10. DIRECTORS' REPORT (PREPARED FOR INCLUSION IN THIS PROSPECTUS)

WILLOWGLEN

WILLOWGLEN MSC BERHAD
(Co. No. 462648-V)
L5-E-5 & L5-E-6, Enterprise 4
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Tel : 603-8996 0118 Fax : 603-8996 0128

Registered Office:
17th Floor, Plaza OSK
Jalan Ampang
50450 Kuala Lumpur

18 March 2002

The Shareholders

Willowglen MSC Berhad ("WMSC" or "Company")

Dear Sir/Madam

On behalf of the Board of Directors of WMSC, I report that after making due enquiries in relation to the interval between 31 October 2001, being the date to which the last audited accounts of the Company and its subsidiary companies have been made up, and 11 March 2002, being a date not earlier than fourteen (14) days before the issue of this Prospectus:-

(a) The business of the Company and its subsidiary companies has, in the opinion of the Directors, been satisfactorily maintained;

(b) In the opinion of the Directors, save as disclosed in this Prospectus, no circumstances have arisen since the last audited accounts of the Company and its subsidiary companies which have adversely affected the trading or the value of the assets of the Company or its subsidiary companies;

(c) The current assets of the Company and its subsidiary companies appear in the books at values which are believed to be realisable in the ordinary course of business;

(d) Save as disclosed in the section on "Working Capital, Borrowings and Contingent Liabilities", no contingent liabilities have arisen by reason of any guarantees or indemnities given by the Company or its subsidiary companies; and

(e) Save as disclosed in the Accountants' Report as set out in Section 11 of this Prospectus, there have been no changes to the published reserves or any unusual factors affecting the profits of the Company and its subsidiary companies since the last audited accounts of the Company and its subsidiary companies.

Yours faithfully
For and on behalf of the Board of Directors of
Willowglen MSC Berhad

Diong King Ewu
Managing Director

Total Customer Satisfaction

KPMG (Firm No. AF 0758)
Chartered Accountants
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17th Floor, Plaza OSK
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Wilayah Persekutuan

18 March 2002

Dear Sirs

Accountants' Report

This report has been prepared by KPMG, the approved company auditors, for inclusion in the Prospectus to be dated 22 March 2002 in connection with the issue of 62,000,000 new ordinary shares of RM0.10 each in Willowglen MSC Berhad (hereinafter referred as "WMSC" or "the Company") at an issue price of RM0.20 per share and the listing and quotation for the entire issued and paid-up share capital of WMSC on the Malaysian Exchange of Securities Dealing Automated Quotation Bhd ("MESDAQ").

1 General Information

1.1 Background

The Company was incorporated in Malaysia under the Companies Act, 1965 on 20 May 1998 as a private limited company principally involved in the research, development and supply of a computer-based control systems. On 27 November 2000, the Company was converted to a public limited company and assumed its present name.

1.2 Principal Activities

The Company is principally engaged in the research, development and supply of computer-based control systems whilst the principal activities of the subsidiary companies are set out in section 1.5 of this report.

1.3 Changes In Share Capital

At the date of incorporation, the authorised share capital of WMSC was 100,000 ordinary shares of RM1 each. In August 2000, the nominal value of the ordinary share capital was changed from RM1 each to RM0.10 each and the authorized share capital was increased from RM100,000 to RM100,000,000.

The issued and paid-up share capital as at the date of incorporation was RM2 comprising 2 ordinary shares of RM1 each. During the year, WMSC increased its issued and paid up share capital to RM100,000 comprising 100,000 ordinary shares of RM1 each. Upon completion of the Restructuring Scheme set out in paragraph 1.4, the issued and paid up capital of WMSC will be increased to RM24,800,000 of which RM6,200,000 will be from the issuance of 62,000,000 new ordinary shares from the Public Issue.

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The movement in the issued and paid-up share capital of the Company since the date of incorporation is as follows:-

Date of allotment	Number of ordinary shares	Par value RM	Type of issue	Total issued and paid up capital RM
20.05.1998	2	1.00	Cash	2
14.08.1998	99,998	1.00	Cash	100,000
7.08.2000	-	0.10	Subdivision of shares of RM1.00 each into shares of RM0.10 each	100,000
9.10.2000	45,562,490	0.10	Acquisition of WG Msia	4,656,249
24.10.2000	20,000,000	0.10	Cash	6,656,249
27.10.2000	17,000,000	0.10	Cash	8,356,249
30.10.2000	99,585,932	0.10	Acquisition of WG Spore	18,314,842
1.11.2000	2,851,578	0.10	Cash	18,600,000

1.4 Restructuring Scheme

The restructuring exercise of WMSC Group involves the following transactions.

i) Acquisition of Willowglen Services Pte. Ltd. ("WG Spore") and Willowglen (Malaysia) Sdn. Bhd. ("WG Msia")

WMSC acquired the entire equity interests in WG Spore and WG Msia through the issuance of new ordinary shares of RM0.10 each in WMSC to the vendors of WG Spore and WG Msia. The acquisitions were completed on 30 October 2000.

