
12. ACCOUNTANTS' REPORT

(Prepared for inclusion in this Prospectus)



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19 June 2000

Dear Sirs

This report has been prepared for the inclusion in the Prospectus to be dated 30 June 2000 in connection with the public issue of 9,180,000 new ordinary shares of RM1.00 each in Paos Holdings Berhad ("PHB") at an issue price of RM2.00 per ordinary share and the listing of and quotation for its entire issued and paid up share capital on the Main Board of the Kuala Lumpur Stock Exchange ("KLSE").

1 General Information

1.1 Background

PHB was incorporated in Malaysia as a public limited company on 11 November 1997 for the purpose of the proposed acquisition of Paos Industries Sdn Bhd ("PISB") and Premier Oil Industries Sdn Bhd ("POISB") group of companies and is seeking a listing of and quotation for its entire issued and paid up capital comprising 60,000,000 ordinary shares of RM1.00 each on the Main Board of the KLSE.

1.2 Share Capital

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

	<i>No. of Ordinary Shares of RM1.00 each</i>	<i>Total RM</i>
Authorised	100,000,000	100,000,000
Issued and fully paid	50,820,000	50,820,000

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<i>Date of allotment</i>	<i>No. of Ordinary Shares</i>	<i>Par Value</i>	<i>Purpose</i>	<i>Total RM</i>
11.11.1997	2	1.00	Subscriber's share	2
1.6.2000	24,475,438	1.00	Issued as consideration for the acquisition of PISB's entire issued and paid up capital	24,475,438
1.6.2000	7,121,560	1.00	Issued as consideration for the acquisition of POFB's entire issued and paid up capital	7,121,560
22.6.2000	18,920,000	1.00	Rights Issue on the basis of approximately five hundred and ninety three (593) new ordinary shares for one thousand (1,000) existing ordinary shares of RM1.00 each	18,920,000

The issued and fully paid-up share capital of PHB after the proposed public issue of 9,180,000 new ordinary shares would be RM60,000,000 comprising 60,000,000 ordinary shares of RM1.00 each.

1.3 Principal Activity

The principal activity of the Company is that of investment holding.

1.4 Restructuring Scheme

In connection with and as part of the listing of and quotation for the entire issued and paid-up share capital of PHB on the Main Board of the KLSE, PHB will undertake the following restructuring scheme:

- Acquisition of the entire issued and paid-up capital of PISB for a purchase consideration of RM29,491,069 to be satisfied by the issuance of 24,475,438 new ordinary shares of RM1.00 each in PHB at an issue price of RM1.20 per share.

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- Acquisition of the entire issued and paid-up capital of POISR for a purchase consideration of RM8,946,038 to be satisfied by the issuance of 7,424,560 new ordinary shares of RM1.00 each in P11B at an issue price of RM1.20 per share.
- Rights issue of 18,920,000 new ordinary shares of RM1.00 each at an issue price of RM1.05 per ordinary share on the basis of approximately five hundred and ninety three (593) new ordinary shares for one thousand (1,000) existing ordinary shares of RM1.00 each.
- Public issue of 9,180,000 new ordinary shares of RM1.00 each of P11B at an issue price of RM2.00 per ordinary share.

The above scheme was approved by Securities Commission (SC) on 21 February 2000.

1.5 Subsidiary Companies

Upon completion of the restructuring of P11B, the subsidiary companies of P11B Group, all of which are incorporated in Malaysia, as at the date of this report and their principal activities are as follows :-

Name	Date of Incorporation	Share Capital		Equity Interest %	Principal activity
		Authorised RM	Issued and paid-up RM		
Paos Industries Sdn Bhd ("PISB")	11 August 1984	5,000,000	5,000,000	100	Manufacturer and dealer of soap and its related products and trading of specialty fats from palm oil
Premier Oil Industries Sdn Bhd ("POISR")	8 June 1994	5,000,000	5,100,000	100	Manufacturing of specialty fats and animal feed from palm oil
Alpine Legacy Sdn Bhd ("ALSD")	22 November 1994	500,000	100,000	100	Dormant

Note:-

- i) PISB was incorporated on 11 August 1984 as a private limited company in the name of Phang Suan Ying Realty Sdn. Bhd. It changed its name to Paos Industries Sdn. Bhd. on 12 September 1987.

