



**PRICEWORTH WOOD PRODUCTS BERHAD**  
(Company No: 399292 - V)

1st Floor, Lot 5, Block No. 4, Bandar Indah, Mile 4, Jalan Utara,  
P.O. Box 2848, 90732 Sandakan, Sabah, Malaysia.  
(Head Office) Tel: 089-221170/ 2237767/ 221211 Fax: 089-221213/ 227823  
E-mail: [pwpbhd@streamyx.com](mailto:pwpbhd@streamyx.com) / [maxland@streamyx.com](mailto:maxland@streamyx.com)



**Priceworth Wood Products Berhad** (399292-V)  
(Incorporated in Malaysia)

# Annual Report 2005



# Contents

|          |  |
|----------|--|
| 2        | CORPORATE INFORMATION                  |
| 3-4      | NOTICE OF ANNUAL GENERAL MEETING       |
| 5-6      | CHAIRMAN'S STATEMENT                   |
| 7-8      | DIRECTORS' PROFILE                     |
| 9-11     | STATEMENT OF CORPORATE GOVERNANCE      |
| 12       | STATEMENT OF INTERNAL CONTROL          |
| 13       | STATEMENT OF DIRECTORS' RESPONSIBILITY |
| 14-15    | THE AUDIT COMMITTEE REPORT             |
| 16       | ADDITIONAL COMPLIANCE INFORMATION      |
| 63-64    | LIST OF PROPERTIES                     |
| 65-67    | ANALYSIS OF SHAREHOLDINGS              |
| Enclosed | PROXY FORM                             |



# Corporate Information

## BOARD OF DIRECTORS

**Tan Sri Sabbaruddin Chik**  
(Chairman)

**Lim Nyuk Foh**  
(Managing Director)

**Chok Syn Vun**  
(Executive Director)

**Ramlee Bin Mohd Shariff**  
(Non-Executive Director)

**Kwan Tack Chiong**  
(Independent Non-Executive Director)

**Ooi Jit Huat**  
(Independent Non-Executive Director)

## AUDIT COMMITTEE

Kwan Tack Chiong  
(Chairman)

Chok Syn Vun  
(Member)

Ooi Jit Huat  
(Member)

## COMPANY SECRETARY

Katherine Chung Mei Ling (MAICSA 7007310)

## REGISTERED OFFICE

1st Floor, Lot 5, Block No. 4, Bandar Indah, Mile 4,  
Jalan Utara, P.O. Box 2848, 90732 Sandakan, Sabah  
Tel No. : 089 221170/223767/221211  
Fax No. : 089 221213/227823

## HEAD OFFICE

1st Floor, Lot 5, Block No. 4, Bandar Indah, Mile 4,  
Jalan Utara, P.O. Box 2848, 90732 Sandakan, Sabah  
Tel No. : 089 221170/223767/221211  
Fax No. : 089 221213/227823  
Email : pwpbhd@streamyx.com/  
pricwor@tm.net.my/  
maxland@streamyx.com  
Website : www.borneo-online.com.my/priceworth

## SHARE REGISTRAR

Symphony Share Registration Services Sdn Bhd  
Level 26, Menara Multi-Purpose  
Capital Square  
No. 8, Jalan Munshi Abdullah  
50100 Kuala Lumpur  
Tel : 03-27212222  
Fax : 03-27212530

## PRINCIPAL BANKERS

Malayan Banking Berhad  
48 Jalan Tiga, 90704 Sandakan, Sabah

HSBC Bank Malaysia Berhad  
Jalan Pelabuhan/Leboh Tiga  
90000 Sandakan, Sabah

AmMerchant Bank Berhad  
22nd Floor, Bangunan AmBank Group  
55 Jalan Raja Chulan, 50200 Kuala Lumpur

Alliance Merchant Bank Berhad  
Level 19, Menara Multi-Purpose  
Capital Square, 8 Jalan Munshi Abdullah  
50100 Kuala Lumpur

RHB Sakura Merchant Bankers Berhad  
Level 11, Tower Three, RHB Centre  
426 Jalan Tun Razak  
50400 Kuala Lumpur

## AUDITORS

Ernst & Young  
Alliance Bank Building, 2nd Floor, Jalan Utara  
W.D.T. 46, 91009 Tawau, Sabah

## STOCK EXCHANGE LISTING

Bursa Malaysia Securities Berhad  
Main Board

## STOCK NAME

PWORTH

## BURSA SECURITIES STOCK NO.

7123

# Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN THAT** the Ninth Annual General Meeting of the Company will be convened and held at Executive Parlour of Sabah Hotel, Sandakan, Sabah on 22 December 2005 at 9.00 a.m. to transact the following business:

## AGENDA

- |  |                     |
|--|---------------------|
| 1. To receive the Audited Financial Statements for the financial year ended 30 June 2005 together with the Reports of the Directors and Auditors thereon.            | <b>Resolution 1</b> |
| 2. To declare a first and final tax-exempt dividend of 1.5 sen per ordinary share in respect of the financial year ended 30 June 2005.                               | <b>Resolution 2</b> |
| 3. To approve the payment of Directors' Fees in respect of the financial year ended 30 June 2005.  | <b>Resolution 3</b> |
| 4. To re-elect the following Directors retiring pursuant to Article 86 of the Company's Articles of Association and being eligible, offer themselves for reelection: |                     |
| (a) Tan Sri Sabbaruddin Chik   | <b>Resolution 4</b> |
| (b) Mr Lim Nyuk Foh  | <b>Resolution 5</b> |
| 5. To re-appoint Messrs Ernst & Young as the Company's Auditors and to authorise the Board of Directors to fix their remuneration.                                   | <b>Resolution 6</b> |
| 6. As Special Business:  |                     |

## ORDINARY RESOLUTION

**Resolution 7**

### - Authority to allot shares pursuant to Section 132D of the Companies Act, 1965

"**THAT**, subject to the Companies Act, 1965, the Articles of Association of the Company and the approvals of the relevant governmental and/or regulatory authorities, the Directors be and are hereby empowered, pursuant to Section 132D of the Companies Act, 1965, 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 share 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."

7. To transact any other business that may be transacted at an Annual General Meeting, due notice of which shall have been previously given in accordance with the Companies Act, 1965 and the Company's Articles of Association.

## BY ORDER OF THE BOARD

**KATHERINE CHUNG MEI LING**  
(MAICSA 7007310)  
Company Secretary

Sandakan

30 November 2005

# Notice of Annual General Meeting (cont'd)

## Notes:

1. A member of the Company entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and vote in his stead. A proxy may but need not be a member of the Company. A member may appoint any person to be his proxy without limitation and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply.
2. Where a member appoints 2 or more proxies, the appointment shall be invalid unless he specifies the proportion of his shareholdings to be represented by each proxy.
3. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its Common Seal or under the hand of an officer or attorney duly authorised.
4. The instrument appointing a proxy must be deposited at the Registered Office of the Company at Lot 5, 1st Floor, Block No. 4, Bandar Indah, Mile 4, Jalan Utara, P. O. Box 2848, 90732 Sandakan, Sabah not less than 48 hours before the time set for holding the meeting or any adjournment thereof.
5. EXPLANATORY NOTE ON SPECIAL BUSINESS

### Resolution No. 7

- Authority to allot shares pursuant to Section 132D of the Companies Act, 1965

10% of the issued share capital for the time being for such purposes as the Directors would consider in the best interest of the Company. This authority, unless revoked and varied by the Company at a general meeting, will expire at the conclusion of the next Annual General Meeting of the Company.

## STATEMENT ACCOMPANYING THE NOTICE OF NINTH ANNUAL GENERAL MEETING

### 1. Directors standing for re-election at the Ninth Annual General Meeting of the Company pursuant to Article 86 of the Company's Articles of Association

- (a) Tan Sri Sabbaruddin Chik
- (b) Mr Lim Nyuk Foh

### 2. Details of attendance of Directors at Board Meetings

There were eight (8) Board of Directors' Meetings held during the financial year ended 30 June 2005. The details of attendance of Directors are set out in the Profile of Directors appearing on page 8 of the Annual Report.

### 3. Place, date and time of the Ninth Annual General Meeting

Place : Executive Parlour of Sabah Hotel, Sandakan, Sabah

Date : 22 December 2005

Time : 9.00 a.m.

### 4. Profile of Directors who are standing for re-election

Details of the Directors who are standing for re-election are set out in the Profile of Directors appearing on pages 7 and 8 of the Annual Report.

# Chairman's Statement

On behalf of the Board of Directors, I am pleased to present to you the Annual Report and Audited Financial Statements of Priceworth Wood Products Berhad for the financial year ended 30 June 2005.

## Financial Results

During the year under review, the Group recorded revenue of RM304.3 million and profit after taxation of RM16.0 million compared to revenue of RM175.1 million and profit after taxation of RM8.0 million in the previous financial year. The increase in revenue for the current financial was mainly contributed by the increase in sales of processed wood products and logs, accompanied with the increase in logging activities. The increase in post-tax profit mainly coincides with the increase of the Group revenue.

The total volume of logs extracted from Concession BW8 for the year ended 30 June 2005 was 397,425.54 m3. The volume extracted from Concession Kuamut for the year ended 30 June 2005 was 131,458.16 m3.

## Proposed Corporate Development

The Company announced on 15 July 2005 on the proposed establishment of an employees' share option scheme ("Proposed ESOS") as it is vital to appreciate and reward the eligible employees and Directors by encouraging direct participation in the Group's profits and future growth to enhance their contributions.

The Company also proposed to amend the Articles of Association ("Proposed Amendment") to facilitate the grant of options to be extended to the Non-Executive Directors of the Group pursuant to the Proposed ESOS. In addition the Proposed Amendments will also bring the Articles of Association of the Company to be in line with the current provisions of the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") and the Rules of Bursa Malaysia Depository Sdn Bhd.

The Proposed ESOS and Proposed Amendment are subject to the shareholders' approval at the forthcoming Extraordinary General Meeting.

## Prospects

The future prospects of the timber industry are mainly dependent on the demand outlook of the international market as well as the performance of the domestic economy.

Positive growth of the domestic economy may well spur the demand for timber and processed wood products. Malaysia is currently experiencing positive growth and high consumer confidence especially in the building and construction sector and will provide a better leverage for the timber industry.

On the international front, growth and economic stabilities has been seen in most of the East Asian timber importing countries, such as South Korea, Japan and Taiwan. The high demand for timber and processed wood products from China and India has been spurred by their record growth for the last few years and expected to continue for the coming year. Despite the de-pegging of the Malaysian Ringgit against US Dollar, there is no substantial impact in the current prices and demand for the timber and wood products. The current level will be able to sustain with the continuous demand from countries such as China and Japan.

Although there is increase operational cost with the surge in fuel cost and spare parts, the Board is confident that the Group's long-term prospect in the industry will remain positive and the Group will focus on ways to produce and market high quality downstream value added products and to continue to improve its efficiency and production capacity.

On the basis of the above and barring from any unforeseen circumstances, the Board of Directors is optimistic that the Group will continue to achieve a positive result for the coming financial year ending 30 June 2006.

## Chairman's Statement (cont'd)

### Dividend

The Board has recommended for your approval, a first and final tax-exempt dividend of 1.5 sen per ordinary share for the financial year ended 30 June 2005 amounting to RM2.1 million subject to the approval of the shareholders at the forthcoming Annual General Meeting.

### Acknowledgement

On behalf of the Board, I wish to convey our appreciation to the management and staff for their diligence, dedication, professionalism and commitment towards the achievements of the Group in maintaining the Group's competitiveness and making another successful year possible. I wish also to express my gratitude to the shareholders, financiers, customers, suppliers, business associates and all other stakeholders for the continued support and confidence for the Group. Finally, I would like to express appreciation to our other board members for their contributions and unfailing support during the year.

**Tan Sri Sabbaruddin Chik**

Chairman



## Directors' Profile

### **Tan Sri Sabbaruddin Chik**

Malaysian, aged 64

Chairman/Independent Non-Executive Director

Tan Sri Sabbaruddin is the Chairman of the Company and has been on the Board since 2 November 2001. He graduated from Universiti Malaya in 1965 and from the Institute of Social Studies, The Hague, Holland in 1974. He started his government career as the Assistant Secretary for the State of Negeri Sembilan from 1966 to 1967. In 1967, he was appointed as Assistant Secretary for the Ministry of Foreign Affairs. From 1967 to 1971, he was the Malaysian Consulate in Saigon before being appointed as the Principal Assistant Secretary in the Prime Minister's Department from 1971 to 1975. In 1975, he was posted to the Socio-Economic Planning Unit as a Director for Planning in the Department and thereafter became the Director of International Trade in the Ministry of Trade and Industry from 1976 to 1979. Between 1980 and 1981, he was the Deputy State Secretary of Selangor and in 1981 he joined Pernas Trading Sdn Bhd as the Senior General Manager. Subsequently Tan Sri was appointed as Deputy Finance Minister from 1982 to 1987 and he was the Cultural, Arts and Tourism Minister from 1987 to 1999. He was also the Member of Parliament for Temerloh from 1982 to 1999.

He is currently an independent director in Eden Enterprises (M) Berhad, which is a public company listed on Second Board of the Bursa Securities.

### **Lim Nyuk Foh**

Malaysian, aged 41

Managing Director

Mr Lim founded the PWP Group and was appointed to the Board on 2 November 2001.

He holds a Degree in Finance majoring in Investment from the University of Toledo, United States of America. Coming from a family involved in the timber business, he ventured into the trading of timber for the domestic and foreign market in 1989. In 1990 he founded PISB to undertake the sawmilling and timber extraction business. He has more than 15 years of extensive experience in the timber industry.

He has no directorship or major shareholdings in other public companies.

### **Chok Syn Vun**

Malaysian, aged 35

Executive Director

Mr Chok was appointed to the Board on 2 November 2001 and is also a member of Audit Committee of the Company. He graduated from Stamford College, Singapore in 1991 with a Diploma in Accounting. In 2000, he was awarded Bachelor of Business Administration, with a major in Accounting with Distinction from Ashington University, England. He joined PISB in 17 March 1994. During the formative years of the Group with limited number of personnel had provided Mr Chok the opportunity to involve in various aspects of operations, including administrative, finance and human resources management. Through this exposure, he has gained an extensive experience in the timber operations of the Group. He was made an Executive Director of PISB on 17 February 1997 and oversees the administration and financial functions of the PWP Group.

He has no directorship or major shareholdings in other public companies.

### **Ramlee Bin Mohd Shariff**

Malaysian, aged 41

Independent Non-Executive Director

Encik Ramlee served as a member of the Board of PWP since 2 November 2001. He is a Fellow of Association of Certified Chartered Accountants. He began his career in Ernst & Young in 1987 and became an Audit Manager in 1992. In 1993, he joined Shapadu Corporation Sdn Bhd as the Internal Audit Manager and was promoted to Group Financial Controller in May 1995. He left the company in May 1997 to join Bridgecon Holdings Berhad as the General Manager-Finance where he was also responsible for the group's Corporate Finance, Accounts and Management Information System Department. He is currently the Managing Director of Iman Consulting Sdn Bhd, a company involved in providing corporate finance and financial related advice to clients.

He has no directorship or major shareholdings in other public companies.



## Directors' Profile (cont'd)

### **Kwan Tack Chiong**

Malaysian, aged 42

Independent Non-Executive Director

Mr Kwan was appointed to the Board of PWP on 2 November 2001 and he is the Chairman of the Audit Committee of the Company. He graduated with a Bachelor of Business Administration from the University of Toledo, United States of America. He started his career as a supervisor in Pinayas Wood Products Sdn Bhd in 1989. He joined Trimwood Industrial Sdn Bhd in 1990 as a Manager until 1992. From 1992 until 1993 he was the Marketing Manager of Service Trading Sdn Bhd before serving as the member of the Board of Directors of Priceworth Industries Sdn Bhd from 1994 to 1995. In 1996, he was appointed as director for Matotech (M) Sdn Bhd and has since held the office until today.

He has no other directorship or major shareholdings in other public companies.

### **Ooi Jit Huat**

Malaysian, aged 53

Independent Non-Executive Director

Mr Ooi was appointed to the Board of Directors of PWP on 2 November 2001 and is also a member of Audit Committee of the Company.

