

10. ACCOUNTANTS' REPORT

(Prepared for inclusion in this Prospectus)



5 October, 2000

The Board of Directors
HeiTech Padu Berhad
Tingkat 2, Blok B, Plaza Damansara,
Medan Setia, Bukit Damansara,
50490 Kuala Lumpur

Arthur Andersen & Co
Public Accountants

Level 23A Menara Milenium
Jalan Damanlela
Pusat Bandar Damansara
50490 Kuala Lumpur
P O Box 11040
50734 Kuala Lumpur

Tel 603 2577000
Fax 603 2555332 (Main)
603 2559076 (Div)
603 2559078

Dear Sirs

1. INTRODUCTION

This report has been prepared by an approved company auditor for inclusion in the Prospectus of HeiTech Padu Berhad (hereinafter referred to as "HeiTech" or "the Company") to be dated 9 October, 2000, in connection with the Public Issue of 12,500,000 new ordinary shares of RM1.00 each and placement of 4,000,000 existing ordinary shares of RM1.00 each at an issue price or placement price of RM2.50 per share in HeiTech pursuant to the listing of the entire enlarged issued and paid-up share capital of HeiTech on the Main Board of the Kuala Lumpur Stock Exchange ("KLSE").

2. GENERAL INFORMATION

2.1 Background

HeiTech was incorporated on 5 August, 1994 under the Companies Act, 1965 as a private limited company under the name of PNB Training and Resort Management Sdn Bhd. On 27 March, 1995, the Company changed its name to PNB Information Technologies Sdn Bhd. Pursuant to the management buy out on 1 January, 1998, the Company changed its name to HeiTech Padu Sdn Bhd. On 24 March, 2000, it was converted into a public limited company, and since then, assumed its present name.

At the date of incorporation, HeiTech's authorised and paid up share capital was RM2 comprising 2 ordinary shares of RM1.00 each.

Presently, HeiTech has an authorised and paid up share capital of RM100,000,000 and RM67,500,000 respectively comprising 100,000,000 and 67,500,000 ordinary shares of RM1.00 each.

10. ACCOUNTANTS' REPORT (Cont'd)

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

<u>Date of allotment</u>	<u>Number of shares allotted</u>	<u>Par value RM</u>	<u>Consideration</u>	<u>Resultant issued and paid-up share capital RM</u>
05.08.94	2	1.00	Cash	2
13.10.95	14,999,998	1.00	Cash	15,000,000
25.09.2000	15,900,000	1.00	Bonus Issue	30,900,000
25.09.2000	36,600,000	1.00	Rights Issue	<u>67,500,000</u>

The Company is principally involved in providing total business solutions in Information Technology ("IT"), which includes system integration, application development, data centre management and network and business recovery services.

2.2 Floatation Scheme

As an integral part of the listing of and quotation for its entire issued and paid up ordinary shares of HeiTech on the Main Board of the KLSE, HeiTech had implemented a floatation scheme which were approved by the Foreign Investment Committee ("FIC"), Ministry of International Trade and Industry ("MITI") and Securities Commission ("SC") on 6 June, 2000, 18 July, 2000 and 24 July, 2000 respectively.

The floatation scheme which was completed on 13 September, 2000 involved the following:

- (a) The establishment of an Employee Share Trust Scheme ("ESTS") whereby 1,500,000 existing ordinary shares of RM1.00 each in HeiTech held by Permodalan Nasional Berhad ("PNB") is sold to Padujade Corporation Sdn Bhd ("Padujade"), which will hold the shares in trust for the benefit of the eligible employees of HeiTech, for a consideration based on the Net Tangible Asset per share of HeiTech Group as at 30 April, 2000.
- (b) Bonus issue of 15,900,000 new ordinary shares of RM1.00 each in HeiTech to the existing shareholders of HeiTech;
- (c) Rights issue of 36,600,000 new ordinary shares of RM1.00 each in HeiTech to be issued to the existing shareholders at RM1.00 each;
- (d) Placement of 4,000,000 existing ordinary shares of RM1.00 each in HeiTech by the existing shareholders of HeiTech, namely PNB, Padujade (including the shares held on behalf of the employees of HeiTech under the ESTS), Perbadanan Usahawan Nasional Berhad ("PUNB") and certain individuals shareholders of HeiTech, to nominated places at an indicative placement price of RM2.50 per share; and

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

- (e) Public issue of 12,500,000 new ordinary shares of RM1.00 each in HeiTech at an indicative issue price of RM2.50 per share as follows:
- (i) 12,000,000 new ordinary shares of RM1.00 each to the Malaysian public of which at least 30% is to be set aside strictly for Bumiputera individuals, companies, societies, co-operatives and institutions; and
 - (ii) 500,000 new ordinary shares of RM1.00 each to be reserved for eligible employees and directors of HeiTech group (excluding confirmed employees but including non-confirmed and contract employees of HeiTech Group).

2.3 The Subsidiaries

The information on the subsidiaries, all of which are private limited companies and incorporated in Malaysia, are as follows:

(i) SAM

SAM was incorporated as a private limited company on 23 January, 1989. The authorised and paid up share capital of SAM is RM20,000,000 and RM10,000,000, comprising 20,000,000 and 10,000,000 ordinary shares of RM1.00 each respectively.

Detailed changes in the issued and paid-up share capital of SAM since its incorporation are as follows:

<u>Date of allotment</u>	<u>No. of ordinary shares of RM1.00 each allotted</u>	<u>Consideration</u>	<u>Resultant issued and paid-up share capital</u> RM
23.01.89	5	Cash	5
26.05.89	9,999,995	Cash	<u>10,000,000</u>

SAM is principally engaged in the business of computer software development and marketing of software, contract programming services and product systems integration, and other computer related services.

10. ACCOUNTANTS' REPORT (Cont'd)**(ii) ETSB**

ETSB was incorporated as a private limited company on 25 November, 1994. The authorised share capital as at the date of this report is RM25,000,000 comprising 15,000,000 ordinary shares of RM1.00 each and 10,000,000 Cumulative Redeemable Convertible Preference Shares ("CRCPS") of RM1.00 each. The issued and paid up share capital as at the date of this report is RM16,100,222 comprising 12,720,222 ordinary shares of RM1.00 each, 1,600,000 CRCPS Class A of RM1.00 each and 1,780,000 CRCPS Class B of RM1.00 each.

