
10.0 ACCOUNTANTS' REPORT

(Prepared for the inclusion in this Prospectus)



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16 March 2001

Dear Sirs

This report has been prepared by Messrs. KPMG, an approved company auditor for the inclusion in the Prospectus to be dated 28 March 2001 in connection with the public issue of 11,109,000 new ordinary shares of RM1.00 each in Knusford Berhad (formerly known as Wengcon Corporation Berhad) ("KB") at an issue price of RM1.60 per share and in conjunction with its listing and quotation on the Main Board of the Kuala Lumpur Stock Exchange ("KLSE").

This report has been prepared based on the accounting policies consistent with those previously adopted in the preparation of the audited financial statements of KB, Wengcon Holdings Sdn. Bhd. ("WHSB"), Wengcon Machinery Sdn. Bhd. ("WMCSB"), Wengcon Marketing Sdn. Bhd. ("WMKSB") and Wengcon Equipment Sdn. Bhd. ("WEQSB") and comply with approved accounting standards issued by the Malaysian Accounting Standards Board ("MASB") other than as disclosed in this report.

1 General information

1.1 Background

KB was incorporated as a public limited company on 18 March 1996 in Malaysia under the Companies Act, 1965 under the name of Wengcon Corporation Berhad. The Company adopted its present name on 25 April 2000. The Company was incorporated as an investment holding company to facilitate the listing of KB and its subsidiaries ("KB Group" or "the Group") on the Main Board of the KLSE. The details of the subsidiaries, which were acquired on 6 December 2000 in connection with the Restructuring and Listing Exercise as mentioned in paragraph 1.4, are disclosed in paragraph 1.5.



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1.2 Share capital

The authorised and issued and paid up capital of KB 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	200,000,000	200,000,000
Issued and fully paid	62,933,002	62,933,002

<i>Date of allotment</i>	<i>No. of ordinary shares</i>	<i>Par value</i>	<i>Purpose</i>	<i>Cumulative total RM</i>
18.03.1996	2	1.00	Subscribers' shares.	2
6.12.2000	24,975,055	1.00	Issued as consideration for the acquisition of WHSB's entire issued and paid up share capital.	24,975,057
6.12.2000	25,366,146	1.00	Issued as consideration for the acquisition of WEQSB's entire issued and paid up share capital.	50,341,203
7.3.2001	12,591,799	1.00	Rights Issue on the basis of approximately 1.0005 new ordinary shares of RM1.00 each for every 4 existing ordinary shares of RM1.00 each held.	62,933,002

The issued and fully paid-up share capital of KB after the public issue of 11,109,000 new ordinary shares of RM1.00 each would be RM74,042,002 comprising 74,042,002 ordinary shares of RM1.00 each.

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1.3 Principal activities

The principal activity of KB is that of investment holding. The principal activities of the subsidiaries are disclosed in paragraph 1.5.

1.4 Restructuring and listing exercise

In connection with and as part of the listing of and quotation for the entire issued and paid-up share capital of KB on the Main Board of the KLSE, KB has undertaken the following restructuring and listing exercise which was completed on 7 March 2001:

- Acquisition of the entire issued and paid-up share capital of WHSB comprising 5,800,000 ordinary shares of RM1.00 each for a purchase consideration of RM28,721,314 to be satisfied by the issuance of 24,975,055 new ordinary shares of RM1.00 each in KB at an issue price of RM1.15 per share.
- Acquisition of the entire issued and paid-up share capital of WEQSB comprising 500,000 ordinary shares of RM1.00 each for a purchase consideration of RM29,171,068 to be satisfied by the issuance of 25,366,146 new ordinary shares of RM1.00 each in KB at an issue price of RM1.15 per share.
- Rights issue of 12,591,799 new ordinary shares of RM1.00 each in KB on the basis of approximately 1.0005 new ordinary shares of RM1.00 each for every 4 existing ordinary shares of RM1.00 each held after the above acquisitions at an issue price of RM1.15 per share

In connection with the above, KB will undertake a public issue of 11,109,000 new ordinary shares of RM1.00 each at an issue price of RM1.60 per share.

The above exercise was approved by the Securities Commission on 26 July 2000, 27 February 2001 and 7 March 2001, by the Ministry of International Trade and Industry on 5 April 2000 and 19 February 2001 and by the Foreign Investment Committee on 23 February 2000.

10.0 ACCOUNTANTS' REPORT (Cont'd)



1.5 Subsidiaries

As at the date of this report, details of the subsidiaries of KB, all of which are incorporated in Malaysia, are as follows :-

Name	Date of incorporation	<-----Share capital----->		Effective equity interest %	Principal activities
		Authorised RM	Issued and paid-up RM		
WHSB	09.08.1990	25,000,000	5,800,000	100	Reconditioning, sales and rental of heavy machinery and equipment.
WMCSB*	03.05.1993	500,000	300,002	100	Reconditioning, sales and rental of light and medium machinery and equipment.
WMKSB*	16.07.1994	500,000	300,002	100	Trading in building materials.
WEQSB	04.11.1989	500,000	500,000	100	Rental of machinery and equipment and the provision of transportation services.

* Subsidiaries of WHSB

Note:-

- i) WHSB was incorporated as a private limited company under the name of Hi-Plus Sdn. Bhd on 9 August 1990. It changed its name to Wengcon Holdings Sdn. Bhd. on 26 October 1994.
- ii) WMCSB was incorporated as a private limited company under the name WCMT Industries (M) Sdn Bhd on 3 May 1993. It changed its name to Wengcon Machinery & Trading Sdn Bhd on 30 July 1993 and thereafter changed its name on 12 April 1994 to Wengcon Sdn. Bhd. The company adopted its present name on 2 August 1994.
- iii) WMKSB was incorporated as a private limited company on 16 July 1994.
- iv) WEQSB was incorporated as a private limited company under the name of Sahabat Kuari Sdn. Bhd on 4 November 1989. It changed its name to Wengcon Equipment Sdn. Bhd. on 5 March 1996.

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1.6 Financial statements and auditors

The financial year end of KB and all its subsidiaries is 31 December.

We have been the auditors of KB and all its subsidiaries for all the financial years/periods relevant to this report except as stated below:-

	<i>KPMG appointed as auditors since the financial year ended</i>
WMCSB	31 December 1996
WMKSB	31 December 1996

Another firm of auditors have audited the financial statements of WMCSB and WMKSB prior to financial year ended 31 December 1996.

The auditors' reports of the companies in the Group for the relevant financial years/periods under review were not subject to any qualification except for the financial years ended 31 December 1997 and 1998 in respect of WHSB and WMCSB. On 19 July 1998, there was a fire at the premises of WHSB and the accounting records of the companies, WHSB and WMCSB were substantially destroyed. In view of this, we were unable to form an opinion as to whether the financial statements of WHSB and WMCSB and consolidated financial statements of WHSB and its subsidiaries ("WHSB Group"), give a true and fair view of their state of affairs at 31 December 1997 and the results of their operations and cashflows for the year then ended. In conjunction with this, the auditors' reports for the financial statements of WHSB and WMCSB and consolidated financial statements of WHSB Group for the financial year ended 31 December 1998 were also qualified on their opening balances brought forward from the preceding financial year, i.e. 31 December 1997.

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2 Financial performance – group level

We set out below the proforma consolidated results of KB Group for the past five financial years ended 31 December 1995 to 1999 and 9 months ended 30 September 2000 after making such adjustments considered necessary, on the assumption that the subsidiaries under the restructuring and listing exercise had been in existence throughout the financial years and period under review.

