

10. ACCOUNTANTS' REPORT (Cont'd)



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8.0 DETAILED PROFORMA STATEMENT OF ASSETS AND LIABILITIES

The Detailed Proforma Statement of Assets and Liabilities set out below are provided for illustrative purposes only and are based on the audited accounts of EDARAN, EKOM and EMAC Group as at 30 November 2000 to show the effects of the Flotation Scheme had it been effected on 30 November 2000. The Statements are to be read in conjunction with the notes thereto:-

		Company	Proforma Group			
		Audited As At 30 November 2000 RM'000	After Acquisitions (I) RM'000	After (I) and Rights Issue (II) RM'000	After (II) and Placement (III) RM'000	After (III) and Public Issue RM'000
FIXED ASSETS	B	-	13,695	13,695	13,695	13,695
ASSOCIATED						
COMPANIES	C	-	520	520	520	520
INVESTMENTS	D	-	355	355	355	355
CURRENT ASSETS	E	*	120,848	138,684	141,608	156,324
CURRENT LIABILITIES	F	692	88,085	88,085	88,085	88,085
NET CURRENT (LIABILITIES)/ASSETS		(692)	32,763	50,599	53,523	68,239
DEFERRED EXPENDITURE	G	692	692	692	692	692
		*	48,025	65,861	68,785	83,501
SHARE CAPITAL	H	*	32,564	50,400	51,760	60,000
RESERVES	I	-	11,159	11,159	12,723	19,199
SHAREHOLDERS' FUNDS		*	43,723	61,559	64,483	79,199
DEFERRED AND LONG TERM LIABILITIES	J	-	4,302	4,302	4,302	4,302
		*	48,025	65,861	68,785	83,501
Net Tangible (Liabilities)/ Assets per share (RM)		(346,242)	1.32	1.21	1.23	1.31

* RM2

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9.0 NOTES TO THE DETAILED PROFORMA STATEMENT OF ASSETS AND LIABILITIES

A. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

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

(b) Basis of Consolidation

The consolidated accounts incorporate the accounts of the Company and all its subsidiary companies for the period to 30 November. Subsidiary companies are consolidated where appropriate on the acquisition method of accounting or on the merger method of accounting permitted under Malaysia Accounting Standard 2.

Under the acquisition method of accounting, the results of the subsidiary company acquired or disposed of are included in the consolidated accounts from the date of acquisition or up to the date of disposal. Goodwill or reserve on consolidation represents the difference between the consideration paid for the shares in the subsidiary company and the value of attributable net assets acquired, as applicable.

Under the merger method of accounting, the results of the subsidiary company are presented as if the subsidiary company had been owned by the Company throughout the current and previous accounting periods. The shortfall in the nominal value of the share capital of the subsidiaries over the carrying value of the investment is dealt with in reserves.

(c) Depreciation

Leasehold land is amortised over the period of the lease. All other fixed assets are depreciated on a straight-line method to write off the cost or valuation of the assets over the term of their estimated useful lives.

The principal annual rates used are as follows:-

Buildings	2%
Furniture & fittings	20%
Office equipment	20%
Renovations	20% - 33 1/3%
Motor vehicles	20%
Equipment tools	20%
Computers	20%

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A. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(d) Associated Companies

The Proforma Group defines associated companies as companies in which it has a long term equity interest of not less than 20% and not exceeding 50% and where it has the power to exercise significant influence over the financial and operating policies through Board representation.

Investment in associated companies is accounted for in the Proforma Group accounts under the cost method as the Directors are of the opinion that the associated companies are not intended to be held for the long term.

Had the associated companies been accounted for in the Proforma Group accounts using the equity method, the financial effects are as shown in Note C to the accounts.

(e) Investments

Investment in quoted shares held on a long term basis is stated at cost unless in the opinion of the Directors there has been a permanent diminution in value, in which case provision is made for the diminution in value.