The details of the acquisition of WG Spore and WG Msia are set out below:-

Company	% equity interest acquired	Audited Net Tangible Assets @ 30.06.00 RM'000	Purchase Consideration RM'000	No. of new shares in WMSC issued '000
WG Spore	100	9,959	9,959	99,586
WG Msia	100	4,556	4,556	45,563
Total		14,515	14,515	145,149

The purchase consideration for the acquisition of WG Spore was based on the net tangible assets of WG Spore as at 30 June 2000 of RM9,958,593 based on the exchange rate of S$1=RM2.22.

The acquisition of WG Msia was based on the net tangible assets of WG Msia as at 30 June 2000 of RM4,556,249.

The shares in WG Spore and WG Msia were acquired free from any encumbrances, liens and charges and with all rights attaching thereto.

ii) Subscription of new shares in WMSC

This involved a cash injection of RM3,985,158 by OSK Venture Equities Sdn. Bhd., WMSC Directors and its employees and New Advent Sdn. Bhd. through the issuance of new ordinary shares of RM0.10 each in WMSC.

iii)Public Issue

The initial public offering by WMSC will involve a public issue of 25% of the Company's enlarged share capital. The indicative size and price of the public issue is 62.0 million new ordinary shares of RM0.10 each at an issue price of RM 0.20 per share.

1.5 Subsidiary Companies

The subsidiary companies of WMSC as at the date of this report and their principal activities are as follows:-

Company	Place of Incorporation	Principal activity	Effective Interest (%)	Date of Incorporation	Paid-up Capital as at 31 October 2001
i) WG Spore	Singapore	Design, supply, engineering, implementation and maintenance of computer-based control systems	100	16 December 1986	S$1,500,002
ii) WG Msia	Malaysia	Sales, implementation and maintenance of computer-based control systems	100	18 July 1995	RM3,600,000

1.6 Financial Statements and Auditors

The financial year end of WMSC and its subsidiaries (hereinafter referred to as WMSC Group) was changed from 30 June to 31 December in the year 2000. The latest audited financial statements are in respect of the 10 month period ended 31 October 2001. We are and have been the auditors for WG Msia and WMSC for the financial periods/years under review in this report. The accounts of WG Spore for the financial years/period under review in this report were audited by KPMG Singapore.

The auditors' reports on the accounts of all the companies for the periods/years under review were reported on without qualifications.

During the financial year ended 30 June 2000, WG Msia and WMSC adopted the Malaysian Accounting Standards Board ("MASB") Standards which replaced the corresponding International Accounting Standards ("IAS") and Malaysian Accounting Standards ("MAS") issued by the Councils of the Malaysian Institute of Accountants ("MIA") and Malaysian Association of Certified Public Accountants ("MACPA").

Following the adoption of the MASB Standards, there have been no material changes to the accounting policies of the Group except for the preliminary and pre-operating expenses written off to the income statement in that financial year by WMSC.

The accounting policies of the Group are as stated in section 6.1 of this Report.

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2 Summarised Income Statements

2.1 Consolidated Results- WMSC Group

The summarised results of the WMSC Group are set out below, based on their audited financial statements. The proforma consolidated results for the financial years/periods ended 30 June 1997 to 31 October 2001 are provided for illustrative purposes only, based on the assumption that the Group has been in existence throughout the financial years under review and are accounted for under the merger method.

	<--------------Year Ended 30 June			----------->	6 months ended 31 December	10 months ended 31 October
	1997	**1998**	**1999**	**2000**	**2000**	**2001**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
				(restated)	(restated)	
Revenue	19,469	27,579	24,205	22,964	13,132	23,628
Cost of sales	(13,424)	(17,890)	(13,811)	(13,496)	(7,922)	(15,357)
Gross profit	6,045	9,689	10,394	9,468	5,210	8,271
Administrative expenses	(3,966)	(4,550)	(4,293)	(4,824)	(1,939)	(3,478)
Other operating expenses	(1,157)	(2,945)	(2,321)	(2,423)	(1,236)	(2,837)
Operating profit	922	2,194	3,780	2,221	2,035	1,956
Interest expense	(35)	(103)	(388)	(254)	(65)	(57)
Other finance income/(expense)	91	347	(188)	121	4	7
Profit before taxation	978	2,438	3,204	2,088	1,974	1,906
Tax expense	(354)	(745)	(652)	(670)	(622)	(744)
Profit after taxation	624	1,693	2,552	1,418	1,352	1,162
Exceptional items	-	(1,510)	-	-	-	-
Profit after taxation & exceptional items	624	183	2,552	1,418	1,352	1,162

	<------------Year Ended 30 June----------->				6 months ended 31 December	10 months ended 31 October
	1997	**1998**	**1999**	**2000** (restated)	**2000** (restated)	**2001**
Number of ordinary shares (Based on proposed enlarged share capital – '000)	248,000	248,000	248,000	248,000	248,000	248,000
Net earnings per share (sen)	0.25	0.07	1.03	0.57	0.55	0.47

Notes:-

(i) *The extraordinary item in the audited accounts of WG Spore for the financial year ended 30 June 1998 has been reclassified as an exceptional item. The exceptional item in the financial year ended 30 June 1998 comprises :-*

(a) *The construction costs of a factory which was prematurely terminated during the financial year ended 30 June 1998 amounting to RM1,667,000.*

(b) *The refund of an overpayment of costs incurred during the financial year ended 30 June 1999 for the construction of this factory amounting to RM157,000.*

The reclassification was made so as to be consistent with the requirements of the MASB Standard 3 on Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies. The land for the proposed construction of the factory was surrendered to the JTC Corporation in November 1997.

