

**LII HEN INDUSTRIES BHD.**  
(301361-U)  
(Incorporated in Malaysia)

**FINANCIAL STATEMENTS**  
**31 DECEMBER 2000**

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**LII HEN INDUSTRIES BHD.**  
(Incorporated in Malaysia)

**CORPORATE INFORMATION**

<b>DIRECTORS:</b>	Chua Lee Seng Chairman and Managing Director Tok Heng Leong Executive Director Mohd Qari Bin Ahmad Executive Director Tan Bee Eng Executive Director Chua Yong Haup Executive Director Chua Tuan Meng Independent Non-Executive Director Dali Kumar @ Dali Bin Sardar Independent Non-Executive Director
<b>AUDIT COMMITTEE:</b>	Chua Tuan Meng Committee Chairman and Independent Non-Executive Director Dali Kumar @ Dali Bin Sardar Independent Non-Executive Director Chua Lee Seng Chairman and Managing Director
<b>SECRETARY:</b>	Tan Wang Giap MACS 00523
<b>AUDITORS:</b>	John Lim & Associates Public Accountants
<b>PRINCIPAL BANKERS:</b>	OCBC Bank (Malaysia) Berhad HSBC Bank Malaysia Berhad
<b>SOLICITORS:</b>	Iza Ng Yeoh & Kit
<b>REGISTRARS:</b>	Plantation Agencies Sdn Berhad Standard Chartered Bank Chambers Lebuh Pantai 10300 Penang Tel: 04-2625333 Fax: 04-2622018
<b>REGISTERED OFFICE:</b>	67, 2nd Floor Room B, Jalan Ali 84000 Muar, Johor Darul Takzim Tel: 06-9541818 Fax: 06-9525823
<b>PRINCIPAL PLACE OF BUSINESS:</b>	Plo 43, Kawasan Perindustrian Bukit Pasir Jalan Raja, Mukim Sungai Raya 84300 Bukit Pasir Muar, Johor Darul Takzim
<b>STOCK EXCHANGE LISTING:</b>	Second Board of the Kuala Lumpur Stock Exchange

**LII HEN INDUSTRIES BHD.**  
(Incorporated in Malaysia)

**DIRECTORS' REPORT**

The directors have pleasure in submitting their report together with the audited financial statements of the Group and of the Company for the year ended 31 December 2000.

**PRINCIPAL ACTIVITIES**

The Company commenced business operations as investment holding company during the year.

The principal activities of the subsidiary companies are as set out in note 5 to the financial statements.

Other than as stated above, there have been no significant changes in the nature of these activities of the Group and of the Company during the financial year.

**RESULTS**

	<b>Group RM</b>	<b>Company RM</b>
Profit before taxation for the year	12,173,601	3,040,157
Taxation	(2,322,998)	(12,873)
Profit after taxation for the year	----- 9,850,603 =====	----- 3,027,284 =====

**DIVIDENDS**

Since the end of the Company's previous financial year, the Company paid an interim tax-exempt dividend of 3.75% in respect of the year ended 31 December 2000 amounting to RM1.5 million on 3 January 2000.

The directors propose the payment of a final tax-exempt dividend of 3.75% in respect of the year ended 31 December 2000 amounting to RM1.5 million.

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**DIRECTORS' REPORT** – continued**SIGNIFICANT EVENTS DURING THE YEAR**

During the financial year, the Company undertook a restructuring exercise which involved the following:

- (i) The acquisition of the entire issued and paid-up share capital of Lii Hen Furnitures Sdn. Bhd. (LHF) on 26 January 2000. The total purchase consideration amounting to RM25,598,305 was satisfied by the issue of 25,598,305 new ordinary shares of RM1.00 each of the Company at par. The purchase consideration was arrived at on a willing buyer-willing seller basis based on the consolidated net tangible assets of LHF as at 31 December 1998 of RM35,069,305/- after adjusting for the revaluation surplus of RM9,446,758/- arising from the revaluation of landed properties of LHF and its subsidiary companies and after adjusting for the reserves required to be retained under Section 10.10 (1)(j) of the SC's Policies and Guidelines on Issue/Offer of Securities.
- (ii) The acquisition of the entire issued and paid-up share capital of Kejora Juara Sdn. Bhd. on 10 February 2000. The total consideration amounting to RM1,046,183, including repayment of advances to former director was satisfied by cash in full.
- (iii) Rights issue of 8,381,693 new ordinary shares of RM1.00 each at par on the basis of one new ordinary share for every approximate three (3) existing ordinary share held, on 10 February 2000.
- (iv) On 20 March 2000, a prospectus was issued for the public issue of 6,020,000 new ordinary shares of RM1.00 each at an issue price of RM1.60 per ordinary share and restricted offer for sale of 1,806,000 ordinary shares of RM1.00 each at an offer price of RM1.60 per ordinary share to Bumiputra investors approved by MITI with a purpose to list its entire issued and paid-up share capital on the Second Board of the Kuala Lumpur Stock Exchange.

**ISSUED AND PAID-UP SHARE CAPITAL**

On completion of the above acquisition, rights issue, public issue and restricted offer for sale, the issued and paid-up share capital of the Company increased from 2 ordinary shares of RM1/- each to 40,000,000 ordinary shares of RM1/- each analysed as follows:-

**DIRECTORS' REPORT** - continued

	RM
As at 1 January 2000	2
Issued as consideration for the acquisition	25,598,305
Rights issue	8,381,693
Public issue	6,020,000
	-----
	40,000,000
	=====

The gross proceeds from the public issue and rights issue of RM18,013,693/- are utilised to finance the acquisition of Kejora Juara Sdn. Bhd., and of machinery, equipment, management information system and construction of factory and listing expenses, repayment of bank and hire purchase loans and to provide for additional working capital.

The Company was admitted to the Official List of the Second Board of the Kuala Lumpur Stock Exchange on 25 April 2000.

**RESERVES AND PROVISIONS**

There were no material transfers to or from reserves or provisions during the year except as disclosed in statement of changes in equity and notes to the financial statements.

**DIRECTORS**

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

Chua Lee Seng – Chairman and Managing Director  
 Tok Heng Leong  
 Mohd Qari Bin Ahmad  
 Tan Bee Eng  
 Chua Yong Haup  
 Chua Tuan Meng  
 Dali Kumar @ Dali Bin Sardar

In accordance with the Company's articles of association, Messrs. Tok Heng Leong and Mohd Qari Bin Ahmad retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

**DIRECTORS' REPORT** - continued**DIRECTORS' SHAREHOLDINGS**

The directors holding office at the year end and their interest in share capital of the Company and its subsidiary companies during the financial year were as follows:

	Number of ordinary shares of RM1/- each			
	<u>Balance</u> <u>01.01.2000</u>	<u>Bought</u>	<u>Sold</u>	<u>Balance</u> <u>31.12.2000</u>
<b>Company</b>				
<b>LII HEN INDUSTRIES BHD.</b>				
Registered in the name of director				
Chua Lee Seng	1	117,000	-	117,001
Tok Heng Leong	1	80,000	-	80,001
Mohd Qari Bin Ahmad	-	200,000	-	200,000
Tan Bee Eng	-	760,443	-	760,443
Chua Yong Haup	-	320,166	-	320,166
Dali Kumar @ Dali Bin Sardar	-	100,000	50,000	50,000
Deemed interest				
Chua Lee Seng	-	17,740,780	-	17,740,780
Tok Heng Leong	-	17,740,780	-	17,740,780
Mohd Qari Bin Ahmad	-	10,194,000	5,649,000	4,545,000
Chua Tuan Meng	-	10,000	-	10,000
Dali Kumar @ Dali Bin Sardar	-	50,000	-	50,000
<b>LII HEN FURNITURES SDN. BHD.</b>				
Registered in the name of directors				
Chua Lee Seng	161,944	-	161,944	-
Tok Heng Leong	161,943	-	161,943	-
Tan Bee Eng	19,585	-	19,585	-
Chua Yong Haup	7,500	-	7,500	-
Deemed interest				
Mohd Qari Bin Ahmad	270,000	-	270,000	-

Other than as disclosed above, none of the directors in office at the end of the financial year had any other interest in shares in the Company or its subsidiary companies during the financial year.

