

Company No: 19727-P

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

**NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER, 2003**

1. CORPORATE INFORMATION

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. 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.

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the Main Board of the Malaysia Securities Exchange Berhad. The registered office of the Company is located at 20th Floor, East Wing, Plaza Permata, No. 6, Jalan Kampar, Off Jalan Tun Razak, 50400 Kuala Lumpur.

The number of employees in the Group and in the Company at the end of the year was 66 (2002 : 8) and 21 (2002 : 8) respectively.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 18 March, 2004.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial statements of the Group and of the Company have been prepared under the historical cost convention unless otherwise indicated in the accounting policies below and comply with provisions of the Companies Act, 1965 and applicable Approved Accounting Standards in Malaysia.

During the financial year ended 31 December 2003, the Group and the Company adopted the following Approved Accounting Standards issued by the Malaysian Accounting Standards Board ("MASB") Standards for the first time:

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(a) Basis of Preparation (Cont'd.)

(i) MASB 25, Income Taxes

The adoption resulted in the disclosure as set out in Note 9.

This standard requires retrospective application. However, apart from the inclusion of the new policies and extended disclosures as required by the standard, the adoption of this standard has not had any effect on the financial statements presented nor led to a restatement of prior year results.

(ii) MASB 27, Borrowing Costs

This standard requires retrospective application. The adoption of this standard has not given rise to any adjustments to the opening balances of retained profits of prior and current year nor to changes in comparatives.

(iii) MASB 29, Employees Benefits

The adoption resulted in the disclosure as set out in Note 6.

This standard requires retrospective application. However, apart from the inclusion of the new policies and extended disclosures as required by the standard, the adoption of this standard has not had any effect on the financial statements presented nor led to a restatement of prior year results.

(b) Basis of Consolidation

Consolidated financial statements include the financial statements of the Company and all its subsidiaries except for a non-consolidated subsidiary namely Kewangan Bersatu Berhad and its subsidiaries, KBB Nominees (Tempatan) Sdn. Bhd. and KBB Properties Sdn. Bhd. The reasons for the non-consolidation are disclosed in Note 14. Subsidiaries are those companies in which the Group has a long term equity interest and where it has power to exercise control over the financial and operating policies so as to obtain benefits therefrom.

Subsidiaries are consolidated using the acquisition method of accounting. Under the acquisition method of accounting, the results of subsidiaries acquired or disposed off during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. The assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition and these values are reflected in the consolidated balance sheet. The difference between the cost of an acquisition and the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition is included in the consolidated balance sheet as goodwill or negative goodwill arising from consolidation.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(b) Basis of Consolidation (Cont'd.)

Intragroup transactions, balances and resulting unrealised gains are eliminated on consolidation and the consolidated financial statements reflect external transactions only. Unrealised losses are eliminated on consolidation unless costs cannot be recovered.

The gain or loss on disposal of a subsidiary company is the difference between net disposal proceeds and the Group's share of its net assets together with any unamortised balance of goodwill which were not previously recognised in the consolidated income statement.

(c) Goodwill

Goodwill is stated at cost less accumulated amortisation and impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(o). Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Goodwill is amortised on a straight-line basis over its estimated useful life of not more than 10 years.

(d) Investments in Subsidiaries

The Company's investments in subsidiaries are stated at cost less impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(o).

On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is recognised in the income statement.

(e) Equipment and Depreciation

Equipment is stated at cost less accumulated depreciation and impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2 (o).

Depreciation of equipment is provided on a straight-line basis to write off the cost of each asset to its residual value over its estimated useful life at the following annual rates:

Furniture and fittings	10%
Renovation	10%
Office equipment	10%
Computer equipment	25%
Electrical and fittings	10%
Motor vehicles	20%

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(e) Equipment and Depreciation (Cont'd.)

Upon the disposal of an item of equipment, the difference between the net disposal proceeds and the carrying amount is recognised in the income statement.

(f) Investment Properties

Investment properties consist of investments in land and building that are not substantially occupied for use by, or in the operations of the Group.

These properties which comprise leasehold land and buildings held for investment potential and rental are treated as long term investments and are stated at cost. The related maintenance expenditure is dealt with in the income statement.

Upon the disposal of an investment property, the difference between the net disposal proceeds and the carrying amount is recognised in the income statement.

(g) Development Properties and Land Held For Development

Land and development expenditure are classified as development properties when significant development work has been undertaken and is expected to be completed within the normal operating cycle. Development properties are stated at cost plus attributable profits less foreseeable losses and progress billings. Costs include cost of land, all direct building costs and other related development expenditure, including interest expenses incurred during the period of active development.

Land held for development consist of land held for future development where no significant development has been undertaken, and is stated at cost. Costs include cost of land and attributable development expenditure. Such assets are classified as development properties when significant development work has been undertaken and the development is expected to be completed within the normal operating cycle.

(h) Inventories

Properties held for resale are stated at the lower of cost and net realisable value. Cost is determined on the specific identification basis and includes costs of land, construction and appropriate development overheads.

(i) Cash and Cash Equivalents

For the purposes of the cash flow statements, cash and cash equivalents include cash on hand and at bank and short term deposits which have an insignificant risk of changes in value.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(j) Leases

A lease is recognised as a finance lease if it transfers substantially to the Group all the risks and rewards incident to ownership.

