

12. ACCOUNTANTS' REPORT

(Prepared for inclusion in this Prospectus)



24 JUL 2006

The Board of Directors
Sanichi Technology Berhad
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Dear Sirs:

SANICHI TECHNOLOGY BERHAD ("SANICHI" OR "COMPANY") ACCOUNTANTS' REPORT

1. PURPOSE OF REPORT

This report has been prepared by Horwath, an approved company auditor, for inclusion in the Prospectus of Sanichi to be dated **15 AUG 2006** in connection with the listing of Sanichi on the MESDAQ Market of the Bursa Malaysia Securities Berhad ("Bursa Securities"). The details of the listing scheme are disclosed in paragraph 2 of this report.

2. DETAILS OF THE RESTRUCTURING AND LISTING SCHEME

In conjunction with and as an integral part of the listing of Sanichi on the MESDAQ Market of Bursa Securities, the Company undertook the following transactions which have been approved by the relevant authorities:-

(1) Restructuring Scheme

Sanichi has undertaken an internal restructuring scheme comprising the following:-

- (a) the share split entails the subdivision of every one (1) ordinary share of RM1.00 in Sanichi into ten (10) ordinary shares of RM0.10 each ("Share Split"). The share split was completed on 20 June 2006;
- (b) acquisition of the entire issued and paid-up share capital of Sanichi Precision Mould Sdn. Bhd. ("SPMSB") comprising 350,000 ordinary shares of RM1.00 each for a total purchase consideration of RM8,300,000 satisfied by the issuance of 83,000,000 new ordinary shares of RM0.10 each in Sanichi at an issue price of RM0.10 per share ("SPMSB Acquisition"). The SPMSB acquisition was completed on 20 June 2006; and
- (c) acquisition of the entire issued and paid-up share capital of Asia Pinnacle Sdn. Bhd. ("APSB") comprising 2 ordinary shares of RM1.00 each for a total purchase consideration of RM2 satisfied by cash. The APSB acquisition was completed on 20 June 2006.

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12. ACCOUNTANTS' REPORT (Cont'd)**2. DETAILS OF THE RESTRUCTURING AND LISTING SCHEME (CONT'D)****(2) Listing Scheme**

The listing scheme of Sanichi comprises the following:-

- (a) public issue of 30,499,980 new ordinary shares of RM0.10 each at an issue price of RM0.52 per ordinary share ("Public Issue") which will be allocated and allotted in the following manner:-
 - (i) 3,000,000 new ordinary shares of RM0.10 each for application by the Malaysian public;
 - (ii) 25,000,000 new ordinary shares of RM0.10 each for placement to identified investors; and
 - (iii) 2,499,980 new ordinary shares of RM0.10 each for application by eligible directors, employees and business associates of Sanichi and its subsidiaries ("Sanichi Group" or "the Group").
- (b) admission to the official list of the MESDAQ Market and listing of and quotation for the entire enlarged issued and paid-up share capital of RM11,350,000 comprising 113,500,000 ordinary shares of RM0.10 each on the MESDAQ Market.

3 GENERAL INFORMATION**3.1 INCORPORATION**

The Company was incorporated as a public company in Malaysia under the Companies Act, 1965 on 5 August 2004 under the name of Sanichi Technology Berhad.

3.2 PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holdings.

3.3 SHARE CAPITAL

The Company was incorporated with an authorised share capital of RM100,000 comprising 100,000 ordinary shares of RM1.00 each. On 20 June 2006, the authorised share capital was subdivided into 1,000,000 ordinary shares of RM0.10 each and subsequently on 20 June 2006, the authorised share capital was increased from RM100,000 to RM25,000,000 comprising 250,000,000 ordinary shares of RM0.10 each.

The present issued and fully paid-up share capital of the Company is RM8,300,002 comprising 83,000,020 ordinary shares of RM0.10 each. Upon completion of the Public Issue, the issued and fully paid-up share capital of the Company will be enlarged to RM11,350,000 comprising 113,500,000 ordinary shares of RM0.10 each.