Detailed changes in the issued and paid-up ordinary share capital of ETSB since its incorporation are as follows:

<u>Date of allotment</u>	<u>No. of ordinary shares of RM1.00 each allotted</u>	<u>Consideration</u>	<u>Resultant issued and paid-up share capital</u> RM
25.11.94	2	Cash	2
29.09.95	99,998	Cash	100,000
27.02.97	900,000	Cash	1,000,000
31.05.97	666,667	Cash	1,666,667
28.12.98	4,067,718	Cash	5,734,385
23.12.99	5,293,132	Conversion of CRCPS Class A	11,027,517
23.12.99	1,692,705	Conversion of loan from directors	<u>12,720,222</u>

ETSB is principally engaged in the development and marketing of computer aided educational aids.

(iii) KCSB

KCSB was incorporated as a private limited company on 3 May, 1997. The authorised and issued share capital as at the date of this report is RM100,000 comprising 100,000 ordinary shares of RM1.00 each.

10. ACCOUNTANTS' REPORT (Cont'd)

Detailed changes in the issued and paid-up share capital of KCSB since its incorporation are as follows:

<u>Date of allotment</u>	<u>No. of ordinary shares of RM1.00 each allotted</u>	<u>Consideration</u>	<u>Resultant issued and paid-up share capital</u> RM
03.05.97	2	Cash	2
27.09.99	99,998	Cash	<u>100,000</u>

KCSB is the property and maintenance manager of HeiTech and its subsidiaries.

(iv) Padusoft

Padusoft was incorporated as a private limited company on 5 October, 1996. The authorised and issued share capital as at the date of this report is RM1,000,000 and RM500,000 comprising 1,000,000 and 500,000 ordinary shares of RM1.00 each respectively.

Detailed changes in the issued and paid-up share capital of Padusoft since its incorporation are as follows:

<u>Date of allotment</u>	<u>No. of ordinary shares of RM1.00 each allotted</u>	<u>Consideration</u>	<u>Resultant issued and paid-up share capital</u> RM
05.10.96	2	Cash	2
15.09.99	499,998	Cash	<u>500,000</u>

The principal activity of Padusoft is to carry out software development and the related marketing and support activities.

(v) MRC

MRC was incorporated as a private limited company on 27 July, 1995. The authorised share capital of MRC as at the date of this report is RM5,000,000 comprising 3,000,000 ordinary shares of RM1.00 each and 2,000,000 Redeemable Convertible Preference Shares ("RCPS") of RM1.00 each. The issued and paid-up share capital of MRC as at the date of this report is RM1,600,000 comprising 1,000,000 ordinary shares of RM1.00 each and 600,000 RCPS of RM1.00 each.

10. ACCOUNTANTS' REPORT (Cont'd)

Detailed changes in the issued and paid-up ordinary share capital of MRC since its incorporation are as follows:

<u>Date of allotment</u>	<u>No. of ordinary shares of RM1.00 each allotted</u>	<u>Consideration</u>	<u>Resultant issued and paid-up share capital</u> RM
27.07.95	2	Cash	2
14.03.95	8	Cash	10
11.11.99	999,990	Cash	<u>1,000,000</u>

The principal activity is to develop and provide centralised parts price database for Malaysian insurance industry.

(vi) AOL

AOL was incorporated as a private limited company on 14 February, 2000. The authorised and issued share capital as at the date of this report is RM200,000 and RM100,000 comprising 200,000 and 100,000 ordinary shares of RM1.00 each respectively.

There has been no change in the issued and paid-up share capital of AOL since its incorporation.

The intended principal activity of AOL is the provision of on-line financial accounting services. AOL has not commenced operation.

2.4 The Associated Company**VPC**

VPC was incorporated as a private limited company on 23 September, 1997. The authorised and issued share capital as at the date of this report is RM500,000 and RM200,000 comprising 500,000 and 200,000 ordinary shares of RM1.00 each respectively.

Detailed changes in the issued and paid-up share capital of VPC since its incorporation are as follows:

10. ACCOUNTANTS' REPORT (Cont'd)

<u>Date of allotment</u>	<u>No. of ordinary shares of RM1.00 each allotted</u>	<u>Consideration</u>	<u>Resultant issued and paid-up share capital</u> RM
23.09.97	2	Cash	2
24.09.97	24,998	Cash	25,000
28.02.98	175,000	Cash	200,000

The principal activity is the provision of SAP contract programming, consultancy and turnkey project services.

2.5 Auditors and Audited Accounts

We have been the auditors of HeiTech Group since the date of incorporation, except for the following subsidiaries whereby we have not acted as the auditors throughout the past 5 years:

<u>Company</u>	<u>Financial year of appointment</u>
SAM	31 December, 1997
MRC	31 December, 1999
ETSB	30 April, 2000

All the accounts were reported on without any qualification.

2.6 Accounting Policies and Standards

This report is prepared on a basis consistent with accounting policies normally adopted by Heitech Group and in accordance with Malaysian Accounting Standards Board ("MASB") standards.

3. SUMMARISED PROFIT AND LOSS ACCOUNTS

- 3.1 The audited consolidated results of the Group for the last two (2) financial years ended 31 December 1999 and four (4) months period ended 30 April, 2000 are as set out below.

10. ACCOUNTANTS' REPORT (Cont'd)

There were no group accounts prepared prior to 1998 as HeiTech has no investment in subsidiaries then.