He started his career at Peat Marwick Mitchell & Co, Kuala Lumpur. He was a supervisor in the Computer Audit Department for Peat Marwick Mitchell & Co in London from 1980 to 1981. Subsequently on 1981, he was a Manager at Peat Marwick Mitchell & Co of Kuala Lumpur until 1982. In 1983, he became a Financial Controller for Zemex Corporation before he founded his own public accounting firm, Russ Ooi & Associates in 1985. He has over 20 years of experience in the financial industry having carved areas of expertise in corporate consultancy, financial management, management information systems and auditing and investigations. His professional assignments covered flotations exercises, investigations and due diligence reporting and the reverse take-overs of several companies on the Bursa Securities. He is a member of the Malaysian Association of Certified Public Accountants, Malaysian Institute of Accountants and the Malaysian Institute of Taxation. .

He has also served on the Boards of several Malaysian Public Listed companies and currently he is the independent director of Kwantas Corporation Berhad, a company listed on the Main Board of Bursa Securities.

## **OTHER INFORMATION OF DIRECTORS**

### **1. Family Relationship of Directors**

None of the Directors have any family relationship with other Directors.

### **2. Conflict of Interest**

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

### **3. Convictions of Offences**

None of the Directors have been convicted of any offence within the past ten (10) years other than traffic offences.

### **4. Shareholdings**

The particulars of the Directors' shareholding are set out on page 65 of this Annual Report.

### **5. Details of Attendance of Board Meetings held during the financial year ended 30 June 2005**

| Name of Directors             | No. of Meetings Attended | %   |
|-------------------------------|--------------------------|-----|
| Tan Sri Sabbaruddin Chik      | 8/8                      | 100 |
| Mr Lim Nyuk Foh               | 8/8                      | 100 |
| Mr Chok Syn Yun               | 8/8                      | 100 |
| Encik Ramlee Bin Mohd Shariff | 8/8                      | 100 |
| Mr Kwan Tack Chiong           | 8/8                      | 100 |
| Mr Ooi Jit Huat               | 8/8                      | 100 |

# Statement Of Corporate Governance

The Board of Directors ("the Board") of Priceworth Wood Products Berhad is committed in ensuring that the principles and the best practices of corporate governance are practised in the manner set out in the Malaysian Code on Corporate Governance ("the Code"). The Board recognizes that good corporate governance practice is a continuous process and observes as a fundamental part of discharging its responsibilities to protect and enhance shareholder value and the financial performance of the Group.

The statements below sets out how the Group has applied the Principles of the Code and the extent of compliance with the Best Practices of the good corporate governance as set out in Part 1 and Part 2 of the Code.

## A. BOARD OF DIRECTORS

### Board Composition

The Board is comprised of members of different backgrounds, expertise and diverse skill to effectively lead and control the Company. As at the date of this Report, the Board consists of two (2) Executive Directors and four (4) Non-Executive Directors, two (2) of whom are independent. The profile of each Director is presented in this Annual Report on pages 7 to 8.

### Board Balance

The Board is responsible for the overall performance of the Company by setting the directions and objectives, formulating the policies, strategic action plans and stewardship of the Company's resources. The Board regularly reviews the Company's business operations identifying risks and ensuring the existence of adequate internal controls and management systems to measure and manage risks and maintains full and effective control over management of the Company.

The Board has also delegated certain responsibilities to Audit Committee, Nomination Committee and Remuneration Committee, all of which operate with the defined terms of reference. All these Board Committees do not have executive power but report to the Board on all matters considered and their recommendations thereon.

### Board Meetings

Board Meetings will be held at least four (4) times a year at quarterly intervals with additional meetings convened, whenever necessary.

During the year under review, the Board has met on a total of eight (8) occasions. The attendance record of each individual Director at the meetings are set out on page 8 of this Annual Report. All Directors had attended the full Board meetings.

The Board is aware and acts on matters reserved specifically for the Board's decision to ensure they are in tandem with the direction and objective of the Company. The Board members are provided with the agenda of Board Meeting and the detailed information to enable them to arrive at an informed decision. Besides that, the Board also approves matters through circular resolutions.

### Supply of Information

Prior to the Board and Audit Committee Meeting, the Chairman ensures that all the Directors receive the agenda and Board papers containing information relevant to the business of the meeting, including information on major financial performance, operational and corporate matters of the Group. The Minutes of the Board meetings are confirmed at the following meeting and are maintained by the company secretary.

The Directors have unhindered access to the advice and services of the company secretary.

### Appointment to the Board

The Board is of the opinion that its current composition and size constitute an effective Board to the Company.

# Statement Of Corporate Governance (cont'd)

## Re-election of Directors

In accordance with the provisions of the Company's Articles of Association, at least one-third  $\frac{1}{3}$  of the Directors are subject to retirement by rotation at each Annual General Meeting and that all Directors shall retire and be eligible for re-election at least once in three (3) years.

## Directors' Training

All the Directors had attended the Mandatory Accreditation Program (MAP) prescribed by the Listing Requirements of Bursa Securities. The Board would evaluate and determine the training needs deemed appropriate to further enhance its skills and knowledge to aid in discharging the duties as Directors.

The Directors also keep abreast with the new laws and regulations from the management, auditors and company secretary.

## Audit Committee

The detail of the Audit Committee is set out in Audit Committee Report on pages 14 to 15.

## Nomination Committee

A Nomination Committee was established on 2 January 2002, comprising the following members:

1. Tan Sri Sabbaruddin Chik (Chairman)
2. Mr. Kwan Tack Chiong
3. Mr. Ooi Jit Huat

The Nomination Committee is responsible for making recommendations for any appointments to the Board including those of subsidiary companies having considered the required mix of skills and experience.

## B. DIRECTORS' REMUNERATION

The Remuneration Committee was established on 28 February 2002, comprising the following members:

1. Mr. Kwan Tack Chiong (*Chairman*)
2. Mr. Lim Nyuk Foh
3. Mr. Ooi Jit Huat

The Committee is responsible for setting the policy framework and for making recommendations to the Board on remuneration packages and benefits extended to the Executive Directors.

The remuneration of the Directors of the PWP Group is as follows:

| Directors' Remuneration | Executive Directors<br>RM'000 | Non-Executive Directors<br>RM'000 |
|-------------------------|-------------------------------|-----------------------------------|
| Fee                     | -                             | 264                               |
| Salaries                | 358                           | -                                 |
| Bonuses & allowance     | 125                           | -                                 |
| <b>Total</b>            | <b>483</b>                    | <b>264</b>                        |

The number of Directors of the Company whose total remuneration fall within the following bands is:

| RM'000       | Executive Directors | Non-Executive Directors |
|--------------|---------------------|-------------------------|
| Below 50     | -                   | 3                       |
| 50 to 100    | -                   | -                       |
| Above 100    | 2                   | 1                       |
| <b>Total</b> | <b>2</b>            | <b>4</b>                |

# Statement Of Corporate Governance (cont'd)

## C. RELATIONSHIP WITH SHAREHOLDERS AND INVESTORS

The Board believes in clear and regular communication with its shareholders and institutional investors. The Annual Report and announcements of financial results on a quarterly basis provides the shareholders with an overview of the Group's performance and its business activities.

The Board encourages participation from shareholders by having a question and answer session during the Annual General Meeting and Extraordinary General Meeting whereby the Directors are available to discuss aspects of the Group's performance and its business activities. The Executive Directors also meet with institutional investors, fund managers and analysts with the aim of fostering mutual understanding of the Group's objectives.

## D. ACCOUNTABILITY AND AUDIT

### Financial Reporting

The Board aims to provide and present a balanced and meaningful assessment of the Group's financial performance and prospects at the end of the financial year, primarily through the annual financial statements, quarterly announcement of the results to shareholders as well as the Chairman's statement and review of the operations in the Annual Report.

### Internal Control

The overview of the state of internal controls within the Group is covered under Statement on Internal Control presented on page 12 of this Annual Report.

### Relationship with the Auditors

The Company has established a formal and transparent relationship with the auditors in line with the auditors' professional requirements ensuring compliance with the accounting standards in Malaysia. The external auditors may from time to time throughout the financial year highlight to the Audit Committee and the Board on matters that require the Board's attention.

# Statement Of Internal Control

## **Introduction**

Pursuant to Paragraph 15.27(b) of the Listing Requirements of Bursa Securities, the Board is pleased to disclose the Group's system internal control system.

## **Group's Internal Control**

Apart from internal audit, the Board has put in place a system which emphasis heavily on balanced monitoring and reviewing on the Group daily operation. The Managing Director and the Executive Director through their day-to-day involvement in the business operations and regular attendance at senior management level meetings, manage and monitor the Group's financial performance, operational effectiveness and efficiency, discuss and resolve significant business issues face by the Group.

The senior management meeting served as a two-way platform for the Board, through the Board members, to communicate and address significant matters in relation to the Group's business and financial affairs and provide update on significant changes in the business and the external environment which result in significant risks.

The Group's detailed organisational structure embeds strong control features throughout the Group. The structure identifies the head of each department, their subordinates and superiors which facilitates a clear reporting line.

## **Review Process for Internal Control System**

In view of the size and nature of the Group's operations, it is not cost justifiable for the Group to maintain an in-house internal audit function for the review of the Group's internal control system. Through outsourcing internal audit procedures, it will provide independent assessments on the adequacy, efficiency and effectiveness of the Group's internal control systems in anticipating potential risk exposures over key business systems and processes and in controlling the proper conduct of business within the Group.

By outsourcing the internal audit function, it will facilitate the Board in reviewing of and evaluation of the adequacy and integrity of the Group's internal control systems. The Audit Committee meets to review, discuss, and direct actions on matters arise in the internal audit report. Internal audits are carried out from time to time based on significant issues that arise during the day-to-day operations of the Group.

The internal auditor adopts a risk-based approach and prepares its audit strategy and plan based on each individual issue that arises in the Group. The audit plan is presented to the Audit Committee for approval annually. The resulting reports from the audits undertaken are reviewed by the Audit Committee and then forwarded to the operational management for attention and necessary corrective actions. The operational management is responsible for ensuring the corrective actions on reported weaknesses are taken within the required time frame.

## Statement Of Directors Responsibility

The Directors are responsible for ensuring the financial statements for each financial year are drawn up in accordance with the provisions of the Companies Act 1965 and the applicable approved accounting standards in Malaysia, so as to give a true and fair view of the state of affairs of the Company and the Group as at the end of financial year and the results and cash flows for the financial year.

The Directors consider that in preparing the annual financial statements, the Company and the Group have

- (a) adopted appropriate accounting policies and applied them consistently;
- (b) made judgements and estimates that are prudent and reasonable; and
- (c) adhered to the applicable approved accounting standards in Malaysia.

The Directors are responsible for ensuring that the Company and the Group maintain proper accounting records that disclose with reasonable accuracy the financial position of the Company and the Group, and which enable them to ensure that the financial statements comply with the provisions of the Companies Act, 1965 and the applicable approved accounting standards in Malaysia.

The Directors have a general responsibility for taking such steps that are reasonably available to them to safeguard the assets of the Company and the Group, and to prevent and detect fraud and other irregularities.

# Audit Committee Report

## MEMBERS OF THE AUDIT COMMITTEE

### Chairman

Mr Kwan Tack Chiong                      Independent Non-Executive Director

### Members

Mr Chok Syn Vun                              Executive Director  
Mr Ooi Jit Huat                                Independent Non-Executive Director

## TERMS OF REFERENCE

### 1. COMPOSITION

1.1 The Audit Committee ("the Committee") shall be appointed by the Board of Directors from amongst its members which fulfills the following requirements:

1.1.1 the Audit Committee shall comprise of no fewer than three (3) members;

1.1.2 a majority of the Audit Committee shall be independent directors;

1.1.3 at least one (1) member of the Audit Committee

(a) must be a member of Malaysian Institute of Accountants; or

(b) must have at least three (3) years working experience and

(i) he must have passed the examinations specified in Part I of the First Schedule of the Accountants Act 1967; or

(ii) he must be a member of one of the associations of accountants specified in Part II of the First Schedule of the Accountants Act 1967.

1.2 The members of the Committee shall elect a Chairman from among their number who is an independent director.

1.3 The Board shall, within three (3) months of a vacancy occurring in the Committee which result in the number of members reduced to below three (3), appoint such number of new members as may be required to make up the minimum number of three (3) members.

### 2. MEETINGS

Meetings of the Committee shall be held not less than four (4) times in a financial year. The external auditors may request a meeting if they consider necessary.

In addition to the Committee Members, the meetings will be attended by representative of the department in the Company and external auditors as and when required.

The secretary to the Committee shall be the Company Secretary.

### 3. FUNCTIONS

The functions of the Committee should be to review and report to the Board of Directors on matters as follows:

- a. the audit plan with the external auditors;
- b. the evaluation of the system of internal controls of the Company and the Group with the external auditors;
- c. the audit report on the financial statements with the external auditors;
- d. the assistance given by employees of the Company to the external auditors;
- e. the adequacy of the scope, functions and resources of the internal audit functions and that it has the necessary authority to carry out its work;



# Audit Committee Report (cont'd)

## 3. FUNCTIONS (cont'd)

- f. the internal audit program, processes, the results of the internal audit program, process or investigation undertaken and whether or not appropriate action is taken on the recommendations of the internal audit function;
- g. the quarterly results and year end financial statements, prior to the 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;
- h. any related party transaction 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;
- i. any letter of resignation from external auditors of the Company;
- j. whether there is reason (supported by ground) to believe that the Company's external auditors is not suitable for re-appointment
- k. to consider any matters the auditors wish to bring to the attention of the Board of Directors or shareholders; and
- l. such other responsibilities as may be applied to by the Committee and the Board.
- m. Recommend the nomination of a person or persons as external auditors.

## 4. AUDIT COMMITTEE ATTENDANCE RECORD

During the financial year under review, four (4) audit committee meetings were held. The Committee attendance record is as follows:

| Name of Members     | Designation | No. of Meetings Attended | %   |
|---------------------|-------------|--------------------------|-----|
| Mr Kwan Tack Chiong | Chairman    | 4/4                      | 100 |
| Mr Chok Syn Vun     | Member      | 4/4                      | 100 |
| Mr Ooi Jit Huat     | Member      | 4/4                      | 100 |

## 5. SUMMARY OF ACTIVITIES OF THE AUDIT COMMITTEE

The main activities carried out by the Committee during the year were as follows:

- reviewed the external auditors' report in relation to the audit for the year ended 30 June 2005;
- reviewed and recommended related party transactions of the Group to be presented to the Board of Directors of approval;
- reviewed the quarterly and year-to-date unaudited financial results before submission to the Board for consideration and approval;
- discussed and recommended the audited financial statements of the Company and of the Group for the year ended 30 June 2005 to be presented to the Board of Directors for approval;
- reviewed and adopted the internal audit plan and program;
- reviewed and discussed the internal audit reports.;
- reviewed the Committee's Report in respect of the year ended 30 June 2005 and presented the Board of Directors for approval.

## Additional Compliance Information

During the financial year under review,

**(a) Share Buy-Back**

The Company did not have a share buy-back scheme in place.

**(b) Options, Warrants or Convertible Securities**

No options, warrants or convertible securities in the Company were issued or exercised.

**(c) American Depositary Receipt (ADR) or Global Depositary Receipt (GDR) Programme**

The Company did not sponsor any ADR or GDR programs.

**(d) Imposition of Sanctions and/or Penalties**

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

**(e) Non-Audit Fees**

The non-audit fees paid by the Company and its subsidiaries to the external auditors amounted to RM81,900.00.

**(f) Variation in Results**

There were no material variance between the audited results for the financial year ended 30 June 2005 and the unaudited results released for the quarter ended 30 June 2005 of the Group.

**(g) Profit Guarantee**

There were no profit guarantees given by the Company and its subsidiary.

**(i) Material Contracts**

There were no material contracts, including contract relating to loan, entered into by the Company and/or its subsidiary involving Directors and major shareholders interest.

**(j) Revaluation Policy on Landed Properties**

The Group does not have any revaluation policy on landed properties.

**(k) Recurrent Related Party Transactions**

At the Company's Extraordinary General Meeting held on 6 May 2005, the shareholders approved the mandate for the Company or its subsidiaries to enter into recurrent related party transactions of a revenue or trading nature which are necessary for its day-to-day operations and in the ordinary course of its business.

