



MIECO CHIPBOARD BERHAD

**ANNUAL REPORT 2004**

LAPORAN TAHUNAN 2004





It was  
a year  
of GROWTH

The new plant commenced commercial production  
in March 2005.



## MISSION

We emphasize dynamic innovation and creating value in all our products and services.

We pledge to strive for total quality and excellence as a wood based company in Malaysia and beyond.



DYNAMIC  
INNOVATION

CREATING  
VALUE

TOTAL  
QUALITY



Modern technology  
working with **Nature**

# QUALITY POLICY

- Mastering Total Quality
- Customer Service
- Building Excellence

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# ABOUT





Mieco Chipboard Berhad ('MIECO'), a manufacturing division of the Bandar Raya Developments Berhad Group of Companies, was incorporated in 1972. The Company was listed on the Main Board of Bursa Malaysia Securities Berhad in 1998.

MIECO commissioned its first production line in 1976, making it the pioneer in particleboard manufacturing in Malaysia using rubber wood or now known as tropical oak wood. MIECO has two factories with a total capacity of approximately 300,000 cubic meters per annum that are located in Semambu and Gebeng in Kuantan, Pahang. With the capacity now running at full utilisation, MIECO embarked on an expansion phase in 2004 to install the single largest state-of-the-art particleboard line in the Asia-Pacific region, which will triple the capacity of the current lines. The new plant in Kechau Tui near Kuala Lipis, Pahang has a built-in capacity of 2,000 cubic meters per day. It has commenced commercial production on 1 March 2005.

MIECO's particleboards, or sometimes known as chipboards, conform to international quality standards such as the European Community's BS EN 312 standard, applicable for both moisture-resistant and non-moisture resistant boards with E1 and E2 formaldehyde emission levels. Under MIECO's Corporate Mission from being a plain chipboard producer in 1976, MIECO developed and expanded into value added products such as MIECO Decorative MFC, EBFC (electron beam foil chipboard) and PFC (polymer faced chipboard) products, MIECO Worktop, MIECO DPF Board, MIECO Laminate Flooring, to value added services and DIY furniture series under the MIECO Livin Style brand name.

With the growing concern in the eco-system, especially from the developed countries, MIECO commercialised the production of the Super E0 particleboard in 2003, or referred as the F-4 Star grade in Japan, designed with very low formaldehyde emission.

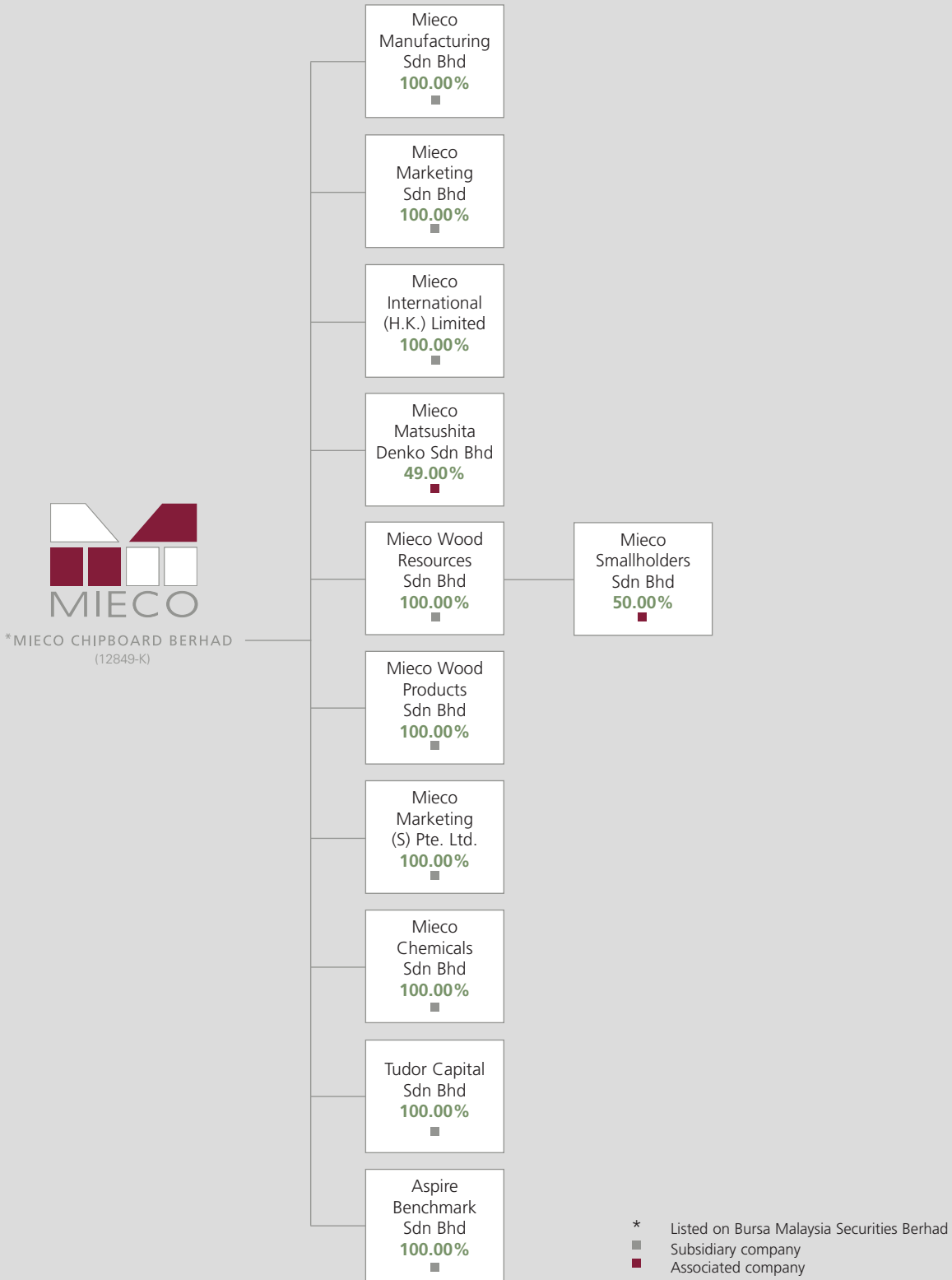
In 1998, MIECO attained the ISO 9002 Quality Management System certified by SIRIM, and subsequently upgraded to the ISO 9001 : 2000 in 2002. In 2004, the Company became the first company in the Malaysian wood-panel industry to receive the prestigious BS EN ISO 14001 : 1996 Environmental Management System accredited by Lloyd's Register Quality Assurance. In line with this, MIECO also successfully attained the certification for the Occupational Health and Safety Management System 18001:1999 in March 2005.

Having established a dominant presence in the domestic market, MIECO went on an export campaign in 1995 and today, it is exporting to China, Taiwan, Japan, Korea, Hong Kong, South East Asia, the Indian Subcontinents, the Middle East, Africa and the Australasian countries. In anticipation of the economic expansion in China, MIECO set up a representative office in Guangzhou, China and a regional office in Hong Kong in 1999 and 2000 respectively.

With the expanded capacity coming on stream, MIECO will be a force to be reckoned with in the Asia-Pacific region and is set to be a major player in the particleboard industry.

# GROUP CORPORATE STRUCTURE

AS AT 25 APRIL 2005





## CORPORATE INFORMATION

**BOARD OF DIRECTORS**

Dato' Mohamed Moiz Bin J M Ali Moiz  
*Non-Independent Non-Executive Chairman*

Dato' Yong Seng Yeow  
*Executive Director*

Dato' Jaganath Derek Steven Sabapathy  
*Non-Independent Non-Executive Director*

Lt. Gen. (R) Dato' Seri Mohamed  
Daud Bin Abu Bakar  
*Independent Non-Executive Director*

Mr Low Kim Seng  
*Non-Independent Non-Executive Director*

Dato' Dr Armajit Singh a/l Santokh Singh  
*Independent Non-Executive Director*

**REGISTERED OFFICE**

31st Floor, Menara Multi-Purpose  
Capital Square  
No. 8, Jalan Munshi Abdullah  
50100 Kuala Lumpur, Malaysia  
Tel : 603-2694 6622  
Fax : 603-2694 1922

**BURSA MALAYSIA STOCK NUMBER**

MIECO 5001  
MIECO - WA 5001WA

**INTERNATIONAL SECURITIES IDENTIFICATION NUMBER (ISIN)**

MIECO MYL500100002  
MIECO - WA MYL5001WAJ48

**REUTERS CODE**

MIEC.KL

**SECRETARY**

Ho Swee Ling  
MAICSA NO 7009936

**REGISTRARS**

Metra Management Sdn Bhd  
30.02, 30th Floor, Menara Multi-Purpose  
Capital Square  
No. 8, Jalan Munshi Abdullah  
50100 Kuala Lumpur, Malaysia  
Tel : 603-2698 3232  
Fax : 603-2698 0313

**AUDITORS**

Messrs PricewaterhouseCoopers

**BANKERS**

Malayan Banking Berhad  
Alliance Bank Malaysia Berhad  
HSBC Bank Malaysia Berhad  
RHB Bank Berhad

## BOARD OF DIRECTORS

**Dato' Mohamed Moiz Bin J M Ali Moiz**  
Non-Independent Non-Executive Chairman

1

**Dato' Yong Seng Yeow**  
Executive Director

2

**Dato' Jaganath Derek Steven Sabapathy**  
Non-Independent Non-Executive Director

3

**Lt. Gen. (R) Dato' Seri Mohamed Daud  
Bin Abu Bakar**  
Independent Non-Executive Director

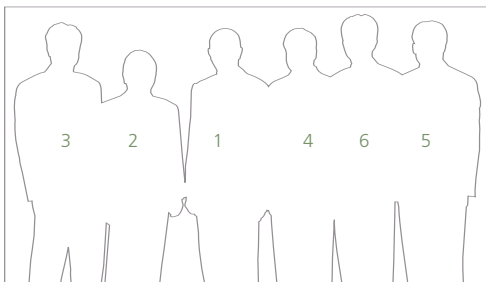
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**Mr Low Kim Seng**  
Non-Independent Non-Executive Director

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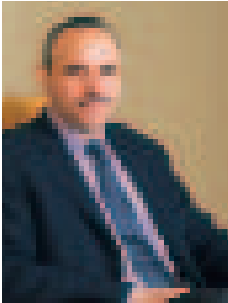
**Dato' Dr Armajit Singh a/l Santokh Singh**  
Independent Non-Executive Director

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## PROFILE OF THE BOARD OF DIRECTORS

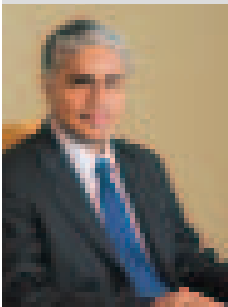


Dato' Mohamed Moiz Bin J M Ali Moiz, Non-Independent Non-Executive Chairman

Dato' Mohamed Moiz Bin J M Ali Moiz, a Malaysian, aged 44, was appointed to the Board on 14 November 2000 and as Chairman on 15 August 2002. He graduated with a Bachelor of Science degree in Business Administration and International Finance in 1985. He joined Timbco Sdn Bhd, a company involved in timber trading, processing and forestry management, as Project Manager from 1985 to 1986. In 1987, he was appointed as Chief Executive Officer of the Tradium group of companies, which have interests in property development, fashion retailing, manufacturing, F & B and equity investments. In 1999, he was appointed as Chief Executive Officer of Effective Capital Sdn Bhd, a company which successfully undertook the migration of the CLOB securities from the Central Depository (Pte) Limited in June 2000.

Currently, Dato' Mohamed Moiz also sits on the boards of Bandar Raya Developments Berhad and several other private limited companies. He is a member of the Executive Committee and Nomination Committee of the Company.

Dato' Mohamed Moiz has a deemed interest in 118,193,971 ordinary shares of RM1.00 each in the Company by virtue of his interest in Ambang Sehati Sdn Bhd. He does not have any family relationship with any director and/or major shareholder of the Company and has no conflict of interest with the Company. He has had no convictions for offences within the past ten years.



Dato' Jaganath Derek Steven Sabapathy, Non-Independent Non-Executive Director

Dato' Jaganath Derek Steven Sabapathy, a Malaysian, aged 48, was appointed to the Board on 15 September 1999. He attended Edinburgh University in the United Kingdom and holds a Master of Arts majoring in Corporate Finance and International Trade. Upon graduation in 1981, he joined a leading London firm of Chartered Accountants, Price Waterhouse, where he articled and qualified as a Chartered Accountant.

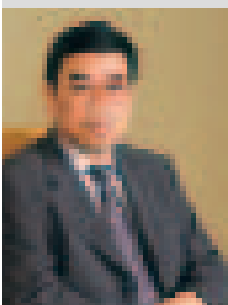
Dato' Jagan returned to Malaysia in 1984 and joined KPMG Peat Marwick. He was admitted a Partner of KPMG Malaysia and a Director of Peat Marwick Consultants in 1990.

Whilst at KPMG Peat Marwick, he was involved in a wide range of assignments covering audit, investigations, management consultancy and corporate finance, in Malaysia, the ASEAN countries, North America and Europe. He sat on a variety of KPMG International Committees including committees for Mergers and Acquisitions, Privatisation and Management Consultancy. He was also an examiner for the professional examinations of the Malaysian Association of Certified Public Accountants (MACPA).

He left the partnership in late 1994 and took up a senior appointment with a Malaysian public listed plantation company. At the end of 1995, he left and led a group of Australian and British investors to successfully privatise the overseas operations of Tasmania's Hydro Electric Commission. He joined the board of Prime Utilities Berhad and Indah Water Konsortium Sdn Bhd, Malaysia's privatised national wastewater utility in September 1997 as Managing Director, a position he held to August 1999.

Currently, Dato' Jagan also sits on the boards of Bandar Raya Developments Berhad and several subsidiaries in the Bandar Raya Developments Berhad Group. He is a member of the Audit Committee, Executive Committee and Remuneration Committee of the Company.

Dato' Jagan does not hold any shares in the Company or its subsidiaries. He does not have any family relationship with any other director and/or major shareholder of the Company and has no conflict of interest with the Company. He has had no convictions for offences within the past ten years.



Mr Low Kim Seng, Non-Independent Non-Executive Director

Mr Low Kim Seng, a Malaysian, aged 50, was appointed to the Board on 25 April 1991. He is an accountant by training and has more than 25 years of experience in accounting, corporate finance and general management. He is a member of the Executive Committee of the Company.

Mr Low holds directly 10,000 ordinary shares of RM1.00 each in the Company. He does not have any family relationship with any other director and/or major shareholder of the Company and has no conflict of interest with the Company. He has had no convictions for offences within the past ten years.

#### Dato' Yong Seng Yeow, Executive Director

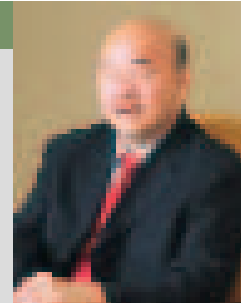
Dato' Yong Seng Yeow, a Malaysian, aged 52, was appointed as Executive Director on 16 November 1998. He has over 25 years of experience in sales and marketing in building materials and furniture industries.

Dato' Yong was once attached to Mieco Chipboard Berhad. On 1 January 1994, Dato' Yong joined Mieco Chipboard Berhad as Executive Director. He left Mieco Chipboard Berhad in July 1995 and rejoined Mieco Chipboard Berhad as Executive Director on 16 November 1998.

He also sits on the board of several subsidiaries in the Mieco Chipboard Berhad Group and is currently a member of the Executive Committee of the Company.

Presently, Dato' Yong also serves as member on the Boards of Trustees of Malaysian Timber Industry Board and Malaysian Furniture Promotion Council. He is also the Honorary Secretary General of Malaysian Furniture Industry Council and Chairman of Asean Furniture Industries Council.

Dato' Yong holds directly 20,000 ordinary shares of RM1.00 each in the Company. He does not have any family relationship with any other director and/or major shareholder of the Company and has no conflict of interest with the Company. He has had no convictions for offences within the past ten years.

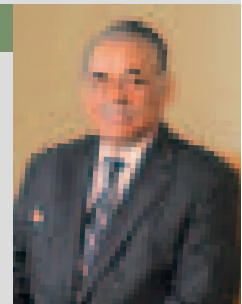


#### Lt. Gen. (R) Dato' Seri Mohamed Daud Bin Abu Bakar, Independent Non-Executive Director

Lt. Gen. (R) Dato' Seri Mohamed Daud Bin Abu Bakar, a Malaysian, aged 69, was appointed to the Board on 24 March 1997. He graduated from the world renowned Royal Military Academy, Sandhurst, United Kingdom in December 1956, the Army Staff College, Camberley, United Kingdom and the Royal College of Defence Studies, United Kingdom and has served the Malaysian Army with distinction for 36 years. During his military career, he was appointed to various key command and staff appointments both in the field headquarters and in the Ministry of Defence and has also served in various military committees at national and international levels.

Currently, Dato' Seri Mohamed Daud also sits on the boards of Johan Ceramics Berhad, Perusahaan Otomobil Nasional Berhad, Bank Kerjasama Rakyat Malaysia Berhad and several other private limited companies. He is the Chairman of the Audit Committee, a member of the Remuneration Committee and Nomination Committee of the Company.

Dato' Seri Mohamed Daud holds directly 16,000 ordinary shares of RM1.00 each in the Company. He does not have any family relationship with any other director and/or major shareholder of the Company and has no conflict of interest with the Company. He has had no convictions for offences within the past ten years.

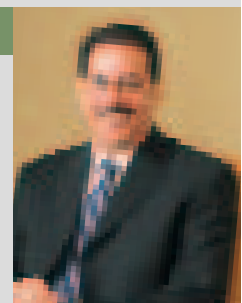


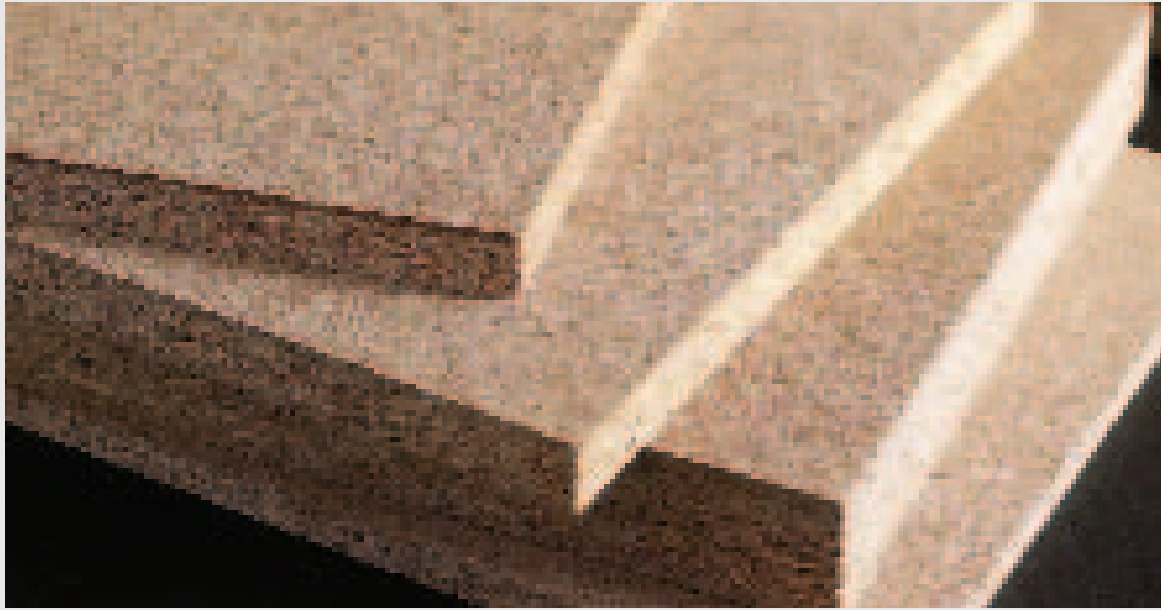
#### Dato' Dr Amarjit Singh a/l Santokh Singh, Independent Non-Executive Director

Dato' Dr Amarjit Singh a/l Santokh Singh, a Malaysian, aged 55, was appointed to the Board on 3 April 1997. He graduated as a Doctor with a degree in Bachelor of Medicine and Bachelor of Surgery from Bombay University, India in 1973. He also obtained certificates in Sports Medicine and Genito-Urinary Medicine from the College of General Practitioners of Malaysia in 1988 and 1989, respectively. In addition, he is a Fellow of the Royal Society of Health, United Kingdom. In 1990 he established his own practice in Kuala Lumpur.

He is a former National Cricket Captain and Vice-President of the Malaysian Cricket Association. He is also the President of the Society of Sports Medicine of the Malaysian Medical Association and the Vice-President of the Malaysian Association of Sports Medicine.

Dato' Dr. Amarjit is currently a member of the Audit Committee, Remuneration Committee and Nomination Committee of the Company. He holds directly 80,000 ordinary shares of RM1.00 each in the Company. He does not have any family relationship with any other Director and/or major shareholder of the Company and has no conflict of interest with the Company. He has had no convictions for offences within the past ten years.

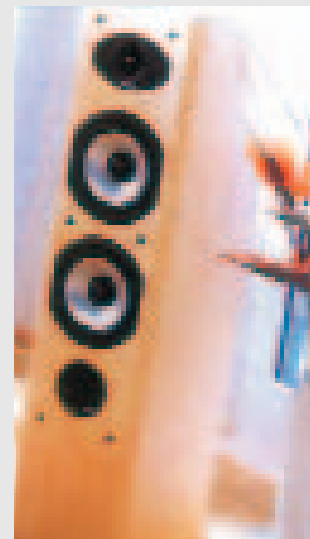


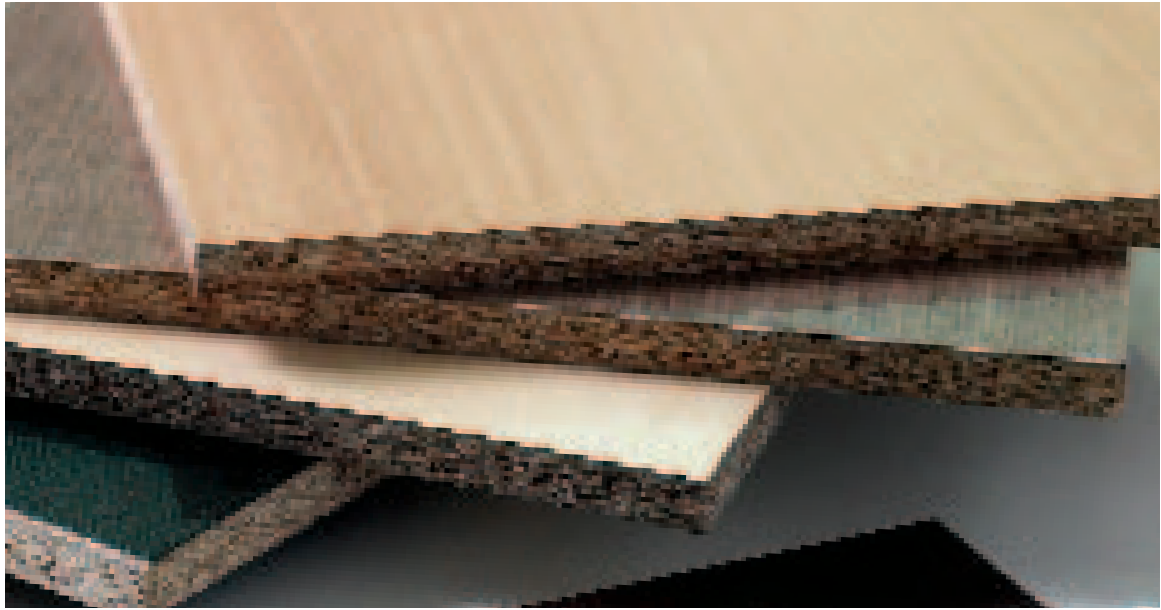


## MIECO PLAIN BOARD

MIECO Plain Board is a uniquely designed wood panel that comes in both moisture resistant (MUF V313 grade) and non-moisture resistant (UF grade).

These boards are commonly used as a core material for home and office furnitures, wall panels, worktops as well as hifi-speaker boxes. Also included in this range is our latest development, the F-4 star grade, which is a low formaldehyde emission grade chipboard.