	<u>1998</u> RM'000	<u>1999</u> RM'000	<u>1.1.2000</u> to <u>30.4.2000</u> RM'000
Turnover	97,699	142,051	41,088
Profit before depreciation, interest and taxation	19,922	42,826	13,289
Interest expense	(3)	(937)	(192)
Depreciation	(6,806)	(7,965)	(3,115)
Operating profit	13,113	33,924	9,982
Share of profit/(losses) of associated company	439	(311)	(226)
Profit before taxation	13,552	33,613	9,756
Taxation	(3,692)	(500)	(4,183)
Profit after taxation but before minority interest	9,860	33,113	5,573
Minority interest	-	262	1,412
Profit after taxation and minority interest	9,860	33,375	6,985
Number of ordinary shares in issue ('000)	15,000	15,000	15,000
Gross earnings per share (sen)	90.3	224.1	65.0
Net earnings per share (sen)	65.7	220.8	37.2
Gross dividend rate (%)	50%	173%	N/A

Notes:

- (1) *The turnover for the financial year ended 31 December, 1998 was mainly from sales of hardware and software and the provision of application development services.*
- (2) *The significant increase in turnover and profit before taxation of the Group for the year ended 31 December, 1999 was mainly contributed by income from the maintenance of hardware and software as well as the data entry services.*
- (3) *The turnover and profit before taxation for the Group for the period ended 30 April, 2000 is lower as it is for a 4 months period compared to 12 months in prior years.*
- (4) *There are no extraordinary or exceptional items for all the financial years/period under review.*
- (5) *The net EPS of HeiTech Group is calculated based on the profit after taxation and minority interest and on the number of ordinary shares issued.*

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

3.2 We provide below the audited results of each of the companies within the HeiTech Group for the relevant periods/years.

All the subsidiary companies of HeiTech are wholly owned subsidiaries except for KCSB and MRC where HeiTech owns 78% and 60% of its paid up capital respectively.

3.2.1 HeiTech

	5.8.94 to 31.12.95	Year ended 31 December			1.1.2000 to 30.4.2000	
	RM'000	1996 RM'000	1997 RM'000	1998 RM'000	1999 RM'000	30.4.2000 RM'000
Turnover	28,521	46,477	65,798	93,900	137,969	39,101
Profit before depreciation, Interest and taxation	6,678	13,786	10,586	17,153	40,424	16,580
Interest expense	(156)	-	-	-	(937)	(192)
Depreciation	(2,532)	(6,660)	(4,494)	(5,842)	(7,001)	(2,714)
Profit before taxation	3,990	7,126	6,092	11,311	32,486	13,674
Taxation	(575)	(3,017)	(1,074)	(3,674)	(500)	(4,140)
Profit after taxation	3,415	4,109	5,018	7,637	31,986	9,534
Number of ordinary shares in issue ('000)	15,000	15,000	15,000	15,000	15,000	15,000
Gross earnings per share (sen)	26.6	47.5	40.6	75.4	216.5	91.2
Net earnings per share (sen)	22.8	27.4	33.5	50.9	213.2	63.6
Gross dividend rate (%)	-	-	-	50%	173%	-

10. ACCOUNTANTS' REPORT (Cont'd)

Notes:

- (1) *There are no extraordinary or exceptional items in the financial periods/years under review.*
- (2) *HeiTech was incorporated on 5 August, 1994.*
- (3) *The increase in turnover in 1996 mainly relates to increase in application development fees which was due to the full commencement of system integration phase of the computerisation projects undertaken by HeiTech. In 1997, turnover generated from net sales of hardware and software has increased significantly resulting in the increase in total turnover. In 1998, turnover has increased by approximately RM28 million as during the year, HeiTech provides imaging services, maintenance of system application and managed to secure a new data entry job. The main contributor for the increase in turnover and profit in 1999 was due to increase in income from network service charges, net sales of hardware and software, data entry services and a new source of income from maintenance of hardware and software. The lower turnover and profit in 2000 was due to shorter period, 4 months compared to 12 months in prior years.*
- (4) *Profit before taxation has decreased by 15% in 1997 despite the increase in turnover due to the substantial increase in professional fees incurred as a result of employment of professional consultants. Their costs were relatively higher than HeiTech's employees. Depreciation is lower in 1997 due to increase in fully depreciated assets from RM8,566,732 to RM12,666,225. Taxation is lower this year as there was overprovision in deferred taxation in prior years.*
- (5) *Tax charge in year 1999 is in respect of tax under provided in prior year. There is no tax charge for year 1999 as it was a tax free year.*
- (6) *In the year 2000, HeiTech incorporated PaduTech, HT Soft, PaduNet, Megacenter, e-Image, Padu Bantu and VPC. The purpose of incorporating these companies is to facilitate an internal restructuring exercise. As at 30 April, 2000, the intended restructuring exercise has not been effected and therefore these companies were still dormant.*

10. ACCOUNTANTS' REPORT (Cont'd)

3.2.2 SAM

	← Year ended 31 December →					1.1.2000 to
	<u>1995</u> RM'000	<u>1996</u> RM'000	<u>1997</u> RM'000	<u>1998</u> RM'000	<u>1999</u> RM'000	<u>30.4.2000</u> RM'000
Turnover	10,177	18,837	21,073	18,742	14,452	5,010
(Loss)/profit before depreciation, interest and taxation	(433)	646	1,504	2,710	2,183	244
Interest expense	(101)	(88)	(82)	(4)	-	-
Depreciation	(349)	(224)	(323)	(964)	(581)	(106)
(Loss)/profit before taxation	(883)	334	1,099	1,742	1,602	138
Taxation	-	-	-	-	-	-
(Loss)/profit after taxation	(883)	334	1,099	1,742	1,602	138
Weighted average number of ordinary shares in issue ('000)	10,000	10,000	10,000	10,000	10,000	10,000
Gross (loss)/earnings per Share (sen)	(8.83)	3.3	11.0	17.4	16.0	1.4
Net (loss)/earnings per share (sen)	(8.83)	3.3	11.0	17.4	16.0	1.4
Gross dividend rate (%)	-	-	-	-	-	-

Note:

- (1) There are no extraordinary or exceptional items in the financial years/period under review.
- (2) The decrease in turnover in 1998 is due to the economic slowdown which resulted in the turnover to decrease by 12% compared to 1997.
- (3) The decrease in turnover in 1999 is due to the completion of major programming projects and substantial completion of Year 2000 projects.
- (4) The decrease in profit before taxation for the 4 months period to 30 April, 2000 is due to the additional direct cost incurred for royalty payments as the SAM had acquired the distributorship rights of a software.

