

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

FINANCIAL STATEMENTS
31 DECEMBER 2002

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LII HEN INDUSTRIES BHD.
(Incorporated in Malaysia)

CORPORATE INFORMATION

| | |
|-------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| DIRECTORS: | 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 Tey Ping Cheng Independent Non-Executive Director |
| AUDIT COMMITTEE: | 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 Tey Ping Cheng Independent Non-Executive Director |
| SECRETARY: | Tan Wang Giap MACS 00523 |
| AUDITORS: | John Lim & Associates Chartered Accountants |
| PRINCIPAL BANKERS: | OCBC Bank (Malaysia) Berhad HSBC Bank Malaysia Berhad |
| SOLICITORS: | Iza Ng Yeoh & Kit |
| REGISTRARS: | Plantation Agencies Sdn Berhad Standard Chartered Bank Chambers Lebuh Pantai 10300 Penang Pulau Mutiara Tel: 04-2625333 Fax: 04-2622018 |
| REGISTERED OFFICE: | 67, 2nd Floor Room B, Jalan Ali 84000 Muar, Johor Darul Takzim Tel: 06-9541818 Fax: 06-9525823 |
| PRINCIPAL PLACE OF BUSINESS: | Plo 43, Kawasan Perindustrian Bukit Pasir Jalan Raja, Mukim Sungai Raya 84300 Bukit Pasir Muar, Johor Darul Takzim Tel: 06-9857202 Fax: 06-9857818 Email: lhib @ liihenfurniture.com |
| STOCK EXCHANGE LISTING: | Main Board of the Kuala Lumpur Stock Exchange |
| WEBSITE: | www.liihenfurniture.com |

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 2002.

PRINCIPAL ACTIVITIES

The principal activity of the Company is that of investment holding company.

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

There have been no significant changes in the nature of these activities of the Group and of the Company during the financial year. Subsequent to the financial year end, one of the United States subsidiary has scaled down its operations.

RESULTS

The net profit for the year of the Group and of the Company were RM6,234,067 and RM24,191,349 respectively.

DIVIDENDS

The dividends paid or declared by the Company since the end of the previous financial year were as follows:

| | RM |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| In respect of the year ended 31 December 2001, as shown in the directors' report of that year, | |
| -interim tax-exempt dividend of 3.75% declared on 6 December 2001 and paid on 31 January 2002, and | 1,500,000 |
| -final tax-exempt dividend of 2.5% based on the enlarged share capital of RM60.0 million approved by shareholders on 18 June 2002 and paid on 31 July 2002 | 1,500,000 |
| | ----- |
| | 3,000,000 |
| | ===== |
| In respect of the year ended 31 December 2002 -interim tax-exempt dividend of 2.5% declared on 19 November 2002 and paid on 6 January 2003 | 1,500,000 |
| | ===== |

The directors proposed a final tax exempt dividend of 1.5% amounting to RM900,000 in respect of year ended 31 December 2002 subject to the approval of members at the forthcoming Annual General Meeting.

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

The shareholders of the Company at an Extraordinary General Meeting held on 7 February 2002 approved the bonus issue and transfer of the listing of and quotation for the entire enlarged issued and paid-up share capital of the Company of RM60,000,000 comprising 60,000,000 ordinary shares of RM1 each from the Second Board to the Main Board of the Kuala Lumpur Stock Exchange.

The aforementioned transfer had been approved by the Securities Commission vide its letter dated 11 March 2002 and the request for additional listing of the 20.0 million bonus shares and for the transfer of listing to the Main Board of the Kuala Lumpur Stock Exchange was approved on 10 April 2002.

On 28 May 2002, the Company was successfully listed on the Main Board of the Kuala Lumpur Stock Exchange.

ISSUE OF SHARE AND DEBENTURE

During the financial year, the issued and fully paid ordinary shares of the Company was increased from 40.0 million to 60.0 million by a bonus issue of 20.0 million ordinary shares of RM1.00 each on the basis of one (1) new share for every two (2) existing shares held.

These new ordinary shares rank pari passu with the then existing ordinary shares of the Company except that these shares did not rank for any interim dividends declared prior to 10 May 2002.

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year except as disclosed in statements 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
Tok Heng Leong
Mohd Qari Bin Ahmad
Tan Bee Eng
Chua Yong Haup
Chua Tuan Meng
Dali Kumar @ Dali Bin Sardar
Tey Ping Cheng

In accordance with the Company's articles of association, Messrs. Chua Yong Haup, Dali Kumar @ Dali Bin Sardar and Chua Tuan Meng retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

EMPLOYEES' SHARE OPTION SCHEME

At the Extraordinary General Meeting of the Company held on 7 February 2002, the shareholders of the Company approved the establishment of an employees share option scheme (``ESOS``) in respect of shares of the Company. Pursuant to the scheme, options to subscribe for ordinary shares of RM1 each are granted to eligible employees of the Group including executive directors of any company in the Group.

DIRECTORS' REPORT - continued**EMPLOYEES' SHARE OPTION SCHEME** - continued

The salient features of the ESOS are as follows:-

- (a) Employees including executive directors of any company in the Group who have been confirmed in their employment for one continuous year of service and who fall within any one of the categories set out in the by-laws of the ESOS, are eligible to participate in the scheme;
- (b) The maximum number of ordinary shares of the Company which may be subscribed on the exercise of the total number of shares under the ESOS shall not be more than ten per centum (10%) of the issued and paid-up share capital of the Company at any point of time during the existence of the ESOS;
- (c) The option price for each new share under ESOS shall be subject to a discount of not more than ten per centum (10%) to the weighted average market price of the shares based on the Daily Official List issued by the KLSE for the five (5) Market Days preceding the date on which an Offer is made and subject to the provision that the Option Price per share shall not in any event be less than the par value of the ordinary shares of the Company;
- (d) The option may be exercised in respect of all the ordinary shares or in respect of any part of the ordinary shares, such part being one thousand (1,000) ordinary shares or multiples of one thousand (1,000) ordinary shares, but being not less than one thousand (1,000) ordinary shares. Such partial exercising of the Option shall not preclude the Grantee from exercising the Option as to the balance not yet exercised;
- (e) An option granted to a selected employee shall be capable of being exercised by notice in writing to the ESOS Committee commencing on the date of the Offer to the expiry of the five (5) years period commencing from the Commencement Date, 29 May 2002 and subject to the approval from relevant authorities is renewable for an additional five years;
- (f) In the event of any alteration in the capital structure of the Company except for certain exemptions, adjustments will be made to the subscription price and/or the number of shares in respect of options granted but not exercised, such that the option holder will be entitled to the same proportion of the issued and paid-up share capital of RM1 each in the Company as before the said alteration; and
- (g) The shares shall on issue and allotment rank pari passu in all material respects with the then existing issued shares of the Company.
- (h) The number of share options to be offered to an Eligible Employee under the ESOS shall be determined at the absolute discretion of the ESOS Committee but shall in no event exceed the maximum allowable allotment.

| Category of Eligible Employee | Maximum Allowable Allotment |
|-----------------------------------------------------------------------|-----------------------------|
| Executive Directors | 400,000 |
| Senior Managers | 100,000 |
| Managers / Senior Supervisors | 35,000 |
| Assistant Managers / Supervisors / Assistant Supervisors / Executives | 25,000 |
| Officers | 10,000 |
| Clerks | 5,000 |
| Operators | 2,000 |

DIRECTORS' REPORT - continued**EMPLOYEES' SHARE OPTION SCHEME** - continued

On 1 April 2003, the Company has been granted exemption by the Companies Commission of Malaysia from having to disclose the names of option holders who have been granted option of less than 100,000 shares.

As at the date of this report, the ESOS is still pending implementation by the management of the Company.

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:

| Registered in the name of directors: | Number of ordinary shares of RM1 each | | | | |
|-----------------------------------------|---------------------------------------|------------------------------|---------------|-------------|-------------------------------------|
| | <u>Balance</u> <u>01.01.2002</u> | <u>Bonus</u> <u>issue</u> | <u>Bought</u> | <u>Sold</u> | <u>Balance</u> <u>31.12.2002</u> |
| - Chua Lee Seng | 167,001 | 83,501 | 256,000 | - | 506,502 |
| - Tok Heng Leong | 90,001 | 45,000 | 915,042 | - | 1,050,043 |
| - Mohd Qari Bin Ahmad | 200,000 | 100,000 | - | - | 300,000 |
| - Tan Bee Eng | 771,443 | 385,722 | 20,000 | - | 1,177,165 |
| - Chua Yong Haup | 335,166 | 142,583 | - | (50,000) | 427,749 |
| - Dali Kumar @ Dali Bin Sardar | 50,000 | 25,000 | - | - | 75,000 |
| Deemed interest: | | | | | |
| - Chua Lee Seng | 17,740,780 | 8,706,390 | - | (1,061,000) | 25,386,170 |
| - Tok Heng Leong | 17,740,780 | 8,706,390 | - | (1,061,000) | 25,386,170 |
| - Mohd Qari Bin Ahmad | 4,545,000 | 2,122,500 | - | (300,000) | 6,367,500 |
| - Chua Tuan Meng | 10,000 | 5,000 | - | - | 15,000 |
| - Dali Kumar @ Dali Bin Sardar | 50,000 | 25,000 | - | - | 75,000 |

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.

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.

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 emoluments shown in note 22(b) 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.

DIRECTORS' REPORT - continued**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 allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance for doubtful debts had been made; 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 as bad debts inadequate to any substantial extent or would require any allowance to be made for doubtful debts in the financial statements of the Group and of the Company,
 - (ii) which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading,
 - (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) 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.

DIRECTORS' REPORT - continued

AUDITORS

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

Signed on behalf of the Board in accordance with a resolution of the directors dated 26 April 2003

Chua Lee Seng
Managing Director

Tan Bee Eng
Director

Muar

Date: 26 April 2003

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 2002 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 dated 26 April 2003

Chua Lee Seng
Managing Director

Tan Bee Eng
Director

Date: 26 April 2003

LII HEN INDUSTRIES BHD.
(Incorporated in Malaysia)

STATUTORY DECLARATION

I, Lydia Sim Lee Hea, the officer 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 26 April 2003)

Lydia Sim Lee Hea

Before me,

K. Ramasamy
(No. J 014)
Commissioner for Oaths

REPORT OF THE AUDITORS

To The Members Of LII HEN INDUSTRIES BHD.

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.

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 to 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.