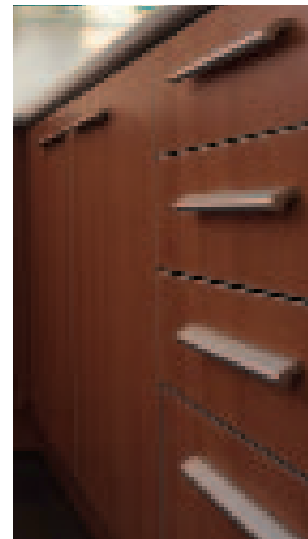




## MIECO DECORATIVE MFC

MIECO Decorative MFC (Melamine Faced Chipboard) is designed with MIECO Plain Board laminated with impregnated melamine paper.

The board is widely used for interior decoration applications for the home, kitchen as well as office furnitures.



## A LETTER FROM THE CHAIRMAN

### Dear Shareholders,

I am pleased to present, on behalf of the Board of Directors of Mieco Chipboard Berhad Group ('MIECO' or 'the Group'), the Annual Report and the Audited Financial Statements of the Group and the Company for the financial year ended 31 December 2004.

#### THE YEAR IN REVIEW - ACHIEVING CONSISTENT GROWTH

The Malaysian economy experienced its most rapid growth in four years, expanding by 7.1% in 2004 as a result of robust increases in both global trade and domestic demand. Growth was led by the private sector, while the Government made further progress in fiscal consolidation. That bode well for MIECO and helped us to achieve better sales figures last year.

Group revenue for the year ended 31 December 2004 was RM236.7 million, an increase of 29.8% against the previous year's revenue of RM182.3 million. 96% of revenue was derived from sales of particleboard and related products, with RM10.1 million from the sale of marketable securities.

This translated into higher Group profit before taxation of RM38.4 million in 2004 from RM29.6 million in 2003, an increase of 29.7%.

Board sales volume in 2004 was higher by 12% against the preceding year but further growth was restricted, as capacity from the current plants had reached optimal level. Our new plant in Kechau Tui, Pahang will address this issue in 2005.

Domestic sales accounted for 60% of total sales with exports representing the balance.

MIECO's net tangible assets increased by 14 sen per share to RM1.79 per share. MIECO's balance sheet remains strong and shareholders' funds have increased to RM376.2 million as at year end from RM347.5 million. Earnings per share in 2004 was 14.5 sen per share from 15.1 sen in 2003.

In our efforts to achieve Total Quality Management System, MIECO attained the certification for the Occupational Health and Safety Management System ('OHSAS') 18001: 1999 in March 2005. This is in line with the Environmental Management System certification that was attained in January 2004.

This serves as strong testimony to the company's commitment to maintain a safe working environment for its employees and for the environment at large. MIECO strives to continue improving productivity and process management in order to stay ahead and to compete effectively in the global marketplace.





# DATO'

MOHAMED MOIZ BIN J M ALI MOIZ

I am delighted to report that the Group achieved  
tremendous growth in 2004.  
Demand for our products continues  
**to increase** despite intense  
competition and sales continued to accelerate in 2004.



### CORPORATE DEVELOPMENTS

In February 2005, MIECO underwent an internal reorganisation to streamline its business operations resulting in all operational concerns in the Gebeng and Semambu plants being transferred to Mico Manufacturing Sdn Bhd ('MMSB'). This was done to help us achieve greater operational, production and financial efficiency and to create a better platform for MIECO's steady growth.

The third new plant, under MMSB, commissioned its commercial production in early March this year and will be the single largest particleboard line in Asia-Pacific. This plant, representing an investment of over RM300 million, with a production capacity of 2,000 cubic meters per day, is designed and constructed by Dieffenbacher GmbH of Germany.

In July 2004, MIECO and Matsushita Electric Works Ltd of Japan ('MEW'), established a joint-venture manufacturing base, called Mico Matsushita Denko Sdn Bhd, to undertake research and development, the manufacture, and distribution of Kenaf fibreboard and downstream products.

This joint-venture will provide MIECO with the opportunity to expand production capacity and to complement its existing chipboard and related products.



### LOOKING AHEAD - PROSPECTS AND EXPANSION OPPORTUNITIES

Wood-based industry in Malaysia faces a number of challenges, in particular, the need for an adequate supply of raw materials to sustain the growth in the industry. To address this need, our government has embarked on an aggressive promotion of forest plantation, a move that has our full support.

However, in view of this challenge, MIECO embarked on a joint-venture with MEW to establish the commercial production of Kenaf fibreboard, a practical and eco-friendly alternative to rubber and acacia wood.

With the expanded capacity in place and capitalizing on our MIECO brand, MIECO is positioning itself to be a dominant player in Asia-Pacific region and we foresee the majority of our products being exported to cater for increasing international demand. Currently, we export to over 20 countries worldwide, although the Asia-Pacific region remains our core market.

MIECO is committed to increasing its productivity whilst pursuing more efficient cost structures. In line with this, we are focusing on a number of research and development exercises. We at MIECO are also well aware of the need to keep up with the expectations of increasingly knowledgeable end-users, who demand premium quality, environmentally-friendly, high-value products which complement their lifestyles.

### DIVIDEND

The Board is pleased to propose a first and final tax-exempt dividend of 7.5 sen per share, amounting to RM15.8 million to be paid in respect of the financial year 2004. The proposed dividend will be subject to shareholders' approval at the forthcoming Annual General Meeting.

### IN APPRECIATION OF SUPPORT

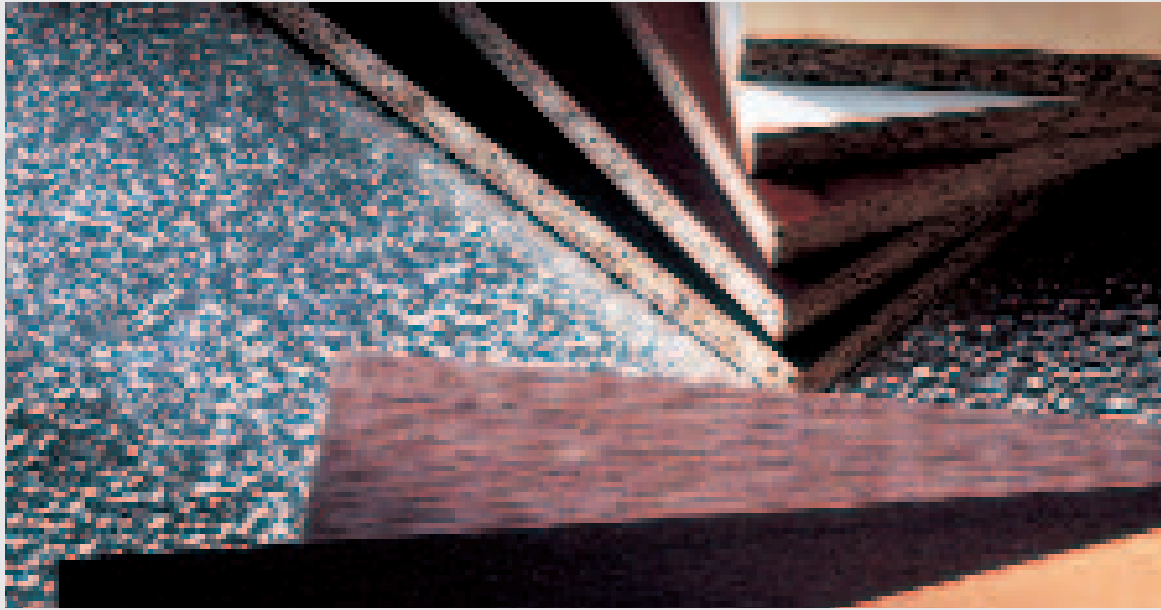
On behalf of the Directors and Management of MIECO, I wish to thank our shareholders, business partners and customers in our many markets around the world, and the relevant government authorities for their continued support of, and confidence in, MIECO.

I would also like to thank all our employees for their dedication and relentless pursuit of innovation this past year. Their commitment to upholding our corporate values is what makes MIECO successful as a business.

I believe that MIECO is poised to be a global brand, and that despite the immediate challenges of the global market place, it will continue to prosper and grow. We look forward to a rewarding year ahead with sustainable financial growth and increasing shareholder value.

**Dato' Mohamed Moiz Bin J M Ali Moiz**  
Chairman

Kuala Lumpur, Malaysia  
19 April 2005

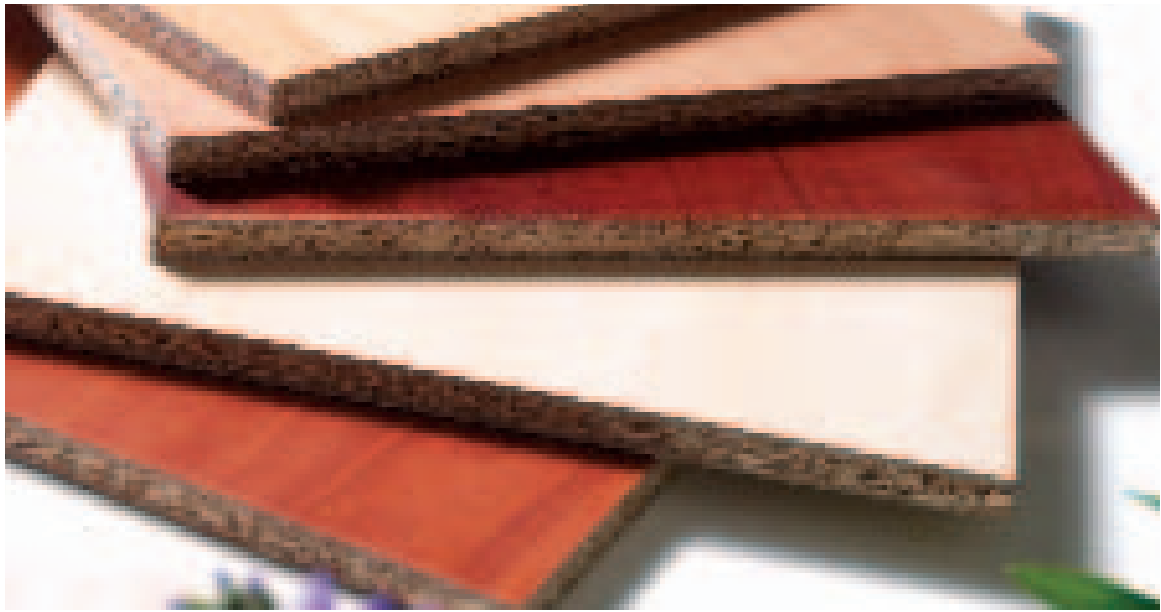


## MIECO DECORATIVE EBFC

MIECO Decorative EBFC (Electron Beam Foil Chipboard) uses premium quality MIECO boards decorated with EB foil laminates.

The advanced Electron Beam curing technology has unparalleled resistance against stains, UV light and abrasion. The product offers a variety of solid and woodgrain colours which is widely used for offices, kitchen cabinets and home furniture.

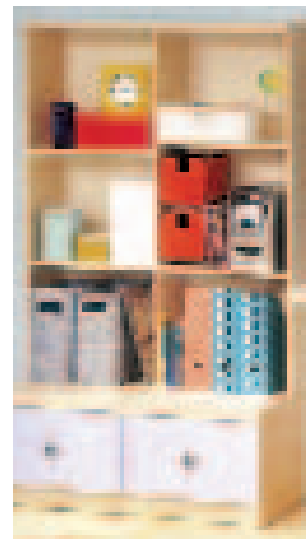




## MIECO DECORATIVE PFC

MIECO Decorative PFC (Polymer Faced Chipboard) is a furniture grade panel laminated with superior polymer coated paper.

The product offers solid and woodgrain colours engineered with optical embossed finishes, which is excellent for the application of home and office furnitures.



## PERUTUSAN PENERUSI

### Para Pemegang Saham Sekalian,

Bagi pihak Lembaga Pengarah Kumpulan Mico Chipboard Berhad ('MIECO' atau 'Kumpulan'), saya dengan sukacitanya membentangkan Laporan Tahunan dan Penyata Kewangan Beraudit untuk Kumpulan dan Syarikat bagi tahun kewangan berakhir 31 Disember 2004.

Saya dengan gembiranya melaporkan bahawa Kumpulan telah mencapai pertumbuhan yang amat merangsangkan bagi 2004. Permintaan terhadap produk-produk kami terus meningkat dengan baik walaupun wujudnya persaingan sengit dan jualan terus mencatat pertambahan mantap pada 2004.

### TINJAUAN TAHUNAN - MENCAPAI PERTUMBUHAN BERTERUSAN

Ekonomi Malaysia telah mencatat pertumbuhan paling pesat dalam tempoh empat tahun, berkembang sebanyak 7.1% pada 2004. Ini dirangsang oleh perdagangan global dan permintaan domestik. Pertumbuhan ini dijana oleh sektor swasta, sementara sektor kerajaan pula telah berjaya mengukuhkan dasar fiskalnya. Ini merupakan asas-asas yang akan mengukuhkan MIECO serta membantu kami mencapai angka jualan yang lebih baik pada tahun lepas.

Perolehan Kumpulan bagi tahun berakhir 31 Disember 2004 adalah RM236.7 juta, meningkat sebanyak 29.8% berbanding perolehan tahun sebelumnya iaitu RM182.3 juta. 96% perolehan diperolehi dari jualan papan partikel dan produk-produk berkaitan, manakala RM10.1 juta dari jualan pasaran sekuriti.

Ini meningkatkan keuntungan sebelum cukai Kumpulan kepada RM38.4 juta pada 2004 berbanding RM29.6 juta pada 2003, meningkat sebanyak 29.7%.

Jumlah jualan papan pada 2004 meningkat sebanyak 12% berbanding tahun sebelumnya, namun begitu peningkatan jualan masih terhad memandangkan kapasiti kilang-kilang sedia ada telah mencapai tahap kemampuan pengeluaran

maksima. Kilang baru kami di Kechau Tui, Pahang akan menangani isu ini dalam 2005. Jualan domestik menghasilkan 60% daripada jumlah jualan dengan pasaran eksport menyumbang selebihnya.

Aset ketara bersih MIECO meningkat sebanyak 14 sen sesaham kepada RM1.79 sesaham. Pada akhir tahun 2004, lembaran imbalan MIECO kekal kukuh dan dana pemegang saham meningkat kepada RM376.2 juta daripada RM347.5 juta. Pendapatan sesaham pada 2004 adalah 14.5 sen berbanding 15.1 sen pada 2003.

MIECO dalam usahanya untuk mencapai Sistem Pengurusan Kualiti Menyeluruh, telah memperolehi perakuan sijil Sistem Kesihatan Pekerjaan dan Pengurusan Keselamatan ('OHSAS') 18001:1999 pada March 2005. Ini sejajar dengan persijilan Sistem Pengurusan Alam Sekitar yang telah diterima pada Januari 2004.

Ini merupakan testimoni kukuh menunjukkan komitmen syarikat untuk menyediakan persekitaran kerja yang selamat bagi para pekerja dan juga alam sekitar secara keseluruhannya. MIECO akan terus gigih untuk meningkatkan produktiviti dan pengurusan proses untuk terus menerajui dan bersaing dengan efektif di pasaran global.





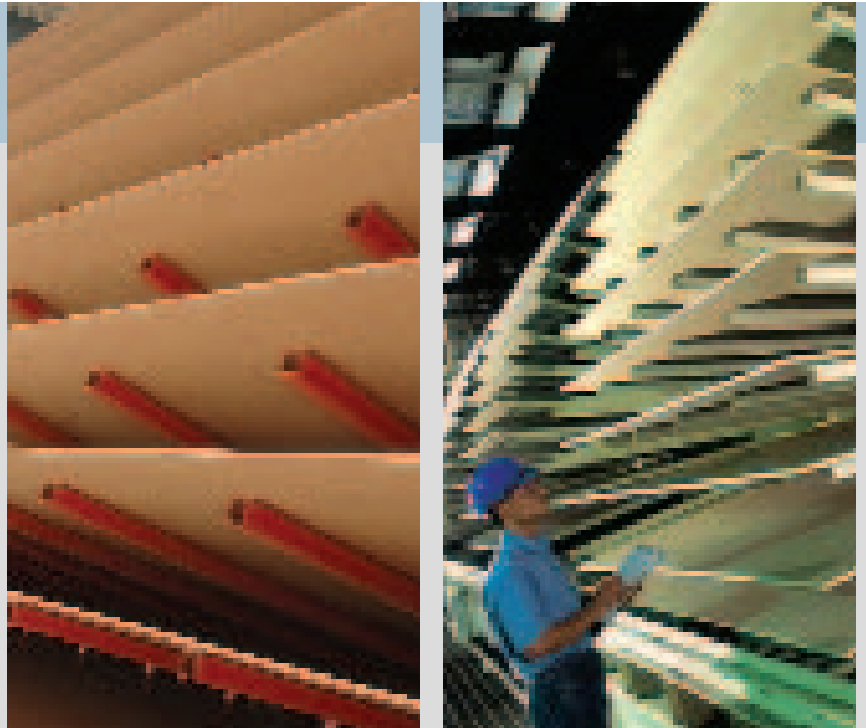
### PERKEMBANGAN KORPORAT

Pada Februari 2005, MIECO telah melaksanakan pengorganisasian semula peringkat dalaman menyelaraskan operasi-operasi perniagaan berkenaan kilang-kilang pengeluarannya di Gebeng dan Semambu, yang telah distrukturkan di bawah Mieco Manufacturing Sdn Bhd ('MMSB'). Ini telah dilaksanakan untuk membantu kami meningkatkan lagi operasi, pengeluaran dan kewangan dengan lebih efisien bagi mewujudkan platform yang lebih baik untuk pertumbuhan mantap MIECO di masa depan.

Kilang ketiga kami yang terbaru, di bawah MMSB, telah memulakan operasi untuk pengeluaran komersial pada awal Mac tahun ini dan akan menjadi pengeluar tunggal terbesar papan partikel di Asia-Pasifik. Pembinaan kilang ini melibatkan pelaburan melebihi RM300 juta, mempunyai kapasiti pengeluaran sebanyak 2,000 kubik meter sehari, direka bentuk dan dibina oleh Dieffenbacher GmbH dari Jerman.

MIECO dan Matsushita Electric Works Ltd dari Jepun ('MEW'), pada Julai 2004, telah bersetuju untuk membentuk usahasama pengeluaran dengan menubuhkan Mieco Matsushita Denko Sdn Bhd, bagi mengendalikan penyelidikan dan pembangunan, pengeluaran dan pengedaran papan gantian Kenaf dan produk-produk campuran disiap proses.

Usahasama ini akan memberikan MIECO peluang untuk mengembangkan kapasiti pengeluaran dan melengkapkan pengeluaran papan partikel dan produk-produk berkaitan.



### TINJAUAN MASA DEPAN - PROSPEK DAN PELUANG PERKEMBANGAN

Di Malaysia, industri berasaskan kayu menghadapi beberapa cabaran, terutamanya dalam memastikan kecukupan bahan-bahan mentah untuk meneruskan pertumbuhan dalam industri ini. Dalam usaha ini, kerajaan kita telah melaksanakan promosi yang agresif untuk menjayakan program perladangan hutan, yang pastinya mendapat sokongan kami sepenuhnya.

Walaupun bagaimanapun, memandangkan wujudnya cabaran ini, MIECO telah memeterai usahasama dengan MEW bagi merancang projek pengeluaran papan gentian Kenaf secara komersial sebagai bahan mentah yang praktikal dan mesra alam sebagai alternatif kepada getah dan kayu akasia.

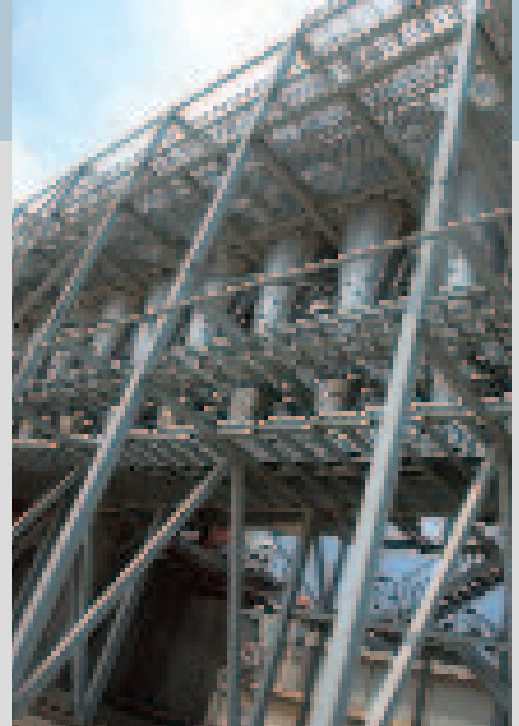
Dengan kapasiti yang telah diperbesarkan serta penggunaan jenama MIECO, MIECO berada di kedudukan yang terbaik untuk mendominasi pasaran di kawasan Asia-Pasifik. Kami menjangka majoriti produk-produk kami akan diekspor untuk memenuhi permintaan antarabangsa yang bertambah. Kini, kami mengeksport ke melebihi 20 negara di seluruh dunia, walaupun begitu rantau Asia-Pasifik terus menjadi pasaran teras.

MIECO amat komited untuk meningkatkan produktiviti di samping melanjutkan struktur kos yang lebih efisien. Sejalan dengan itu, kami sedang menjalani beberapa siri penyelidikan dan pembangunan. Kami di MIECO sedar akan keperluan untuk menghadapi permintaan pengguna - pengguna berpengetahuan tinggi yang mahukan produk-produk berkualiti terbaik, mesra alam, bernilai tinggi yang melengkap gaya hidup mereka.



## DIVIDEN

Lembaga Pengarah dengan sukacitanya mengumumkan dividen pertama dan akhir yang dikecualikan cukai sebanyak 7.5 sen sesaham, berjumlah RM15.8 juta yang akan dibayar bagi tahun kewangan 2004. Dividen yang dicadangkan ini adalah tertakluk kepada kelulusan para pemegang saham pada Mesyuarat Agung Tahunan yang bakal diadakan nanti.



## PENGHARGAAN TERHADAP SOKONGAN

Bagi pihak Pengarah dan Pengurusan MIECO, saya ingin menzahirkan ucapan terima kasih kepada semua pemegang saham, rakan niaga dan para pelanggan di pasaran seluruh dunia serta pihak berkuasa kerajaan yang berkaitan atas sokongan dan kepercayaan berterusan yang diberikan kepada MIECO.

Saya juga ingin mengucapkan ribuan terima kasih kepada semua kakitangan di atas dedikasi dan usaha gigih mereka dalam meningkatkan lagi inovasi sepanjang tahun lepas. Komitmen mereka dalam menegakkan nilai-nilai korporat telah membuatkan MIECO berjaya sebagai sebuah perniagaan.

Saya percaya bahawa MIECO akan menjadi jenama global, meskipun menempuhi cabaran getir dalam pasaran antarabangsa, ia akan terus berdaya maju dan berkembang. Seterusnya kami mengharapkan pertumbuhan kewangan yang kukuh dan meningkatkan lagi nilai pemegang saham.

