11 DIRECTORS' REPORT

(Prepared for inclusion in this Prospectus)

SCOPE INDUSTRIES BERHAD

(Co. No. 591376-D)
Lot 6181, Jalan Perusahaan 2, Kawasan Perindustrian Parit Buntar,
34200 Parit Buntar. Perak Darul Ridzuan. Malaysia.
Tel : 605-7169605 Fax : 605-7167605

26 September 2003

The Shareholders of **Scope Industries Berhad ("Scope" or "Company")**

Dear Sir/Madam,

On behalf of the Board of Directors of Scope ("Board"), I wish to report after making due enquiries into Scope and its subsidiaries ("Group") during the period from 30 June 2003 (being the date to which the last financial statements of the Group have been made up) to the to the date hereof (being a date not earlier than fourteen (14) days before the issue of this Prospectus) that:-

(a) the business of the Group has, in the opinion of the Board, been satisfactorily maintained;

(b) in the opinion of the Board, no circumstances have arisen since the last audited financial statements of the Group which have adversely affected the trading or the value of the assets of the Group;

(c) the current assets of the Group appear in the books at values which are believed to be realisable in the ordinary course of business;

(d) save as disclosed in Section 10.4.5 of this Prospectus, there are no contingent liabilities by reason of any guarantees or indemnities given by the Group;

(e) there have been no default or any known event that could give rise to a default situation, in respect of payments of either interest and/or principal sums in relation to any borrowings in which the Board is aware of; and

(f) there have been no adverse changes in the published reserve or any unusual factors affecting the profits of the Group since the last audited financial statements of the Group.

Yours faithfully
For and on behalf of the Board of Directors of
Scope Industries Berhad

Lim Chiow Hoo
Managing Director

JB LAU & ASSOCIATES
CHARTERED ACCOUNTANTS

51-8-A, Menara BHL Bank
Jalan Sultan Ahmad Shah
10050 Penang, Malaysia.

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DATE : 26 September 2003

The Board of Directors
Scope Industries Berhad
51-8-B Menara BHL Bank
Jalan Sultan Ahmad Shah
10050 Penang
Malaysia

Gentlemen,

1. INTRODUCTION

This report has been prepared by JB Lau & Associates, an approved company auditor, for the inclusion in the Prospectus to be dated 3 October 2003 in connection with the public issue of 64,200,000 new ordinary shares of RM0.10 each in Scope Industries Berhad (hereinafter referred to as "Scope" or the "Company") at an issue price of RM0.20 per ordinary share of RM0.10 each and the listing of and quotation for its entire enlarged issued and paid-up share capital of 250,000,000 ordinary shares of RM0.10 each on the MESDAQ Market of the Kuala Lumpur Stock Exchange ("KLSE").

2. LISTING SCHEME

In conjunction with the listing of and quotation for the entire enlarged issued and paid-up share capital of SCOPE on the MESDAQ Market of the KLSE, the Company undertook the following listing scheme which was approved by the Ministry of International Trade and Industry ("MITI"), Foreign Investment Committee ("FIC"), Securities Commission ("SC") and the KLSE on the dates set out below :

Authority	Date of approval
MITI	12 November 2002
FIC	18 November 2002
SC	22 April 2003 and 23 September 2003
KLSE	24 April 2003 and 25 September 2003

(i) Acquisition of the entire issued and paid-up share capital of Scope Manufacturers (M) Sdn. Bhd. ("SMSB"); comprising 3,220,000 ordinary shares of RM1.00 each for a total consideration of RM18,587,882 satisfied by the issuance of 18,579,998 new Scope ordinary shares of RM1.00 each at an issue price of approximately RM1.0004 per ordinary share ("the Acquisition").

The purchase consideration of RM18,587,882 was arrived at based on the audited net tangible assets ("NTA") of SMSB as at 30 June 2002 and after adjusting for the following:

	NTA RM
Audited consolidated NTA as at 30 June 2002	19,777,882
Add : Rights issue	700,000
Adjusted NTA	18,587,882

(ii) A public issue of 64,200,000 new ordinary shares of RM0.10 each at an issue price of RM0.20 per ordinary share ("Public Issue").

3. GENERAL INFORMATION

3.1 Background

Scope was incorporated in Malaysia under the Companies Act, 1965 on 2 September 2002 as a public limited company.

The principal activity of the Company is that of investment holding.

3.2 Share Capital

At the date of incorporation, the authorised share capital of the Company was RM100,000 comprising 100,000 ordinary shares of RM1.00 each and its issued and paid-up share capital was RM2.00 comprising 2 ordinary shares of RM1.00 each. Its authorised share capital was increased to RM50,000,000 on 3 July 2003 by the creation of an additional 49,900,000 ordinary shares of RM1.00 each. On the same day, the Company completed the Acquisition and its issued and paid-up share capital was increased from RM2 to RM18,580,000 by the issue of RM18,579,998 new ordinary shares of RM1.00 each.

On 8 July 2003, the par value of the share of RM1.00 was subdivided into RM0.10. Following the share split, the Company's authorised share capital was converted from 50,000,000 ordinary shares of RM1.00 each to 500,000,000 ordinary shares of RM0.10 each and the issued and paid-up share capital was converted from 18,580,000 ordinary shares of RM1.00 each to 185,800,000 ordinary shares of RM0.10 each.

The changes in the Company's issued and fully paid-up share capital are summarised below :

Date of Allotment	Consideration	No. of ordinary shares of RM1.00 * / RM0.10 each allotted	Cumulative issued and paid-up share capital RM
2 September 2002	Subscribers' shares of RM1 each	2 *	2
3 July 2003	Allotment in consideration for the acquisition of 100% equity in SMSB	18,579,998 *	18,580,000
8 July 2003	Subdivision of RM1.00 into RM0.10	185,800,000	185,800,000

3.3 Subsidiary Companies

Details of the subsidiary companies of Scope are as follows :

Name of Company	Date/ Place of Incorporation	Issued and Paid-up Share Capital as at 30 June 2003	Equity Interest	Principal Activities
SMSB	20 November 1991 / Malaysia	RM3,220,000	100%	Manufacturing and assembling of electronic components and products.
Scope Sales & Services Sdn. Bhd. ("SSSB")	18 December 2002 / Malaysia	RM2	100%	Marketing, sales and servicing of electrical and electronic products.