In our opinion:

- (a) the financial statements 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 2002 and of the results of the operations and cash flows of the Group and of the Company for the year ended on that date.

and

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

We have considered the financial statements and the auditors' report of Mega Creations, Inc. and Home Creations, Inc., subsidiary companies of which we have not acted as auditors, being financial statements that have been included in the consolidated financial statements.

REPORT OF THE AUDITORS

To The Members Of LII HEN INDUSTRIES BHD. - continued

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 Act.

JOHN LIM & ASSOCIATES

A.F. No. 0393
Chartered Accountants

LIM JOHN @ LIM WAN SHOW

1148/2/04(J)
Chartered Accountant

Date:

67, 2nd Floor, Room A
Jalan Ali, 84000 Muar
Johor Darul Takzim

Phone: 06-9515317 / 9523513
E-mail: johnlws@tm.net.my

LII HEN INDUSTRIES BHD.

(Incorporated in Malaysia)

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2002

| | Note | 2002 RM | 2001 RM |
|-----------------------------------|------|--------------------|-------------|
| PROPERTY, PLANT AND EQUIPMENT | 4 | 49,668,359 | 48,380,702 |
| GOODWILL ON CONSOLIDATION | 6 | 501,931 | 602,394 |
| CURRENT ASSETS | | | |
| Inventories | 8 | 28,745,811 | 20,082,934 |
| Trade receivables | 9 | 19,973,391 | 19,463,231 |
| Other receivables | 10 | 1,850,004 | 1,913,802 |
| Tax recoverable | 11 | 1,136,921 | 319,441 |
| Fixed deposits with licensed bank | | 140,075 | 86,403 |
| Cash and bank balances | | 2,685,035 | 4,782,439 |
| | | 54,531,237 | 46,648,250 |
| CURRENT LIABILITIES | | | |
| Trade payables | 12 | 5,003,037 | 4,162,702 |
| Other payables | 13 | 2,717,384 | 1,605,836 |
| Dividend payable | | 1,525,300 | 1,514,175 |
| Borrowings | 14 | 12,682,939 | 8,166,112 |
| | | 21,928,660 | 15,448,825 |
| Net current assets | | 32,602,577 | 31,199,425 |
| NON-CURRENT LIABILITIES | | | |
| Hire purchase payables | 15 | (126,079) | (670,083) |
| Loan payables | 16 | (84,080) | (146,667) |
| Deferred taxation | 17 | (2,255,880) | (2,167,235) |
| | | (2,466,039) | (2,983,985) |
| | | 80,306,828 | 77,198,536 |
| Financed by:- | | | |
| SHARE CAPITAL | 18 | 60,000,000 | 40,000,000 |
| RESERVES | 19 | 20,306,828 | 37,198,536 |
| | | 80,306,828 | 77,198,536 |

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 2002**

| | Note | 2002 RM | 2001 RM |
|----------------------------------------------------------|------|---------------------|--------------|
| REVENUE | | | |
| - continuing operations: existing | | 87,512,733 | 79,609,390 |
| - continuing operations: new acquisition | 5(a) | 1,295,295 | 2,802,302 |
| | 20 | 88,808,028 | 82,411,692 |
| Cost of sales | | (69,186,034) | (62,717,171) |
| GROSS PROFIT | | 19,621,994 | 19,694,521 |
| OTHER OPERATING INCOME | 21 | 656,794 | 798,479 |
| | | 20,278,788 | 20,493,000 |
| Administrative expenses | | (7,659,599) | (5,539,273) |
| Selling expenses | | (3,349,889) | (3,018,720) |
| PROFIT FROM OPERATIONS | 22 | | |
| - continuing operations: existing | | 10,086,497 | 12,279,010 |
| - continuing operations: new acquisition | 5(a) | (817,197) | (344,002) |
| | | 9,269,300 | 11,935,008 |
| Finance cost | 23 | (662,248) | (651,521) |
| PROFIT BEFORE TAXATION | | 8,607,052 | 11,283,487 |
| TAXATION | 11 | (2,372,985) | (2,905,173) |
| NET PROFIT FOR THE YEAR | | 6,234,067 | 8,378,314 |
| EARNINGS PER SHARE (sen) | 24 | | |
| - basic | | 10.39 | 13.96 |
| - diluted | | - | - |
| DIVIDENDS PER SHARE (sen) | 25 | | |
| - tax exempt on share capital of RM40.0 million | | - | 7.50 |
| - tax exempt on enlarged share capital of RM60.0 million | | 5.00 | - |

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

LII HEN INDUSTRIES BHD.
(Incorporated in Malaysia)

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2002**

| | Note | Issued and fully paid ordinary shares or RM1 each Share Capital RM | Non- Distributable Share Premium RM | Distributable Retained Profit RM | Total RM |
|----------------------------------------------------------------------------------|------|--------------------------------------------------------------------------------------|-------------------------------------------------|-------------------------------------------|-------------------|
| As at 01 January 2001 | | | | | |
| - as previously reported | | 40,000,000 | 1,558,627 | 28,804,559 | 70,363,186 |
| - prior year adjustments | 26 | - | - | 1,457,036 | 1,457,036 |
| - as restated | | 40,000,000 | 1,558,627 | 30,261,595 | 71,820,222 |
| Dividends | 25 | - | - | (3,000,000) | (3,000,000) |
| Net profit for the year | | - | - | 8,378,314 | 8,378,314 |
| As at 31 December 2001 | | 40,000,000 | 1,558,627 | 35,639,909 | 77,198,536 |
| As at 01 January 2002 | | 40,000,000 | 1,558,627 | 35,639,909 | 77,198,536 |
| Bonus issue | | 20,000,000 | - | (20,000,000) | - |
| Corporate exercise expenses written off against share premium | 27 | - | (125,775) | - | (125,775) |
| Net loss not recognised in the income statement | | - | (125,775) | - | (125,775) |
| Dividends | 25 | - | - | (3,000,000) | (3,000,000) |
| Net profit for the year | | - | - | 6,234,067 | 6,234,067 |
| As at 31 December 2002 | | 60,000,000 | 1,432,852 | 18,873,976 | 80,306,828 |

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 2002**

| | Note | 2002 RM | 2001 RM |
|-----------------------------------------------------|------|--------------------|-------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before taxation | | 8,607,052 | 11,283,487 |
| Adjustments for: | | | |
| Bad debts written off | | 170,845 | 148,546 |
| Depreciation | | 3,815,412 | 3,482,097 |
| Amortisation of goodwill on consolidation | | 100,463 | 100,463 |
| Interest expenses | | 662,248 | 651,521 |
| Loss on disposal of property, plant and equipment | | 8,395 | 4,741 |
| Preliminary and pre-production expenses written off | | - | 104,824 |
| Property, plant and equipment written off | | 1,276 | 2,361 |
| Allowance for doubtful debts | | 26,000 | 23,796 |
| Allowance for doubtful debts no longer required | | (23,796) | - |
| Interest income | | (19,335) | (27,529) |
| Gain on disposal of property, plant and equipment | | (17,034) | (129,104) |
| Unrealised foreign exchange gain | | (134,018) | (45,988) |
| Operating profit before working capital changes | | 13,197,508 | 15,599,215 |
| Increase in inventories | | (8,662,877) | (389,866) |
| (Increase)/decrease in receivables | | (485,422) | 2,706,782 |
| Increase/(decrease) in payables | | 1,951,883 | (6,383,832) |
| Increase/(decrease) in directors' current account | | - | (973) |
| Cash generated from operations | | 6,001,092 | 11,531,326 |
| Interest paid | | (662,248) | (651,521) |
| Income tax paid | | (3,101,820) | (2,920,601) |
| Net cash from operating activities | | 2,237,024 | 7,959,204 |

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2002 - continued**

| | Note | 2002 RM | 2001 RM |
|---------------------------------------------------------|-----------|----------------------------------|---------------------------|
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Expenditure carried forward, net of depreciation | | - | (100,564) |
| Purchase of property, plant and equipment | 28(a) | (5,116,005) | (1,693,822) |
| Proceeds from disposal of property, plant and equipment | | 50,299 | 156,300 |
| Interest received | | 19,364 | 25,953 |
| Acquisition and incorporation of subsidiary companies | 28(b)&(c) | - | 162,511 |
| Net cash used in investing activities | | <u>(5,046,342)</u> | <u>(1,449,622)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Drawdown of loan | | 82,973 | 330,000 |
| Corporate exercise expenses paid | | (125,775) | - |
| Bankers acceptances | | 2,712,000 | (621,000) |
| Repayment of loans | | (110,000) | (73,333) |
| Repayment of hire purchase loans | | (952,107) | (1,184,714) |
| Dividend paid | | (3,011,455) | (2,985,825) |
| Increase in fixed deposit pledged to bank | | (53,672) | (3,395) |
| Net cash used in financing activities | | <u>(1,458,036)</u> | <u>(4,538,267)</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | (4,267,354) | 1,971,315 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | | <u>2,993,002</u> | <u>1,021,687</u> |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR | 28(d) | <u><u>(1,274,352)</u></u> | <u><u>2,993,002</u></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 2002

| | Note | 2002 RM | 2001 RM |
|-------------------------------------|------|-------------------|------------|
| PROPERTY, PLANT AND EQUIPMENT | 4 | 229,700 | 320,073 |
| INVESTMENT IN SUBSIDIARY COMPANIES | 5 | 27,404,918 | 27,404,918 |
| AMOUNTS DUE BY SUBSIDIARY COMPANIES | 7 | 35,092,101 | 14,046,994 |
| CURRENT ASSETS | | | |
| Other receivables | 10 | 7,840 | 42,284 |
| Dividend receivable | | 1,500,000 | 1,500,000 |
| Tax recoverable | 11 | 10,233 | - |
| Bank balances | | 65,098 | 28,173 |
| | | 1,583,171 | 1,570,457 |
| CURRENT LIABILITIES | | | |
| Other payables | 13 | 8,447 | 11,123 |
| Taxation | 11 | - | 6,573 |
| Dividend payable | | 1,525,300 | 1,514,175 |
| Borrowing | 14 | 66,662 | 100,002 |
| | | 1,600,409 | 1,631,873 |
| Net current liabilities | | (17,238) | (61,416) |
| NON-CURRENT LIABILITY | | | |
| Hire purchase payable | 15 | - | (66,662) |
| | | 62,709,481 | 41,643,907 |
| Financed by: | | | |
| SHARE CAPITAL | 18 | 60,000,000 | 40,000,000 |
| RESERVES | 19 | 2,709,481 | 1,643,907 |
| | | 62,709,481 | 41,643,907 |

