

EP Manufacturing Bhd.

(Company No. 390116-T)

(Incorporated in Malaysia)

and its subsidiaries

**Financial statements for the year
ended 31 December 2004**

Domiciled in Malaysia
Principal place of business
No. 8 & 10 Jalan Jurutera U1/23
Seksyen U1
Kawasan Perindustrian Hicom Glenmarie
40150 Shah Alam
Selangor Darul Ehsan

EP Manufacturing Bhd.

(Company No. 390116-T)

(Incorporated in Malaysia)

and its subsidiaries

Directors' report for the year ended 31 December 2004

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

Principal activities

The principal activity of the Company is that of investment holding. The principal activities of the subsidiaries are set out in Note 3 to the financial statements. There has been no significant change in the nature of these activities during the financial year except for the cessation of operations of two overseas subsidiaries previously engaged in assembling, marketing and distribution of "EP-X" bicycles.

Results

| | Group | Company |
|-------------------------|---------------|----------------|
| | RM'000 | RM'000 |
| Net profit for the year | 18,199 | 4,170 |
| | ===== | ===== |

Reserves and provisions

There were no material transfers to or from reserves and provisions during the financial year except as disclosed in the financial statements.

Dividends

Since the end of the previous financial year, the Company paid a final dividend of 3.5% less tax totalling RM3,010,889 in respect of the year ended 31 December 2003 on 17 September 2004.

Since the end of the previous financial year, the Company paid an interim dividend of 1.5% less tax totalling RM1,317,713 in respect of the year ended 31 December 2004 on 2 February 2005.

The Directors recommended final tax exempt dividend of 3.5% in respect of the year 31 December 2004, subject to the approval of shareholders at the forthcoming Annual General Meeting.

Directors of the Company

Directors who served since the date of the last report are:

Hamidon bin Abdullah

Y.B. Dato' Ibrahim Hussein @ Ibrahim bin Nyar Hussin

Shaari bin Haron

Dr. Linden Hamidon Nee Fong

Hew Voon Foo

Ng Chin Yoong

YM Tunku Ahmad Burhanuddin bin Tunku Datuk Seri Adnan (appointed on 24.2.2005)

The holdings and deemed holdings in the ordinary shares of the Company and of its related corporations (other than wholly-owned subsidiaries) of those who were Directors at year end as recorded in the Register of Directors' Shareholdings are as follows:

| | Number of ordinary shares of RM1 each or shares to be issued arising from the exercise of EPMB ICUPS, EPMB RCSPS and EPMB warrants | | | |
|---|---|------------------------------|----------------------------|--------------------------|
| | At 1.1.2004/ Issued | Bought/ Converted | Sold/ Converted | At 31.12.2004 |
| Shareholdings in which Directors have direct interest | | | | |
| Interest in EP Manufacturing Bhd. ("EPMB"): | | | | |
| Ordinary shares | | | | |
| Hamidon bin Abdullah | 7,047,133 | - | - | 7,047,133 |
| Dr. Linden Hamidon Nee Fong | 36,967 | 1,200,000 | - | 1,236,967 |
| Y.B. Dato' Ibrahim Hussein @ Ibrahim bin Nyar Hussin | 50,000 | - | - | 50,000 |
| Shaari bin Haron | 20,000 | - | - | 20,000 |
| Shareholdings in which Directors have deemed interest | | | | |
| Hamidon bin Abdullah | | | | |
| - deemed interest* | 14,405,000 | 15,000,000 | (9,850,000) | 19,555,000 |
| - deemed interest** | 36,967 | 1,200,000 | - | 1,236,967 |
| Dr. Linden Hamidon Nee Fong | | | | |
| - deemed interest** | 21,452,133 | 15,000,000 | (9,850,000) | 26,602,133 |
| Irredeemable Convertible Unsecured Preference Shares ("EPMB ICUPS") | | | | |
| Hamidon bin Abdullah | | | | |
| - deemed interest** | 73,934 | - | - | 73,934 |
| - deemed interest*** | 24,166,866 | 15,750,000 | (15,000,000) | 24,916,866 |
| Dr. Linden Hamidon Nee Fong | | | | |
| - direct interest | 73,934 | - | - | 73,934 |
| - deemed interest** | 24,166,866 | 15,750,000 | (15,000,000) | 24,916,866 |
| Redeemable Convertible Secured Preference Shares ("EPMB RCSPS") | | | | |
| Hamidon bin Abdullah | | | | |
| - deemed interest** | 18,484 | - | - | 18,484 |
| Dr. Linden Hamidon Nee Fong | | | | |
| - direct interest | 18,484 | - | - | 18,484 |

**Number of ordinary shares of RM1 each or shares
to be issued arising from the exercise of
EPMB ICUPS, EPMB RCSPS and EPMB warrants**

| | At | | | At 31.12.2004 |
|---|---------------------|----------------------|--------------------|------------------|
| | 1.1.2004/ Issued | Bought/ Converted | Sold/ Converted | |
| EPMB Warrants | | | | |
| Hamidon bin Abdullah | | | | |
| - direct interest | 4,979,000 | - | - | 4,979,000 |
| - deemed interest** | 18,484 | - | - | 18,484 |
| Dr. Linden Hamidon Nee Fong | | | | |
| - direct interest | 18,484 | - | - | 18,484 |
| - deemed interest** | 4,979,000 | - | - | 4,979,000 |
| Y.B. Dato' Ibrahim Hussein @ Ibrahim bin Nyar Hussin | 25,000 | - | - | 25,000 |
| Shaari bin Haron | 10,000 | - | - | 10,000 |

* Deemed interested by virtue of his substantial shareholdings in EP Properties (M) Sdn. Bhd. and Mutual Concept Sdn. Bhd., the registered owner of the shares in the Company.

** Deemed interest in each others' shareholdings by virtue of their spousal relationship.

*** Deemed interested by virtue of his substantial shareholdings in Mutual Concept Sdn. Bhd..

By virtue of their interests in the shares of the Company, Hamidon bin Abdullah, Dr. Linden Hamidon Nee Fong, Y.B. Dato' Ibrahim Hussein @ Ibrahim bin Nyar Hussin and Shaari bin Haron are also deemed interested in the shares of the subsidiaries during the financial year to the extent that EPMB has an interest.

None of the other Directors holding office at 31 December 2004 had any interest in the ordinary shares of the Company and of its related corporations during the financial year.

Directors' benefits

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in the financial statements or the fixed salary of a full time employee of the related companies) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest, other than certain Directors who have significant financial interests in companies which traded with certain companies in the Group in the ordinary course of business as disclosed in Note 25 to the financial statements.

There were no arrangements during and at the end of the financial year which had 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 except as disclosed below:

In 1999, EPMB entered into a share sale agreement with Fundwin Sdn. Bhd. ("Fundwin") and Hamidon bin Abdullah ("Hamidon") to acquire the entire issued and paid-up capital of Fundwin. Hamidon granted a put option to EPMB whereby EPMB can exercise the right to require Hamidon to purchase Fundwin's Irredeemable Convertible Preference Share ("ICPS") and Ordinary Shares (collectively referred to as "Option Shares") from EPMB free from all liens, charges and other encumbrances based on an aggregate consideration to be calculated as follows ("Option Price"):

- (i) RM8,490,000 together with interest at eight per centum (8%) per annum calculated from the date of subscription of the ICPS on 27 December 1997 until the date of the payment in full of the Option Price;
- (ii) RM1,000 together with interest at eight per centum (8%) per annum calculated from 28 December 1999, being the date of the acquisition of the Ordinary Shares, until the date of the payment in full of the Option Price; and
- (iii) less any dividends that have been declared and paid by the said subsidiary to EPMB.

Hamidon shall be entitled to a contingent consideration based on 3.8% of the turnover of Fundwin for each of the five (5) financial years ending 31 December 2004 ("Contingent Consideration"). However, the Contingent Consideration is only payable by the Company to Hamidon in a particular financial year if Fundwin achieves an audited profit after taxation of not less than RM5,000,000 for that particular financial year. In the event Fundwin does not achieve the required profit for any applicable financial years, Hamidon's entitlement to the Contingent Consideration for that financial year shall lapse. Hamidon has waived his entitlement for the Contingent Consideration for the financial year ended 31 December 2003.

EPMB may put to Hamidon to acquire the Option Shares at the Option Price in the event the audited profit after taxation of Fundwin as certified by the subsidiary's auditors is less than RM5,000,000 for each of the three (3) financial years ending 31 December 2002. The put option is exercisable by EPMB at any time during a period of three (3) months commencing from the date of receipt by EPMB of the auditors' certificate for the said subsidiary for that applicable financial year.

Upon exercise of the put option, Hamidon will be required to purchase or cause to be purchased from EPMB at the Option Price, the Option Shares free from all liens, charges and other encumbrances and with all rights attaching thereto within seven (7) days from the date of the exercise of the put option.

The acquisition of the Options Shares and the put option thereof were approved by the shareholders on 28 June 2000. The Board of Directors and Hamidon had mutually agreed to extend the put option to financial year ending 31 December 2004. Subsequently, on 24 February 2005, the Board of Directors resolved and approved the waiver of its rights to exercise the put option based on anticipated future profits from Fundwin in the coming years. With this, the put option is lapsed.

Issue of shares and debentures

During the financial year, the Company issued 31,500,000 Irredeemable Convertible Unsecured Preference Shares of RM0.10 each in EPMB (“EPMB ICUPS”) at an issue price of RM0.50 per EPMB ICUPS, pursuant to the terms and condition of the acquisition of PEPS–JV (M) Sdn. Bhd. The registered holders of the EPMB ICUPS have the option at any time from issue date on 23 June 2003 till 22 June 2008 to convert the EPMB ICUPS into new ordinary shares in the Company (“EPMB Share”) by tendering Two (2) EPMB ICUPS for One (1) EPMB Share of RM1.00 each and the ordinary shares resulting from such conversion shall rank pari passu in all respect with the existing ordinary shares of the Company.

46,796,300 EPMB ICUPS of RM0.10 each and 3,935,200 EPMB RCSPS of RM0.10 each were converted into 23,398,150 and 1,967,600 ordinary shares during the financial year.

There were no other changes in the issued and paid up capital of the Company during the financial year.

Options granted over unissued shares

No options were granted to any person to take up unissued shares of the Company during the financial year apart from the issue of warrants (as disclosed below), EPMB ICUPS and EPMB RCSPS.

The warrants are in registered form and constituted by a Deed Poll and entitle the registered holders to subscribe for One (1) new ordinary share of RM1.00 in the Company at a price of RM1.00 per ordinary share for every warrant held at any time during the five (5) year subscription period expiring on 3 September 2008. At the end of the financial year, 20,730,000 warrants remained unexercised.

At the end of the financial year, 65,507,300 EPMB ICUPS and 3,891,767 EPMB RCSPS remained unexercised.

The EPMB ICUPS, EPMB RCSPS and warrants holders are not entitled to participate in any share issue of any other company.

At an Extraordinary General Meeting held in June 2002, the Company’s shareholders approved the establishment of an employees’ share option scheme (“ESOS”) of not more than 10% of the issued share capital of the Company at the date of offer, to eligible Directors and employees of the Group. At the date of this report, no options have been granted to any person pursuant to the ESOS.

The salient features of the ESOS are as follows:

- i) Eligible employees are those who have been confirmed in writing as employees of the Group at the date of the offer and have attained the age of eighteen (18) years.
- ii) The option is personal to the grantee and is non-assignable.
- iii) The option price shall be determined by the weighted average market price of the Company's ordinary shares as shown in the daily official list of Bursa Malaysia Securities Berhad for the five market days immediately preceding the respective dates of the offer with an allowance for a discount of not more than ten per centum (10%) at the Option Committee's discretion or at the par value of the Company's ordinary shares, whichever is higher.
- iv) The options granted may be exercised at any time within a period of five (5) years from the date of offer of the option or such shorter period as may be specifically stated in the offer upon giving notice in writing.
- v) The options granted may be exercised in full or in lesser number of ordinary shares provided that the number shall be in multiples of 1,000 shares.
- vi) The persons to whom the options have been granted have no right to participate by virtue of the options in any share issue of any other company.

Other statutory information

Before the financial statements of the Group and of the Company were made out, the Directors took reasonable steps to ascertain that:

- i) all known bad debts have been written off and adequate provision made for doubtful debts, and
- ii) all current assets have been stated at the lower of cost and net realisable value.