Aggregate value and type of significant related party transactions are indicated in Note 31 of the Financial Statements outlined in page 18 to 62 of this Annual Report. At the forthcoming Annual General Meeting to be held on 22 December 2005, the Company will seek the shareholders' approval for the renewal of the shareholders' mandate on recurrent related party transactions of a revenue or trading nature entered from the date of the forthcoming Extraordinary General Meeting to the next Annual General Meeting.

# Financial Statements

|       |                                   |
|-------|-----------------------------------|
| 18-22 | DIRECTORS' REPORT                 |
| 23    | STATEMENT BY DIRECTORS            |
| 24    | REPORT OF THE AUDITORS            |
| 25    | INCOME STATEMENTS                 |
| 26    | BALANCE SHEETS                    |
| 27-28 | STATEMENT OF CHANGE IN EQUITY     |
| 29-30 | CASH FLOW STATEMENTS              |
| 31-62 | NOTES TO THE FINANCIAL STATEMENTS |



## Directors' Report

The directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Company for the financial year ended 30 June 2005.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are stated in Note 14 to the financial statements. There have been no significant changes in the nature of these activities during the financial year.

### RESULTS

|                         | Group<br>RM | Company<br>RM |
|-------------------------|-------------|---------------|
| Net profit for the year | 16,062,816  | 2,413,388     |

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in the statements of changes in equity.

In the opinion of the directors, the results of the operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

### DIVIDEND

The amount of dividend paid by the Company since 30 June 2004 was as follows:

|   | RM        |
|---|-----------|
| In respect of the financial year ended 30 June 2004:  |           |
| Final tax exempt dividend of 1.5%, on 143,181,818 ordinary shares,<br>declared on 15 February 2005 and paid on 9 March 2005 | 2,147,727 |

### SIGNIFICANT EVENTS

- (a) On 26 November 2004, the Company completed the acquisition of the entire equity interest in Teras Selasih Sdn. Bhd. ("TSSB") and Cergas Kenari Sdn. Bhd. ("CKSB") for a total purchase consideration of RM75,000,000 in accordance with the terms and conditions of purchase as approved by the Security Commission. The purchase consideration was partly discharged by way of the issuance of 58,181,818 new ordinary shares of RM0.50 each of the Company at an issue price of RM1.10 each and the remaining balance of purchase consideration of RM11,000,000 shall be discharged by a further issuance of 10 million ordinary shares of RM0.50 each at an issue price of RM1.10 each to Lim Nyuk Foh upon full repayment of advances totalling RM35,594,251 made by TSSB and CKSB to Ivory Bay Sdn. Bhd., a party connected to Lim Nyuk Foh, Dato' Zakhir Siddigy bin Sidek and Chok Syn Vun ("the Vendors"), on or before 29 October 2006 or such other date as the Company and the Vendors may mutually agree in writing.

The approval for listing and quotation of the consideration ordinary shares of 58,181,818 was granted on 26 November 2004.

## Directors' Report (Cont'd)

### SIGNIFICANT EVENTS (Cont'd.)

- (b) On 30 June 2005, the Company completed the acquisition of the entire equity interest in Sinora Sdn. Bhd. and Innora Sdn. Bhd. respectively, both companies are incorporated in Malaysia, for a cash consideration of RM1,000,000 and RM9,519,000 respectively in accordance with the terms and conditions of purchase as approved by the Security Commission.
- (c) During the year, the Company has undertaken an issuance of Commercial Papers/Medium Term Notes of up to RM160 million of which RM120 million of the Medium Term Notes have been drawdown as at 30 June 2005.

### ISSUE OF SHARES

During the financial year, the Company increased its:

- (a) authorised ordinary share capital from RM50,000,000 to RM100,000,000 through the creation of 100,000,000 ordinary shares of RM0.50 each; and
- (b) issued and paid-up ordinary share capital from RM42,500,000 to RM71,590,909 by way of the issuance of 58,181,818 ordinary shares of RM0.50 each at an issue price of RM1.10 per ordinary share as partial discharge of purchase consideration for the acquisition of CKSB and TSSB.

The new ordinary shares issued during the financial year rank pari passu in all respects with the existing ordinary shares of the Company.

### DIRECTORS

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

Tan Sri Sabbaruddin Chik  
Lim Nyuk Foh  
Chok Syn Vun  
Ramlee Bin Mohd. Shariff  
Kwan Tack Chiong  
Ooi Jit Huat

### DIRECTORS' BENEFITS

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

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors as shown in Note 7 to the financial statements or the fixed salary of a full-time employee of the Company) by reason of a contract made by the Company or a related corporation with any director or with a firm of which he is a member, or with a company in which he has a substantial financial interest, except as disclosed in Note 31 to the financial statements.

## Directors' Report (Cont'd)

### DIRECTORS' INTERESTS

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

|                          | Number of Ordinary Shares of RM0.50 Each |            |              |                 |
|--------------------------|--|------------|--------------|-----------------|
|                          | 1 July<br>2004                           | Acquired   | Sold         | 30 June<br>2005 |
| <b>The Company</b>       |  |            |              |                 |
| Direct Interest:         |  |            |              |                 |
| Tan Sri Sabbaruddin Chik | 1,020,000                                | 200,000    | (220,000)    | 1,000,000       |
| Lim Nyuk Foh             | 22,652,480                               | 47,154,546 | (22,017,400) | 47,789,626      |
| Chok Syn Yun             | 951,000                                  | 7,190,908  | (3,535,900)  | 4,606,008       |
| Ramlee Bin Mohd. Shariff | 2,466,000                                | 406,000    | (2,872,000)  | -               |
| Kwan Tack Chiong         | -  | 2,050,000  | (130,000)    | 1,920,000       |
| Ooi Jit Huat             | 6,000                                    | -          | (6,000)      | -               |

Lim Nyuk Foh by virtue of his interest in shares in the Company is also deemed interested in shares of all the Company's subsidiaries to the extent the Company has an interest.

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

### SUBSEQUENT EVENTS

- (a) On 1 July 2005, the Company completed the acquisition of 51,000 ordinary shares of RM1.00 each representing 51% of the entire issued and paid-up capital of Integral Acres Sdn. Bhd. ("IASB"), a company incorporated in Malaysia, for a total cash consideration of RM51,000 ("the Acquisition"). The Acquisition has resulted in IASB becoming a subsidiary of the Company. The investment in IASB will enable the Group to venture into the property development sector.
- (b) On 15 July 2005, the Company announced that it proposes to establish an Employees' Share Option Scheme ("ESOS") for the grant of options to eligible employees and directors of the Company and its subsidiary companies to subscribe for new ordinary shares of RM0.50 each in the Company subject to the terms and conditions of the By-Laws of ESOS.

In addition, the Company also proposes to amend its Articles of Association to facilitate the grant of options to the non-executive directors of the Group pursuant to the Proposed ESOS.

The Board had submitted the application to Bursa Malaysia Securities Berhad in relation to the Proposed ESOS.

- (c) The shareholders of the Company passed a special resolution at the Extraordinary General Meeting ("EGM") held on 29 July 2005 to authorise the Company to repurchase up to 10% of the issued and paid-up share capital of the Company or up to an amount not exceeding its total retained earnings and share premium reserves at the time of repurchase.

From the date of the EGM to 11 October 2005, the Company had repurchased 2,729,100 of its issued ordinary shares from the open market at an average price of RM0.49 per share for a total consideration of RM1,327,531. The shares repurchased are being held as treasury shares in accordance with Section 67A of the Companies Act, 1965.

## Directors' Report (Cont'd)

### OTHER STATUTORY INFORMATION

- (a) Before the income statements and balance sheets of the Group and of the Company were made out, the directors took reasonable steps:
  - (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that there were no known bad debts and that no provision for doubtful debts was necessary; and
  - (ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the directors are not aware of any circumstances which would render:
  - (i) it necessary to write off any bad debts or to make any provision for doubtful debts in respect of the financial statements of the Group and of the Company; and
  - (ii) the values attributed to the current assets in the financial statements of the Group and of the Company misleading.
- (c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.
- (d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.
- (e) As at the date of this report, there does not exist:
  - (i) any charge on the assets of the Group or of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
  - (ii) any contingent liability of the Group or of the Company which has arisen since the end of the financial year.
- (f) In the opinion of the directors:
  - (i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group or of the Company to meet their obligations when they fall due; and
  - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group or of the Company for the financial year in which this report is made.



## Directors' Report (Cont'd)

### SHARE OPTIONS

There were no options granted during the financial year to take up unissued shares of the Company.

No shares were issued during the financial year by virtue of the exercise of options to take up unissued shares of the Company.

There were no unissued shares under option as at 30 June 2005.

### AUDITORS

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

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

LIM NYUK FOH

CHOK SYN VUN

Sandakan, Sabah  
Malaysia

## Statement by Directors

Pursuant to Section 169(15) of the Companies Act, 1965

We, LIM NYUK FOH and CHOK SYN VUN, being two of the directors of PRICEWORTH WOOD PRODUCTS BERHAD, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 18 to 62 are drawn up in accordance with applicable MASB Approved Accounting Standards in Malaysia and the provisions of the Companies Act, 1965 so as to give a true and fair view of the financial position of the Group and of the Company as at 30 June 2005 and of the results and the cash flows of the Group and of the Company for the year then ended.

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

LIM NYUK FOH

CHOK SYN VUN

Sandakan, Sabah  
Malaysia

### Statutory Declaration

Pursuant to Section 169(16) of the Companies Act, 1965

I, KOO JENN MAN, being the financial officer primarily responsible for the financial management of PRICEWORTH WOOD PRODUCTS BERHAD, do solemnly and sincerely declare that the accompanying financial statements set out on pages 18 to 62 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly  
declared by the abovenamed  
KOO JENN MAN  
at Sandakan in the State of Sabah  
on

KOO JENN MAN

Before me,

## Report of the Auditors

to the Members of PRICEWORTH WOOD PRODUCTS BERHAD(Incorporated in Malaysia)

We have audited the financial statements set out on pages 18 to 62. These financial statements are the responsibility of the Company's directors.

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

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

In our opinion:

- (a) the financial statements have been properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia so as to give a true and fair view of:
  - (i) the financial position of the Group and of the Company as at 30 June 2005 and of the results and the cash flows of the Group and of the Company for the year then ended; and
  - (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
- (b) the accounting and other records and the registers required by the Act to be kept by the Company and by its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

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

The auditors' reports on the financial statements of the subsidiaries were not subject to any qualification material to the consolidated financial statements and did not include any comment required to be made under Section 174 (3) of the Act.

Ernst & Young  
AF: 0039  
Chartered Accountants

Pang Pak Lok  
1228/03/07 (J)  
Partner

Tawau, Sabah  
Malaysia

## Income Statements

For the Year Ended 30 June 2005

|  | Note  | 2005<br>RM    | Group<br>2004<br>RM | 2005<br>RM  | Company<br>2004<br>RM |
|--|-------|---------------|---------------------|-------------|-----------------------|
| Revenue  | 4     | 304,326,932   | 175,129,213         | 8,243,508   | 2,637,922             |
| Cost of sales  |       | (271,541,767) | (157,669,417)       | -           | -                     |
| Gross profit   |       | 32,785,165    | 17,459,796          | 8,243,508   | 2,637,922             |
| Other operating income   |       | 1,591,262     | 1,678,988           | -           | -                     |
| Selling expenses   |       | (2,788,268)   | (3,294,076)         | -           | -                     |
| Administrative expenses  |       | (10,984,285)  | (4,998,188)         | (3,944,960) | (1,246,915)           |
| Profit from operations   | 5     | 20,603,874    | 10,846,520          | 4,298,548   | 1,391,007             |
| Interest income  | 8     | 113,296       | 3,543               | 88,456      | 2,138,158             |
| Finance costs  | 9     | (3,222,625)   | (2,712,768)         | (2,089,918) | (1,612,091)           |
| Profit before taxation   |       | 17,494,545    | 8,137,295           | 2,297,086   | 1,917,074             |
| Taxation   | 10    | (1,431,729)   | (73,773)            | 116,302     | (140,397)             |
| Net profit for the year  |       | 16,062,816    | 8,063,522           | 2,413,388   | 1,776,677             |
| Earnings per share (sen):  |       |               |                     |             |                       |
| Basic  | 11(a) | 13.5          | 9.5                 |             |                       |
| Net dividend per ordinary share<br>in respect of the year (sen): | 12    | 1.5           | 2.0                 |             |                       |

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

## Balance Sheets

As at 30 June 2005

|                               | Note | 2005<br>RM         | Group<br>2004<br>RM | Company<br>2005<br>RM | 2004<br>RM         |
|-------------------------------|------|--------------------|---------------------|-----------------------|--------------------|
| <b>NON-CURRENT ASSETS</b>     |      |                    |                     |                       |                    |
| Property, plant and equipment | 13   | 175,617,269        | 84,646,047          | 318,242               | -                  |
| Investments in subsidiaries   | 14   | -                  | -                   | 128,829,325           | 42,076,738         |
| Other investment              | 15   | 50,000             | 50,000              | -                     | -                  |
| Timber rights                 | 16   | 74,947,371         | -                   | -                     | -                  |
| Property development costs    | 17   | 3,451,310          | 1,213,446           | -                     | -                  |
| Goodwill on consolidation     | 18   | 16,670,879         | -                   | -                     | -                  |
|                               |      | <u>270,736,829</u> | <u>85,909,493</u>   | <u>129,147,567</u>    | <u>42,076,738</u>  |
| <b>CURRENT ASSETS</b>         |      |                    |                     |                       |                    |
| Inventories                   | 19   | 44,394,441         | 18,145,754          | -                     | -                  |
| Trade receivables             | 20   | 29,723,261         | 16,964,405          | -                     | -                  |
| Other receivables             | 21   | 61,578,749         | 42,714,648          | 101,308,596           | 59,459,890         |
| Cash and bank balances        | 22   | 33,775,084         | 2,654,231           | 26,085,784            | 104,854            |
|                               |      | <u>169,471,535</u> | <u>80,479,038</u>   | <u>127,394,380</u>    | <u>59,564,744</u>  |
| <b>CURRENT LIABILITIES</b>    |      |                    |                     |                       |                    |
| Borrowings                    | 23   | 40,807,058         | 3,661,623           | 3,834,505             | 9,657              |
| Trade payables                | 25   | 14,277,990         | 4,161,477           | -                     | -                  |
| Other payables                | 26   | 46,754,304         | 4,495,454           | 11,348,189            | 421,931            |
| Tax payable                   |      | 8,956,205          | 5,872,952           | 24,366                | 140,668            |
|                               |      | <u>110,795,557</u> | <u>18,191,506</u>   | <u>15,207,060</u>     | <u>572,256</u>     |
| <b>NET CURRENT ASSETS</b>     |      |                    |                     |                       |                    |
|                               |      | <u>58,675,978</u>  | <u>62,287,532</u>   | <u>112,187,320</u>    | <u>58,992,488</u>  |
|                               |      | <u>329,412,807</u> | <u>148,197,025</u>  | <u>241,334,887</u>    | <u>101,069,226</u> |
| <b>FINANCED BY:</b>           |      |                    |                     |                       |                    |
| Share capital                 | 27   | 71,590,909         | 42,500,000          | 71,590,909            | 42,500,000         |
| Share premium                 |      | 48,926,252         | 14,017,161          | 48,926,252            | 14,017,161         |
| Retained profits              | 35   | 48,114,780         | 34,199,691          | 817,726               | 552,065            |
|                               |      | <u>168,631,941</u> | <u>90,716,852</u>   | <u>121,334,887</u>    | <u>57,069,226</u>  |
| Shareholders' equity          |      | <u>168,631,941</u> | <u>90,716,852</u>   | <u>121,334,887</u>    | <u>57,069,226</u>  |
| Negative goodwill             | 18   | -                  | 5,234,412           | -                     | -                  |
| Borrowings                    | 23   | 128,187,048        | 47,661,340          | 120,000,000           | 44,000,000         |
| Deferred tax liabilities      | 28   | 32,593,818         | 4,584,421           | -                     | -                  |
|                               |      | <u>160,780,866</u> | <u>52,245,761</u>   | <u>120,000,000</u>    | <u>44,000,000</u>  |
| Non-current liabilities       |      | <u>160,780,866</u> | <u>52,245,761</u>   | <u>120,000,000</u>    | <u>44,000,000</u>  |
|                               |      | <u>329,412,807</u> | <u>148,197,025</u>  | <u>241,334,887</u>    | <u>101,069,226</u> |