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 2002

| | Note | 2002 RM | 2001 RM |
|----------------------------------------------------------|------|--------------------|------------|
| REVENUE | 20 | 26,890,000 | 3,475,000 |
| Administrative expenses | | (363,134) | (326,552) |
| PROFIT FROM OPERATIONS | 22 | 26,526,866 | 3,148,448 |
| Finance cost | 23 | (15,450) | (15,452) |
| PROFIT BEFORE TAXATION | | 26,511,416 | 3,132,996 |
| TAXATION | 11 | (2,320,067) | - |
| NET PROFIT FOR THE YEAR | | 24,191,349 | 3,132,996 |
| DIVIDEND PER SHARE (sen) | 25 | | |
| - tax exempt on share capital of RM40.0 million | | - | 7.50 |
| - tax exempt on enlarged share capital of RM60.0 million | | 5.00 | - |

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 2002

| | Note | Issued and fully paid ordinary shares of RM1 each Share Capital RM | Non- Distributable Share Premium RM | Distributable Retained Profit RM | Total RM |
|----------------------------------------------------------------------|------|--------------------------------------------------------------------------------------|-------------------------------------------------|-------------------------------------------|--------------------|
| As at 01 January 2001 | | | | | |
| - as previously reported | | 40,000,000 | 1,558,627 | 27,284 | 41,585,911 |
| - prior year adjustments | 26 | - | - | (75,000) | (75,000) |
| - as restated | | 40,000,000 | 1,558,627 | (47,716) | 41,510,911 |
| Dividends | 25 | - | - | (3,000,000) | (3,000,000) |
| Net profit for the year | | - | - | 3,132,996 | 3,132,996 |
| As at 31 December 2001 | | 40,000,000 | 1,558,627 | 85,280 | 41,643,907 |
| As at 01 January 2002 | | 40,000,000 | 1,558,627 | 85,280 | 41,643,907 |
| Bonus issue | | 20,000,000 | - | (20,000,000) | - |
| Corporate exercise expenses written off against share premium | 27 | - | (125,775) | - | (125,775) |
| Net loss not recognised in the income statement | | - | (125,775) | - | (125,775) |
| Dividends | 25 | - | - | (3,000,000) | (3,000,000) |
| Net profit for the year | | - | - | 24,191,349 | 24,191,349 |
| As at 31 December 2002 | | 60,000,000 | 1,432,852 | 1,276,629 | 62,709,481 |

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 2002

| | Note | 2002 RM | 2001 RM |
|------------------------------------------------------------|------|---------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before taxation | | 26,511,416 | 3,132,996 |
| Adjustments for: | | | |
| Depreciation | | 90,373 | 90,373 |
| Interest expenses | | 15,450 | 15,452 |
| Dividend income | | (26,890,000) | (3,475,000) |
| Operating loss before working capital changes | | (272,761) | (236,179) |
| Decrease/(increase) in receivables | | 34,444 | (42,284) |
| Decrease in payables | | (2,676) | (88,554) |
| Decrease in director's current account | | - | (29) |
| Cash used in operations | | (240,993) | (367,046) |
| Dividends received from subsidiary companies | | 26,890,000 | 1,975,000 |
| Income tax paid | | (12,873) | (6,300) |
| Interest paid | | (15,450) | (15,452) |
| Tax deducted at source | | (2,324,000) | - |
| Net cash from operating activities | | 24,296,684 | 1,586,202 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Investment in subsidiary companies | | - | (1,246,500) |
| (Increase)/decrease in amounts due by subsidiary companies | | (21,045,107) | 1,151,213 |
| Net cash used in investing activities | | (21,045,107) | (95,287) |

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2002

- continued

| | Note | 2002 RM | 2001 RM |
|---------------------------------------------------------|-------|-----------------------------|-----------------------------|
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Corporate exercise expenses paid | | (125,775) | - |
| Repayment of hire purchase payable | | (100,002) | (100,002) |
| Dividend paid | | (3,011,455) | (2,985,825) |
| Net cash used in financing activities | | <u>(3,237,232)</u> | <u>(3,085,827)</u> |
| | | | |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | 14,345 | (1,594,912) |
| | | | |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | | <u>13,998</u> | <u>1,608,910</u> |
| | | | |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR | 28(d) | <u><u>28,343</u></u> | <u><u>13,998</u></u> |

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

LII HEN INDUSTRIES BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2002

1. GENERAL

The principal activity of the Company is that of investment holding company. The principal activities of the subsidiary companies are as set out in note 5 to the financial statements. There have been no significant changes in the nature of these activities of the Group and of the Company during the financial year.

The Company is a public limited liability company, incorporated and domiciled in Malaysia and listed in the Main Board of Kuala Lumpur Stock Exchange.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The preparation of financial statements in conformity with applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965 requires the directors to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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 of the Group and of the Company are prepared under the historical cost convention modified by the revaluation of land and buildings, unless otherwise disclosed in this summary of significant accounting policies.

b) Basis of consolidation

Subsidiary companies are those enterprises in which the Company has power to exercise control over the financial and operating policies so as to obtain benefits from their activities. Subsidiary companies are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. Subsidiary companies are consolidated using acquisition method of consolidation except for certain subsidiary companies, as disclosed in note 5 to the financial statements, which were consolidated prior to 1 July 2001 using the merger method of consolidation.

As allowed by MASB 21, Business Combination, the recognition criteria of a business combination under the merger method of accounting will be applied prospectively. Subsidiary companies previously consolidated on the merger method of accounting will continue to apply.

Under the acquisition method of accounting, the difference between the purchase consideration over the sum of the fair value of the identifiable net assets of the subsidiary companies at the date of acquisition is included in the consolidated financial statements as goodwill 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.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2002 – continued**b) Basis of consolidation - continued**

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.

Intragroup transactions, balances and resulting unrealised gains are eliminated on consolidation and the consolidated financial statements reflect external transactions only. Unrealised losses are also eliminated on consolidation unless the cost cannot be recovered. Where necessary, adjustments are made to the financial statements of subsidiary companies to ensure consistency of accounting policies with those of the Group.

c) Investments

Investments in subsidiary companies, which are eliminated on consolidation, are stated at cost in the Company's financial statements except for a subsidiary company, Kejora Juara Sdn. Bhd. which is stated at 2000 valuation by the directors on the basis of net assets value of a subsidiary company as approved by the Securities Commission Allowance for diminution in value is made when in the opinion of the directors, there is a permanent diminution in the value of the investments.

Permanent diminution in value of an investment is recognised as an expense in the year in which the diminution is identified.

d) Goodwill

Goodwill arising on consolidation represents the excess of the purchase price over the fair value of the identifiable net assets of the subsidiary company 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

The gross carrying amounts of property, plant and equipment are initially measured at cost. Land and buildings which have been subsequently revalued, are stated at valuation less accumulated depreciation and impairment losses. All other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

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. Subsequent to revaluation, any addition is stated at cost.

Gain or loss arising from the disposal of an item of property, plant and equipment is determined by the difference between the net disposal proceeds and its carrying amount and is credited or charged to income statement. On disposal of revalued assets, amounts in revaluation reserve relating to those assets are transferred to retained earnings.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2002 – continued**f) Depreciation**

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

No depreciation is provided on capital work-in-progress until it is ready for its intended use.

Depreciation for all the 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 leasehold land | over lease period of 57 - 60 years |
| Factory and kiln drying buildings | 2% |
| Furniture, fittings and office equipment | 5% - 20% |
| Labour line | 10% |
| Motor vehicles | 20% |
| Plant, machinery and equipment | 10% - 20% |
| Renovation | 20% |
| Store | 10% - 20% |

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

g) Inventories

Inventories are valued at the lower of cost (determined principally on first-in first-out method) and net realisable value.

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 the cost of completion and selling expenses. In arriving at net realisable value, due allowances are made for all obsolete and slow-moving items.

h) Receivables

Trade and other receivables are stated at cost less allowances for doubtful debts.

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

i) Liabilities

Borrowings and trade and other payables are stated at cost.

j) 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.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2002 – continued**k) Provisions**

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

l) 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. Deferred tax benefits are only recognised when there is a reasonable expectation of realisation in the near future.

m) Dividends

Dividend payments are accounted for in shareholders' equity as an appropriation of retained profit in the year in which the shareholders' rights to receive payment are established.

n) Interest expenses

All interest expenses in connection with borrowings are expensed when incurred.

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 the balance sheet date, at the approximate rates ruling at that date. Exchange gains and losses are dealt through the income statements.

The Group's foreign operations are not considered an integral part of the Company's operations. Assets and liabilities, both monetary and non-monetary including goodwill and fair value adjustments arising from consolidation, of foreign subsidiary company are translated into Ringgit Malaysia at the rates of exchange which approximate those prevailing at balance sheet date while income statements are translated at average rates for the year. Exchange differences arising from the translation of income and expense items at average rates and assets and liabilities at the rates prevailing at the balance sheet date, and the restatement at rates prevailing at the balance sheet date of the opening net investment in the foreign subsidiary companies are recognised directly in equity.

The closing exchange rates used in translation of foreign currency amounts are as follows:

| | 2002 | 2001 |
|------------------------|--------------|--------------|
| | RM | RM |
| 1 United States Dollar | 3.80 | 3.80 |
| 1 Singapore Dollar | 2.19 | 2.03 |
| | ===== | ===== |

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2002 – continued**p) Employee leave entitlement**

No accrual of unutilised annual leave is provided in the financial statements as it is Group's policy to disallow it to be carried forward.

q) Revenue recognition

- i) Revenue from sales of goods or services are recognised in the income statement upon delivery of goods or performance of services rendered.
- ii) Dividend income from investment in subsidiary companies is recognised when the Company's right to receive is established.
- iii) Interest income is recognised in the income statement on accrual basis.

r) Financial instruments

The accounting policies for financial instruments recognised on the balance sheet which include cash and bank balances, trade and other receivables and payables, borrowings and investments are disclosed in their respective accounting policies.

The Group and the Company is not a party to any financial instruments other than those recognised in the balance sheets.

Debts and equity instruments are classified as either liabilities or equity in accordance with the substance of the contractual arrangement. These instruments are offset when the Group and the Company have legally enforceable rights to offset and intent to settle either on a net basis or to realise the asset and settle the liability simultaneously.

The carrying amounts of financial instruments with a maturity of less than one year are assumed to approximate their fair values. For long term borrowings, fair values have been determined by discounting the relevant cash flows using current interest rates as at the balance sheet date.

s) Impairment of assets

At each balance sheet date, the Group and the Company review the carrying amounts of its assets, other than inventories and receivables, to determine whether there is any indication of impairment. If such indication of impairment exists, the recoverable amount of the assets is determined and the carrying amount of the assets is written down immediately to its recoverable amount. Impairment loss is charged to income statement. Any reversal of an impairment loss will be immediately recognised as income.