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1.6 Accounts and Auditors

The financial year end of the PHB is 31 May. We have acted as auditors for PHB since its incorporation on 11 November 1997. We have also acted as auditors for PISB since the financial year ended 31 May 1996 and POISB and ALSB since the financial period ended 31 May 1997 respectively. Prior to that, PISB and POISB Group were audited by other firms of accountants.

The Auditors' reports of the PHB for the financial years/periods under review were not subject to any qualification except for the following:-

Paos Industries Sdn. Bhd.

<i>Financial Years</i>	<i>Nature of Qualification</i>
31 May 1994 & 1995	The debtors, creditors and directors' account are subject to confirmation.

During our review for the year ended 31 May 1996, it was noted that the debtors, creditors and directors balances on 1 June 1994 and 1995 were fairly stated.

2 Financial Performance – Group Level

We set out below the proforma consolidated results of the PHB for the past five financial years ended 31 May 1999 and 7 months ended 31 December 1999 after making such adjustments considered necessary, on the assumption that the acquisitions of the subsidiary companies under the restructuring scheme had been in existence throughout the period under review.

2.1 The PHB Group – Proforma Consolidated Results

	<i>Year ended</i>		<i>7 months ended</i>			
	<i>31 May</i>		<i>31 December</i>			
	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>1999</i>
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>
Turnover	80,184	90,213	117,112	198,894	288,564	105,685
Profit before depreciation and interest	3,106	8,417	10,495	16,725	19,163	14,048
Depreciation	(158)	(1,173)	(1,317)	(1,801)	(3,423)	(2,102)
Interest expenses	(632)	(1,685)	(2,093)	(4,975)	(5,339)	(2,186)
Interest income	12	154	301	605	612	152
Profit before taxation	2,128	5,713	7,356	10,551	11,013	9,252
Taxation	(754)	(1,927)	(1,947)	(958)	(554)	(2,026)
Profit after taxation	1,374	3,786	5,409	9,593	10,459	7,226
No. of ordinary shares of RM1.00 each ('000)	31,900	31,900	31,900	31,900	31,900	31,900
Ending per shares (sen)						
- Gross	6.7	17.9	25.1	33.1	34.5	49.7 *
- Net	4.3	11.9	17.0	30.1	32.8	38.8 *

* Annualised

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Note -

1. The increase in turnover and operating profit before taxation during 1995 to 1997 was in line with the strong Malaysian and Asian economy and the growth in the industrial sector. PISB has managed to increase its sales locally and overseas.
2. Turnover increase in 1998 due mainly to the increase in demand of soap chips in PISB and the increase in the palm oil prices.
3. In 1999 POISB increased its production capacity to produce specialty fats and this has increased the Group's turnover. However, the increase was slightly offset by the declining palm oil prices.
4. No provision for taxation was made in 1999 for PISB in view of the tax waiver year pursuant to the Income Tax (Amendment) Act 1999. For POISB, the provision for tax was made in its financial year ended 30 November 1998 of which 6 months ending 30 November 1998 is included in the 1999 performance of the Group.
5. The increase in profit for the 7 month ended 31 December 1999 was due mainly to the commencement of POISB to contract manufacture animal feed from palm oil for a customer. POISB receives a fixed amount of processing fees monthly from a customer.
6. The turnover for the 7 months ended 31 December 1999 after annualising is RM181 million and is lower than that of 1998 due mainly to the declining palm oil prices.

2.2 Notes to the Proforma Consolidated Results

2.2.1 Basis of Consolidation

The proforma consolidated results of the PHB Group have been prepared for illustrative purposes only and are based on the audited accounts of PISB and POISB after making such adjustments that we considered necessary and assuming that the Group has been in existence throughout the period under review.

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Differences in the accounting year end of subsidiary companies

The accounting year end of the Paos Holdings Group is made up in the year ended 31 May. The results of the subsidiary POISB whose financial year end is 30 November from its date of incorporation to 1999 have therefore been consolidated based on the audited accounts as at 30 November 1995 to 1999 and 31 May 1997, 1998 and 1999 for the relevant period/periods after making such adjustments considered necessary to be coterminous with the financial year end of the Group.

The results of POISB have been adjusted based on time apportionment for 1995 to 1997.

2.2.2 In preparing the proforma consolidated results, the following adjustments were considered necessary so that the accounts of the Group are comparable.

Prior year adjustments in respect of provision for deferred taxation have been considered necessary to be adjusted in the proforma consolidated results of the PIB Group prior to the financial year ended 31 May 1996 so that the results of PISB and POISB are comparable.