By virtue of their interests in the shares of the Company, Messrs. Chua Lee Seng and Tok Heng Leong are also deemed to have interests in the shares of all the subsidiary companies to the extent that the Company has an interest.

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**DIRECTORS' REPORT** - continued**DIRECTORS' BENEFITS**

Since the end of the previous financial year, no director of the Company has received or become entitled to receive any benefit (other than remuneration and benefit shown in note 20 to the financial statements) by reason of a contract made by the Company or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

Neither during nor at the end of the financial year, was the Company or any of its subsidiary companies a party to any arrangements whose object is to enable the directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate except for the disposal of investment in a subsidiary, Lii Hen Furnitures Sdn. Bhd. by certain directors in exchange for shares in the Company pursuant to the restructuring exercise stated above.

**OTHER STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS**

- (a) Before the financial statements of the Group and of the Company were made out, the directors took reasonable steps:
- (i) to ascertain that action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and
  - (ii) to ensure that any current assets, other than debts, which were unlikely to realise in the ordinary course of business their value as shown in the accounting records of the Group and of the Company 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:
- (i) which would render the amounts written off for bad debts or the amount of the provision for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent,
  - (ii) which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading,

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**DIRECTORS' REPORT** - continued

- (iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate, or
  - (iv) not otherwise dealt with in this report or the financial statements which would render any amount stated in the financial statements misleading.
- (c) At the date of this report, there does not exist:
  - (i) any charge on the assets of the Group and of the Company which has arisen since the end of the financial year which secures the liability of any other person, or
  - (ii) any contingent liability of the Group and of the Company which has arisen since the end of the financial year.
- (d) No contingent or other liability of the Group and of the Company has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the directors, will or may substantially affect the ability of the Group and of the Company to meet its obligations as and when they fall due.
- (e) In the opinion of the directors:
  - (i) the results of the operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature; and
  - (ii) except as disclosed in note 29 to the financial statements, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Group and of the Company for the current financial year.



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**DIRECTORS' REPORT** - continued

**AUDITORS**

John Lim & Associates have expressed their willingness to continue in office.

Signed in accordance with a resolution of the directors

**Chua Lee Seng**  
Managing Director

**Tan Bee Eng**  
Director

Muar

Date: 18 April 2001

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**LII HEN INDUSTRIES BHD.**  
(Incorporated in Malaysia)

**STATEMENT BY DIRECTORS**

We, the undersigned, being two of the directors of Lii Hen Industries Bhd. do hereby state that, in the opinion of the directors, the accompanying balance sheets, statements of income, of changes in equity and of cash flow together with the notes attached thereto are drawn up in accordance with applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965 so as to give a true and fair view of the state of affairs of the Group and of the Company at 31 December 2000 and of the results and of the cash flows of the Group and of the Company for the year then ended.

Signed in accordance with a resolution of the directors

**Chua Lee Seng**  
Managing Director

**Tan Bee Eng**  
Director

Date: 18 April 2001

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**LII HEN INDUSTRIES BHD.**  
(Incorporated in Malaysia)

**STATUTORY DECLARATION**

I, Tan Bee Eng, the director primarily responsible for the financial management of Lii Hen Industries Bhd., do solemnly and sincerely declare that the accompanying balance sheets, statements of income, of changes in equity and of cash flow together with the notes thereto are to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declaration Act, 1960.

Subscribed and solemnly declared        )  
by the abovenamed at Muar in the        )  
State of Johore on                            )

**Tan Bee Eng**

Before me,

K. Ramasamy  
J 014  
Commissioner for Oaths

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**JOHN LIM & ASSOCIATES**

A.F. No. 0393

Public Accountants

67, 2nd Floor, Room A

Jalan Ali, 84000 Muar

Johor. Tel: 06-9515317

**REPORT OF THE AUDITORS TO THE MEMBERS OF  
LII HEN INDUSTRIES BHD.**

1. We have audited the accompanying balance sheets, statements of income, of changes in equity and of cash flow, together with the notes thereto. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.
  
2. We conducted our audit in accordance with 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 directors, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.
  
3. In our opinion:
  - (a) the financial statements and notes which have been prepared under the historical cost convention as modified by the revaluation of land and buildings are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of:-
    - (i) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Group and of the Company; and
    - (ii) the state of affairs of the Group and of the Company at 31 December 2000 and of the results of the operations and of the cash flows of the Group and of the Company for the year ended on that date.

and

**REPORT OF THE AUDITORS TO THE MEMBERS OF  
LII HEN INDUSTRIES BHD. - continued**

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

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

The auditors' reports on the financial statements of the subsidiary companies were not subject to any qualification and did not include any comment made under Subsection (3) of Section 174 of the Companies Act, 1965.

**JOHN LIM & ASSOCIATES**

A.F. No. 0393

Public Accountants

**LIM JOHN @ LIM WAN SHOW**

1148/2/02(J)

Public Accountant

Muar

Date: 18 April 2001

**LII HEN INDUSTRIES BHD.**

(Incorporated in Malaysia)

**CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2000**

	Note	2000 RM	1999 RM
PROPERTY, PLANT AND EQUIPMENT	4	49,686,896	32,925,852
<b>CURRENT ASSETS</b>			
Stocks	6	18,125,268	15,399,774
Debtors	7	23,644,171	21,645,612
Fixed deposits with licensed bank		83,008	80,000
Bank and cash balances		4,438,270	883,410
		<u>46,290,717</u>	<u>38,008,796</u>
<b>CURRENT LIABILITIES</b>			
Creditors	8	10,369,625	10,930,761
Amounts due to directors	9	973	351,067
Taxation	10	453,725	930,773
Proposed dividend	11	3,000,000	-
Bank borrowings	12	9,377,583	14,359,504
		<u>23,201,906</u>	<u>26,572,105</u>
Net current assets		23,088,811	11,436,691
EXPENDITURE CARRIED FORWARD	13	344,742	429,035
<b>NON CURRENT LIABILITIES</b>			
Bank loans	12	-	(3,539,724)
Hire purchase creditors	14	(1,262,883)	(1,867,686)
Deferred taxation	15	(1,494,380)	(1,278,663)
		<u>(2,757,263)</u>	<u>(6,686,073)</u>
		<u>70,363,186</u>	<u>38,105,505</u>
<b>Financed by:-</b>			
SHARE CAPITAL	16	40,000,000	25,598,307
RESERVES	17	30,363,186	12,507,198
		<u>70,363,186</u>	<u>38,105,505</u>

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

LII HEN INDUSTRIES BHD.  
(Incorporated in Malaysia)

CONSOLIDATED INCOME STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2000

	Note	2000 RM	1999 RM
REVENUE	18	<b>88,462,832</b>	82,195,329
Cost of sales		<b>(68,671,201)</b>	(62,659,480)
GROSS PROFIT		<b>19,791,631</b>	19,535,849
OTHER OPERATING INCOME		<b>558,489</b>	428,378
		<b>20,350,120</b>	19,964,227
Administrative expenses		<b>(4,181,069)</b>	(3,365,090)
Other operating expenses		<b>(128,257)</b>	(134,557)
Selling expenses		<b>(3,038,630)</b>	(2,596,718)
PROFIT FROM OPERATIONS		<b>13,002,164</b>	13,867,862
Finance cost		<b>(938,065)</b>	(1,539,053)
Exceptional item	19	<b>109,502</b>	20,482
PROFIT BEFORE TAXATION	20	<b>12,173,601</b>	12,349,291
TAXATION	10	<b>(2,322,998)</b>	(288,823)
PROFIT AFTER TAXATION		<b>9,850,603</b>	12,060,468
BASIC EARNINGS PER SHARE (sen)	21	<b>27</b>	47
DIVIDENDS PER SHARE (sen)			
- tax exempt	11	<b>8</b>	-