For impairment on a revalued asset, the impairment loss is charged against the revaluation reserve to the extent of the surplus credited from the previous revaluation of the same asset.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2002 – continued
t) Segment information

Segment information is presented in respect of the Group's business and geographical segments. The primary reporting segment information is in respect of business segments while the secondary information is reported geographically.

Segment results, assets and liabilities include items directly attributable to the segments as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise finance cost and corporate expenses.

Segment revenues, expenses and results also include transfers between segments. Inter-segment sales are charged at cost plus a percentage profit mark-up. These transfers are eliminated on consolidation.

The main business segments and respective business activity of each segment of the Group are:-

| <u>Business segment</u> | <u>Business activity</u> |
|-----------------------------------------------|-----------------------------------------------------------------------|
| Furniture manufacturing | Manufacturing of furniture products |
| Furniture trading, marketing and distribution | Purchasing, storage, distribution and marketing of furniture products |
| Investment holding | Investment holding |

u) Comparatives

Comparative figures were extended to comply with the additional disclosure requirements of the new MASB Standards that are applicable for the financial year ended 31 December 2002.

v) Cash flow statements

The cash flow statements are 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 2002 – continued
4. PROPERTY, PLANT AND EQUIPMENT

| Group | <u>Net book value as at 01.01.2002</u> RM | <u>Additions</u> RM | <u>Disposals</u> RM | <u>Write-offs</u> RM | <u>Depreciation</u> RM | <u>Net book value as at 31.12.2002</u> RM |
|---------------------------------------------------|-------------------------------------------------------------|-------------------------------|-------------------------------|--------------------------------|----------------------------------|-------------------------------------------------------------|
| Capital work-in- progress | - | 836,751 | - | - | - | 836,751 |
| Freehold factory building | 2,869,207 | 641,184 | - | - | (65,272) | 3,445,119 |
| Freehold land | 2,354,300 | - | - | - | - | 2,354,300 |
| Furniture, fittings and office equipment | 1,449,957 | 1,048,588 | - | (1,276) | (424,108) | 2,073,161 |
| Freehold kiln drying building | 821,065 | - | - | - | (19,332) | 801,733 |
| Labour line | 30,668 | - | - | - | (6,355) | 24,313 |
| Long leasehold factory buildings | 17,447,290 | 83,000 | - | - | (381,919) | 17,148,371 |
| Long leasehold land | 7,603,340 | - | - | - | (137,801) | 7,465,539 |
| Motor vehicles | 781,699 | 497,011 | - | - | (324,652) | 954,058 |
| Plant, machinery and equipment | 14,933,228 | 1,993,643 | (41,660) | - | (2,431,100) | 14,454,111 |
| Renovation | 59,109 | 8,228 | - | - | (15,912) | 51,425 |
| Store | 30,839 | 37,600 | - | - | (8,961) | 59,478 |
| | <u>48,380,702</u> | <u>5,146,005</u> | <u>(41,660)</u> | <u>(1,276)</u> | <u>(3,815,412)</u> | <u>49,668,359</u> |

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2002 – continued**4. PROPERTY, PLANT AND EQUIPMENT – continued****Group****At 31.12.2002**

| | <u>Cost/ valuation</u> RM | <u>Accumulated depreciation</u> RM | <u>Net book value</u> RM |
|------------------------------------------|----------------------------------|-------------------------------------------|---------------------------------|
| <u>Stated at cost</u> | | | |
| Capital work-in-progress | 836,751 | - | 836,751 |
| Freehold land | 394,300 | - | 394,300 |
| Furniture, fittings and office equipment | 3,459,712 | (1,386,551) | 2,073,161 |
| Labour line | 63,547 | (39,234) | 24,313 |
| Long leasehold factory building | 2,113,667 | (61,764) | 2,051,903 |
| Motor vehicles | 2,655,951 | (1,701,893) | 954,058 |
| Plant, machinery and equipment | 26,186,538 | (11,732,427) | 14,454,111 |
| Renovation | 136,121 | (84,696) | 51,425 |
| Store | 71,600 | (12,122) | 59,478 |
| | ----- | ----- | ----- |
| | 35,918,187 | (15,018,687) | 20,899,500 |

Stated at market value

| | | | |
|---------------------|------------|--------------|------------|
| Long leasehold land | 1,076,853 | (44,925) | 1,031,928 |
| | ----- | ----- | ----- |
| | 36,995,040 | (15,063,612) | 21,931,428 |

Stated at valuation

| | | | |
|---------------------------------|------------|--------------|------------|
| Freehold factory building | 3,626,280 | (181,161) | 3,445,119 |
| Freehold land | 1,960,000 | - | 1,960,000 |
| Freehold kiln drying building | 966,611 | (164,878) | 801,733 |
| Long leasehold factory building | 17,032,490 | (1,936,022) | 15,096,468 |
| Long leasehold land | 7,000,217 | (566,606) | 6,433,611 |
| | ----- | ----- | ----- |
| | 30,585,598 | (2,848,667) | 27,736,931 |
| | ----- | ----- | ----- |
| | 67,580,638 | (17,912,279) | 49,668,359 |
| | ===== | ===== | ===== |

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2002 – continued**4. PROPERTY, PLANT AND EQUIPMENT – continued****Group****At 31.12.2001**

| | <u>Cost/ valuation</u> RM | <u>Accumulated depreciation</u> RM | <u>Net book value</u> RM |
|------------------------------------------|-----------------------------------------|--------------------------------------------------|----------------------------------------|
| <u>Stated at cost</u> | | | |
| Freehold land | 394,300 | - | 394,300 |
| Furniture, fittings and office equipment | 2,405,224 | (955,267) | 1,449,957 |
| Labour line | 63,547 | (32,879) | 30,668 |
| Long leasehold factory building | 2,048,667 | (20,465) | 2,028,202 |
| Motor vehicles | 2,158,940 | (1,377,241) | 781,699 |
| Plant, machinery and equipment | 24,274,795 | (9,341,567) | 14,933,228 |
| Renovation | 127,893 | (68,784) | 59,109 |
| Store | 34,000 | (3,161) | 30,839 |
| | ----- | ----- | ----- |
| | 31,507,366 | (11,799,364) | 19,708,002 |

Stated at market value

| | | | |
|---------------------|------------|--------------|------------|
| Long leasehold land | 1,076,853 | (26,977) | 1,049,876 |
| | ----- | ----- | ----- |
| | 32,584,219 | (11,826,341) | 20,757,878 |

Stated at valuation

| | | | |
|---------------------------------|------------|--------------|------------|
| Freehold factory building | 2,985,096 | (115,889) | 2,869,207 |
| Freehold land | 1,960,000 | - | 1,960,000 |
| Freehold kiln drying building | 966,611 | (145,546) | 821,065 |
| Long leasehold factory building | 17,014,490 | (1,595,402) | 15,419,088 |
| Long leasehold land | 7,000,217 | (446,753) | 6,553,464 |
| | ----- | ----- | ----- |
| | 29,926,414 | (2,303,590) | 27,622,824 |
| | ----- | ----- | ----- |
| | 62,510,633 | (14,129,931) | 48,380,702 |
| | ===== | ===== | ===== |

| | |
|--------------------------|--------------------------|
| As at | As at |
| <u>31.12.2002</u> | <u>31.12.2001</u> |
| RM | RM |

Net book value

- a) Property, plant and equipment acquired by hire purchase plan:

| | | |
|--------------------------------|------------------|-----------|
| Motor vehicles | 537,101 | 826,342 |
| Plant, machinery and equipment | 1,049,856 | 2,368,305 |
| | ----- | ----- |
| | 1,586,957 | 3,194,647 |
| | ===== | ===== |

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2002 – continued**4. PROPERTY, PLANT AND EQUIPMENT – continued****Group**

| | As at 31.12.2002 RM | As at 31.12.2001 RM |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|------------------------------------|
| <u>Net book value</u> | | |
| b) Property, plant and equipment pledged as securities for bank borrowings: | | |
| Freehold factory building | 3,445,119 | 2,869,207 |
| Freehold kiln drying building | 801,733 | 821,065 |
| Freehold land | 1,510,000 | 1,510,000 |
| Long leasehold land | 6,433,611 | 6,553,464 |
| Long leasehold factory building | 15,096,468 | 15,419,088 |
| | ===== | ===== |
| | 27,286,931 | 27,172,824 |
| | ===== | ===== |
| c) Property, plant and equipment pledged to loan payables: | | |
| Machinery and equipment | 350,548 | 313,500 |
| | ===== | ===== |
| d) The carrying amounts of the revalued land and buildings that would have been included in the financial statements stated at cost less accumulated depreciation: | | |
| Freehold factory building | 1,450,961 | 1,481,833 |
| Freehold land | 1,939,456 | 1,939,456 |
| Freehold kiln drying building | 667,456 | 683,944 |
| Long leasehold factory building | 10,322,831 | 10,561,950 |
| Long leasehold land | 2,754,770 | 2,806,601 |
| | ===== | ===== |
| | 17,135,474 | 17,473,784 |
| | ===== | ===== |

Fully depreciated property, plant and equipment at a total cost of RM2,066,676 (2001 - RM1,054,709) are still in use.

The land and buildings of the Group stated at valuation were revalued on 1 January 2000 by the directors based on valuation carried out by an independent professional valuer on a fair market value basis on 30 March 1999. The valuation was also approved by the Securities Commission.

A motor vehicle with net book value of RM21,667 (2001 - Nil) is registered under permit holder's name.

Depreciation on long leasehold land amounting to RM4,260 was capitalised in pre-production expenses in year 2001, and written off against income statement in the same year.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2002 – continued**4. PROPERTY, PLANT AND EQUIPMENT** – continued**Company**

| | Net book value as at <u>01.01.2002</u> | <u>Depreciation</u> | Net book value as at <u>31.12.2002</u> |
|-----------------------------|----------------------------------------------|------------------------------------|----------------------------------------------|
| | RM | RM | RM |
| Motor vehicle | 320,073 | (90,373) | 229,700 |
| ===== | | | |
| <u>At 31.12.2002</u> | <u>Cost</u> | Accumulated <u>depreciation</u> | Net <u>book value</u> |
| | RM | RM | RM |
| Motor vehicle | 451,867 | (222,167) | 229,700 |
| ===== | | | |
| <u>At 31.12.2001</u> | <u>Cost</u> | Accumulated <u>depreciation</u> | Net <u>book value</u> |
| | RM | RM | RM |
| Motor vehicle | 451,867 | (131,794) | 320,073 |
| ===== | | | |

The motor vehicle was acquired on hire purchase plan.