(ii) *The significant growth in revenue for the year ended 1998 was mainly due to the appreciation of the Singapore Dollar against the Malaysian Ringgit of approximately 38%. In the subsequent year, a depreciation of 9% in the exchange rate contributed significantly to the decrease in revenue.*

(iii) *The comparatives for the year ended 30 June 2000 and the 6 month period ended 31 December 2000 have been restated to conform with the change in accounting policy by WG Spore as explained in Note 6.16. The impact of this change in accounting policy is as follows:*

	Year ended 30 June 2000 RM'000	*6 months ended 31 December 2000 RM'000*
Net profit before change to accounting policy	1,997	1,209
Impact of change in accounting policy:		
- on profit before tax	(736)	193
- on taxation	157	(50)
Net profit for the period	1,418	1,352

(iv) *There were no minority interests in the financial years/periods under review.*

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(v) *The net earnings per ordinary share have been calculated based on the profit after taxation and after exceptional items and divided by the number of ordinary shares of the proposed enlarged share capital.*

(vi) *The summarised income statements of the subsidiaries are set out below, in sections 2.2 to 2.4. The summarised results of the subsidiaries have not been significantly affected by transactions with their related companies.*

2.2 WG Spore

The summarised results of WG Spore are set out below, based on the audited financial statements of the Company.

	<-------------Year Ended 30 June--------->				**6 months ended 31 December**	**10 months ended 31 October**
	1997	**1998**	**1999**	**2000**	**2000**	**2001**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
				(restated)	(restated)	
Revenue	19,013	26,566	23,119	21,349	12,044	21,573
Cost of sales	(13,135)	(17,612)	(13,968)	(12,919)	(7,368)	(13,833)
Gross profit	5,878	8,954	9,151	8,430	4,676	7,740
Administrative expenses	(3,695)	(4,235)	(4,073)	(4,331)	(1,625)	(2,801)
Other operating expenses	(1,105)	(2,814)	(2,098)	(2,126)	(1,112)	(1,530)
Operating profit	1,078	1,905	2,980	1,973	1,939	3,409
Interest expense	(30)	(68)	(335)	(101)	(35)	(45)
Other finance income/(expense)	2	337	(179)	124	(2)	1
Profit before tax	1,050	2,174	2,466	1,996	1,902	3,365
Tax expense	(354)	(652)	(647)	(588)	(542)	(797)
Profit after taxation	696	1,522	1,819	1,408	1,360	2,568
Exceptional items	-	(1,510)	-	-	-	-
(Loss)/Profit after taxation & exceptional items	696	12	1,819	1,408	1,360	2,568

Notes:-

(i) *The extraordinary item in the audited accounts of WG Spore for the financial year ended 30 June 1998 has been reclassified as an exceptional item. The exceptional item in the financial year ended 30 June 1998 comprises :-*

(a) *The construction costs of a factory which was prematurely terminated during the financial year ended 30 June 1998 amounting to RM1,667,000.*

(b) The refund of an overpayment of costs incurred during the financial year ended 30 June 1999 for the construction of this factory amounting to RM157,000.

The reclassification was made so as to be consistent with the requirements of the MASB Standard 3 on Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies. The land for the proposed construction of the factory was surrendered to JTC Corporation in November 1997.

(ii) The income statements of WG Spore for the financial years ended 30 June 1997 to 30 June 1999 have been converted to Ringgit Malaysia based on the respective years' closing exchange rates for illustration purposes only. This is not in any way an indication or reflection of WG Spore's financial position for the relevant financial years had the financial statements been converted to Ringgit Malaysia using the average exchange rates prevailing during the respective financial years.

(iii) The significant growth in revenue for the year ended 1998 was mainly due to the appreciation of the Singapore Dollar against the Malaysian Ringgit of approximately 38%. In the subsequent year, a depreciation of 9% in the exchange rate contributed significantly to the decrease in revenue.

(iv) The comparatives for the year ended 30 June 2000 and the 6 month period ended 31 December 2000 have been restated to conform with the change in accounting policy as explained in Note 6.16. The impact of this change in accounting policy is as follows:

	Year ended 30 June 2000 RM'000	6 months ended 31 December 2000 RM'000
Net profit before change to accounting policy	1,987	1,217
Impact of change in accounting policy:		
- on profit before tax	(736)	193
- on taxation	157	(50)
Net profit for the period	1,408	1,360

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2.3 WG Msia

The summarised results of WG Msia are set out below, based on the audited financial statements of the Company.

	<----- Year Ended 30 June			----->	6 months ended 31 December	10 months ended 31 October
	1997	1998	1999	2000	2000	2001
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	456	2,586	2,491	2,258	1,324	2,161
Cost of sales	(303)	(1,851)	(1,248)	(1,220)	(790)	(1,630)
Gross profit	153	735	1,243	1,038	534	531
Administrative expenses	(257)	(338)	(220)	(426)	(249)	(527)
Other operating expenses	(52)	(131)	(223)	(247)	(121)	(1,258)
Operating (loss)/profit	(156)	266	800	365	164	(1,254)
Interest expense	(5)	(97)	(167)	(152)	(30)	(12)
Other finance income/(expense)	89	95	105	(3)	(4)	(7)
(Loss)/Profit before tax	(72)	264	738	210	130	(1,273)
Tax expense	-	(93)	(5)	(82)	(36)	19
(Loss)/Profit after taxation	(72)	171	733	128	94	(1,254)

Note:-

The significant increase in other operating expenditure for the 10 months ended 31 October 2001 is mainly due to the following:

a) provision for doubtful debts amounting to RM661,000, and

b) foreseeable losses on contract work-in-progress of RM276,000.