(f) Deferred Expenditure

Preliminary and pre-operating expenses are stated at cost and are written off to the profit and loss account when the Company commences operations.

(g) Contract Work-in-progress

Contract work-in-progress is stated at cost plus attributable profit less progress billings. Cost comprises direct labour, materials and attributable overheads.

(h) Income Recognition

Profits from contracts are recognised on the percentage of completion method, which determines stage of completion based on surveys of work performed or the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, as applicable.

(i) Foreign Currency Transactions

Transactions in foreign currencies are recorded in the books of account at the exchange rates ruling at the time of the transaction or at contracted rates, where applicable. Outstanding balances at year end are translated at the rates then ruling or at contracted rates. All exchange differences are included in the profit and loss account.

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A. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(j) **Deferred Taxation**

Deferred taxation is provided on the liability method for taxation which is deferred due to timing differences except to the extent that it can be demonstrated, with reasonable probability, that the timing differences will continue in the foreseeable future.

No account is taken of any debit balances arising on deferred taxation account.

(k) **Cash and Cash Equivalents**

Cash and cash equivalents consist of cash and bank balances, fixed deposits with licensed financial institutions, bank overdrafts, trust receipts and revolving credits.

10. ACCOUNTANTS' REPORT (Cont'd)

B. FIXED ASSETS

PROFORMA GROUP - As at 30 November 2000

	<u>Leasehold land</u> RM'000	<u>Buildings</u> RM'000	<u>Furniture and fittings</u> RM'000	<u>Office equipment</u> RM'000	<u>Renovations</u> RM'000	<u>Motor vehicles</u> RM'000	<u>Equipment tools</u> RM'000	<u>Computers</u> RM'000	<u>Total</u> RM'000
COST/VALUATION									
At 1 July 2000	7,457	6,945	632	1,630	796	2,505	723	763	21,451
Additions	-	-	35	140	187	-	32	3	397
Adjustment on revaluation	(1,261)	(841)	-	-	-	-	-	-	(2,102)
At 30 November 2000	6,196	6,104	667	1,770	983	2,505	755	766	19,746
ACCUMULATED DEPRECIATION									
At 1 July 2000	343	518	472	1,286	608	2,208	344	650	6,429
Charge for the period	35	58	48	104	86	136	62	47	576
Adjustment on revaluation	(378)	(576)	-	-	-	-	-	-	(954)
At 30 November 2000	-	-	520	1,390	694	2,344	406	697	6,051
NET BOOK VALUE									
At 30 November 2000	6,196	6,104	147	380	289	161	349	69	13,695

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B. FIXED ASSETS (CONTD.)

The analysis of cost and valuation is as follows:-

	<u>Leasehold land and buildings</u> RM'000	<u>Buildings</u> RM'000	<u>Furniture and fittings</u> RM'000	<u>Office equipment</u> RM'000	<u>Renovations</u> RM'000	<u>Motor vehicles</u> RM'000	<u>Equipment tools</u> RM'000	<u>Computer equipment</u> RM'000	<u>As at 30.11.00</u> RM'000
At cost	-	-	667	1,770	983	2,505	755	766	7,446
At valuation - 2000	6,196	6,104	-	-	-	-	-	-	12,300
	<u>6,196</u>	<u>6,104</u>	<u>667</u>	<u>1,770</u>	<u>983</u>	<u>2,505</u>	<u>755</u>	<u>766</u>	<u>19,746</u>

(a) On 30 November 2000, the leasehold land and buildings of EKOM and EMAC Group were revalued by the Directors based on independent professional valuations carried out on an existing use basis.

(b) Included in fixed assets of the Proforma Group are motor vehicles and equipment tools with an aggregate net book value of RM734,755 and RM257,449 respectively acquired under hire purchase agreements.

