

## 12. ACCOUNTANTS' REPORT



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11 May 2005

The Board of Directors  
**Techfast Holdings Berhad**  
Suites 7.21 & 7.22  
7th Floor, Imbi Plaza  
Jalan Imbi  
55100 Kuala Lumpur

Dear Sirs,

### **TECHFAST HOLDINGS BERHAD ("TECHFAST HOLDINGS" OR "THE COMPANY") ACCOUNTANTS' REPORT**

#### **1.0 INTRODUCTION**

This report has been prepared by Messrs GEP Associates, an approved company auditor, for inclusion in the Prospectus to be dated 17 May 2005 in connection with a public issue of 37,000,000 new ordinary shares of RM0.10 each ("Shares") at an issue price of RM0.39 per share in Techfast Holdings and the listing and quotation of the entire issued and paid-up share capital of the Company on the MESDAQ Market of the Bursa Malaysia Securities Berhad ("Bursa Securities").

#### **2.0 GENERAL INFORMATION**

##### **2.1 THE COMPANY'S BACKGROUND**

Techfast Holdings was incorporated in Malaysia under the Companies Act, 1965 on 5 April 2004 as a public limited company.

The principal activity of Techfast Holdings is that of investment holding. The principal activities of its subsidiary company are that of manufacturing and marketing of self-clinching fasteners and electronic hardware for the electronic, telecommunications and information technology industries.

##### **2.2 FLOTATION SCHEME**

In connection with and as part of the listing and quotation for the entire issued and paid-up share capital of Techfast Holdings on the MESDAQ Market of the Bursa Securities, Techfast Holdings has undertaken the following restructuring and listing exercises:-

- a) Acquisition of 2,428,574 ordinary shares of RM1 each representing the entire equity interest in Techfast Manufacturing Sdn. Bhd. ("Techfast Manufacturing") for a purchase consideration of RM11,499,998 to be satisfied by the issuance of 114,999,980 new Shares in Techfast Holdings at par. The acquisition was completed on 30 March 2005.
- b) A public issue of 37,000,000 new Shares at an issue price of RM0.39 each for a total cash proceeds of RM14,430,000.
- c) An Employees' Share Option Scheme ("ESOS") for eligible employees and directors of the Company and its subsidiary company. The quantum of the ESOS will be 10% of the enlarged share capital of the Company after public issue at any time during the duration of the ESOS.
- d) An increase in the authorised share capital from RM100,000 to RM50,000,000 through the creation of an additional 499,000,000 ordinary shares of RM0.10 each.

All the new Shares issued pursuant to the restructuring and listing exercise will rank pari-passu in all respect with the existing Shares of Techfast Holdings.

### 2.3 SHARE CAPITAL

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

	No. of ordinary shares of RM0.10 each	Total RM
Authorised	500,000,000	50,000,000
Issued and fully-paid	115,000,000	11,500,000

In accordance with the restructuring and listing exercise, the movement in Techfast Holding's issued and paid-up share capital is expected to be as follows:-

	No. of Shares	Par value RM	RM
Paid-up share capital upon incorporation	20	0.10	2
Shares issued for acquisition of Techfast Manufacturing	114,999,980	0.10	11,499,998
Public issue	<u>37,000,000</u>	0.10	<u>3,700,000</u>
Enlarged issued and paid-up share capital after public issue	152,000,000	0.10	15,200,000
Full exercise of entitlements under ESOS	<u>15,200,000</u>	0.10	<u>1,520,000</u>
Enlarged issued and paid-up share capital after full exercise of entitlements under ESOS	<u>167,200,000</u>	0.10	<u>16,720,000</u>

## 2.4 THE SUBSIDIARY COMPANY OF TECHFAST HOLDINGS

Techfast Holdings has one subsidiary company, namely, Techfast Manufacturing which was incorporated in Malaysia under the Companies Act, 1965 on 24 April 1999 as a private limited company. The principal activities of Techfast Manufacturing are that of manufacturing and marketing of self-clinching fasteners and electronic hardware for the electronic, telecommunications and information technology industries.

The present authorised and paid-up share capital as at the date of this report are RM5,000,000 comprising 5,000,000 ordinary shares of RM1.00 each and RM2,428,574 comprising 2,428,574 ordinary shares of RM1.00 each respectively.

Techfast Holdings and its subsidiary company, Techfast Manufacturing are collectively referred to as the Group.

## 2.5 EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

Based on the audited financial statements of Techfast Holdings for the period from 5 April 2004 (date of incorporation) to 31 December 2004 and of Techfast Manufacturing for the year ended 31 December 2004, and other than the flotation scheme as referred to in Section 2.2, no event has arisen subsequent to the balance sheet date, which requires disclosure in this report.

## 2.6 FINANCIAL STATEMENTS AND AUDITORS

We have been appointed as the first auditor of Techfast Holdings. Techfast Holdings was incorporated on 5 April 2004 and having its first financial period ended 31 December 2004. We have reported on the financial statements without qualification and did not include any emphasis of matter.

We have been appointed as the auditors of Techfast Manufacturing with effect from the financial year ended 31 December 2001 and have reported on the financial statements without qualification. Our Auditors' Report for Techfast Manufacturing did not include any emphasis of matter.

The financial statements of Techfast Manufacturing prior to our appointment as auditors in the relevant periods under review were audited by another firm of chartered accountants. These financial statements were reported on without qualification. The Auditors' Report did not include any emphasis of matter.

## 3.0 ACCOUNTING POLICIES AND STANDARDS

This report has been prepared on the bases and accounting principles consistent with those normally adopted in the preparation of the audited financial statements.