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12. ACCOUNTANTS' REPORT (Cont'd)



3 GENERAL INFORMATION (CONT'D)

3.3 SHARE CAPITAL (CONT'D)

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

| Date of allotment | No. of ordinary shares issued | Par value RM | Consideration/ Type of issue | Cumulative issued and paid-up share capital RM |
|-------------------|-------------------------------|--------------|--|--|
| 5.8.2004 | 2 | 1.00 | Subscribers' shares | 2 |
| 20.6.2006 | 18 | 0.10 | Share split | 2 |
| 20.6.2006 | 83,000,000 | 0.10 | Issued pursuant to the SPMSB acquisition | 8,300,002 |

Upon completion of the Public Issue as stated in Section 2.2, the issued and fully paid up share capital of Sanichi will be increased to RM11,350,000 comprising 113,500,000 ordinary shares of RM0.10 each.

3.4 PRINCIPAL ACTIVITIES OF THE SUBSIDIARIES

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

| NAME OF COMPANY | DATE OF INCORPORATION | EFFECTIVE EQUITY INTEREST (%) | PRINCIPAL ACTIVITIES |
|-----------------|-----------------------|-------------------------------|---|
| SPMSB | 25 February 2000 | 100.0 | Design and fabrication of precision moulds and tooling. |
| APSB | 5 July 2004 | 100.0 | Design and fabrication of precision moulds and tooling. |

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12. ACCOUNTANTS' REPORT (Cont'd)**3 GENERAL INFORMATION (CONT'D)****3.5 RELEVANT FINANCIAL PERIOD AND AUDITORS**

The relevant financial period for the purpose of this report ("Relevant Financial Period") and the auditors of the respective companies for the Relevant Financial Period is as follows:-

| Company | Relevant Financial Period | Auditors |
|----------------|--|---|
| Sanichi | Financial period from 5 August 2004 (date of incorporation) to 30 June 2005 and financial period ended ("FPE") 28 February 2006. | Horwath, Malaysia |
| SPMSB | Financial year ended ("FYE") 30 June 2003. FYE 30 June 2004 to 2005 and FPE 28 February 2006. | Horwath Wong & Co., Malaysia Horwath, Malaysia |
| APSB | Financial period from 5 July 2004 (date of incorporation) to 30 June 2005 and FPE 28 February 2006. | Horwath, Malaysia |

The auditors' reports on the financial statements of Sanichi, SPMSB and APSB for the Relevant Financial Period were not subject to any audit qualification.

4 ACCOUNTING STANDARDS AND POLICIES**4.1 BASIS OF PREPARATION**

The financial statements of Sanichi, SPMSB and APSB are prepared under the historical cost convention and modified to include other bases of valuation as disclosed under significant accounting policies below. The financial statements comply with applicable approved accounting standards in Malaysia applicable for the Relevant Financial Period.

4.2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted by Sanichi, SPMSB and APSB in the preparation of this report are as follows:-

(a) Financial Instruments

Financial instruments are recognised in the balance sheet when Sanichi, SPMSB and APSB have become a party to the contractual provision of the instruments.

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

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12. ACCOUNTANTS' REPORT (Cont'd)



4 ACCOUNTING STANDARDS AND POLICIES (CONT'D)

4.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Financial Instruments (Cont'd)

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

Financial instruments recognised in the balance sheet are disclosed in the individual policy statement associated with each item.

(b) Property, Plant and Equipment

Property, plant and equipment, other than freehold land, are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Freehold land is stated at cost less impairment losses, if any, and is not depreciated.

Depreciation is calculated under the straight-line method to write off the cost of the assets over their estimated useful lives. The principal annual rates used for this purpose are:-

| | |
|--|---------------------------------|
| Leasehold land | Over the remaining lease period |
| Buildings | 2% |
| Plant and machinery | 15% |
| Furniture, fittings, office equipment, and motor vehicles | 15% and 20% |

(c) Impairment of Assets

The carrying amounts of assets, other than those to which FRS 136 - Impairment of Assets does not apply, are reviewed at each balance sheet date for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts.