5. INVESTMENT IN SUBSIDIARY COMPANIES

| | Company | |
|---------------------------|-------------------|------------|
| | 2002 | 2001 |
| | RM | RM |
| Unquoted shares - at cost | 26,847,521 | 26,847,521 |
| - at fair value | 557,397 | 557,397 |
| | 27,404,918 | 27,404,918 |
| | ===== | ===== |

The subsidiary companies, all wholly-owned, are as follows:-

| Name | Principal Activities |
|----------------------------------------------------------------------------------|------------------------------------------------------------------------------------------|
| Incorporated in Malaysia | |
| Lii Hen Furnitures Sdn. Bhd.* | Investment holding and manufacturing of wooden furniture |
| Kejora Juara Sdn. Bhd. | Manufacturing of furniture parts and lamination board |
| Affirm Marketing Sdn. Bhd. | Marketing of furniture |
| Incorporated in United States | |
| Mega Creations, Inc.@ | Marketing and distributing of furniture across the United States |
| Subsidiary company of Mega Creations, Inc., incorporated in United States | |
| Home Creations, Inc.#@ | Marketing and distributing of furniture across the southeast region of the United States |

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2002 – continued**5. INVESTMENT IN SUBSIDIARY COMPANIES - continued**

| Name | Principal Activities |
|-------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|
| Subsidiary companies of Lii Hen Furnitures Sdn. Bhd., all incorporated in Malaysia | |
| CT Haup Heng Sdn. Bhd.* | Manufacturing of wooden furniture |
| EF Furniture Sdn. Bhd.* | Manufacturing of office and residential furniture |
| Mayteck Kilang Kayu Dan Perabut Sdn. Bhd. | Manufacturing of furniture component and processing and kiln drying of rubber wood and timber |

* Consolidated under merger method of accounting

Incorporated on 27 February 2002 and commenced operations on the same day and has scaled down the operations after the financial year end

@ Not audited by John Lim & Associates

Acquisition of subsidiary companies

On 27 February 2002, the Company subscribed 100% equity interest in Home Creations, Inc. through Mega Creations, Inc. by a cash consideration of RM3,800 (US\$1,000). The acquisition was accounted for using the acquisition method of accounting.

During last financial year, the Company acquired the 93.18% equity interest in Mega Creations, Inc. by a cash consideration of RM1,246,400 (US\$328,000). Following other shareholders' withdrawal, Mega Creations, Inc. became a wholly-owned subsidiary company of the Company on 1 October 2001.

The effect of the acquisition on the Group's financial statements are as follows:

a) Effect on the results of the Group for the current financial year are as follows:

| | 11 months ended 31.12.2002 RM | 8 months ended 31.12.2001 RM |
|-------------------------------------|--------------------------------------------------|---------------------------------------|
| Revenue | 1,295,295 | 2,802,302 |
| Cost of sales | (1,054,713) | (2,221,487) |
| Gross profit | 240,582 | 580,815 |
| Other operating income | 5,255 | - |
| | 245,837 | 580,815 |
| Administrative expenses | (1,063,034) | (782,298) |
| Selling expenses | - | (142,519) |
| Profit from operations | (817,197) | (344,002) |
| Finance cost | (1,144) | - |
| Decrease in net profit for the year | (818,341) | (344,002) |

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2002 – continued**5. INVESTMENT IN SUBSIDIARY COMPANIES - continued**

- b) Effect of the acquisition on the financial position of the Group at the year end are as follows:

| | 31.12.2002 | 31.12.2001 |
|--------------------------------|-------------------|-------------|
| | RM | RM |
| Goodwill on acquisition | - | 360,971 |
| Property, plant and equipment | 122,508 | 90,854 |
| Inventories | 1,603,358 | 1,377,507 |
| Receivables | 238,883 | 527,885 |
| Cash and bank balances | 89,194 | 603,440 |
| Payables | (294,341) | (2,098,367) |
| | ----- | ----- |
| Increase in Group's net assets | 1,759,602 | 862,290 |
| | ===== | ===== |

- c) Details of net assets acquired, goodwill and cash flow arising from the acquisition are shown in note 27(b) and (c) to the financial statements.

6. GOODWILL ON CONSOLIDATION

| | 2002 | Group |
|------------------------------|------------------|--------------|
| | RM | 2001 |
| | | RM |
| At 01 January | 1,004,632 | 603,553 |
| - Addition | - | 401,079 |
| | ----- | ----- |
| | 1,004,632 | 1,004,632 |
| Less: | | |
| - Aggregate amount amortised | 502,701 | 402,238 |
| | ----- | ----- |
| At 31 December | 501,931 | 602,394 |
| | ===== | ===== |

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

7. AMOUNTS DUE BY SUBSIDIARY COMPANIES**Company**

The amounts due by subsidiary companies arose from advances which are interest free, unsecured and have no fixed terms of repayment.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2002 – continued**8. INVENTORIES**

| | Group | |
|---------------------------------------|-------------------|------------|
| | 2002 | 2001 |
| | RM | RM |
| Inventories stated at cost comprise - | | |
| Finished goods | 9,401,621 | 5,746,637 |
| Work-in-progress | 7,501,690 | 5,638,731 |
| Raw material | 11,621,932 | 8,527,149 |
| Consumables | 220,568 | 170,417 |
| | 28,745,811 | 20,082,934 |
| | ===== | ===== |

9. TRADE RECEIVABLES

| | Group | |
|------------------------------------------------------------------------|-------------------|------------|
| | 2002 | 2001 |
| | RM | RM |
| Trade receivables | 19,999,391 | 19,487,027 |
| Less: | | |
| Allowance for doubtful debts | 26,000 | 23,796 |
| | 19,973,391 | 19,463,231 |
| | ===== | ===== |
| The allowance for doubtful debts is net of bad debts written off of | 23,796 | - |
| | ===== | ===== |

The credit terms of trade receivables ranging from 30 to 150 days. Other credit terms are assessed and approved on a case-by-case basis.

The foreign currency exposure of trade receivables of the Group is as follows:-

| | Group | |
|-----------------------|------------------|-----------|
| | 2002 | 2001 |
| | RM | RM |
| Singapore Dollars | 157,954 | 122,426 |
| United States Dollars | 5,314,271 | 5,303,800 |
| | ===== | ===== |

10. OTHER RECEIVABLES

| | Group | | Company | |
|-----------------------------------------|------------------|-----------|----------------|--------|
| | 2002 | 2001 | 2002 | 2001 |
| | RM | RM | RM | RM |
| Sundry receivables | 1,014,613 | 1,288,050 | - | - |
| Deposit, prepayments and receivables | 835,391 | 625,752 | 7,840 | 42,284 |
| | 1,850,004 | 1,913,802 | 7,840 | 42,284 |
| | ===== | ===== | ===== | ===== |

Included in sundry receivables is an amount of Nil (2001 - RM118,053) being down and partial payment for the purchase of one unit of colour printing machine.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2002 – continued**11. TAXATION**

| Movements in the taxation statement are: | Group | | Company | |
|------------------------------------------|--------------------|------------------|--------------------|--------------|
| | 2002 RM | 2001 RM | 2002 RM | 2001 RM |
| At 01 January | (319,441) | 368,842 | 6,573 | 12,873 |
| Malaysian income tax charge for the year | 2,056,910 | 2,232,318 | 2,320,067 | - |
| Prior year underprovision | 227,430 | - | - | - |
| Tax paid | (3,101,820) | (2,920,601) | (12,873) | (6,300) |
| Tax deducted at source | - | - | (2,324,000) | - |
| | <u>(1,136,921)</u> | <u>(319,441)</u> | <u>(10,233)</u> | <u>6,573</u> |
| | ===== | ===== | ===== | ===== |
| The taxation expense comprises: | | | | |
| Income tax charge for the year | | | | |
| - Malaysian | 2,053,870 | 2,232,318 | 2,320,067 | - |
| - Foreign | 3,040 | - | - | - |
| - Prior year underprovision | 227,430 | - | - | - |
| Transfer from deferred taxation | 88,645 | 672,855 | - | - |
| | <u>2,372,985</u> | <u>2,905,173</u> | <u>2,320,067</u> | <u>-</u> |
| | ===== | ===== | ===== | ===== |

Group

The effective rates of taxation for current year (excluding prior year underprovision of RM227,430) are lower than the statutory tax rate mainly due to reinvestment allowances claimed under Schedule 7A of the Income Tax Act, 1967 by three subsidiary companies.

Company

The effective rate of taxation for current year is lower than the statutory tax rate due to certain dividend income which is tax-exempted.

12. TRADE PAYABLES

| | Group | |
|----------------|------------------|------------------|
| | 2002 RM | 2001 RM |
| Trade payables | 5,003,037 | 4,162,702 |
| | <u>5,003,037</u> | <u>4,162,702</u> |
| | ===== | ===== |

The credit terms of trade payables ranging from 30 to 120 days.

The foreign currency exposure of trade payables of the Group is as follows:-

| | Group | |
|-----------------------|----------------|---------------|
| | 2002 RM | 2001 RM |
| United States Dollars | 463,144 | 84,349 |
| | <u>463,144</u> | <u>84,349</u> |
| | ===== | ===== |

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2002 – continued**13. OTHER PAYABLES**

| | Group | | Company | |
|-------------------------------|------------------|-----------|----------------|--------|
| | 2002 | 2001 | 2002 | 2001 |
| | RM | RM | RM | RM |
| Sundry payables | 1,418,861 | 346,392 | - | - |
| Deposit received and accruals | 1,298,523 | 1,259,444 | 8,447 | 11,123 |
| | 2,717,384 | 1,605,836 | 8,447 | 11,123 |
| | ===== | ===== | ===== | ===== |

Included in sundry payables are amounts of RM870,947 (2001 - Nil) due for the purchase of plant and machinery.

