

12. FINANCIAL INFORMATION

12.1 PROFORMA CONSOLIDATED INCOME STATEMENTS

The following is a summary of the proforma consolidated income statements of the KIB Group for the past five (5) financial years/periods ended 31 March 2004, which have been prepared based on the audited financial statements of the KIB Group for the relevant financial years/periods for illustrative purposes, on the assumption that the current structure of the KIB Group had been in existence throughout the financial years/periods under review.

	<----- Financial years/periods ----->				
	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000
Revenue	11,595	14,069	13,198	18,912	24,805
Profit before depreciation, interest and taxation	282	552	726	1,751	2,482
Interest expense	(77)	(59)	(109)	(111)	(198)
Depreciation	(127)	(207)	(363)	(341)	(355)
Profit before taxation	78	286	254	1,299	1,929
Taxation	(1)	(87)	(93)	(229)	(293)
Profit after taxation	77	199	161	1,070	1,636
Number of KIB Shares ('000) (after the Public Issue but before full exercise of ESOS Options)	120,000	120,000	120,000	120,000	120,000
EPS (Sen)					
-gross* ¹	0.07	0.24	0.21	1.08	1.61
-net* ²	0.06	0.17	0.13	0.89	1.36
Number of KIB Shares ('000) (after full exercise of ESOS Options)	132,000	132,000	132,000	132,000	132,000
EPS (Sen)					
-gross* ³	0.06	0.22	0.19	0.98	1.46
-net* ⁴	0.06	0.15	0.12	0.81	1.24

*1 The gross EPS has been calculated based on the profit before taxation and the number of KIB Shares after the Public Issue but before the full exercise of ESOS Options.

*2 The net EPS has been calculated based on the profit after taxation and the number of KIB Shares after the Public Issue but before the full exercise of ESOS Options.

*3 The gross EPS has been calculated based on the profit before taxation and the number of KIB Shares after the Public Issue and the full exercise of ESOS Options.

*4 The net EPS has been calculated based on the profit after taxation and the number of KIB Shares after the Public Issue and the full exercise of ESOS Options.

The above results are consolidated based on the audited financial statements of the respective companies for illustrative purposes.

12. FINANCIAL INFORMATION (Cont'd)

Notes: -

1. *There were no audit qualifications for the financial years/periods under review.*
2. *There were no extraordinary or exceptional items or minority interest during the financial years/periods under review.*
3. *The effective tax rate, profit after taxation and shareholders' equity have been adjusted for any under or over provision of taxation, where relevant and possible.*
4. *The higher turnover for the financial year ended 31 March 2000 as compared to the previous financial year was mainly due to the higher demand of CDE products. Profit after taxation increased in tandem with higher turnover. In addition, the higher profit after taxation was due to the income tax exemption granted by the Malaysian Government and the utilisation of unabsorbed tax losses.*

The effective tax rate for the KIB Group was lower than the statutory tax rate due to the utilisation of unabsorbed capital allowances by HLSB while KMSB enjoyed the tax waiver for its profit generated for the financial year ended 31 December 1999 in accordance with the Income Tax (Amendment) Act, 1999.

5. *The higher turnover for the financial year ended 31 March 2001 as compared to the previous financial year was mainly due to higher sales volume in line with the recovery of economic condition in Asian region and as a result of aggressive sales and marketing efforts by the management. Profit after taxation increased mainly due to the higher sales volume.*

The effective tax rate was higher than the statutory tax rate mainly due to certain expenses being disallowed for tax purposes.

6. *The lower turnover for the financial year ended 31 March 2002 as compared to the previous financial year was mainly attributable to the lower sales volume arising from the economy slowdown subsequent to the "September 11" event. AISB commenced its business operation on 9 March 2001 and contributed RM392,394 to the Group. The revenue is solely derived from the trading of plastic's products. Despite the global economic slowdown, the management continued to invest in plant and machinery in order to increase its product range to cater for the customers' demand from the related industries. However, profit after taxation has decreased mainly due to higher depreciation charges, staff costs, factory maintenance costs and finance cost incurred for the additional term loan and hire-purchase arrangement.*

In addition, the effective tax rate for HLSB was slightly higher as compared to previous financial year mainly due to the loss on disposal of investment not deductible for tax purposes.

7. *The higher turnover for the financial year ended 31 March 2003 as compared to the previous financial year was mainly due to the aggressive marketing efforts by the sales team, the increase in selling price and higher production volume for the year as a result of the improved production efficiency of the new machine invested in prior year. In addition, AISB commenced its manufacturing activities. Profit after taxation has increased substantially in tandem with turnover. In addition, the higher profit after taxation was mainly due to the reduction in administrative expenses, maintenance cost, sales commission and Directors' fee.*

The effective tax rate for the year was lower than the statutory tax rate in 2003 mainly due to the tax incentive in respect of reinvestment allowance claimed on the new machines invested.

12. FINANCIAL INFORMATION (Cont'd)

12.2 SEGMENTAL ANALYSIS OF PROFORMA TURNOVER AND PROFIT AFTER TAXATION

(i) Turnover

The table below set out the segmental analysis by product division and subsidiaries of the KIB Group for the past five (5) financial years/periods ended 31 March 2004, prepared on the assumption that the current structure of the KIB Group had been in existence throughout the financial years/periods under review: -

By Product Division

	←----- Financial years/periods ----->				
	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000
Turnover					
Polymeric	8,478	10,174	9,321	13,970	18,726
Oleochemical	3,117	3,895	3,877	4,942	6,079
Total	11,595	14,069	13,198	18,912	24,805

By Subsidiaries

		←----- Financial years/periods ----->				
		2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000
Turnover	Principal Activity					
KIB	Investment Holding	-	-	-	-	-
HLSB	Polymeric products	8,478	10,174	9,350	13,670	18,156
KMSB	Oleochemical products	3,117	3,895	3,877	4,951	6,081
AISB	Polymeric products	-	-	392	667	1,313
		11,595	14,069	13,619	19,288	25,550
	<i>Less: Inter-company sales</i>	-	-	(421)	(376)	(745)
Total		11,595	14,069	13,198	18,912	24,805

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12. FINANCIAL INFORMATION (Cont'd)

(ii) Profit after tax

The table below sets out the segmental analysis by product division and subsidiaries of the KIB Group for the past five (5) financial years/periods ended 31 March 2004, prepared on the assumption that the current structure of the KIB Group had been in existence throughout the financial years/periods under review: -

By Product Division

	<----- Financial years/periods ----->				
	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000
Profit after taxation					
Polymeric	9	167	110	790	1,282
Oleochemical	68	32	51	280	365
Others	-	-	-	-	(11)*
Total	77	199	161	1,070	1,636

Note:

* Administration expenses of KIB

By Subsidiary Companies

	Principal Activity	<----- Financial years/periods ----->				
		2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000
Profit after taxation						
KIB	Investment Holding	-	-	-	-	(11)
HLSB	Polymeric	9	167	94	733	1,187
KMSB	Oleochemical	68	32	50	281	364
AISB	Polymeric	-	-	17	56	95
Total		77	199	161	1,070	1,636

The above results are consolidated based on the audited financial statements of the respective companies for illustrative purposes.

12. FINANCIAL INFORMATION (Cont'd)

12.3 DECLARATION

Save as disclosed in this Prospectus, the financial performance, position and operations of the Group were not affected by any of the following: -

- (i) known trends, demands, commitments, events or uncertainties that have had or that the Group reasonably expects to have a material favourable or unfavourable impact on the financial performance, position and operations of the Group;
- (ii) material capital expenditure commitments;
- (iii) unusual, infrequent events or transactions or any significant economic changes that have materially affected the financial performance, position and operations of the Group;
- (iv) apart from the revenue fluctuations elaborated in Section 12.1, there has not been any substantial increase in revenue for the Group; and
- (ix) known events, circumstances, trends, uncertainties and commitments that are reasonably likely to make the historical financial statement not indicative of future financial performance and position.

12.4 WORKING CAPITAL, BORROWINGS, MATERIAL COMMITMENTS AND MATERIAL CONTINGENT LIABILITIES**(i) Working capital**

The Directors of KIB are of the opinion that after taking into consideration the cashflow forecast and the banking facilities available and the net proceeds from the Public Issue, the Group will have adequate working capital for a period of twelve (12) months from the date of issuance of this Prospectus.

(ii) Borrowings

As at 31 July 2004, being the latest practicable date at which such amounts could be calculated prior to the printing of this Prospectus, the total borrowings of the Group amounted to approximately RM3.75 million.

The details of the Group's outstanding borrowings, are as follows: -

	RM
Long-term borrowings	1,495,265
Short-term borrowings	2,256,962
Total borrowings	<u>3,752,227</u>
Represented by:	
Interest-bearing	3,714,425
Non-interest bearing*	<u>37,802</u>
	<u>3,752,227</u>

Note:

* Non-interest bearing borrowings comprise amount owing to Directors and shareholders of RM13,854 and RM23,948 respectively.

As at 31 July 2004, there has been no default on payments of either interest and/or principal sums in respect of the above borrowings throughout the past one (1) financial year ended 31 March 2004 and the subsequent financial period ended 31 July 2004.

12. FINANCIAL INFORMATION (Cont'd)**(iii) Material commitments**

Save as disclosed below, there are no material commitments for capital expenditure contracted or known to be contracted by the KIB Group, which may have a substantial impact on the financial position of the KIB Group as at 31 July 2004 (being the latest practicable date at which such amounts could be calculated prior to the printing of this Prospectus).

	Amount RM
Approved and contracted for ^{*1}	960,000
Approved but not contracted for ^{*2}	2,300,000
	<u>3,260,000</u>

Notes:

^{*1} This is in respect of material commitments for the construction of a 1½ storey factory on a piece of vacant industrial land known as Lot 1031, Jalan Utarid U5/16, Mah Sing Integrated Industrial Park, Shah Alam. The estimated construction cost of the said factory is approximately RM960,000 of which RM720,000 shall be funded via bank borrowings.

