

13. ACCOUNTANTS' REPORT

(Prepared for inclusion in this Prospectus)



16 SEP 2004

The Board of Directors
Sersol Technologies Berhad
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Dear Sirs:

1. INFORMATION

This report has been prepared by Horwath Wong & Co., an approved company auditor, for inclusion in the Prospectus of Sersol Technologies Berhad (hereinafter referred to as "STB" or "The Company") to be dated 23 Sept 2004 in connection with the Public Issue of 23,732,500 new ordinary shares of RM0.10 each in STB at an issue price of RM0.30 per ordinary share and the listing of and quotation for the entire enlarged issued and fully paid-up share capital of STB comprising 94,931,000 ordinary shares of RM0.10 each on the Malaysian Exchange of Securities Dealing and Automated Quotation ("MESDAQ") Market of the Bursa Securities Berhad ("Bursa Securities").

2 GENERAL INFORMATION

2.1 INCORPORATION

The Company was incorporated as a public company in Malaysia under the Companies Act, 1965 on 28 December 2002 under the name of Sersol Technologies Berhad.

2.2 PRINCIPAL ACTIVITIES

The Principal activities of the Company are investment holding and provision of management services.

2.3 RESTRUCTURING AND FLOTATION SCHEME

As an integral part of the listing of and quotation for its entire enlarged issued and paid-up ordinary share capital on the MESDAQ market of Bursa Securities, STB implemented a restructuring and flotation scheme which was approved by the Ministry of International Trade and Industry ("MITI") on 10 June 2003 and 26 July 2004, the Securities Commission ("SC") and Foreign Investment Committee (via SC) on 28 April 2004 and 24 August 2004 and Bursa Securities on 29 April 2004 and 25 August 2004 involving the following:-

- (i) acquisition of 1,620,000 ordinary shares of RM1.00 each in Multi Square Sdn Bhd ("MSSB"), representing the entire issued and paid-up share capital of MSSB for a total purchase consideration of RM7,119,859 satisfied by way of an issue of 71,198,498 new ordinary shares of RM0.10 each in STB at an issue price of approximately RM0.10 per ordinary share (MSSB Acquisition)

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- (ii) public issue of 23,732,500 new ordinary shares of RM0.10 each at an issue price of RM0.30 per ordinary share payable in full; and
- (iii) listing of and quotation for the entire enlarged issued and fully paid-up share capital of STB, comprising 94,931,000 ordinary shares of RM0.10 each on the MESDAQ Market of the Bursa Securities.

2.4 SHARE CAPITAL

The Company was incorporated with an authorised share capital of RM100,000 comprising 1,000,000 ordinary shares of RM0.10 each. Subsequently, the authorised share capital was increased from RM100,000 to RM10,000,000 comprising 100,000,000 ordinary shares of RM0.10 each.

The present issued and fully paid-up share capital of the Company is RM7,119,850 comprising 71,198,500 ordinary shares of RM0.10 each. Upon completion of the Public Issue, the issued and fully paid-up share capital of the Company will be enlarged to RM9,493,100 comprising 94,931,000 ordinary shares of RM0.10 each

Detail of changes in the issued and fully paid-up share capital of the Company since its incorporation are as follows:

Date of allotment	No. of ordinary shares issued	Par value RM	Consideration/Type of issue	Cumulative issued and paid-up share capital RM
28.12.2002	2	0.10	Subscribers' shares	*
01.09.2004	71,198,498	0.10	Issued pursuant to the acquisition of MSSB at an issue price of approximately RM0.10 per ordinary share.	7,119,850

* This represents RM0.20 comprising 2 ordinary shares of RM0.10 each

2.5 PRINCIPAL ACTIVITIES OF THE SUBSIDIARY

The subsidiary and the respective principal activities as at the date of this report are as follows:

NAME OF COMPANY	DATE OF INCORPORATION	EFFECTIVE EQUITY INTEREST (%)	PRINCIPAL ACTIVITIES
MSSB	20.10.1992	100	Manufacture and sale of paint, coating, chemical solvent and industrial chemicals.

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2.6 FINANCIAL STATEMENTS AND AUDITORS

We have acted as auditors of MSSB since the financial year ended 31 December 2002. Prior to that, the financial statement of MSSB was audited by another firm of auditors.

We have acted as auditors of STB since the date of incorporation.

The auditors' reports on the financial statements of STB and its subsidiary for the respective financial years/period under review were not subject to any qualification.

The financial statements of STB and its subsidiary for the respective financial years/period under review have been prepared in accordance with the provisions of the Companies Act, 1965 and the applicable approved accounting standards issued and adopted by the Malaysian Accounting Standards Board ("MASB").

2.7 ACCOUNTING POLICIES

There were no changes in accounting policies and accounting estimates by the Proforma Group for the relevant financial years/period under review.

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3. SUMMARISED INCOME STATEMENT

3.1 THE PROFORMA GROUP

We set out below the proforma consolidated financial results of STB and its subsidiary (hereinafter referred to as "the Proforma Group") for the past five (5) financial years ended 31 December 1999 to 2003 and four (4) months period ended 30 April 2004 after making such adjustments and reclassifications to conform with the latest period of accounts presentation in accordance with the MASB. The proforma consolidated results are provided for illustrative purpose only, based on the assumption that the Proforma Group had been in existence throughout the financial years/period under review.

	Proforma group					4 months period ended 30 April 2004 RM'000
	Financial year ended 31 December					
	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	
Turnover	14,777	18,997	20,837	25,372	26,685	7,385
Profit before depreciation, interest, amortisation of development expenditure and taxation	613	754	1,530	2,586	3,638	1,205
Depreciation	(364)	(398)	(420)	(620)	(765)	(247)
Interest expense	(139)	(150)	(143)	(291)	(391)	(126)
Amortisation of development expenditure	-	-	-	(8)	(33)	(14)
Profit before taxation	110	206	967	1,667	2,449	818
Taxation	(3)	(58)	(171)	(309)	(290)	(155)
Profit after taxation	107	148	796	1,358	2,159	663
Number of ordinary shares assumed to be in issue ('000)*	71,199	71,199	71,199	71,199	71,199	71,199
Gross earnings per share (sen)	0.15	0.29	1.36	2.34	3.44	3.45 [#]
Net earnings per share (sen)	0.15	0.21	1.12	1.91	3.03	2.79 [#]

* The number of ordinary shares assumed in issue throughout the financial years/period pursuant to MSSB Acquisition, i.e. 71,198,500 ordinary shares of RM0.10 each but before Public Issue.

[#] Annualised

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Notes:-

(i) *The Proforma consolidated results for the five financial years ended 31 December 2003 and the four (4) months period ended 30 April 2004 are prepared on the basis that the Proforma Group had been effective throughout the years/period under review. The proforma consolidated results for these years/period have been prepared based on the adjusted audited financial statements for its subsidiary. The proforma consolidated results have been prepared based on accounting policies consistent with those previously adopted in the preparation of the adjusted audited financial statements of the subsidiary.*

(ii) *There is an overall upward trend in the Proforma Group's turnover for the relevant financial years under review. For the financial year ended 31 December 1999, the Proforma Group managed to achieve a turnover growth rate of approximately 12% mainly due to the introduction of new product range i.e. plastic coatings and the increase in sales for its wood coatings as the Proforma Group gained acceptance from the market.*

Turnover grew by approximately 29% in the financial year ended 31 December 2000 mainly due to the significant increase in sales of plastic coatings which achieved a growth rate of approximately 396% for the year as the Proforma Group successfully penetrated into the existing plastic paints and coatings market in Malaysia and secured an additional thirty seven (37) new customers.

For the financial year ended 31 December 2001, turnover increased further at a growth rate of approximately 10% as the Proforma Group continued to increase its market share.

For financial year ended 31 December 2002, turnover increased by 22% mainly because of the growth in plastic paints and coatings sales pursuant to the rebound of the local E & E market which stimulates the demand for plastic paints and coatings as well as further capturing of larger market share.

For the financial year ended 31 December 2003, turnover increased by 5% mainly due to the growth of the Proforma Group's plastic coatings sales which have increased by 29%.

For the four (4) months period ended 30 April 2004, the Proforma Group managed to record a turnover of approximately RM7.4 million. The Proforma Group has changed its marketing strategy at the beginning of this year to focus on higher margin products in order to increase its sales thus profitability.

(iii) *The Proforma consolidated PBT for the financial year ended 31 December 1999 decreased by approximately 72% mainly due to the decrease in gross profit margin by 3.8% as compared to that in financial year ended 31 December 1998, increase in salary cost and the write-off of RM32,000 against the electrical installation and renovation works relating to the old factory.*

For the financial year ended 31 December 2000, the Proforma consolidated PBT increased by approximately 87% mainly due to the increase in turnover while the operating expenses remained relatively fixed.