**Dato' Mohamed Moiz Bin J M Ali Moiz**  
Pengerusi

Kuala Lumpur, Malaysia  
19 April 2005

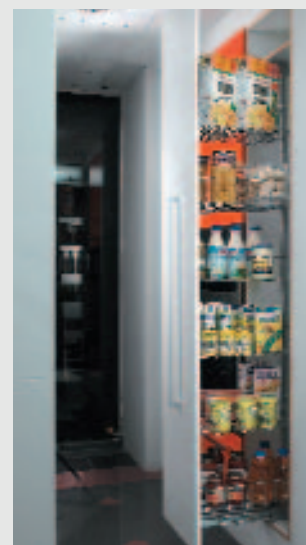


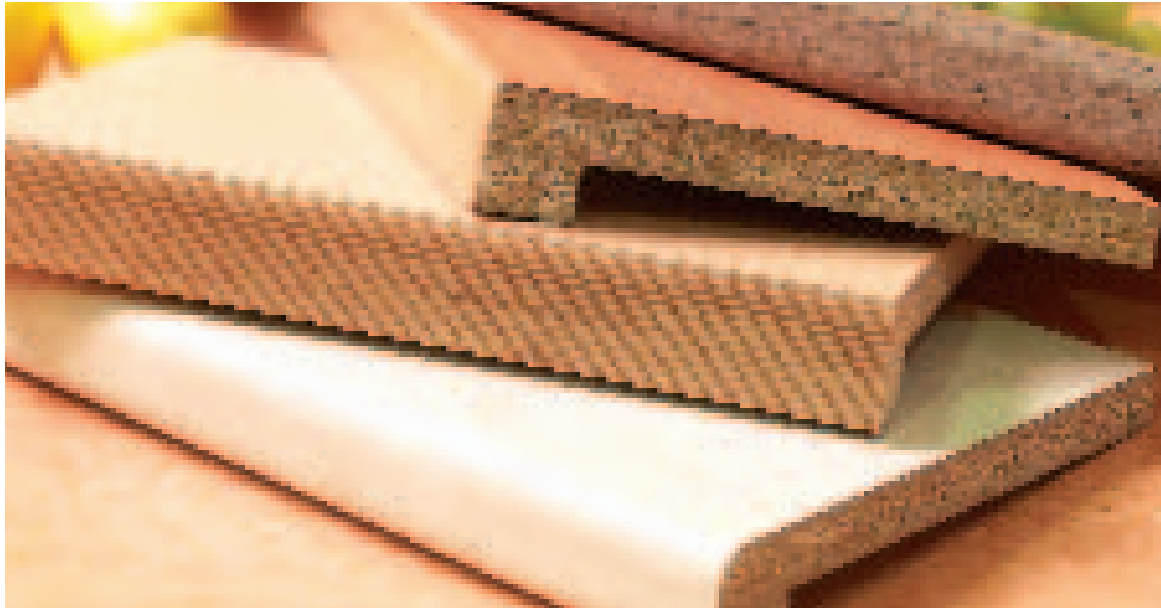


## MIECO DPF BOARD

MIECO DPF (Direct Post Formed) Board utilizes the state-of-the-art technology in post-forming which provides a wide range of profiled elements for furniture frontal and interior applications.

It is produced from a single post-forming process directly onto MIECO Decorative MFC board, hence providing a perfect colour match onto various possibilities of decorative solutions. It is suitable for office furniture tops and drawer fronts, kitchen cabinet doors and shelving panels.





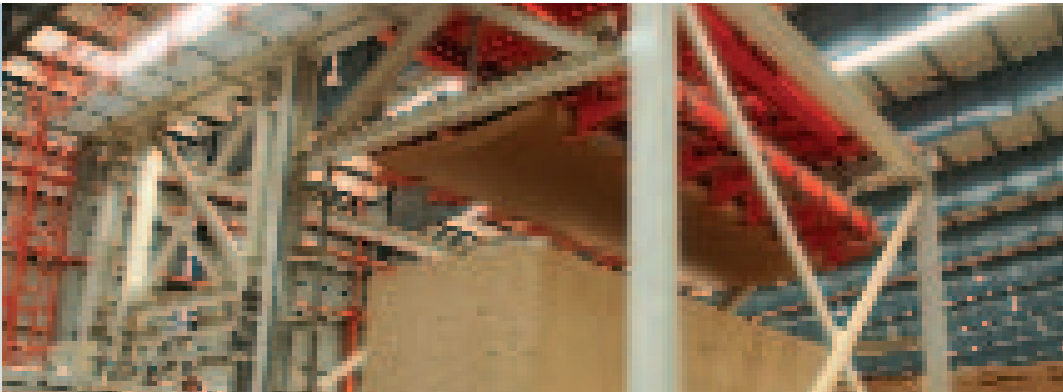
## MIECO WORKTOP

MIECO Worktop series is a V313 moisture resistant grade plain board laminated with high pressure laminate in straight edge and postform profile.

It has good resistance against heat, scratch, common chemicals and stains and comes with 20 decorative colours. It is suitable for use as kitchen top, laboratory top and retail counter top.



## REVIEW OF OPERATIONS

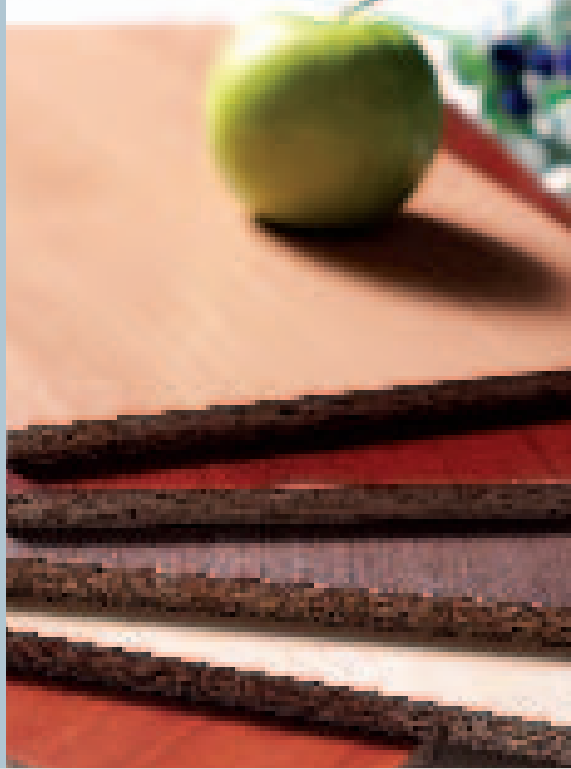


### GROWTH AND EXPANSION

Mieco Chipboard Berhad ('MIECO' or 'the Group') achieved tremendous growth last year with an increase of 29.8% in revenue, supported by favourable sentiment in domestic and international markets. Profit before taxation increased by 29.7% from RM29.6 million to RM38.4 million due mainly to favourable sales, higher production volume, efficient use of raw materials and lower depreciation expenses.

Political and economic stability both in Malaysia and in the South-East Asia region was a key factor for MIECO in 2004. With increasing demand for particleboard in the established Asia-Pacific markets, MIECO embarked on an expansion phase by building the single largest particleboard line in the region worth over RM300 million. This new plant equipped with state-of-the-art German technology started commercial production in March this year successfully tripling production capacity. This will position MIECO as one of the leading chipboard manufacturers in Asia.

The business environment throughout the year remains favourable and MIECO will continue to position the brand globally and to strengthen its position in the domestic region as well as in Asia-Pacific.



### MARKET DEVELOPMENTS

MIECO recently launched two new products in the market - the Electron Beam Foil Chipboard ('EBFC') and Polymer Faced Chipboard ('PFC') and added ten new designs to the Melamine Faced Chipboard under the Millennium 2005 series. These products were launched at the Malaysian International Furniture Fair and at the Interzum China Furniture Fair in Guangzhou both in March 2005.

The EBFC is MIECO's very first hi-tech foil laminates in the Asia-Pacific region. It incorporates all the excellent qualities of the plainboard and the unique state-of-the-art Electron Beam foil technology, a unique surface curing system developed by NASA Space Research from USA.

The PFC is laminated with a superior polymer coated paper and is available in a variety of unique woodgrain colours engineered with special effects such as the optical embossed finishes. This brings PFC one-step closer to natural veneers.

MIECO has an established brand name, strength in distribution channels and a highly regarded Customer Relation Management system. Through its offices in Hong Kong and Guangzhou, the Group aims to carve out a greater market share in the fastest growing economy of the world - China. At the same time, MIECO has also spread its marketing efforts to North Asia, the Indian Subcontinents, the Middle East and the ASEAN countries.

In July 2004, MIECO entered into a joint venture arrangement with Matsushita Electric Works Ltd of Japan to undertake research and development, and manufacturing and distribution of Kenaf fibreboard and downstream products. This new venture named Mico Matsushita Denko Sdn Bhd, is the first to commercialise the production of Kenaf fibreboard in the world, and will provide further growth opportunities to the Group, as well as utilise alternative and more environmentally friendly raw materials.

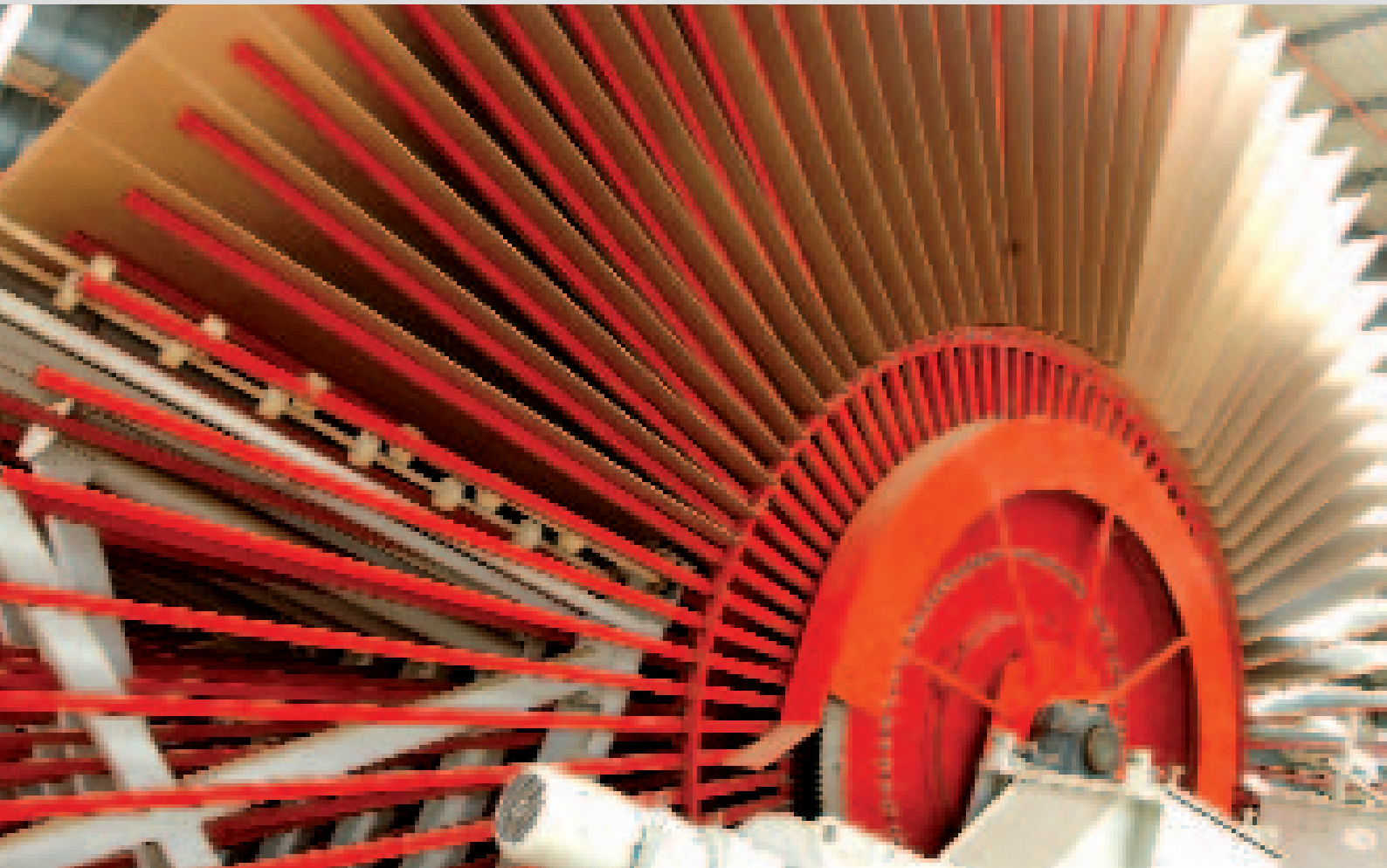


## ACHIEVING SUSTAINABLE DEVELOPMENT

In March 2005, MIECO attained the **OHSAS 18001:1999,**

the Occupational Health & Safety Management System, accredited by the Anglo Japanese American certification board. This is in line with the recent accreditation of the ISO 14001 : 1996 in Environmental Management System from the Lloyd's Register of United Kingdom in January 2004. Providing a safe and healthy working environment for its employees is key to productivity and staff loyalty.

The Group continues to be actively involved in reforestation with The Rubber Industry Smallholders Development Authority ('RISDA') and will also look to acquire forestry land banks from the state government to focus on the planting of rubber trees to ensure a sustainable long term supply of raw wood resources. This venture with RISDA will see the first harvesting of trees in 2005.





#### OUR PEOPLE

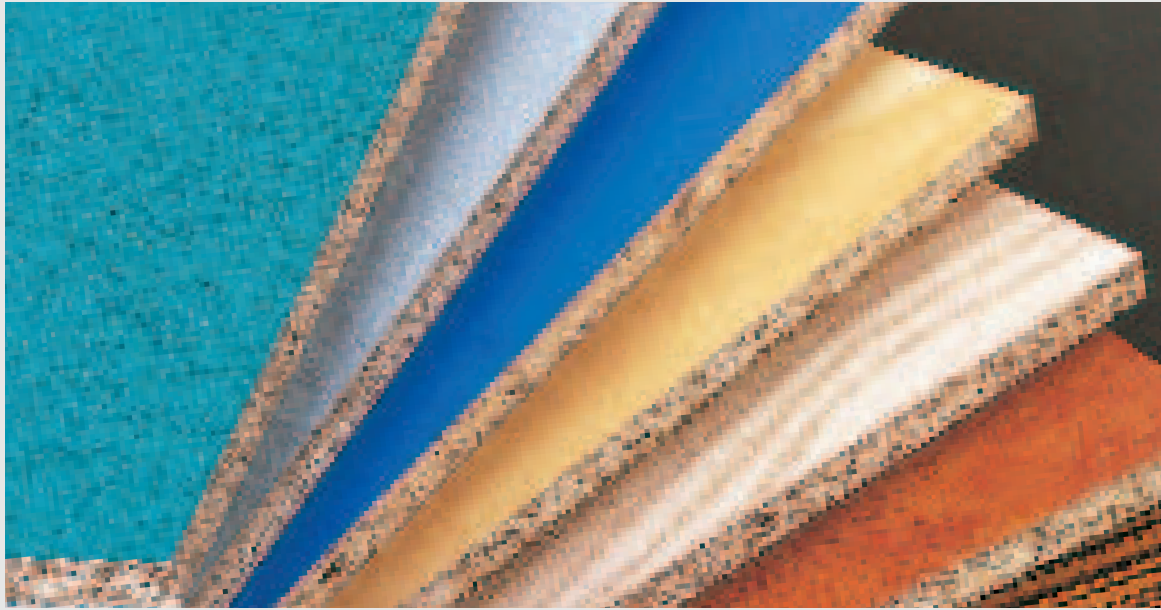
MIECO has reinforced its commitment to the development of its human capital and its investment in skills training and reward management systems will be the key emphasis in 2005.

Furthermore, MIECO shall continue to deploy key employees to its supply-chain partners like Dieffenbacher GmbH and its technology partner, KUNZ GmbH in Germany, to widen their experience and enable them to develop management and operational skills.

#### CONCLUSION

MIECO will continue to develop its global brand through various initiatives which are largely focused on exceeding customers' expectations, improving product range and quality, breaking into new markets overseas and implementing sound customer relations.





# MIECO LAMINATE FLOORING

MIECO Laminate Flooring utilizes the "floating" tongue and groove system.

It is hygienic, maintenance-free and is resistant to scratches, dents, common household chemicals and colour fading. The product comes in 16 beautiful colours of designer's choice which are perfect for dining rooms, living rooms, bedrooms and even retail shops.







## MIECO LIVIN STYLE

MIECO Livin Style is a DIY concept furniture series designed for the urban living lifestyle.

It offers an easy and flexible solution to fit the habitat of modern homes and is available in 3 series with a combination of 14 shelf-scheme designs comprising book-shelves, CD towers and many more.



## GROUP CORPORATE CALENDAR

23 JUNE 2004

Thirty-First Annual General Meeting of MIECO.

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29 JULY 2004

Signing of Joint Venture cum Shareholders Agreement between MIECO and Matsushita Electric Works, Ltd of Japan ("MEW") for the establishment of a joint venture company, Mico Matsushita Denko Sdn Bhd to undertake the business of the research and development, manufacture, marketing and sale of Kenaf Fibre Board and Kenaf Particle Board and their downstream secondary processed products.

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2 AUGUST 2004

Payment of first and final tax exempt dividend of 7.5% for the financial year ended 31 December 2003.

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25 SEPTEMBER 2004

Incorporation of Mico Matsushita Denko Sdn Bhd.

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## 2 FEBRUARY 2005

Pursuant to its internal reorganisation, MIECO signed a conditional Sale and Purchase Agreement with its wholly-owned subsidiary, Mico Manufacturing Sdn Bhd ('MMSB') to transfer its manufacturing operations and related plant and equipment, assets and stocks to MMSB.

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## 1 - 5 MARCH 2005

MIECO's participation in the 11<sup>th</sup> Malaysian International Furniture Fair at Putra World Trade Centre, Kuala Lumpur launching its two new products being MIECO Decorative Electron Beam Foil Chipboard and MIECO decorative Polymer Faced Chipboard. It also introduced the latest Millennium 2005 collection of MIECO Decorative MFC which consisted of ten new fashionable designs.



## 18 - 21 MARCH 2005

MIECO's participation in the Interzum Guangzhou exhibition which was held concurrently with the 14<sup>th</sup> China International Furniture Fair.



## 30 MARCH 2005

Accreditation of OHSAS 18001:1999 Occupational Health and Safety Management System by the Anglo Japanese American certification board which is in line with the Environmental Management System certification attained in January 2004.

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## 19 APRIL 2005

Announcement of completion of MIECO's internal reorganisation.

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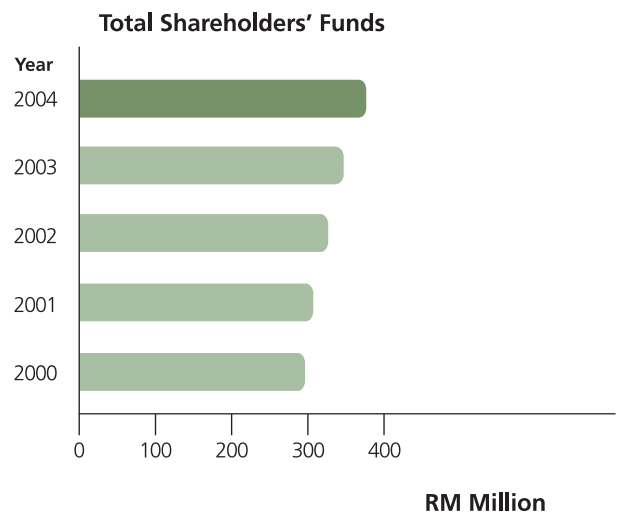
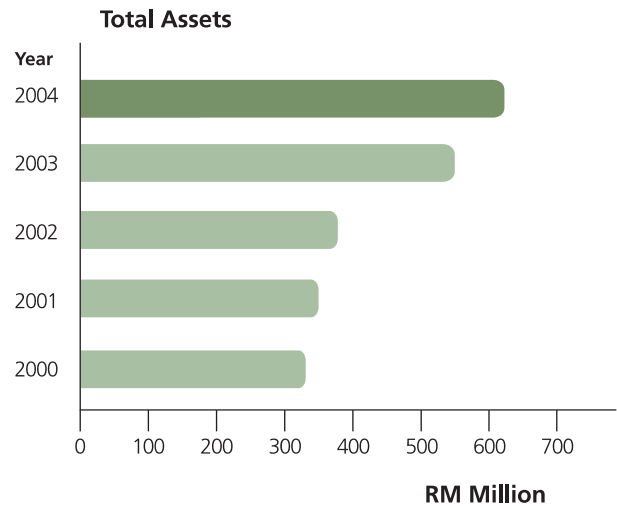
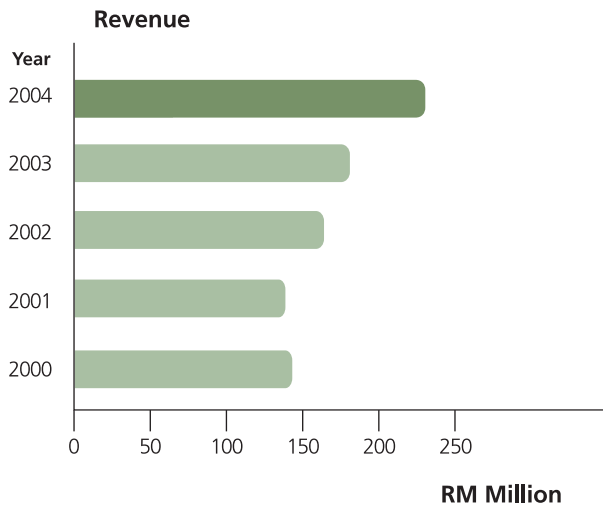
## FINANCIAL HIGHLIGHTS

### 5 YEARS GROUP FINANCIAL STATISTICS

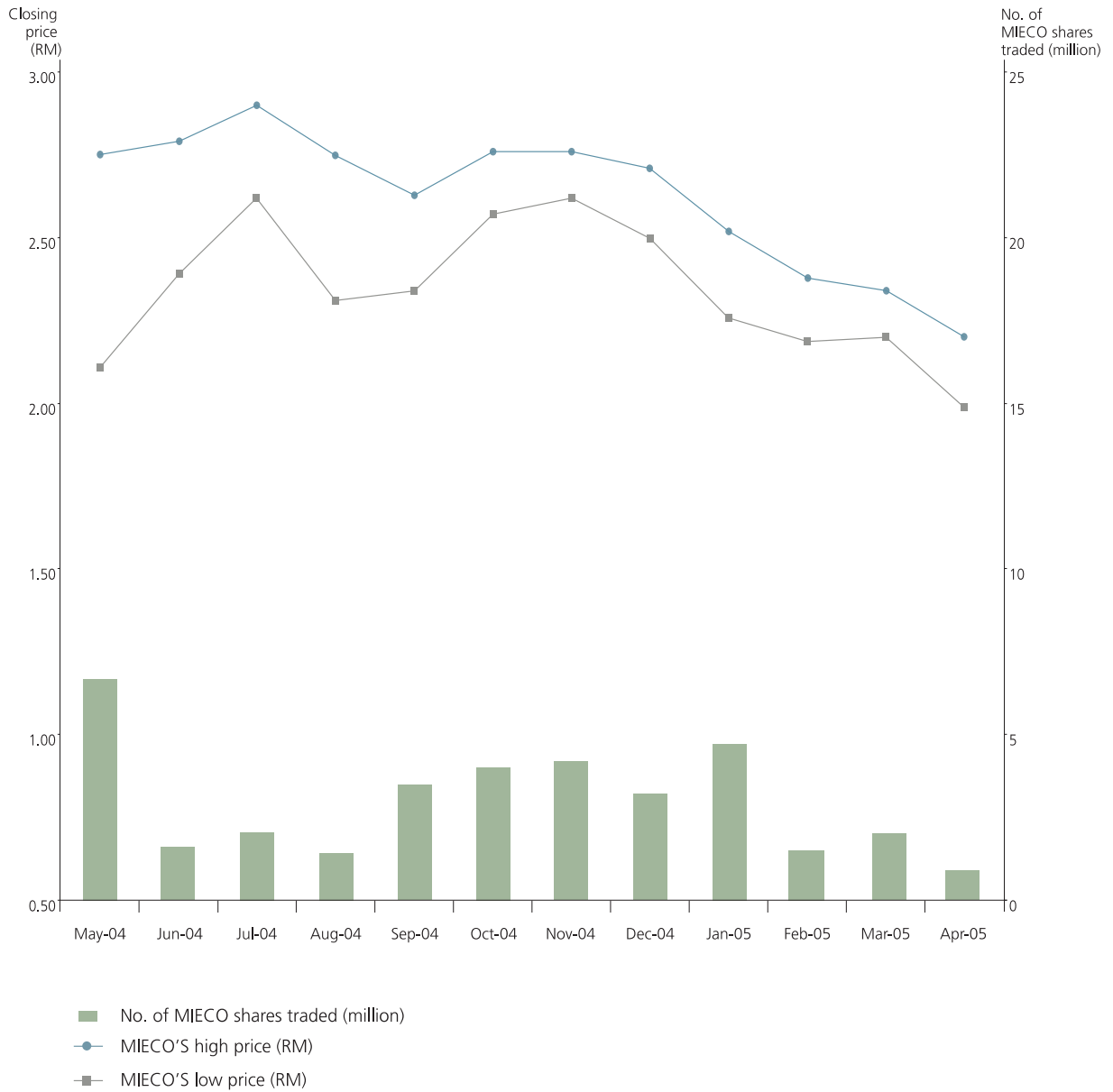
	2004 RM '000	2003 RM '000	2002 RM '000	2001 RM '000	2000 RM '000
<b>GROUP TOTAL NET ASSETS</b>					
Property, plant & equipment	520,218	304,771	153,363	157,406	158,402
Deferred tax assets	194	219	-	-	-
Associated companies	(83)	-	-	-	(42)
Net current assets	32,263	214,298	196,208	173,182	158,197
	552,592	519,288	349,571	330,588	316,557
<b>FINANCED BY</b>					
Share capital	210,000	210,000	210,000	210,000	210,000
Reserves	166,168	137,451	116,180	97,466	87,963
Long term liabilities	176,424	171,837	23,391	23,122	18,594
	552,592	519,288	349,571	330,588	316,557
<b>GROUP RESULTS</b>					
Revenue	236,656	182,319	164,541	138,611	146,805
Profit before taxation	38,418	29,632	26,856	22,108	26,176
Taxation	(7,930)	2,139	(789)	(5,254)	(399)
Profit after taxation	30,488	31,771	26,067	16,854	25,777
Dividend paid	15,750	10,500	7,350	7,350	7,350
Retained profit	14,738	21,271	18,717	9,504	18,427
<b>SELECTED RATIOS</b>					
Earnings per share (sen)	14.52	15.13	12.41	8.03	12.27
Gross proposed dividend per share (%)	7.50	7.50	5.00	3.50	3.50
Net tangible assets per share (RM)	1.79	1.65	1.55	1.46	1.42

## FINANCIAL HIGHLIGHTS

### 5 YEARS GROUP FINANCIAL STATISTICS (CONT'D)



## SHARE PERFORMANCE



# CORPORATE STATEMENTS

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- 47 Statement on Internal Control



## CORPORATE GOVERNANCE STATEMENT

The Board of Mieco Chipboard Berhad is committed to the principles of corporate governance in the Malaysian Code on Corporate Governance ("Code").

