

Company No: 19727-P

**ARUS MURNI CORPORATION BERHAD
(Incorporated in Malaysia)**

DIRECTORS' REPORT

The directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December, 2003.

PRINCIPAL ACTIVITIES

The principal activities of the Company are those of investment holding, provision of management and administrative services.

The principal activities of the subsidiaries are described in Note 14 to the financial statements.

There have been no significant changes in the nature of the principal activities during the financial year other than the addition of the business of logging and selling of round end timber logs and that relating to property management via two newly acquired subsidiaries.

RESULTS

	Group RM'000	Company RM'000
Net loss for the year	<u>(1,542)</u>	<u>(298)</u>

There were no material transfers to or from reserves or provisions during the financial year.

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

DIVIDEND

No dividend has been paid or declared by the Company since the end of the previous financial year.

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IRREDEEMABLE CONVERTIBLE UNSECURED LOAN STOCKS

On 25 August, 2003, the Company issued RM122,738,611 comprising 613,693,055 nominal values of 3 year 0.5% Irredeemable Convertible Unsecured Loan Stocks 2003/2006 ("ICULS") at a nominal value of RM0.20 each for the purpose of acquiring two new subsidiaries as disclosed in Note 14 (b) to the financial statements. The ICULS are constituted by a Trust Deed dated 14 July, 2003 made between the Company and the Trustees for the holders of the ICULS. The main features of the ICULS are as follows:

- (a) Conversion rights - the registered holders of the ICULS will have the option at any time during the conversion period to convert the ICULS at the conversion rate into new ordinary shares of RM1 each in the Company.
- (b) Conversion rate - on the basis of five (5) ICULS for one (1) new ordinary share of RM1 in the Company.
- (c) Conversion period - period commencing from and including 25 August, 2003 to the maturity date of 24 August, 2006.
- (d) All outstanding ICULS will be mandatorily converted in full by the Company on 24 August, 2006 into ordinary shares of RM1 each in the Company.
- (e) The ICULS bear interest at 0.5% per annum payable annually in arrears, with the first payment due on 24 August, 2004.
- (f) The new ordinary shares to be allotted and issued upon conversion of the ICULS will rank pari passu in all respects with the existing ordinary shares of the Company save and except that they shall not be entitled to any dividends, rights, allotment and/or other distributions prior to the entitlement date of which is on or before the date of allotment and issue of the Company's shares pursuant to the conversion of the ICULS.

DIRECTORS

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

Dato' Shamsir bin Omar
Muhammed bin Abdul Rahman
Tan Lam Hin
Ramli bin Harun
Zailan bin Othman
Mohamad Malik bin Jamal Mohamed

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DIRECTORS' BENEFITS

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

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

DIRECTORS' INTERESTS

According to the register of directors' shareholdings, none of the directors holding office at the end of the financial year had any interest in shares and/or ICULS in the Company or its subsidiaries during the financial year.

ISSUE OF SHARES

During the financial year, the Company increased its issued and paid-up share capital from RM168,340,909 to RM178,340,909 by way of conversion of 50,000,000 ICULS of nominal value RM0.20 each. The new ordinary shares rank pari passu in all respects with existing ordinary shares.

OTHER STATUTORY INFORMATION

- (a) Before the income statements and balance sheets of the Group and of the Company were made out, the directors took reasonable steps:
- (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that there were no known bad debts and that adequate provision had been made for doubtful debts; and
 - (ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

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OTHER STATUTORY INFORMATION (CONT'D.)

- (b) At the date of this report, the directors are not aware of any circumstances which would render:
 - (i) it necessary to write off any bad debts or the amount of the provision for doubtful debts inadequate to any substantial extent; and
 - (ii) the values attributed to current assets in the financial statements of the Group and of the Company misleading.
- (c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.
- (d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.
- (e) As at the date of this report, there does not exist:
 - (i) any charge on the assets of the Group and of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
 - (ii) any contingent liability of the Group or of the Company which has arisen since the end of the financial year.
- (f) In the opinion of the directors:
 - (i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group and of the Company to meet its obligations as and when they fall due; and
 - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group and of the Company for the financial year on which this report is made.

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AUDITORS

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

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

Dato' Shamsir Bin Omar

Muhamed bin Abdul Rahman

Kuala Lumpur, Malaysia
18 March, 2004

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**ARUS MURNI CORPORATION BERHAD
(Incorporated in Malaysia)**

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

We, Dato' Shamsir Bin Omar and Muhamed Bin Abdul Rahman, being two of the directors of Arus Murni Corporation Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 39 to 78 are drawn up in accordance with applicable Approved Accounting Standards in Malaysia and the provisions of the Companies Act, 1965 so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December, 2003 and of the results and the cash flows of the Group and of the Company for the year then ended.

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

Dato' Shamsir Bin Omar

Muhamed bin Abdul Rahman

Kuala Lumpur, Malaysia
18 March, 2004

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

I, Dato' Shamsir Bin Omar, being the Director primarily responsible for the financial management of Arus Murni Corporation Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 39 to 78, are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the
abovenamed Dato' Shamsir Bin Omar at
Kuala Lumpur in the Federal Territory on
18 March, 2004

Dato' Shamsir Bin Omar

Before me,

Company No: 19727 P

**REPORT OF THE AUDITORS TO THE MEMBERS OF
ARUS MURNI CORPORATION BERHAD
(Incorporated in Malaysia)**

We have audited the accompanying financial statements set out on pages 39 to 78. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion:

- (a) the financial statements have been properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable Approved Accounting Standards in Malaysia so as to give a true and fair view of:
 - (i) the financial position of the Group and of the Company as at 31 December, 2003 and of the results and the cash flows of the Group and of the Company for the year then ended; and
 - (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
- (b) the accounting and other records and the registers required by the Act to be kept by the Company and by its subsidiaries have been properly kept in accordance with the provisions of the Act.

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**REPORT OF THE AUDITORS TO THE MEMBERS OF
ARUS MURNI CORPORATION BERHAD (CONT'D.)
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We are satisfied that the financial statements of the subsidiaries that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

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

Ernst & Young
AF: 0039
Chartered Accountants

George Koshy
No. 1846/07/05(J)
Partner

Kuala Lumpur, Malaysia
18 March, 2004