2.4 WMSC

The summarised results of WMSC are set out below, based on the audited financial statements of the Company.

	From 20 May 1998 (date of incorporation) to 30 June 1999 RM'000	Year ended 30 June 2000 RM'000	6 months ended 31 December 2000 RM'000	10 months ended 31 October 2001 RM'000
Revenue	-	-	-	-
Cost of sales	-	-	-	-
Gross profit	-	-	-	-
Administrative expenses	-	(66)	(64)	(151)
Other operating expenses	-	(51)	(3)	(48)
Operating loss	-	(117)	(67)	(199)
Other finance income	-	-	9	13
Loss before taxation	-	(117)	(58)	(186)
Tax expense	-	-	(44)	34
Loss after taxation	-	(117)	(102)	(152)

3 Dividends

3.1 WG Spore

For the year ended 30 June 1997, the Company paid a final net dividend of RM222,000 in respect of the previous financial year ended 30 June 1996.

No other dividends were declared or paid during the remaining years under review.

3.2 WG Msia

WG Msia did not declare any dividends during the years/periods under review.

3.3 WMSC

WMSC did not declare any dividends during the years/periods under review.

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4 Summarised Balance Sheets

4.1 WG Spore

The summarised balance sheets of WG Spore are set out below, based on the audited financial statements of the Company.

	<----As at 30 June----			---->	As at 31 December	As at 31 October
	1997	1998	1999	2000	2000	2001
	RM'000	RM'000	RM'000	RM'000 (restated)	RM'000 (restated)	RM'000
Property, plant & equipment	833	1,268	1,152	903	1,246	1,269
Current assets						
Inventories	936	765	695	773	777	822
Amount due from Contract customers	3,086	6,567	5,941	7,179	7,787	9,090
Trade receivables	2,434	3,713	3,657	3,852	3,533	3,830
Other receivables	697	702	776	498	236	244
Amount due from holding company	-	-	-	-	231	570
Amount due from related company	-	-	-	-	294	107
Amount due from affiliated company	-	-	-	126	-	-
Deposits with a licensed bank	447	619	-	-	-	
Cash and bank balances	193	24	182	227	75	453
	7,793	12,390	11,251	12,655	12,933	15,116
Current liabilities						
Amount due to contract customers	-	-	-	-	19	38
Trade payables	1,300	3,055	1,598	494	1,037	1,287
Other payables and accruals	1,328	1,944	1,106	1,089	981	1,380
Amount due to holding company	-	-	-	-	-	-
Short term borrowings	594	960	827	1,797	678	214
Taxation	345	612	807	798	811	763
Proposed dividend	-	-	-	-	-	-
	3,567	6,571	4,338	4,178	3,526	3,682
Net current assets	4,226	5,819	6,913	8,477	9,407	11,434
	5,059	7,087	8,065	9,380	10,653	12,703
Financed by:						
Capital and reserves						
Share capital	2,655	3,675	3,345	3,330	3,330	3,330
Reserves	2,249	3,124	4,506	6,050	7,283	9,318
Shareholders' funds	4,904	6,799	7,851	9,380	10,613	12,648
Long term and deferred liability						
Deferred taxation	155	288	214	-	40	55
	5,059	7,087	8,065	9,380	10,653	12,703

Notes:-

(i) *The balance sheets of WG Spore as at 30 June 1997 to 31 October 2001 have been converted to Ringgit Malaysia based on the respective years'/period's closing exchange rates for illustration purposes only.*

(ii) *The following comparatives for the year ended 30 June 2000 and the 6 month period ended 31 December 2000 have been restated to conform with the change in accounting policy as explained in Note 6.16:*

	As at 30 June 2000	*As at 31 December 2000*
	RM'000	*RM'000*
Other payables and accruals:		
- as previously stated	*353*	*448*
- effect of change in accounting policy (cumulative)	*736*	*543*
- foreign currency effect of change in accounting policy	-	*(10)*
- as restated	*1,089*	*981*
Reserves:		
- as previously stated	*6,629*	*7,711*
- effect of change in accounting policy (cumulative)	*(579)*	*(436)*
- foreign currency effect of change in accounting policy	-	*8*
- as restated	*6,050*	*7,283*
Deferred taxation:		
- as previously stated	*157*	*145*
- effect of change in accounting policy (cumulative)	*(157)*	*(107)*
- foreign currency effect of change in accounting policy	-	*2*
- as restated	-	*40*

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4.2 WG Msia

The summarised balance sheets of WG Msia are set out below, based on the audited financial statements of the Company.