The financial information presented in this report is based on the audited financial statements of Techfast Holdings and the audited financial statements of Techfast Manufacturing, which have been prepared in accordance with the applicable approved accounting standards in Malaysia.

**4.0 PROFORMA HISTORICAL FINANCIAL INFORMATION****4.1 The Techfast Holdings Group - Proforma Consolidated Income Statements**

The proforma consolidated income statements of the Techfast Holdings Group for the five years ended 31 December 2000 to 2004 are set out below. The proforma consolidated income statements have been prepared for illustrative purpose only and on the assumption that Techfast Holdings Group had been in existence throughout the years under review.

	← Financial Year Ended 31 December →				
	2000 RM	2001 RM	2002 RM	2003 RM	2004 RM
Revenue	3,790,163	4,823,394	5,459,360	8,296,451	14,360,815
Profit before interest and depreciation	1,162,213	1,587,351	1,836,701	3,298,211	6,126,536
Depreciation	(359,098)	(458,828)	(520,604)	(714,537)	(1,184,537)
Interest expense	(172,917)	(101,367)	(72,366)	(163,735)	(277,388)
Profit before taxation	630,198	1,027,156	1,243,731	2,419,939	4,664,611
Income tax expense	(235,700)	(303,700)	(144,745)	(50,175)	(647,250)
Net profit after taxation	394,498	723,456	1,098,986	2,369,764	4,017,361
Number of ordinary shares of RM0.10 in issue	115,000,000	115,000,000	115,000,000	115,000,000	115,000,000
Earnings per share (Sen)					
-Gross	0.55	0.89	1.08	2.10	4.06
-Net	0.34	0.63	0.96	2.06	3.49

As Techfast Holdings was incorporated on 5 April 2004 and has not commenced operations, the past proforma performance of the Techfast Holdings Group is reflected through the past performance of the subsidiary company, Techfast Manufacturing and its analysis are set out in Section 5.

**4.2 The Techfast Holdings Group - Proforma Consolidated Balance Sheets**

The Proforma consolidated balance sheets of the Techfast Holdings Group have been presented as at 31 December 2004 based on the latest audited balance sheet as at 31 December 2004 of Techfast Manufacturing and the audited balance sheet of Techfast Holdings as at 31 December 2004 as shown in Section 6.0 of this report.

**5.0 TECHFAST MANUFACTURING'S HISTORICAL PERFORMANCE**

The following financial information of Techfast Manufacturing was extracted from the audited financial statements of Techfast Manufacturing for the financial years ended 31 December 2000 to 2004.

## 5.1 Summarised Income Statements

	← Financial Year Ended 31 December →				
	2000 RM	2001 RM	2002 RM	2003 RM	2004 RM
Revenue	3,790,163	4,823,394	5,459,360	8,296,451	14,360,815
Profit before interest and depreciation	1,162,213	1,587,351	1,836,701	3,298,211	6,133,346
Depreciation	(359,098)	(458,828)	(520,604)	(714,537)	(1,184,537)
Interest expense	(172,917)	(101,367)	(72,366)	(163,735)	(277,388)
Profit before taxation	630,198	1,027,156	1,243,731	2,419,939	4,671,421
Income tax expense	(235,700)	(303,700)	(144,745)	(50,175)	(647,250)
Net profit after taxation	394,498	723,456	1,098,986	2,369,764	4,024,171
Number of ordinary shares of RM1.00 in issue	2,428,574	2,428,574	2,428,574	2,428,574	2,428,574
Weighted average number of ordinary shares of RM1.00 in issue	2,035,344	2,428,574	2,428,574	2,428,574	2,428,574
Earnings per share (Sen)					
-Gross	30.96	42.29	51.21	99.64	192.35
-Net	19.38	29.79	45.25	97.58	165.70

## Notes:-

- a) Revenue of Techfast Manufacturing comprises revenue generated mainly from sales of self clinching fasteners for the electronic, telecommunication and information technology industries. The Company recorded strong growth with 51.97% or RM2,837,091 in revenue in 2003. The major contributors to such growth rate were due to the increase in sales demand from both local and overseas customers in self clinching fasteners. In 2003 Techfast Manufacturing increased its production capacity after the relocation to a new factory premise. Growth rate for the year ended 31 December 2004 further improved by 73.10% or RM6,064,364 in revenue as a result of aggressive marketing strategy in promoting products overseas resulting in significant increase in export sales.
- b) Techfast Manufacturing almost doubled its pre-tax profit in 2003 and in 2004. The sharp increase was contributed by the increase in revenue and economies of scale achieved from greater utilisation of production capacity in the new factory from year 2003 onwards.
- c) No dividend has been declared or paid during the past five financial years ended 31 December 2000 to 2004 other than a final tax exempt dividend of RM0.17 per share, amounting to RM412,858 declared in 2001.
- d) Provision for taxation includes provision for deferred taxation arising from accelerated capital allowances on property, plant and equipment. The high effective tax rate for 2000 and 2001 was due to certain expenses not allowed for tax purposes and the omission in certain reinvestment allowance claims. This omission was rectified and overprovision adjusted in 2003 which led to relatively low effective tax rate for that year. The low effective tax rate for 2002 and 2004 were due to reinvestment allowance claims.

- e) Gross earnings per share has been calculated based on profit before taxation and net earnings per share has been calculated based on net profit after taxation over the weighted average number of ordinary shares of RM1.00 each in issue of the respective years under review.
- f) There were no exceptional or extraordinary items during the financial years under review.