2.1 Summary of proforma consolidated results of KB Group

	Year ended 31 December					9 months ended
	1995	1996	1997	1998	1999	30 September 2000
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Turnover	119,380	192,829	192,763	151,480	129,044	105,371
Profit before depreciation and interest	10,503	17,120	21,760	23,767	25,079	19,468
Depreciation	(567)	(1,807)	(3,831)	(4,196)	(4,099)	(2,901)
Interest expense	(141)	(962)	(1,892)	(1,814)	(971)	(392)
Interest income	33	161	512	569	460	405
Profit before taxation	9,828	14,512	16,549	18,326	20,469	16,580
Taxation	(3,146)	(4,679)	(4,925)	(5,183)	(478)	(5,563)
Profit after taxation	6,682	9,833	11,624	13,143	19,991	11,017
No. of ordinary shares of RM1.00 each ('000)	50,341	50,341	50,341	50,341	50,341	50,341
Earning per share (sen)						
- Gross	19.5	28.8	32.9	36.4	40.7	43.9*
- Net	13.3	19.5	23.1	26.1	39.7	29.2*

* Annualised

10.0 ACCOUNTANTS' REPORT *(Cont'd)*



2.2 Notes to the proforma consolidated results of KB Group

2.2.1 Basis of consolidation

The proforma consolidated results of KB Group, prepared for illustrative purposes only, are based on the audited financial statements of KB, WHSB Group and WEQSB after making such adjustments considered necessary and on the assumption that the Group has been in existence throughout the financial years and period under review.

2.2.2 Turnover and operating results

The increase in turnover and operating profit before taxation during 1995 to 1996 was in tandem with the growth in the construction industry as demand for reconditioned machinery and equipment, and building materials increased substantially.

The turnover in 1997 declined slightly as the management changed its focus to reduce the sale of new machinery and equipment and concentrated instead on the business of reconditioning, sales and rental of reconditioned machinery and equipment. The change in the management's decision was in line with the softening demand from the construction industry in 1997 due to a significant shift in contractors' preference to purchasing and rental of reconditioned machinery and equipment. However, sales and rental of reconditioned machinery and equipment have higher gross margins and therefore the operating profit before taxation increased.

The decrease in turnover in 1998 and 1999 was mainly due to the regional financial crisis that resulted in lower demand for reconditioned machinery/equipment and building materials. Nonetheless, the profit for 1998 and 1999 showed an increase due to the higher gross margins obtained from the rental of reconditioned machinery and equipment.

The increase in turnover for the 9 months ended 30 September 2000, on an annualised basis, was primarily due to the improved outlook of the local economy and the recovery of the construction industry after the economic downturn in 1997.

10.0 ACCOUNTANTS' REPORT *(Cont'd)*



2.2.3 Taxation

The effective tax rates for 1995 and 1996 were higher than the statutory tax rate due to certain expenses being disallowed for tax purposes. No provision was made in 1999 for KB Group in view of the tax waiver year pursuant to the Income Tax (Amendment) Act, 1999. The tax expense in 1999 arose mainly from WHSB whereby WHSB finalised a composite settlement payable to the Director General of Inland Revenue Board pursuant to Section 96A(1) of the Income Tax Act, 1967 in respect of Year of Assessment 1995 amounting to RM493,000.

The effective tax rates for 2000 were higher than the statutory tax rate due to underprovision of tax for WEQSB in prior years.

2.2.4 Extraordinary item

There was no extraordinary item during the financial years and period under review.

2.2.5 Earnings per share

The gross earnings per share is calculated based on profit before taxation while the net earnings per share is calculated based on profit after taxation over the total number of ordinary shares of 50,341,203 assuming that the restructuring and listing exercise detailed in paragraph 1.4 excluding the rights issue and public issue, has been effected throughout the financial years and period under review.

For illustrative purposes, the gross and net earnings per share for the 9 months ended 30 September 2000 have been calculated on an annualised basis which does not necessarily give a correct indication of the forecast annual results due to seasonal factors.

2.2.6 Segmental information

There is no disclosure of segmental information as KB Group operates principally within the same industry and within the country.

10.0 ACCOUNTANTS' REPORT *(Cont'd)*



3 Financial performance

3.1 KB

No profit and loss account has been prepared except for the 9 months period ended 30 September 2000. The following information are based on the audited financial statements of KB for the 9 months period ended 30 September 2000.

The summary results of KB have been prepared based on accounting policies consistent with those adopted in the preparation of KB's audited financial statements.

3.1.1 Summary results of KB

	<i>9 months ended 30 September 2000 RM'000</i>
Turnover	-
Loss before depreciation and interest	(141)
Depreciation	-
Interest expense	-
Interest income	-
Loss before and after taxation	(141)

No. of ordinary shares of
RM1.00 each ('000)

*

* *This represents 2 ordinary shares of RM1.00 each*

3.1.2 Notes to the results of KB

There were no profit and loss accounts for the period since the date of incorporation until 31 December 1999 as all expenses were recorded as deferred expenditure in the balance sheets of the Company.

Under the MASB Proposed Framework and paragraph 26 of MASB 1, preliminary and pre-operating expenses would not meet the definition of assets. Accordingly, the Company changed its accounting policy and expenditure carried forward consisting of preliminary and pre-operating expenses had been fully written off to the income statement during the 9 months ended 30 September 2000. The change in accounting policy has no material impact on the proforma consolidated results of KB Group.

10.0 ACCOUNTANTS' REPORT (Cont'd)



3.2 WHSB

The following information are based on the audited financial statements of WHSB for the last five years ended 31 December 1995 to 1999 and 9 months period ended 30 September 2000.

The summary results of WHSB have been prepared based on accounting policies consistent with those adopted in the preparation of WHSB's audited financial statements.

3.2.1 Summary results of WHSB

	<i>Year ended 31 December</i>					<i>9 months ended 30 September</i>
	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</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	103,655	41,470	37,220	34,205	55,242	45,941
Profit before depreciation and interest	5,258	5,693	6,384	6,448	10,273	8,216
Depreciation	(416)	(872)	(1,612)	(1,444)	(1,167)	(497)
Interest expense	(131)	(833)	(1,530)	(1,221)	(514)	(214)
Interest income	27	32	116	107	65	29
Profit before taxation	4,738	4,020	3,358	3,890	8,657	7,534
Taxation	(1,598)	(1,352)	(915)	(1,263)	(493)	(2,122)
Profit after taxation	3,140	2,668	2,443	2,627	8,164	5,412
No. of ordinary shares of RM1.00 each ('000)	5,800	5,800	5,800	5,800	5,800	5,800
Earnings per share (sen)						
- Gross	81.7	69.3	57.9	67.1	149.3	173.2*
- Net	54.1	46.0	42.1	45.3	140.8	124.4*

* *Annualised.*

10.0 ACCOUNTANTS' REPORT *(Cont'd)*



3.2.2 Notes to the results of WHSB

3.2.2.1 *Turnover and operating results*

Prior to 1995, both the operations of WMCSB and WMKSB were in WHSB, the profits were accordingly accrued to WHSB. However, due to the rationalisation of the activities of WHSB in 1996, the businesses of sale of new machinery/spare parts and sale of building materials were transferred to WMCSB and WMKSB respectively. The turnover for WHSB in 1996, therefore, decreased significantly.

3.2.2.2 *Taxation*

The effective tax rates for the years ended 31 December 1995, 1996 and 1998 were higher than the statutory tax rate due to certain expenses being disallowed for tax purposes.

In 1999, no provision for taxation was made in view of the tax waiver year pursuant to the Income Tax (Amendment) Act, 1999. The tax expense in 1999 arose from a composite settlement payable to the Director General of Inland Revenue Board pursuant to Section 96A(1) of the Income Tax Act, 1967 in respect of Year Assessment 1995 amounting to RM493,000.

3.2.2.3 *Extraordinary item*

There was no extraordinary item during the financial years/period under review.

3.2.2.4 *Earnings per share*

The gross earnings per share is calculated based on profit before taxation while the net earnings per share is calculated based on profit after taxation over the total number of ordinary shares of 5,800,000 for the financial years/period under review.

For illustrative purposes, the gross/net earnings per share for the 9 months ended 30 September 2000 have been calculated on an annualised basis which does not necessarily give a correct indication of the forecast annual results due to seasonal factors.

10.0 ACCOUNTANTS' REPORT (Cont'd)



3.3 WMCSB

The following information are based on the audited financial statements of WMCSB for the last five years ended 31 December 1995 to 1999 and 9 months period ended 30 September 2000.

The audited summary results of WMCSB have been prepared based on accounting policies consistent with those adopted in the preparation of WMCSB's audited financial statements.

