10.4 Working Capital, Borrowings, Material Litigations, Material Capital Commitments and Contingent Liabilities

10.4.1 Working Capital

The Board is of the opinion that after taking into consideration the cash flow position of the Group, including the proceeds from the Public Issue and banking facilities available to the Group, the Group should have adequate working capital for its present and foreseeable future requirements for a period of twelve (12) months from the date of this Prospectus.

10.4.2 Borrowings

As at 29 August 2005, being the latest practical date prior to the issuance of this Prospectus, the Group's total interest bearing bank borrowings amounted to approximately RM1.5 million comprising banker's acceptance, term loans and hire purchase creditors as follows:-

	(RM'000)
Banker's acceptance	994
Term loans:-	
- Short-term	104
- Long-term	399
Hire Purchase Creditors:-	
- Short-term	15
- Long-term	7
	1,519

Save as disclosed above, the Group does not have any other capital outstanding or loan capital created but unissued or mortgages or charges outstanding on that date.

The Group has no foreign currency borrowings.

The Board wishes to confirm that there have been no default on payments of interest or principal sums in respect of its borrowings throughout the past financial year ended 31 May 2005 and as at 29 August 2005, being the latest practicable date prior to the printing of this Prospectus.

10.4.3 Material Litigation

As at 29 August 2005, being the latest practicable date prior to the issuance of this Prospectus, the Group is not engaged in any litigation, claims or arbitration, either as a plaintiff or defendant, which may materially affect the financial position or business of the Group, and the Directors of ES Ceramics do not know of any proceedings pending or threatened or any fact likely to give rise to any proceedings which may materially affect the financial position or business of the Group.

10.4.4 Material Capital Commitments

Save as disclosed below, as at 29 August 2005, being the latest practicable date prior to the issuance of this Prospectus, there are no material capital commitments for capital expenditure incurred or known to be incurred by the Group which may materially affect the financial position or business of the Group:-

	(RM'000)
Approved and contracted for	319

10.4.5 Contingent Liabilities

As at 29 August 2005, being the latest practicable date prior to the issuance of this Prospectus, there are no contingent liabilities, which upon becoming enforceable, may materially affect the financial position and business of the Group.

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11. DIRECTORS REPORT

(Prepared for inclusion in this Prospectus)

ES Ceramics Technology Berhad (Co. No: 627117-P)
www.esceramics.com.my
Lot 37 &39, Lengkok Rishah 2, Kawasan Perindustrian Silibin
30100 Ipoh, Perak Darul Ridzuan. Malaysia.
Tel: (605) 528 3041 Fax: (605) 528 3173 E-mail: office@esceramics.com.my

Registered Office:
No.12M, Jalan SS21/58
Damansara Utama
47400 Petaling Jaya
Selangor Darul Ehsan

- 5 SEP 2005

The Shareholders of **ES Ceramics Technology Bhd ("ES Ceramics" or the "Company")**

Dear Sir/Madam,

On behalf of the Board of Directors of ES Ceramics, I wish to report that after making due enquiries in relation to the interval between 31 May 2005, being the date to which the latest audited financial statements of the Company and its subsidiary companies have been made up, to the date hereof, being a date not earlier than fourteen (14) days before the issue of this Prospectus:-

(a) the business of the Company and its subsidiary companies has, in the opinion of the Directors, been satisfactorily maintained;

(b) in the opinion of the Directors, no circumstances have arisen since the last audited financial statements of the Company and its subsidiary companies which have adversely affected the trading or the value of the assets of the Company and its subsidiary companies;

(c) the current assets of the Company and its subsidiary companies appear in the books at values which are believed to be realisable in the ordinary course of business;

(d) save as disclosed in this Prospectus, there are no contingent liabilities by reason of any guarantees or indemnities given by the Company and its subsidiary companies;

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

(f) save as disclosed in the Accountants' Report as set out in Section 12 of this Prospectus and the Reporting Accountants' Letter on the Proforma Consolidated Balance Sheets of the ES Ceramics Group as set out in Section 13 of this Prospectus, there have been no material changes to the published reserves or any unusual factors affecting the profits of the Company and its subsidiary companies since the last audited financial statements of the Company and its subsidiary companies.