The Board will continuously evaluate the status of the Group's corporate governance practices and procedures with a view to adopting and implementing the Best Practices of the Code wherever applicable in the best interests of the shareholders.

The Board is pleased to report on the application by the Group of the extent of compliance with the Best Practices of the Code as required under the Listing Requirements of Bursa Malaysia Securities Berhad ("BMSB").

### BOARD OF DIRECTORS

#### Board Responsibilities

The Board plays a primary role in corporate governance by setting out the strategic direction of the Group, establishing goals and monitoring the achievement of the goals.

#### Board Composition And Balance

The Board presently has 6 members comprising the Non-Independent Non-Executive Chairman, the Executive Director, 2 Non-Independent Non-Executive Directors and 2 Independent Non-Executive Directors. The Board is of the view that its current board size of 6, which provides an effective blend of entrepreneurship, business and professional expertise in general management, corporate finance and technical areas of the industries the Group is involved in is sufficient to discharge the responsibilities and perform the functions of an effective Board. The profiles of each of the Directors are set out on pages 10 and 11 of this Annual Report. The Company is in compliance with the Listing Requirements of BMSB which requires 1/3 of the Board members to comprise of Independent Directors. The Chairman is primarily responsible for the running of the Board while the Executive Director is primarily responsible for managing the Group's day-to-day operations and together with the Non-Executive Directors ensure that the strategies proposed by the management are fully discussed and examined, and take into account the long term interests of the various stakeholders including shareholders, employees, customers, suppliers and the various communities in which the Group conducts its business. The roles of the Chairman and the Executive Director are segregated to ensure that there is a balance of power and authority. In the opinion of the Board, the appointment of a senior independent non-executive Director to whom concerns may be conveyed is not necessary. The Board operates in an open environment in which opinions and information are freely exchanged and in these circumstances any concerns need not be focused on a single director as all members of the Board fulfill this role collectively.

All Board members participate fully in decisions on key issues involving the Group. The presence of the 2 Independent Directors brings guidance and judgement to the Board and ensure that the interest of the minority shareholders are adequately represented. The Board is of the view that its composition fairly represents the composition of its shareholders.

#### Board Meetings

Board meetings are scheduled in advance at the beginning of each new financial year to enable the Directors to plan ahead and fit the year's meetings into their own schedules. The Board meets at least 5 times a year. Additional meetings are held as and when required. The Board also has a formal schedule of matters reserved specifically for the Board's decision, including the approval of corporate plans and budgets, acquisitions and disposals of assets that are material to the Group, major investments, changes to management and control structure of the Group, including key policies, procedures and authority limits.



During the financial year ended 31 December 2004, 5 Board meetings were held. The details of attendance of each Director are set out below:

Name of Director	Total Number of Meetings Attended
Dato' Mohamed Moiz Bin J M Ali Moiz	5
Dato' Yong Seng Yeow	5
Dato' Jaganath Derek Steven Sabapathy	5
Lt. Gen. (R) Dato' Seri Mohamed Daud Bin Abu Bakar	4
Mr Low Kim Seng	5
Dato' Dr Amarjit Singh a/l Santokh Singh	5

### Supply Of Information

All Board members are supplied with information on a timely manner. The agenda and Board papers are prepared and circulated before each Board meeting to enable Directors to obtain further information and explanation, where necessary.

The Directors have full access to senior management for information and assistance and the advice and services of the Company Secretary who is responsible for ensuring that the Board meeting procedures are followed and that applicable rules and regulations are complied. In addition, the Directors may also seek independent professional advice in the furtherance of their duties at the Company's expense, if required.

### Directors' Training

Directors are provided with the opportunities for training to keep abreast with the relevant new legislation and changing commercial risks. During the year under review, Directors of the Company were encouraged to attend seminars and the Continuing Education Programme.

The recent amendment to Practice Note No. 15/2003 effective 1 January 2005 prescribes that the Board of Directors of all public listed companies shall be responsible for determining the training needs of the Directors. In line with this requirement, the Board will identify the relevant training programmes to ensure that the Directors are updated with appropriate professional training to further enhance their business acumen and professionalism in discharging their fiduciary duties to the Group.

### Appointments To The Board

The Nomination Committee consists of 3 Non-Executive Directors, the majority of whom are Independent. The Nomination Committee currently comprises Lt. Gen. (R) Dato' Seri Mohamed Daud Bin Abu Bakar (Independent Non-Executive Director), Dato' Dr Amarjit Singh a/l Santokh Singh (Independent Non-Executive Director) and Dato' Mohamed Moiz Bin J M Ali Moiz (Non-Independent Non-Executive Director). The Nomination Committee is responsible for identifying, nominating and orientating new Directors and assessing existing Directors on an on-going basis.

## BOARD COMMITTEES

The Board has delegated certain functions and responsibilities to Board Committees, namely the Audit Committee, Nomination Committee, Remuneration Committee and Executive Committee.

### Audit Committee

The terms of reference of the Audit Committee are set out in the Audit Committee Report.

### Nomination Committee

The Nomination Committee is responsible for identifying, nominating and orientating new Directors and assessing existing Directors on an on-going basis.

### Remuneration Committee

The Remuneration Committee is responsible for recommending to the Board the remuneration of Executive Directors of the Company.

### Executive Committee

The Executive Committee is empowered by the Board to inter-alia, implement all policies/decisions that are approved by the Board and formulate and review investment policies/strategies and projects.

## RE-ELECTION

All Directors are required to retire from office at least once every 3 years in accordance with the Company's Articles of Association. Directors who are appointed by the Board during the financial year are subject to re-election by the shareholders at the next Annual General Meeting held following their appointments. Retiring Directors may offer themselves for re-election by the shareholders.

## DIRECTORS' REMUNERATION

The remuneration of Directors is determined at levels which enable the Group to attract and retain the Directors with the relevant experience and expertise needed to assist in managing the Group effectively. The remuneration of the Non-Executive Directors reflects the level of responsibilities undertaken by the particular Director concerned in the Company and in the Group and after considering directors' remuneration of comparable organisations. All Directors receive Directors' fees from the Company which are subject to shareholders' approval at the Annual General Meeting.

The Remuneration Committee consists of 3 Non-Executive Directors, the majority of whom are Independent. The Remuneration Committee currently comprises Lt. Gen. (R) Dato' Seri Mohamed Daud Bin Abu Bakar (Independent Non-Executive Director), Dato' Dr Amarjit Singh a/l Santokh Singh (Independent Non-Executive Director) and Dato' Jaganath Derek Steven Sabapathy (Non-Independent Non-Executive Director). The Remuneration Committee is responsible for recommending to the Board the remuneration of Executive Directors of the Company. The Committee met 2 times during the year under review.

The number of Directors whose remuneration fall within the following bands are:-

Range of Remuneration	Executive Director	Non-Executive Directors
<RM50,000	-	4
RM250,001 - RM300,000	-	1
RM600,001 - RM650,000	1	-

The remuneration of the Directors for the financial year ended 31 December 2004 are set out on page 85 of this Annual Report.

## INVESTOR RELATIONS

### Dialogue Between The Company And Investors

The Board recognises the importance of transparency and accountability to its shareholders. The Group communicates with its shareholders and stakeholders regularly through timely release of financial results on a quarterly basis, press releases and announcements which provide an overview of the Group's performance and operations and disclosure of material information. In addition, the Group has established a website ([www.mieco.com.my](http://www.mieco.com.my)) which shareholders and members of the public can access for corporate information and news/events relating to the Group and for channeling their queries. During the year, the Group continued to maintain an active investor relations dialogue, encouraging constructive communication with fund managers, analysts and investors. The Group participated in several investment road shows in Malaysia and overseas during the year under review.

### Annual General Meeting

The Annual General Meeting represents the principal forum for dialogue and interaction with all shareholders. Shareholders are welcome to attend the Company's Annual General Meetings and to actively participate in the proceedings. Every opportunity is given to shareholders to ask questions and seek clarification on the business and performance of the Company and the Group.

## ACCOUNTABILITY AND AUDIT

### Financial Reporting

In presenting the annual financial statements and quarterly announcements to shareholders, the Board takes responsibility to present a balanced and understandable assessment of the Group's and the Company's position and prospects.

### Statement Of Directors' Responsibility In Respect Of Audited Financial Statements

The Directors are required by the Companies Act, 1965 to prepare financial statements for each financial year which have been made out in accordance with applicable approved accounting standards and which give a true and fair view of the state of affairs of the Group and the Company at the end of the financial year and of the results and cash flows of the Group and the Company for the financial year.

In preparing the financial statements, the Directors have:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- ensure that all applicable accounting standards have been followed, and
- prepared financial statements on a going concern basis as the Directors have a reasonable expectation, having made enquiries, that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future.

The Directors have the responsibility of ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Group and the Company and which enable them to ensure that the financial statements comply with the Companies Act, 1965.

The Directors have overall responsibilities for taking such steps as are reasonably open to them to safeguard the assets of the Group to prevent and detect fraud and other irregularities.

### Relationship With Auditors

The Company has a transparent arrangement with the auditors to meet their professional requirements. The auditors have from time to time highlighted to the Audit Committee and the Board matters that require the Board's attention.

The role of the Audit Committee in relation to the external auditors together with the Audit Committee Report are set out on pages 43 to 46 of this Annual Report.

## ADDITIONAL COMPLIANCE INFORMATION

### Share Buybacks

During the financial year, there were no share buy backs by the Company.

### Exercise Of Options, Warrants Or Convertible Securities

Mieco Chipboard Berhad Employee Share Option Scheme came into effect on 13 August 2002. However, as at 31 December 2004, the Company has not granted any options.

### Utilisation Of Proceeds Raised From Corporate Exercises

#### Issue of 100,000,000 Warrants 2004/2009

On 22 April 2004, the Company issued 100,000,000 Warrants 2004/2009 as follows:

- (a) 70,000,000 Rights Warrants at an issue price of RM0.10 per Warrant; and
- (b) 30,000,000 Placement Warrants at an issue price of RM0.25 per Warrant.

The proceeds of RM14.5 million from the issue of the 100,000,000 Warrants 2004/2009 have been utilised in the following manner:

	<b>RM'000</b>
Working capital	13,917
Expenses of Warrants issue	583
Total	<u>14,500</u>

Subject to the adjustments in accordance with the Deed Poll, the exercise price of the Warrants is fixed at RM1.20 payable in cash, whilst the exercise period of the Warrants is 3 years commencing from and inclusive of the second anniversary of the date of issue of the Warrants.

#### RM175 Million Al Murabahah Commercial Paper ("MCP") / Medium Term Note ("MMTN") Programme

As at 31 December 2004, the Company had issued RM150 million MMTN and RM25 million MCP under the RM175 million MCP/MMTN Programme. The proceeds from the issue of the RM175 million MCP/MMTN have been fully utilised to finance the new chipboard plant in Lipis and for general working capital as follows:

	<b>RM'000</b>
For the new chipboard plant in Lipis	
- purchase of land	4,435
- construction of building	33,600
- plant and machinery and other equipment	111,900
For general working capital	25,065
Total	<u>175,000</u>

### American Depository Receipt Or Global Receipt Programme

During the financial year, the Company did not participate in any American Depository Receipt or Global Receipt Programme.

### Sanctions Or Penalties

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

### Non-Audit Fees

There were no non-audit fees paid to the external auditors for the financial year.

### Profit Guarantee

There were no profit guarantees given by the Company during the financial year.

### Revaluation Policy On Landed Properties

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

### Material Contracts Involving Directors' And Major Shareholders' Interests

There were no material contracts entered into by the Company and its subsidiaries involving Directors' and major shareholders' interests either subsisting at the end of the financial year or entered into since the end of the previous financial year.

## AUDIT COMMITTEE REPORT

### MEMBERS OF AUDIT COMMITTEE

The Audit Committee of Mieco Chipboard Berhad currently comprises the following Directors:

Lt. Gen. (R) Dato' Seri Mohamed Daud Bin Abu Bakar	(Chairman/Independent Non-Executive Director)
Dato' Dr Amarjit Singh a/l Santokh Singh	(Member/Independent Non-Executive Director)
Dato' Jaganath Derek Steven Sabapathy	(Member/Non-Independent Non-Executive Director)

### OBJECTIVES

The primary objectives of the Audit Committee are:

- a) to assist the Board in the discharge of its responsibilities by reviewing the adequacy and integrity of the Company's and the Group's internal control systems and management information systems for compliance with applicable laws, regulations, rules, directives and guidelines;
- b) to reinforce the independence of the external auditors and thereby help ensure that they will have free rein in the audit process and to provide, by way of regular meetings, a line of communication between the Board and the external auditors;
- c) to provide emphasis on the internal audit function by increasing the objectivity and independence of the internal auditors and provide a forum for discussion that is independent of management.

### COMPOSITION OF AUDIT COMMITTEE

#### Members

The Audit Committee shall be appointed by the Directors from amongst their number which fulfills the following requirements:

- (a) the Audit Committee shall be composed of not fewer than three (3) members;
- (b) majority of the Audit Committee shall be Independent Directors; and
- (c) at least one (1) member of the Audit Committee:
  - (i) must be a member of the Malaysian Institute of Accountants; or
  - (ii) if he is not a member of the Malaysian Institute of Accountants, he must have at least three (3) years' working experience and:
    - (aa) he must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act 1967; or
    - (bb) he must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act 1967; or
  - (iii) fulfils such other requirements as prescribed by Bursa Malaysia Securities Berhad ("BMSB").
- (d) No alternate Director shall be appointed as a member of the Audit Committee.
- (e) If a member of the Audit Committee resigns or for any other reason ceases to be a member with the result that the number of members is reduced below three (3), the Board of Directors shall, within three (3) months of that event, appoint such number of new members as may be required to make up the minimum number of three (3) members.

- (f) The term of office and performance of the Audit Committee and each of its members shall be reviewed by the Board no less than once every three (3) years.

#### **Chairman**

The members of the Audit Committee shall elect a Chairman from among their number who shall be an Independent Director.

#### **Secretary**

The Company Secretary shall act as the Secretary of the Audit Committee.

### **FUNCTIONS OF THE AUDIT COMMITTEE**

The functions of the Audit Committee are as follows:

- (a) to review with the external auditors, the audit plan, the audit report and their evaluation of the system of internal controls; and the assistance given by employees to the external auditors in discharging their duties;
- (b) to review the quarterly and year-end financial statements of the Company and the Group, focusing particularly on:
  - any changes in accounting policies and practices;
  - significant adjustments arising from the audit;
  - the going concern assumption;
  - compliance with accounting standards and other legal requirements.
- (c) to discuss problems and reservations arising from the interim and final audits, and any matter the external auditors may wish to discuss (in the absence of management where necessary);
- (d) to review the external auditors' management letters and management's response;
- (e) to review the adequacy of the scope, functions and resources of the internal audit function, and that it has the necessary authority to carry out its work;
- (f) to review the internal audit programme, processes, the results of the internal audit programme, processes or investigation undertaken and whether or not appropriate action is taken on the recommendations of the internal audit function;
- (g) to consider any related party transaction and conflict of interest situation that may arise within the Company or the Group including any transaction, procedure or course of conduct that raises questions of management integrity;
- (h) to consider the major findings of internal investigations and management's response;
- (i) to consider the nomination and appointment of external auditors, the audit fee and any questions of resignation or dismissal;
- (j) to report promptly to BMSB on any matter reported by the Audit Committee to the Board of Directors which has not been satisfactorily resolved resulting in a breach of the Listing Requirements of BMSB;
- (k) to consider and examine other topics as may be defined by the Board of Directors.

### **RIGHTS OF THE AUDIT COMMITTEE**

Wherever necessary and reasonable for the performance of its duties, the Audit Committee shall in accordance with a procedure to be determined by the Board of Directors and at the cost of the Company:

- (a) have authority to investigate any matter within its terms of reference;
- (b) have the resources which are required to perform its duties;
- (c) have full and unrestricted access to any information pertaining to the Company and the Group;
- (d) have direct communication channels with the external and internal auditors;
- (e) be able to obtain independent professional or other advice and to secure the attendance of outsiders with relevant experience and expertise it considers necessary.

### MEETINGS AND REPORTING PROCEDURES

- (a) The Audit Committee shall meet as often as the Chairman deems necessary but not less than four (4) times a year.
- (b) The quorum for an Audit Committee meeting shall be at least two (2) members; the majority of the members present must be Independent Directors.
- (c) The internal auditors shall be in attendance at meetings to present and discuss the audit reports and other relevant matters and the recommendations relating thereto and to follow up on all relevant decisions made.
- (d) The Audit Committee may invite the external auditors, any non member Directors or employees of the Group to attend its meetings to assist in its deliberations and resolutions of matters raised.
- (e) The Audit Committee shall, if so required, meet with the external auditors without any executive Board member present. At the request of the external auditors, the Chairman shall convene an Audit Committee meeting to consider any matter which the external auditors believe should be brought to the attention of the Board or shareholders.
- (f) The Secretary is responsible for sending out notices of meetings and preparing and keeping minutes of meetings.
- (g) The Audit Committee meeting minutes are to be extended to all members of the Board.

### SUMMARY OF ACTIVITIES

During the financial year ended 31 December 2004, 4 Audit Committee meetings were held. The details of attendance of the Committee members are as follows:

Name of Audit Committee Member	Number of Meetings Attended
Lt. Gen. (R) Dato' Seri Mohamed Daud Bin Abu Bakar - Chairman	4
Dato' Dr Amarjit Singh a/l Santokh Singh	4
Dato' Jaganath Derek Steven Sabapathy	4

The summary of the activities carried out by the Audit Committee during the financial year ended 31 December 2004 included the following:

- (i) reviewed the risk-based internal audit plan with the internal auditors to ensure adequate scope and coverage on their activities;

- (ii) reviewed the annual audit plan with the external auditors, prior to the commencement of the annual audit as to their scope of work and audit strategy;
- (iii) reviewed the quarterly unaudited financial results and year-end audited financial statements of the Group before recommending them to the Board for approval;
- (iv) reviewed the year-end audited financial statements, the audit memorandum, issues and Management's response with the external auditors,
- (v) reviewed internal audit reports with the internal auditors, especially with regard to the issues raised, audit recommendations and Management's response. Where necessary, the Audit Committee has directed action to be taken by Management to rectify and improve the system of internal controls and procedures;
- (vi) reviewed related party transactions of the Group; and
- (vii) met with the external auditors without the presence of the Executive Director.

#### **INTERNAL AUDIT FUNCTION**

The Internal Audit function of the Group is carried out by an independent professional consulting firm, MustaphaRaj Sdn Bhd ("MRSB"). MRSB is responsible for reviewing the effectiveness of the system of controls in the Group, highlighting weaknesses and providing suitable recommendations for improvement, support and reports to the Audit Committee.

During the financial year, regular audit reviews were carried out on the Group's internal control, operations and processes. The resulting reports of the audits undertaken were presented to the Audit Committee and forwarded to the management concerned for attention and necessary action.



## STATEMENT ON INTERNAL CONTROL

### INTRODUCTION

The Malaysian Code on Corporate Governance ("Code") requires listed companies to maintain a sound system of internal control to safeguard shareholders' investments and the Group's assets. Paragraph 15.27(b) of the Listing Requirements of Bursa Malaysia Securities Berhad requires directors of listed companies to include a statement in their annual reports on the state of internal control of these companies. The Board of Directors of Mico Chipboard Berhad is pleased to present the Statement of Internal Control for the Group, which has been prepared in accordance with the Code.

### BOARD RESPONSIBILITY

The Board is responsible for the Group's system of internal control and for regularly reviewing its effectiveness. The principal objective of the system of internal control is to effectively manage business risks to enhance the value of shareholders' investments and safeguard all assets.

In view of the limitations that are inherent in any system of internal control, this system is designed to manage rather than eliminate the risk of failure to achieve corporate objectives. Accordingly, the Group's system of internal control can provide only reasonable and not absolute assurance against material misstatement of management and financial information or against financial losses and fraud.

### RISK MANAGEMENT

As part of the ongoing effort in managing risks, the Risk Management Framework established in 2003 for identifying, measuring, monitoring and managing risks was updated during the financial year in the following manner:

- a) streamlining of the risk assessment impact and likelihood ratings with the holding company, Bandar Raya Developments Berhad;
- b) re-assessment of the risks identified in 2003;
- c) identification of new risks facing the Group for assessment; and
- d) follow up on the status of the action plan to implement controls to manage the risks.

The Board will continue its efforts to further enhance its current risk management practices.

### INTERNAL AUDIT FUNCTION

The Group's internal audit function, which is outsourced to an independent consulting firm, examines the effectiveness of the Group's system of internal control, risk management process and compliance framework on behalf of the Board. The internal audit function adopts a risk-based approach and prepares its annual audit plan based on the risk profile of major business units of the Group. The internal audit function performs regular reviews of business processes and also conducts visits to key business units of the Group and reports its findings and recommendations to the Audit Committee.

The Audit Committee, on behalf of the Board, reviews with management on the actions taken within the internal control system, issues identified in reports prepared by internal audit, the external auditors and the management. The Audit Committee by reviewing the internal audit reports is able to inform the Board on the effectiveness and adequacy of the Group's internal control system.

## CONTROL STRUCTURE AND ENVIRONMENT

The Board is fully committed to ensuring that a proper control environment is maintained within the organisation to govern the manner in which the Group and its employees conduct themselves. Beside the Risk Management Framework and internal audit, the other key elements of controls are as follows:

### Organisation Structure and Responsibility Levels

The Group has in place a defined organisational structure with clear lines of responsibility, delegation of authorities and a process of hierarchical reporting.

### Structured Delegation of Approving Authority

The Group has defined an Authority Chart that provides the limits authorised to the management in approving transactions.

### Documented Internal Policies and Procedures

Internal policies and procedures geared towards prevention of asset loss and also cover other major functional aspects of the Group's business operations are distributed to the relevant sections across the Group's operations.