10. ACCOUNTANTS' REPORT (Cont'd)

3.2.3 ETSB

	25.11.94	← Year ended 31 December →				1.1.2000
	to 31.12.95 RM'000	1996 RM'000	1997 RM'000	1998 RM'000	1999 RM'000	to 30.4.2000 RM'000
Turnover	-	-	-	-	258	353
Loss before depreciation, interest and taxation	(371)	(280)	(950)	(2,671)	(5,815)	(2,745)
Interest expense	(2)	(15)	(3)	(395)	(250)	(40)
Depreciation	(33)	(33)	(142)	(217)	(269)	(79)
Loss before taxation	(406)	(328)	(1,095)	(3,283)	(6,334)	(2,626)
Taxation	-	-	-	-	(4)	-
Loss after taxation	(406)	(328)	(1,095)	(3,283)	(6,338)	(2,626)
Weighted average number of ordinary shares in issue ('000)	100	100	1,239	1,689	5,907	12,720
Gross loss per share (sen)	(406.0)	(328.0)	(88.4)	(194.4)	(107.2)	(20.6)
Net loss per share (sen)	(406.0)	(328.0)	(88.4)	(194.4)	(107.3)	(20.6)
Gross dividend rate (%)	-	-	-	-	-	-

Notes:

- (1) There are no extraordinary or exceptional items in the financial periods/years under review.
- (2) ETSB was incorporated on 25 November, 1994.
- (3) ETSB had incurred losses for the financial years/period 1998 to 2000 due to the development cost incurred in relation to the "Smart School" project.

10. ACCOUNTANTS' REPORT (Cont'd)**3.2.4 KCSB**

	3.5.97 to <u>30.6.98</u> RM'000	1.7.98 to <u>31.12.98</u> RM'000	1.1.99 to <u>31.12.99</u> RM'000	1.1.2000 to <u>30.4.2000</u> RM'000
Turnover	-	478	2,397	566
Profit before depreciation, interest and taxation	-	59	935	144
Interest expense	-	-	-	-
Depreciation	-	-	(2)	(1)
Profit before taxation	-	59	933	143
Taxation	-	(17)	-	(43)
Profit after taxation	-	42	933	100
Weighted average number of ordinary shares in issue	2	2	25,002	100,000
Gross earnings per share (sen)	-	2,950,000	3,732	143
Net earnings per share (sen)	-	2,100,000	3,732	100
Gross dividend rate (%)	-	-	-	400%

Notes:

- (1) *There are no extraordinary or exceptional items in all the financial periods/year under review.*
- (2) *KCSB was incorporated on 3 May, 1997 and commenced operations on 1 July, 1998.*
- (3) *The increase in turnover in 1999 is due to KCSB has start its full operation during the year and has generated new sources of income from HeiTech such as building maintenance, parking fee and maintenance and administrative fee.*
- (4) *The minority interest share in KCSB represents 22% of the issued and paid-up share capital of KCSB as at 30, April 2000.*

10. ACCOUNTANTS' REPORT (Cont'd)**3.2.5 Padusoft**

	5.10.96 to 31.12.97 RM'000	Year ended 31 December 1998 1999 RM'000 RM'000		1.1.2000 to 30.4.2000 RM'000
Turnover	-	-	3,118	522
Loss before depreciation, interest and taxation	-	-	1,392	(307)
Interest expense	-	-	-	-
Depreciation	-	-	(203)	(74)
Loss before taxation	-	-	1,189	(381)
Taxation	-	-	-	-
Loss after taxation	-	-	1,189	(381)
Weighted average number of ordinary shares in issue	2	2	500,000	500,000
Gross loss per share (sen)	-	-	237.8	(76.2)
Net loss per share (sen)	-	-	237.8	(76.2)
Gross dividend rate (%)	-	-	-	-

Notes:

- (1) There are no extraordinary or exceptional items in all the financial periods/years under review.
- (2) Padusoft was incorporated on 5 October, 1996 and commenced operations on 5 October, 1999.
- (3) Padusoft incurred losses for the 4 months period ended 30 April, 2000 due to delay in securing certain projects.

10. ACCOUNTANTS' REPORT (Cont'd)**3.2.6 MRC**

	<u>27.7.95</u> to <u>31.10.95</u> RM'000	Year ended 31 October			<u>1.11.98</u> to <u>31.12.99</u> RM'000	<u>1.1.2000</u> to <u>30.4.2000</u> RM'000
	RM'000	<u>1996</u> RM'000	<u>1997</u> RM'000	<u>1998</u> RM'000	RM'000	RM'000
Turnover	-	-	-	-	10	1
Loss before depreciation, interest and taxation	-	-	-	-	(1,015)	(428)
Interest expense	-	-	-	-	-	-
Depreciation	-	-	-	-	(177)	(141)
Loss before taxation	-	-	-	-	(1,192)	(569)
Taxation	-	-	-	-	-	-
Loss after taxation	-	-	-	-	(1,192)	(569)
Weighted average number of ordinary shares in issue	2	2	2	2	182,000	1,000,000
Gross loss per share (sen)	-	-	-	-	(654.9)	(56.9)
Net loss per share (sen)	-	-	-	-	(654.9)	(56.9)
Gross dividend rate (%)	-	-	-	-	-	-

Notes:

- (1) *There are no extraordinary or exceptional items in the financial periods under review.*
- (2) *MRC was incorporated on 27 July, 1995 and commenced operations only in 1999.*
- (3) *The loss before taxation in 1999 is due to the initial cost incurred in developing the GTS project.*
- (4) *The minority interest share in MRC represents 22% of the issued and paid-up share capital of MRC as at 30, April 2000.*

10. ACCOUNTANTS' REPORT (Cont'd)**3.2.7 AOL**

There has been no profit and loss account prepared up to 30 April, 2000 because AOL had been dormant since the date of incorporation on 14 February, 2000.

4. DIVIDENDS

There have been no dividends declared or paid by the subsidiaries and associated company in respect of the financial periods/years under review except for KCSB.