^{*2} This is in respect of material commitments as set out in Section 3.9 in relation to the proposed purchase of a factory which is located in the vicinity to its existing factory at No. 1, Jalan Sri Plentong 6, Taman Perindustrian Sri Plentong, 81750, Masai, Johor Bahru. The cost of the said factory is estimated to be approximately RM2.3 million of which RM2.00 million shall be funded from proceeds to be raised from the Rights Issue and the Public Issue and the remaining RM0.30 million shall be funded from internally generated funds.

(iv) Material contingent liabilities

Save as disclosed below, as at 31 July 2004, being the latest practicable date at which such amounts could be calculated prior to the printing of this Prospectus, the Group does not have any other material contingent liabilities, which would have a material effect on the financial performance and position of the Group.

No.	Date	Bank	Parties issued to	Nature of Contract	Amount (RM)
1.	08.10.2003	} RHB Bank Berhad	} Tenaga National Berhad	} Bank Guarantee Facility	30,000
	25.02.2004				60,000
	13.04.2004				100,000
	21.07.2004				29,000
					<u>219,000</u>
2.	04.08.03	} RHB Bank Berhad	} Government of Malaysia (Immigration Department)	} Bank Guarantee Facility	750
	10.12.03				2,500
	17.12.03				750
	09.02.04				6,750
	16.02.04				3,750
					<u>14,500</u>

12. FINANCIAL INFORMATION (Cont'd)

(v) Material litigations

Neither KIB nor its subsidiaries are engaged in any litigation/arbitration, either as plaintiff or defendant, which has a material effect on the financial performance and position of KIB or its subsidiaries and the Directors of KIB are not aware of any proceedings pending or threatened or of any fact likely to give rise to any proceedings which might materially and adversely affect the position or business of KIB or its subsidiaries.

12.5 FUTURE FINANCIAL INFORMATION

Due to the uncertain nature and inherent risks in the business of the KIB Group, no future financials are included in this Prospectus. Please refer to Section 4 – Risk Factors for further details.

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12. FINANCIAL INFORMATION (Cont'd)

12.6 PROFORMA CONSOLIDATED BALANCE SHEETS

The following is a summary of the proforma consolidated balance sheets of the KIB Group as at 31 March 2004, which have been prepared based on the audited financial statements of the KIB Group for the relevant financial years/period prepared for illustrative purposes only, to show the proforma effects of the Flotation Scheme as set out in Section 5.2 of this Prospectus.

	KIB as at 31 March 2004 RM'000	Proforma I RM'000	Proforma II RM'000	Proforma III RM'000	Proforma IV RM'000
ASSETS EMPLOYED					
PROPERTY, PLANT AND EQUIPMENT	-	6,730	6,730	10,430	10,430
INVESTMENT	-	#	#	#	#
CURRENT ASSETS					
Inventories	-	2,134	2,134	2,134	2,134
Trade receivables	-	7,491	7,491	7,491	7,491
Other receivables, deposits and prepayments	566	645	645	79	79
Tax recoverable	-	119	119	119	119
Fixed deposits with licensed banks	-	666	666	666	666
Cash and bank balances	*	91	555	1,621	3,781
	566	11,146	11,610	12,110	14,270
CURRENT LIABILITIES					
Trade payables	-	3,289	3,289	3,289	3,289
Other payables and accruals	577	427	427	427	427
Amount owing to Directors	-	583	-	-	-
Amount owing to Shareholders	-	699	-	-	-
Hire-purchase creditors	-	320	320	320	320
Bank borrowings – Secured	-	1,661	1,661	1,661	1,661
	577	6,979	5,697	5,697	5,697
NET CURRENT ASSETS / (LIABILITIES)	(11)	4,167	5,913	6,413	8,573
	(11)	10,897	12,643	16,843	19,003
FINANCED BY					
SHARE CAPITAL	*	7,254	9,000	12,000	13,200
SHARE PREMIUM	-	-	-	1,200	2,160
RESERVE ON CONSOLIDATION	-	1,984	1,984	1,984	1,984
ACCUMULATED LOSSES@	(11)	(11)	(11)	(11)	(11)
SHAREHOLDERS' EQUITY	(11)	9,227	10,973	15,173	17,333
LONG TERM AND DEFERRED LIABILITIES					
Hire-purchase creditors	-	133	133	133	133
Term loans - Secured	-	1,363	1,363	1,363	1,363
Deferred tax liabilities	-	174	174	174	174
	(11)	10,897	12,643	16,843	19,003
Net tangible liabilities per ordinary share of RM1.00 each (RM)	(5,500)	-	-	-	-
Net tangible assets per ordinary share of RM0.10 each (Sen)	-	12.72	12.19	12.64	13.13
<i>Notes: -</i>					
*	<i>Represents RM2.00</i>				
#	<i>Represents RM51.00</i>				
@	<i>Represents administrative expenses</i>				
(i)	<i>Proforma I</i>	:	<i>After the Acquisitions and the Share Split.</i>		
(ii)	<i>Proforma II</i>	:	<i>After Proforma I and the Rights Issue.</i>		
(iii)	<i>Proforma III</i>	:	<i>After Proforma II and the Public Issue.</i>		
(iv)	<i>Proforma IV</i>	:	<i>After Proforma III and full exercise of ESOS Options.</i>		

12. FINANCIAL INFORMATION (Cont'd)

12.7 REPORTING ACCOUNTANTS' LETTER ON THE PROFORMA CONSOLIDATED BALANCE SHEETS



BDO Binder (AF 0206)
Chartered Accountants

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1008 Jalan Sultan Ismail
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Telephone : (603) 2616 2888
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Website : www.bdo-malaysia.com

Our Ref: BDOB/DS/YKF/KOK

11 August 2004

The Board of Directors
Karyon Industries Berhad
Suite 13.01, 13th Floor
City Plaza, Jalan Tebrau
80300 Johor Bahru
Johor Darul Takzim

Dear Sirs

KARYON INDUSTRIES BERHAD ("KIB")
PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 31 MARCH 2004

We have reviewed the presentation of the proforma consolidated balance sheets of KIB and its subsidiary companies ("KIB Group") as at 31 March 2004, together with the notes and assumptions thereon as set out in the accompanying statement (which we have stamped for the purpose of identification), for which the Directors of KIB Group are solely responsible, for the purpose of inclusion in the Prospectus of KIB to be dated 23 August 2004 in connection with the flotation of KIB on the MESDAQ Market of Bursa Malaysia Securities Berhad, and should not be relied on for any other purposes. The flotation encompasses the following:-

- (a) Acquisitions by KIB of the entire equity interest in Hsing Lung Sdn. Bhd., Karyon (M) Sdn. Bhd. and Allbright Industries (M) Sdn. Bhd. for a total consideration of RM7,254,330 satisfied by the issuance of 7,254,330 ordinary shares of RM1.00 each in KIB;
- (b) Share split whereby every existing one (1) ordinary share of RM1.00 each held in KIB was sub-divided into ten (10) new ordinary shares of RM0.10 each in KIB;
- (c) Rights issue of 17,456,680 new ordinary shares at par on the basis of one (1) new ordinary share for every approximately 4.16 existing shares held in KIB after the acquisitions and share split;
- (d) Public issue of 30,000,000 new ordinary shares of RM0.10 each in KIB at an issue price of RM0.18 per ordinary share;
- (e) Listing of and quotation for the entire enlarged issued and fully paid-up share capital of KIB comprising 120,000,000 ordinary shares of RM0.10 each on the MESDAQ Market of Bursa Malaysia Securities Berhad; and
- (f) Establishment of an Employee Share Option Scheme ("ESOS") of up to 10% of the enlarged issued and fully paid-up share capital of KIB for the benefits of eligible directors and employees of the KIB Group.

12. FINANCIAL INFORMATION (Cont'd)

Karyon Industries Berhad
Proforma Consolidated Balance Sheets
31 March 2004



In our opinion:-

- (i) the proforma consolidated balance sheets of KIB as at 31 March 2004, which are prepared for illustrative purposes only, have been properly compiled on the basis set out in the notes to the proforma consolidated balance sheets and such basis is consistent with the accounting policies adopted by the KIB Group; and
- (ii) the adjustments to the consolidated balance sheets of KIB as at 31 March 2004 are appropriate for the purposes of the proforma consolidated balance sheets.

Yours faithfully

BDO Binder

BDO BINDER
AF : 0206
CHARTERED ACCOUNTANTS

A handwritten signature in black ink, appearing to read 'Siew Kah Toong', written over a diagonal line.

SIEW KAH TOONG
1045/3/06 (J)
PARTNER

12. FINANCIAL INFORMATION (Cont'd)

Stamped for
the purpose of
identification only.

11 AUG 2004

BDO Binder (AF0206)
Chartered Accountants
Kuala Lumpur

KARYON INDUSTRIES BERHAD
PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 31 MARCH 2004

The proforma consolidated balance sheets of KIB as at 31 March 2004 as set out below are prepared for illustrative purposes only.