Yours faithfully
For and on behalf of the Board of Directors of
ES Ceramics Technology Bhd

Wong Fook Choy
Director

YTC LIM CHEN & CO. (AF1476)
CHARTERED ACCOUNTANTS

No. 109, 1st Floor,
Block C, Damansara Intan,
No. 1, Jalan SS 20/27,
47400 Petaling Jaya,
Selangor Darul Ehsan.
Tel: 603-7729 2381/85
Fax: 603-7729 2389
Email: ytcinfo@ytc.com.my

Date : - 5 SEP 2005

The Board of Directors
ES Ceramics Technology Bhd
No. 12M, Jalan SS21/58
Damansara Utama,
47400 Petaling Jaya,
Selangor Darul Ehsan.

Dear Sirs,

ES CERAMICS TECHNOLOGY BHD
ACCOUNTANTS' REPORT

This report has been prepared by Messrs. Lim Chen & Co, an approved company auditor, for inclusion in the Prospectus to be dated 9 September 2005 in connection with the public issue of 11,000,000 new ordinary shares of RM0.10 each in ES Ceramics Technology Bhd (hereinafter referred to as "ES Ceramics" or the "Company") at an issue price of RM0.55 per ordinary share and the listing of and quotation for its entire enlarged issued and fully paid-up share capital on the MESDAQ Market of Bursa Malaysia Securities Berhad ("Bursa Securities")

The scope of work conducted in the preparation of this report does not, in itself, constitute an audit in accordance with the approved Standards on Auditing in Malaysia. Except where otherwise explicitly stated, information contained in this report was not independently verified by us. In preparing this report, we have relied on information and representations given to us by the Directors, officers and employees of the respective companies and sought explanations for apparent discrepancies.

1 General information

1.1 Background

ES Ceramics was incorporated in Malaysia under the Companies Act, 1965 as a private limited company on 4 September 2003. On 27 September 2003, the Company converted its status into a public limited company, for the purpose of the listing exercise as detailed in Note 1.4.

1.2 Principal Activities

The principal activity of the Company are investment holding.

1.3 Share Capital

The authorized and issued and paid-up share capital of the Company as at the date of incorporation is RM100,000 and RM2 comprising 100,000 and 2 ordinary shares of RM1 each respectively.

On 15 February 2005, the Company increased:

(i) its authorised share capital from RM100,000 to RM10,000,000 by creation of 9,900,000 ordinary shares of RM1.00 each;

(ii) its issued and fully paid-up ordinary shares by issuance of 703,137 and 3,431,861 ordinary shares of RM1.00 each at par amounting to RM703,137 and RM3,431,861 respectively as purchase consideration for the acquisition of Micro Ceramics Sdn. Bhd. ("MCSB") and Easy Sun Sdn. Bhd. ("ESSB").

On 16 February 2005, the Company sub-divided its authorised and issued and fully paid up share capital of RM10,000,000 and RM4,135,000 respectively consisting of 10,000,000 and 4,135,000 ordinary shares of RM1.00 each into 100,000,000 and 41,350,000 ordinary shares respectively at RM0.10 each.

1.4 Flotation Scheme

In connection and as part of the listing and quotation for the entire issued and fully paid-up share capital of ES Ceramics on the MESDAQ Market of the Bursa Securities, the Company undertook the following scheme which was approved by the Securities Commission ("SC") on 25 January 2005, 12 April 2005 and 10 June 2005 and Bursa Securities on 7 February 2005.

- **Acquisition**

Acquisition of the entire issued and fully paid-up share capital of MCSB and ESSB based on the audited net tangible assets ("NTA") of MCSB and ESSB as at 31 August 2003, satisfied by the issuance of 703,137 and 3,431,861 new ordinary shares of RM1.00 each in ES Ceramics respectively ("Acquisition"). The number of shares in MCSB and ESSB acquired, the purchase consideration and the number of shares in ES Ceramics issued as consideration are as follows:-

	Audited NTA at 31 August 2003 (RM)	No. of shares acquired	Purchase Consideration (RM)	No. of shares in ES Ceramics issued as consideration
MCSB	703,565	150,000	703,137	703,137
ESSB	3,433,945	1,700,000	3,431,861	3,431,861
				4,134,998

The Acquisition was completed on 15 February 2005.

1.4 Flotation Scheme (cont'd)

- **Share Split**

  After the Acquisition was completed, the ordinary shares of ES Ceramics were split on a 10-for-1 basis and the par value of each share was reduced from RM1.00 to RM0.10.

  The Share Split was completed on 16 February 2005.