Dividends paid by HeiTech and KCSB in the respective years/period under review were as follows:

Year ended	Issued and paid-up share capital RM'000	Final dividend rate %	Tax rate %	Gross dividend RM'000	Net dividend RM'000
HeiTech					
31.12.98	15,000	50%	28%	7,500	5,400
31.12.99	15,000	173%	-	25,950	25,950
KCSB					
30.4.00	100	400%	-	400	400

5. SUMMARISED BALANCE SHEETS

5.1 The consolidated balance sheets of the Group at the end of the relevant years/period are set out below:

	1998 RM'000	1999 RM'000	30.4.2000 RM'000
Current assets	107,075	135,685	105,349
Current liabilities	(95,770)	(106,679)	(73,889)
Net current assets	11,305	29,006	31,460
Fixed assets	20,574	30,857	32,727
Investments	7,881	2,709	458
Staff loan	2,990	2,058	2,081
Deferred expenditure	-	7,025	6,574
Deferred income	(7,333)	(26,424)	(22,204)
Deferred taxation	(3,187)	(3,187)	(3,190)
Minority interest	-	(2,388)	(1,265)
	<u>32,230</u>	<u>39,656</u>	<u>46,641</u>
Shareholder's funds			
Share capital	15,000	15,000	15,000
Reserve arising from consolidation	228	228	228
Retained profits	17,002	24,428	31,413
	<u>32,230</u>	<u>39,656</u>	<u>46,641</u>
Net tangible assets per share (RM)	2.15	2.18	2.67

10. ACCOUNTANTS' REPORT (Cont'd)

(1) In the year 2000, HeiTech incorporated PaduTech, HT Soft, PaduNet, MegaCenter, e-Image and Padu Bantu. The purpose of incorporating these companies is to facilitate an internal restructuring exercise. As at 30 April, 2000, the intended restructuring exercise has not been effected and therefore these companies are still dormant.

5.2 We provide below the audited results of each of the companies within the HeiTech Group for the relevant years/period.

5.2.1 HeiTech

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>30.4.2000</u>
	RM'000	RM '000	RM '000	RM'000	RM '000	RM'000
Current assets	51,473	48,521	64,813	104,095	130,952	102,078
Current liabilities	(41,822)	(36,305)	(53,658)	(96,851)	(104,983)	(71,253)
Net current assets	9,651	12,216	11,155	7,244	25,969	30,825
Fixed assets	7,276	9,447	16,114	19,583	27,720	29,139
Investments	-	1,515	4,044	7,267	1,433	38
Investment in subsidiaries	-	-	-	3,215	8,246	8,657
Deferred expenditure	1,488	744	-	-	-	-
Staff loan	-	-	-	2,990	2,058	2,081
Deferred income	-	-	(1,959)	(7,333)	(26,424)	(22,204)
Deferred taxation	-	(1,398)	(1,812)	(3,187)	(3,187)	(3,187)
	<u>18,415</u>	<u>22,524</u>	<u>27,542</u>	<u>29,779</u>	<u>35,815</u>	<u>45,349</u>
Shareholder's funds						
Share capital	15,000	15,000	15,000	15,000	15,000	15,000
Retained profits	3,415	7,524	12,542	14,779	20,815	30,349
	<u>18,415</u>	<u>22,524</u>	<u>27,542</u>	<u>29,779</u>	<u>35,815</u>	<u>45,349</u>
Net tangible assets per share (RM)	<u>1.13</u>	<u>1.45</u>	<u>1.84</u>	<u>1.99</u>	<u>2.39</u>	<u>3.02</u>

5.2.2 SAM

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>30.4.2000</u>
	RM'000	RM'000	RM '000	RM '000	RM '000	RM'000
Current assets	3,572	4,575	6,397	7,361	8,457	8,444
Current liabilities	(2,551)	(3,143)	(4,384)	(3,342)	(2,324)	(2,357)
Net current assets	1,021	1,432	2,013	4,019	6,133	6,087
Fixed assets	989	912	1,430	991	479	663
Investment	-	-	-	175	175	175
	<u>2,010</u>	<u>2,344</u>	<u>3,443</u>	<u>5,185</u>	<u>6,787</u>	<u>6,925</u>
Shareholder's funds						
Share capital	10,000	10,000	10,000	10,000	10,000	10,000
Accumulated losses	(7,990)	(7,656)	(6,557)	(4,815)	(3,213)	(3,075)
	<u>2,010</u>	<u>2,344</u>	<u>3,443</u>	<u>5,185</u>	<u>6,787</u>	<u>6,925</u>
Net tangible assets per share (RM)	<u>0.20</u>	<u>0.23</u>	<u>0.34</u>	<u>0.52</u>	<u>0.68</u>	<u>0.69</u>

10. ACCOUNTANTS' REPORT (Cont'd)**5.2.3 ETSB**

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>30.4.2000</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Current assets	18	1	45	342	430	245
Current liabilities	(455)	(734)	(1,093)	(2,487)	(3,874)	(5,774)
Net current liabilities	(437)	(733)	(1,048)	(2,145)	(3,444)	(5,529)
Fixed assets	131	99	504	662	649	576
Investment	-	-	-	-	420	420
Deferred expenditure	-	-	382	8,399	7,025	6,557
	(306)	(634)	(162)	6,916	4,650	2,024
Represented by:						
Share capital	100	100	1,667	12,028	16,100	16,100
Accumulated losses	(406)	(734)	(1,829)	(5,112)	(11,450)	(14,076)
	(306)	(634)	(162)	6,916	4,650	2,024
Net tangible assets per share (RM)	(3.06)	(6.34)	(0.10)	0.57	0.29	0.13

5.2.4 KCSB

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>30.4.2000</u>
	RM'000	RM'000	RM'000	RM'000
Current assets	-	113	1,098	1,251
Current liabilities	-	(71)	(43)	(491)
Net current (liabilities)/assets	-	42	1,055	760
Fixed assets	-	-	20	19
Deferred taxation	-	-	-	(3)
	-	42	1,075	776
Shareholder's fund				
Share capital	_*	_*	100	100
Retained earnings	-	42	975	676
	-	42	1,075	776
Net tangible assets per share (RM)	1.00	20,909.00	10.75	7.76

* The issued and paid-up share capital is RM2.

