

## 12. ACCOUNTANTS' REPORT (cont'd)

YONG & LEONARD (AF 0075)  
(formerly known as K. K. Yong & Co)

## 8. SUMMARISED BALANCE SHEETS (CONT'D)

## 8.2 Subsidiaries (Cont'd)

## 8.2.7 Envair MECS Engineering (Penang) Sdn. Bhd. ("EMECS (Penang)")

|  | ← As at 31 December → |             |             | As at             |
|--|-----------------------|-------------|-------------|-------------------|
|  | <u>2001</u>           | <u>2002</u> | <u>2003</u> | <u>31.10.2004</u> |
|  | RM'000                | RM'000      | RM'000      | RM'000            |
| Property, plant and equipment                  | 1                     | 2           | 111         | 111               |
| Current assets                                 |                       |             |             |                   |
| Amount due from holding company                | -                     | 66          | 100         | 100               |
| Amount due from related companies              | -                     | -           | -           | 54                |
| Other current assets                           | 98                    | 234         | 429         | 739               |
|  | 98                    | 300         | 529         | 893               |
| Current liabilities                            |                       |             |             |                   |
| Amount due to holding company                  | 45                    | -           | -           | -                 |
| Amount due to related companies                | -                     | -           | -           | 50                |
| Other current liabilities                      | 34                    | 163         | 351         | 593               |
|  | 79                    | 163         | 351         | 643               |
| Net current assets                             | 19                    | 137         | 178         | 250               |
|  | 20                    | 139         | 289         | 361               |
| Share capital                                  | *                     | 100         | 100         | 100               |
| Retained profits                               | 20                    | 39          | 133         | 218               |
| Shareholders' funds                            | 20                    | 139         | 233         | 318               |
| Long term and deferred tax liabilities         | -                     | -           | 56          | 43                |
|  | 20                    | 139         | 289         | 361               |
| Net tangible assets<br>per ordinary share (RM) | 200.00                | 1.39        | 2.33        | 3.18              |
| Gross dividend per share (RM)                  | -                     | -           | -           | -                 |

\* Denotes RM100

## 12. ACCOUNTANTS' REPORT (cont'd)

YONG & LEONARD (AF 0075)  
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## 8. SUMMARISED BALANCE SHEETS (CONT'D)

## 8.2 Subsidiaries (Cont'd)

## 8.2.8 Quest System &amp; Engineering Sdn. Bhd. ("QSE")

|   | As at 31 July |             |             | As at             | As at             | As at             |
|---|---------------|-------------|-------------|-------------------|-------------------|-------------------|
|   | <u>1999</u>   | <u>2000</u> | <u>2001</u> | <u>31.10.2002</u> | <u>31.12.2003</u> | <u>31.10.2004</u> |
|   | RM'000        | RM'000      | RM'000      | RM'000            | RM'000            | RM'000            |
| Expenditure carried forward                 | 10            | 11          | -           | -                 | -                 | -                 |
| Current assets                              |               |             |             |                   |                   |                   |
| Other current assets                        | *             | *           | **          | ***               | 102               | 200               |
|   | *             | *           | **          | 1                 | 102               | 200               |
| Current liabilities                         |               |             |             |                   |                   |                   |
| Amount due to related companies             | -             | -           | -           | -                 | -                 | 200               |
| Other current liabilities                   | 10            | 11          | 12          | 14                | 20                | 6                 |
|   | 10            | 11          | 12          | 14                | 20                | 206               |
| Net current (liabilities) / asset           | (10)          | (11)        | (12)        | (13)              | 82                | (6)               |
|   | *             | *           | (12)        | (13)              | 82                | (6)               |
| Share capital                               | *             | *           | *           | *                 | 100               | 100               |
| Accumulated losses                          | -             | -           | (12)        | (13)              | (18)              | (106)             |
| Shareholders' funds                         | *             | *           | (12)        | (13)              | 82                | (6)               |
| Net tangible assets per ordinary share (RM) | 1.00          | 1.00        | (6,000.00)  | (6,500.00)        | 0.82              | (0.06)            |
| Gross dividend per share (RM)               | -             | -           | -           | -                 | -                 | -                 |

\* Denotes RM2

\*\* Denotes RM68

\*\*\* Denotes RM451

## 12. ACCOUNTANTS' REPORT (cont'd)

YONG & LEONARD (AF 0075)  
(formerly known as K. K. Yong & Co)

## 8. SUMMARISED BALANCE SHEETS (CONT'D)

## 8.2 Subsidiaries (Cont'd)

## 8.2.9 Quest Filters Sdn. Bhd. ("QF")

|   | ← As at 31 December → |             |             |             |             | As at             |
|---|-----------------------|-------------|-------------|-------------|-------------|-------------------|
|   | <u>1999</u>           | <u>2000</u> | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>31.10.2004</u> |
|   | RM'000                | RM'000      | RM'000      | RM'000      | RM'000      | RM'000            |
| Current assets                              | *                     | *           | *           | *           | **          | *                 |
| Current liabilities                         |                       |             |             |             |             |                   |
| Amount due to related company               | 18                    | 19          | 21          | 22          | 23          | 23                |
| Other current liabilities                   | 1                     | 1           | 1           | 1           | 1           | 3                 |
|   | 19                    | 20          | 22          | 23          | 24          | 26                |
| Net current liabilities                     | (19)                  | (20)        | (22)        | (23)        | (24)        | (26)              |
| Share capital                               | *                     | *           | *           | *           | *           | *                 |
| Accumulated losses                          | (19)                  | (20)        | (22)        | (23)        | (24)        | (26)              |
| Shareholders' funds                         | (19)                  | (20)        | (22)        | (23)        | (24)        | (26)              |
| Net tangible assets per ordinary share (RM) | (9,500)               | (10,000)    | (11,000)    | (11,500)    | (12,000)    | (13,000)          |
| Gross dividend per share (RM)               | -                     | -           | -           | -           | -           | -                 |

