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

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**ACCOUNTANTS' REPORT**  
(Prepared for inclusion in the Prospectus)

Date : 15 September 2000

The Board of Directors  
**HUP SENG INDUSTRIES BERHAD**  
(Company No: 226098-P)  
Suite 633, 6th Floor  
PanGlobal Plaza  
Jalan Wong Ah Fook  
80000 Johor Bahru  
Johor Darul Ta'zim

Gentlemen

**1. INTRODUCTION**

This report has been prepared for inclusion in the Prospectus to be dated 25 September 2000 in connection with the Offer for Sale of 10,948,000 ordinary shares of RM1.00 each and the Public Issue of 16,049,000 new ordinary shares of RM1.00 each at an offer/issue price of RM2.00 per share and the listing and quotation of the entire issued and paid up share capital of Hup Seng Industries Berhad (Hup Seng) of 60,000,000 ordinary shares of RM1.00 each on the Main Board of the Kuala Lumpur Stock Exchange.

**2. RESTRUCTURING SCHEME**

In August 2000, Hup Seng implemented a restructuring scheme comprising :

- (i) the revaluation of landed properties of Hup Seng Perusahaan Makanan (M) Sdn. Bhd. (HSPM) and Hup Seng Hoon Yong Brothers Sdn. Bhd. (HSY) and incorporation of the revaluation surplus into the respective accounts;
- (ii) the acquisition of the following companies by Hup Seng :
  - (a) the entire issued and paid-up share capital of HSPM comprising 4,950,000 ordinary shares of RM1.00 each for a consideration of RM32,247,159 wholly satisfied by an issue of 29,315,500 new ordinary shares of RM1.00 each in Hup Seng at an issue price of approximately RM1.10 per ordinary share.
  - (b) the entire issued and paid-up share capital of HSY comprising 2,004,000 ordinary shares of RM1.00 each for a consideration of RM16,087,611 wholly satisfied by an issue of 14,625,500 new ordinary shares of RM1.00 each in Hup Seng at an issue price of approximately RM1.10 per ordinary share.

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**3. GENERAL INFORMATION**
**3.1 Background**

Hup Seng Industries Berhad was incorporated in Malaysia under the Companies Act, 1965 as a public company on 4 October 1991.

The principal activity is that of investment holding.

**3.1.a Authorised Share Capital**

The authorised share capital of the Company is RM100,000,000 divided into 100,000,000 ordinary shares of RM1.00 each.

**3.1.b Issued and Fully Paid-Up Share Capital**

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

<b>Date of allotment</b>	<b>Consideration</b>	<b>No. of shares allotted</b>	<b>Total issued and paid-up share capital RM</b>
04.10.1991	Subscribers' shares	3	3
08.07.1996	Cash allotment	9,997	10,000
09.08.2000	Issued in consideration for acquisition of HSPM	29,315,500	29,325,500
09.08.2000	Issued in consideration for acquisition of HSHY	14,625,500	43,951,000

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**3.2 Subsidiary Company**

The details of the subsidiary companies of Hup Seng are as follows :

**(a) HSPM**

***i) Background***

HSPM was incorporated in Malaysia as a private limited company on 12 August 1974.

The principal activities of HSPM are the manufacture and sales of biscuits.

***ii) Authorised Share Capital***

The authorised share capital of HPSM is RM5,000,000 divided into 5,000,000 ordinary shares of RM1.00 each.

***iii) Issued and Fully Paid-up Share Capital***

The issued and paid-up share capital of HSPM is RM4,950,000 comprising 4,950,000 ordinary shares of RM1.00 each.

**(b) HSHY**

***i) Background***

HSHY was incorporated in Malaysia as a private limited company on 31 January 1977.

The principal activities of HSHY are dealers in confectionery and biscuits.

***ii) Authorised Share Capital***

The authorised share capital of HSHY is RM3,000,000 divided into 3,000,000 ordinary shares of RM1.00 each.

***iii) Issued and Fully Paid-up Share Capital***

The issued and paid-up share capital of HSHY is RM2,004,000 comprising 2,004,000 ordinary shares of RM1.00 each.

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**4. AUDITORS**

We have acted as auditors of Hup Seng since the financial year ended 31 December 1992, of HSPM since the financial year ended 31 December 1991 and of HSHY since the financial year ended 31 December 1991, and have reported on the accounts since then without qualification.

**5. DIVIDEND**

No dividend was declared by Hup Seng since incorporation.