For the financial year ended 31 December 2001, the Proforma consolidated PBT increased by approximately 369% as compared to turnover growth rate of only approximately 10% mainly due to improved gross profit margin and cost control policy adopted by the Proforma Group to reduce its operating expenses. The Proforma Group was able to command a better profit margin as the Proforma Group is able to manufacture and sell higher end plastic coatings which have better margin and its shift in manufacturing from the lower profit margin wood coatings to the higher margin plastic coatings.

For the financial year ended 31 December 2002, the Proforma Group's consolidated PBT increased by approximately 72% mainly due to the increase in gross profit for the year as the Proforma Group continued to change its sales mix toward the plastic coatings which yields a higher profit margin.

For the financial year ended 31 December 2003, the Proforma Group's consolidated PBT increased by approximately 47%. This is mainly due to the non-recurring expenses such as bad debts, allowance for doubtful debts and loss on disposal of property, plant and equipment in the financial year ended 31 December 2002 and the relatively fixed nature of the Proforma Group's administration expenses.

For the four (4) months period ended 30 April 2004, the Proforma Group achieved a Proforma consolidated PBT of approximately RM818,000. This is mainly due to the increase in higher gross profit from sales of plastic coatings as the Proforma Group focused on selling higher profit margin products and continuing effort to improve the formula to reduce the cost of production.

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- (iv) *For the financial year ended 31 December 1999, the effective tax rate is lower than the statutory tax rate due to taxable income for the year being waived in accordance with the provisions of the Income Tax (Amendment) Act 1999.*

The effective tax rate for the financial year ended 31 December 2000 is similar to the statutory tax rate.

The effective tax rate for the financial year ended 31 December 2001 to 31 December 2003 and the four (4) months period ended 30 April 2004 is lower than the statutory tax rate mainly due to the availability and utilisation of reinvestment allowances to reduce the chargeable income of the Proforma Group.

- (v) *The gross earnings per share of the Proforma Group is calculated based on the profit before taxation and the number of ordinary shares of STB assumed to be in issue of 71,198,500 ordinary shares of RM0.10 each but before Public Issue.*
- (vi) *The net earnings per share of the Proforma Group is calculated based on the profit after taxation and the number of ordinary shares of STB assumed to be in issue of 71,198,500 ordinary shares of RM0.10 each but before Public Issue.*
- (vii) *There were no exceptional or extraordinary items during the financial years/period under review.*

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3.2 STB

The following summarised income statement of STB is based on the audited financial statements of STB for the periods ended 31 December 2003 and 30 April 2004.

	Financial period from 28 December 2002 (Date of incorporation) to 31 December 2003 RM'000	4 months period ended 30 April 2004 RM'000
Turnover	-	-
Loss before depreciation, interest and taxation	(16)	(3)
Depreciation	-	-
Interest Expense	-	-
Loss before taxation	(16)	(3)
Taxation	-	-
Loss after taxation	(16)	(3)
Weighted average number of ordinary shares of RM0.10 each	2	2
Gross loss per share (RM)	(8,000)	(1,500)
Net loss per share (RM)	(8,000)	(1,500)

Notes:

- (i) There were no exceptional and extraordinary items during the financial periods under review.
- (ii) The gross loss per share is calculated based on loss before taxation while the net loss per share is calculated based on loss after taxation and the weighted average number of ordinary shares in issue during the financial periods under review.
- (iii) The income statements of STB for the financial periods under review represent preliminary and pre-operating expenses.

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3.3 MSSB

The following summarised income statements of MSSB are based on the audited financial statements of MSSB after making adjustments and reclassification for the past five (5) financial years ended 31 December 1999 to 2003 and four (4) months period ended 30 April 2004 as shown below:

	Financial year ended 31 December					4
	1999	2000	2001	2002	2003	months
	RM'000	RM'000	RM'000	RM'000	RM'000	period
						ended
						30 April
						2004
						RM'000
Turnover	14,777	18,997	20,837	25,372	26,685	7,385
Profit before depreciation, interest, amortisation of development expenditure and taxation	613	754	1,530	2,586	3,654	1,208
Depreciation	(364)	(398)	(420)	(620)	(765)	(247)
Interest expense	(139)	(150)	(143)	(291)	(391)	(126)
Amortisation of development expenditure	-	-	-	(8)	(33)	(14)
Profit before taxation	110	206	967	1,667	2,465	821
Taxation	(3)	(58)	(171)	(309)	(290)	(155)
Profit after taxation	107	148	796	1,358	2,175	666
Weighted average number of ordinary shares in issue ('000)	1,620	1,620	1,620	1,620	1,620	1,620
Gross earnings per share (sen)	6.79	12.72	59.69	102.90	152.16	152.04 [#]
Net earnings per share (sen)	6.60	9.14	49.14	83.83	134.26	123.33 [#]

[#] The results were annualised to enable comparability with the gross and net earnings per share calculated for the five (5) years ended 31 December 2003.

Notes:

- (i) There were no exceptional or extraordinary items during the years/period under review.
- (ii) The gross earning per share is calculated based on profit before taxation while the net earnings per share is calculated based on profit after taxation and the weighted average number of ordinary shares in issue during the financial years/period under review.

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- (iii) *In preparing this report, certain adjustments were made to ensure consistency of presentation of information for comparison purposes. The details of the adjustments made are set out in the following paragraphs:*

	Financial Year Ended 31 December					4 months period ended
	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	30 April 2004 RM'000
Profit after tax - per account	146	175	808	1,358	2,175	666
Adjustment (a)	(39)	(27)	(71)	-	-	-
Adjustment (b)	-	-	59	-	-	-
Profit after tax - restated	107	148	796	1,358	2,175	666

- (a) *The prior year adjustment relates to provision for deferred taxation which was previously not provided.*
- (b) *The prior year adjustment relates to finished goods inventory value where factory overhead was previously omitted as part of the cost.*

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4. DIVIDENDS

The Company has not paid or declared any dividends since the date of incorporation.

On 30 September 2002, MSSB, the subsidiary company of STB, declared the payment of a final dividend of :-

- (i) RM0.67 per ordinary share less 28% tax amounting to RM777,600; and
- (ii) RM0.02 per ordinary share of tax-exempt dividend amounting to RM32,400

During the annual general meeting held on 30 June 2004, the above declaration of final dividend was cancelled and the shareholders approved a final tax exempt dividend of approximately RM0.15 per share amounting to RM250,000 in respect of the financial year ended 31 December 2002.

5. SUMMARISED BALANCE SHEETS

As the purchase consideration for the acquisitions was calculated based on net assets value using the audited financial statements of the subsidiaries as at 30 April 2004, it is therefore impracticable to present proforma balance sheets of STB Group throughout the years/period under review except as at 30 April 2004. Accordingly, the proforma consolidated balance sheet of STB Group has only been presented in respect of 30 April 2004 based on the audited financial statements as at 30 April 2004 and this is shown in Section 6 of this Report.

The balance sheets of the STB and its subsidiary based on the adjusted audited financial statements after making adjustments and reclassifications for the relevant financial years/period under review, where applicable, are summarised below for comparative purposes:

5.1 STB

	As at 31 December 2003 RM'000	As at 30 April 2004 RM'000
CURRENT ASSETS	362	362
CURRENT LIABILITIES	378	381
NET CURRENT LIABILITIES	<u>(16)</u>	<u>(19)</u>
FINANCED BY :-		
Share capital	*	*
Accumulated losses	(16)	(19)
SHAREHOLDERS' EQUITY DEFICIT	<u>(16)</u>	<u>(19)</u>
NTA	(16)	(19)
NTA per ordinary share (RM)	<u>(8,000)</u>	<u>(9,500)</u>

* This represents RM0.20 comprising 2 ordinary shares of RM0.10 each

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5.2 MSSB

	As at 31 December					As at 30
	1999	2000	2001	2002	2003	April
	RM'000	RM'000	RM'000	RM'000	RM'000	2004
						RM'000
ASSETS						
Property, plant and equipment	3,290	3,649	4,380	8,444	8,106	7,964
Development expenditure	-	-	-	182	239	470
CURRENT ASSETS	6,760	7,065	7,262	9,507	11,444	11,880
CURRENT LIABILITIES	6,703	7,277	6,862	10,817	10,029	9,963
NET CURRENT ASSETS/ (LIABILITIES)	57	(212)	400	(1,310)	1,415	1,917
	3,347	3,437	4,780	7,316	9,760	10,351
FINANCED BY :-						
Share capital	1,620	1,620	1,620	1,620	1,620	1,620
Retained profits	1,077	1,225	2,021	2,569	5,304	5,970
SHAREHOLDERS' EQUITY	2,697	2,845	3,641	4,189	6,924	7,590
LONG TERM AND DEFERRED LIABILITIES	650	592	1,139	3,127	2,836	2,761
	3,347	3,437	4,780	7,316	9,760	10,351
NTA	2,697	2,845	3,641	4,007	6,685	7,120
NTA per ordinary share (RM)*	1.66	1.76	2.25	2.47	4.13	4.40

* The NTA per ordinary share is calculated based on the weighted average number of ordinary shares in issue during the financial years/period under review.

