

12. ACCOUNTANTS' REPORT

(Prepared for inclusion in this Prospectus)



AF: 0039

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26 September 2002

The Board of Directors
Hua Yang Berhad
123A, Jalan Kampar
30250 Ipoh
Perak Darul Ridzuan

Dear Sirs,

1. INTRODUCTION

This Report has been prepared by Ernst & Young, an approved company auditor, for inclusion in the Prospectus of Hua Yang Berhad ("HYB") to be dated 30 September 2002 in connection with the following:

- i) Public Issue of 12,871,000 new ordinary shares of RM1.00 each at an issue price of RM1.75 per ordinary share comprising:
 - a) 2,832,000 new ordinary shares of RM1.00 each available for application by Directors and eligible employees of HYB and its subsidiary companies (collectively known as the "Group");
 - b) 8,000,000 new ordinary shares of RM1.00 each by way of placement; and
 - c) 2,039,000 new ordinary shares of RM1.00 each available for application by the Malaysian Public;
- ii) Offer for Sale of 27,000,000 ordinary shares of RM1.00 each to Bumiputera Investors approved by the Ministry of International Trade and Industry at an offer price of RM1.75 per ordinary share; and
- iii) Listing and quotation for the entire enlarged issued and paid-up share capital of HYB comprising 90,000,000 ordinary shares of RM1.00 each on the Main Board of the Kuala Lumpur Stock Exchange ("KLSE").

12. ACCOUNTANTS' REPORT (Cont'd)**2. GENERAL INFORMATION****2.1 Incorporation and share capital**

HYB was incorporated in Malaysia on 28 December 1978 as a private limited company under the name of Heng Po Sdn Bhd. It changed its name to Hua Yang Development Sdn Berhad and Hua Yang Sdn Bhd on 10 March 1979 and 4 September 2001 respectively. On 12 September 2001 it was converted to a public company and adopted its present name.

HYB was incorporated with an authorised capital of RM1,000,000 comprising 1,000,000 ordinary shares of RM1.00 each and an issued and paid-up share capital of RM2 comprising 2 ordinary shares of RM1.00 each.

As at the date of this Report, the authorised share capital of HYB is RM500,000,000 divided into 500,000,000 ordinary shares of RM1.00 each and the issued and paid-up share capital is RM77,129,000 comprising 77,129,000 ordinary shares of RM1.00 each. Details of changes in the issued and paid-up share capital of HYB since incorporation are as follows:

Date of allotment	No. of ordinary shares of RM1.00 each	Consideration RM	Cumulative total paid-up share capital RM
Subscriber's shares Issued on:	2	Cash	2
22 March, 1979	199,998	Cash	200,000
3 July, 1979	300,000	Cash	500,000
9 February, 1981	300,000	Cash	800,000
1 March, 1983	200,000	Cash	1,000,000
21 December, 1987	700,000	Rights issue	1,700,000
29 February, 1988	300,000	Cash	2,000,000
29 October, 1988	400,000	Bonus issue	2,400,000
3 January, 1989	1,299,000	Rights issue	3,699,000
16 March, 1989	160,400	Cash	3,859,400
30 March, 1989	540,600	Cash	4,400,000
1 August, 1989	600,000	Cash	5,000,000
30 October, 1990	3,000,000	Cash	8,000,000
30 September, 1991	1,000,000	Bonus issue	9,000,000
24 October, 1991	1,000,000	Rights issue	10,000,000
29 March, 1997	1,000,000	Cash	11,000,000
9 October, 1997	630,000	Exchange of shares	11,630,000
9 October, 1997	600,000	Cash	12,230,000
31 January, 2002	64,899,000	Bonus issue	77,129,000

Upon completion of the Public Issue, the issued and paid-up share capital of HYB will increase to RM90,000,000 comprising 90,000,000 ordinary shares of RM1.00 each.

12. ACCOUNTANTS' REPORT (Cont'd)**2.2 Principal activities**

The principal activities of HYB are investment holding, property development and provision of management and secretarial services. The principal activities of its subsidiary companies are set out in Note 2.3 to this Report. There were no significant changes in the nature of these activities during the year ended 31 March 2002.

