasehold land with unexpired lease tenure of 50 years or more is not depreciated.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

Depreciation of other property, plant and equipment is provided on a straight line basis to write off the cost of each asset to its residual value over the estimated useful life at the following annual rates:

Building	2.2%
Plant, machinery and tools	10% -33 1/3%
Furniture, fittings and leasehold improvement	10% -33 1/3%
Motor vehicles	25%

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

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of finished goods and work-in-progress includes direct materials, direct labour, other direct costs and appropriate production overheads determined on a first-in, first-out basis. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

(h) Income Taxation

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

Deferred taxation is provided for, by the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principal, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible differences, unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available against which these can be utilised. Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in the income statement.

(i) Cash and Cash Equivalents

For the purposes of the cash flow statements, cash and cash equivalents include cash on hand and at banks and deposits with licensed banks, net of any outstanding bank overdrafts.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(j) Provisions for Liabilities

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

(k) Affiliated Company

An affiliated company is defined company as an associated company of the ultimate holding company.

(l) Impairment of Assets

At each balance sheet date, the Group reviews the carrying amounts of its assets, other than inventories and financial assets, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, impairment is measured by comparing the carrying values of the assets with their recoverable amounts. Recoverable amount is the higher of net selling price 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 to which the asset belongs.

An impairment loss is recognised as an expense in the income statement immediately. Reversal of impairment losses recognised in prior years is recorded when the impairment losses recognised for the asset no longer exist or have decreased.

(m) Financial Instruments

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(i) **Trade and Other Receivables**

Trade receivables are carried at anticipated realisable values. Bad debts are written off when identified. An estimate is made for doubtful debts based on a review of all outstanding amounts as at the balance sheet date.

(ii) **Trade and Other Payables**

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

(iii) **Interest-Bearing Borrowings**

Interest-bearing bank loans and overdrafts are recorded at the amount of proceeds received, net of transaction costs. Borrowing costs are charged to the income statement as an expense in the period in which they are incurred.

(iv) **Share Capital**

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

(n) **Employee Benefits**

(i) **Short term benefits**

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Company. 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 plans**

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