

DIRECTORS' REPORT

The directors hereby submit their report together with the audited financial statements of the Group and the Company for the financial year ended 31 December, 2001.

PRINCIPAL ACTIVITIES

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

The principal activities of the subsidiaries are described in Note 4 to the financial statements.

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

RESULTS

	Group RM'000	Company RM'000
Loss after taxation	<u>(2,137)</u>	<u>(1,856)</u>

DIVIDEND

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

RESERVES AND PROVISIONS

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

BAD AND DOUBTFUL DEBTS

Before the income statements and balance sheets were made out, the directors took reasonable steps to ascertain that action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts.

At the date of this report, the directors are not aware of any circumstances that would render the amounts written off as bad debts or provided for as doubtful debts in the financial statements of the Group and the Company inadequate to any substantial extent.

DIRECTORS' REPORT

CURRENT ASSETS

Before the income statements and balance sheets were made out, the directors took reasonable steps to ensure that any current assets which were unlikely to be realised in the ordinary course of business including their values as shown in the accounting records of the Group and the Company have 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 which would render the values attributed to the current assets in the financial statements of the Group and the Company misleading.

VALUATION METHODS

At the date of this report, the directors are not aware of any circumstances 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.

CONTINGENT AND OTHER LIABILITIES

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

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

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 and the Company to meet their obligations when they fall due.

CHANGE OF CIRCUMSTANCES

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 of the Group and the Company which would render any amount stated in the financial statements misleading.

ITEMS OF AN UNUSUAL NATURE

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

DIRECTORS' REPORT

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, in the opinion of the directors, to affect substantially the results of the operations of the Group and the Company for the financial year in which this report is made.

SIGNIFICANT EVENTS

- (a) On 4 January, 1999, Bank Negara Malaysia ("BNM") assumed control of the whole property, business and affairs of Kewangan Bersatu Berhad ("KBB"), a wholly owned subsidiary of the Company, pursuant to the Banking and Financial Institutions (Kewangan Bersatu Berhad) (Assumption of Control) Order 1998 issued by the Minister of Finance.

On 30 November, 2000, KBB entered into management services agreement with Mayban Finance Berhad ("MFB") to provide management services to KBB under the supervision of BNM. Subsequently on 30 August, 2000, an Assets Purchase Agreement has been entered into with MFB for the purpose of acquisition of certain assets of KBB.

Arising from the above, the financial statements of KBB and its subsidiaries ("KBB Group") have not been consolidated in the preparation of the Group financial statements in the previous financial year as the directors are of the opinion that the Company has lost effective control in KBB Group since the control and management of the affairs of KBB Group has been assumed by BNM since 4 January, 1999. Consequently, the audited financial statements of KBB Group will not be annexed to the Group financial statements as exempted by the Assistant Registrar of Companies on 31 July, 2002.

- (b) Pursuant to the Sale and Purchase Agreements dated 11 November, 1998 between the Company and the vendors of Saujaran Holdings Sdn. Bhd. ("Saujaran") and Mother Earth Resources & Timber Sdn. Bhd. ("MERT"), the Company entered into a Settlement & Compromise Agreement ("SCA") on 5 November, 2001 with the vendors of Saujaran, MERT, Angkasa Lampiran Sdn. Bhd. ("ALSB") and Bitarex Sdn. Bhd. ("BSB") to:
- (j) confirm that the entire deposits paid for the proposed acquisitions amounting to approximately RM17,064,000 and RM5,000,000 would be forfeited by the vendors of Saujaran and MERT respectively as agreed liquidated damages for termination of the Sale and Purchase Agreements; and
- (ii) accept the shares in ALSB and BSB as full and final settlement of the advance due from the vendors amounting to RM7,936,000 in lieu of a cash refund.
- (c) The 58,919,318 detachable Warrants 1997/2001 were issued on a "bought deal" basis in conjunction with the issuance of RM120,000,000 nominal value of zero coupon redeemable Bank Guaranteed Bonds of RM1.00 each. The warrants 1997/2001 are convertible into fully paid Ordinary Shares of the Company at a rate of RM4.70 for one (1) new Arus Murni Corporation Berhad's share subject to adjustment in accordance with the terms of the Deed Poll dated 17 January, 1997 and the Supplemental Deed Poll dated 4 July, 1997. All warrants which were not exercised by 29 October, 2001 have lapsed.