3.4 Basis of Accounting and Accounting Policies

This report is prepared based on the audited financial statements which have been prepared in accordance with applicable approved accounting standards issued by the Malaysian Accounting Standards Board and is presented on a basis consistent with the accounting policies normally adopted by Scope and its subsidiary companies ("Scope Group" or "Group").

3.5 Financial Statements and Auditors

We have acted as auditors for Scope and SSSB since their dates of incorporation.

We have acted as auditors for SMSB since the financial year ended 30 June 2002. Messrs Y.H. Chee & Co. were the previous auditors

The financial statements for all the financial period/years under review were reported on without any audit qualification and modification.

4. DIVIDENDS

No dividend has been paid or declared by Scope and SSSB for the financial period under review.

SMSB has declared and paid the following tax exempt dividends during the relevant financial years under review as follows :

Year ended 30 June	Issued and paid-up capital	Dividend rate (All tax exempt)	Type of dividend	Amount of dividend paid	
	RM	%		RM	
2002	2,520,000	75.00	Interim	1,890,000	
2003	3,220,000	75.00 *	Interim	1,890,000	**

* Based on the issued and paid-up share capital of 2,520,000 ordinary shares of RM1.00 each before the right issue.

** Paid on 8 August 2003.

5. SUMMARISED INCOME STATEMENTS

5.1 PROFORMA CONSOLIDATED INCOME STATEMENTS

The summarised proforma consolidated results of the Scope Group for the past five (5) financial years ended 30 June 2003 have been prepared for illustrative purposes based on the audited financial statements of the companies in the Scope Group, after making such adjustments that we considered necessary and assuming that the Scope Group had been in existence throughout the financial years under review.

	Financial year ended 30 June				
	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000
Revenue	7,480	16,200	23,667	19,354	21,725
Earnings before interest, depreciation taxation and amortisation	2,600	4,959	9,877	7,706	8,830
Interest expense	(84)	(249)	(449)	(279)	(174)
Depreciation	(502)	(1,091)	(1,552)	(1,965)	(2,277)
Amortisation	-	-	-	-	-
Operating profit	2,014	3,619	7,876	5,462	6,379
Exceptional items	-	-	-	-	-
Share of results of associated corporations and joint ventures	-	-	-	-	-
Profit before taxation	2,014	3,619	7,876	5,462	6,379
Taxation	(42)	(545)	(942)	(743)	(1,033)
Profit from ordinary activities	1,972	3,074	6,934	4,719	5,346
Extraordinary items	-	-	-	-	-
Minority interest	-	-	-	-	-
Net profit	1,972	3,074	6,934	4,719	5,346
No. of ordinary shares assumed in issue ('000) *	185,800	185,800	185,800	185,800	185,800
Net earnings per share (sen)	1.06	1.65	3.73	2.54	2.88

NOTES :

* The assumed issued and paid-up share capital of 185,800,000 ordinary shares of RM0.10 each is based on the issued and paid-up share capital of Scope after the acquisition of SMSB but prior to the Public Issue.

(i) The Proforma Group Income Statements have been prepared based on accounting policies consistent with those currently adopted in the preparation of the audited financial statements of the Scope Group.

(ii) All significant inter-company transactions have been eliminated from the Group results.

(iii) Revenue increased by 21.78% for the financial year ended 30 June 1999 over the previous financial year to RM7.48 million mainly due to the increased orders from existing customers and from new customer secured.

Profit before taxation increased by 221.73% for the financial year ended 30 June 1999 over the previous financial year to RM2.01 million due to the increase in revenue and increase in profit margin from the turnkey manufacturing activities undertaken coupled with a reduction in labour cost as a result of increased use of machineries.

(iv) Revenue increased by 116.58% for the financial year ended 30 June 2000 over the previous financial year to RM16.20 million mainly due to the increased orders from existing customers and from new customer secured.

Profit before taxation increased by 79.69% for the financial year ended 30 June 2000 over the previous financial year to RM3.62 million due to the increase in revenue.

(v) Revenue increased by 46.08% for the financial year ended 30 June 2001 over the previous financial year to RM23.67 million mainly due to increased orders from existing customers and from new customer secured.

Profit before taxation increased by 117.63% for the financial year ended 30 June 2001 over the previous financial year to RM7.88 million due to the increase in revenue and increase in profit margin arising from lower raw material cost and economies of scale achieved from the operating of a 24 hour shift as compared to 12 hours in the previous financial year.

(vi) Revenue decreased by 18.22% for the financial year ended 30 June 2002 over the previous financial year to RM19.35 million mainly due to decreased orders from existing customers as a result of the terror attack on 11 September 2001. Despite this, new customers were secured during the financial year.

Accordingly, profit before taxation decreased by 30.65% for the financial year ended 30 June 2002 over the previous financial year to RM5.46 million. The profit margin was also affected by higher raw material prices.

(vii) Revenue increased by 12.25% for the financial year ended 30 June 2003 over the previous financial year to RM21.73 million mainly due to increased orders from existing customers and from new customers secured as a result of the reduced production of their main overseas competitors due to the adverse effects of the Severe Acute Respiratory Syndrome epidemic, coupled with the revenue contribution of SSSB.

Profit before taxation increased by 16.79% for the financial year ended 30 June 2003 over the previous financial year to RM6.39 million as a result of the increase in revenue and increase in profit margin from more turnkey projects undertaken.