- **Public Issue**

  The public issue of 11,000,000 new ordinary shares of RM0.10 each at an issue price of RM0.55 per ordinary share payable in full upon application. ("Public Issue")

- **Employees Share Option Scheme ("ESOS")**

  Implementation of Employees Share Option Scheme ("ESOS") where ES Ceramics will grant to the eligible directors and employees of the Company and its subsidiary companies, the options to subscribe for an aggregate of 2,000,000 ordinary shares of RM0.10 each at any time during the 5-year duration of the ESOS.

The Acquisition, Share Split, Public Issue and ESOS are collectively referred to as the "Flotation Scheme".

On completion of the Public Issue and ESOS, the issued and fully paid-up share capital of the Company shall be as follows:

	Issued and fully paid-up share capital RM	Number of ordinary shares	Par value RM
Based on the audited financial statements as at 31 May 2005	4,135,000	41,350,000	0.10
Public Issue	1,100,000	11,000,000	0.10
ESOS	200,000	2,000,000	0.10
On completion of Public Issue and ESOS	5,435,000	54,350,000	

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1.5 Information on Subsidiary Companies

Details of the subsidiary companies of ES Ceramics are as follows:

Name of Company	Date / Place of incorporation	Authorised share capital RM	Issued and paid up share capital as at 31 May 2005 RM	Equity interest %	Principal activities
MCSB	29 September 1999/ Malaysia	500,000	150,000	100	Design, development and processing of specialty advanced ceramics materials
ESSB	25 March 1998/ Malaysia	5,000,000	1,700,000	100	Design, development and manufacture of specialty advanced ceramics products

2 Financial Statements and Auditors

We have been appointed as first auditor of ES Ceramics with effect from the financial period ended 31 May 2004 and have reported on the financial statements without any qualification.

We have acted as auditors of MCSB since the five (5) months financial period, ended 31 May 2002. The financial year end of the Company has been changed from 31 December to 31 May and the first changed financial period is 31 May 2002. The financial statements of MCSB for the financial periods from the date of incorporation up to the financial years ended 31 December 2001 were audited by another firm of auditors.

We have acted as auditors of ESSB since the financial year ended 31 May 2003. The financial statements for ESSB for the other financial years under review were audited by another firm of auditors.

The financial statements of MCSB and ESSB for the past 5 financial year/ period, where applicable, were reported without any qualification.

3 Basis of accounting and accounting policies

This report is based on the audited financial statements of the Company, MCSB and ESSB and is presented on a basis consistent with the accounting policies normally adopted by ES Ceramics and its subsidiary companies and have been prepared in accordance with applicable Approved Accounting Standards issued by the Malaysian Accounting Standards Board ("MASB").

4 Event subsequent to the last audited financial statements

Other than the signing of a contract to build a factory for cash consideration of RM650,000 by ESSB, no significant event has arisen subsequent to the last audited financial statements as at 31 May 2005.

5 Summarised Income Statements

5.1 ES Ceramics Group

We set out below the summarised proforma consolidated financial results of ES Ceramics and its subsidiary companies ("ES Ceramics Group" or "the Group") for the past five (5) financial years ended 31 May 2001 to 2005. The proforma consolidated results are provided for illustrative purposes only, based on the assumption that the Group had been in existence throughout the financial years / period under review.

	<----Year Ended 31 May---->				
	2001	**2002**	**2003**	**2004**	**2005**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Revenue	2,740	3,702	4,191	5,504	7,155
EBIDTA [(1)] before R&D [(2)] expenses	175	870	1,648	2,109	3,627
R&D expenses	(16)	(18)	(87)	(128)	(189)
EBIDTA	159	852	1,561	1,981	3,438
Interest expenses	(3)	(117)	(166)	(151)	(141)
Depreciation and Amortisation	(87)	(174)	(190)	(208)	(222)
Profit before taxation	69	561	1,205	1,622	3,075
Taxation	(11)	(108)	(148)	(126)	(243)
Profit after taxation	58	453	1,057	1,496	2,832
No. of ordinary shares of RM0.10 each ('000) *	41,350	41,350	41,350	41,350	41,350
Gross earnings per share (sen)	0.17	1.36	2.91	3.92	7.44
Net earnings per share (sen)	0.14	1.10	2.56	3.62	6.85

* Issued and paid-up share capital of ES Ceramics as at 31 May 2005

[(1)] Earnings before interest, depreciation, taxation and amortisation ("EBIDTA")
[(2)] Research and development ("R&D')

(1) The Group's proforma consolidated financial results have been prepared based on the audited financial statements for each of the companies. MCSB was dormant since the date of incorporation, 29 September 1999 up to 31 December 2001. The audited financial statements for the financial year ended 31 December 2001 have been adopted for consolidation without time apportionment or adjustments as it has no material overall effect on the proforma consolidated financial results taken as a whole.