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

## Consolidated Statement of Changes in Equity

For the Year Ended 30 June 2005

|                             |      | Non-<br><-Distributable><-Distributable> |                        |                           |             |
|-----------------------------|------|--|------------------------|---------------------------|-------------|
|                             | Note | Share<br>Capital<br>RM                   | Share<br>Premium<br>RM | Retained<br>Profits<br>RM | Total<br>RM |
| At 1 July 2003              |      | 42,500,000                               | 14,017,161             | 27,836,169                | 84,353,330  |
| Net profit for the year     |      | -  | -                      | 8,063,522                 | 8,063,522   |
| Dividend                    | 12   | -  | -                      | (1,700,000)               | (1,700,000) |
| At 30 June 2004             |      | 42,500,000                               | 14,017,161             | 34,199,691                | 90,716,852  |
| At 1 July 2004              |      | 42,500,000                               | 14,017,161             | 34,199,691                | 90,716,852  |
| Issue of ordinary shares:   |      |  |                        |                           |             |
| Acquisition of subsidiaries | 27   | 29,090,909                               | 34,909,091             | -                         | 64,000,000  |
| Net profit for the year     |      | -  | -                      | 16,062,816                | 16,062,816  |
| Dividend                    | 12   | -  | -                      | (2,147,727)               | (2,147,727) |
| At 30 June 2005             |      | 71,590,909                               | 48,926,252             | 48,114,780                | 168,631,941 |

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

## Company Statement of Changes in Equity

For the Year Ended 30 June 2005

|                             |      | Non-<br><-Distributable-><-Distributable-> |                        |                           |             |
|-----------------------------|------|--|------------------------|---------------------------|-------------|
|                             | Note | Share<br>Capital<br>RM                     | Share<br>Premium<br>RM | Retained<br>Profits<br>RM | Total<br>RM |
| At 1 July 2003              |      | 42,500,000                                 | 14,017,161             | 475,388                   | 56,992,549  |
| Net profit for the year     |      | -  | -                      | 1,776,677                 | 1,776,677   |
| Dividend                    | 12   | -  | -                      | (1,700,000)               | (1,700,000) |
| At 30 June 2004             |      | 42,500,000                                 | 14,017,161             | 552,065                   | 57,069,226  |
| At 1 July 2004              |      | 42,500,000                                 | 14,017,161             | 552,065                   | 57,069,226  |
| Issue of ordinary shares:   |      |  |                        |                           |             |
| Acquisition of subsidiaries | 27   | 29,090,909                                 | 34,909,091             | -                         | 64,000,000  |
| Net profit for the year     |      | -  | -                      | 2,413,388                 | 2,413,388   |
| Dividend                    | 12   | -  | -                      | (2,147,727)               | (2,147,727) |
| At 30 June 2005             |      | 71,590,909                                 | 48,926,252             | 817,726                   | 121,334,887 |

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



## Cash Flow Statements

### For the Year Ended 30 June 2005

|   | Group        |              | Company      |             |
|---|--------------|--------------|--------------|-------------|
|   | 2005         | 2004         | 2005         | 2004        |
|   | RM           | RM           | RM           | RM          |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>             |              |              |              |             |
| Profit before taxation                                  | 17,494,545   | 8,137,295    | 2,297,086    | 1,917,074   |
| Adjustments for:  |              |              |              |             |
| Depreciation of property, plant and equipment           | 11,307,947   | 12,554,767   | 19,663       | -           |
| Amortisation of timber rights                           | 14,126,702   | -            | -            | -           |
| Amortisation of goodwill                                | 1,424,388    | -            | -            | -           |
| Gain on disposal of property, plant and equipment       | (6,498)      | (247,354)    | -            | -           |
| Interest income   | (113,296)    | (3,543)      | (88,456)     | (2,138,158) |
| Interest expense  | 3,222,625    | 2,712,768    | 2,089,918    | 1,612,091   |
| Operating profit before working capital changes         | 47,456,413   | 23,153,933   | 4,318,211    | 1,391,007   |
| Increase in property development costs                  | (2,159,999)  | (1,167,466)  | -            | -           |
| Increase in inventories                                 | (1,788,094)  | (2,808,014)  | -            | -           |
| Decrease/(increase) in receivables                      | 18,144,347   | (2,147,155)  | (41,848,706) | (466,411)   |
| (Decrease)/increase in payables                         | (44,433,451) | 1,918,537    | (73,742)     | 278,675     |
| Cash generated from/(used in) operations                | 17,219,216   | 18,949,835   | (37,604,237) | 1,203,271   |
| Taxes paid  | (278,596)    | (567,050)    | -            | -           |
| Net cash generated from/(used in) operating activities  | 16,940,620   | 18,382,785   | (37,604,237) | 1,203,271   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>             |              |              |              |             |
| Acquisition of subsidiaries (Note 14)                   | (21,707,453) | -            | (11,752,587) | -           |
| Purchase of property, plant and equipment (Note 13(a))  | (38,383,919) | (15,636,590) | (337,905)    | -           |
| Proceeds from disposal of property, plant and equipment | 183,427      | 1,430,000    | -            | -           |
| Interest received                                       | 113,296      | 3,543        | 88,456       | 2,138,158   |
| Net cash (used in)/generated from investing activities  | (59,794,649) | (14,203,047) | (12,002,036) | 2,138,158   |

## Cash Flow Statements (Cont'd)

For the Year Ended 30 June 2005

|  | Group        |             | Company      |             |
|--|--------------|-------------|--------------|-------------|
|  | 2005         | 2004        | 2005         | 2004        |
|  | RM           | RM          | RM           | RM          |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                    |              |             |              |             |
| Interest paid  | (3,222,625)  | (2,712,768) | (2,089,918)  | (1,612,091) |
| Proceeds from issuance of Medium<br>Term Notes                 | 120,000,000  | -           | 120,000,000  | -           |
| Repayment of bankers' acceptances                              | (6,408,000)  | -           | -            | -           |
| Proceeds from drawdown of<br>bankers' acceptances              | 5,757,000    | -           | -            | -           |
| Repayment of hire purchase and<br>lease financing              | (4,781,333)  | (3,582,480) | -            | -           |
| Repayment of Medium Term Notes                                 | (44,000,000) | -           | (44,000,000) | -           |
| Dividend paid  | (2,147,727)  | (1,700,000) | (2,147,727)  | (1,700,000) |
| Net cash generated from/(used in)<br>financing activities      | 65,197,315   | (7,995,248) | 71,762,355   | (3,312,091) |
| <b>NET INCREASE/(DECREASE)IN<br/>CASH AND CASH EQUIVALENTS</b> | 22,343,286   | (3,815,510) | 22,156,082   | 29,338      |
| <b>CASH AND CASH EQUIVALENTS<br/>AT BEGINNING OF YEAR</b>      | 2,644,574    | 6,460,084   | 95,197       | 65,859      |
| <b>CASH AND CASH EQUIVALENTS<br/>AT END OF YEAR (Note 22)</b>  | 24,987,860   | 2,644,574   | 22,251,279   | 95,197      |

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

# Notes to the Financial Statements

30 June 2005

## 1. Corporate Information

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are stated in Note 14 to the financial statements. 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 is listed on the Main Board of Bursa Malaysia Securities Berhad. The registered office of the Company is located at 1st Floor, Lot 5, Block No. 4, Bandar Indah, Mile 4, Jalan Utara, 90000 Sandakan, Sabah.

The number of employees in the Group and in the Company at the end of the financial year were 1,521 (2004: 995) and 8 (2004: 4) respectively.

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

During the financial year ended 30 June 2005, the Group adopted MASB 32 : Property Development Activities for the first time. The adoption of MASB 32 has not given rise to any adjustments to the opening balances of retained profits of the prior and current years or to changes in comparatives.

### (b) 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 power to exercise control over the financial and operating policies so as to obtain benefits from their activities.

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

Intra-group 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.

## Notes to the Financial Statements (Cont'd)

30 June 2005

### 2. Significant Accounting Policies (Cont'd.)

#### (c) Goodwill

Goodwill is stated at cost less impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(q). Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Goodwill is amortised on a straight-line basis over its estimated useful life, or at the rate equivalent to the volume of timber logs extracted during the financial year as a proportion of the total volume of timber logs extractable over the remaining period from the timber concession area as applicable.

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

#### (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(q).

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

#### (e) Other Investment

Unquoted investment held on a long term basis is stated at cost less impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(q).

#### (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(q).

No depreciation is provided on leasehold land with an unexpired term of more than 50 years. This is not in compliance with MASB 15 Property, Plant and Equipment. In the opinion of the directors, the effect of this non-compliance on the financial statements is considered to be immaterial and is disclosed in Note 13.

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

|  |               |
|--|---------------|
| Buildings  | 2% - 10%      |
| Heavy equipment, motor vehicles and motor launches | 10% - 20%     |
| Plant and machinery                                | 7%            |
| Furniture, fittings and equipment                  | 10% - 33 1/3% |
| Camp infrastructure                                | 15%           |

## Notes to the Financial Statements (Cont'd)

30 June 2005

### 2. Significant Accounting Policies (Cont'd.)

#### (f) Property, Plant and Equipment, and Depreciation (Cont'd.)

With effect from the current financial year, a subsidiary has changed the annual depreciation rate for heavy equipment, motor vehicles and motor launches from 20% to 10% so as to better reflect their estimated useful lives. The effect on the financial statements of this change in accounting estimate is not material.

Capital work-in-progress is not depreciated until it is completed and ready for use.

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

Fully depreciated property, plant and equipment are retained in the financial statements until they are no longer in use.

#### (g) Property Development Costs

Property development costs comprise all costs that are directly attributable to development activities or that can be allocated on a reasonable basis to such activities.

When the financial outcome of a development activity can be reliably estimated, property development revenue and expenses are recognised in the income statement by using the stage of completion method. The stage of completion is determined by the proportion that property development costs incurred for work performed to date bear to the estimated total property development costs.

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

Any expected loss on a development project, including costs to be incurred over the defects liability period, is recognised as an expense immediately.

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

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

#### (h) Timber Rights

This represents the exclusive rights of two subsidiaries to extract and purchase all commercial timber logs extractable from a designated timber concession area situated at Gunung Rara/Kalabakan Forest Reserve.

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

The timber rights are amortised on the basis of the volume of timber logs extracted during the financial year as a proportion of the total volume of timber logs extractable over the remaining period from the timber concession area.

## Notes to the Financial Statements (Cont'd)

30 June 2005

### 2. Significant Accounting Policies (Cont'd.)

#### (i) Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost is determined using the weighted average method. The cost of raw materials comprises costs of purchase. The costs of finished goods and work-in-progress comprise raw materials, direct labour, other direct costs and appropriate proportions of production overheads.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

#### (j) Cash and Cash Equivalents

For the purposes of the cash flow statements, cash and cash equivalents include cash on hand and at bank, deposit at call and short term highly liquid investments which have an insignificant risk of changes in value, net of outstanding bank overdrafts.

#### (k) Leases

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

##### (i) Finance leases

Assets acquired by way of hire purchase or finance leases are stated at an amount equal to the lower of their fair values and the present value of the minimum lease payments at the inception of the leases, less accumulated depreciation and impairment losses. The corresponding liability is included in the balance sheet as borrowings. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Company's incremental borrowing rate is used.

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

The depreciation policy for leased assets is in accordance with that for depreciable property, plant and equipment as described in Note 2(f).

##### (ii) Operating leases

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

## Notes to the Financial Statements (Cont'd)

30 June 2005

### 2. Significant Accounting Policies (Cont'd.)

#### (l) 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.

#### (m) Income Tax

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

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

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

#### (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 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. 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 Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the income statement as incurred.



## Notes to the Financial Statements (Cont'd)

30 June 2005

### 2. Significant Accounting Policies (Cont'd.)

#### (o) Revenue Recognition

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

##### (i) Sale of goods

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

##### (ii) Revenue from services

Revenue from services rendered is recognised net of service taxes and discounts as and when the services are performed.

##### (iii) Interest income

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

##### (iv) Dividend income

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

#### (p) Foreign Currencies

Foreign currency transactions

Transactions in foreign currencies are initially recorded in Ringgit Malaysia at rates of exchange ruling at the date of the transaction. At each balance sheet date, foreign currency monetary items are translated into Ringgit Malaysia at exchange rates ruling at that date, unless hedged by forward foreign exchange contracts, in which case the rates specified in such forward contracts are used. 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 rate that existed when the values were determined.

All exchange rate differences are taken to the income statement. The principal exchange rates used for each respective unit of foreign currency ruling at the balance sheet date are as follows:

|                       | 2005<br>RM | 2004<br>RM |
|-----------------------|------------|------------|
| United States Dollars | 3.80       | 3.80       |
| Japanese Yen          | 0.03       | 0.03       |

## Notes to the Financial Statements (Cont'd)

30 June 2005

### 2. Significant Accounting Policies (Cont'd.)

#### (q) Impairment of Assets

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication of impairment. 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.

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

#### (r) Financial Instruments

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

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

#### (i) Other Non-Current Investments

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

#### (ii) Receivables

Receivables are carried at anticipated realisable 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.

#### (iii) Payables

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

#### (iv) Interest-Bearing Borrowings

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

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

## Notes to the Financial Statements (Cont'd)

30 June 2005

### 2. Significant Accounting Policies (Cont'd.)

#### (r) Financial Instruments (Cont'd.)

##### (v) Equity Instruments

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

The transaction costs of an equity transaction are accounted for as a deduction from equity, net of tax. Equity transaction costs comprise only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided.

### 3. Significant Events

- (a) On 26 November 2004, the Company completed the acquisition of the entire equity interest in Teras Selasih Sdn. Bhd. ("TSSB") and Cergas Kenari Sdn. Bhd. ("CKSB") for a total purchase consideration of RM75,000,000 in accordance with the terms and conditions of purchase as approved by the Security Commission. The purchase consideration was partly discharged by way of the issuance of 58,181,818 new ordinary shares of RM0.50 each of the Company at an issue price of RM1.10 each and the remaining balance of purchase consideration of RM11,000,000 shall be discharged by a further issuance of 10 million ordinary shares of RM0.50 each at an issue price of RM1.10 each to Lim Nyuk Foh upon full repayment of advances totalling RM35,594,251 made by TSSB and CKSB to Ivory Bay Sdn. Bhd., a party connected to Lim Nyuk Foh, Dato' Zakhir Siddigy bin Sidek and Chok Syn Vun ("the Vendors"), on or before 29 October 2006 or such other date as the Company and the Vendors may mutually agree in writing.

The approval for listing and quotation of the consideration ordinary shares of 58,181,818 was granted on 26 November 2004.

- (b) On 30 June 2005, the Company completed the acquisition of the entire equity interest in Sinora Sdn. Bhd. and Innora Sdn. Bhd. respectively, both companies are incorporated in Malaysia, for a cash consideration of RM1,000,000 and RM9,519,000 respectively in accordance with the terms and conditions of purchase as approved by the Security Commission.
- (c) During the year, the Company has undertaken an issuance of Commercial Papers/Medium Term Notes of up to RM160 million of which RM120 million of the Medium Term Notes have been drawdown as at 30 June 2005.