(viii) There was no current taxation charge for the financial year ended 30 June 1999 as it was a tax waiver year. The taxation charge is in respect of under provision of taxation in prior year.

The disproportionate tax charge for the financial years ended 30 June 2000 to 30 June 2003 is due to the claim for reinvestment allowance.

(ix) There were no exceptional or extraordinary items for the financial years under review.

(x) The net earning per share is calculated based on the net profit and on the assumed number of ordinary shares issued in issue after the Acquisition.

5.2 We set out below the audited results of the companies in the Scope Group for the relevant financial years under review :

SCOPE

	2.9.2002 TO 30.6.2003 RM'000
REVENUE	-
Loss before interest, depreciation, taxation and amortisation	(7)
Interest	-
Depreciation	-
Amortisation	-
Operating loss	(7)
Exceptional items	-
Loss before taxation	(7)
Taxation	-
Loss from ordinary activities	(7)
Extraordinary items	-
Net loss	(7)
No. of ordinary shares in issue	2
Net loss per share (RM)	(3,500.00)

NOTES :

(i) Scope was incorporated on 2 September 2002 and has not commenced operations as at 30 June 2003. The loss incurred for the financial period ended 30 June 2003 was in respect of preliminary and pre-operating expenses.

(ii) There is no current taxation charge for the financial period ended 30 June 2003 as Scope has no chargeable income.

(iii) There were no exceptional and extraordinary items for the financial period under review

(iv) The net loss per share is calculated based on the net loss and on the number of ordinary shares in issue at the end of the financial period.

SMSB

	Financial year ended 30 June				
	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000
Revenue	7,480	16,200	23,667	19,354	21,694
Earnings before interest, depreciation taxation and amortisation	2,600	4,959	9,877	7,706	8,841
Interest expense	(84)	(249)	(449)	(279)	(174)
Depreciation	(502)	(1,091)	(1,552)	(1,965)	(2,277)
Amortisation	-	-	-	-	-
Operating profit	2,014	3,619	7,876	5,462	6,390
Exceptional items	-	-	-	-	-
Profit before taxation	2,014	3,619	7,876	5,462	6,390
Taxation	(42)	(545)	(942)	(743)	(1,034)
Profit from ordinary activities	1,972	3,074	6,934	4,719	5,356
Extraordinary items	-	-	-	-	-
Net profit	1,972	3,074	6,934	4,719	5,356
Weighted average number of ordinary shares in issue ('000)	707	2,041	2,520	2,520	2,558
Net earnings per share (RM)	2.79	1.51	2.75	1.87	2.09

NOTES :

(i) Revenue increased by 21.78% for the financial year ended 30 June 1999 over the previous financial year to RM7.48 million mainly due to the increased orders from existing customers and from new customer secured.

Profit before taxation increased by 221.73% for the financial year ended 30 June 1999 over the previous financial year to RM2.01 million due to the increase in revenue and increase in profit margin from the turnkey manufacturing activities undertaken coupled with a reduction in labour cost as a result of increased use of machineries.

(ii) Revenue increased by 116.58% for the financial year ended 30 June 2000 over the previous financial year to RM16.20 million mainly due to the increased orders from existing customers and from new customer secured.

Profit before taxation increased by 79.69% for the financial year ended 30 June 2000 over the previous financial year to RM3.62 million due to the increase in revenue.

(iii) Revenue increased by 46.08% for the financial year ended 30 June 2001 over the previous financial year to RM23.67 million mainly due increased orders from existing customers and from new customer secured.

Profit before taxation increased by 117.63% for the financial year ended 30 June 2001 over the previous financial year to RM7.88 million due to the increase in revenue and increase in profit margin arising from lower raw material cost and economies of scale achieved from the operating of a 24 hour shift as compared to 12 hours in the previous financial year.

(iv) Revenue decreased by 18.22% for the financial year ended 30 June 2002 over the previous financial year to RM19.35 million mainly due to decreased orders from existing customers as a result of the terror attack on 11 September 2001. Despite this, new customers were secured during the financial year.

Accordingly, profit before taxation decreased by 30.65% for the financial year ended 30 June 2002 over the previous financial year to RM5.46 million. The profit margin was also affected by higher raw material prices

(v) Revenue increased by 12.09% for the financial year ended 30 June 2003 over the previous financial year to RM21.69 million mainly due to increased orders from existing customers and from new customers secured as a result of the reduced production of its main overseas competitors due to the adverse effects of the Severe Acute Respiratory Syndrome epidemic.

Profit before taxation increased by 16.99% for the financial year ended 30 June 2003 over the previous financial year to RM6.39 million as a result of the increase in revenue and increase in profit margin from more turnkey projects undertaken.

(vi) There was no current taxation charge for the financial year ended 30 June 1999 as it was a tax waiver year. The taxation charge is in respect of under provision of taxation in prior year.

The disproportionate tax charge for the financial years ended 30 June 2000 to 30 June 2003 is due to the claim for reinvestment allowance.

Reconciliation of taxation

The audited taxation figures have been adjusted to account for under provision for deferred taxation to the relevant financial years in which it relates to in order to reflect the actual tax position of the respective financial years. The net effect of these adjustments to the audited results is as follows :

	---------- Financial year ended 30 June ---------				
	1999	2000	2001	2002	2003
	RM'000	RM'000	RM'000	RM'000	RM'000
Per audited financial statements	(14)	(203)	(832)	(743)	(1,034)
Adjustments	(28)	(342)	(110)	-	-
As restated	(42)	(545)	(942)	(743)	(1,034)

(vii) There were no exceptional or extraordinary items for the financial years under review.

(viii) The net earnings per share is calculated based on the net profit and on the weighted average number of ordinary shares in issue at the end of each of the above financial years.

(ix) There has been no change in the company's accounting policies, which might materially affect its income and financial position for the financial years under review.