10. ACCOUNTANTS' REPORT (Cont'd)**5.2.5 Padusoft**

	<u>1997</u> RM'000	<u>1998</u> RM'000	<u>1999</u> RM'000	<u>30.4.2000</u> RM'000
Current assets	-*	-*	914	455
Current liabilities	-	-	(76)	(253)
Net current assets	-	-	838	202
Fixed assets	-	-	777	885
Development expenditure	-	-	74	220
	-	-	1,689	1,307
Shareholder's funds				
Share capital	-*	-*	500	500
Retained earnings	-	-	1,189	807
	-	-	1,689	1,307
Net tangible assets per ordinary share (RM)	1.00	1.00	3.38	2.61

* The current assets and issued and paid-up share capital is RM2.

5.2.6 MRC

	<u>31.10.1995</u> RM'000	<u>1996</u> RM'000	<u>1997</u> RM'000	<u>1998</u> RM'000	<u>1999</u> RM'000	<u>30.4.2000</u> RM'000
Current assets	-	-	-	-	322	379
Current liabilities	(2)	(2)	(2)	(3)	(1,713)	(1,956)
Net current liabilities	(2)	(2)	(2)	(3)	(1,391)	(1,577)
Fixed assets	-	-	-	-	1,213	1,426
Intangible assets	2	2	2	3	-	-
Hire purchase creditors	-	-	-	-	(14)	(10)
	-	-	-	-	(192)	(161)
Represented by:						
Share capital	-*	-*	-*	-*	1,000	1,600
Accumulated losses	-	-	-	-	(1,192)	(1,761)
	-	-	-	-	(192)	(161)
Net tangible assets per share (RM)	1.00	1.00	1.00	1.00	(0.19)	(0.10)

* The issued and paid-up share capital is RM2.

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

5.27 AOL

	<u>30.4.2000</u> RM'000
Current assets	121
Current liabilities	(59)
Net current assets	<u>62</u>
Fixed assets	20
Intangible assets	18
	<u>100</u>
Shareholder's funds	
Share capital	<u>100</u>
Net tangible assets per ordinary share (RM)	<u>0.82</u>

10. ACCOUNTANTS' REPORT (Cont'd)**6. STATEMENTS OF ASSETS AND LIABILITIES**

We set out below the statements of assets and liabilities of the HeiTech Group based on their audited consolidated accounts as at 30 April, 2000 and the proforma HeiTech Group which has been prepared for illustrative purposes only based on the assumption that the proposed Floatation Scheme was completed by 30 April, 2000.

	<u>Note</u>	<u>HeiTech Group RM'000</u>	<u>Proforma Group RM'000</u>
CURRENT ASSETS			
Cash and bank balances	6.2	57,077	122,677
Trade debtors	6.3	37,338	37,338
Development expenditure		2,188	2,188
Other debtors	6.4	8,746	8,746
		<u>105,349</u>	<u>170,949</u>
CURRENT LIABILITIES			
Bank overdraft	6.5	530	530
Trade creditors		28,831	28,831
Other creditors	6.6	33,961	33,961
Taxation		6,543	6,543
Dividends		3,973	3,973
Due to holding company	6.7	51	51
		<u>73,889</u>	<u>73,889</u>
NET CURRENT ASSETS		31,460	97,060
INVESTMENTS	6.8	458	458
FIXED ASSETS	6.9	32,727	32,727
STAFF LOAN	6.10	2,081	2,081
DEFERRED EXPENDITURE	6.11	6,574	6,574
DEFERRED INCOME	6.12	(22,204)	(22,204)
DEFERRED TAXATION	6.13	(3,190)	(3,190)
MINORITY INTERESTS		(1,265)	(1,265)
		<u>46,641</u>	<u>112,241</u>
SHAREHOLDERS' FUNDS			
Share capital	6.14	15,000	80,000
Share premium	6.15	-	16,500
Reserve arising on consolidation		228	228
Retained profits		31,413	15,513
		<u>46,641</u>	<u>112,241</u>

This account is prepared in accordance with the Malaysian Accounting Standard Board ("MASB") 1.

10. ACCOUNTANTS' REPORT (Cont'd)

6.1 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The accounts are prepared under the historical cost convention and comply with applicable approved accounting standards in Malaysia.

(b) Basis of Consolidation

The consolidated accounts include the accounts of the Company and its consolidated subsidiaries. The results of subsidiaries acquired during the year are included in the consolidated profit and loss account from the date of their acquisition. Related party transactions are eliminated on consolidation and the consolidated accounts reflect external transactions only.

The related companies for the purpose of these accounts refer to the consolidated subsidiaries and the holding company.

At the date of acquisition, the fair values of the subsidiary companies' net assets are determined and these values are incorporated in the consolidated accounts. Any difference between the cost of investments and the net assets of the subsidiary companies after this valuation is written off.

(c) Fixed Assets and Depreciation

Fixed assets are stated at cost less accumulated depreciation. Depreciation on fixed assets is provided on a straight-line basis calculated to write off the cost of each asset over its estimated useful life.

The principal annual rates of depreciation are as follows:

Motor vehicles	20%
Office equipment, furniture and fittings	10%
Computers and network equipment	25%
Renovation	15%

(d) Currency Conversion and Translation

Transactions in foreign currencies during the year are converted into Ringgit Malaysia at rates of exchange approximating those ruling at the transaction dates. Foreign currency monetary assets and liabilities at the balance sheet date are translated into Ringgit Malaysia at rates of exchange approximating those ruling at that date. All exchange gains or losses are dealt with in the profit and loss account.

(e) Deferred Taxation

Deferred taxation is provided under the liability method for all material timing differences except where there is reasonable evidence that these timing differences will not reverse in the foreseeable future.

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

(f) Development Expenditure

Development expenditure comprises mainly expenditure incurred on projects, which will be recovered through billings made to customers upon acceptance.