Notes:

In preparing this report, certain adjustments and reclassification were made to ensure consistency of presentation of information for comparison purposes. The details of the adjustments and reclassification made are set out in the following paragraphs:

	As at 31 December					As at 30
	1999	2000	2001	2002	2003	April
	RM'000	RM'000	RM'000	RM'000	RM'000	2004
						RM'000
(i) Current assets - per account	6,760	7,065	7,203	9,507	11,444	11,880
Adjustment (a)	-	-	59	-	-	-
Current assets - restated	6,760	7,065	7,262	9,507	11,444	11,880

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5.2 MSSB (Cont'd)

Notes:

	As at 31 December					As at 30
	1999	2000	2001	2002	2003	April
	RM'000	RM'000	RM'000	RM'000	RM'000	2004
						RM'000
(ii) Current liabilities - per account	6,841	7,415	7,000	10,817	10,029	9,963
Adjustment (b)	(138)	(138)	(138)	-	-	-
Current liabilities - restated	6,703	7,277	6,862	10,817	10,029	9,963
(iii) Long term and deferred liabilities - per account	529	444	920	3,127	2,836	2,761
Adjustment (c)	121	148	219	-	-	-
Long term and deferred liabilities - restated	650	592	1,139	3,127	2,836	2,761

- (a) The prior year adjustment relates to finished goods inventory value where factory overhead was previously omitted as part of the cost.
- (b) The prior year adjustment for the financial year 1998 relates to other payables which were overprovision for damaged goods claims.
- (c) The prior year adjustment relates to provision for deferred taxation which was previously not provided.

6. PROFORMA STATEMENT OF ASSETS AND LIABILITIES

The proforma statement of assets and liabilities of STB and the Proforma Group which are prepared for illustrative purposes are based on the audited financial statements of STB and its subsidiary as at 30 April 2004 and on the assumptions that the restructuring and flotation scheme of STB Group, Public Issue as stated in Section 2.3 and the utilisation of the proceeds had been effected on 30 April 2004 and should be read in conjunction with the notes thereon.

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6. PROFORMA STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

	Note	As of 30 April 2004 The Proforma Group		The Company
		Before public issue RM'000	After public issue RM'000	RM'000
ASSETS				
Property, plant and equipment	7.5	7,964	7,964	-
Development expenditure	7.6	470	470	-
Negative goodwill		(470)	(470)	-
		<u>7,964</u>	<u>7,964</u>	<u>-</u>
CURRENT ASSETS				
Inventories	7.7	2,239	2,239	-
Trade receivables	7.8	7,062	7,062	-
Other receivables, deposits and prepayments	7.9	851	851	362
Fixed deposits with licensed financial institutions	7.10	535	535	-
Cash and bank balances	7.11	1,174	3,174	*
		<u>11,861</u>	<u>13,861</u>	<u>362</u>
CURRENT LIABILITIES				
Trade payables	7.12	4,312	4,312	-
Other payables and accruals	7.13	237	237	381
Hire purchase payable	7.14	216	216	-
Borrowings - secured	7.15	4,968	**2,659	-
Dividend payable		230	230	-
		<u>9,963</u>	<u>7,654</u>	<u>381</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>1,898</u>	<u>6,207</u>	<u>(19)</u>
		<u>9,862</u>	<u>14,171</u>	<u>(19)</u>
FINANCED BY :-				
Share capital	7.16	7,119	9,493	*
Share premium		#	***3,346	-
Accumulated losses		(19)	(19)	(19)
SHAREHOLDERS' EQUITY		<u>7,100</u>	<u>12,820</u>	<u>(19)</u>
LONG TERM AND DEFERRED LIABILITIES				
Hire purchase payable	7.14	247	247	-
Borrowings - secured	7.15	1,997	**586	-
Deferred taxation	7.17	518	518	-
		<u>2,762</u>	<u>1,351</u>	<u>-</u>
		<u>9,862</u>	<u>14,171</u>	<u>(19)</u>
NTA per ordinary share (RM)		0.10	0.14	(9,500)

* Represents RM0.20

** Net of repayment of trade facilities of RM2.22 million and term loan of RM1.5 million

*** Net of estimated listing expenses of RM1.4 million

Amount less than RM1,000

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**7. NOTES TO THE PROFORMA STATEMENT OF ASSETS AND LIABILITIES****7.1 BASIS OF CONSOLIDATION**

The consolidated financial statements include the financial statements of the Proforma Group and its subsidiary made up to 30 April 2004.

A subsidiary is defined as a company in which the parent company holds directly or indirectly more than 50% of equity share capital and has control over the financial and operating policies. Investment in subsidiary is stated at cost unless in the opinion of the directors there has been a permanent diminution in value, in which case allowance is made for the diminution in value.

The subsidiary is consolidated using the acquisition method of accounting. Under the acquisition method of accounting, the results of subsidiary acquired or disposed of are included from the date of acquisition up to the date of disposal. At the date of acquisition, fair value of the subsidiary's net asset is determined and this value is reflected in the consolidated financial statements.

Intragroup transactions, balances and unrealised gains on transactions are eliminated, unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, adjustments are made to the financial statements of the subsidiary to ensure consistency of accounting policies with those of the Proforma Group.

7.2 FINANCIAL RISK MANAGEMENT POLICIES

The Proforma Group's financial risk management policies seek to ensure that adequate financial resources are available for the development of the Proforma Group's business whilst managing its currency, interest rate, market, credit, liquidity and cash flow risks.

7.2.1 CURRENCY RISK

The Proforma Group is exposed to foreign exchange risk on sales and purchases that are denominated in foreign currencies as detailed in note 7.19 to the accountants' report. It manages its foreign exchange exposure by a policy of matching as far as possible receipts and payments in each individual currency.

7.2.2 INTEREST RATE RISK

The Proforma Group obtains financing through bank borrowings and hire purchase. Its policy is to obtain the most favourable interest rates available without increasing its foreign currency exposure.

Surplus funds are placed with reputable financial institutions at the most favourable interest rates.

7.2.3 MARKET RISK

The Proforma Group does not have any quoted investments and hence is not exposed to market risks.

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7.2.4 CREDIT RISK

The Proforma Group's exposure to credit risks, or the risk of counterparties defaulting, arises mainly from cash deposits and receivables. The maximum exposure to credit risks is represented by the total carrying amount of these financial assets in the accountants' report reduced by the effects of any netting arrangements with counterparties.

The Proforma Group does not have any major concentration of credit risks related to any individual customer or counterparty.

7.2.5 LIQUIDITY AND CASH FLOW RISKS

The Proforma Group's exposure to liquidity and cash flow risks arises mainly from general funding and business activities.

It practices prudent liquidity risks management by maintaining sufficient cash balances and the availability of funding through certain committed credit facilities from financial institutions.

7.3 BASIS OF PREPARATION OF THE PROFORMA STATEMENT OF ASSETS AND LIABILITIES

The Proforma statement of assets and liabilities of the Proforma Group and of the company are prepared under the historical cost convention and modified to include other bases of valuation as disclosed in other sections under significant accounting policies, and in compliance with the applicable approved accounting standards of the Malaysian Accounting Standards Board and the provisions of the Companies Act, 1965 and on the following accounting policies which are consistent with those adopted in the preparation of the audited financial statements of the individual subsidiary.

7.4. SIGNIFICANT ACCOUNTING POLICIES

7.4.1 FINANCIAL INSTRUMENTS

Financial instruments are recognised in the accountants' report when the Proforma Group has become a party to the contractual provision of the instruments.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity.

Financial instruments are offset when the Proforma Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

Financial instruments recognised in the accountants' report are disclosed in the individual policy statement associated with each item.

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7.4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

7.4.2 INVESTMENTS

Investments in subsidiaries, which are eliminated on consolidation, are stated in the Proforma Group's financial statements at cost. Where there is an indication of impairment in the value of the assets, the carrying amount of the investment is assessed and written down immediately to its recoverable amount.