3.3.1 Summary results of WMCSB

	<i>Year ended 31 December</i>					<i>9 months ended</i>
	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>30 September</i>
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>2000</i>
						<i>RM'000</i>
Turnover	12	32,328	19,505	11,977	7,255	7,356
Profit before depreciation and interest	10	1,836	1,637	2,842	2,848	1,914
Depreciation	-	(40)	(232)	(611)	(742)	(756)
Interest expense	-	(10)	(167)	(221)	(215)	(151)
Interest income	-	-	-	-	-	-
Profit before taxation	10	1,786	1,238	2,010	1,891	1,007
Taxation	(3)	(688)	(347)	(847)	-	(439)
Profit after taxation	7	1,098	891	1,163	1,891	568
No. of ordinary shares of RM1.00 each ('000)	300	300	300	300	300	300
Earnings per share (sen)						
- Gross	3.3	595.3	412.7	670.0	630.3	447.6*
- Net	2.3	366.0	297.0	387.7	630.3	252.4*

* *Annualised*

10.0 ACCOUNTANTS' REPORT *(Cont'd)*



3.3.2 Notes to the results of WMCSB

3.3.2.1 *Turnover and operating results*

Prior to 1995, the operations of WMCSB were in WHSB. The profits were accordingly accrued to WHSB. However, due to the rationalisation of WHSB's activities in 1996, the business of sale of new machinery/spare parts was transferred to WMCSB. The turnover of WMCSB, therefore, increased significantly.

3.3.2.2 *Taxation*

The effective taxation rates for 1996, 1998 and 2000 were higher than the statutory tax rate due to certain expenses being disallowed for tax purposes. In 1999, no provision for taxation was made in view of the tax waiver year pursuant to the Income Tax (Amendment) Act, 1999.

3.3.2.3 *Extraordinary item*

There was no extraordinary item during the financial years/period under review.

3.3.2.4 *Earnings per share*

The gross earnings per share is calculated based on profit before taxation while the net earnings per share is calculated based on profit after taxation over the total number of ordinary shares of 300,002 for the financial years/period under review.

For illustrative purposes, the gross/net earnings per share for the 9 months ended 30 September 2000 have been calculated on an annualised basis which does not necessarily give a correct indication of the forecast annual results due to seasonal factors.

10.0 ACCOUNTANTS' REPORT (Cont'd)



3.4 WMKSB

The following information are based on the audited financial statements of WMKSB for the last five years ended 31 December 1995 to 1999 and 9 months period ended 30 September 2000.

The audited summary results of WMKSB have been prepared based on accounting policies consistent with those adopted in the preparation of WMKSB's audited financial statements.

3.4.1 Summary results of WMKSB

	Year ended 31 December					9 months ended 30 September
	1995 RM'000	1996 RM'000	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000
Turnover	12	101,015	106,139	83,645	40,536	31,892
Profit before depreciation and interest	10	1,875	4,385	3,732	1,076	1,025
Depreciation	-	(2)	(26)	(81)	(109)	(94)
Interest expense	-	-	(4)	(19)	(28)	(22)
Interest income	-	-	-	23	80	40
Profit before taxation	10	1,873	4,355	3,655	1,019	949
Taxation	(3)	(560)	(1,263)	(1,080)	15	(263)
Profit after taxation	7	1,313	3,092	2,575	1,034	686
No. of ordinary shares of RM1.00 each ('000)	300	300	300	300	300	300
Earnings per share (sen)						
- Gross	3.3	624.3	1,451.7	1,218.3	339.7	421.8*
- Net	2.3	437.7	1,030.7	858.3	344.7	304.9*

* *Annualised*

10.0 ACCOUNTANTS' REPORT *(Cont'd)*



3.4.2 Notes to the results of WMKSB

3.4.2.1 *Turnover and operating results*

Prior to 1995, the operations of WMKSB were in WHSB. The profits were accordingly accrued to WHSB. However, due to the rationalisation of WHSB's activities in 1996, the business of sale of building materials was transferred to WMKSB. The turnover of WMKSB, therefore, increased significantly.

3.4.2.2 *Taxation*

In 1999, no provision for taxation was made in view of the tax waiver year pursuant to the Income Tax (Amendment) Act, 1999.

3.4.2.3 *Extraordinary item*

There was no extraordinary item during the financial years/period under review.

3.4.2.4 *Earnings per share*

The gross earnings per share is calculated based on profit before taxation while the net earnings per share is calculated based on profit after taxation over the total number of ordinary shares of 300,002 for the financial years/period under review.

For illustrative purposes, the gross/net earnings per share for the 9 months ended 30 September 2000 have been calculated on an annualised basis which does not necessarily give a correct indication of the forecast annual results due to seasonal factors.

10.0 ACCOUNTANTS' REPORT (Cont'd)



3.5 WEQSB

The following information are based on the audited financial statements of WEQSB for the last five years ended 31 December 1995 to 1999 and 9 months period ended 30 September 2000.

The audited summary results of WEQSB have been prepared based on accounting policies consistent with those adopted in the preparation of WEQSB's audited financial statements.

3.5.1 Summary results of WEQSB

	Year ended 31 December					9 months ended
	1995	1996	1997	1998	1999	30 September 2000
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Turnover	15,726	18,015	29,898	26,853	26,012	20,183
Profit before depreciation and interest	5,224	7,726	9,844	10,921	10,882	8,455
Depreciation	(151)	(893)	(1,961)	(2,060)	(2,081)	(1,554)
Interest expenses	(9)	(129)	(518)	(353)	(214)	(4)
Interest income	6	129	512	439	315	335
Profit before taxation	5,070	6,833	7,877	8,947	8,902	7,232
Taxation	(1,542)	(2,079)	(2,400)	(1,993)	-	(2,739)
Profit after taxation	3,528	4,754	5,477	6,954	8,902	4,493
No. of ordinary shares of RM1.00 each ('000)	500	500	500	500	500	500
Earnings per share (sen)						
- Gross	1,014.0	1,366.6	1,575.4	1,789.4	1,780.4	1,928.5*
- Net	705.6	950.8	1,095.4	1,390.8	1,780.4	1,198.1*

* Annualised

10.0 ACCOUNTANTS' REPORT *(Cont'd)*



3.5.2 Notes to the results of WEQSB

3.5.2.1 Taxation

The effective taxation rate for 1997 was higher than the statutory tax rate due to certain expenses being disallowed for tax purposes. In 1999, no provision for taxation was made in view of the tax waiver year pursuant to the Income Tax (Amendment) Act, 1999.

Taxation for 1998 is substantially lower due to overprovision of tax in prior years. The breakdown of taxation for 1998 is as follows:

	RM'000
Income tax - current year	2,700
- overprovision in prior years	(364)
Transfer from deferred taxation	(343)
	<hr/>
	1,993
	<hr/> <hr/>

The effective tax rates for 2000 were higher than the statutory tax rate due to underprovision of tax for the financial year ended 31 December 1996, 1997 and 1998 of RM94,000, RM146,000 and RM472,000 respectively.

3.5.2.2 Extraordinary item

There was no extraordinary item during the financial years/period under review.

3.5.2.3 Earnings per share

The gross earnings per share is calculated based on profit before taxation while the net earnings per share is calculated based on profit after taxation over the total number of ordinary shares of 500,000 for the financial years/period under review.

For illustrative purposes, the gross/net earnings per share for the nine (9) months ended 30 September 2000 have been calculated on an annualised basis which does not necessarily give a correct indication of the forecast annual results due to seasonal factors.

10.0 ACCOUNTANTS' REPORT (Cont'd)

**4 Dividends****4.1 KB**

KB has not declared or paid any dividends since its incorporation.

4.2 Subsidiaries

No dividends has been paid or declared by the subsidiaries during the financial years and period under review except for WHSB and WEQSB in 1996. However, the proposed dividend by WHSB and WEQSB amounting to RM1,287,968 and RM1,371,966 respectively were not approved by the shareholders and were subsequently reversed in 1997.

10.0 ACCOUNTANTS' REPORT (Cont'd)



5 Summarised balance sheets – group level

We set out below the proforma consolidated balance sheets of KB Group as at the end of the past five financial years ended 31 December 1995 to 1999 and 9 months period ended 30 September 2000 after making such adjustments considered necessary, on the assumption that the subsidiaries under the restructuring and listing exercise had been in existence throughout the financial years and period under review.