\* Denotes RM2

\*\* Denotes RM239

## 12. ACCOUNTANTS' REPORT (cont'd)

YONG & LEONARD (AF 0075)  
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## 9. PROFORMA STATEMENT OF ASSETS AND LIABILITIES

The following proforma statement of assets and liabilities have been prepared based on the audited balance sheets of Quest as at 31 October 2004 and should be read in conjunction with the notes set out in Section 10. The proforma statement of assets and liabilities is provided for illustrative purposes only to show the effect of the Public Issues and utilisation of proceeds of Public Issue thereof on the assumption that these transactions were completed on 31 October 2004.

|   | Note  | Proforma<br>Group<br>RM'000 |
|---|-------|-----------------------------|
| Property, plant and equipment               | 10.3  | 3,168                       |
| Investment in associates                    | 10.4  | 7                           |
| Deferred tax assets                         | 10.5  | 15                          |
| Goodwill on consolidation                   | 10.6  | 200                         |
|   |       | <u>3,390</u>                |
| <b>Current assets</b>                       |       |                             |
| Inventories                                 | 10.7  | 2,549                       |
| Trade receivables                           | 10.8  | 13,413                      |
| Other receivables, deposits and prepayments | 10.9  | 576                         |
| Tax refundable                              |       | 18                          |
| Deferred expenditure                        | 10.10 | -                           |
| Fixed deposits with licensed banks          | 10.11 | 16,090                      |
| Cash and bank balances                      |       | 1,268                       |
|   |       | <u>33,914</u>               |
| <b>Less: Current liabilities</b>            |       |                             |
| Trade payables                              | 10.12 | 7,876                       |
| Other payables                              |       | 135                         |
| Amount due to directors                     | 10.13 | 158                         |
| Provision for royalty expenses              | 10.14 | 85                          |
| Provision for taxation                      |       | 985                         |
| Borrowings                                  | 10.15 | 2,395                       |
|   |       | <u>11,634</u>               |
| Net current assets                          |       | 22,280                      |
| <b>Less: Non-current liabilities</b>        |       |                             |
| Borrowings                                  | 10.15 | 340                         |
| Deferred tax liabilities                    | 10.16 | 22                          |
|   |       | <u>362</u>                  |
|   |       | <u>25,308</u>               |
| <b>Represented by:</b>                      |       |                             |
| Share capital                               | 10.17 | 11,758                      |
| Share premium                               | 10.18 | 12,750                      |
| Retained profits                            |       | 800                         |
| Revaluation reserve                         | 10.19 | -                           |
|   |       | <u>25,308</u>               |

## 12. ACCOUNTANTS' REPORT (cont'd)

YONG & LEONARD (AF 0075)  
(formerly known as K. K. Yong & Co)

## 10. NOTES TO THE PROFORMA STATEMENT OF ASSETS AND LIABILITIES

## 10.1 Significant Accounting Policies

## a) Basis of preparation

The financial statements of the Group and the Company have been prepared under the historical cost convention and comply with applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965.

## b) Property, plant and equipment

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

Depreciation is calculated on a straight line basis to write off the cost of plant and equipment over their estimated useful lives at the following annual rates:

|                     |            |
|---------------------|------------|
| Motor vehicles      | 10% – 20%  |
| Plant and machinery | 20% – 33%  |
| Factory shop        | 2%         |
| Other assets        | 10 % - 30% |

Freehold land is not depreciated as it has an infinite life.

## c) Group accounting

Subsidiaries are those enterprises in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from their activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

Subsidiaries are consolidated using the acquisition method of accounting. Under the acquisition method of accounting, the results of subsidiaries acquired or disposed of are included from the date of acquisition up to the date of disposal. At the date of acquisition, the fair values of the subsidiaries' net assets are determined and these values are reflected in the consolidated financial statements. The excess of the cost of acquisition over the fair value of the Group's share of the subsidiaries' identifiable net assets at the date of acquisition is reflected as goodwill on consolidation. Goodwill is capitalised and amortised over ten years through the income statements. The excess of the fair value of the Group's share of the subsidiaries' identifiable net assets at the date of acquisition over the cost of acquisition is reflected as reserve on consolidation.

Intra-group transactions, balances and unrealised gains on transactions are eliminated. Unrealised losses are also eliminated unless cost cannot be recovered.

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

## 12. ACCOUNTANTS' REPORT (cont'd)

YONG & LEONARD (AF 0075)  
(formerly known as K. K. Yong & Co)10. NOTES TO THE PROFORMA STATEMENT OF ASSETS AND LIABILITIES  
(CONT'D)

## 10.1 Significant Accounting Policies (Cont'd)

## d) Associates

Associates are enterprises in which the Group exercises significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the associates but not control over those policies. Investment in associates is accounted for in the consolidated financial statements by the equity method of accounting.