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2000 - continued**

	Note	Issued and fully paid ordinary shares of RM1/- each Share Capital RM	Non- Distributable Capital Reserve RM	Merger Deficit RM	Revaluation Reserve RM	Share Premium RM	Distributable Retained Profit RM	Total RM
As at 1 January 2000		25,598,307	45,894	(24,050,805)	-	-	36,512,109	38,105,505
Issue of shares		14,401,693	-	-	-	3,612,000	-	18,013,693
Listing expenses write-off against share premium		-	-	-	-	(2,053,373)	-	(2,053,373)
Surplus on revaluation of properties		-	-	-	9,446,758	-	-	9,446,758
Meger adjustment		-	(45,894)	24,050,805	(9,446,758)	-	(14,558,153)	-
Dividends	11	-	-	-	-	-	(3,000,000)	(3,000,000)
Net profit for the year		-	-	-	-	-	9,850,603	9,850,603
As at 31 December 2000		40,000,000	-	-	-	1,558,627	28,804,559	70,363,186



LII HEN INDUSTRIES BHD.  
(Incorporated in Malaysia)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2000

	Issued and fully paid ordinary shares of RM1/- each	Distributable	Merger Reserve/ (Deficit) RM	Revaluation Reserve RM	Share Premium RM	Distributable Retained Profit RM	Total RM
	Share Capital RM	Capital Reserve RM					
As at 1 January 1999	2	45,894	647,500	-	-	24,451,641	25,145,037
Shares issued on merger	25,598,305	-	(24,698,305)	-	-	-	900,000
Net profit for the year	-	-	-	-	-	12,060,468	12,060,468
As at 31 December 1999	25,598,307	45,894	(24,050,805)	-	-	36,512,109	38,105,505

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

LII HEN INDUSTRIES BHD.  
(Incorporated in Malaysia)

CONSOLIDATED CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2000

	<b>2000</b>	1999
	<b>RM</b>	RM
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation	<b>12,173,601</b>	12,349,291
Adjustments for:		
Bad debts written off	<b>7,915</b>	22,018
Depreciation	<b>3,015,456</b>	2,270,052
Goodwill on consolidation written off	<b>60,355</b>	60,355
Interest expenses	<b>938,065</b>	1,539,052
Loss on disposal of property, plant and equipment	<b>25,905</b>	50,175
Preliminary and pre-production written off	<b>66,902</b>	-
Property, plant and equipment written off	<b>245,087</b>	1,081
Rental deposit forfeited	<b>2,433</b>	-
Interest income	<b>(48,071)</b>	(9,690)
Gain on disposal of property, plant and equipment	<b>(1,283)</b>	(111,928)
Exceptional item	<b>(109,502)</b>	(8,255)
Operating profit before working capital changes	<b>16,376,863</b>	16,162,151
(Increase) in debtors	<b>(1,962,455)</b>	(5,235,423)
(Increase) in stocks	<b>(2,725,494)</b>	(6,315,705)
(Decrease)/increase in creditors	<b>(362,948)</b>	1,175,899
(Increase) in current accounts to directors	<b>(843,532)</b>	(93,898)
Cash generated from operations	<b>10,482,434</b>	5,693,024
Interest paid	<b>(938,065)</b>	(1,538,875)
Income tax paid	<b>(2,629,327)</b>	(1,162,136)
Net cash from operating activities	<b>6,915,042</b>	2,992,013

CONSOLIDATED CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2000 - continued

	Note	2000 RM	1999 RM
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Expenditure carried forward, net of depreciation		(15,793)	(1,900)
Purchase of property, plant and equipment	22(c)	(8,348,539)	(4,086,139)
Proceeds from disposal of property, plant and equipment		25,530	616,969
Insurance claim received		109,502	-
Interest received		46,619	9,690
Addition to investment		(5,988)	-
Acquisition of subsidiary company	22(b)	(553,160)	-
Net cash used in investing activities		<u>(8,741,829)</u>	<u>(3,461,380)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from public and right issues		18,013,693	-
Listing expenses paid		(2,053,373)	-
Bankers acceptances		(1,300,000)	2,359,000
Repayment of bank loans		(4,625,450)	(990,539)
Repayment of hire purchase loans		(2,054,020)	(1,532,341)
Net cash from financing activities		<u>7,980,850</u>	<u>(163,880)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		<b>6,154,063</b>	(633,247)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		<u>(5,049,368)</u>	<u>(4,416,121)</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	22(a)	<u><b>1,104,695</b></u>	<u>(5,049,368)</u>

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

LII HEN INDUSTRIES BHD.  
(Incorporated in Malaysia)

## BALANCE SHEET AS AT 31 DECEMBER 2000

	Note	2000 RM	1999 RM
PROPERTY, PLANT AND EQUIPMENT	4	410,446	-
INVESTMENT IN SUBSIDIARY COMPANIES	5	41,356,625	-
<b>CURRENT ASSETS</b>			
Dividend receivable from subsidiary company		1,575,000	-
Bank balances		1,608,910	-
		<u>3,183,910</u>	<u>-</u>
<b>CURRENT LIABILITIES</b>			
Creditors	8	185,504	66,900
Amounts due to director	9	29	-
Taxation	10	12,873	-
Dividends	11	3,000,000	-
		<u>3,198,406</u>	<u>66,900</u>
Net current liabilities		(14,496)	(66,900)
EXPENDITURE CARRIED FORWARD	13	-	66,902
<b>NON-CURRENT LIABILITY</b>			
Hire purchase creditor	14	(166,664)	-
		<u>41,585,911</u>	<u>2</u>
<b>Financed by:</b>			
SHARE CAPITAL	16	40,000,000	2
RESERVES	17	1,585,911	-
		<u>41,585,911</u>	<u>2</u>

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

LII HEN INDUSTRIES BHD.  
(Incorporated in Malaysia)

## INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2000

	Note	RM
REVENUE	18	3,209,678
Administrative expenses		(163,677)
Other operating expenses		<u>(694)</u>
PROFIT FROM OPERATIONS		3,045,307
Finance cost		<u>(5,150)</u>
PROFIT BEFORE TAXATION	20	3,040,157
TAXATION	10	<u>(12,873)</u>
PROFIT AFTER TAXATION		<u><u>3,027,284</u></u>

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

LII HEN INDUSTRIES BHD.  
(Incorporated in Malaysia)

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2000

	Note	Issued and fully paid ordinary shares of RM1/- each Share Capital RM	Distributable Retained Profit RM	Non- Distributable Share Premium RM	Total RM
As at 1 January 1999		2	-	-	2
Net profit for the year		-	-	-	-
As at 31 December 1999		2	-	-	2
<b>As at 1 January 2000</b>		<b>2</b>	<b>-</b>	<b>-</b>	<b>2</b>
<b>Issue of share capital</b>		<b>39,999,998</b>	<b>-</b>	<b>3,612,000</b>	<b>43,611,998</b>
<b>Listing expenses written off against share premium</b>		<b>-</b>	<b>-</b>	<b>(2,053,373)</b>	<b>(2,053,373)</b>
<b>Net profit for the year</b>		<b>-</b>	<b>3,027,284</b>	<b>-</b>	<b>3,027,284</b>
<b>Dividends</b>	<b>11</b>	<b>-</b>	<b>(3,000,000)</b>	<b>-</b>	<b>(3,000,000)</b>
<b>As at 31 December 2000</b>		<b>40,000,000</b>	<b>27,284</b>	<b>1,558,627</b>	<b>41,585,911</b>

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



LII HEN INDUSTRIES BHD.  
(Incorporated in Malaysia)

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2000

	Note	2000 RM	1999 RM
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before taxation		<b>3,040,157</b>	-
Adjustments for:			
Depreciation		<b>41,421</b>	-
Dividend income		<b>(1,575,000)</b>	-
Expenditure carried forward written off		<b>66,902</b>	-
Interest expenses		<b>5,150</b>	-
Operating profit before working capital changes		<b>1,578,630</b>	-
Increase in creditors		<b>18,602</b>	65,977
Increase/(decrease) in current account to director		<b>29</b>	(15,322)
Cash generated from operations		<b>1,597,261</b>	50,655
Interest paid		<b>(5,150)</b>	-
Net cash from operating activities		<b>1,592,111</b>	50,655
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Expenditure carried forward		-	(50,655)
Purchase of property, plant and equipment	22(c)	<b>(151,867)</b>	-
Investment in subsidiary companies		<b>(15,758,320)</b>	-
Net cash used in investing activities		<b>(15,910,187)</b>	(50,655)

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2000 - continued

	Note	2000 RM	1999 RM
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from public and rights issues		<b>18,013,693</b>	-
Listing expenses paid		<b>(2,053,373)</b>	-
Repayment of hire purchase loan		<b>(33,334)</b>	-
		<u>15,926,986</u>	<u>-</u>
Net cash from financing activities		<b>15,926,986</b>	-
 <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>			
		<b>1,608,910</b>	-
 <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>			
		<u>-</u>	<u>-</u>
 <b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>			
	22(a)	<b>1,608,910</b>	-
		<u><u>1,608,910</u></u>	<u><u>-</u></u>

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

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**LII HEN INDUSTRIES BHD.**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2000**

**1. PRINCIPAL ACTIVITIES**

The Company commenced operations as investment holding company during the financial year.