2.3 Subsidiary companies

Details of the subsidiary companies of HYB, all of which are private companies incorporated in Malaysia, as at the date of this Report, are as follows:

Subsidiary	Principal activities	Effective equity Interest (%)	Date of Incorporation	Authorised share capital RM	Issued and paid-up share capital RM
Bukit Selim Sdn Bhd (BSSB)	Property development	100	15-07-1992	250,000	250,000
Pembinaan Hua Yang Sdn Bhd (PHYSB)	Building contractor	100	09-09-1980	1,000,000	750,000
Yoon Lian Realty Sdn Bhd (YLRSB)	Property development, investment holding and provision of management services	100	21-12-1976	2,000,000	2,000,000
Agro-Mod Industries Sdn Bhd (AISB)	Property development	100	06-09-1985	5,000,000	2,500,000
Grandeur Park Sdn Bhd (GPSB)	Property development	96	01-08-1990	2,000,000	300,000
HYB Trading Sdn Bhd (formerly known as Hua Yang Trading Sdn Bhd) (HYTSB)	Inactive	100	30-08-1984	250,000	100,000

12. ACCOUNTANTS' REPORT (Cont'd)**2.3 Subsidiary companies (Contd.)**

Subsidiary	Principal activities	Effective equity Interest (%)	Date of Incorporation	Authorised share capital RM	Issued and paid-up share capital RM
Prisma Pelangi Sdn Bhd (PPSB)	Property development	100	04-11-1991	2,000,000	300,000
Prop Park Sdn Bhd (Prop Park)	Inactive	100	23-05-1981	5,000,000	1,000,000
HYB Management Services Sdn Bhd (formerly known as Hua Yang Management Services Sdn Bhd) (HYMSSB)	Dormant	100	13-08-1988	100,000	2
Setaramaju Sdn Bhd (SSB)	Inactive	100	13-12-1980	500,000	230,000
Bidor Enterprise Sdn Bhd (BESB)	Property development	100	06-10-1983	300,000	3
Daya Niaga Development Sdn Bhd (DNDSB)	Dormant	100	06-07-1992	250,000	10,000
Daya Niaga Sdn Bhd (DNSB)	Property development	100	27-05-1985	1,000,000	300,000
Tinggian Development Sdn Bhd (TDSB)	Provision of property management services	100	14-03-1981	1,000,000	337,800
Bison Holdings Sdn Bhd (BHSB)	Property investment holding	100	14-02-1980	500,000	50,000
Fanoor Sdn Bhd (FSB)	Property development	100	01-10-1980	1,000,000	30,000

12. ACCOUNTANTS' REPORT (Cont'd)**3. FINANCIAL STATEMENTS AND AUDITORS**

The financial statements included in this Report, which are the responsibility of the Directors of the Group, have been prepared on the basis consistent with the accounting policies normally adopted by the Group and comply with applicable approved accounting standards issued or adopted by the Malaysian Accounting Standards Board ("MASB").

Ernst & Young are the auditors of HYB and all its subsidiary companies for the periods dealt with in this Report with the exception of Daya Niaga Sdn Bhd and Daya Niaga Development Sdn Bhd, where we were appointed as auditors with effect from the financial year ended 31 March 1998.

The auditors' reports of HYB and its subsidiary companies for the relevant financial years were not subject to any qualification.

4. DIVIDENDS

Details of dividends declared or paid by the Group for the six (6) financial years ended 31 March 2002, are as follows:

Financial year ended	Issued and paid-up share capital on which dividend is paid RM	Gross dividend rate %	Tax rate %	Net dividend RM
Hua Yang				
31.3.1997	10,000,000	20	30	1,400,000
31.3.1998	11,000,000	20	30	1,540,000
31.3.1999	12,230,000	5	28	440,280
31.3.2000	12,230,000	6	Tax exempt	733,800
31.3.2001	12,230,000	70	28	6,163,920
31.3.2001	12,230,000	95	Tax exempt	11,618,500
31.3.2002	77,129,000	20	28	11,106,576
BSSB				
31.3.2001	250,000	245	Tax exempt	612,500
31.3.2002	250,000	400	28	720,000
	250,000	50	28	90,000
PHYSB				
31.3.2001	750,000	416	Tax exempt	3,120,000
31.3.2002	750,000	265	28	1,431,000
	750,000	50	28	270,000

12. ACCOUNTANTS' REPORT (Cont'd)**4. DIVIDENDS (Contd.)**

Financial year ended	Issued and paid-up share capital on which dividend is paid RM	Gross dividend rate %	Tax rate %	Net dividend RM
YLRSB				
31.3.1998	2,000,000	80	28	1,152,000
31.3.1999	2,000,000	100	28	1,440,000
31.3.2000	2,000,000	200	Tax exempt	4,000,000
31.3.2001	2,000,000	161	Tax exempt	3,220,000
31.3.2002	2,000,000	1,090	28	15,696,000
	2,000,000	94.5	Tax exempt	1,890,000
PPSB				
31.3.2001	300,000	151	Tax exempt	453,000
31.3.2002	300,000	220	28	475,200
	300,000	80	28	172,800
SSB				
31.3.1998	230,000	200	28	331,200
31.3.2002	230,000	1,400	28	2,318,400
BESB				
31.3.2002	3	20,000,000	28	432,000
FSB				
31.3.2002	30,000	550	28	118,800
Prop Park				
31.3.2002	1,000,000	895	28	6,444,000
GPSB				
31.3.2002	300,000	2,300	28	4,968,000
AISB				
31.3.2002	2,500,000	245	28	4,410,000

None of the other subsidiaries declared or paid any dividend for the years under review.