### 4. Revenue

|                                  | Group              |                    | Company          |                  |
|----------------------------------|--------------------|--------------------|------------------|------------------|
|                                  | 2005<br>RM         | 2004<br>RM         | 2005<br>RM       | 2004<br>RM       |
| Gross dividend from a subsidiary | -                  | -                  | 8,243,508        | 2,637,922        |
| Sale of processed wood products  | 161,836,136        | 99,394,384         | -                | -                |
| Sale of logs                     | 42,624,951         | 17,916,648         | -                | -                |
| Contract fee                     | 82,590,852         | 45,360,263         | -                | -                |
| Road toll                        | 16,949,831         | 12,372,754         | -                | -                |
| Wood processing services         | 325,162            | 85,164             | -                | -                |
|                                  | <u>304,326,932</u> | <u>175,129,213</u> | <u>8,243,508</u> | <u>2,637,922</u> |

## Notes to the Financial Statements (Cont'd)

30 June 2005

### 5. Profit from Operations

|  | Group      |            | Company    |            |
|--|------------|------------|------------|------------|
|  | 2005<br>RM | 2004<br>RM | 2005<br>RM | 2004<br>RM |
| Profit from operations is stated after charging/(crediting): |            |            |            |            |
| Staff costs (Note 6)   | 22,667,499 | 11,936,260 | 90,959     | 9,364      |
| Non-executive directors' remuneration (Note 7)               | 264,000    | 249,500    | 234,000    | 118,500    |
| Auditors' remuneration                                       | 55,800     | 48,800     | 10,000     | 10,000     |
| Depreciation of property, plant and equipment (Note 13)      | 11,307,947 | 12,554,767 | 19,663     | -          |
| Amortisation of timber rights                                | 14,126,702 | -          | -          | -          |
| Amortisation of goodwill                                     | 1,424,388  | -          | -          | -          |
| Hire of scows  | 3,399,475  | -          | -          | -          |
| Pangkalan rental   | 142,900    | -          | -          | -          |
| Rental of premises   | 142,905    | 131,175    | 79,905     | 44,175     |
| Rental of equipment  | 336,696    | 69,396     | -          | -          |
| Rental income  | (6,000)    | (6,000)    | -          | -          |
| Gain on disposal of property, plant and equipment            | (6,498)    | (247,354)  | -          | -          |
| Insurance claim received                                     | (9,257)    | (70,189)   | -          | -          |

### 6. Staff Costs

|   | Group      |            | Company    |            |
|---|------------|------------|------------|------------|
|   | 2005<br>RM | 2004<br>RM | 2005<br>RM | 2004<br>RM |
| Bonus                                   | 443,441    | 281,577    | -          | -          |
| Employees' Provident Fund contributions | 572,579    | 611,498    | 9,878      | 999        |
| Salaries, wages and allowances          | 21,590,604 | 10,984,089 | 80,053     | 8,232      |
| SOCSSO contributions                    | 60,875     | 59,096     | 1,028      | 133        |
|   | 22,667,499 | 11,936,260 | 90,959     | 9,364      |

Included in staff costs of the Group is executive directors' remuneration amounting to RM482,911 (2004 : RM428,688) as further disclosed in Note 7.

## Notes to the Financial Statements (Cont'd)

30 June 2005

### 7. Directors' Remuneration

|   | Group          |                | Company        |                |
|---|----------------|----------------|----------------|----------------|
|   | 2005<br>RM     | 2004<br>RM     | 2005<br>RM     | 2004<br>RM     |
| <b>Directors of the Company:</b>        |                |                |                |                |
| Executive:                              |                |                |                |                |
| Bonus                                   | 70,500         | 70,500         | -              | -              |
| Employees' Provident Fund contributions | 53,318         | 51,368         | -              | -              |
| Salaries                                | 358,000        | 306,000        | -              | -              |
| SOCSSO contributions                    | 1,093          | 820            | -              | -              |
|   | <u>482,911</u> | <u>428,688</u> | <u>-</u>       | <u>-</u>       |
| Non-Executive:                          |                |                |                |                |
| Bonus                                   | -              | 21,500         | -              | 10,500         |
| Fees                                    | 264,000        | 228,000        | 234,000        | 108,000        |
|   | <u>264,000</u> | <u>249,500</u> | <u>234,000</u> | <u>118,500</u> |
| Total                                   | <u>746,911</u> | <u>678,188</u> | <u>234,000</u> | <u>118,500</u> |

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

|                          | Number of Directors |      |
|--------------------------|---------------------|------|
|                          | 2005                | 2004 |
| Executive directors:     |                     |      |
| RM150,001 to RM200,000   | 1                   | 1    |
| RM200,001 to RM250,000   | 1                   | 1    |
| Non-executive directors: |                     |      |
| Below RM50,000           | 3                   | 3    |
| RM100,001 to RM150,000   | 1                   | 1    |

### 8. Interest Income

|                              | Group          |              | Company       |                  |
|------------------------------|----------------|--------------|---------------|------------------|
|                              | 2005<br>RM     | 2004<br>RM   | 2005<br>RM    | 2004<br>RM       |
| Interest income from:        |                |              |               |                  |
| Advances                     | -              | -            | -             | 2,137,101        |
| Bank savings                 | -              | 1,067        | 1,154         | 1,057            |
| Deposits with licensed banks | 19,906         | 2,476        | 16,205        | -                |
| Overdue accounts             | 22,293         | -            | -             | -                |
| Repos                        | 71,097         | -            | 71,097        | -                |
|                              | <u>113,296</u> | <u>3,543</u> | <u>88,456</u> | <u>2,138,158</u> |

## Notes to the Financial Statements (Cont'd)

30 June 2005

### 9. Finance Costs

|                      | Group            |                  | Company          |                  |
|----------------------|------------------|------------------|------------------|------------------|
|                      | 2005<br>RM       | 2004<br>RM       | 2005<br>RM       | 2004<br>RM       |
| Interest expense on: |                  |                  |                  |                  |
| Bankers' acceptances | 145,098          | -                | -                | -                |
| Medium Term Notes    | 1,149,723        | 1,612,091        | 1,149,723        | 1,612,091        |
| Term loan            | 766,677          | -                | 940,195          | -                |
| Bank overdrafts      | 369,974          | -                | -                | -                |
| Hire purchase        | 669,107          | 581,270          | -                | -                |
| Letters of credit    | 4,085            | 37,974           | -                | -                |
| Overdue accounts     | 117,961          | 481,433          | -                | -                |
|                      | <u>3,222,625</u> | <u>2,712,768</u> | <u>2,089,918</u> | <u>1,612,091</u> |

### 10. Taxation

|   | Group            |                  | Company          |                |
|---|------------------|------------------|------------------|----------------|
|   | 2005<br>RM       | 2004<br>RM       | 2005<br>RM       | 2004<br>RM     |
| Income tax:   |                  |                  |                  |                |
| Malaysian income tax on results for the year                  | 2,523,004        | 1,027,850        | 24,355           | 140,657        |
| Overprovided in prior years:                                  |                  |                  |                  |                |
| Malaysian income tax  | (181,365)        | (16,259)         | (140,657)        | (260)          |
|   | <u>2,341,639</u> | <u>1,011,591</u> | <u>(116,302)</u> | <u>140,397</u> |
| Deferred tax (Note 28):                                       |                  |                  |                  |                |
| Relating to origination and reversal of temporary differences | (910,339)        | 282,134          | -                | -              |
| Under/(over)provided in prior years                           | 429              | (1,219,952)      | -                | -              |
|   | <u>(909,910)</u> | <u>(937,818)</u> | <u>-</u>         | <u>-</u>       |
|   | <u>1,431,729</u> | <u>73,773</u>    | <u>(116,302)</u> | <u>140,397</u> |

Domestic income tax is calculated at the Malaysian statutory tax rate of 28% (2004: 28%) of the estimated assessable profit for the year.

## Notes to the Financial Statements (Cont'd)

30 June 2005

### 10. Taxation (Cont'd)

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

| Group  | 2005<br>RM  | 2004<br>RM  |
|--|-------------|-------------|
| Profit before taxation                                       | 17,494,545  | 8,137,295   |
| Taxation at Malaysian statutory tax rate of 28% (2004: 28%)  | 4,898,472   | 2,278,443   |
| Effect of income subject to tax rate of 20%                  | (120,204)   | (40,000)    |
| Effect of income not subject to tax                          | (5,489,665) | (2,085,086) |
| Effect of expenses not deductible for tax purposes           | 2,324,062   | 1,156,627   |
| Under/(over) provision of deferred tax in prior years        | 429         | (1,219,952) |
| Overprovision of tax expense in prior years                  | (181,365)   | (16,259)    |
| Tax expense for the year                                     | 1,431,729   | 73,773      |
| Company  |             |             |
| Profit before taxation                                       | 2,297,086   | 1,917,074   |
| Taxation at Malaysian statutory tax rate of 28% (2004 : 28%) | 643,184     | 536,781     |
| Effect of income not subject to tax                          | (2,308,182) | (738,618)   |
| Effect of expenses not deductible for tax purposes           | 1,689,353   | 342,494     |
| Overprovision of tax expense in prior years                  | (140,657)   | (260)       |
| Tax expense for the year                                     | (116,302)   | 140,397     |

Tax savings during the financial year arising from:

|  | Group      |            | Company    |            |
|--|------------|------------|------------|------------|
|  | 2005<br>RM | 2004<br>RM | 2005<br>RM | 2004<br>RM |
| Utilisation of current year capital allowances | 6,088,005  | 3,851,490  | -          | -          |
| Utilisation of current year forest allowances  | 102,172    | 14,839     | -          | -          |

## Notes to the Financial Statements (Cont'd)

30 June 2005

### 11. Earnings Per Share

#### (a) Basic

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

|   | 2005        | 2004       |
|---|-------------|------------|
| Net profit for the year (RM)                        | 16,062,816  | 8,063,522  |
| Weighted average number of ordinary shares in issue | 118,939,394 | 85,000,000 |
| Basic earnings per share (sen)                      | <u>13.5</u> | <u>9.5</u> |

#### (b) Diluted

The Group has no potential ordinary shares in issue as at the balance sheet date and therefore, diluted earnings per share has not been presented.

### 12. Dividend

|   | Amount           |                  | Net Dividend<br>per Ordinary Share |             |
|---|------------------|------------------|------------------------------------|-------------|
|   | 2005<br>RM       | 2004<br>RM       | 2005<br>Sen                        | 2004<br>Sen |
| <b>Final</b>  |                  |                  |                                    |             |
| Tax exempt dividend of 2%,<br>on 85,000,000 ordinary shares,<br>declared on 9 February 2004<br>and paid on 10 March 2004    | -                | 1,700,000        | -                                  | 2.0         |
| Tax exempt dividend of 1.5%,<br>on 143,181,818 ordinary shares,<br>declared on 15 February 2005<br>and paid on 9 March 2005 | <u>2,147,727</u> | <u>-</u>         | <u>1.5</u>                         | <u>-</u>    |
|   | <u>2,147,727</u> | <u>1,700,000</u> | <u>1.5</u>                         | <u>2.0</u>  |



## Notes to the Financial Statements (Cont'd)

### 30 June 2005

#### 13. Property, Plant and Equipment

| Group   | Leasehold<br>Land and<br>Buildings*<br>RM | Heavy<br>Equipment,<br>Motor<br>Vehicles<br>and Motor<br>Launches<br>RM | Plant<br>and<br>Machinery<br>RM | Furniture,<br>Fittings<br>and<br>Equipment<br>RM | Camp<br>Infra-<br>Structure<br>RM | Capital<br>Work-In-<br>Progress<br>RM | Total<br>RM |
|---|---|---|---------------------------------|--|-----------------------------------|---------------------------------------|-------------|
| <b>Cost</b>   |   |   |                                 |  |                                   |                                       |             |
| At 1 July 2004  | 27,560,934                                | 51,090,047  | 30,902,616                      | 3,874,328  | 9,730,968                         | -                                     | 123,158,893 |
| Additions   | 839,958                                   | 31,059,989  | 8,246,698                       | 1,021,104  | 7,885,070                         | -                                     | 49,052,819  |
| Disposals   | -   | (210,436)   | -                               | (61,800)   | -                                 | -                                     | (272,236)   |
| Acquisition of<br>subsidiaries<br>(Note 14)               | 38,841,743                                | 67,717  | 12,191,768                      | 333,355  | -                                 | 2,046,561                             | 53,481,144  |
| At 30 June 2005   | 67,242,635                                | 82,007,317  | 51,341,082                      | 5,166,987  | 17,616,038                        | 2,046,561                             | 225,420,620 |
| <b>Accumulated Depreciation</b>                           |   |   |                                 |  |                                   |                                       |             |
| At 1 July 2004  | 2,407,753                                 | 16,775,607  | 15,728,647                      | 1,653,068  | 1,947,771                         | -                                     | 38,512,846  |
| Depreciation<br>charge for<br>the year:                   | 440,700                                   | 6,393,078   | 2,255,057                       | 698,077  | 1,598,900                         | -                                     | 11,385,812  |
| Recognised in<br>income<br>statement (Note 5)             | 440,700                                   | 6,324,870   | 2,255,057                       | 688,420  | 1,598,900                         | -                                     | 11,307,947  |
| Capitalised in property<br>development<br>costs (Note 17) | -   | 68,208  | -                               | 9,657  | -                                 | -                                     | 77,865      |
| Disposals   | -   | (80,508)  | -                               | (14,799)   | -                                 | -                                     | (95,307)    |
| At 30 June 2005   | 2,848,453                                 | 23,088,177  | 17,983,704                      | 2,336,346  | 3,546,671                         | -                                     | 49,803,351  |
| <b>Net Book Value</b>                                     |   |   |                                 |  |                                   |                                       |             |
| At 30 June 2005:  |   |   |                                 |  |                                   |                                       |             |
| At cost   | 64,394,182                                | 58,919,140  | 33,357,378                      | 2,830,641  | 14,069,367                        | 2,046,561                             | 175,617,269 |
| At 30 June 2004:  |   |   |                                 |  |                                   |                                       |             |
| At cost   | 25,153,181                                | 34,314,440  | 15,173,969                      | 2,221,260  | 7,783,197                         | -                                     | 84,646,047  |
| <b>Depreciation charge for 2004</b>                       |   |   |                                 |  |                                   |                                       |             |
| Recognised in income<br>statement (Note 5)                | 369,434                                   | 8,421,090   | 2,138,988                       | 442,895  | 1,182,360                         | -                                     | 12,554,767  |
| Capitalised in property<br>development<br>costs (Note 17) | -   | 40,847  | -                               | 5,133  | -                                 | -                                     | 45,980      |
|   | 369,434                                   | 8,461,937   | 2,138,988                       | 448,028  | 1,182,360                         | -                                     | 12,600,747  |

## Notes to the Financial Statements (Cont'd)

### 30 June 2005

#### 13. Property, Plant and Equipment (Cont'd)

\* Analysis of Leasehold Land and Buildings:

| Group                               | Leasehold<br>Land<br>RM | Buildings<br>RM | Total<br>RM |
|-------------------------------------|-------------------------|-----------------|-------------|
| <b>Cost</b>                         |                         |                 |             |
| At 1 July 2004                      | 9,268,822               | 18,292,112      | 27,560,934  |
| Additions                           | -                       | 839,958         | 839,958     |
| Acquisition of subsidiaries         | 25,609,999              | 13,231,744      | 38,841,743  |
| At 30 June 2005                     | 34,878,821              | 32,363,814      | 67,242,635  |
| <b>Accumulated Depreciation</b>     |                         |                 |             |
| At 1 July 2004                      | -                       | 2,407,753       | 2,407,753   |
| Depreciation charge for the year    | -                       | 440,700         | 440,700     |
| At 30 June 2005                     | -                       | 2,848,453       | 2,848,453   |
| <b>Net Book Value</b>               |                         |                 |             |
| At 30 June 2005:<br>At cost         | 34,878,821              | 29,515,361      | 64,394,182  |
| At 30 June 2004:<br>At cost         | 9,268,822               | 15,884,359      | 25,153,181  |
| <b>Depreciation charge for 2004</b> | -                       | 369,434         | 369,434     |

## Notes to the Financial Statements (Cont'd)

30 June 2005

### 13. Property, Plant and Equipment (Cont'd)

| Company                                      | Motor<br>Vehicles<br>RM | Furniture,<br>Fittings<br>and<br>Equipment<br>RM | Total<br>RM |
|--|-------------------------|--|-------------|
| <b>Cost</b>                                  |                         |  |             |
| Additions                                    | 129,927                 | 207,978  | 337,905     |
| At 30 June 2005                              | 129,927                 | 207,978  | 337,905     |
| <b>Accumulated Depreciation</b>              |                         |  |             |
| Depreciation charge for the year (Note 5)    | -                       | 19,663   | 19,663      |
| At 30 June 2005                              | -                       | 19,663   | 19,663      |
| <b>Net Book Value</b>                        |                         |  |             |
| At 30 June 2005:                             |                         |  |             |
| At cost                                      | 129,927                 | 188,315  | 318,242     |
| At 30 June 2004:                             |                         |  |             |
| At cost                                      | -                       | -  | -           |
| <b>Depreciation charge for 2004 (Note 5)</b> | -                       | -  | -           |

- (a) During the financial year, the Group acquired property, plant and equipment at an aggregate cost of RM49,052,819 (2004: RM20,723,840) of which RM10,668,900 (2004: RM5,087,250) was acquired by means of finance lease arrangements. Net book values of property, plant and equipment held under hire purchase and finance lease arrangements are as follows:

|  | Group      |            |
|--|------------|------------|
|  | 2005<br>RM | 2004<br>RM |
| Heavy equipment, motor vehicles and motor launches | 20,025,357 | 12,294,232 |

- (b) The financial effect of non-depreciation of long leasehold land on the financial statements of the Group as mentioned in Note 2(f) is an increase in depreciation charge of RM144,900 (2004: RM142,666).
- (c) All the property, plant and equipment of the Group have been pledged as part of the securities for Commercial Papers/Medium Term Notes Programme of RM160 million (2004: RM60 million) as disclosed in Note 23.