	KIB as at 31 March 2004 RM'000	Proforma I RM'000	Proforma II RM'000	Proforma III RM'000	Proforma IV RM'000
ASSETS EMPLOYED					
PROPERTY, PLANT AND EQUIPMENT					
	-	6,730	6,730	10,430	10,430
INVESTMENT					
	-	#	#	#	#
CURRENT ASSETS					
Inventories	-	2,134	2,134	2,134	2,134
Trade receivables	-	7,491	7,491	7,491	7,491
Other receivables, deposits and prepayments	566	645	645	79	79
Tax recoverable	-	119	119	119	119
Fixed deposits with licensed banks	-	666	666	666	666
Cash and bank balances	*	91	555	1,621	3,781
	566	11,146	11,610	12,110	14,270
CURRENT LIABILITIES					
Trade payables	-	3,289	3,289	3,289	3,289
Other payables and accruals	577	427	427	427	427
Amount owing to Directors	-	583	-	-	-
Amount owing to Shareholders	-	699	-	-	-
Hire-purchase creditors	-	320	320	320	320
Bank borrowings – Secured	-	1,661	1,661	1,661	1,661
	577	6,979	5,697	5,697	5,697
NET CURRENT ASSETS / (LIABILITIES)					
	(11)	4,167	5,913	6,413	8,573
	(11)	10,897	12,643	16,843	19,003
FINANCED BY					
SHARE CAPITAL					
SHARE PREMIUM	*	7,254	9,000	12,000	13,200
RESERVE ON CONSOLIDATION	-	-	-	1,200	2,160
ACCUMULATED LOSSES [^]	-	1,984	1,984	1,984	1,984
SHAREHOLDERS' EQUITY / (DEFICIT)	(11)	(11)	(11)	(11)	(11)
LONG TERM AND DEFERRED LIABILITIES					
Hire-purchase creditors	(11)	9,227	10,973	15,173	17,333
LONG TERM AND DEFERRED LIABILITIES					
Hire-purchase creditors	-	133	133	133	133
Term loans – secured	-	1,363	1,363	1,363	1,363
Deferred tax liabilities	-	174	174	174	174
	(11)	10,897	12,643	16,843	19,003
Net Tangible Liabilities per ordinary share of RM1.00 each (RM)					
	(5,500)	-	-	-	-
Net Tangible Assets per ordinary share of RM0.10 each (Sen)					
	-	12.72	12.19	12.64	13.13

* Represent RM2.00

ii Represent RM51.00

[^] Represent administrative expenses

12. FINANCIAL INFORMATION (Cont'd)


NOTES TO PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 31 MARCH 2004
(A) BASIS OF PREPARATION

The proforma consolidated balance sheets are presented for illustrative purposes only and have been prepared:-

- (i) Based on the audited balance sheet of KIB as at 31 March 2004;
- (ii) Based on the audited balance sheets of Hsing Lung Sdn. Bhd. ("HLSB"), Allbright Industries (M) Sdn. Bhd. ("AISB") and Karyon (M) Sdn. Bhd. ("KMSB") as at 31 March 2004;
- (iii) Based on the accounting policies and basis adopted by the KIB Group ; and
- (iv) After incorporating the transactions referred to in (B) to (E) below as though they were effected on 31 March 2004.

(B) PROFORMA I
Acquisitions and Share Split

The proforma I incorporates the acquisitions by KIB of the entire equity interest in HLSB, KMSB and AISB for a total consideration of RM7,254,330 satisfied by way of issuance of 7,254,330 ordinary shares of RM1.00 each in KIB at par, and the share split after the acquisitions. The details are as follows:-

- (i) Acquisition of the entire issued and paid-up share capital of HLSB comprising 4,733,750 ordinary shares of RM1.00 each for a purchase consideration of RM5,207,125 satisfied by the issuance of 5,207,125 ordinary shares of RM1.00 each in KIB at par.
- (ii) Acquisition of the entire issued and paid-up share capital of KMSB comprising 1,031,470 ordinary shares of RM1.00 each for a purchase consideration of RM1,547,205 satisfied by the issuance of 1,547,205 ordinary shares of RM1.00 each in KIB at par.
- (iii) Acquisition of the entire issued and paid-up share capital of AISB comprising 500,000 ordinary shares of RM1.00 each for a purchase consideration of RM500,000 satisfied by the issuance of 500,000 ordinary shares of RM1.00 each in KIB at par.
- (iv) Share split whereby every existing one (1) ordinary share of RM1.00 each held in KIB was sub-divided into ten (10) new ordinary shares of RM0.10 each in KIB.

12. FINANCIAL INFORMATION (Cont'd)



(C) PROFORMA II

Rights Issue

The proforma II is stated after proforma I and incorporates the rights issue of 17,456,680 new ordinary shares at par on the basis of one (1) new ordinary share for every approximately 4.16 existing KIB shares held after the acquisitions and share split.

(D) PROFORMA III

Public Issue

The proforma III is stated after proforma II and incorporates the effects of the public issue of 30,000,000 new ordinary shares of RM0.10 each in KIB at an issue price of RM0.18 per ordinary share. The public issue of 30,000,000 shares are allocated in the following manner:-

- (i) 20,000,000 new ordinary shares in KIB by way of private placement to selected investors;
- (ii) 5,000,000 new ordinary shares in KIB available for application by the Malaysian public; and
- (iii) 5,000,000 new ordinary shares in KIB available for application by eligible directors, employees, suppliers, customers and business associates of the KIB Group.

The proceeds from the rights issue and public issue will be utilised as follows:-

	RM'000
Working capital	2,546
Capital expenditure	
Purchase of factory building*	2,000
Purchase of plant and machinery	1,400
Estimated listing expenses**	1,200
	7,146

* The factory building is expected to cost approximately RM2.3 million of which RM300,000 will be financed through internal funds.

** The listing expenses of RM1.2 million are netted off against the share premium arising from the public issue.

12. FINANCIAL INFORMATION (Cont'd)



(E) PROFORMA IV

ESOS

The proforma IV is stated after proforma III and incorporates the effect of the full exercise of the ESOS options of up to 10% of the enlarged issued and paid-up share capital of KIB at the exercise price of RM0.18 per share.

(F) SHARE CAPITAL AND RESERVES

The movement of the issued and paid-up share capital and reserves of KIB are as follows:-

	Share capital RM'000	<----Non distributable ---->		Accumulated losses RM'000
		Share premium RM'000	Reserve on Consolidation RM'000	
As at 31 March 2004	*	-	-	(11)^
Acquisitions and Share Split	7,254	-	1,984	-
Proforma I	7,254	-	1,984	(11)
Rights Issue	1,746	-	-	-
Proforma II	9,000	-	1,984	(11)
Public Issue	3,000	2,400	-	-
Less: listing expenses	-	(1,200)	-	-
Proforma III	12,000	1,200	1,984	(11)
Full exercise of ESOS options	1,200	960	-	-
Proforma IV	13,200	2,160	1,984	(11)

* Represent RM2.00 for 2 ordinary shares of RM1.00 each

^ Represent administrative expenses

13. ACCOUNTANTS' REPORT



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Our Ref: BDOB/DS/YKF/KOK

11 August 2004

The Board of Directors
Karyon Industries Berhad
Suite 13.01, 13th Floor
City Plaza, Jalan Tebrau
80300 Johor Bahru
Johor Darul Takzim

Dear Sirs

ACCOUNTANTS' REPORT ON KARYON INDUSTRIES BERHAD

1. INTRODUCTION

This report has been prepared by an approved company auditor for inclusion in the Prospectus of Karyon Industries Berhad ("KIB") to be dated 23 August 2004 in connection with the:-

- (a) Initial public issue of new ordinary shares of RM0.10 each at an issue price of RM0.18 per ordinary share payable in full on application comprising:-
 - (i) 20,000,000 new ordinary shares of RM0.10 each in KIB by way of private placement to selected investors;
 - (ii) 5,000,000 new ordinary shares of RM0.10 each in KIB available for application by the Malaysian public; and
 - (iii) 5,000,000 new ordinary shares of RM0.10 each available for application by eligible directors, employees, suppliers, customers and business associates of the KIB Group.
- (b) The listing and quotation for the entire issued and fully paid-up share capital of KIB comprising 120,000,000 ordinary shares of RM0.10 each on the MESDAQ Market of Bursa Malaysia Securities Berhad.

13. ACCOUNTANTS' REPORT (Cont'd)

**2. FLOTATION SCHEME**

In conjunction with, and as an integral part of the listing of and quotation for the entire enlarged issued and paid-up share capital of KIB on the MESDAQ market of Bursa Malaysia Securities Berhad, KIB had undertaken the following exercises which were approved by the Securities Commission ("SC") and Bursa Malaysia Securities Berhad on 23 March 2004 and 30 March 2004 respectively.

(a) Acquisitions

KIB had on 18 August 2003 entered into several share sale agreements to acquire the following companies for a total purchase consideration of RM7,254,330 satisfied by way of issuance of 7,254,330 ordinary shares of RM1.00 each in KIB at par. The acquisitions were completed on 1 June 2004. The details are as follows:-

(i) Hsing Lung Sdn. Bhd. ("HLSB")

Acquisition by KIB of the entire issued and paid-up share capital of HLSB comprising 4,733,750 ordinary shares of RM1.00 each for a total consideration of RM5,207,125 satisfied by the issuance of 5,207,125 ordinary shares of RM1.00 each in KIB, credited as fully paid-up, at par.

(ii) Karyon (M) Sdn. Bhd. ("KMSB")

Acquisition by KIB of the entire issued and paid-up share capital of KMSB comprising 1,031,470 ordinary shares of RM1.00 each for a total consideration of RM1,547,205 satisfied by the issuance of 1,547,205 ordinary shares of RM1.00 each in KIB, credited as fully paid-up, at par.

(iii) Allbright Industries (M) Sdn. Bhd. ("AISB")

Acquisition by KIB of the entire issued and paid-up share capital of AISB comprising 500,000 ordinary shares of RM1.00 each for a total consideration of RM500,000 satisfied by the issuance of 500,000 ordinary shares of RM1.00 each in KIB, credited as fully paid-up, at par.

(b) Share Split

Every existing one (1) ordinary share of RM1.00 each held in KIB was sub-divided into ten (10) new ordinary shares of RM0.10 each in KIB.

(c) Rights Issue

Rights Issue of 17,456,680 new ordinary shares at par on the basis of one (1) new ordinary share for every approximately 4.16 existing KIB shares held after the Acquisitions and Share Split.

13. ACCOUNTANTS' REPORT (Cont'd)

**2. FLOTATION SCHEME (cont'd)****(d) Public Issue**

Public Issue of 30,000,000 new ordinary shares of RM0.10 each in KIB at an issue price of RM0.18 per ordinary shares. The issue shares are allocated in the following manner:-

- ◆ 20,000,000 new ordinary shares in KIB available for application by way of private placement to identified investors;
- ◆ 5,000,000 new ordinary shares in KIB available for application by the Malaysian public; and
- ◆ 5,000,000 new ordinary shares in KIB available for application by eligible directors, employees, suppliers, customers and business associates of the KIB Group.