## 5.2 Summarised Balance Sheets

	← As at 31 December →				
	2000 RM	2001 RM	2002 RM	2003 RM	2004 RM
Property, plant and equipment	2,435,593	2,244,008	5,105,118	7,667,567	10,123,973
Current assets	3,991,904	4,565,138	4,681,722	6,502,659	11,469,597
Current liabilities	(1,336,830)	(1,731,921)	(1,474,598)	(2,172,330)	(5,068,866)
Net current assets	2,655,074	2,833,217	3,207,124	4,330,329	6,400,731
	<u>5,090,667</u>	<u>5,077,225</u>	<u>8,312,242</u>	<u>11,997,896</u>	<u>16,524,704</u>
Financed by:-					
Share capital	2,428,574	2,428,574	2,428,574	2,428,574	2,428,574
Reserves	2,070,427	2,381,025	3,480,011	6,093,764	10,117,935
Shareholders' equity	4,499,001	4,809,599	5,908,585	8,522,338	12,546,509
Long term and deferred liabilities	591,666	267,626	2,403,657	3,475,558	3,978,195
	<u>5,090,667</u>	<u>5,077,225</u>	<u>8,312,242</u>	<u>11,997,896</u>	<u>16,524,704</u>
Net tangible assets ("NTA") per ordinary share	1.85	1.98	2.43	3.51	5.17

## 6.0 DETAILED PROFORMA STATEMENT OF ASSETS AND LIABILITIES

The following proforma statement of assets and liabilities of the Group which is prepared solely for illustrative purposes only and are based on the audited financial statements of Techfast Holdings as at 31 December 2004 and the audited financial statements of its subsidiary as at 31 December 2004 and on the assumption that the flotation scheme of the Techfast Holdings Group as stated in Section 2.2, had been effected on 31 December 2004. The proforma statement of assets and liabilities are to be read in conjunction with the notes thereto.

	Note	Company RM	Group		
			Proforma I After Acquisition of Subsidiary RM	Proforma II After Proforma I and Public Issue RM	Proforma III After Proforma II and full exercise of ESOS RM
<b>ASSET</b>					
Property, plant and equipment	7.3	-	10,123,973	10,123,973	10,123,973
<b>CURRENT ASSETS</b>					
Inventories	7.4	-	3,472,457	3,472,457	3,472,457
Trade receivables	7.5	-	4,064,700	4,064,700	4,064,700
Other receivables, deposits and prepayments		539,913	1,047,625	507,712	507,712
Fixed deposits with licensed banks	7.6	-	2,620,055	2,620,055	2,620,055
Cash on hand and at banks		2	258,852	13,728,765	19,656,765
		539,915	11,463,689	24,393,689	30,321,689
<b>CURRENT LIABILITIES</b>					
Trade payables	7.7	-	739,437	739,437	739,437
Other payables and accruals		546,723	1,736,614	1,736,614	1,736,614
Hire purchase creditors	7.8	-	388,263	388,263	388,263
Bank Borrowings	7.9	-	2,205,452	2,205,452	2,205,452
		546,723	5,069,766	5,069,766	5,069,766
<b>NET CURRENT (LIABILITIES)/ASSETS</b>					
		(6,808)	6,393,923	19,323,923	25,251,923
<b>Financed by :-</b>					
<b>SHARE CAPITAL</b>					
	7.10	2	11,500,000	15,200,000	16,720,000
<b>RESERVES</b>					
	7.11	(6,810)	1,039,701	10,269,701	14,677,701
<b>(CAPITAL DEFICIENCY)/ SHAREHOLDERS' EQUITY</b>					
		(6,808)	12,539,701	25,469,701	31,397,701
<b>LONG TERM AND DEFERRED LIABILITIES</b>					
Hire purchase creditors	7.8	-	324,389	324,389	324,389
Term loans	7.12	-	2,970,722	2,970,722	2,970,722
Deferred taxation	7.13	-	683,084	683,084	683,084
		(6,808)	16,517,896	29,447,896	35,375,896
<b>Net Tangible Assets ("NTA")</b>					
		(6,808)	12,539,701	25,469,701	31,397,701
<b>Number of shares assumed in issue</b>					
		20	115,000,000	152,000,000	167,200,000
<b>NTA per share</b>					
		(340.40)	0.11	0.17	0.19

**7.0 NOTES TO THE DETAILED PROFORMA STATEMENT OF ASSETS AND LIABILITIES****7.1 Basis of preparation of proforma statement of assets and liabilities**

- a) The proforma statement of assets and liabilities has been prepared based on the audited financial statements of Techfast Holdings as at 31 December 2004 and audited financial statements of Techfast Manufacturing as at 31 December 2004.
- b) The proforma statement of assets and liabilities have been prepared on the accounting principles and bases consistent with those normally adopted in the preparation of audited financial statements.
- c) The proforma statement of assets and liabilities prepared on the assumption that the following transactions were effected on 31 December 2004.

Proforma I- After acquisition of subsidiary company

Proforma I incorporates the effect of acquisition of subsidiary company.

Techfast Holdings has acquired 2,428,574 ordinary shares of RM1.00 each, represents the entire issued and paid-up share capital of Techfast Manufacturing for a total purchase consideration of RM11,499,998 satisfied via issuance of 114,999,980 new Shares of RM0.10 each in Techfast Holdings at par. Negative goodwill arising on consolidation amounting to RM1,046,511 is credited to Income Statement.