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

- i) that would render the amount written off for bad debts, or the amount of the provision for doubtful debts, in the Group and in the Company inadequate to any substantial extent, or
- ii) that would render the value attributed to the current assets in the financial statements of the Group and of the Company misleading, or
- iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate, or
- iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Group and of the Company misleading.

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| Company No. 390116-T |
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At the date of this report, there does not exist:

- i) any charge on the assets of the Group or of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person, or
- ii) any contingent liability in respect of the Group or of the Company that has arisen since the end of the financial year.

No contingent liability or other liability of any company in the Group has become enforceable, or is likely to become enforceable within the period of twelve (12) months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Group and of the Company to meet their obligations as and when they fall due.

In the opinion of the Directors, the results of the operations of the Group and of the Company for the financial year ended 31 December 2004 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

Auditors

The auditors, Messrs KPMG, have indicated their willingness to accept re-appointment.

Signed in accordance with a resolution of the Directors:

.....
Hamidon bin Abdullah

.....
Ng Chin Yoong

Kuala Lumpur,

Date:

EP Manufacturing Bhd.

(Company No. 390116-T)

(Incorporated in Malaysia)

and its subsidiaries**Statement by Directors pursuant to Section 169(15)
of the Companies Act, 1965**

In the opinion of the Directors, the accompanying financial statements set out on pages 12 to 61 are 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 the state of affairs of the Group and of the Company as at 31 December 2004 and of the results of their operations and cash flows for the year ended on that date.

Signed in accordance with a resolution of the Directors:

.....
Hamidon bin Abdullah

.....
Ng Chin Yoong

Kuala Lumpur,

Date:

EP Manufacturing Bhd.
(Company No. 390116-T)
(Incorporated in Malaysia)
and its subsidiaries

**Statutory declaration pursuant to
Section 169(16) of the Companies Act, 1965**

I, **Lim Kok Keong**, the officer primarily responsible for the financial management of EP Manufacturing Bhd., do solemnly and sincerely declare that the accompanying financial statements set out on pages 12 to 61 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 above named in Kuala Lumpur on
.....

.....
Lim Kok Keong

Before me:

Report of the auditors to the members of EP Manufacturing Bhd.

(Company No. 390116-T)
(Incorporated in Malaysia)

We have audited the financial statements set out on pages 12 to 61. The preparation of the financial statements is the responsibility of the Company's Directors.

It is our responsibility to form an independent opinion, based on our audit, on the 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 Standards on Auditing in Malaysia. These standards require that we plan and perform the audit to obtain all the information and explanations which we consider necessary to provide us with evidence to give reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the Directors as well as evaluating the overall adequacy of the presentation of information in the financial statements. We believe our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of:
 - i) the state of affairs of the Group and of the Company at 31 December 2004 and the results of their operations and cash flows for the year ended on that date; and
 - ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Group and of the Company; and
- (b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Company and the subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the said Act.

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| Company No. 390116-T |
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The subsidiaries in respect of which we have not acted as auditors are identified in Note 3 to the financial statements and we have considered their financial statements and the auditors' reports thereon, or management accounts, where applicable.

We are satisfied that the financial statements of the subsidiaries 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 audit reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment made under subsection (3) of Section 174 of the Act.

KPMG
Firm Number: AF 0758
Chartered Accountants

Siew Chin Kiang @ Seow Chin Kiang
Partner
Approval Number: 2012/11/06(J)

Kuala Lumpur,

Date:

EP Manufacturing Bhd.

(Company No. 390116-T)

(Incorporated in Malaysia)

and its subsidiaries

Balance sheets as at 31 December 2004

| | Note | Group | | Company | |
|---|------|----------------|----------------|----------------|----------------|
| | | 2004 RM'000 | 2003 RM'000 | 2004 RM'000 | 2003 RM'000 |
| Property, plant and equipment | 2 | 188,774 | 159,916 | 43,241 | 43,858 |
| Investments in subsidiaries | 3 | - | - | 156,958 | 141,208 |
| Other investments | 4 | 13 | 13 | - | - |
| Advances to subsidiaries | 7 | - | - | 115,448 | - |
| Intangible assets | 5 | 77,836 | 62,833 | - | - |
| Deferred tax assets | 15 | 3,665 | 4,365 | - | - |
| | | 270,288 | 227,127 | 315,647 | 185,066 |
| Current assets | | | | | |
| Inventories | 6 | 31,328 | 13,178 | - | - |
| Trade and other receivables | 7 | 71,077 | 70,897 | 7,516 | 6,037 |
| Tax recoverable | | 91 | 57 | - | - |
| Cash and cash equivalents | 8 | 35,903 | 10,667 | 1,427 | 1,328 |
| | | 138,399 | 94,799 | 8,943 | 7,365 |
| Current liabilities | | | | | |
| Trade and other payables | 9 | 54,836 | 59,899 | 26,998 | 27,675 |
| Borrowings | 10 | 33,119 | 49,406 | - | - |
| Taxation | | 684 | 1,072 | 340 | 509 |
| Provision for warranties | 11 | 359 | 482 | - | - |
| Dividend payable | | 1,318 | - | 1,318 | - |
| | | 90,316 | 110,859 | 28,656 | 28,184 |
| Net current assets/(liabilities) | | 48,083 | (16,060) | (19,713) | (20,819) |
| | | 318,371 | 211,067 | 295,934 | 164,247 |

Balance sheets as at 31 December 2004 (continued)

| | Note | Group | | Company | |
|---|------|----------------|----------------|----------------|----------------|
| | | 2004 RM'000 | 2003 RM'000 | 2004 RM'000 | 2003 RM'000 |
| Financed by: | | | | | |
| Capital and reserves | | | | | |
| Share capital | 12 | 126,755 | 103,051 | 126,755 | 103,051 |
| Reserves | 13 | 47,197 | 39,732 | 46,407 | 54,115 |
| Shareholders' funds | | <u>173,952</u> | <u>142,783</u> | <u>173,162</u> | <u>157,166</u> |
| Negative goodwill | | 7,710 | 7,710 | - | - |
| Minority shareholders' interests | 14 | 13,459 | 8,909 | - | - |
| Long term and deferred liabilities | | | | | |
| Borrowings | 10 | 122,182 | 50,617 | 121,724 | 6,033 |
| Deferred tax liabilities | 15 | 1,068 | 1,048 | 1,048 | 1,048 |
| | | <u>123,250</u> | <u>51,665</u> | <u>122,772</u> | <u>7,081</u> |
| | | <u>318,371</u> | <u>211,067</u> | <u>295,934</u> | <u>164,247</u> |
| | | ===== | ===== | ===== | ===== |

The financial statements were approved and authorised for issue by the Board of Directors on

The notes set out on pages 22 to 61 form an integral part of, and should be read in conjunction with, these financial statements.

EP Manufacturing Bhd.

(Company No. 390116-T)

(Incorporated in Malaysia)

and its subsidiaries

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 – manufacturing | | 239,093 | 223,749 | - | - |
| – services rendered | | 56 | 1,573 | - | - |
| – dividend income | | - | - | 9,406 | - |
| – rental income | | - | - | 2,461 | 2,655 |
| | | <u>239,149</u> | <u>225,322</u> | <u>11,867</u> | <u>2,655</u> |
| Other operating income | | 3,730 | 4,453 | - | - |
| Changes in inventories | | 5,883 | (1,852) | - | - |
| Raw materials and consumables used | | (144,242) | (124,000) | - | - |
| Staff costs | | (28,630) | (28,693) | (180) | (180) |
| Depreciation and amortisation | | (12,576) | (11,153) | (617) | (617) |
| Operating expenses | | <u>(34,384)</u> | <u>(33,946)</u> | <u>(4,945)</u> | <u>(879)</u> |
| Operating profit | 16 | 28,930 | 30,131 | 6,125 | 979 |
| Interest expense | 18 | (5,283) | (5,664) | (189) | - |
| Interest income | | 157 | 131 | 66 | 34 |
| Profit before taxation | | <u>23,804</u> | <u>24,598</u> | <u>6,002</u> | <u>1,013</u> |
| Tax expense | 19 | (1,055) | (5,533) | (1,832) | (339) |
| Profit after taxation | | <u>22,749</u> | <u>19,065</u> | <u>4,170</u> | <u>674</u> |
| Less: Minority interests | | (4,550) | (2,252) | - | - |
| Less: Pre-acquisition profit | | - | (5,055) | - | - |
| Net profit for the year | | <u>18,199</u> | <u>11,758</u> | <u>4,170</u> | <u>674</u> |
| Basic earnings per ordinary share (sen) | 20 | <u>15.75</u> | <u>24.30</u> | | |
| Diluted earnings per ordinary share (sen) | 20 | <u>12.19</u> | <u>16.00</u> | | |
| Net dividends per ordinary share (sen) | 21 | <u>4.58</u> | <u>2.52</u> | <u>4.58</u> | <u>2.52</u> |

The notes set out on pages 22 to 61 form an integral part of, and should be read in conjunction with, these financial statements.

EP Manufacturing Bhd.

(Company No. 390116-T)

(Incorporated in Malaysia)

and its subsidiaries

Consolidated statement of changes in equity for the year ended 31 December 2004

| Group | Note | -----Share capital----- | | ----- Non distributable----- | | Exchange | Distributable | Total |
|---|------|---------------------------|----------------------------------|------------------------------|---------------------------|-------------------------------|---|---------|
| | | Ordinary shares RM'000 | Financial instruments* RM'000 | Share premium RM'000 | Capital reserve RM'000 | translation reserve RM'000 | Retained profits/ (Accumulated losses) RM'000 | |
| At 1 January 2003 | | 41,460 | - | 15,618 | - | (1,087) | (16,263) | 39,728 |
| Issuance of EPMB ICUPS | 12 | - | 11,792 | 47,166 | - | - | - | 58,958 |
| Issuance of EPMB RCSPS | 12 | - | 5,183 | 20,733 | - | - | - | 25,916 |
| Conversion to ordinary shares | | | | | | | | |
| - EPMB ICUPS | 12 | 27,850 | (4,812) | (19,246) | - | - | - | 3,792 |
| - EPMB RCSPS | 12 | 26,085 | (4,507) | (18,027) | - | - | - | 3,551 |
| Issuance of warrants | | - | - | - | 4,146 | - | - | 4,146 |
| Share issue expenses | | - | - | (1,549) | - | - | - | (1,549) |
| Net gains and losses not recognised in the income statement | | | | | | | | |
| - Currency translation differences | | - | - | - | - | (2,472) | - | (2,472) |
| Net profit for the year | | - | - | - | - | - | 11,758 | 11,758 |
| Ordinary dividends – 2002 final | 21 | - | - | - | - | - | (1,045) | (1,045) |
| At 31 December 2003 | | 95,395 | 7,656 | 44,695 | 4,146 | (3,559) | (5,550) | 142,783 |
| | | -----Note 12----- | | -----Note 13----- | | | | |

EP Manufacturing Bhd.