## Notes to the Financial Statements (Cont'd)

30 June 2005

### 14. Investments in Subsidiaries

|                             | Company     |            |
|-----------------------------|-------------|------------|
|                             | 2005<br>RM  | 2004<br>RM |
| Unquoted shares at cost:    |             |            |
| At 1 July                   | 42,076,738  | 42,076,738 |
| Acquisition of subsidiaries | 86,752,587  | -          |
| At 30 June                  | 128,829,325 | 42,076,738 |

Details of the subsidiaries are as follows:

| Name of Subsidiaries             | Country of Incorporation | Equity Interest Held (%) |      | Principal Activities   |
|----------------------------------|--------------------------|--------------------------|------|--|
|                                  |                          | 2005                     | 2004 |  |
| Priceworth Industries Sdn. Bhd.* | Malaysia                 | 100                      | 100  | Manufacture and sale of processed wood products, trading of logs and provision of wood processing services |
| Teras Selasih Sdn. Bhd.          | Malaysia                 | 100                      | -    | Log timber trading   |
| Cergas Kenari Sdn. Bhd.          | Malaysia                 | 100                      | -    | Timber extraction  |
| Sinora Sdn. Bhd.                 | Malaysia                 | 100                      | -    | Manufacture and sale of plywood and sawn timber  |
| Innora Sdn. Bhd.                 | Malaysia                 | 100                      | -    | Manufacture and sale of moulded wood products  |

#### \* Subsidiaries of Priceworth Industries Sdn. Bhd.

|                              |          |     |     |  |
|------------------------------|----------|-----|-----|--|
| Ligreen Enterprise Sdn. Bhd. | Malaysia | 100 | 100 | Log trading                            |
| Maxland Sdn. Bhd.            | Malaysia | 100 | 100 | Timber extraction and land development |
| Cabaran Cerdas Sdn. Bhd.     | Malaysia | 100 | 100 | Dormant                                |

## Notes to the Financial Statements (Cont'd)

30 June 2005

### 14. Investments in Subsidiaries (Cont'd)

#### Acquisition of Subsidiaries

During the financial year, the Group acquired 100% equity interest in Teras Selasih Sdn. Bhd., 100% equity interest in Cergas Kenari Sdn. Bhd., 100% equity interest in Sinora Sdn. Bhd. and 100% equity interest in Innora Sdn. Bhd., all of which are incorporated in Malaysia, for a total consideration of RM86,752,587 consisting of cash of RM11,752,587, the issue of 58,181,818 new ordinary shares of RM0.50 each of the Company at an issue price of RM1.10 each and a deferred consideration ordinary shares of 10 million to be issued to Lim Nyuk Foh at an issue price of RM1.10 each.

The acquisition had the following effect on the Group's financial results for the year:

|  | <b>2005</b><br><b>RM</b> |
|--|--------------------------|
| Revenue  | 148,749,920              |
| Cost of sales                                    | <u>(161,653,371)</u>     |
| Gross loss                                       | (12,903,451)             |
| Other operating income                           | 58,196                   |
| Administrative expenses                          | <u>(1,737,572)</u>       |
| Loss from operations*                            | (14,582,827)             |
| Interest income                                  | 22,293                   |
| Finance costs                                    | <u>(369,677)</u>         |
| Loss before taxation                             | (14,930,211)             |
| Taxation   | <u>3,848,943</u>         |
| Net loss for the year                            | <u>(11,081,268)</u>      |
| * Loss from operations is stated after charging: |                          |
| Amortisation of timber rights                    | 14,126,702               |
| Amortisation of goodwill                         | <u>1,424,388</u>         |

The acquisition had the following effect on the financial position of the Group as at the end of the year:

|                               | <b>2005</b><br><b>RM</b> |
|-------------------------------|--------------------------|
| Property, plant and equipment | 53,482,568               |
| Timber rights                 | 74,947,371               |
| Goodwill on consolidation     | 21,905,291               |
| Inventories                   | 24,444,260               |
| Trade and other receivables   | 35,834,941               |
| Cash and bank balances        | 3,446,129                |
| Trade and other payables      | (80,567,025)             |
| Borrowings                    | (31,958,728)             |
| Tax payable                   | (898,745)                |
| Deferred tax liabilities      | <u>(24,964,743)</u>      |
| Group's share of net assets   | <u>75,671,319</u>        |

## Notes to the Financial Statements (Cont'd)

30 June 2005

### 14. Investments in Subsidiaries (Cont'd)

The fair values of the assets acquired and liabilities assumed from the acquisition of the subsidiaries were as follows:

|   | 2005<br>RM   |
|---|--------------|
| Property, plant and equipment (Note 13)             | 53,481,144   |
| Timber rights (Note 16)                             | 89,074,073   |
| Inventories   | 24,460,593   |
| Trade and other receivables                         | 49,767,304   |
| Cash and bank balances                              | (9,954,866)  |
| Trade and other payables                            | (85,808,814) |
| Borrowings  | (27,657,009) |
| Tax payable   | (1,020,210)  |
| Deferred tax liabilities (Note 28)                  | (28,919,307) |
|   | <hr/>        |
| Fair value of total net assets                      | 63,422,908   |
| Goodwill on consolidation (Note 18)                 | 23,329,679   |
|   | <hr/>        |
| Cost of acquisition                                 | 86,752,587   |
|   | <hr/>        |
| Purchase consideration satisfied by:                |              |
| Cash  | 10,519,000   |
| Ordinary shares issued at fair value (Note 27)      | 64,000,000   |
| Further issuance of ordinary shares of 10 million   | 11,000,000   |
|   | <hr/>        |
| Total purchase consideration                        | 85,519,000   |
| Costs attributable to the acquisition, paid in cash | 1,233,587    |
|   | <hr/>        |
| Total cost of acquisition                           | 86,752,587   |
|   | <hr/>        |
| Cash outflow arising in acquisition:                |              |
| Purchase consideration satisfied by cash            | 10,519,000   |
| Costs attributable to the acquisition, paid in cash | 1,233,587    |
|   | <hr/>        |
| Total cash outflow of the Company                   | 11,752,587   |
| Cash and cash equivalents of subsidiaries acquired  | 9,954,866    |
|   | <hr/>        |
| Net cash outflow of the Group                       | 21,707,453   |
|   | <hr/>        |

There were no acquisitions in the financial year ended 30 June 2004.

### 15. Other Investment

|                         | 2005<br>RM | Goup<br>2004<br>RM |
|-------------------------|------------|--------------------|
| Unquoted shares at cost | 50,000     | 50,000             |
|                         | <hr/>      | <hr/>              |

## Notes to the Financial Statements (Cont'd)

30 June 2005

### 16. Timber Rights

|   | 2005<br>RM   | Goup<br>2004<br>RM |
|---|--------------|--------------------|
| Acquisition of subsidiaries (Note 14)                   | 89,074,073   | -                  |
| Less:   |              |                    |
| Accumulated amortisation recognised in income statement | (14,126,702) | -                  |
| At 30 June  | 74,947,371   | -                  |

This represents the exclusive rights of two subsidiaries to extract and purchase all commercial timber logs extractable from a designated timber concession area situated at Gunung Rara/Kalabakan Forest Reserve.

### 17. Property Development Costs

|  | 2005<br>RM | Goup<br>2004<br>RM |
|--|------------|--------------------|
| Property development costs at 1 July:  |            |                    |
| Development costs  | 1,213,446  | -                  |
| Costs incurred during the year:  |            |                    |
| Development costs  | 2,237,864  | 1,213,446          |
| Property development costs at 30 June  | 3,451,310  | 1,213,446          |
| Included in property development costs incurred during the financial year are: |            |                    |
| Depreciation of property, plant and equipment (Note 13)                        | 77,865     | 45,980             |

### 18. Goodwill on Consolidation/(Negative Goodwill)

|   | Goodwill<br>RM | Negative<br>Goodwill<br>RM | Total<br>RM |
|---|----------------|----------------------------|-------------|
| At 1 July   | -              | (5,234,412)                | (5,234,412) |
| Acquisition of subsidiaries (Note 14)                   | 23,329,679     | -                          | 23,329,679  |
| Less:   |                |                            |             |
| Accumulated amortisation recognised in income statement | (1,424,388)    | -                          | (1,424,388) |
| At 30 June  | 21,905,291     | (5,234,412)                | 16,670,879  |

## Notes to the Financial Statements (Cont'd)

30 June 2005

### 19. Inventories

|                           | Group             |                   | Company    |            |
|---------------------------|-------------------|-------------------|------------|------------|
|                           | 2005<br>RM        | 2004<br>RM        | 2005<br>RM | 2004<br>RM |
| <b>Cost</b>               |                   |                   |            |            |
| Contract work-in-progress | 5,495,264         | 4,152,317         | -          | -          |
| Raw materials             | 4,851,951         | 606,143           | -          | -          |
| Work-in-progress          | 5,236,267         | -                 | -          | -          |
| Finished goods            | 19,648,871        | 9,629,647         | -          | -          |
| Consumable goods          | 2,740,719         | 3,757,647         | -          | -          |
| Production supplies       | 6,421,369         | -                 | -          | -          |
|                           | <u>44,394,441</u> | <u>18,145,754</u> | <u>-</u>   | <u>-</u>   |

There were no inventories stated at net realisable value as at 30 June 2005 and 30 June 2004. The cost of inventories recognised as an expense during the financial year in the Group amounted to RM271,541,767 (2004: RM157,669,417).

### 20. Trade Receivables

The Group's normal trade credit term ranges from 60 days to 90 days. Other credit terms are assessed and approved on a case-by-case basis.

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

### 21. Other Receivables

|                           | Group             |                   | Company            |                   |
|---------------------------|-------------------|-------------------|--------------------|-------------------|
|                           | 2005<br>RM        | 2004<br>RM        | 2005<br>RM         | 2004<br>RM        |
| Due from subsidiaries     | -                 | -                 | 98,271,529         | 56,906,472        |
| Advances                  | 23,142,084        | 3,494,347         | -                  | -                 |
| Deposits for log supplies | 20,811,330        | 21,881,330        | -                  | -                 |
| Other deposits            | 5,199,523         | 1,390,692         | 82,163             | 8,550             |
| Prepayments               | 5,814,145         | 3,240,475         | 2,953,602          | 2,426,201         |
| Sundry receivables        | 6,611,667         | 12,707,804        | 1,302              | 118,667           |
|                           | <u>61,578,749</u> | <u>42,714,648</u> | <u>101,308,596</u> | <u>59,459,890</u> |

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

Deposits for log supplies represent advances paid to log suppliers for logs to be delivered later.

Included in sundry receivables of the Group is an amount of RM222,480 (2004: RM10,354,041) due from a company in which one of the directors of the Company has interest. This amount is unsecured, interest-free and has no fixed terms of repayment.

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



## Notes to the Financial Statements (Cont'd)

30 June 2005

### 22. Cash and Cash Equivalents

|                                 | Group       |            | Company     |            |
|---------------------------------|-------------|------------|-------------|------------|
|                                 | 2005<br>RM  | 2004<br>RM | 2005<br>RM  | 2004<br>RM |
| Cash on hand and at banks       | 28,994,730  | 2,547,595  | 21,430,829  | 104,854    |
| Deposits with licensed banks    | 4,780,354   | 106,636    | 4,654,955   | -          |
| Cash and bank balances          | 33,775,084  | 2,654,231  | 26,085,784  | 104,854    |
| Less: Bank overdrafts (Note 23) | (8,787,224) | (9,657)    | (3,834,505) | (9,657)    |
| Cash and cash equivalents       | 24,987,860  | 2,644,574  | 22,251,279  | 95,197     |

Deposits with licensed banks of the Group amounting to RM29,000 (2004: RM24,000) are pledged as securities for bank guarantees issued to government departments.

The average effective interest rate of deposits, which are renewable yearly, at the balance sheet date was 3.4% (2004: 3.4%) per annum.

### 23. Borrowings

|  | Group       |            | Company     |            |
|--|-------------|------------|-------------|------------|
|  | 2005<br>RM  | 2004<br>RM | 2005<br>RM  | 2004<br>RM |
| <b>Short Term Borrowings</b>                       |             |            |             |            |
| Secured:   |             |            |             |            |
| Hire purchase and finance lease payables (Note 24) | 5,922,465   | 3,651,966  | -           | -          |
| Term loan  | 15,448,175  | -          | -           | -          |
|  | 21,370,640  | 3,651,966  | -           | -          |
| Unsecured:   |             |            |             |            |
| Bank overdrafts                                    | 8,787,224   | 9,657      | 3,834,505   | 9,657      |
| Bankers' acceptances                               | 10,649,194  | -          | -           | -          |
|  | 19,436,418  | 9,657      | 3,834,505   | 9,657      |
|  | 40,807,058  | 3,661,623  | 3,834,505   | 9,657      |
| <b>Long Term Borrowings</b>                        |             |            |             |            |
| Secured:   |             |            |             |            |
| Medium Term Notes                                  | 120,000,000 | 44,000,000 | 120,000,000 | 44,000,000 |
| Term loan  | 908,640     | -          | -           | -          |
| Hire purchase and finance lease payables (Note 24) | 7,278,408   | 3,661,340  | -           | -          |
|  | 128,187,048 | 47,661,340 | 120,000,000 | 44,000,000 |

## Notes to the Financial Statements (Cont'd)

30 June 2005

### 23. Borrowings (Cont'd)

|  | Group              |                   | Company            |                   |
|--|--------------------|-------------------|--------------------|-------------------|
|  | 2005<br>RM         | 2004<br>RM        | 2005<br>RM         | 2004<br>RM        |
| <b>Total Borrowings</b>  |                    |                   |                    |                   |
| Bank overdrafts (Note 22)  | 8,787,224          | 9,657             | 3,834,505          | 9,657             |
| Bankers' acceptances   | 10,649,194         | -                 | -                  | -                 |
| Medium Term Notes  | 120,000,000        | 44,000,000        | 120,000,000        | 44,000,000        |
| Term loan  | 16,356,815         | -                 | -                  | -                 |
| Hire purchase and finance<br>lease payables (Note 24)                              | 13,200,873         | 7,313,306         | -                  | -                 |
|  | <u>168,994,106</u> | <u>51,322,963</u> | <u>123,834,505</u> | <u>44,009,657</u> |
| <b>Maturity of borrowings<br/>(excluding hire purchase<br/>and finance lease):</b> |                    |                   |                    |                   |
| Within one year  | 34,884,593         | 9,657             | 3,834,505          | 9,657             |
| More than 1 year and less<br>than 2 years  | 908,640            | -                 | -                  | -                 |
| 5 years or more  | 120,000,000        | 44,000,000        | 120,000,000        | 44,000,000        |
|  | <u>155,793,233</u> | <u>44,009,657</u> | <u>123,834,505</u> | <u>44,009,657</u> |

The range of effective interest rates at the balance sheet date for borrowings, excluding hire purchase and finance lease payables, were as follows:

|                      | Group       |             | Company     |             |
|----------------------|-------------|-------------|-------------|-------------|
|                      | 2005<br>%   | 2004<br>%   | 2005<br>%   | 2004<br>%   |
| Bank overdrafts      | 7.00 - 7.75 | -           | 7.75        | -           |
| Bankers' acceptances | 3.20 - 4.00 | -           | -           | -           |
| Medium Term Notes    | 7.00 - 8.50 | 3.35 - 3.74 | 7.00 - 8.50 | 3.35 - 3.74 |
| Term loan            | 8.00        | -           | -           | -           |

The Medium Term Notes of the Company are secured by the following:

- (i) Legal charges over six parcels of leasehold land of the Group; and
- (ii) A debenture creating fixed and floating charges over all the property, plant and equipment of the Group, both present and future.