Equity accounting involves recognising in the income statement of the Group's share of the results of associates for the period. The Group's investment in associates is carried in the balance sheet at an amount that reflects its share of the net assets of the associates and includes goodwill (net of accumulated amortisation) on acquisition. Equity accounting is discontinued when the carrying amount of the investment in an associate reaches zero, unless the Group has incurred obligation or guaranteed obligations in respect of the associate.

## e) Inventories

Inventories are valued at the lower of cost and net realisable value determined on the first-in-first-out basis. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

## f) Trade and other receivables

Trade and other receivables are carried at anticipated realisable value. Specific provisions are made for debts which have been identified as bad or doubtful.

## g) Foreign currency transactions

Foreign currency transactions in Group Companies are converted into Ringgit Malaysia at the rates prevailing at the transaction date. Foreign currency monetary assets and liabilities are translated at exchange rates prevailing at the balance sheet date.

Exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are included in the income statements.

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

| <u>Foreign currency</u> | <u>31.10.2004</u> | <u>31.12.2003</u> |
|-------------------------|-------------------|-------------------|
| 1 US Dollar             | RM3.825           | RM3.825           |
| 1 British Pound         | RM6.920           | RM6.800           |
| 1 Singapore Dollar      | RM2.300           | RM2.254           |

**12. ACCOUNTANTS' REPORT (cont'd)**YONG & LEONARD (AF 0075)  
(formerly known as K. K. Yong & Co)**10. NOTES TO THE PROFORMA STATEMENT OF ASSETS AND LIABILITIES (CONT'D)****10.1 Significant Accounting Policies (Cont'd)****h) Finance lease and hire purchase**

Leases of plant and equipment where the Group assumes substantially all the benefits and risks of ownership are classified as finance leases.

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest element of the finance charge is charged to the income statement over the lease period.

Plant and equipment acquired under finance leases are depreciated over the estimated useful life of the asset. Where there is no reasonable certainty that the ownership will be transferred to the Group, the asset is depreciated over the shorter of the lease term and its estimated useful life.

**i) Impairment of assets**

The carrying amounts of the Group and of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, impairment is measured by comparing the carrying values of the assets with their recoverable amounts. The recoverable amount is the higher of an asset's net selling price and value in use, which is measured by reference to discounted future cash flows. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating units to which the asset belongs.

The impairment loss is charged to the income statement and any subsequent increase in recoverable amount is recognised in the income statement.

**j) Construction contracts**

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that is probable will be recoverable and contract costs are recognised as expenses.

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised over the period of the contract as revenue and expenses respectively. The Company uses the percentage of completion method to determine the appropriate amount of revenue and cost to recognise in a given period; the stage of completion is measured by reference to contract costs incurred for work performed to date bear to the estimated total costs for the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The aggregate of the costs incurred and the profit or loss recognised in each contract is compared against the progress billings up to the year end. Where costs incurred and recognised profit (less recognised losses) exceed progress billings, the balance is shown as amounts due from customers on construction contracts under current assets. When progress billings exceed costs incurred plus recognised profit (less recognised losses), the balance is shown as amounts due to customers on construction contracts under current liabilities.

**12. ACCOUNTANTS' REPORT (cont'd)**YONG & LEONARD (AF 0075)  
(formerly known as K. K. Yong & Co)**10. NOTES TO THE PROFORMA STATEMENT OF ASSETS AND LIABILITIES (CONT'D)****10.1 Significant Accounting Policies (Cont'd)****k) Financial instruments**

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset from another enterprise, a contractual right to exchange financial instruments with another enterprise under conditions that are potentially favourable, or an equity instrument of another enterprise.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another enterprise, or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable.

The particular recognition methods adopted for financial instruments recognised on the balance sheet is disclosed in the individual accounting policy statements associated with each item.

**l) Income taxes**

Current tax expense is determined according to the tax laws of Malaysia and includes all taxes based upon the taxable profits including real property gains taxes payable on disposal of property, if any.

Deferred tax is recognised in full using the liability method, on the temporary differences arising between the amounts attributed to assets and liabilities for tax purposes and their carrying amounts in the financial statements.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences or unused tax losses can be utilised.

Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax.

**m) Share capital**

Ordinary shares are classified as equity.

Distribution to holders of a financial instrument classified as an equity instrument is charged directly to equity.

Dividends on ordinary shares are recognised as liabilities when proposed or declared before the balance sheet date. A dividend proposed or declared after the balance sheet date, but before the financial statements are authorised for issue, is not recognised as a liability at the balance sheet date but as an appropriation from retained profits to a 'proposed dividend reserve'. Upon the dividend becoming payable, it will be accounted for as a liability.

**n) Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate of the amount can be made.



**12. ACCOUNTANTS' REPORT (cont'd)**YONG & LEONARD (AF 0075)  
(formerly known as K. K. Yong & Co)**10. NOTES TO THE PROFORMA STATEMENT OF ASSETS AND LIABILITIES (CONT'D)****10.1 Significant Accounting Policies (Cont'd)****o) Cash and cash equivalents**

For the purposes of the cash flow statements, cash and cash equivalents comprise cash in hand and at bank and fixed deposits with licensed banks, net of bank overdrafts.