(Company No. 390116-T)
(Incorporated in Malaysia)

Statement of changes in equity for the year ended 31 December 2004

| Company | Note | -----Share capital----- | | Non distributable | | Distributable | Total RM'000 |
|---------------------------------|------|------------------------------|-------------------------------------|----------------------------|------------------------------|-------------------------------|-----------------|
| | | Ordinary shares RM'000 | Financial instruments* RM'000 | Share premium RM'000 | Capital reserve RM'000 | Retained profits RM'000 | |
| At 1 January 2003 | | 41,460 | - | 15,618 | - | 5,645 | 62,723 |
| Issuance of EPMB ICUPS | 12 | - | 11,792 | 47,166 | - | - | 58,958 |
| Issuance of EPMB RCSPS | 12 | - | 5,183 | 20,733 | - | - | 25,916 |
| Conversion to ordinary shares | | | | | | | |
| - EPMB ICUPS | 12 | 27,850 | (4,812) | (19,246) | - | - | 3,792 |
| - EPMB RCSPS | 12 | 26,085 | (4,507) | (18,027) | - | - | 3,551 |
| Issuance of warrants | | - | - | - | 4,146 | - | 4,146 |
| Share issue expenses | | - | - | (1,549) | - | - | (1,549) |
| Net profit for the year | | - | - | - | - | 674 | 674 |
| Ordinary dividends – 2002 final | 21 | - | - | - | - | (1,045) | (1,045) |
| At 31 December 2003 | | 95,395 | 7,656 | 44,695 | 4,146 | 5,274 | 157,166 |
| | | -----Note 12----- | | -----Note 13----- | | | |

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| Company No. 390116-T |
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Statement of changes in equity for the year ended 31 December 2004 (continued)

| Company | Note | -----Share capital----- | | Non distributable | Capital | Distributable | Total RM'000 |
|-------------------------------|------|------------------------------|-------------------------------------|----------------------------|-------------------|-------------------------------|-----------------|
| | | Ordinary shares RM'000 | Financial instruments* RM'000 | Share premium RM'000 | reserve RM'000 | Retained profits RM'000 | |
| At 1 January 2004 | | 95,395 | 7,656 | 44,695 | 4,146 | 5,274 | 157,166 |
| Issuance of EPMB ICUPS | 12 | - | 2,721 | 10,885 | - | - | 13,606 |
| Conversion to ordinary shares | | | | | | | |
| - EPMB ICUPS | 12 | 23,397 | (4,042) | (16,170) | - | - | 3,185 |
| - EPMB RCSPS | 12 | 1,968 | (340) | (1,360) | - | - | 268 |
| Net profit for the year | | - | - | - | - | 4,170 | 4,170 |
| Preference dividends | | | | | | | |
| - EPMB ICUPS | | - | - | - | - | (831) | (831) |
| - EPMB RCSPS | | - | - | - | - | (73) | (73) |
| Ordinary dividends | | | | | | | |
| - 2003 final | 21 | - | - | - | - | (3,011) | (3,011) |
| - 2004 interim | 21 | - | - | - | - | (1,318) | (1,318) |
| At 31 December 2004 | | 120,760 | 5,995 | 38,050 | 4,146 | 4,211 | 173,162 |
| | | -----Note 12----- | | -----Note 13----- | | | |

* Par value of the equity components of EPMB ICUPS and EPMB RCSPS.

The notes set out on pages 22 to 61 form an integral part of, and should be read in conjunction with, these financial statements.

EP Manufacturing Bhd.

(Company No. 390116-T)

(Incorporated in Malaysia)

and its subsidiaries

Cash flow statements for the year ended 31 December 2004

| | Group | | Company | |
|---|----------------|----------------|----------------|----------------|
| | 2004 RM'000 | 2003 RM'000 | 2004 RM'000 | 2003 RM'000 |
| Cash flows from operating activities | | | | |
| Profit before taxation | 23,804 | 24,598 | 6,002 | 1,013 |
| Adjustments for: | | | | |
| Bad debts written off | 10 | 229 | 3,794 | - |
| Depreciation | 11,892 | 10,551 | 617 | 617 |
| Development costs - amortisation | 684 | 602 | - | - |
| - written off | - | 142 | - | - |
| Dividend income | - | - | (9,406) | - |
| Net (gain)/loss on disposal of property, plant and equipment | (162) | 54 | - | - |
| Interest expense | 5,283 | 5,664 | 189 | - |
| Interest income | (157) | (131) | (66) | (34) |
| Property, plant and equipment written off | 39 | - | - | - |
| Pre-acquisition profits | - | (5,055) | - | - |
| Net unrealised foreign exchange gain | (298) | (729) | - | - |
| Operating profit before working capital changes | 41,095 | 35,925 | 1,130 | 1,596 |
| (Increase)/Decrease in working capital: | | | | |
| Inventories | (18,150) | 3,154 | - | - |
| Trade and other receivables | 310 | 32,470 | (2,989) | 8,981 |
| Trade and other payables | (3,960) | (11,716) | (2,961) | (2,943) |
| Provision for warranties | (123) | (436) | - | - |
| Cash generated from/(used in) operations | 19,172 | 59,397 | (4,820) | 7,634 |
| Income taxes paid | (723) | (555) | (321) | (236) |
| Net cash generated from/(used in) operating activities | 18,449 | 58,842 | (5,141) | 7,398 |

Cash flow statements for the year ended 31 December 2004 (continued)

| | Group | | Company | |
|--|----------------|----------------|----------------|----------------|
| | 2004 RM'000 | 2003 RM'000 | 2004 RM'000 | 2003 RM'000 |
| Cash flows from investing activities | | | | |
| Acquisition of subsidiary, net of cash acquired (Note 27) | - | (10,303) | - | - |
| Dividends received | - | - | 7,726 | - |
| Intangible cost capitalised | (154) | (561) | - | - |
| Interest received | 157 | 131 | 66 | 34 |
| Pledged of deposits with licensed banks | (9,581) | (339) | - | - |
| Proceeds from disposal of property, plant and equipment | 203 | 66 | - | - |
| Purchase of property, plant and equipment (ii) | (40,811) | (25,678) | - | (85) |
| Purchase of additional shares in a subsidiary | - | - | - | (108,750) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Net cash (used in)/generated from investing activities | (50,186) | (36,684) | 7,792 | (108,801) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Cash flows from financing activities | | | | |
| Ordinary dividends paid to shareholders of the company | (3,011) | (1,045) | (3,011) | (1,045) |
| Preference dividend paid to EPMB ICUPS and EPMB RCSPS holders | (904) | - | (904) | - |
| Interest paid | (5,283) | (5,664) | (189) | - |
| Advances to subsidiaries | - | - | (115,448) | - |
| Net repayment of borrowings | (12,481) | (17,474) | - | - |
| Liability component from issue of EPMB ICUPS and EPMB RCSPS | - | - | - | 6,033 |
| Proceeds from issue of ordinary shares, EPMB ICUPS and EPMB RCSPS | - | - | - | 90,668 |
| Proceeds from issue of warrants | - | 4,146 | - | 4,146 |
| Proceeds from issue of MUNIF (Note 10) | 117,000 | - | 117,000 | - |
| Repayment of MUNIF (Note 10) | (40,000) | - | - | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Net cash generated from/(used in) financing activities | 55,321 | (20,037) | (2,552) | 99,802 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Net increase/(decrease) in cash and cash equivalents | 23,584 | 2,121 | 99 | (1,601) |
| Cash and cash equivalents at beginning of year | (i) (1,587) | (3,716) | 328 | 1,929 |
| Foreign exchange differences on opening balances | 3 | 8 | - | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Cash and cash equivalents at end of year | (i) 22,000 | (1,587) | 427 | 328 |
| | ===== | ===== | ===== | ===== |

Cash flow statements for the year ended 31 December 2004 (continued)

(i) *Cash and cash equivalents*

Cash and cash equivalents included in the cash flow statements comprise the following balance sheet amounts:

| | Group | | Company | |
|---------------------------------------|----------------|----------------|----------------|----------------|
| | 2004 RM'000 | 2003 RM'000 | 2004 RM'000 | 2003 RM'000 |
| Deposits (excluding deposits pledged) | 359 | 1,792 | 102 | 69 |
| Cash and bank balances | 22,798 | 5,710 | 325 | 259 |
| Bank overdrafts | (1,157) | (9,089) | - | - |
| | <u>22,000</u> | <u>(1,587)</u> | <u>427</u> | <u>328</u> |
| | ===== | ===== | ===== | ===== |

(ii) *Purchase of property, plant and equipment*

During the year, the Group acquired property, plant and equipment with an aggregate cost of RM40,811,000 (2003 - RM25,678,000), of which RM100,000 (2003 - RM572,000) were acquired by means of hire purchase.

The notes set out on pages 22 to 61 form an integral part of, and should be read in conjunction with, these financial statements.

EP Manufacturing Bhd.

(Company No. 390116-T)

(Incorporated in Malaysia)

and its subsidiaries

Notes to the financial statements

1. Summary of significant accounting policies

The following accounting policies are adopted by the Group and the Company and are consistent with those adopted in previous years.

(a) Basis of accounting

The financial statements of the Group and of the Company are prepared on the historical cost basis except as disclosed in the notes to the financial statements and in compliance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia.

(b) Basis of consolidation

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. Subsidiaries are consolidated using the acquisition method of accounting.

A subsidiary is excluded from consolidation when either control is intended to be temporary if the subsidiary is acquired and held exclusively with a view of its subsequent disposal in the near future and it has not previously been consolidated or it operates under severe long term restrictions which significantly impair its ability to transfer funds to the Company. Subsidiaries excluded on these grounds are accounted for as investments.

Under the acquisition method of accounting, the results of subsidiaries acquired or disposed of during the year are included from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair values of the subsidiaries' net assets are determined and these values are reflected in the Group financial statements. The difference between the acquisition cost and the fair values of the subsidiaries' net assets is reflected as goodwill or negative goodwill as appropriate.

Intragroup transactions and balances and the resulting unrealised profits are eliminated on consolidation. Unrealised losses resulting from intragroup transactions are also eliminated unless cost cannot be recovered.

1. Summary of significant accounting policies (continued)

(c) Affiliated companies

Affiliated companies are companies in which certain Directors have interest or are also directors.

(d) Property, plant and equipment and depreciation

Freehold land and capital work-in-progress are stated at cost. All other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

Freehold land and capital-work-in-progress are not amortised. Leasehold land is amortised in equal instalments over the period of the lease which is 90 years while buildings are depreciated on a straight line basis over 50 years. The straight line method is used to write off the cost of the other assets over the term of their estimated useful lives at the following principal annual rates:

| | |
|-----------------------------------|------------|
| Renovation | 15% |
| Equipment, furniture and fittings | 8% - 33.3% |
| Plant and machineries | 5% - 40% |
| Motor vehicles | 16% |

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

(e) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of acquisition over the fair values of the net identifiable assets acquired and is stated at cost less accumulated impairment losses, if any.

Negative goodwill represents the excess of the fair values of the net identifiable assets acquired over the cost of acquisition and is stated at cost.

Goodwill/negative goodwill is not amortised.

1. Summary of significant accounting policies (continued)

(e) Intangible assets (continued)

(ii) *Research and development cost*

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred.

Capitalised development expenditure is amortised and recognised as an expense on a systematic basis so as to reflect the pattern in which the related economic benefits are recognised over 5 years.

(f) Finance leases

Leases in which the Group and the Company assume substantially all the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases. Assets acquired by way of finance leases 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, if any.

In calculating the present value of the minimum lease payments, the discount rate is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Group's incremental borrowing rate is used.

(g) Investments

Investments in quoted and unquoted shares, held as long term investments, are stated at cost. An allowance is made when the Directors are of the view that there is a diminution in their value which is other than temporary.

Long term investment in subsidiaries is stated at cost in the Company, less impairment loss where applicable.

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

(h) Trade and other receivables

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

1. Summary of significant accounting policies (continued)

(i) Employee benefits

(i) Short term employee benefits

Wages, salaries and bonuses are recognised as expenses in the year in which the associated services are rendered by employees of the Group and the Company. 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 absences occur.

(ii) Defined contribution plans

Obligations for contributions to defined contribution plans are recognised as an expense in the income statement as incurred.

(j) Provisions

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

Provision for warranties is recognised when the underlying products are sold and is based on historical warranty data and a weighting of all possible outcomes against the associated probabilities.

(k) Liabilities

Borrowings and trade and other payables are stated at cost.

(l) Inventories

Raw materials, work-in-progress and manufactured inventories are stated at the lower of cost and net realisable value with first-in-first-out being the main basis for cost. The cost of work-in-progress and manufactured inventories comprise of raw materials, direct labour, other direct costs and an appropriate proportions of fixed and variable production overheads.

(m) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in value. For the purpose of the cash flow statement, cash and cash equivalents are presented net of bank overdrafts and pledged deposits.

1. Summary of significant accounting policies (continued)

(n) Impairment

The carrying amount of assets, other than inventories, deferred tax assets and financial assets (other than investments in subsidiaries), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount is the greater of the asset's net selling price and its value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss in respect of goodwill is not reversed unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur and subsequent external events have occurred that reverse the effect of that event.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised. The reversal is recognised in the income statement.

(o) Share capital

Preference share capital

Financial instruments that contain both a liability and an equity element are classified according to the instrument's component parts, as a liability or as equity, in accordance with the substance of the definitions of a financial liability and an equity instrument.