Details of dividend declared and paid by HSPM and HSHY in respect of each of the five (5) financial years ended 31 December 1999 are as follow:-

Subsidiary company	Year ended	Issued and fully paid-up share capital RM'000	Gross dividend rate %	Net dividend paid/proposed RM'000
<b>HSPM</b>				
	31.12.1995	4,950	-	-
	31.12.1996	4,950	-	-
	31.12.1997	4,950	30% , tax-exempt	1,485
	31.12.1998	4,950	95% , tax-exempt	4,702
	31.12.1998	4,950	56% , less tax	1,996
	31.12.1999	4,950	168.28% , tax-exempt	8,330
<b>HSHY</b>				
	31.12.1995	2,004	-	-
	31.12.1996	2,004	-	-
	31.12.1997	2,004	-	-
	31.12.1998	2,004	300% , less tax	4,329
	31.12.1999	2,004	340.47% , tax-exempt	6,823

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**ERNST & YOUNG**  
(Firm No: AF 0039)

**6. SUMMARISED PROFIT AND LOSS ACCOUNTS**

**6.1 Proforma Group**

The summarised proforma profit and loss accounts of the Hup Seng Group based on the audited accounts for the five years ended 31 December 1999 and the five months ended 31 May 2000 are set out below :

	← Year ended 31 December →					Five months ended
	1995	1996	1997	1998	1999	31 May 2000
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Turnover	87,845	105,380	126,574	151,884	175,697	74,586
Profit before depreciation and interest	9,299	14,404	17,242	18,283	19,699	8,333
Depreciation	(1,593)	(1,891)	(2,264)	(2,501)	(2,529)	(1,242)
Interest	(266)	(140)	(58)	(44)	(62)	(51)
Profit before taxation	7,440	12,373	14,920	15,738	17,108	7,040
Taxation	(1,964)	(3,143)	(3,843)	(4,489)	(402)	(2,087)
Profit after taxation	5,476	9,230	11,077	11,249	16,706	4,953
Number of shares in issue ('000)	43,951	43,951	43,951	43,951	43,951	43,951
Earnings per share (RM)	0.12	0.21	0.25	0.26	0.38	0.27
Gross dividend rate (%)	-	-	3%	31%	34%	-

\* Annualised

**Note :**

- i) *The summarised results set out above, which have been prepared based on the assumption that the Hup Seng Group had been in existence throughout the periods, are for illustrative purposes only. Inter-company transactions are eliminated.*
- ii) *The effective tax rate for all the financial years, except for the financial year ended 31 December 1998 and financial period ended 31 May 2000, was lower than the statutory rate of taxation mainly due to the availability of tax incentives.*

*There was no tax liability for the financial year ended 31 December 1999 because it constitutes the basis period for the year of assessment 2000 (preceding year basis) wherein tax on chargeable income other than dividend income is waived. The tax charge for the year is in respect of deferred taxation on timing differences of fixed assets.*

- iii) *Earnings per share is calculated based on the proforma profit after taxation and the issued share capital of ordinary shares of RM1 each of Hup Seng after acquisition of HSPM and HSHY.*
- iv) *Gross dividend rate is calculated based on the total gross dividend of HSPM and HSHY and the issued share capital of ordinary shares of RM1 each of Hup Seng after acquisition of HSPM and HSHY.*

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**6.2** We set out the summarised audited results of each of the companies within the Hup Seng Group for the relevant financial years as follows:

**(a) HSPM**

	← Year ended 31 December →					Five months ended
	1995	1996	1997	1998	1999	31 May 2000
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Turnover	59,546	71,113	83,349	97,696	113,326	45,342
Profit before depreciation and interest	5,572	9,438	11,173	10,809	12,156	4,863
Depreciation	(1,209)	(1,386)	(1,647)	(1,828)	(1,882)	(968)
Interest	(200)	(91)	(24)	(31)	(50)	(51)
Profit before taxation	4,163	7,961	9,502	8,950	10,224	3,844
Taxation	(959)	(1,786)	(2,241)	(2,141)	(409)	(1,033)
Profit after taxation	3,204	6,175	7,261	6,809	9,815	2,811
Number of ordinary shares in issue ('000)	4,950	4,950	4,950	4,950	4,950	4,950
Earnings per share (RM)	0.65	1.25	1.47	1.38	1.98	1.36

\* Annualised

**Note :**

- i) *The effective tax rate for all the financial years/period was lower than the statutory rate of taxation mainly due to the availability of tax incentives.*