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C. ASSOCIATED COMPANIES

		Proforma Group As at 30.11.00 RM'000
Unquoted shares, at cost		520
<u>Name of Company</u> (Incorporated in Malaysia)	<u>Principal Activities</u>	<u>Group equity interest as at 30 November 2000</u>
Advanced Communication Solutions Sdn Bhd	Supply, deliver, install, test and commission digital switches and to provide engineering and training services	49%
EC Partners Sdn Bhd	Providing services for implementing electronic commerce	30%

As disclosed in Note A (d) to the accounts, the investment in associated companies is accounted for in the Proforma Group accounts under the cost method.

Had the investment in associated companies been accounted for under the equity method to the extent quantifiable based on the unaudited management accounts, the financial effects on the Proforma Group accounts are as follows:-

		Proforma Group As at 30.11.00 RM'000
Unquoted shares, at cost		520
Share of post acquisition results:-		
As at 1 July		863
Loss for the period		(454)
As at 30 November		409
		929

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D. INVESTMENTS

	Proforma Group As at 30.11.00 RM'000
Quoted in Malaysia	
- Shares, at cost	5
- Warrants, at cost	350
Unquoted in Malaysia	
- Shares, at cost	250
	605
Less : Provision for diminution in value	(250)
	<u>355</u>
Market value	
- Quoted shares	2
- Quoted warrants	175
	<u>177</u>

E. CURRENT ASSETS

	Company Audited	<-----Proforma Group----->			
	As At 30 November 2000 RM'000	After Acquisitions RM'000	After Rights Issue RM'000	After Placement RM'000	After Public Issue RM'000
Work-in-progress (Note a)	-	(5,314)	(5,314)	(5,314)	(5,314)
Trade debtors (Note b)	-	92,863	92,863	92,863	92,863
Other debtors, deposits and prepayments (Note c)	-	3,283	3,283	3,283	3,283
Short term deposits placed with licensed banks (Note d)	-	26,086	26,086	26,086	26,086
Cash and bank balances	*	3,930	21,766	24,690	39,406
	*	<u>120,848</u>	<u>138,684</u>	<u>141,608</u>	<u>156,324</u>

* RM2

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(a) CONTRACT WORK-IN-PROGRESS

	Proforma Group As at 30.11.00 RM'000
Contract costs incurred	124,730
Add : Proportion of profit accrued on work-in-progress	23,022
	<u>147,752</u>
Less : Progress billings	(153,066)
	<u><u>(5,314)</u></u>

Analysis of work-in-progress is as follows:-

	Proforma Group As at 30.11.00 RM'000
Amount due from companies	12,672
Amount due to companies	(17,986)
	<u><u>(5,314)</u></u>

(b) TRADE DEBTORS

Included in the trade debtors of the Proforma Group is an amount of RM69.267 million owing from a company in which a director of EDARAN has an interest.

(c) OTHER DEBTORS, DEPOSITS AND PREPAYMENTS

Included in other debtors, deposits and prepayments of the Proforma Group are amounts owing from:-

- (i) an associated company of RM78,485;
- (ii) a director of a subsidiary of the Proforma Group of RM388,498; and
- (iii) a company in which a director of EDARAN has an interest of RM820,933.

These amounts are unsecured, interest-free and have no fixed term of repayment.

The amounts owing under (ii) and (iii) above have been settled subsequent to 30 November 2000.

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(d) FIXED DEPOSITS

	Proforma Group As at 30.11.00 RM'000
Placed with	
- licensed banks	24,086
- licensed discount house	2,000
	26,086

The fixed deposits with the licensed banks are pledged to banks as security for borrowing facilities granted by the banks to the Proforma Group.

F. CURRENT LIABILITIES

	Company Audited As At 30 November 2000 RM'000	<-----Proforma Group----->			
		After Acquisitions RM'000	After Rights Issue RM'000	After Placement RM'000	After Public Issue RM'000
Trade creditors	-	55,515	55,515	55,515	55,515
Other creditors and accruals (Note a)	692,486	1,425	1,425	1,425	1,425
Hire purchase creditors (Note b)	-	345	345	345	345
Bank borrowings (Note c)	-	26,062	26,062	26,062	26,062
Deferred taxation	-	4,738	4,738	4,738	4,738
	692,486	88,085	88,085	88,085	88,085

(a) OTHER CREDITORS AND ACCRUALS

Included in other creditors and accruals of the Proforma Group is an amount due to directors of RM100,000 which is unsecured, interest-free and has no fixed term of repayment.