5.1 Summary of proforma consolidated balance sheets of KB Group

	<i>As at 31 December</i>					<i>As at</i>
	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>30 September</i>
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>2000</i>
						<i>RM'000</i>
Property, plant and equipment	3,812	18,334	22,309	18,826	18,055	15,280
Deferred expenditure	7	42	43	50	61	-
Current assets	51,523	99,765	95,919	109,161	102,535	133,805
Current liabilities	30,712	82,033	67,386	67,056	39,298	57,906
Net current assets	20,811	17,732	28,533	42,105	63,237	75,899
	24,630	36,108	50,885	60,981	81,353	91,179
Financed by :-						
Share capital and reserves	23,117	30,290	44,574	57,892	77,885	88,902
Deferred and long term liabilities	1,513	5,818	6,311	3,089	3,468	2,277
	24,630	36,108	50,885	60,981	81,353	91,179
Net tangible assets (RM'000)	23,110	30,248	44,531	57,842	77,824	88,902
Enlarged share capital	50,341	50,341	50,341	50,341	50,341	50,341
Net tangible assets per share (RM)	0.46	0.60	0.88	1.15	1.55	1.77

10.0 ACCOUNTANTS' REPORT (Cont'd)

**5.2 Notes to the proforma consolidated balance sheets of KB Group****5.2.1 Basis on consolidation**

The proforma consolidated balance sheets of KB Group, prepared for illustrative purposes only, are based on the audited financial statements of KB, WHSB Group and WEQSB after making such adjustments considered necessary and on the assumption that the Group has been in existence throughout the financial years and period under review.

5.2.2 Net tangible assets per share

The net tangible assets ("NTA") per share is calculated based on NTA over the number of ordinary shares of 50,341,203 assuming that the restructuring and listing exercise detailed in paragraph 1.4, excluding the rights issue and public issue, has been effected throughout the financial years and period under review.

10.0 ACCOUNTANTS' REPORT (Cont'd)



6 Summarised balance sheets

6.1 KB

The following financial information is based on the audited financial statements of KB as at end of the four financial period/years ended 31 December 1996 to 1999 and 9 months period ended 30 September 2000.

6.1.1 Summarised balance sheets of KB

	As at 31 December				As at
	1996	1997	1998	1999	30 September
	RM'000	RM'000	RM'000	RM'000	2000
Deferred expenditure	42	43	50	61	-
Current assets	*	*	*	-	3
Current liabilities	(42)	(43)	(50)	(61)	(144)
Net current liabilities	(42)	(43)	(50)	(61)	(141)
	*	*	*	*	(141)
Financed by :-					
Share capital	**	**	**	**	**
Accumulated loss	-	-	-	-	(141)
	*	*	*	*	(141)
Net tangible liabilities (RM'000)	42	43	50	61	141

* RM2.00

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

Note :-

The Company was incorporated on 18 March 1996 and its first set of audited financial statements was from the date of incorporation to 31 December 1996. The Company has not commenced operations since the date of incorporation.

Under the MASB Proposed Frameworks and paragraph 26 of MASB 1, preliminary and pre-operating expenses would not meet the definition of assets. Accordingly, expenditure carried forward consisting of preliminary and pre-operating expenses have been written off to the income statement in 2000.

10.0 ACCOUNTANTS' REPORT (Cont'd)



6.2 WHSB

The following information are based on the audited financial statements of WHSB as at the end of the five financial years ended 31 December 1995 to 1999 and 9 months period ended 30 September 2000.

6.2.1 Summarised balance sheets of WHSB

	<i>As at 31 December</i>					<i>As at</i>
	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>30 September</i>
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>2000</i>
						<i>RM'000</i>
Property, plant and equipment	3,450	10,390	12,399	10,819	10,025	9,635
Investment in subsidiaries	600	600	600	600	600	600
Current assets	36,914	32,473	26,470	32,434	41,462	58,585
Current liabilities	28,390	28,329	19,530	22,269	22,540	34,333
Net current assets	8,524	4,144	6,940	10,165	18,922	24,252
	12,574	15,134	19,939	21,584	29,547	34,487
Financed by :-						
Share capital	5,800	5,800	5,800	5,800	5,800	5,800
Retained profits	5,314	6,694	10,425	13,052	21,215	26,627
Shareholders' funds	11,114	12,494	16,225	18,852	27,015	32,427
Deferred and long term liabilities	1,460	2,640	3,714	2,732	2,532	2,060
	12,574	15,134	19,939	21,584	29,547	34,487
Net tangible assets (RM'000)	11,114	12,494	16,225	18,852	27,016	32,427
Net tangible assets per share (RM)	1.92	2.15	2.80	3.25	4.66	5.59

10.0 ACCOUNTANTS' REPORT (Cont'd)



6.3 WMCSB

The following information are based on the audited financial statements of WMCSB as at the end of the five financial years ended 31 December 1995 to 1999 and 9 months period ended 30 September 2000.

6.3.1 Summarised balance sheets of WMCSB

	<i>As at 31 December</i>					<i>As at</i>
	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>30 September</i>
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>2000</i>
						<i>RM'000</i>
Property, plant and equipment	-	241	2,619	2,094	3,644	2,746
Expenditure carried forward	4	-	-	-	-	-
Current assets	311	44,124	20,455	15,146	13,676	14,191
Current liabilities	8	42,903	19,806	13,678	11,142	10,856
Net current assets	303	1,221	649	1,468	2,534	3,335
	307	1,462	3,268	3,562	6,178	6,081
Financed by :-						
Share capital	300	300	300	300	300	300
Retained profits	7	1,105	1,996	3,159	5,050	5,618
Shareholders' funds	307	1,405	2,296	3,459	5,350	5,918
Long term and deferred liabilities	-	57	972	103	828	163
	307	1,462	3,268	3,562	6,178	6,081
Net tangible assets (RM'000)	303	1,405	2,296	3,459	5,350	5,918
Net tangible assets per share (RM)	1.01	4.68	7.65	11.53	17.83	19.73

10.0 ACCOUNTANTS' REPORT (Cont'd)



6.4 WMKSB

The following information are based on the audited financial statements of WMKSB as at the end of the five financial years ended 31 December 1995 to 1999 and 9 months period ended 30 September 2000.

6.4.1 Summarised balance sheets of WMKSB

	<i>As at 31 December</i>					<i>As at</i>
	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>30 September</i>
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>2000</i>
						<i>RM'000</i>
Property, plant and equipment	-	43	429	348	516	425
Expenditure carried forward	3	-	-	-	-	-
Current assets	312	37,049	37,299	34,403	22,492	32,402
Current liabilities	5	35,469	32,832	27,359	14,576	23,763
Net current assets	307	1,580	4,467	7,044	7,916	8,639
	310	1,623	4,896	7,392	8,432	9,064
Financed by :-						
Share capital	300	300	300	300	300	300
Retained profits	10	1,323	4,415	6,990	8,024	8,710
Shareholders' funds	310	1,623	4,715	7,290	8,324	9,010
Long term and deferred liabilities	-	-	181	102	108	54
	310	1,623	4,896	7,392	8,432	9,064
Net tangible assets (RM'000)	307	1,623	4,715	7,290	8,324	9,010
Net tangible assets per share (RM)	1.02	5.41	15.72	24.30	27.75	30.03

10.0 ACCOUNTANTS' REPORT (Cont'd)



6.5 WEQSB

The following information are based on the audited financial statements of WEQSB as at the end of the five financial years ended 31 December 1995 to 1999 and 9 months period ended 30 September 2000.

6.5.1 Summarised balance sheets of WEQSB

	As at 31 December					As at
	1995	1996	1997	1998	1999	30 September
	RM'000	RM'000	RM'000	RM'000	RM'000	2000
						RM'000
Property, plant and equipment	362	7,660	6,862	5,564	3,870	2,474
Current assets	15,258	20,702	21,642	38,391	36,210	44,331
Current liabilities	3,582	9,874	4,845	14,676	2,007	4,239
Net current assets	11,676	10,828	16,797	23,715	34,203	40,092
	12,038	18,488	23,659	29,279	38,073	42,566
Financed by :-						
Share capital	500	500	500	500	500	500
Retained profits	11,486	14,868	21,717	28,671	37,573	42,066
Shareholders' funds	11,986	15,368	22,217	29,171	38,073	42,566
Long term and deferred liabilities	52	3,120	1,442	108	-	-
	12,038	18,488	23,659	29,279	38,073	42,566
Net tangible assets (RM'000)	11,986	15,368	22,217	29,171	38,073	42,566
Net tangible assets per share (RM)	23.97	30.74	44.43	58.34	76.15	85.13

10.0 ACCOUNTANTS' REPORT (Cont'd)


7 Consolidated cashflow

We set out below the proforma consolidated cashflow of KB Group. The proforma consolidated cashflow of the Group, prepared for illustrative purposes only, is based on the audited cashflow statements of KB, WHSB Group and WEQSB for the 9 months period ended 30 September 2000 after making such adjustments consider necessary and on the assumption that the Group has been in existence throughout the 9 months period ended 30 September 2000.

