

**VERSATILE CREATIVE BERHAD**  
(formerly known as Quinquick Sdn Bhd and Versatile Creative Sdn Bhd)  
(Incorporated in Malaysia)

**AND ITS SUBSIDIARIES**

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

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The following accounting policies are adopted by the Group and the Company:-

**1.1 Basis of accounting**

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

The financial statements have been prepared on a going concern basis which is dependent on the continuing financial support from the bankers and creditors and the Group's ability to achieve continuing profitable operations.

**1.2 Basis of consolidation**

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

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

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

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

### 1.3 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Property, plant and equipment retired from active use and held for disposal are stated at the carrying amount at the date when the asset is retired from active use, less impairment losses, if any.

### 1.4 Depreciation

Freehold land and capital work-in-progress are not amortised. Leasehold land and buildings are amortised in equal instalments over the lease period of 60 years. The straight line method is used to write off the cost of the other assets over the term of their estimated useful lives at the following principal annual rates:-

Motor vehicles	20%
Plant and machinery	10%
Office equipment	10% - 20%
Furniture and fittings	10%
Renovation	10% - 20%
Factory building	2%

### 1.5 Impairment

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

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

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

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

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

## **1.6 Investments**

Long term investments other than in subsidiaries are stated at cost. An allowance is made when the Directors are of the view that there is a diminution in their value which is other than temporary.

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

## **1.7 Goodwill**

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

Goodwill is amortised from the date of initial recognition over its estimated useful life of not more than 25 years.

## **1.8 Inventories**

Raw materials, work-in-progress and finished goods are stated at the lower of cost and net realisable value with weighted average cost being the main basis for cost. Indirect materials and stores and spares are stated at cost.

For work-in-progress and finished goods, cost consist of materials, direct labour and an appropriate proportion of fixed and variable production overheads. Cost of raw materials and packing materials includes transportation costs and inward freight charges.

## **1.9 Trade and other receivables**

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

## **1.10 Cash and cash equivalents**

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

## **1.11 Liabilities**

Borrowings and trade and other payables are stated at cost.

## **1.12 Hire purchase creditors**

Assets acquired by way of hire purchase arrangements are capitalised at their purchase cost and depreciation provided on the same basis as owned assets. The total amount payable under hire purchase arrangements are included under hire purchase creditors. The interest element for assets acquired under hire purchase are amortised over the period of the agreements.

### 1.13 Employee benefits

Obligations for statutory employer's contribution and short term compensated absences for employees are recognised as an expense in the income statement as incurred.

### 1.14 Tax expense

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

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

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

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

### 1.15 Income recognition

#### (a) Revenue

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

#### (b) Interest income

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

#### (c) Dividend income

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

#### (d) Rental income

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

#### (e) Commission income

Revenue from commission is recognised when the right to receive payment is established.

### 1.16 Finance costs

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

### 1.17 Foreign currency transaction

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

The closing rate used in the translation of foreign currency monetary assets and liabilities are:

1 USD	:	RM3.80
1 SGD	:	RM2.21
1 EUR	:	RM4.70
1 GBD	:	RM6.02

## 2. PROPERTY, PLANT AND EQUIPMENT

### GROUP

	Land and buildings (Note 2.1)	Motor vehicles, plant and machinery	Office equipment, furniture fittings and renovation	Capital work-in- progress	Total
At Cost	RM	RM	RM	RM	RM
Acquisition of subsidiaries	21,359,032	42,728,049	4,897,479	-	68,984,560
Additions	-	6,426,302	123,086	2,219,489	8,768,877
Disposals	-	(4,292,177)	(16,949)	-	(4,309,126)
Written off	-	(527,640)	(16,700)	-	(544,340)
At 31 December 2003	<u>21,359,032</u>	<u>44,334,534</u>	<u>4,986,916</u>	<u>2,219,489</u>	<u>72,899,971</u>
<b>Accumulated Amortisation/</b>					
<b>Depreciation</b>					
Acquisition of subsidiaries	2,698,472	22,193,602	3,685,685	-	28,577,759
Charge for the period	52,168	616,516	62,100	-	730,784
Disposals	-	(4,215,540)	(6,301)	-	(4,221,841)
Written off	-	(348,300)	(6,124)	-	(354,424)
At 31 December 2003	<u>2,750,640</u>	<u>18,246,278</u>	<u>3,735,360</u>	<u>-</u>	<u>24,732,278</u>
<b>Net Book Value</b>					
At 31 December 2003	<u>18,608,392</u>	<u>26,088,256</u>	<u>1,251,556</u>	<u>2,219,489</u>	<u>48,167,693</u>