Other banking facilities of the Group are secured by the following:

- (i) A first party legal charge of RM22 million for term loan and second legal charge of RM11 million for overdraft facilities on the landed property of the Group.

## Notes to the Financial Statements (Cont'd)

30 June 2005

### 24. Hire Purchase and Finance Lease Payables

|  | Group             |                  | Company    |            |
|--|-------------------|------------------|------------|------------|
|  | 2005<br>RM        | 2004<br>RM       | 2005<br>RM | 2004<br>RM |
| <b>Minimum lease payments:</b>                     |                   |                  |            |            |
| Not later than 1 year                              | 6,807,210         | 4,083,145        | -          | -          |
| Later than 1 year and not later than 2 years       | 5,590,832         | 2,602,732        | -          | -          |
| Later than 2 years and not later than 5 years      | 2,527,005         | 1,540,294        | -          | -          |
|  | <u>14,925,047</u> | <u>8,226,171</u> | <u>-</u>   | <u>-</u>   |
| Less: Future finance charges                       | (1,724,174)       | (912,865)        | -          | -          |
|  | <u>13,200,873</u> | <u>7,313,306</u> | <u>-</u>   | <u>-</u>   |
| <b>Present value of finance lease liabilities:</b> |                   |                  |            |            |
| Not later than 1 year                              | 5,922,465         | 3,651,966        | -          | -          |
| Later than 1 year and not later than 2 years       | 4,961,331         | 2,316,276        | -          | -          |
| Later than 2 years and not later than 5 years      | 2,317,077         | 1,345,064        | -          | -          |
|  | <u>13,200,873</u> | <u>7,313,306</u> | <u>-</u>   | <u>-</u>   |
| <b>Analysed as:</b>                                |                   |                  |            |            |
| Due within 12 months (Note 23)                     | 5,922,465         | 3,651,966        | -          | -          |
| Due after 12 months (Note 23)                      | 7,278,408         | 3,661,340        | -          | -          |
|  | <u>13,200,873</u> | <u>7,313,306</u> | <u>-</u>   | <u>-</u>   |

The hire purchase and lease liabilities bore interest at the balance sheet date at rates between 3.5% to 5.3% (2004: 3.5% to 6.3%) per annum.

### 25. Trade Payables

The normal trade credit terms granted to the Group range from 60 days to 90 days.

## Notes to the Financial Statements (Cont'd)

30 June 2005

### 26. Other Payables

|                                    | Group             |                  | Company           |                |
|------------------------------------|-------------------|------------------|-------------------|----------------|
|                                    | 2005<br>RM        | 2004<br>RM       | 2005<br>RM        | 2004<br>RM     |
| Accruals                           | 2,212,281         | 1,561,541        | 10,000            | 10,000         |
| Deposits                           | 170,000           | 144,000          | -                 | -              |
| Due to a director                  | -                 | 20,000           | -                 | -              |
| Outstanding purchase consideration | 11,000,000        | -                | 11,000,000        | -              |
| Sundry payables                    | 33,372,023        | 2,769,913        | 338,189           | 411,931        |
|                                    | <u>46,754,304</u> | <u>4,495,454</u> | <u>11,348,189</u> | <u>421,931</u> |

Included in sundry payables of the Group is an amount of RM40,093 (2004: RM61,393) due to a company in which a director of the Company, Lim Nyuk Foh has interest. This amount is unsecured, interest-free and has no fixed terms of repayment.

### 27. Share Capital

|  | Number of Ordinary<br>Shares of RM0.50 Each |                    | Amount             |                   |
|--|---|--------------------|--------------------|-------------------|
|  | 2005  | 2004               | 2005<br>RM         | 2004<br>RM        |
| <b>Authorised:</b>                       |   |                    |                    |                   |
| At 1 July                                | 100,000,000                                 | 100,000,000        | 50,000,000         | 50,000,000        |
| Created during the year                  | 100,000,000                                 | -                  | 50,000,000         | -                 |
| At 30 June                               | <u>200,000,000</u>                          | <u>100,000,000</u> | <u>100,000,000</u> | <u>50,000,000</u> |
| <b>Issued and fully paid:</b>            |   |                    |                    |                   |
| At 1 July                                | 85,000,000                                  | 85,000,000         | 42,500,000         | 42,500,000        |
| Issued during the year:                  |   |                    |                    |                   |
| Acquisition of subsidiaries<br>(Note 14) | 58,181,818                                  | -                  | 29,090,909         | -                 |
| At 30 June                               | <u>143,181,818</u>                          | <u>85,000,000</u>  | <u>71,590,909</u>  | <u>42,500,000</u> |

#### Ordinary Shares Issued for Acquisition of Subsidiaries

During the financial year, the Company issued 58,181,818 new ordinary shares of RM0.50 each at an issue price of RM1.10 per ordinary share amounting to RM64,000,000 as partial discharge of purchase consideration for the acquisition of Cergas Kenari Sdn. Bhd. and Teras Selasih Sdn. Bhd. (Note 14). The new ordinary shares rank pari passu in all respects with the existing ordinary shares of the Company.

## Notes to the Financial Statements (Cont'd)

30 June 2005

### 28. Deferred Tax

|  | Group      |            | Company    |            |
|--|------------|------------|------------|------------|
|  | 2005<br>RM | 2004<br>RM | 2005<br>RM | 2004<br>RM |
| At 1 July  | 4,584,421  | 5,522,239  | -          | -          |
| Recognised in income statement (Note 10)           | (909,910)  | (937,818)  | -          | -          |
| Acquisition of subsidiaries (Note 14)              | 28,919,307 | -          | -          | -          |
| At 30 June   | 32,593,818 | 4,584,421  | -          | -          |
| Presented after appropriate offsetting as follows: |            |            |            |            |
| Deferred tax assets                                | (743,179)  | (645,074)  | -          | -          |
| Deferred tax liabilities                           | 33,336,997 | 5,229,495  | -          | -          |
|  | 32,593,818 | 4,584,421  | -          | -          |

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

Deferred Tax Liabilities of the Group:

|                                | Property,<br>Plant and<br>Equipment<br>RM |
|--------------------------------|---|
| At 1 July 2004                 | 5,229,495                                 |
| Recognised in income statement | (811,805)                                 |
| Acquisition of subsidiaries    | 28,919,307                                |
| At 30 June 2005                | 33,336,997                                |
| At 1 July 2003                 | 5,867,019                                 |
| Recognised in income statement | (637,524)                                 |
| At 30 June 2004                | 5,229,495                                 |

## Notes to the Financial Statements (Cont'd)

30 June 2005

### 28. Deferred Tax (Cont'd)

#### Deferred Tax Assets of the Group:

|                                | Unabsorbed<br>Forest<br>Allowances<br>RM | Unabsorbed<br>Capital<br>Allowances<br>RM | Total<br>RM |
|--------------------------------|--|---|-------------|
| At 1 July 2004                 | (644,930)                                | (144)                                     | (645,074)   |
| Recognised in income statement | (98,105)                                 | -   | (98,105)    |
| At 30 June 2005                | (743,035)                                | (144)                                     | (743,179)   |
| At 1 July 2003                 | (344,636)                                | (144)                                     | (344,780)   |
| Recognised in income statement | (300,294)                                | -   | (300,294)   |
| At 30 June 2004                | (644,930)                                | (144)                                     | (645,074)   |

The unabsorbed forest and capital allowances are available indefinitely for offset against future taxable profits of the respective subsidiaries.

### 29. Commitments

|  | 2005<br>RM | 2004<br>RM |
|--|------------|------------|
| Capital expenditure<br>Approved and contracted for:<br>Plant and equipment | 19,606,896 | -          |

### 30. Contingent Liabilities

The Company has provided corporate guarantees to a subsidiary as securities for hire purchase financing facilities amounting to RM25,000,000 (2004: RM13,000,000).

The hire purchase financing facilities utilised as at balance sheet date was RM13,186,146 (2004: RM7,298,624).

## Notes to the Financial Statements (Cont'd)

30 June 2005

### 31. Significant Related Party Transactions

| Group   | 2005                            |                             | 2004                            |                             |
|---|---------------------------------|-----------------------------|---------------------------------|-----------------------------|
|   | Amount of<br>Transactions<br>RM | Outstanding<br>Amount<br>RM | Amount of<br>Transactions<br>RM | Outstanding<br>Amount<br>RM |
| Transactions with companies<br>in which one of the directors,<br>Lim Nyuk Foh has interest: |                                 |                             |                                 |                             |
| <i>Mujur Bakat Sdn. Bhd.</i>  |                                 |                             |                                 |                             |
| Purchase of logs  | -                               | -                           | 5,385,251                       | -                           |
| Sale of logs  | 28,203,183                      | 4,163,241                   | 10,026,222                      | -                           |
| <i>Maxland Enterprise Sdn. Bhd.</i>   |                                 |                             |                                 |                             |
| Rental of premises  | 74,400                          | 113,988                     | 60,000                          | 115,393                     |
| Company   |                                 |                             |                                 |                             |
| Transactions with a subsidiary:   |                                 |                             |                                 |                             |
| <i>Priceworth Industries Sdn. Bhd.</i>  |                                 |                             |                                 |                             |
| Gross dividend received   | 8,243,508                       | 92,947,804                  | 2,637,922                       | 56,906,472                  |
| Interest on advances received   | -                               | -                           | 2,137,101                       | -                           |

The directors are of the opinion that all the transactions above have been entered into in the normal course of business and have been established on terms and conditions that are not materially different from those obtainable in transactions with unrelated parties.

### 32. Subsequent Events

- (a) On 1 July 2005, the Company completed the acquisition of 51,000 ordinary shares of RM1.00 each representing 51% of the entire issued and paid-up capital of Integral Acres Sdn. Bhd. ("IASB"), a company incorporated in Malaysia, for a total cash consideration of RM51,000 ("the Acquisition"). The Acquisition has resulted in IASB becoming a subsidiary of the Company. The investment in IASB will enable the Group to venture into the property development sector.
- (b) On 15 July 2005, the Company announced that it proposes to establish an Employees' Share Option Scheme ("ESOS") for the grant of options to eligible employees and directors of the Company and its subsidiary companies to subscribe for new ordinary shares of RM0.50 each in the Company subject to the terms and conditions of the By-Laws of ESOS.

In addition, the Company also proposes to amend its Articles of Association to facilitate the grant of options to the non-executive directors of the Group pursuant to the Proposed ESOS.

The Board had submitted the application to Bursa Malaysia Securities Berhad in relation to the Proposed ESOS.

## Notes to the Financial Statements (Cont'd)

30 June 2005

### 32. Subsequent Events (Cont'd)

- (c) The shareholders of the Company passed a special resolution at the Extraordinary General Meeting ("EGM") held on 29 July 2005 to authorise the Company to repurchase up to 10% of the issued and paid-up share capital of the Company or up to an amount not exceeding its total retained earnings and share premium reserves at the time of repurchase.

From the date of the EGM to 11 October 2005, the Company had repurchased 2,729,100 of its issued ordinary shares from the open market at an average price of RM0.49 per share for a total consideration of RM1,327,531. The shares repurchased are being held as treasury shares in accordance with Section 67A of the Companies Act, 1965.

### 33. Segmental Reporting

No segmental information has been presented as the Group is operating principally in one industry and within one country.

### 34. Financial Instruments

#### (a) Financial Risk Management Objectives and Policies

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's businesses whilst managing its commodity price, interest rate, foreign exchange, liquidity and credit risks. The Group operates within clearly defined guidelines that are approved by the Board and the Group's policy is not to engage in speculative transactions.

#### (b) Commodity Price Risk

The Group's earnings are affected by changes in the prices of its raw material and its manufactured products.

#### (c) Interest Rate Risk

The Group's primary interest rate risk relates to interest-bearing debts; the Group had no substantial long term interest-bearing assets as at 30 June 2005.

The Group manages its interest rate exposure by maintaining a mix of fixed and floating rate borrowings. The Group reviews its debt portfolio, taking into account the investment holding period and nature of its assets. This strategy allows it to capitalise on cheaper funding in a low interest rate environment and achieve a certain level of protection against rate hikes.

The information on maturity dates and effective interest rates of financial assets and liabilities are disclosed in their respective notes.

#### (d) Foreign Exchange Risk

The Group operates internationally and is exposed mainly to the United States Dollars and Japanese Yen. Foreign currency denominated assets and liabilities together with expected cash flows from highly probable purchases and sales give rise to foreign exchange exposures.

Material foreign exchange transaction exposures are not hedged currently due to the Malaysian Ringgit being pegged to the United States Dollars.



## Notes to the Financial Statements (Cont'd)

30 June 2005

### 34. Financial Instruments (Cont'd)

#### (d) Foreign Exchange Risk (Cont'd)

The net unhedged financial assets and financial liabilities of the Group that are not denominated in their functional currencies are as follows:

| Functional<br>Currency of Group<br>Companies | Net Financial Assets/(Liabilities) Held<br>in Non-Functional Currency |                                   |             |
|--|---|-----------------------------------|-------------|
|  | Japanese<br>Yen<br>RM   | United<br>States<br>Dollars<br>RM | Total<br>RM |
| At 30 June 2005:<br>Ringgit Malaysia         | 3,567,474   | 161,260                           | 3,728,734   |
| At 30 June 2004:<br>Ringgit Malaysia         | -   | 261,691                           | 261,691     |

#### (e) Liquidity Risk

The Group manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that refinancing, repayment and funding needs are met. As part of its overall liquidity management, the Group maintains sufficient levels of cash or cash convertible investments to meet its working capital requirements. In addition, the Group strives to maintain available banking facilities at a reasonable level to its overall debt position. As far as possible, the Group raises committed funding from both capital markets and financial institutions and balances its portfolio with some short term funding so as to achieve overall cost effectiveness.

#### (f) Credit Risk

Credit risks, or the risk of counterparties defaulting, are controlled by the application of credit approvals, limits and monitoring procedures. Credit risks are minimised and monitored by limiting the Group's associations to business partners with high creditworthiness. Trade receivables are monitored on an ongoing basis via Group management reporting procedures.

The Group does not have any significant exposure to any individual customer or counterparty nor does it have any major concentration of credit risk related to any financial instruments.

## Notes to the Financial Statements (Cont'd)

30 June 2005

### 34. Financial Instruments (Cont'd)

#### (g) Fair Values

The carrying amounts of financial assets of the Company at the balance sheet date approximated their fair values except for the following:

|                                  |      |                       | Group            |                       | Company          |
|----------------------------------|------|-----------------------|------------------|-----------------------|------------------|
|                                  | Note | Carrying Amount<br>RM | Fair Value<br>RM | Carrying Amount<br>RM | Fair Value<br>RM |
| <b>Financial Assets</b>          |      |                       |                  |                       |                  |
| <b>At 30 June 2005:</b>          |      |                       |                  |                       |                  |
| Amounts due from subsidiaries    | 21   | -                     | -                | 98,271,529            | *                |
| Amounts due from related parties | 21   | 222,480               | *                | -                     | -                |
| <b>At 30 June 2004:</b>          |      |                       |                  |                       |                  |
| Amount due from a subsidiary     | 21   | -                     | -                | 56,906,472            | *                |
| Amounts due from related parties | 21   | 10,354,041            | *                | -                     | -                |
| <b>Financial Liabilities</b>     |      |                       |                  |                       |                  |
| <b>At 30 June 2005:</b>          |      |                       |                  |                       |                  |
| Amount due to a related party    | 26   | 40,093                | *                | -                     | -                |
| <b>At 30 June 2004:</b>          |      |                       |                  |                       |                  |
| Amount due to a director         | 26   | 20,000                | *                | -                     | -                |
| Amount due to a related party    | 26   | 61,393                | *                | -                     | -                |

\* It is not practicable to estimate the fair values of amounts due from/(to) a director, related parties and subsidiaries due principally to a lack of fixed repayment terms entered into by the parties involved and without incurring excessive costs. However, the Group and the Company do not anticipate the carrying amounts recorded at the balance sheet date to be significantly different from the values that would eventually be received/settled.