(b) HIRE PURCHASE CREDITORS

	Proforma Group As at 30.11.00 RM'000
At 30 November	556
Payable within twelve months	(345)
Payable after twelve months	211

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(c) BANK BORROWINGS - SECURED

	Proforma Group As at 30.11.00 RM'000
Revolving credits	1,250
Bank overdrafts	7,475
Trust receipts	16,981
Term loans	4,429
	<hr/> 30,135
Term loans - repayable after 12 months	(4,073)
	<hr/> <hr/> 26,062

The revolving credits, bank overdrafts and trust receipts of the Proforma Group are secured by way of:-

- (a) legal charges over the leasehold land and buildings of the Proforma Group;
- (b) fixed deposits of the Proforma Group;
- (c) assignment of contract proceeds of the Proforma Group;
- (d) corporate guarantee by EMAC; and
- (e) joint and several guarantee by the Directors of the Proforma Group.

The revolving credits, bank overdrafts and trust receipts bear interest at 1% to 2% per annum above the base lending rate of the bank.

The term loans bear interest at a rate of 1.5% per annum above the base lending rate of the banks. The term loans of the Proforma Group as at 30 November 2000 are made up of two loans with a remaining tenure of 10 years and will be fully settled by 2010.

G. DEFERRED EXPENDITURE

	Company / Proforma Group As at 30.11.00 RM'000
Preliminary expenses	1
Pre-operating expenses	691
	<hr/> 692

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H. SHARE CAPITAL

	Company Audited As At 30 November 2000 RM'000	Proforma Group			After Public Issue RM'000
		After Acquisitions RM'000	After Rights Issue RM'000	After Placement RM'000	
Authorised: Ordinary shares of RM1 each	25	100,000	100,000	100,000	100,000
Issued and fully-paid: Ordinary shares of RM1 each	*	32,564	50,400	51,760	60,000
* RM2					

I. RESERVES

Analysis of reserves as at 30 November 2000 is as follows:-

	Share Premium RM'000	Reserve on Consolidation RM'000	Asset Revaluation Reserve RM'000	Retained Profits RM'000	Total RM'000
As per audited accounts as at 30 November 2000	-	399	2,285	39,440	42,124
Less : Merger adjustment	-	(399)	(2,285)	(28,281)	(30,965)
After Acquisitions	-	-	-	11,159	11,159
Premium arising from Placement	1,564	-	-	-	1,564
After Placement	1,564	-	-	11,159	12,723
Premium arising from Public Issue	9,476	-	-	-	9,476
Less : Listing expenses	(3,000)	-	-	-	(3,000)
After Public Issue	8,040	-	-	11,159	19,199

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J. DEFERRED AND LONG TERM LIABILITIES

	Proforma Group As at 30.11.00 RM'000
Hire purchase creditors [Note F (b)]	211
Term loans [Note F (c)]	4,073
Deferred taxation	18
	4,302

K. CONTINGENT LIABILITIES

The Proforma Group has two (2) pending legal suits instituted by third parties against a subsidiary company to claim an amount of RM1,002,111 for breach of contract and an amount of RM10,500 for wrongful use of land by the subsidiary company.

The Directors in consultation with their solicitors are of the opinion that the subsidiary company has a fair chance of defending the claims. On the basis of the foregoing, the Directors are of the opinion that no provision for contingent liabilities is required to be made in the accounts of the Proforma Group.

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10.0 PROFORMA CASH FLOW STATEMENT

The proforma cash flow statement of EDARAN Group set out below is based on the audited accounts of EDARAN, EKOM and EMAC Group for the financial period ended 30 November 2000 and is presented on the basis that the Acquisitions had been in effect throughout the relevant periods under review.