## 2.1 Land and buildings

<b>GROUP</b>	<b>Long term leasehold land RM</b>	<b>Freehold land RM</b>	<b>Buildings RM</b>	<b>Total RM</b>
<b>At Cost</b>				
Acquisition of subsidiaries At 31 December 2003	<u>1,821,077</u>	<u>1,067,498</u>	<u>18,470,457</u>	<u>21,359,032</u>
<b>Accumulated Amortisation/ Depreciation</b>				
Acquisition of subsidiaries	199,839	-	2,498,633	2,698,472
Charge for the period	4,528	-	47,640	52,168
At 31 December 2003	<u>204,367</u>	<u>-</u>	<u>2,546,273</u>	<u>2,750,640</u>
<b>Net Book Value</b>				
At 31 December 2003	<u>1,616,710</u>	<u>1,067,498</u>	<u>15,924,184</u>	<u>18,608,392</u>

The title deed for the long term leasehold land has been obtained by the subsidiary and is in the process of being charged to a bank.

### **Security**

The net book value of long term leasehold land, buildings, renovation and machinery of the Group are RM41,830,246 and are charged to banks as security for borrowings and term loans as disclosed in Notes 13 and 14.

### **Assets acquired under hire purchase**

The net book value of plant and equipment of the Group acquired under hire purchase was RM3,668,526.

## 3. INVESTMENT IN SUBSIDIARIES

	<b>COMPANY 2003 RM</b>
Unquoted shares at cost	<u>79,067,900</u>

The subsidiaries (all incorporated in Malaysia) are as follows:-

<b>Name of Company</b>	<b>Percentage of Group's effective ownership</b>	<b>Principal activities</b>
	<b>2003 %</b>	
Versatile Paper Boxes Sdn Bhd ("VPB")	100	Manufacturing and trading of paper board packaging products, specialising in offset-printed boxes and offset-laminated cartons
<b>Held through VPB</b> Fairpoint Plastic Industries Sdn Bhd	100	Manufacturing and sale of plastic packaging products

Name of Company	Percentage of Group's effective ownership		Principal activities
	2003	%	
Imagescan Creative Sdn Bhd	100		Provision of colour separation and lithography services and printed materials
Versatile Smart Components Sdn Bhd	100		Dormant
Mediaway Specialist Sdn Bhd <i>(formerly known as Super Menu Sdn Bhd; held through Imagescan Creative Sdn Bhd)</i>	60		Provision of specialised outdoor advertising media services
Tai Wah Garment Manufacturing Bhd *	100		Dormant

\* Tai Wah Garment Manufacturing Bhd was acquired through the reverse takeover exercise and is excluded from consolidation as control is intended to be temporary. The carrying value of this investment is RM1 and is stated at the lower of cost and net realisable value.

On 13 January 2004, the Company entered into a sale and purchase agreement with a third party to dispose of its 100% equity interest in Tai Wah Garment Manufacturing Bhd, for a nominal consideration of RM1. Accordingly, Tai Wah Garment Manufacturing Bhd has ceased to be a wholly-owned subsidiary of the Company with effect from 13 January 2004.

The financial statements of all the subsidiaries, except Tai Wah Garment Manufacturing Bhd, were audited by KPMG.

#### Acquisition of subsidiaries

On 27 October 2003, the Company acquired VPB, which has a 100% direct interest in Fairpoint Plastic Industries Sdn Bhd, Imagescan Creative Sdn Bhd and Versatile Smart Components Sdn Bhd, and 60% indirect interest in Mediaway Specialist Sdn Bhd through Imagescan Creative Sdn Bhd, satisfied by the issuance of 78,030,000 shares of the Company.

The acquisition was accounted for using the acquisition method of accounting. For the two (2) months ended 31 December 2003, the subsidiaries contributed a net profit of RM6,205,000 to the consolidated net profit for the year.

The fair value of the assets acquired and liabilities assumed and their cash flows effects are as follow:-

	<b>2003</b>
	<b>RM</b>
Property, plant and equipment	40,406,801
Quoted investment	34,853,138
Current assets	29,350,956
Current liabilities	(45,064,195)
Long term liabilities	(10,172,614)
Minority interest	(3,018,322)
Share of net assets acquired	46,355,764
Goodwill on consolidation	32,712,136
Total purchase price	(79,067,900)
Less: Consideration satisfied by issuance of shares	78,030,000
Add: Cash and cash equivalents	(5,736,880)
Cash outflow on acquisition, net of cash acquired	<u>(6,774,780)</u>

The Directors of the Group and of the Company are of the opinion that the carrying amount of property, plant and equipment and other assets and liabilities of VPB and its subsidiaries, other than the quoted investment as at the date of acquisition approximate the fair value of the respective assets and liabilities. The fair value of the quoted investment based on the quoted market value as at 27 October 2003 was approximately RM34,853,000.