*There was no tax liability for the financial year ended 31 December 1999 because it constitutes the basis period for the year of assessment 2000 (preceding year basis) wherein tax on chargeable income other than dividend income is waived. The tax charge for the year is in respect of deferred taxation on timing differences of fixed assets.*

- ii) *Earnings per share is calculated based on the profit after taxation and the number of ordinary shares in issue for each financial year under review.*

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**(b) HSHY**

	← Year ended 31 December →					Five months ended
	1995	1996	1997	1998	1999	31 May 2000
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Turnover	72,795	87,519	105,730	130,396	147,994	61,690
Profit before depreciation and interest	3,727	4,966	6,069	7,474	7,540	3,470
Depreciation	(384)	(505)	(617)	(673)	(647)	(274)
Interest	(66)	(49)	(34)	(13)	(9)	-
Profit before taxation	3,277	4,412	5,418	6,788	6,884	3,196
Taxation	(1,005)	(1,357)	(1,602)	(2,348)	7	(1,054)
Profit after taxation	2,272	3,055	3,816	4,440	6,891	2,142
Number of ordinary shares in issue ('000)	2,004	2,004	2,004	2,004	2,004	2,004
Earnings per share (RM)	1.13	1.52	1.90	2.22	3.44	2.57

\* Annualised

**Note :**

- i) *The effective tax rate for all the financial years/period was higher than the statutory rate of taxation mainly due to certain expenses which were disallowed for tax purposes.*

*There was no tax liability for the financial year ended 31 December 1999 because it constitutes the basis period for the year of assessment 2000 (preceding year basis) wherein tax on chargeable income other than dividend income is waived.*

- ii) *Earning per share is calculated based on the profit after taxation and the number of ordinary shares in issue for each financial year under review.*

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**7. SUMMARISED BALANCE SHEETS**

The balance sheets of each of the companies in the Hup Seng Group based on the audited accounts are summarised as follows:

**(a) Hup Seng**

	← As at 31 December →						As at 31 May
	1994	1995	1996	1997	1998	1999	2000
	RM	RM	RM	RM	RM	RM	RM
Current assets	3	3	-	-	-	-	-
Current liabilities	10,983	13,956	7,362	12,662	17,559	21,438	24,121
Net current liabilities	(10,980)	(13,953)	(7,362)	(12,662)	(17,559)	(21,438)	(24,121)
Deferred expenditure	10,983	13,956	17,362	22,662	27,559	31,438	34,121
	3	3	10,000	10,000	10,000	10,000	10,000
Share capital	3	3	10,000	10,000	10,000	10,000	10,000
Profit and loss account	-	-	-	-	-	-	-
Shareholders' fund	3	3	10,000	10,000	10,000	10,000	10,000
Net tangible assets per share (RM)	(3,660)	(4,651)	(0.7)	(1.3)	(1.8)	(2.1)	(2.4)



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**(b) HSPM**

	← As at 31 December →						As at
	1994	1995	1996	1997	1998	1999	31 May 2000
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Fixed assets	15,378	15,977	18,943	21,904	26,074	32,413	34,293
Current assets	14,396	18,838	21,523	33,345	30,891	34,131	38,253
Current liabilities	(14,617)	(17,425)	(17,055)	(26,369)	(27,588)	(35,221)	(38,412)
Net current assets/ (liabilities)	(221)	1,413	4,468	6,976	3,303	(1,090)	(159)
Deferred liabilities	(1,771)	(577)	(15)	-	-	-	-
Deferred taxation	(1,474)	(1,697)	(2,105)	(1,813)	(2,199)	(2,660)	(2,660)
	11,912	15,116	21,291	27,067	27,178	28,663	31,474
Share capital	4,950	4,950	4,950	4,950	4,950	4,950	4,950
Revaluation reserve	8	8	8	8	8	8	8
Profit and loss account	6,954	10,158	16,333	22,109	22,220	23,705	26,516
Shareholders' fund	11,912	15,116	21,291	27,067	27,178	28,663	31,474
Net tangible assets per share (RM)	2.41	3.05	4.30	5.47	5.49	5.79	6.36