(e) Listing and Quotation

Upon completion of the Public Issue, KIB will seek the listing of and quotation for its entire enlarged issued and fully paid-up share capital comprising 120,000,000 ordinary shares of RM0.10 each on the MESDAQ Market of Bursa Malaysia Securities Berhad.

(f) Employees Share Option Scheme ("ESOS")

To grant up to 10% of the issued and fully paid-up share capital of KIB, comprising 12,000,000 shares to the eligible directors and employees of KIB and the subsidiary companies. The exercise price of ESOS options will be fixed at RM0.18 being the issue price of the Public Issue shares.

3. GENERAL INFORMATION**3.1 Background**

KIB (formerly known as Karyon Industries Sdn. Bhd.) was incorporated in Malaysia under the Companies Act, 1965 on 21 April 2003 as a private limited liability company. It was subsequently converted into a public limited company on 24 July 2003 and assumed its present name.

13. ACCOUNTANTS' REPORT (Cont'd)



3. GENERAL INFORMATION (cont'd)

3.2 Share Capital

The authorised and issued and fully paid-up share capital of KIB as at the date of this report are as follows:-

	No of shares '000	Par value RM	Total share capital RM'000
Authorised:-			
Ordinary shares	250,000	0.10	25,000
Issued and fully paid-up:-			
Ordinary shares upon completion of public issue	120,000	0.10	12,000
Ordinary shares upon completion of public issue and full exercise of ESOS options	132,000	0.10	13,200

Details of changes in the issued and paid-up share capital of KIB since the date of incorporation are as follows:-

Dates of allotment	Number of ordinary shares	Par Value RM	Purpose	Resultant issued and paid-up share capital RM
21 April 2003	2	1.00	Subscribers' shares	2
1 June 2004	7,254,330	1.00	Shares issued pursuant to the acquisitions of HLSB, AISB and KMSB	7,254,332
1 June 2004	72,543,320	0.10	Subdivision of existing ordinary shares from par value of RM1.00 to RM0.10 each	7,254,332
3 June 2004	17,456,680	0.10	Rights issue on the basis of 1 for every approximately 4.16	9,000,000
13 September 2004	30,000,000	0.10	Public issue at an issue price of RM0.18	12,000,000
13 September 2004	12,000,000	0.10	ESOS	13,200,000

13. ACCOUNTANTS' REPORT (Cont'd)



3. GENERAL INFORMATION (cont'd)

3.3 Subsidiary companies

The details of the subsidiary companies of KIB which are incorporated in Malaysia as at the date of this report are as follows:-

Company	Date of Incorporation	Issued and Paid-up Share Capital RM	Effective Equity Interest %	Principal Activities
HLSB	11 November 1986	4,733,750	100	Manufacturing and trading of PVC, chemicals and industrial products.
KMSB	10 January 1994	1,031,470	100	Manufacturing of foam booster, concentrated detergent paste, washing detergent and shampoos.
AISB	6 February 1998	500,000	100	Manufacturing and trading of plastic and industrial chemicals.

The above companies became wholly-owned direct subsidiary companies of KIB on 1 June 2004 pursuant to the flotation scheme as detailed in Section 2.

4. BASIS OF ACCOUNTING AND ACCOUNTING POLICIES

This report is prepared based on the audited financial statements of KIB, HLSB, KMSB and AISB (collectively known as "KIB Group") which have been prepared in accordance with applicable approved accounting standards issued in Malaysia and is presented on a basis consistent with the accounting policies normally adopted by the KIB Group.

13. ACCOUNTANTS' REPORT (Cont'd)

**5. AUDITED FINANCIAL STATEMENTS AND AUDITORS**

The financial statements of HLSB for the financial years ended 31 March 2000 to 31 March 2003 were audited by a firm of chartered accountants other than BDO Binder and were not subject to any audit qualification.

The financial statements of KMSB for the financial years/period ended 31 December 1999 to 31 March 2003 were audited by a firm of chartered accountants other than BDO Binder and were not subject to any audit qualification.

The financial statements of AISB for the financial years/period ended 31 March 2000 to 31 March 2003 were audited by a firm of chartered accountants other than BDO Binder and were not subject to any audit qualification.

The financial statements of KIB, HLSB, AISB and KMSB for the financial year ended 31 March 2004 were audited by BDO Binder and were not subject to any audit qualification.

6. DIVIDENDS

HLSB had declared:-

- (i) a first and final dividend of 5% on 2,187,000 shares less 28% tax amounting to RM78,732 in respect of financial year ended 31 March 2001;
- (ii) a final dividend of 10% on 2,187,000 shares less 28% tax amounting to RM157,464 in respect of financial year ended 31 March 2002; and
- (iii) a final dividend of 20% on 2,733,750 shares less 28% tax amounting to RM393,660 in respect of financial year ended 31 March 2003.

No dividends have been paid or declared by KMSB and AISB for the financial years/periods under review.

13. ACCOUNTANTS' REPORT (Cont'd)



7. SUMMARISED INCOME STATEMENTS

7.1 Proforma Consolidated Income Statements

The summarised proforma consolidated income statements of KIB for the past five (5) financial years/periods ended 31 March have been prepared for illustrative purposes based on the audited financial statements of KIB, HLSB, KMSB and AISB after elimination of all significant inter-company transactions assuming that the Proforma Group has been in existence throughout the financial years/periods under review.

	Proforma Group				
	Financial years/periods ended				
	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000
Revenue	11,595	14,069	13,198	18,912	24,805
Profit before depreciation and interest	282	552	726	1,751	2,482
Depreciation	(127)	(207)	(363)	(341)	(355)
Interest expense	(77)	(59)	(109)	(111)	(198)
Profit before taxation	78	286	254	1,299	1,929
Taxation	(1)	(87)	(93)	(229)	(293)
Profit after taxation	77	199	161	1,070	1,636
Number of ordinary shares assumed in issue after the Public Issue but before full exercise of ESOS options ('000)	120,000	120,000	120,000	120,000	120,000
Earnings Per Share (Sen) #					
- gross	0.07	0.24	0.21	1.08	1.61
- net	0.06	0.17	0.13	0.89	1.36
Number of ordinary shares assumed in issue after full exercise of ESOS options ('000)	132,000	132,000	132,000	132,000	132,000
Earnings Per Share (Sen) ^					
- gross	0.06	0.22	0.19	0.98	1.46
- net	0.06	0.15	0.12	0.81	1.24

Based on enlarged number of ordinary shares after the Public Issue but before the full exercise of ESOS options.

^ Based on enlarged number of ordinary shares after the full exercise of ESOS options.

13. ACCOUNTANTS' REPORT (Cont'd)



7.1 Proforma Consolidated Income Statements (cont'd)

Notes:-

- (i) *The proforma consolidated income statements have been prepared for illustrative purposes after such adjustments considered necessary on the audited financial statements of KIB, HLSB, KMSB and AISB and assuming that the KIB Group has been in existence throughout the financial periods/years under review. The audited financial statements of the acquiree subsidiary companies are listed as follows:-*

<i>HLSB</i>	<i>Audited results for the financial years ended 31 March 2000 to 31 March 2004</i>
<i>KMSB</i>	<i>Audited results for the financial years ended 31 December 1999 to 31 December 2002, 3-month ended 31 March 2003 and financial year ended 31 March 2004</i>
<i>AISB</i>	<i>Audited results for the financial year ended 31 March 2000, 9-month ended 31 December 2000, financial years ended 31 December 2001 to 31 December 2002, 3-month ended 31 March 2003 and financial year ended 31 March 2004</i>

- (ii) *The proforma consolidated income statements have been prepared based on accounting policies consistent with those previously adopted in the preparation of the audited financial statements of the respective subsidiary companies.*
- (iii) *All significant intra-group transactions are eliminated on consolidation and the consolidated results reflect external transactions only.*
- (iv) *There were no extraordinary or exceptional items during the relevant financial years/periods under review.*
- (v) *The KIB Group registered a steady increase in revenue over the financial periods/years under review except for 2002 mainly due to the chain effect of the plunge in the demand of household products after the 911 terrorist attacks in 2001. Revenue for 2003 and 2004 increased significantly following the intensive marketing effort and the increasing products acceptance and recognition by the market.*
- (vi) *Profit before taxation increased steadily over the financial periods/years except for 2002 which was in line with the drop in revenue. Pre-tax profit margin was higher at 6.9% and 7.8% in 2003 and 2004 respectively, as compared to the region of 1% and 2% registered between financial periods/years 2000 to 2002 attributable to the introduction of higher profit margin products and benefits arising from economies of scale.*

13. ACCOUNTANTS' REPORT (Cont'd)



7.2 KIB (Company level)

The summarised results of KIB based on the audited financial statements for the financial period ended 31 March 2004 is set out below:-

	Financial period ended 31 March 2004 RM'000
Revenue	-
Loss before depreciation and interest	(11)
Depreciation	-
Interest expense	-
Loss before taxation	(11)
Taxation	-
Loss after taxation	(11)
Number of ordinary shares in issue	2
Gross Earnings Per Share (RM)	(5,500)
Net Earnings Per Share (RM)	(5,500)

13. ACCOUNTANTS' REPORT (Cont'd)



7.3 HLSB

The summarised results of HLSB based on the audited financial statements for the financial years ended from 31 March 2000 to 31 March 2004 are set out below:-

	Financial years ended 31 March				
	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000
Revenue	8,479	10,174	9,350	13,670	18,156
Profit before depreciation and interest	185	452	571	1,224	1,758
Depreciation	(109)	(172)	(314)	(247)	(254)
Interest expense	(65)	(50)	(99)	(99)	(150)
Profit before taxation	11	230	158	878	1,354
Taxation	-	(63)	(64)	(145)	(167)
Profit after taxation	11	167	94	733	1,187
Number of ordinary shares in issue ('000)	2,187	2,187	2,187	4,434	4,733
Weighted average number of ordinary shares in issue ('000)	2,460	2,460	2,460	2,460	4,684
Gross Earnings Per Share (Sen)	0.4	9.3	6.4	35.7	28.9
Net Earnings Per Share (Sen)	0.4	6.8	3.8	29.8	25.3

Notes:-

- (i) The gross and net earnings per share are computed based on the weighted average number of shares in issue, adjusted for bonus issue retrospectively.
- (ii) The taxation has been adjusted for any under or over provision where relevant.