Preference share capital is classified as equity if it is non-redeemable and dividends are discretionary at the option of the issuer.

Preference share capital is classified as liability if it is redeemable on a specific date or at the option of the shareholders and dividends thereon are recognised in the income statement as interest expense.

1. Summary of significant accounting policies (continued)

(p) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Temporary differences are not recognised for goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that at the time of the transaction affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

(q) Foreign currency

(i) *Foreign currency transactions*

Transactions in foreign currencies are translated to Ringgit Malaysia at rates of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Ringgit Malaysia at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

The Group's foreign operations are not considered an integral part of the Company's operations. Accordingly, the assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Ringgit Malaysia at exchange rates ruling at the balance sheet date. The revenue and expenses of foreign operations are translated to Ringgit Malaysia at average exchange rates applicable throughout the year. Foreign exchange differences arising on translation are recognised directly in equity.

1. Summary of significant accounting policies (continued)

(q) Foreign currency (continued)

(ii) *Financial statements of foreign operations*

The closing rates used in the translation of foreign currency monetary assets and liabilities and the financial statements of foreign operations are as follows:

| | 2004 | 2003 |
|------------------------|-------------|-------------|
| | RM | RM |
| 1 Australian Dollar | 2.959 | 2.851 |
| 1 Pound Sterling | 7.317 | 6.768 |
| 100 Japanese Yen | 3.703 | 3.554 |
| 1 United States Dollar | 3.800 | 3.800 |
| 1 Euro | 5.173 | 4.778 |
| 100 Thai Baht | 9.764 | 9.595 |

(r) Revenue

(i) *Goods sold*

Revenue from sale of goods is measured at the fair value of the consideration receivable and is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

(ii) *Services rendered*

Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to survey of works performed. Where the outcome of the transaction cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

(iii) *Dividend income*

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

(iv) *Rental income*

Rental income is recognised in the income statement as it accrues.

(v) *Interest income*

Interest income is recognised in the income statement as it accrues, taking into account the effective yield on the asset.

1. Summary of significant accounting policies (continued)

(s) Expenses

(i) *Operating lease payments*

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

(ii) *Financing costs*

All interest and other costs incurred in connection with borrowings are expensed as incurred. The interest component of finance lease payments is recognised in the income statement so as to give a constant periodic rate of interest on the outstanding liability at the end of each accounting period.

(t) Financial instruments

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

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual agreement. Interest, dividend and 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.

| |
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| Company No. 390116-T |
|----------------------|

2. Property, plant and equipment

| Group | Freehold land RM'000 | Long term leasehold land RM'000 | Buildings and renovation RM'000 | Equipment, furniture and fittings RM'000 | Plant and machineries RM'000 | Motor vehicles RM'000 | Capital work-in-progress RM'000 | Total RM'000 |
|---------------------------------------|-------------------------|------------------------------------|------------------------------------|---|---------------------------------|--------------------------|------------------------------------|-----------------|
| <i>Cost</i> | | | | | | | | |
| At 1 January 2004 | 22,471 | 4,452 | 43,758 | 12,669 | 69,627 | 3,260 | 64,226 | 220,463 |
| Additions | - | - | 3,077 | 901 | 13,536 | 404 | 22,893 | 40,811 |
| Disposals | - | - | - | - | (336) | (521) | - | (857) |
| Write off | - | - | - | (100) | (17) | - | - | (117) |
| Exchange differences | - | - | - | 4 | 31 | - | - | 35 |
| Transfer | - | - | 18,785 | 60 | 16,317 | - | (35,162) | - |
| At 31 December 2004 | 22,471 | 4,452 | 65,620 | 13,534 | 99,158 | 3,143 | 51,957 | 260,335 |
| <i>Accumulated depreciation</i> | | | | | | | | |
| At 1 January 2004 | - | 347 | 5,420 | 8,599 | 43,913 | 2,268 | - | 60,547 |
| Charge for the year | - | 50 | 1,378 | 1,545 | 8,636 | 283 | - | 11,892 |
| Disposals | - | - | - | - | (334) | (482) | - | (816) |
| Write off | - | - | - | (72) | (6) | - | - | (78) |
| Exchange differences | - | - | - | 2 | 14 | - | - | 16 |
| At 31 December 2004 | - | 397 | 6,798 | 10,074 | 52,223 | 2,069 | - | 71,561 |
| <i>Net book value</i> | | | | | | | | |
| At 31 December 2004 | 22,471 | 4,055 | 58,822 | 3,460 | 46,935 | 1,074 | 51,957 | 188,774 |
| At 31 December 2003 | 22,471 | 4,105 | 38,338 | 4,070 | 25,714 | 992 | 64,226 | 159,916 |
| Depreciation charge for the year 2003 | - | 50 | 902 | 1,495 | 5,827 | 367 | - | 8,641 |

2. Property, plant and equipment (continued)

| Company | Freehold land RM'000 | Long term leasehold land RM'000 | Buildings RM'000 | Total RM'000 |
|--|----------------------------|--|---------------------|-----------------|
| <i>Cost</i> | | | | |
| At 1 January / 31 December 2004 | 15,299 | 4,452 | 28,371 | 48,122 |
| <i>Accumulated depreciation</i> | | | | |
| At 1 January 2004 | - | 347 | 3,917 | 4,264 |
| Charge for the year | - | 50 | 567 | 617 |
| At 31 December 2004 | - | 397 | 4,484 | 4,881 |
| <i>Net book value</i> | | | | |
| At 31 December 2004 | 15,299 | 4,055 | 23,887 | 43,241 |
| At 31 December 2003 | 15,299 | 4,105 | 24,454 | 43,858 |
| Depreciation charge for the year 2003 | - | 50 | 567 | 617 |

Included in the Group's property, plant and equipment are certain assets acquired under hire purchase with net book value of RM976,000 (2003 - RM1,588,000).

Included in the Group's and Company's freehold land, long term leasehold land and buildings are RM84,903,000 (2003 - RM64,440,000) and RM43,241,000 (2003 - RM43,858,000) respectively pledged for banking facilities granted to the Group (see Note 10).

3. Investments in subsidiaries

| | Company | |
|-------------------------------------|----------------|----------------|
| | 2004 RM'000 | 2003 RM'000 |
| Unquoted shares, at cost | | |
| - In Malaysia | 156,956 | 141,206 |
| - Outside Malaysia | 1,791 | 1,791 |
| | 158,747 | 142,997 |
| Less: Accumulated impairment losses | (1,789) | (1,789) |
| | 156,958 | 141,208 |

3. Investments in subsidiaries (continued)

The subsidiary companies are:

| Name of subsidiary | Country of incorporation | Effective equity interest | | Principal activities |
|---|--------------------------|---------------------------|-------|---|
| | | 2004 | 2003 | |
| EP Polymers (M) Sdn Bhd | Malaysia | 100% | 100% | Manufacture, fabrication, production, and trading in engineering plastic components |
| EP Moulds & Dies (M) Sdn Bhd | Malaysia | 100% | 100% | Manufacture, production and trading of moulds and dies |
| Wiracash Holdings Sdn Bhd | Malaysia | 100% | 100% | Manufacture of automotive lamps and allied products |
| Fundwin Sdn Bhd | Malaysia | 100% | 100% | Manufacture, assembly and sales of bicycles, bicycle components and trading of automotive parts |
| PEPS – JV (M) Sdn Bhd | Malaysia | 79.5% | 79.5% | Manufacturing of automotive modular components |
| Advance Product Systems Sdn Bhd ⁽²⁾ | Malaysia | 100% | 100% | Manufacturing, assembling and trading of automotive parts |
| EPMB (Australia) Pte Ltd ⁽¹⁾ | Australia | 100% | 100% | Engineering design, development and modelling |
| EPMB (UK) Limited ⁽¹⁾⁽³⁾ | United Kingdom | 100% | 100% | Ceased operations |
| EP-X Bicycles North America, Inc ⁽¹⁾ | United States of America | 100% | 100% | Ceased operations |

⁽¹⁾ Subsidiary company not audited by KPMG Malaysia

⁽²⁾ Wholly-owned subsidiary of Fundwin Sdn Bhd

⁽³⁾ In the process of being liquidated

3. Investments in subsidiaries (continued)

Included in the investment in subsidiaries of the Company is RM1,000 and RM8,490,000 (2003 – RM1,000 and RM8,490,000) representing the purchase cost of 1,000 Ordinary Shares and an Irredeemable Convertible Preference Share (“ICPS”) invested in a wholly owned subsidiary, Fundwin Sdn Bhd (“Fundwin”).

Hamidon bin Abdullah (“Hamidon”) granted a put option to EPMB whereby EPMB can exercise the right to require Hamidon to purchase Fundwin Sdn. Bhd.’s (“Fundwin”), a wholly owned subsidiary, Irredeemable Convertible Preference Share (“ICPS”) and Ordinary Shares (collectively referred to as “Option Shares”) from EPMB free from all liens, charges and other encumbrances based on an aggregate consideration to be calculated as follows (“Option Price”):

- (i) RM8,490,000 together with interest at eight per centum (8%) per annum calculated from the date of subscription of the ICPS on 27 December 1997 until the date of the payment in full of the Option Price;
- (ii) RM1,000 together with interest at eight per centum (8%) per annum calculated from 28 December 1999, being the date of the acquisition of the Ordinary Shares, until the date of the payment in full of the Option Price; and
- (iii) less any dividends that have been declared and paid by the said subsidiary to EPMB.

Hamidon shall be entitled to a contingent consideration based on 3.8% of the turnover of Fundwin for each of the five (5) financial years ending 31 December 2004 (“Contingent Consideration”). However, the Contingent Consideration is only payable by the Company to Hamidon in a particular financial year if Fundwin achieves an audited profit after taxation of not less than RM5,000,000 for that particular financial year. In the event Fundwin does not achieve the required profit for any applicable financial years, Hamidon’s entitlement to the Contingent Consideration for that financial year shall lapse. Hamidon has waived his entitlement for the Contingent Consideration for the financial year ended 31 December 2003.

EPMB may put to Hamidon to acquire the Option Shares at the Option Price in the event the audited profit after taxation of Fundwin as certified by the subsidiary’s auditors is less than RM5,000,000 for each of the three (3) financial years ending 31 December 2002. The put option is exercisable by EPMB at any time during a period of three (3) months commencing from the date of receipt by EPMB of the auditors’ certificate for the said subsidiary for that applicable financial year.

Upon exercise of the put option, Hamidon will be required to purchase or cause to be purchased from EPMB at the Option Price, the Option Shares free from all liens, charges and other encumbrances and with all rights attaching thereto within seven (7) days from the date of the exercise of the put option.

The acquisition of the Options Shares and the put option thereof were approved by the shareholders on 28 June 2000. The Board of Directors and Hamidon had mutually agreed to extend the put option to financial year ending 31 December 2004. Subsequently, on 24 February 2005, the Board of Directors resolved and approved the waiver of its rights to exercise the put option based on anticipated future profits from Fundwin in the coming years. With this, the put option is lapsed.

4. Other investments

| | Group | |
|---|--------|--------|
| | 2004 | 2003 |
| | RM'000 | RM'000 |
| Shares quoted in Malaysia, at cost | 38 | 38 |
| Less: Allowance for diminution in value | (25) | (25) |
| | 13 | 13 |
| | 13 | 13 |
| Market value of quoted shares in Malaysia | 14 | 14 |
| | 14 | 14 |
| | 14 | 14 |

The quoted shares have been charged to secure banking facilities granted to a subsidiary (see Note 10).

5. Intangible assets

| | <-----Group-----> | | |
|---------------------------------------|---------------------------|-------------------|--------|
| | Goodwill on consolidation | Development costs | Total |
| | RM'000 | RM'000 | RM'000 |
| Cost | | | |
| At 1 January 2004 | 61,522 | 12,556 | 74,078 |
| Additions | 15,750 | 154 | 15,904 |
| Write-off | - | (632) | (632) |
| Exchange differences | - | 78 | 78 |
| | 77,272 | 12,156 | 89,428 |
| | 77,272 | 12,156 | 89,428 |
| Amortisation | | | |
| At 1 January 2004 | - | 11,245 | 11,245 |
| Amortisation charge for the year | - | 684 | 684 |
| Write-off | - | (395) | (395) |
| Exchange differences | - | 58 | 58 |
| | - | 11,592 | 11,592 |
| | - | 11,592 | 11,592 |
| Net book value | | | |
| At 31 December 2004 | 77,272 | 564 | 77,836 |
| | 77,272 | 564 | 77,836 |
| | 77,272 | 564 | 77,836 |
| At 31 December 2003 | 61,522 | 1,311 | 62,833 |
| | 61,522 | 1,311 | 62,833 |
| | 61,522 | 1,311 | 62,833 |
| Amortisation charge for the year 2003 | - | 602 | 602 |
| | - | 602 | 602 |
| | - | 602 | 602 |

Included in the development costs written off are development costs borne by a customer amounting to RM237,000 (2003 - RM122,000).