DIRECTORS' REPORT

RESTRUCTURING EXERCISE

The Group on 28 February, 2001 announced that it is considered to be an affected listed issuer pursuant to the requirement of Practice Note 4/2001 ("PN4") issued by the Kuala Lumpur Stock Exchange. The Group is required to regularise its financial conditions within the time frame stipulated by the PN4 failing which it may be regarded as a listed issuer whose financial conditions does not warrant continued trading and/or listing.

In view of the above matter, the Group and the Company are in the progress of formulating a plan to regularise its financial condition. The plan upon its finalisation will be conditional upon the approvals of amongst others, the regulatory authorities and the shareholders.

DIRECTORS

The directors who served since the date of the last report are:

Dato' Shamsir bin Omar
Muhammed bin Abdul Rahman
Mohamad Malik bin Jamal Mohamed (appointed on 30 July, 2002)
Ramli bin Harun (appointed on 30 July, 2002)
Tan Lam Hin (appointed on 30 July, 2002)
Zailan bin Othman (appointed on 7 August, 2002)
Y.M. Tunku Mu'tamir bin Tunku Tan Sri Mohamed (resigned on 26 July, 2002)
Abu Bakar bin Hashim (resigned on 30 July, 2002)
Hamzah bin Harun (resigned on 30 July, 2002)
Tan Poh Choon (resigned on 30 July, 2002)
Datuk Lim Teow Jin (resigned on 6 August, 2002)
Tan Lam Fatt (resigned on 6 August, 2002)

DIRECTORS' BENEFITS

During and at the end of the financial year, no arrangements subsisted to which the Company is a party with the object 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.

Since the end of the previous financial year, no director has received or become entitled to receive any benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors as shown in Note 15 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.

DIRECTORS' REPORT

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 in the Company or its subsidiaries during the financial year other than as follows:

	Number of Ordinary Shares of RM1 Each			31 December, 2001
	1 January, 2001	Bought	Sold	
Macbloom Sdn. Bhd.				
Hamzah bin Harun	1	-	-	1
Giltedged Options and Futures Sdn. Bhd.				
Hamzah bin Harun	1	-	-	1

AUDITORS

Our auditors, Arthur Andersen & Co., retire and do not seek re-appointment. A resolution to appoint Ernst & Young will be proposed at the forthcoming Annual General Meeting.

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

DATO' SHAMSIR BIN OMAR

MUHAMED BIN ABDUL RAHMAN

Kuala Lumpur
Dated: 16 August 2002

STATEMENT BY DIRECTORS

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 financial statements set out on pages 9 to 34 give a true and fair view of the state of affairs of the Group and the Company as at 31 December, 2001 and of their results and their cash flows for the year then ended and have been properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia.

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

DATO' SHAMSIR BIN OMAR

MUHAMED BIN ABDUL RAHMAN

Kuala Lumpur
Dated: 16 August 2002

STATUTORY DECLARATION

I, MUHAMED BIN ABDUL RAHMAN, the director primarily responsible for the financial management of ARUS MURNI CORPORATION BERHAD, do solemnly and sincerely declare that the financial statements set out on pages 9 to 34 are, to the best of my knowledge and belief, correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the)
abovenamed MUHAMED BIN ABDUL)
RAHMAN at Kuala Lumpur in Wilayah)
Persekutuan on 16 August 2002) MUHAMED BIN ABDUL RAHMAN

Before me

Commissioner for Oaths

AUDITORS' REPORT

To the Shareholders of
ARUS MURNI CORPORATION BERHAD

We have audited the financial statements set out on pages 9 to 34. 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 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 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 applicable approved accounting standards in Malaysia and give a true and fair view of:
 - (i) the state of affairs of the Group and the Company as at 31 December, 2001 and of their results and their cash flows 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 its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

AUDITORS' REPORT

We have considered the financial statements and the auditors' reports of all the subsidiaries of which we have not acted as auditors, as indicated in Note 4 to the financial statements, being financial statements that have been included in the consolidated financial statements.