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

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

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12. ACCOUNTANTS' REPORT (Cont'd)**4 ACCOUNTING STANDARDS AND POLICIES (CONT'D)****4.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(d) Assets under Hire Purchase**

Plant and equipment acquired under hire purchase are capitalised in the financial statements and are depreciated in accordance with the policy set out in Note 4.2(b). Each hire purchase payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. Finance charges are allocated to the income statement over the periods of the respective hire purchase agreements.

(e) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in-first-out basis and comprises the cost of material and incidentals incurred in bringing the inventories to their present location and condition. Cost of work-in-progress includes the cost of materials, labour and an appropriate proportion of production overheads.

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

(f) Receivables

Receivables are carried at anticipated realisable values. Bad debts are written off in the period in which they are identified. An estimate is made for doubtful debts based on a review of all outstanding amounts as at the balance sheet date.

(g) Payables

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

(h) Equity Instruments

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised as liabilities when 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 earnings and treated as a separate component of equity. Upon the approval of the proposed dividend, it will be accounted for as a liability.

(i) Cash and Cash Equivalents

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

12. ACCOUNTANTS' REPORT (Cont'd)**4 ACCOUNTING STANDARDS AND POLICIES (CONT'D)****4.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(j) Foreign Currency**

Transactions in foreign currencies are converted into Ringgit Malaysia at the approximate rates of exchange ruling at the transaction dates. Monetary assets and liabilities in foreign currencies at the balance sheet date are translated at the rates ruling as of that date. All exchange differences are taken to the income statement.

(k) Taxation

Taxation for the year/period comprises current and deferred tax.

Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year/period and is measured using the tax rates that have enacted or substantially enacted at the balance sheet date.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax liabilities are recognised for all taxable temporary differences other than those that arise 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 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 differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year/period when the asset is realised or the liability is settled, based on the 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. The carrying amounts of deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilised.

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



4 ACCOUNTING STANDARDS AND POLICIES (CONT'D)

4.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(l) Employee Benefits

(i) Short-term benefits

Wages, salaries, paid annual leave, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of Sanichi, SPMSB and APSB.

(ii) Defined Contribution Plans

The contributions of Sanichi, SPMSB and APSB to defined contribution plans are charged to the income statement in the period to which they relate. Once the contributions have been paid, Sanichi, SPMSB and APSB have no further liabilities in respect of the defined contribution plans.

(m) Revenue Recognition

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

4.3 CONSISTENCY OF APPLICATION OF ACCOUNTING POLICIES

There were no changes in the significant accounting policies adopted by the Group during the Relevant Financial Period.

5 AUDITED FINANCIAL STATEMENTS

No consolidated financial statements of the Sanichi Group are presented for the Relevant Financial Period as the Sanichi Group was only formed in 20 June 2006.

Accordingly, we set out the following audited financial statements of Sanichi, SPMSB and APSB for the Relevant Financial Period.

The financial statements as presented in Section 5.1, 5.2 and 5.3 are based on the audited financial statements, modified as appropriate, for the purpose of this report.

All information is extracted from the audited financial statements except those in italics which are prepared based on calculation, representation and explanation provided by the management.

12. ACCOUNTANTS' REPORT (Cont'd)



5 AUDITED FINANCIAL STATEMENTS (CONT'D)

5.1 SANICHI

5.1.1 INCOME STATEMENTS OF SANICHI

| | | Ten (10) months financial period ended 30 June 2005 RM'000 | Eight (8) months financial period ended 28 February 2005 RM'000 (Unaudited) | 2006 RM'000 |
|---|-------|---|--|----------------|
| Revenue | | - | - | - |
| Operating overheads | | (15) | (10) | (7) |
| Loss before taxation ("LBT") | 5.1.5 | (15) | (10) | (7) |
| Taxation | | - | - | - |
| Loss after taxation ("LAT") | | (15) | (10) | (7) |
| GP Margin (%) | | N/A | N/A | N/A |
| LBT Margin (%) | | N/A | N/A | N/A |
| LAT Margin (%) | | N/A | N/A | N/A |
| Effective tax rate (%) | | N/A | N/A | N/A |
| Interest coverage (times) | | N/A | N/A | N/A |
| Weighted average number of ordinary shares of RM1.00 each in issue | | # | # | # |
| Gross loss per share ("LPS") | | (8) | (5) | (4) |
| Net LPS | | (8) | (5) | (4) |

Represents two (2) ordinary shares of RM1.00 each
N/A Not Applicable

Notes:

- (i) There were no exceptional or extraordinary items in the Relevant Financial Period under review.
- (ii) The gross LPS and net LPS were computed by dividing the LBT and LAT respectively by the weighted average number of ordinary shares in issue during the period.
- (iii) The income statements of Sanichi for the Relevant Financial Period represent preliminary expenses and pre-operating expenses.
- (iv) The principal activity of the company is investment holding.