The effects in the summarised proforma consolidated results are as follows :-

	Year ended					7 months
	1995	1996	1997	1998	1999	ended 31 December 1999
Taxation	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
PISR						
Per Audited accounts	650	1,717	1,705	847	-	1,823
Adjustment	104	-	-	-	-	-
	754	1,717	1,705	847	-	1,823
POISB						
Per Audited accounts *	-	64	270	111	554	203
Adjustment	-	146	15	-	-	-
	-	210	285	111	554	203
Less: consolidated adjustments	-	-	(43)	-	-	-
	751	1,927	1,947	958	554	2,026

* based on time apportionment

In 1995 and 1996 the effective tax rate is higher than the statutory tax rate due to certain expenses being disallowed for tax purpose.

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The effective tax rate for 1997 and 1998 are lower than the statutory rate due to reinvestment allowance claimed. The consolidated adjustment of RM43,000 in 1997 relates to tax effect on the unrealised profit in closing stocks at 31 December 1997 which arose from intercompany sales.

For the year ended 31 May 1999, no provision for taxation was made in PISB in view of the tax waiver year in 1999 pursuant to the Income Tax (Amendment) Act 1999. For POISB, the provision for tax was made for its financial year ended 30 November 1998 of which the results for the 6 months ending 30 November 1998 is included in the 1999 performance of group as mentioned above.

For the 7 months ended 31 December 1999, taxation was provided in POISB for the result of December 1999. No provision for taxation was made on the results of POISB for the 6 months ended 30 November 1999 in view of the tax waiver year in 1999 pursuant to the Income Tax (Amendment) Act, 1999.

2.2.3 Earnings Per Share

Gross earnings per share is calculated based on profit before taxation and net earnings per share has been calculated based on profit after taxation.

After the proposed restructuring, PIIB has an issued and paid up capital of RM31,900,000 comprising 31,900,000 ordinary shares of RM1.00 each prior to Rights Issue.

2.2.4 Extraordinary Items

There were no extraordinary items during the financial years/period under review.

3 Financial Performance

3.1 PIIB

No profit and loss account have been prepared as the company has not commenced operations since its incorporation on 11 November 1997.

3.2 PISB

The following information are based on the audited accounts of PISB after making such adjustment considered necessary per 2.2.3 for the last five years ended 31 May 1999 and 7 months period ended 31 December 1999.

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3.2.1 Summary of Results of POISB

	Year ended					7 months
	1995	1996	1997	1998	1999	ended 31
	RM'000	RM'000	RM'000	RM'000	RM'000	December
			31 May			1999
						RM'000
Turnover	80,181	94,971	125,555	244,291	383,008	142,537
Profit before depreciation and interest	3,106	6,869	8,677	12,565	14,825	7,660
Depreciation	(358)	(510)	(790)	(1,127)	(2,462)	(1,399)
Interest expenses	(632)	(1,379)	(1,670)	(1,392)	(4,839)	(1,922)
Interest income	12	102	284	569	1,060	941
Profit before taxation	2,128	5,152	6,451	7,615	8,584	5,281
Taxation	(354)	(1,717)	(1,705)	(847)	-	(1,823)
Profit after taxation	1,774	3,435	4,746	6,768	8,584	3,458
No. of ordinary shares of RM1.00 each ('000)	1,000	1,000	5,000	5,000	5,000	5,000
Weighted average number of ordinary shares of RM1.00 each in issue ('000)	1,000	1,000	1,746*	5,000	5,000	5,000
Net earning per share (RM)	1.77	3.41	2.72	1.35	1.72	1.19**

* Weighted average number of ordinary shares in issue has been adjusted for the new issue of 550,000 and 3,450,000 ordinary shares of RM1.00 each on 8 July 1996 and 15 May 1997 respectively.

** Annualised.

Note :

1. There were no extraordinary items during the year/period under review.
2. In 1999, no provision for taxation was made in view of the tax waiver year pursuant to the Income Tax (Amendment) Act, 1999.

3.3 POISB

POISB was incorporated on 8 June 1994 and commenced operations on 15 June 1995. The following information are based on the audited accounts of POISB after making such adjustments considered necessary per 2.2.2 for the period ended 30 November 1995, years ended 30 November 1996 to 1999 and one month period ended 31 December 1999.