**p) Revenue recognition**

Revenue is recognised upon delivery of goods, net of discounts and returns / upon rendering of services.

**Construction works**

Revenues from short-term contracts are recognised on the completed contract basis.

Revenue for long term contracts is recognized in accordance with Note 10.1 (j).

**Other revenues**

Other revenues earned are recognised as follows:

Sales commissions – recognised as it accrues.

Interest income - recognised as it accrues.

Rental income - recognised on accrual basis in accordance with the substance of the rental agreement.

Management fee and administrative charges- recognised as they accrue.

**10.2 Financial Risk Management Objectives and Policies****a) Financial risk**

The Group's financial risk management framework whose principal objective is to minimize the Group exposure to risk and / or costs associated with the financing, investing and operating activities of the Group. The overall financial risk management objective is to ensure that the Company creates value for its shareholders.

The task of the identifying and evaluating the key business risks is undertaken by the executive board members and executive management who are responsible for the establishment and implementation of appropriate systems to manage these risks. Various risk management actions are taken depending on the assessment of the impact and likelihood of the risk.

**b) Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. It is controlled by the application of credit monitoring procedures. Credit risks are minimised and monitored via strictly limiting the Group's trading parties to business partners with high creditworthiness. The Group has no significant concentrations of credit risk.

**c) Interest risk**

The Group's income and operating cash flows are substantially independent of changes in market interest rates.

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12. ACCOUNTANTS' REPORT *(cont'd)*

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YONG & LEONARD (AF 0075)  
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10. NOTES TO THE PROFORMA STATEMENT OF ASSETS AND LIABILITIES  
(CONT'D)

10.2 Financial Risk Management Objectives and Policies (Cont'd)

d) Foreign currency risk

The Group does not have significant foreign currency exposure to any effects of foreign currency exchange rate fluctuations as at 31 October 2004.

The Group has not hedged against trade debtors that are denominated in Singapore Dollar as the marginal fluctuation of such rate is estimated to have minimal impact to the Group.

The exposure of the Group to currency fluctuations of Ringgit Malaysia to the US Dollar is minimal as long as Ringgit Malaysia continues to be pegged against that currency.

e) Liquidity and cash flow risk

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

## 12. ACCOUNTANTS' REPORT (cont'd)

YONG & LEONARD (AF 0075)  
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## 10. NOTES TO THE PROFORMA STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

## 10.3 Property, Plant and Equipment

|  | Freehold<br>land<br>RM'000 | Factory<br>shop<br>RM'000 | Motor vehicles<br>RM'000 | Tools and<br>equipment<br>RM'000 | Renovation,<br>furniture,<br>fittings and<br>other<br>equipment<br>RM'000 | Total<br>RM'000 |
|--|----------------------------|---------------------------|--------------------------|----------------------------------|---|-----------------|
| <b>Cost</b>                                      |                            |                           |                          |                                  |   |                 |
| At 1 January 2004                                | -                          | -                         | 456                      | 375                              | 395   | 1,226           |
| Additions  | -                          | 1,000                     | 69                       | 1,008                            | 32  | 2,109           |
| Additions through<br>acquisition of subsidiaries | 79                         | 217                       | 388                      | 19                               | 417   | 1,120           |
| Write off  | -                          | -                         | -                        | -                                | (1)   | (1)             |
| At 31 October 2004                               | 79                         | 1,217                     | 913                      | 1,402                            | 843   | 4,454           |
| <b>Accumulated depreciation</b>                  |                            |                           |                          |                                  |   |                 |
| At 1 January 2004                                | -                          | -                         | 278                      | 150                              | 258   | 686             |
| Charge for the period                            | -                          | -                         | 74                       | 45                               | 30  | 149             |
| Additions through<br>acquisition of subsidiaries | -                          | 20                        | 263                      | 8                                | 161   | 452             |
| Write off  | -                          | -                         | -                        | -                                | (1)   | (1)             |
| At 31 October 2004                               | -                          | 20                        | 615                      | 203                              | 448   | 1,286           |
| <b>Net book value</b>                            |                            |                           |                          |                                  |   |                 |
| At 31 October 2004                               | 79                         | 1,197                     | 298                      | 1,199                            | 395   | 3,168           |

## 12. ACCOUNTANTS' REPORT (cont'd)

YONG & LEONARD (AF 0075)  
(formerly known as K. K. Yong & Co)10. NOTES TO THE PROFORMA STATEMENT OF ASSETS AND LIABILITIES  
(CONT'D)

## 10.3 Property, Plant and Equipment (Cont'd)

The carrying amount of the property, plant and equipment of the Proforma Group includes the following assets acquired under finance lease agreements:

|                                   | <b>Proforma<br/>Group<br/>RM'000</b> |
|-----------------------------------|--------------------------------------|
| Motor vehicles                    |                                      |
| - Addition during the period      | 106                                  |
| - Net book value at end of period | <u>298</u>                           |

The freehold land and factory shop with a net book value of RM276,080 have been pledged as security for the banking facilities.