7.4.3 PROPERTY, PLANT AND EQUIPMENT

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

No depreciation is provided on freehold lands. Depreciation of other assets is calculated under the straight-line method to write off the cost of the assets over their estimated useful lives. The principal annual rates used for this purpose are:-

Buildings	2%
Factory equipment	10%
Motor vehicles	20%
Furniture, fittings and office equipment	10%
Renovation and electrical installation	10%

7.4.4 IMPAIRMENT OF ASSETS

The carrying amounts of assets, other than those to which MASB Standard 23 Impairment of Assets does not apply, are reviewed at 30 April 2004 for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts.

An impairment loss is charged to the income statement immediately unless the asset is carried at its revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of a previously recognised revaluation surplus for the same asset.

In respect of assets other than goodwill, and when there is a change in the estimates used to determine the recoverable amount, a subsequent increase in the recoverable amount of an asset is treated as a reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the income statement immediately, unless the asset is carried at its revalued amount. A reversal of an impairment loss on a revalued asset is credited directly to the revaluation surplus. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense in the income statement, a reversal of that impairment loss is recognised as income in the income statement.

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7.4.5 Negative GOODWILL ON CONSOLIDATION

Negative goodwill represents the deficit of the fair value of the purchase consideration over the Group's share of the fair values of the separable net assets of the subsidiary at the date of acquisition.

The negative goodwill on consolidation is being amortised over the period of 20 years from the date of acquisition.

7.4.6 RESEARCH AND DEVELOPMENT EXPENDITURE

Research expenditure is recognised as an expense when incurred. Costs incurred on developing new products are recognised as development expenditure to the extent that such expenditure is expected to generate future economic benefits. Other development expenditure is recognised as an expense when incurred. Development costs previously recognised as an expense are not recognised as an asset in any subsequent period.

Development costs that have been capitalised are amortised from the commencement of the commercial production of the product to which they relate on a straight-line basis over the period of their expected benefit, but not exceeding 5 years. Where the future benefit is uncertain or cannot be reasonably assured, the cost is written off immediately to the income statement.

7.4.7 INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and comprises the cost of material and incidentals incurred in bringing the inventories to their present location and condition. Cost of finished goods includes the cost of direct materials, labour and production overheads where appropriate.

In arriving at net realisable value, due allowance is made for all obsolete, damaged and slow moving items.

7.4.8 TRADE AND OTHER RECEIVABLES

Trade and other receivables are carried at anticipated realisable values. Bad debts are written off in the period in which they are identified. An estimate is made for doubtful debts based on a review of all outstanding amounts at the 30 April 2004.

7.4.9 TRADE AND OTHER PAYABLES

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

7.4.10 EQUITY INSTRUMENTS

Ordinary shares are classified as equity.

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7.4.11 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in hand, bank balances, demand deposits, deposits pledged with licensed banks, bank overdrafts and short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

7.4.12 ASSETS UNDER HIRE PURCHASE

Plant and equipment acquired under hire purchase are capitalised in the financial statements and are depreciated in accordance with the policy set out in note 7.4.3 above. Each hire purchase payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. Finance charges are allocated to the income statement over the period of the respective hire purchase agreements.

7.4.13 INCOME TAX

Income tax on the profit or loss for the financial year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the financial year and is measured using the tax rates that have been enacted at 30 April 2004.

Deferred tax is provided for, using the liability method, on temporary differences at 30 April 2004 between the tax bases of assets and liabilities and their carrying amount in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is possible that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at 30 April 2004. Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or negative goodwill.

7.4.14 REVENUE RECOGNITION

Revenue are recognised upon delivery of goods and customers' acceptance and where applicable, net of returns and trade discounts.

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7.4.15 FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies during the year are converted into Ringgit Malaysia at rates of exchange approximate those ruling at the transaction dates. Monetary assets and liabilities in foreign currencies at 30 April 2004 are translated into Ringgit Malaysia at rates of exchange approximating those ruling at that date. All exchange gains or losses are dealt with in the income statement.

7.4.16 SHORT TERM EMPLOYEE BENEFITS

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

7.4.17 DEFINED CONTRIBUTION PLANS

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

7.4.18 SEGMENTAL INFORMATION

Segment revenue and expenses are those directly attributable to the segments and include any joint revenue and expenses where a reasonable basis of allocation exists. Segment assets include all assets used by a segment and consist principally of properties, plant and equipment (net of accumulated depreciation, where applicable), inventories, receivables and cash and bank balances.

Segment revenues, expenses and results include transfers between segments. The price charged on intersegment transactions are based on normal commercial terms. These transfers are eliminated on consolidation.

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7.5 PROPERTY, PLANT AND EQUIPMENT

The Proforma Group

	Cost RM'000	Accumulated Depreciation RM'000	NBV RM'000
Freehold Land	1,479	-	1,479
Buildings	2,910	116	2,794
Factory Equipment	3,913	1,586	2,327
Motor Vehicles	1,235	872	363
Furniture, Fittings and Office Equipments	775	362	413
Renovation and Electrical Installation	769	181	588
Total	11,081	3,117	7,964

The net book value of property, plant and equipment of the Proforma Group which have been pledged to financial institutions for banking facilities are as follows:

	RM'000
Freehold Land	1,479
Buildings	2,794
	<u>4,273</u>

7.5A ASSETS HELD UNDER HIRE PURCHASE AGREEMENT

Included in the property, plant and equipment of the Company are assets held under hire purchase agreements as follows:-

	Cost RM'000	Accumulated depreciation RM'000	Net book value RM'000	Depreciation for the period RM'000
Factory equipment	520	134	386	17
Motor vehicles	710	418	292	39
	<u>1,230</u>	<u>552</u>	<u>678</u>	<u>56</u>

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7.6 DEVELOPMENT EXPENDITURE

	The Proforma Group		The Company
	Before public issue RM'000	After public issue RM'000	RM'000
Cost	525	525	-
Accumulated amortisation	(55)	(55)	-
Net book value	<u>470</u>	<u>470</u>	<u>-</u>
Net book value at 1 January 2004	239	239	-
Additional development expenditure capitalised	245	245	-
Amortisation charge for the period	(14)	(14)	-
Net book value at 30 April 2004	<u>470</u>	<u>470</u>	<u>-</u>

7.7 INVENTORIES

Inventories consist of the following:-

	The Proforma Group		The Company
	Before public issue RM'000	After public issue RM'000	RM'000
At Cost:-			
Raw materials	1,453	1,453	-
Finished goods	786	786	-
	<u>2,239</u>	<u>2,239</u>	<u>-</u>

None of the inventories are carried at net realisable value.

7.8 TRADE RECEIVABLES

	The Proforma Group		The Company
	Before public issue RM'000	After public issue RM'000	RM'000
Trade receivables	7,182	7,182	-
Less : Allowance for doubtful debts	(120)	(120)	-
	<u>7,062</u>	<u>7,062</u>	<u>-</u>

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7.8 TRADE RECEIVABLES (CONT'D)

The Proforma Group's normal trade credit term ranges from 30 to 90 days. Other credit terms are assessed and approved on a case-by-case basis.

The foreign currency exposure profile of trade receivables is as follows:-

	The Proforma Group		The Company
	Before public issue RM'000	After public issue RM'000	RM'000
Singapore Dollar	8	8	-
United States Dollar	324	324	-
	<u>332</u>	<u>332</u>	<u>-</u>

7.9 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	The Proforma Group		The Company
	Before public issue RM'000	After public issue RM'000	RM'000
Other receivables	5	5	-
Deposits	130	130	-
Prepayments	393	393	362
Tax recoverable	323	323	-
	<u>851</u>	<u>851</u>	<u>362</u>

7.10 FIXED DEPOSITS WITH LICENSED FINANCIAL INSTITUTIONS

The fixed deposits have been pledged with licensed financial institutions for banker's guarantee issued on behalf of the MSSB and as securities for bank borrowings as disclosed in note 7.15 of the accountants' report. Included in fixed deposits is RM431,457 which were placed under the name of directors who holds it in trust for MSSB.

The weighted average effective interest rate of fixed deposits at 30 April 2004 was 3.4% per annum. The fixed deposits have an average maturity of 365 days.