6. Inventories

| | Group | |
|--------------------------------|---------------|---------------|
| | 2004 | 2003 |
| | RM'000 | RM'000 |
| At cost | | |
| Raw materials | 23,698 | 8,031 |
| Work-in-progress | 987 | 1,538 |
| Manufactured inventories | 6,005 | 2,889 |
| | <u>30,690</u> | <u>12,458</u> |
| | ----- | ----- |
| At net realisable value | | |
| Raw materials | 391 | 670 |
| Manufactured inventories | 247 | 50 |
| | <u>638</u> | <u>720</u> |
| | ----- | ----- |
| | <u>31,328</u> | <u>13,178</u> |
| | ===== | ===== |

7. Trade and other receivables

| | Group | | Company | |
|---|---------------|---------------|----------------|---------------|
| | 2004 | 2003 | 2004 | 2003 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Current: | | | | |
| Trade receivables | 55,676 | 46,522 | - | - |
| Less: Allowance for doubtful debts | (2,359) | (1,991) | - | - |
| | <u>53,317</u> | <u>44,531</u> | <u>-</u> | <u>-</u> |
| Subsidiaries | - | - | 5,609 | 5,343 |
| Affiliated companies | 11,343 | 11,310 | 602 | 602 |
| Other receivables, deposits and prepayments | 6,417 | 15,056 | 1,305 | 92 |
| | <u>71,077</u> | <u>70,897</u> | <u>7,516</u> | <u>6,037</u> |
| | ===== | ===== | ===== | ===== |
| Non-current: | | | | |
| Advances to subsidiaries | - | - | 115,448 | - |
| | ===== | ===== | ===== | ===== |

Debts amounting to RM387,000 were written off against the allowance for doubtful debts in prior year.

The current portion of the amount due from subsidiaries and affiliated companies are unsecured, interest free and have no fixed terms of repayment.

The non-current portion of the advances to subsidiaries is unsecured, not repayable within the next twelve (12) months and bears interest between 3.3% to 3.6%. Advances to subsidiaries are the allocation of proceeds from the drawdown of Murabahah Underwritten Notes Issuance Facility (see Note 10).

7. Trade and other receivables (continued)

Included in other receivables, deposits and prepayments of the Group are prepayment for moulds of approximately RM1,700,000 (2003 – RM5,600,000) and an advance payment on behalf of a customer for an ongoing automotive development project amounting to approximately RM35,000 (2003 – RM4,000,000).

8. Cash and cash equivalents

| | Group | | Company | |
|------------------------------|----------------|----------------|----------------|----------------|
| | 2004 RM'000 | 2003 RM'000 | 2004 RM'000 | 2003 RM'000 |
| Deposits with licensed banks | 13,105 | 4,957 | 1,102 | 1,069 |
| Cash and bank balances | 22,798 | 5,710 | 325 | 259 |
| | <u>35,903</u> | <u>10,667</u> | <u>1,427</u> | <u>1,328</u> |
| | ===== | ===== | ===== | ===== |

Included in the Group's and Company's deposits placed with licensed banks are RM12,746,000 (2003 – RM3,165,000) and RM1,000,000 (2003 – RM1,000,000) respectively, pledged for certain banking facilities granted to the Group (see Note 10).

9. Trade and other payables

| | Group | | Company | |
|-------------------------------------|----------------|----------------|----------------|----------------|
| | 2004 RM'000 | 2003 RM'000 | 2004 RM'000 | 2003 RM'000 |
| Trade payables | 33,942 | 26,676 | - | - |
| Other payables and accrued expenses | 15,785 | 19,151 | 726 | 516 |
| Subsidiaries | - | - | 26,182 | 27,069 |
| Affiliated companies | 4,565 | 9,187 | - | - |
| Amount owing to Directors | 544 | 4,885 | 90 | 90 |
| | <u>54,836</u> | <u>59,899</u> | <u>26,998</u> | <u>27,675</u> |
| | ===== | ===== | ===== | ===== |

The amounts due to subsidiaries, affiliated companies and Directors are unsecured, interest free and have no fixed terms of repayment.

10. Borrowings

| | | Group | | Company | |
|---|-------------|----------------|----------------|----------------|--------------|
| | | 2004 | 2003 | 2004 | 2003 |
| | | RM'000 | RM'000 | RM'000 | RM'000 |
| Current: | | | | | |
| Term loans | - secured | - | 3,348 | - | - |
| | - unsecured | - | 331 | - | - |
| Overdrafts | - secured | 1,062 | 8,556 | - | - |
| | - unsecured | 95 | 533 | - | - |
| Bankers' acceptances and trust receipts | - secured | 30,972 | 28,357 | - | - |
| Hire purchase liabilities | | 603 | 617 | - | - |
| Short term advance | - secured | - | 6,664 | - | - |
| Other short term facilities | - secured | 387 | 1,000 | - | - |
| | | <u>33,119</u> | <u>49,406</u> | <u>-</u> | <u>-</u> |
| | | ===== | ===== | ===== | ===== |
| Non-current: | | | | | |
| Term loans | - secured | - | 3,851 | - | - |
| Hire purchase liabilities | | 458 | 733 | - | - |
| EPMB ICUPS | | | | | |
| - liability component (Note 12) | | 4,459 | 5,500 | 4,459 | 5,500 |
| EPMB RCSPS | | | | | |
| - liability component (Note 12) | | 265 | 533 | 265 | 533 |
| MUNIF | | - | 40,000 | - | - |
| MUNIF/IMTN | | 117,000 | - | 117,000 | - |
| | | <u>122,182</u> | <u>50,617</u> | <u>121,724</u> | <u>6,033</u> |
| | | ===== | ===== | ===== | ===== |
| Total | | <u>155,301</u> | <u>100,023</u> | <u>121,724</u> | <u>6,033</u> |
| | | ===== | ===== | ===== | ===== |

During the financial year, the Company issued RM117,000,000 under the RM150,000,000 Murabahah Underwritten Notes Issuance Facility / Islamic Medium Term Notes Facility ("MUNIF/IMTN") at discount with a profit rate ranging between 3.3% to 3.6% per annum. The MUNIF/IMTN has a seven (7) years tenor from the date of first issue.

In the previous financial year is MUNIF of RM40,000,000 at discount with a profit rate ranging between 3.2% - 3.5% (2003 - 3.5% to 3.8%) per annum was fully repaid during the year.

Terms and debt repayment schedule

The term loans bear interest from 3.0% - 7.0% (2003 - 5.0% to 8.4%) per annum. The overdrafts bear interest from 8.0% to 8.5% (2003 - 8.0% to 8.6%) per annum. Bankers' acceptances and hire purchase bear interest varying between 4.8% and 5.0% (2003 - 2.9% and 9.5%) per annum and fixed interest rate varying between 3.6% to 5.0% (2003 - 3.6% to 5.0%) per annum, respectively. The short term advances and other short term facilities bear interest at 8.0% (2003 - 8.0%) per annum and ranging between 3.3% to 3.4% (2003 - 7.5% to 8.9%) per annum respectively.

10. Borrowings (continued)

Security

Overdrafts, bankers' acceptances and MUNIF/IMTN of the Group are secured by way of:

- a) fixed and floating charges over the subsidiary companies' present and future assets;
- b) pledge of fixed deposits (see Note 8);
- c) pledge of quoted shares (see Note 4);
- d) jointly and severally guaranteed by certain Directors of the subsidiaries and holding company;
- e) corporate guarantees issued by the Company;
- f) charge on the Group's property, plant and equipment (see Note 2);
- g) an assignment of proceeds from Proton Holdings Berhad and Perodua Manufacturing Sdn. Bhd. into the Designated Accounts; and
- h) a first rank charge over all Designated Accounts.

Hire purchase liabilities

Hire purchase liabilities are payable as follows:

| | Payments 2004 RM'000 | Interest 2004 RM'000 | Principal 2004 RM'000 | Payments 2003 RM'000 | Interest 2003 RM'000 | Principal 2003 RM'000 |
|-------------------------------|-------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|-------------------------------------|--------------------------------------|
| Group | | | | | | |
| Less than one year | 684 | (81) | 603 | 716 | (99) | 617 |
| Between one and five years | 513 | (55) | 458 | 856 | (123) | 733 |
| | <u>1,197</u> | <u>(136)</u> | <u>1,061</u> | <u>1,572</u> | <u>(222)</u> | <u>1,350</u> |
| | ===== | ===== | ===== | ===== | ===== | ===== |

11. Provision for warranties

| | Group | |
|--|------------------------|------------------------|
| | 2004 RM'000 | 2003 RM'000 |
| At 1 January | 482 | 918 |
| Additional provision during the year | 1,500 | 1,989 |
| Utilisation of provision during the year | (1,623) | (2,425) |
| | <u>359</u> | <u>482</u> |
| At 31 December | ===== | ===== |

The Group gives warranties on certain automotive parts sold and undertakes to repair or replace items that fail to perform satisfactorily or meet the specification required. A provision for warranty is recognised for products under warranty at the balance sheet date based on past experience on the levels of repairs and returns.

12. Share capital

| | Group and Company | |
|---|--------------------------|---------------|
| | 2004 | 2003 |
| | RM'000 | RM'000 |
| Authorised | | |
| Ordinary shares of RM1.00 each | | |
| At 1 January | 470,000 | 95,000 |
| Increase during the year | - | 375,000 |
| | <hr/> | <hr/> |
| At 31 December | 470,000 | 470,000 |
| EPMB ICUPS of RM0.10 each | 20,000 | 20,000 |
| EPMB RCSPS of RM0.10 each | 10,000 | 10,000 |
| | <hr/> | <hr/> |
| | 500,000 | 500,000 |
| | ===== | ===== |
| Issued and fully paid: | | |
| Ordinary shares | | |
| At 1 January | 95,395 | 41,460 |
| Conversion of EPMB ICUPS to new ordinary shares of RM1.00 each during the year | 23,397 | 27,850 |
| Conversion of EPMB RCSPS to new ordinary shares of RM1.00 each during the year | 1,968 | 26,085 |
| | <hr/> | <hr/> |
| At 31 December | 120,760 | 95,395 |
| EPMB ICUPS | | |
| At 1 January | 6,980 | - |
| Par value issued during the year | 2,721 | 11,792 |
| Conversion of EPMB ICUPS to new ordinary shares of RM1.00 each during the year | (4,042) | (4,812) |
| | <hr/> | <hr/> |
| | 5,659 | 6,980 |
| EPMB RCSPS | | |
| At 1 January | 676 | - |
| Par value issued during the year | - | 5,183 |
| Conversion of EPMB RCSPS to new ordinary shares of RM1.00 each during the year | (340) | (4,507) |
| | <hr/> | <hr/> |
| | 336 | 676 |
| | <hr/> | <hr/> |
| | 126,755 | 103,051 |
| | ===== | ===== |