## 10.4 Investment in Associates

|   | <b>Proforma<br/>Group<br/>RM'000</b> |
|---|--------------------------------------|
| Unquoted shares, at cost                              | 40                                   |
| Less: Share of post-acquisition losses                | <u>(33)</u>                          |
|   | <u>7</u>                             |
| Represented by:                                       |                                      |
| Share of net assets other than goodwill of associates | <u>7</u>                             |

The Group's share of the assets and liabilities of the associates is as follows:

|                     |            |
|---------------------|------------|
| Current assets      | 9          |
| Current liabilities | <u>(2)</u> |
|                     | <u>7</u>   |

The Group's share of the revenue and expenses of the associates is as follows:

|                               |            |
|-------------------------------|------------|
| Revenue                       | 1          |
| Expenses                      | <u>(3)</u> |
| Loss from ordinary activities | <u>(2)</u> |

The particulars of the associates are as follows:-

| Name of Company                | Country of<br>incorporation | Equity<br>interest | Principal activities   |
|--------------------------------|-----------------------------|--------------------|--|
| Sebquest Technology Sdn. Bhd.* | Malaysia                    | 40%                | Sale and distribution<br>of cleanroom filters<br>and equipment |

\* - not audited by Yong & Leonard (formerly known as K. K. Yong & Co.)

## 12. ACCOUNTANTS' REPORT (cont'd)

YONG & LEONARD (AF 0075)  
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(CONT'D)

## 10.5 Deferred Tax Assets

Deferred tax assets and liabilities are offset when there is a legally enforcement right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The following amount, determined after offsetting, if any is shown in the balance sheet:

|                                      | <b>Proforma<br/>Group<br/>RM'000</b> |
|--------------------------------------|--------------------------------------|
| At beginning of period               | 19                                   |
| Credited to income statement         |                                      |
| - Provisions for royalty expenses    | 10                                   |
| - Unrealised foreign exchange losses | (18)                                 |
| - Plant and equipment                | 9                                    |
| - Unpaid finance lease liabilities   | (5)                                  |
| At end of period                     | <u>15</u>                            |

The recognition of the deferred tax assets is dependent of future taxable profits in excess of profits arising from the reversal of existing taxable temporary differences. The evidence used to support this recognition is the management's projection plan, which shows that it is probable the deferred tax assets would be realised in future years.

## 10.6 Goodwill on Consolidation

|                          | <b>Proforma<br/>Group<br/>RM'000</b> |
|--------------------------|--------------------------------------|
| Net book value           |                                      |
| - At beginning of period | 103                                  |
| - Additions              | 107                                  |
| - Amortisation           | (10)                                 |
| - At end of period       | <u>200</u>                           |

## 10.7 Inventories

|                | <b>Proforma<br/>Group<br/>RM'000</b> |
|----------------|--------------------------------------|
| At cost:       |                                      |
| Raw materials  | 969                                  |
| Finished goods | 1,580                                |
|                | <u>2,549</u>                         |

## 12. ACCOUNTANTS' REPORT (cont'd)

YONG & LEONARD (AF 0075)  
(formerly known as K. K. Yong & Co)10. NOTES TO THE PROFORMA STATEMENT OF ASSETS AND LIABILITIES  
(CONT'D)

## 10.8 Trade Receivables

|   | <b>Proforma<br/>Group<br/>RM'000</b> |
|---|--------------------------------------|
| Trade receivables                                   | 13,318                               |
| Less: Provision for doubtful debts                  | (97)                                 |
|   | <u>13,221</u>                        |
| Amount due from customers on construction of assets | 192                                  |
|   | <u>13,413</u>                        |
| Work-in-progress                                    |                                      |
| - Cost of construction of assets                    | 309                                  |
| - Attributed profits                                | 305                                  |
|   | <u>614</u>                           |
| Less: Progress billings                             | (422)                                |
| Amount due from customers on construction of assets | <u>192</u>                           |

The normal credit term granted to customers range from 30 to 90 days. For major established customers, the credit period may be extended at the discretion of the management.

## 10.9 Other Receivables, Deposits and Prepayments

There is no fixed term of repayment for other receivables of the Proforma Group.

## 10.10 Deferred Expenditure

Deferred expenditure of RM1,500,000 represent listing cost incurred which is set off against share premium arising from public issue of the Company's ordinary shares. Included herein are audit fees of RM30,000.

## 10.11 Fixed Deposits with Licensed Banks

The weighted average interest rates during the financial period and average maturities of fixed deposits as at 31 October 2004 were as follows:

|                | <b>Company</b>                                |  | <b>Proforma Group</b>                         |  |
|----------------|---|--|---|--|
|                | <b>Weighted<br/>average<br/>interest rate</b> | <b>Average<br/>maturities<br/>days</b> | <b>Weighted<br/>average<br/>interest rate</b> | <b>Average<br/>maturities<br/>days</b> |
| Fixed deposits | <u>2.75%</u>                                  | <u>30</u>                              | <u>2.59%</u>                                  | <u>93</u>                              |

Included under fixed deposits with licensed banks of the Group is an amount of RM693,639 which have been pledged to the banks as security for bank guarantee and other credit facilities.

