



ENCORP  
BERHAD  
(505836-X)

*annual report*

**2004**









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**BOARD OF DIRECTORS**

Tan Sri Datuk Dr Omar bin Abdul Rahman	Non-Executive Director
Yeoh Soo Ann	Executive Director
Efeida binti Mohd Effendi	Executive Director
Datuk Fong Joo Chung	Non-Executive Director
Datuk (Dr) Philip Ting Ding Ing	Non-Executive Director
Datuk Dr Zainal Aznam bin Mohd Yusof	Independent Director, Non-Executive Director
Dato' Chew Kong Seng @ Chew Kong Huat	Non-Independent, Non-Executive Director
Mohd Ezra Effendi bin Mohd Effendi Norwawi	Non-Independent, Non-Executive Director

**AUDIT COMMITTEE**

Datuk (Dr) Philip Ting Ding Ing	Chairman
Tan Sri Datuk Dr Omar bin Abdul Rahman	Member
Datuk Dr Zainal Aznam bin Mohd Yusof	Member
Efeida binti Mohd Effendi	Member

**NOMINATION COMMITTEE**

Datuk Dr Zainal Aznam bin Mohd Yusof	Chairman
Datuk Fong Joo Chung	Member
Datuk (Dr) Philip Ting Ding Ing	Member

**REMUNERATION COMMITTEE**

Datuk Fong Joo Chung	Chairman
Tan Sri Datuk Dr Omar bin Abdul Rahman	Member
Dato' Chew Kong Seng @ Chew Kong Huat	Member
Efeida binti Mohd Effendi	Member

**COMPANY SECRETARIES**

Darmawatti binti Dahari	(LS 02757)
Chua Siew Chuan	(MAICSA 0777689)



## **REGISTERED OFFICE**

Level 2, B-59, Taman Sri Sarawak Mall  
Jalan Tunku Abdul Rahman  
93100 Kuching, Sarawak

*Tel: 082-428 626 Fax: 082-423 626*

## **REGISTRAR**

Securities Services Holdings Sdn Bhd  
Level 7, Menara Milineum  
Jalan Damanlela  
Pusat Bandar Damansara  
Damansara Heights  
50490 Kuala Lumpur

*Tel: 03-2084 9000 Fax: 03-2094 9940*

## **BANKERS**

RHB Bank Berhad  
Bumiputra Commerce Bank Berhad

## **AUDITOR**

Ernst & Young

## **SOLICITORS**

Zaid Ibrahim & Co

Zul Rafique & Partners

Azam-Malek & Soh

## **STOCK EXCHANGE LISTING**

Main Board Bursa Malaysia Securities Berhad *(Listed on 11 February 2003)*

## **BURSA MALAYSIA SECURITIES BERHAD STOCK NUMBER**

ENCORP 6076





## ENCORP MISSION

Enriching the Quality of Life and Creating Value for all its stakeholders.

## ENCORP CORE VALUES

- Superior Quality

Everything that Encorp does or provides for internal and external customers will be of superior quality based on World-Class standards.

- Value Focused

Encorp is value focused - all our activities are geared towards creating value in the organization, for our shareholders and customers.

- Innovative

Innovation is the spirit of Encorp - promoting creativity, personal discovery and growth.

- Dynamic

Encorp will continue to lead and be ahead - proactively adapting to the changes of the external environment to advance our competitive position by building on our strengths.

- Integrity

Ensuring that Encorp employees act and operate with integrity and be guided by what is ethical and right for our customers.

- People Oriented

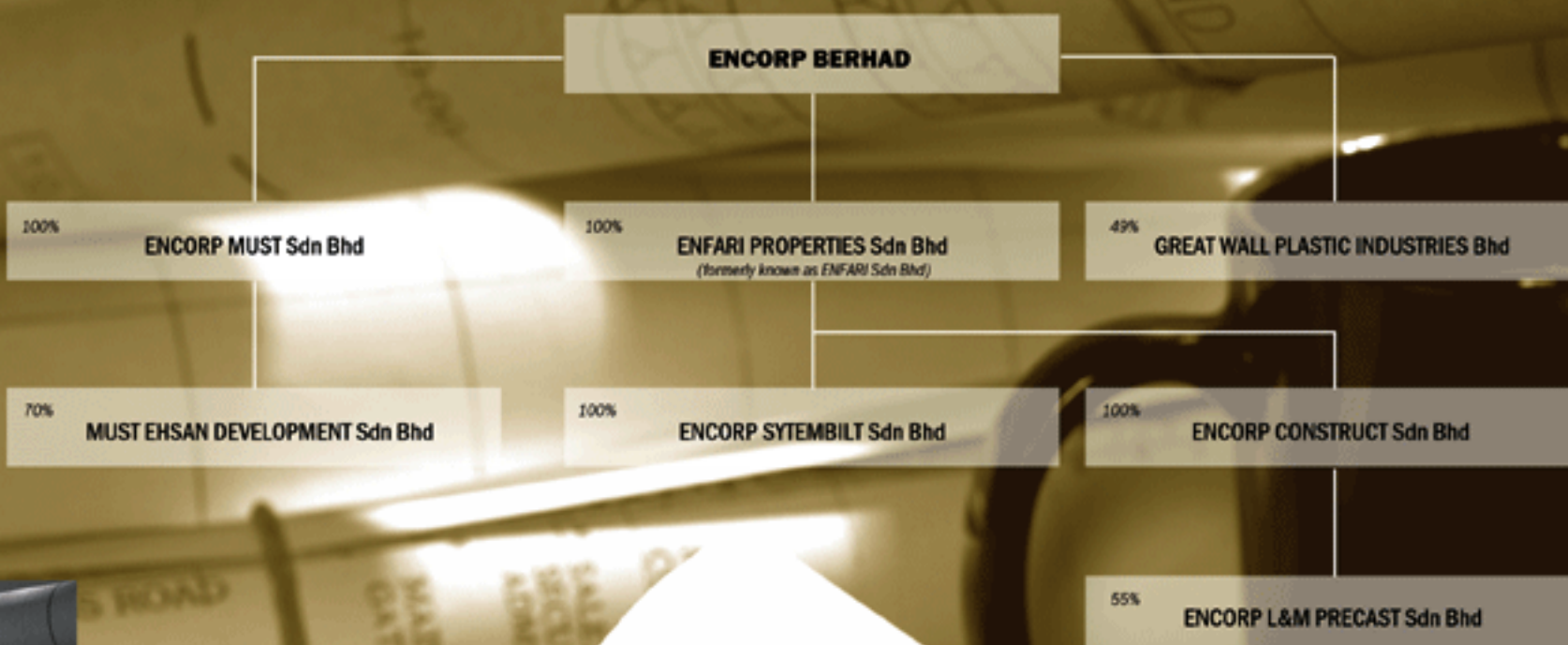
People are central to the success of Encorp - we create a dynamic and inspiring environment for the growth of the employees.



Group Financial Highlights	2004 (RM'000)	2003 (RM'000) (as restated)
Revenue	557,171	567,273
(Loss) / Profit before taxation	(2,747)	13,359
Taxation	(2,948)	(8,325)
(Loss) / Profit after taxation	(5,695)	5,034
(Loss) / Profit attributable to shareholders	(5,784)	5,034
Paid-up capital	223,509	223,509
Shareholders' funds	346,982	400,591
Total net tangible assets	137,632	229,572
(Loss) / Earnings per share (sen) *	(2.59)	2.25
Net tangible assets per share	0.62	1.03

\* Based on weighted average number of shares issued during the financial year.





Subsidiary Company	Percentage 2005	Principal Activity	Place of Incorporation
Encorp MUST Sdn Bhd	100	Investment Holding and Property Development	MALAYSIA
MUST Ehsan Development Sdn Bhd	70	Property Development	MALAYSIA
Enfari Properties Sdn Bhd (formerly known as Enfari Sdn Bhd)	100	Investment Holding	MALAYSIA
Encorp Systembilt Sdn Bhd	100	Concessionaire for the design, construction and completion of 10,000 units of apartments as teachers' quarters	MALAYSIA
Encorp Construct Sdn Bhd	100	Construction Management	MALAYSIA
Encorp L & M Precast Sdn Bhd	55	General Contracting - Dormant	MALAYSIA
Great Wall Plastic Industries Bhd	49	Manufacturing and marketing of plastic film packaging products	MALAYSIA



**Tan Sri Datuk Dr Omar Bin Abdul Rahman**  
**Non-Executive Chairman, Independent, Non-Executive Director**  
**Member of the Audit Committee**  
**Member of the Remuneration Committee**

Tan Sri Datuk Dr Omar (Malaysian, aged 72) was appointed to the Board on 17 April 2003. He was appointed as Non-Executive Chairman of Encorp Berhad on 23 February 2005.

A graduate of Veterinary Science from the University of Sydney, Australia and a Doctorate in Philosophy from Cambridge University, United Kingdom, Tan Sri Datuk Dr Omar began his professional career in 1960 in veterinary research. He was one of the founders of Universiti Pertanian Malaysia (UPM), serving as the Foundation Dean of Veterinary Medicine and Deputy Vice-Chancellor (Academic). In 1984, he was appointed as Science Adviser in the Prime Minister's Department and in that capacity, he served on a number of national committees including the National Development Planning Committee, the National Council for Scientific Research and Development, the National Information Technology Council and the National Telecommunication Council among other notable positions in the areas of science, research and policy.

On the international scene, Tan Sri Datuk Dr Omar served on the United Nation's Council for Science and Technology for Development. He is the current President of the Federation of Asian Scientific Academics and Societies (FASAS) and is the founding and current Chairman of the Commonwealth Partnership for Technology Management (CPTM). He was the Founding President of the Academy of Science Malaysia and is now a Senior Fellow and the Founding Fellow of the Islamic Academy of Sciences and as well as Fellow of the Third World Academy of Sciences.

He is Chairman of the Board of Kotra Industries Berhad and a trustee of the Malaysian University of Science and Technology (MUST). He is also Executive Chairman of Kumpulan Modal Perdana Sdn Bhd.

Tan Sri Datuk Dr Omar does not have any family relationship with any Director and / or major shareholder and has no conflict of interest with the Company.



**Yeoh Soo Ann**  
**Non-Independent, Executive Director**

Yeoh, (Malaysian, aged 44) joined the Board of Encorp Berhad and was appointed as the Group Chief Executive Officer on an acting capacity on 18 November 2003.

Yeoh has been a member of the Malaysian Institute of Certified Public Accountants and the Malaysian Institute of Accountants since 1988. He has worked in various public accounting firms, both in audit and consultancy for more than 12 years including Ernst & Young in London and PricewaterhouseCoopers in Malaysia. During his tenure with the public accounting firms he was involved with companies such as the Thorn Group, Sime Darby and Kuok Group in Malaysia.

Prior to joining the Encorp Group, he was Executive Director of Finance at FACB Industries Incorporated Berhad, a company listed on Bursa Malaysia Securities Berhad.

Yeoh has no family relationship with any Director and / or major shareholder, nor any conflict of interest with the Company.



**Efeida Binti Mohd Effendi**  
**Non-Independent, Executive Director**  
**Member of the Remuneration Committee**  
**Member of the Audit Committee**

Efeida was appointed to the Board of Encorp Berhad on 16 April 2001.

She is also Executive Director of the Centre For Advanced Design (CENFAD), a leading art and design education establishment. She is a Director of Encorp Systembilt Sdn Bhd, Encorp Construct Sdn Bhd, Encorp MUST Sdn Bhd, MUST Ehsan Development Sdn Bhd and Natseven TV Sdn Bhd, operator of the Malaysian television station, ntv7. She holds no other directorships in any other public listed company.

A Bachelor of Fine Arts degree holder from the Parsons School of Design, New York, she carved her niche in leading architectural firms in New York before returning to Malaysia.

Efeida is a major shareholder of the Company by virtue of her relationship with the beneficial owner of Lavista Sdn Bhd, a major shareholder of Encorp Berhad. She is sister to Mohd Ezra Effendi bin Mohd Effendi Norawati.



**Datuk Fong Joo Chung**  
**Non-Independent, Non-Executive Director**  
**Chairman of the Remuneration Committee**  
**Member of the Nomination Committee**

Datuk Fong (Malaysian, aged 56) was appointed to the Board of Encorp Berhad on 16 April 2001.

Datuk Fong is the State Attorney-General of Sarawak, a position he has held since August 1992. Prior to this, he was in private practice (1971 – 1992), and has held senior positions in various legal associations and bodies in Sarawak, including President of the Advocates' Association of Sarawak (1983-1987), member of the High Court Rules Committee (1982-1988), Chairman of the Kuching Rating Appeals Tribunal (1986-1992), Chairman of Inquiry Committee (1991-1992), and a member of Kuching City South Council (1981-1992).

Datuk Fong graduated with a Bachelor of Laws Degree (Honours) from the University of Bristol, England and is a Barrister-at-Law (Lincoln's Inn).

He is currently a Director of Sarawak Enterprise Corporation Berhad, Bintulu Port Holdings Berhad as well as several private limited companies.

Datuk Fong does not have any family relationship with any Director and / or major shareholder and has no conflict of interest with the Company.



**Datuk (Dr.) Philip Ting Ding Ing**  
**Independent, Non-Executive Director**  
**Member of the Nomination Committee**  
**Chairman of the Audit Committee**

Datuk (Dr) Philip Ting (Malaysian, aged 53) was appointed to the Board of Encorp Berhad on 16 April 2001.

A Chartered Accountant of Australia by profession, Datuk (Dr) Philip Ting began his career in Touche Ross & Co. in Australia in 1974, before joining Hanafiah Raslan & Mohamad, a firm of public accountants in Malaysia in 1976 where he served in various capacities for 15 years, including as a partner of the firm. He was also the Group Managing Director of conglomerate Cahya Mata Sarawak Berhad from 1994 to 1998, and Chief Executive Officer of Sarawak Securities, Sarawak's first stock-broking company.

Datuk (Dr) Philip Ting holds a Bachelor of Business Degree, majoring in Accounting from Swinburne University of Technology, Australia, as well as a Doctorate of the University (Honoris Causa) from the same university. He is a member of the Malaysian Institute of Certified Public Accountants, the Malaysian Institute of Accountants and the Institute of Chartered Accountants, Australia. He is currently Deputy Chairman and an Independent Non-Executive Director of Ibraco Berhad, a company listed on Bursa Securities.

Other than the 569,000 shares held by him in the Company, he does not have any other interest in the Company. He has no family relationship with any Director and / or major shareholder, and has no conflict of interest with the Company.



**Datuk Dr. Zainal Aznam Bin Mohd Yusof**  
**Independent, Non-Executive Director**  
**Member of the Audit Committee**  
**Chairman of the Nomination Committee**

Datuk Dr Zainal Aznam, (Malaysian, aged 60) joined the Board of Encorp Berhad on 21 April 2003.

Datuk Dr Zainal Aznam has long been involved in various economic research and policy developments in the country. He was the former Deputy Director-General of Institute of Strategic and International Studies (ISIS), Deputy Director of Malaysian Institute of Economic Research (MIER), Advisor in Economics at Bank Negara Malaysia, and spent nearly 20 years in the Economic Planning Unit (EPU) of the Prime Minister's Department. He is in the Working Group of the National Economic Action Council (NEAC).

Datuk Dr Zainal Aznam has also been active in the academic field, serving on boards and teams at Harvard University, Kelo University and at Korea Institute for International Economic Policy. He was a Visiting Scholar at Harvard Institute for International Development (HIID), Harvard University. Currently, Datuk Dr. Zainal Aznam sits on the advisory panels of Universiti Kebangsaan Malaysia and University of Malaya, and is an Adjunct Professor at Universiti Utara Malaysia. He was a Research Fellow at the Center for Research in Inequality Security and Ethnicity (CRISE), Queen Elizabeth House, Oxford University from May to June 2004.

He has a Bachelor of Science degree in Economics from Queen's University, Northern Ireland, a Masters degree in Development Economics from University of Leicester and a Doctorate in Economics from Oxford University, United Kingdom.

Datuk Dr Zainal Aznam's current directorships include HSBC Bank Malaysia Berhad, Kinta Kelias Berhad and Pernodalan BSN Berhad. He was a Commissioner in the Securities Commission from 1999 to 2004.

Datuk Dr Zainal Aznam has no family relationship with any Director and / or major shareholder, nor any conflict of interest with the Company.

**Dato' Chew Kong Seng @ Chew Kong Huat**  
**Non-Independent, Non-Executive Director**  
**Member of the Remuneration Committee**

Dato' Chew (Malaysian, aged 67) was appointed to the Board of Encorp Berhad on 2 December 2002.

A former Managing Partner from 1990 to 1996 of the accounting firm Ernst & Young in Malaysia, Dato' Chew has over 30 years of experience in the accounting profession, covering a variety of industries which include banking and financial institution, timber, manufacturing, trading and foreign investment.

He is a Fellow of the Institute of Chartered Accountants in England and Wales, member of the Malaysian Institute of Certified Public Accountants and member of the Malaysian Institute of Accountants.

Dato' Chew is currently a Director of Petronas Gas Berhad, Petronas Dagangan Berhad, Industrial Concrete Products Berhad, Jaya Jusco Stores Berhad, Hong Leong Properties Bhd, PBA Holdings Bhd, Sarawak Enterprise Corporation Berhad and several private limited companies in Malaysia.

Dato' Chew has no family relationship with any Director and/or major shareholder, nor any conflict of interest with the Company.



**Mohd Ezra Effendi Bin Mohd Effendi Norwawi**  
**Non-Independent, Non-Executive Director**

Mohd Ezra (Malaysian, aged 27) was appointed to the Board of Encorp Berhad on 28 January 2003, and assumed the position of Group Chief Executive Officer of Encorp Berhad on an acting capacity on 1 May 2003. Ezra relinquished the position on 28 October 2003 and remained as Non-Executive Director.

He graduated with a Bachelors of Arts (Honours) degree in Business Studies from the University of the West of England, Bristol.

He is deemed interested in the Company by virtue of his relationship with beneficial owner of Lavista Sdn Bhd, a major shareholder of Encorp Berhad. He is brother to Efeida binti Mohd Effendi. He has not entered into any transaction which has a conflict of interest with the Company.





Dear Shareholders,

Welcome to Encorp Berhad's 2004 Annual Report. On behalf of the Board of Directors, I am pleased to present the Report of our Company for the past year of which the highlight must surely be the successful hand-over of our flagship project, teachers' quarters housing to the Government of Malaysia and the completion of the corporate exercise that consolidates and strengthens the Group for future growth.

Early last year, we successfully completed the construction of all 10,000 units of teachers' quarters in 109 sites. The formal hand-over of the completed project was held at an event on 20 June 2004 during which a memento of 9 keys representing teachers' quarters housing in 9 states across Malaysia including Sabah and Sarawak was presented to the Ministry of Education.

That was a proud moment for our team – knowing that Encorp had contributed towards nation-building by fulfilling the Government's vision to provide teachers with quality accommodation, thus improving their quality of life and consequently contributing to their effort in the nurturing of future leaders. We are also proud of all the Bumiputera entrepreneurs whom we helped along the way, and of the workforce we trained to complete the buildings in record time through the use of prefabricated housing components.

Adding to the success was the Prime Minister's commendation of Encorp for utilizing a new building technology in the project and therefore setting an example for others on the efficient use of prefabricated building technology (PBT). The system, which has proven to be time-saving and more cost-effective, led the Prime Minister to call for an in-depth study to be made for its use in future Government projects.

As a fore-runner in the implementation of PBT, the Prime Minister's recognition of the system used by Encorp in a major Government project puts us in good stead to bid for other jobs.

These accolades are in line with the strong values that made Encorp what it is today – a company that contributes towards a better Quality of Life with the use of innovation and technology. In addition, the successful completion of the project has earned us respect as a reliable construction management company and is proof of Encorp's capabilities to undertake more projects of similar size, both here in Malaysia and abroad, be it with the Government or private sector.

With the project now completed, Encorp will reap the benefit of a steady stream of concession payments of between RM118 to RM136 million annually from the Government for the next 24 years.