SSSB

	18.12.2002 TO 30.6.2003 RM'000
Revenue	486
Loss before interest, depreciation, taxation and amortisation	(4)
Interest	-
Depreciation	-
Amortisation	-
Operating loss	(4)
Exceptional items	-
Loss before taxation	(4)
Taxation	1
Loss from ordinary activities	(3)
Extraordinary items	-
Net loss	(3)
No. of ordinary shares in issue	2
Net loss per share (RM)	(1,500.00)

NOTES :

(i) SSSB was incorporated on 18 December 2002 and commenced operations on 23 December 2002.

The loss before taxation is mainly due to preliminary and pre-operating expenses

(ii) Taxation credit for the financial period ended 30 June 2003 represents the deferred taxation asset on the unabsorbed tax loss of SSSB for the financial period.

(iii) There were no exceptional and extraordinary items for the financial period under review

(iv) The net loss per share is calculated based on the net loss and on the number of ordinary shares in issue at the end of the financial period.

6. SUMMARISED BALANCE SHEETS

6.1 PROFORMA CONSOLIDATED BALANCE SHEETS

As the acquisition of SMSB was only completed after 30 June 2003, it is therefore impracticable to present consolidated balance sheets of the Scope Group throughout the financial years under review. Accordingly, proforma consolidated balance sheets of the Scope Group have only been presented in respect of 30 June 2003 based on the latest audited statement of assets and liabilities as at 30 June 2003 as shown in Section 7 of this Report.

6.2 The summarised audited balance sheets of Scope and its subsidiary companies based on their respective audited financial statements as at the end of the financial period/years under review are as follows :

SCOPE

	As at 30.6.2003 RM'000
CURRENT ASSETS	*
CURRENT LIABILITIES	(7)
	(7)
FINANCED BY :	
SHARE CAPITAL	*
LOSS	(7)
SHAREHOLDERS' FUNDS	(7)
NTL PER SHARE (RM)	(3,500.00)

* Represents RM2

SMSB

	As at 30 June				
	1999	2000	2001	2002	2003
	RM'000	RM'000	RM'000	RM'000	RM'000
PROPERTY, PLANT AND EQUIPMENT	5,418	10,339	15,382	17,870	19,721
CURRENT ASSETS	1,792	5,980	9,165	8,384	10,914
CURRENT LIABILITIES	2,066	4,890	4,516	4,990	5,963
NET CURRENT (LIABILITIES)/ASSETS	(274)	1,090	4,649	3,394	4,951
	5,144	11,429	20,031	21,264	24,672
FINANCED BY :					
SHARE CAPITAL	2,000	2,520	2,520	2,520	3,220
SHARE PREMIUM	-	1,300	1,300	1,300	1,300
RETAINED PROFITS	1,230	4,305	11,239	14,068	17,534
SHAREHOLDERS' FUNDS	3,230	8,125	15,059	17,888	22,054
DEFERRED TAXATION	366	708	1,073	1,452	1,552
LONG TERM LIABILITIES	1,548	2,596	3,899	1,924	1,066
	5,144	11,429	20,031	21,264	24,672
NTA PER SHARE (RM)	1.62	3.22	5.98	7.10	6.85

Reconciliation

Reconciliation of deferred taxation

Per audited financial statements	-	-	255	1,452	1,552
Adjustments	366	708	818	-	-
As restated	366	708	1,073	1,452	1,552

Reconciliation of retained profits

Per audited financial statements	1,596	5,013	12,057	14,068	17,534
Adjustments	(366)	(708)	(818)	-	-
As restated	1,230	4,305	11,239	14,068	17,534

SSSB

	As at 30.6.2003 RM'000
DEFERRED TAXATION ASSET	1
CURRENT ASSETS	250
CURRENT LIABILITIES	(254)
NET CURRENT LIABILITIES	(4)
	(3)
FINANCED BY :	
SHARE CAPITAL	*
LOSS	(3)
SHAREHOLDERS' FUNDS	(3)
NTL PER SHARE (RM)	(1,500.00)

* Represents RM2

7. STATEMENT OF ASSETS AND LIABILITIES

The statement of assets and liabilities of Scope and its subsidiary company, SSSB and the Proforma Scope Group are provided for illustrative purposes only and are prepared based on the audited financial statements of the companies in the Scope Group as at 30 June 2003 and on the assumption that the listing scheme as mentioned in Section 2 was effected on 30 June 2003.

		AUDITED	--- PROFORMA GROUP ----	
	NOTE	Scope and its subsidiary company, SSSB as at 30.6.2003 RM'000	After the Acquisition RM'000	After the Acquisition and Public Issue RM'000
PROPERTY, PLANT AND EQUIPMENT	8.2	-	19,721	19,721
DEFERRED TAXATION ASSET	8.3	1	1	1
CURRENT ASSETS				
Inventories	8.4	-	2,223	2,223
Trade debtors		233	4,962	4,962
Other debtors, deposits and prepayments		1	522	522
Fixed deposits with a licensed bank		-	300	300
Cash and bank balances	8.5	16	2,905	12,745
		250	10,912	20,752
CURRENT LIABILITIES				
Trade creditors		251	1,406	1,406
Other creditors and accruals		10	437	437
Amount due to directors	8.6	-	320	320
Bank borrowings	8.7	-	1,647	1,082
Dividend payable		-	1,890	1,890
Provision for taxation		-	272	272
		261	5,972	5,407
NET CURRENT (LIABILITIES)/ASSETS		(11)	4,940	15,345
		(10)	24,662	35,067
FINANCED BY :				
SHARE CAPITAL	8.8	*	18,580	25,000
SHARE PREMIUM	8.9	-	8	4,928
RESERVE ON CONSOLIDATION	8.10	-	3,466	3,466
LOSS		(10)	(10)	(10)
SHAREHOLDERS' FUNDS		(10)	22,044	33,384
DEFERRED TAXATION LIABILITY	8.11	-	1,552	1,552
LONG TERM LIABILITIES	8.12	-	1,066	131
		(10)	24,662	35,067
NET TANGIBLE ASSETS		(10)	22,044	33,384
NET TANGIBLE ASSETS PER ORDINARY SHARE (RM)		(5,000.00)	0.12	0.13

* Represents RM2 comprising 2 ordinary shares of RM1.00 each

8. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES

8.1 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The financial statements of the Group and of the Company are prepared under the historical cost convention unless otherwise indicated in the accounting policies below and comply with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia.