5.1 ES Ceramics Group (cont'd)

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

(3) There were no minority interests in the financial years / period under review.

(4) There were no extraordinary or exceptional items in all the financial years/ period under review.

(5) The gross earning per share has been calculated based on the profit before taxation divided by the issued and fully paid-up share capital of ES Ceramics as at 31 May 2005.

(6) The net earning per share has been calculated based on the profit after taxation divided by the issued and fully paid-up share capital of ES Ceramics as at 31 May 2005.

(7) During the financial year ended 31 May 2003, the Group has changed its accounting policy to amortise the leasehold land over its remaining lease period. This change in accounting policy has been accounted for retrospectively.

Depreciation have been adjusted to reflect the amortisation of leasehold land to the relevant financial years in which it relates to in order to reflect the actual depreciation position of the respective financial years. The net effect of these adjustments to the Group's depreciation is as follows:

	<------Year Ended 31 May------>		
	2001	**2002**	**2003**
	RM'000	**RM'000**	**RM'000**
Depreciation as stated in audited financial statements	62	149	190
Prior year adjustments	25	25	-
Adjusted depreciation as stated in this report	87	174	190

(8) Taxation has been adjusted to reflect the under provision of deferred taxation in the respective financial years as follows:

	<------Year Ended 31 May------>		
	2001	**2002**	**2003**
	RM'000	**RM'000**	**RM'000**
Taxation as stated in audited financial statement	3	11	148
Prior year adjustments	8	97	-
Adjusted taxation as stated in the report	11	108	148

The prior year adjustments made were due to the adoption of FRS 112 : Income Taxes, which became effective from 1 January 2003. Prior to the adoption of FRS 112, deferred taxation was not provided for. With the adoption of FRS 112, deferred tax is now provided for in full based on the balance sheet liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts.

5.1 ES Ceramics Group (cont'd)

(9) The decrease in revenue during the financial year ended 2001 by 7.2% as compared to previous year was due to lower demand from existing customers and reduction in average selling price which were attributed to the general decline in local rubber gloves industry.

Profit before taxation decreased by 39.5% in 2001 due to decrease in revenue while the corresponding general fixed overhead increased.

(10) As a result of extensive marketing effort, the Group managed to secure new customers during the financial year ended 2002. Correspondingly, revenue increased by approximately 35.1% or RM0.96 million.

Profit before taxation increased by 713% as compared to 2001 due to the growth in revenue which was achieved without corresponding increases in other fixed operating and administrative costs.

(11) The increase in revenue during the financial year ended 2003 was mainly due to increase in production capacity as well as increase in demand from customers. Higher production volume that led to the achievement of economies of scale and also decrease in cost of materials as the Group commenced its processing of advanced ceramic materials resulted in the improvement of profit before taxation by approximately 114.8%.

(12) In the financial year ended 31 May 2004, the Group's revenue increased by 31.3% as additional capital expenditures were invested to increase the production capacity and to meet the increasing demand from customers. Correspondingly, the profit before taxation has increased.

(13) The increase of the Group's revenue of approximate 30.0% in the financial year ended 31 May 2005 as compared to financial year ended 31 May 2004 was mainly due to continuing growth in the demand from existing customers and higher utilization of production facilities. The profit before taxation has increased accordingly.

5.2 ES Ceramics (Company Level)

The following financial information of ES Ceramics was extracted from its audited financial statements for the relevant financial period/ year under review.

	Period ended from 04.09.2003 to 31.05.2004 RM'000	Year Ended 31.05.2005 RM'000
Revenue	-	-
Loss before interest, depreciation, taxation and amortisation	(9)	(17)
Interest expenses	-	-
Depreciation and amortization	-	-
Loss before taxation	(9)	(17)
Taxation	-	-
Loss after taxation	(9)	(17)
No. of ordinary shares of RM1.00 in issue	2	-
No. of ordinary shares of RM0.10 in issue	-	41,350,000
Gross loss per share (RM)	(4,500.00)	(0.04)
Net loss per share (RM)	(4,500.00)	(0.04)

(1) ES Ceramics was incorporated on 4 September 2003. Accordingly, the first audited financial statements cover the period from 4 September 2003 to 31 May 2004.