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 which were incorporated in Malaysia, were not subject to any qualification or any adverse comment made under subsection (3) of Section 174 of the Act.

Without qualifying our opinion, we draw attention to:

- (i) Note 20(a) to the financial statements. The audited financial statements of a subsidiary, Kewangan Bersatu Berhad ("KBB"), are not annexed as required by the Ninth Schedule of the Companies Act, 1965 for reasons as referred to in Note 20(a).
- (ii) Note 22 to the financial statements, wherein it has been disclosed that the Company has commenced legal action against Arus Murni Sdn. Bhd. to recover the shortfall in guaranteed profit and the said action is still in progress. On a prudent basis, recovery of the said shortfall will be included in the financial statements of the Group and the Company on a receipt basis.

Arthur Andersen & Co.
No. AF 0103
Chartered Accountants

George Koshy
No. 1846/07/03(J)
Partner of the Firm

Dated: 16 August 2002

CONSOLIDATED BALANCE SHEET**31 DECEMBER, 2001**

	Note	2001 RM'000	2000 RM'000
NON-CURRENT ASSETS			
Property and equipment	3	-	908
CURRENT ASSETS			
Land and development expenditure	5	11,368	-
Trade receivables		557	-
Other receivables	6	1,907	7,991
Fixed deposits	7	2,834	2,942
Cash and bank balances	8	215	300
		<u>16,881</u>	<u>11,233</u>
CURRENT LIABILITIES			
Short term borrowings	9	4,820	-
Trade payables		1,192	-
Other payables	10	3,920	3,004
Taxation		107	-
		<u>10,039</u>	<u>3,004</u>
NET CURRENT ASSETS			
		<u>6,842</u>	<u>8,229</u>
		<u>6,842</u>	<u>9,137</u>
FINANCED BY:			
Share capital	11	168,341	168,341
Reserves		(161,499)	(159,362)
Shareholders' equity		<u>6,842</u>	<u>8,979</u>
Hire purchase payables	12	-	158
		<u>6,842</u>	<u>9,137</u>

The accompanying notes are an integral part of this balance sheet.

CONSOLIDATED INCOME STATEMENT**FOR THE YEAR ENDED 31 DECEMBER, 2001**

	Note	2001 RM'000	2000 RM'000
Revenue	13	236	105
Other operating income	14	392	9,636
Staff cost	15	(872)	(1,218)
Depreciation		(539)	(915)
Other operating expenses	16	(1,174)	(8,692)
Net realisation of accumulated losses arising from deconsolidation of subsidiaries		-	346,880
(Loss)/profit from operations		(1,957)	345,796
Finance cost	17	(135)	(140)
(Loss)/profit before taxation		(2,092)	345,656
Taxation	18	(45)	-
Net (loss)/profit for the year		(2,137)	345,656
(Loss)/earnings per share (sen)	19	(1)	205

The accompanying notes are an integral part of this statement.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**FOR THE YEAR ENDED 31 DECEMBER, 2001**

	<----- Reserves ----->			
	Share capital RM'000	Non-distributable Share premium RM'000	Accumulated losses RM'000	Total RM'000
At 1 January, 2000	168,341	317,358	(822,376)	(336,677)
Net profit for the year	-	-	345,656	345,656
At 31 December, 2000	168,341	317,358	(476,720)	8,979
Net loss for the year	-	-	(2,137)	(2,137)
At 31 December, 2001	168,341	317,358	(478,857)	6,842

The accompanying notes are an integral part of this statement.