The principal activities of the subsidiary companies are as set out in note 5 to the financial statements.

Other than as disclosed above, there have been no significant changes in the nature of the activities of the Group and of the Company during the financial year.

**2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS**

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

**3. SIGNIFICANT ACCOUNTING POLICIES**

All significant accounting policies set out below are consistent with those applied in the previous year.

**a) Accounting basis**

The financial statements are prepared under the historical cost convention modified by the revaluation of land and buildings.

**b) Basis of consolidation**

The Group financial statements include the audited financial statements of the Company and all its subsidiary companies listed under note 5 to the financial statements made up to the end of the financial year. Inter-company balances and transactions are eliminated on consolidation and the consolidated financial statements reflect external transactions only. The Group adopts both the acquisition and merger methods of consolidation.

Where the acquisition method is adopted, the difference between the purchase price over the fair value of the net assets of the subsidiary companies at the date of acquisition is included in the consolidated financial statements as goodwill or reserve on consolidation. The results of subsidiary companies acquired or disposed of during the financial year are included in the Group financial statements from the effective date of acquisition or up to the effective date of disposal.

Under the merger method of accounting, the results of the subsidiary companies are presented as if the companies had been combined throughout the current and previous financial years. The difference between the nominal value of the share capital issued as purchase consideration and the nominal value of the share capital of the subsidiary companies acquired is taken to merger reserve or deficit. Any merger deficit arising is written off against reserves and retained profits.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2000** – continued**c) Investments**

Investments in subsidiary companies, which are eliminated on consolidation, are shown at cost and provision is made where, in the opinion of the directors, there is a permanent diminution in their value. Permanent diminution in the value of an investment is recognised as an expenses in the financial year in which the diminution is identified.

**d) Goodwill**

Goodwill arising on acquisition represents the excess of the purchase price over the fair value of the net assets of the subsidiary at the date of acquisition and is amortised evenly over their expected useful economic lives, not exceeding 10 years and is charged to the income statement.

The carrying amount of goodwill is reviewed annually and written down for impairment where it is considered necessary.

**e) Property, plant and equipment**

All property, plant and equipment are stated at historical cost or valuation less accumulated depreciation.

**f) Depreciation**

Freehold land is not amortised as it is deemed to have indefinite life.

Depreciation for other property, plant and equipment is calculated so as to write off their cost or valuation on a straight line basis over the expected useful lives of the assets concerned.

The annual rates in use are as follows:-

Long term leasehold land	over leasehold period of 57 - 60 years
Factory and kiln drying building	2%
Furniture, fittings and equipment	5% - 20%
Labour line	10%
Motor vehicles	20%
Plant, machinery and equipment	10% - 20%
Renovation	20%

Fully depreciated assets are retained in the financial statements until they are no longer in use.

Depreciation on assets under construction and installation shall commence when the assets are ready for their intended use.

Revaluation of land and buildings is undertaken every 5 years. Surplus arising from revaluation is credited directly to asset revaluation reserve. Deficit in excess of the revaluation reserve arising from previous revaluation is charged to the income statement.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are recognised as income or expense in the income statement. On disposal of revalued assets, amounts in asset revaluation reserve relating to those assets are transferred to retained profit.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2000** – continued**g) Stocks**

Stocks are valued at the lower of cost (determined principally on first-in first-out method) and net realizable value after making due allowance for any obsolete or slow moving items.

Cost of finished goods and work-in-progress represents raw materials, direct labour and the appropriate production overheads.

Net realisable value is the estimate of the selling price in the ordinary course of business, less selling expenses.

**h) Debtors**

Known bad debts are written off while provision for doubtful debts is made for debts considered to be doubtful of collection.

**i) Hire purchase**

Assets held under hire purchase agreements are capitalised in the balance sheet and are depreciated in accordance with the policy set out in (f) above. Outstanding obligations due under the hire purchase agreements after deducting finance expenses are included as liabilities in the financial statements. The finance expenses are charged to the income statement to give a constant periodic rate of interest in the remaining hire purchase liabilities.

**j) Expenditure carried forward**

Expenses incurred on incorporation are carried forward as preliminary expenses. Other operating expenses incurred prior to commencement of the operations are carried forward as pre-production expenses. These expenses are stated at cost and will be fully written off against the first year profit.

Listing expenses which relates to the listing of the Company are set off against share premium account.

**k) Deferred taxation**

Deferred taxation, calculated by the liability method, is provided on material timing differences except where it can be demonstrated with reasonable probability that the tax effect of such deferrals will continue in the foreseeable future.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2000** – continued**l) Dividends**

Dividend payments are accounted for in shareholders' equity as an appropriation of retained profit in the year in which the dividends are declared or proposed.

**m) Interest capitalisation**

Interest incurred on external borrowings relating to property, plant and equipment is capitalised until the assets are ready for their intended use.

**n) Income recognition**

Sales are recognised in the income statement upon delivery of goods or performance of services.

Interest income is recognised in the income statement on accruals basis.

Dividend income from investment in subsidiary companies is recognised when declared or proposed.

**o) Currency translations**

Foreign currency transactions are converted into Malaysian Ringgit at the rates of exchange approximating those ruling at the transaction dates and where settlement had not taken place at balance sheet date at the approximate rates ruling at that date. Exchange gains and losses are dealt with in the income statements.

**p) Cash flow statement**

The cash flows statement is prepared by using the indirect method.

Cash and cash equivalents for the purpose of the cash flow statement include cash in hand, demand deposits and short term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value, against which the bank overdraft balances, if any, are deducted.

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2000 – continued

## 4. PROPERTY, PLANT AND EQUIPMENT

## Group

2000

	As at 01.01.2000 RM	Additions/ Through Acquisition* RM	Disposals RM	Write -offs/ Transfer RM	Revaluation Surplus RM	As at 31.12.2000 RM
--	---------------------------	---	-----------------	-----------------------------------	------------------------------	---------------------------

At cost

Factory building under construction	1,543,575	-	-	(1,543,575)	-	-
Factory building	291,614	2,024,187	-	(291,614)	-	2,024,187
Furniture, fittings and office equipment	1,794,197	427,966	(51,375)	(2,775)	-	2,168,013
Labour line	55,047	-	-	-	-	55,047
Long leasehold land	-	1,076,853*	-	-	-	1,076,853
Motor vehicles	1,814,972	609,917	-	-	-	2,424,889
Plant, machinery and equipment	17,481,950	5,345,150	(29,000)	(17,085)	-	22,781,015
Renovation	49,022	43,871	-	-	-	92,893
Store	-	28,300	-	-	-	28,300
	23,030,377	9,556,244	(80,375)	(1,855,049)	-	30,651,197

At valuation

Factory building	11,955,932	1,055,270	-	1,543,575	5,440,009	19,994,786
Freehold land	1,939,456	-	-	-	20,544	1,960,000
Kiln drying building	824,417	38,900	-	-	103,294	966,611
Long term leasehold land	3,117,306	-	-	-	3,882,911	7,000,217
	17,837,111	1,094,170	-	1,543,575	9,446,758	29,921,614
	40,867,488	10,650,414	(80,375)	(311,474)	9,446,758	60,572,811



## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2000 – continued

## 4. PROPERTY, PLANT AND EQUIPMENT – continued

**Group**

1999	As at 01.01.1999 RM	Additions RM	Disposals RM	Write-offs RM	As at 31.12.1999 RM
<b><u>At cost</u></b>					
Building					
- factory	12,305,967	106,390	(164,811)	-	12,247,546
- kiln drying	804,718	19,699	-	-	824,417
- labour line	106,622	-	(51,575)	-	55,047
Building under construction	1,108,408	435,167	-	-	1,543,575
Furniture, fittings and office equipment	1,406,832	391,337	(1,705)	(2,267)	1,794,197
Land					
- long leasehold	3,117,306	-	-	-	3,117,306
- freehold	2,103,847	-	(164,391)	-	1,939,456
Motor vehicles	1,250,230	789,057	(224,315)	-	1,814,972
Plant, machinery and equipment	13,516,012	4,184,728	(218,790)	-	17,481,950
Renovation	49,022	-	-	-	49,022
	35,768,964	5,926,378	(825,587)	(2,267)	40,867,488

**2000**

	As at 01.01.2000 RM	Additions/ Through Acquisition* RM	Disposals RM	Write-offs RM	As at 31.12.2000 RM
<b><u>Accumulated depreciation</u></b>					
<b><u>Stated at cost</u></b>					
Factory building	52,392	-	-	(52,392)	-
Furniture, fittings and office equipment	480,670	227,677	(19,940)	(923)	687,484
Labour line	21,488	5,505	-	-	26,993
Long leasehold land	-	18,458*	-	-	18,458
Motor vehicles	874,954	365,818	-	-	1,240,772
Plant, machinery and equipment	5,239,202	1,871,713	(3,308)	(13,072)	7,094,535
Renovation	42,641	10,368	-	-	53,009
Store	-	236	-	-	236
	6,711,347	2,499,775	(23,248)	(66,387)	9,121,487

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2000 – continued

## 4. PROPERTY, PLANT AND EQUIPMENT – continued

## Group

2000	As at 01.01.2000 RM	Additions RM	Disposals RM	Write-offs RM	As at 31.12.2000 RM
<u>Stated at valuation</u>					
Factory building	915,746	395,569	-	-	1,311,315
Kiln drying building	107,497	18,717	-	-	126,214
Long term leasehold land	207,046	119,853	-	-	326,899
	1,230,289	534,139	-	-	1,764,428
	7,941,636	3,033,914	(23,248)	(66,387)	10,885,915

1999	As at 01.01.1999 RM	Additions RM	Disposals RM	Write-offs RM	As at 31.12.1999 RM
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**Accumulated depreciation**Stated at cost

Building					
- factory	743,230	244,957	(20,049)	-	968,138
- kiln drying	91,012	16,485	-	-	107,497
- labour line	26,141	6,795	(11,448)	-	21,488
Furniture, fittings and office equipment	336,536	145,704	(384)	(1,186)	480,670
Long leasehold land	155,217	51,829	-	-	207,046
Motor vehicles	820,014	238,709	(183,769)	-	874,954
Plant, machinery and equipment	3,755,213	1,559,193	(75,204)	-	5,239,202
Renovation	36,261	6,380	-	-	42,641
	5,963,624	2,270,052	(290,854)	(1,186)	7,941,636

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2000** – continued**4. PROPERTY, PLANT AND EQUIPMENT** – continued

<b>Group</b>	<b>As at</b>	<b>As at</b>
	<b><u>31.12.2000</u></b>	<b><u>31.12.1999</u></b>
	<b>RM</b>	<b>RM</b>
<b><u>Net book value</u></b>		
<u>Stated at cost</u>		
Building		
- factory	<b>2,024,187</b>	11,279,408
- kiln drying	-	716,920
- labour line	<b>28,054</b>	33,559
Building under construction	-	1,543,575
Furniture, fittings and office equipment	<b>1,480,529</b>	1,313,527
Land		
- long leasehold	<b>1,058,395</b>	2,910,260
- freehold	-	1,939,456
Motor vehicles	<b>1,184,117</b>	940,018
Plant, machinery and equipment	<b>15,686,480</b>	12,242,748
Renovation	<b>39,884</b>	6,381
Store	<b>28,064</b>	-
	-----	-----
	<b>21,529,710</b>	32,925,852
<u>Stated at valuation</u>		
Factory building	<b>18,683,471</b>	-
Freehold land	<b>1,960,000</b>	-
Kiln drying building	<b>840,397</b>	-
Long term leasehold land	<b>6,673,318</b>	-
	-----	-----
	<b>28,157,186</b>	-
	-----	-----
	<b>49,686,896</b>	32,925,852
	=====	=====

Included in the assets capitalised during the year is an amount of RM301,593/- (1999 – RM155,277/-) which relates to the enhancement of computer hardware and software.

All the above assets are charged to bankers by way of debenture as securities for bank borrowings of RM25.76 million (1999 – RM22.54 million).

Factory building and plant and machinery with cost of RM2,024,187/- and RM2,163,668/- respectively are not depreciated as the assets are not put into use during the financial year.

**Valuation**

The land and buildings of the Group and Company stated at valuation were revalued on 1 January 2000 by the directors based on valuation carried out by independent professional valuers on a fair market value basis on 30 March 1999. The valuation is also approved by the Securities Commission. The book values of the assets were adjusted to reflect the revaluation and the resultant surplus were credited to asset revaluation reserve in the current financial year as disclosed in section 8.6 of the Prospectus issued on 20 March 2000.

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2000 – continued

## 4. PROPERTY, PLANT AND EQUIPMENT – continued

<b>Group</b>	<b>As at 31.12.2000 RM</b>	<b>As at 31.12.1999 RM</b>		
Net book value of assets acquired by hire purchase plan:				
Motor vehicles	<b>1,099,020</b>	872,838		
Plant, machinery and equipment	<b>3,517,961</b>	3,807,523		
	<b>4,616,981</b>	4,680,361		
Net book value of assets charged as securities for bank borrowings:				
Long term leasehold land	<b>6,673,318</b>	2,910,260		
Factory building	<b>18,683,471</b>	11,040,186		
Freehold land	<b>1,510,000</b>	-		
	<b>26,866,789</b>	13,950,446		
Net book value of the carrying amount of the revalued assets that would have been included in the financial statements stated at cost less depreciation:				
Factory building	<b>12,857,456</b>	-		
Freehold land	<b>1,939,456</b>	-		
Kiln drying building	<b>700,435</b>	-		
Long term leasehold land	<b>2,981,977</b>	-		
	<b>18,479,324</b>	-		
<b>Company</b>				
<b>2000</b>	<b>As at 01.01.2000 RM</b>	<b>Additions RM</b>	<b>Disposals RM</b>	<b>As at 31.12.2000 RM</b>
<b><u>At cost</u></b>				
Motor vehicle	-	451,867	-	451,867
<b>2000</b>	<b>As at 01.01.2000 RM</b>	<b>Additions RM</b>	<b>Disposals RM</b>	<b>As at 31.12.2000 RM</b>
<b><u>Accumulated depreciation</u></b>				
Motor vehicle	-	41,421	-	41,421
1999				Nil

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2000** – continued**4. PROPERTY, PLANT AND EQUIPMENT** – continued

<b>Company</b>	<b>As at 31.12.2000</b>	<b>As at 31.12.1999</b>
	<b>RM</b>	<b>RM</b>
<b><u>Net book value</u></b>		
Motor vehicle	<b>410,446</b>	-
	=====	=====

This asset is acquired by hire purchase plan.

**5. INVESTMENTS IN SUBSIDIARY COMPANIES**

	<b>Company</b>	
	<b>2000</b>	<b>1999</b>
	<b>RM</b>	<b>RM</b>
Unquoted shares, at cost	<b>26,158,418</b>	-
Amounts due by subsidiary companies	<b>15,198,207</b>	-
	-----	-----
	<b>41,356,625</b>	-
	=====	=====

Amounts due by subsidiary companies arose from advances which are interest free and have no fixed terms of repayment.