Proforma II- After Public Issue

Proforma II incorporates the effect of Proforma I and the effect of public issue of 37,000,000 new ordinary shares of RM0.10 each, representing 24.34% of the enlarged issued and paid-up share capital of Techfast Holdings upon listing at an issue price of RM0.39 per new ordinary share.

The premium of RM10,730,000 arising from the public issue is credited to the share premium account. The gross proceeds arising from the public issue will be utilised as follows:-

	<b>RM</b>
Acquisition of plant and machinery *	5,000,000
Research and Development *	1,000,000
Working capital *	6,930,000
Estimated listing expenses ^	<u>1,500,000</u>
	<u><b>14,430,000</b></u>

\* Included in cash and cash equivalents under current assets, pending utilisation.

^ The estimated listing expenses of RM1.5 million have been set off against the share premium account.

Proforma III- ESOS

Proforma III incorporates the effect of Proforma I, II and the effects of the ESOS.

The Company has established an ESOS for its eligible employees and directors of the Company and subsidiary company, giving the right to subscribe for new Shares in the Company up to 10% of the enlarged issued and paid-up share capital of Techfast Holdings at any time during the option period of 5 years from the date of ESOS is implemented and any further extension when approved.



The premium of RM4,408,000 arising from the ESOS is credited to the share premium account.

## 7.2 Significant Accounting Policies

### a) Basis of accounting

The financial statements of the Group and of the Company have been prepared under the historical cost convention and are in accordance with applicable approved accounting standards in Malaysia unless otherwise indicated in the accounting policies below.

### b) Basis of consolidation

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

Subsidiary company is consolidated from the date, on which control is transferred to the Group and is no longer consolidated from the date that control ceases. Subsidiary company is consolidated using the acquisition method of accounting.

Under the acquisition method of accounting, the results of subsidiary company acquired or disposed off during the financial year are included in the consolidated financial statements from the date of its acquisition or up to the date of its disposal. All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies for subsidiary company have been changed to ensure consistency with the policies adopted by the Group.

### c) Goodwill/(Negative goodwill) on Consolidation

Goodwill/(Negative goodwill) on consolidation represents the excess/(deficit) of the purchase consideration over the share of fair values of the identifiable net assets of a subsidiary company at the date of acquisition. Goodwill/(Negative goodwill) on consolidation is written off/(credited to) Income Statement in the year of acquisition.

### d) Property, Plant and Equipment and Depreciation

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

Freehold land is not depreciated. Leasehold land is amortised over its remaining lease period. Depreciation of other property, plant and equipment is computed on the straight line method at the following rates based on the estimated useful lives of the various property, plant and equipment :-

	Rate per annum (%)
Buildings	2
Plant and machinery	15
Electrical installation	15
Renovation	15
Motor vehicles	20
Office equipment	15
Furniture and fittings	15
Tools and equipment	15

e) Impairment of Assets

The carrying amount of the assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount.

Recoverable amount is the higher of 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 unit to which the asset belongs.

An impairment loss is charged to the Income Statement immediately, unless the asset is carried at revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of any available previously recognised revaluation surplus for the same asset.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised of the asset no longer exist or have decreased. The reversal 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 revalued amount. A reversal of an impairment loss on a revalued asset is credited directly to 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.

f) Investment in subsidiary company

Investment in subsidiary company is stated at cost and provision for diminution in value is made when, in the opinion of the directors, there is a permanent diminution in the value of the investment.

On disposal of an investment, the difference between the net disposal proceeds and its carrying amount is charged or credited to the Income Statement.

g) Inventories

Inventories are stated at lower of cost and net realisable value determined principally on the first in, first out basis. Inventories of work-in-progress and finished goods consist of direct materials, direct labour and an appropriate proportion of factory overheads.

h) Trade and Other Receivables

Trade and other receivables are carried at anticipated realisable values. Bad debts are written off when identified. Specific provision is made for any debt which is considered to be doubtful of collection based on a review of all outstanding amounts as at the balance sheet date.

i) 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.

j) Property, Plant and Equipment Acquired under Hire Purchase

Property, plant and equipment under hire purchase are capitalised in the financial statements and the corresponding obligations treated as liabilities. Finance charges are allocated to the Income Statement on the sum of digits method over the period of the respective agreements.

k) Interest-Bearing Borrowings

Interest-bearing bank loans, overdrafts and other borrowings are recorded at the amount of proceeds received. All borrowing costs are charged to Income Statement as an expense in the period in which they incurred.

l) Equity Instruments

Ordinary shares are classified as equity.

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

m) Revenue Recognition

Revenue from sale of goods is recognised when the goods are delivered and upon customers' acceptance.

Interest income from fixed deposits are recognised on an accrual basis.

Government grant related to market development is recognised on a receipt basis.

n) Employee Benefits

(i) Short term benefits

Wages, salaries, paid annual leave and sick leave, bonuses, social security contribution and non-monetary benefits are recognised as an expense in the year which the associated services are rendered by employees of the Group.

(ii) Defined contribution plans

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

o) Income Tax

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

Deferred tax is provided for, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts 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 probable 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 the balance sheet date. 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.

p) Foreign Currency Transactions and Balances

Foreign currency transactions are converted into Ringgit Malaysia of the exchange rates ruling at transaction dates. Foreign currency monetary items at year end are translated at the rates ruling at the balance sheet date. Exchange differences are taken up in the Income Statement.

The exchange rates ruling at balance sheet date used per one unit of foreign currency are as follows :-

	RM
United States Dollar	3.8000
Singapore Dollar	2.3223

q) Financial Instruments

Financial instruments carried on the balance sheet include cash and bank balances, investments, receivables, payables and borrowings. The particular recognition methods adopted are disclosed in the individual accounting policy statements associated with each item.