(2) There were no exceptional or extraordinary items in the relevant periods under review.

(3) There is no current taxation charge as ES Ceramics has no chargeable income.

(4) The gross loss per share is calculated based on the loss before taxation divided by the number of ordinary shares of RM0.10 each in issue in the relevant periods.

(5) The net loss per share is calculated based on the loss after taxation divided by number of ordinary shares of RM0.10 each in issue in the relevant periods.

5.3 MCSB

The following financial information of MCSB was extracted from the audited financial statements of MCSB for the relevant financial years/ period under review.

	Year Ended 31.12.2001 RM'000	5-Month period Ended 31.05.2002 RM'000	Year Ended 31.05.2003 RM'000	Year Ended 31.05.2004 RM'000	Year Ended 30.05.2005 RM'000
Revenue	-	-	895	2,011	3,663
EBIDTA before R&D expenses	(1)	(2)	511	1,237	2,521
R&D expenses	-	-	(66)	(75)	(108)
EBIDTA	(1)	(2)	445	1,162	2,413
Interest expenses	-	-	-	-	-
Depreciation and amortisation	-	(2)	(8)	(13)	(13)
Profit before taxation	(1)	(4)	437	1,149	2,400
Taxation	-	-	(51)	(74)	(160)
Profit after taxation	(1)	(4)	386	1,075	2,240
Weighted average number of ordinary shares of RM1.00 each in issue	2	2	2	114,247	150,000
Gross earnings per share (RM)	(500.00)	(2,000.00)	218,500.00	10.08	16.00
Net earnings per share (RM)	(500.00)	(2,000.00)	193,000.00	9.43	14.93

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

(2) The gross earnings per share has been calculated based on the profit before taxation divided by the weighted average number of ordinary shares of RM1.00 each in issue at the respective financial years/ period.

(3) The net earnings per share has been calculated based on the profit after taxation divided by the weighted average number of ordinary shares of RM1.00 each in issue at the respective financial years/ period.

(4) MCSB has been granted with pioneer status under the Promotion of Investment Act, 1986, whereby 70% of the income is exempted from taxation for a period of five (5) years from September 2002 to August 2007.

5.4 ESSB

The following financial information of ESSB was extracted from the audited financial statements of ESSB for the relevant financial years under review.

	<------Year Ended 31 May------>				
	2001	**2002**	**2003**	**2004**	**2005**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Revenue	2,740	3,702	4,191	5,504	7,155
EBIDTA before R&D expenses	176	872	1,220	965	1,322
R&D expenses	(16)	(18)	(21)	(53)	(81)
EBIDTA	160	854	1,199	912	1,241
Interest expenses	(3)	(117)	(166)	(151)	(141)
Depreciation and amortisation	(87)	(172)	(182)	(195)	(209)
Profit before taxation	70	565	851	566	891
Taxation	(11)	(108)	(97)	(52)	(83)
Profit after taxation	59	457	754	514	808
Weighted average number of ordinary shares of RM1.00 each in issue	500,000	500,000	532,877	1,700,000	1,700,000
Gross earnings per share (RM)	0.14	1.13	1.60	0.33	0.52
Net earnings per share (RM)	0.12	0.91	1.41	0.30	0.48

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

(2) The gross earnings per share has been calculated based on the profit before taxation divided by the weighted average number of ordinary shares of RM1.00 each in issue at the respective financial years.

(3) The net earnings per share has been calculated based on the profit after taxation divided by the weighted average number of ordinary shares of RM1.00 each in issue at the respective financial years.

5.4 ESSB (cont'd)

(4) During the financial year ended 31 May 2003, ESSB has changed its accounting policy to amortise the leasehold land over its remaining lease period. This change in accounting policy has been accounted for retrospectively.

Depreciation have been adjusted to reflect the amortisation of leasehold land to the relevant financial years in which it relates to in order to reflect the actual depreciation position of the respective financial years. The net effect of these adjustments to the depreciation of ESSB is as follows:

	<------Year Ended 31 May------>		
	2001	**2002**	**2003**
	RM'000	**RM'000**	**RM'000**
Depreciation as stated in audited financial statements	62	147	182
Prior year adjustments	25	25	-
Adjusted depreciation as stated in this report	87	172	182

(5) Taxation has been adjusted to reflect the under provision of deferred taxation in their respective financial years as follows:

	<------Year Ended 31 May------>		
	2001	**2002**	**2003**
	RM'000	**RM'000**	**RM'000**
Taxation as stated in audited financial statement	3	11	97
Prior year adjustments	8	97	-
Adjusted taxation as stated in the report	11	108	97

The prior year adjustments made were due to the adoption of FRS 112 : Income Taxes, which became effective from 1 January 2003. Prior to the adoption of FRS 112, deferred taxation was not provided for. With the adoption of FRS 112, deferred tax is now provided for in full based on the balance sheet liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts.