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3.3.1 Summary of Results of PCHSB

	<i>8.6.91 to 30.11.95</i>	<i>Year ended 30 November</i>				<i>1 month ended 31 December 1999</i>
	<i>RM'000</i>	<i>1996 RM'000</i>	<i>1997 RM'000</i>	<i>1998 RM'000</i>	<i>1999 RM'000</i>	<i>RM'000</i>
Turnover	18,998	37,471	48,803	118,710	117,285	4,545
Profit before depreciation and interest	759	1,582	1,972	1,616	9,300	845
Depreciation	(373)	(581)	(595)	(698)	(1,784)	(180)
Interest expenses	(109)	(496)	(135)	(661)	(1,670)	(140)
Interest income	4	95	23	60	122	-
Profit before taxation	281	600	965	2,317	5,992	525
Taxation	(131)	(157)	(275)	(597)	(157)	(46)
Profit after taxation	150	443	690	1,720	5,835	479
No. of ordinary shares of RM1.00 each ('000)	2,000	3,100	3,100	3,100	3,100	3,100
Weighted average number of ordinary shares of RM1.00 each in issue ('000)	2,000	2,367*	3,100	3,100	3,100	3,100
Net earnings per share (sen)	7.5	18.7	22.3	55.5	188.2	185.1**

* *Weighted average number of ordinary shares in issue has been adjusted for the new issue of 1,100,000 ordinary shares of RM1.00 each on 23 July 1996.*

** *Annualised*

Note

1. There were no extraordinary items during the financial years/period under review.
2. The turnover of the Company almost doubled from 1995 to 1996 as in 1995, the Company was only in operation for about 6 months.
3. The increase in turnover in 1997 is in line with the increasing demand for specialty fats. In 1998, turnover increased mainly due to increase in palm oil prices from almost RM1.000 per mt in June 1997 to RM2.151 per mt in June 1998.
4. The increase in profit in 1999 is mainly due to the commencement to contract manufacture animal feed from palm oil for a customer. PCHSB receives a fixed amount of processing fees monthly from this customer.

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5. In 1999, no provision for taxation was made in view of the tax waiver year pursuant to the Income Tax (Amendment) Act 1999. The taxation provided in 1999 relates to underprovision of prior years' taxes.

3.4 ALSB

The following financial information is based on the audited accounts of ALSB for the year ended 30 November 1998, 30 November 1999 and one month period ended 31 December 1999.

3.4.1 Summary of Results of ALSB

	<i>Year ended 30 November</i>		<i>1 month ended</i>
	<i>1998</i>	<i>1999</i>	<i>31 December</i>
	<i>RM'000</i>	<i>RM'000</i>	<i>1999</i>
			<i>RM'000</i>
Loss before depreciation And interest	(413)	(15)	-
Depreciation	"	"	-
Interest expenses	-	-	-
Loss for the year/period	(413)	(15)	-
Transfer from revaluation reserve	310	-	-
	(103)	(15)	-

The Company is presently dormant.

The loss in 1998 is mainly due to the disposal of the Company's long term leasehold land to POISB at cost, and preliminary and pre-operating expenses written off. The revaluation reserve amounting to RM310,000 was transferred to profit and loss account upon the disposal.

Loss in 1999 mainly relates to the underaccrual of expenses for the disposal of the Company's long term leasehold land in 1998 and pre-operating expenses incurred during the year.

There were no extraordinary items during the years/period under review.

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4 Dividends

4.1 PHB

PHB has not declared or paid any dividends since its incorporation on 11 November 1997.

4.2 Subsidiary Companies

No dividends has been paid or declared by the subsidiary companies since the financial year ended 31 May 1995 or the dates of incorporation whichever is later.

5 Summarised Balance Sheets

5.1 PHB

The following financial information is based on the audited accounts of PHB as at 31 May 1998, 31 May 1999 and 31 December 1999.

5.1.1 Summarised Balance Sheets of PHB

	<-----As at----->		
	31.5.98	31.5.99	31.12.99
	RM'000	RM'000	RM'000
Expenditure carried forward	13	21	27
Current assets	*	*	*
Current liabilities	(13)	(21)	(27)
	*	*	*
Financed by :-			
Share capital	**	**	**
Net Tangible Liabilities per Share (RM'000)	-	-	(13.5)

* RM2.00

** The paid up capital comprised 2 ordinary shares of RM1.00 each issued at par value.

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Note :-

The Company was incorporated in 11 November 1997 and its first set of audited accounts was from date of incorporation to 31 May 1998. The Company has not commenced operations since the date of incorporation.