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12. ACCOUNTANTS' REPORT (Cont'd)



5 AUDITED FINANCIAL STATEMENTS (CONT'D)

5.1 SANICHI (CONT'D)

5.1.2 BALANCE SHEETS OF SANICHI

| | NOTE | As at 30 June 2005 RM'000 | As at 28 February 2006 RM'000 |
|--|-------|------------------------------------|--|
| CURRENT ASSETS | | | |
| Prepayments | | 342 | 342 |
| Cash in hand | | * | * |
| | | <u>342</u> | <u>342</u> |
| CURRENT LIABILITY | | | |
| Other payable and accruals | 5.1.6 | 357 | 364 |
| | | <u>357</u> | <u>364</u> |
| NET CURRENT LIABILITIES | | | |
| | | <u>(15)</u> | <u>(22)</u> |
| | | <u>(15)</u> | <u>(22)</u> |
| REPRESENTED BY:- | | | |
| Share capital | | * | * |
| Accumulated losses | | (15) | (22) |
| SHAREHOLDERS' EQUITY DEFICIT | | | |
| | | <u>(15)</u> | <u>(22)</u> |
| <i>Number of ordinary shares of RM1.00 each in issue</i> | | # | # |
| <i>Net tangible liabilities ("NTL")</i> | | (15) | (22) |
| <i>NTL per ordinary share ^</i> | | (8) | (11) |
| <i>Trade receivables turnover period (times)</i> | | N/A | N/A |
| <i>Trade payables turnover period (times)</i> | | N/A | N/A |
| <i>Gearing ratio (times)</i> | | N/A | N/A |

* Represents RM2.00

Represents two (2) ordinary shares of RM1.00 each

^ NTL per ordinary share is calculated based on the ordinary shares in issue as at financial period end under review.

N/A Not applicable

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12. ACCOUNTANTS' REPORT (Cont'd)



5 AUDITED FINANCIAL STATEMENTS (CONT'D)

5.1 SANICHI (CONT'D)

5.1.3 CASHFLOW STATEMENTS OF SANICHI

| | Ten (10) months financial period ended 30 June 2005 RM'000 | Eight (8) months financial period ended 28 February 2005 RM'000 (Unaudited) | 2006 RM'000 |
|---|---|--|----------------|
| CASH FLOW FROM OPERATING ACTIVITY | | | |
| Loss before taxation | (15) | (10) | (7) |
| Adjustment for:- | | | |
| Increase in prepayments | (342) | (338) | - |
| Increase in other payable | 357 | 348 | 7 |
| NET CASH FROM OPERATING ACTIVITY | - | - | - |
| CASH FLOWS FROM FINANCING ACTIVITY | | | |
| Proceeds from issuance of shares | * | * | - |
| NET CASH FROM FINANCING ACTIVITY | * | * | - |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | * | * | - |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL PERIOD | - | - | * |
| CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL PERIOD | * | * | * |

* Represents RM2.00

5.1.4 STATEMENTS OF CHANGES IN EQUITY OF SANICHI

| | Share Capital RM'000 | Accumulated Losses RM'000 | Total RM'000 |
|--|----------------------------|---------------------------------|-----------------|
| Balance at 5.8.2004 (date of incorporation) | * | - | - |
| Loss after taxation for the financial period | - | (15) | (15) |
| Balance at 30.6.2005/1.7.2005 | * | (15) | (15) |
| Loss after taxation for the financial period | - | (7) | (7) |
| Balance at 28.2.2006 | * | (22) | (22) |

* Represents RM2.00

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12. ACCOUNTANTS' REPORT (Cont'd)