(b) Basis of Consolidation

The financial statements of the Group include the audited financial statements of the Company and all its subsidiary companies made up to the end of the financial year. Subsidiary companies are those companies in which the Group has a long term equity interest and where it has power to exercise control over the financial and operating activities so as to obtain benefits therefrom. Subsidiary companies are consolidated using the acquisition method of accounting.

Under the acquisition method of accounting, the results of the subsidiary companies acquired or disposed of are included from the date of acquisition up to the date of disposal. At the date of acquisition, the fair values of the subsidiary companies' net assets are determined and these values are reflected in the consolidated financial statements. The difference of the cost of acquisition over the fair value of the Group's share of the subsidiary companies' identifiable net assets at the date of acquisition is reflected either as goodwill or reserve on consolidation, as appropriate. Goodwill on consolidation is reviewed at each balance sheet date and will be written down for impairment where it is considered necessary.

Inter-company balances, transactions and resulting unrealized 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. Where necessary, adjustments are made to the financial statements of the subsidiary companies to ensure consistency of accounting policies with those of the Group.

Minority interest is measured at the minorities' share of the fair values of the identifiable assets and liabilities of the acquiree company. Separate disclosure is made of minority interest.

(c) Property, Plant and Equipment

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

Property, plant and equipment are depreciated over their estimated useful lives on the straight line method at the following annual rates :

Short leasehold land	Amortised over the lease period of 48 years
Factory building	2%
Plant and machinery	10%
Renovation and electrical installation	10%
Air-conditioners	10%
Office equipment, furniture and fittings	10%
Motor vehicles	10%

Short leasehold land is amortised over the remaining leasehold period of 48 years. Short leasehold land refers to land with remaining lease period of less than 50 years, determined as at balance sheet date.

(d) **Investment in Subsidiary Company**

Investment in subsidiary company is stated at cost less accumulated impairment losses in the Company's financial statements.

The policy for the recognition and measurement of impairment losses is in accordance with the accounting policy as set out in (j) below.

On disposal of investment in subsidiary company, the difference between net disposal proceeds and their carrying amount is charged or credited to the income statement.

(e) **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost includes direct materials, direct labour and attributable production overheads. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

Cost is determined on the first-in first-out basis.

(f) **Debtors**

Known bad debts are written off and specific allowance is made for any debts considered to be doubtful of collection.

(g) **Provisions for Liabilities**

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

(h) **Hire Purchase**

Property, plant and equipment financed under hire purchase are capitalised in the financial statements and are depreciated in accordance with the accounting policy as set out in (c) above. Outstanding obligations due under hire purchase after deducting finance costs are included as liabilities in the financial statements. The finance costs are charged to the income statement over the period of the respective agreements using the straight line method.

(i) **Revenue Recognition**

Revenue from sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer.

Revenue arising from provision of services is recognised on the dates the services are rendered and completed.

(j) **Impairment of Assets**

At each balance sheet date, the Group and the Company 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, unless the asset is carried at a revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of any unutilised previously recognised revaluation surplus for the same asset. Reversal of impairment losses recognised in prior years is recorded when the impairment losses recognised for the asset no longer exist or have decreased.

(k) **Foreign Currency Translations**

Foreign currency assets and liabilities are translated into Ringgit Malaysia at the rates of exchange ruling on the balance sheet date. Transactions during the year in foreign currencies have been converted into Ringgit Malaysia at rates ruling on the transaction dates. Gains or losses on exchange are included in the income statement.

The closing rate of exchange used in the preparation of the financial statements is as follows :

	RM
One US Dollar	**3.80**

(l) **Taxation**

Taxation on the results for the year comprises current and deferred taxation. 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 taxation is provided for, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principal, 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 taxation 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 taxation is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred taxation is recognised in the income statement, except when it arises from a transaction which is recognised directly to 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 taxation is included in the resulting goodwill or negative goodwill.

(m) **Cash and Cash Equivalents**

Cash comprises cash in hand and balances with banks (including bank overdrafts) while cash equivalents comprise short term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(n) **Financial Instruments**

Financial instruments are recognised in the balance sheet when the Group and the Company have 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, gains and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of the financial instruments are charged directly to equity. Financial instruments are offset when the Group and the Company 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.

Trade debtors
Trade debtors are carried at anticipated realisable value. 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.

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

Borrowing costs directly attributable to the acquisition and construction of property, plant and equipment are capitalised as part of the cost of these assets, until such time the assets are ready for their intended use. All other borrowing costs are charged to the income statement as an expense in the period in which they are incurred.

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

Equity instruments
Ordinary shares are classified as equity.

The transaction costs of an equity transaction, other than in the context of a business combination, 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.

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

8.2 PROPERTY, PLANT AND EQUIPMENT

	PROFORMA GROUP		
	Cost RM'000	Accumulated depreciation RM'000	Net book value RM'000
Short leasehold land	1,420	47	1,373
Factory building	4,812	349	4,463
Plant and machinery	20,056	7,391	12,665
Renovation and electrical installation	316	100	216
Air-conditioner	202	66	136
Office equipment, furniture and fittings	334	94	240
Motor vehicles	823	195	628
	27,963	8,242	19,721

The net book value of property, plant and equipment charged to a licensed bank as security for banking facilities granted to the Group are as follows :

	RM'000
Short leasehold land	564
Factory building	4,418
Plant and machinery	3,168
	8,150

The net book value of property, plant and equipment being acquired under hire purchase loans are as follows :

	RM'000
Motor vehicles	437

8.3 DEFERRED TAXATION ASSET

	AUDITED & PROFORMA GROUP RM'000
Transfer from income statement	1

Deferred taxation asset represents unutilised tax loss of a subsidiary company calculated at current tax rate.