### Quality and Environment Control

The Group is committed to continuously maintain the Mieco Quality Management System Certification. The Company was accorded the ISO 9002 : 1994 certification and UKAS Accreditation in 1998, ISO 9001 : 2000 certification in September 2002 and ISO 14001 Environmental Management System accreditation in January 2004. In March 2005, the Company's wholly-owned subsidiary, Mieco Manufacturing Sdn Bhd achieved certification of OHSAS 18001 : 1999 Occupational Health and Safety Management System. These certifications are an assurance of the procedures and processes used to produce the products and services and also reflect the Group's commitment to meet the needs and expectations of customers. The Group has also implemented and achieved the standard requirements of 5S practices.

### Reporting and Review

There are regular Board and Management meetings to assess performance and controls in all facets of operations. Senior management meet on a monthly basis with managers of business units to consider the Group's operational, business development, financial performance and risk related management matters.

### Financial and Operational Information

The Group adopts a strategic planning, annual budgeting and target setting process that includes forecasts for each area of business. The Board reviews and approves the Annual Management Plan and Budget. The Board's evaluation includes assessment of risks and opportunities identified by management in the course of the annual budgeting process. Monthly reporting of actual results and review against budget are prepared for monitoring by the management.

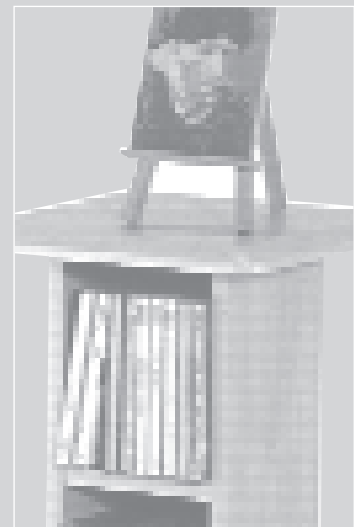
The Group has Board representations in its associated companies. Information on the financial performance of these associated companies are provided regularly to the management of the Company via the Group management reporting procedures.

## CONCLUSION

The Board concurs that the system of internal control will continue to be reviewed, added on or updated in line with the changes in the operating environment. The Board is of the view that the existing system of internal control is adequate to safeguard the Group's assets at the existing level of operations of the Group. There were no material losses incurred during the financial year as a result of weaknesses in internal control.

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## DIRECTORS' REPORT

The Directors hereby submit their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2004.

### PRINCIPAL ACTIVITIES

The principal activities of the Company are that of investment holding and the manufacturing of chipboards and related products.

The principal activities of the Group including the associated companies consist of:

- selling and marketing of chipboards and related products
- manufacturing and marketing of kenaf fibre boards and particle boards and related products
- reforestation, harvesting, extraction and supply of rubberwood
- investment holding
- trading and property investments

There have been no significant changes in the nature of these activities during the financial year.

### FINANCIAL RESULTS

	<b>Group RM'000</b>	<b>Company RM'000</b>
Net profit for the year	30,488	21,165

### DIVIDENDS

The dividends paid or declared by the Company since 31 December 2003 were as follows:

	<b>RM'000</b>
In respect of the year ended 31 December 2003, as shown in the Directors' report of that year, a first and final tax exempt dividend of 7.5 sen per share on 210,000,000 ordinary shares, was paid on 2 August 2004	15,750

In respect of year ended 31 December 2004, the Directors recommend the payment of a first and final tax exempt dividend of 7.5 sen per share amounting to RM15,750,000 which is subject to the approval of members at the forthcoming Annual General Meeting of the Company.

### RESERVES AND PROVISIONS

All material transfers to or from reserves and provisions during the financial year are shown in the financial statements.

### DIRECTORS

The Directors who have held office since the date of the last report are as follows:

Dato' Mohamed Moiz bin J M Ali Moiz  
 Dato' Jaganath Derek Steven Sabapathy  
 Dato' Yong Seng Yeow  
 Low Kim Seng  
 Lt Gen (R) Dato' Seri Mohamed Daud bin Abu Bakar  
 Dato' Dr. Amarjit Singh a/l Santokh Singh

In accordance with Article 81 of the Company's Articles of Association, Low Kim Seng and Lt Gen (R) Dato' Seri Mohamed Daud bin Abu Bakar retire by rotation and being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

## DIRECTORS' REPORT (continued)

### DIRECTORS' BENEFITS

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

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than directors' remuneration disclosed in Note 27 to the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which he is a member, or with a company in which he has a substantial financial interest except as disclosed in Note 30 to the financial statements.

### DIRECTORS' INTERESTS IN SHARES

According to the Register of Directors' shareholdings, particulars of interest of Directors who held office at the end of the financial year in shares in the Company and its related corporations during the financial year are as follows:

	Number of ordinary shares of RM1.00 each			
	At 1.1.2004	Bought	Sold	At 31.12.2004
<b>Direct interest in shares</b>				
(a) <u>Mieco Chipboard Berhad</u>				
Dato' Yong Seng Yeow	20,000	0	0	20,000
Low Kim Seng	10,000	0	0	10,000
Lt Gen (R) Dato' Seri Mohamed Daud bin Abu Bakar	16,000	0	0	16,000
Dato' Dr. Amarjit Singh a/l Santokh Singh	60,000	0	0	60,000

#### (b) Bandar Raya Developments Berhad

Low Kim Seng	22,000	0	0	22,000
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### Indirect interest in shares

#### (a) Mieco Chipboard Berhad

Dato' Mohamed Moiz bin J M Ali Moiz	118,193,971*	0	0	118,193,971
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#### (b) Bandar Raya Developments Berhad

Dato' Mohamed Moiz bin J M Ali Moiz	156,070,812*	0	0	156,070,812
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	Number of ordinary shares/warrants			
	At 1.1.2004	Bought	Sold	At 31.12.2004
<b>Warrants 2004/2009</b>				
<b><u>Mieco Chipboard Berhad</u></b>				
Dato' Mohamed Moiz bin J M Ali Moiz	0	40,100,230*	0	40,100,230*
Dato' Yong Seng Yeow	0	6,666	0	6,666
Lt Gen (R) Dato' Seri Mohamed Daud bin Abu Bakar	0	5,333	0	5,333
Low Kim Seng	0	3,333	0	3,333

\* Indirect interest held through Ambang Sehati Sdn Bhd.

Other than as disclosed above, the Directors did not hold any interests in shares in the Company and its related corporations during the financial year.

## DIRECTORS' REPORT (continued)

### SIGNIFICANT EVENTS

#### (1) Employee Share Option Scheme

The Employee Share Option Scheme of the Company came into effect on 13 August 2002. As at the date of this report, the Company has not granted any options.

#### (2) RM175 million Al Murabahah Commercial Paper/Medium Term Note ("MCP/MMTN") Programme

The Company had on 20 October 2004 issued RM25 million MCP.

#### (3) Rights Issue of 70,000,000 Warrants 2004/2009 and Private Placement of 30,000,000 Warrants

The Company had on 22 April 2004 issued 100,000,000 Warrants 2004/2009. The Warrants exercise was completed on 29 April 2004 with the listing of the 100,000,000 Warrants on the Official List of Bursa Malaysia Securities Berhad.

Subject to the adjustments in accordance with the Deed Poll, the exercise price of the Warrants is fixed at RM1.20 payable in cash, whilst the exercise period of the Warrants is 3 years commencing from and inclusive of the second anniversary of the date of issue of the Warrants.

#### (4) Incorporation of Mieco Matsushita Denko Sdn Bhd

The Company had on 22 September 2003 entered into a Memorandum of Understanding with Matsushita Electric Works Ltd ("MEW"), Japan to set forth the general understanding reached between the parties to carry out research and development, manufacture, marketing and sale of Kenaf Fiber Board and Kenaf Particle Board and their downstream secondary processed products ("Joint Venture").

On 29 July 2004, the Company had entered into a Joint Venture cum Shareholders Agreement with MEW for the establishment of a joint venture company with the proposed "Mieco Matsushita Denko Sdn Bhd" ("JV Co or MIMD") to undertake the business of the Joint Venture and to regulate the relationship between the Company and MEW as shareholders of the JV Co and the conduct of the business and affairs of the JV Co. for the purpose of the JV Business. Under the Joint Venture cum Shareholders Agreement, the Company and MEW will own 49% and 51% respectively of the issued and paid-up capital of MIMD.

MIMD was incorporated on 25 September 2004 with an issued and paid-up share capital of 2 ordinary shares of RM1.00 each with 1 share each held by the Company and MEW.

### SUBSEQUENT EVENTS

#### (1) Proposed Internal Reorganisation

On 2 February 2005, the Company entered into a conditional sale and purchase agreement with its wholly-owned subsidiary, Mieco Manufacturing Sdn Bhd ("MMSB") involving the transfer of the following:-

- (a) the Semambu Plant, comprising a piece of industrial land measuring approximately 14 acres held under the title H.S. (D) 16491, P.T. 7140, Mukim of Kuala Kuantan and Daerah of Kuantan in the State of Pahang Darul Makmur together with the factory and other buildings or structures erected thereon at and known as Lot 77-83, Kawasan Perindustrian Semambu, 25300 Kuantan, Pahang Darul Makmur;
- (b) the Gebeng Plant, comprising 2 pieces of industrial land measuring in the aggregate approximately 43.88 acres held under the titles H.S. (D) 4553, P.T. 1945 and H.S. (D) 17531, P.T. 7504, both in Mukim of Sungai Karang and Daerah of Kuantan in the State of Pahang Darul Makmur together with the factory and other buildings or structures erected thereon at and known as Lot 73 and Lot 74 respectively, Kawasan Perindustrian Gebeng, 26080 Kuantan, Pahang Darul Makmur;

## DIRECTORS' REPORT (continued)

### SUBSEQUENT EVENTS (CONTINUED)

#### (1) Proposed Internal Reorganisation (continued)

- (c) all plant and equipment, assets (including office furniture and equipment) and stocks (including finished goods, works in progress, raw materials and spare parts) relating to the manufacturing operations at the Semambu Plant and the Gebeng Plant.

(Collectively referred to as "the Proposed Internal Reorganisation")

The Proposed Internal Reorganisation has been completed.

#### (2) Subscription of shares in Mieco Matsushita Denko Sdn Bhd

On 30 March 2005, MIMD issued share capital was increased from RM2 to RM7,000,000 with the subscription of additional 3,429,999 and 3,569,999 new ordinary shares of RM1 each by the Company and MEW respectively.

### STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS

Before the income statements and balance sheets of the Group and the Company were made out, the Directors took reasonable steps:

- (a) to ascertain that proper 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 had been made for doubtful debts; and
- (b) 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 the Company had been written down to an amount which they might be expected so to realise.

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

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

No contingent or other liability has become enforceable, or is likely to become enforceable, within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Group or the Company to meet their obligations when they fall due.

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

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

## DIRECTORS' REPORT (continued)

### OTHER STATUTORY INFORMATION

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

In the opinion of the Directors:

- (a) the results of the Group's and the Company's operations during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature; and
- (b) there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Group or the Company for the year in which this report is made.

### GENERAL INFORMATION

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and listed on the Main Board of Bursa Malaysia Securities Berhad.

The number of employees of the Group and the Company at the end of the financial year amounted to 840 (2003: 728) and 693 (2003: 692) respectively.

The holding company is Bandar Raya Developments Berhad, a company incorporated in Malaysia.

The address of the registered office is 31st Floor, Menara Multi-Purpose, Capital Square, No. 8 Jalan Munshi Abdullah, 50100 Kuala Lumpur.

The addresses of the principal place of business are as follows:

- (a) 30th Floor, Menara Multi-Purpose, Capital Square, No. 8, Jalan Munshi Abdullah, 50100 Kuala Lumpur;
- (b) Lot 77-83, Semambu Industrial Estate, P.O. Box 169, 25720 Kuantan, Pahang Darul Makmur;
- (c) Lot 74, Kawasan Perindustrian Gebeng, 26080 Kuantan, Pahang Darul Makmur.

### AUDITORS

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

In accordance with a resolution of the Board of Directors dated 19 April 2005

**DATO' JAGANATH DEREK STEVEN SABAPATHY**  
DIRECTOR

**DATO' YONG SENG YEOW**  
DIRECTOR



## BALANCE SHEETS

AS AT 31 DECEMBER 2004

	Note	Group		Company	
		2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
<b>NON CURRENT ASSETS</b>					
Property, plant and equipment	6	520,218	304,771	144,586	141,504
Subsidiary companies	7	0	0	2,045	1,995
Associated companies	8	(83)	0	0	0
Deferred tax assets	18	194	219	0	0
		<b>520,329</b>	<b>304,990</b>	<b>146,631</b>	<b>143,499</b>
<b>CURRENT ASSETS</b>					
Inventories	9	36,793	25,144	36,048	25,144
Tax recoverable		2,114	242	1,976	0
Receivables, deposits and prepayments	10	31,035	30,245	397,863	203,754
Marketable securities	11	1,496	7,620	0	0
Short term deposits	26	25,942	171,348	14,957	163,632
Cash and bank balances	26	4,890	9,861	2,331	2,329
		<b>102,270</b>	<b>244,460</b>	<b>453,175</b>	<b>394,859</b>
<b>CURRENT LIABILITIES</b>					
Trade and other payables	12	43,995	29,107	40,228	27,245
Provisions	13	0	500	0	500
Borrowings	14	25,128	33	25,070	0
Taxation		884	522	0	14
		<b>70,007</b>	<b>30,162</b>	<b>65,298</b>	<b>27,759</b>
NET CURRENT ASSETS		<b>32,263</b>	<b>214,298</b>	<b>387,877</b>	<b>367,100</b>
		<b>552,592</b>	<b>519,288</b>	<b>534,508</b>	<b>510,599</b>
<b>CAPITAL AND RESERVES</b>					
Share capital	16	210,000	210,000	210,000	210,000
Reserves	17	166,168	137,451	148,853	129,459
Shareholders' funds		<b>376,168</b>	<b>347,451</b>	<b>358,853</b>	<b>339,459</b>
<b>NON CURRENT LIABILITIES</b>					
Deferred tax liabilities	18	20,405	16,878	20,080	16,558
Provisions	13	5,946	4,898	5,540	4,582
Borrowings	14	150,073	150,061	150,035	150,000
		<b>176,424</b>	<b>171,837</b>	<b>175,655</b>	<b>171,140</b>
		<b>552,592</b>	<b>519,288</b>	<b>534,508</b>	<b>510,599</b>

## INCOME STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	Group		Company	
		2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Revenue	19	<b>236,656</b>	182,319	<b>209,220</b>	160,051
Other operating income		<b>2,044</b>	3,458	<b>5,083</b>	2,873
Changes in inventories of finished goods and work in progress		<b>11,649</b>	4,154	<b>10,904</b>	4,154
Raw materials and consumables used		<b>(143,236)</b>	(89,412)	<b>(142,491)</b>	(89,412)
Cost of investment disposed		<b>(6,195)</b>	(8,673)	<b>0</b>	0
Staff costs	20	<b>(23,070)</b>	(21,758)	<b>(20,474)</b>	(19,499)
Depreciation of property, plant and equipment		<b>(8,595)</b>	(15,545)	<b>(8,116)</b>	(15,159)
Upkeep, repairs and maintenance of assets		<b>(4,749)</b>	(4,297)	<b>(4,586)</b>	(4,175)
Utilities		<b>(8,737)</b>	(8,424)	<b>(8,712)</b>	(8,398)
Write back of impairment loss of marketable securities		<b>71</b>	242	<b>0</b>	0
Research and development expenses		<b>(54)</b>	(344)	<b>(54)</b>	(344)
Other operating expenses		<b>(17,276)</b>	(12,061)	<b>(15,882)</b>	(10,273)
Profit from operations	21	<b>38,508</b>	29,659	<b>24,892</b>	19,818
Finance costs	22	<b>(7)</b>	(27)	<b>(2)</b>	0
Share of loss in associated company	8	<b>(83)</b>	0	<b>0</b>	0
Profit before taxation		<b>38,418</b>	29,632	<b>24,890</b>	19,818
Tax (expense)/credit					
- Company and subsidiaries		<b>(7,930)</b>	2,139	<b>(3,725)</b>	4,142
- Associate		<b>0</b>	0	<b>0</b>	0
	23	<b>(7,930)</b>	2,139	<b>(3,725)</b>	4,142
Net profit for the year		<b>30,488</b>	31,771	<b>21,165</b>	23,960
Earnings per share (sen)	24	<b>14.5</b>	15.1	<b>10.1</b>	11.4
Diluted earnings per share (sen)	24	<b>12.4</b>	N.A.	<b>8.6</b>	N.A.
Proposed dividend per share (sen)	25	<b>7.5</b>	7.5	<b>7.5</b>	7.5

N.A. Not applicable

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2004

	Issued and fully paid ordinary shares of RM1 each		Non- distributable		Distributable	Total RM'000
	Number of shares '000	Nominal value RM'000	Share premium RM'000	Warrant reserve RM'000	Retained earnings RM'000	
At 1 January 2003	210,000	210,000	5,866	0	110,314	326,180
Net profit for the year	0	0	0	0	31,771	31,771
Dividends for financial year 2002	0	0	0	0	(10,500)	(10,500)
At 31 December 2003	210,000	210,000	5,866	0	131,585	347,451
At 1 January 2004	210,000	210,000	5,866	0	131,585	347,451
Net profit for the year	0	0	0	0	30,488	30,488
Issuance of warrants	0	0	0	13,979	0	13,979
Dividends for financial year 2003	0	0	0	0	(15,750)	(15,750)
At 31 December 2004	<b>210,000</b>	<b>210,000</b>	<b>5,866</b>	<b>13,979</b>	<b>146,323</b>	<b>376,168</b>

## COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2004

	Issued and fully paid ordinary shares of RM1 each		Non- distributable		Distributable	Total RM'000
	Number of shares '000	Nominal value RM'000	Share premium RM'000	Warrant reserve RM'000	Retained earnings RM'000	
At 1 January 2003	210,000	210,000	5,866	0	110,133	325,999
Net profit for the year	0	0	0	0	23,960	23,960
Dividends for financial year 2002	0	0	0	0	(10,500)	(10,500)
At 31 December 2003	210,000	210,000	5,866	0	123,593	339,459
At 1 January 2004	210,000	210,000	5,866	0	123,593	339,459
Net profit for the year	0	0	0	0	21,165	21,165
Issuance of warrants	0	0	0	13,979	0	13,979
Dividends for financial year 2003	0	0	0	0	(15,750)	(15,750)
At 31 December 2004	<b>210,000</b>	<b>210,000</b>	<b>5,866</b>	<b>13,979</b>	<b>129,008</b>	<b>358,853</b>

## CASH FLOW STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

Note	Group		Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit after taxation	30,488	31,771	21,165	23,960
Adjustments for:				
Write back of impairment loss of marketable securities	(71)	(242)	0	0
Write back of diminution value of investment in subsidiary	0	0	(50)	0
Depreciation of property, plant and equipment	8,595	15,545	8,116	15,159
Loss on disposal of property, plant and equipment	45	3	45	5
Allowance/(write back) for bad and doubtful debts	69	(110)	65	(146)
Allowance/(write back) of inventories obsolescence	378	(79)	378	(79)
Unrealised gain on foreign exchange	0	(151)	0	(16)
Finance cost	7	27	2	0
Interest income	(659)	(3,353)	(514)	(3,088)
Provision for staff retirement benefits	1,111	567	1,046	484
Tax expense/(credit)	7,930	(2,139)	3,725	(4,142)
Dividend income	(54)	(152)	(3,343)	0
Gain on disposal of marketable securities	(3,947)	(2,191)	0	0
Share of loss in associated company	83	0	0	0
Allowance for back dated wages	73	0	73	0
	<b>44,048</b>	39,496	<b>30,708</b>	32,137
Changes in working capital:				
Increase in inventories	(12,027)	(4,075)	(11,282)	(4,075)
(Increase)/decrease in receivables	(73)	(1,073)	63	(1,400)
Increase in payables	14,665	9,168	12,983	8,427
(Increase)/decrease in intercompany balances	(126)	39	(194,240)	(136,715)
	<b>46,487</b>	43,555	<b>(161,768)</b>	(101,626)
Payments of staff retirement benefits	(96)	(131)	(88)	(131)
Income tax paid	(5,888)	(4,925)	(2,193)	(2,176)
Payments of back dated wages	(573)	0	(573)	0
Net cash flows from/(used in) operating activities	<b>39,930</b>	38,499	<b>(164,622)</b>	(103,933)

## CASH FLOW STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004 (continued)

	Note	Group		Company	
		2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase of property, plant and equipment	28	<b>(216,637)</b>	(166,868)	<b>(11,198)</b>	(7,040)
Purchase of marketable securities		<b>0</b>	(3,741)	<b>0</b>	0
Interest income		<b>2,588</b>	3,800	<b>517</b>	3,527
Proceeds from disposal of property, plant and equipment		<b>98</b>	12	<b>95</b>	0
Proceeds from disposal of marketable securities		<b>10,142</b>	10,864	<b>0</b>	0
Dividend income		<b>54</b>	152	<b>3,343</b>	0
Investment in an associated company	5	<b>*</b>	-	<b>*</b>	-
Incorporation/acquisition of subsidiaries		<b>-</b>	-	<b>-</b>	#
Net cash flows used in investing activities		<b>(203,755)</b>	(155,781)	<b>(7,243)</b>	(3,513)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Repayment of hire purchase liabilities		<b>(83)</b>	(86)	<b>(35)</b>	0
Repayment of term loan		<b>0</b>	(848)	<b>0</b>	0
Interest paid		<b>(9,032)</b>	(27)	<b>(2)</b>	0
Dividend paid		<b>(15,750)</b>	(10,500)	<b>(15,750)</b>	(10,500)
Proceeds from issuance of MCP/MMTN		<b>25,000</b>	150,000	<b>25,000</b>	150,000
Proceeds on issuance of warrants		<b>14,500</b>	0	<b>14,500</b>	0
Expenses on issuance of warrants		<b>(521)</b>	0	<b>(521)</b>	0
Expenses on issuance of MCP/MMTN		<b>(666)</b>	0	<b>0</b>	0
Net cash flows from financing activities		<b>13,448</b>	138,539	<b>23,192</b>	139,500
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(150,377)</b>	21,257	<b>(148,673)</b>	32,054
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR</b>		<b>181,209</b>	159,801	<b>165,961</b>	133,891
<b>EFFECTS OF EXCHANGE RATE CHANGES</b>		<b>0</b>	151	<b>0</b>	16
<b>CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR</b>	26	<b>30,832</b>	181,209	<b>17,288</b>	165,961

\* RM1

# RM2

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004

### 1. PRINCIPAL ACTIVITIES

The principal activities of the Company are that of investment holding and the manufacturing of chipboards and related products.

The principal activities of the Group including the associated companies consist of:

- selling and marketing of chipboards and related products
- manufacturing and marketing of kenaf fibre boards and particle boards and related products
- reforestation harvesting, extraction and supply of rubberwood
- investment holding
- trading and property investments

### 2. BASIS OF PREPARATION

The financial statements of the Group and the Company, expressed in Ringgit Malaysia, are prepared under the historical cost convention except as disclosed in the summary of significant accounting policies. The financial statements comply with the MASB approved accounting standards in Malaysia and the provisions of the Companies Act, 1965.

The preparation of financial statements in conformity with the provisions of the Companies Act 1965 and the MASB approved accounting standards in Malaysia requires the use of 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 reported period. Although these estimates are based on the Directors' best knowledge of current events and actions, actual results could differ from those estimates.

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary companies made up to the end of the financial year. Subsidiary companies are the companies in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from their activities.

Subsidiaries are consolidated using the acquisition method of accounting. Under the acquisition method of accounting, subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The cost of an acquisition is the amount of cash paid and the fair value at the date of acquisition of other purchase consideration given by the acquirer, together with directly attributable expenses of acquisition. At the date of acquisition, the fair values of the subsidiaries' net assets are determined and these values are reflected in the consolidated financial statements. The difference between the cost of acquisition over the Group's share of the fair value of the identifiable net assets of the subsidiary acquired at the date of acquisition is reflected as goodwill or reserve on consolidation.

Goodwill and reserve on consolidation is written off immediately to income statement.

Intragroup transactions, balances and unrealised gains on transactions are eliminated; unrealised losses are also eliminated unless cost cannot be recovered.