## 12. ACCOUNTANTS' REPORT (cont'd)

YONG & LEONARD (AF 0075)  
(formerly known as K. K. Yong & Co)10. NOTES TO THE PROFORMA STATEMENT OF ASSETS AND LIABILITIES  
(CONT'D)

## 10.12 Trade Payables

The normal credit periods granted by suppliers range from 30 to 90 days.

## 10.13 Amount Due to Directors

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

## 10.14 Provisions for Royalty Expenses

|  | <b>Proforma<br/>Group<br/>RM'000</b> |
|--|--------------------------------------|
| At beginning of period                           | 48                                   |
| Less: Utilisation of provision during the period | (48)                                 |
| Add: Provision during the period                 | 85                                   |
| At end of period                                 | <u>85</u>                            |

A provision has been recognised for the expected royalty expenses to be paid based on revenue of a subsidiary.

## 10.15 Borrowings

|  | <b>Proforma<br/>Group<br/>RM'000</b> |
|--|--------------------------------------|
| <b><u>Current</u></b>                    |                                      |
| Bank borrowings (secured)                |                                      |
| - Bank overdrafts                        | 685                                  |
| - Bankers' acceptances and bill payables | 1,604                                |
| - Term loans                             | 10                                   |
| - Finance lease liabilities              | 96                                   |
|  | <u>2,395</u>                         |
| <b><u>Non-current</u></b>                |                                      |
| Bank borrowings (secured)                |                                      |
| - Term loans                             | 175                                  |
| - Finance lease liabilities              | 165                                  |
|  | <u>340</u>                           |

**Bank overdrafts, bankers' acceptances, bill payables and term loans**

The Proforma Group's bank overdrafts, bankers' acceptance, bill payables and term loans are secured as follows:

- (a) Pledge of fixed deposits receipts;
- (b) Legal charge over certain subsidiary's land and building; and
- (c) Joint and several guarantees of all directors.

## 12. ACCOUNTANTS' REPORT (cont'd)

YONG & LEONARD (AF 0075)  
(formerly known as K. K. Yong & Co)10. NOTES TO THE PROFORMA STATEMENT OF ASSETS AND LIABILITIES  
(CONT'D)

## 10.15 Borrowings (Cont'd)

Term loans

|   | Proforma<br>Group<br>RM'000 |
|---|-----------------------------|
| Current   | 10                          |
| Non current                                     | 175                         |
|   | <u>185</u>                  |
| Term loans are repayable:                       |                             |
| - not later than 1 year                         | 10                          |
| - later than 1 year and not later than 2 years  | 11                          |
| - later than 2 years and not later than 5 years | 39                          |
| - later than 5 years                            | 125                         |
|   | <u>185</u>                  |

The banking facilities of the Proforma Group bear interest at the rates ranging as follows:

|                               | Proforma<br>Group<br>% |
|-------------------------------|------------------------|
| (a) Bank overdrafts           | 7.50 - 8.00            |
| (b) Bankers acceptance        | 4.00                   |
| (c) Finance lease liabilities | 8.98 - 9.89            |
| (d) Term loans                | <u>6.00 - 7.25</u>     |

Finance lease liabilities

|   | Proforma<br>Group<br>RM'000 |
|---|-----------------------------|
| Current   | 96                          |
| Non current   | 165                         |
|   | <u>261</u>                  |
| Minimum finance lease payments                            |                             |
| - not later than 1 year                                   | 120                         |
| - later than 1 year and not later than 2 years            | 86                          |
| - later than 2 years and not later than 5 years           | 119                         |
|   | <u>325</u>                  |
| Future finance charges                                    | <u>(64)</u>                 |
| Present value of finance lease liabilities                | <u>261</u>                  |
| Present value of finance lease liabilities are repayable: |                             |
| - not later than 1 year                                   | 96                          |
| - later than 1 year and not later than 2 years            | 69                          |
| - later than 2 years and not later than 5 years           | 96                          |
|   | <u>261</u>                  |

Finance lease liabilities are effectively secured as the right to the relevant assets revert to the creditors in the event of default.

All borrowings of the Proforma Group are denominated in Ringgit Malaysia.



12. ACCOUNTANTS' REPORT *(cont'd)*YONG & LEONARD (AF 0075)  
(formerly known as K. K. Yong & Co)10. NOTES TO THE PROFORMA STATEMENT OF ASSETS AND LIABILITIES  
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## 10.16 Deferred Tax Liabilities

Deferred tax assets and liabilities are offset when there is a legally enforcement right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The following amount, determined after appropriate offsetting, if any, is shown in the balance sheet:

|  | <b>Proforma<br/>Group<br/>RM'000</b> |
|--|--------------------------------------|
| Deferred tax liabilities in respect of |                                      |
| - Plant and equipment                  | <u>22</u>                            |
| At beginning of period                 | 23                                   |
| Less: Transfer from Income statements  | <u>(1)</u>                           |
| At end of period                       | <u>22</u>                            |

## 12. ACCOUNTANTS' REPORT (cont'd)

YONG & LEONARD (AF 0075)  
(formerly known as K. K. Yong & Co)10. NOTES TO THE PROFORMA STATEMENT OF ASSETS AND LIABILITIES  
(CONT'D)