Another significant event last year was the completion of a corporate exercise to acquire shares in Encorp MUST Sdn Bhd (EMSB), the owner of two prime parcels of land in the Klang Valley. In the exercise, Encorp disposed 51% interest in Great Wall Plastic Industries Berhad (GWPI) to Megastart Sdn Bhd for a consideration of RM45 million. Following the disposal, Encorp acquired 100% equity interest in EMSB for a purchase consideration of RM45.96 million.

The corporate exercise which was completed on 28 October 2004 has led to a rationalization of Encorp's non-core activities and streamlining of its operations into property development and construction management.

Ladies and Gentlemen, we are thankful to the leaders of our nation for creating a stable political and economic environment. In 2004, Malaysia registered a growth rate of 7.1%, the highest in 4 years. The outlook for 2005 remains positive, and this augurs well for the property sector which is on an upswing. With the current low interest rates set to be maintained, demand for residential units, particularly high-end and landed properties, is expected to lead the property sector in 2005. Occupancy rates of office properties are also expected to increase.

With these market forces in our favour, coupled with the team's extensive experience from the teachers' quarters housing project and knowledge in property development, it is natural for Encorp to shift its focus to property development to enhance the Company's future earnings.

This has now been made possible with the acquisition of the two landbanks, located at Section U12, Shah Alam and Kota Damansara. As I write, development at the Cahaya Alam project in Section U12, Shah Alam has begun whilst the sales launch for the Kota Damansara development is planned for the second quarter of 2005.

Apart from property development, Encorp's team is actively pursuing other market opportunities in the construction sector. With increased competition and fewer public sector projects in the local construction sector, our team is seriously assessing options overseas where we can capitalize on Encorp's valuable construction management experience which include building mass housing within short time-frames.

For the financial year 2004, Encorp Berhad reported revenue of RM557.2 million from the Group's construction management and plastic manufacturing operations. Despite completing the teachers' quarters housing project, profits recognized in 2004 were lower compared to previous years. As a result, Encorp Berhad reported a loss before tax and minority interest of RM2.75 million for the year ended 31 December 2004.

A top priority for the Management of our Group is to address the issue of claims for additional works and extension of time on the teachers' quarters housing project. Should approval be forthcoming, these profits will greatly contribute to the Group's future bottom-line.

In conclusion, the past year has indeed been an exciting year for the team at Encorp. All the hard work has put our Company on a firmer footing for more growth.

For this, I would like to thank the Board of Directors for their wise counsel and direction on strategies for our Group. Our heartfelt appreciation goes to YBhg. Dato' Mohamad Nor bin Mohammad, who resigned as Chairman of the Company on 1 January 2005. As Chairman, Dato' Mohammad Nor was instrumental in guiding Encorp through the challenges of starting our operations as a listed company and setting a strong foundation. We thank Dato' Mohamad Nor for his dedication to the success of Encorp and wish him well on his future endeavours.

I would also like to thank the Management and employees of the Company for their outstanding commitment towards the success of the Company's projects. Finally, I would like to thank you, the shareholders, for your trust in our team and we look forward for your continuous support.

Ladies and Gentlemen, with our flagship teachers' quarters housing project completed, Encorp's journey takes a different road towards becoming a leading construction management and property development company. Internally, our goal is "Going for Growth". With a capable, dedicated team and valuable resources at our disposal, I am confident of Encorp Berhad's continued success.

Tan Sri Datuk Dr. Omar Abdul Rahman  
Chairman







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## DIRECTORS' REPORT

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

## PRINCIPAL ACTIVITIES

The Company's principal activities are investment holding and provision of general management support services.

The principal activities of the subsidiaries are disclosed in Note 5 to the financial statements.

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

## RESULTS

	<b>GROUP (RM)</b>	<b>COMPANY (RM)</b>
(Loss)/profit after taxation	(5,695,326)	4,176,395
Minority interest	(88,479)	-
Net (loss)/profit for the year	<u>(5,783,805)</u>	<u>4,176,395</u>

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in the statements of changes in equity.

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

- (a) the effects arising from the acquisition of Encorp Must Sdn. Bhd. ("EMSB") together with its subsidiary, Must Ehsan Development Sdn. Bhd. ("MEDSB") during the year contributing to an increase in net loss for the year by RM1,766,170 to the Group; and
- (b) the effects arising from disposal of 51% of 100% equity interest in Great Wall Plastic Industries Bhd., ("GWPI") resulting in a loss of RM735,552 to the Group and a gain of RM5,544,427 to the Company as disclosed in Note 5(b) to the financial statements.

## DIVIDENDS

No dividend has been paid or declared by the Company since the date of the last report. The Directors do not recommend the payment of any dividend for the current financial year.

## DIRECTORS

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

Dato' Mohamad Nor bin Mohamad (*Resigned on 01/01/2005*)  
 Datuk Fong Joo Chung  
 Datuk Dr. Ting Ding Ing  
 Efeida binti Mohd Effendi  
 Dato' Chew Kong Seng @ Chew Kong Huat  
 Mohd Ezra Effendi bin Mohd Effendi Norwawi  
 Datuk Dr. Zainal Aznam bin Mohd Yusof  
 Tan Sri Datuk Dr. Omar bin Abdul Rahman  
 Yeoh Soo Ann

## DIRECTORS' BENEFITS

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

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the Directors as shown in Note 26 to the financial statements or the fixed salary of a full-time employee of the Company) by reason of a contract made by the Company or a related corporation with any Director or with a firm of which he is a member, or with a company in which he has a substantial financial interest, except as disclosed in Note 31 to the financial statements.

## DIRECTORS' INTERESTS

According to the register of directors' shareholdings, the interests of Directors in office at the end of the financial year in shares in the Company and its related corporations during the financial year were as follows:

		Number of Ordinary shares of RM1 each			
		At 1 January 2004	Bought	Sold	At 31 December 2004
(a)	Direct interest in shares of Corporate Shareholder				
	Lavista Sdn. Bhd.				
	Efeida binti Mohd Effendi	1	-	-	1
	Dato' Mohamad Nor bin Mohamad	50,000 *	-	-	50,000 *
	* These shares are held in trust.				
(b)	Direct interest in shares of the Company:				
	Datuk Dr. Ting Ding Ing	569,000		-	569,000
	Deemed interest in shares of the Company:				
	Efeida binti Mohd Effendi	74,704,536	-	(1,068,500)	73,636,036
	Dato' Mohamad Nor bin Mohamad	74,704,536 **	-	(1,068,500)	73,636,036 **

\*\* By virtue of shares of Lavista Sdn. Bhd. held in trust by the Director.

By virtue of the relationship with the shareholder of Lavista Sdn. Bhd., Efeida binti Mohd Effendi, Mohd Ezra Effendi bin Mohd Efendi Norwawi are deemed interested in shares of the Company to the extent the shareholder has an interest.

## SIGNIFICANT EVENTS

### (a) Acquisition of EMSB and Disposal of GWPI

The Company had on 28 October 2003 announced that it proposed to acquire 100% equity interest in Encorp Must Sdn Bhd (EMSB) from Encorp Group Sdn. Bhd. for a purchase consideration of RM45.96 million and to dispose 51% equity interest in Great Wall Plastic Industries Bhd (GWPI) to Megastart Sdn. Bhd. for a consideration of RM45 million.

The Company had on 18 March 2004 received all the relevant approvals from the authorities. The shareholders approval was obtained on the 17 September 2004 and the entire exercise had been completed on 28 October 2004.

### (b)

#### Proposed Private Placement

On 13 February 2004, the Company announced its proposal to implement a private placement of up to 22,350,853 new ordinary shares of RM1 each in the Company, representing up to 10% of the existing issued and paid-up capital of the Company ("Proposed Private Placement"), to placees to be identified at an issue price to be determined later.

On 13 May 2004, the Company had further announced that the application to the relevant authorities for the proposed placement will be made within three (3) months from 13 May 2004.

The Securities Commission ("SC") had via its letter dated 30 July 2004, approved the Proposed Private Placement subject to fulfilment of certain conditions. The SC (on behalf of the Foreign Investment Committee ("FIC")) had also approved the Proposed Placement under the Guidelines for the Regulation of Acquisition of Assets, Mergers and Takeovers 1974 on the same date. The EPU via its letter dated 12 November 2004 had conditionally approved the proposed placement.



The Bursa Malaysia via its letter dated 7 December 2004 had also approved in principle the listing of the shares.

The Company had submitted an application to the SC, which on 31 January 2005 had granted the Company an extension of time of 6 months up to 30 July 2005 to implement the proposed private placement.

**(c) ESSB BAIDS Issue**

On 11 August 2004, Encorp Berhad ("Encorp" or "the Company") announced that its wholly owned subsidiary, Encorp Systembilt Sdn. Bhd. ("ESSB") is to undertake a financing exercise via the issuance of up to RM683.3 million nominal value Bai Bithaman Ajil Notes ("ESSB BAIDS Issue").

The ESSB BAIDS Issue had been approved by the Securities Commission on 25 October 2004. The ESSB BAIDS Issue is over a tenure of 22 years from the date of issuance. The profit rate for the ESSB BAIDS will be 0% per annum from the date of issuance and 8.0% per annum from Year 15 onwards until maturity. The ESSB BAIDS Issue is not listed on Bursa Malaysia.

On 13 December 2004, Encorp entered into a RM160 million Bridging Loan Facility ("BL Facility") Agreement with United Overseas Bank (Malaysia) Berhad ("UOBM"). The proceeds from the BL Facility will be utilised by Encorp to fund the subscription of the ESSB BAIDS Issue. The BL Facility is to be refinanced at a later stage and will be secured by a charge created over the ESSB BAIDS.

On 30 December 2004, ESSB successfully issued the first series of the ESSB BAIDS Issue ("Notes Series 1"), which has a nominal value of RM625 million and an issue price of RM152.125 million. The second series of the ESSB BAIDS Issue ("Notes Series 2") with a nominal value of up to RM58.3 million will be issued at a later date. The Notes Series 1 was subscribed by Encorp via, inter-alia, the BL Facility, which was obtained on 13 December 2004 from UOBM.

**(d) Proposed Rights Issue**

On 16 February 2005, the Company announced it proposed to implement a renounceable rights issue of up to RM682.904 million nominal value of redeemable secured bonds ("Encorp Bonds") at an issue price of RM0.2715 for every RM1.00 nominal value of Encorp Bond on the basis of RM3.00 nominal value of Encorp Bonds for every one (1) existing ordinary share of RM1.00 each in Encorp ("Encorp Share") held by Encorp's shareholders on a date to be determined later ("Proposed Rights Issue").

However on 28 April 2005 the Board of Directors of the Company announced that the Company has decided to abort the Proposed Rights Issue in view of the time taken for the implementation of the Proposed Rights Issue and the general current market conditions.

## OTHER STATUTORY INFORMATION

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

- (i)** to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and
- (ii)** to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business were written down to an amount which they might be expected so to realise.

**(b)** At the date of this report, the Directors are not aware of any circumstances which would render:

- (i)** the amount written off for bad debts or the amount of the provision for doubtful debts inadequate to any substantial extent; and
- (ii)** the values attributed to current assets in the financial statements of the Group and of the Company misleading.

**(c)** At the date of this report, the Directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.

**(d)** At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.



- (e) As at the date of this report, there does not exist:
- (i) any charge on the assets of the Group or of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
  - (ii) any contingent liability of the Group or of the Company which has arisen since the end of the financial year.
- (f) In the opinion of the Directors:
- (i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group or of the Company to meet their obligations when they fall due, except as disclosed in the financial statements; and
  - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group or of the Company for the financial year in which this report is made.

#### AUDITORS

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

Signed on behalf of the Board in accordance with a resolution of the Directors.

Tan Sri Datuk Dr. Omar bin Abdul Rahman

Yeoh Soo Ann

Kuala Lumpur, Malaysia  
28 April 2005

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

We, Tan Sri Datuk Dr. Omar bin Abdul Rahman and Yeoh Soo Ann, being two of the Directors of Encorp Berhad, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 36 to 81 are drawn up in accordance with applicable MASB Approved Accounting Standards in Malaysia and the provisions of the Companies Act, 1965 so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2004 and of the results and the cash flows of the Group and of the Company for the year then ended.

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

Tan Sri Datuk Dr. Omar bin Abdul Rahman

Yeoh Soo Ann

Kuala Lumpur, Malaysia  
28 April 2005

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

I, Kee Hock Kee, being the Officer primarily responsible for the financial management of Encorp Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 36 to 81 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed  
Kee Hock Kee at Kuala Lumpur in the Federal Territory  
on 28 April 2005.

Kee Hock Kee

Before me,

**REPORT OF THE AUDITORS TO THE MEMBERS OF  
ENCORP BERHAD  
(Incorporated in Malaysia)**

We have audited the accompanying financial statements set out on pages 36 to 81. These financial statements are the responsibility of the Company's Directors.

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

In our opinion:

- (a) the financial statements have been properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia so as to give a true and fair view of:
  - (i) the financial position of the Group and of the Company as at 31 December 2004 and of the results and the cash flows of the Group and of the Company for the year then ended; and
  - (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
- (b) the accounting and other records and the registers required by the Act to be kept by the Company and by its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

We have considered the financial statements and the auditors' reports thereon of the subsidiaries as indicated in Note 5 to the financial statements, being financial statements that have been included in the consolidated financial statements.

We are satisfied that the financial statements of the subsidiaries that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

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

In forming our opinion, we draw attention to Note 10 to the financial statements, which states that the Group recognised RM274,872,670 as concession income and concession income receivable respectively during the financial year ended 31 December 2004. These amounts have been recognised by the Group based on circumstances envisaged in the original contracts which however is subject to final verification and approval by the Government and agreement by the parties concerned. The directors have reviewed this matter in detail and having considered all available known facts and information available as at 31 December 2004, are of the opinion that it is probable the amounts recognised in concession income and concession income receivables will be recoverable. However, the final outcome of the verification and approval exercises have yet to be determined. Our opinion is not qualified in this respect.

ERNST & YOUNG  
AF: 0039  
Chartered Accountants

Mohd Sukarno bin Tun Sardon  
No. 1697/03/07(J)  
Partner

Kuala Lumpur, Malaysia  
28 April 2005

		GROUP		COMPANY	
	NOTE	2004 RM	2003 RM	2004 RM	2003 RM
NON-CURRENT ASSETS					
Property, plant and equipment	3	6,129,678	125,797,955	149,716	112,855
Land held for property development	4	6,684,547	-	-	-
Investment in subsidiaries	5	-	-	295,960,000	327,363,868
Investment in associate	6	42,508,131	-	37,908,295	-
Other investment	7	-	-	152,125,000	-
Goodwill on consolidation	8	209,349,805	171,018,931	-	-
Concession expenditure	9	-	302,647,128	-	-
Concession income receivables	10	1,203,497,755	909,141,244	-	-
CURRENT ASSETS					
Property development cost	4	11,789,600	-	-	-
Inventories	11	-	15,980,397	-	-
Trade receivables	12	144,713,070	157,743,393	-	-
Other receivables	13	13,478,816	610,004	8,031,050	17,206
Tax recoverable		1,364,081	483,140	1,162,453	394,095
Amount due from corporate shareholder	14	-	1,300,629	-	-
Amount due from subsidiaries	15	-	-	1,284,315	964,968
Deposits, cash and bank balances	16	37,693,778	119,857,396	2,487	51,419
		209,039,345	295,974,959	10,480,305	1,427,688



## BALANCE SHEETS AS AT 31 DECEMBER 2004 (CONTINUED...)

		GROUP		COMPANY	
	NOTE	2004 RM	2003 RM	2004 RM	2003 RM
CURRENT LIABILITIES					
Short term borrowings	17	248,350,000	133,821,449	160,000,000	-
Trade payables	18	26,115,975	135,653,226	-	-
Other payables	18	33,419,182	75,795,025	3,574,631	2,379,261
Hire purchase payables	19	148,436	189,645	11,145	10,185
Amount due to corporate shareholder	14	2,038,588	-	-	-
Amount due to associate		2,000	-	2,000	-
Amount due to subsidiaries	15	-	-	2,355,325	-
Provision for taxation		743,743	1,077,683	-	-
		310,817,924	346,537,028	165,943,101	2,389,446
NET CURRENT LIABILITIES		(101,778,579)	(50,562,069)	(155,462,796)	(961,758)
		1,366,391,337	1,458,043,189	330,680,215	326,514,965
FINANCED BY:					
Share capital	20	223,508,536	223,508,536	223,508,536	223,508,536
Share premium		103,563,392	103,563,392	103,563,392	103,563,392
Reserve on consolidation		-	47,824,897	-	-
Retained profit/ (Accumulated losses)	20(a)	19,909,907	25,693,712	3,542,313	(634,082)
Shareholders' funds		346,981,835	400,590,537	330,614,241	326,437,846
Minority interests		88,479	-	-	-
		347,070,314	400,590,537	330,614,241	326,437,846
Long term borrowings	17	1,009,168,772	1,036,351,274	-	-
Deferred taxation	21	9,740,000	20,545,295	-	-
Hire purchase payables	19	412,251	556,083	65,974	77,119
Non-current liabilities		1,019,321,023	1,057,452,652	65,974	77,119
		1,366,391,337	1,458,043,189	330,680,215	326,514,965

The accompanying notes form an integral part of the financial statements.

INCOME STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2004

	NOTE	GROUP		COMPANY	
		2004 RM	2003 RM	2004 RM	2003 RM
Revenue	22	557,171,306	567,273,021	3,508,137	3,093,430
Cost of sales		(433,266,073)	(453,155,717)	-	-
Gross profit		123,905,233	114,117,304	3,508,137	3,093,430
Other operating income		3,432,421	836,012	47,259	-
Administrative expenses		(16,990,958)	(11,023,441)	(4,883,932)	(3,380,357)
Other operating expenses		(16,324,320)	(15,033,923)	(33,457)	(8,389)
(Loss)/gain on disposal of subsidiary	23	(735,552)	-	5,544,427	-
Profit/(loss) from operations	24	93,286,824	88,895,952	4,182,434	(295,316)
Finance costs	27	(96,818,871)	(75,536,330)	(6,039)	(1,660)
Share of result of associate		784,460	-	-	-
(Loss)/profit before taxation		(2,747,587)	13,359,622	4,176,395	(296,976)
Taxation:					
Company and subsidiaries		(2,705,189)	(8,325,368)	-	(147,266)
Associate		(242,550)	-	-	-
(Loss)/profit after taxation	28	(2,947,739)	(8,325,368)	-	(147,266)
Minority interests		(5,695,326)	5,034,254	4,176,395	(444,242)
Net (loss)/profit for the year		(88,479)	-	-	-
		(5,783,805)	5,034,254	4,176,395	(444,242)
Basic/diluted (loss)/earnings per share (sen)	29	(2.59)	2.25		

The accompanying notes form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2004

	← NON-DISTRIBUTABLE →			DISTRIBUTABLE	
	SHARE CAPITAL RM	SHARE PREMIUM RM	RESERVE ON CONSOLIDATION RM	RETAINED PROFIT RM	TOTAL RM
At 1 January 2003					
- As previously reported	223,508,536	103,563,392	47,824,897	9,065,988	383,962,813
- Prior year adjustment	-	-	-	11,593,470	11,593,470
As restated	223,508,536	103,563,392	47,824,897	20,659,458	395,556,283
Net profit for the year	-	-	-	5,034,254	5,034,254
At 31 December 2003	223,508,536	103,563,392	47,824,897	25,693,712	400,590,537
At 1 January 2004	223,508,536	103,563,392	47,824,897	25,693,712	400,590,537
Net loss for the year	-	-	-	(5,783,805)	(5,783,805)
Disposal of subsidiary (Note 5(b))	-	-	(47,824,897)	-	(47,824,897)
At 31 December 2004	223,508,536	103,563,392	-	19,909,907	346,981,835

COMPANY STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2004

	SHARE CAPITAL RM	SHARE PREMIUM RM	ACCUMULATED LOSSES RM	TOTAL RM
At 1 January 2003	223,508,536	103,563,392	(189,840)	326,882,088
Net loss for the year	-	-	(444,242)	(444,242)
At 31 December 2003	223,508,536	103,563,392	(634,082)	326,437,846
At 1 January 2004	223,508,536	103,563,392	(634,082)	326,437,846
Net profit for the year	-	-	4,176,395	4,176,395
At 31 December 2004	223,508,536	103,563,392	3,542,313	330,614,241

The accompanying notes form an integral part of the financial statements.