	<---As at 30 June			--->	As at 31 December	As at 31 October
	1997	1998	1999	2000	2000	2001
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	107	194	1,551	1,545	1,534	1,615
Interest in a subsidiary	-	-	1,159	2,233	-	-
Current assets						
Inventories	-	-	224	155	178	169
Amount due from contract customers	-	-	1,244	956	1,770	723
Trade receivables	80	303	887	1,167	979	1,317
Other receivables	2	1,455	89	100	22	34
Amount due from holding company	-	-	-	-	521	779
Deposits with a licensed bank	-	18	20	-	-	-
Cash and bank balances	9	8	3	7	73	9
	91	1,784	2,467	2,385	3,543	3,031
Current liabilities						
Amount due to contract customers	109	45	-	-	34	76
Trade payables	-	-	837	38	76	133
Other payables and accruals	64	732	1,003	88	63	58
Amount due to ultimate holding company	-	-	-	-	-	400
Amount due to holding company	-	-	-	46	-	-
Amount due to a related company	-	-	-	-	171	204
Short term borrowings	-	912	1,010	1,344	-	379
Taxation	-	58	63	46	38	-
	173	1,747	2,913	1,562	382	1,250
Net current (liabilities)/assets	(82)	37	(446)	823	3,161	1,781
	25	231	2,264	4,601	4,695	3,396
Financed by:						
Capital and reserves						
Share capital	100	100	1,400	3,600	3,600	3,600
Reserves	(75)	96	829	956	1,050	(204)
Shareholders' funds	25	196	2,229	4,556	4,650	3,396
Long term and deferred liability						
Deferred taxation	-	35	35	45	45	-
	25	231	2,264	4,601	4,695	3,396

4.3 WMSC

The summarised balance sheets of WMSC are set out below, based on the audited financial statements of the Company.

	<---------As at 30 June------->		As at 31 December	As at 31 October
	1999	2000	2000	2001
	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	179	496	600	630
Investment in subsidiaries	-	-	14,515	14,515
Development costs	303	1,723	1,945	2,957
Current assets				
Inventories	-	-	-	729
Other receivables	21	175	765	777
Deposits with a licensed bank	-	-	1,609	-
Cash and bank balances	727	20	109	63
	748	195	2,483	1,569
Current liabilities				
Other payables and accruals	71	299	247	61
Amount due to holding company	1,059	2,132	-	-
Amount due to subsidiaries	-	-	871	1,371
	1,130	2,431	1,118	1,432
Net current (liabilities)/assets	(382)	(2,236)	1,365	137
	100	(17)	18,425	18,239
Financed by:				
Capital and reserves				
Share capital	100	100	18,600	18,600
Reserves	-	(117)	(219)	(371)
Shareholders' funds	100	(17)	18,381	18,229
Long term and deferred liability				
Deferred taxation	-	-	44	10
	100	(17)	18,425	18,239

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5. Statement of Assets and Liabilities

The following are the statements of assets and liabilities of the Company and of the Group as at 31 October 2001 based on their audited financial statements. The Proforma Group statement incorporates the public issue of 62 million new ordinary shares of RM0.10 each at an issue price of RM0.20 per share and estimated listing expenses of RM1,800,000 ('After Public Issue').

The statements should be read in conjunction with the notes set out in section 6.

	Note	The Company 31 October 2001 RM'000	The Group (Before Public Issue) 31 October 2001 RM'000	Proforma Group (After Public Issue) 31 October 2001 RM'000
Property, plant and equipment	6.2	630	3,514	3,514
Investment in subsidiaries	6.3	14,515	-	-
Development costs	6.4	2,957	2,957	2,957
Current assets				
Inventories		729	1,720	1,720
Amount due from contract customers	6.5	-	9,814	9,814
Trade receivables	6.6	-	5,147	5,147
Other receivables	6.7	777	1,054	1,054
Cash and cash equivalents		63	526	11,126
		1,569	18,261	28,861
Current liabilities				
Amount due to contract customers	6.8	-	114	114
Trade payables		-	1,421	1,421
Other payables and accruals		61	1,514	1,514
Short term borrowings	6.9	-	592	592
Taxation		-	763	763
Amount due to ultimate holding company	6.10	-	400	400
Amount due to a related company	6.11		100	100
Amount due to subsidiaries	6.12	1,371	-	-
		1,432	4,904	4,904
Net current assets		137	13,357	23,957
		18,239	19,828	30,428
Financed by:				
Capital and reserves				
Share capital	6.13	18,600	18,600	24,800
Reserves	6.14	(371)	1,163	5,563
Shareholders' funds		18,229	19,763	30,363
Long term and deferred liability				
Deferred taxation		10	65	65
		18,239	19,828	30,428

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6. Notes to the Statement Of Assets and Liabilities

6.1 Summary of significant accounting policies

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

(a) Basis of accounting

The financial statements of the Group and of the Company are prepared under the historical cost convention and in compliance with applicable approved accounting standards in Malaysia.

(b) Basis of consolidation

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated using the merger method of accounting.

Under the merger method of accounting, the results of the Group are presented as if the subsidiaries had been owned by the Company throughout the current and preceding accounting periods.

Credit differences arising between the cost of acquisition and the nominal value of share capital of the subsidiary are regarded as a non-distributable merger reserves. Debit differences arising are accounted for as a merger deficit and is set-off against the Group's reserves.

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.

(c) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation.