## 10.17 Share Capital

|  | Proforma Group<br>RM'000     |   |        |
|--|------------------------------|---|--------|
|  | 3% CRPS<br>of RM1.00<br>each | Ordinary<br>Shares of<br>RM1.00<br>each | Total  |
| <b>Authorised:</b>   |                              |   |        |
| At 1 January 2004  | -                            | 500                                     | 500    |
| Conversion of 66,666 ordinary shares of RM1.00 each to 66,666 3% CRPS of RM1.00 each | 67                           | (67)                                    | -      |
|  | 67                           | 433                                     | 500    |
| Conversion of 66,666 3% CRPS of RM1.00 each to 66,666 ordinary shares of RM1.00 each | (67)                         | 67                                      | -      |
| Increase during the period   | -                            | 24,500                                  | 24,500 |
| Total  | -                            | 25,000                                  | 25,000 |
| <b>Issued and fully paid:</b>  |                              |   |        |
| At 1 January 2004  | -                            | 270                                     | 270    |
| Issuance of 66,666 3% CRPS of RM1.00 each  | 67                           | -                                       | 67     |
| Issuance of 78,000 ordinary shares   | -                            | 78                                      | 78     |
|  | 67                           | 348                                     | 415    |
| Acquisition of ETSB, EMECS, QSE  | -                            | 77                                      | 77     |
| Proforma I   | 67                           | 425                                     | 492    |
| Conversion of 66,666 3% CRPS into ordinary shares                                    | (67)                         | 67                                      | -      |
| Proforma II  | -                            | 492                                     | 492    |
| Bonus issue and share split  | -                            | 6,688                                   | 6,688  |
| Proforma III   | -                            | 7,180                                   | 7180   |
| Public issue   | -                            | 2,618                                   | 2618   |
| Proforma IV  | -                            | 9,798                                   | 9798   |
| Proposed ESOS  | -                            | 1,960                                   | 1960   |
| At 31 October 2004 – Proforma V  | -                            | 11,758                                  | 11758  |

## 12. ACCOUNTANTS' REPORT (cont'd)

YONG & LEONARD (AF 0075)  
(formerly known as K. K. Yong & Co)10. NOTES TO THE PROFORMA STATEMENT OF ASSETS AND LIABILITIES  
(CONT'D)

## 10.17 Share Capital (Cont'd)

On 5 April 2004, the Company issued 66,666 convertible redeemable preference shares with nominal value of RM1.00 each at RM30.00 each by way of cash. This gives rise to a premium of RM29.00 each totalling RM1,933,314.

The preference shares carry the right to receive, out of profit, a fixed preference dividend of 3% per annum. In addition, all preference shares rank in priority to all other shares with regard to dividend and return of capital and confer upon the holders the rights to vote at the Company's general meetings for the purposes of reducing the capital and winding up or where the proposal submitted to the meeting directly affects the rights attached to the preference shares.

## 10.18 Share Premium

|  | <b>Proforma<br/>Group<br/>RM'000</b> |
|--|--------------------------------------|
| At 1 January 2004  | -                                    |
| Issue of 66,666 3% of CRPS                                   | 1,933                                |
| At 31 October 2004   | 1,933                                |
| Acquisition of ETSB, EMECS and QSE                           | 1,940                                |
| Proforma I & II  | 3,873                                |
| Bonus issue and share split                                  | (2,442)                              |
| Proforma III   | 1,431                                |
| Public issue at premium                                      | 7,331                                |
|  | 8,762                                |
| Less: Listing expenses charged against share premium account | (1,500)                              |
| Proforma IV  | 7,262                                |
| Proposed ESOS  | 5,488                                |
| At 31 October 2004 - Proforma V                              | <u>12,750</u>                        |

## 10.19 Revaluation Reserve

|                           | <b>Company<br/>RM'000</b> |
|---------------------------|---------------------------|
| At 1 January 2004         | -                         |
| Revaluation of subsidiary | 4,246                     |
| Bonus issue               | (4,246)                   |
| At 31 October 2004        | <u>-</u>                  |

## 12. ACCOUNTANTS' REPORT (cont'd)

YONG & LEONARD (AF 0075)  
(formerly known as K. K. Yong & Co)

## 11. PROFORMA CASH FLOW STATEMENT

The proforma cash flow statement of Quest is provided for illustration purposes only to show the effects of the Public Issue as detailed in Section 1 herein and utilisation of proceeds of Public Issue thereof on the assumption that these transactions were completed on 31 October 2004.