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 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 Group has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

## r) Cash Equivalents

Cash equivalents are short-term, highly-liquid investments with maturities of three months or less from the date of acquisition and are readily convertible to cash with insignificant risk of changes in value.

## 7.3 PROPERTY, PLANT AND EQUIPMENT-PROFORMA GROUP

NET BOOK VALUE	Balance at 1.1.2004 RM	Addition RM	Disposal RM	Depreciation RM	Balance at 31.12.2004 RM
Freehold land	88,590	-	-	-	88,590
Long leasehold land	1,650,000	-	-	(17,806)	1,632,194
Buildings	2,000,143	582,018	-	(45,151)	2,537,010
Plant and machinery	3,137,182	2,664,447	-	(907,203)	4,894,426
Electrical installation	344,443	194,825	-	(67,739)	471,529
Renovation	11,353	-	-	(1,965)	9,388
Motor vehicles	245,010	42,126	-	(97,105)	190,031
Office equipment	106,383	76,019	-	(27,709)	154,693
Furniture and fittings	37,022	33,925	-	(8,497)	62,450
Tools and equipment	47,441	47,583	-	(11,362)	83,662
	<u>7,667,567</u>	<u>3,640,943</u>	<u>-</u>	<u>(1,184,537)</u>	<u>10,123,973</u>

As At 31.12.2004	Cost/ Valuation RM	Accumulated Depreciation RM	Net Book Value RM
At cost:-			
Freehold land	88,590	-	88,590
Long leasehold land	1,650,000	(17,806)	1,632,194
Buildings	2,587,955	(50,945)	2,537,010
Plant and machinery	7,515,111	(2,620,685)	4,894,426
Electrical installation	580,343	(108,814)	471,529
Renovation	13,106	(3,718)	9,388
Motor vehicles	506,587	(316,556)	190,031
Office equipment	223,955	(69,262)	154,693
Furniture and fittings	81,693	(19,243)	62,450
Tools and equipment	96,323	(12,661)	83,662
	<u>13,343,663</u>	<u>(3,219,690)</u>	<u>10,123,973</u>

The following are the net book values of property, plant and equipment which are being pledged to licensed banks for banking facilities granted.

	RM
Freehold land	88,590
Buildings	2,537,010
Leasehold land	1,632,194
Plant and machinery	461,789
	<u>4,719,583</u>

Net book values of property, plant and equipment of the Group held under hire purchase are as follows:-

	RM
Plant and machinery	798,942
Motor vehicles	<u>173,231</u>
	<u>972,173</u>

The titles of the freehold and leasehold properties are in the process of being registered in the name of Techfast Manufacturing.

#### 7.4 INVENTORIES-PROFORMA GROUP

	RM
Finished goods	1,525,311
Work-in -progress	322,957
Raw materials	<u>1,624,189</u>
	<u>3,472,457</u>

#### 7.5 TRADE RECEIVABLES-PROFORMA GROUP

The currency exposure profile of trade receivables are as follows:

	RM
- Ringgit Malaysia	1,022,713
- United States Dollar	2,764,599
- Singapore Dolar	<u>277,388</u>
	<u>4,064,700</u>

The Group's normal credit term is 30 days. Other credit terms are assessed and approved on a case-by-case basis.

#### 7.6 FIXED DEPOSITS WITH LICENSED BANKS-PROFORMA GROUP

Included in fixed deposits is an amount of RM2,020,055 which have been pledged to a licensed bank for banking facilities granted to the Group.

The fixed deposits of the Group have maturity period of less than a year. The effective interest rate of the fixed deposits is between 3.0% to 3.7%.

**7.7 TRADE PAYABLES-PROFORMA GROUP**

The currency exposure profile of trade payables are as follows:

	<b>RM</b>
- Ringgit Malaysia	242
- United States Dollar	726,007
- Singapore Dollar	<u>13,188</u>
	<u>739,437</u>

The normal trade credit term granted to the Group ranges from 30 days to 90 days.

**7.8 HIRE PURCHASE CREDITORS-PROFORMA GROUP**

	<b>RM</b>
Total hire purchase instalments due :-	
Within one year	430,365
Between two to five years	<u>338,262</u>
	768,627
Unexpired term charges	<u>(55,975)</u>
Outstanding principal amount due	712,652
Within one year (included in current liabilities)	<u>(388,263)</u>
Between two to five years	<u>324,389</u>

Hire purchase liabilities are subject to interest rates ranging from 4.00% to 6.75% per annum.

**7.9 BANK BORROWINGS-PROFORMA GROUP**

	<b>RM</b>
Current portion of term loans (Note 7.12)	992,868
Bankers' acceptances	1,079,201
Trust receipts	132,684
Bank overdraft	<u>699</u>
	<u>2,205,452</u>

The bank borrowings are secured on the Group's fixed deposits and are also jointly and severally guaranteed by the directors of Techfast Manufacturing.

The bank borrowings bear interest rates ranging from 3.00% to 7.75% per annum. The maturity period for bankers' acceptances and trust receipts range from 90 days to 119 days. Bank overdraft is held on call by licensed bank.