The gain or loss on disposal of a subsidiary is the difference between net disposal proceeds and the Group's share of its net assets.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (continued)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (b) Associated companies

Associated companies are those companies in which the Group exercises significant influence, but which it does not control. Significant influence is the power to participate in the financial and operating policy decisions of the associates but not the power to exercise control over those policies. Investments in associates are accounted for in the consolidated financial statements by the equity method of accounting.

Equity accounting involves recognising in the income statement the Group's share of the net results of associates for the year. The Group's investment in associates are carried in the balance sheet at an amount that reflects its share of the net assets of the associates. Equity accounting is discontinued when the carrying amount of the investment in an associate reaches zero unless the Group has incurred obligations or made payments on behalf of the associates.

The Group's share of results and reserves of associates acquired or disposed of are included in the consolidated financial statements from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair values of the associates' net assets are determined and these values are reflected in the consolidated financial statements.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence on impairment of the asset transferred. Where necessary, adjustments are made to the financial statements of associates to ensure consistency of accounting policies with those of the Group.

The gain or loss on disposal of an associate is the difference between net disposal proceeds and the Group's share of its assets together with share of post acquisition results, which were previously recognised in the consolidated income statement.

#### (c) Investments

Investments in subsidiary companies and associated companies are stated at cost. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount.

Marketable securities (within current assets) are carried at the lower of cost and market value, determined on an individual portfolio basis. Market value is calculated by reference to stock exchange quoted selling prices at the close of business on the balance sheet date. Increases/decreases in the carrying amount of marketable securities are credited/charged to the income statement.

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

#### (d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment loss. Cost comprises purchase cost and any incidental costs of acquisition.

Freehold land is not depreciated as it has an infinite life. Capital work in progress is not depreciated as depreciation only commences when the assets are ready for their intended use.

Leasehold land with an unexpired lease period of 50 years and more are classified as long term leasehold land. All other leasehold lands are classified as short term.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (continued)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (d) Property, plant and equipment (continued)

Long leasehold land is amortised in equal instalments over the period of the respective leases that range from 66 to 99 years. Other property, plant and equipment are depreciated on the straight line basis to write off the cost of the assets to their residual values over the estimated useful lives at the following annual rates:

	%
Buildings	1 - 2
Plant and machinery	5 - 33.3
Furniture, fittings and office equipment	10 - 20
Office renovation	10
Computer equipment	33.3
Motor vehicles	20

At each balance sheet date, the Group assesses whether there is any indication of impairment. If such indication exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. See accounting policy Note e on impairment of assets.

Subsequent restoration costs relating to an item of property, plant and equipment that has been recognised are capitalised only if such costs improve the condition of the asset beyond its originally assessed standard of performance. All other subsequent expenditures are expensed to income statement when incurred.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in profit/loss from operations.

Borrowing costs directly attributable to the construction of the property, plant and equipment are capitalised in accordance with 3(q)(ii). All other borrowing costs are charged to income statement.

With effect from the current financial year, the Group had changed the annual depreciation rate for plant and machinery from 7.5% to 5% so as to better reflect their estimated useful lives. The effect on the financial statements of this change in accounting estimate is a decrease in depreciation charge for the year for the Group and Company by RM 7.4 million and consequently, an increase in the Group and Company current year's profit by RM7.4 million.

#### (e) Impairment of assets

Property, plant and equipment and other non-current assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there is separately identifiable cash flows.

The impairment loss is charged to the income statement and any subsequent increase in recoverable amount is recognised in the income statement.

#### (f) Research and development expenditure

Research expenditure is recognised as an expense when incurred. Costs incurred on development projects (relating to the design and testing of new or imposed products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technologies feasibility, and only if the cost can be measured reliably. Other development expenditures are recognised as an expense when incurred.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (continued)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (g) Employee benefits

##### (i) Short term employee benefits

Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group.

##### (ii) Post employment benefits

###### Defined contribution plans

The Group contributes to the Employees Provident Fund, the national defined contribution plan. Contributions made to this defined contribution plan are charged to the income statement in the year to which they relate. Once the contributions have been paid, the Group has no further payment obligations.

###### Defined benefit plan

The liability in respect of a defined benefit plan is the present value of the defined benefit obligation at the balance sheet date together with adjustments for actuarial gains/losses and past services cost. The Group determines the present value of the defined obligation with sufficient regularity such that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the balance sheet date.

The defined benefit obligation, calculated using the projected unit credit method, is determined by independent actuaries, considering the estimated future cash outflows using market yield at the balance sheet date of government securities which have currency and terms to maturity approximating the terms of the related liability.

Actuarial gains and losses arise from experience adjustments and changes in actuarial assumptions. The amount of net actuarial gains and losses recognised in the income statement is determined by the corridor method in accordance with MASB 29 "Employee Benefits" and is charged or credited to income over the average remaining service lives of the related employees participating in the defined benefit plan.

Under this scheme, the benefits due to the eligible employees are determined based on the length of service at predetermined factors in accordance with the Group's Employee's Handbook.

#### (h) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of finished goods and work-in-progress includes raw materials, labour and attributable production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

#### (i) Receivables

Trade receivables are carried at invoiced amount less an allowance for doubtful debts based on a review of outstanding amounts at the year end. Known bad debts are written off in the year in which they are identified.

#### (j) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call with banks, bank overdrafts and short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (continued)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (k) Income tax

Current tax expense includes all taxes payable based upon the taxable profits, including withholding taxes, by the Company, subsidiaries, associates and real property gains taxes payable upon disposal of properties.

Deferred taxation is recognised in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences or unused tax losses can be utilised.

Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax.

#### (l) Provisions

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

#### (m) Dividends

Dividends on ordinary shares are recognised as liabilities when proposed or declared before the balance sheet date. A dividend proposed or declared after the balance sheet date, but before the financial statements are authorised for issue, is not recognised as a liability at the balance sheet date. When the dividend become payable upon the approval of members of the Company at the Annual General Meeting, it will be accounted for as a liability.

#### (n) Revenue recognition

Sales are recognised upon delivery of products and customer acceptance, net of returns, rebates and discounts, and after eliminating sales within the Group.

Revenue relating to the disposal of marketable securities is recognised when the disposal contracts become unconditional and on a receivable basis. Proceeds from disposal of marketable securities are net of stamp duties, brokerage and clearing fees.

Sales commission, interest and rental income are recognised on accrual basis. Dividend income is recognised when the Group's right to receive payment is established.

#### (o) Foreign currencies

##### (i) Foreign currency transactions and balances

Foreign currency transactions in Group companies are accounted for at exchange rates prevailing at the transaction dates, unless hedged by forward foreign exchange contracts, in which case the rates specified in such forward contracts are used. Foreign currency monetary assets and liabilities are translated at exchange rates prevailing at balance sheet date, unless hedged by forward foreign exchange contracts, in which case the rates specified in such forward contracts are used. Exchange differences arising from settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are included in the income statement.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (continued)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (o) Foreign currencies (continued)

##### (i) Foreign currency transactions and balances (continued)

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

Foreign currency	31.12.2004 RM	31.12.2003 RM
1 US Dollar	3.75000	3.75000
1 Singapore Dollar	2.25610	2.15420
1 Hong Kong Dollar	0.48310	0.48310
1 EURO	4.87510	4.48840

##### (ii) Foreign operations

Financial statements of foreign operations that are integral to the operations of the Company are translated using procedures in the preceding paragraph as if the transactions of the foreign operations had been those of the Company.

#### (p) Hire purchase creditors

Property, plant and equipment held under hire purchase agreements are capitalised in the balance sheet and are depreciated in accordance with the policy set out in Note 3 (d). Outstanding obligations due under the hire purchase agreements after deducting finance charges are included as liabilities in the financial statements.

Hire purchase finance charges are allocated to the income statement over the hire purchase period so as to give a constant periodic rate of interest on the remaining liabilities.

#### (q) Borrowings

##### (i) Classification

Borrowings are initially recognised based on the proceeds received, net of transaction costs incurred. In subsequent periods, the difference between the net proceeds and the total amount of the payments that the Group is required to make are allocated to periods over the terms of the borrowings at a constant rate on the carrying amount and are charged to income statement as finance cost.

##### (ii) Capitalisation of borrowing cost

Borrowing costs that are directly attributable to the construction of property, plant and equipment are capitalised as part of the cost of the assets during the period of time that is required to complete and prepare the asset for its intended use.

#### (r) Financial instruments

##### (i) Description

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

A financial asset is any asset that is cash, a contractual right to receive cash or another asset from another enterprise, a contractual right to exchange financial instruments with another enterprise under conditions that are potentially favourable, or an equity instrument of another enterprise.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another enterprise, or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (continued)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (r) Financial instruments (continued)

##### (ii) Financial instruments recognised on the balance sheet

The recognition method adopted for financial instruments recognised on the balance sheet is disclosed in the individual accounting policy statements associated with each item.

##### (iii) Financial instruments not recognised on the balance sheet

Foreign currency forward contracts are entered into to protect the Group from exposure to currency movements in exchange rates. Exchange gains and losses arising on contracts entered into as covers of anticipated future transactions are deferred until the date of such transactions, at which time the gains and losses will be included in the measurement of such transactions.

All other exchange gains and losses relating to hedge instruments are recognised in the income statement in the same period as the exchange differences on the underlying hedged items. Gains and losses on contracts that are no longer designed as hedges are included in the income statements.

##### (iv) Fair value estimation for disclosure purposes

The fair value of publicly traded securities is based on quoted market prices at the balance sheet date. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar instruments.

The face values of financial assets (less any estimated credit adjustments) and financial liabilities with a maturity period of less than one year are assumed to approximate their fair values.

#### (s) Segment reporting

Segment reporting is presented for enhanced assessment of the Group's risks and returns. Business segments provide products or services that are subject to risk and returns that are different from those of other business segments. Geographical segments provide products or services within a particular economic environment that is subject to risks and returns that are different from those components operating in other economic environments.

Segment revenue, expense, assets and liabilities are those amounts resulting from the operating activities of a segment that are directly attributable to the segment and the relevant portion that can be allocated on a reasonable basis to the segment. Segment revenue, expense, assets and segment liabilities are determined before intragroup balances and intragroup transactions are eliminated as part of the consolidation process, except to the extent that such intragroup balances and transactions are between group enterprises within a single segment.

### 4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's businesses whilst managing its foreign currency exchange risk, interest rate risk, credit risk, liquidity and cash flow risk. The Group operates within clearly defined authority limits that have been approved by the Board. Further financial risk management is carried out through risk reviews, internal control systems and insurance programme.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (continued)

### 4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

#### Foreign currency exchange risk

The Group incurs foreign currency risk on sales and purchases that are denominated in a currency other than Ringgit Malaysia.

The Group covers a portion of foreign trade payables denominated in foreign currency when the need arises. All foreign exchange contracts are for the purpose of hedging to protect the Group from foreign currency fluctuations and the Group is not allowed to trade other than for the purpose of hedging.

#### Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. Interest rate exposure arises from the Group's borrowing and deposits. Interest rates of Group's borrowings are managed through fixed and floating rates. Investments in financial assets are short term in nature and are mostly placed as short term deposits with licensed financial institutions.

#### Credit risk

The Group has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requesting credit with clear approving authority and limits. Customers with credits granted above specific limits are required to provide collateral in the form of fixed deposits and/or bank guarantees. The credit policy also spells out clearly the guidelines on extending credit terms to customers, including monitoring the process, assessing and valuation of customer's credit reliability and periodic review of their financial status to determine the credit limits to be granted.

At balance sheet date, there were no significant concentration of credit risk.

#### Liquidity and cash flow risk

The Group's policy on liquidity risk management is to maintain sufficient cash and have available funding through adequate amounts of committed credit facilities and credit lines for working capital requirements.

### 5. INVESTMENT IN AN ASSOCIATED COMPANY

#### Current year

#### **(a) Miecو Matsushita Denko Sdn. Bhd.**

The Company had on 22 September 2003 entered into a Memorandum of Understanding with Matsushita Electric Works Ltd ('MEW') of Japan to set forth the general understanding reached between the parties to carry out research and development, manufacture, marketing and sale of kenaf fiber board and kenaf particle board and their downstream secondary processed products ('Joint Venture').

On 29 July 2004, the Company had entered into a Joint Venture cum Shareholders Agreement with MEW for the establishment of a company with the proposed name "Miecو Matsushita Denko Sdn Bhd" ('MIMD') to undertake the business of the Joint Venture and to regulate the relationship between the Company and MEW as shareholders of MIMD and the conduct of the business and affairs of MIMD for the purpose of the Joint Venture business. Under the Joint Venture cum Shareholders Agreement, the Company and MEW will own 49% and 51% respectively of the issued and paid-up capital of MIMD, thereby making MIMD an associated company of the Company.

MIMD was incorporated on 25 September 2004 with an issued and paid-up share capital of 2 ordinary shares of RM1.00 each with 1 share each held by the Company and MEW respectively.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (continued)

### 6. PROPERTY, PLANT AND EQUIPMENT

<b>Group</b>	<b>Long leasehold land RM'000</b>	<b>Short leasehold land RM'000</b>	<b>Buildings RM'000</b>	<b>Plant and machinery RM'000</b>	<b>Furniture and fittings, office renovation and equipment RM'000</b>	<b>Motor vehicles RM'000</b>	<b>Capital work in progress RM'000</b>	<b>Total RM'000</b>
<b>Net book value</b>								
At 1 January 2004	5,303	7,129	50,597	79,334	1,501	1,282	159,625	304,771
Additions	4,435	0	0	9,925	812	1,231	207,782	224,185
Disposals/write off	0	0	0	(136)	(7)	0	0	(143)
Depreciation charge for the year	(61)	(118)	(745)	(6,227)	(819)	(625)	0	(8,595)
At 31 December 2004	<b>9,677</b>	<b>7,011</b>	<b>49,852</b>	<b>82,896</b>	<b>1,487</b>	<b>1,888</b>	<b>367,407</b>	<b>520,218</b>
<b>At 31 December 2004</b>								
Cost	<b>10,297</b>	<b>7,802</b>	<b>57,792</b>	<b>209,458</b>	<b>9,769</b>	<b>6,947</b>	<b>367,407</b>	<b>669,472</b>
Accumulated depreciation	<b>(620)</b>	<b>(791)</b>	<b>(7,940)</b>	<b>(122,682)</b>	<b>(8,282)</b>	<b>(5,059)</b>	<b>0</b>	<b>(145,374)</b>
Accumulated impairment loss	<b>0</b>	<b>0</b>	<b>0</b>	<b>(3,880)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(3,880)</b>
Net book value	<b>9,677</b>	<b>7,011</b>	<b>49,852</b>	<b>82,896</b>	<b>1,487</b>	<b>1,888</b>	<b>367,407</b>	<b>520,218</b>
<b>At 31 December 2003</b>								
Cost	5,862	7,802	57,792	199,936	9,030	5,981	159,625	446,028
Accumulated depreciation	(559)	(673)	(7,195)	(116,722)	(7,529)	(4,699)	0	(137,377)
Accumulated impairment loss	0	0	0	(3,880)	0	0	0	(3,880)
Net book value	5,303	7,129	50,597	79,334	1,501	1,282	159,625	304,771

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (continued)

### 6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

<u>Company</u>	Long leasehold land RM'000	Short leasehold land RM'000	Buildings RM'000	Plant and machinery RM'000	Furniture and fittings, office renovation and equipment RM'000	Motor vehicles RM'000	Total RM'000
<b>Net book value</b>							
At 1 January 2004	5,303	7,129	47,861	79,334	1,142	735	141,504
Additions	0	0	0	9,925	625	788	11,338
Disposals/write off	0	0	0	(136)	(4)	0	(140)
Depreciation charge for the year	(56)	(118)	(686)	(6,227)	(616)	(413)	(8,116)
At 31 December 2004	<b>5,247</b>	<b>7,011</b>	<b>47,175</b>	<b>82,896</b>	<b>1,147</b>	<b>1,110</b>	<b>144,586</b>
<b>At 31 December 2004</b>							
Cost	5,862	7,802	54,994	209,458	8,255	5,634	292,005
Accumulated depreciation	(615)	(791)	(7,819)	(122,682)	(7,108)	(4,524)	(143,539)
Accumulated impairment loss	0	0	0	(3,880)	0	0	(3,880)
Net book value	<b>5,247</b>	<b>7,011</b>	<b>47,175</b>	<b>82,896</b>	<b>1,147</b>	<b>1,110</b>	<b>144,586</b>
<b>At 31 December 2003</b>							
Cost	5,862	7,802	54,994	199,936	7,622	5,112	281,328
Accumulated depreciation	(559)	(673)	(7,133)	(116,722)	(6,480)	(4,377)	(135,944)
Accumulated impairment loss	0	0	0	(3,880)	0	0	(3,880)
Net book value	5,303	7,129	47,861	79,334	1,142	735	141,504

#### Property, plant and equipment under hire purchase

	Group		Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Motor vehicles under hire purchase:				
- additions during the year	473	222	326	0
- net book value at end of year	412	396	285	0

During the current financial year, net finance cost of RM7 million (finance cost of RM9 million less interest income of RM 2 million) arising from MCP/MMTN\* had been capitalised to property, plant and equipment.

\* Al Murabahah Commercial Paper ("MCP")/Medium Term Note ("MMTN")



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (continued)

### 6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Other costs which are directly attributable to the construction of new property, plant and equipment and capitalised during the financial year are as follow:-

	Group	
	2004 RM'000	2003 RM'000
<u>Staff costs</u>		
Wages, salaries and bonus	1,097	0
Defined contribution plan	131	0
Defined retirement benefit plan	33	0
	1,261	0

### 7. SUBSIDIARY COMPANIES

	Company	
	2004 RM'000	2003 RM'000
Unquoted shares, at cost	2,045	2,045
Allowance for impairment loss	0	(50)
	2,045	1,995

The subsidiary companies are as follows:

Name of company	Effective interest		Principal activities
	2004 %	2003 %	
# Miecو Marketing Sdn. Bhd.	100	100	Selling and marketing of chipboards, and related product
* Miecو Marketing (S) Pte. Ltd.	100	100	Marketing of chipboard
# Miecو Chemicals Sdn. Bhd.	100	100	Dormant
# Miecو Wood Products Sdn. Bhd.	100	100	Dormant
# Miecو Wood Resources Sdn. Bhd.	100	100	Investment holding and procurement of rubberwood
+ Miecو International (HK) Limited	100	100	Marketing of chipboard
# Tudor Capital Sdn. Bhd.	100	100	Investment trading
# Aspire Benchmark Sdn. Bhd.	100	100	Trading and property investment
# Miecو Manufacturing Sdn. Bhd.	100	100	Manufacturing of chipboards and other related products

All the subsidiary companies are incorporated in Malaysia, except for Miecو Marketing (S) Pte. Ltd. and Miecو International (HK) Limited, which are incorporated in Singapore and Hong Kong respectively.

# Audited by PricewaterhouseCoopers, Malaysia

+ Audited by a member firm of Pricewaterhouse Coopers International Limited which is a separate and independent legal entity from PricewaterhouseCoopers, Malaysia

\* Audited by a firm other than PricewaterhouseCoopers, Malaysia and member firms of Pricewaterhouse Coopers International Limited

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (continued)

### 8. ASSOCIATED COMPANIES

<u>Company</u>	<u>2004</u> <u>RM'000</u>	<u>2003</u> <u>RM'000</u>
Unquoted shares, at cost	#	0
<u>Group</u>		
Shares in an associated company, at cost	*	*
Share of post acquisition results	<b>(83)</b>	0
Balance as at 31 December	<b>(83)</b>	0
Represented by:		
Share of net liabilities in associated company	<b>(83)</b>	0

# 1 ordinary share of RM1 each

\* 2 ordinary shares of RM1 each

As disclosed in Note 33, the Group has further subscribed for additional shares in Mieco Matsushita Denko Sdn. Bhd.

The associated companies which are incorporated in Malaysia are as follows:

<u>Name of company</u>	<u>Effective interest</u>		<u>Principal activities</u>
	<u>2004</u> <u>%</u>	<u>2003</u> <u>%</u>	
Mieco Smallholders Sdn. Bhd.	50	50	Reforestation, harvesting, extraction and supply of rubberwood
Mieco Matsushita Denko Sdn. Bhd.	49	0	Manufacturing and marketing of kenaf fibre boards and particle boards and related products

### 9. INVENTORIES

	<u>Group</u>		<u>Company</u>	
	<u>2004</u> <u>RM'000</u>	<u>2003</u> <u>RM'000</u>	<u>2004</u> <u>RM'000</u>	<u>2003</u> <u>RM'000</u>
At cost:				
Raw materials	<b>15,415</b>	5,936	<b>14,717</b>	5,936
Work-in-progress	<b>30</b>	970	<b>30</b>	970
Finished goods	<b>8,666</b>	6,905	<b>8,666</b>	6,905
At net realisable value:				
Spares and consumables	<b>12,682</b>	11,333	<b>12,635</b>	11,333
Total	<b>36,793</b>	25,144	<b>36,048</b>	25,144

In financial year 2003, the Group reversed RM79,000 in respect of allowances for obsolescence made in prior years that was subsequently not required as the Group was able to sell these inventories at above their carrying amount.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (continued)

### 10. RECEIVABLES, DEPOSITS AND PREPAYMENTS

	Group		Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Trade receivables	<b>35,468</b>	32,955	<b>17,478</b>	16,303
Allowance for doubtful debts	<b>(7,930)</b>	(7,919)	<b>(2,331)</b>	(2,271)
	<b>27,538</b>	25,036	<b>15,147</b>	14,032
Amount receivable from subsidiaries	<b>0</b>	0	<b>380,126</b>	186,258
Allowance for doubtful debts	<b>0</b>	0	<b>(252)</b>	(252)
	<b>0</b>	0	<b>379,874</b>	186,006
Other receivables	<b>1,829</b>	855	<b>1,689</b>	729
Allowance for doubtful debts	<b>(100)</b>	(100)	<b>0</b>	0
	<b>1,729</b>	755	<b>1,689</b>	729
Deposits	<b>241</b>	239	<b>74</b>	78
Prepayments	<b>21</b>	1,295	<b>20</b>	423
Amount receivable from associated companies	<b>819</b>	434	<b>372</b>	0
Advance payments to trade creditors	<b>687</b>	2,486	<b>687</b>	2,486
	<b>3,497</b>	5,209	<b>2,842</b>	3,716
Total	<b>31,035</b>	30,245	<b>397,863</b>	203,754

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

The currency exposure profile of receivables, deposits and prepayments is as follows:

	Group		Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
- Ringgit Malaysia	<b>22,854</b>	24,139	<b>394,514</b>	193,422
- US Dollar	<b>3,093</b>	1,538	<b>2,834</b>	1,612
- Singapore Dollar	<b>515</b>	314	<b>515</b>	764
- HK Dollar	<b>4,573</b>	2,004	<b>0</b>	5,706
- EURO	<b>0</b>	2,250	<b>0</b>	2,250
	<b>31,035</b>	30,245	<b>397,863</b>	203,754

Credit terms of trade receivables range from payment in advance to 60 days.

Concentrations of credit risk with respect to trade receivables are limited due to the Group's large number of customers. The Group's historical experience in collection of accounts receivable falls within the recorded allowances. Due to these factors, management believes that no additional credit risk beyond amounts provided for collection losses is inherent in the Group's trade receivables.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (continued)

### 11. MARKETABLE SECURITIES

	Group		Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
<b>Quoted in Malaysia</b>				
Share in corporations, at cost	1,518	7,957	0	0
Less: allowance for impairment loss	(22)	(337)	0	0
	<b>1,496</b>	<b>7,620</b>	<b>0</b>	<b>0</b>
<b>At market value</b>				
Shares in corporations, quoted in Malaysia	1,755	8,877	0	0

### 12. TRADE AND OTHER PAYABLES

	Group		Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Trade payables	33,192	21,909	33,192	21,744
Accrued expenses	661	978	9	211
Other payables	7,644	3,965	4,818	3,334
Amount due to holding company	500	241	500	241
Payroll liabilities	1,998	2,014	1,709	1,715
	<b>43,995</b>	<b>29,107</b>	<b>40,228</b>	<b>27,245</b>

Included in payroll liabilities is accrual for contributions to the Employees Provident Fund amounting to RM 853,188 (2003: RM798,822). The Group companies incorporated in Malaysia contribute to the Employees Provident Fund, the national defined contribution plan. Once the contributions have been paid, the Group has no further payment obligations.