5 AUDITED FINANCIAL STATEMENTS (CONT'D)

5.1 SANICHI (CONT'D)

5.1.5 LOSS BEFORE TAXATION

| | Ten (10) months financial period ended 30 June 2005 RM'000 | Eight (8) months financial period ended 28 February 2006 RM'000 |
|--|--|--|
| Loss for the financial period is arrived at after charging:- | | |
| Audit fees | ^ | ^ |

^ Represents RM500

5.1.6 OTHER PAYABLE AND ACCRUALS

| | 30.6.2005 RM'000 | 28.2.2006 RM'000 |
|------------------|---------------------|---------------------|
| Other payable | 356 | 360 |
| Accrued expenses | 1 | 4 |
| | <u>357</u> | <u>364</u> |

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12. ACCOUNTANTS' REPORT (Cont'd)



5 AUDITED FINANCIAL STATEMENTS (CONT'D)

5.2 SPMSB

5.2.1 INCOME STATEMENTS OF SPMSB

| | NOTE | Financial year ended 30 June | | | Eight (8) months financial period ended 28 February | |
|---|-------|------------------------------|----------------|----------------|---|----------------|
| | | 2003 RM'000 | 2004 RM'000 | 2005 RM'000 | 2005 RM'000 (Unaudited) | 2006 RM'000 |
| Revenue | 5.2.5 | 6,071 | 9,553 | 15,019 | 10,259 | 13,565 |
| Cost of sales | | (4,228) | (6,229) | (9,209) | (6,379) | (8,676) |
| GP | | 1,843 | 3,324 | 5,810 | 3,880 | 4,889 |
| Other income | | - | - | 372 | 31 | 116 |
| | | 1,843 | 3,324 | 6,182 | 3,911 | 5,005 |
| Operating overheads | | (995) | (1,498) | (2,655) | (1,441) | (1,863) |
| Profit before taxation ("PBT") | | 848 | 1,826 | 3,527 | 2,470 | 3,142 |
| Depreciation | | 610 | 972 | 1,166 | 708 | 1,025 |
| Interest expenses | | 129 | 221 | 402 | 229 | 488 |
| Interest income | | - | - | (28) | (19) | (22) |
| Earning before interest, depreciation and tax | | 1,587 | 3,019 | 5,067 | 3,388 | 4,633 |
| Depreciation | | (610) | (972) | (1,166) | (708) | (1,025) |
| Interest expenses | | (129) | (221) | (402) | (229) | (488) |
| Interest income | | - | - | 28 | 19 | 22 |
| PBT | 5.2.6 | 848 | 1,826 | 3,527 | 2,470 | 3,142 |
| Taxation | 5.2.7 | (42) | (219) | (469) | (509) | (691) |
| Profit after taxation ("PAT") | | 806 | 1,607 | 3,058 | 1,961 | 2,451 |
| GP Margin (%) | | 30 | 35 | 39 | 38 | 36 |
| PBT Margin (%) | | 14 | 19 | 23 | 24 | 23 |
| PAT Margin (%) | | 13 | 17 | 20 | 19 | 18 |
| Effective tax rate (%) | | 5 | 12 | 13 | 21 | 22 |
| Interest coverage (times) | | 7.6 | 9.3 | 9.8 | 11.8 | 7.4 |
| Weighted average number of ordinary shares of RM1.00 each in issue ('000) | | 167 | 283 | 350 | 350 | 350 |
| Gross Earnings per share ("EPS") (RM) | | 5.08 | 6.45 | 10.08 | 7.06 | 8.98 |
| Net EPS (RM) | | 4.83 | 5.68 | 8.74 | 5.60 | 7.00 |

Notes:

- (i) There were no exceptional or extraordinary items in the Relevant Financial Period under review.
- (ii) The gross EPS and net EPS were computed by dividing the PBT and PAT respectively by the weighted average number of ordinary shares in issue during the period.