The nominal/notional amount and net fair value of financial instruments not recognised in the balance sheets of the Group and of the Company as at the end of the financial year are:

|                         |      |                                      | Group                      |                                      | Company                    |
|-------------------------|------|--------------------------------------|----------------------------|--------------------------------------|----------------------------|
|                         | Note | Nominal/<br>Notional<br>Amount<br>RM | Net<br>Fair<br>Value<br>RM | Nominal/<br>Notional<br>Amount<br>RM | Net<br>Fair<br>Value<br>RM |
| <b>At 30 June 2005:</b> |      |                                      |                            |                                      |                            |
| Contingent liabilities  | 30   | 13,186,146                           | #                          | 13,186,146                           | #                          |
| <b>At 30 June 2004:</b> |      |                                      |                            |                                      |                            |
| Contingent liabilities  | 30   | 7,298,624                            | #                          | 7,298,624                            | #                          |

# It is not practicable to estimate the fair values of contingent liabilities reliably due to the uncertainties of timing, costs and eventual outcome.

## Notes to the Financial Statements (Cont'd)

30 June 2005

### 34. Financial Instruments (Cont'd)

#### (g) Fair Values (Cont'd)

The following methods and assumptions are used to estimate the fair values of the following classes of financial instruments:

- (i) Cash and Cash Equivalents, Trade and Other Receivables/Payables

The carrying amounts approximate fair values due to the relatively short term maturity of these financial instruments.

- (ii) Interest-Bearing Borrowings

The carrying values are deemed to equal to fair values, which the Group estimated based on incremental rates of comparable borrowing arrangements.

### 35. Retained Profits

As at 30 June 2005, the Company has sufficient tax credit under Section 108 of the Income Tax Act, 1967 to frank the payment of dividends amounting to RM86,355 (2004: RM86,355) out of its retained profits. If the balance of the retained profits of RM731,371 (2004: RM465,710) were to be distributed as dividends prior to there being sufficient tax credit, the Company would have a Section 108 shortfall of approximately RM284,000 (2004: RM181,000).

## List of Properties

| No.                                  | Location   | Description and Existing Use   | Land Area (acres) | Built-up Area (sq. ft.)              | Lease Tenure from / to    | Approximate Age of Building | Net Book Value (RM'000) |
|--------------------------------------|--|--|-------------------|--------------------------------------|---------------------------|-----------------------------|-------------------------|
| <b>Priceworth Industries Sdn Bhd</b> |  |  |                   |                                      |                           |                             |                         |
| 1.                                   | CL 075365794<br>Mile 3.4<br>Jalan Ulu Sibuga,<br>Kuala Seguntor,<br>Sandakan | - Generating Sets<br>Room<br>- Kiln Dry<br>- Sawmill &<br>Sawroom<br>- Warehouse | 15.12             | 3,858<br>65,000<br>32,620<br>121,000 | 01-01-1979/<br>31-12-2007 | 11<br>11<br>11<br>10        | 4,739                   |
| 2.                                   | CL 075203726<br>Mile 3.4<br>Jalan Ulu Sibuga,<br>Kuala Seguntor,<br>Sandakan | Moulding Plant<br>Main Factory   | 11.64             | 104,840                              | 01-01-1964/<br>31-12-2063 | 11                          | 8,174                   |
| 3.                                   | CL 075365785<br>Mile 3.4<br>Jalan Ulu Sibuga,<br>Kuala Seguntor,<br>Sandakan | - Impregnation<br>Plant<br>- Warehouse<br>- Workshop                             | 15.29             | 4,500<br>20,000<br>4,800             | 01-01-1979/<br>21-12-2077 | 8<br>10<br>11               | 4,496                   |
| 4.                                   | CL 075170277<br>Mile 3.4<br>Jalan Ulu Sibuga,<br>Kuala Seguntor,<br>Sandakan | Labour Quarters  | 14.06             | 54,000                               | 01-01-1960/<br>31-12-2059 | 11                          | 2,954                   |
| 5.                                   | CL 075364948<br>Mile 3.4<br>Jalan Ulu Sibuga,<br>Kuala Seguntor,<br>Sandakan | Agriculture Land   | 17.88             | -                                    | 01-01-1979/<br>31-12-2077 | N/A                         | 1,124                   |
| 6.                                   | CL 075170286<br>Mile 3.4<br>Jalan Ulu Sibuga,<br>Kuala Seguntor,<br>Sandakan | Labour Quarters  | 7.03              | 12,000                               | 01-01-1961/<br>31-12-2060 | 11                          | 2,320                   |
| <b>Maxland Sdn. Bhd.</b>             |  |  |                   |                                      |                           |                             |                         |
| 7.                                   | CL 075313398<br>Mile 17,<br>Labuk Road,<br>Sandakan                          | Agriculture Land   | 14.24             | -                                    | 01-01-1970/<br>31-12-2069 | N/A                         | 150                     |

## List of Properties (Cont'd)

| No.                     | Location   | Description and Existing Use | Land Area (acres) | Built-up Area (sq. ft.) | Lease Tenure from / to    | Approximate Age of Building | Net Book Value (RM'000) |
|-------------------------|--|------------------------------|-------------------|-------------------------|---------------------------|-----------------------------|-------------------------|
| <b>Sinora Sdn. Bhd.</b> |  |                              |                   |                         |                           |                             |                         |
| 8.                      | CL 075376153<br>Mile 6.5 Batu Sapi, Sandakan               | - Plywood Main Factory       | 38.28             | 103,950                 | 01-01-1980/<br>31-12-2078 | 25                          | 21,466                  |
|                         |  | - 2nd Plywood Factory        |                   | 37,446                  |                           | 12                          |                         |
|                         |  | - Warehouse                  |                   | 3,228                   |                           | 17                          |                         |
|                         |  | - Boiler House               |                   | 507                     |                           | 25                          |                         |
|                         |  | - Workshop                   |                   | 1,226                   |                           | 25                          |                         |
|                         |  | - Main sawmill + Office      |                   | 25,500                  |                           | 25                          |                         |
|                         |  | - Main Office                |                   | 10,734                  |                           | 25                          |                         |
|                         |  | - Canteen                    |                   | 6,642                   |                           | 25                          |                         |
|                         |  | - Moulding Factory           |                   | 4,828                   |                           | 15                          |                         |
|                         |  | - Moulding Warehouse         |                   | 84,872                  |                           | 15                          |                         |
|                         |  | - Kiln Drying Building       |                   | 17,743                  |                           | 15                          |                         |
| 9.                      | CL 075472338<br>Mile 6.5 Batu Sapi, South-West of Sandakan | Log Pond                     | 80.46             | -                       | 01-01-1994/<br>31-12-2053 | N/A                         | 2,414                   |

## Analysis of Shareholdings as at 31 October 2005

|                              |   |                                |
|------------------------------|---|--------------------------------|
| Authorised share capital     | - | RM100,000,000                  |
| Issued and fully paid shares | - | RM 71,590,909                  |
| Class of shares              | - | Ordinary shares of RM0.50 each |
| Voting rights                | - | One vote per ordinary share    |

### ANALYSIS BY SIZE OF HOLDINGS

| No. of Holders | Holdings                                 | Total Holdings | %      |
|----------------|--|----------------|--------|
| 4              | less than 100                            | 58             | 0.00   |
| 1,305          | 100 to 1,000                             | 1,235,469      | 0.86   |
| 3,686          | 1,001 to 10,000                          | 17,468,137     | 12.20  |
| 1,047          | 10,001 to 100,000                        | 30,011,808     | 20.96  |
| 102            | 100,001 to less than 5% of issued shares | 49,727,746     | 34.73  |
| 1              | 5% and above of issued shares            | 44,738,600     | 31.25  |
| 6,145          | Total                                    | 143,181,181    | 100.00 |

### SUBSTANTIAL SHAREHOLDERS

| Name of Shareholder | No. of Shares Held |       |                 |   |
|---------------------|--------------------|-------|-----------------|---|
|                     | Direct             | %     | Deemed Interest | % |
| Lim Nyuk Foh        | 47,789,626         | 34.03 | -               | - |

### DIRECTORS' SHAREHOLDINGS

| Name of Director         | No. of Shares Held |       |                 |   |
|--------------------------|--------------------|-------|-----------------|---|
|                          | Direct             | %     | Deemed Interest | % |
| Tan Sri Sabbaruddin Chik | 1,000,000          | 0.70  | -               | - |
| Lim Nyuk Foh             | 47,789,626         | 34.03 | -               | - |
| Chok Syn Yun             | 4,179,108          | 2.92  | -               | - |
| Ramlee Bin Mohd Shariff  | -                  | -     | -               | - |
| Kwan Tack Chiong         | 1,920,000          | 1.37  | -               | - |
| Ooi Jit Huat             | -                  | -     | -               | - |

## Analysis of Shareholdings (Cont'd)

as at 31 October 2005

### LIST OF 30 LARGEST SHAREHOLDERS

| No. | Name   | No. of Shares | %     |
|-----|--|---------------|-------|
| 1.  | Cimsec Nominees (Tempatan) Sdn Bhd<br>[CIMB for Lim Nyuk Foh]                                    | 44,738,600    | 31.25 |
| 2.  | Lim Nyuk Foh   | 3,050,046     | 2.13  |
| 3.  | HLB Nominees (Tempatan) Sdn Bhd<br>[Pledged securities account for Chin Fun Ming]                | 2,788,600     | 1.95  |
| 4.  | Priceworth Wood Products Berhad  | 2,729,100     | 1.91  |
| 5.  | OSK Nominees (Tempatan) Sdn Bhd<br>[Pledged securities account for Chiew Boon Chin]              | 2,210,000     | 1.54  |
| 6.  | Kuala Lumpur City Nominees (Tempatan) Sdn Bhd<br>[Pledged securities account for Lee Yin Lam]    | 2,158,000     | 1.51  |
| 7.  | HDM Nominees (Asing) Sdn Bhd<br>[DBS Vickers Secs (S) Pte Ltd for River Estates Incorporated]    | 2,000,000     | 1.40  |
| 8.  | Amsec Nominees (Tempatan) Sdn Bhd<br>[Pledged securities account for Kwan Tack Chiong]           | 1,920,000     | 1.34  |
| 9.  | Mainur Bin Bakar   | 1,894,000     | 1.32  |
| 10. | HLB Nominees (Tempatan) Sdn Bhd<br>[Pledged securities account for Chiew Boon Chin]              | 1,734,600     | 1.21  |
| 11. | Amsec Nominees (Tempatan) Sdn Bhd<br>[Pledged securities account for Chiew Boon Chin]            | 1,539,000     | 1.07  |
| 12. | HLB Nominees (Tempatan) Sdn Bhd<br>[Pledged securities account for Chu Vui Khat]                 | 1,495,000     | 1.04  |
| 13. | Public Nominees (Tempatan) Sdn Bhd<br>[Pledged securities account for Chen Yuenie]               | 1,255,000     | 0.88  |
| 14. | Kuala Lumpur City Nominees (Tempatan) Sdn Bhd<br>[Pledged securities account for Kwan Lin Chee ] | 1,194,500     | 0.83  |
| 15. | OSK Nominees (Tempatan) Sdn Bhd<br>[Pledged securities account for Chok Syn Vun]                 | 1,080,000     | 0.75  |
| 16. | Tan Sri Sabbaruddin Chik   | 1,000,000     | 0.70  |
| 17. | HDM Nominees (Tempatan) Sdn Bhd<br>[Pledged securities account for Chok Syn Vun]                 | 937,000       | 0.65  |
| 18. | Public Nominees (Tempatan) Sdn Bhd<br>[Pledged securities account for Chok Syn Vun]              | 858,000       | 0.60  |
| 19. | Citigroup Nominees (Tempatan) Sdn Bhd<br>[Pledged securities account for Chok Syn Vun]           | 824,700       | 0.58  |

## Analysis of Shareholdings (Cont'd)

as at 31 October 2005

### LIST OF 30 LARGEST SHAREHOLDERS (Cont'd)

| No. | Name   | No. of Shares | %    |
|-----|--|---------------|------|
| 20. | RC Nominees (Tempatan) Sdn Bhd<br>[EON Finance Berhad for Chin Fun Ming]                   | 708,000       | 0.49 |
| 21. | RHB Capital Nominees (Tempatan) Sdn Bhd<br>[Pledged securities account for Sin Huan Kwang] | 677,500       | 0.47 |
| 22. | HLB Nominees (Tempatan) Sdn Bhd<br>[Pledged securities account for Chen Yuenie]            | 652,000       | 0.46 |
| 23. | RC Nominees (Tempatan) Sdn Bhd<br>[Kalayarasu A/L Subramaniam]                             | 553,000       | 0.39 |
| 24. | Chong Yean Kiong   | 528,000       | 0.37 |
| 25. | Citigroup Nominees (Tempatan) Sdn Bhd<br>[Pledged securities account for How Eng Huat]     | 518,000       | 0.36 |
| 26. | HDM Nominees (Tempatan) Sdn Bhd<br>[Pledged securities account for Luy Meng Boon]          | 500,500       | 0.35 |
| 27. | OSK Nominees (Tempatan) Sdn Bhd<br>[EON Finance Berhad for Chok Syn Vun]                   | 433,500       | 0.30 |
| 28. | TA Nominees (Tempatan) Sdn Bhd<br>[Pledged securities account for Chiew Boon Chin]         | 410,000       | 0.29 |
| 29. | Leong Chee Wooi  | 400,000       | 0.28 |
| 30. | HSBC Nominees (Tempatan) Sdn Bhd<br>[Pledged securities account for Wong Lee Peng]         | 398,000       | 0.28 |



*This page is intentionally left blank*



**PRICEWORTH WOOD PRODUCTS BERHAD**  
(Company No: 399292 - V)

**PROXY FORM**

|                    |  |
|--------------------|--|
| No. of Shares held |  |
|--------------------|--|

I/We, .....  
of .....  
being a member of Priceworth Wood Products Berhad hereby appoint .....  
of.....  
.....  
or failing him/her .....  
of.....  
as my/our proxy to vote for me/us on my/our behalf at the Ninth Annual General Meeting of the Company to be held at Executive Parlour of Sabah Hotel, Mile 1, Jalan Utara, 90000 Sandakan, Sabah on 22 December 2005 at 9.00 a.m. and at any adjournment thereof.

My/Our proxy to vote as indicated below:

| No.          | Resolutions   | For | Against |
|--------------|---|-----|---------|
| Resolution 1 | Receive Audited Financial Statements Accounts for the year ended 30 June 2005 together with the Reports of the Directors and Auditors |     |         |
| Resolution 2 | Approval of the final tax-exempt dividend   |     |         |
| Resolution 3 | Approval of Directors' Fees   |     |         |
| Resolution 4 | Re-election of Tan Sri Sabbaruddin Chik as Director   |     |         |
| Resolution 5 | Re-election of Mr Lim Nyuk Foh as Director  |     |         |
| Resolution 6 | Re-appointment of Auditors  |     |         |
| Resolution 7 | Approval to allot shares pursuant to Section 132D of the Companies Act, 1965  |     |         |

Please indicate with an "x" in the spaces provided whether you wish your votes to be cast for or against the resolutions. In the absence of specific directions, your proxy will vote or abstain as he/ she thinks fit.

Dated this ..... day of ..... 2005

.....  
Signature:

Shareholder or Common Seal

**Notes:**

1. A member of the Company entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and vote in his stead. A proxy may but need not be a member of the Company. A member may appoint any person to be his proxy without limitation and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply.
2. Where a member appoints 2 or more proxies, the appointment shall be invalid unless he specifies the proportion of his shareholdings to be represented by each proxy.
3. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its Common Seal or under the hand of an officer or attorney duly authorised.
4. The instrument appointing a proxy must be deposited at the Registered Office of the Company at Lot 5, 1st Floor, Block No. 4, Bandar Indah, Mile 4, Jalan Utara, P. O. Box 2848, 90732 Sandakan, Sabah not less than 48 hours before the time set for holding the meeting or any adjournment thereof.

FOLD THIS FLAP FOR SEALING

Then fold here

AFFIX  
STAMP

The Company Secretary  
PRICEWORTH WOOD PRODUCTS BERHAD  
1st Floor, Lot 5, Block No. 4  
Bandar Indah, Mile 4, Jalan Utara  
P. O. Box 2848  
90732 Sandakan  
Sabah

First fold here

## Notes

[illegible]

## Notes

[illegible]