The subsidiary companies, all wholly-owned and incorporated in Malaysia and audited by John Lim & Associates, are as follows:-

<b>Name</b>	<b>Principal Activities</b>
Lii Hen Furnitures Sdn. Bhd.	Investment holding, manufacture of dining and other household furniture
Kejora Juara Sdn. Bhd.	Property investment (Dormant)
<b>Subsidiary companies of Lii Hen Furnitures Sdn. Bhd.</b>	
CT Haup Heng Sdn. Bhd.	Manufacture of wooden furniture
EF Furniture Sdn. Bhd.	Manufacture of office and residential furniture
Mayteck Kilang Kayu Dan Perabut Sdn. Bhd.	Manufacture of furniture component and processing and kiln drying of rubber wood and timber

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2000** – continued
**6. STOCKS**

	<b>Group</b>	
	<b>2000</b>	1999
	<b>RM</b>	RM
Stocks comprise -		
Finished goods	<b>4,029,354</b>	3,813,808
Work-in-progress	<b>5,916,997</b>	4,443,662
Raw material	<b>7,996,794</b>	7,008,983
Store	<b>182,123</b>	133,321
	-----	-----
	<b>18,125,268</b>	15,399,774
	=====	=====

**7. DEBTORS**

	<b>Group</b>	
	<b>2000</b>	1999
	<b>RM</b>	RM
Trade debtors		
- external	<b>21,712,870</b>	18,150,632
Less:		
Provision for doubtful debts	-	74,427
	-----	-----
	<b>21,712,870</b>	18,076,205
Other debtors, deposits, prepayments and receivable	<b>1,931,301</b>	3,569,407
	-----	-----
	<b>23,644,171</b>	21,645,612
	=====	=====

**8. CREDITORS**

	<b>Group</b>		<b>Company</b>	
	<b>2000</b>	1999	<b>2000</b>	1999
	<b>RM</b>	RM	<b>RM</b>	RM
Trade creditors				
- external	<b>7,420,226</b>	7,945,271	-	-
Other creditors, deposit received and accruals	<b>1,832,436</b>	1,669,210	<b>85,502</b>	66,900
Hire purchase creditors	<b>1,116,963</b>	1,316,280	<b>100,002</b>	-
	-----	-----	-----	-----
	<b>10,369,625</b>	10,930,761	<b>185,504</b>	66,900
	=====	=====	=====	=====

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2000** – continued**9. AMOUNTS DUE TO DIRECTORS****Group/Company**

The amounts due to directors are interest free, unsecured and are of current nature.

**10. TAXATION**

	<b>Group</b>		<b>Company</b>	
	<b>2000</b>	1999	<b>2000</b>	1999
	<b>RM</b>	RM	<b>RM</b>	RM
Current taxation				
- Provision for the year	<b>2,107,281</b>	-	<b>12,873</b>	-
- Underprovision in previous year	-	30,420	-	-
- Real Property Gains Tax	-	12,227	-	-
Deferred taxation	<b>215,717</b>	246,176	-	-
	<b>2,322,998</b>	288,823	<b>12,873</b>	-

**Group**

The effective rates of taxation of the Group for current year are lower than the statutory tax rate due mainly to reinvestment allowances claimed under Schedule 7A of the Income Tax Act, 1967 by the three subsidiary companies and also due to one subsidiary company claiming an abatement of 70% of statutory income for its furniture products by virtue of pioneer status enjoyed.

No taxation of the Group was provided in 1999 as tax on the income for that year was waived under Section 8 of Income Tax (Amendment) Act, 1999.

**Company**

There is no current taxation charge for the Company on the main income of dividends which are tax-exempt. The current taxation charge is in respect of interest income.

**11. DIVIDENDS**

	<b>Group</b>	
	<b>2000</b>	1999
	<b>RM</b>	RM
<b>Paid</b>		
An interim tax-exempt dividend of 3.75%.	<b>1,500,000</b>	-
<b>Proposed</b>		
A final tax-exempt dividend of 3.75%.	<b>1,500,000</b>	-

All are in respect of year ended 31 December 2000.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2000** – continued**12. BANK BORROWINGS****Group**

	<b>2000</b>	1999
	<b>RM</b>	RM
Bank overdrafts	<b>3,416,583</b>	6,012,778
Bankers acceptances	<b>5,961,000</b>	7,261,000
Bank loans		
- current portion	-	1,085,726
	<b>9,377,583</b>	14,359,504
	=====	=====
Bank loans repayable after twelve month	-	3,539,724
	=====	=====

The bank loans are repayable over the following periods:

	<b>2000</b>	1999
	<b>RM</b>	RM
Within one year	-	1,085,726
Between one and two years	-	883,839
Between two and five years	-	2,028,778
After five years	-	627,107
	<b>4,625,450</b>	4,625,450
	=====	=====

**Group**

The bank borrowings are secured by:

- legal charges created over properties of four subsidiary companies
- debenture incorporating first fixed and floating charges over all the present and future assets of the four subsidiary companies
- joint and several guarantees by certain directors of the Company and subsidiary companies
- corporate guarantee by Lii Hen Furnitures Sdn. Bhd. for RM6.086 million (1999 – RM5.086 million) against banking facilities granted to a subsidiary company
- corporate guarantee by the Company for RM6.2 million (1999 – Nil) against banking facilities granted to a subsidiary company

The above borrowings bear interest rates ranging from 4.65% to 8.8% (4.80% to 8.8%) per annum during the financial year.

During the financial year, all the bank loans of the Group were fully repaid by utilisation of the proceeds from the rights issue and public issue under the restructuring exercise as mentioned in note 28 to the financial statements.



## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2000 – continued

## 13. EXPENDITURE CARRIED FORWARD

	Group		Company	
	2000 RM	1999 RM	2000 RM	1999 RM
At cost less amount written off				
Preliminary expenses	4,800	4,800	4,800	4,800
Pre-production expenses				
- balance at 1 January	62,102	11,447	62,102	11,447
- current expenditure	42,964	50,655	-	50,655
Listing expenses	2,053,373	-	-	-
	-----	-----	-----	-----
	2,163,239	66,902	66,902	66,902
Less:				
Amount written off				
- against share premium account	2,053,373	-	66,902	-
- against income statement	66,902	-	-	-
	-----	-----	-----	-----
	42,964	66,902	-	66,902
	-----	-----	=====	=====
Goodwill on consolidation				
- Balance at 1 January	603,553	603,553		
- Less:				
- Aggregate amount amortised	301,775	241,420		
	-----	-----		
- Balance at 31 December	301,778	362,133		
	-----	-----		
	344,742	429,035		
	=====	=====		

Goodwill on consolidation is amortised over a period of ten years commencing from 1996.

Pre-production expenses including the following:

	Group	
	2000 RM	1999 RM
Auditors' remuneration	1,000	500
Depreciation	18,458	-
	=====	=====

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2000 – continued

**14. HIRE PURCHASE CREDITORS**

	<b>Group</b>		<b>Company</b>	
	<b>2000</b> <b>RM</b>	<b>1999</b> <b>RM</b>	<b>2000</b> <b>RM</b>	<b>1999</b> <b>RM</b>
Due within one year	<b>1,316,712</b>	1,635,038	<b>115,452</b>	-
Less:				
Undue interest	<b>199,749</b>	318,758	<b>15,450</b>	-
	<b>1,116,963</b>	1,316,280	<b>100,002</b>	-
	=====	=====	=====	=====
Due after one year	<b>1,495,961</b>	2,446,211	<b>192,414</b>	-
Less:				
Undue interest	<b>233,078</b>	578,525	<b>25,750</b>	-
	<b>1,262,883</b>	1,867,686	<b>166,664</b>	-
	=====	=====	=====	=====

The hire purchase loans of RM1,000,000/- (1999 – RM1,157,680/-) granted to a subsidiary company are secured against corporate guaranteed by Lii Hen Furnitures Sdn. Bhd..

The hire purchase loans carry interest rates ranging from 4.3% to 6.5% (1999 – 4.4% to 6.5%) per annum on a flat rate basis.

**15. DEFERRED TAXATION**

	<b>Group</b>		<b>Company</b>	
	<b>2000</b> <b>RM</b>	<b>1999</b> <b>RM</b>	<b>2000</b> <b>RM</b>	<b>1999</b> <b>RM</b>
At 1 January	<b>1,278,663</b>	1,032,487	-	-
Transfer from income statement	<b>215,717</b>	246,176	-	-
	<b>1,494,380</b>	1,278,663	-	-
	=====	=====	=====	=====

**Group**

The deferred taxation arose due to the excess of capital allowances claimed over depreciation charge of the property, plant and equipment.