The carrying amounts of property, plant and equipment are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an item of property, plant and equipment exceeds its recoverable amount. In determining the recoverable amount of property, plant and equipment, expected future cash flows are not discounted to their present values. The impairment loss is charged to the income statement unless it reverses a previous revaluation in which case it is charged to equity. Any subsequent increase in recoverable amount is reduced by the amount that would have been recognised as depreciation had the write-down or write-off not occurred. Such subsequent increase in recoverable amount is recognised in the income statement unless it reverses an impairment loss on a revalued asset, in which case it is taken to equity.

(d) Depreciation

The straight-line method is used to write off the cost of the assets over the term of their estimated useful lives at the following principal annual rates:

Long term leasehold land	Lease period of 84 years
Buildings	2%
Furniture and fittings	10% - 20%
Office equipment	10% - 20%
Computer equipment	33 1/3%
Motor vehicle	20%
Renovations	10%

(e) Investments

Long term investments are stated at cost. A provision is made when the Directors are of the view that there is a permanent diminution in their value.

(f) Development costs

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

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

Amortisation commences when the product or process is available for sale or use.

Capitalised development expenditure is amortised and recognised as an expense on a straight line basis over a period of five (5) years so as to reflect the pattern in which the related economic benefits are recognised.

(g) Grants

Monetary grants in relation to development activities are recognised upon receipt and are shown as a deduction in arriving at the carrying amount of the intangible asset to which it relates.

(h) Amount due from/to contract customers

Amount due from contract customers on contracts is stated at cost plus attributable profits less foreseeable losses and less progress billings. Cost includes all direct materials, sub-contracted costs and other related costs. Where progress billings exceed the aggregate amount due from contract customers plus attributable profits less foreseeable losses, the net credit balance on all such contracts is shown as amount due to contract customers.

(i) Inventories

Inventories comprise purchased goods mainly for use in the projects. Inventories are stated at the lower of cost and net realisable value with weighted average cost being the main basis for cost.

(j) Cash and cash equivalents

Cash and cash equivalents consists of cash on hand and balances and deposits with bank 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.

(k) Taxation

The tax expense in the income statement represents taxation at current tax rates based on profit earned during the period.

Deferred taxation is provided on the liability method for all material timing differences except where no liability is expected to arise in the foreseeable future and there are no indications the timing differences will reverse thereafter. Deferred tax benefits are only recognised where there is a reasonable expectation of realisation in the near future.

(l) Foreign currency

(i) Foreign currency transactions

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

(ii) Financial statements of foreign operations

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

(m) Revenue

i) Contracts

Revenue on projects is recognised on the percentage of completion method, measured by reference to the percentage of costs incurred to date to the estimated total costs for each project.

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Revenue on maintenance projects is recognised when the services are rendered. An expected loss on project is recognised immediately in the income statement.

ii) Interest income

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

(n) Financing costs

All interest and other costs incurred in connection with borrowings are expensed as incurred.

6.2 Property, plant and equipment

Group

	Cost RM'000	Accumulated Depreciation RM'000	Net Book Value RM'000
Long term leasehold land	410	12	398
Buildings	821	40	781
Furniture and fittings	867	473	394
Office equipment	577	349	228
Computer equipment	3,310	2,417	893
Motor vehicles	669	127	542
Renovations	395	117	278
	7,049	3,535	3,514

Company

	Cost RM'000	Accumulated Depreciation RM'000	Net Book Value RM'000
Furniture and fittings	71	11	60
Office equipment	21	4	17
Motor vehicles	45	11	34
Computer equipment	887	451	436
Renovations	86	3	83
	1,110	480	630

6.3 Investment in subsidiaries

	Company 31.10.2001 RM'000
Unquoted shares	14,515

Details of subsidiaries are shown in section 6.17.

6.4 Development costs

	Group and Company RM'000
At 1 January 2001	2,776
Additions	1,954
	4,730
Less grants received	(1,773)
At 31 October 2001	2,957
Included in development cost for the period are:-	
Directors' remuneration	271
Depreciation of property, plant and equipment	222
Rental expenses	155
Staff costs	1,217

6.5 Amount due from contract customers

	Group RM'000
Aggregate cost incurred to-date	28,923
Add: Attributable profit	12,222
Less: Foreseeable losses	(276)
	40,869
Less: Progress billings	(31,055)
Amount due from contract customers	9,814

Included in aggregate costs incurred to date of the Group is staff costs of RM2,394,000 for the period.

6.6 Trade receivables

	Group RM'000
Trade receivables	5,808
Less: Provision for doubtful debts	(661)
	5,147

6.7 Other receivables

Included in other receivables is listing expenditure of RM666,000, which will be set off against share premium.

6.8 Amount due to contract customers

	Group RM'000
Aggregate cost incurred to-date	1,728
Add: Attributable profit	478
	2,206
Less: Progress billings	(2,320)
Amount due to contract customers	(114)

6.9 Short term borrowings

	Group RM'000
Overdrafts - secured	592

The bank overdrafts are subject to interest rates ranging from 2.00% to 3.00% per annum above the lenders' base lending rates.

One of the Group's overdrafts is secured by way of first registered third party charge over one unit of property of a related party and four personal joint and several guarantees of which two of the guarantees are from the Directors of the Company.