The effective tax rates for the financial years ended 31 May 2000 to 2005 were lower than the statutory tax rate due to claims of certain tax incentives and reinvestment allowances.

6 Dividends

No dividend has been paid or declared by ES Ceramics, MCSB and ESSB during the relevant periods under review.

7 Summarised Balance Sheets

As the acquisition of MCSB and ESSB was only completed on 15 February 2005, it is therefore impracticable to present consolidated balance sheets of the ES Ceramics Group throughout the financial years/ period under review. Accordingly, we set out the summarised audited balance sheets of the Group as at 31 May 2005, ES Ceramics and its subsidiary companies for the relevant financial years/ period as follows:

7.1 ES Ceramics Group

The audited consolidated balance sheet of ES Ceramics Group as at 31 May 2005 is as follows:

	As at 31.05.2005 RM'000
Property, plant and equipment	4,473
Current assets	5,967
Current liabilities	(1,727)
Net current assets	4,240
	8,713
Share capital	4,135
Retained profit	3,898
Shareholders' funds	8,033
Long term and deferred liabilities	680
	8,713
No. of ordinary shares in issue of RM0.10 each	41,350,000
NTA per ordinary share (RM)	0.19

7.2 ES Ceramics

The audited balance sheets of ES Ceramics for the relevant financial period/ year under review are as follows:

	As at 31 May	
	2004	2005
	RM'000	RM'000
Investment in subsidiary companies	-	4,135
Current assets	84	338
Current liabilities	(93)	(364)
Net current liabilities	(9)	(26)
	(9)	4,109
Share capital	*	4,135
Accumulated losses	(9)	(26)
Shareholders' (deficit)/ funds	(9)	4,109
No. of ordinary shares in issue of RM1.00 each	2	-
No. of ordinary shares in issue of RM0.10 each	-	41,350,000
NTA per ordinary share (RM)	(4,500.00)	0.10

* Represents RM2

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7.3 MCSB

The audited balance sheets of MCSB for the relevant financial years/ period under review are as follows:

	As at				
	31.12.2001	31.05.2002	31.05.2003	31.05.2004	30.05.2005
	RM'000	RM'000	RM'000	RM'000	RM'000
Plant and equipment	-	66	78	128	124
Current assets	-	114	572	1,657	3,968
Current liabilities	(4)	(188)	(268)	(172)	(231)
Net current (liabilities)/ assets	(4)	(74)	304	1,485	3,737
	(4)	(8)	382	1,613	3,861
Share capital	*	*	*	150	150
(Accumulated losses)/ Retained profits	(4)	(8)	378	1,453	3,693
Shareholders' (deficit)/ funds	(4)	(8)	378	1,603	3,843
Long term liabilities	-	-	4	10	18
	(4)	(8)	382	1,613	3,861
No. of ordinary shares in issue of RM1.00 each	2	2	2	150,000	150,000
NTA per ordinary share (RM)	(2,000.00)	(4,000.00)	189,000.00	10.69	25.62

* Represents RM2

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7.4 ESSB

The audited balance sheets of ESSB for the relevant financial years under review are as follows:

	<------As at 31 May------>				
	2001	2002	2003	2004	2005
	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	1,704	3,642	3,602	3,651	4,349
Investments	13	-	-	-	-
Current assets	1,475	2,393	3,355	4,387	5,948
Current liabilities	(2,214)	(3,906)	(2,935)	(3,562)	(5,053)
Net current (liabilities)/ assets	(739)	(1,513)	420	825	895
	978	2,129	4,022	4,476	5,244
Share capital	500	500	1,700	1,700	1,700
Retained profits	349	806	1,560	2,074	2,882
Shareholders' funds	849	1,306	3,260	3,774	4,582
Long term liabilities	129	823	762	702	662
	978	2,129	4,022	4,476	5,244
No. of ordinary shares of RM1.00 each in issue	500,000	500,000	1,700,000	1,700,000	1,700,000
NTA per ordinary share (RM)	1.70	2.61	1.92	2.22	2.70