14. BORROWINGS

| | Group | | Company | |
|----------------------------------|-------------------|-----------|----------------|---------|
| | 2002 | 2001 | 2002 | 2001 |
| | RM | RM | RM | RM |
| Bank overdrafts | 3,922,632 | 1,775,262 | - | - |
| Bankers acceptances | 8,052,000 | 5,340,000 | - | - |
| Hire purchase payables (note 15) | 562,747 | 940,850 | 66,662 | 100,002 |
| Loan payables (note 16) | 145,560 | 110,000 | - | - |
| | 12,682,939 | 8,166,112 | 66,662 | 100,002 |
| | ===== | ===== | ===== | ===== |

Group

The bank borrowings are secured by:

- legal charges created over properties of four subsidiary companies
- debenture incorporating fixed and floating charges over all the present and future assets of the three subsidiary companies
- corporate guarantee by Lii Hen Furnitures Sdn. Bhd. for RM5.086 million (2001 – RM5.086 million) against banking facilities granted to a subsidiary company
- corporate guarantee by the Company for RM25.738 million (2001 - RM25.738 million) against banking facilities granted to four subsidiary companies

The bank overdrafts are chargeable at an average interest rate of 7.9% (2001 - 7.9% to 8.3%) per annum.

The bankers acceptances are chargeable at average interest rates of 4.3% to 4.8% (2001 - 4.2% to 4.8%) per annum.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2002 – continued**15. HIRE PURCHASE PAYABLES**

| | Group | | Company | |
|---------------------|--------------------|--------------------|--------------------|--------------------|
| | 2002 RM | 2001 RM | 2002 RM | 2001 RM |
| Due within one year | 651,622 | 1,103,142 | 76,962 | 115,452 |
| Less: | | | | |
| Undue interest | 88,875 | 162,292 | 10,300 | 15,450 |
| | 562,747 | 940,850 | 66,662 | 100,002 |
| | ===== | ===== | ===== | ===== |
| Due after one year | 149,274 | 780,334 | - | 76,962 |
| Less: | | | | |
| Undue interest | 23,195 | 110,251 | - | 10,300 |
| | 126,079 | 670,083 | - | 66,662 |
| | ===== | ===== | ===== | ===== |

Group

The hire purchase facilities of RM1.0 million (2001 – RM1.0 million) granted to a subsidiary company are secured against corporate guarantee from Lii Hen Furnitures Sdn. Bhd..

The hire purchase payables bear interest at flat rates ranging from 4.0% to 9.2% (2001 – 4.0% to 9.2%) per annum.

Company

The hire purchase loan bears interest at flat rate of 5.15% (2001 - 5.15%) per annum.

16. LOAN PAYABLES

| | Group | |
|-----------------------------|--------------------|--------------------|
| | 2002 RM | 2001 RM |
| Current portion | 145,560 | 110,000 |
| | ===== | ===== |
| Non-current portion | | |
| - between one to two years | 72,227 | 110,000 |
| - between two to five years | 11,853 | 36,667 |
| | 84,080 | 146,667 |
| | ===== | ===== |

The loan payables are secured by pledge of subsidiary companies' machinery and equipment and chargeable at flat interest rate of 4.0% and 16.9% (2001 - 4.0% and Nil) per annum.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2002 – continued
17. DEFERRED TAXATION

| | Group | |
|--------------------------------|------------------|--------------|
| | 2002 | 2001 |
| | RM | RM |
| At 1 January | 2,167,235 | 1,494,380 |
| Transfer from income statement | 88,645 | 672,855 |
| | ----- | ----- |
| At 31 December | 2,255,880 | 2,167,235 |
| | ===== | ===== |

Group

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

18. SHARE CAPITAL

| | Group and Company | |
|-----------------------------|--------------------------|--------------|
| | 2002 | 2001 |
| | RM | RM |
| Ordinary shares of RM1 each | | |
| Authorised: | 100,000,000 | 100,000,000 |
| | ===== | ===== |
| Issued and fully paid: | | |
| At 01 January | 40,000,000 | 40,000,000 |
| One for two bonus issue | 20,000,000 | - |
| | ----- | ----- |
| At 31 December | 60,000,000 | 40,000,000 |
| | ===== | ===== |

The above new ordinary shares rank pari passu with the then existing ordinary shares of the Company except that these shares did not rank for any interim dividends declared prior to 10 May 2002.

At the Extraordinary General Meeting of the Company held on 7 February 2002, the shareholders of the Company approved the establishment of an employees share option scheme ("ESOS") in respect of shares of the Company. Pursuant to the scheme, options to subscribe for ordinary shares of RM1 each are granted to eligible employees of the Group including executive directors of any company in the Group.

The salient features of the ESOS are as follows:-

- (a) Employees including executive directors of any company in the Group who have been confirmed in their employment for one continuous year of service and who fall within any one of the categories set out in the by-laws of the employees share option scheme, are eligible to participate in the scheme;

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2002 – continued
18. SHARE CAPITAL - continued

- (b) The maximum number of ordinary shares of the Company which may be subscribed on the exercise of the total number of shares under the ESOS shall not be more than ten per centum (10%) of the issued and paid-up share capital of the Company at any point of time during the existence of the ESOS;
- (c) The option price for each new share under ESOS shall be subject to a discount of not more than ten per centum (10%) to the weighted average market price of the shares based on the Daily Official List issued by the KLSE for the five (5) Market Days preceding the date on which an Offer is made and subject to the provision that the Option Price per share shall not in any event be less than the par value of the ordinary shares of the Company;
- (d) The option may be exercised in respect of all the ordinary shares or in respect of any part of the ordinary shares, such part being one thousand (1,000) ordinary shares or multiples of one thousand (1,000) ordinary shares, but being not less than one thousand (1,000) ordinary shares. Such partial exercising of the Option shall not preclude the Grantee from exercising the Option as to the balance not yet exercised;
- (e) An option granted to a selected employee shall be capable of being exercised by notice in writing to the ESOS Committee commencing on the date of the Offer to the expiry of the five (5) years period commencing from the Commencement Date, 29 May 2002 and subject to the approval from relevant authorities is renewable for an additional five years;
- (f) In the event of any alteration in the capital structure of the Company except for certain exemptions, adjustments will be made to the subscription price and/or the number of shares in respect of options granted but not exercised, such that the option holder will be entitled to the same proportion of the issued and paid-up share capital of RM1 each in the Company as before the said alteration; and
- (g) The shares shall on issue and allotment rank *pari passu* in all material respects with the then existing issued shares of the Company.
- (h) The number of share options to be offered to an Eligible Employee under the ESOS shall be determined at the absolute discretion of the ESOS Committee but shall in no event exceed the maximum allowable allotment.

| Category of Eligible Employee | Maximum Allowable Allotment |
|--------------------------------------------------------------------------|-----------------------------|
| Executive Directors | 400,000 |
| Senior Managers | 100,000 |
| Managers / Senior Supervisors | 35,000 |
| Assistant Managers / Supervisors / Assistant Supervisors / Executives | 25,000 |
| Officers | 10,000 |
| Clerks | 5,000 |
| Operators | 2,000 |

As at the date of this report, the ESOS is still pending implementation by the management of the Company.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2002 – continued**19. RESERVES**

| | Group | | Company | |
|----------------------------|-------------------|------------|------------------|-----------|
| | 2002 | 2001 | 2002 | 2001 |
| | RM | RM | RM | RM |
| Non-distributable reserve: | | | | |
| Share premium | 1,432,852 | 1,558,627 | 1,432,852 | 1,558,627 |
| Distributable reserve: | | | | |
| Retained profit | 18,873,976 | 35,639,909 | 1,276,629 | 85,280 |
| | 20,306,828 | 37,198,536 | 2,709,481 | 1,643,907 |
| | ===== | ===== | ===== | ===== |

Share premium

Share premium arose from the following:

| | Group and Company | |
|-------------------------------------------------------------------------------|--------------------------|-------------|
| | 2002 | 2001 |
| | RM | RM |
| Public issue of 6,020,000 new ordinary shares of RM1 each at RM1.60 per share | 3,612,000 | 3,612,000 |
| Less: | | |
| Listing expenses | (2,053,373) | (2,053,373) |
| Corporate exercise expenses | (125,775) | - |
| | 1,432,852 | 1,558,627 |
| | ===== | ===== |

Group

The subsidiary companies has sufficient tax credit under Section 108 of the Income Tax Act, 1967 to frank the payment of dividends out of its retained profit of approximately RM19,539,000 (2001 - RM21,883,000).

In addition, the subsidiary companies have the following accounts:-

- (i) tax exempt account under Schedule 7A of the Income Tax Act, 1967 relating to reinvestment allowances of approximately RM7,203,000 (2001 - RM9,991,000).
- (ii) tax exempt account of approximately RM2,775,000 (2001 - RM7,614,700) under Section 12 of the Income Tax (Amendment) Act, 1999.
- (iii) tax exempt account under Section 7(3) of the Promotion of Investment Act, 1986 of approximately RM215,000 (2001 - RM8,215,000).

Company

The Company has sufficient tax credit under Section 108 of the Income Tax Act, 1967 to frank the payment of dividends out of its entire retained profit (2001 - RM33,000).

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2002 – continued
20. REVENUE

| | Group | | Company | |
|-----------------|-------------------|--------------|-------------------|--------------|
| | 2002 | 2001 | 2002 | 2001 |
| | RM | RM | RM | RM |
| Sales of goods | 88,808,028 | 82,411,692 | - | - |
| Dividend income | - | - | 26,890,000 | 3,475,000 |
| | 88,808,028 | 82,411,692 | 26,890,000 | 3,475,000 |
| | ===== | ===== | ===== | ===== |

Revenue of the Group represents the invoiced value of furniture manufactured and wood processing and wood works less discounts and returns and sales tax.

Revenue of the Company represents dividend income from investment in subsidiary companies.