The tax effect in connection with the surplus arising in the revaluation of land and buildings of the Group is not provided in the financial statements as there is no foreseeable intention to dispose of these properties.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2000** – continued**15. DEFERRED TAXATION – continued**

Subject to the agreement by the tax authorities, details of deferred tax benefits arising from timing differences calculated by liability method, are set out below:-

	<b>Group</b>	
	<b>2000</b>	1999
	<b>RM</b>	<b>RM</b>
Capital allowances claimed over depreciation charge	<b>1,047,291</b>	-
Unutilised reinvestment allowance	<b>(1,230,899)</b>	-
	-----	-----
	<b>(183,608)</b>	-
	=====	=====
Potential deferred tax benefits not taken up in the financial statements	<b>51,410</b>	-
	=====	=====

**16. SHARE CAPITAL**

	<b>Group</b>		<b>Company</b>	
	<b>2000</b>	1999	<b>2000</b>	1999
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
Ordinary shares of RM1/- each				
Authorised:				
Balance at 1 January	<b>100,000,000</b>	500,000	<b>100,000,000</b>	500,000
Created during the year	-	99,500,000	-	99,500,000
	-----	-----	-----	-----
Balance at 31 December	<b>100,000,000</b>	100,000,000	<b>100,000,000</b>	100,000,000
	=====	=====	=====	=====
Issued and fully paid:				
Balance at 1 January	<b>2</b>	2	<b>2</b>	2
Issue at par as consideration for the acquisition of the subsidiary companies	<b>25,598,305</b>	-	<b>25,598,305</b>	-
Rights issue at par per share, for cash	<b>8,381,693</b>	-	<b>8,381,693</b>	-
Public issue at RM1.60 per share, for cash	<b>6,020,000</b>	-	<b>6,020,000</b>	-
	-----	-----	-----	-----
	<b>40,000,000</b>	2	<b>40,000,000</b>	2
Increase in share capital to reflect the merger	-	25,598,305	-	-
	-----	-----	-----	-----
Balance at 31 December	<b>40,000,000</b>	25,598,307	<b>40,000,000</b>	2
	=====	=====	=====	=====

Under the merger method of accounting, shares issued for the acquisition of a 100% equity interest in the subsidiary companies are assumed to be in issue throughout the previous year. The comparative figures for the issued and paid-up share capital of the Group has therefore been restated accordingly.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2000** – continued**16. SHARE CAPITAL** – continued

The gross proceeds from the rights issue and public issue of approximately RM18,014,000/- are utilised in the following manner:

	Original Utilisation In Prospectus RM	Revised Utilisation Approved By SC On 4/12/00 RM	Actual Utilisation As At 31/12/00 RM	Balance As At 31/12/00 RM
a) Repayment of bank loans	4,949,000	4,529,000	4,529,059	(59)
b) Repayment of hire purchase loans	958,000	1,021,000	1,021,134	(134)
c) Repayment of advance to the director and the acquisition cost of Kejora Juara Sdn. Bhd.	1,046,000	1,046,000	1,046,183	(183)
d) Working capital	2,141,000	3,314,000	2,872,700	441,300
e) Purchase of plant and equipment and management information system	6,920,000	6,051,000	5,317,417	733,583
f) Listing expenses	2,000,000	2,053,000	2,053,373	(373)
	18,014,000	18,014,000	16,839,866	1,174,134

The Securities Commission (``SC``) has on 21 February 2001 approved for the Company's application for a revision of the above balance of proceeds of RM733,583/- initially approved for purchase of plant and equipment to be wholly channeled for working capital.

The SC has also granted a further extension of time for the completion of utilisation of proceeds as follows:

- up to 28 February 2001 to complete the balance of proceeds of RM441,300/- for working capital purposes as approved by the SC vide its letter of 4 December 2000; and
- up to 31 May 2001 to complete the balance of the abovesaid proceeds of RM733,583/- for working capital.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2000** – continued
**17. RESERVES**

Subject to the agreement by the tax authorities, the Company has sufficient tax credit under Section 108 of the Income Tax Act, 1967 to frank the payment of dividends out of its distributable retained profit of approximately RM50,000/- (1999 – Nil)

In addition, the Company has sufficient tax exempt account to distribute its entire distributable retained profit (1999 – Nil) after receiving the proposed tax-exempt dividend of RM1.575 million from a subsidiary company.

**18. REVENUE**

Revenue of the Group represents the invoiced sales value of furniture manufactured and wood processing and wood works less discounts and returns and sales tax and management fees charged to subsidiary companies.

Revenue of the Company represents the tax-exempt dividend income from the investment in subsidiary companies and interest income.

**19. EXCEPTIONAL ITEMS**

	<b>Group</b>		<b>Company</b>	
	<b>2000</b>	1999	<b>2000</b>	1999
	<b>RM</b>	RM	<b>RM</b>	RM
Gain on disposal of freehold land	-	20,482	-	-
Insurance claim on fire breakout in a subsidiary's factory	<b>164,502</b>	-	-	-
Less:				
Restoration cost	<b>55,000</b>	-	-	-
	<b>109,502</b>	-	-	-
	<b>109,502</b>	20,482	-	-
	=====	=====	=====	=====

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2000 – continued

**20. PROFIT BEFORE TAXATION**

This is arrived at after inclusion of the following charges/(credits):-

	<b>Group</b>		<b>Company</b>	
	<b>2000</b>	1999	<b>2000</b>	1999
	<b>RM</b>	RM	<b>RM</b>	RM
Auditors' remuneration	<b>50,200</b>	47,200	<b>3,000</b>	-
Bad debts written off	<b>7,915</b>	22,018	-	-
Depreciation	<b>3,033,914</b>	2,270,052	<b>41,421</b>	-
Directors' remuneration				
Fees				
- directors of the Company	<b>15,000</b>	-	<b>15,000</b>	-
Other emoluments				
- directors of the Company	<b>454,500</b>	324,901	<b>12,500</b>	-
- directors of subsidiary companies	<b>208,000</b>	160,900	-	-
Expenditure carried forward written off				
- Preliminary and pre-production	<b>66,902</b>	-	<b>66,902</b>	-
- Goodwill on consolidation	<b>60,355</b>	-	<b>60,355</b>	-
Hiring of vehicles	<b>51,939</b>	65,838	-	-
Interest				
- bankers acceptances	<b>269,537</b>	323,610	-	-
- bank overdrafts	<b>227,957</b>	370,461	-	-
- bank loans	<b>68,091</b>	487,165	-	-
- hire purchase	<b>371,113</b>	356,579	<b>5,150</b>	-
- overdue	<b>1,367</b>	1,237		
Loss on disposal of property, plant and equipment	<b>25,905</b>	50,175	-	-
Property, plant and equipment written off	<b>245,087</b>	-	-	-
Rental deposit forfeited	<b>2,698</b>	2,220	-	-
Provision for doubtful debts	-	74,427	-	-
Rental of premises	<b>183,845</b>	160,830	-	-
Rental of office equipment	<b>15,959</b>	2,360	-	-
Repo interest earned	<b>(660)</b>	-	-	-
Fixed deposit interest earned	<b>(3,169)</b>	-	-	-
Gains on disposal of property, plant and equipment	<b>(1,283)</b>	(111,928)	-	-
Foreign exchange gain	<b>(473,518)</b>	(237,099)	-	-
Gross dividend income - subsidiary	-	-	<b>(3,150,000)</b>	-
Doubtful debts recovered	<b>(10,542)</b>	-	-	-
	=====	=====	=====	=====
Approximate cash value of directors' benefit in kind	42,846	27,402	-	-
	=====	=====	=====	=====

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2000** – continued**21. EARNINGS PER SHARE**

The earnings per share for the year is calculated based on the Group profit after taxation and on the weighted average number of ordinary shares of 35,956,000 shares in issue during the year.

The number of ordinary shares used in calculating the earnings per share for the previous year are 25,598,307 shares, assumed to be issued under the merger accounting.