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7.11 CASH AND BANK BALANCES

	The Proforma Group		The Company
	Before public issue RM'000	After public issue RM'000	RM'000
Cash and bank balances as at 30 April 2004	1,174	1,174	*
Add: Proceeds from Public Issue	-	7,120	-
Less : Utilisation of proceeds:			
Estimated listing expenses	-	(1,400)	-
Repayment of trade facilities	-	(2,220)	-
Repayment of term loan	-	(1,500)	-
	<u>1,174</u>	<u>3,174</u>	<u>*</u>

* This represents cash and bank balances of RM0.20

The foreign currency exposure profile of cash and bank balances is as follows:-

	The Proforma Group		The Company
	Before public issue RM'000	After public issue RM'000	RM'000
Chinese Renminbi	#	#	-
Hong Kong Dollar	#	#	-
United States Dollar	4	4	-
Singapore Dollar	70	70	-
Thai Baht	#	#	-
	<u>74</u>	<u>74</u>	<u>-</u>

Amount less than RM1,000.

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7.12 TRADE PAYABLES

The normal trade credit terms granted to the Company ranges from 30 to 90 days.

The foreign currency exposure profile of trade payables is as follows:-

	The Proforma Group		The Company
	Before public issue RM'000	After public issue RM'000	RM'000
United States Dollar	453	453	-

7.13 OTHER PAYABLES AND ACCRUALS

	The Proforma Group		The Company
	Before public issue RM'000	After public issue RM'000	RM'000
Other payables	131	131	381
Payroll liabilities	49	49	-
Accrued expenses	57	57	#
	<u>237</u>	<u>237</u>	<u>381</u>

The foreign currency exposure profile of other payables is as follows:-

	The Proforma Group		The Company
	Before public issue RM'000	After public issue RM'000	RM'000
Singapore Dollar	#	#	-

Amount less than RM1,000.

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7.14 HIRE PURCHASE PAYABLE

	The Proforma Group		The Company
	Before public issue RM'000	After public issue RM'000	RM'000
Minimum hire purchase payments:			
- not later than one year	244	244	-
- later than one year and not later than five years	262	262	-
	<u>506</u>	<u>506</u>	<u>-</u>
Less : Future finance charges	(43)	(43)	-
Present value of hire purchase liabilities	<u>463</u>	<u>463</u>	<u>-</u>
Current:			
- not later than one year	216	216	-
Non-current:			
- later than one year and not later than five years	247	247	-
	<u>463</u>	<u>463</u>	<u>-</u>

The effective interest rate of the hire purchase payables at 30 April 2004 ranges from 6.23% to 12.5% per annum.

7.15 BORROWINGS - SECURED

Loan facilities RM'000	Term of loan	Securities	The Proforma Group		The Company
			Before public issue RM'000	After public issue RM'000	RM'000
450	70 monthly instalments of RM5,430 each (exclusive of interest) and bears interest at 7.75% per annum calculated on monthly rest.	A fixed charge on MSSB's landed properties, joint and by the directors of MSSB and debentures creating fixed and floating charges over all MSSB's present and future assets.	163	163	-

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7.15 BORROWINGS - SECURED (CONT'D)

<u>Loan facilities</u> RM'000	<u>Term of loan</u>	<u>Securities</u>	The Proforma Group		The Company
			Before public issue RM'000	After public issue RM'000	RM'000
100	36 monthly instalments of RM2,998 each and bears interest at 7.15% per annum calculated on monthly rest.	Joint and several guarantee by the directors of MSSB and the fixed deposit of RM100,000 of MSSB.	42	42	-
200	36 monthly instalments of RM5,995 each and bears interest at 7.15% per annum calculated on monthly rest.	Joint and several guarantee by the directors of MSSB and the fixed deposit of RM100,000 of MSSB.	80	80	-
300	120 monthly instalments of RM3,546 each and bears interest at 6% per annum calculated on monthly rest.	A fixed charge on MSSB's freehold land and building and jointly and severally guaranteed by the directors and a shareholder of MSSB.	259	-	-

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7.15 BORROWINGS - SECURED (CONT'D)

<u>Loan facilities</u> RM'000	<u>Term of loan</u>	<u>Securities</u>	The Proforma Group		The Company
			Before public issue RM'000	After public issue RM'000	RM'000
1,600	180 monthly instalments of RM14,742 each and bears interest at 6% per annum calculated on monthly rest.	A fixed charge on MSSB's freehold land and building and jointly and severally guaranteed by the directors and a shareholder of MSSB.	1,431	190	-
340	96 monthly instalment of RM4,876 each and bears interest at 8% calculated on monthly rest.	A fixed charge on MSSB's freehold land and building and jointly and severally guaranteed by the directors of MSSB.	308	308	-
Term loans			2,283	783	-
Bankers' acceptances			3,641	1,421	-
Bank overdrafts			1,041	1,041	-
			<u>6,965</u>	<u>3,245</u>	<u>-</u>
Repayable within twelve months			4,968	2,659	-
Repayable after twelve months			1,997	586	-
			<u>6,965</u>	<u>3,245</u>	<u>-</u>

Bankers' acceptances are drawn for a period of 90 to 120 days which are renewable on maturity. Interest is charged at rates ranging from 3.86% to 5.15% per annum.

Bank overdrafts to a limit of RM1,450,000 is payable on demand and interest is charged at rate range from 7.25% to 7.75% per annum.

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7.15 BORROWINGS - SECURED (CONT'D)

The above banking facilities are secured by:-

- Jointly and severally guaranteed by the directors and a shareholder of MSSB;
- Fixed charge on MSSB's and the directors' landed properties;
- Fixed deposits as disclosed in note 7.10 of the Accountant's Report; and
- Debentures creating fixed and floating charges over MSSB's present and future assets.

7.16 SHARE CAPITAL

	Par value	No. of shares	RM
AUTHORISED:			
As at 30.4.2004	RM0.10	1,000,000	100,000
created during the period	RM0.10	99,000,000	9,900,000
	RM0.10	<u>100,000,000</u>	<u>10,000,000</u>
ISSUED AND FULLY PAID:			
As at 30.4.2004	RM0.10	2	*
Share swap for acquisition of MSSB	RM0.10	71,198,498	7,119,850
Before Public Issue		<u>71,198,500</u>	<u>7,119,850</u>
Public Issue	RM0.10	23,732,500	2,373,250
After Public Issue	RM0.10	<u>94,931,000</u>	<u>9,493,100</u>

* This represents RM0.20 comprising 2 ordinary shares of RM0.10 each

7.17 DEFERRED TAXATION

	The Proforma Group		The Company
	Before public issue RM'000	After public issue RM'000	RM'000
Balance at 1.1.2004	448	448	-
Transfer from income statement - for the current financial period	70	70	-
Balance at 30.4.2004	<u>518</u>	<u>518</u>	<u>-</u>

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7.17 DEFERRED TAXATION (CONT'D)

	The Proforma Group		The Company
	Before public issue RM'000	After public issue RM'000	RM'000
The deferred taxation arises as a results of:-			
Deferred tax liabilities			
An excess of carrying value of property, plant and equipment over its tax base	386	386	-
An excess of carrying value of development expenditure over its tax base	132	132	-
	<u>518</u>	<u>518</u>	<u>-</u>

7.18 NUMBER OF EMPLOYEES

	The Proforma Group		The Company
	Before public issue	After public issue	
Number of employees at 30.4.2004	<u>93</u>	<u>93</u>	<u>-</u>

7.19 FOREIGN EXCHANGE RATES

The applicable closing foreign exchange rates used (expressed on the basis of one unit of foreign currency to Ringgit Malaysia equivalent) for the translation of foreign currency balances at 30 April 2004 are as follows:-

	The Proforma Group		The Company
	Before public issue RM	After public issue RM	RM
Chinese Renminbi	0.459	0.459	-
Hong Kong Dollar	0.487	0.487	-
Singapore Dollar	2.229	2.229	-
Thai Bhat	0.095	0.095	-
United States Dollar	<u>3.800</u>	<u>3.800</u>	<u>-</u>

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7.20 CAPITAL COMMITMENTS

As of period ended, the Proforma Group has the following capital commitments in respect of purchases of property, plant and equipment:-

	The Proforma Group		The Company
	Before public issue RM'000	After public issue RM'000	RM'000
Contracted but not yet provided for	75	75	-

7.21 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The carrying amounts of financial assets and liabilities of the Proforma Group at 30 April 2004 approximates their fair values.

8. SEGMENTAL INFORMATION – PROFORMA GROUP (BEFORE PUBLIC ISSUE)

The Proforma Group operates principally in only one industry segment. There was no disclosure on geographical segment as its revenue from sales to external customers and from transactions with segment other than Malaysia is less than 10% of total revenue.