13. ACCOUNTANTS' REPORT (Cont'd)



7.4 KMSB

The summarised results of KMSB based on the audited financial statements for the financial years ended from 31 December 1999 to 31 December 2001, 15-months financial period ended 31 March 2003 and financial year ended 31 March 2004 are set out below:-

	Financial years/period ended				
	12 months ended 31 December 1999 RM'000	12 months ended 31 December 2000 RM'000	12 months ended 31 December 2001 RM'000	15 months ended 31 March 2003 RM'000	12 months ended 31 March 2004 RM'000
Revenue	3,117	3,895	3,877	4,951	6,081
Profit before depreciation and interest	98	99	130	453	568
Depreciation	(18)	(35)	(49)	(85)	(78)
Interest expense	(12)	(8)	(9)	(13)	(41)
Profit before taxation	68	56	72	355	449
Taxation	-	(24)	(21)	(75)	(84)
Profit after taxation	68	32	51	280	365
Number of ordinary shares in issue ('000)	100	250	400	672	1,031
Weighted average number of ordinary shares in issue ('000)	100	177	347	525	1,031
Gross Earnings Per Share (Sen)	68.0	31.6	20.7	67.6	43.5
Net Earnings Per Share (Sen)	68.0	18.1	14.7	53.3	35.4

Notes:-

- (i) The gross and net earnings per share are computed based on the weighted average number of shares in issue.
- (ii) The taxation has been adjusted for any under or over provision where relevant.
- (iii) The results of 15-month ended 31 March 2003 is arrived at after combining the results for the financial year ended 31 December 2002 and the financial period ended 31 March 2003, for illustrative purposes.

13. ACCOUNTANTS' REPORT (Cont'd)



7.5 AISB

The summarised results of AISB based on the audited financial statements for the financial year ended 31 March 2000, 9-month period ended 31 December 2000, financial year ended 31 December 2001, 15-month period ended 31 March 2003 and financial year ended 31 December 2004 are set out below:-

	Financial years/periods ended				
	12 months ended 31 March 2000 RM'000	9 months ended 31 December 2000 RM'000	12 months ended 31 December 2001 RM'000	15 months ended 31 March 2003 RM'000	12 months ended 31 March 2004 RM'000
Revenue	-	-	392	667	1,313
Profit/(loss) before depreciation and interest	-	(5)	24	75	167
Depreciation	-	-	-	(9)	(23)
Interest expense	-	-	-	-	(7)
Profit/(loss) before taxation	-	(5)	24	66	137
Taxation	-	-	(7)	(10)	(42)
Profit/(loss) after taxation	-	(5)	17	56	95
Number of ordinary shares in issue ('000)	*	*	100	500	500
Weighted average number of ordinary shares in issue ('000)	*	*	86	138	500
Gross Earnings Per Share (Sen)	N/A	#	27.9	47.8	27.4
Net Earnings Per Share (Sen)	N/A	#	19.8	40.6	19.0

N/A denotes not applicable

* Represent 2 ordinary shares

Represent gross/net loss per share of RM2,500

Notes:-

- (i) The net earnings per share are computed based on the weighted average number of shares in issue.
- (ii) The taxation has been adjusted for any under or over provision where relevant.
- (iii) The results of 15-month ended 31 March 2003 is arrived at after combining the results for the financial year ended 31 December 2002 and the financial period ended 31 March 2003, for illustrative purposes.

13. ACCOUNTANTS' REPORT (Cont'd)



8. SUMMARISED BALANCE SHEETS

8.1 KIB (Company level)

The summarised balance sheet of KIB based on the audited financial statements is as follows:-

	As at 31 March 2004 RM'000
Property, plant and equipment	-
Current assets	566
Less: Current liabilities	(577)
Net current liabilities	(11)
	(11)
Financed by:-	
Share capital	*
Accumulated losses	(11)
Shareholders' deficit	(11)
Long term and deferred liabilities	-
	(11)
Net tangible liabilities per share (RM)	(5,500)

* Represent RM2.00 for 2 ordinary shares of RM1.00 each

13. ACCOUNTANTS' REPORT (Cont'd)



8.2 HLSB

The summarised balance sheets of HLSB based on the audited financial statements are as follows:-

	As at 31 March				
	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000
Property, plant and equipment	1,480	2,542	2,364	4,848	5,580
Investment	133	95	4	4	*
Current assets	2,622	2,758	3,713	4,992	8,047
Less: Current liabilities	(1,727)	(2,247)	(3,221)	(4,057)	(5,695)
Net current assets	895	511	492	935	2,352
	2,508	3,148	2,860	5,787	7,932
Financed by:-					
Share capital	2,187	2,187	2,187	4,434	4,733
Share premium	-	-	-	340	400
Share application money	-	-	-	140	-
Retained profits	287	371	162	373	1,561
Shareholders' equity	2,474	2,558	2,349	5,287	6,694
Long term and deferred liabilities	34	590	511	500	1,238
	2,508	3,148	2,860	5,787	7,932
Net tangible assets per share (Sen)	113	117	107	119	141

* Represent RM51.00

13. ACCOUNTANTS' REPORT (Cont'd)



8.3 KMSB

The summarised balance sheets of KMSB based on the audited financial statements are as follows:-

	As at 31 December 1999 RM'000	As at 31 December 2000 RM'000	As at 31 December 2001 RM'000	As at 31 March 2003 RM'000	As at 31 March 2004 RM'000
Property, plant and equipment	213	179	245	322	886
Current assets	786	1,089	1,184	1,831	2,384
Less: Current liabilities	(731)	(843)	(765)	(961)	(1,026)
Net current assets	55	246	419	870	1,358
	268	425	664	1,192	2,244
Financed by:-					
Share capital	100	250	400	672	1,031
Retained profits	120	152	203	484	848
Shareholders' equity	220	402	603	1,156	1,879
Long term and deferred liabilities	48	23	61	36	365
	268	425	664	1,192	2,244
Net tangible assets per share (Sen)	220	161	151	172	182

13. ACCOUNTANTS' REPORT (Cont'd)



8.4 AISB

The summarised balance sheets of AISB based on the audited financial statements are as follows:-

	As at 31 March 2000 RM'000	As at 31 December 2000 RM'000	As at 31 December 2001 RM'000	As at 31 March 2003 RM'000	As at 31 March 2004 RM'000
Property, plant and equipment	-	-	-	91	264
Current assets	4	-	215	548	784
Less: Current liabilities	(4)	(5)	(103)	(70)	(317)
Net current assets /(liabilities)	*	(5)	112	478	467
	*	(5)	112	569	731
Financed by:-					
Share capital	*	*	100	500	500
Retained profits /(Accumulated losses)	-	(5)	12	69	164
Shareholders' equity /(deficit)	*	(5)	112	569	664
Long term and deferred liabilities	-	-	-	-	67
	*	(5)	112	569	731
Net tangible assets per share (Sen)	100	#	112	114	133

* Represent RM2.00

Represent net tangible liabilities per share of RM2,500

13. ACCOUNTANTS' REPORT (Cont'd)



9. STATEMENT OF ASSETS AND LIABILITIES

The detailed statement of assets and liabilities of KIB and the Proforma KIB Group which has been prepared for illustrative purposes and are based on the audited financial statements of KIB, HLSB, KMSB and AISB as at 31 March 2004 and should be read in conjunction with the notes thereof:-

		KIB	Proforma I	Proforma II	Proforma III	Proforma IV
		As at 31 March 2004	After Acquisitions of HLSB, KMSB and AISB and Share Split	After Rights Issue	After Public Issue	After the full exercise of ESOS options
	NOTE	RM'000	RM'000	RM'000	RM'000	RM'000
ASSETS EMPLOYED						
PROPERTY, PLANT AND EQUIPMENT	10.3	-	6,730	6,730	10,430	10,430
INVESTMENT	10.4	-	#	#	#	#
CURRENT ASSETS						
Inventories	10.5	-	2,134	2,134	2,134	2,134
Trade receivables	10.6	-	7,491	7,491	7,491	7,491
Other receivables, deposits and prepayments	10.7	566	645	645	79	79
Tax recoverable		-	119	119	119	119
Fixed deposits with licensed banks	10.8	-	666	666	666	666
Cash and bank balances		*	91	555	1,621	3,781
		566	11,146	11,610	12,110	14,270
LESS: CURRENT LIABILITIES						
Trade payables	10.9	-	3,289	3,289	3,289	3,289
Other payables and accruals	10.10	577	427	427	427	427
Amount owing to Directors		-	583	-	-	-
Amount owing to Shareholders		-	699	-	-	-
Hire-purchase creditors	10.11	-	320	320	320	320
Bank borrowings - Secured	10.12	-	1,661	1,661	1,661	1,661
		577	6,979	5,697	5,697	5,697
NET CURRENT ASSETS / (LIABILITIES)						
		(11)	4,167	5,913	6,413	8,573
		(11)	10,897	12,643	16,843	19,003
FINANCED BY						
SHARE CAPITAL	10.14	*	7,254	9,000	12,000	13,200
SHARE PREMIUM - non distributable		-	-	-	1,200	2,160
RESERVE ON CONSOLIDATION	10.15	-	1,984	1,984	1,984	1,984
ACCUMULATED LOSSES [^]		(11)	(11)	(11)	(11)	(11)
SHAREHOLDERS' EQUITY/(DEFICIT)		(11)	9,227	10,973	15,173	17,333
LONG TERM AND DEFERRED LIABILITIES						
Hire-purchase creditors	10.11	-	133	133	133	133
Term loans - Secured	10.13	-	1,363	1,363	1,363	1,363
Deferred tax liabilities	10.16	-	174	174	174	174
		(11)	10,897	12,643	16,843	19,003
Net Tangible Liabilities per ordinary shares of RM1.00 each (RM)						
		(5,500)	-	-	-	-
Net Tangible Assets per ordinary share of RM0.10 each (Sen)						
		-	12.72	12.19	12.64	13.13

* Represent RM2.00

Represent RM51.00

^ Represent administrative expenses

13. ACCOUNTANTS' REPORT (Cont'd)



9. STATEMENT OF ASSETS AND LIABILITIES (cont'd)

Notes:-

(i) The statement of assets and liabilities of the Proforma KIB Group have been prepared on the assumption that the Flotation Scheme of KIB as stated in Section 2 had been effected as of 31 March 2004 and should be read in conjunction with notes thereon.