Another overdraft is secured by way of first registered third party charge over the three units of properties of a related party and three personal joint and several guarantees of which one of the guarantees is from a Director of the Company.

Another overdraft is secured by corporate guarantee from the ultimate holding company and three personal joint and several guarantees by the Directors of the Company, whilst the last two overdrafts are secured by three personal joint and several guarantees by the Directors of the Company.

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6.10 Amount due to ultimate holding company

The amount due to ultimate holding company is unsecured, bears interest at 5% per annum and has no fixed terms of repayment.

6.11 Amount due to a related company

The amount due to a related company is unsecured, bears interest at 5% per annum and has no fixed terms of repayment.

6.12 Amount due to subsidiaries

The amount due to subsidiaries is unsecured, interest free and has no fixed terms of repayment. The balance with subsidiaries is in respect of advances received.

6.13 Share capital

	Group and Company RM'000
Authorised:	
1,000,000,000 ordinary shares of RM0.10 each	100,000
Issued and fully paid:	
186,000,000 ordinary shares of RM0.10 each	18,600
62,000,000 ordinary shares to be issued pursuant to public issue	6,200
	24,800

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6.14 Reserves

Group	<---------Non - distributable------------> Share Premium RM'000	Merger deficit RM'000	Translation reserve RM'000	Unappropriated profit RM'000	Total RM'000
At 1 January 2001	-	(7,585)	(139)	8,677	953
Change in accounting policy			8	(436)	(428)
	-	(7,585)	(131)	8,241	525
Currency translation differences	-	-	(524)	-	(524)
Net losses not recognised in the income statement	-	-	(524)	-	(524)
Net profit for the period	-	-	-	1,162	1,162
At 31 October 2001	-	(7,585)	(655)	9,403	1,163
Public Issue	6,200	-	-	-	6,200
Listing expenses	(1,800)	-	-	-	(1,800)
	4,400	(7,585)	(655)	9,403	5,563

Company	RM'000
Accumulated losses	
At 1 January 2001	(219)
Net loss for the period	(152)
At 31 October 2001	(371)

6.15 Contingent liability

On 30 October 2001, the Company issued a Letter of Guarantee in favour of DaimlerChrysler Rail Systems (TRS Projects) Sdn. Bhd. ("Daimler") for full and punctual performance by the Company's wholly-owned subsidiary of its obligations stipulated in the subcontract entered between the subsidiary and Daimler dated 23 August 2001 and upon all terms and conditions as stated in the Letter of Guarantee. The total cap on the liability is limited to the amount of RM211,063.

6.16 Prior year adjustment

In previous years, short-term employee benefits in form of accumulating compensated absences were recognised when the absences occurred.

The adoption of Singapore's Statement of Accounting Standard 17 ("SAS17(2000)") resulted in WG Spore providing for its obligations in respect of short-term employee benefits in the form of accumulating compensated absences. This obligation is provided when the employees render services which increase their entitlement to future compensated absences. The new accounting policy has been adopted retrospectively, with the opening retained earnings and the comparative information adjusted for the amount relating to prior periods.

The change in accounting policy, when applied consistently to 2001 had the following impact (net of tax) on the unappropriated profit of the Group:

	Group 31 October 2001 RM'000
Opening retained earnings as previously reported	8,677
Impact of adopting SAS17	(436)
Opening retained earnings as restated	8,241
Net profit before changes in accounting policies	1,195
Impact of adopting SAS17	33
	1,162

6.17 Companies in the Group

The principal activities of the companies in the Group, their places of incorporation and the interest of Willowglen MSC Berhad are as follows:

Name of Company	**Principal Activities**	**Country of Incorporation**	**Effective ownership Interest** %
Subsidiaries			
Willowglen (Malaysia) Sdn. Bhd.	Sales, implementation and maintenance of computer-based control system	Malaysia	100
Willowglen Services Pte. Ltd.	Design, supply, engineering, implementation and maintenance of computer-based control system	Singapore	100

6.18 Net Tangible Assets Per Ordinary Share

Based on the proforma statement of assets and liabilities of WMSC Group (After Public Issue) at 31 October 2001, the net tangible assets per share is calculated as follows :-

	Proforma Group RM'000
Net tangible assets as at 31 October 2001	27,406
Number of ordinary shares of RM0.10 each in issue ('000)	248,000
Net tangible assets per ordinary share (sen)	11

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7. Consolidated Cash Flow Statement

The consolidated cash flow statement of the Group for the period ended 31 October 2001 is set out below based on the audited financial statements of the Company and its subsidiary companies as at 31 October 2001.