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12. ACCOUNTANTS' REPORT (Cont'd)



5 AUDITED FINANCIAL STATEMENTS (CONT'D)

5.2 SPMSB (CONT'D)

5.2.1 INCOME STATEMENTS OF SPMSB (CONT'D)

(iii) Turnover for the FYE 30 June 2003 increased by approximately RM1.8 million or 43% as compared to the FYE 30 June 2002. During the financial year, SPMSB launched its new APIM, namely Rapid Cooling Mould ("RCM") and Multi Polymer Mould ("MPM"). As a result, turnover for APIM increased by approximately RM970,000. Turnover for CPIM for the FYE 30 June 2003 increased by approximately RM868,000 or 21% as compared to the previous financial year. The increase in CPIM is mainly contributed by the increase in sales to existing and new customers in Singapore.

Turnover for the FYE 30 June 2004 increased by approximately RM3.5 million or 57%, mainly due to the increase in sales of APIM by approximately RM2.6 million. Export sales increased by approximately RM1.3 million or 90% mainly due to the increase in sales to major customer in Singapore and penetration of the new market in Indonesia. Local sales increased by approximately RM2.2 million or 47%, mainly due to orders secured from a new customer and the increased in sales to existing customers.

For the FYE 30 June 2005, turnover increased by approximately RM5.5 million or 57%, mainly due to the increase in sales of APIM of approximately RM4.2 million or 111% as compared to APIM sales in the FYE 30 June 2004. Sales of APIM increased mainly due to additional orders secured from new MNC customers. Total export sales for the year amounted to approximately RM6 million or 40% of total sales, mainly arising from the increase in sales to Japan, Singapore and France of approximately RM2.9 million, RM1.9 million and RM442,000 respectively.

For the eight (8) months period ended 28 February 2006, SPMSB managed to record a turnover of approximately RM13.6 million, with sales of APIM of approximately RM7.6 million or 56% of the total sales for the period. Local sales increased by approximately RM2.6 million or 43% as compared to previous comparable period mainly due to orders of APIM increased from a new customer and additional orders from existing MNC customers. Total export sales for the period increased by approximately RM636,000 as compared to the previous comparable period mainly due to orders secured from a new and existing customers from France and Japan.

(iv) PBT for the FYE 30 June 2003 increased by approximately 27% was mainly due to the relatively fixed nature of administrative and general expenses incurred which did not increase at the same pace as the increase in turnover.

PBT for the FYE 30 June 2004 increased by approximately RM978,000 or 115% as compared to the previous financial year. The increment was mainly due to higher gross profit generated and relatively fixed nature of administrative expenses.

PBT for the FYE 30 June 2005 increased by approximately RM1.7 million or 93% as compared to previous financial year. The increment was mainly due to increase of sales of higher profit margin products.

For the eight (8) months period ended 28 February 2006, the SPMSB achieved a PBT of approximately RM3.1 million. PBT increased by approximately RM692,000 or 28% as compared to the previous comparable period which is in line with increase of sales and relatively fixed nature of administrative expenses incurred during the financial period under review.

(v) The effective tax rate for the FYE 30 June 2003, 2004, 2005 and eight (8) months period ended 28 February 2006 was lower than the statutory tax rate mainly due to availability and the utilisation of reinvestment allowances to reduce the chargeable income.