(ii) Proforma I reflects the acquisitions of the entire equity interest in HLSB, KMSB and AISB for a total consideration of RM7,254,330 satisfied by the issuance of 7,254,330 ordinary shares of RM1.00 each in KIB.

Share split whereby every existing 1 ordinary share of RM1.00 each held in KIB is subdivided into 10 ordinary shares of RM0.10 each in KIB.

Reserve on consolidation of RM1,983,705 arises as a result of the excess of net assets value of HLSB, KMSB and AISB as at 31 March 2004 over the cost of acquisition as indicated above.

(iii) Proforma II reflects the rights issue of 17,456,680 new ordinary shares at par on the basis of 1 new ordinary share of every approximately 4.16 existing shares held in KIB after the acquisitions and share split.

(iv) Proforma III reflects the public issue of 30,000,000 new ordinary shares of RM0.10 each in KIB at a proposed issue price of RM0.18 per ordinary share. This will give rise to a share premium of RM2,400,000. The utilisation of the gross proceeds from the public issue is as follows:

(a) The gross proceeds from the public issue will be utilised as follows:

	RM'000
Capital expenditure	3,400
Listing expenses	1,200
Working capital	800
	<hr/>
	5,400

(b) Listing expenses estimated to be at RM1,200,000 are netted off against the share premium arising from the public issue.

(v) Proforma IV reflects the effect of the full exercise of the ESOS options of up to 10% of the enlarged issued and paid-up share capital of KIB at the exercise price of RM0.18 per share.

13. ACCOUNTANTS' REPORT (Cont'd)

**10. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES****10.1 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group's financial risk management policy seeks to ensure that it creates values for its shareholders as well as adequate financial resources are available for the continuation and development of the Group's business whilst managing its risk.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The Group is exposed mainly to credit risk, liquidity risk, interest rate risk and foreign currency risk. Information on the management of related exposures are given below.

Liquidity risk

The Group manages its operating cash flows and debt maturity profile so as to ensure all commitments and funding needs are met. As part of the overall liquidity management, it is the Group's policy to ensure continuity in servicing its future cash obligations by forecasting its cash commitments and maintaining sufficient level of cash and cash equivalents to meet its working capital requirements. In addition, the Group maintains sufficient banking facilities to meet its operational needs.

Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. Interest rate risk exposure arises from the Group's borrowings. The Group monitors the interest rate on borrowings closely to ensure that the borrowings are maintained at favourable rates through the use of fixed and floating rates debts. The Group does not use derivative financial instruments to hedge this risk.

Credit risk

Credit risk, which is the risk of counterparties defaulting, is controlled by the application of credit approvals, limits and monitoring procedures. Credit evaluations are performed on customers requiring credit exceeding a certain amount and by limiting the Group's business association to parties with high credit worthiness. Trade receivables are monitored on an ongoing basis to ensure that the Group is exposed to minimal credit risk.

Foreign currency risk

The Group is exposed to foreign currency risk on transactions and balances that are denominated in US Dollar and Singapore Dollar, which arose from the normal trade dealings. Exposure to foreign currency is monitored on an ongoing basis by the Group to ensure net exposure is at an acceptable level. The Group does not use any derivative financial instruments to hedge this risk.

13. ACCOUNTANTS' REPORT (Cont'd)

**10. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (cont'd)****10.2 SIGNIFICANT ACCOUNTING POLICIES****(a) Basis of accounting**

The financial statements of the Group and of the Company have been prepared under the historical cost convention unless otherwise indicated in the significant accounting policies.

The preparation of financial statements in conformity with applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965 requires the Directors to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all its subsidiary companies made up to the end of the financial year using the acquisition method of accounting.

Under the acquisition method of accounting, the results of subsidiaries acquired or disposed of are included from the effective date of acquisition or up to the effective date of disposal. At the date of acquisition, the fair values of the subsidiaries' net assets are determined and these values are reflected in the consolidated financial statements. The difference between the cost of acquisition and the fair value of the Group's share of the subsidiaries' identifiable net assets at the date of acquisition is reflected as goodwill or reserve on consolidation.

Goodwill on consolidation is stated at cost less impairment losses, if any. Reserve on consolidation is not recognised as income and is presented as a separate item in the balance sheet. The results of the subsidiary companies acquired or disposed of during the financial year are included in the consolidated financial statements from the date of their acquisition or up to the date of their disposal.

Inter-company transactions and balances are eliminated on consolidation and the consolidated financial statements reflect external transactions only.

Minority interest is measured at the minorities' share of net reserves and of net assets of subsidiary companies attributable to interests which are not owned, directly or indirectly through subsidiary companies within the Group.

13. ACCOUNTANTS' REPORT (Cont'd)**10. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (cont'd)****10.2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)****(c) Investment in subsidiary companies**

A subsidiary company is a company in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from its activities.

Investments in subsidiary companies which are eliminated on consolidation are stated at cost less impairment losses, if any.

(d) Property, plant and equipment and depreciation

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

Freehold land is not depreciated. Long term leasehold land is amortised over the term of the lease period of 93 years. Construction work-in-progress is not depreciated.

Depreciation on other property, plant and equipment is calculated to write off the costs of the assets on a straight-line basis over their estimated useful lives. The principal annual depreciation rates are as follows:-

Buildings	2%
Plant and machinery	10%
Motor vehicles	20%
Office equipment, furniture and fittings	10% - 20%
Renovation	2%
Computer equipment	40%
Electrical installation	10%
Factory equipment	10%
Forklift	20%

(e) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its assets, other than inventories, deferred tax assets and financial assets, (other than investment in subsidiary companies) to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated and an impairment loss is recognised whenever the recoverable amount is less than the carrying amount of the asset. The impairment loss is recognised in the income statement immediately. All reversals of an impairment loss are recognised as income immediately in the income statement.

An impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount. An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

13. ACCOUNTANTS' REPORT (Cont'd)

**10. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (cont'd)****10.2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)****(f) Inventories**

Inventories of raw materials and finished goods are stated at the lower of cost and net realisable value.

The cost of raw materials is determined on a first-in, first-out basis and comprises the original cost of purchase plus the cost of bringing the inventories to their present location and condition.

The cost of finished goods and work-in-progress includes the cost of raw materials, direct labour and a proportion of manufacturing overheads.

(g) Receivables

Receivables are carried at anticipated realisable value. Known bad debts are written off and specific allowance is made for debts considered to be doubtful of collection.

(h) Payables

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

(i) Assets acquired under hire-purchase agreements

Assets financed by hire-purchase which transfer substantially all the risks and rewards of ownership to the Group are capitalised as property, plant and equipment and the corresponding obligations are treated as liabilities. The property, plant and equipment capitalised are depreciated on the same basis as owned assets. Finance charges are allocated to the income statement over the period of the agreements to give a constant periodic rate of charge on the remaining hire-purchase liabilities.

(j) Deferred tax liabilities and assets

Deferred tax liabilities and assets are provided for under the liability method at the current tax rate in respect of all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base including unused tax losses and capital allowances.

A deferred tax asset is recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. The carrying amount of a deferred tax asset is reviewed at each balance sheet date.

13. ACCOUNTANTS' REPORT (Cont'd)**10. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (cont'd)****10.2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)****(j) Deferred tax liabilities and assets (cont'd)**

If it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised, the carrying amount of the deferred tax asset will be reduced accordingly. When it becomes probable that sufficient taxable profit will be available, such reductions will be reversed to the extent of the taxable profit.

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

In prior years, deferred tax was provided for at the applicable current tax rates for all material timing differences except where it was reasonable probable that such timing differences will not crystallise in the foreseeable future. In addition, deferred tax benefits were recognised only when there was reasonable assurance of their realisation. The change in accounting policy has no material impact on the Group's financial statements.

(k) Foreign currency transactions

Transactions in foreign currencies are converted into Ringgit Malaysia at the rates of exchange ruling on transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Ringgit Malaysia at the approximate rates of exchange at the balance sheet date.

All gains or losses from currency transactions are taken up in the income statement.

The principal closing rates used in the translation of foreign currency amounts are as follows:-

	2004
	RM
1 US Dollar (USD)	3.80
1 Singapore Dollar (SGD)	2.20

(l) Research and development expenditure

Research and development expenditure including the production and testing of prototype of new products and is written off to the income statement in the financial year in which it is incurred.

13. ACCOUNTANTS' REPORT (Cont'd)

**10. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (cont'd)****10.2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)****(m) Revenue recognition**

Revenue from sale of goods is recognised in the income statement upon delivery of goods and customer's acceptance.

Rental income and interest income is recognised on an accrual basis unless collectibility is in doubt.

(n) Cash and cash equivalents

Cash and cash equivalents include cash and bank balances, bank overdrafts, deposits and other short term, highly liquid investment which are readily convertible to cash and which are subject to insignificant risk of changes in value.

(o) Segment information

Segment information is presented in respect of the Group's business segments. The primary reporting segment information is in respect of business segments as the Group's risks and returns are affected predominantly by differences in the products it produces. There is no secondary information provided as the Group's business transactions are wholly operating within Malaysia. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. A segment with a majority of operating income earned from providing product to external parties and whose operating income, results or assets are 10 percent or more of all the segments is reported separately.