7.1 KB Group

	<i>9 months ended 30 September 2000 RM'000</i>
Cash flows from operating activities	
Profit before taxation	16,580
Adjustments for:	
Depreciation	2,901
Interest income	(405)
Interest expense	392
Deferred expenditure written off	61
Gain on disposal of property, plant and equipment	(269)
Property, plant and equipment written off	13
Operating profit before working capital changes	<u>19,273</u>
Changes in working capital:	
Inventories	(253)
Trade and other receivables	(38,466)
Trade and other payables	20,444
Cash generated from operations	<u>998</u>
Tax paid	(3,005)
Interest paid	(392)
Interest received	405
Net cash used in operating activities	<u>(1,994)</u>
Cash flows from investing activities	
Purchase of property, plant and equipment	(1,024)
Proceeds from disposal of property, plant and equipment	271
Net cash generated from investing activities	<u>(753)</u>
Cash flows from financing activities	
Repayment of finance lease liabilities	(1,149)
Repayment of term loans	(393)
Net cash used in financing activities	<u>(1,542)</u>

10.0 ACCOUNTANTS' REPORT (Cont'd)



	<i>RM'000</i>
Net decrease in cash and cash equivalents	(4,289)
Cash and cash equivalents at beginning of period	<u>21,385</u>
Cash and cash equivalents at end of period	<u><u>17,096</u></u>

Cash and cash equivalents comprise:-

	<i>RM'000</i>
Cash and bank balances	2,691
Deposits with licensed banks	14,851
Bank overdrafts	<u>(446)</u>
	<u><u>17,096</u></u>

10.0 ACCOUNTANTS' REPORT (Cont'd)



8. Cashflow

We set out below the cashflow of KB and its subsidiaries for the 9 months period ended 30 September 2000.

8.1 KB

	<i>9 months ended 30 September 2000 RM'000</i>
Cash flows from operating activities	
Loss before taxation	(141)
Adjustment for:	
Deferred expenditure written off	61
Operating loss before working capital changes	<u>(80)</u>
Changes in working capital:	
Trade and other payables	83
Net cash generated from operating activities	<u>3</u>

Net increase in cash and cash equivalents	3
Cash and cash equivalent at beginning of period	<u>-</u>
Cash and cash equivalents at end of period	<u>3</u>

Cash and cash equivalents comprise:-

	<i>RM'000</i>
Cash and bank balances	<u>3</u>

10.0 ACCOUNTANTS' REPORT (Cont'd)


8.2 WHSB

	<i>9 months ended 30 September 2000 RM'000</i>
Cash flows from operating activities	
Profit before taxation	7,534
Adjustments for:	
Depreciation	497
Interest income	(29)
Interest expense	214
Gain on disposal of property, plant and equipment	(79)
Operating profit before working capital changes	<u>8,137</u>
Changes in working capital:	
Inventories	(2,369)
Trade and other receivables	(15,149)
Trade and other payables	9,269
Cash used in operations	<u>(112)</u>
Tax paid	(95)
Interest paid	(214)
Interest received	29
Net cash used in operating activities	<u>(392)</u>
Cash flows from investing activities	
Purchase of property, plant and equipment	(855)
Proceeds from disposal of property, plant and equipment	81
Net cash generated from investing activities	<u>(774)</u>
Cash flows from financing activities	
Repayment of finance lease liabilities	(28)
Repayment of term loans	(393)
Net cash used in financing activities	<u>(421)</u>
Net decrease in cash and cash equivalents	(1,587)
Cash and cash equivalents at beginning of period	<u>3,858</u>
Cash and cash equivalents at end of period	<u><u>2,271</u></u>

Cash and cash equivalents comprise:-

	<i>RM'000</i>
Cash and bank balances	1,412
Deposits with licensed banks	1,305
Bank overdrafts	(446)
	<u><u>2,271</u></u>

10.0 ACCOUNTANTS' REPORT (Cont'd)


8.3 WMCSB

	<i>9 months ended 30 September 2000 RM'000</i>
Cash flows from operating activities	
Profit before taxation	1,007
Adjustments for:	
Depreciation	756
Interest expense	151
Property, plant and equipment written off	13
Operating profit before working capital changes	<u>1,927</u>
Changes in working capital:	
Inventories	2,116
Trade and other receivables	(2,373)
Trade and other payables	(288)
Cash generated from operations	<u>1,382</u>
Tax paid	(120)
Interest paid	(151)
Net cash used in operating activities	<u>1,111</u>
Cash flows from investing activity	
Purchase of property, plant and equipment	(8)
Net cash used in investing activity	<u>(8)</u>
Cash flows from financing activity	
Repayment of finance lease liabilities	(983)
Net cash used in financing activity	<u>(983)</u>
Net increase in cash and cash equivalents	120
Cash and cash equivalents at beginning of period	<u>104</u>
Cash and cash equivalents at end of period	<u>224</u>
 Cash and cash equivalents comprise:-	
	<i>RM'000</i>
Cash and bank balances	<u>224</u>

10.0 ACCOUNTANTS' REPORT (Cont'd)


8.4 WMKSB

	<i>9 months ended 30 September 2000 RM'000</i>
Cash flows from operating activities	
Profit before taxation	949
Adjustments for:	
Depreciation	94
Interest expense	22
Interest income	(40)
Operating profit before working capital changes	<u>1,025</u>
Changes in working capital:	
Trade and other receivables	(13,111)
Trade and other payables	8,983
Cash used in operations	<u>(3,103)</u>
Interest received	40
Interest paid	(22)
Net cash used in operating activities	<u>(3,085)</u>
Cash flows from investing activity	
Purchase of property, plant and equipment	(3)
Net cash used in investing activity	<u>(3)</u>
Cash flows from financing activity	
Repayment of finance lease liabilities	(113)
Net cash used in financing activity	<u>(113)</u>
Net decrease in cash and cash equivalents	(3,201)
Cash and cash equivalents at beginning of period	<u>5,256</u>
Cash and cash equivalents at end of period	<u><u>2,055</u></u>
Cash and cash equivalents comprise:-	
	<i>RM'000</i>
Cash and bank balances	546
Deposits with a licenced bank	1,509
	<u><u>2,055</u></u>

10.0 ACCOUNTANTS' REPORT (Cont'd)


8.5 WEQSB

	<i>9 months ended 30 September 2000 RM'000</i>
Cash flows from operating activities	
Profit before taxation	7,232
Adjustments for:	
Depreciation	1,554
Interest expense	4
Interest income	(335)
Gain on disposal of property, plant and equipment	(190)
Operating profit before working capital changes	<u>8,265</u>
Changes in working capital:	
Trade and other receivables	(7,745)
Trade and other payables	2,309
Cash generated from operations	<u>2,829</u>
Tax paid	(2,791)
Interest received	335
Interest paid	(4)
Net cash generated from operating activities	<u>369</u>
Cash flows from investing activities	
Proceeds from disposal of property, plant and equipment	190
Purchase of property, plant and equipment	(158)
Net cash generated from investing activities	<u>32</u>
Cash flows from financing activity	
Repayment of finance lease liabilities	(24)
Net cash used in financing activity	<u>(24)</u>
Net increase in cash and cash equivalents	377
Cash and cash equivalents at beginning of period	<u>12,166</u>
Cash and cash equivalents at end of period	<u>12,543</u>
Cash and cash equivalents comprise:-	
	<i>RM'000</i>
Cash and bank balances	506
Deposits with a licenced bank	12,037
	<u>12,543</u>

10.0 ACCOUNTANTS' REPORT (Cont'd)



9 Statement of assets and liabilities

The statement of assets and liabilities of KB is based on the audited financial statements of KB as at 30 September 2000.