Assets acquired by way of hire purchase are stated at an amount equal to the lower of their fair values and the present value of the minimum lease payments at the inception of the leases, less accumulated depreciation and impairment losses. The corresponding liability is included in the balance sheet as borrowings. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease agreement, when it is practical to determine; otherwise, the Group's incremental borrowing rate is used.

Lease payments are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are recognised as an expense in the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

The depreciation policy for lease assets is consistent with that for depreciable equipment as described in Note 2 (e).

(k) Provision for Liabilities

Provisions for liabilities are recognised when the Group has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

(l) Income Tax

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the balance sheet date.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(l) Income Tax (Cont'd.)

Deferred tax is provided for, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or negative goodwill.

Prior to the adoption of MASB 25 Income Taxes on 1 January, 2003, deferred tax was provided for using the liability method in respect of significant timing differences and deferred tax assets were not recognised unless there was reasonable expectation of their realisation.

(m) Employee Benefits

(i) Short Term Benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Group. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined Contribution Plans

As required by law, companies in Malaysia make contributions to the state pension scheme, the Employees Provident Fund. Such contributions are recognised as an expense in the income statement as incurred.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(n) Revenue Recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably.

(i) Development Properties

Revenue from sale of development properties is accounted for by the stages of completion method in respect of all properties that have been sold. The stage of completion is determined by reference to the costs incurred to date to the total estimated costs where the outcome of the projects can be reliably estimated.

(ii) Interest Income

Interest income is recognised on a time proportion basis that reflects the effective yield on the asset.

(iii) Revenue for Services Rendered

Revenue for services rendered is recognised net of service taxes and discounts as and when the services are performed.

(iv) Sale of Goods

Revenue relating to sale of goods is recognised net of sales taxes and discounts upon the transfer of risks and rewards.

(v) Rental Income

Rental income is recognised on an accrual basis.

(vi) Dividend Income

Dividend income is recognised when the right to receive payment is established.

(o) Impairment of Assets

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication of impairment. If any such indication exists, impairment is measured by comparing the carrying values of the assets with their recoverable amounts. Recoverable amount is the higher of net selling price and value in use, which is measured by reference to discounted future cash flows.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(o) Impairment of Assets (Cont'd.)

An impairment loss is recognised as an expense to the income statement immediately. Reversal of impairment losses recognised in prior years is recorded when the impairment losses recognised for the asset no longer exist or have decreased.

(p) Financial Instruments

Financial instruments are recognised in the balance sheet when the Group has become a party to the contractual provisions of the instruments.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

(i) Receivables

Receivables are carried at anticipated realisable values. Bad debts are written off when identified. An estimate is made for doubtful debts based on review of all outstanding amounts as at the balance sheet date.

(ii) Payables

Payables are stated at cost which is the fair value of the consideration to be paid in the future for goods and services received.

(iii) Interest-Bearing Borrowings

Interest-bearing bank loans and overdrafts are recorded at the amount of proceeds received, net of transaction costs.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(iii) Interest-Bearing Borrowings (Cont'd.)

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. The amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate which is the weighted average of the borrowing costs applicable to the Group's borrowings that are outstanding during the year, other than borrowings made specifically for the purpose of obtaining another qualifying asset. For borrowings made specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of that borrowing.

All other borrowing costs are recognised as an expense in the income statement as an expense in the period in which they are incurred.

(iv) ICULS

ICULS are regarded as equity instruments. Under the effective interest rate method, the interest expense of the ICULS is computed by applying the prevailing market interest rate for a similar non redeemable loan stocks to the instrument. The difference between this amount and the interest paid is considered as the liability component of the ICULS.

(v) Equity Instruments

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

(q) Concession Rights

This represents initial cost incurred in obtaining the exclusive right to fell, extract and harvest merchantable timber logs from the concession area granted. Concession rights are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the income statement in proportion to timber resources in the concession area based on the amount of tonnes logged every year. The policy for the recognition and measurement of impairment losses is in accordance with Note 2 (o).

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	Group		Company	
	2003	2002	2003	2002
	RM'000	RM'000	RM'000	RM'000
Dividend income	37	-	37	-
Interest income	-	85	-	85
Management fees from subsidiaries	-	-	1,428	-
Rental income	1,849	-	-	-
Sale of development properties	3,503	1,589	-	-
Sale of goods	1,891	-	-	-
	<u>7,280</u>	<u>1,674</u>	<u>1,465</u>	<u>85</u>

4. COST OF SALES

	Group		Company	
	2003	2002	2003	2002
	RM'000	RM'000	RM'000	RM'000
Development properties	4,640	2,657	-	-
Sale of goods	566	-	-	-
	<u>5,206</u>	<u>2,657</u>	<u>-</u>	<u>-</u>

5. LOSS FROM OPERATIONS

Loss from operations is stated after charging / (crediting):

	Group		Company	
	2003	2002	2003	2002
	RM'000	RM'000	RM'000	RM'000
Amortisation of concession rights	504	-	-	-
Amortisation of goodwill on consolidation	90	-	-	-
Auditors' remuneration				
- statutory audit	57	44	30	30
- other services	29	30	29	30
Bad debts written off	-	28	-	28
Depreciation	15	-	15	-
Fixed deposits written off	-	138	-	138
Gain on disposal of equipment	-	(42)	-	(42)
Loss on disposal of investments	143	-	143	-
Provision for doubtful debts	-	-	4	2
Rental of equipment	1	5	1	5
Rental of premises	78	20	78	20
Staff costs (Note 6)	1,222	789	860	789
	<u>1,222</u>	<u>789</u>	<u>860</u>	<u>789</u>