8.4 INVENTORIES

	PROFORMA GROUP RM'000
Raw materials	1,167
Work-in-progress	916
Consumables	140
	2,223

8.5 CASH AND BANK BALANCES

	PROFORMA GROUP RM'000
Balance as at 30 June 2003 as per audited financial statements	16
Arising from the acquisition of subsidiary company	2,889
Proceeds from Public Issue	12,840
Repayment of bank borrowing	(1,500)
Payment of listing expenses	(1,500)
	12,745

For the purpose of illustrating the proforma statement of assets and liabilities, only RM1.50 million is utilised as repayment of bank borrowings as the term loan of RM5.00 million for the construction of the factory building will only be drawn down subsequent to the financial year ended 30 June 2003.

8.6 AMOUNT DUE TO DIRECTORS

PROFORMA GROUP

The amount due to certain directors of the Company is non-trade related, unsecured, interest free and has no fixed terms of repayment.

8.7 BANK BORROWINGS

	--------- PROFORMA GROUP ---------		
	After the Acquisition RM'000	Repayment RM'000	After the Acquisition and Public Issue RM'000
Bankers acceptances	730	-	730
Term loans (Note 8.12)	917	(565)	352
	1,647	(565)	1,082

The bank borrowings are secured by way of :

(i) Legal charges over the short leasehold land and factory building of the Group,
(ii) Supplementary loan agreement to restructure part of the Multi Trade Line into 5 years term loan and standalone bank guarantee,
(iii) Fixed charges on certain plant and machinery, and
(iv) Joint and several guarantee of certain directors of the Group.

The effective interest rate for bankers acceptance is 3.90% per annum.

RM0.565 million of the proceeds from the rights and public issues is utilised to reduce the short term portion of term loan included in bank borrowings.

8.8 SHARE CAPITAL

	AUDITED RM'000	PROFORMA GROUP RM'000
Authorised :		
Ordinary shares of RM1.00/RM0.10 each	100	25,000
	========	========
Issued and fully paid :		
Ordinary shares of RM1.00/RM0.10 each		
As at 30 June 2003	#	*
Issued as consideration for the acquisition of 100% equity of SMSB	-	18,580
Public issue	-	6,420
	-------------	-------------
	#	25,000
	========	========

\# RM2.00 comprising 2 ordinary shares of RM1.00 each

* RM2.00 comprising 20 ordinary shares of RM0.10 each

8.9 SHARE PREMIUM

	PROFORMA GROUP RM'000
Share premium from :	
Issue of shares at a premium of approximately RM0.00004 per share for the acquisition of SMSB	8
Public issue of 64,200,000 ordinary shares of RM0.10 each at a premium of RM0.10 per share	6,420
Less : Estimated listing expenses	(1,500)

	4,928
	========

8.10 RESERVE ON CONSOLIDATION

	PROFORMA GROUP RM'000
Arising from the acquisition of subsidiary company	3,466
	=======

8.11 DEFERRED TAXATION LIABILITY

	PROFORMA GROUP RM'000
Arising from the acquisition of subsidiary company	1,522

The temporary differences on which deferred taxation has been provided for are in respect of the excess of taxation capital allowances over depreciation on property, plant and equipment.

8.12 LONG TERM LIABILITIES

	--------- PROFORMA GROUP ----------		
	After the Acquisition RM'000	Repayment RM'000	After the Acquisition and Public Issue RM'000
Term loans			
Total amount repayable	1,852	(1,500)	352
Repayable within the next twelve months included under bank borrowings (Note 8.7)	(917)	565	(352)
	935	(935)	-
Hire purchase creditors			
Total amount payable	348	-	348
Interest in suspense	(24)	-	(24)
Net amount payable	324	-	324
Payable within the next twelve months included under other creditors and accruals	(193)	-	(193)
	131	-	131
	1,066	(935)	131

The term loans comprising 4 principal loans are repayable over 48 to 60 equal monthly instalments and bear effective interest rates ranging from 6.50% to 8.00% per annum.

Details of security are stated in Note 8.7.

RM0.935 million of the proceeds from the rights and public issues is utilised to reduce the long term portion of term loan included in long term liabilities.

The repayment terms of the hire purchase creditors are as follows :

	PROFORMA GROUP RM'000
Within one year	203
Between two and five years	145
	348
Less : Unexpired interest	(24)
	324

The effective interest rates in respect of hire purchase financing range from 3.50% to 3.95%. per annum

8.13 NUMBER OF EMPLOYEES

PROFORMA GROUP

The number of employees excluding directors at balance sheet date is 411.

8.14 CAPITAL COMMITMENTS

	PROFORMA GROUP RM'000
Authorised but not contracted	
Analysed as follows :	
- Property, plant and equipment	716

8.15 NET TANGIBLE ASSETS PER ORDINARY SHARE

Based on the proforma statement of assets and liabilities of the Proforma Scope Group as at 30 June 2003, the net tangible assets per share after the acquisition and public issue is calculated as follows :

	PROFORMA GROUP
Net tangible assets (RM'000)	33,384
Total number of ordinary shares of RM0.10 each in issue ('000)	250,000
Net tangible assets per ordinary share of RM0.10 each (RM)	0.13

8.16 FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The Group's and the Company's financial risk management policy seeks to ensure that adequate resources are available for the development of the Group's and the Company's business whilst managing its liquidity, foreign currency exposure interest rate and credit risks. The Board reviews regularly the policies in place to manage these risks as summarised below.