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

(p) Financial instruments**(i) Financial instruments recognised on the balance sheets****(a) Ordinary shares**

Ordinary shares are recorded at the nominal value and proceeds in excess of the nominal value for share issued, if any, are accounted for as share premium. Both ordinary shares and share premium are classified as equity. Costs incurred directly attributable to the issuance of shares are accounted for as a deduction from share premium. Otherwise they are charged to the income statement.

13. ACCOUNTANTS' REPORT (Cont'd)

**10. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (cont'd)****10.2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)****(p) Financial instruments (cont'd)****(i) Financial instruments recognised on the balance sheets (cont'd)****(a) Ordinary shares (cont'd)**

Dividends to shareholders are recognised in equity in the period in which they are declared.

(b) Borrowings

Interest bearing borrowings are recorded at the amount of proceeds received, net of transaction cost.

(c) Other financial instruments

The accounting policies for other financial instruments recognised on the balance sheet are disclosed in the individual policy associated with each item.

(ii) Fair value estimation for disclosure purposes

The carrying values of the financial assets and liabilities maturing within 12 months are stated at approximately their fair values as at the balance sheet date.

The fair values of term loans are estimated based on the market rate for the same or similar loans with the same remaining maturities.

(q) Borrowing costs

Interest, dividends, losses and gains relating to a financial instrument, or a component part classified as a financial liability is reported as finance cost in the income statement.

(r) Employee benefits**(i) Short term employee benefits**

Wages, salaries, social security contributions, paid annual leave, paid sick leave, bonuses and non-monetary benefits are recognised as an expense in the financial year when employees have rendered their services to the Group.

Short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

13. ACCOUNTANTS' REPORT (Cont'd)

**10. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (cont'd)****10.2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)****(r) Employee benefits (cont'd)****(i) Short term employee benefits (cont'd)**

Bonuses are recognised as an expense when there is present, legal or constructive obligation to make such payments, as a result of past events and when a reliable estimate can be made of the amount of the obligation.

(ii) Defined contribution plans

The Group makes contributions to a statutory provident fund and recognised the contribution payable: -

- (a) after deducting contributions already paid as liability; and
- (b) as an expense in the financial year in which the employees render their services.

(iii) Equity compensation benefits

Under the Employee Share Options Scheme of KIB, eligible employees are entitled to subscribe for the shares issued by the Company. No compensation cost or obligation is recognised in the income statement when the share options are granted. Share capital and share premium account are increased when the proceeds are received from the share options exercised by the employees in that financial year.

13. ACCOUNTANTS' REPORT (Cont'd)



10. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (cont'd)

10.3 PROPERTY, PLANT AND EQUIPMENT

	Balance as at 1.4.2003 RM'000	Additions RM'000	Disposals RM'000	Write Off RM'000	Adjustment/ Reclassi- fication RM'000	Balance as at 31.3.2004 RM'000
Cost						
Long term leasehold land	-	580	-	-	-	580
Freehold land	1,589	-	-	-	(66)	1,523
Freehold buildings	2,375	2,300	-	-	(138)	4,537
Plant and machinery and equipment	1,437	2,019	-	-	-	3,456
Office equipment, furniture and fittings	124	41	-	(1)	-	164
Motor vehicles	432	185	(133)	-	-	484
Computer	4	5	-	-	-	9
Construction work-in-progress	-	33	-	-	-	33
Electrical installation	211	129	-	-	43	383
Factory equipment	155	74	-	-	-	229
Forklift	18	-	-	-	-	18
Renovation	-	223	-	-	95	318
	6,345	5,589	(133)	(1)	(66)	11,734

	Balance as at 1.4.2003 RM'000	Charge for the financial year RM'000	Disposals RM'000	Write Off RM'000	Reclassi- fication RM'000	Balance as at 31.3.2004 RM'000
Accumulated Depreciation						
Long term leasehold land	-	-	-	-	-	-
Freehold land	-	-	-	-	-	-
Freehold buildings	88	45	-	-	(5)	128
Plant and machinery and equipment	557	145	-	-	-	702
Office equipment, furniture and fittings	35	17	-	-	-	52
Motor vehicles	286	86	(133)	-	-	239
Computer	2	3	-	-	-	5
Construction work-in-progress	-	-	-	-	-	-
Electrical installation	64	30	-	-	3	97
Factory equipment	48	19	-	-	-	67
Forklift	3	4	-	-	-	7
Renovation	-	5	-	-	2	7
	1,083	354	(133)	-	-	1,304

13. ACCOUNTANTS' REPORT (Cont'd)



10. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (cont'd)

10.3 PROPERTY, PLANT AND EQUIPMENT (cont'd)

Net Book Value	Balance as at 31.3.2004 RM'000
Long term leasehold land	580
Freehold land	1,523
Freehold buildings	4,409
Plant and machinery and equipment	2,754
Office equipment, furniture and fittings	112
Motor vehicles	245
Computer	4
Construction work-in-progress	33
Electrical installation	286
Factory equipment	162
Forklift	11
Renovation	311
	10,430

- (i) Included in the property, plant and equipment of the Group are certain assets acquired under hire-purchase arrangement as follows:-

	Net Book Value 31.3.2004 RM'000
Motor vehicles	181
Plant and machinery	811
	992

- (ii) The long term freehold land and buildings with a net book value of RM3,632,003 is charged to a bank as security for banking facilities granted to the Group.
- (iii) The long term leasehold land with a net book value of RM580,343 is charged to a licensed bank for credit facilities granted to the Group.
- (iv) The motor vehicles of the Group with a net book value of RM26,133 is held in trust by a shareholder of the Group.

13. ACCOUNTANTS' REPORT (Cont'd)



10. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (cont'd)

10.4 INVESTMENT

	31.3.2004 RM'000
<u>Quoted shares in Malaysia</u>	
At cost	4
Less: Allowance for diminution in value	(4)
	<u> *</u>
Market value	<u> *</u>
* Represent RM51.00	

10.5 INVENTORIES

	31.3.2004 RM'000
<u>At cost</u>	
Raw material	1,621
Finished goods	429
Packing materials	84
	<u> 2,134</u>

10.6 TRADE RECEIVABLES

The credit terms of trade receivables range from 30 to 90 days.

10.7 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	31.3.2004 RM'000
Other receivables	15
Deposits	29
Prepayments	35
	<u> 79</u>

10.8 FIXED DEPOSITS WITH LICENSED BANKS

The fixed deposits of RM666,386 are pledged as security for banking facility granted to the Group.

13. ACCOUNTANTS' REPORT (Cont'd)



10. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (cont'd)

10.9 TRADE PAYABLES

The credit terms of trade payables range from 30 to 90 days.

The currencies exposure of trade payables of the Group are as follows:-

	31.3.2004 RM'000
Ringgit Malaysia	3,030
Singapore Dollar	128
US Dollar	131
	<hr/>
	3,289 <hr/>

10.10 OTHER PAYABLES AND ACCRUALS

	31.3.2004 RM'000
Other payables	374
Accruals	53
	<hr/>
	427 <hr/>

10.11 HIRE-PURCHASE CREDITORS

	31.3.2004 RM'000
Minimum hire-purchase payments:-	
- not later than one year	354
- later than one year and not later than five years	138
	<hr/>
	492
Less: Future interest charges	(39)
	<hr/>
Present value of hire-purchase liabilities	453 <hr/>
Repayable as follows:-	
Current liabilities:-	
- not later than one year	320
Long term liabilities:-	
- later than one year and not later than five years	133
	<hr/>
	453 <hr/>

13. ACCOUNTANTS' REPORT (Cont'd)



10. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (cont'd)

10.12 BANK BORROWINGS - Secured

	31.3.2004 RM'000
Current liabilities	
Term loans (Note 10.13)	225
Banker's acceptance	119
Bank overdraft	19
Trust receipts	1,298
	1,661
Long term liabilities	
Term loans (Note 10.13)	1,363
Total borrowings	
Term loans (Note 10.13)	1,588
Banker's acceptance	119
Bank overdraft	19
Trust receipts	1,298
	3,024

Banker's acceptance, bank overdraft, trust receipts is secured by means of:-

- (i) Fixed and floating charges over all the Group's present and future assets;
- (ii) First and second legal charges over certain properties of the Group;
- (iii) Fixed deposits which are held in trust by a Director of the Group; and
- (iv) Jointly and severally guaranteed by all the Directors of the subsidiary companies.

13. ACCOUNTANTS' REPORT (Cont'd)



10. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (cont'd)

10.13 TERM LOANS - Secured

	31.3.2004 RM'000
Term loan I repayable by 84 monthly installments of RM6,499 each commenced 25 July 2003	384
Term loan II repayable by 104 monthly installments of RM5,552 each commenced 25 November 2001	310
Term loan III repayable by 84 equal monthly installments of RM13,669 each commenced 25 June 2003	894
	<u>1,588</u>
Less: Portion repayable within one year (included in current liabilities)	(225)
	<u>1,363</u>

Term loans are secured by means of:-

- (i) Fixed and floating charges over all the Group's present and future assets;
- (ii) First and second legal charges over certain properties of the Group;
- (iii) Fixed deposits which are held in trust by a Director of the Group; and
- (iv) Jointly and severally guaranteed by all the Directors of the subsidiary companies.

10.14 SHARE CAPITAL

	31.3.2004	
	Number of shares '000	RM'000
Ordinary shares of RM1.00 each:-		
Authorised	<u>250,000</u>	<u>25,000</u>
Issued and fully paid		
Balance as at 31 March 2004	*	*
Shares issued pursuant to the Acquisitions of HLSB, AISB & KMSB and Share Split	72,543	7,254
Shares issued pursuant to the Rights Issue	17,457	1,746
Shares issued pursuant to the Public Issue	30,000	3,000
Shares issued pursuant to the full exercise of ESOS options	<u>12,000</u>	<u>1,200</u>
	<u>132,000</u>	<u>13,200</u>

* Represent RM2.00 for 2 ordinary shares of RM1.00 each

13. ACCOUNTANTS' REPORT (Cont'd)



10. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (cont'd)

10.15 RESERVE ON CONSOLIDATION

Reserve on consolidation of RM1,983,705 arose as a result of the excess of net assets value of HLSB, KMSB and AISB as at 31 March 2004 over the cost of acquisition as detailed in Section 2.