12. ACCOUNTANTS' REPORT (Cont'd)**5. INCOME STATEMENTS, BALANCE SHEETS AND STATEMENTS OF CASH FLOWS**

The income statements, balance sheets and statements of cash flows of the Group and of HYB as set out below are based on the audited financial statements of HYB and its subsidiary companies, after making such adjustments considered necessary, for the six (6) financial years ended 31 March 2002:

5.1 Consolidated Income Statements

Group	Financial year ended 31 March					
	1997	1998	1999	2000	2001	2002
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	51,881	34,334	40,272	32,091	49,681	99,482
Cost of sales	(33,307)	(22,558)	(28,990)	(23,492)	(31,597)	(69,743)
Gross profit	18,574	11,776	11,282	8,599	18,084	29,739
Other operating income	455	218	120	621	526	971
Operating expenses	(2,322)	(5,033)	(2,256)	(2,444)	(3,472)	(5,236)
Exceptional items	(3,620)	(1,897)	-	4,785	-	-
Profit before depreciation, interest and taxation	13,087	5,064	9,146	11,561	15,138	25,474
Depreciation	(510)	(494)	(494)	(338)	(299)	(494)
Interest expense	(573)	(402)	(41)	(675)	(246)	(972)
Share of profit/(loss) in associates	1,914	716	1,978	(75)	-	-
Profit before taxation	13,918	4,884	10,589	10,473	14,593	24,008
Taxation	(5,140)	(2,520)	328	(2,008)	(2,935)	(6,797)
Profit after taxation	8,778	2,364	10,917	8,465	11,658	17,211
Minority interests	(7)	(120)	(345)	(169)	(460)	(338)
Profit for the year	8,771	2,244	10,572	8,296	11,198	16,873
Basic earnings per share:						
Weighted average number of ordinary shares in issue ('000)	10,005	11,583	12,230	12,230	12,230	77,129
Gross earnings per share (RM)	1.39	0.41	0.83	0.84	1.14	0.31
Net earnings per share (RM)	0.88	0.19	0.86	0.68	0.92	0.22
After adjustment for bonus issue:						
Weighted average number of ordinary shares in issue ('000)	74,904	76,482	77,129	77,129	77,129	77,129
Gross earnings per share (RM)	0.19	0.06	0.13	0.13	0.18	0.31
Net earnings per share (RM)	0.12	0.03	0.14	0.11	0.15	0.22

12. ACCOUNTANTS' REPORT (Cont'd)**5.2 Notes to Consolidated Income Statement****5.2.1 Adjustments to the summarised consolidated income statement**

The following adjustments were incorporated to the summarised consolidated income statements:

- i) Preliminary and pre-operating expenses are charged out in the year when they were incurred in accordance with MASB 1 – Presentation of Financial Statements.

The amounts adjusted to other operating expenses in the respective years are as follows:

<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
RM	RM	RM	RM	RM	RM
7,305	(3,840)	19,439	(1,542)	57,885	-

- ii) Minority interests' shares of results for the financial years ended 31 March 1997, 1998 and 1999 have been adjusted to reflect the effects of consolidation of the unconsolidated subsidiary companies in accordance with MASB 11 – Consolidated Financial Statements and Investments in Subsidiaries; and
- iii) Under or over provisions of taxation have been reclassified to the respective years where such under or over provision originated.

5.2.2 Revenue

Revenue comprises mainly proportionate sales value from development projects. Major projects undertaken during the years under review are as follows:

<u>Projects</u>	<u>Type of development</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
HYB							
Chandan Raya, Phase 3B	SDF	8,654	480	-	-	-	-
SB Jaya Industrial Park, Phase 1	DSTF	10,403	15,023	16,841	9,953	6,227	-
Bukit Desa Seremban	DSTH	-	-	-	-	6,223	12,031
Seremban Country Heights	Homestead lots	-	-	-	-	218	-
Prop Park							
Jalan Kampung Jawa project	DSTH	2,789	-	-	-	-	-
	SDH	7,037	-	-	-	-	-
Sales of land		-	5,133	-	6,400	-	-