5.2 PISB

The following information are based on the audited accounts of PISB after making such adjustment considered necessary per 3.2.2 for the last six years ended 31 May 1999 and 7 months ended 31 December 1999.

5.2.1 Summarised Balance Sheets of PISB

	As at 31 May						As at
	1994	1995	1996	1997	1998	1999	31 December 1999
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Fixed assets	4,963	5,527	5,065	26,701	38,920	39,552	37,139
Expenditure carried forward	5	5	-	-	372	481	511
Current assets	12,867	25,183	28,283	41,028	60,027	77,730	78,069
Current liabilities	(13,945)	(15,307)	(24,775)	(40,275)	(67,520)	(77,407)	(73,559)
Net current assets (liabilities)	(1,078)	(121)	3,508	753	(5,293)	323	4,510
	3,890	5,408	8,573	27,454	33,999	40,356	42,460
Financed by :-							
Stony capital	1,000	1,000	1,000	5,000	5,000	5,000	5,000
Unappropriated profit	84	1,458	4,873	9,619	16,388	24,972	28,133
Shareholders' funds	1,084	2,458	5,873	14,619	21,388	29,972	33,133
Deferred and long term Liabilities	2,806	2,950	2,700	12,835	12,611	10,384	9,027
	3,890	5,408	8,573	27,454	33,999	40,356	42,160
Net Tangible Assets (RM'000)	1,079	2,453	5,873	14,619	21,016	29,401	32,922
Net Tangible Assets per Share (RM)	1.08	2.45	5.87	2.92	4.20	5.90	6.58

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5.3 POISB

The following information are based on the audited accounts of POISB after making such adjustments considered necessary per 2.2.2 for the last five years/period ended 30 November 1995 to 1999 and one month period ended 31 December 1999.

5.3.1 Summarised Balance Sheets of POISB

	<-----As at 30 November----->					As at 31 December 1999
	1995 RM'000	1996 RM'000	1997 RM'000	1998 RM'000	1999 RM'000	RM'000
Fixed assets	6,402	6,327	7,368	21,511	25,785	25,605
Investment	-	500	500	87	87	87
Current assets	6,832	4,744	11,643	13,850	17,348	17,043
Current liabilities	(8,644)	(7,377)	(14,347)	(28,923)	(31,281)	(30,317)
Net current liabilities	(1,812)	(2,633)	(2,704)	(15,073)	(13,933)	(13,274)
	4,590	4,194	5,164	6,525	11,939	12,418
Financed by :-						
Share capital	2,000	3,100	3,100	3,100	3,100	3,100
Unappropriated profit	150	593	1,283	3,004	8,839	9,318
Shareholders' funds	2,150	3,693	4,383	6,104	11,939	12,418
Long term liabilities	2,310	339	611	277	-	-
Deferred taxation	130	162	170	144	-	-
	4,590	4,194	5,164	6,525	11,939	12,418
Net Tangible Assets (RM'000)	2,150	3,193	3,883	6,017	11,852	12,331
Net Tangible Assets per share (RM)	1.08	1.03	1.25	1.94	3.82	3.98

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5.4 ALSB

The following financial information is based on the audited accounts of ALSB for the period/year ended 31 December 1995, 30 November 1996 to 1999 and 31 December 1999.

5.4.1 Summarised Balance Sheets of ALSB

	<-----As at----->					
	31.12.95	30.11.96	30.11.97	30.11.98	30.11.99	31.12.99
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Fixed assets	-	500	500	-	-	-
Expenditure carried Forward	3	8	14	-	-	-
Current assets	2	*	*	113	98	98
Current liabilities	(5)	(8)	(14)	(26)	(25)	(25)
Net current assets/ (liabilities)	(3)	(8)	(14)	87	73	73
	*	500	500	87	73	73
Financed by :-						
Share capital	**	190	190	190	190	190
Assets revaluation reserve	-	310	310	-	-	-
Unappropriated profit	-	-	-	(103)	(117)	(117)
Shareholders' funds	*	500	500	87	73	73
Net Tangible Assets/ (liabilities) (RM'000)	(3)	492	486	87	73	73
Net Tangible Assets (liabilities) per share (RM)	(1,500)	2.59	2.56	0.46	0.38	0.38

* RM2.00

** The paid up capital comprised 2 ordinary shares of RM1.00 each issued at par.

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6 Statement of Assets and Liabilities

The statement of assets and liabilities of PHB and the Proforma Group based on the audited accounts of PHB, PISB, POISB and its subsidiary companies as at 31 December 1999 and on the assumption that the restructuring scheme of the PHB Group as stated in Section 1.4 has been effective as at 31 December 1999 are prepared for illustration purposes and should be read in conjunction with the notes thereon.