10.16 DEFERRED TAX LIABILITIES

	RM'000
The deferred tax liabilities comprise tax effects of temporary differences arising from capital allowances in excess of depreciation	
As at 1 April 2003	93
Recognised in the income statement	81
	<u>174</u>
As at 31 March 2004	<u>174</u>

10.17 PROFORMA NET TANGIBLE ASSETS COVER

Based on the statement of assets and liabilities of the KIB Group as at 31 March 2004, the proforma net tangible assets and enlarged share capital are derived as follows:

(a) Net Tangible Assets	31.3.2004
	RM'000
Net tangible assets of the Group after Acquisitions of HLSB, AISB and KMSB and Share Split	9,227
Add: Proceeds from Rights Issue	1,746
	<u>10,973</u>
Add: Proceeds from Public Issue	5,400
Less: Estimated listing expenses	(1,200)
	<u>15,173</u>
Add: Proceeds assuming the full exercise of ESOS options	2,160
Net tangible assets after the full exercise of ESOS options	<u>17,333</u>
(b) Share Capital	'000
Enlarged issued and fully paid-up share capital on completion of the Flotation Scheme	120,000
Issue of shares assuming full exercise of ESOS options	12,000
	<u>132,000</u>
(c) Net Tangible Assets Cover	
Net tangible assets per ordinary share of RM0.10 each on completion of :-	Sen
- Flotation Scheme	12.64
- Flotation Scheme and assuming full exercise of ESOS options	13.13

13. ACCOUNTANTS' REPORT (Cont'd)



10. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (cont'd)

10.18 SEGMENTAL REPORTING

Business segments

The Group's operations include the following business segments:-

- Polymeric : Manufacturing and trading of PVC, chemicals, plastic and industrial products
- Oleochemicals : Manufacturing of foam boosters, concentrated detergent paste, washing detergent and shampoos
- Others : Investment holding

2004	Polymeric RM'000	Oleochemicals RM'000	Others RM'000	Elimination RM'000	Consolidation RM'000
Revenue					
External sales	18,726	6,079	-	-	24,805
Inter-segment sales	743	2	-	(745)	-
	<u>19,469</u>	<u>6,081</u>	<u>-</u>	<u>(745)</u>	<u>24,805</u>
Results					
Profit/(Loss) before tax	1,491	449	(11)	-	1,929
Tax expense					<u>(293)</u>
Profit after tax					1,636
Minority interest					<u>-</u>
Net profit for the financial year					<u>1,636</u>
Other information					
Segment assets	18,375	3,270	3,690	(635)	<u>24,700</u>
Total assets					<u>24,700</u>
Segment liabilities	6,137	1,288	577	(635)	<u>7,367</u>
Total liabilities					<u>7,367</u>
Capital expenditure	9,544	886	-	-	10,430
Depreciation	277	78	-	-	355
Non-cash expenses other than depreciation	10	29	-	-	39

There is no secondary information provided as the Group's business transactions are wholly operating within Malaysia.

13. ACCOUNTANTS' REPORT (Cont'd)



10. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (cont'd)

10.19 CAPITAL COMMITMENTS

	2004 RM'000
Authorised but not contracted	
- purchase of plant and machinery	1,600
- purchase of a new factory	2,300
- construction of a factory building	<u>960</u>

10.20 FINANCIAL INSTRUMENTS

(a) Interest rate risk

The table below summarises the carrying amounts of the Group's financial assets and liabilities as at 31 March 2004, categorised by their maturity dates, which represent the Group's exposure to interest rate risk:-

	Not later than 1 year RM'000	2 to 5 years RM'000	Total RM'000	Effective interest rate
<u>Financial assets</u>				
Fixed deposits with licensed banks	<u>666</u>	-	<u>666</u>	3.70%
<u>Financial liabilities</u>				
Bank overdrafts	19	-	19	6.00% - 8.00%
Trust receipts	1,298	-	1,298	4.00% - 8.30%
Bankers' acceptance	119	-	119	4.00% - 8.00%
Hire-purchase creditors	320	133	453	8.90% - 11.30%
Term loans	<u>225</u>	<u>1,363</u>	<u>1,588</u>	4.00% - 7.75%
	<u>1,981</u>	<u>1,496</u>	<u>3,477</u>	

13. ACCOUNTANTS' REPORT (Cont'd)



10. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (cont'd)

10.20 FINANCIAL INSTRUMENTS (cont'd)

(b) Credit risk

Credit period in respect of trade receivables range from 30 to 90 days. Concentration of credit risk in respect of trade receivables is limited due to the Group's large number of customers. The Group's historical experience in collection of receivables fall within the recorded and reasonable allowances. Due to these factors, the management believes that no additional credit risk amounts for collection losses is inherent to the Group's trade receivables.

(c) Fair values

The carrying amounts of the financial assets and liabilities of the Group as at 31 March 2004 approximate their fair values except as stated below:-

	Carrying amount RM'000	Fair value RM'000
Term loans	1,587,263	1,501,540

The following methods and assumptions are used to determine the fair value of financial instruments:

- (i) The carrying amounts of financial assets and liabilities maturing within 12 months approximate their fair values due to the relatively short term maturity of these financial instruments;
- (ii) The fair values of quoted investments are their quoted market prices at the balance sheet date; and
- (iii) The fair values of the term loans are estimated by discounting future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

10.21 NUMBER OF EMPLOYEES AND STAFF COSTS

	31.3.2004
Number of employees, including executive directors, at the end of the financial year	61
	RM'000
Salaries and wages	1,315,936
Defined contribution retirement plan	86,518
Other employee benefits	62,655

13. ACCOUNTANTS' REPORT (Cont'd)



11. STATEMENT OF CHANGES IN EQUITY

The statement of changes in equity of KIB is set out below:-

	Ordinary share capital RM'000	<--- Non distributable ---> Share Premium RM'000	Reserve on Consolidation RM'000	Accumulated Losses RM'000	Total RM'000
Balance as at date of incorporation	*	-	-	-	*
Net loss for the financial year	-	-	-	(11)	(11)
Balance as at 31 March 2004	*	-	-	(11)	(11)
Acquisitions and Share Split	7,254	-	1,984	-	9,238
After Acquisition and Share	7,254	-	1,984	(11)	9,227
Rights Issue	1,746	-	-	-	1,746
After Rights Issue	9,000	-	1,984	(11)	10,973
Public Issue	3,000	2,400	-	-	5,400
Less: Listing expenses	-	(1,200)	-	-	(1,200)
After Public Issue	12,000	1,200	1,984	(11)	15,173
Full exercise of ESOS options	1,200	960	-	-	2,160
After full exercise of ESOS	13,200	2,160	1,984	(11)	17,333

* Represent RM2.00 for 2 ordinary shares of RM1.00 each

13. ACCOUNTANTS' REPORT (Cont'd)



12. CASH FLOW STATEMENTS

The following Proforma Group's cash flow statement for the financial year ended 31 March 2004 have been prepared for illustrative purposes based on the audited financial statements of KIB, HLSB, KMSB and AISB after elimination of all significant inter-company balances and transactions assuming that the Proforma Group has been in existence throughout the financial year under review.

	2004 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES	
Profit before taxation	1,929
Adjustments for:-	
Allowance for diminution in value of investment in quoted shares	4
Bad debts written off	35
Depreciation of property, plant and equipment	355
Gain on disposal of property, plant and equipment	(66)
Interest expense	199
Interest income	(13)
	<hr/>
Operating profit before working capital changes	2,443
Increase in inventories	(750)
Increase in receivables	(2,338)
Increase in other receivables, deposits and prepayments	(481)
Increase in trade payables	630
Increase in other payables and accruals	7
	<hr/>
Cash used in operating activities	(489)
Tax paid	(433)
Interest received	13
Interest paid	(199)
	<hr/>
Net cash used in operating activities	(1,108)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from disposals of property, plant and equipment	65
Purchase of property, plant and equipment (Note 12.2)	(4,973)
Placement of fixed deposits	(73)
	<hr/>
Net cash used in investing activities	(4,981)

13. ACCOUNTANTS' REPORT (Cont'd)



12. CASH FLOW STATEMENTS (cont'd)

	2004 RM'000
CASH FLOWS FROM FINANCING ACTIVITIES	
Repayment to Directors	(392)
Repayment to Shareholders	(62)
Drawdown of term loans	1,262
Repayment of term loans	(32)
Dividends paid	(394)
Repayment of hire-purchase liabilities	(443)
Repayment of bankers' acceptance	(75)
Drawdown of trust receipt and bankers' acceptance	876
Listing expenses	(633)
Proceeds from issuance of shares	579
Proceeds from Rights Issue, Public Issue and ESOS	9,306
Net cash generated from financing activities	<u>9,992</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,903
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR	(141)
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR (Note 12.1)	<u><u>3,762</u></u>

12.1 CASH AND CASH EQUIVALENTS

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

	2004 RM'000
Cash in hand and at bank	3,781
Bank overdraft	(19)
Fixed deposits	666
	<u>4,428</u>
Less: Fixed deposits pledged to licensed banks	(666)
	<u><u>3,762</u></u>

13. ACCOUNTANTS' REPORT (Cont'd)**12.2 PURCHASE OF PROPERTY, PLANT AND EQUIPMENT**

The Group made the following cash payments to purchase property, plant and equipment:-

	2004 RM'000
Purchase of property, plant and equipment from internal fund Financed by hire-purchase arrangement	2,189 <u>(616)</u>
	1,573
Purchase of property, plant and equipment from the proceeds of Flotation Scheme	<u>3,400</u>
Cash payment on purchase of property, plant and equipment	<u><u>4,973</u></u>

13. AUDITED FINANCIAL STATEMENTS

No audited financial statements have been prepared in respect of any period subsequent to 31 March 2004.

Yours faithfully

BDO BINDER
AF: 0206
CHARTERED ACCOUNTANTS

SIEW KAH TOONG
1045/03/06 (J)
Partner