	5 months ended 30.11.00 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES	
Profit before taxation	4,826
Adjustments for:-	
Depreciation	577
Interest expense	805
Interest income	(492)
Deficit on revaluation of buildings	366
Operating profit before working capital changes	6,082
Increase in debtors	(21,040)
Decrease in contract work-in-progress	3,214
Decrease in creditors	6,553
Cash absorbed by operations	(5,191)
Interest received	492
Interest paid	(805)
Income tax paid	(819)
Net cash used in operating activities	<u>(6,323)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of fixed assets	(397)
Purchase of investment	(190)
Net cash used in investing activities	<u>(587)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Deferred expenditure incurred	(685)
Net repayment of hire purchase creditors	(175)
Net repayment of term loans	(210)
Net cash used in financing activities	<u>(1,070)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(7,980)
CASH AND CASH EQUIVALENTS AT 1 JULY 2000	12,290
CASH AND CASH EQUIVALENTS AT 30 NOVEMBER 2000	<u>4,310</u>

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Cash and cash equivalents as at 30 November 2000 comprise the following:-

	RM'000
Deposits with licensed banks	26,086
Cash and bank balances	3,930
Bank overdrafts	(7,475)
Trust receipts	(16,981)
Revolving credits	(1,250)
	<u>4,310</u>

11.0 ESTIMATED EXPENSES RELATING TO ACQUISITIONS, RIGHTS ISSUE, PLACEMENT AND PUBLIC ISSUE

Estimated expenses of RM3 million relating to the Acquisitions, Rights Issue, Placement and Public Issue have been debited against Share Premium in the Proforma Statement of Assets and Liabilities as at 30 November 2000.

12.0 RIGHTS ISSUE, PLACEMENT AND PUBLIC ISSUE PROCEEDS

The cash proceeds of RM35.476 million (after deducting estimated listing expenses of RM3 million) to be received from the Rights Issue, Placement and Public Issue will be utilised as follows:-

	RM'000
Business development	4,492
Repayment of existing bank borrowings	15,593
Working capital	15,391
	<u>35,476</u>

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13.0 PROFORMA NET TANGIBLE ASSETS COVER

Based on the Detailed Statement of Assets and Liabilities of the Proforma Group as at 30 November 2000, the proforma net tangible assets and enlarged share capital are derived as follows:-

(i) Net Tangible Assets

	As at 30.11.00 RM'000
Net Tangible Assets of the Proforma Group before Rights Issue, Placement and Public Issue	43,031
Add : Proceeds from Rights Issue, Placement and Public Issue	38,476
	<u>81,507</u>
Less : Estimated listing expenses	(3,000)
Proforma Net Tangible Assets	<u><u>78,507</u></u>

(ii) Share Capital

	No. of shares
Enlarged issued and fully paid-up share capital on completion of the Flotation Scheme	60,000,000

Based on the proforma net tangible assets of RM78.507 million and enlarged issued and fully paid-up share capital of 60,000,000 new ordinary shares of RM1 each, the proforma net tangible assets per share is RM1.31.

14.0 EVENTS SUBSEQUENT TO BALANCE SHEET DATE, 30 NOVEMBER 2000

Based on the latest audited statement of accounts for the five (5) months period ended 30 November 2000, no events have arisen subsequent to the balance sheet date which require disclosure in this report.

10. ACCOUNTANTS' REPORT (Cont'd)



15.0 AUDITED ACCOUNTS

No audited accounts have been prepared in respect of any period subsequent to 30 November 2000.

Yours faithfully

A handwritten signature in black ink, appearing to be 'Ernst & Young', written over a horizontal line.

Ernst & Young AF:0039
Public Accountants

A handwritten signature in black ink, appearing to be 'Yeo Eng Seng', written over a horizontal line.
Yeo Eng Seng 1212/12/02(J)
Partner

Kuala Lumpur