CASH FLOW STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2004

	GROUP		COMPANY	
CASH FLOWS FROM OPERATING ACTIVITIES	2004 RM	2003 RM	2004 RM	2003 RM
(Loss)/profit before taxation	(2,747,587)	13,359,622	4,176,395	(296,976)
Adjustments for:				
Depreciation	9,256,060	11,665,175	33,457	8,389
Interest expenses	96,818,871	75,536,330	6,039	1,660
Loss/(gain) on disposal of subsidiary	735,552	-	(5,544,427)	-
Gain on disposal of property, plant and equipment	-	(25,911)	-	-
Dividend income	-	-	(2,744,137)	(1,933,430)
Provision for doubtful debts	596,014	102,223	-	-
Write back of provision for doubtful debts	-	(32,427)	-	-
Amortisation of concession expenditure	316,377,422	359,683,441	-	-
Concession expenditure written-off	354,784	-	-	-
Interest income	(1,430,694)	(578,878)	(47,259)	-
Share of profits in associate	(784,460)	-	-	-
Amortisation of goodwill on consolidation	10,319,561	9,914,140	-	-
Operating profit/(loss) before working capital changes	429,495,523	469,623,715	(4,119,932)	(2,220,357)
Changes in working capital:				
Concession expenditure	(209,649,092)	(68,942,449)	-	-
Inventories	(14,706,127)	(6,202)	-	-
Receivables	(36,840,534)	(309,919,280)	(138,844)	41,044
Corporate shareholder	(2,021)	1,255,414	-	-
Payables	(235,451,344)	43,325,061	235,370	1,656,811
Associate	2,000	-	2,000	-
Subsidiaries	-	-	1,267,620	(3,422,682)
Cash (used in)/generated from operations	(67,151,595)	135,336,259	(2,753,786)	(3,945,184)

The accompanying notes form an integral part of the financial statements.

CASH FLOW STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2004 (CONTINUED....)

	GROUP		COMPANY	
	2004 RM	2003 RM	2004 RM	2003 RM
<b>CASH FLOWS FROM OPERATING ACTIVITIES (CONTINUED...)</b>				
Cash (used in)/generated from operations (contd.)	(67,151,595)	135,336,259	(2,753,786)	(3,945,184)
Interest paid	(315,293)	(1,019,517)	-	(1,660)
Income taxes paid	(498,366)	(193,363)	-	(1,568,079)
Net cash flow (used in)/ generated from operating activities	(67,965,254)	134,123,379	(2,753,786)	(5,514,923)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of property, plant and equipment	(902,567)	(13,485,511)	(70,318)	(35,781)
Land and development cost	(1,963,867)	-	-	-
Proceeds from disposal of property, plant and equipment	-	634,069	-	-
Interest received	1,430,694	1,906,425	47,259	-
Dividend received	-	-	2,744,137	5,600,280
Acquisition of subsidiary (Note 5(a))	419,560	-	-	-
Disposal of subsidiary (Note 5(b))	(8,717,694)	-	-	-
Net cash (used in)/generated from investing activities	(9,733,874)	(10,945,017)	2,721,078	5,564,499
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Drawdown of term loan	162,667,000	2,600,000	-	-
Redemption of Al-Bai Bithaman Ajjil Notes	(170,996,712)	-	-	-
Advance received	8,000,000	-	-	-
Repayment of borrowings	(3,449,736)	(120,646,186)	-	-

The accompanying notes form an integral part of the financial statements.

CASH FLOW STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2004 (CONTINUED...)

	GROUP		COMPANY	
	2004 RM	2003 RM	2004 RM	2003 RM
<b>CASH FLOWS FROM FINANCING ACTIVITIES (CONTINUED....)</b>				
Cash and bank balances and deposits pledged	-	(7,042,345)	-	-
Release of deposits pledged	71,601,251	-	-	-
Repayment of hire purchase	(185,042)	(220,530)	(16,224)	1,841
Net cash generated from/(used in) financing activities	67,636,761	(125,309,061)	(16,224)	1,841
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	(10,062,367)	(2,130,699)	(48,932)	51,417
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	10,279,608	12,410,307	51,419	2
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	217,241	10,279,608	2,487	51,419
<b>Cash and cash equivalents comprise the following:</b>				
Cash deposits placed with:				
- licensed banks	1,596,645	24,802,765	-	-
- financial institution	34,338,580	77,876,939	-	-
Cash and bank balances	1,758,553	17,177,692	2,487	51,419
Bank overdraft	-	(500,000)	-	-
	37,693,778	119,357,396	2,487	51,419
Less: Cash and bank balances and Deposits pledged	(37,476,537)	(109,077,788)	-	-
	217,241	10,279,608	2,487	51,419

The accompanying notes form an integral part of the financial statements.



**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2004****1. CORPORATE INFORMATION**

The Company's principal activities are investment holding and provision of general management support service. The principal activities of the subsidiaries are described in Note 5 to the financial statements.

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the Main Board of Bursa Malaysia Securities Berhad ("Bursa Malaysia"). The registered office of the Company is located at Level 2, B-59, Taman Sri Sarawak Mall, Jalan Tunku Abdul Rahman, 93100 Kuching, Sarawak. The principal place of business of the Company is located at Level 18, Wisma SunwayMas, No 1, Jalan Tengku Ampuan Zabedah C9/C, Section 9, 40100 Shah Alam, Selangor.

The number of employees in the Group and the Company at the end of the financial year were 78 (2003: 483) and 30 (2003: 24) respectively.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 28 April 2005.

**2. SIGNIFICANT ACCOUNTING POLICIES****(a) Basis of Preparation**

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

**(b) Basis of Consolidation****(i) Subsidiaries**

The consolidated financial statements include the financial statements of the Company and all its subsidiaries. Subsidiaries are those companies in which the Group has a long term equity interest and where it has the power to exercise control over the financial and operating policies so as to obtain benefits therefrom.

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

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

The gain or loss on disposal of a subsidiary is the difference between net disposal proceeds and the Group's share of its net assets, together with any unamortised balance of goodwill and exchange differences.

Minority interest in the consolidated balance sheet consist of the minorities' share of the fair value of the identifiable assets and liabilities of the acquiree as at acquisition date and the minorities' share of movements in the acquiree's equity since then.

**(ii) Associates**

Associates are those entities in which the Group exercise significant influence but not control, through participation in the financial and operating policy decisions of the entities.

Investments in associates are accounted for in the consolidated financial statements by the equity method of accounting based on the audited or management financial statements of the associates. Under the equity method of accounting, the Group's share of profits less losses of associates during the financial year is included in the consolidated income statement. The Group's interest in associates is carried in the consolidated balance sheet at cost plus the Group's share of post-acquisition profits or accumulated losses and other reserves.

Unrealised gains on transactions between the Group and the associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are eliminated unless cost cannot be recovered.

2.        **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED....)**

(c)        **Goodwill**

Goodwill represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

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

Goodwill is amortised on a straight-line basis over its estimated useful life of 20 years.

(d)        **Investments in Subsidiaries and Associates**

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

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

(e)        **Property, Plant and Equipment and Depreciation**

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(p).

Freehold land is not depreciated. Depreciation of other property, plant and equipment is provided for on a straight line basis to write off the cost of each asset to its residual value over the estimated useful life at the following annual rates:

	%
Factory buildings and warehouse	2
Commercial office space	2
Plant, machinery and equipment	7.5 - 10
Motor vehicles	20
Office equipment, furniture and fittings	10 - 20
Office renovation	10

Upon the 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.

(f)        **Land Held for Property Development and Property Development Costs**

(i)        **Land held for property development**

Land held for property development consist of land where no development activities have been carried out or where development activities are not expected to be completed within the normal operating cycle. Such land is classified within the non-current assets and is stated at cost less any accumulated impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(p)

Land held for property development is reclassified as property development costs at the point when development activities have commenced and where it can be demonstrated that the development can be completed within the normal operating cycle.

(ii)       **Property development costs**

Property development costs comprise all costs that are directly attributable to development activities or that can be allocated on a reasonable basis to such activities.

When the financial outcome of a development activity can be reliably estimated, property development revenue and expenses are recognised in the income statement by using the stage of completion method. The stage of completion is determined by the proportion that property development costs incurred for work performed to date bear to the estimated total property development costs.

2. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED...)**  
 (f) **Land Held for Property Development and Property Development Costs (CONTINUED...)**  
 (ii) **Property development costs (CONTINUED...)**

Where the financial outcome of a development activity cannot be reliably estimated, property development revenue is recognised only to the extent of property development costs incurred that is probable will be recoverable, and property development costs on properties sold are recognised as an expense in the period in which they are incurred.

Any expected losses on a development project, including costs to be incurred over the defects liability period, is recognised as an expense immediately.

Property development costs not recognised as an expense are recognised as an asset, which is measured at the lower of cost and net realisable value.

(g) **Concession Expenditure and Borrowing Costs**

Concession expenditure comprise costs incurred in relation to the construction of 10,000 units of teachers' quarters. Costs comprise direct building cost and related expenditure common to the whole project including interest incurred relating to financing of the expenditure.

Borrowing costs attributable to the construction of the quarters during the period when activities necessary to prepare the quarters for its intended use are in progress, are capitalised as a component of the cost of the concession expenditure. Such capitalisation ceases when the quarters are ready for its intended use.

(h) **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Cost of finished goods and work-in-progress includes direct materials, direct labour, other direct costs and appropriate production overheads. Net realisable value represents the estimated selling price less all costs to completion and costs to be incurred in marketing, selling and distribution.

(i) **Cash and Cash Equivalents**

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

(j) **Leases**

A lease is recognised as a finance lease if it transfers substantially to the Group all the risks and rewards incident to ownership. All other leases are classified as operating leases.

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

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

The depreciation policy for leased assets is consistent with that for depreciable property, plant and equipment as described in Note 2(e).

(k) **Provision for Liabilities**

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



## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED...)

### (l) Income Tax

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

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

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

### (m) Employee Benefits

#### (i) Short term benefits

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

#### (ii) Defined contribution plans

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

#### (iii) Equity compensation benefits

The Encorp Berhad Employee Share Option Scheme ("ESOS") allows the Groups' employees to acquire shares of the Company. No compensation cost of obligation is recognised. When the options are exercised, equity is increased by the amount of the proceeds received.

### (n) Revenue Recognition

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

#### (i) Sale of goods

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

#### (ii) Dividend Income

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

#### (iii) Sales of properties

Revenue relating to sales of properties is accounted for by the stage of completion method as described in Note 2(f).

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED...)

## (n) Revenue Recognition (continued...)

## (iv) Concession income

Concession income is recognised when the significant risks and rewards of ownership has passed upon the completion and handover of each unit of the teachers' quarters to the Government.

Pursuant to the Privatisation Agreement, the concession income is payable by the Government from the completion and handover of each cluster of the teachers' quarters up to the end of the concession period ("the residual concession period"). Accordingly, the Company is compensated in the form of interest as a result of the extended repayment period. Interest income is earned over the residual concession period as described in Note 2(m)(v).

## (v) Interest income

Interest income from the concession is recognised on an accrual basis using the sum-of-digits method.

All other interest income is recognised in the income statement on an accrual basis.

## (vi) Management fee

Management fee is recognised as and when the services are performed.

## (o) Foreign Currencies

Transactions in foreign currencies are initially recorded in Ringgit Malaysia at rates of exchange ruling at the date of the transaction. At each balance sheet date, foreign currency monetary items are translated into Ringgit Malaysia at exchange rates ruling at that date. Non-monetary items initially denominated in foreign currencies, which are carried at historical cost are translated using the historical rate as of the date of acquisition and non-monetary items which are carried at fair value are translated using the exchange rate that existed when the values were determined.

All exchange rate differences are taken to the income statement.

The principal closing rates used for every unit of foreign currency ruling at the balance sheet date used are as follows:

	2004 RM	2003 RM
1 US Dollar	3.80	3.80
1 Singapore Dollar	2.33	2.23
1 Brunei Dollar	2.33	2.23
100 Thai Baht	9.76	9.59

## (p) Impairment of Assets

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED...)

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

#### (i) Other non-current investment

Non-current investments other than investment in subsidiaries, associates and investment properties are stated at cost less impairment losses. On disposal of an investment, the difference between the net disposal proceeds and its carrying amount is recognised in the income statement.

#### (ii) Trade and Other Receivables

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

#### (iii) Concession Income Receivable

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

#### (iv) Trade and Other Payables

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

#### (v) Equity Instruments

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

The transaction costs of an equity transaction, are accounted for as a deduction from equity, net of tax. Equity transaction costs comprise only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided.

#### (vi) Borrowings

Al-Bai Bithaman Ajil Notes and interest bearing bank loans are recorded at the amount of proceeds received, net of transaction costs.

Borrowing costs directly attributable to the acquisition and construction of development properties and property, plant and equipment are capitalised as part of the cost of those assets in accordance with Note 2(f).

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



## 3. PROPERTY, PLANT AND EQUIPMENT

GROUP	Freehold land RM	Factory buildings and warehouse RM	Commercial office space RM	Plant machinery and equipment RM	Motor vehicles RM	Office equipment, furniture and fittings RM	Office renovation RM	Total RM
<b>Cost</b>								
At 1 January 2004	9,260,070	41,093,594	3,756,750	127,605,854	6,540,317	6,988,374	2,421,449	197,666,408
Acquisition of subsidiary (Note 5(a))	-	-	-	-	-	159,537	400	159,937
Additions	-	57,903	550,000	78,550	-	213,314	2,800	902,567
Disposal of subsidiary (Note 5(b))	(9,260,070)	(41,151,497)	(550,000)	(127,684,404)	(4,735,935)	(5,886,202)	-	(189,268,108)
At 31 December 2004	-	-	3,756,750	-	1,804,382	1,475,023	2,424,649	9,460,804
<b>Accumulated Depreciation</b>								
At 1 January 2004	-	4,109,365	281,756	56,432,016	5,014,579	5,282,605	748,132	71,868,453
Charge for the year (Note 24)	-	685,258	76,052	7,176,104	647,880	428,440	242,326	9,256,060
Disposal of subsidiary (Note 5(b))	-	(4,794,623)	(917)	(63,608,120)	(4,261,317)	(5,128,410)	-	(77,793,387)
At 31 December 2004	-	-	356,891	-	1,401,142	582,635	990,458	3,331,126
<b>Net Book Value</b>								
At 31 December 2004	-	-	3,399,859	-	403,240	892,388	1,434,191	6,129,678
At 31 December 2003	9,260,070	36,984,229	3,474,994	71,173,838	1,525,738	1,705,769	1,673,317	125,797,955
<b>Details at 1 January 2003</b>								
Cost	9,260,070	40,919,955	3,756,750	116,256,953	6,444,808	6,847,920	2,421,449	185,907,905
Accumulated depreciation	-	3,288,494	206,621	47,681,934	4,253,233	4,385,665	505,986	60,321,933
Depreciation charged for year 2003 (Note 24)	-	820,871	75,135	8,867,693	761,346	897,984	242,146	11,665,175

Net book value of property, plant and equipment under hire purchase and finance lease instalment amounted to RM228,652 (2003: RM863,725).

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

COMPANY	Motor vehicles RM	Office equipment RM	Total 2004 RM
<b>Cost</b>			
At 1 January 2004	95,509	25,735	121,244
Additions	-	70,318	70,318
At 31 December 2004	95,509	96,053	191,562
<b>Accumulated Depreciation</b>			
At 1 January 2004	6,367	2,022	8,389
Charge for the year (Note 24)	19,102	14,355	33,457
At 31 December 2004	25,469	16,377	41,846
<b>Net Book Value</b>			
At 31 December 2004	70,040	79,676	149,716
At 31 December 2003	89,142	23,713	112,855
<b>Details at 1 January 2003</b>			
Cost	-	-	-
Accumulated depreciation	-	-	-
<b>Depreciation charged for 2003 (Note 24)</b>	6,367	2,022	8,389

Net book value of property, plant and equipment under hire purchase arrangement amounted to RM70,040 (2003: RM89,142).

## 4. LAND AND DEVELOPMENT EXPENDITURE

Land and development expenditure consist of land held for property development and property development costs of a newly acquired subsidiary, Must Ehsan Development Sdn. Bhd.

	GROUP 2004 RM
<b>(a) Land Held for Property Development</b>	
On acquisition of subsidiary (Note 5(a))	6,435,547
Additions	5,094,000
Disposal	(4,845,000)
At 31 December	<u>6,684,547</u>
<b>(b) Property Development Cost</b>	
On acquisition of subsidiary (Note 5(a))	10,074,733
Cost incurred during the year	1,714,867
At 31 December	<u>11,789,600</u>

## 5. INVESTMENT IN SUBSIDIARIES

	COMPANY	
	2004 RM	2003 RM
Unquoted shares, at cost		
At 1 January	327,363,868	330,004,000
Add: Acquisition during the year	45,960,000	-
Less: Pre-acquisition dividend received	-	(2,640,132)
	<u>373,323,868</u>	<u>327,363,868</u>
Less: Disposal during the year	(77,363,868)	-
At 31 December	<u>295,960,000</u>	<u>327,363,868</u>

The current year investments in unquoted shares relate to Enfari Properties Sdn. Bhd. (formerly known as Enfari Sdn. Bhd.) and a newly acquired subsidiary, Encorp Must Sdn. Bhd. During the year, 51% of 100% equity interest in Great Wall Plastic Industries Berhad was disposed as further disclosed in Note 5(b) to the financial statements.



## 5. INVESTMENT IN SUBSIDIARIES (CONTINUED...)

Details of the subsidiaries are as follows:

Name of Subsidiaries	Country of Incorporation	Equity Interest Held (%)		Principal activities
		2004	2003	
Enfari Properties Sdn. Bhd. (formerly known as Enfari Sdn. Bhd.)	Malaysia	100	100	Investment holding
Encorp Must Sdn. Bhd.	Malaysia	100	-	Investment holding and property project management
Subsidiary companies of Enfari Properties Sdn. Bhd.				Concessionaire to build and transfer teachers' quarters to the Government of Malaysia
Encorp Systembilt Sdn. Bhd.	Malaysia	100	100	
Encorp Construct Sdn. Bhd.	Malaysia	100	100	Property construction
Subsidiary company of Encorp Must Sdn. Bhd.				
Must Ehsan Development Sdn. Bhd.	Malaysia	70	-	Property development.
Subsidiary company of Encorp Construct Sdn. Bhd.				
Encorp-L & M Precast Sdn. Bhd.	Malaysia	55	55	General contracting

## 5. INVESTMENT IN SUBSIDIARIES (CONTINUED...)

## (a) Acquisition of Subsidiary

On 28 October 2004, the Group acquired 100% equity interest in Encorp Must Sdn. Bhd. (EMSB) together with its subsidiary, Must Ehsan Development Sdn. Bhd. (MEDSB), for a total consideration of RM45,960,000 consisting of cash of RM960,000 and the remaining RM45,000,000 to be paid by Megastart Sdn. Bhd., a related party, pursuant to the disposal of a subsidiary, Great Wall Plastic Industries Bhd.