**7.10 SHARE CAPITAL-PROFORMA COMPANY AND GROUP**

	<b>RM</b>
<u>Authorised:-</u>	
Ordinary shares of RM0.10 each	<u>50,000,000</u>
<u>Issued and fully paid-up:-</u>	
Paid-up share capital upon incorporation	2
Shares issued for acquisition of subsidiary company	<u>11,499,998</u>
As shown in Proforma I	11,500,000
Public issue	<u>3,700,000</u>
As shown in Proforma II	15,200,000
Full exercise of entitlement under ESOS	<u>1,520,000</u>
As shown in Proforma III	<u>16,720,000</u>

**7.11 RESERVES- PROFORMA COMPANY AND GROUP**

	<b>Share Premium RM</b>	<b>Retained Earnings RM</b>	<b>Total RM</b>
As per audited financial statements as at 31 December 2004	-	(6,810)	(6,810)
Arising from acquisition of subsidiary- Proforma I	-	1,046,511	1,046,511
Arising from public issue and after deducting listing expenses	<u>9,230,000</u>	-	<u>9,230,000</u>
As shown in Proforma II	9,230,000	1,039,701	10,269,701
Arising from full exercise of ESOS options	<u>4,408,000</u>	-	<u>4,408,000</u>
As shown in Proforma III	<u>13,638,000</u>	<u>1,039,701</u>	<u>14,677,701</u>

**7.12 TERM LOANS-PROFORMA GROUP**

	<b>RM</b>
Total repayable	3,963,590
Amount repayable within one year (Note 7.9)	<u>(992,868)</u>
	2,970,722
Amount repayable between two to five years	<u>(2,184,012)</u>
Amount repayable after five years	<u>786,710</u>

The term loans are secured on the Group's properties and fixed deposits and also jointly and severally guaranteed by the directors of Techfast Manufacturing. The repayment period ranges from 36 months to 120 months and bear interest rates ranging from 2.68% to 6.00% per annum.



**7.13 DEFERRED TAXATION-PROFORMA GROUP**

	RM
At beginning of year	407,884
Recognised in Income Statement	<u>275,200</u>
At end of year	<u>683,084</u>

The components and movements of deferred tax liabilities during the year are as follows:-

	Other RM	Accelerated Capital Allowances RM	Total RM
At beginning of year	525	407,359	407,884
Recognised in Income Statement	<u>2,846</u>	<u>272,354</u>	<u>275,200</u>
At end of year	<u>3,371</u>	<u>679,713</u>	<u>683,084</u>

**7.14 FINANCIAL INSTRUMENTS- PROFORMA GROUP****Financial Risk Management Objectives and Policies**

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's business whilst managing its risks. The Group operates within clearly defined guidelines that are approved by the Board and the Group's policy is not to engage in speculative transactions.

The main areas of financial risks faced by the Group and the policy in respect of the major areas of treasury activity are set out as follows :-

**Credit Risk**

The management has in place a credit policy to monitor and minimise the exposure of default. Receivables are monitored on an ongoing basis.

At balance sheet date, there were no significant concentrations of credit risk. The maximum exposure to credit risk for the Group was represented by the carrying amount of each financial asset.

**Interest Rate Risk**

Interest rate exposure arises from the borrowings and deposits of the Group, and is managed through effective negotiation with financial institutions for best available rates.

**Foreign Currency Risk**

The Group incurs foreign currency risk on certain transactions that are denominated in a currency other than Ringgit Malaysia. The currency giving rise to this risk is United States Dollar and Singapore Dollar.

The Group does not generally hedge its exposure to fluctuations in foreign exchange rates.

**Liquidity Risk**

The Group monitors their cash flows actively and ensures that credit facilities are in place to meet their obligations as and when they fall due.

**Fair Value****Recognised Financial Instruments**

The carrying amounts of financial assets and liabilities of the Group at the balance sheet date approximated their fair value.

There are no fair values for financial instruments not recognised in the balance sheet as at 31 December 2004 that are required to be disclosed.

**8.0 PROFORMA NTA COVER**

Based on the statement of assets and liabilities of the proforma Techfast Holdings Group as at 31 December 2004, the NTA cover per share after the completion of the acquisition of subsidiary and public issue is calculated as follows:-

	<b>Proforma Group RM</b>
NTA per statement of assets and liabilities of the proforma Techfast Holdings Group as at 31 December 2004	<u>25,469,701</u>
Number of ordinary shares of RM0.10 each assumed in issue	<u>152,000,000</u>
NTA cover per share of RM0.10 each	<u>0.17</u>

**9.0 SUMMARISED CONSOLIDATED CASH FLOW STATEMENT****9.1 The proforma Group**

We set out below the proforma consolidated cash flow statement of Techfast Holdings for the year ended 31 December 2004. The proforma consolidated cash flow statement is provided for illustrative only, assuming that the Group has been in existence and the flotation scheme as mentioned in 2.2 had been in effect throughout the financial years under review:-

CASH FLOWS FROM OPERATING ACTIVITIES	RM
Profit before taxation	4,664,611
Adjustments for :-	
Depreciation of property, plant and equipment	1,184,537
Unrealised gain on foreign exchange	(12,038)
Interest expense	277,388
Interest income	<u>(54,850)</u>
Operating profit before working capital changes	6,059,648
Increase in inventories	(1,650,283)
Increase in trade receivables	(1,570,702)
Increase in other receivables, deposits and prepayments	(567,547)
Increase in trade payables	339,045
Increase in other payables and accruals	1,176,416
Increase in bills payables	<u>873,895</u>
Cash generated from operations	4,660,472
Bankers' acceptance interest paid	(17,179)
Bank overdraft interest paid	(25,089)
Tax paid	<u>(97,697)</u>
Net cash generated from operating activities	<u>4,520,507</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Placement of fixed deposits	(1,500,000)
Fixed deposits interest received	18,400
Purchase of property, plant and equipment	<u>(3,607,943)</u>
Net cash used in investing activities	<u>(5,089,543)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from issuance of subscriber shares	2
Proceeds from public issue	14,430,000
Proceeds from full exercise of rights under ESOS	5,928,000
Payment of listing expenses	(960,087)
Repayment of term loans	(495,101)
Payment of term loans interest	(157,045)
Payment of hire purchase interest	(78,075)
Repayment of hire purchase creditors	(426,441)
Drawdown of term loans	<u>1,628,927</u>
Net cash generated from financing activities	<u>19,870,180</u>