#### 4. GOODWILL ON CONSOLIDATION

	<b>GROUP 2003 RM</b>
Goodwill arising from consolidation	32,712,136
Less: Amortisation during the period (Note 21)	<u>(226,272)</u>
Balance as at 31 December	<u><u>32,485,864</u></u>

#### 5. OTHER INVESTMENTS

	<b>GROUP 2003 RM</b>
<i>Long term</i>	
Quoted shares in Malaysia – at cost	27,593,209
Unquoted shares in Malaysia - at cost	<u>2,000,000</u>
	<u><u>29,593,209</u></u>

The market value of the investments are as stated in Note 30.

#### 6. INVENTORIES

	<b>GROUP 2003 RM</b>
These comprise the following:-	
Finished goods	1,282,447
Work-in-progress	524,993
Raw materials	2,616,893
Indirect materials	229,084
Stores and spares	<u>9,698</u>
	<u><u>4,663,115</u></u>

#### 7. TRADE RECEIVABLES

	<b>GROUP 2003 RM</b>
Trade receivables	16,708,847
Less: Allowance for doubtful debts	<u>(376,847)</u>
	<u><u>16,332,000</u></u>

Included in trade receivables of the Group is an amount totaling RM2,459,446 due from companies in which certain Directors have financial interests.

## 8. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	<b>GROUP 2003 RM</b>
Other receivables	8,328,851
Deposits	291,320
Prepayments	432,550
	<u>9,052,721</u>

## 9. AMOUNT DUE FROM SUBSIDIARY

The amount due from subsidiary is unsecured, interest free and has no fixed terms of repayment.

## 10. FIXED DEPOSITS WITH LICENSED BANKS AND A FINANCIAL INSTITUTION

	<b>GROUP 2003 RM</b>
Fixed deposits with licensed banks	957,900
Fixed deposit with a financial institution	100,000
	<u>1,057,900</u>

The fixed deposits of the Group are held on lien by banks and a financial institution for credit facilities granted to the Group.

## 11. TRADE PAYABLES

Included in trade payables of the Group is an amount totalling RM49,260 due to a company in which certain Directors have financial interests.

## 12. AMOUNT DUE TO A DIRECTOR

Amount due to a Director is unsecured, interest free and has no fixed terms of repayment.

## 13. BORROWINGS

	<b>GROUP 2003 RM</b>
These comprise:-	
<b>Secured</b>	
Bank overdrafts	1,453,984
Bankers' acceptances	8,454,000
Bills payable	39,978
Revolving credits	3,000,000
	12,947,962
<b>Unsecured</b>	
Bank overdrafts	160,184
Bankers' acceptances	2,496,000
	2,656,184
Total	<u>15,604,146</u>

Interest on bank overdrafts and other borrowings are charged at annual rates ranging from 7.50% to 8.40% per annum and ranging from 3.00% to 9.90% per annum respectively.

The unsecured borrowings are guaranteed by a shareholder.

The secured borrowings are secured as mentioned in Note 14.

#### 14. TERM LOANS (SECURED)

	<b>GROUP 2003 RM</b>
Repayable within 12 months	2,298,308
Repayable after 12 months	
- Between 1 and 2 years	8,088,150
- Between 2 and 5 years	5,373,802
- After 5 years	756,970
	<u>14,218,922</u>
	<u>16,517,230</u>

Interest rate on the Group's term loans are charged at annual rates ranging from 4.30% to 8.00% per annum.

The short term borrowings mentioned in Note 13 and the term loans are secured as follows:-

- (i) Joint and several guarantee by certain Directors and a shareholder;
- (ii) First and second legal charge on shareholders' properties;
- (iii) First, second and third debentures covering fixed and floating charge over entire assets of a subsidiary including present and future assets of the subsidiary;
- (iv) Corporate guarantee by a shareholder;
- (v) Lien over fixed deposits together with letter of set-off;
- (vi) Pledge of quoted investment shares at 50% margin of advance. Moratorium shares will be prescribed at value of 30% of the market value of the shares.