12. Share capital (continued)

The details of the EPMB ICUPS and EPMB RCSPS are as follows:

| | ---Equity component--- | | | |
|------------------------------------|----------------------------|----------------------------|----------------------------------|-----------------|
| | Share capital RM'000 | Share premium RM'000 | Liability component RM'000 | Total RM'000 |
| EPMB ICUPS | | | | |
| At 1 January 2003 | - | - | - | - |
| Issued during the year | 11,792 | 47,166 | 9,292 | 68,250 |
| Conversion to ordinary shares | (4,812) | (19,246) | (3,792) | (27,850) |
| | ----- | ----- | ----- | ----- |
| At 31 December 2003/1 January 2004 | 6,980 | 27,920 | 5,500 | 40,400 |
| Issued during the year | 2,721 | 10,885 | 2,144 | 15,750 |
| Conversion to ordinary shares | (4,042) | (16,170) | (3,185) | (23,397) |
| | ----- | ----- | ----- | ----- |
| At 31 December 2004 | 5,659 | 22,635 | 4,459 | 32,753 |
| | ----- | ----- | ----- | ----- |
| EPMB RCSPS | | | | |
| At 1 January 2003 | - | - | - | - |
| Issued during the year | 5,183 | 20,733 | 4,084 | 30,000 |
| Conversion to ordinary shares | (4,507) | (18,027) | (3,551) | (26,085) |
| | ----- | ----- | ----- | ----- |
| At 31 December 2003/1 January 2004 | 676 | 2,706 | 533 | 3,915 |
| Conversion to ordinary shares | (340) | (1,360) | (268) | (1,968) |
| | ----- | ----- | ----- | ----- |
| At 31 December 2004 | 336 | 1,346 | 265 | 1,947 |
| | ----- | ----- | ----- | ----- |
| Total | 5,995 | 23,981 | 4,724 | 34,700 |
| | ===== | ===== | ===== | ===== |

The salient terms of the EPMB ICUPS are as follows:

- (i) The registered holders of the EPMB ICUPS have the option at any time from issue date on 23 June 2003 till 22 June 2008 to convert the EPMB ICUPS into new ordinary shares in the Company ("EPMB Shares") by tendering Two (2) EPMB ICUPS for One (1) EPMB Share valued at RM1.00 and the ordinary shares resulting from such conversion shall rank pari passu in all respect with the existing ordinary shares of the Company.
- (ii) Any outstanding EPMB ICUPS will be automatically converted into new EPMB Shares by the Company on 22 June 2008 at the conversion mode stated in (i).
- (iii) The registered holders of the EPMB ICUPS shall be entitled to receive notice of and attend all general meetings and be heard but have no right to vote except on resolutions for reducing capital, or winding up, or sanctioning a sales of the principal undertaking of the Company, or where the proposition to be submitted to the meeting directly affects the rights of the holders of the EPMB ICUPS.

12. Share capital (continued)

- (iv) The registered holders of the EPMB ICUPS shall rank pari passu with the EPMB RCSPS but shall rank in priority to the ordinary shares of the Company in the event of the winding up/liquidation of the Company.
- (v) A cumulative dividend rate of 17.5% of the nominal value will be payable annually on the EPMB ICUPS.

The salient terms of the EPMB RCSPS are as follows:

- (i) The registered holders of the EPMB RCSPS have the option at any time from issue date on 23 June 2003 till 22 June 2008 to convert the EPMB RCSPS into EPMB Shares by tendering Two (2) EPMB RCSPS for One (1) EPMB Share valued at RM1.00 and the ordinary shares resulting from such conversion shall rank pari passu in all respect with the existing ordinary shares of the Company.
- (ii) The unconverted EPMB RCSPS is redeemable at par at the discretion of EPMB on 22 June 2008. Any EPMB RCSPS that are not converted within the five (5) year period and not redeemed on 22 June 2008, will be automatically converted into new EPMB Shares by the Company on that date at the conversion mode stated in (i).
- (iii) The registered holders of the EPMB RCSPS shall be entitled to receive notice of and attend all general meetings and be heard but have no right to vote except on resolutions for reducing capital, or winding up, or sanctioning a sales of the principal undertaking of the Company, or where the proposition to be submitted to the meeting directly affects the rights of the holders of the EPMB RCSPS.
- (iv) The registered holders of the EPMB RCSPS shall rank pari passu with the EPMB ICUPS but shall rank in priority to the ordinary shares of the Company in the event of the winding up/liquidation of the Company.
- (v) A cumulative dividend rate of 17.5% of the nominal value will be payable annually on the EPMB RCSPS.

In the previous financial year, the Company issued 20,730,000 warrants to its shareholders. The warrants are in registered form and entitle the registered holders to subscribe for One (1) new ordinary share of RM1.00 in the Company at a subscription price of RM1.00 per ordinary share for every warrant held. The warrants are exercisable into ordinary shares at any time during the five (5) year subscription period expiring on 3 September 2008 and the ordinary shares resulting from such conversion shall rank pari passu in all respect with the existing ordinary shares of the Company. At the end of the financial year, 20,730,000 warrants remained unexercised.

During the financial year, the Company issued RM31,500,000 EPMB ICUPS of RM0.10 each at an issue price of RM0.50 per EPMB ICUPS.

13. Reserves

| | Group | | Company | |
|--|---------------|---------------|---------------|---------------|
| | 2004 | 2003 | 2004 | 2003 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Non-distributable: | | | | |
| Share premium | 38,050 | 44,695 | 38,050 | 44,695 |
| Capital reserve | 4,146 | 4,146 | 4,146 | 4,146 |
| Exchange translation reserve | (2,415) | (3,559) | - | - |
| | <u>39,781</u> | <u>45,282</u> | <u>42,196</u> | <u>48,841</u> |
| Distributable: | | | | |
| Retained profits /(Accumulated losses) | 7,416 | (5,550) | 4,211 | 5,274 |
| | <u>47,197</u> | <u>39,732</u> | <u>46,407</u> | <u>54,115</u> |
| | ===== | ===== | ===== | ===== |

Capital reserve represents proceeds received from the rights issue of 20,730,000 new warrants in the Company at RM0.20 per warrant which was issued in the previous financial year.

Subject to the agreement of the Inland Revenue Board, the Company has sufficient Section 108 tax credit and tax exempt income under the Income Tax Act, 1967 to frank the payment of dividends out of its entire retained profits as at 31 December 2004.

14. Minority shareholders' interests

This consists of the minority shareholders' proportion of share capital and reserves of subsidiary, net of their share of subsidiary's goodwill on consolidation and amortisation of goodwill charged to the minority shareholders.

15. Deferred tax

The amounts, determined after appropriate offsetting, are as follows:

| | Group | | Company | |
|--------------------------|---------|---------|---------|---------|
| | 2004 | 2003 | 2004 | 2003 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Deferred tax assets | 3,665 | 4,365 | - | - |
| | ===== | ===== | ===== | ===== |
| Deferred tax liabilities | (1,068) | (1,048) | (1,048) | (1,048) |
| | ===== | ===== | ===== | ===== |

Deferred tax liabilities and assets are offset above where there is a legally enforceable right to set off current tax assets against current tax liabilities and where the deferred taxes relate to the same taxation authority.

The deferred tax assets arose mainly from the recognition of unutilised reinvestment allowance of PEPS-JV (M) Sdn Bhd ("PEPS-JV") at acquisition date.

15. Deferred tax (continued)

The recognised deferred tax assets and liabilities (before offsetting) are as follows:

| | Group | | Company | |
|------------------------------------|---------------|---------------|----------------|----------------|
| | 2004 | 2003 | 2004 | 2003 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Property, plant and equipment | | | | |
| - capital allowances | (5,074) | (5,311) | (1,048) | (1,048) |
| Unutilised tax losses | 1,473 | 2,430 | - | - |
| Unutilised reinvestment allowances | 6,198 | 6,198 | - | - |
| | <u>2,597</u> | <u>3,317</u> | <u>(1,048)</u> | <u>(1,048)</u> |
| | ===== | ===== | ===== | ===== |

No deferred tax has been recognised for the following items:

| | Group | |
|----------------------------------|---------------|---------------|
| | 2004 | 2003 |
| | RM'000 | RM'000 |
| Deductible temporary differences | (2,504) | (870) |
| Unabsorbed capital allowances | 6,423 | 4,085 |
| Unutilised tax losses | 11,730 | 12,600 |
| | <u>15,649</u> | <u>15,815</u> |
| | ===== | ===== |

The deductible temporary differences, unabsorbed capital allowances and unutilised tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the companies in the Group can utilise the benefits.

Subject to the agreement of the Inland Revenue Board, the Group has tax losses carried forward of approximately RM17,000,000 (2003 – RM21,300,000) which give rise to the recognised and unrecognised deferred tax assets in respect of unutilised tax losses above.

Subject to the agreement of the Inland Revenue Board, the Group also has unutilised reinvestment allowances carried forward of approximately RM50,000,000 (2003 - RM41,000,000) of which approximately RM22,000,000 arising from the acquisition of PEPS-JV, has been recognised as stated above.

16. Operating profit

| | Group | | Company | |
|---|---------------|---------------|----------------|---------------|
| | 2004 | 2003 | 2004 | 2003 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Operating profit is arrived at after crediting: | | | | |
| Dividend income from subsidiaries | - | - | 9,406 | - |
| Gain on foreign exchange | | | | |
| - realised | 190 | 294 | - | - |
| - unrealised | 359 | 729 | - | - |
| Gain on disposal of property, plant and equipment | 162 | 15 | - | - |
| Interest rebate on early settlement | - | 2,500 | - | - |
| Rental income | 221 | 518 | 2,461 | 2,655 |
| | ===== | ===== | ===== | ===== |
| and after charging: | | | | |
| Allowance for doubtful debts | 368 | - | - | - |
| Auditors' remuneration | | | | |
| - audit fees- KPMG | 176 | 165 | 39 | 35 |
| - non-KPMG | 45 | 33 | - | - |
| - non-audit fees - KPMG | 8 | 123 | 5 | 100 |
| Bad debts written off | | | | |
| - subsidiary | - | - | 3,794 | - |
| - others | 10 | 229 | - | - |
| Depreciation | 11,892 | 10,551 | 617 | 617 |
| Development cost | | | | |
| - amortisation | 684 | 602 | - | - |
| - written off | - | 142 | - | - |
| Inventories written down | 722 | 324 | - | - |
| Loss on disposal of property, plant and equipment | - | 69 | - | - |
| Loss on foreign exchange | | | | |
| - realised | | 640 | 519 | - |
| - unrealised | 61 | - | - | - |
| Property, plant and equipment written off | 39 | - | - | - |
| Provision for warranties | 1,867 | 1,989 | - | - |
| Rental | | | | |
| - premises | 385 | 1,563 | - | - |
| - machinery and equipment | 250 | 227 | - | - |
| | ===== | ===== | ===== | ===== |

The estimated monetary value of Directors' benefits-in-kind is RM34,000 (2003 - RM70,000).

17. Employee information

| | Group | | Company | |
|-----------------------------|---------------|---------------|------------|------------|
| | 2004 | 2003 | 2004 | 2003 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| EPF contributions for staff | 2,151 | 2,158 | - | - |
| Company's Directors | | | | |
| Remuneration | 870 | 701 | - | - |
| Fees | 210 | 210 | 180 | 180 |
| EPF contribution | 105 | 73 | - | - |
| Salaries and other benefits | 25,294 | 25,551 | - | - |
| | <u>28,630</u> | <u>28,693</u> | <u>180</u> | <u>180</u> |
| | ===== | ===== | ===== | ===== |

The number of employees of the Group and of the Company (including Directors) at the end of the financial year was 832 (2003 - 916) and 6 (2003 - 6) respectively.