	<b>RM</b>
NET INCREASE IN CASH AND CASH EQUIVALENTS	19,301,144
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>954,922</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>20,256,066</u>

Proforma consolidated cash and cash equivalents included in the proforma consolidated cash flow statement comprise the following balance sheet amounts:-

	<b>RM</b>
Cash on hand and at banks	19,656,765
Fixed deposits with licensed banks	600,000
Bank overdraft	<u>(699)</u>
	<u>20,256,066</u>

#### 10.0 PUBLIC ISSUE PROCEEDS

The gross proceeds of RM14,430,000 to be received from Public Issue will be utilised as follows:-


	<b>RM</b>
Working Capital	6,930,000
Acquisition of plant and machinery	5,000,000
Estimated Listing Expenses	1,500,000
Research and Development	<u>1,000,000</u>
	<u>14,430,000</u>

#### 11.0 AUDITED FINANCIAL STATEMENTS

As of the date of this report, no audited financial statements have been prepared in respect of any period subsequent to 31 December 2004 for Techfast Holdings Group.

Yours faithfully,

  
GEP ASSOCIATES  
AF 1030  
Chartered Accountants

  
GONG WOOI TEIK  
741/04/06 (J)  
Partner

13. PRO-FORMA CONSOLIDATED BALANCE SHEETS OF THE TECHFAST HOLDINGS GROUP AS AT 31 DECEMBER 2004 TOGETHER WITH THE BASES AND ASSUMPTIONS, AND THE AUDITORS' LETTER THEREON

**GEP** **GEP ASSOCIATES**  
CHARTERED ACCOUNTANTS AF1030  
A member firm of AGN International

Wisma GEP

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Penang  
Johor Bahru

11 May 2005

The Board of Directors  
**Techfast Holdings Berhad**  
Suites 7.21 & 7.22  
7<sup>th</sup> floor, Imbi Plaza  
Jalan Imbi  
55100 Kuala Lumpur

Dear Sirs,

**TECHFAST HOLDINGS BERHAD ("TECHFAST HOLDINGS" OR "THE COMPANY")  
PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2004**


We have reviewed the presentation of the Proforma Consolidated Balance Sheets of Techfast Holdings and its subsidiary company, namely Techfast Manufacturing Sdn. Bhd. (collectively known as "the Group") as at 31 December 2004 together with the accompanying notes thereto, for which the Directors are solely responsible, as set out in the Prospectus dated 17 May 2005 in connection with the listing and quotation of the entire issued and fully paid-up share capital of Techfast Holdings on the MESDAQ market of the Bursa Malaysia Securities Berhad.

In our opinion, the Proforma Consolidated Balance Sheets, which have been prepared for illustrative purposes only, have been properly prepared on:

- (i) the basis set out in the notes and assumptions to the Proforma Consolidated Balance Sheets;
- (ii) such basis that is consistent with the accounting policies of the Group; and
- (iii) the adjustments are appropriate for the purposes of the Proforma Consolidated Balance Sheets.

Yours faithfully,

  
**GEP ASSOCIATES**  
AF1030  
Chartered Accountants

  
**GONG WOO TEIK**  
741/04/06(J)  
Partner

**TECHFAST HOLDINGS BERHAD**  
**PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2004**

The Proforma Consolidated Balance Sheets of the Group set out below have been prepared solely for illustrative purposes only to show the effects of acquisition of the subsidiary company, public issue and Employees' Share Option Scheme on the assumption that these transactions were completed as at 31 December 2004.

	Company	← Group →		
	Audited as at 31.12.2004	Proforma I	Proforma II	Proforma III
	RM	After Acquisition of Subsidiary RM	After Proforma I and Public Issue RM	After Proforma II and full exercise of ESOS RM
<b>ASSET</b>				
Property, plant and equipment	-	10,123,973	10,123,973	10,123,973
<b>CURRENT ASSETS</b>				
Inventories	-	3,472,457	3,472,457	3,472,457
Trade receivables	-	4,064,700	4,064,700	4,064,700
Other receivables, deposits and prepayments	539,913	1,047,625	507,712	507,712
Fixed deposits with licensed banks	-	2,620,055	2,620,055	2,620,055
Cash on hand and at banks	2	258,852	13,728,765	19,656,765
	<u>539,915</u>	<u>11,463,689</u>	<u>24,393,689</u>	<u>30,321,689</u>
<b>CURRENT LIABILITIES</b>				
Trade payables	-	739,437	739,437	739,437
Other payables and accruals	546,723	1,736,614	1,736,614	1,736,614
Hire purchase creditors	-	388,263	388,263	388,263
Bank borrowings	-	2,205,452	2,205,452	2,205,452
	<u>546,723</u>	<u>5,069,766</u>	<u>5,069,766</u>	<u>5,069,766</u>
<b>NET CURRENT (LIABILITIES)/ASSETS</b>	<u>(6,808)</u>	<u>6,393,923</u>	<u>19,323,923</u>	<u>25,251,923</u>
	<u>(6,808)</u>	<u>16,517,896</u>	<u>29,447,896</u>	<u>35,375,896</u>