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

	← As at 31 December →						As at 31 May
	1994	1995	1996	1997	1998	1999	2000
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Fixed assets	4,477	4,914	5,278	7,236	8,938	9,907	9,892
Current assets	14,951	16,385	20,971	32,075	39,488	42,317	46,680
Current liabilities	(12,161)	(11,687)	(13,663)	(23,288)	(32,338)	(36,068)	(38,274)
Net current assets	2,790	4,698	7,308	8,787	7,150	6,249	8,406
Deferred liabilities	(189)	(177)	(96)	(46)	-	-	-
Deferred taxation	(244)	(329)	(329)	-	-	-	-
	<u>6,834</u>	<u>9,106</u>	<u>12,161</u>	<u>15,977</u>	<u>16,088</u>	<u>16,156</u>	<u>18,298</u>
Share capital	2,004	2,004	2,004	2,004	2,004	2,004	2,004
Profit and loss account	4,830	7,102	10,157	13,973	14,084	14,152	16,294
Shareholders' fund	<u>6,834</u>	<u>9,106</u>	<u>12,161</u>	<u>15,977</u>	<u>16,088</u>	<u>16,156</u>	<u>18,298</u>
Net tangible assets per share (RM)	<u>3.41</u>	<u>4.54</u>	<u>6.07</u>	<u>7.97</u>	<u>8.03</u>	<u>8.06</u>	<u>9.13</u>

**12. ACCOUNTANTS' REPORT (Cont'd)**  
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**8. STATEMENT OF ASSETS AND LIABILITIES**

The following is a statement of assets and liabilities of Hup Seng and of the Proforma Hup Seng Group prepared based on the audited accounts of Hup Seng, HSPM and HSHY as at 31 May 2000.

The Proforma Hup Seng Group statement of assets and liabilities has been prepared for illustrative purposes, based on the balance sheets as at 31 May 2000 incorporating the effects of the acquisition of HSPM and HSHY as though these were effected on 31 May 2000 and should be read in conjunction with the notes thereto :

	Note	Proforma Group RM'000	Company RM'000
FIXED ASSETS	B	52,345	-
CURRENT ASSETS			
Stocks	C	12,374	-
Debtors	D	26,777	-
Cash and bank balances	E	29,316	-
		68,467	-
CURRENT LIABILITIES			
Creditors	F	33,268	3
Provisions		3,454	1
Holding company		20	20
Bank borrowings	G	7,623	-
Proposed dividend		15,153	-
Taxation		726	-
		60,244	24
NET CURRENT ASSETS/(LIABILITIES)		8,223	(24)
DEFERRED TAXATION		(2,660)	-
DEFERRED EXPENDITURE	H	34	34
		57,942	10
Financed by :			
SHARE CAPITAL	I	43,951	10
RESERVES	J	13,991	-
		57,942	10

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**NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES**

**A. SIGNIFICANT ACCOUNTING POLICIES**

**a) Basis of accounting**

The accounts of the Proforma Group and the Company have been prepared under the historical cost convention, modified by the revaluation of certain fixed assets, and comply with approved accounting standards issued by the Malaysian Accounting Standards Board.

**b) Basis of consolidation**

The Proforma Group accounts incorporate the accounts of Hup Seng, HSPM and HSHY made up to 31 May 2000 on the assumption that the restructuring schemes of Hup Seng as stated in paragraph 2 are effective as at 31 May 2000.

All the subsidiary companies are consolidated using the merger method of accounting. Under the merger method of accounting, the results of subsidiary companies qualifying for the merger of consolidation are presented as if the companies have been combined throughout the current and previous financial years. The difference between the cost of acquisition and the nominal value of the share capital of the subsidiary companies is taken to reserves.

**c) Fixed assets and depreciation**

Fixed assets are stated at cost or valuation less accumulated depreciation. Land of leasehold tenure with an unexpired period of fifty years or more are classified as long leasehold land and those with an unexpired period of less than fifty years are classified as short leasehold land.

Freehold land and capital work-in-progress are not amortised. Leasehold land is amortised over the lease term of 60 and 99 years on the straight line method. Depreciation on other fixed assets is calculated to write off the cost or valuation of fixed assets on the reducing balance method over the expected useful lives of the assets at the following annual rates:

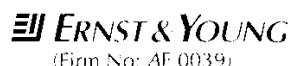
Freehold and leasehold buildings	2%
Plant and machinery	10% to 20%
Other assets	8% to 33%

Subsequent restoration costs relating to an item of fixed asset that has been recognised, are capitalised only if such costs improve the condition of the assets beyond its originally assessed standard of performance. All other subsequent expenditure are recognised as an expense in the year in which it is incurred.

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**d) Product Development Expenditure**

Development and pre-production expenses incurred on new products are charged to the profit and loss account as and when they are incurred.

**e) Investments**

Investments in subsidiary companies are stated at cost, unless in the opinion of the Directors, there has been a permanent diminution in value, in which case provision is made for the diminution.