The acquisition had the following effect on the Group's financial result for the year:

	2004 RM
Revenue	-
Loss from operations	(3,607,690)
Net loss for the year	<u>(1,766,170)</u>

The acquisition had the following effect on the financial position of the Group as at the end of the year:

	2004 RM
Property, plant and equipment	156,871
Land and development expenditure	18,474,147
Goodwill on consolidation (Note 8)	48,650,435
Other receivables	3,561,211
Cash and bank balances	400,651
Trade other payables	(11,622,352)
Amount due to corporate shareholder	(3,341,238)
Provision for taxation	(2,585)
Borrowings	(9,700,000)
Deferred tax liabilities	(10,000)
Minority interest	(88,479)
Group share of net assets	<u>46,478,661</u>

5. INVESTMENT IN SUBSIDIARIES (CONTINUED...)  
(a) Acquisition of Subsidiary (CONTINUED...)

The fair values of the assets acquired and liabilities assumed from the acquisition of the subsidiary were as follows:

	EMSB 28.10.2004 RM	MEDSB 28.10.2004 RM	Total 28.10.2004 RM
Property, plant and equipment (Note 3)	-	159,937	159,937
Land and development expenditure (Note 4)	-	16,510,280	16,510,280
Deferred tax assets (Note 21)	-	195,000	195,000
Other receivables	8,076,738	1,861,911	9,938,649
Cash and bank balances	32,192	387,368	419,560
Trade and other payables	(8,959,095)	(17,613,528)	(26,572,623)
Amount due to corporate shareholder	(3,795)	(3,337,443)	(3,341,238)
Fair value of the total net assets	(853,960)	(1,836,475)	(2,690,435)
Goodwill on acquisition			48,650,435
Cost of acquisition			45,960,000
Purchase consideration satisfied by:			
Amount owing to Encorp Group Sdn. Bhd., a related party			960,000
Pursuant to disposal of subsidiary (Note 5(b))			45,000,000
Total purchase consideration			45,960,000
Cost attributable to the acquisition, paid in cash			-
Total cost of acquisition			45,960,000
Cash outflow arising on acquisition:			
Purchase consideration satisfied by cash			-
Cost attributable to the acquisition, paid in cash			-
Total cash outflow of the company			-
Cash and cash equivalent of subsidiaries acquired			419,560
Net cash inflow of the Group			419,560

There were no acquisitions in the financial year ended 31 December 2003.



## 5. INVESTMENT IN SUBSIDIARIES (CONTINUED...)

## (b) Disposal of Subsidiary

On 28 October 2004, the Group disposed of 51% of its 100% equity interest in Great Wall Plastic Industries Bhd. (GWPI) for a total consideration of RM45,000,000. As a result, the Group's equity interest in GWPI was reduced to 49%, which made it an associate.

The disposal had the following effect on the Group's financial result for the year:

	2004 RM
Revenue	136,347,065
Profit from operations	9,433,675
Net profit for the year	<u>8,045,050</u>

The disposal had the following effect on the financial position of the Group as at the end of the year:

	2004 RM
Property, plant and equipment (Note 3)	111,474,721
Inventories	30,686,524
Trade and other receivables	42,372,827
Cash and bank balances	8,717,694
Trade and other payables	(34,635,485)
Provision for taxation	(409,832)
Borrowings	(7,167,000)
Deferred tax liabilities (Note 21)	(13,537,000)
Reserve on consolidation	<u>(47,824,897)</u>
Net assets and reserve on consolidation	89,677,552
51% of equity interest disposed:	
Share of net assets and reserve on consolidation disposed	45,735,552
Total disposal proceeds	<u>45,000,000</u>
Loss to the Group on disposal	<u>735,552</u>

Disposal proceeds was settled through payment made by Megastart Sdn. Bhd. to Encorp Group Sdn. Bhd., of which both are related parties to the Group, pursuant to the acquisition of subsidiary as disclosed in Note 5(a).

5. INVESTMENT IN SUBSIDIARIES (CONTINUED...)  
(b) Disposal of Subsidiary (CONTINUED...)

2004  
RM

Cash inflow arising on disposals:	
Cash consideration, representing cash inflow of the Company	-
Cash and cash equivalents of subsidiary disposed	(8,717,694)
Net cash outflow of the Group	<u>(8,717,694)</u>

The disposal of the subsidiary had the following effects on the financial results of the Company:

2004  
RM

Total disposal proceeds	45,000,000
Less: Share of 51% of cost of investment in subsidiaries	<u>(39,455,573)</u>
Gain on disposal of subsidiary	<u>5,544,427</u>

6. INVESTMENT IN ASSOCIATE

	GROUP		COMPANY	
	2004 RM	2003 RM	2004 RM	2004 RM
Unquoted shares, at cost	37,908,295	-	37,908,295	-
Share of post acquisition reserves	4,599,836	-	-	-
	<u>42,508,131</u>	<u>-</u>	<u>37,908,295</u>	<u>-</u>

The Group's interest in the associate is analysed as:

	2004 RM	2003 RM
Share of net assets	<u>42,508,131</u>	-
Share of capital commitments (Note 30)	<u>4,764,662</u>	-

## 6. INVESTMENT IN ASSOCIATE (CONTINUED...)

Details of the associate are as follows:

Name of Associate	Country of Incorporation	Equity Interest Held (%)		Principal
		2004	2003	
Great Wall Plastic Industries Bhd.	Malaysia	49	100	Manufacturing and marketing of plastic film packaging products

During the financial year, the Group disposed 51% of its 100% equity interest in Great Wall Plastic Industries Bhd. (GWPI), which made GWPI an associate.

## 7. OTHER INVESTMENT

	COMPANY	
	2004 RM	2003 RM
ESSB BAIDS	<u>152,125,000</u>	<u>-</u>

The ESSB BAIDS was issued to Encorp Berhad ("Encorp" or "the Company") by its wholly owned subsidiary, Encorp Systembilt Sdn Bhd ("ESSB") under its financing exercise, which was via the issuance of up to RM683.3 million nominal value Bai Bithaman Ajjil Notes ("ESSB BAIDS Issue").

The ESSB BAIDS Issue is over a tenure of 22 years from the date of issuance, 30 December 2004. The profit rate for the ESSB BAIDS will be 0% per annum from the date of issuance and 8.0% per annum from Year 15 onwards until maturity. The ESSB BAIDS Issue is not listed on Bursa Malaysia.

The ESSB BAIDS Issue was subscribed by Encorp and the subscription was funded via, inter-alia, a bridging loan facility from United Overseas Bank (Malaysia) Bhd. The collateral for this facility is via a charge over the ESSB BAIDS Issue.

The first series of the ESSB BAIDS with a nominal value of RM625 million had raised net proceeds of RM152 million to ESSB, which were mainly used to settle the amounts owing to its creditors for the design, construction and completion costs of 10,000 units of teachers quarters for the Government of Malaysia.

## 8. GOODWILL ON CONSOLIDATION

	GROUP	
	2004 RM	2003 RM
At 1 January	171,018,931	180,933,071
Acquisition of subsidiary (Note 5(a))	<u>48,650,435</u>	<u>-</u>
	219,669,366	180,933,071
Less: Amounts recognised in income statement	<u>(10,319,561)</u>	<u>(9,914,140)</u>
At 31 December	<u>209,349,805</u>	<u>171,018,931</u>

The goodwill is amortised through the income statement over a period not exceeding 20 years (2003: 20 years).



# 9. CONCESSION EXPENDITURE

	GROUP	
	2004 RM	2003 RM
Concession expenditure	1,453,489,608	1,430,105,839
Less: Accumulated amounts charged out	(1,453,489,608)	(1,127,458,711)
	<u>-</u>	<u>302,647,128</u>
Included in concession expenditure incurred during the year are:		
Accretion in value of Al-Bai Bithaman Ajil Notes	2,422,580	16,534,448
Staff costs (Note a)	92,818	1,899,289
Rental of office equipment	700	7,700
Directors' remuneration and allowances *		
- the Company	16,352	190,132
- a subsidiary company	-	470,400
Interest income from fixed deposit	(146,841)	(1,342,017)

\* Included in Directors' remuneration and allowances capitalised are Directors' salaries, pension costs-defined contribution plans and rental of motor vehicles of RM nil (2003: RM540,000), RM nil (2003: RM64,800) and RM nil (2003: RM55,732) respectively.

	GROUP	
	2004 RM	2003 RM
(a) Wages and salaries	-	1,680,498
Social security costs	-	14,024
Pension cost - defined contribution plans	-	204,767
	<u>-</u>	<u>1,899,289</u>

Included in the concession expenditure charged out in 2004 is an amount of RM 275,227,418 being costs incurred on works which have been claimed but are pending the approval of the Government.

Although the construction of teachers' quarters have been completed, the Group still has several outstanding contractual claims on this project which are at various stages of negotiation concerning the value of claims based on circumstances envisaged in the original contracts but which are pending approval by the Government.

The Directors have also reviewed this matter in detail, having regard to all known factors of this time in determining the operating profit for the year ended 31 December 2004 and are of the opinion that the amount recognised in concession expenditure is reasonable.

## 10. CONCESSION INCOME RECEIVABLES

	GROUP	
	2004 RM	2003 RM
Concession income receivables accrued:		
- Within 1 year	144,713,070	133,651,499
- More than 1 year and less than 2 years	118,261,176	114,375,216
- More than 2 years and less than 5 years	354,783,528	343,125,648
- More than 5 years	2,528,573,845	2,349,480,715
	<u>3,146,331,619</u>	<u>2,940,633,078</u>
Unearned interest income	(1,673,120,794)	(1,776,840,335)
	<u>1,473,210,825</u>	<u>1,163,792,743</u>
Initial concession payment recognised (Note 18)	(125,000,000)	(121,000,000)
	<u>1,348,210,825</u>	<u>1,042,792,743</u>
Receivable within one year (Note 12)	144,713,070	133,651,499
Receivable after one year	<u>1,203,497,755</u>	<u>909,141,244</u>
	<u>1,348,210,825</u>	<u>1,042,792,743</u>

The Government of Malaysia ("the Government") and the Company entered into a Concession Agreement ("the Agreement") dated 9 February 1998 in connection with the design, construction and completion of 10,000 units of teachers' quarters, constructed over 109 land sites.

The Agreement recognises that the amount billed shall be based on a measurement of works on site. As of today the Government has only verified and approved the Final Account for 1 site (36 units). For the remaining 108 sites, the Government has based their concession payments on the preliminary cost estimates of each site.

Also as a result of delays mainly in providing the land by the Government for the commencement of the project, the company has made a claim for the extension of time.

The Group has recognised RM274,872,670 (2003: nil) as concession income and as concession income receivable respectively during the financial year ended 31 December 2004. The income recognized represents the total claim in relation to the extension of time and the additional works in the Final Accounts. Both these claims are in line with the provisions of the Agreement.

The Government is currently in the process of verifying the Final Accounts of the remaining sites and also the claim for the extension of time. The final outcome of the verification and approval exercises may result in potential adjustment if, any to both the quantum and timing of settlement of the quantum.

The Directors have reviewed this matter in detail and having considered all available known facts and information available as at 31 December 2004, are of the opinion that it is probable the amounts recognised in concession income and concession income receivables will be recoverable.

The Company's normal trade credit term is 21 (2003: 21) days.

As at balance sheet date, the entire concession income receivables are due from the Government.

# 11. INVENTORIES

## GROUP

	2004 RM	2003 RM
At cost:-		
Consumable stores	-	1,139,577
Raw materials	-	11,103,090
Work-in-progress	-	1,339,897
Finished goods	-	2,397,833
	-	15,980,397

# 12. TRADE RECEIVABLES

## GROUP

	2004 RM	2003 RM
Trade receivables	-	24,289,139
Less: Provision for doubtful debts	-	(197,245)
	144,713,070	24,091,894
Concession income receivables within one year (Note 10)	144,713,070	133,651,499
	144,713,070	157,743,393

Save and except for concession income receivable from the Government of Malaysia, the Group has no significant concentration of credit risk that may arise from exposures to a single debtor or to groups of debtors.

# 13. OTHER RECEIVABLES

## GROUP

## COMPANY

	2004 RM	2003 RM	2004 RM	2003 RM
Sundry receivables	2,443,460	345,083	113,633	-
Prepayments	1,854,061	185,370	34,492	11,216
Deposits	1,902,309	79,551	7,925	5,990
Debts service reserve account	7,875,000	-	7,875,000	-
	14,074,830	610,004	8,031,050	17,206
Less: Provision for doubtful debts	(596,014)	-	-	-
	13,478,816	610,004	8,031,050	17,206

Included in sundry receivables of the Group are:

- an amount of RM580,153 (2003: RM170,139) due from affiliated companies. Affiliated companies comprise companies related to Directors, Dato<sup>\*</sup> Mohamad Nor bin Mohamad, Efeida binti Mohd Effendi and Mohd Ezra Effendi bin Mohd Effendi Norwawi, by virtue of them being Directors and/or shareholders of the companies; and
- an amount due from PKNS of RM1,698,000 arising from disposal of a portion of land of a subsidiary.

The Group has no significant concentration of credit risk that may arise from exposures to a single debtor or to groups of debtors.



**14. AMOUNT DUE FROM/(TO) CORPORATE SHAREHOLDER**

The amount due from/(to) corporate shareholder, Lavista Sdn Bhd, is unsecured, interest free and has no fixed terms of repayment.

**15. AMOUNT DUE FROM/(TO) SUBSIDIARIES**

The amounts due from/(to) subsidiaries are unsecured, interest free and have no fixed terms of repayment.

**16. DEPOSITS, CASH AND BANK BALANCES**

	GROUP		COMPANY	
	2004 RM	2003 RM	2004 RM	2003 RM
Cash deposits placed with:				
- licensed banks (a)	1,596,645	24,802,765	-	-
- financial institution (b)	34,338,580	77,876,939	-	-
Cash and bank balances (c)	1,758,553	17,177,692	2,487	51,419
	<u>37,693,778</u>	<u>119,857,396</u>	<u>2,487</u>	<u>51,419</u>

(a) The deposits with licensed bank includes:

- (i) Deposits of RM1,396,645 (2003: RM363,736) on lien for a bank guarantee granted to the Government and performance bonds;
- (ii) Deposits of RM nil (2003: RM21,439,029) placed in an escrow account pursuant to a credit facility granted to an affiliated company; and
- (iii) Deposits of RM200,000 (2003: RM nil) pledged to bank for credit facilities granted to a subsidiary company, Must Ehsan Development Sdn. Bhd.

(b) The deposit of RM34,338,580 (2003: RM77,876,939) is held by the financial institution in trust for the holders of the Al-Bai Bithaman Ajil Notes.

(c) Included in the cash and bank balances of the Group are the following:

- (i) an amount of RM1,382,440 (2003: RM9,398,084) held by the financial institution in trust for the holders of the Al-Bai Bithaman Ajil Notes; and
- (ii) an amount of RM158,872 (2003: RM nil) held pursuant to Section 7A of the Housing and Development (Control & Licensing) Act 1966 and therefore restricted from use for other operations.

The weighted average effective interest rates during the financial period and the average maturities of deposits as at 31 December 2004 were as follows:

	GROUP	
	Weighted Average Interest Rates %	Average Maturities Days
Licensed banks	2.98	50
Financial institution	<u>2.76</u>	<u>47</u>

# 17. BORROWINGS

		GROUP		COMPANY	
		2004 RM	2003 RM	2004 RM	2003 RM
<b>Short Term Borrowings</b>					
<b>Secured</b>					
Al-Bai Bithaman Ajil					
Notes payable		88,350,000	129,696,713	-	-
Bank term loans		160,000,000	3,624,736	160,000,000	-
Bank overdraft		-	500,000	-	-
		<u>248,350,000</u>	<u>133,821,449</u>	<u>160,000,000</u>	<u>-</u>
<b>Long Term Borrowings</b>					
<b>Secured</b>					
Al-Bai Bithaman Ajil					
Notes payable		1,001,168,772	1,032,026,274	-	-
Bank term loans		-	4,325,000	-	-
Advance		8,000,000	-	-	-
		<u>1,009,168,772</u>	<u>1,036,351,274</u>	<u>-</u>	<u>-</u>
<b>Total Borrowings</b>					
		GROUP		COMPANY	
		2004 RM	2003 RM	2004 RM	2003 RM
<b>Secured</b>					
(a) Al-Bai Bithaman Ajil					
Notes are payable:					
- within one year		88,350,000	129,696,713	-	-
- more than one year and less than two years		129,650,003	129,650,000	-	-
- more than two years and less than five years		414,860,411	416,510,414	-	-
- more than five years		1,370,736,203	1,498,736,201	-	-
		<u>2,003,596,617</u>	<u>2,174,593,328</u>	-	-
Less: Finance charges		(914,077,845)	(1,012,870,341)	-	-
		<u>1,089,518,772</u>	<u>1,161,722,987</u>	-	-
(b) Bank term loans are payable:					
- within one year		160,000,000	3,624,736	160,000,000	-
- more than one year and less than five years		-	4,325,000	-	-
(c) Bank overdraft		-	500,000	-	-
(d) Advance		8,000,000	-	-	-
		<u>1,257,518,772</u>	<u>1,170,172,723</u>	<u>160,000,000</u>	<u>-</u>
<b>Analysed as follows:</b>					
Due within one year		88,350,000	133,821,449	160,000,000	-
Due after one year		1,169,168,772	1,036,351,274	-	-
		<u>1,257,518,772</u>	<u>1,170,172,723</u>	<u>160,000,000</u>	<u>-</u>

## 17. BORROWINGS (CONTINUED...)

- (a) The secured Al-Bai Bithaman Ajil Notes ('Notes') were issued by a subsidiary company to finance the planning, design, construction and completion costs of 10,000 units of teachers' quarters for the Government of Malaysia. The Notes were undertaken in four tranches as follows:

- (i) RM1.3216 billion Notes 2002/2018 were issued in the year 2000, maturing on 3 January 2018 and are repayable by 32 semi-annual instalments commencing on 3 July 2002;
- (ii) RM510 million Notes 2002/2018 were issued in the year 2000, maturing on 15 September 2018 and are repayable by 34 semi-annual instalments commencing on 15 March 2002; and
- (iii) RM250 million Primary Notes 2007/2028 and RM276.893 million Secondary Notes 2007/2028 issued in the year 2002 with the following maturity and redemption dates:

Maturity Dates	Face Value of Primary Notes	Aggregate Face Value of Secondary Notes
29 May 2007	30,000,000	5,772,740
29 May 2012	30,000,000	15,307,397
29 May 2017	30,000,000	26,338,356
29 May 2022	70,000,000	80,891,615
29 May 2028	90,000,000	148,583,220

The Primary Notes due on 29 May 2007, 29 May 2012 and 29 May 2017 are redeemable in full on the above maturity dates. The Primary Notes due on 29 May 2022 are redeemable in 5 equal yearly instalments commencing on 29 May 2018, and those due on 29 May 2028 are redeemable in 6 equal yearly instalments commencing on 29 May 2023.

The Secondary Notes are repayable by 49 semi-annual instalments commencing on 29 May 2004.

- (iv) RM625 million Primary Notes 2004/2026 and RM252.5 million Secondary Notes 2004/2026 issued in the year 2004 with the following maturity and redemption dates:

Maturity Dates	Face Value of Primary Notes	Aggregate Face Value of Secondary Notes
31 December 2019	62,500,000	50,000,000
31 December 2020	62,500,000	45,000,000
31 December 2021	62,500,000	40,000,000
31 December 2022	62,500,000	35,000,000
31 December 2023	62,500,000	30,000,000
31 December 2024	93,750,000	25,000,000
31 December 2025	93,750,000	17,500,000
31 December 2026	125,000,000	10,000,000

The Primary Notes are redeemable in full on the above maturity dates.

The Secondary Notes are repayable by 16 semi-annual instalments commencing on 30 June 2019.

All Notes in the fourth tranche were issued to the holding company, Encorp Berhad during the year via Notes Series 1 of ESSB BAIDS at an issue price of RM152.125 million as disclosed in Note 7 and thus disclosed as related party transactions in Note 31.



## 17. BORROWINGS (CONTINUED...)

All Notes are secured by the assignment of the contract Concession Payments and the Project Escrow Account, and a negative pledge on all assets of a subsidiary company.

- (b) The term loan of RM160 million, which bears an interest rate at 4.60% per annum, is secured against ESSB BAIDS as disclosed in Note 7. The other secured bank term loans had been fully settled during the year.
- (c) The bank overdraft had been fully settled during the year.
- (d) The advance is received by a subsidiary from its contractor in respect of a turnkey development project. The advance does not attract interest and is not payable within the next 12 months.

## 18. PAYABLES

- (i) Trade payables

The normal credit term granted to the Group is 21 days.