12. ACCOUNTANTS' REPORT (Cont'd)



5 AUDITED FINANCIAL STATEMENTS (CONT'D)

5.2 SPMSB (CONT'D)

5.2.2 BALANCE SHEETS OF SPMSB

| | | As at 30 June | | | As at 28 |
|---|--------|----------------|----------------|----------------|----------------------------|
| | NOTE | 2003 RM'000 | 2004 RM'000 | 2005 RM'000 | February 2006 RM'000 |
| NON-CURRENT ASSET | | | | | |
| Property, plant and equipment | 5.2.8 | 5,203 | 7,120 | 9,605 | 9,516 |
| CURRENT ASSETS | | | | | |
| Inventories | 5.2.9 | 932 | 1,190 | 158 | 255 |
| Trade receivables | 5.2.10 | 1,165 | 2,629 | 6,401 | 8,888 |
| Other receivables, deposits and prepayments | 5.2.11 | 98 | 102 | 553 | 529 |
| Amount owing by a director | 5.2.12 | - | 3 | 6 | - |
| Fixed deposits with licensed banks | 5.2.13 | 20 | 378 | 382 | 1,139 |
| Cash and bank balances | | 2 | 7 | 92 | 631 |
| | | 2,217 | 4,309 | 7,592 | 11,442 |
| CURRENT LIABILITIES | | | | | |
| Trade payables | 5.2.14 | 1,179 | 1,106 | 1,333 | 1,132 |
| Progress billings | | 1,064 | 1,608 | 87 | 89 |
| Other payables and accruals | 5.2.15 | 902 | 375 | 632 | 415 |
| Amounts owing to directors | 5.2.12 | 158 | 2 | 20 | - |
| Provision for taxation | | - | 58 | 101 | 527 |
| Short term borrowings | 5.2.16 | 671 | 1,734 | 3,758 | 5,531 |
| Bank overdrafts | 5.2.19 | 65 | 241 | 634 | 555 |
| | | 4,039 | 5,124 | 6,565 | 8,249 |
| NET CURRENT (LIABILITIES)/ASSETS | | (1,822) | (815) | 1,027 | 3,193 |
| | | 3,381 | 6,305 | 10,632 | 12,709 |
| FINANCED BY:- | | | | | |
| Share capital | 5.2.20 | 250 | 350 | 350 | 350 |
| Retained profits | | 1,436 | 2,693 | 5,751 | 8,202 |
| SHAREHOLDERS' EQUITY | | 1,686 | 3,043 | 6,101 | 8,552 |
| NON-CURRENT LIABILITIES | | | | | |
| Long term borrowings | 5.2.21 | 1,600 | 3,110 | 4,207 | 3,731 |
| Deferred taxation | 5.2.22 | 95 | 152 | 324 | 426 |
| | | 1,695 | 3,262 | 4,531 | 4,157 |
| | | 3,381 | 6,305 | 10,632 | 12,709 |
| <i>Number of ordinary shares of RM1.00 each in issue ('000)</i> | | 250 | 350 | 350 | 350 |
| <i>Net tangible assets ("NTA")</i> | | 1,686 | 3,043 | 6,101 | 8,552 |
| <i>NTA per ordinary share (RM)^</i> | | 6.7 | 8.7 | 17.4 | 24.4 |
| <i>Inventories turnover period (times)</i> | | 4.5 | 5.2 | 58.2 | 34.0 |
| <i>Trade receivables turnover period (times)</i> | | 5.2 | 3.6 | 2.3 | 1.5 |
| <i>Trade payables turnover period (times)</i> | | 2.1 | 3.1 | 2.5 | 4.5 |
| <i>Gearing ratio (times)</i> | | 1.4 | 1.7 | 1.4 | 1.1 |

^a NTA per ordinary share is calculated based on the ordinary shares in issue as at financial year/period end under review.

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12. ACCOUNTANTS' REPORT (Cont'd)