The currency exposure profile of trade and other payables is as follows:

	Group		Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
- Ringgit Malaysia	38,292	25,769	34,525	24,418
- US Dollar	808	61	808	61
- EURO	4,874	2,766	4,874	2,766
- Others	21	511	21	0
	<b>43,995</b>	<b>29,107</b>	<b>40,228</b>	<b>27,245</b>

Credit terms of trade payables range from payment in advance to 60 days.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (continued)

### 13. PROVISIONS

<u>Group</u>	<b>Provision for back dated wages RM'000</b>	<b>Provision for staff retirement benefits RM'000</b>	<b>Total RM'000</b>
<b><u>At 31 December 2004</u></b>			
Current	0	0	0
Non current	0	5,946	5,946
	<b>0</b>	<b>5,946</b>	<b>5,946</b>
<b><u>At 31 December 2003</u></b>			
Current	500	0	500
Non current	0	4,898	4,898
	<b>500</b>	<b>4,898</b>	<b>5,398</b>
<b><u>Company</u></b>			
<b><u>At 31 December 2004</u></b>			
Current	0	0	0
Non current	0	5,540	5,540
	<b>0</b>	<b>5,540</b>	<b>5,540</b>
<b><u>At 31 December 2003</u></b>			
Current	500	0	500
Non current	0	4,582	4,582
	<b>500</b>	<b>4,582</b>	<b>5,082</b>

#### (a) Provision for back dated wages

The provision for back dated wages relates to staff claims which were paid in 2004.

The movements during the year in the amounts recognised in the Group's and Company's balance sheet are as follows:

	<b>Group and Company RM'000</b>
At 1 January 2004	500
Charged to income statement	73
Back dated wages paid	<b>(573)</b>
At 31 December 2004	<b>0</b>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (continued)

### 13. PROVISIONS (CONTINUED)

#### (b) Defined benefit plans of the Group

The Group operates unfunded final salary defined benefit plans for its employees in Malaysia and Hong Kong. The latest actuarial valuations of the plan was carried out on 25 February 2004.

The movements during the year in the amounts recognised in the Group's and Company's balance sheet are as follows:

	Group RM'000	Company RM'000
At 1 January 2003	4,462	4,229
Charged to income statement	567	484
Benefits paid	(131)	(131)
At 31 December 2003	4,898	4,582
Charged to income statement	1,111	1,046
Capitalised as part of plant, property and equipment (Note 6)	33	0
Benefits paid	(96)	(88)
At 31 December 2004	<b>5,946</b>	<b>5,540</b>

The amounts recognised in the consolidated balance sheet may be analysed as follows:

	Group RM'000	Company RM'000
<b>At 31 December 2004</b>		
Present value of unfunded obligations	<b>5,946</b>	<b>5,540</b>
<b>At 31 December 2003</b>		
Present value of unfunded obligations	4,898	4,582

The expenses recognised may be analysed as follows:

	Group		Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Current service cost	786	2,855	707	188
Interest cost	358	312	339	296
Total included in staff costs (Note 20)	<b>1,144</b>	567	<b>1,046</b>	484
Recognised in income statement	<b>1,111</b>	567	<b>1,046</b>	484
Capitalised as part of property, plant and equipment	<b>33</b>	0	<b>0</b>	0
	<b>1,144</b>	567	<b>1,046</b>	484

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (continued)

### 13. PROVISIONS (CONTINUED)

The principal actuarial assumptions used in respect of the Group's and Company's defined benefit plans were as follows:

	Lump-sum retirement benefit plans			
	Group		Company	
	2004	2003	2004	2003
	%	%	%	%
Discount rates	7.0	7.0	7.0	7.0
Expected rate of salary increases	5.0	5.0	5.0	5.0

### 14. BORROWINGS

	Group		Company	
	2004	2003	2004	2003
	RM'000	RM'000	RM'000	RM'000
<b>Current</b>				
MCP/MMTN*	25,000	0	25,000	0
Hire purchase liabilities (Note 15)	128	33	70	0
	<b>25,128</b>	33	<b>25,070</b>	0
<b>Non-current</b>				
MCP/MMTN*	150,000	150,000	150,000	150,000
Hire purchase liabilities (Note 15)	73	61	35	0
	<b>150,073</b>	150,061	<b>150,035</b>	150,000
<b>Total</b>				
MCP/MMTN*	175,000	150,000	175,000	150,000
Hire purchase liabilities (Note 15)	201	94	105	0
	<b>175,201</b>	150,094	<b>175,105</b>	150,000

\* AI Murabahah Commercial Paper ("MCP")/Medium Term Note ("MMTN")

#### AI Murabahah Commercial Paper ("MCP")/Medium Term Note ("MMTN")

The Company launched RM175 million AI Murabahah Commercial Paper ("MCP")/Medium Term Note ("MMTN") programme on 18 December 2003. On 29 December 2003, the Company issued RM150 million of the MMTN comprising three series of RM50 million each. Subsequently, on 20 October 2004 the Company further issued RM 25 million MCP.

The MCP/MMTN facility has an availability period of 7 years which the Company may issue MCP/MMTN in multiples of RM1 million each and up to a maximum outstanding amount of RM175 million. MCP and MMTN have the following features:

- (i) MCP will be issued at discount to face value and have a maturity period of not less than 1 month to not more than 12 months. The profit rates are determined on issuance and calculated based on the formula specified in the rules of fully automated system for tendering of private debt securities ("FAST").
- (ii) MMTN was issued at par or at discount to face value and have a maturity period of not less than 12 months and not more than 84 months. The profit rates are determined on issuance and calculated based on the formula specified in FAST rules. The profit shall be payable semi-annually calculated on an actual/365 basis.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (continued)

### 14. BORROWINGS (CONTINUED)

The maturity dates and profit rates of the RM150 million MMTN and RM issued are as follows:

MMTN	Maturity dates	Profit rate	Group/ Company
		% per annum	RM'000
Issue no.: S1 (Serial no. S0001)	29 December 2006	5.15	50,000
Issue no.: S2 (Serial no. S0002)	31 December 2007	5.65	50,000
Issue no.: S3 (Serial no. S0003)	29 December 2008	6.10	50,000
			<u>150,000</u>
MCP	20 July 2005	2.94	<u>25,000</u>

The estimated fair value of the MMTN (non-current portion) at balance sheet date was RM146,133,000 for the Group and Company.

The MCP/MMTN programme, though unsecured, are supported by a negative pledge over all the assets of the Group other than where the encumbrances to be created by the Group and its subsidiaries do not exceed in aggregate 10% of the consolidated net tangible assets of the Group.

The proceeds from the MCP/MMTN programme have been used to part finance the Group's capital expenditure for the new factory in Lipis, Pahang and to meet general working capital requirements.

### 15. HIRE PURCHASE LIABILITIES

	Group		Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Payable within one year	138	37	75	0
Payable between one to five years	79	67	37	0
	217	104	112	0
Less: Future finance charges	(16)	(10)	(7)	0
Present value of hire purchases liabilities	<u>201</u>	94	<u>105</u>	0
Hire purchase liabilities are classified as follows:				
Current (Note 14)	128	33	70	0
Non-current (Note 14)	73	61	35	0
	<u>201</u>	94	<u>105</u>	0

Hire purchase creditors are denominated in Ringgit Malaysia. The weighted average effective interest rate as at year end is 6.30% (2003: 6.44%) per annum for the Group and 6.22% (2003:Nil) per annum for the Company.

The estimated fair value of the hire purchase liabilities (non-current portion) at balance sheet date was RM74,302 (2003: RM63,260) for the Group and RM35,113 (2003:Nil) for the Company.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (continued)

### 16. SHARE CAPITAL

	Group/Company	
	2004	2003
	RM'000	RM'000
Authorised:		
1,000,000,000 shares of RM1 each	1,000,000	1,000,000
Issued and fully paid:		
210,000,000 share of RM 1 each	210,000	210,000

### 17. RESERVES

	Group		Company	
	2004	2003	2004	2003
	RM'000	RM'000	RM'000	RM'000
Non-distributable:				
Share premium	5,866	5,866	5,866	5,866
Warrant reserve:				
Proceeds on issuance of warrants	14,500	0	14,500	0
Expenses related to issuance of warrants	(521)	0	(521)	0
	13,979	0	13,979	0
	19,845	5,866	19,845	5,866
Distributable:				
Retained earnings	146,323	131,585	129,008	123,593
	166,168	137,451	148,853	129,459

#### Warrants

The Company issued 100,000,000 warrants 2004/2009 ("Warrants") on 22 April 2004 as follows:

- 70,000,000 Rights Warrants at an issue price of RM0.10 per Warrant on the basis of 1 warrant for every 3 existing ordinary shares of RM1.00 each held in MIECO; and
- 30,000,000 Placement Warrants at an issue price of RM0.25 per Warrant.

Subject to the adjustments in accordance with the Deed Poll dated 20 February 2004 ("Deed Poll"), the Warrant holders are entitled to subscribe for new ordinary shares of RM1.00 each in the Company at any time during the 3-year period commencing from and inclusive of the second anniversary of the date of issue of the Warrants up to the fifth anniversary of the issue date ("Expiry Date"), at RM1.20 payable in cash in respect of each new share in the Company. Accordingly, the warrants issued during this financial year can be exercised from 22 April 2006 to 21 April 2009. Any exercise rights that have not been exercised by the Expiry Date will lapse and every Warrant will cease to be valid for any purpose.

The Warrant reserve arose from the issuance of 100,000,000 Warrants 2004/2009 comprising Rights Issue of 70,000,000 Warrants 2004/2009 and Private Placement of 30,000,000 Warrants 2004/2009 at the issue price of RM0.10 and RM0.25 per warrant respectively resulting in proceeds amounted to RM14.5 million. The proceeds have been set-off against the expenses related to the issuance of warrants and the net proceeds being recognised as Warrant reserve.

#### Retained earnings

Subject to the agreement of the tax authorities, the Company has sufficient Section 108 tax credit and exempt account to frank approximately of RM16 million (2003: RM8 million) and RM78 million (2003: RM78 million) of its retained earnings respectively as at 31 December 2004 if paid out as dividends. The extent of the retained earnings not covered at that date amounted to RM35 million (2003: RM38 million).

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (continued)

### 18. DEFERRED TAXATION

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

	Group		Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Deferred tax assets - subject to income tax	194	219	0	0
Deferred tax liabilities - subject to income tax	(20,405)	(16,878)	(20,080)	(16,558)
	<b>(20,211)</b>	(16,659)	<b>(20,080)</b>	(16,558)
As start of year	<b>(16,659)</b>	(18,176)	<b>(16,558)</b>	(17,840)
(Charged)/credited to income statement (Note 23)	<b>(379)</b>	1,381	<b>(376)</b>	1,364
- Property, plant and equipment	139	178	128	99
- Provisions	(1,589)	(183)	(1,589)	(183)
- Inventories	3	58	17	(66)
- Receivables	(1,713)	0	(1,713)	0
- Tax losses	(13)	83	11	68
- Others				
	<b>(3,552)</b>	1,517	<b>(3,522)</b>	1,282
At end of year	<b>(20,211)</b>	(16,659)	<b>(20,080)</b>	(16,558)
Subject to income tax				
<b>Deferred tax assets (before offsetting)</b>				
Provisions	1,642	1,504	1,551	1,423
Inventories	289	1,879	289	1,879
Receivables	316	311	199	182
Tax losses	0	1,713	0	1,713
Others	131	134	116	119
	<b>2,378</b>	5,541	<b>2,155</b>	5,316
Offsetting	<b>(2,184)</b>	(5,322)	<b>(2,155)</b>	(5,316)
	<b>194</b>	219	<b>0</b>	0
<b>Deferred tax liabilities (before offsetting)</b>				
Property, plant and equipment	(22,565)	(22,186)	(22,235)	(21,860)
Others	(24)	(14)	0	(14)
	<b>(22,589)</b>	(22,200)	<b>(22,235)</b>	(21,874)
Offsetting	<b>2,184</b>	5,322	<b>2,155</b>	5,316
	<b>(20,405)</b>	(16,878)	<b>(20,080)</b>	(16,558)

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (continued)

### 18. DEFERRED TAXATION (CONTINUED)

The amount of deductible temporary differences and unused tax losses (both of which have no expiry date) for which no deferred tax assets is recognised in the balance sheet are as follows:

	Group		Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Deductible temporary differences	1	1	0	0
Tax losses	712	701	0	0

### 19. REVENUE

	Group		Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Sales of goods	226,514	171,265	209,220	159,982
Sales commission received	0	69	0	69
Sales of quoted investments	10,142	10,865	0	0
Rental income	0	120	0	0
	<b>236,656</b>	182,319	<b>209,220</b>	160,051

### 20. STAFF COSTS

	Group		Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Wages, salaries and bonus	15,681	13,746	12,673	12,094
Defined contribution plan	1,902	1,678	1,562	1,496
Defined retirement benefit plan	1,144	561	1,046	484
Other employee benefits	5,604	5,773	5,193	5,425
	<b>24,331</b>	21,758	<b>20,474</b>	19,499
Less: Staff costs capitalised as part of property, plant and equipment	<b>(1,261)</b>	0	<b>0</b>	0
	<b>23,070</b>	21,758	<b>20,474</b>	19,499

The number of staff at the end of the year amounted to 840 (2003: 728) persons for the Group and 693 (2003: 692) persons in the Company.

Details of the defined contribution plan and defined benefit plans for the Group and Company are set out in Note 12 and Note 13 respectively.

Included in staff costs above are the Company's Executive Directors' remuneration, excluding fees and estimated money value of benefits-in-kind, as further disclosed in Note 27 to the financial statement.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (continued)

### 21. PROFIT FROM OPERATIONS

	Group		Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
The following items have been charged/ (credited) in arriving at profit from operations:				
Auditors' remuneration:				
- current financial year	87	84	50	50
- underprovided in prior year	0	41	0	43
Allowance/(write back) for bad and doubtful debts	69	(110)	65	(146)
Recovery of bad and doubtful debts	(58)	(218)	(5)	(121)
Rental of building	541	588	30	34
Loss on disposal of property, plant and equipment	45	3	45	5
(Gain)/loss on foreign exchange				
- realised	(470)	1,191	(478)	1,191
- unrealised	0	(151)	0	(16)
Allowance/(write back) for inventories obsolescence	378	(79)	378	(79)
Interest income	(659)	(3,353)	(514)	(3,088)
Dividend income	(54)	(152)	(3,343)	0
Write back for diminution value of investment in subsidiary	0	0	(50)	0
Write back for impairment loss of marketable securities	(71)	(242)	0	0
Gain on disposal of marketable securities	(3,947)	(2,191)	0	0

### 22. FINANCE COSTS

	Group		Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Interest expense on:				
- term loans	0	23	0	0
- hire purchase liabilities	7	4	2	0
- Medium term note	8,667	0	0	0
- Bonds issue expenses	666	0	0	0
	9,340	27	2	0
Less: Borrowing costs capitalised	(9,333)	0	0	0
Charged to income statement	7	27	2	0

### 23. TAX EXPENSE/CREDIT

	Group		Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Tax expense/(credit) for the year:				
In respect of the current year				
- Malaysian income tax	3,256	2,516	240	865
- Foreign tax	1,161	589	0	25
Deferred tax (Note 18)	3,552	(1,517)	3,522	(1,282)
	7,969	1,588	3,762	(392)
Overaccrual in respect of prior years				
- Malaysian income tax	(15)	(3,718)	(37)	(3,750)
- Foreign tax	(24)	(9)	0	0
	7,930	(2,139)	3,725	(4,142)

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (continued)

### 23. TAX EXPENSE/CREDIT (CONTINUED)

The effective tax rates of the Group and Company differ from the statutory tax rate of 28% and are reconciled as below:

	Group		Company	
	2004 %	2003 %	2004 %	2003 %
Statutory income tax rate of Malaysia	<b>28</b>	28	<b>28</b>	28
Income not subjected to tax	<b>0</b>	0	<b>(4)</b>	0
Expenses not deductible for tax purposes	<b>4</b>	2	<b>5</b>	2
Utilisation of Reinvestment Allowance and other incentives	<b>(9)</b>	(21)	<b>(14)</b>	(32)
Utilisation of previously unrecognised tax losses (to reduce current tax)	<b>0</b>	(1)	<b>0</b>	0
Effect of different tax rate	<b>(2)</b>	(1)	<b>0</b>	0
Movement in deferred tax assets not provided for	<b>0</b>	(1)	<b>0</b>	0
Overaccrual in prior year	<b>0</b>	(13)	<b>0</b>	(19)
Effective tax rate	<b>21</b>	(7)	<b>15</b>	(21)

Tax savings during the year due to the recognition of previously unrecognised tax losses amounted to RM Nil (2003: RM292,000).

### 24. EARNINGS PER SHARE

- (a) The basic earnings per share is calculated based on the profit attributable to shareholders of RM 30 million (2003: RM32 million) for the Group and RM 21 million (2003: RM24 million) for the Company by the weighted average number of 210,000,000 (2003: 210,000,000) ordinary shares in issue during the year.
- (b) For the diluted earnings per share calculation, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The dilutive potential ordinary shares is referring to warrants. The warrants is assumed to have been converted into ordinary shares as at 31 December 2004. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average share price of the Company's shares) based on the exercise price of the warrants. The number of the shares calculated is compared with the number of shares that would have been issued assuming the exercise of the warrants. The difference is added to the denominator as an issue of ordinary shares for no consideration. This calculation serves to determine the 'bonus' element in the ordinary shares outstanding for the purpose of computing the dilution. No adjustment is made to net profit for the year for the warrants calculation.

	Group		Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Net profit for the year	<b>30,488</b>	31,771	<b>21,165</b>	23,960
Weighted average number of ordinary shares in issue	<b>210,000</b>	N.A.	<b>210,000</b>	N.A.
Adjustment for assumed exercise of warrants	<b>35,897</b>	N.A.	<b>35,897</b>	N.A.
Weighted average number of ordinary shares for diluted earnings per share	<b>245,897</b>	N.A.	<b>245,897</b>	N.A.
Diluted earnings per share (sen)	<b>12.4</b>	N.A.	<b>8.6</b>	N.A.

N.A. Not applicable

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (continued)

### 25. DIVIDENDS

	Group		Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Proposed first and final tax exempt dividend of 7.5 sen (2003: 7.5 sen) per share, tax exempt	15,750	15,750	15,750	15,750

### 26. CASH AND CASH EQUIVALENTS

	Group		Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Deposits with licensed banks	8,752	126,371	2,575	122,097
Deposits with licensed finance companies	0	30,000	0	30,000
Deposits with licensed discount house	17,190	14,977	12,382	11,535
	25,942	171,348	14,957	163,632
Cash and bank balances	4,890	9,861	2,331	2,329
	30,832	181,209	17,288	165,961

The currency exposure profile of deposits, cash and bank balances is as follows:

	Group		Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
- Ringgit Malaysia	23,604	171,120	17,288	165,678
- US Dollar	1,211	4,397	0	171
- Singapore Dollar	185	463	0	102
- Hong Kong Dollar	5,824	5,219	0	0
- Others	8	10	0	10
	30,832	181,209	17,288	165,961

The weighted average interest rates of deposits, that were effective during the year were as follows:

	Group		Company	
	2004 %	2003 %	2004 %	2003 %
Deposits with licensed banks	1.58	2.72	3.70	2.78
Deposits with licensed finance companies	-	3.01	-	3.01
Deposits with licensed discount house	2.63	2.76	2.63	2.76

Deposits of the Group and Company have an average tenure to maturity of 53 days and 68 days (2003: 75 days and 78 days) respectively.

Bank balances are held at call with licensed banks, which are non-interest bearing.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (continued)

### 27. DIRECTORS' REMUNERATION

	Group		Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
<b>Directors of the Company</b>				
Non-executive Directors:				
- fees	180	180	180	180
- allowances and other emoluments	280	289	280	289
	<b>460</b>	469	<b>460</b>	469
Executive Director:				
- fees	36	36	36	36
- salaries and bonus	474	428	474	428
- estimated money value of benefits-in-kind	32	28	32	28
- defined contribution plan	57	51	57	51
- defined benefit retirement plan	14	14	14	14
- other employee benefits	28	32	28	32
	<b>641</b>	589	<b>641</b>	589
Sub-total	<b>1,101</b>	1,058	<b>1,101</b>	1,058
<b>Directors of subsidiary companies</b>				
Non-executive Directors:				
- fees	5	5	0	0
- salaries and bonus	180	173	0	0
- estimated money value of benefits-in-kind	6	4	0	0
- defined contribution plan	22	21	0	0
- defined benefit retirement plan	6	6	0	0
- other employee benefits	2	13	0	0
	<b>221</b>	222	<b>0</b>	0
Sub-total	<b>221</b>	222	<b>0</b>	0
Total	<b>1,322</b>	1,280	<b>1,101</b>	1,058
Total (excluding estimated money value of benefits-in-kind)	<b>1,284</b>	1,248	<b>1,069</b>	1,030

As stated in Note 20 to the financial statements, the Company's Executive Directors' remuneration (excluding fees and estimated money value of benefits-in-kind) are included as part of staff cost.

Details of the defined contribution plan and defined benefit plan of the Group and Company are set out in Note 12 and Note 13 respectively.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (continued)

### 28. NON CASH TRANSACTIONS

The principal non cash transactions during the year is as follows:

- Acquisition of motor vehicles by means of hire purchase
- Net finance cost capitalised
- Other costs capitalised

Group		Company	
2004	2003	2004	2003
RM'000	RM'000	RM'000	RM'000
190	100	140	0
7,325	0	0	0
33	0	0	0

### 29. CAPITAL COMMITMENTS

Capital expenditure

- Approved and contracted for
- Approved but not contracted for

Group		Company	
2004	2003	2004	2003
RM'000	RM'000	RM'000	RM'000
36,332	90,725	0	0
0	48,787	0	0
36,332	139,512	0	0
36,332	139,512	0	0

Analysed as follows:

- property, plant and equipment

### 30. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

In addition to related party disclosures mentioned elsewhere in the financial statements, set out below are other significant related party transactions and balances. The related party transactions described below were carried out on terms and conditions negotiated between the Group and the related parties.

#### (a) Relationship with related parties

##### Related party

##### Relationship

Bandar Raya Developments Berhad

Holding company

Wejay Consult Sdn Bhd

Company in which a Director of the holding company has an interest

#### (b) Transactions with related parties

Group		Company	
2004	2003	2004	2003
RM'000	RM'000	RM'000	RM'000
(i) Management fee payable to holding company:			
- Bandar Raya Developments Berhad	400	200	400
(ii) Professional fees charged by a company in which a Director of the holding company has an interest			
- Wejay Consult Sdn Bhd	60	60	60



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (continued)

### 31. SEGMENT INFORMATION

#### Business segments

There is no disclosure of segment information by business segment as required by MASB Standard 22, Segment Reporting as the Group operates principally within one industry that is, manufacturing and sales of wood based products. Other operations of the Group mainly comprise investment trading, investment holding, property investment, all of which are not of sufficient size to be reported separately. However, the Group operates in two main geographical areas.

#### Geographical segments

	Revenue		Total assets		Capital expenditure	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Malaysia	198,508	154,760	605,808	531,985	224,166	166,928
Hong Kong and China	38,148	27,559	11,913	12,220	19	25
Other	0	0	4,878	5,245	0	15
	<b>236,656</b>	182,319	<b>622,599</b>	549,450	<b>224,185</b>	166,968

### 32. FOREIGN CURRENCY EXCHANGE RISK

At 31 December 2004, the Group's open forward contracts entered into as cover of anticipated future transaction were as follows:

<u>Hedged item</u>	RM'000 equivalent	Average contractual rate
Trade receivables: USD 0.541 million	2,057	3.8018
Future sales of goods: USD 0.893	3,394	3.8004

The settlement date of the above open forward contract range between 1 and 3 months.

The unrecognised gains at 31 December 2004 on open contract which hedge anticipated future foreign currency sales amounted to RM1,366. These net exchange gains are deferred until the related sales are transacted, at which time they are included in the measurement of such transactions.