18. Interest expense

| | Group | | Company | |
|---|--------------|--------------|------------|----------|
| | 2004 | 2003 | 2004 | 2003 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Bank overdrafts | 91 | 471 | - | - |
| Bankers' acceptance and trust receipts | 418 | 1,389 | - | - |
| Hire purchase | 108 | 101 | - | - |
| Term loans | 764 | 2,640 | - | - |
| MUNIF | 3,432 | 848 | 46 | - |
| Preference dividends for ICUPS and RCSPS – liability component | 143 | - | 143 | - |
| Others | 327 | 215 | - | - |
| | <u>5,283</u> | <u>5,664</u> | <u>189</u> | <u>-</u> |
| | ===== | ===== | ===== | ===== |

19. Tax expense

| | Group | | Company | |
|--|--------------|--------------|--------------|------------|
| | 2004 | 2003 | 2004 | 2003 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Current tax expense: | | | | |
| Malaysian - current | 335 | 302 | 1,832 | 293 |
| - overprovision in prior year | - | (254) | - | (109) |
| | <u>335</u> | <u>48</u> | <u>1,832</u> | <u>184</u> |
| Deferred tax expense: | | | | |
| Origination and reversal of temporary differences | 720 | 5,485 | - | 155 |
| | <u>1,055</u> | <u>5,533</u> | <u>1,832</u> | <u>339</u> |
| | ===== | ===== | ===== | ===== |

19. Tax expense (continued)

| | Group | | Company | |
|--|---------------|---------------|----------------|---------------|
| | 2004 | 2003 | 2004 | 2003 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Reconciliation of effective tax expense | | | | |
| Profit before taxation | 23,804 | 24,598 | 6,002 | 1,013 |
| | ===== | ===== | ===== | ===== |
| Income tax using Malaysian tax rate (28%) | 6,665 | 6,887 | 1,681 | 284 |
| Effect of different tax rates in foreign jurisdictions | (440) | 370 | - | - |
| Non-deductible expenses | 3,117 | 1,202 | 1,343 | 106 |
| Tax incentives | (6,891) | (1,102) | - | - |
| Tax exempt income | - | - | (954) | - |
| Effect of unrecognised deferred tax assets | 339 | (2,176) | - | - |
| Other items | (1,735) | 606 | (238) | 58 |
| | ----- | ----- | ----- | ----- |
| Over provision in prior years | 1,055 | 5,787 | 1,832 | 448 |
| | - | (254) | - | (109) |
| | ----- | ----- | ----- | ----- |
| Tax expense | 1,055 | 5,533 | 1,832 | 339 |
| | ===== | ===== | ===== | ===== |

20. Earnings per ordinary share - Group***Basic earnings per ordinary share***

The calculation of basic earnings per ordinary share is based on the net profit for the year of RM18,199,000 (2003 - RM11,758,000) and the weighted average number of ordinary shares outstanding during the year of 115,558,000 (2003 - 48,307,000).

Weighted average number of ordinary shares

| | 2004 | 2003 |
|---|---------------|---------------|
| | RM'000 | RM'000 |
| Issued ordinary shares at beginning of the year | 95,395 | 41,460 |
| Effect of shares issued during the year | 20,163 | 6,847 |
| | ----- | ----- |
| Weighted average number of ordinary shares | 115,558 | 48,307 |
| | ===== | ===== |

20. Earnings per ordinary share – Group (continued)

Diluted earnings per ordinary share

The calculation of diluted earnings per ordinary share is based on the net profit attributable to ordinary shareholders of RM18,318,000 (2003 – RM11,873,000) and the weighted average number of ordinary shares outstanding during the year of 150,257,000 (2003 – 74,046,000) calculated as follows:

Net profit attributable to ordinary shareholders (diluted)

| | 2004 | 2003 |
|--|---------------|---------------|
| | RM'000 | RM'000 |
| Net profit attributable to ordinary shareholders | 18,199 | 11,758 |
| After tax effect of notional interest savings | 119 | 115 |
| | <hr/> | <hr/> |
| Net profit attributable to ordinary shareholders (diluted) | 18,318 | 11,873 |
| | ===== | ===== |

Weighted average number of ordinary shares (diluted)

| | | |
|--|---------|--------|
| Weighted average number of ordinary shares | 115,558 | 48,307 |
| Effect of EPMB ICUPS and EPMB RCSPS | 34,699 | 25,739 |
| | <hr/> | <hr/> |
| Weighted average number of ordinary shares (diluted) | 150,257 | 74,046 |
| | ===== | ===== |

21. Dividends

| | Group and Company | |
|--|--------------------------|---------------|
| | 2004 | 2003 |
| | RM'000 | RM'000 |
| Ordinary | | |
| Final paid: | | |
| 3.5% per share less 28% tax in respect of financial year ended 31 December 2003 | 3,011 | - |
| 3.5% per share less 28% tax in respect of financial year ended 31 December 2002 | - | 1,045 |
| | <hr/> | <hr/> |
| Interim payable: | | |
| 1.5% per share less 28% tax (2003 – Nil % per share) in respect of financial year ended 31 December 2004 | 1,318 | - |
| | <hr/> | <hr/> |

At the forthcoming Annual General Meeting, a final tax exempt dividend in respect of the financial year ended 31 December 2004, of 3.5% per ordinary share will be proposed for shareholders' approval. The proposed final dividend for the financial year ended 31 December 2004 has not been accounted for in the financial statements.

The net dividends per ordinary share as disclosed in the Income Statements takes into account the proposed final dividend for the financial year.

22. Segmental information

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure. Inter-segment pricing is determined based on negotiated terms.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise interest-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Business segments

The Group comprises the following main business segments:

| | |
|------------|--|
| Automotive | The manufacture, assembly and sale of automotive parts |
| Composite | The manufacture, assembly and sale of "EP-X" carbon composite bicycles and bicycles components |

Geographical segments

The automotive and composite segments operate in Malaysia. Research and development activities for the automotive segment are currently located in Australia. EP-X Bicycles North America, Inc. has ceased operations. EPMB (UK) Limited is in the process of being liquidated.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of assets.

22. Segmental information (continued)

| | Automotive | | Composite | | Consolidated | |
|--|---------------|---------------|------------|--------------|---------------|---------------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| <i>Business segments</i> | | | | | | |
| Revenue from external customers | 233,626 | 205,934 | 5,523 | 19,388 | 239,149 | 225,322 |
| Segment result | 30,727 | 30,096 | 242 | 1,808 | 30,969 | 31,904 |
| Unallocated expenses | | | | | (1,882) | (1,642) |
| Operating profit | | | | | 29,087 | 30,262 |
| Interest expense | | | | | (5,283) | (5,664) |
| Profit before taxation | | | | | 23,804 | 24,598 |
| Tax expense | | | | | (1,055) | (5,533) |
| Profit after taxation | | | | | 22,749 | 19,065 |
| Minority interests | | | | | (4,550) | (2,252) |
| Pre-acquisition profit | | | | | - | (5,055) |
| Net profit for the year | | | | | 18,199 | 11,758 |
| Segment assets | 397,575 | 307,154 | 7,447 | 10,407 | 405,022 | 317,561 |
| Unallocated assets | | | | | 3,665 | 4,365 |
| Total assets | | | | | 408,687 | 321,926 |
| Segment liabilities | 210,628 | 153,491 | 1,870 | 7,985 | 212,498 | 161,476 |
| Unallocated liabilities | | | | | 1,068 | 1,048 |
| Total liabilities | | | | | 213,566 | 162,524 |
| Capital expenditure | 40,700 | 25,647 | 111 | 31 | 40,811 | 25,678 |
| Depreciation and amortisation | 12,447 | 11,011 | 129 | 142 | 12,576 | 11,153 |
| Net non-cash expenses other than depreciation and amortisation | 3,006 | 2,555 | - | 373 | 3,006 | 2,928 |

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|----------------------|
| Company No. 390116-T |
|----------------------|

22. Segmental information (continued)

| | Malaysia | | United Kingdom | | North America | | Australia | | Consolidated | |
|---|----------|---------|----------------|--------|---------------|--------|-----------|--------|--------------|---------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| <i>Geographical segments</i> | | | | | | | | | | |
| Revenue from external customers | | | | | | | | | | |
| by location of customers | 238,992 | 224,200 | - | 99 | 66 | 1,007 | 91 | 16 | 239,149 | 225,322 |
| Segment assets | | | | | | | | | | |
| by location of assets | 404,533 | 316,498 | 106 | 162 | 6 | 92 | 377 | 809 | 405,022 | 317,561 |
| Unallocated assets | | | | | | | | | 3,665 | 4,365 |
| | | | | | | | | | 408,687 | 321,926 |
| Capital expenditure by location of assets | 40,793 | 25,605 | - | 7 | - | - | 18 | 66 | 40,811 | 25,678 |

23. Contingent liabilities

| | Company | |
|---|----------------|---------------|
| | 2004 | 2003 |
| | RM'000 | RM'000 |
| Unsecured | | |
| Guarantees and contingencies relating to borrowings of subsidiaries | 32,421 | 87,130 |
| | ===== | ===== |

Litigation

Group

A claim of approximately RM490,000 was made against a subsidiary company following the termination of transport services provided by a third party. The Directors, based on legal opinion received, are of the view that there is no merit to the claim made by the claimant and is likely to be decided in the subsidiary company's favour. As such, no provision has been made in the financial statements.

24. Commitments

| | Group | |
|---|---------------|---------------|
| | 2004 | 2003 |
| | RM'000 | RM'000 |
| Capital commitments: | | |
| Property, plant and equipment | | |
| Contracted but not provided for in the financial statements | 22,011 | 18,124 |
| | ===== | ===== |

25. Related parties

Controlling related party relationships are as follows:

- i) Its subsidiaries as disclosed in Note 3; and
- ii) The companies in which the controlling shareholders and Directors of the Group, Hamidon bin Abdullah and/or Dr. Linden Hamidon Nee Fong, have interest.

25. Related parties (continued)

Significant transactions and balances with related parties are as follows:

| | Group | | Company | |
|---|----------------|----------------|----------------|----------------|
| | 2004 RM'000 | 2003 RM'000 | 2004 RM'000 | 2003 RM'000 |
| <i>Transactions</i> | | | | |
| With affiliated companies in which the controlling shareholder and Directors of the Group, Hamidon bin Abdullah and/or Dr. Linden Hamidon Nee Fong, have interests: | | | | |
| EP Properties (M) Sdn Bhd | | | | |
| Rental payable | (271) | (287) | - | - |
| Pesaka Nuri (M) Sdn Bhd | | | | |
| Purchases | (16,734) | (15,006) | - | - |
| Sales | 415 | 147 | - | - |
| Felio Group (M) Sdn Bhd | | | | |
| Sales | 21,574 | 17,083 | - | - |
| Rental payable | (110) | (167) | - | - |
| KVC Connectors Sdn Bhd | | | | |
| Purchases | (87) | (66) | - | - |
| KVC Electric (M) Sdn Bhd | | | | |
| Sales | - | 506 | - | - |
| Purchases | (6) | - | - | - |
| PN Engineering Sdn Bhd | | | | |
| Purchases | (2,610) | (1,803) | - | - |
| Circle Ring Network Sdn Bhd | | | | |
| Rental receivable | 20 | 17 | - | - |
| Hajatimur Sdn Bhd | | | | |
| Rental payable | - | (560) | - | - |
| Thian Soon Industrial Hardware Sdn Bhd | | | | |
| Purchases | (250) | (423) | - | - |
| Thian Soon Hardware (SA) Sdn. Bhd. | | | | |
| Purchases | (48) | - | - | - |
| Mutual Concept Sdn Bhd | | | | |
| Acquisition of a subsidiary | - | - | 15,750 | 78,750 |

| |
|----------------------|
| Company No. 390116-T |
|----------------------|

25. Related parties (continued)

| | Group | | Company | |
|---|----------------|----------------|----------------|----------------|
| | 2004 RM'000 | 2003 RM'000 | 2004 RM'000 | 2003 RM'000 |
| <i>Transactions (continued)</i> | | | | |
| Earntrade Industries Sdn Bhd | | | | |
| Sales | 326 | 654 | - | - |
| Purchases | (1,488) | (2,461) | - | - |
| Rental receivable | 6 | 3 | - | - |
| KB Teknik Sdn Bhd | | | | |
| Sales | 497 | 1,066 | - | - |
| Purchases | (5,197) | (7,529) | - | - |
| Intro Frontier Sdn Bhd | | | | |
| Sales | 9 | 219 | - | - |
| Purchases | (202) | (90) | - | - |
| Rental receivable | 200 | 501 | - | - |
| Combat Engineering (M) Sdn. Bhd. | | | | |
| Purchases | (28) | - | - | - |
| With affiliated companies in which Kamaludin Bin Abu, a Director of a subsidiary, has interest: | | | | |
| Inteledge Manufacturing Sdn Bhd | | | | |
| Purchases | (4,660) | - | - | - |
| Subsidiaries | | | | |
| Rental income receivable | - | - | 2,461 | 2,655 |
| Dividend income | - | - | 9,406 | - |
| | ===== | ===== | ===== | ===== |

These transactions have been entered into in the normal course of business and have been established under negotiated terms.

| | Group | | Company | |
|---|----------------|----------------|----------------|----------------|
| | 2004 RM'000 | 2003 RM'000 | 2004 RM'000 | 2003 RM'000 |
| <i>Balances in respect of non-trade transactions</i> | | | | |
| Advances from Hamidon bin Abdullah, a controlling shareholder and a Director, or affiliated companies in which he and/or Dr. Linden Hamidon Nee Fong, have interests: | 544 | 4,168 | - | - |
| | ===== | ===== | ===== | ===== |

26. Financial instruments

Financial risk management objectives and policies

Exposure to credit, interest rate, foreign currency and liquidity risk arises in the normal course of the business. The Board of Directors consider and evaluate risk management periodically.