Liquidity Risk

The Group and the Company actively manages its debt maturity profile, operating cash flows and availability of funding so as to ensure that all refinancing, repayment and funding needs are met. As part of its overall prudent liquidity management, the Group and the Company maintains sufficient levels of cash and cash equivalents to meet its working capital requirements.

Foreign Currency Risk

The Group and the Company incurs foreign currency risk on purchases that are denominated in currency other than Ringgit Malaysia. The currency giving rise to this is primarily US Dollar.

The Group and the Company do not hedge its foreign currency risk as the Ringgit Malaysia has been pegged to the US Dollar at 3.80. Therefore exposure to foreign currency risks is minimised.

Interest Rate Risk

The Group and the Company manages its interest rate exposure by maintaining a prudent mix of fixed and floating rate borrowings. The Group and the Company actively reviews its debt portfolio, taking into account the investment holding period and nature of its assets. This strategy allows it to capitalise on cheaper funding in a current low interest rate environment and achieve a certain level of protection against interest rate hikes.

Credit Risk

Credit risk, or the risk of counterparties defaulting, is controlled by the application of credit approvals, limits and monitoring procedures. Credit risks are minimised and monitored via strictly limiting the Group and the Company's associates to business partners with high creditworthiness. Trade debtors are monitored on an ongoing basis via the Group and the Company's management reporting procedures.

The Group and the Company do not have any significant exposure to any individual customer or counterparty nor do they have any major concentration of credit risk related to any financial instrument.

The normal credit terms for trade debtors and creditors are 30 to 90 days. Other credit terms are assessed and approved on a case-by-case basis.

Fair Values

The carrying amounts approximate the fair values of the financial instruments in respect of cash and cash equivalents, trade and other debtors and creditors and borrowings due to their relatively short term nature.

9. CONSOLIDATED CASH FLOW STATEMENT

The consolidated cash flow of Scope and its subsidiary company, SSSB and the Proforma Scope Group are provided for illustrative purposes only and are prepared based on the audited financial statements of the companies in the Scope Group for the financial period ended 30 June 2003 and on the assumption that the listing scheme as mentioned in Section 2 was effected on 30 June 2003.

		AUDITED	-- PROFORMA GROUP --	
		Scope and its subsidiary company, SSSB 2.9.2002 to 30.6.2003	After the Acquisition	After the Acquisition and Public Issue
		RM'000	RM'000	RM'000
	CASH FLOWS FROM OPERATING ACTIVITIES			
	(Loss)/Profit before taxation	(12)	6,379	6,379
	Pre-acquisition profit of subsidiary company	-	(6,391)	(6,391)
	Loss before taxation after pre-acquisition profit before working capital changes	(12)	(12)	(12)
	Debtors	(233)	(233)	(233)
	Creditors	261	261	261
	Net cash from operating activities	16	16	16
	CASH FLOWS FROM INVESTING ACTIVITIES			
**	Cash flow on acquisition of subsidiary company	-	3,189	3,189
	CASH FLOWS FROM FINANCING ACTIVITIES			
	Payment of listing expenses	-	-	(1,500)
	Proceeds from issuance of shares	*	*	*
	Proceeds from public issue at premium	-	-	12,840
	Repayment of bank borrowings	-	-	(1,500)
	Net cash from financing activities	-	-	9,840
	CASH AND CASH EQUIVALENTS AT END	*	3,205	13,045
	Represented by :			
	Fixed deposits with a licensed bank	-	300	300
	Cash and bank balances	*	2,905	12,745
		*	3,205	13,045

* Represents RM2

JB Lau & Associates

	AUDITED	-- PROFORMA GROUP --	
	Scope and its subsidiary company, SSSB 2.9.2002 to 30.6.2003	After the Acquisition	After the Acquisition and Public Issue
	RM'000	RM'000	RM'000
** Cash flow on acquisition of subsidiary company			
Property, plant and equipment	-	19,721	19,721
Inventories	-	2,223	2,223
Debtors	-	5,251	5,251
Creditors	-	(3,924)	(3,924)
Cash and cash equivalents	-	3,189	3,189
Bank borrowings	-	(2,582)	(2,582)
Provision for taxation	-	(272)	(272)
Deferred taxation	-	(1,552)	(1,552)
Share of net assets acquired	-	22,054	22,054
Less : Consideration satisfied by shares	-	(18,588)	(18,588)
Add : Cash and cash equivalents acquired	-	3,189	3,189
Reserve on consolidation	-	(3,466)	(3,466)
Cash flow on acquisition of subsidiary company	-	3,189	3,189

10. EVENTS SUBSEQUENT TO BALANCE SHEET DATE OF 30 JUNE 2003

Based on the audited financial statements for the year ended 30 June 2003 and other than the completion of the Acquisition of subsidiary company by Scope as referred to in Section 2(i), no events have arisen subsequent to the balance sheet date which require disclosure in this Report.

11. FINANCIAL STATEMENTS

No audited financial statements have been prepared in respect of any period subsequent to 30 June 2003.

Yours faithfully,

JB LAU & ASSOCIATES
NO. AF : 0042
CHARTERED ACCOUNTANTS

JOHN LAU TIANG HUA
NO. 1107/03/04 (J)

13 PROFORMA CONSOLIDATED BALANCE SHEETS OF SCOPE AS AT 30 JUNE 2003, TOGETHER WITH REPORTING ACCOUNTANTS' LETTER THEREON

JB LAU & ASSOCIATES
CHARTERED ACCOUNTANTS

51-8-A, Menara BHL Bank
Jalan Sultan Ahmad Shah
10050 Penang, Malaysia.