		<i>As at 31 December 1999</i>	
	<i>Note</i>	<i>Company</i>	<i>Proforma</i>
		<i>RM'000</i>	<i>Group</i>
			<i>RM'000</i>
Fixed assets	7.2	-	63,352
Expenditure carried forward	7.3	27	27
Current assets			
Stocks	7.4	-	10,787
Debtors	7.5	-	48,681
Fixed deposits	7.6	-	7,526
Cash and bank balances		*	13,639
		<hr/>	<hr/>
		*	80,633
Current liabilities			
Creditors	7.7	27	21,670
Amount due to a director	7.8	-	101
Hire purchase creditors	7.9	-	533
Term loans	7.10	-	541
Bank borrowings	7.11	-	34,158
Provision for taxation		-	2,967
		<hr/>	<hr/>
		27	59,970
Net current (liabilities)/assets		<hr/>	<hr/>
		(27)	20,663
		<hr/>	<hr/>
		*	84,042

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		<i>As at 31 December 1999</i>	
	<i>Note</i>	<i>Company</i>	<i>Proforma</i>
		<i>RM'000</i>	<i>Group</i>
			<i>RM'000</i>
Financed by :-			
Share capital	7.12	**	60,000
Share premium reserve	7.13	-	14,663
Reserve on consolidation	7.14	-	7,707
Shareholders' funds		*	82,370
Deferred taxation	7.15	-	1,672
		*	84,042
(Net liabilities)/Net tangible assets per shares (RM)		(13,500)	1.37

* *RM2.00*

** *The paid up capital comprised 2 ordinary shares of RM1.00 each issued at par.*

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7 Notes to the Statement of Assets and Liabilities

7.1 Significant Accounting Policies

7.1.1 Basis of preparation

The accounts of the Group and of the Company have been prepared under the historical cost convention and in compliance with approved accounting standards in Malaysia.

7.1.2 Basis of Consolidation

The consolidated accounts incorporate the audited accounts of the Company and all its subsidiary companies made up to 31 December 1999.

Intercompany transactions are eliminated on consolidation and the turnover and profit reflect external transactions only.

The results and turnover of the subsidiary companies acquired or sold during the year are included in the consolidated profit and loss account from the effective date of acquisition or excluded from the effective date of disposal.

The difference between the purchase price and fair value of the net assets of subsidiary companies acquired is included in the consolidated balance sheets as a goodwill or reserve on consolidation.

Reserve arising on consolidation (net of goodwill arising on consolidation) will be amortised over the expected useful lives over 10 years.

7.1.3 Investment in Subsidiary Companies

Investment in subsidiary companies, which are eliminated on consolidation, are stated at cost. A provision is made when the directors are of the view that there is a permanent diminution in the value of the underlying net tangible assets.

7.1.4 Fixed Assets and Depreciation

Fixed assets are stated at cost less accumulated depreciation and are depreciated on a straight line basis so as to write off the cost of the assets over their estimated useful lives. Freehold bungalow is not amortised. The principal annual rates used are as follows :-

	<i>Per Annum</i>
Long term leasehold land	1.3%
Factory building	3%
Plant and machinery	5% - 10%
Motor vehicles	20%
Office equipment, furniture and fittings etc.	5% - 20%

12. ACCOUNTANTS' REPORT (Cont'd)

(Prepared for inclusion in this Prospectus)



7.1.5 *Stocks*

Trading stocks and raw materials are stated at cost using the first-in-first-out basis.

Finished goods are valued at the lower of cost and net realisable value where cost includes the cost of raw materials and all direct expenses incurred in bringing the stocks to their present location and condition.

7.1.6 *Expenditure Carried Forward*

Expenditure carried forward consisting of preliminary and pre-operating expenses are stated at cost. Incorporation expenses incurred by the Company are shown as preliminary expenses and expenses incurred subsequent to the date of incorporation are shown as pre-operating expenses.

Expenditure carried forward with respect to preliminary and pre-operating expenses will be written off against future profit when the Company commenced operation.