	Company Audited as at 31.12.2004	←	Group	→
		Proforma I	Proforma II	Proforma III
	RM	After Acquisition of Subsidiary RM	After Proforma I and Public Issue RM	After Proforma II and full exercise of ESOS RM
Financed by :-				
SHARE CAPITAL	2	11,500,000	15,200,000	16,720,000
RESERVES	(6,810)	1,039,701	10,269,701	14,677,701
(CAPITAL DEFICIENCY)/ SHAREHOLDERS' EQUITY	(6,808)	12,539,701	25,469,701	31,397,701
LONG TERM AND DEFERRED LIABILITIES				
Hire purchase creditors	-	324,389	324,389	324,389
Term loans	-	2,970,722	2,970,722	2,970,722
Deferred taxation	-	683,084	683,084	683,084
	(6,808)	16,517,896	29,447,896	35,375,896
Net Tangible Assets ("NTA")	(6,808)	12,539,701	25,469,701	31,397,701
Number of shares assumed in issue	20	115,000,000	152,000,000	167,200,000
NTA per share	(340.40)	0.11	0.17	0.19

## NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS

### 1. BASIS OF PREPARATION OF PROFORMA CONSOLIDATED BALANCE SHEETS

- The proforma consolidated balance sheets have been prepared for illustrative purposes only and are based on the audited financial statements of Techfast Holdings as at 31 December 2004 and the audited financial statements of its subsidiary company as at 31 December 2004.
- The proforma consolidated balance sheets have been prepared on the basis and accounting policies consistent with those normally adopted in the preparation of the audited financial statements.
- The proforma consolidated balance sheets incorporate on a proforma basis the following transactions as though they have been effected on 31 December 2004.

Proforma I- After acquisition of subsidiary company

Proforma I incorporates the effect of acquisition of subsidiary company.

Techfast Holdings has acquired 2,428,574 ordinary shares of RM1 each, represents the entire issued and paid-up share capital of Techfast Manufacturing Sdn. Bhd. for a total purchase consideration of RM11,499,998 satisfied via issuance of 114,999,980 new ordinary shares of RM0.10 each in Techfast Holdings at par. Negative goodwill arising on consolidation amounting to RM1,046,511 is credited to Income Statement.

Proforma II- After Public Issue

Proforma II incorporates the effect of Proforma I and the effect of public issue of 37,000,000 new ordinary shares of RM0.10 each, representing 24.34% of the enlarged issued and paid-up share capital of Techfast Holdings upon listing at an issue price of RM0.39 per new ordinary share.

The premium of RM10,730,000 arising from the public issue is credited to the share premium account. The gross proceeds arising from the public issue will be utilised as follows:-

	RM
Acquisition of plant and machinery *	5,000,000
Research and Development *	1,000,000
Working capital *	6,930,000
Estimated listing expenses ^	<u>1,500,000</u>
	<u>14,430,000</u>

\* Included in cash and cash equivalents under current assets, pending utilisation.

^ The estimated listing expenses of RM1.5 million have been set off against the share premium account.

Proforma III- After Employees' Share Option Scheme ("ESOS")

Proforma III incorporates the effect of Proforma I, II and the effects of the ESOS.

The Company has established an ESOS for its eligible employees and directors of the Company and proposed subsidiary company, giving the right to subscribe for new ordinary shares in the Company up to 10% of the enlarged issued and paid-up share capital of Techfast Holdings at any time during the option period of 5 years from the date of ESOS is implemented and any further extension when approved.

The premium of RM4,408,000 arising from the ESOS is credited to share premium account.



**2. SHARE CAPITAL**

The movements in the issued and paid-up share capital of Techfast are as follows:

	RM
<u>Authorised:-</u>	
Ordinary shares of RM0.10 each	<u>50,000,000</u>
<u>Issued and fully paid-up:-</u>	
Paid-up share capital upon incorporation	2
Shares issued for acquisition of subsidiary company	<u>11,499,998</u>
As shown in Proforma I	11,500,000
Public issue	<u>3,700,000</u>
As shown in Proforma II	15,200,000
Full exercise of rights under ESOS	<u>1,520,000</u>
As shown in Proforma III	<u>16,720,000</u>

**3. RESERVES**

The estimated listing expenses of RM1,500,000 have been charged against the share premium account under Proforma I. The movements in reserves are as follows:

	Share Premium RM	Retained Earnings RM	Total RM
As per audited financial statements as at 31 December 2004	-	(6,810)	(6,810)
Arising from acquisition of subsidiary-Proforma I	-	1,046,511	1,046,511
Arising from public issue and after deducting listing expenses	<u>9,230,000</u>	-	<u>9,230,000</u>
As shown in Proforma II	9,230,000	1,039,701	10,269,701
Arising from full exercise of ESOS options	<u>4,408,000</u>	-	<u>4,408,000</u>
As shown in Proforma III	<u>13,638,000</u>	<u>1,039,701</u>	<u>14,677,701</u>

**4. PROCEEDS OF ISSUE AND UTILISATION**

The proceeds of RM14,430,000 from the proposed public issue of 37,000,000 new Techfast Shares will be utilised as follows:-

	RM
Working capital	6,930,000
Acquisition of plant and machinery	5,000,000
Estimated listing expenses	1,500,000
Research and development	<u>1,000,000</u>
TOTAL	<u>14,430,000</u>