Phone: (04) 2287828 (6 Lines)
Fax: (04) 2279828
E-mail: enquiry@jblau.com.my

26 September 2003

The Board of Directors
Scope Industries Berhad
51-8-B Menara BHL Bank
Jalan Sultan Ahmad Shah
10050 Penang
Malaysia

Dear Sirs,

PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 30 JUNE 2003

We have reviewed the presentation of the Proforma Consolidated Balance Sheets of Scope Industries Berhad ("Scope") as at 30 June 2003, together with the accompanying notes thereon, for which the Directors are solely responsible, as set out in the accompanying statement prepared for purposes of inclusion in the Prospectus to be dated 3 October 2003 issued in connection with the public issue of 64,200,000 new ordinary shares of RM0.10 each at an issue price of RM0.20 per ordinary share pursuant to the listing of and quotation for its entire issued and fully paid-up share capital on the MESDAQ Market of Kuala Lumpur Stock Exchange.

In our opinion, the Proforma Consolidated Balance Sheets of Scope as at 30 June 2003 together with the notes thereto, which are provided for illustrative purposes only, have been properly compiled on a basis consistent with the accounting policies normally adopted by the Group and after taking into account adjustments appropriate for the purposes of the proforma consolidated balance sheets and are presented in a form suitable for inclusion in the Prospectus.

Yours faithfully,

JB LAU & ASSOCIATES
NO. AF : 0042
CHARTERED ACCOUNTANTS

JOHN LAU TIANG HUA
NO. 1107/03/04(J)

SCOPE INDUSTRIES BERHAD
(Incorporated In Malaysia)

PROFORMA CONSOLIDATED BALANCE SHEETS

The Proforma Consolidated Balance Sheets of Scope as at 30 June 2003 as set out below are provided for illustrative purposes only to show the effects of the Acquisition of Scope Manufacturers (M) Sdn. Bhd. ("SMSB"), Public Issue and the proposed utilisation of proceeds from the Public Issue in conjunction with the Listing, on the assumption that these transactions were completed on 30 June 2003.

	Audited	Proforma (I)	Proforma (II)
	Scope and its subsidiary company, Scope Sales & Services Sdn. Bhd. at 30 June 2003 RM'000	After the Acquisition of SMSB RM'000	After Proforma (I), and the Public Issue and the proposed utilisation of proceeds RM'000
PROPERTY, PLANT AND EQUIPMENT	-	19,721	19,721
DEFERRED TAXATION ASSET	1	1	1
CURRENT ASSETS			
Inventories	-	2,223	2,223
Trade debtors	233	4,962	4,962
Other debtors, deposits and prepayments	1	522	522
Fixed deposits with a licensed bank	-	300	300
Cash and bank balances	16	2,905	12,745
	250	10,912	20,752
CURRENT LIABILITIES			
Trade creditors	251	1,406	1,406
Other creditors and accruals	10	437	437
Amount due to directors	-	320	320
Bank borrowings	-	1,647	1,082
Dividend payable	-	1,890	1,890
Provision for taxation	-	272	272
	261	5,972	5,407
NET CURRENT (LIABILITIES)/ASSETS	(11)	4,940	15,345
	(10)	24,662	35,067
FINANCED BY :			
SHARE CAPITAL	*	18,580	25,000
SHARE PREMIUM	-	8	4,928
RESERVE ON CONSOLIDATION	-	3,466	3,466
LOSS	(10)	(10)	(10)
SHAREHOLDERS' FUNDS	(10)	22,044	33,384
DEFERRED TAXATION LIABILITY	-	1,552	1,552
LONG TERM LIABILITIES	-	1,066	131
	(10)	24,662	35,067
NET TANGIBLE (LIABILITIES)/ASSETS	(10)	22,044	33,384
NET TANGIBLE (LIABILITIES)/ASSETS PER ORDINARY SHARE (RM)	(5,000.00)	0.12	0.13
PAR VALUE OF ORDINARY SHARE (RM)	1.00	0.10	0.10

Note:-

* *RM2.00 only comprising 2 ordinary shares of RM1.00 each.*

SCOPE INDUSTRIES BERHAD

NOTES AND ASSUMPTIONS TO THE PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 30 JUNE 2003

1. The Proforma Consolidated Balance Sheets of Scope have been prepared for illustrative purposes based on the audited financial statements of Scope and its wholly owned subsidiary company, Scope Sales & Services Sdn. Bhd. and SMSB as at 30 June 2003 and on the assumption that the following were effected on that date :

(a) (i) The acquisition of 100% equity interest in SMSB based on its adjusted audited net tangible assets ("NTA") at 30 June 2002 after adjusting for rights issue, satisfied by the issuance of new Scope ordinary shares of RM1.00 each valued at approximately RM1.0004 per share.

	Adjusted audited NTA at 30.6.2002		New Scope shares issued
	RM'000		'000
SMSB	18,588	*	18,580

	NTA	
	RM'000	
Audited NTA as at 30 June 2002	17,888	
Add :		
Rights issue	700	
Adjusted audited NTA	18,588	*

(ii) Subsequent to the acquisition of SMSB, Scope subdivided the 18,579,998 ordinary share of RM1.00 each issued for the Acquisition to 185,799,980 ordinary shares of RM0.10 each.

(b) Public Issue of 64,200,000 new ordinary shares of RM0.10 each at an issue price of RM0.20 per share.

(c) The gross proceeds from the Public Issue will be utilised as follows :

	RM'000
Repayment of bank borrowings	1,500
Working capital	9,840
Payment of listing expenses	1,500
	12,840

For the purpose of illustrating the proforma consolidated balance sheets, only RM1.50 million is utilised as repayment of bank borrowings as the term loan of RM5.00 million for the construction of the factory building will only be drawn down subsequent to the financial year ended 30 June 2003.

(d) Listing expenses of RM1,500,000 will be written off against the share premium account.

	RM'000
Share premium from :	
Issue of shares for acquisition of SMSB at a premium of approximately – RM0.00004 x 185,799,980	8
Public Issue – RM0.10 x 64,200,000	6,420
Listing expenses	(1,500)
	4,928

2. The Proforma Consolidated Balance Sheets of Scope and its subsidiary companies have been prepared under the acquisition method of consolidation.