5 AUDITED FINANCIAL STATEMENTS (CONT'D)

5.2 SPMSB (CONT'D)

5.2.3 CASHFLOW STATEMENTS OF SPMSB

| Note | Financial year ended 30 June | | | Eight (8) months financial period ended 28 February | |
|--|------------------------------|----------------|----------------|---|----------------|
| | 2003 RM'000 | 2004 RM'000 | 2005 RM'000 | 2005 RM'000 | 2006 RM'000 |
| | | | | | (Unaudited) |
| CASH FLOW FROM/(FOR) OPERATING ACTIVITIES | | | | | |
| Profit before taxation | 848 | 1,826 | 3,527 | 2,470 | 3,142 |
| Adjustments for:- | | | | | |
| Allowances for doubtful debts | - | - | - | - | 143 |
| Depreciation of property, plant and equipment | 610 | 972 | 1,166 | 708 | 1,025 |
| Equipment written off | - | - | 334 | - | - |
| Gain on foreign exchange - unrealised | - | - | - | - | (70) |
| Interest expenses | 129 | 221 | 402 | 229 | 488 |
| Interest income | - | - | (28) | (19) | (22) |
| Loss on disposal of property, plant and equipment | 5 | 16 | 33 | 23 | - |
| Mould design fees reclassification from plant and equipment | 7 | - | - | - | - |
| Operating profit before working capital changes | 1,599 | 3,035 | 5,434 | 3,411 | 4,706 |
| (Increase)/decrease in inventories | (695) | (258) | 1,032 | 928 | (97) |
| Increase in trade and other receivables | (601) | (1,468) | (4,223) | (3,410) | (2,537) |
| (Increase)/decrease in amount owing by a director | - | (3) | (3) | (144) | 6 |
| Increase/(decrease) in trade and other payables | 1,500 | (600) | 484 | 175 | (419) |
| Increase/(decrease) in progress billings | - | 544 | (1,521) | (1,315) | 2 |
| Increase/(decrease) in amounts owing to directors | 83 | (156) | 18 | (2) | (20) |
| CASH FROM/(FOR) OPERATIONS | 1,886 | 1,094 | 1,221 | (357) | 1,641 |
| Interest paid | (129) | (221) | (402) | (229) | (488) |
| Income tax paid | (21) | (104) | (255) | (110) | (162) |
| NET CASH FROM/(FOR) OPERATING ACTIVITIES | 1,736 | 769 | 564 | (696) | 991 |
| CASH FLOWS FOR INVESTING ACTIVITIES | | | | | |
| Interest received | - | - | 28 | 19 | 22 |
| Purchase of property, plant and equipment | (1,230) | (2,084) | (3,503) | (834) | (726) |
| Proceeds from disposal of plant and equipment | 15 | 152 | 116 | 105 | - |
| NET CASH FOR INVESTING ACTIVITIES | (1,215) | (1,932) | (3,359) | (710) | (704) |
| CASH FLOWS (FOR)/FROM FINANCING ACTIVITIES | | | | | |
| Dividends paid | - | (350) | - | - | - |
| Net drawdown of bankers' acceptances | - | 799 | 1,780 | 1,243 | 1,695 |
| (Net repayment)/net drawdown of term loans | (16) | 1,483 | 1,889 | (123) | (52) |
| Net repayment of hire purchases obligation | (524) | (682) | (1,178) | (621) | (555) |
| Proceeds from issuance of shares | 100 | 100 | - | - | - |
| NET CASH (FOR)/FROM FINANCING ACTIVITIES | (440) | 1,350 | 2,491 | 499 | 1,088 |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | 81 | 187 | (304) | (907) | 1,375 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR/PERIOD | (124) | (43) | 144 | 144 | (160) |
| CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR/PERIOD | (43) | 144 | (160) | (763) | 1,215 |

5.2.23

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12. ACCOUNTANTS' REPORT (Cont'd)



5 AUDITED FINANCIAL STATEMENTS (CONT'D)

5.2 SPMSB (CONT'D)

5.2.4 STATEMENTS OF CHANGES IN EQUITY OF SPMSB

| | Share Capital RM'000 | Retained Profits RM'000 | Total RM'000 |
|--|----------------------------|-------------------------------|-----------------|
| Balance at 1.7.2002 | | | |
| As previously reported | 150 | 680 | 830 |
| Prior year adjustment * | - | (50) | (50) |
| As restated | 150 | 630 | 780 |
| Issue of shares | 100 | - | 100 |
| Profit after taxation for the financial year | - | 806 | 806 |
| Balance at 30.6.2003/1.7.2003 | 250 | 1,436 | 1,686 |
| Issue of shares | 100 | - | 100 |
| Profit after taxation for the financial year | - | 1,607 | 1,607 |
| Dividends | - | (350) | (350) |
| Balance at 30.6.2004/1.7.2004 | 350 | 2,693 | 3,043 |
| Profit after taxation for the financial year | - | 3,058 | 3,058 |
| Balance at 30.6.2005/1.7.2005 | 350 | 5,751 | 6,101 |
| Profit after taxation for the financial period | - | 2,451 | 2,451 |
| Balance at 28.2.2006 | 350 | 8,202 | 8,552 |

* Prior year adjustment was due to SPMSB adopting the accounting policy with respect to the provision for deferred tax to comply with MASB 25: Income Taxes.

5.2.5 REVENUE

Revenue represents invoiced value of goods sold, based on the completed contract method, less trade discounts and returns, if any.