- (ii) Other payables

	GROUP		COMPANY	
	2004 RM	2003 RM	2004 RM	2003 RM
Initial concession payment received in advance (a)	-	4,000,000	-	-
Advance payment (b)	12,635,000	28,000,000	-	-
Sundry payables (c)	6,123,949	5,258,561	3,041,253	1,572,742
Provision for defect liability	550,000	3,449,300	-	-
Amount due to a related party (d)	15,000	929,974	-	300,000
Provision for employee benefits	137,536	178,283	96,374	110,123
Accruals	12,257,697	33,978,907	437,004	396,396
Interest accrual (e)	1,700,000	-	-	-
	<u>33,419,182</u>	<u>75,795,025</u>	<u>3,574,631</u>	<u>2,379,261</u>

- (a) The initial concession payment received from the Government of Malaysia is in connection with the construction of 10,000 units of teachers' quarters. These payments will be recognised in the income statement upon the completion and handover of each unit of the teachers' quarters to the Government of Malaysia. The initial concession payment account is as follows:

	GROUP	
	2004 RM	2003 RM
Initial concession payment received	125,000,000	125,000,000
Less: Total revenue recognised to date (Note 10)	(125,000,000)	(121,000,000)
	<u>-</u>	<u>4,000,000</u>

The amounts are unsecured, interest free and have no fixed terms of repayment.

## 18. PAYABLES (CONTINUED...)

- (b) Advance payment is in respect of amount received from Government for the above mentioned concession. The payment received will be utilised for the settlement of concession income receivables, subject to agreement with Government of Malaysia.
- (c) Included in sundry payables of the Group and the Company are amounts due to affiliated companies, amounting to RM2,543,634 (2003: RM2,281,125) and RM2,478,641 (2003: RM1,123,922) respectively.
- (d) Amount due to a related party represents amount owing to a person connected to the Directors of the Company.
- (e) The accrual of interest relates to interest charged on a subsidiary, Encorp Must Sdn. Bhd. by the joint venture partner, for extension of time granted to fulfill the terms of the joint venture agreement in relation to the subscription of shares.

## 19. HIRE PURCHASE PAYABLES

	GROUP		COMPANY	
	2004 RM	2003 RM	2004 RM	2003 RM
<b>Minimum lease payments:</b>				
Not later than 1 year	188,845	244,519	16,224	16,224
Later than 1 year and not later than 2 years	394,813	188,844	16,224	16,224
Later than 2 years and not later than 5 years	48,672	427,261	48,672	48,672
Later than 5 years	12,097	28,322	12,097	28,322
	644,427	888,946	93,217	109,442
Less: Finance charges	(83,740)	(143,218)	(16,098)	(22,138)
Present value of finance lease liabilities	560,687	745,728	77,119	87,304
<b>Lease liabilities:</b>				
Not later than 1 year	148,436	189,645	11,145	10,185
Later than 1 year and not later than 2 years	358,381	143,802	12,104	11,145
Later than 2 years and not later than 5 years	42,073	385,500	42,073	39,193
Later than 5 years	11,797	26,781	11,797	26,781
	560,687	745,728	77,119	87,304
<b>Analysed as:</b>				
Due within 12 months	148,436	189,645	11,145	10,185
Due after 12 months	412,251	556,083	65,974	77,119
	560,687	745,728	77,119	87,304

The hire purchase and lease payables bear interest ranging from 3.65% to 5.15% (2003: 3.65% to 5.15%) per annum.

## 20. SHARE CAPITAL

	Number of Ordinary Shares of RM1 Each		Amount	
	2004	2003	2004 RM	2003 RM
Authorised:				
At 1 January/ 31 December	300,000,000	300,000,000	300,000,000	300,000,000
Issued and fully paid:				
At 1 January/ 31 December	223,508,536	223,508,536	223,508,536	223,508,536

## 20.(a) RETAINED PROFITS

As at 31 December 2004, the Company has sufficient tax credit under Section 108 of the Income Tax Act 1967 to frank the payment of dividends amounting to RM452,656 (2003: RM452,656) out of its retained profits. If the balance of the retained profits of RM3,422,313 were to be distributed as dividends prior to there being sufficient tax credit, the Company would have a Section 108 shortfall of approximately RM1,154,867.

## 21. DEFERRED TAXATION

	GROUP		COMPANY	
	2004 RM	2003 RM	2004 RM	2003 RM
At 1 January	20,545,295	12,932,145	-	-
Acquisition of subsidiary (Note 5(a))	(195,000)	-	-	-
Transfer from/(to) income statement (Note 28)	2,926,705	7,613,150	-	-
Disposal of subsidiary (Note 5(b))	(13,537,000)	-	-	-
At 31 December	9,740,000	20,545,295	-	-
Presented after appropriate offsetting as follows:				
Deferred tax assets	(392,287,147)	(396,143,200)	(31,461)	(3,251)
Deferred tax liabilities	402,027,147	416,688,495	31,461	3,251
	9,740,000	20,545,295	-	-

The components and movements of deferred tax liabilities and assets during the financial year prior to offsetting are as follows:

## 21. DEFERRED TAXATION (CONTINUED...)

## Deferred Tax Liabilities of the Group:

	Concession Expenditure RM	Progress Billings RM	Accelerated Capital Allowances RM	Total RM
At 1 January 2004	84,889,147	318,630,000	13,169,348	416,688,495
Acquisition of subsidiary	-	-	(61,853)	(61,853)
Recognised in the income statement	(84,766,000)	83,248,000	592,705	(925,295)
Disposal of subsidiary	-	-	(13,674,200)	(13,674,200)
At 31 December 2004	123,147	401,878,000	26,000	402,027,147
At 1 January 2003	163,911,924	221,615,000	11,772,081	397,299,005
Recognised in the income statement	(79,022,777)	97,015,000	1,397,267	19,389,490
At 31 December 2003	84,889,147	318,630,000	13,169,348	416,688,495

## Deferred Tax Assets of the Group:

	Tax Losses and Unabsorbed Capital Allowances RM
At 1 January 2004	(396,143,200)
Acquisition of subsidiary	(133,147)
Recognised in the income statement	3,852,000
Disposal of subsidiary	137,200
At 31 December 2004	(392,287,147)
At 1 January 2003	(384,366,860)
Recognised in the income statement	(11,776,340)
At 31 December 2003	(396,143,200)

## Deferred Tax Liabilities of the Company:

	Accelerated Capital Allowances RM
At 1 January 2004	3,251
Recognised in the income statement	28,210
At 31 December 2004	31,461
At 1 January 2003	-
Recognised in the income statement	3,251
At 31 December 2003	3,251



## 21. DEFERRED TAXATION (CONTINUED...)

Deferred Tax Assets of the Company:

	Tax Losses and Unabsorbed Capital Allowances RM
At 1 January 2004	(3,251)
Recognised in the income statement	(28,210)
At 31 December 2004	(31,461)
At 1 January 2003	-
Recognised in the income statement	(3,251)
At 31 December 2003	(3,251)

Deferred tax assets have not been recognised in respect of the following items:

	GROUP		COMPANY	
	2004 RM	2003 RM	2004 RM	2003 RM
Tax Losses and Unabsorbed Capital Allowances	6,178,512	-	785,312	2,349
Others	871,074	-	-	-

The unabsorbed capital allowances and unused tax losses are available indefinitely for offset against future taxable profits of the Company and respective subsidiaries. Deferred tax assets have not been recognised in respect of these items as they may not be used to offset taxable profits of other subsidiaries in the Group.

## 22. REVENUE

	GROUP		COMPANY	
	2004 RM	2003 RM	2004 RM	2003 RM
Concession income from the handover of teachers' quarters	314,075,164	357,037,746	-	-
Dividend income	-	-	2,744,137	1,933,430
Management fees	-	-	764,000	1,160,000
Interest income	106,749,077	96,332,324	-	-
Invoiced value of goods sold less returns and discount allowed	136,347,065	113,902,951	-	-
	557,171,306	567,273,021	3,508,137	3,093,430

## 23. (LOSS)/GAIN ON DISPOSAL OF SUBSIDIARY

This relates to the disposal of 51% of 100% equity interest in Great Wall Plastic Industries Bhd., (GWPI) resulting in a loss of RM735,552 to the Group and a gain of RM5,544,427 to the Company as disclosed in Note 5(b) to the financial statements.

## 24. PROFIT/(LOSS) FROM OPERATIONS

The profit/(loss) from operations is after charging/(crediting):-

	GROUP		COMPANY	
	2004 RM	2003 RM	2004 RM	2003 RM
Auditors' remuneration				
- current year	67,500	79,500	25,000	18,000
- (over)/under provision in prior year	(7,000)	8,950	(7,000)	3,000
Non-Executive Directors' remuneration (Note 26)	302,700	502,990	301,500	407,690
Provision for doubtful debts	596,014	102,223	-	-
Depreciation of property, plant and equipment	9,256,060	11,665,175	33,457	8,389
Rent of premises	-	57,103	213,600	213,600
Rent of equipment	24,600	11,670	7,800	-
Amortisation of goodwill on consolidation	10,319,561	9,914,140	-	-
Amortisation of concession expenditure	316,377,422	359,683,441	-	-
Realised (gain)/loss on foreign exchange	(3,061)	7,006	-	-
Staff costs (Note 25)	18,315,620	13,418,815	2,312,996	1,550,520
Provision for employee benefits	65,800	178,283	-	110,123
Dividend income received from subsidiary	-	-	(2,744,137)	(1,933,430)
Fixed deposit income	(1,430,694)	(578,878)	(47,259)	-
Gain on disposal of property, plant and equipment	-	(25,911)	-	-
Rental income	-	(135,600)	-	-
Write back of provision for doubtful debts	-	(32,427)	-	-
Concession expenditure written off	354,784	-	-	-

## 25. STAFF COSTS

	GROUP		COMPANY	
	2004 RM	2003 RM	2004 RM	2003 RM
Wages and salaries	13,723,470	10,660,185	1,849,355	1,269,655
Social security costs	408,046	117,782	9,172	6,289
Pension cost - defined contribution plans	1,383,336	1,188,975	213,355	149,543
Other staff related expenses	2,800,768	1,451,873	241,114	125,033
	<u>18,315,620</u>	<u>13,418,815</u>	<u>2,312,996</u>	<u>1,550,520</u>

## 26. DIRECTORS' REMUNERATION

	GROUP		COMPANY	
	2004 RM	2003 RM	2004 RM	2003 RM
Directors of the Company				
Executive:				
- fees	123,161	49,250	123,161	49,250
- emoluments	971,328	252,803	836,928	239,232
- benefits-in-kind	88,026	3,633	88,026	3,633
	<u>1,182,515</u>	<u>305,686</u>	<u>1,048,115</u>	<u>292,115</u>
Non-Executive:				
- fees	273,000	171,250	273,000	160,750
- emoluments	28,500	243,690	28,500	242,690
- benefits-in-kind	-	4,250	-	4,250
	<u>301,500</u>	<u>419,190</u>	<u>301,500</u>	<u>407,690</u>
Other Directors				
Executive:				
- emoluments	-	417,384	-	-
- benefits-in-kind	-	17,400	-	-
	<u>-</u>	<u>434,784</u>	<u>-</u>	<u>-</u>
Non-Executive:				
- fees	-	16,500	-	-
- emoluments	1,200	67,300	-	-
	<u>1,200</u>	<u>83,800</u>	<u>-</u>	<u>-</u>
Total	<u>1,485,215</u>	<u>1,243,460</u>	<u>1,349,615</u>	<u>699,805</u>

## 26. DIRECTORS' REMUNERATION (CONTINUED...)

	GROUP		COMPANY	
	2004 RM	2003 RM	2004 RM	2003 RM
Analysis excluding benefits-in-kind:				
Total executive Directors' remuneration excluding benefits- in-kind	1,094,110	719,437	960,089	288,482
Total non-executive Directors' remuneration excluding benefits- in-kind	302,700	498,740	301,500	403,440
Total Directors' remuneration excluding benefits-in-kind	<u>1,396,810</u>	<u>1,218,177</u>	<u>1,261,589</u>	<u>691,922</u>

The number of Directors of the Company whose total remuneration during the year fell within the following bands is analysed below:

	Number of Directors	
	2004	2003
Executive Directors:		
Below RM50,000	-	1
RM50,001-100,000	-	1
RM150,001-200,000	1	-
RM250,001-300,000	-	1
RM300,001-350,000	1	-
RM650,001-700,000	1	-
	<u>3</u>	<u>3</u>
Non-executive Directors:		
Below RM50,000	2	6
RM50,001-100,000	4	-
RM150,001-200,000	-	1
	<u>6</u>	<u>7</u>



## 27. FINANCE COSTS

	GROUP		COMPANY	
	2004 RM	2003 RM	2004 RM	2003 RM
Interest expense:				
- hire purchase	59,477	65,637	6,039	1,660
- finance lease	27,893	-	-	-
- term loan	353,083	890,281	-	-
- bank overdraft	8,502	17,483	-	-
- Al-Bai Bithaman				
Ajil notes	96,369,916	74,562,929	-	-
	<u>96,818,871</u>	<u>75,536,330</u>	<u>6,039</u>	<u>1,660</u>

## 28. TAXATION

	GROUP		COMPANY	
	2004 RM	2003 RM	2004 RM	2003 RM
Tax expense for the year:				
Malaysian taxation				
- current year	(229,357)	714,097	-	147,266
- under provision in prior year	7,841	-	-	-
Overprovision of Real Property Gain Tax	-	(1,879)	-	-
Deferred taxation (Note 21)	2,926,705	7,613,150	-	-
	<u>2,705,189</u>	<u>8,325,368</u>	<u>-</u>	<u>147,266</u>
Share of taxation of associate	242,550	-	-	-
	<u>2,947,739</u>	<u>8,325,368</u>	<u>-</u>	<u>147,266</u>

Domestic income tax is calculated at the Malaysian statutory tax rate of 28% (2003: 28%) of the estimated assessable profit for the year.

## 28. TAXATION (CONTINUED...)

A reconciliation of income tax expense applicable to profit/(loss) before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Group and of the Company is as follows:

	GROUP		COMPANY	
	2004 RM	2003 RM	2004 RM	2003 RM
Profit/(loss) before taxation	(2,747,587)	13,359,622	4,176,395	(296,976)
Taxation at Malaysian statutory tax rate of 28% (2003: 28%)	(769,324)	3,740,694	1,169,391	(83,153)
Effects of income not subject to tax	-	-	(1,552,440)	-
Effects of expenses not deductible for tax purpose	2,614,922	3,617,437	142,252	228,073
Deferred tax assets not recognised during the year	1,141,305	968,573	219,887	2,346
Utilisation of previously unrecognised unutilised reinvestment allowances	(67,915)	-	-	-
(Over)/underprovided in prior years				
- Real Property Gain Tax	-	(1,336)	-	-
- Current taxation	28,751	-	20,910	-
Tax expense for the year	2,947,739	8,325,368	-	147,266

28. TAXATION (CONTINUED...)

	GROUP		COMPANY	
	2004 RM	2003 RM	2004 RM	2003 RM
Tax losses are analysed as follows:				
Tax savings recognised during the year arising from:				
(i) Utilisation of current year tax losses	781,591	1,761,878	781,591	1,761,878
Unutilised tax losses carried forward	1,401,389,531	1,414,081,000	826,531	-
Unabsorbed capital allowance are analysed as follows:				
Tax savings recognised during the year arising from:				
(i) Utilisation of current year capital allowances	-	15,321,825	-	-
(ii) Utilisation of unabsorbed capital allowances brought forward from previous years	-	3,549,218	-	-
Unabsorbed capital allowances carried forward	-	734,001	-	20,001

## 29. BASIC/DILUTED EARNINGS PER SHARE

Basic/diluted earnings per share is calculated by dividing the net profit for the year by the weighted average number of ordinary shares in issue during the financial year held by the Company.

	GROUP	
	2004	2003
Net (loss)/profit for the year (RM)	(5,783,805)	5,034,254
Weighted average number of ordinary shares in issue	223,508,536	223,508,536
Basic (loss)/earnings per share (sen)	<u>(2.59)</u>	<u>2.25</u>

## 30. COMMITMENTS

	GROUP	
	2004 RM	2003 RM
Commitment to subscribe for 5,000,000 ordinary shares and 10,500,000 preference shares of RM1 each in Must Ehsan Development, a subsidiary company	15,500,000	15,500,000
Capital expenditure approved and contracted for	93,971,228	-
Capital expenditure approved but not contracted for	-	1,698,283
	<u>109,471,228</u>	<u>17,198,283</u>
Share of capital commitments of associate (Note 6):		
Capital expenditure approved and contracted for	4,459,000	-
Capital expenditure approved but not contracted for	305,662	-
	<u>4,764,662</u>	<u>-</u>
	<u>114,235,890</u>	<u>17,198,283</u>

## 31. SIGNIFICANT RELATED PARTY TRANSACTIONS

	GROUP		COMPANY	
	2004 RM	2003 RM	2004 RM	2003 RM
The 4th tranche of Al-Bai Bithaman Ajil Notes issued by a subsidiary, Encorp Systembilt Sdn. Bhd. to Encorp Berhad	152,125,000	-	-	-



31. SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED...)

	GROUP		COMPANY	
	2004 RM	2003 RM	2004 RM	2003 RM
Al-Bai Bithaman Ajil Notes (ESSB BAIDS) subscribed by Encorp Berhad from a subsidiary, Encorp Systembilt Sdn. Bhd.	-	-	152,125,000	-
Management fees charged to subsidiaries:				
- Encorp Construct Sdn. Bhd.	-	-	474,000	870,000
- Great Wall Plastic Industries Berhad	-	-	290,000	290,000
Rental payable to:				
- Encorp Construct Sdn. Bhd.	-	-	213,600	213,600
Rental income receivable from a subsidiary Must Ehsan Development Sdn. Bhd.	-	135,600	-	-
Fee paid to a company owned by a Director for services rendered	65,000	105,000	65,000	105,000

The Directors of the Company are of the opinion that the above transactions have been entered into in the normal course of business and have been established under terms that are not materially different from those obtainable in transactions with unrelated parties.

## 32. CONTINGENT LIABILITIES AND MATERIAL LITIGATION

	GROUP	
	2004 RM	2003 RM
Contingent liabilities:		
Corporate guarantee given by the Company to contractors of teachers' quarters project in relation to design guarantees to the Government	31,807,200	-
Material litigation:		
Claim by a third party against two subsidiary companies, for loss and damage arising from construction works on its land.	<u>7,703,686</u>	<u>7,703,686</u>

The Directors are of the opinion that the likelihood that the above claims will crystallise are remote as:

- (i) the designs guarantee is to cover for any defect in the design of the teachers' quarters which have been undertaken by professional architects and consultants; and
- (ii) the Government is obliged to handover sites free from any encumbrance.

## 33. SEGMENT INFORMATION

**Business Segment**

The Group is organised into four major business segments:

**(i) Investment holding**

This segment refers to investment holding companies of the Group.

**(ii) Manufacturing**

This segment refers to manufacturing and marketing of plastic film packaging products.

**(iii) Construction**

This segment refers to property construction and general contracting activities.

**(iv) Others**

This segment refers to the concessionaire to build and transfer teachers' quarters to the Government of Malaysia.

The Directors are of the opinion that all inter-segment transactions have been entered into in the normal course of business, and have been established on terms and conditions that are not materially different from those obtainable in transactions with unrelated parties.