The proforma group statement of assets and liabilities is based on the audited financial statements of KB, WHSB Group and WEQSB as at 30 September 2000 and on the assumption that the restructuring and listing exercise of KB Group as stated in paragraph 1.4, except for the rights issue and public issue, has been effected as at 30 September 2000 are prepared for illustration purposes and should be read in conjunction with the notes thereon.

	Note	As at 30 September 2000	
		Company RM'000	Proforma group RM'000
Property, plant and equipment	9.1.2	-	15,280
Current assets			
Inventories	9.1.3	-	17,694
Trade and other receivables	9.1.4	-	98,569
Cash and bank balances	9.1.5	3	17,542
		3	133,805
Current liabilities			
Trade and other payables	9.1.6	144	49,711
Borrowings	9.1.7	-	2,553
Taxation		-	5,642
		-	57,906
Net current (liabilities)/assets		(141)	75,899
		(141)	91,179
Financed by :-			
Share capital	9.1.8	*	50,341
Share premium reserve	9.1.9	-	7,551
Accumulated losses		(141)	(141)
Reserve on consolidation	9.1.10	-	31,151
Shareholders' funds		(141)	88,902
Borrowings	9.1.7	-	2,277
		(141)	91,179

* RM2.00

10.0 ACCOUNTANTS' REPORT *(Cont'd)*



9.1 Notes to the statement of assets and liabilities

9.1.1 Significant accounting policies

9.1.1.1 *Basis of preparation*

The financial statements of the Group and of the Company are prepared under the historical cost convention and in compliance with approved accounting standards in Malaysia other than as disclosed in paragraph 9.1.1.6.

9.1.1.2 *Basis of consolidation of assets and liabilities*

The proforma consolidated statements of assets and liabilities incorporates the audited balance sheets of KB and all its subsidiaries made up to 30 September 2000.

Subsidiaries are those enterprises controlled by KB as at the date of this report. Control exists when the Company has the power, directly or indirectly to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements on the assumption that the restructuring and listing exercise as stated in paragraph 1.4, except for the rights issue and public issue, has been effected as at 30 September 2000. Subsidiaries are consolidated using the acquisition method of accounting.

Under the acquisition method of accounting, the results of subsidiaries acquired or disposed during the year are included from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair values are reflected in the proforma consolidated statement of assets and liabilities. The difference between the acquisition cost and the fair values of the subsidiaries' net assets is reflected as goodwill or reserve on consolidation as appropriate.

Intra-group transactions and balances and the resulting unrealised profits are eliminated on consolidation. Unrealised losses resulting from intra-group transactions are also eliminated unless cost cannot be recovered.

9.1.1.3 *Investment in subsidiaries*

Investment in subsidiaries are stated at cost. A provision is made when the Directors are of the view that there is a permanent diminution in the value.

10.0 ACCOUNTANTS' REPORT (Cont'd)



9.1.1.4 Property, plant and equipment

i) Owned assets

Property, plant and equipment except for freehold land are stated at cost less accumulated depreciation.

The carrying amounts of property, plant and equipment are reviewed to determine whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an item of property, plant and equipment exceeds its recoverable amount. The impairment loss is charged to the results. Any subsequent increase in recoverable amount is reduced by the amount that would have been recognised as depreciation had the write-down or write-off not incurred.

ii) Leased assets

Leases in which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired by way of finance leases are stated at an amount equal to the lower of their fair values and the present value of the minimum lease payments at the inception of the leases, less accumulated depreciation.

In calculating the present value of the minimum lease payments, the discount rate is the interest rate implicit in the lease, if this is practicable to determine, if not, the Group's incremental borrowing rate is used.

9.1.1.5 Depreciation

Freehold land is not amortised. Other property, plant and equipment are depreciated on a straight line basis to write off the cost of the assets over their estimated useful lives.

The principal annual rates of depreciation used are as follows :-

	<i>Per Annum</i>
Building	2%
Office equipment	10%
Furniture and fittings	10%
Renovation	10%
Tools and equipment	10%
Office cabin	10%
Plant and machinery	5%-20%
Motor vehicles	20%

10.0 ACCOUNTANTS' REPORT (Cont'd)



9.1.1.6 Inventories

Inventories are valued at the lower of cost and net realisable value. Cost of trading and rental inventories comprises purchase price plus associated costs.

Inventories of machinery being rented out, which are also held for trading, are amortised at a rate of 5% per annum.

The policy of not capitalising machinery being rented out is not in compliance with MASB 10 on Leases. The standard requires assets held for operating leases to be recorded as property, plant and equipment of lessors. The directors are of the view that the machinery being rented out are also held for trading and therefore it is inappropriate to account for the machinery as property, plant and equipment. The non-compliance has no material effect on the statement of assets and liabilities.

9.1.1.7 Taxation

Deferred taxation is provided on the liability method for all timing differences except where no liability is expected to arise in the foreseeable future and there are no indications the timing differences will reverse thereafter. Deferred tax benefits are only recognised where there is a reasonable expectation of realisation in the near future.

9.1.1.8 Foreign Currency

Transactions in foreign currencies are translated to Ringgit Malaysia at the rates of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Ringgit Malaysia at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to Ringgit Malaysia at the foreign exchange rates ruling at the date of the translations.

10.0 ACCOUNTANTS' REPORT (Cont'd)



9.1.2 Property, plant and equipment

<i>Proforma Group</i>	<i>At 1.1.2000 RM'000</i>	<i>Additions RM'000</i>	<i>Transfer in/(out) RM'000</i>	<i>Transfer to inventories RM'000</i>	<i>Disposals RM'000</i>	<i>Written off RM'000</i>	<i>At 30.9.2000 RM'000</i>
<i>Cost</i>							
Freehold land and buildings	8,100	26	-	-	-	-	8,126
Office equipment	404	21	-	-	(3)	-	422
Furniture and fittings	45	-	-	-	-	-	45
Renovation	502	-	-	-	-	-	502
Tools and equipment	11	2	-	-	-	-	13
Office cabin	25	3	-	-	-	-	28
Plant and machinery (owned)	19,164	55	568	(2,545)	(280)	-	16,962
Plant and machinery (leased)	2,969	-	(568)	(303)	-	-	2,098
Motor vehicles (owned)	2,578	916	592	-	(190)	(51)	3,845
Motor vehicles (leased)	1,111	-	(592)	-	-	-	519
	<u>34,909</u>	<u>1,023</u>	<u>-</u>	<u>(2,848)</u>	<u>(473)</u>	<u>(51)</u>	<u>32,560</u>
<i>Accumulated depreciation</i>							
Freehold land and buildings	94	34	-	-	-	-	128
Office equipment	144	30	-	-	(1)	-	173
Furniture and fittings	19	4	-	-	-	-	23
Renovation	116	37	-	-	-	-	153
Tools and equipment	5	1	-	-	-	-	6
Office cabin	9	2	-	-	-	-	11
Plant and machinery (owned)	13,323	1,976	356	(1,832)	(280)	-	13,543
Plant and machinery (leased)	570	430	(356)	(133)	-	-	511
Motor vehicles (owned)	2,157	220	376	-	(190)	(39)	2,524
Motor vehicles (leased)	417	167	(376)	-	-	-	208
	<u>16,854</u>	<u>2,901</u>	<u>-</u>	<u>(1,965)</u>	<u>(471)</u>	<u>(39)</u>	<u>17,280</u>
<i>Net book value</i>							<i>At 30.9.2000 RM'000</i>
Freehold land and buildings							7,998
Office equipment							249
Furniture and fittings							22
Renovation							349
Tools and equipment							7
Office cabin							17
Plant and machinery (owned)							3,419
Plant and machinery (leased)							1,587
Motor vehicles (owned)							1,321
Motor vehicles (leased)							311
							<u>15,280</u>

Freehold land and buildings of net book value amounting to RM7,209,000 of WHSB are charged to banks to secure banking facilities (paragraph 9.1.7)

10.0 ACCOUNTANTS' REPORT (Cont'd)


9.1.3 Inventories

	<i>Proforma Group RM'000</i>
Trading and rental inventories	20,917
Less : Accumulated amortisation	<u>(3,223)</u>
	<u>17,694</u>

9.1.4 Trade and other receivables

	<i>Proforma Group RM'000</i>
Trade receivables	78,854
Less : Provision for doubtful debts	<u>(1,700)</u>
	77,154
Other debtors, deposits and prepayments	<u>21,415</u>
	<u>98,569</u>

9.1.5 Cash and bank balances

	<i>Company RM'000</i>	<i>Proforma Group RM'000</i>
Cash and bank balances	3	2,691
Deposits with licensed banks	-	14,851
	<u>3</u>	<u>17,542</u>

Deposits of RM2,814,000 are pledged to bank to secure banking facilities granted to WHSB and one of its subsidiaries.