8 Proforma Consolidated Statement of Assets and Liabilities

The proforma consolidated statement of assets and liabilities set out below are provided for illustrative purposes only to incorporate the effects of Public Issue and ESOS on the audited consolidated balance sheet of ES Ceramics Group as at 31 May 2005 on the assumption that these transactions had been effected on 31 May 2005. The proforma statements should be read in conjunction with the notes thereto:

	Note	As at 31.05.2005 RM'000	After Public Issue, and ESOS RM'000
Property, plant and equipment	9.2	4,473	4,473
Current assets			
Inventories	9.3	2,192	2,192
Trade receivables	9.4	3,009	3,009
Other receivables, deposits and prepayments	9.5	513	513
Cash and bank balances	9.6	235	6,185
Tax recoverable		18	18
		5,967	11,917
Current liabilities			
Trade payables		334	334
Other payables and accruals		222	222
Hire purchase payables	9.7	16	16
Bank borrowings	9.8	1,049	1,049
Taxation		106	106
		1,727	1,727
Net current assets		4,240	10,190
		8,713	14,663
Represented by:			
Share capital	9.9	4,135	5,435
Share premium	9.10	-	4,650
Retained profits		3,898	3,898
Shareholders' funds		8,033	13,983
Long term and deferred liabilities			
Hire purchase payables	9.7	12	12
Bank borrowings	9.8	415	415
Deferred taxation	9.11	253	253
		8,713	14,663
No. of ordinary shares in issue of RM0.10 each in issue		41,350,000	54,350,000
Net tangible assets per ordinary share (RM)		0.19	0.26

9 Notes to the Proforma Consolidated Statement of Assets and Liabilities

9.1 Significant Accounting Policies

(a) Basis of Preparation

The financial statements of the Group have been prepared under the historical cost convention and comply with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia.

(b) Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiary companies made up to 31 May 2005. Subsidiary companies are those companies in which the Group has a long term equity interest and where it has power to exercise control over the financial and operating policies so as to obtain benefits therefrom.

Subsidiary companies are consolidated using the acquisition method of accounting. Under the acquisition method of accounting, the results of subsidiary companies acquired or disposed of during the financial year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. The assets and liabilities of subsidiary companies are measured at their fair values at the date of acquisition and these values are reflected in the consolidated balance sheet. The difference between the cost of an acquisition and the fair value of the Group's share of the net assets of the acquired subsidiaries at the date of acquisition is included in the consolidated balance sheet as goodwill or negative goodwill arising on consolidation.

Intra-group transactions, balances and resulting unrealised gains are eliminated on consolidation and the consolidated financial statements reflect external transactions only. Unrealised losses are eliminated on consolidation unless costs cannot be recovered.

(c) Goodwill

Goodwill represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, at the date of acquisition.

Goodwill is stated at cost less accumulated amortisation and impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 9.1(q). Goodwill arising on the acquisition of subsidiary companies is presented separately in the balance sheet.

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary company, at the date of acquisition over the cost of acquisition.

Negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the income statement over the weighted average useful life of those assets. Negative goodwill in excess of the fair value of the non-monetary assets acquired is recognised immediately in the income statement.

To the extent the negative goodwill relates to expectation of future losses and expenses that are identified in the plan of the acquisition and can be measured reliably, but which are not identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the income statement when the future losses and expenses are recognised.

9.1 Significant Accounting Policies (cont'd)

(d) Revenue recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Revenue relating to sale of goods is recognised upon delivery of products and customer acceptance.

(e) Research and development cost

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is expensed to the income statement.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is expensed in the income statement as incurred.

(f) Finance expenses

All interest and other costs incurred in connection with borrowings are expensed as incurred.

(g) Property, plant and equipment

Property, plant and equipment are stated at historical cost, which comprises the acquisition cost and any incidental cost arising from the acquisition, less accumulated depreciation and impairment losses. Long term leasehold land is stated at cost less accumulated amortisation and impairment losses. The long term leasehold land is amortised over the remaining lease period of the lease.

All other property, plant and equipment are depreciated on a straight line method in order to write off the cost of each asset to its residual value over its estimated useful life at the following annual rates.

Building	2%
Plant and machinery	5-10%
Motor vehicles	20%
Furniture and fittings	10%
Tools and hardware	5%
Office equipment	10%
Laboratory equipment	10%
Electrical installation	10%

Where an indication of impairment exists, the carrying value of the asset is assessed and written down to its recoverable amount.