33. SEGMENT INFORMATION (CONTINUED...)  
Business Segment (contd.)

	Investment Holding		Manufacturing		Construction		Others*		Eliminations		Consolidated	
	2004 RM	2003 RM	2004 RM	2003 RM	2004 RM	2003 RM	2004 RM	2003 RM	2004 RM	2003 RM	2004 RM	2003 RM
<b>REVENUE AND EXPENSES</b>												
Revenue	-	-	136,347,065	113,902,951	-	-	420,824,241	453,370,070	-	-	557,171,306	567,273,021
External sales	-	-	-	-	-	-	-	-	-	-	-	-
Inter-segment sales	3,508,137	3,093,430	-	-	125,639	62,279,048	-	-	(3,633,776)	(65,372,478)	-	-
Total revenue											557,171,306	567,273,021
<b>Results</b>												
Segment results	3,101,891	(303,885)	9,488,379	8,330,004	(3,123,926)	(969,302)	102,092,008	97,350,697	(18,966,670)	(16,090,440)	92,591,682	88,317,074
Interest expense	(6,039)	(1,660)	(346,254)	(748,694)	(96,662)	(223,047)	(96,369,516)	(74,562,929)	-	-	(96,818,871)	(75,536,330)
Interest income	211,064	494,651	38,925	70,597	-	13,630	1,180,705	-	-	-	1,430,694	578,878
Share of result of associate	-	-	784,460	-	-	-	-	-	-	-	784,460	-
											(2,012,035)	13,359,622
Loss on disposal of subsidiary											(735,552)	-
Taxation											(2,947,735)	(8,325,368)
											(5,695,326)	5,034,254
Minority interest											(88,479)	-
Net profit for the year											(5,783,805)	5,034,254
<b>ASSETS AND LIABILITIES</b>												
<b>Segment assets</b>												
Consolidated total assets	576,584,464	404,066,344	-	170,249,580	94,985,621	148,613,119	1,444,268,239	1,433,856,063	(440,667,851)	(352,204,889)	1,675,170,673	1,804,580,217
<b>Segment liabilities</b>												
Consolidated total liabilities	189,408,916	28,589,238	-	40,792,182	101,438,064	150,168,195	1,334,926,133	1,329,086,752	(297,584,275)	(144,646,687)	1,328,188,838	1,403,989,580
<b>OTHER INFORMATION</b>												
Capital Expenditure	70,318	121,244	814,946	12,095,679	177,241	268,393	-	-	-	-	1,062,505	12,485,316
Depreciation	33,457	8,389	8,456,959	10,899,162	751,151	743,133	14,491	14,491	-	-	9,256,058	11,665,175
Amortisation of goodwill on consolidation	-	-	-	-	-	-	-	-	10,319,561	9,914,140	10,319,561	9,914,140
Amortisation of concession expenditure	-	-	-	-	-	-	316,377,422	359,683,441	-	-	316,377,422	359,683,441

\* This segment refers to the concessionaire to build and transfer teachers' quarters to the Government of Malaysia.

## 34. FINANCIAL INSTRUMENTS

## (a) Financial Risk Management Objectives and Policies

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's businesses whilst managing its interest rate, foreign exchange, liquidity and credit risks. The Group operates within clearly defined guidelines that are approved by the Board and the Group's policy is to not engage in speculative transactions.

## (b) Interest Rate Risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's debt obligations. The Group adopts a policy of constantly monitoring movements in interest rates. Presently, it does not use derivative financial instruments to hedge its interest rate risk.

Meanwhile, surplus funds are placed with reputable financial institutions which generate interest income to the Group. The Group manages its interest rate risk by placing such balances on varying maturity and interest rate terms.

## (c) Foreign Exchange Risk

The Group is not exposed to significant foreign currency risk as the majority of the Group's transactions, assets and liabilities are denominated in Ringgit Malaysia.

## (d) Liquidity Risk

In the management of liquidity risk, the Group actively manages its operating cash flows and the availability of funding so as to ensure that all funding needs are met. The Group monitors and maintains a level of cash and bank balances deemed adequate by the Management to finance the Group's operations and mitigate the effects of fluctuations in cashflows.

## (e) Credit Risk

Credit risks, or the risk of counterparties defaulting, is controlled by the application of credit approvals, limits and monitoring procedures. Credit risks are minimised and monitored by associating with business partners with high creditworthiness. Trade receivables are monitored on an ongoing basis via Group management reporting procedures.

The carrying amount of cash and cash equivalents, trade receivables and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets. No other financial assets carry a significant exposure to credit risk.

As at the balance sheet date, the trade receivables are due from a single customer and as such the Group is subject to significant concentration of credit risk.

## (f) Fair Values

The aggregate net fair values of financial liabilities which are not carried at fair value on the balance sheet of the Group as at 31 December 2004 are represented as follows:

	Carrying amount RM	Fair value RM
<b>Financial liabilities</b>		
Secured borrowings	1,257,518,772	1,265,190,667
<b>Amount due from holding company</b>		

The carrying amount of these balances approximate fair value because the carrying amount is repayable on demand.

**Cash and Cash Equivalents, Trade and Other Receivables/Payables**

The carrying amounts approximate fair values due to the relatively short term maturity of these financial instruments.



## 34. FINANCIAL INSTRUMENTS (CONTINUED...)

### Hire Purchase and Lease Payables, and Unsecured Borrowings

The carrying amounts of hire purchase and lease payables, and unsecured borrowings approximate their fair values.

## 35. SIGNIFICANT EVENTS

### (a) Acquisition of EMSB and Disposal of GWPI

The Company had on 28 October 2003 announced that it proposed to acquire 100% equity interest in EMSB from Encorp Group Sdn. Bhd. for a purchase consideration of RM45.96 million and to dispose 51% equity interest in GWPI to Megastart Sdn. Bhd. for a consideration of RM45 million.

The Company had on 18 March 2004 received all the relevant approvals from the authorities. The shareholders approval was obtained on the 17 September 2004 and the entire exercise had been completed on 28 October 2004.

### (b) Proposed Private Placement

On 13 February 2004, the Company announced its proposal to implement a private placement of up to 22,350,853 new ordinary shares of RM1 each in the Company, representing up to 10% of the existing issued and paid-up capital of the Company ("Proposed Private Placement"), to places to be identified at an issue price to be determined later.

On 13 May 2004, the Company had further announced that the application to the relevant authorities for the proposed placement will be made within three (3) months from 13 May 2004.

The Securities Commission ("SC") had via its letter dated 30 July 2004, approved the Proposed Private Placement subject to fulfilment of certain conditions. The SC (on behalf of the Foreign Investment Committee ("FIC")) had also approved the Proposed Placement under the Guidelines for the Regulation of Acquisition of Assets, Mergers and Takeovers 1974 on the same date. The EPU via its letter dated 12 November 2004 had conditionally approved the proposed placement.

The Bursa Malaysia via its letter dated 7 December 2004 had also approved in principle the listing of the shares.

The Company had submitted an application to the SC, which on 31 January 2005 had granted the Company an extension of time of 6 months up to 30 July 2005 to implement the proposed private placement.

### (c) ESSB BAIDS Issue

On 11 August 2004, Encorp Berhad ("Encorp" or "the Company") announced that its wholly owned subsidiary, Encorp Systembilt Sdn. Bhd. ("ESSB") is to undertake a financing exercise via the issuance of up to RM683.3 million nominal value Bai Bithaman Ajil Notes ("ESSB BAIDS Issue").

The ESSB BAIDS Issue had been approved by the Securities Commission on 25 October 2004. The ESSB BAIDS Issue is over a tenure of 22 years from the date of issuance. The profit rate for the ESSB BAIDS will be 0% per annum from the date of issuance and 8.0% per annum from Year 15 onwards until maturity. The ESSB BAIDS Issue is not listed on Bursa Malaysia.

On 13 December 2004, Encorp entered into a RM160 million Bridging Loan Facility ("BL Facility") Agreement with United Overseas Bank (Malaysia) Berhad ("UOBM"). The proceeds from the BL Facility will be utilised by Encorp to fund the subscription of the ESSB BAIDS Issue. The BL Facility is to be refinanced at a later stage and will be secured by a charge created over the ESSB BAIDS.

On 30 December 2004, ESSB successfully issued the first series of the ESSB BAIDS issue ("Notes Series 1"), which has a nominal value of RM625 million and an issue price of RM152.125 million. The second series of the ESSB BAIDS Issue ("Notes Series 2") with a nominal value of up to RM58.3 million will be issued at a later date. The Notes Series 1 was subscribed by Encorp via, inter-alia, the BL Facility, which was obtained on 13 December 2004 from UOBM.

## 35. SIGNIFICANT EVENTS (CONTINUED...)

## (d) Proposed Right Issue

On 16 February 2005, the Company announced it proposed to implement a renounceable rights issue of up to RM682.904 million nominal value of redeemable secured bonds ("Encorp Bonds") at an issue price of RM0.2715 for every RM1.00 nominal value of Encorp Bond on the basis of RM3.00 nominal value of Encorp Bonds for every one (1) existing ordinary share of RM1.00 each in Encorp ("Encorp Share") held by Encorp's shareholders on a date to be determined later ("Proposed Rights Issue").

However, on 28 April 2005 the Board of Directors of the Company announced that the Company has decided to abort the Proposed Rights Issue in view of the time taken for the implementation of the Proposed Rights Issue and the general current market conditions.







## Construction Management

### Completion of the Teachers' Quarters Housing project

Encorp Berhad's construction management operations are under Enfari Properties Sdn Bhd (formerly known as Enfari Sdn Bhd). Enfari has 2 subsidiaries, namely, Encorp Systembit Sdn Bhd (ESSB) and Encorp Construct Sdn Bhd (ECSB). ESSB is the concessionaire for the development of 10,000 units of privatized teachers' quarters housing for the Ministry of Education, whilst ECSB managed the construction of the said project.

The year 2004 marked a significant milestone for Encorp with the completion and official hand-over of the project to the Ministry of Education which was witnessed by the Prime Minister of Malaysia in Kepala Batas, Pulau Pinang on 20 June 2004.

The teachers' quarters housing project had been awarded to ESSB in 1998 under a 30-year concession in which ESSB was required to plan, design, finance, construct and complete 10,000 units of apartments in 109 sites throughout Malaysia, including Sabah and Sarawak.

As a strong believer of creating value-added products and services for its stakeholders, Encorp's design for the teachers' quarters housing differed from the conventional Government quarters' design. By paying attention to detail and aesthetics, the Company was able to provide the Ministry of Education with attractive and modern accommodation units, whilst keeping to the stringent quality standards and the budgeted costs set by the Government.

The results were low-rise (4 and 5 storey high) apartment complexes, with only 4 to 6 units per floor, complemented with landscaped gardens, car parks, supporting amenities and children's play-areas. The new housing quarters have since provided teachers with an improved standard of living, especially important for those posted in rural areas where finding suitable accommodation is a challenge.

*"Thank You for looking after the welfare of teachers by ensuring that we have suitable accommodation facilities",* said En. Hassaruddin Yaakob, a teacher from SM Sg. Choh, Selangor.

*"My family and I moved into our new apartment, a place we shall call home for the duration of my posting to the school",* said Pn. Rosni Ismail, a teacher from SMK Kepala Batas, Pulau Pinang.

Comments like the above were often heard at the new housing quarters, ringing in praises for the Government and the Ministry of Education for caring for the welfare of teachers through the provision of well-designed, quality housing, both in urban and rural areas in 9 states throughout Malaysia.

With the project completed, ESSB has been able to collect an average monthly concession income of approximately RM9.8 million. ESSB registered a pre-tax profit of RM6.9 million for the financial year ended 31 December 2004, whilst ECSB registered a loss before tax of RM3.7 million as at the end of 2004.

## A leader on the use of Prefabricated Building Technology

Following the official hand-over of all 10,000 teachers' housing units to the Government, the Prime Minister of Malaysia, YAB Dato' Seri Abdullah Ahmad Badawi, commended Encorp for undertaking construction of the housing units using the build-transfer concept through prefabricated building technologies (PBT).

*"The build-transfer concept looks good. I have been told that it does not require the use of too many workers, which means cost can be reduced. If it is true, we will surely want to use it in future government projects",* said the Prime Minister at the handing-over ceremony on 20 June 2004.

He added that an in-depth study and working paper would be prepared on the building concept which, in Encorp's case, saw structures such as staircases, walls, columns, floor slabs, beam parapets and balcony trays cast off-site, transported and assembled on-site.

*"If the analysis is feasible, naturally we will want to use it. The prefabricated concept is not new, having been used before in other projects. In reducing the use of construction workers, it can save costs and also reduce our reliance on foreign labour",* said Dato' Seri Abdullah supporting the Government's drive to reduce reliance on foreign labour following the repatriation of large numbers of illegal workers in early 2005.

Apart from cost and time savings, Encorp's use of PBT in the teachers' quarters housing project has enabled the company to successfully train a large pool of Bumiputera entrepreneurs. This experienced pool of professional, sub-professional and supervisory-level workforce is now able to undertake other projects of similar scale and complexity using the PBT both here in Malaysia and overseas.

## Property Development

Malaysia's Gross Domestic Product (GDP) grew by 7.1% in 2004, its highest in 4 years. Spurred on by low interest rates designed to boost expenditure and stimulate the economy, the overall property market in Malaysia is currently on an upswing, and is expected to continue well into 2005.

Within the sector, residential properties, especially high-end and landed properties are expected to lead the overall property market due to the sustained low interest rates and increased consumer confidence. The office sector is also set to perform well, with occupancy rates of office buildings located within the Klang Valley expected to increase due to low rental rates.



These positive market sentiments set the stage for Encorp Berhad to make a positive impact on the Malaysian property market through the Group's property development subsidiary, Encorp MUST Sdn Bhd (EMSB) and its two upcoming projects in the bustling Klang Valley.

### **Cahaya Alam**

The Cahaya Alam project is strategically located on a 210 acre site at Section U12 of Shah Alam, Selangor Darul Ehsan. The area is easily accessible from the North Klang Valley Expressway (NKVE) and is within close proximity to new development projects such as Bukit Jelutong, Bukit Bandaraya and Shah Alam Utama.

When completed in 6 to 7 years, the project will boast a mixed development comprising 2,414 units of linked houses, semi-detached houses, shophouses, apartments and flats. Themed neighbourhood precincts designed for practical, functional and modern homes will be supported with amenities that promote an active lifestyle for residents. These include an interactive first-of-its-kind landscaped linear park around house compounds, schools and mosque. Private cul-de-sac, a generous network of wide roads, and subtle segregation of residential and commercial traffic will further enhance Cahaya Alam's appeal as a choice residential investment.

Parcel A of the project, comprising 115 units double-storey link houses, saw a 100% take-up during its sales launch in October 2004. Three new parcels will be launched during 2005 and we expect a similar encouraging response.

### **Kota Damansara**

The Kota Damansara land-bank, approximately 43 acres in size, with a land tenure of 99 years, is situated in a prime area which is quickly becoming one of the most sought after areas in the state of Selangor Darul Ehsan.

Encorp's plans are for a commercial development in the area which fronts major highways and is easily accessible from the NKVE and Lebuhraya Damansara Puchong (LDP). Two parcels, comprising 99 units of 3 1/2 and 4 1/2 storey shophouses, are targeted for launch in the second quarter of 2005, following approvals from the authorities.

### **Manufacturing**

#### **Plastic Packaging & Products**

Encorp Berhad divested its 51% interest in Great Wall Plastic Industries Berhad (GWPI) in October 2004. Today, GWPI is accounted for as an associate company of Encorp Berhad through its 49% share in the company.

GWPI is one of the largest integrated flexible plastic packaging firms in Malaysia. In order to differentiate itself from domestic competitors, the company has invested in state-of-the-art technologies including new extrusion machines. With its modern and spacious integrated factory located in Rawang, Selangor Darul Ehsan, which can accommodate increased production, GWPI is well-positioned to tap into bigger markets, both locally and in the surrounding Asia-Pacific region. GWPI's unrelenting commitment to quality has also contributed positively to its strong reputation. Apart from being certified with ISO9001:2000, GWPI Quality Assurance laboratory was expanded in 2002 as part of a continuous upgrading of quality control facilities to further improve superiority of its products.

In 2004, GWPI, along with others in the manufacturing sector, was faced with a sharp price escalation in petrochemical products due to high prices of crude oil worldwide. As a result, the plastic industry in Malaysia suffered an unprecedented 100% increase in cost of plastic resins, a petrochemical derivative and principal raw materials for production.

For most of 2004, GWPI operated in a challenging market environment of increased competition, narrowing margins and rising raw material costs. GWPI was forced to intensify measures to improve efficiency and productivity to optimize sales and its production mix. These measures have since paid off, allowing GWPI to register a substantially higher profit before tax of RM10.78 million for the year ended 2004, compared to RM7.65 million in 2003. The higher profit was achieved on the back of increased turnover of RM166.84 million in 2004 compared to RM113.90 million previously.





The Board of Directors recognizes the importance of good corporate governance and is fully committed to adopt the principles and best practices of corporate governance embodied in the Malaysian Code on Corporate Governance (the Code) in achieving the high standards of corporate governance throughout the Group, with the best interest of all stakeholders in mind.

The Board of Directors has, to the best of their ability, complied with the best practices and principles set out in Part 2 of the Code throughout the financial year ended 31 December 2004. Below are details of how the Group has applied the principles and best practices in the following four (4) areas:

1. Directors;
2. Directors Remuneration;
3. Shareholders; and
4. Accountability and Audit.

## BOARD OF DIRECTORS

### Composition of the Board – Board Balance

The Board currently has eight (8) members, comprising two (2) Executive Directors and six (6) Non-Executive Directors of whom three (3) are independent. This complies with the Bursa Malaysia Securities Berhad's (Bursa Securities) Listing Requirements.

All Directors have vast experience in various fields and possess the necessary skills in exercising independent judgement on the issues of strategy, performance, resources and standards of conduct.

The three (3) independent directors provide independent views as well as advice. The clear division of responsibility within the Board is to ensure that the interests of the Group, shareholders, employees, customers, suppliers and other business associates are being safeguarded. No individual or small group of individuals can dominate the Board's decision making.

To ensure that there is a balance of power and authority, the roles of the Chairman and the Group Chief Executive Officer are separated and clearly defined. The Chairman is responsible for ensuring Board effectiveness and conduct, whilst the Group Chief Executive Officer has overall responsibility to manage the operations, organizational effectiveness and implementation of Board policies and decisions.

Six (6) board meetings (inclusive of one [1] special board meeting), an extraordinary general meeting and an Annual General Meeting were held during the financial year ended 31 December 2004. A summary of attendance of the Board for the financial year ended 31 December 2004 is as follows:

<b>Name of Director</b>	<b>No. of Board Meetings Attended</b>	<b>Attendance %</b>
Dato' Mohamad Nor Bin Mohamad (Resigned on 01.01.2005)	6/6	100
Tan Sri Datuk Dr Omar bin Abdul Rahman	5/6	83
Yeoh Soo Ann	6/6	100
Efeida binti Mohd Effendi	4/6	67
Datuk Fong Joo Chung	4/6	67
Datuk (Dr) Phillip Ting Ding Ing	6/6	100
Datuk Dr Zainal Aznam bin Mohd Yusof	4/6	67
Dato' Chew Kong Seng @ Chew Kong Huat	5/6	83
Mohd Ezra Effendi bin Mohd Effendi Norwawi	4/6	67



## Supply of Information

All Directors are provided with all the necessary information relating to the business, operations and financial matters of the Company and the Group. All Directors have access to any information in order for them to discharge their duties.

Each Board member receives a notice of meeting, agenda and board papers prior to the meeting. This is to enable the Directors to make necessary enquiries or further information or explanation, where necessary.

The board papers include periodical financial information, significant operational, financial and corporate issues, performance of the operating units and management proposals that require the Board's approval.

All Directors also have direct access to advice and services of the Company Secretaries who are responsible for ensuring that Board procedures are adhered to in accordance with the Companies Act, 1965 and the Memorandum and Articles of Association of the Company.

## Board Responsibilities

The Board has full control over the business and affairs of the Company and the Group. This includes responsibility for determining the overall strategic direction and development of the Group.

To assist the Board in carrying out their duties and responsibilities, the Board has established the following committees to carry out specific roles and responsibilities in compliance with the Code.

### The Audit Committee

The Audit Committee was set up with the objective to assist the Board in fulfilling its responsibilities relating to the financial reporting of the Company and its subsidiaries. The terms of reference and composition of the Audit Committee are set out on page 23.

### The Nomination Committee

The Nomination Committee has been assigned with the responsibility for proposing new nominees for the Board as well as recommending to the Board, directors to fill the seats on Board Committees. The Committee will also deliberate on the proposed re-election of retiring directors. In addition, the Committee will evaluate and recommend to the Board for approval the appointment, promotion, transfer, and termination of the Chief Executive Officer, Executive Directors and Senior Management Team reporting to the Managing Director / Chief Executive Officer.

In accordance with the Articles of Association of the Company, at the Annual General Meeting, one-third (1/3) of the Directors for the time being or, if their number is not three (3) or a multiple of three (3), then the number nearest to one-third (1/3) shall retire from office and be eligible for re-election provided always that all Directors shall retire from office, at least, in each three (3) years but shall be eligible for re-election.