9.1.6 Trade and other payables

	<i>Company RM'000</i>	<i>Proforma Group RM'000</i>
Trade creditors	-	36,612
Other creditors and accruals	75	13,027
Amount due to directors	69	72
	<u>144</u>	<u>49,711</u>

10.0 ACCOUNTANTS' REPORT (Cont'd)


9.1.7 Borrowings

	<i>Proforma Group RM'000</i>
Current	
Revolving credit – unsecured	503
Bank overdraft – unsecured	446
Term loans – secured	564
Finance lease liabilities	<u>1,040</u>
	<u>2,553</u>
Non-current	
Term loans - secured	2,060
Finance lease liabilities	<u>217</u>
	<u>2,277</u>

Terms and debt repayment schedule

The revolving credit and term loans bear interest rates ranging from 6% to 8.55%.

The terms loans are repayable by equal monthly installment over periods ranging from 60 to 114 months.

Proforma Group

	<i>Total</i>	<i>Under 1</i>	<i>1-2</i>	<i>2-5</i>	<i>Over 5</i>
	<i>RM'000</i>	<i>year</i>	<i>years</i>	<i>Years</i>	<i>Years</i>
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>
Revolving credit	503	503	-	-	-
Bank overdraft	446	446	-	-	-
Term loans	2,624	564	632	1,112	316
	<u>3,573</u>	<u>1,513</u>	<u>632</u>	<u>1,112</u>	<u>316</u>

The term loans of the Group are secured by way of legal charges over certain of WHSB's freehold land and buildings (paragraph 9.1.2) and are guaranteed by the directors.

10.0 ACCOUNTANTS' REPORT (Cont'd)



Finance lease liabilities are payable as follows :

Proforma Group	<i>As at 30.9.2000</i>		
	<i>Payments RM'000</i>	<i>Interest RM'000</i>	<i>Principal RM'000</i>
Less than 1 year	1,185	145	1,040
Between 1 to 5 years	248	31	217
	<u>1,433</u>	<u>176</u>	<u>1,257</u>

9.1.8 Share capital

	<i>Proforma Group RM'000</i>
<i>Ordinary shares of RM1.00 each:</i>	
Authorised	<u>200,000</u>
Issued and fully paid:	
Balance as at 1 January 2000	*
24,975,055 new ordinary shares of RM1.00 each for the acquisition of WHSB's entire issued and paid up capital	24,975
25,366,146 new ordinary shares of RM1.00 each for the acquisition of WEQSB's entire issued and paid up capital	<u>25,366</u>
	<u>50,341</u>
* <i>This represents 2 ordinary shares of RM1.00 each.</i>	

9.1.9 Share premium reserve

	<i>Proforma Group RM'000</i>
Reserve arising on the acquisition of WHSB's and WEQSB's entire issued and paid up capital	
50,341,201 new ordinary shares at an issue price of RM1.15 per shares issued.	<u>7,551</u>

10.0 ACCOUNTANTS' REPORT (Cont'd)



9.1.10 Reserve on consolidation

	<i>Proforma Group RM'000</i>
Net assets of WHSB Group and WEQSB as at 30 September 2000	89,043
Purchase consideration to be satisfied by the issuance of 50,341,201 new ordinary shares of RM1 each at an issue price RM1.15 per share	<u>(57,892)</u>
	<u>31,151</u>

9.1.11 Taxation

Subject to agreement with the Inland Revenue Board the Proforma Group have, potential deferred tax benefits not taken up in the statements of assets and liabilities, under the liability method in respect of the following item :-

	<i>Proforma Group RM'000</i>
Other timing differences	<u>4,575</u>

9.1.12 Significant related party balances

Non-trade balances with companies in which the directors have interest are as follows:-

	<i>Proforma Group RM'000</i>
Amount due from	415
Amount due to	(3,363)

The non-trade balances are unsecured, interest free and have no fixed terms of repayment.

10.0 ACCOUNTANTS' REPORT (Cont'd)



10 Subsequent events

Subsequent to the date of the last audited financial statements made up to 30 September 2000, the following events took place:-

- a) On 6 December 2000, KB acquired the entire issued and paid up share capital of WHSB and WEQSB for RM28,721,000 and RM29,171,000 respectively which were satisfied by the issue of 50,341,201 new ordinary shares of RM1.00 each in KB at an issue price of RM1.15 per share;
- b) On 13 February 2001, KB entered into an underwriting agreement with Alliance Merchant Bank Berhad (formerly known as Amanah Merchant Bank Berhad), Mayban Securities Sdn. Bhd., BBMB Securities Sdn. Bhd., K&N Kenanga Berhad and MIDF Consultancy and Corporate Services Sendirian Berhad for the proposed public issue of 11,109,000 new ordinary shares of RM1.00 each at an issue price of RM1.60 per share; and
- c) On 7 March 2001, KB undertook a rights issue of 12,591,799 new ordinary shares of RM1.00 each on the basis of approximately 1.0005 new ordinary shares for every 4 existing ordinary shares held after the abovementioned acquisitions at an issue price of RM1.15 per share.

11 Proforma NTA cover

Based on the statement of assets and liabilities of the proforma KB Group as at 30 September 2000, the NTA cover per share is calculated as follows:-

	<i>Proforma Group</i>
NTA per statement of assets and liabilities of the proforma KB Group as at 30 September 2000 (RM'000)	88,902
Number of ordinary shares of RM1.00 each assumed in issue	50,341
NTA cover per share of RM1.00 each (RM)	1.77

10.0 ACCOUNTANTS' REPORT *(Cont'd)*



12 Financial statements

No audited financial statements have been drawn up for any period subsequent to 30 September 2000.

Yours faithfully

A handwritten signature in black ink, appearing to be 'KPMG'.

KPMG

(Firm number: AF 0758)

Public Accountants

A handwritten signature in black ink, appearing to be 'Abdullah'.

Abdullah Abu Samah

Partner

Approval number: 2013/6/02(J)

11.0 VALUATION CERTIFICATE

(Prepared for the inclusion in this Prospectus)

16 March 2001

KL001469

The Board of Directors
 Knusford Berhad
 33-35, 2nd Floor, Wisma Ekovest
 Jalan Desa Gombak 6
 Taman Sri Setapak
 Off Jalan Gombak
53000 KUALA LUMPUR.



COLLIERS, JORDAN LEE
 & JAAFAR SDN. BHD.
 {59901-U}|VE|0063|
 Level 6, Block G North,
 Pusat Bandar Damansara,
 Damansara Heights,
 50490 Kuala Lumpur.
Tel No: 03-2555811 (10 lines)
 Fax: 03-2555843
 E-mail: cjlj@tm.net.my

Dear Sirs,

RE: VALUATION OF INDUSTRIAL PREMISES BEARING POSTAL ADDRESS LOT NO. 8, JALAN KECAPI 33/2, SEKSYEN 33, ELITE INDUSTRIAL ESTATE, 40400 SHAH ALAM, SELANGOR DARUL EHSAN

This letter has been prepared for inclusion in the Prospectus of Knusford Berhad (KB) to be dated 28 March 2001 in connection with the Public Issue of 11,109,000 new ordinary shares of RM1.00 each at an issue price of RM1.60 per ordinary share payable in full on application in conjunction with the listing of KB on the Main Board of the Kuala Lumpur Stock Exchange.

In accordance with the instructions from KB, we have assessed the Market Value of the property, details of which is given in our Valuation Report bearing Reference No. KL001469 dated 30 October 2000. The Report and Valuation was prepared for the purpose of submission to the Securities Commission.

The inspection of the property, which covers both external and internal inspections of the building and the land, was carried out on 24 October 2000. The date of valuation is taken as at 24 October 2000.