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9. PROFORMA CONSOLIDATION CASH FLOW STATEMENTS

The proforma consolidated cash flow statements prepared for illustration purpose is based on the audited financial statements of STB and MSSB for the four (4) months period ended 30 April 2004 and on the assumption that the Proforma Group has been in existence throughout the period ended 30 April 2004 and that the Public Issue referred to in Section 2.3 have been completed on 30 April 2004:

	The Proforma Group		The Company
	Before public issue RM'000	After public issue RM'000	RM'000
	Note		
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before taxation	818	818	(3)
Adjustment for :-			
Amortisation of development expenditure	14	14	-
Deposit forfeited	1	1	-
Depreciation of property, plant and equipment	247	247	-
Loss on disposal on plant and equipment	*	*	-
Plant and equipment written off	1	1	-
Interest expenses	126	126	-
Operating profit before working capital changes	1,207	1,207	(3)
Increase in inventories	(158)	(158)	-
Decrease in trade and other receivables	586	586	-
Increase in development expenditure	(245)	(245)	-
(Decrease)/increase in trade and other payables	(919)	(919)	3
CASH FROM OPERATIONS	471	471	-
Interest paid	(126)	(126)	-
Tax paid	(173)	(173)	-
NET CASH FROM OPERATING ACTIVITIES	172	172	-

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9. PROFORMA CONSOLIDATION CASH FLOW STATEMENT (Cont'd)

	Note	The Proforma Group		The Company
		Before public issue RM'000	After public issue RM'000	RM'000
CASH FLOWS FOR INVESTING ACTIVITIES				
Purchase of plant and equipment		(108)	(108)	-
Proceeds from disposal of plant and equipment	2	2	2	-
NET CASH FOR INVESTING ACTIVITIES		(106)	(106)	-
CASH FLOWS (FOR)/FROM FINANCING ACTIVITIES				
Dividend paid		(20)	(20)	-
Drawdown of bankers' acceptances		3,841	3,841	-
Proceeds from public issues		-	7,120	-
Payment of listing expenses		-	(1,400)	-
Repayment of bankers' acceptances		(4,311)	(6,531)	-
Repayment of term loans		(106)	(1,606)	-
Repayment of hire purchase obligations		(90)	(90)	-
NET CASH (FOR)/FROM FINANCING ACTIVITIES		(686)	1,314	-
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(620)	1,380	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL PERIOD		1,288	1,288	#
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL PERIOD	9.1	668	2,668	#

This represents RM0.20 comprising 2 ordinary shares of RM0.10 each

* Amount less than RM1,000

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9.1 CASH AND CASH EQUIVALENTS

	The Proforma Group		The Company
	Before public issue RM'000	After public issue RM'000	RM'000
Fixed deposits with licensed banks	535	535	-
Cash and bank balances	1,174	3,174	*
Bank overdraft	(1,041)	(1,041)	-
	<u>668</u>	<u>2,668</u>	<u>*</u>

* This represent RM0.20

10. PROFORMA NET TANGIBLE ASSETS COVER

Based on the proforma statement of assets and liabilities of the proforma Group as at 30 April 2004, the proforma net tangible assets (NTA) cover per ordinary share after incorporating the restructuring of the STB Group, Public Issue and estimated cost of flotation will be as follows:-

NTA of the Proforma Group as per statement of assets and liabilities as of 30 April 2004 (RM'000)	12,820
Number of ordinary shares of RM0.10 each assumed in issue ('000)	94,931
Proforma NTA cover per ordinary share of RM0.10 each (sen)	13.50

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11. EVENT SUBSEQUENT TO 30 APRIL 2004

Based on the audited financial statements for the period ended 30 April 2004, we are not aware of any subsequent event that has arisen which require disclosure or adjustment in this report except for:-

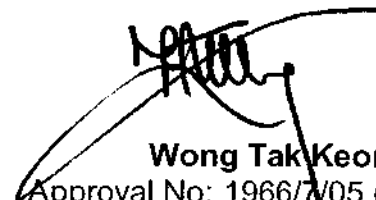
On 17 June 2004 and 29 June 2004 , the fixed deposits held under the name of the directors have been transferred to the name of MSSB.

On 18 August 2004, MSSB obtained proceeds from the term loan facility from a licensed financial institution amounting to RM500,000.

Yours faithfully



Horwath Wong & Co.
Firm No.: AF 1130
Chartered Accountants



Wong Tak Keong
Approval No: 1966/7/05 (J)
Partner of Firm

14. EXECUTIVE SUMMARY FOR THE INDEPENDENT MARKET RESEARCH REPORT AND THE LETTER THEREON

(Prepared for inclusion in this Prospectus)

F R O S T & S U L L I V A N

Frost & Sullivan (M) Sdn. Bhd. (522293W)
Suite E-08-15, Block E, Plaza Mont' Kiara
2, Jalan Kiara, Mont' Kiara,
50480 Kuala Lumpur
Tel: 603 6204 5800 Fax: 603 6201 7402
www.frost.com

To: **16 SEP 2004**

The Board of Directors
Sersol Technologies Berhad
30-05 Level 30
Menara Landmark
No.12 Jalan Ngee Heng
80000 Johor Bahru
Johor Darul Takzim

Re: Independent Market Consultant Report on the Malaysian Paints and Coatings Industry

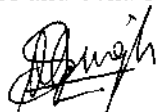
This executive summary is prepared for inclusion in the prospectus of Sersol Technologies Berhad to be dated ~~23 Sept 04~~ **23 Sept 04** in relation to its listing on the Mesdaq Market of the Bursa Malaysia Securities Berhad. This research is undertaken with the purpose of providing an analysis of the market position of Sersol Technologies Berhad within the specific paints and coatings industry in Malaysia. The report provides a special focus on the particular segment of the industry that Sersol Technologies Berhad is operating in.

The information provided in this Prospectus with reference to our name is principally the extractions from our research report, which was undertaken through both primary and secondary sources. Interviews were conducted with the main market participants in the country as well as Sersol Technologies Berhad's direct competitors. Primary research is provided to gain an in-depth understanding of the current industry profile and to provide an overall picture of the market performance and trends.

Secondary research includes a review of the in-house database of Frost and Sullivan, the Eighth Malaysia Plan 2001-2005, the Third Outline Perspective Plan 2001-2010, the Malaysia International Trade and Industry Report 2002, the Monthly Statistical Bulletin, Bank Negara Malaysia Annual Report 2003, the Monthly Manufacturing Statistics and others.

The research for this industry was conducted between August and September 2002 with the research report dated in March 2003. Some updates were done in September 2003 and March 2004 for the updated research report dated June 2004. Findings in this study may be used in the listing prospectus with consent from Frost and Sullivan.

Yours faithfully
For and behalf of Frost and Sullivan



SANJAY SINGH
DIRECTOR

14. EXECUTIVE SUMMARY FOR THE INDEPENDENT MARKET RESEARCH REPORT AND THE LETTER THEREON

1

Executive Summary

Overview of the Malaysian Paints and Coatings Market

The Malaysian economy performed strongly in the first quarter of 2004 to register a 7.6 percent, sustaining the momentum it gained in 2003 where it expanded by 5.2 per cent. A combination of strong fiscal stimulus and private consumption, and the low interest rates regime helped generated multiplier effects in the real economy. As the rate of capacity utilisation increases in the manufacturing sector and the inventory levels decreased, more manufacturing activities are expected, including increasing employment as well as both better consumer sentiments and business confidence. This would all translate into a more vigorous economy.

The words, "paints" and "coatings" are used interchangeably in the industry. They are pigmented opaque materials that completely cover and hide the surface to which they are applied. Versions in both oil-based and water-based formulas are available, depending on applications. Paints and coatings are used in various areas, like packaging, durable goods, furniture, housing, signs and many others.

This report focuses on 3 end-user markets for paints and coatings: plastic products (electrical and electronics), furniture and automotive aftermarket. The overall prospect for growth of the plastics and coatings industry is moderate with plastics coatings projected to generate a CAGR of 6.1 percent; furniture coatings producing a CAGR of 3.0 percent and automotive coatings (refinishing) a CAGR of 2.8 percent, for the period (2003-2009).

The key market drivers impacting the paints and coatings market in Malaysia include the following:

- **Low Interest Rate Regime Instigates Demand**

Greater consumer spending as a result of lower interest rates spurs demand for houses, which in return, lead to increased sales of consumer electrical products and furniture

- **Development of Petrochemical Industry Stimulates Demand**

The establishment of more petrochemical plants has spurred the development of plastic fabricators in the plastic products industry through capital deepening along the value chain. In return, these plastic fabricators would spur demand for paints and coatings for the final finishing of their products to increase the aesthetics appeal among consumers.