CONSOLIDATED CASH FLOW STATEMENT**FOR THE YEAR ENDED 31 DECEMBER, 2001**

	2001	2000
	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss)/profit before taxation	(2,092)	345,656
Adjustment for:		
Net realisation of accumulated losses arising from deconsolidation	-	(346,880)
Intangible assets written off	-	1,203
Depreciation	539	915
Gain on disposal of property and equipment	(368)	(52)
Interest income	(96)	(105)
Interest expense	135	140
Provision for doubtful debts	4	2,764
Write back of provision for diminution in value of quoted shares	-	(5,373)
Provision for diminution in value of dealing securities and investment	-	1,500
Loss from dealing securities	-	3,725
Write back of provision for doubtful debts	-	(7,936)
Provision for commitments and contingencies	-	1,974
Bad debts written off	1	-
Write off of property and equipment	155	-
Operating loss before working capital changes	(1,722)	(2,469)
Decrease in receivables	1,951	338
Increase in land and development expenditure	(2,152)	-
Decrease in payables	(63)	(851)
Cash used in operations	(1,986)	(2,982)
Interest received	96	105
Interest paid	(135)	(140)
Net cash flow used in operating activities	(2,025)	(3,017)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds from disposal of dealing and investment securities	-	3,136
Proceeds from disposal of property and equipment	582	120
Purchase of property and equipment	-	(5)
Net cash flow generated from investing activities	582	3,251

CONSOLIDATED CASH FLOW STATEMENT**FOR THE YEAR ENDED 31 DECEMBER, 2001**

	2001 RM'000	2000 RM'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Drawdown of term loan	982	-
Repayment of hire purchase	(85)	-
Net cash flow generated from financing activities	<u>897</u>	<u>-</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(546)	234
NET CASH MOVEMENT ARISING FROM DECONSOLIDATION OF SUBSIDIARIES *	-	(35,618)
CASH AND CASH EQUIVALENTS FROM SUBSIDIARIES ACQUIRED **	353	-
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	<u>3,242</u>	<u>38,626</u>
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	<u>3,049</u>	<u>3,242</u>
Cash and cash equivalents comprise:		
Cash and bank balances	215	300
Fixed deposits	<u>2,834</u>	<u>2,942</u>
	<u>3,049</u>	<u>3,242</u>

*** ANALYSIS OF DECONSOLIDATION OF SUBSIDIARIES (KBB GROUP)**

	2000 RM'000
Property and equipment	6,974
Investment securities	73,160
Loans, advances and financing	973,836
Statutory deposits with Bank Negara Malaysia	63,600
Other receivables	19,731
Cash and bank balances	35,618
Deposits with customers	(166,738)
Deposits and placements of banks and other financial institutions	(1,297,790)
Other payables	<u>(55,271)</u>
Net liabilities	(346,880)
Net realisation of accumulated losses arising from deconsolidation	<u>346,880</u>
	-
Less: Surplus of cash and cash equivalents of KBB Group	<u>35,618</u>
Net cash movement arising from deconsolidation	<u>(35,618)</u>

CONSOLIDATED CASH FLOW STATEMENT**FOR THE YEAR ENDED 31 DECEMBER, 2001****** ANALYSIS ON ACQUISITION OF SUBSIDIARIES (ANGKASA LAMPIRAN SDN BHD AND BITAREX SDN BHD)**

	2001
	RM'000
Land and development expenditure	5,787
Trade and other receivables	4,365
Cash and bank balances	353
Short term borrowings	(4,212)
Trade and other payables	(2,160)
Net assets acquired	<u>4,133</u>
Goodwill on consolidation allocated to land cost	<u>3,803</u>
Purchase consideration discharged via the recovery of advances previously given	<u>7,936</u>

The accompanying notes are an integral part of this statement.