### 33. SUBSEQUENT EVENTS

#### (1) Proposed Internal Reorganisation

On 2 February 2005, the Company entered into a conditional sale and purchase agreement with its wholly-owned subsidiary, Mieco Manufacturing Sdn Bhd ("MMSB") involving the transfer of the following:-

- (a) the Semambu Plant, comprising a piece of industrial land measuring approximately 14 acres held under the title H.S. (D) 16491, P.T. 7140, Mukim of Kuala Kuantan and Daerah of Kuantan in the State of Pahang Darul Makmur together with the factory and other buildings or structures erected thereon at and known as Lot 77-83, Kawasan Perindustrian Semambu, 25300 Kuantan, Pahang Darul Makmur;

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (continued)

### 33. SUBSEQUENT EVENTS (CONTINUED)

(1) Proposed Internal Reorganisation (continued)

- (b) the Gebeng Plant, comprising 2 pieces of industrial land measuring in the aggregate approximately 43.88 acres held under the titles H.S. (D) 4553, P.T. 1945 and H.S. (D) 17531, P.T. 7504, both in Mukim of Sungai Karang and Daerah of Kuantan in the State of Pahang Darul Makmur together with the factory and other buildings or structures erected thereon at and known as Lot 73 and Lot 74 respectively, Kawasan Perindustrian Gebeng, 26080 Kuantan, Pahang Darul Makmur;
- (c) all plant and equipment, assets (including office furniture and equipment) and stocks (including finished goods, works in progress, raw materials and spare parts) relating to the manufacturing operations at the Semambu Plant and the Gebeng Plant.

(Collectively referred to as "the Proposed Internal Reorganisation")

The Proposed Internal Reorganisation has been completed.

(2) Subscription of shares in Miecو Matsushita Denko Sdn Bhd

On 30 March 2005, MIMD issued share capital was increased from RM2 to RM7,000,000 with the subscription of additional 3,429,999 and 3,569,999 new ordinary shares of RM1 each by the Company and MEW respectively.

## STATEMENT BY DIRECTORS PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965

We, Dato' Jaganath Derek Steven Sabapathy and Dato' Yong Seng Yeow, being two of the Directors of Mico Chipboard Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 55 to 88 are drawn up so as to give a true and fair view of the state of affairs of the Group and the Company for the financial year ended 31 December 2004 and of the results and cash flows of the Group and the Company for the financial year ended on that date in accordance with the MASB approved accounting standards in Malaysia and the provisions of the Companies Act, 1965.

In accordance with a resolution of the Board of Directors dated 19 April 2005.

**DATO' JAGANATH DEREK STEVEN SABAPATHY**  
*DIRECTOR*

**DATO' YONG SENG YEOW**  
*DIRECTOR*

## STATUTORY DECLARATION PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965

I, Yeoh Teik Eng, the Officer primarily responsible for the financial management of Mico Chipboard Berhad, do solemnly and sincerely declare that the financial statements set out on pages 55 to 88 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

**YEOH TEIK ENG**

Subscribed and solemnly declared by the above named Yeoh Teik Eng at Kuala Lumpur on 19 April 2005.

Before me,

**T. THANDONEE RAJAGOPAL**  
Pesuruhjaya Sumpah  
Kuala Lumpur, Malaysia

## REPORT OF THE AUDITORS

TO THE MEMBERS OF MIECO CHIPBOARD BERHAD

We have audited the financial statements set out on pages 55 to 88. These financial statements are the responsibility of the Company's Directors. It is our responsibility to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

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

In our opinion:

- (a) the financial statements have been prepared in accordance with the provisions of the Companies Act, 1965 and MASB 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; and
  - (ii) the state of affairs of the Group and the Company as at 31 December 2004 and of the results and cash flows of the Group and the Company for the financial year ended on that date;

and

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

The name of the subsidiary companies of which we have not acted as auditors are indicated in Note 7 to the financial statements. We have considered the financial statements of these subsidiary companies and the auditors' report thereon.

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 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.

### **PRICEWATERHOUSECOOPERS**

(No. AF: 1146)

Chartered Accountants

### **LEE TUCK HENG**

(No. 2092/09/06 (J))

Partner of the firm

Kuala Lumpur

19 April 2005

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## ANALYSIS OF SHAREHOLDINGS

AS AT 25 APRIL 2005

Authorised Share Capital	:	RM1,000,000,000
Issued and Fully Paid-Up Capital	:	RM210,000,000
Class of Shares	:	Ordinary Shares of RM1.00 each
Voting Rights	:	1 Vote per Share

	No. of Holders	% of Holders	No. of Shares	% of Shares
<b>LARGEST SHAREHOLDERS</b>	30	0.53	166,875,271	79.46
<b>SIZE OF HOLDINGS</b>				
Less than 100	15	0.26	443	0.00*
100 - 1,000	1,994	34.99	1,913,991	0.91
1,001 - 10,000	3,061	53.72	12,533,634	5.97
10,001 - 100,000	528	9.27	16,431,934	7.82
100,001 - less than 5% of issued shares	99	1.74	60,926,027	29.01
5% and above of issued shares	1	0.02	118,193,971	56.28
Total	5,698	100.00	210,000,000	100.00

### DIRECTORS' INTEREST IN SHARES AS AT 25 APRIL 2005

#### In the Company

	Direct Interest No. of Shares	%	Indirect Interest No. of Shares	%
Dato' Mohamed Moiz Bin J M Ali Moiz	-	-	118,193,971**	56.28
Dato' Yong Seng Yeow	20,000	0.01	-	-
Dato' Jaganath Derek Steven Sabapathy	-	-	-	-
Lt. Gen. (R) Dato' Seri Mohamed Daud Bin Abu Bakar	16,000	0.01	-	-
Low Kim Seng	10,000	0.00*	-	-
Dato' Dr Amarjit Singh a/l Santokh Singh	80,000	0.04	-	-

#### In Holding Company

##### Bandar Raya Developments Berhad

Dato' Mohamed Moiz Bin J M Ali Moiz	-	-	156,070,812**	32.76
Dato' Yong Seng Yeow	-	-	-	-
Dato' Jaganath Derek Steven Sabapathy	-	-	-	-
Lt. Gen. (R) Dato' Seri Mohamed Daud Bin Abu Bakar	-	-	-	-
Low Kim Seng	22,000	0.00*	-	-
Dato' Dr Amarjit Singh a/l Santokh Singh	-	-	-	-

\* Negligible percentage

\*\* Indirect interest held through Ambang Sehati Sdn Bhd

## ANALYSIS OF SHAREHOLDINGS

AS AT 25 APRIL 2005 (continued)

### THIRTY (30) MAJOR SHAREHOLDERS

Name	Shareholding	%
1. Bandar Raya Developments Berhad	118,193,971	56.28
2. Lembaga Tabung Haji	7,609,500	3.62
3. Amanah Raya Nominees (Tempatan) Sdn Bhd <i>[Amanah Saham Wawasan 2020]</i>	5,809,500	2.77
4. HSBC Nominees (Tempatan) Sdn Bhd <i>[HSBC (M) Trustee Bhd for OSK-UOB Small Cap Opportunity Unit Trust (3548)]</i>	3,490,000	1.66
5. AMMB Nominees (Tempatan) Sdn Bhd <i>[Amtrustee Berhad for HLG Penny Stock Fund (5/4-3)]</i>	3,227,900	1.54
6. Employees Provident Fund Board	3,001,000	1.43
7. Citicorp Nominees (Asing) Sdn Bhd <i>[UBS AG Singapore for Osgiliath International Inc.]</i>	2,764,400	1.32
8. Bumiputra-Commerce Nominees (Tempatan) Sdn Bhd <i>[Bumiputra-Commerce Trustee Berhad for Pacific Dana Aman (3717 TR01)]</i>	2,581,700	1.23
9. Mayban Nominees (Tempatan) Sdn Bhd <i>[Malaysian Trustees Berhad for Mayban Smallcap Trust Fund (240165)]</i>	2,015,500	0.96
10. Amanah Raya Nominees (Tempatan) Sdn Bhd <i>[Mayban Dana Yakin]</i>	2,000,000	0.95
11. Universal Trustee (Malaysia) Berhad <i>[SBB Dana Al-Azam]</i>	1,870,300	0.89
12. Universal Trustee (Malaysia) Berhad <i>[Pacific Premier Fund]</i>	1,713,600	0.82
13. HLG Nominee (Tempatan) Sdn Bhd <i>[HLG Asset Management Sdn Bhd for Pertubuhan Keselamatan Sosial (2050)]</i>	1,312,200	0.62
14. AMMB Nominees (Tempatan) Sdn Bhd <i>[Amtrustee Berhad for Pacific Pearl Fund (5/1-9)]</i>	1,091,900	0.52
15. AMMB Nominees (Tempatan) Sdn Bhd <i>[Amtrustee Berhad for Pacific Select Balance Fund (5/23-0)]</i>	1,005,800	0.48
16. Universal Trustee (Malaysia) Berhad <i>[HLG Balanced Fund (L2)]</i>	958,600	0.46
17. Amanah Raya Nominees (Tempatan) Sdn Bhd <i>[ASM Premier Fund]</i>	920,000	0.44
18. Universal Trustee (Malaysia) Berhad <i>[Mayban Balanced Trust Fund]</i>	849,000	0.40
19. HSBC Nominees (Tempatan) Sdn Bhd <i>[HSBC (M) Trustee Bhd for Hasrat Jaguh Sdn Bhd (4785-002)]</i>	762,100	0.36
20. Lee Tian Fook @ Lee Tian Fook	745,100	0.35
21. Citicorp Nominees (Asing) Sdn Bhd <i>[CBNY for DFA Emerging Markets Fund]</i>	732,600	0.35
22. Lim Lee Ling	720,000	0.34
23. Amanah Raya Nominees (Tempatan) Sdn Bhd <i>[Mayban Dana Ikhlas]</i>	650,000	0.31
24. Citicorp Nominees (Asing) Sdn Bhd <i>[Citibank Singapore Global Window for Shavers Malaysia Fund]</i>	547,500	0.26
25. A.A. Assets Nominees (Asing) Sdn Bhd <i>[Aliza Abdul Rahim nee Lum Kok Chun]</i>	500,000	0.24
26. Shoptra Jaya (M) Sdn Bhd	402,000	0.19
27. Mayban Nominees (Tempatan) Sdn Bhd <i>[Capital Dynamics Asset Management Sdn Bhd for Ace Synergy Insurance Berhad (CDAM23-990350)]</i>	390,000	0.19
28. Amanah Raya Nominees (Tempatan) Sdn Bhd <i>[Kumpulan Modal Bumiputera Yang KeSebelas]</i>	341,400	0.16
29. Amanah Saham Mara Berhad	340,200	0.16
30. HLG Nominee (Tempatan) Sdn Bhd <i>[HLG Asset Management Sdn Bhd for Hong Leong Assurance Bhd (Growth Fund)]</i>	329,500	0.16
Total	166,875,271	79.46

## ANALYSIS OF SHAREHOLDINGS

AS AT 25 APRIL 2005 (continued)

### SUBSTANTIAL SHAREHOLDERS AS AT 25 APRIL 2005

Shareholders	Direct		Indirect		
	No. of shares	%	No. of shares	%	
Bandar Raya Developments Berhad	118,193,971	56.28	-	-	-
Ambang Sehati Sdn Bhd	-	-	118,193,971	56.28	(a)
Dato' Mohamed Moiz Bin J M Ali Moiz	-	-	118,193,971	56.28	(b)
Abdul Sathar Bin M S M Abdul Kadir	-	-	118,193,971	56.28	(c)

#### Notes :-

- (a) Deemed interested by virtue of Section 6A(4) of the Companies Act, 1965 held through Bandar Raya Developments Berhad.
- (b) Deemed interested by virtue of Section 6A(4) of the Companies Act, 1965 held through 60% shareholding in Ambang Sehati Sdn Bhd.
- (c) Deemed interested by virtue of Section 6A(4) of the Companies Act, 1965 held through 40% shareholding in Ambang Sehati Sdn Bhd.



## ANALYSIS OF WARRANTHOLDINGS FOR WARRANTS 2004/2009

AS AT 25 APRIL 2005

No. of Warrants in Issue	:	100,000,000
Exercise Price of Warrants	:	RM1.20
Exercise Period of Warrants	:	From 22 April 2006 to 21 April 2009
Expiry Date of Warrants	:	21 April 2009
Voting Rights in respect of Warrantheolders' Meeting	:	1 Vote per Warrant

	<b>No. of Holders</b>	<b>% of Holders</b>	<b>No. of Warrants</b>	<b>% of Warrants</b>
<b>LARGEST WARRANTHOLDERS</b>	30	0.76	80,097,493	80.10
<b>SIZE OF HOLDINGS</b>				
Less than 100	228	5.76	8,527	0.01
100 - 1,000	1,825	46.11	1,042,994	1.04
1,001 - 10,000	1,489	37.62	5,619,132	5.62
10,001 - 100,000	371	9.37	11,362,455	11.36
100,001 - less than 5% of issued warrants	39	0.99	11,045,196	11.05
5% and above of issued warrants	6	0.15	70,921,696	70.92
Total	3,958	100.00	100,000,000	100.00

### DIRECTORS' INTEREST IN WARRANTS AS AT 25 APRIL 2005

	<b>Direct Interest</b>		<b>Indirect Interest</b>	
	<b>No. of Warrants</b>	<b>%</b>	<b>No. of Warrants</b>	<b>%</b>
Dato' Mohamed Moiz Bin J M Ali Moiz	-	-	40,100,230**	40.10
Dato' Yong Seng Yeow	6,666	0.01	-	-
Dato' Jaganath Derek Steven Sabapathy	-	-	-	-
Lt. Gen. (R) Dato' Seri Mohamed Daud Bin Abu Bakar	5,333	0.01	-	-
Low Kim Seng	3,333	0.00*	-	-
Dato' Dr Amarjit Singh a/l Santokh Singh	-	-	-	-

\* Negligible percentage

\*\* Indirect interest held through Ambang Sehati Sdn Bhd

## ANALYSIS OF WARRANTHOLDINGS FOR WARRANTS 2004/2009

AS AT 25 APRIL 2005 (continued)

### THIRTY (30) MAJOR HOLDERS OF WARRANTS 2004/2009

Name	Warrantholding	%
1. Bandar Raya Developments Berhad	40,100,230	40.10
2. Citicorp Nominees (Asing) Sdn Bhd <i>[UBS AG Singapore for Osgiliath International Inc.]</i>	6,901,466	6.90
3. Citicorp Nominees (Asing) Sdn Bhd <i>[Mellon Bank, N.A. for Gina Investment Ltd]</i>	5,980,000	5.98
4. Endau Aktif Sdn Bhd	5,980,000	5.98
5. HSBC Nominees (Asing) Sdn Bhd <i>[Coutts BK Von Ernst SG for Myriam Continental S.A.]</i>	5,980,000	5.98
6. HSBC Nominees (Asing) Sdn Bhd <i>[Asian Asset Management Overseas Limited]</i>	5,980,000	5.98
7. Lembaga Tabung Haji	819,333	0.82
8. TA Nominees (Tempatan) Sdn Bhd <i>[Pledged Securities Account for Liew Yam Fee]</i>	730,000	0.73
9. HSBC Nominees (Tempatan) Sdn Bhd <i>[HSBC (M) Trustee Bhd for OSK-UOB Small Cap Opportunity Unit Trust (3548)]</i>	661,000	0.66
10. Kenanga Nominees (Tempatan) Sdn Bhd <i>[Pledged Securities Account for Pacific Bonanza Sdn Bhd]</i>	558,000	0.56
11. Tan Jee Ng	545,100	0.55
12. AMMB Nominees (Tempatan) Sdn Bhd <i>[Amtrustee Berhad for Pacific Pearl Fund (5/1-9)]</i>	526,000	0.53
13. Employees Providend Fund Board	463,466	0.46
14. AllianceGroup Nominees (Tempatan) Sdn Bhd <i>[PHEIM Asset Management Sdn Bhd for Employees Provident Fund]</i>	421,000	0.42
15. Cimsec Nominees (Tempatan) Sdn Bhd <i>[CIMB for Lim Guat Kee]</i>	400,000	0.40
16. Irene Lee	388,333	0.39
17. Leong Bee Ling	362,000	0.36
18. Chew Lai Har	329,000	0.33
19. Universal Trustee (Malaysia) Berhad <i>[HLG Balanced Fund (L2)]</i>	327,366	0.33
20. Bumiputra-Commerce Nominees (Tempatan) Sdn Bhd <i>[Bumiputra-Commerce Trustee Berhad for Pacific Dana Aman (3717 TR01)]</i>	321,366	0.32
21. Ter Leong Swee	315,000	0.32
22. HSBC Nominees (Asing) Sdn Bhd <i>[Optiflur Invest Corporation]</i>	283,000	0.28
23. Foo Choon Tow	250,000	0.25
24. Pai Wen Min	250,000	0.25
25. Lee Tian Fook @ Lee Tian Fook	242,000	0.24
26. Teh Yew Kheng	208,133	0.21
27. TA Nominees (Tempatan) Sdn Bhd <i>[Pledged Securities Account for Wong Ah Tim @ Ong Ah Tin]</i>	200,000	0.21
28. Mayban Nominees (Tempatan) Sdn Bhd <i>[Pledged Securities Account for Wong Wah Peng (128AK1183)]</i>	197,700	0.20
29. Tan Peng Yam	195,000	0.20
30. Mayban Nominees (Tempatan) Sdn Bhd <i>[Pledged Securities Account for Ch'ng Gim Chew (07246AP3210)]</i>	183,000	0.18
Total	80,097,493	80.11

## LIST OF PROPERTIES

AS AT 31 DECEMBER 2004

Location	Tenure	Land area	Description	Approximate age of building (Years)	Net book value RM'000	Acquisition Date
<b>Pahang</b>						
Lot 77-83 Kawasan Perindustrian Semambu 25300 Kuantan Pahang Darul Makmur	Lease expiring 27.10.2041	609,840 sq.ft.	Chipboard factory	10 - 30	8,044	1975
Lot 73 Kawasan Perindustrian Gebeng 26080 Kuantan Pahang Darul Makmur	Lease expiring 18.08.2048	653,670 sq.ft.	Industrial land	-	6,747	26.10.1999
Lot 74 Kawasan Perindustrian Gebeng 26080 Kuantan Pahang Darul Makmur	Lease expiring 22.02.2097	1,254,528 sq.ft.	Chipboard factory	2 - 10	39,857	24.08.1995
Lot 3, Kawasan Perindustrian Kechau Tui, Lipis Pahang Darul Makmur	Lease expiring 2104	2,178,000 sq. ft.	Industrial land	-	4,431	05.12.2004
14C-A and 14C-B Impiana Condominium No 1 Tasik Ampang Jalan Hulu Klang, Ampang Selangor Darul Ehsan	Lease expiring 21.04.2091	2 units	Condominium apartment	8	2,677	22.11.2002
Blk 457 Upper East Coast Road #10-05 Mount Everest The Summit Singapore 466503	Freehold	1 unit	Condominium apartment	11	4,784	25.11.2002

## NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the Thirty-Second Annual General Meeting of Mieco Chipboard Berhad will be held at Multi-Purpose Hall, 25th Floor, Menara Multi-Purpose, Capital Square, No. 8 Jalan Munshi Abdullah, 50100 Kuala Lumpur on Friday, 24 June 2005 at 10.00 a.m.

### AGENDA

1. To receive the Report of the Directors and the Audited Financial Statements for the year ended 31 December 2004 together with the Report of the Auditors thereon. **(Resolution 1)**
2. To declare a first and final tax exempt dividend of 7.5% in respect of the year ended 31 December 2004. **(Resolution 2)**
3. To approve the payment of Directors' fees of RM216,000/= in respect of the year ended 31 December 2004 (2003 : RM216,000/=). **(Resolution 3)**
4. To re-elect the following Directors retiring in accordance with Article 81 of the Company's Articles of Association :-
  - (a) Lt. Gen. (R) Dato' Seri Mohamed Daud Bin Abu Bakar **(Resolution 4)**
  - (b) Mr Low Kim Seng **(Resolution 5)**
5. To re-appoint Messrs PricewaterhouseCoopers as auditors of the Company and to authorise the Directors to fix their remuneration. **(Resolution 6)**

### AS SPECIAL BUSINESS :-

6. To consider and if thought fit, to pass the following resolution as an Ordinary Resolution :-

**Authority To Issue Shares Pursuant To  
Section 132D Of The Companies Act, 1965**

"**THAT** subject always to the Companies Act, 1965, the Articles of Association of the Company and the approvals of the relevant governmental and/or regulatory authorities, the Directors be and are hereby empowered, pursuant to Section 132D of the Companies Act, 1965, to issue shares in the Company from time to time and upon such terms and conditions and for such purposes as the Directors may deem fit provided that the aggregate number of shares issued pursuant to this resolution does not exceed ten (10) per centum of the total issued capital of the Company and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company."

**(Resolution 7)**

7. To transact any other business for which due notice shall have been given in accordance with the Company's Articles of Association and the Companies Act, 1965.

## NOTICE OF ANNUAL GENERAL MEETING (continued)

### NOTICE OF DIVIDEND ENTITLEMENT AND PAYMENT

Subject to the approval of the shareholders at the Annual General Meeting, the first and final tax exempt dividend of 7.5% will be paid on **2 August 2005** to shareholders whose names appear on the Record of Depositors at the close of business on **8 July 2005**.

A depositor shall qualify for entitlement to the final dividend only in respect of :-

- (a) shares transferred into the Depositor's Securities Account before 4.00 p.m. on **8 July 2005** (in respect of ordinary transfers);
- (b) shares bought on Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of Bursa Malaysia Securities Berhad.

### BY ORDER OF THE BOARD

**HO SWEE LING**

Company Secretary

Kuala Lumpur

**27 May 2005**

#### Notes :-

1. A proxy may but need not be a member of the Company and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
2. To be valid, the duly completed original form of proxy must be deposited at the registered office of the Company at 31st Floor, Menara Multi-Purpose, Capital Square, No. 8 Jalan Munshi Abdullah, 50100 Kuala Lumpur, not less than 48 hours before the time for holding the meeting.
3. A member who is an authorised nominee may appoint one (1) proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.
4. A member other than an authorised nominee shall be entitled to appoint not more than two (2) proxies to attend and vote at the same meeting.
5. Where a member appoints more than one (1) proxy, the appointment shall be invalid unless he specifies the proportions of his holdings to be represented by each proxy.
6. If the appointor is a corporation, the form of proxy must be executed under its Common Seal or under the hand of an officer or attorney duly authorised.

#### EXPLANATORY NOTES ON SPECIAL BUSINESS

##### Resolution 7

The Ordinary Resolution, if passed, will empower the Directors to issue shares in the Company up to an amount not exceeding in total 10% of the issued share capital of the Company for such purposes as they consider would be in the interest of the Company. This authority, unless revoked or varied at a general meeting, will expire at the next Annual General Meeting of the Company.

## STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

### 1. Names of directors who are standing for re-election

Lt. Gen. (R) Dato' Seri Mohamed Daud Bin Abu Bakar  
Mr Low Kim Seng

The details of the abovementioned directors who are standing for re-election are set out in the Profile of the Board of Directors appearing on pages 10 and 11 of the Annual Report.

### 2. Details of attendance of directors at board meetings

5 Board meetings were held during the financial year ended 31 December 2004. The details of attendance are as follows :-

Name of Director	Total Number of Meetings Attended
Dato' Mohamed Moiz Bin J M Ali Moiz	5
Dato' Yong Seng Yeow	5
Dato' Jaganath Derek Steven Sabapathy	5
Lt. Gen. (R) Dato' Seri Mohamed Daud Bin Abu Bakar	4
Mr Low Kim Seng	5
Dato' Dr Amarjit Singh a/l Santokh Singh	5

### 3. Date, time and venue of the annual general meeting

The Thirty-Second Annual General Meeting of Mieco Chipboard Berhad will be held at Multi-Purpose Hall, 25th Floor, Menara Multi-Purpose, Capital Square, No. 8 Jalan Munshi Abdullah, 50100 Kuala Lumpur on Friday, 24 June 2005 at 10.00 a.m.





MIECO CHIPBOARD BERHAD (12849-K)  
A Member of the **BRDB** Global Community

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