14. EXECUTIVE SUMMARY FOR THE INDEPENDENT MARKET RESEARCH REPORT AND THE LETTER THEREON

- Rising Population Generates Demand

Rising population translates into increasing numbers of households, which in return, means more consumption of furniture and consumer electrical products in the market

- Promotion of Furniture Industry Spurs Demand

The promotion of furniture products which use paints and coatings for the final finishing have a multiplier effects on the paints and coatings industry

On the other hand, the major restraints affecting the paints and coatings market in Malaysia include the following:

- A High Property Overhang Deters Demand

Low vacancy rates existing in the various property market segments could potentially translate into lesser demand for furniture and consumer electrical products, which in turn generates fewer demand for paints and coatings used on these products.

- Low Capacity Utilisation in Manufacturing Industries Deters Demand

Factors like the declining demand for plastic injection moulded component parts and operations downsizing which arise as a result of low capacity in manufacturing continues to affect demands.

- Economic Slowdown Arrests Demand

Global and regional uncertainties which include possible geopolitical unrest and further terrorist attacks continue to hamper economic recovery in most countries in East Asia

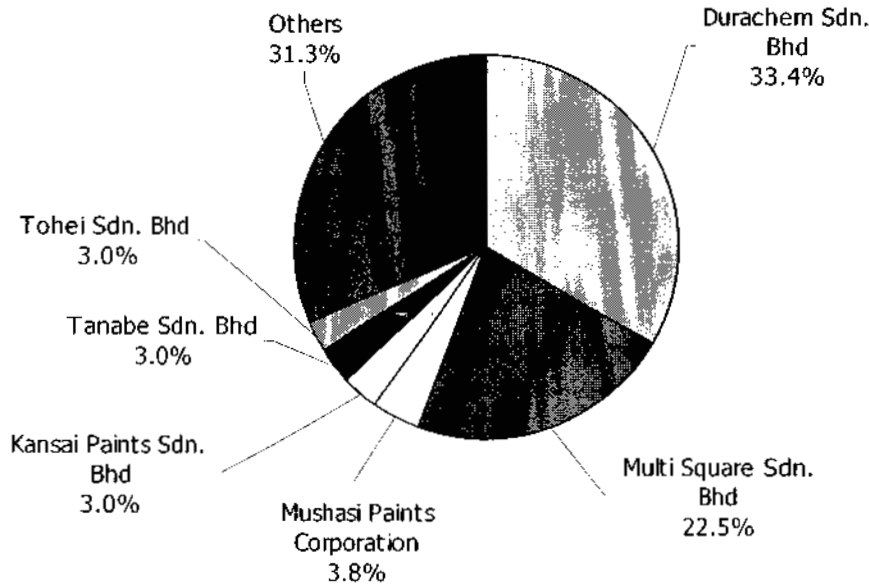
Plastics and Polymers Coatings

Paints and coatings are used on component parts in the electronics and electrical industries so as to increase their aesthetics appeal. Their prices range between RM12 and RM110 per litre in 2003. The widespread usage of these plastic component parts in the modern world means that there is constant demand for paints and coatings.

Growth for plastics coatings is partly spurred by an increase in the use of plastic parts and materials in electronic and electrical goods. The increase is also brought about by replacements of metal and wood materials by plastics, which serve to further strengthen the demand for plastics coatings. Electrical and electronic equipment like household goods including washing machines, air conditioners, and vacuum cleaners are increasingly using plastic materials. All these factors serve to support growth in the plastics coatings segment. The plastics and polymer coatings segment was valued at almost RM110.0 million in 2003. The thinner are usually sold together with the paints and coatings.

14. EXECUTIVE SUMMARY FOR THE INDEPENDENT MARKET RESEARCH REPORT AND THE LETTER THEREON

Figure 1: Plastic and Polymer Coatings



Source: Frost & Sullivan

The top three competitors in the market for the polymers and plastics coatings are Durachem Sdn. Bhd (33.4 percent), Multi Square Sdn. Bhd (22.5 percent) and Musashi Paint Corporation Sdn. Bhd (3.8 percent). The market concentration of the top three competitors was 59.7 percent in 2003. In 2003, Durachem Sdn. Bhd had been experiencing losses in market share while companies like Multi Square Sdn. Bhd were seen to have increased their market shares. The primary factors appear to be that small companies like Multi Square Sdn. Bhd are able to provide competitive pricing for reasonable quality products. This has enabled them to capture the market share that was previously held by Durachem Sdn. Bhd. Multi Square Sdn. Bhd is estimated to have increased its market share in 2003 to 22.5 percent.

Furniture Coatings

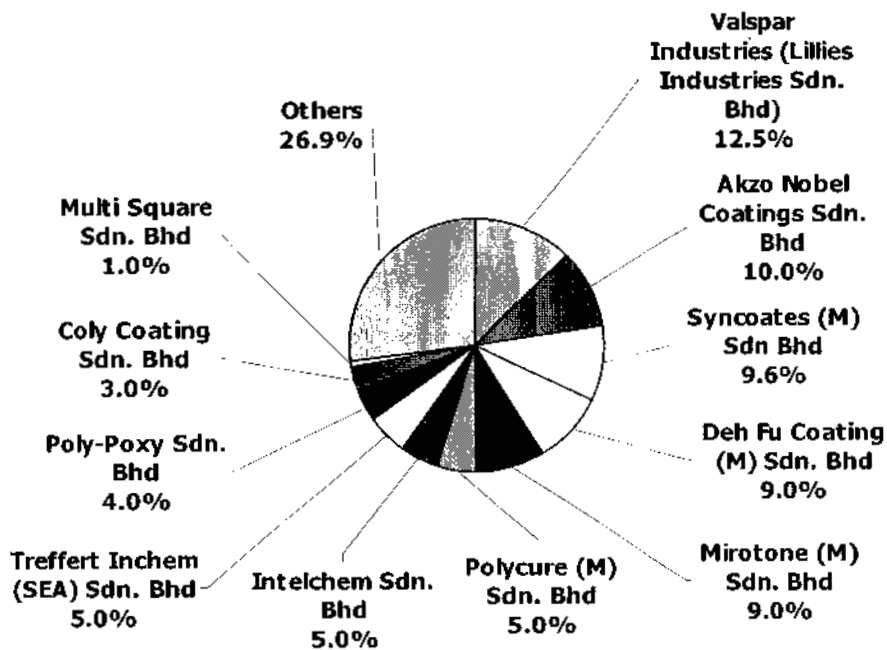
The furniture industry covers a wide spectrum of products, including office furniture, household furniture, kitchen furniture, upholstered furniture, bedroom furniture, non-upholstered furniture, seat parts, furniture parts, wooden furniture, rubber wood furniture, hardwood furniture, panel based furniture, wood-based panels, particle board panels, fiberboard panels and medium density fiberboards (MDF). The coatings are required to protect the furniture and other wood interiors against soiling and damage. Prices of paints and coatings for the furniture end-user industry range between RM6 and RM7 per litre in 2003.

The furniture or wood coatings segment is currently the slowest moving among the coatings end-user markets. Many of Malaysia's furniture manufacturers are facing manpower shortages. In addition, Malaysia is also experiencing a declining supply of timber from its logging industry which

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inadvertently affects the furniture making industry. Replanting of trees in logged areas and laws requiring replanting are also not adequately enforced, causing depletion of supply of raw materials to the furniture industry. The raw materials include both rubber wood and the traditional tropical hard wood. The furniture coatings segment was valued at RM240.0 million in 2003. The thinner are usually sold together with the paints and coatings.