9.1 Significant Accounting Policies (cont'd)

(h) Investments in subsidiary companies

Investment in unquoted shares of subsidiary companies is stated at cost less any impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 9.1 (q).

On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is recognised in the income statement.

(i) Inventories

Inventories are stated at the lower of cost (determined on a first-in, first-out basis) and net realisable value.

Cost of raw materials comprises the original cost of purchase plus the cost of bringing the inventories to their present condition and location.

Cost of finished goods and work-in-progress includes direct materials, direct labour, other direct costs and appropriate production overheads.

(j) Receivables

Receivables are carried at anticipated realisable value. Bad debts are written off in the period in which they are identified. An estimate is made for doubtful debts based on a review of all outstanding amounts at the financial year end.

(k) Foreign currency transactions

Transactions in foreign currencies are converted into Ringgit Malaysia at the rates of exchange ruling on transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Ringgit Malaysia at the approximate rates of exchange on that date. All gains or losses from currency transactions are taken up in the income statement.

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

	2005
	RM
1 US Dollar	3.80

(l) Cash and cash equivalents

The Group adopt the indirect method in the preparation of cash flow statements. Cash and cash equivalents comprises of cash at bank and in hand which are subject to an insignificant risk of change in value.

(m) Payables

Borrowings, 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 rendered, or at the amount which is due and expected to be settled.

9.1 Significant Accounting Policies (cont'd)

(n) Leases

(i) Finance leases and hire purchase

Assets financed by finance lease and hire-purchase which transfer substantially all the risks and rewards of ownership to the Group are capitalised as property, plant and equipment and the corresponding obligations are treated as liabilities. The assets and obligations arising from hire purchase are recorded at the fair value of the assets at the beginning of the duration of the hire purchase. The amounts of the assets are depreciated over their useful lives consistent with the depreciation rates the Group adopts for depreciable assets that are owned as described in Note 9.1(g).

Finance charges are expensed off to the income statement over the period of the respective agreements to give a constant periodic rate of charge on the remaining hire-purchase liabilities.

(ii) Operating leases

Leases other than finance leases are classified as operating leases. Lease payments under operating leases are recognised as an expense in the income statement on a straight line basis over the lease period.

(o) Employee Benefits

(i) Short term benefits

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

(ii) Defined contribution plans

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

(p) Income Tax

Taxation on profit or loss for the financial year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the financial year, using tax rates that have been enacted at the balance sheet date, and any adjustment to tax payable in respect of previous financial years.

9.1 Significant Accounting Policies (cont'd)

(p) Income Tax (cont'd)

Deferred taxation is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Temporary differences are not recognised for initial recognition of assets or liabilities that at the time of transaction affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that is probable that future taxable profits will be available against which the asset can be utilised.

(q) Impairment of assets

The carrying amounts of the Group's assets other than financial assets and inventories 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 and an impairment loss is recognised whenever the recoverable amount is less than the carrying amount of the assets.

An impairment loss is charged to income statement immediately. Subsequent increase in the recoverable amount of an asset is treated as reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of depreciation) had no impairment loss been recognised. The reversal is recognised in the income statement immediately.

(r) Financial Instruments

Financial instruments are recognised in the balance sheet when the Group has become a party to contractual provisions of the instrument.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends and gains and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

(i) Equity instruments

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the financial year in which they are declared.

(ii) Other financial instruments

The accounting policies for financial instruments other than equity instruments are disclosed in the individual policies associated with each item.

9.2 Property, plant and equipment

	Cost	
	As at 31.05.2005 RM'000	After Public Issue And ESOS RM'000
Leasehold land	1,620	1,620
Buildings	993	993
Building in progress	2	2
Plant and machinery	1,947	1,947
Motor vehicles	171	171
Furniture and fittings	293	293
Tools and hardware	186	186
Office equipment	131	131
Laboratory equipment	38	38
Electrical installation	18	18
	5,399	5,399

	Accumulated depreciation	
	As at 31.05.2005 RM'000	After Public Issue And ESOS RM'000
Leasehold land	127	127
Buildings	79	79
Building in progress	-	-
Plant and machinery	351	351
Motor vehicles	162	162
Furniture and fittings	111	111
Tools and hardware	27	27
Office equipment	53	53
Laboratory equipment	12	12
Electrical installation	4	4
	926	926