|  | Note | Proforma Group<br>31 October 2004<br>RM'000 |
|--|------|---|
| <b>Cash flows from operating activities</b>  |      |   |
| Receipts from customers  |      | 11,183                                      |
| Payments to material suppliers   |      | (8,266)                                     |
| Payments of expenses   |      | (2,434)                                     |
| Payment of research and development expenses   |      | (500)                                       |
| Net cash used in operating activities  |      | (17)  |
| Interest paid  |      | (66)  |
| Interest income received   |      | 35  |
| Income tax paid  |      | (275)                                       |
| Royalty paid   |      | (48)  |
| Net cash used in operating activities  |      | (371)                                       |
| <b>Cash flows from investing activities</b>  |      |   |
| Exercise of call option to acquire shares in QSE   |      | (80)  |
| Additions fixed deposits pledged to financial institution  |      | (289)                                       |
| Net cash outflow from acquisition of subsidiaries  |      | (61)  |
| Purchase of property, plant and equipment  |      | (2,054)                                     |
| Net cash used in investing activities  |      | (2,484)                                     |
| <b>Cash flows from financing activities</b>  |      |   |
| Proceeds from issuance of ESOS   |      | 7,446                                       |
| Proceeds from issuance of ordinary shares  |      | 78  |
| Proceeds from public issue   |      | 9,948                                       |
| Proceeds from issuance of 3% CRPS  |      | 2,000                                       |
| Payment of listing expenses  |      | (1,500)                                     |
| Net drawdown of bankers' acceptances   |      | 949   |
| Repayment of finance lease principal   |      | (38)  |
| Net cash flow generated from financing activities  |      | 18,883                                      |
| Net increase in cash and cash equivalents  |      | 16,028                                      |
| Cash and cash equivalents at beginning of period   |      | (49)  |
| <b>Cash and cash equivalents at end of period</b>  | 11.1 | <u>15,979</u>                               |
| <b>Non cash items</b>  |      |   |
| Acquisition of ETSB and EMECS by way of allotment of 76,567 of ordinary share of RM1.00 at an issue price approximately RM26.33 each |      | <u>2,016</u>                                |
| Acquisition of property, plant and equipment   |      |   |
| Total cost of plant and equipment  |      | 2,109                                       |
| Less: Financed by finance lease liabilities  |      | (55)  |
|  |      | <u>2,054</u>                                |

**12. ACCOUNTANTS' REPORT (cont'd)**YONG & LEONARD (AF 0075)  
(formerly known as K. K. Yong & Co)**11.1 CASH AND CASH EQUIVALENTS**

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

|  | <b>Proforma<br/>Group<br/>RM'000</b> |
|--|--------------------------------------|
| <b>Cash and cash equivalents at beginning of period</b>            |                                      |
| Fixed deposits placed with licensed banks                          | 154                                  |
| Less: Fixed deposits pledged to financial institution              | (154)                                |
|  | <u>-</u>                             |
| Cash and bank balances   | 82                                   |
| Bank overdraft   | (131)                                |
|  | <u>(49)</u>                          |
| <b>Cash and cash equivalents at end of period</b>                  |                                      |
| Fixed deposits placed with licensed banks                          | 16,090                               |
| Less: Fixed deposits pledged to financial institution (Note 10.11) | (694)                                |
|  | <u>15,396</u>                        |
| Cash and bank balances   | 1,268                                |
| Bank overdraft (Note 10.15)  | (685)                                |
|  | <u>15,979</u>                        |

**12. PROFORMA NET TANGIBLE ASSETS PER ORDINARY SHARES**

Based on the proforma statements of assets and liabilities of the Quest Group as at 31 October 2004 as set out in Section 9, the proforma net tangible assets and the enlarged issued and paid-up share capital are derived as follows:

|   | <b>Proforma<br/>Group<br/>RM'000</b> |                            |               |
|---|--------------------------------------|----------------------------|---------------|
| Net tangible assets per proforma consolidated statement of assets and liabilities as at 31 October 2004         |                                      |                            | <u>25,093</u> |
|   | <b>Number (000)</b>                  |                            |               |
|   | <b>3% CRPS</b>                       | <b>Ordinary<br/>shares</b> | <b>Total</b>  |
| As per audited as at 31 October 2004  | 67                                   | 348                        | 415           |
| Acquisition of ETSB, EMECS and QSE – RM1.00 each  | -                                    | 77                         | 77            |
| Proforma I  | 67                                   | 425                        | 492           |
| Subscription of CRPS and conversion into ordinary shares  | (67)                                 | 67                         | -             |
| Proforma II   | -                                    | 492                        | 492           |
| Bonus issue   | -                                    | 6,688                      | 6,688         |
|   | -                                    | 7,180                      | 7,180         |
| Share split into RM0.10 ordinary shares   | -                                    | 64,620                     | 64,620        |
| Proforma III  | -                                    | 71,800                     | 71,800        |
| Private and Public Issue of ordinary shares at RM0.10 each  | -                                    | 26,180                     | 26,180        |
| Proforma IV   | -                                    | 97,980                     | 97,980        |
| Proposed ESOS   | -                                    | 19,596                     | 19,596        |
| Proforma V  | -                                    | 117,576                    | 117,576       |
|   |                                      |                            | <b>RM</b>     |
| Proforma consolidated net tangible assets per share of RM0.10 each after the Private Placement and Public Issue |                                      |                            | <u>0.21</u>   |

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12. ACCOUNTANTS' REPORT *(cont'd)*

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YONG & LEONARD (AF 0075)  
(formerly known as K. K. Yong & Co)

13. EVENTS SUBSEQUENT TO BALANCE SHEET AS AT 31 OCTOBER 2004

There are no material subsequent events occurred in the interval between the date of the last audited financial statements for the financial period ended 31 October 2004 and the date of this report.

14. AUDITED FINANCIAL STATEMENTS

No audited financial statements of the Company and its subsidiaries in the Proforma Group have been prepared in respect of any period subsequent to 31 October 2004.

Yours faithfully,



Leong Pooi Wah  
Approval Number: 2228/03/06 (J)  
Partner of the Firm



Yong & Leonard  
(formerly known as K. K. Yong & Co.)  
Firm No: AF0075  
Chartered Accountants