The Committee also assesses the effectiveness of the Board as a whole and the contribution of each individual Director. They will ensure that the training needs of the directors are reviewed on a regular basis and to establish appropriate plans for succession at Board level as well as at Senior Management level.

### The Remuneration Committee

The Remuneration Committee is responsible to establish and recommend individual remuneration package and benefits for each of the Directors and as well as the remuneration structure and policy for the Group Chief Executive Officer, Executive Directors and Senior Management Team of the Company. The Committee is to ensure that a strong link is maintained between the level of remuneration and individual performance against agreed targets as set by Management. The Committee is also responsible to review and recommend to the Board any new Employees Shares Option Scheme and / or amendments to the existing Scheme and to consider other matters as referred to the Committee by the Board.

## Directors' Training

All Directors have completed the Mandatory Accreditation Programme ("MAP") as required by the Listing Requirements of Bursa Securities.

Some Directors have completed the required Continuing Education Programme (CEP) implemented by Bursa Securities during the year. An extension of time was given until 31 December 2005 to the Directors who have yet to accumulate the required points in respect of the CEP. The Directors will also attend further training programmes in order to keep abreast with relevant changes and development in laws and regulations as well as business development.

## SHAREHOLDERS

### Dialogue with Shareholders and Investors

The Company recognizes the importance of effective communication with shareholders, investors and the public in general. In this respect, the Company keeps shareholders, investors and the public informed by announcements, release of quarterly financial results, annual reports, circulars and through the Annual General Meeting.

### Annual General Meeting

The Annual General Meeting is the principal forum for dialogue with shareholders. The Notice of Annual General Meeting and Annual Reports are sent out to shareholders at least twenty-one (21) days before the meeting. Details of any special business are included in an explanatory statement together with the Notice of Annual General Meeting to provide full understanding and evaluation of the matters involved.

Shareholders are given ample time to participate in the question and answer session pertaining to the business activities of the Group.

## ACCOUNTABILITY AND AUDIT

### Financial Reporting

The Directors aim to present a balanced and understandable assessment of the Group's financial position and prospects. The financial statements for each financial year and quarterly results are prepared in accordance with the Companies Act, 1965 and the approved accounting standards.

The Audit Committee assists the Board in scrutinizing information for disclosure to ensure accuracy, adequacy and completeness.

### Internal Controls

The Board of Encorp Berhad recognizes the pivotal role of a strong internal control system in keeping the Group on course toward its goals of maximising shareholder value. To this extent, the need for a strong internal control environment has been ingrained into the culture of the Group by the Board and the Management.

The effectiveness of the Company's system of internal controls is reviewed periodically by the Audit Committee.

The Group's Statement on Internal Control is set out on page 27.

### Relationship with the Auditors

Through the Audit Committee, the Group has established a transparent and appropriate relationship with the Group's Auditors in seeking professional advice and ensuring compliance with the law and regulations.

The External Auditors also bring to the attention of the Board any material deficiency pertaining to the system of internal controls and compliance issues of the Company.





## Remuneration Procedures

The Remuneration Committee recommends to the Board the remuneration package for each Executive Director. The Executive Directors will abstain from deliberation and voting on decisions in respect of their own remuneration. It is the ultimate responsibility of the entire Board to approve the remuneration package of these Directors.

## Remuneration Package

Except for Non-Executive Directors who are paid yearly fees which are determined by the Board and approved at the Annual General Meeting, the remuneration package of the Executive Directors is recommended by the Remuneration Committee in accordance with the Company's policy and practices of other companies within the same industry.

The aggregate remuneration of Directors for the financial year ended 31 December 2004 are categorized as follows:

In RM'000	Executive Directors	Non-Executive Directors
Salaries and other remunerations	836,928	28,500
Fees	123,161	273,000
Bonus & Incentive	-	-
Benefits-in-Kind	88,026	-
<b>Total</b>	<b>1,048,115</b>	<b>301,500</b>

The number of Directors whose remuneration falls into each successive band is as follows:

Range of Remuneration	Executive Directors	Non-Executive Directors
Below RM50,000	-	2
RM50,001 - RM100,000	-	4
RM100,001 - RM150,000	-	-
RM150,001 - RM200,000	1	-
RM200,001 - RM250,000	-	-
RM250,001 - RM300,000	-	-
RM300,001 - RM350,000	1	-
Above RM351,000	1	-
<b>Total</b>	<b>3</b>	<b>6</b>

## Statement of Compliance with Best Practices of the Code

The Company is committed to achieving standards of corporate governance throughout the Group and to the highest level of integrity and ethical standards in all its business dealings. The Board considers that it has complied during the financial year with the best practices as set out in the Code.

## ADDITIONAL COMPLIANCE INFORMATION PURSUANT TO BURSA SECURITIES LISTING REQUIREMENTS

### Share Buy Back

During the financial year, there was no share buy back by the Company.

### Options, Warrants or Convertible Securities

During the financial year ended 31 December 2004, the Company did not issue any options, warrants and convertible securities.

### American Depositary Receipt (ADR) Or Global Depositary Receipt (GDR) Programme

During the financial year ended 31 December 2004, the Company did not sponsor any ADR or GDR programme.

### Sanctions / Penalties

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

### Non – Audit Fees

There were no non-audit fees paid/payable to the external auditors for the financial year ended 31 December 2004, except as disclosed in the following:

Auditors	Services	Amount Paid (RM)
Ernst & Young	Professional Services rendered for the review of the Cash Flow Projections of the Company in connection with the Proposed Issue of the Bai Bithaman Ajjil Notes Issuance Facilities 4.	115,000
	Professional Services in facilitating the Strategy Articulation Workshop for the Company.	9,524
	Professional Services in connection with the review of Quarterly Financial Statements.	5,000
	Professional Services in connection with tax matters.	12,000
	Professional Services rendered for the review on Statement on Internal Control.	5,000
	<b>TOTAL</b>	<b>146,524</b>

The Company had, in a submission to the Securities Commission, pursuant to a corporate proposal involving the Scheme of Arrangement between Great Wall Plastic Industries Berhad and its shareholders and Encorp Berhad, reported a projected Group Profit After Taxation and After Minority Interest of RM43.65 million for the financial year ended 31 December 2004. The profit projection was also set out in the Explanatory Statement to Shareholders dated 30 August 2002.

The Group's audited Loss After Taxation and After Minority Interest for the year ended 31 December 2004 of RM5.78 million represents a deviation of RM49.43 million as compared to the profit projection. The deviation was mainly due to the following reasons:-

- (i) Change in the accounting estimate of amortization of goodwill arising from acquisition of a subsidiary from a period of 30 years to 20 years as recommended in MASB ED 28, Goodwill.
- (ii) Effects arising from the adoption of FRS 123 (formerly MASB 27), Borrowing Costs as well as change in the basis of recognition of concession income, interest income and concession expenditures.
- (iii) Effects arising from the delay in the approval of the final accounts and extension of time claims.

### Profit Guarantee

No profit guarantee was given by the Company for the financial year ended 31 December 2004.

## Material Contracts

There were no material contracts by the Company and the Group involving Directors' and major shareholders' interests, except for the Undertaking Agreement dated 28 August 2002 ("the Undertaking Agreement") entered between Great Wall Plastic Industries Bhd, Encorp Berhad, Enfari Limited and Lavista Sdn Bhd ("Lavista").

The salient features of the Undertaking Agreement are as follows:

- i) achievement of minimum 25% public shareholding requirement, which was met prior to the Company's listing on 11 February 2003;
- ii) compensation for shortfall in valuation of Enfari Properties Sdn Bhd (formerly known as Enfari Sdn Bhd ("Enfari"). Lavista, the major shareholder of the Company, has given an undertaking that the valuation of Enfari as at the date of completion of the Acquisition, namely, 17 April 2001 ("Completion Date"), shall not be less than RM230 million ("Guaranteed Valuation").

Vide the Undertaking Agreement, the confirmation from the Government on the recoverability of the Extension of Time ("EOT") costs in respect of the teachers' quarters housing project shall be obtained no later than 16 May 2003, whereupon the valuation of Enfari to be undertaken by the Independent Valuer as at Completion Date, shall be finalized within three (3) months from the above-mentioned confirmation and ascertained for the purpose of determining whether there is any shortfall between the final valuation and the Guaranteed Valuation.

The meeting to deliberate the EOT costs / claims was originally scheduled for January 2003 but had been postponed numerous times till today. Management however is confident that the EOT costs / claims will be honoured once the verification process is completed. The commitment on the valuation of Enfari has since been extended for further periods of twelve (12) months vide Directors' Circular Resolutions dated 21 April 2003 and 12 May 2004 as well as at the Board of Directors' meeting on 28 April 2005.



## AUDIT COMMITTEE REPORT

The Board of Directors is pleased to present the report on the Audit Committee and its activities for the financial year ended 31 December 2004.

### Members of the Audit Committee

Datuk (Dr) Philip Ting Ding Ing (Chairman, Independent, Non-Executive Director)  
 Tan Sri Datuk Dr Omar bin Abdul Rahman (Member, Independent, Non-Executive Director)  
 Datuk Dr Zainal Aznam bin Mohd Yusof (Member, Independent, Non-Executive Director)  
 Efeida binti Mohd Effendi (Member, Non-Independent and Executive Director)

## TERMS OF REFERENCE

### Policy

It is the policy of Encorp Berhad to establish an Audit Committee to ensure that internal and external audit functions are properly conducted, and that audit recommendations are being carried out effectively by all subsidiaries of the Group.

### Objectives

The objectives of this policy are:

- i) to comply with Chapter 15 of the Listing Requirements of the Bursa Securities;
- ii) to relieve the full Board of Directors from detailed involvement in the review of the results of internal and external audit activities, and yet ensure that audit findings are brought up to the highest level for consideration.

## COMPOSITION OF THE AUDIT COMMITTEE

### Members

The Audit Committee shall be appointed by the Directors from amongst their members (pursuant to a resolution of the Board of Directors) which fulfils the following requirements:

- a) the Audit Committee shall be composed of no fewer than three (3) members;
- b) a majority of the Audit Committee shall be independent Directors; and
- c) at least one member of the Audit Committee:
  - i) must be a member of the Malaysian Institute of Accountants; or
  - ii) if he is not a member of the Malaysian Institute of Accountants, he must have at least three (3) years' working experience and:
    - aa) he must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act 1967; or
    - bb) he must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act 1967; or
  - iii) fulfils such other requirements as prescribed by Bursa Securities.
  - iv) if he is not a member of the Malaysian Institute of Accountants, he must have:
    - aa) a degree / masters / doctorate in accounting or finance and at least three (3) years' post qualification experience in accounting or finance; or
    - bb) at least seven (7) years' experience being a Chief Financial Officer of a corporation or having the function of being primarily responsible for the management of the financial affairs of a corporation.
- d) No alternate Director shall be appointed as a member of the Audit Committee.

### Chairman

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



## Functions Of The Audit Committee

The functions of the Audit Committee are as follows:

- 1) review the following and report the same to the Board of Directors:
    - a) with the external auditor, the audit plan;
    - b) with the external auditor, his evaluation of the system of internal controls;
    - c) with the external auditor, his audit report;
    - d) the assistance given by the employees to the external auditor;
    - e) the adequacy of the scope, functions and resources of the internal audit functions and that it has the necessary authority to carry out its work;
    - f) the internal audit programme, processes, the results of the internal audit programme, processes or investigation undertaken and whether or not appropriate action is taken on the recommendations of the internal audit function;
    - g) the quarterly results and year end financial statements, prior to the approval by the Board of Directors, focusing particularly on:
      - i) changes in or implementation of major accounting policy changes;
      - ii) significant and unusual events; and
      - iii) compliance with accounting standards and other legal requirements;
    - h) any related party transaction and conflict of interest situation that may arise within the Company or group including any transaction, procedure or course of conduct that raises questions of management integrity;
    - any letter of resignation from the external auditors of the Company; and
    - whether there is reason (supported by grounds) to believe that the Company's external auditor is not suitable for re-appointment ; and
    - i) identifying principal risks and ensure the implementation of appropriate systems to manage these risks.
  - 2) recommend the nomination of a person or persons as external auditors,
- together with such other functions as may be determined by the Board of Directors.

## Authority Of The Audit Committee

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

- a) have the authority to investigate any matter within its terms of reference;
- b) have the necessary resources which are required to perform its duties;
- c) have full and unrestricted access to any information and documents pertaining to the Company and the Group;
- d) have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity (if any);
- e) obtain independent professional or other advice; and
- f) convene meetings with the external auditors, excluding the attendance of the executive members of the Audit Committee, whenever deemed necessary.

## Meetings And Reporting Procedures

- a) The Audit Committee shall meet as often as the Chairman deems necessary but not less than four (4) times a year.
- b) In order to form a quorum in respect of a meeting of the Audit Committee, the majority of members of the Audit Committee present at the meeting must be independent directors.
- c) The Chairman shall be entitled, where deemed appropriate, to invite any person(s) to meetings of the Audit Committee.
- d) The Secretary is responsible for
  - i) sending out notices of meetings; and
  - ii) preparing and keeping minutes of meetings.
- e) The Audit Committee meeting minutes are to be extended to the Board of Directors.

## Summary of Activities of the Audit Committee

Six (6) Audit Committee meetings were held during the financial year under review. The activities of the Audit Committee were summarized as follows:

- Reviewed the unaudited financial results and the announcement for the quarterly / financial year end results of the Group before recommending them for approval of the Board of Directors, particularly on;
  - Overall performance of the Group;
  - Prospects of the Group;
  - Compliance with applicable accounting standards, Listing Requirements and other legal requirements; and
  - Reviewed the audit reports together with the external auditors.
- Reviewed the annual internal audit plan to ensure adequate scope and coverage of the activities for the Company and the Group.
- Reviewed the internal audit reports presented and considered the significant audit findings, audit recommendations and Management's responses to ensure significant findings were adequately addressed by Management.
- To discuss with the external auditors the audit plan and scope for the year as well as the audit procedures to be followed.

Details of attendance of each member at Committee meetings held during the year are as follows:

Name of Audit Committee	No. of Meetings Attended/Held	Attendance %
Datuk (Dr) Philip Ting Ding Ing	6/6	100
Tan Sri Datuk Dr Omar bin Abdul Rahman	5/6	83
Datuk Dr Zainal Aznam bin Mohd Yusof	4/6	67
Efeida binti Mohd Effendi	2/6	33



- Reviewed the unaudited financial results and the announcement for the quarterly / financial year end results of the Group before recommending them for approval of the Board of Directors, particularly on;
  - Overall performance of the Group;
  - Prospects of the Group;
  - Compliance with applicable accounting standards, Listing Requirements and other legal requirements; and
  - Reviewed the audit reports together with the external auditors.
- Reviewed the annual internal audit plan to ensure adequate scope and coverage of the activities for the Company and the Group.
- Reviewed the internal audit reports presented and considered the significant audit findings, audit recommendations and Management's responses to ensure significant findings were adequately addressed by Management.
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Efeida binti Mohd Effendi	2/6	33

## Internal Audit Function

The Group has established an Internal Audit Department to assist the Audit Committee in discharging its duties and responsibilities.

The main role of the Internal Audit function is to review the effectiveness and efficiency of the system of internal controls. The Internal Audit function covers and is not confined to the following:

- **Reviewing Objectives and Activities**  
Review with Management the operational activities and ensure the principal objectives are aligned to overall company's objectives.
- **Confirming Information**  
Research and gather information that is competent, factual and complete.
- **Analyzing Operations**  
Analyze and examine that operations are effective.
- **Providing Assurance on Compliance**  
Provide assurance on compliance with statutory requirements, laws, company policies and guidelines.
- **Recommending Internal Controls**  
Recommend appropriate controls to overcome deficiencies and to enhance company operations.
- **Assuring Safeguards**  
Evaluate procedures in place to safeguard company's assets.
- **Consulting and Facilitating**  
Assist Management in ensuring that a proper risk management framework has been established, monitoring the effectiveness of the risk management programme and ensuring the adequacy of the internal control system.



## Introduction

The Statement on Internal Control is made pursuant to Paragraph 15.27 (b) of the Listing Requirement of the Bursa Securities. The Board of Directors is committed to maintain a sound system of internal controls to safeguard shareholders' investments and the Group's assets.

## Responsibility

The Board of Directors acknowledges the importance of sound internal controls and risk management practices towards achieving good corporate governance. The Board affirms its overall responsibility in maintaining the Group's system of internal controls and risk management, and for reviewing the adequacy and integrity of those systems. Due to the limitations that are inherent in any system of internal controls, such systems are designed to mitigate rather than eliminate the risks that may impede the achievement of the Group's business objectives. Accordingly, these systems can provide only reasonable and not absolute assurance against material misstatement or loss.

## Existing Control

The key elements of the Group's system of internal controls are as follows:

1. There is an organization structure and job descriptions that defines lines of responsibility and delegation of authority according to the defined limits of authority.
2. Key functions such as finance, corporate and legal matters are controlled centrally.
3. There is a strategic planning and annual budgeting process. The Board reviews and approves the annual budgets.
4. There are proper guidelines for staff training, performance appraisals and other relevant procedures in place to ensure that staff are competent and adequately trained in carrying out their duties and responsibilities.
5. Actual performance is compared against budget and reviewed by the Board with explanation of major variances.
6. The Audit Committee will review quarterly results to ensure the financial results are prepared in accordance with the applicable approved accounting standards and Listing Requirements so as to present a true and fair view of the financial position of the Group.
7. Policies and procedures of most operating units within the Group are documented in the Group policies and procedures manuals to ensure compliance with internal controls and relevant laws and regulations.
8. The Executive Committee (EXCO) comprises four (4) members involving the Directors and Senior Management who meet as and when necessary with all operating units head to consider financial and operational issues of the Group as well as any management proposal by the operating units.

## Further Efforts

The Board recognizes that risks faced by the Group play an integral part of the business and has to be addressed on a timely basis. As such, risk management is an ongoing process subject to continuous review by the Board.

During the financial year under review, risk awareness sessions were carried out to educate members of the Management and enhance their understanding of risk assessment and management. A series of workshops and interviews were carried out to identify risks, the impact of those risks and the likelihood of them occurring, the results of which were tabulated onto a risk profile. Regular meetings were held with members of the Risk Management Units to identify new risk areas faced and to ensure that controls to mitigate risks were implemented.

The Internal Audit Department also conducts regular audits to ensure the adequacy and integrity of the internal control system is in place and to assist the Audit Committee to carry out its duties and responsibilities.

## Conclusion

Based on the above, the Board is of the opinion that the state of the Group's internal control is satisfactory and has not resulted in any material losses or contingencies that would require disclosure in the Group's Annual Report.



This statement is prepared as required by Paragraph 15.27 (a) of the Listing Requirement of Bursa Securities.

The Directors are required to prepare financial statements which gives a true and fair view of the state of affairs of the Group and the Company as at the end of each financial year.

In preparing these financial statements, the Directors have:

1. adopted appropriate accounting policies and applied them consistently;
2. used reasonable and prudent judgments and estimations;
3. ensure that applicable approved accounting standards have been followed; and
4. prepared the financial statements on the going concern basis.

The Directors are responsible for ensuring that the Company maintains accounting records which disclose with reasonable accuracy the financial position of the Group and the Company; and which ensure that the financial statements comply with the Companies Act, 1965.

The Directors have general responsibilities for taking such steps that are reasonably available to them to safeguard the assets of the Group, to prevent and detect fraud and other irregularities.