**22. CASH FLOW STATEMENT**

a) Cash and cash equivalents included in the cash flow statements comprise the following:

	<b>Group</b>		<b>Company</b>	
	<b>2000</b>	1999	<b>2000</b>	1999
	<b>RM</b>	RM	<b>RM</b>	RM
Cash in hand	<b>18,002</b>	61,050	-	-
Cash at bank	<b>4,420,268</b>	822,360	<b>1,608,910</b>	-
Fixed deposit with licenced bank	<b>83,008</b>	80,000	-	-
Bank overdrafts	<b>(3,416,583)</b>	(6,012,778)	-	-
	<b>1,104,695</b>	(5,049,368)	<b>1,608,910</b>	-
	=====	=====	=====	=====

The fixed deposit of RM50,000/- (1999 – RM50,000/-) is pledged against bank guarantee facility to a subsidiary company.

b) Analysis of acquisition of a subsidiary company

The fair value of assets and liabilities acquired are as follows:

	<b>2000</b>	1999
	<b>RM</b>	RM
Long leasehold land	<b>1,045,000</b>	-
Prepayments	<b>1,090</b>	-
Cash balance	<b>965</b>	-
Creditors	<b>(872)</b>	-
Amounts due to former directors	<b>(492,058)</b>	-
	<b>554,125</b>	-
Total purchase price	<b>554,125</b>	-
Less:		
Cash and cash equivalent of subsidiary company acquired	<b>(965)</b>	-
	<b>553,160</b>	-
Cash flow on acquisition, net of cash acquired	<b>553,160</b>	-
	=====	=====

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2000** – continued**22. CASH FLOW STATEMENT** – continued

## c) Purchase of property, plant and equipment

**Group**

During the financial year, the Group acquired property, plant and equipment with an aggregate cost of RM9,605,414/- (1999 – RM5,926,378/-) of which RM1,256,875/- (1999 – 1,840,239/-) was acquired by means of hire purchase. Cash payment of RM8,348,539/- (1999 – RM4,086,139/-) was made to purchase the property, plant and equipment during the financial year.

**Company**

During the financial year, the Company acquired property, plant and equipment with a cost of RM451,867/- (1999 – Nil) of which RM300,000/- (199 – Nil) was acquired by means of hire purchase. Cash payment of RM151,867/- (1999 – Nil) was made to purchase the property, plant and equipment during the financial year.

**23. SIGNIFICANT INTERCOMPANY TRANSACTIONS**

Significant transactions undertaken with subsidiary companies during the year are as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2000</b>	1999	<b>2000</b>	1999
	<b>RM</b>	RM	<b>RM</b>	RM
Sales to subsidiary companies of Lii Hen Furnitures Sdn. Bhd.	<b>953,558</b>	822,622	-	-
Purchases from subsidiary companies	<b>7,257,011</b>	6,662,016	-	-
Management fee from subsidiary companies of Lii Hen Furnitures Sdn. Bhd.	<b>(58,604)</b>	47,884	-	-
Dividends from subsidiary company	-	-	<b>(3,150,000)</b>	-
	=====	=====	=====	=====

The above transactions have been entered into in the normal course of business based on negotiated and mutually agreed terms.

**24. CONTINGENT LIABILITIES**

	<b>Group</b>		<b>Company</b>	
	<b>2000</b>	1999	<b>2000</b>	1999
	<b>RM</b>	RM	<b>RM</b>	RM
Counter indemnities to banks for bank guarantees issued				
- secured	<b>2,341,750</b>	1,815,000	-	-
- unsecured	-	9,000	-	-
Corporate guarantees for credit facilities extended to subsidiary companies (unsecured)	<b>13,286,000</b>	6,243,680	<b>6,200,000</b>	-
	=====	=====	=====	=====



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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2000** – continued
**25. CAPITAL COMMITMENT**

	<b>Group</b>		<b>Company</b>	
	<b>2000</b>	1999	<b>2000</b>	1999
	<b>RM</b>	RM	<b>RM</b>	RM
Authorised and contracted -				
- plant and equipment	-	532,065	-	-
- management information system	<b>209,000</b>	-	-	-
	-----	-----	-----	-----
	<b>209,000</b>	532,065	-	-
	=====	=====	=====	=====

**26. EMPLOYEES**

<b>Group</b>	<b>2000</b>	1999
	<b>RM</b>	RM
Staff cost, including emoluments of executive directors, for the year ended 31 December 2000	<b>2,025,477</b>	1,602,838
	=====	=====

The number of employees in the Group as at 31 December 2000 was as follows:

	<b>2000</b>	1999
	<b>Nos.</b>	Nos.
Management	<b>8</b>	6
Operations	<b>836</b>	702
Administration	<b>71</b>	49
	-----	-----
	<b>915</b>	757
	=====	=====

**Company**

The Company does not have any employee as all administrative and operating functions are performed by a subsidiary company. Hence, the staff cost of the Company is in respect of the non-executive directors' remuneration of RM27,500/- (1999 – Nil).

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2000** – continued**27. SEGMENTAL REPORTING**

The Group operates principally in activities as an integrated furniture manufacturer while the results and assets of the investment holding of the Company are insignificant in relation to the Group's manufacturing activities. Accordingly information by industry segment on the Group operations is not presented.

The activities of the Group are carried out in Malaysia and as such segmental reporting by geographical location is also not presented.

**28. SIGNIFICANT EVENTS DURING THE YEAR**

- (i) The acquisition of the entire issued and paid-up share capital of Lii Hen Furnitures Sdn. Bhd. ("LHF") on 26 January 2000. The total purchase consideration amounting to RM25,598,305 was satisfied by the issue of 25,598,305 new ordinary shares of RM1.00 each of the Company at par. The purchase consideration was arrived at on a willing buyer-willing seller basis based on the consolidated net tangible assets of LHF as at 31 December 1998 of RM35,069,305/- after adjusting for the revaluation surplus of RM9,446,758/- arising from the revaluation of landed properties of LHF and its subsidiary companies and after adjusting for the reserves required to be retained under Section 10.10 (1)(j) of the SC's Policies and Guidelines on Issue/offer of Securities.
- (ii) The acquisition of the entire issued and paid-up share capital of Kejora Juara Sdn. Bhd. on 10 February 2000. The total consideration amounting to RM1,046,183, including repayment of advances to former director was satisfied by cash in full.
- (iii) Rights issue of 8,381,693 new ordinary shares of RM1.00 each at par on the basis of one new ordinary share for every approximate three (3) existing ordinary share held, on 10 February 2000.
- (iv) On 20 March 2000, a prospectus was issued for the public issue of 6,020,000 new ordinary shares of RM1.00 each at an issue price of RM1.60 per ordinary share and restricted offer for sale of 1,806,000 ordinary shares of RM1.00 each at an offer price of RM1.60 per ordinary share to Bumiputra investors approved by MITI with a purpose to list its entire issued and paid-up share capital on the Second Board of the Kuala Lumpur Stock Exchange.
- (v) On completion of the above flotation scheme, the entire 40,000,000 ordinary shares of RM1/- each of the Company were listed and quoted on the Second Board of the Kuala Lumpur Stock Exchange on 25 April 2000.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2000** – continued**29. SUBSEQUENT EVENTS**

Under rationalisation of the Group's operations, the Company has on 13 February 2001 incorporated a wholly-owned subsidiary company, Affirm Marketing Sdn. Bhd. with a paid-up share capital of RM100/-, to act as a marketing arm for local sales of the Group's products.

In line with the marketing strategy of the Group, the Company has decided on 22 February 2001 to invest in Mega Creations, Inc., a company incorporated with the California Secretary of State's Office as marketing arm for US market at a total subscription of US\$328,000/-.

**30. COMPARATIVE FIGURES**

In accordance with the principles of merger accounting, the results and financial position of the Group have been presented as if the acquisition of the subsidiary company, Lii Hen Furnitures Sdn. Bhd., under the merger method of accounting has been combined with the Company throughout the current and previous accounting year. Accordingly, the comparative figures have been restated.

The presentation of this set of financial statements has been changed in compliance with MASB Standards.

As this being the first year of operations, no comparative figures are provided in the Income Statement of the Company.