21. OTHER OPERATING INCOME

Other operating income comprise the following:

| | Group | |
|---------------------------|----------------|--------------|
| | 2002 | 2001 |
| | RM | RM |
| Insurance claim on | | |
| - machinery and equipment | - | 112,446 |
| - inventories | - | 56,800 |
| - factory building | - | 41,938 |
| - windscreen broken | 3,430 | 5,000 |
| | 3,430 | 216,184 |
| Less: | | |
| Restoration cost | (2,238) | 22,319 |
| | 1,192 | 193,865 |
| | ===== | ===== |

Insurance claim in respect of year 2001 was arisen from fire occurred at the subsidiary companies' premises on 5 January 2001 and 9 June 2001.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2002 – continued**22. PROFIT FROM OPERATIONS**

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

| | Group | | Company | |
|----------------------------------------------------------------|------------------|-----------|----------------|--------|
| | 2002 | 2001 | 2002 | 2001 |
| | RM | RM | RM | RM |
| Allowance for doubtful debts | 26,000 | 23,796 | - | - |
| Auditors' remuneration | 78,700 | 71,500 | 5,000 | 5,000 |
| Bad debts written off | 170,845 | 148,546 | - | - |
| Depreciation | 3,815,412 | 3,482,097 | 90,373 | 90,373 |
| Preliminary and pre-production expenses written off | - | 104,824 | - | - |
| Amortisation of goodwill on consolidation | 100,463 | 100,463 | - | - |
| Hiring of vehicles | 20,454 | 67,044 | - | - |
| Hiring of forklift | - | 200 | - | - |
| Rental of | | | | |
| - factory | 259,780 | 169,200 | - | - |
| - hostel | 68,399 | 66,953 | - | - |
| - office | 427,283 | - | - | - |
| - warehouse | - | 212,800 | - | - |
| Loss on disposal of property, plant and equipment | 8,395 | 4,741 | - | - |
| Property, plant and equipment written off | 1,276 | 2,361 | - | - |
| Rental of office equipment | 17,070 | 17,759 | - | - |
| Doubtful debts recovered | (1,155) | (7,492) | - | - |
| Foreign exchange (gain)/loss | | | | |
| - realised | (415,333) | (317,778) | - | 270 |
| - unrealised | (134,018) | (45,988) | - | - |
| Foreign currency interest earned | (13,570) | (24,010) | - | - |
| Fixed deposit interest earned | (5,765) | (3,519) | - | - |
| Gain on disposal of property, plant and equipment | (17,034) | (129,104) | - | - |
| Hiring of lorry received | - | (1,500) | - | - |
| Allowance for doubtful debts no longer required | (23,796) | - | - | - |
| | ===== | ===== | ===== | ===== |
| Approximate cash value of executive directors' benefit in kind | | | | |
| - directors' of the Company | 28,456 | 33,591 | - | - |
| - directors' of the subsidiary companies | 9,346 | 9,328 | - | - |
| | ===== | ===== | ===== | ===== |

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2002 – continued**22. PROFIT FROM OPERATIONS - continued**

b) DIRECTORS' REMUNERATION

i) Included in total expenses are fees and other emoluments paid to the directors of the Company and its subsidiary companies as follows:

| | Group | | Company | |
|---------------------------------------|------------|------------|------------|------------|
| | 2002 RM | 2001 RM | 2002 RM | 2001 RM |
| Directors of the Company | | | | |
| - fee | 5,000 | 5,000 | - | 5,000 |
| - other emoluments | 768,000 | 622,000 | 96,000 | 84,000 |
| Directors of the subsidiary companies | | | | |
| - other emoluments | 320,000 | 256,000 | - | - |
| | ===== | ===== | ===== | ===== |

ii) The number of directors of the Company and subsidiary companies whose total remuneration during the year fall within the following bands are as follows:

| | Number of directors | |
|-------------------------------------------------|---------------------|------|
| | 2002 | 2001 |
| Executive directors of the Company | | |
| - Below RM50,000 | 1 | 1 |
| - RM50,001 - RM100,000 | - | - |
| - RM100,001 - RM150,000 | - | 4 |
| - RM150,001 - RM200,000 | 4 | - |
| Non-Executive director of the Company | | |
| - Below RM50,000 | 3 | 3 |
| Executive directors of the subsidiary companies | | |
| - RM100,001 - RM150,000 | - | 2 |
| - RM150,001 - RM200,000 | 2 | - |

23. FINANCE COST

| | Group | | Company | |
|-----------------------|------------|------------|------------|------------|
| | 2002 RM | 2001 RM | 2002 RM | 2001 RM |
| Interest on | | | | |
| - bankers acceptances | 264,876 | 228,374 | - | - |
| - bank overdrafts | 208,383 | 203,241 | - | 2 |
| - hire purchase | 163,383 | 210,534 | 15,450 | 15,450 |
| - loan | 23,699 | 8,800 | - | - |
| - overdue | 1,907 | 572 | - | - |
| | ===== | ===== | ===== | ===== |
| | 662,248 | 651,521 | 15,450 | 15,452 |
| | ===== | ===== | ===== | ===== |

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2002 – continued**24. EARNINGS PER SHARE**

a) Basic

The basic earnings per share for the year is calculated based on the Group's net profit for the year of RM6,234,067 (2001 - RM8,378,314) and on the number of ordinary shares of 60.0 million (after the bonus issue) in issue during the year (2001 - by an adjustment factor of number of shares immediately before the bonus issue divided by number of shares immediately after the bonus issue).

b) Diluted

No diluted earnings per share has been presented for year 2002 and 2001 as there was no dilutive potential ordinary shares as at 31 December 2002 and 2001.

25. DIVIDENDS

| Group and Company | |
|--------------------------|-------------|
| 2002 | 2001 |
| RM | RM |

Paid/Payable

| | | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|--------------------|
| A final tax-exempt dividend in respect of year ended 31 December 2001 (2000 : 31 December 2000) of 2.5% (2000 - 3.75%) on enlarged share capital of RM60.0 million after the bonus issue (2000 - RM40.0 million) | 1,500,000 ===== | 1,500,000 ===== |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|--------------------|

| | | |
|-------------------------------------------------------------------------------------------------------------------------------------|---------------------------|--------------------|
| An interim tax-exempt dividend in respect of year ended 31 December 2002 (2001 : 31 December 2001) of 2.5% (2001 - 3.75%) per share | 1,500,000 ===== | 1,500,000 ===== |
|-------------------------------------------------------------------------------------------------------------------------------------|---------------------------|--------------------|

At the forthcoming Annual General Meeting, a final tax-exempt dividend of 1.5% (2001 - 3.75%) amounting to RM900,000 (2001 - 1,500,000) in respect of year ended 31 December 2002 will be proposed for shareholders' approval. The financial statements for the current year do not reflect this proposed final dividend. If approved by shareholders, such dividend will be accounted for in shareholders' equity as an appropriation of retained profit in the next financial year ending 31 December 2003.

26. PRIOR YEAR ADJUSTMENTS

The above represent change of accounting policies with respect to the recognition of assets and liabilities in compliance with MASB Standard, whereby the proposed final tax-exempt dividend and the proposed final tax-exempt income were only been accrued as liabilities/assets when the obligations to pay/receive are established.

In addition, the prior year adjustments represent expenditure carried forward written off due to change of accounting policy in compliance with MASB Standards.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2002 – continued**27. CORPORATE EXERCISE EXPENSES**

Corporate exercise expenses comprise:

| | 2002 | 2001 |
|-----------------------------|----------------|-------|
| | RM | RM |
| - Transfer-listing expenses | 94,119 | - |
| - ESOS expenses | 31,656 | - |
| | ----- | ----- |
| | 125,775 | - |
| | ===== | ===== |

Included in the transfer-listing expenses was an amount of RM500 (2001 - Nil) being professional fee paid to the external auditors for work done as auditors in connection with the bonus issue and thereafter transfer-listing to the Main Board of the Kuala Lumpur Stock Exchange.

28. CASH FLOW STATEMENTS

a) Purchase of property, plant and equipment

During the financial year, the Group and Company made the following cash payments to purchase property, plant and equipment:-

| | Group | |
|------------------------------------------------------------|------------------|-----------|
| | 2002 | 2001 |
| | RM | RM |
| Purchase of property, plant and equipment (note 4) | 5,146,005 | 2,109,623 |
| Financed by hire purchase loan | (30,000) | (415,801) |
| | ----- | ----- |
| Cash payments on purchase of property, plant and equipment | 5,116,005 | 1,693,822 |
| | ===== | ===== |

b) Analysis of acquisition of a subsidiary company

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

| | Group | |
|---------------------------------------------------------|--------------|-------------|
| | 2002 | 2001 |
| | RM | RM |
| Property, plant and equipment | - | 104,838 |
| Inventories | - | 1,567,800 |
| Receivables | - | 648,975 |
| Cash and bank balances | - | 162,511 |
| Payables | - | (2,885,203) |
| Amounts due to former directors | - | - |
| | ----- | ----- |
| | - | (401,079) |
| Goodwill on consolidation | - | 401,079 |
| | ----- | ----- |
| Total purchase price | - | - |
| Less: | | |
| Cash and cash equivalent of subsidiary company acquired | - | 162,511 |
| | ----- | ----- |
| Cash flow on acquisition, net of cash acquired | - | (162,511) |
| | ===== | ===== |

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2002 – continued**28. CASH FLOW STATEMENTS - continued**

- c) During the financial year, the Company subscribed 100% equity interest in Home Creations, Inc. through Mega Creations, Inc..

During the last financial year, the Company had incorporated a subsidiary company, Affirm Marketing Sdn. Bhd.. The fair value of assets acquired and liability assumed were as follows:

| | Group | |
|--------------------------------------------------|----------------|-------------|
| | 2002 | 2001 |
| | RM | RM |
| Preliminary expenses | - | 2,600 |
| Payables | - | (2,600) |
| Cash in hand | 3,800 | 100 |
| | ----- | ----- |
| Purchase consideration | 3,800 | 100 |
| | ----- | ----- |
| Cash in hand in subsidiary incorporated | (3,800) | (100) |
| | ----- | ----- |
| Cash flow on incorporation, net of cash acquired | - | - |
| | ===== | ===== |

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

| | Group | | Company | |
|------------------------------------|--------------------|-------------|----------------|-------------|
| | 2002 | 2001 | 2002 | 2001 |
| | RM | RM | RM | RM |
| Cash in hand | 194,625 | 633,589 | - | - |
| Cash at banks | 2,453,655 | 4,134,675 | 28,343 | 13,998 |
| Bank overdrafts | (3,922,632) | (1,775,262) | - | - |
| | ----- | ----- | ----- | ----- |
| | (1,274,352) | 2,993,002 | 28,343 | 13,998 |
| | ----- | ----- | ----- | ----- |
| Fixed deposits with licensed banks | 140,075 | 86,403 | - | - |
| Unclaimed dividends at bank | 36,755 | 14,175 | 36,755 | 14,175 |
| | ----- | ----- | ----- | ----- |
| | (1,097,522) | 3,093,580 | 65,098 | 28,173 |
| | ===== | ===== | ===== | ===== |

Group

Fixed deposits with licensed banks were pledged against bank guarantee facilities granted to subsidiary companies.