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Location	Description and existing use	Land Area (sq.m)	Build-up (sq.m)	Age of Building (years)	Net Book Value as at 31.12.2004 (RM '000)
PT No 574, Daerah Petaling, Selangor, Level 18, Wisma SunwayMas, No. 1, Jln Tengku Ampuan Zabedah C9/C, Section 9, 40100 Shah Alam, Selangor Darul Ehsan	Office building (99 years lease expiring on 29/8/2094), currently in use as offices for Encorp Berhad Group of Companies.	N/A	1,505	6.5	3,400
Lot 8093 (Seksyen U12), Shah Alam, Mukim Bukit Raja, Daerah Petaling, Selangor Darul Ehsan	Land held for property development.	849,525	N/A	N/A	6,685 (Total purchase consideration RM105.5m)
PB1, Kota Damansara Town Centre, Selangor Darul Ehsan	Commercial land held for property development.	182,111	N/A	N/A	

Size of Holdings	No. of holders	% of shareholders	No. of holders	% of issued share capital
1 - 99	67	1.69	770	0.00
100 - 1,000	460	11.57	405,185	0.18
1,001 - 10,000	2,917	73.37	10,840,049	4.85
10,001 - 100,000	453	11.39	12,324,196	5.51
100,001 - 11,175,425 (*)	76	1.91	49,426,336	22.11
11,175,426 and above (**)	3	0.08	150,512,000	67.34
<b>TOTAL</b>	<b>3,976</b>	<b>100.00</b>	<b>223,508,536</b>	<b>100.00</b>

Remark : \* - less than 3% of issued shares  
\*\* - 5% and above of issued shares

**Notes:**

The above information is based on records as provided by Bursa Malaysia Depository Sdn Bhd and number of holders reflected is in reference to CDS account numbers.

Name of Directors	shareholdings			
	direct		indirect	
	No. of Shares	%	No. of Shares	%
Efeida Bt Mohd Effendi	-	-	73,636,036 a	32.94
Mohd Ezra Effendi Bin Mohd Effendi Norwawi	-	-	-	-
Datuk (Dr.) Philip Ting Ding Ing	569,000	0.25	-	-
Datuk Fong Joo Ching	-	-	-	-
Dato' Chew Kong Seng @ Chew Kong Huat	-	-	-	-
Datuk Dr. Zainal Aznam bin Mohd Yusof	-	-	-	-
Tan Sri Datuk Dr. Omar bin Abdul Rahman	-	-	-	-
Yeoh Soo Ann	-	-	-	-

**Note:**

a Deemed substantial interest through the 100% shareholdings in Lavista Sdn. Bhd. held by her and persons connected to her.



The substantial shareholders' and their shareholdings in Encorp Berhad as at 29 April 2005 as per the Register of Substantial Shareholders are as follows:

Name	Nationality/ Country of Incorporation	direct		indirect	
		No. of Shares ('000)	%	No. of Shares ('000)	%
Lavista Sdn. Bhd.	Malaysia	73,636,036	32.94	-	-
Dato' Mohamad Nor Bin Mohamad	Malaysian	-	-	73,636,036 <sup>1</sup>	32.94
Saiful Aznir bin Shahabudin	Malaysian	-	-	73,636,036 <sup>1</sup>	32.94
Efeida Bt Mohd Effendi	Malaysian	-	-	73,636,036 <sup>2</sup>	32.94
Dasar Untung Sdn. Bhd.	Malaysia	59,000,000	26.40	-	-
Sarawak Enterprise Corporation Berhad	Malaysia	-	-	59,000,000 <sup>3</sup>	26.40
Multi-Purpose Holdings Berhad	Malaysia	-	-	59,000,000 <sup>4</sup>	26.40
Lim Tiong Chin	Malaysian	-	-	59,000,000 <sup>5</sup>	26.40
Quantum Aspects Sdn. Bhd.	Malaysia	-	-	59,000,000 <sup>6</sup>	26.40
Datuk Surin Upatkoorn	Thai	-	-	59,000,000 <sup>7</sup>	26.40
Dato' Tham Ka Hon	Malaysian	-	-	59,000,000 <sup>8</sup>	26.40
Dimensi Nada Sdn. Bhd.	Malaysia	-	-	59,000,000 <sup>9</sup>	26.40
Dynamic Icon Sdn. Bhd.	Malaysia	-	-	59,000,000 <sup>10</sup>	26.40
Lim Bian Yong	Malaysian	-	-	59,000,000 <sup>11</sup>	26.40
Tan Heng Kok	Malaysian	-	-	59,000,000 <sup>11</sup>	26.40
Goh Thian Joe	Malaysian	-	-	59,000,000 <sup>11</sup>	26.40

**Note:**

- <sup>1</sup> Deemed substantial interest through his 50% shareholdings in Lavista Sdn. Bhd.
- <sup>2</sup> Deemed substantial interest through the 100% shareholdings in Lavista Sdn. Bhd. held by her and persons connected to her.
- <sup>3</sup> Deemed indirect interest by virtue of Section 6A(4) of the Companies Act, 1965 held through its wholly-owned subsidiary company, Dasar Untung Sdn. Bhd.
- <sup>4</sup> Deemed indirect interest by virtue of Section 6A(4) of the Companies Act, 1965 held through Sarawak Enterprise Corporation Berhad, an associated company of Multi-Purpose Holdings Berhad
- <sup>5</sup> Deemed substantial interest by virtue of Section 6A(4) of the Companies Act, 1965 held through his 15% shareholdings in Quantum Aspects Sdn. Bhd.
- <sup>6</sup> Deemed substantial interest in Magnum 4D Berhad by virtue of Section 6A(4) of the Companies Act, 1965 held through Multi-Purpose Holdings Berhad
- <sup>7</sup> Deemed indirect interest by virtue of Section 6A(4) of the Companies Act, 1965 held through his 48.9% shareholdings in Dynamic Icon Sdn. Bhd.
- <sup>8</sup> Deemed indirect interest by virtue of Section 6A(4) of the Companies Act, 1965 held through his 39.8% shareholdings in Dynamic Icon Sdn. Bhd.
- <sup>9</sup> Deemed to have indirect interest by virtue of Section 6A(4) of the Companies Act, 1965 held through their 16% shareholdings in Quantum Aspects Sdn. Bhd.
- <sup>10</sup> Deemed to have indirect interest by virtue of Section 6A(4) of the Companies Act, 1965 held through their 52.67% shareholdings in Quantum Aspects Sdn. Bhd.
- <sup>11</sup> Deemed to have indirect interest by virtue of his direct interest in Dimensi Nada Sdn. Bhd. pursuant to Section 6A(4)(c).

No.	Name	No. of shares	Percentage
1.	RHB Capital Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Lavista Sdn Bhd	71,800,000	32.12
2.	Dasar Untung Sdn Bhd	59,000,000	26.40
3.	RHB Capital Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Molpan Holdings Sdn Bhd	19,712,000	8.82
4.	JB Nominees (Asing) Sdn Bhd Qualifier : Magnum (Guernsey) Limited	5,026,000	2.25
5.	RHB Capital Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Robin Lo Bing	5,000,000	2.24
6.	Merit Icon Sdn Bhd	2,980,000	1.33
7.	Mayban Nominees (Tempatan) Sdn Bhd Qualifier : Mayban Trustees Berhad for RHB Dynamic Fund	2,370,000	1.06
8.	RHB Nominees (Tempatan) Sdn Bhd Pledged Securities for Oh Kim Sun	2,052,700	0.92
9.	RHB Nominees (Tempatan) Sdn Bhd Qualifier : RHB Asset Management Sdn Bhd for Kumpulan Wang Simpanan Pekerja	1,843,200	0.82
10.	Lavista Sdn Bhd	1,836,036	0.82
11.	Mayban Nominees (Tempatan) Sdn Bhd Qualifier : Mayban Life Assurance Berhad (Par Fund)	1,741,900	0.78
12.	Bumiputra-Commerce Trustee Berhad Qualifier : RHB Mudharabah Fund	1,700,000	0.76
13.	Amanah Raya Berhad	1,383,600	0.62
14.	Ching Chooi Kuan	1,317,400	0.59
15.	Bumiputra-Commerce Trustee Berhad Qualifier : RHB Malaysia Recovery Fund	1,009,200	0.45
16.	Mayban Nominees (Tempatan) Sdn Bhd Mayban General Assurance Berhad (Insurance Fund)	1,000,000	0.45
17.	Bumiputra-Commerce Trustee Berhad Qualifier : RHB Asset Management Sdn Bhd for Pertubuhan Kebangsaan Melayu Bersatu atau UMNO	914,200	0.41
18.	Lau Kueng Suong	901,200	0.40
19.	Mayban Nominees (Tempatan) Sdn Bhd Qualifier : Mayban Life Assurance Berhad (Non-Par Fund)	800,000	0.36
20.	Azliza Binti Ahmad Tajuddin	712,000	0.32
21.	HSBC Nominees (Asing) Sdn Bhd Qualifier : DZ Bank Intl for Uni Em Pernost Treuhandkonto, Luxembourg	703,500	0.31
22.	Bumiputra-Commerce Trustee Berhad Qualifier : RHB Islamic Growth Fund	651,500	0.29
23.	RHB Nominees (Tempatan) Sdn Bhd Qualifier : RHB Asset Management Sdn Bhd for Kumpulan Wang Amanah Pencen	645,200	0.29
24.	Mayban Nominees (Tempatan) Sdn Bhd Qualifier : Hwang-DBS Asset Management (Malaysia) for Employees Provident Fund (230571)	629,300	0.28
25.	Lim Peck Hoon	594,700	0.27
26.	Mayban Nominees (Tempatan) Sdn Bhd Qualifier : Mayban Life Assurance Berhad (PCG Fund 2)	583,400	0.26
27.	Philip Ting Ding Ing	569,000	0.25
28.	Ee Beng Yee	561,500	0.25
29.	Mayban Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Chew Pok Oi	560,000	0.25
30.	HSBC Nominees (Tempatan) Sdn Bhd Qualifier : HSBC (M) Trustee Bhd for Hwang-DBS Dana Izdihar	540,000	0.24

**ENCORP BERHAD**

(Company No. 506836 -X)  
(Incorporated in Malaysia)

**NOTICE OF FIFTH ANNUAL GENERAL MEETING**

NOTICE IS HEREBY GIVEN THAT the Fifth Annual General Meeting of ENCORP BERHAD will be held on Thursday, 16 June 2005, at 2.30 p.m. at Kenyalang Room, Hilton Kuching, Jalan Tunku Abdul Rahman, P.O. Box 2396, 93748 Kuching, Sarawak for the following purposes:

- 1.- To receive the Audited Financial Statements for the financial year ended 31 December 2004 together with the Directors' Report and Auditors' Report thereon. (Resolution 1)
- 2.- To approve the Directors' Fees for the financial year ended 31 December 2004. (Resolution 2)
- 3.- To consider and, if thought fit, to pass the following resolution pursuant to Section 129(6) of the Companies Act, 1965:-  
  
"That pursuant to Section 129(6) of the Companies Act, 1965, Tan Sri Datuk Dr Omar bin Abdul Rahman, who has exceeded the age of seventy (70) years, be re-appointed as Director of the Company and to hold office until the conclusion of the next Annual General Meeting." (Resolution 3)
- 4.- To re-elect the following Directors who shall retire in accordance with Article 81 of the Company's Articles of Association and who being eligible, offered themselves for re-election:-  
  
(a) Dato' Chew Kong Seng @ Chew Kong Huat; and (Resolution 4)  
(b) Cik Efeida Binti Mohd Effendi (Resolution 5)
- 5.- To re-appoint Messrs Ernst & Young as Auditors of the Company until the conclusion of the next Annual General Meeting and to authorise the Directors to fix their remuneration. (Resolution 6)
- 6.- As Special Business:-  
To consider and, if thought fit, to pass the following ordinary resolution:-  
  
Ordinary Resolutions  
- Authority to allot shares pursuant to Section 132D of the Companies Act, 1965  
  
"THAT pursuant to Section 132D of the Companies Act, 1965, the Directors be and are hereby empowered to issue and allot shares in the Company, at any time and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion deem fit, provided that the aggregate number of shares issued pursuant to this resolution does not exceed 10% of the issued share capital of the Company for the time being and that the Directors be and are also empowered to obtain the approval for the listing of and quotation for the additional shares so issued on the Bursa Malaysia Securities Berhad and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company, subject always to the Companies Act, 1965, the Articles of Association of the Company and approval of all relevant regulatory bodies being obtained for such allotment and issues." (Resolution 7)



7. Ordinary Resolution 2  
- Proposed Share Buy-Back

"That subject always to the Companies Act, 1965 ("the Act"), the Company's Articles of Association, Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities"), and the approvals of all relevant governmental and/or regulatory authorities, the Directors of the Company be and are hereby authorised to make purchases of ordinary shares of RM1.00 each in the Company's issued and paid-up ordinary share capital through Bursa Securities, provided that:-

(a) the aggregate number of ordinary shares purchased and/or held by the Company as treasury shares shall not exceed ten per centum (10%) of the existing issued and paid-up ordinary share capital of the Company;

(b) the funds allocated by the Company for the purpose of purchasing its shares shall not exceed the total retained profits available for dividend and share premium account of the Company. The audited retained profits and share premium reserves of the Company stood at RM3,542,313/- and RM103,563,392/- respectively for the financial year ended 31 December 2004; and

(c) the authority conferred by this resolution shall continue to be in force until:-

(i) the conclusion of the next AGM of the Company following the general meeting at which such resolution was passed at which time it shall lapse unless by ordinary resolution passed at that meeting, the authority is renewed, either unconditionally or subject to conditions;

(ii) the expiration of the period within which the next AGM after that date is required by law to be held; or

(iii) revoked or varied by ordinary resolution passed by the shareholders of the Company in general meeting,

whichever is earlier,

AND THAT the Directors of the Company be and are hereby authorised to deal with the shares purchased in their absolute discretion in the following manner:-

(i) cancel all the shares so purchased; and/or

(ii) retain the shares so purchased in treasury for distribution as dividend to the shareholders and/or resell on the market of Bursa Securities; and/or

(iii) retain part thereof as treasury shares and cancel the remainder.

AND FURTHER THAT the Directors of the Company be and are hereby authorised to take all such steps as are necessary and/or enter into any and all agreements, arrangements and guarantees with any party or parties to implement, finalise and give full effect to the aforesaid purchase with full powers to assent to any conditions, modifications, revaluations, variations and/or amendments (if any) as may be imposed by the relevant authorities from time to time to implement or to effect the purchase of its own shares."

(Resolution 8)

8. To consider any other ordinary business of which due notice has been given in accordance with the Companies Act, 1965.

By Order of the Board

DARMAWATTI DAHARI (LS 02757)  
CHUA SIEW CHUAN (MAICSA 0777689)  
Company Secretaries

Kuching  
25 May 2005



**Explanatory Notes to Special Business:**

1. Authority to issue shares pursuant to Section 132D of the Companies Act, 1965

The proposed adoption of the Ordinary Resolution 1 is primarily to give flexibility to the Board of Directors to issue and allot shares at any time in their absolute discretion without convening a general meeting.

2. Proposed Share-Buy Back

The proposed adoption of Ordinary Resolution 2 is intended to allow the Board of Directors to exercise the power of the Company to purchase not more than 10% of the issued and paid-up share capital of the Company at any time within the time period stipulated in the Listing Requirements of Bursa Malaysia Securities Berhad.

**Notes:**

1. A proxy may but need not be a member of the Company and the provisions of Section 149(1)(b) of the Companies Act, 1965 ("the Act") shall not apply to the Company.
2. If the appointer is a corporation, the form of proxy must be given under its common seal or under the hand of an officer or attorney of the corporation duly authorised.
3. A member shall be entitled to appoint more than one (1) proxy to attend and vote at the same meeting provided that the provisions of Section 149(1)(c) of the Act are complied with.
4. Where a member appoints more than one (1) proxy, the appointment shall be invalid unless he specifies the proportions of his shareholdings to be represented by each proxy.
5. The instrument appointing a proxy and the power of attorney or other authority, if any, must be deposited at the Registered Office of the Company at Level 2, Block B-59, Taman Sri Sarawak Mall, Jalan Tunku Abdul Rahman, 93100 Kuching, Sarawak not less than forty eight (48) hours before the time set for holding the meeting or any adjournment thereof.

The Directors standing for re-election at the Fifth Annual General Meeting of the Company to be held on Thursday, 16 June 2005, at 2:30 p.m. at Kenyalang Room, Hilton Hotel, Kuching are as follows:

Name of Directors	Details of Attendance at Board Meetings	Details of Individual Director and other Disclosure Requirements
Tan Sri Datuk Dr Omar bin Abdul Rahman (Section 129(6) of the Companies Act, 1965)	Refer to Page 17 of the Annual Report	Refer to Page 8 of the Annual Report
Dato' Chew Kong Seng @ Chew Kong Huat	Refer to Page 17 of the Annual Report	Refer to Page 11 of the Annual Report
Efeida Binti Mohd Effendi	Refer to Page 17 of the Annual Report	Refer to Page 9 of the Annual Report

ENCORP BERHAD  
(Company No. 506836-X)  
(Incorporate in Malaysia)

**PROXY FORM**

No. of Shares Held

I / We \_\_\_\_\_ NRIC No. \_\_\_\_\_

Of (full address) \_\_\_\_\_

Being a member / members of ENCORP BERHAD, hereby appoint \_\_\_\_\_

\_\_\_\_\_ of \_\_\_\_\_

or failing him, \_\_\_\_\_ of \_\_\_\_\_ or

failing him the Chairman of the Meeting as my / our proxy to vote for me / us and on my / our behalf at the Fourth Annual General Meeting of the Company, to be held at Kenyalang Room, Hilton Hotel, Kuching, Sarawak on Thursday, 16 June 2005 at 2.30 pm and at any adjournment thereof.

**ORDINARY RESOLUTIONS**

**FOR**

**AGAINST**

<b>1.</b>	To receive the Audited Financial Statements for the financial year ended 31 December 2004 together with the Directors' Report and Auditors' Report thereon.	<input type="checkbox"/>	<input type="checkbox"/>
<b>2.</b>	To approve the Directors' Fees for the financial year ended 31 December 2004.	<input type="checkbox"/>	<input type="checkbox"/>
<b>3.</b>	To re-elect Tan Sri Datuk Dr Omar bin Abdul Rahman, who shall retire pursuant to Section 129(6) of the Companies Act, 1965.	<input type="checkbox"/>	<input type="checkbox"/>
<b>4.</b>	To re-elect Dato' Chew Kong Seng @ Chew Kong Huat who shall retire in accordance with Article 81 of the Company's Articles of Association.	<input type="checkbox"/>	<input type="checkbox"/>
<b>5.</b>	To re-elect Cik Efeida Binti Mohd Effendi who shall retire in accordance with Article 81 of the Company's Articles of Association.	<input type="checkbox"/>	<input type="checkbox"/>
<b>6.</b>	To re-appoint Messrs Ernst & Young as Auditors of the Company until the conclusion of the next Annual General Meeting and to authorize the Directors to fix their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
<b>7.</b>	Ordinary Resolution as regards to Section 132D of the Companies Act. 1965.	<input type="checkbox"/>	<input type="checkbox"/>
<b>8.</b>	Ordinary Resolution as regards to Proposed Share Buy-Back.	<input type="checkbox"/>	<input type="checkbox"/>

(Please indicate with (✓) how wish your vote to be cast. If no specific direction as to voting is given, the proxy will vote as he thinks fit or abstain from voting at his discretion).

As witness my / our hand(s) this \_\_\_\_\_ day of \_\_\_\_\_ 2005.

Signature \_\_\_\_\_

- Notes:
1. A proxy may but need not be a member of the Company and the provisions of section 149 (1) (b) of the Companies Act, 1965 ("the Act") shall not apply to the Company.
  2. If the appointer is a corporation, the form of proxy must be given under its common seal or under the hand of an officer or attorney of the corporation duly authorized.
  3. A member shall be entitled to appoint more than one (1) proxy to attend and vote at the same meeting provided that the provisions of Section 149 (1)(c) of the Act are complied with.
  4. Where a member appoints more than one (1) proxy, the appointment shall be invalid unless he specifies the proportions of his shareholdings to be represented by each proxy.
  5. The instrument appointing a proxy and the power of attorney or other authority, if any, must be deposited at the Registered Office of the Company at Level 2, Block B-59, Taman Sri Sarawak Mall, Jalan Tuanku Abdul Rahman, 93100 Kuching Sarawak not less than forty-eight (48) hours before the time set for holding the meeting or any adjournment thereof.

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Place  
Stamp  
Here

Level 2, B-59,  
Taman Sri Sarawak,  
Jalan Tunku Abdul Rahman  
93100 Kuching Sarawak

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