(g) Investments

Investments in subsidiaries and other investments are stated at cost less provision for any permanent diminution in value.

Investments in quoted shares are stated at lower of cost or market value on an aggregate basis.

(h) Associated Companies

The Group treats as associated companies those companies in which a long term equity interest of between 20 and 50 percent is held and where it exercises significant influence through management participation.

The Group's share of profits or losses of associated companies is included in the consolidated profit and loss account and the Group's interest in associated companies is stated at cost plus adjustments to reflect changes in the Group's share of the net assets of the associated companies.

(i) Affiliated Companies

An affiliated company is defined as a company or a subsidiary of a company which has a long term equity interest of between 20 and 50 percent in the Company or its subsidiaries and which can exercise significant influence through board representation.

(j) Recognition of Income

(i) Professional fees

Income is recognised based on percentage of completion method over the period of contract for all systems integration projects where a fixed contract sum has been agreed up front. Full provision is made for foreseeable losses, if any.

(ii) Income from installation of hardware and software

Income is recognised based on percentage of completion method over the period of contract for all accepted installation of hardware and software where a fixed contract sum has been agreed up front. Full provision is made for foreseeable losses, if any.

(iii) Network service charges, public services network fees and others

Income is recognised upon billing to customers for services rendered.

10. ACCOUNTANTS' REPORT (Cont'd)**6.2 CASH AND BANK BALANCES**

	HeiTech Group RM'000	Proforma Group RM'000
Cash in hand and at bank	5,090	70,690
Deposits with licensed banks	51,987	51,987
	<u>57,077</u>	<u>122,677</u>

* The proforma Group cash in hand and at banks includes the proceeds from the proposed bonus issue, rights issue and public issue after deducting listing expenses of RM2.25 million.

6.3 TRADE DEBTORS

	HeiTech Group RM'000	Proforma Group RM'000
Trade debtors	40,195	40,195
Provision for doubtful debts	(2,857)	(2,857)
	<u>37,338</u>	<u>37,338</u>

6.4 OTHER DEBTORS

	HeiTech Group RM'000	Proforma Group RM'000
Other debtors	10,768	10,768
Due from associated company	443	443
Provision for doubtful debts	(2,465)	(2,465)
	<u>8,746</u>	<u>8,746</u>

6.5 BANK OVERDRAFT

The overdraft is secured against fixed and floating charge on one of the subsidiary's assets and bears interest of between 6.8% to 7.25% (1999 : Nil) per annum.

10. ACCOUNTANTS' REPORT (Cont'd)

6.6 OTHER CREDITORS

	HeiTech Group RM'000	Proforma Group RM'000
Included in other creditors are:		
Payments on account	1,532	1,532
Advanced billings	3,518	3,518
Due to directors	1,235	1,235
Due to affiliated company	<u>248</u>	<u>248</u>

6.7 DUE TO HOLDING COMPANY

The amount due to holding company is unsecured, interest free and has no fixed terms of repayment.

6.8 INVESTMENTS

	Note	HeiTech Group RM'000	Proforma Group RM'000
Interest in associated company	(a)	-	-
Other investments	(b)	458	458
		<u>458</u>	<u>458</u>

(a) Interests in associated company

	HeiTech Group RM'000	Proforma Group RM'000
Unquoted shares, at cost	175,000	175,000
Group's share of post acquisition retained profits	<u>(175,000)</u>	<u>(175,000)</u>
	<u>-</u>	<u>-</u>

10. ACCOUNTANTS' REPORT (Cont'd)(b) Other Investments

	HeiTech Group RM'000	Proforma Group RM'000
Unquoted shares, at cost	467	467
Less: Provision for diminution in value	(9)	(9)
	<u>458</u>	<u>458</u>

6.9 FIXED ASSETS

	HeiTech Group RM'000	Proforma Group RM'000
COST		
Freehold land	7,379	7,379
Motor vehicles	966	966
Office equipment and furniture fittings	7,618	7,618
Computers and network equipment	55,437	55,437
Renovation	3,523	3,523
	<u>74,923</u>	<u>74,923</u>
ACCUMULATED DEPRECIATION		
Freehold land	-	-
Motor vehicles	467	467
Office equipment and furniture fittings	2,704	2,704
Computers and network equipment	37,778	37,778
Renovation	1,247	1,247
	<u>42,196</u>	<u>42,196</u>
NET BOOK VALUE		
Freehold land	7,379	7,379
Motor vehicles	499	499
Office equipment and furniture fittings	4,914	4,914
Computers and network equipment	17,659	17,659
Renovation	2,276	2,276
	<u>32,727</u>	<u>32,727</u>

10. ACCOUNTANTS' REPORT (Cont'd)**6.10 STAFF LOANS**

	HeiTech Group RM'000	Proforma Group RM'000
Staff loans	3,084	3,084
Less: Amount receivable within one year included under current assets	(1,003)	(1,003)
	<u>2,081</u>	<u>2,081</u>

6.11 DEFERRED EXPENDITURE

	HeiTech Group RM'000	Proforma Group RM'000
<u>Software Licensing and Localisation Rights</u>		
Balance as at 1 January	6,330	6,330
Amortisation for the period	(424)	(424)
Balance as at 30 April	<u>5,906</u>	<u>5,906</u>
<u>R & D Localisation Costs</u>		
Balance as at 1 January	696	696
Amortisation for the period	(46)	(46)
Balance as at 30 April	<u>650</u>	<u>650</u>
<u>Preliminary and Pre-operating Expenses</u>		
Preliminary expenses	16	16
Pre-operating expenses	2	2
	<u>18</u>	<u>18</u>
Total	<u>6,574</u>	<u>6,574</u>

6.12 DEFERRED INCOME

Deferred income relates to income for the provision of value added network and maintenance services. The amount will be recognised proportionately over the period of the service.