**f) Stocks**

Stocks are stated at the lower of cost and net realisable value after adequate provision has been made for damaged, obsolete and slow moving items.

Cost of raw materials are determined on a first-in-first-out and include incidentals in bringing them into store. Cost of finished goods include direct materials, labour and an appropriate allocation of production overhead.

**g) Foreign currencies**

Foreign currency transactions are recorded in Ringgit Malaysia at rates of exchange ruling at the transaction dates and where settlements have not taken place at 31 May 2000, at the approximate rates ruling at that date.

All profits and losses on exchange are dealt with through the profit and loss account.

**(h) Deferred expenditure**

Deferred expenditure which comprises preliminary and pre-operating expenses is carried forward at cost and will be written off over a prescribed period when the Company commences operations.

**i) Deferred taxation**

Deferred taxation is provided for on material timing differences using the liability method except where it can be demonstrated with reasonable probability that the tax deferrals will continue in the foreseeable future.

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**B. FIXED ASSETS**

<b>Proforma Group</b>	<b>Cost/ Valuation RM'000</b>	<b>Accumulated depreciation RM'000</b>	<b>Net book value RM'000</b>
Freehold land and buildings	19,510	78	19,432
Leasehold land and buildings	10,768	53	10,715
Plant and machinery	24,365	9,470	14,895
Other assets	14,157	6,854	7,303
	<u>68,800</u>	<u>16,455</u>	<u>52,345</u>

Analysis of cost and valuation :

	<b>Freehold land and buildings RM'000</b>	<b>Leasehold land and buildings RM'000</b>	<b>Plant and machinery RM'000</b>	<b>Other assets RM'000</b>	<b>Total RM'000</b>
Cost	230	68	24,365	14,157	38,820
Valuation - 2000	19,280	10,700	-	-	29,980
	<u>19,510</u>	<u>10,768</u>	<u>24,365</u>	<u>14,157</u>	<u>68,800</u>

The valuations of freehold and leasehold properties were based on valuations by external professional valuers using the fair or open market value basis and as approved by the Securities Commission.

Other assets include capital work-in-progress which comprise of expenditures incurred for factory building in the course of construction amounting to RM705,000 and machinery under installation amounting to RM572,000. The balance of the amounts yet to be incurred and not provided for is disclosed as capital commitment in Note K.

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**C. STOCKS**

	<b>Proforma Group RM'000</b>	<b>Company RM'000</b>
Raw materials	5,888	-
Work in progress	195	-
Finished goods	6,681	-
Containers	1,049	-
Promotional stocks	12	-
Spares and fuel	1,277	-
	<u>15,102</u>	<u>-</u>
Less : Provision for obsolete stocks	(2,728)	-
	<u><u>12,374</u></u>	<u><u>-</u></u>

**D. DEBTORS**

	<b>Proforma Group RM'000</b>	<b>Company RM'000</b>
Trade debtors	27,146	-
Other debtors	3,728	-
	<u>30,874</u>	<u>-</u>
Provision for doubtful debts	(4,097)	-
	<u><u>26,777</u></u>	<u><u>-</u></u>

**E. CASH AND BANK BALANCES**

	<b>Proforma Group RM'000</b>	<b>Company RM'000</b>
Deposits with licensed bank	27,219	-
Cash and bank balances	2,097	-
	<u>29,316</u>	<u>-</u>

Fixed deposit with licensed bank amounting to RM1,165,000 is pledged as security for overdraft facility.

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**F. CREDITORS**

	<b>Proforma Group RM'000</b>	<b>Company RM'000</b>
Trade creditors	23,299	-
Other creditors	9,969	3
	<u>33,268</u>	<u>3</u>

**G. BANK BORROWINGS**

	<b>Proforma Group RM'000</b>	<b>Company RM'000</b>
Bank overdrafts	5,313	-
Bills discounted	1,432	-
Bankers' acceptance	620	-
Term loan	258	-
	<u>7,623</u>	<u>-</u>

The bank borrowings which are jointly and severally guaranteed by certain Directors, are secured by a negative pledge over fixed and other assets of a subsidiary company and on certain of the fixed deposits with licensed bank. The bank overdraft facility is repayable upon demand and bears interest at 1% above the bank's base lending rate per annum. Bills discounted are charged interest at 10.25% per annum.

The term loan is repayable over 5 years to commence one month after full drawdown or four months after first drawdown whichever is earlier and bears interest at 1% above the bank's base lending rate per annum.