Credit risk

Management has a credit procedure in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. Credit risk of the Group refers principally to the risk that customers may default on their obligations to repay the amounts owing to the Group. At balance sheet date, approximately 68% of the trade receivables of the Group are concentrated on two customers in the automotive industry. The maximum exposure to credit risk for the Group and for the Company are represented by the carrying amount of each financial asset.

Interest rate risk

The Group and the Company are exposed to interest rate risk on fixed deposits and interest bearing financial liabilities. The Group and the Company do not transact in any interest rate swaps.

Foreign currency risk

The Group incurs foreign currency risk on sales and purchases that are denominated in a currency other than Ringgit Malaysia. The currencies giving rise to this risk are Australian Dollars, US Dollars, Pound Sterling, Japanese Yen, EURO and Thai Baht. The Group and the Company do not transact in any derivative instruments or hedge their currency exposure as the significant exposure is only to the US Dollar which is pegged against Ringgit Malaysia. However, the Board of Directors keeps this policy under review and ongoing monitoring.

Liquidity risk

The Group monitors and maintains a level of cash and cash equivalents and facilities deemed adequate by management to finance the Group's operation and to mitigate the effects of fluctuations in cash flows.

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| Company No. 390116-T |
|----------------------|

26. Financial instruments (continued)

The following table shows information about the enterprise's exposure to interest rate risk.

Effective interest rates and repricing analysis

In respect of interest-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods, in which they reprice or mature, whichever is earlier.

| Group | -----2004----- | | | | -----2003----- | | | |
|------------------------------|---------------------------|--------------|----------------------|------------------|---------------------------|--------------|----------------------|------------------|
| | Effective interest rate % | Total RM'000 | Within 1 year RM'000 | 1-5 years RM'000 | Effective interest rate % | Total RM'000 | Within 1 year RM'000 | 1-5 years RM'000 |
| Financial assets | | | | | | | | |
| Deposits with licensed banks | 3.2% | 13,105 | 13,105 | - | 3.2% | 4,957 | 4,957 | - |
| Financial liabilities | | | | | | | | |
| Secured term loans | - | - | - | - | 8.0% | 7,199 | 7,199 | - |
| Unsecured term loans | - | - | - | - | 7.5% | 331 | 331 | - |
| Secured overdrafts | 8.3% | 1,062 | 1,062 | - | 8.0% | 8,556 | 8,556 | - |
| Unsecured overdrafts | - | - | - | - | 8.5% | 533 | 533 | - |
| Secured bankers' acceptances | 4.0% | 30,972 | 30,972 | - | 3.2% | 28,357 | 28,357 | - |
| Short term advances | - | - | - | - | 8.0% | 6,664 | 6,664 | - |
| Other short term facilities | 3.4% | 387 | 387 | - | 8.9% | 1,000 | 1,000 | - |
| MUNIF | - | - | - | - | 3.5% | 40,000 | 40,000 | - |
| MUNIF/IMTN | 3.5% | 117,000 | 117,000 | - | - | - | - | - |
| EPMB ICUPS | 3.5% | 4,459 | - | 4,459 | 3.5% | 5,500 | - | 5,500 |
| EPMB RCSPS | 3.5% | 265 | - | 265 | 3.5% | 533 | - | 533 |

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|----------------------|
| Company No. 390116-T |
|----------------------|

26. Financial instruments (continued)

| Company | -----2004----- | | | | -----2003----- | | | |
|------------------------------|------------------------------------|-----------------|----------------------------|------------------------|------------------------------------|-----------------|----------------------------|------------------------|
| | Effective interest rate % | Total RM'000 | Within 1 year RM'000 | 1-5 years RM'000 | Effective interest rate % | Total RM'000 | Within 1 year RM'000 | 1-5 years RM'000 |
| Financial assets | | | | | | | | |
| Advances to subsidiaries | 3.5% | 115,448 | 115,448 | - | - | - | - | - |
| Deposits with licensed banks | 3.2% | 1,102 | 1,102 | - | 3.2% | 1,069 | 1,069 | - |
| Financial liabilities | | | | | | | | |
| MUNIF/IMTN | 3.5% | 117,000 | 117,000 | - | - | - | - | - |
| EPMB ICUPS | 3.5% | 4,459 | - | 4,459 | 3.5% | 5,500 | - | 5,500 |
| EPMB RCSPS | 3.5% | 265 | - | 265 | 3.5% | 533 | - | 533 |

26. Financial instruments (continued)

Fair values

Recognised financial instruments

The carrying amounts of cash and cash equivalents, trade and other receivables, trade and other payables and short term borrowings approximate fair value due to the relatively short term nature of these financial instruments.

The carrying amount of the term loans, MUNIF/IMTN and amounts due from subsidiary companies at balance sheet date approximate their fair value as these are variable rate financial instruments.

The aggregate fair values of other financial assets carried on the balance sheet as at 31 December are represented in the following table:

| Group | 2004 Carrying amount RM'000 | 2004 Fair value RM'000 | 2003 Carrying amount RM'000 | 2003 Fair value RM'000 |
|------------------------------|--|---|--|---|
| Financial assets | | | | |
| Quoted shares – long term | 13 ==== | 14 ==== | 13 ==== | 14 ==== |
| Financial liabilities | | | | |
| EPMB ICUPS | | | | |
| - liability component | 4,459 | # | 5,500 | # |
| EPMB RCSPS | | | | |
| - liability component | 265 ----- | # | 533 ----- | # |
| | 4,724 ===== | | 6,033 ===== | |

The fair value of quoted securities is their market price at the balance sheet date.

26. Financial instruments (continued)

| Company | 2004 Carrying amount RM'000 | 2004 Fair value RM'000 | 2003 Carrying amount RM'000 | 2003 Fair value RM'000 |
|------------------------------|--------------------------------------|---------------------------------|--------------------------------------|---------------------------------|
| Financial liabilities | | | | |
| EPMB ICUPS | | | | |
| - liability component | 4,459 | # | 5,500 | # |
| EPMB RCSPS | | | | |
| - liability component | 265 | # | 533 | # |
| | <u>4,724</u> | | <u>6,033</u> | |
| | ===== | | ===== | |

It is not practicable to estimate the fair value of these financial liabilities. These financial liabilities are carried at its original cost as stated above in the balance sheet. The principal terms of the EPMB ICUPS and RCSPS are disclosed in Note 12 to the financial statements.

27. Acquisition of subsidiary

On 19 May 2003, the Company completed the acquisition of 79.5% equity interest in the issued and paid-up capital of PEPS-JV from Mutual Concept Sdn. Bhd. ("Mutual Concept") for a consideration of up to RM105,000,000 satisfied by a combination of cash payment of RM10,500,000 and the issuance of up to 189,000,000 EPMB ICUPS of RM0.10 each at an issue price of RM0.50 each. In the prior year, the Company issued 136,500,000 EPMB ICUPS of RM0.10 each at an issue price of RM0.50 per EPMB ICUPS. The remaining EPMB ICUPS will be issued upon PEPS-JV achieving an audited profit after taxation of RM19,000,000 and RM20,000,000 for financial years ending 31 December 2003 and 31 December 2004 respectively. The Company also completed the acquisition of 30,000,000 of Redeemable Convertible Secured Preference Shares of RM1 each in PEPS-JV satisfied by the issuance of 60,000,000 of its EPMB RCSPS of RM0.10 each at an issue price of RM0.50 each from Securita ABS One Berhad.

On the 22 July 2004, the Company issued 31,500,000 EPMB ICUPS of RM0.10 each at an issue price of RM0.50 per EPMB ICUPS as PEPS-JV achieved an audited profit after taxation of more than RM19,000,000 for the financial year ended 31 December 2003, pursuant to the terms and condition of the acquisition of PEPS-JV.

PEPS-JV is principally involved in the manufacturing of automotive modular components, which include metal stamping, metal welding assembly and black electro-deposition painting. The acquisition was accounted for using the acquisition method of accounting.

27. Acquisition of subsidiary (continued)

The fair value of assets and liabilities assumed in the acquisition of PEPS-JV and the cash flows effect were as follows:

| | Acquisition 2003 RM'000 |
|---|--|
| Non current assets | |
| Property, plant and equipment | 88,033 |
| Deferred tax assets | 9,694 |
| | <hr/> |
| | 97,727 |
| Current assets | 27,109 |
| Current liabilities | (35,966) |
| Long term liabilities | (56,397) |
| | <hr/> |
| Net assets | 32,473 |
| Less: Minority interest | (6,657) |
| Goodwill on acquisition | 52,934 |
| | <hr/> |
| Purchase consideration paid | 78,750 |
| Consideration paid, satisfied in EPMB ICUPS | (68,250) |
| Cash acquired | (197) |
| | <hr/> |
| Net cash outflow | 10,303 |
| | <hr/> <hr/> |

Effect of acquisition

The Company acquired PEPS-JV on 19 May 2003 and the acquisition of PEPS-JV had the following effect on the Group's income statements and assets and liabilities as at 31 December 2003.

The following presentation shows the full year amounts of PEPS-JV for revenue, operating costs, tax expense and profit after taxation, pre-acquisition profit is deducted thereon to show the seven (7) months net profit impact to the Group.

| | RM'000 |
|--|---------------|
| Income statement: | |
| Revenue | 88,813 |
| Operating costs | (67,442) |
| | <hr/> |
| Profit before taxation | 21,371 |
| Tax expense | (1,833) |
| | <hr/> |
| Profit after taxation | 19,538 |
| Less: Minority interest | (2,252) |
| Less: Pre-acquisition profit | (5,055) |
| | <hr/> |
| Increase in the Group's net profit for the year ended 31 December 2003 | 12,231 |
| | <hr/> <hr/> |

27. Acquisition of subsidiary (continued)

| | 2003 RM'000 |
|---|------------------------------|
| Balance sheet: | |
| Property, plant and equipment | 104,728 |
| Deferred tax assets | 4,365 |
| Current assets | 30,125 |
| Current liabilities | (24,420) |
| Long term liabilities | (51,340) |
| | <hr/> |
| Net assets acquired | 63,458 |
| Minority interest | (8,909) |
| | <hr/> |
| Group's share of net assets | 54,549 |
| Goodwill on acquisitions | (52,934) |
| | <hr/> |
| Increase in the Group's net assets as at 31 December 2003 | 1,615 |
| | <hr/> <hr/> |

28. Significant events

The following corporate exercises were completed during the year.

- (a) On 24 May 2004, the Company announced a proposal to transfer the listing of and quotation for the entire enlarged issued and paid-up share capital of the Company comprising up to 186,690,000 ordinary shares of RM1.00 each from the Second Board to the Main Board of Bursa Malaysia Securities Berhad ("Bursa Securities". The Securities Commission subsequently approved the transfer of EPMB's entire issued and paid-up ordinary share capital, EPMB ICUPS, EPMB RCSPS and EPMB warrants from the Second Board to the Main Board of Bursa Securities ("Transfer Listing of EPMB shares") on 19 August 2004. The Transfer Listing of EPMB shares was completed on 13 September 2004.
- (b) On 22 July 2004, 31,500,000 EPMB ICUPS of RM0.10 each at an issue price of RM0.50 per EPMB ICUPS were allotted to Mutual Concept, in which a Director has interest, pursuant to the terms and conditions of the acquisition of PEPS-JV.

29. Events subsequent to the balance sheet date

- (a) From 14 January 2005 to 4 April 2005, 2,220,000 EPMB ICUPS of RM0.10 each at an issue price of RM0.50 per EPMB ICUPS and 547,000 EPMB RCSPS of RM0.10 each at an issue price of RM0.50 per EPMB RCSPS were converted into 1,110,000 and 273,500 ordinary shares of RM1.00 each, respectively.
- (b) On 28 January 2005, the Board resolved to liquidate and close the Group's wholly owned subsidiary EPMB (UK) Limited. The closure of EPMB (UK) Limited is part of the reorganisation of the Group to improve cost efficiency and profitability of the Group, and is not expected to have any material impact on the net tangible assets and earnings of the Group for the year ending 31 December 2005.