Figure 2: Furniture Coatings



Source: Frost & Sullivan

There are approximately 15 competitors in the wood or furniture coatings market. However, among the notable and visible companies in the market are Valspar Industries (Lilly Industries Sdn. Bhd) who is the market leader, followed by Akzo Nobel Coatings Sdn. Bhd, Deh Fu (M) Sdn. Bhd, Syncoates (M) Sdn. Bhd and Mirotone (M) Sdn. Bhd. The furniture market is easier for smaller and local companies to penetrate as furniture end users are typically smaller than the end users in the plastics industry. As such, it remains easier for local companies to penetrate and capture market share. Valspar Industries (Lilly Industries Sdn. Bhd) was the market leader in this end-user segment, with a market share of about 12.5 percent. This was followed by Akzo Nobel Coatings Sdn. Bhd at 10 percent and Syncoates (M) Sdn Bhd at 9.6 percent. The market concentration of the top three companies in this end-user segment is 32.1 percent. Slower sales and increased competition in the local furniture market has resulted in many companies to venture out to foreign markets in the segment of paints. In 2003, Valspar Industries (Lilly Industries Sdn. Bhd) and Syncoates (M) Sdn. Bhd gained market share as they expanded their customer base to countries

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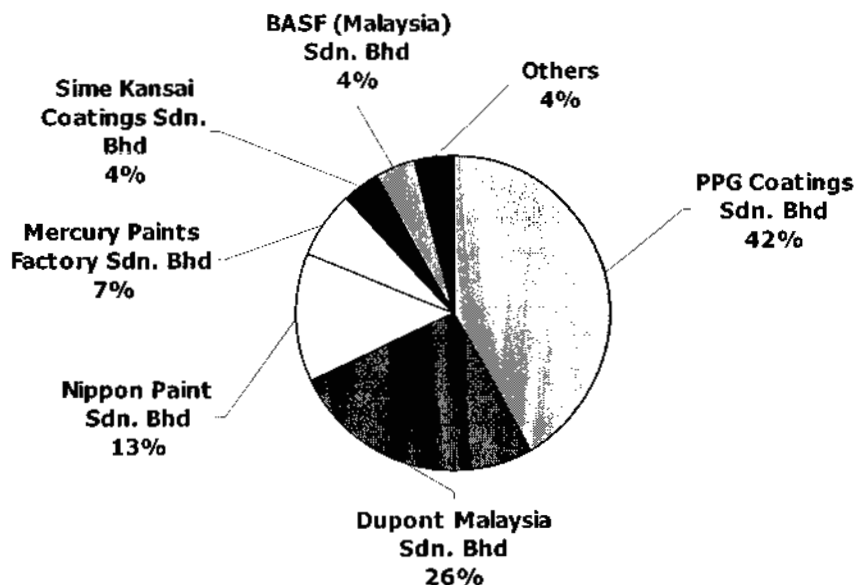
like China, Vietnam, Indonesia and Thailand. Multi Square Sdn. Bhd has an estimated market share of around 1 percent.

Automotive Refinish Coatings

The automotive industry uses both the OEM and aftermarket paints. OEM paints are applied during the manufacturing process and its growth rate is inherently linked to new vehicle sales. The aftermarket is more significant as the larger number of vehicle population provides a huge untapped market. After a number of years on the roads, some car owners would give their prized possession a new coat of paints for both aesthetics and protection purposes. The typical car owner in Malaysia is very particular about the quality of the aesthetics of his car and would rather invest on premium quality coatings when it comes to refinishing. 2K paints are more popular than 1K paints, commanding around 70 percent of the aftermarket. The prices for automotive refinishing range between RM20 and RM70 per litre in 2003.

The characteristics that paints and coatings manufacturers strive to provide for the automotive industry include greater durability, greater heat tolerance especially in high heat and humid conditions in Asia, greater safety, lighter weight and environmentally friendly. Other factors include new glossy pigments, scratch-resistant coatings and super water-repellant coatings. Basically, the car body-shop business prefers simple solutions to fix minor repairs. This covers base-coat coatings for bodywork repairs and fast-drying repairs. Refinish coatings are applied with less automation than OEM paints. It includes top coats, primers, and surfacers on plastic parts. The automotive coatings aftermarket was valued at almost RM55.0 million in 2003.

Figure 3: Automotive Refinish Coatings



Source: Frost & Sullivan

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There are six large manufacturers of automotive refinish coatings in Malaysia. Most of the manufacturers complete within the same competitive tier. The companies in automotive refinish are largely multinationals as the market is perceived to be on the high end of the paints and coatings product segment and multinationals are positioned as quality and technologically advanced coatings suppliers. PPG Coatings (Malaysia) Sdn. Bhd was the market leader in this end-user segment, with a market share of approximately 42 percent. This was followed by Dupont Malaysia Sdn. Bhd, at 26 percent and Nippon Paint Sdn. Bhd, at 13 percent. The market concentration among the top three companies was 81 percent in 2003.

Industrial Diluents

Diluents are used as solvents and are typically part of the composition of paints. The market for diluents was estimated at around RM97.0 million in 2003, with a CAGR for the period (2003 – 2009) of approximately 4.6 percent. As diluents are commoditized products, very few companies focus on selling them. They can be bought either separately from the paints suppliers or together as a package. Many suppliers encourage their customers to purchase both paints and diluents from a single source so that a warranty is provided. The exception occurs when there is an alternative supplier of diluents who can supply the material at a much lower cost.

Future Prospects

In the modern world, paints and coatings are needed for both consumer and industrial products for aesthetics and protective functions. Hence, there is a huge demand for paints and coatings. However, the demand for paints and coatings is cyclical in nature, as it is loosely related to the performance of the end-user industries. Business conditions affecting the construction, automotive and electrical industries also affect the consumption of paints and coatings. To differentiate among the many competing brands in the market, most companies market their products through a series of brand names. The technology trend is moving towards the usage of environmentally-friendly products that cures without emitting high levels of volatile organic solvents (VOC). In Malaysia, the usage of water-based technology is increasing, at the expense of the traditional solvent-based technology. In the automotive refinish market, both water-based and fast-drying paints are slow to be adopted due to a shortage of skilled labour.

Growth for plastics coatings is partly spurred by an increase in the use of plastic parts and materials in electronic and electrical goods. The increase is also brought about by replacements of metal and wood materials by plastics, which serve to further strengthen the demand for plastics coatings. Electrical household goods like washing machines, air conditioners, and vacuum cleaners are increasingly using plastic materials. There are hundreds of applications for plastics in the automotive industry. It is estimated that plastic parts and components have achieved an application saturation of about 80 percent in the interior of a car. Also, the increasing population of cars on the road has led to greater demand for automotive refinish coatings. The furniture end-user industry is the least attractive of all, due to increasing competition from both China and

14. EXECUTIVE SUMMARY FOR THE INDEPENDENT MARKET RESEARCH REPORT AND THE LETTER THEREON

Vietnam. This is due to the fact that the furniture industry in Malaysia is an export-oriented one and many manufacturers are involved in subcontracting work.

Due to the relatively small market in Malaysia and the sufficient number of market participants, there are limited imports of paints and coatings. This situation might gradually change due to the implementation of AFTA. Presently, there are no substitutes for paints and coatings for end-user applications. A manufacturer must also have the technical ability and competency to formulate the various paints and coatings with their different technical characteristics, as required by the various end-users.

The main challenge is the emergence of China as the manufacturing workshop of the world. China is now the world's fourth largest industrial producer, producing more than 50 percent of the world's cameras, 30 percent of its air-conditioners, 40 percent of its DVD players, 25 percent of its washing machines and nearly 20 percent of all refrigerators. The attractiveness of this market has caused the main manufacturers and their supporting and ancillary industries to relocate their plants there, including the end-users of paints and coatings. Also, a relatively small domestic market in Malaysia prevents economies of scale and thus only the company with the largest capacity will have a cost advantage, placing it ahead of other competing companies in the industry.

15. DIRECTORS' REPORT

Registered Office:
Unit 30-05, Level 30
Menara Landmark,
Mail Box 172
No. 12, Jalan Ngee Heng
80000 Johor Bahru.

16 SEP 2004

The Shareholders of Sersol Technologies Berhad

Dear Sir/Madam

On behalf of the Board of Directors of Sersol Technologies Berhad ("STB"), I report after due inquiry that during the period from 30 April 2004 (being the date to which the last audited accounts of STB and its subsidiary have been made up) to the date hereof, (being a date not earlier than fourteen (14) days before the date of issue of this Prospectus), that:

- (a) the business of STB and its subsidiary have, in the opinion of the Directors, been satisfactorily maintained;
- (b) in the opinion of the Directors, no circumstances have arisen since the last audited accounts of STB and its subsidiary which have adversely affected the trading or the value of the assets of STB or its subsidiary;
- (c) the current assets of STB and its subsidiary appear in the books at values which are believed to be realizable in the ordinary course of business;
- (d) there are no contingent liabilities by reason of any guarantees or indemnities given by STB and/or its subsidiary;
- (e) there have been no default or any known event that could give rise to a default situation, in respect of either interest and/or principal sums in relation to any borrowings in which they are aware of since the last audited accounts of STB and its subsidiary; and
- (f) save as disclosed in the Accountants' Report and Proforma Consolidated Balance Sheets in this Prospectus, there have been no material changes in the published reserves or any unusual factors affecting the profits of STB and its subsidiary since the last audited accounts of STB and its subsidiary.

Yours faithfully
For and on behalf of the Board of Directors
SERSOL TECHNOLOGIES BERHAD


TAN FIE PING
MANAGING DIRECTOR



**Sersol
Technologies
Bhd**

co no: 602062-X

No 28

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