7.1.7 *Translation of Foreign Currencies*

Transactions in foreign currencies are converted into Ringgit Malaysia at the rates of exchange ruling at the transaction dates. Where forward exchange contracts have been arranged in respect of assets and liabilities, the contracted rates of exchange are used. Assets and liabilities at the year end are translated at the rates of exchange ruling at that date and differences are taken to profit and loss account.

7.1.8 *Deferred Taxation*

Deferred taxation is calculated using the liability method for all material timing difference except where no liability is expected to arise in the foreseeable future. Deferred tax benefits are only recognised where there is a reasonable expectation of realisation in the near future.

7.1.9 *Hire Purchase*

Fixed assets acquired under hire purchase are capitalised in the balance sheet and are depreciated over their estimated useful lives as stated in Note 7.1.4 and the corresponding obligation relating to the remaining capital payments are treated as a liability. The interest element of the hire purchase instalment is charged to the profit and loss account over the period of the plan and accounted for on the sum of digits method.

12. ACCOUNTANTS' REPORT (Cont'd)
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7.2 Fixed Assets

Proforma Group

	<i>At 1.6.99 RM'000</i>	<i>Addition RM'000</i>	<i>Reclassi- fication RM'000</i>	<i>Disposal RM'000</i>	<i>At 31.12.99 RM'000</i>
<i>Cost</i>					
Freehold land and building	851	-	-	-	851
Long term leasehold land	14,830	-	-	-	14,830
Factory buildings	15,015	195	2,583	-	17,793
Plant and machinery	40,203	469	-	(2,617)	38,055
Motor vehicles	1,137	70	-	(94)	1,113
Office equipment, furniture and fittings etc.	462	5	-	-	467
Construction work-in- progress	2,583	260	(2,583)	-	260
	<u>75,081</u>	<u>999</u>	<u>-</u>	<u>(2,711)</u>	<u>73,369</u>

Accumulated Depreciation

Long term leasehold land	455	138	-	-	593
Factory buildings	881	394	-	-	1,275
Plant and machinery	6,628	2,065	-	(1,342)	7,351
Motor vehicles	590	118	-	(91)	617
Office equipment, furniture and fittings etc.	134	47	-	-	181
Construction work-in- progress	-	-	-	-	-
	<u>8,688</u>	<u>2,762</u>	<u>-</u>	<u>(1,433)</u>	<u>10,017</u>

	<i>Net book value at 31.12.99 RM'000</i>
Freehold land and building	851
Long term leasehold land	14,237
Factory buildings	16,518
Plant and machinery	30,704
Motor vehicles	496
Office equipment, furniture and fittings etc.	286
Construction work-in- progress	260
	<u>63,352</u>

12. ACCOUNTANTS' REPORT (Cont'd)
(Prepared for inclusion in this Prospectus)



Fixed assets included in the above and acquired under hire purchase are as follows:-

	<i>Net book Value at 31.12.99 RM'000</i>
Plant and machinery	2,545
Motor vehicles	24
	<u>2,569</u>

7.3 Expenditure Carried Forward

At cost

	<i>Proforma Group and Company RM'000</i>
Preliminary expenses	3
Pre-operating expenses	24
	<u>27</u>

7.4 Stocks

	<i>Proforma Group RM'000</i>
Raw materials	3,418
Finished goods	7,369
	<u>10,787</u>

7.5 Debtors

	<i>Proforma Group RM'000</i>
Trade debtors	40,338
Other debtors, deposits and prepayment	8,343
	<u>48,681</u>

12. ACCOUNTANTS' REPORT (Cont'd)
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Included in the trade debtors is an amount due from a company in which certain director of the have interest amounting to RM25,890. The amount had been received subsequent to the balance sheet date.

Also included in trade debtors is an amount of RM18,309,749 owing by a single customer of which RM17,519,976 has been paid subsequent to balance sheet date.

Included in the other debtors, deposits and prepayment is an amount of RM7,901,969 owing by companies in which certain director have interests. The amount is unsecured, interest-free and has no fixed term of repayment. The amount had been repaid subsequent to the balance sheet date.

7.6 Fixed Deposits

	<i>Proforma Group RM'000</i>
Fixed deposits with licensed banks	<u>7,526</u>

The fixed deposits are pledged with licensed banks as securities to obtain bank guarantee and credit facilities. Included in the fixed deposits are fixed deposit certificates registered under the name of a director amounting to RM5,000,000. These fixed deposit certificates are held by the director in trust of the Company.