WILLOWGLEN MSC BERHAD

CONSOLIDATED CASH FLOW STATEMENT
FOR THE PERIOD ENDED 31 OCTOBER 2001

	Period Ended 31 October 2001 RM'000
Cash flows from operating activities	
Profit before taxation	1,906
Adjustments for:	
Depreciation	532
Gain on disposal of property, plant and equipment	(43)
Interest income	(14)
Interest expense	57
Property, plant and equipment written off	72
Loss on disposal of property, plant and equipment	5
Operating profit before working capital changes	2,515
Changes in working capital:	
Amount due from contract customers	(612)
Amount due to contract customers	62
Inventories	(800)
Trade and other receivables	(812)
Trade and other payables	623
Amount due to a related company	100
Cash generated from operations	1,076
Interest paid	(57)
Interest received	14
Taxation paid	(882)
Net cash generated from operating activities	151
Cash flows from investing activities	
Grant received	941
Purchase of property, plant and equipment	(1,025)
Proceeds from disposal of property, plant and equipment	54
Development activity expenses paid	(1,732)
Net cash used in investing activities	(1,762)

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Cash flows from financing activities

Ultimate holding company	400
Net decrease in cash and cash equivalents	(1,211)
Effects of exchange rate changes	(70)
Cash and cash equivalents at beginning of period	1,187
Foreign exchange differences on opening cash and cash equivalents	28
Cash and cash equivalents at end of period	(66)

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

	RM'000
Cash and bank balances	526
Bank overdrafts	(592)
	(66)

8. Significant event during the period

In the previous year, WMSC submitted its application for listing on the Malaysian Exchange of Securities Dealing & Automated Quotation Bhd. ("MESDAQ").

The application was approved by the Securities Commission and MESDAQ on 20 June 2001 and 21 June 2001 respectively.

9. Audited Financial Statements

No audited financial statements have been prepared in respect of any period subsequent to 31 October 2001 for WMSC Group.

Yours faithfully

KPMG
Firm Number: AF 0758
Chartered Accountants

Hew Lee Lam Sang
Partner
Approval Number: 1862/10/03(J)

12. PRO-FORMA CONSOLIDATED BALANCE SHEET OF THE WMSC GROUP AS AT 31 OCTOBER 2001, TOGETHER WITH THE BASES AND ASSUMPTIONS, AND THE AUDITORS' LETTER THEREON

KPMG

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The Board of Directors
Willowglen MSC Berhad
17th Floor Plaza OSK
Jalan Ampang
50450 Kuala Lumpur

18 March 2002

Dear Sirs

WILLOWGLEN MSC BERHAD ("WMSC")
REPORTING ACCOUNTANTS' LETTER ON THE PROFORMA CONSOLIDATED BALANCE SHEET

We have reviewed the proforma consolidated balance sheet of Willlowglen MSC Berhad ("WMSC") and its subsidiary companies ("the Group") as at 31 October 2001 together with the notes thereon (for which the Directors are solely responsible) as set out in Schedules A and B respectively, which we have stamped for the purpose of identification.

This letter has been prepared at your request for the sole purpose of providing information for incorporation into the Prospectus to be dated 22 March 2002 in relation to the listing of WMSC on the Malaysian Exchange of Securities Dealing & Automated Quotation Bhd ("MESDAQ").

In our opinion, the proforma consolidated balance sheet (as set out in Schedule A), which has been prepared for illustrative purposes only, has been properly prepared on a basis consistent with the accounting policies normally adopted by the Group and those set out in the accompanying notes (as set out in Schedule B).

Yours faithfully

KPMG
Chartered Accountants

Hew Lee Lam Sang
Partner
Approval Number: 1862/10/03(J)

Schedule A

WILLOWGLEN MSC BERHAD

PROFORMA CONSOLIDATED BALANCE SHEET AS AT 31 OCTOBER 2001

	Audited Group RM'000	Proforma Group RM'000
Property, plant and equipment	3,514	3,514
Development costs	2,957	2,957
Current assets	18,261	28,861
Current liabilities	(4,904)	(4,904)
Net current assets	13,357	23,957
	19,828	30,428
FINANCED BY :-		
Share capital	18,600	24,800
Reserves	1,163	5,563
Shareholders' funds	19,763	30,363
Deferred Taxation	65	65
	19,828	30,428
Net tangible assets per ordinary share (sen)	9	11

Schedule B

WILLOWGLEN MSC BERHAD

NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEET
AS AT 31 OCTOBER 2001

1. The proforma consolidated balance sheet of WMSC has been prepared for illustrative purposes only and on a basis consistent with accounting policies normally adopted by the Group and is based on the audited financial statements of WMSC as at 31 October 2001.

2. The proforma consolidated balance sheet incorporates the proposed public issue of 62,000,000 new ordinary shares of RM0.10 each at an issue price of RM0.20 per ordinary share. Listing expenses to be borne by WMSC, estimated to be RM1,800,000, are charged against the Share Premium Account.

   The gross proceeds from the public issue of RM12,400,000 are expected to be utilised as follows:-

	RM'000
(a) Proposed overseas investment	1,100
(b) Research and development expenditure	1,500
(c) Repayment of bank borrowings	750
(d) Working capital	7,250
(e) Estimated listing expenses	1,800
	12,400

Company No. 462648-V

3. The movement of the issued and paid-up share capital of WMSC is as follows:-

	RM'000
Balance as at 31 October 2001	18,600
Public issue of 62,000,000 ordinary shares of RM0.10 each	6,200
	24,800

4. The movements of the reserves of the Group are as follows :-

			RM'000
Distributable :			
Unappropriated profit			
Balance as at 31 October 2001			9,403
Non-Distributable :			
Translation reserve			
Balance as at 31 October 2001		(655)	
Share Premium Account			
Arising from public issue of 62,000,000 ordinary shares of RM0.10 each at an issue price of RM0.20 per share	6,200		
Less : Estimated listing expenses	(1,800)	4,400	3,745
			13,148
Merger deficit			(7,585)
			5,563