The main covenants of the borrowings and term loans are as follows:-

##### *Positive covenants*

- (i) Undertaking not to create or exist any mortgage, charge, pledge, lien, encumbrances or other security interest of any kind on its present and future asset without the prior written consent of the Bank;
- (ii) To maintain a total gearing ratio not exceeding 2:1;

*Negative covenants*, that without any prior written consent of the financial institutions, shall not:-

- (iii) Grant loans to directors, shareholders or related companies;
- (iv) Enter into profit sharing arrangement with other party unless such arrangement is entered into in the ordinary course of business;
- (v) Change the nature of the existing business;
- (vi) Incur additional indebtedness including lease obligation;

- (vii) Cease to exercise control over the financed machinery and shall not lease, rent, transfer or dispose of it;
- (viii) Change its ownership or permit any form of merger, reconstruction, consolidation, amalgamation or reduction in share capital;
- (ix) Dispose or lease its property, plant and equipment except in the ordinary course of its business; and
- (x) Declare any dividends in excess of 10% of its paid up capital or any amount in excess of 50% of its net profit after tax unless the debt servicing is current.

## 15. HIRE PURCHASE CREDITORS

Hire purchase creditors are payable as follows:-

	<b>GROUP</b>		
	<b>Total obligation 2003 RM</b>	<b>Interest 2003 RM</b>	<b>Principal 2003 RM</b>
Less than 1 year	1,070,342	148,693	921,649
Between 1 and 5 years	<u>1,427,503</u>	<u>225,271</u>	<u>1,202,232</u>
	<u>2,497,845</u>	<u>373,964</u>	<u>2,123,881</u>

## 16. DEFERRED TAXATION

	<b>GROUP 2003 RM</b>
Acquisition of subsidiaries	4,879,116
Transfer from Income Statement (Note 23.1)	<u>324,884</u>
Balance at 31 December	<u>5,204,000</u>

The subsidiaries have deferred tax liabilities amounting to approximately RM5,204,000 arising from taxable temporary differences.

## 17. SHARE CAPITAL

	<b>GROUP/COMPANY 2003 RM</b>
Authorised:	
Ordinary shares of RM1 each	
At 16 January (date of incorporation)	100,000
Creation during the period	<u>499,900,000</u>
Balance at 31 December	<u>500,000,000</u>
Issued and fully paid:	
Ordinary shares of RM1 each	
At 16 January (date of incorporation)	2
Allotment during the period	<u>110,643,079</u>
Balance at 31 December	<u>110,643,081</u>

2 subscribers' shares of RM1.00 each were issued at par for cash at the date of incorporation. Pursuant to a Members' Circular Resolution dated 22 July 2003, the authorised ordinary share capital of the Company increased from 100,000 ordinary shares of RM1.00 each to 500,000,000 ordinary shares of RM1.00 each through the creation of 499,900,000 ordinary shares of RM1.00 each. The new ordinary shares shall rank pari passu in all respects with the existing ordinary shares.

At an Extraordinary General Meeting held on 18 August 2003, the issued and paid-up share capital of the Company was increased to RM110,643,081 by an allotment of 110,643,079 ordinary shares of RM1.00 each for cash as follows:-

<b>Purpose of issue</b>	<b>Number of shares</b>
Exchange of the entire issued and paid-up share capital of TWGB on the basis of one (1) new VCB share for every twenty (20) existing TWGB shares ("Share Exchange")	5,300,000
Settlement of outstanding debts of TWGB pursuant to the restructuring scheme ("Debt Settlement")	17,255,079
Acquisition of the entire equity interest in Versatile Paper Boxes Sdn Bhd and its subsidiaries ("Acquisition")	78,030,000
Private Placement representing approximately 10% of the enlarged issued and paid-up share capital after the Share Exchange, Debt Settlement and Acquisition	10,058,000
	<u>110,643,079</u>

The new ordinary shares shall rank pari passu in all respects with the existing ordinary shares except that such new shares shall not rank for any dividends, rights, allotments or other distribution declared prior to the allotment of such shares to be issued.

## **18. CAPITAL REDEMPTION RESERVE**

### **Group**

The capital redemption reserve is in respect of redemption of preference share capital of a subsidiary during the period.

## **19. MINORITY INTERESTS**

Included in minority interests are preference shares issued by a subsidiary. The details are as stated below:-

	<b>GROUP 2003 RM</b>
Authorised 8% Non-cumulative preference shares of RM1.00 each	3,000,000
Issued and fully paid 8% Non-cumulative preference shares of RM1.00 each	
Acquisition of subsidiaries	3,000,000
Redemption during the period	(1,450,000)
Balance at 31 December	<u>1,550,000</u>