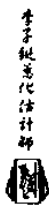
The Valuation Report dated 24 October 2000 has been prepared based on "Guidelines on Asset Valuations for Submission to the Securities Commission" and Malaysian Valuation Standards prescribed by the Board of Valuers, Appraisers and Estate Agents. We have used the Cost and Investment Methods of Valuation in arriving at the Market Value of the subject property.

International Property Consultants • Chartered Valuation Surveyors • Registered Valuers & Real Estate Agents •

Project & Property Managers • Plant & Machinery Valuers • Auctioneers

Managing Director: P. TANGGA PERAGASAM, Fism. Frics, Chairman: CHIN LAI SITT, Fism. Frics, LLB (Hons), CLP, Executive Directors: THOO SING CHOON, Frics, Inv. AdArb, Frics, THING KIM KOK, Mism. Frics, Director / Advisor: JAAFAR ISMAIL, Fism. Frics, Advisor: JORDAN LEE, KMN, Fism. Frics, Apeps, Inv. Msisw, Scv.

TEH TEIK BIN, Aries, Mism, Inv, Prof. Dip. (U.K.), CHIN KIM CHOY, Mism, Dip. Est. Mgmt. (U.K.), LEETHIAM SING, Mism, KEVIN WONG PAK PING, B. Surv. Mism, LIM CHANG MEE, Fism, Frics, BA (Hons), & Sc. (Hons)
 Headquarters : Kuala Lumpur, Level 6, Block G North, Pusat Bandar Damansara, Damansara Heights, 50490 Kuala Lumpur. Tel: 03-2555811 (10 lines) Fax No: 03-2555843
 Agency Division : Colliers International Property Consultants Sdn. Bhd.
 Nos. 109 & 209, Block C, Pusat Dagangan Phileo Damansara 1, No. 8, Jalan 16/11, 46350 Petaling Jaya, Off Jalan Damansara, Kuala Lumpur. Tel: 4610220 Fax: 4610330, 4610230
 Other Offices :
 Parak : Suite 3 & 6, Tingkat Kedua, Labrooy House, Jalan Dato Segor, 30000 Ipoh. Perak Darul Ridzuan. Tel: 05-2414826 (3 Lines) Fax No: 05-2566363
 N. Sembilan : 9A, Kompleks Negeri, Jalan Dr. Krishnan, 70000 Seremban, Negeri Sembilan Darul Khusus, Malaysia. Tel: 06-7638890 & 7638990 Fax No: 06-7637936
 Selangor : 31, Jalan Kapar, 41400 Klang, Selangor Darul Ehsan. Tel: 03-3420860 (3 Lines) Fax No: 03-3417888
 Johor : Suite 326, 3rd Floor, PerCibai Plaza, Jalan Wong Ah Fook, 80000 Johor Bahru, Johor Darul Takzim. Tel: 07-2232299 Fax: 07-2245899
 Pahang : 17, Jalan Gambut 2, 25000 Kuantan, Pahang Darul Makmur. Tel: 09-5555888 Fax No: 09-5142146
 Melaka : No. 668 & 689A, Taman Melaka Raya, 75000, Melaka. Tel: 06-2835622 (3 Lines) Fax: 06-2837635
 Penang : Lot 2.01, 2nd Floor, Southern Bank Building, 21, Lebuh Pantai, 10300 Pulau Pinang. Tel: 04-2637749 & 2637750 Fax No: 04-2637644
 Asso. Office: Kuching : Lot 216 (2/F), Jalan Haj Taha, 93400 Kuching, Sarawak. Tel: 082-419200 & 419222 Fax No: 082-429315



Other Colliers Offices: Australia, China, Hong Kong, India, Indonesia, Japan, New Zealand, Philippines, Singapore, Taiwan, Thailand, Vietnam, Austria, Belgium, Czech Republic, France, Germany, Greece, Hungary, Italy, Netherlands, Poland, Portugal, Republic of Ireland, Russia, Scotland, Slovenia, South Africa, Spain, Turkey, United Kingdom, The Americas Argentina, Canada, Mexico, Venezuela and United States Of America.

11.0 VALUATION CERTIFICATE *(Cont'd)*

COLLIERS
JORDAN LEE & JAAFAR

We have relied upon the information provided to us by the client such as building plans, issued document of title, tenancy agreements, letters of approvals from various government departments, cost of construction, copies of which are given as Exhibits in the Report.

We have also noted that the building was constructed based on amended plans, which have yet to be approved as at the date of valuation. Our valuation however, is based on the bases stated in the schedule of property as attached.

Our opinion of the Market Value is also given in the attached Schedule.

Thank you.

Yours faithfully,

COLLIERS

JORDAN LEE & JAAFAR SDN BHD


SUBRAMANIAM A/L ARUMUGAM, B.Surv. (Hons), MISM
Registered Valuer (V-450)

11.0 VALUATION CERTIFICATE (Cont'd)

SCHEDULE OF PROPERTY

Property to be held for owner occupation

Valuation Report Ref.	Registered Proprietor	Property and title	Description	Market Value for the existing use	Methods of Valuation	Date of 1) Inspection 2) Valuation
KL001469	Pestarena Industri Sdn Bhd	Lot No. 8, Jalan Kecapi 33/2, Seksyen 33, Elite Industrial Estate, 40400 Shah Alam, Selangor Darul Ehsan Title: H.S.(D) 51799, PT 43447, Mukim And District Of Klang, Selangor,	A new industrial building built on a piece of freehold land with a land area of about 2.56 hectares (6.33 acres) and a gross built up of about 2,988.5 square metres (32,168 square feet). Tenure: Freehold Planning approvals have been obtained from various government bodies concerned but the Building Plans are yet to be submitted and approved by Majlis Perbandaran Shah Alam The building is less than one (1) year old.	Basis I - As per the existing site improvements and assuming that the existing building has been constructed in accordance with approved plans and specifications and thereafter issued with a certificate of fitness for occupation RM12,300,000 Basis II - As a plot of improved industrial land together with the piling works for future building but disregarding the existing office cum workshop building, which is still pending approvals. RM8,540,000	Cost Method and Investment Method	1) 24 October 2000 2) 24 October 2000

12.0 DIRECTORS' REPORT

(Prepared for the inclusion in this Prospectus)



KNUSFORD BERHAD (380100-D)

(formerly known as Wengcon Corporation Berhad)

Lot 8, Jalan Kecapl 33/2, Section 33, Elite Industrial Estate, 40350 Shah Alam, Selangor Darul Ehsan.
Tel : (603) 522 2525 Fax : (603) 522 5252 E-mail : wengcon@tm.net.my
1st Floor, Wisma Ekovest, No. 33-35, Jalan Desa Gombak 6, Off Jalan Gombak, Taman Sri Setapak, 53000 Kuala Lumpur.
Tel : (603) 4023 2525 Fax : (603) 4021 8499

Registered Office :-
33-35, 2nd Floor
Wisma Ekovest
Jalan Desa Gombak 6
Taman Sri Setapak
Off Jalan Gombak
53000 Kuala Lumpur

16 MAR 2001


The Shareholders
Knusford Berhad
(formerly known as Wengcon Corporation Berhad)

Dear Sir/Madam

On behalf of the Board of Directors of Knusford Berhad ("KB"), I report after due enquiry that during the period from 30 September 2000 (being the date to which the last audited accounts of the Company and its subsidiary companies have been made up) to **16 MAR 2001** (being a date not earlier than fourteen (14) days before the date of issue of this Prospectus), that:-

- (a) the business of KB and its subsidiary companies has, in the opinion of the Directors, been satisfactorily maintained;
- (b) in the opinion of the Directors, no circumstances have arisen since the last audited accounts of KB and its subsidiary companies which have adversely affected the trading or the value of the assets of KB or its subsidiary companies;
- (c) the current assets of KB and its subsidiary companies appear in the books at values which are believed to be realisable in the ordinary course of business;
- (d) there are no contingent liabilities by reason of any guarantees or indemnities given by KB and/or its subsidiary companies; and
- (e) save as disclosed in the Accountants' Report and Proforma Consolidated Balance Sheets in this Prospectus, there have been no changes in the published reserves or any unusual factors affecting the profits of KB and its subsidiary companies.

Yours faithfully
For and on behalf of the Board of Directors
KNUSFORD BERHAD
(formerly known as Wengcon Corporation Berhad)


Abdul Aziz bin Ismail
Executive Director