The excess of the book overdraft over the amount of facility granted is due to cheques drawn by the Company but unrepresented as at period end.

**H. DEFERRED EXPENDITURE**

	<b>Proforma Group RM'000</b>	<b>Company RM'000</b>
Preliminary expenses	3	3
Pre-operating expenses	31	31
	<u>34</u>	<u>34</u>



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**I. SHARE CAPITAL**

	<b>Proforma Group and Company RM'000</b>
<b>Authorised</b>	
100,000,000 ordinary shares of RM1 each	<u>100,000</u>
<b>Issued and fully paid-up</b>	
10,000 ordinary shares of RM1 each :	
As at 31 May 2000	10
Issued as consideration for acquisition of subsidiary companies	<u>43,941</u>
	<u>43,951</u>

**J. RESERVES**

	<b>Proforma Group RM'000</b>
<b><u>Non Distributable</u></b>	
<b>Revaluation reserve</b>	
Arising from revaluation of fixed assets	8,168
Merger deficit set-off	<u>(8,168)</u>
	<u>-</u>
<b><u>Distributable</u></b>	
Profit and loss account	42,810
Merger deficit set-off	<u>(28,819)</u>
	<u>13,991</u>

**K. CAPITAL COMMITMENTS**

	<b>Proforma Group RM'000</b>	<b>Company RM'000</b>
Approved but not contracted for	1,411	-
Contracted but not provided for	<u>12,257</u>	<u>-</u>

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

**ERNST & YOUNG**  
(Firm No: AF 0039)

**9. NET TANGIBLE ASSETS COVER**

Based on the statement of assets and liabilities of the Hup Seng Group as at 31 May 2000, the net tangible assets cover after adjustments for the public issue and the estimated cost of flotation will be as follows :-

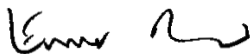
	<b>RM'000</b>
Net tangible assets as at 31 May 2000 (*)	57,908
Proceeds from public issue	<u>32,098</u>
	90,006
Less : Estimated cost of flotation	<u>(1,800)</u>
Adjusted proforma net tangible assets	<u><u>88,206</u></u>
Number of ordinary shares of RM1 each as at 31 May 2000	43,951
Public issue of 16,049,000 new ordinary shares of RM1 each	<u>16,049</u>
Adjusted number of ordinary shares in issue	<u><u>60,000</u></u>
Proforma net tangible assets cover per ordinary share of RM1 each	<u><u>1.47</u></u>

(\*) Net tangible assets is derived from the net tangible assets of the Proforma Group after deducting deferred expenditure.

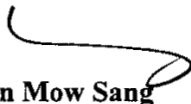
**10. AUDITED ACCOUNTS**

No audited accounts have been drawn up in respect of any period subsequent to 31 May 2000.

Yours faithfully



**Ernst & Young**  
AF : 0039  
Public Accountants



**Wun Mow Sang**  
1821/12/00 (J)  
Partner

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**13. DIRECTORS' REPORT**  
(Prepared for inclusion in this Prospectus)

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**Registered Office**

Suite 633, 6th Floor  
PanGlobal Plaza  
Jalan Wong Ah Fook  
80000 Johor Bahru

15 September 2000

The Shareholders of  
Hup Seng Industries Berhad  
No. 14, Jalan Kilang  
Kawasan Perindustrian Tongkang Pecah  
83010 Batu Pahat  
Johor Darul Takzim

Dear Sir/Madam

On behalf of the Directors of Hup Seng Industries Berhad, I report after due inquiry that during the period from 31 May 2000 (being the date to which the last audited accounts of the Company and its subsidiary companies have been made up) to the date hereof, being a date not earlier than fourteen days before the issue of this Prospectus that:

- a) the business of the Company and its subsidiary companies have, in the opinion of the Directors, been satisfactorily maintained;
- b) in the opinion of the Board of Directors, no circumstances have arisen subsequent to the last audited accounts of the Company and its subsidiary companies which have adversely affected the trading or the value of the assets of the Company or 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) no contingent liabilities have arisen by reason of any guarantees given by the Company or its subsidiary companies; and
- e) Save as disclosed in the Accountants' Report and the Proforma Consolidated Balance Sheets in the Prospectus, there have been no changes in the published reserves nor any unusual factors affecting the profits of the Company or its subsidiary companies.

Yours faithfully  
On behalf of the Board of Directors of  
**HUP SENG INDUSTRIES BERHAD**



Kuo Choo Song

Executive Chairman



Keh (Kerk) Chu Koh

Managing Director