The above fixed deposits have a maturity of 365 days and carry interest at an average rate of 4.0% (2001 : 4.0%) per annum.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2002 – continued**29. SIGNIFICANT RELATED PARTY TRANSACTIONS**

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

| | Company | |
|----------------------------------------------|-------------------|-----------|
| | 2002 | 2001 |
| | RM | RM |
| Dividends received from subsidiary companies | 26,890,000 | 3,475,000 |
| | ===== | ===== |

30. CONTINGENT LIABILITY

| | Company | |
|-----------------------------------------------------------------------------------------|-------------------|------------|
| | 2002 | 2001 |
| | RM | RM |
| Corporate guarantees for credit facilities extended to subsidiary companies (unsecured) | 25,738,000 | 25,738,000 |
| | ===== | ===== |

31. CAPITAL COMMITMENT

| | Group | |
|------------------------------------------------------------------------|---------------|--------|
| | 2002 | 2001 |
| | RM | RM |
| Balance of authorised and contracted capital commitment on purchase of | | |
| - colour printing machine | - | 41,947 |
| - woodworking system | 74,088 | - |
| | ----- | ----- |
| | 74,088 | 41,947 |
| | ===== | ===== |

32. EMPLOYEES

| | Group | | Company | |
|----------------------------------------------------------------------------------------------|-------------------|------------|----------------|--------|
| | 2002 | 2001 | 2002 | 2001 |
| | RM | RM | RM | RM |
| Staff cost, including emoluments of executive directors, for the year ended 31 December 2002 | 13,092,666 | 12,154,771 | 24,000 | 24,000 |
| | ===== | ===== | ===== | ===== |

The number of employees in the Group and the Company as at 31 December 2002 were as follows:

| | Group | | Company | |
|----------------|--------------|-------|----------------|-------|
| | 2002 | 2001 | 2002 | 2001 |
| | Nos. | Nos. | Nos. | Nos. |
| Management | 4 | 3 | 1 | 1 |
| Operations | 853 | 731 | - | - |
| Administration | 96 | 87 | - | - |
| | ----- | ----- | ----- | ----- |
| | 953 | 821 | 1 | 1 |
| | ===== | ===== | ===== | ===== |

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2002 – continued**33. SEGMENTAL REPORTING - GROUP**a) **Analysis by activity:**

| 2002 | <u>Investment holding</u> RM | <u>Manufacturing</u> RM | <u>Marketing and distribution</u> RM | <u>Eliminations</u> RM | <u>Consolidated</u> RM |
|------------------------------------------------------------|-------------------------------------|----------------------------|-------------------------------------------------|---------------------------|---------------------------|
| REVENUE AND EXPENSES | | | | | |
| Revenue | | | | | |
| External sales | - | 68,696,021 | 20,112,007 | - | 88,808,028 |
| Inter-segment revenue | 41,980,000 | 28,088,714 | 65,242 | (70,133,956) | - |
| Total | 41,980,000 | 96,784,735 | 20,177,249 | (70,133,956) | 88,808,028 |
| Results | | | | | |
| Segment results | 41,980,000 | 9,665,493 | (101,859) | (41,930,535) | 9,613,099 |
| Unallocated corporate expenses | | | | | (363,134) |
| Profit from operations | | | | | 9,249,965 |
| Finance cost, net | | | | | (642,913) |
| Profit before taxation | | | | | 8,607,052 |
| Taxation | | | | | (2,372,985) |
| Net profit for the year | | | | | 6,234,067 |
| ASSETS AND LIABILITIES | | | | | |
| Segment assets | - | 90,192,299 | 13,069,669 | | 103,261,968 |
| Unallocated corporate assets | | | | | 302,638 |
| Consolidated total assets | | | | | 103,564,606 |
| Segment liabilities | - | 19,822,960 | 715,450 | | 20,538,410 |
| Unallocated corporate liabilities | | | | | 1,600,409 |
| Consolidated total liabilities | | | | | 22,138,819 |
| OTHER INFORMATION | | | | | |
| Capital expenditure | - | 4,765,800 | 380,205 | | 5,146,005 |
| Depreciation | 90,373 | 3,671,253 | 53,786 | | 3,815,412 |
| Amortisation | - | 60,355 | 40,108 | | 100,463 |
| Non-cash expenses other than depreciation and amortisation | - | (5,723) | 46,030 | | 40,307 |

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2002 – continued**33. SEGMENTAL REPORTING - GROUP - continued**a) **Analysis by activity:**

| 2001 | Investment holding RM | Manufacturing RM | Marketing and distribution RM | Eliminations RM | Consolidated RM |
|------------------------------------------------------------|-----------------------------|---------------------|----------------------------------------|---------------------|--------------------|
| REVENUE AND EXPENSES | | | | | |
| Revenue | | | | | |
| External sales | - | 69,321,219 | 13,090,473 | - | 82,411,692 |
| Inter-segment revenue | 4,075,000 | 20,296,319 | - | (24,371,319) | - |
| Total | 4,075,000 | 89,617,538 | 13,090,473 | (24,371,319) | 82,411,692 |
| Results | | | | | |
| Segment results | 4,075,000 | 11,986,924 | 268,206 | (4,096,099) | 12,234,031 |
| Unallocated corporate expenses | | | | | (326,552) |
| Profit from operations | | | | | 11,907,479 |
| Finance cost, net | | | | | (623,992) |
| Profit before taxation | | | | | 11,283,487 |
| Taxation | | | | | (2,905,173) |
| Net profit for the year | | | | | 8,378,314 |
| ASSETS AND LIABILITIES | | | | | |
| Segment assets | - | 85,034,848 | 9,886,527 | | 94,921,375 |
| Unallocated corporate assets | | | | | 390,530 |
| Consolidated total assets | | | | | 95,311,905 |
| Segment liabilities | - | 14,236,633 | 336,980 | | 14,573,613 |
| Unallocated corporate liabilities | | | | | 1,691,962 |
| Consolidated total liabilities | | | | | 16,265,575 |
| OTHER INFORMATION | | | | | |
| Capital expenditure | - | 2,102,770 | 512,770 | | 2,615,540 |
| Depreciation | 90,373 | 3,381,211 | 14,773 | | 3,486,357 |
| Amortisation | - | 60,355 | 40,108 | | 100,463 |
| Non-cash expenses other than depreciation and amortisation | - | 196,492 | 37,047 | | 233,539 |

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2002 – continued
33. SEGMENTAL REPORTING - continued**b) Analysis by geographical location:**

| | <u>Total revenue from external customers</u> | | <u>Segment assets</u> | | <u>Capital expenditure</u> | |
|--------------------------|----------------------------------------------|------------|-----------------------|------------|----------------------------|------------|
| | 2002 RM | 2001 RM | 2002 RM | 2001 RM | 2002 RM | 2001 RM |
| Malaysia | 84,429,767 | 79,609,390 | 98,434,619 | 92,380,575 | 4,791,746 | 2,109,623 |
| United States of America | 4,378,261 | 2,802,302 | 5,129,987 | 2,931,330 | 354,259 | 505,917 |
| | 88,808,028 | 82,411,692 | 103,564,606 | 95,311,905 | 5,146,005 | 2,615,540 |
| | ===== | ===== | ===== | ===== | ===== | ===== |

34. SIGNIFICANT EVENTS DURING THE YEAR

The shareholders of the Company at an Extraordinary General Meeting held on 7 February 2002 approved the bonus issue and transfer of the listing of and quotation for the entire enlarged issued and paid-up share capital of the Company of RM60,000,000 comprising 60,000,000 ordinary shares of RM1 each from the Second Board to the Main Board of the Kuala Lumpur Stock Exchange.

The aforementioned transfer had been approved by the Securities Commission vide its letter dated 11 March 2002 and the request for additional listing of the 20.0 million bonus shares and for the transfer of listing to the Main Board of the Kuala Lumpur Stock Exchange was approved 10 April 2002.

On 28 May 2002, the Company was successfully listed on the Main Board of Kuala Lumpur Stock Exchange.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2002 – continued**35. FINANCIAL INSTRUMENTS**

The operations of the Group is exposed to a variety of financial risks, including foreign currency risk, credit risk, interest rate risk, liquidity and cash flow risk. The objective of the overall financial risk management of the Group is to minimise the Group exposure to risks and cost associated with the financing, investing and operating activities of the Group. Financial risk management is carried out through risk reviews, internal control systems and insurance programme.

a) Foreign currency risk

The Group incurs foreign currency risk on sales transactions demoninated in currencies other than Ringgit Malaysia. The currency giving rise to this risk is primarily US Dollars.

The Group does not hedge its trade receivables as the exchange rate for US Dollars has been pegged to Ringgit Malaysia at 3.80.

b) Credit risk

The Group manages credit risk by setting credit limits and ensuring that sales of goods are made to customers with an appropriate credit history. Collaterals are obtained where necessary from some customers to mitigate the credit risk exposure. Trade receivables are monitored on a regular and ongoing basis for irregularity.

At balance sheet date, there was no significant exposure to any individual customer except one customer who has been requested to provide additional security to mitigate its credit risk exposure.

c) Interest rate risk

The Group's exposure to interest rate risk is minimal as more than 85% of the borrowings of the Group are short term borrowings which are utilised for working capital.

d) Liquidity and cash flow risks

The Group practises prudent liquidity and cash flow management to maintain sufficient cash and adequate credit facilities for contingent funding requirements of working capital.

36. FAIR VALUES

- a) The aggregate fair values of financial liabilities carried on the balance sheet as at 31 December are presented in the following table:

| | Group | | | |
|------------------------|-----------------------------------|------------------------------|-----------------------------------|------------------------------|
| | 2002 | | 2001 | |
| | Carrying amount RM | Fair value RM | Carrying amount RM | Fair value RM |
| Financial liabilities | | | | |
| Hire purchase payables | 126,079 | 127,169 | 670,083 | 398,732 |
| Loan payables | 84,080 | 61,657 | 146,667 | 124,415 |
| | ===== | ===== | ===== | ===== |

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2002 – continued
36. FAIR VALUES - continued

- b) It is not practical to estimate the fair value of investment in subsidiary companies due to the constraints of timeliness and cost involved. At the balance sheet date, the net tangible assets reputed by subsidiary companies are RM45,002,265.
- c) It is also not practical to estimate the fair values of amounts due from subsidiary companies due principally to a lack of fixed repayment terms entered by the parties involved and without incurring excessive costs. However, the Group does not anticipate the carrying amounts recorded at the balance sheet date to be significantly different from the values that would eventually be received or settled.
- d) It is not practical to estimate the fair value of contingent liability reliably due to the uncertainties of timing, costs and eventual outcome.

37. COMPARATIVE FIGURES

The following comparative figures have been reclassified to conform with current year's presentation:-

| | Group | |
|---------------------------|----------------------|------------------------------------|
| | As restated RM | As previously reported RM |
| Income Statement:- | | |
| Administrative expenses | 5,539,272 | 5,576,722 |
| Other operating expenses | - | 118,160 |
| Selling expenses | 3,018,720 | 2,863,110 |
| | <u>=====</u> | <u>=====</u> |