10. ACCOUNTANTS' REPORT *(Cont'd)***6.13 DEFERRED TAXATION**

	HeiTech Group RM'000	Proforma Group RM'000
At 1 January	3,187	3,187
Transfer from profit and loss account	3	3
At 30 April	<u>3,190</u>	<u>3,190</u>

6.14 SHARE CAPITAL

	HeiTech Group RM	Proforma Group RM
Ordinary shares of RM1.00 each:		
Authorised		
At 1 January	50,000,000	50,000,000
Created during the period	50,000,000	50,000,000
At 30 April	<u>100,000,000</u>	<u>100,000,000</u>
Issued and fully paid		
At 1 January	15,000,000	15,000,000
Issued during the period	-	65,000,000
At 30 April	<u>15,000,000</u>	<u>80,000,000</u>

6.15 SHARE PREMIUM

The share premium account is in relation to share premium arising from the public issue less listing expenses of RM2.25 million.

6.16 CAPITAL COMMITMENTS

	HeiTech Group RM'000	Proforma Group RM'000
Approved and contracted for	9,291	9,291
Approved and not contracted for	<u>6,699</u>	<u>6,699</u>

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

6.17 CONTINGENT LIABILITY

There is a contingent liability of RM500,000 arising from corporate guarantee for credit facility given to a subsidiary. The credit facility has been fully utilised by the subsidiary.

6.18 SUBSEQUENT EVENTS

On 2 June, 2000, the board of directors of HeiTech approved the acquisition of 28,500 ordinary shares of RM1.00 each in MSCL Holdings Sdn. Bhd. ("MSCL") for a total consideration of RM28,500 and further subscribed for 4,850,000 of 8% Irredeemable Convertible Preference Shares of RM1.00 each in MSCL between year 1 and year 5.

On 7 June, 2000, HeiTech entered into a Sale and Purchase agreement to acquire 300,000 ordinary shares of RM1.00 each in EPNCR (M) Sdn Bhd ("EPNCR") representing 30% equity interest for a cash consideration of RM825,000. Under the agreement, HeiTech is committed to pay additional cash consideration of up to RM300,000 should EPNCR be able to meet certain dividend payment for financial year ending 31 December, 2000.

10. ACCOUNTANTS' REPORT (Cont'd)**7. CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD FROM 1 JANUARY, 2000 TO 30 APRIL, 2000**

	1.1.2000 to <u>30.4.2000</u> RM	1.1.1999 to <u>31.12.1999</u> RM
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	9,756,414	33,613,057
Adjustments for:		
Depreciation	3,114,653	7,965,127
Goodwill on consolidation written off	-	5,525,348
Interest expense	192,182	937,420
Provision for doubtful debts	848,161	3,434,359
Provision for diminution in value of investment	-	45,000
Share of losses in associated companies	225,896	310,583
Gain on disposal of investments	(188,566)	(112,308)
Amortisation	468,784	1,405,093
Interest income	(751,712)	(1,372,742)
Operating profit before working capital changes	<u>13,665,812</u>	<u>51,750,937</u>
Decrease in debtors	20,126,701	6,753,031
(Increase)/decrease in development expenditure	(652,877)	11,207,677
Increase in deferred expenditure	(16,635)	-
(Decrease)/increase in creditors	(27,604,001)	1,004,101
Decrease in amount due to related companies (net)	(803,763)	(113,953)
Cash generated from operations	<u>4,715,237</u>	<u>70,601,793</u>
Deferred income (recognised)/capitalised	(4,219,723)	19,090,854
Interest paid	(192,182)	(937,420)
Dividend paid	(7,215,000)	(20,250,000)
Deferred expenditure incurred	-	(32,549)
Taxation paid	(1,965,248)	(685,703)
Net cash (used in) / generated from operating activities	<u>(8,876,916)</u>	<u>67,786,975</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Minority interest share in investment in subsidiary	289,000	-
Acquisition of subsidiaries, net of cash acquired	-	102,065
(Increase)/decrease in staff loans	(23,368)	932,161
Interest received	751,712	1,208,063
Proceeds from disposal of investments	2,213,891	1,861,368
Proceeds from disposal of fixed assets	-	83,437
Purchase of fixed assets	(4,985,630)	(17,683,234)
Purchase of investments	-	(3,407,916)
Net cash used in investing activities	<u>(1,754,395)</u>	<u>(16,904,056)</u>

10. ACCOUNTANTS' REPORT (Cont'd)

	1.1.2000 to <u>30.4.2000</u> RM	1.1.1999 to <u>31.12.1999</u> RM
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(10,631,311)	50,882,919
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD/YEAR	<u>67,179,163</u>	<u>16,296,244</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD/YEAR	<u><u>56,547,852</u></u>	<u><u>67,179,163</u></u>
CASH AND CASH EQUIVALENTS COMPRISE:		
Cash at bank	5,090,373	14,081,344
Fixed deposits with licensed banks	51,987,123	53,097,819
Bank overdraft	(529,644)	-
	<u><u>56,547,852</u></u>	<u><u>67,179,163</u></u>

8. NET TANGIBLE ASSETS COVER

The proforma Group net tangible assets cover of HeiTech based on the statement of assets and liabilities as at 30 April, 2000 set out in Section 6 above is as follows:

	RM'000
Net assets as per Proforma Group accounts as at 30 April, 2000	112,241
Less: Intangible assets	(6,574)
Proforma net tangible assets	<u><u>105,667</u></u>

Number of HeiTech shares of RM1.00 each that are in issue:

	No. of shares
Ordinary shares -	
As at 30 April, 2000	15,000,000
Proposed Bonus Issue	15,900,000
Proposed Rights Issue	36,600,000
Proposed Public Issue	12,500,000
Issued and paid-up share capital of the Company	<u><u>80,000,000</u></u>

On the basis of the issued and paid-up share capital of 80,000,000 ordinary shares of RM1.00 each, the Group net tangible assets cover per ordinary share of HeiTech is RM1.32.

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

9. AUDITED ACCOUNTS

No audited accounts of the Company and its subsidiaries have been prepared in respect of any period subsequent to 30 April, 2000.

Yours faithfully



ARTHUR ANDERSEN & CO.

No. AF 0103

Public Accountants



HABIBAH BTE ABDUL

No. 1210/02(J)

Partner of the Firm