BALANCE SHEET**31 DECEMBER, 2001**

	Note	2001 RM'000	2000 RM'000
NON-CURRENT ASSETS			
Property and equipment	3	-	796
Investment in subsidiaries	4	7,936	-
		<u>7,936</u>	<u>796</u>
CURRENT ASSETS			
Other receivables	6	49	7,991
Fixed deposits	7	2,834	2,942
Cash and bank balances		35	283
		<u>2,918</u>	<u>11,216</u>
CURRENT LIABILITY			
Other payables	10	3,595	2,762
NET CURRENT (LIABILITIES)/ASSETS		<u>(677)</u>	<u>8,454</u>
		<u>7,259</u>	<u>9,250</u>
FINANCED BY:			
Share capital	11	168,341	168,341
Reserves		(161,082)	(159,226)
Shareholders' equity		<u>7,259</u>	<u>9,115</u>
Hire purchase payables	12	-	135
		<u>7,259</u>	<u>9,250</u>

The accompanying notes are an integral part of this balance sheet.

INCOME STATEMENT**FOR THE YEAR ENDED 31 DECEMBER, 2001**

	Note	2001 RM'000	2000 RM'000
Revenue	13	96	105
Other operating income	14	351	9,636
Staff cost	15	(872)	(1,202)
Depreciation		(510)	(873)
Other operating expenses	16	<u>(801)</u>	<u>(7,796)</u>
Loss from operations		(1,736)	(130)
Finance cost	17	<u>(120)</u>	<u>(132)</u>
Loss before taxation		(1,856)	(262)
Taxation	18	<u>-</u>	<u>-</u>
Net loss for the year		<u>(1,856)</u>	<u>(262)</u>

The accompanying notes are an integral part of this statement.

STATEMENT OF CHANGES IN EQUITY**FOR THE YEAR ENDED 31 DECEMBER, 2001**

	<----- Reserves ----->			
	Share capital RM'000	Non-distributable Share premium RM'000	Accumulated losses RM'000	Total RM'000
At 1 January, 2000	168,341	317,358	(476,322)	9,377
Net loss for the year	-	-	(262)	(262)
At 31 December, 2000	168,341	317,358	(476,584)	9,115
Net loss for the year	-	-	(1,856)	(1,856)
At 31 December, 2001	168,341	317,358	(478,440)	7,259

The accompanying notes are an integral part of this statement.

CASH FLOW STATEMENT**FOR THE YEAR ENDED 31 DECEMBER, 2001**

	2001 RM'000	2000 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before taxation	(1,856)	(262)
Adjustment for:		
Depreciation	510	873
Gain on disposal of property and equipment	(351)	(52)
Provision for doubtful debts	4	3,045
Write back of provision for diminution in value of dealing securities	-	(5,373)
Loss from dealing securities	-	3,725
Provision for diminution in value of investment in subsidiaries	-	1,541
Interest expense	120	132
Write back of provision for doubtful debts	-	(7,936)
Provision for commitments and contingencies	-	1,974
Property and equipment written off	125	-
Operating loss before working capital changes	(1,448)	(2,333)
Decrease in receivables	3	336
Increase/(decrease) in payables	432	(825)
Net change in related company balances	350	(65)
Cash used in operations	(663)	(2,887)
Interest paid	(120)	(132)
Net cash flow used in operating activities	(783)	(3,019)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceed from disposal of securities	-	3,137
Proceeds from disposal of property and equipment	512	120
Purchase of property and equipment	-	(5)
Net cash flow generated from investing activities	512	3,252
CASH FLOW FROM FINANCING ACTIVITY		
Repayment of hire purchase	(85)	-
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(356)	233
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	3,225	2,992
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	2,869	3,225
Cash and cash equivalents comprise:		
Cash and bank balances	35	283
Fixed deposits	2,834	2,942
	2,869	3,225

The accompanying notes are an integral part of this statement.