7.7 Creditors

	<i>Company RM'000</i>	<i>Proforma Group RM'000</i>
Trade creditors	-	20,812
Other creditors and accruals	<u>27</u>	<u>858</u>
	27	<u>21,670</u>

7.8 Amount Due To A Director – Proforma Group

The amount due to a director is unsecured, interest-free and has no fixed term of repayment.

12. ACCOUNTANTS' REPORT (Cont'd)
(Prepared for inclusion in this Prospectus)



7.9 Hire Purchase Creditors

	<i>Proforma Group RM'000</i>
Gross amount	680
Less: Unexpired interest	<u>(147)</u>
Repayable within 12 months	<u>533</u>

7.10 Term Loans

	<i>Proforma Group RM'000</i>
<i>Secured</i>	
Repayable within 12 months	<u>541</u>

The term loans bear interest at between 1.25% and 2.00% per annum above the lending bank's base lending rate.

The term loans and other banking facilities are secured by way of: -

- 1) legal charges over the subsidiary company's landed properties; and
- 2) joint and several personal guarantee by a director and certain third parties related to the said director.

7.11 Bank Borrowings

	<i>Proforma Group RM'000</i>
<i>Secured</i>	
Bank overdraft	4,091
Bills payable	25,067
Revolving credit	<u>5,000</u>
	<u>34,158</u>

The bank overdraft, bills payable and revolving credit bear interest at between 1.00% and 3.00% per annum above the lending banks' base lending rates.

12. ACCOUNTANTS' REPORT (Cont'd)
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These banking facilities are secured by way of: -

- 1) legal charges over the subsidiary company's landed properties;
- 2) placement of fixed deposits with the lending banks; and
- 3) joint and several personal guarantee by a director and certain third parties related to the said director.

7.12 Share Capital

	<i>Proforma Group RM'000</i>
<i>Ordinary shares of RM1.00 each:</i>	
Authorised	<u>100,000</u>
Issued and fully paid:	
▪ Balance as at 31 December 1999	*
▪ 24,475,438 new ordinary shares at an issue price of RM1.20 per shares issued for the acquisition of PISB's entire issued and paid up capital	24,475
▪ 7,424,560 new ordinary shares at an issue price of RM1.20 per shares issued for the acquisition of POISB's entire issued and paid up capital	7,425
▪ Rights Issue of 18,920,000 new ordinary shares at an issue price of RM1.05 per ordinary shares	18,920
▪ Public Issue of 9,180,000 new ordinary shares at issue price of RM2.00 per ordinary shares	9,180
	<u>60,000</u>
* <i>This represents 2 ordinary shares of RM1.00 each.</i>	

12. ACCOUNTANTS' REPORT (Cont'd)
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7.13 Share Premium

	<i>Proforma Group RM'000</i>
▪ 31,899,998 new ordinary shares at an issue price of RM1.20 per shares issued for the acquisition of PISB's and POISB's entire issued and paid up capital	6,537
▪ Rights Issue of 18,920,000 new ordinary shares at an issue price of RM1.05 per ordinary shares	946
▪ Public Issue of 9,180,000 new ordinary shares at issue price of RM2.00 per ordinary shares	9,180
	<hr/>
	16,663
Less: Estimated listing expenses	<u>(2,000)</u>
	<hr/> <u>14,663</u>

7.14 Reserve On Consolidation

	<i>Proforma Group RM'000</i>
Net tangible assets of PISB and POISB as at 31 December 1999	46,144
Purchase consideration to be satisfied by the issuance of 31,899,998 new ordinary shares at an issue price RM1.20 per ordinary share	<u>(38,437)</u>
	<hr/> <u>7,707</u>

12. ACCOUNTANTS' REPORT (Cont'd)
(Prepared for inclusion in this Prospectus)



7.15 Deferred Taxation

	<i>Proforma Group RM'000</i>
Balance as at 1 June 1999	1,816
Transferred to profit and loss account	<u>(144)</u>
Balance as at 31 December	<u><u>1,672</u></u>

Deferred taxation for the Group relates to timing differences between depreciation and capital allowances and other timing difference.

8. Accounts

No audited accounts have been drawn up for any period subsequent to 31 December 1999.

Yours faithfully

KPMG.

KPMG
(No AF: 0758)
Public Accountants

David Lim

LIM HUN SOON @ DAVID LIM
Partner
Approval Number: 1514/5/02(J)