12. ACCOUNTANTS' REPORT (Cont'd)



5.2.2 Revenue (Contd.)

<u>Projects</u>	<u>Type of development</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
YLR							
Halaman Ampang Mewah project							
- Phase 1 & 2	DSTH	17,514	-	-	-	-	-
- Phase 1 & 2	SH	678	1,751	372	544	-	-
Anjung Bercham Megah project							
- Phase 1A & 1B	DSTH	1,285	10,452	16,497	-	-	-
- Phase 1C	DSTH	-	-	-	3,005	-	-
- Phase 2	DSTH	-	-	-	1,664	1,371	-
	SSSD	-	-	-	2,700	1,696	-
- Phase 3	LCTH	-	-	-	-	2,663	2,588
- Phase 3B	DSTH	-	-	-	-	8,244	7,337
Anjung Bercham Elit project							
	SSTH	-	-	1,412	2,731	-	-
	LCSSSTH	-	-	-	-	1,127	-
GPSB							
Taman Pulai Indah project							
- Phase 1A & 1B	DSL MCTH	-	-	-	-	-	18,573
- Phase 2	DSTH	-	-	-	-	-	23,272
- Phase 3A	SSTH	-	-	-	-	-	4,077
- Phase 3B	11/2 STH	-	-	-	-	-	1,255

12. ACCOUNTANTS' REPORT (Cont'd)



5.2.2 Revenue (Contd.)

<u>Projects</u>	<u>Type of development</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
AISB							
Bandar Universiti Seri Iskandar project							
- Phase 1	SSTH	-	-	-	-	-	22,698
	DSSH	-	-	-	-	-	2,147
- Phase 2	SSTH	-	-	-	-	-	1,573
	DSTH	-	-	-	-	-	1,260
Sales of orchard land		-	-	-	-	4,327	-

Denotes:

SDF – Semi-detached factories

DSTF – Double-storey terrace factories

DSTH – Double-storey terrace house

SDH – Semi-detached house

SSSD – Single-storey semi-detached house

LCTH – Low cost terrace house

SH – Shophouse

SSTH – Single-storey terrace house

LCSSTH – Low cost single-storey terrace house

DSLMTCH – Double-storey low medium cost terrace house

1 1/2STH – 1 1/2 storey terrace house

DSSH – Double-storey shophouse

12. ACCOUNTANTS' REPORT (Cont'd)**5.2.3 Exceptional items**

Exceptional items comprise the following:

	Financial year ended 31 March					
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Gain arising from disposals of investments	389	-	-	-	-	-
(Loss)/Gain arising from disposals of subsidiary companies	(4,009)	(1,897)	-	4,919	-	-
Strata title processing and survey fees in respect of past developments	-	-	-	(134)	-	-
	(3,620)	(1,897)	-	4,785	-	-

5.2.4 Operating expenses

Components of expenses, which caused fluctuation of operating expenses, are as follows:

	Financial year ended 31 March					
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Directors' remuneration	855	979	506	490	627	831
Staff costs	917	1,090	885	1,140	1,591	2,291
Donations	51	329	3	3	29	124
Forfeiture of deposit for acquisition of land	-	1,677	-	-	-	-
Bad debts written off	426	8	4	-	-	140
	2,249	4,083	1,398	1,633	2,247	3,386

12. ACCOUNTANTS' REPORT (Cont'd)**5.2.5 Taxation**

Taxation comprises the following:

	Financial year ended 31 March					
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Current	(5,518)	(1,654)	(1)	(2,033)	(1,671)	(6,804)
Deferred	953	(612)	334	(8)	5	7
Real property gains tax	-	-	-	-	(1,269)	-
Share of associated companies' taxation	(575)	(254)	(5)	33	-	-
	<u>(5,140)</u>	<u>(2,520)</u>	<u>328</u>	<u>(2,008)</u>	<u>(2,935)</u>	<u>(6,797)</u>

The effective tax rates for 1997 and 1998 were higher than the statutory tax rate primarily because of exceptional losses arising from the disposals of subsidiary companies for which no group tax relief was available.

Taxation in 1999 was in respect of reversal of previously provided timing differences.

The effective tax rate for 2000 was lower than the statutory tax rate mainly due to the gain arising from disposals of subsidiary companies not being subjected to taxation.

For 2001, the effective tax rate was again lower than the statutory tax rate due to real property gains tax being claimed on gains arising from the disposals of two parcels of leasehold land amounting to approximately RM9.5 million.

5.2.6 Extraordinary items

There were no extraordinary items for the financial years under review.

12. ACCOUNTANTS' REPORT (Cont'd)**5.3 Income Statement of HYB**

Company	Financial year ended 31 March					
	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000
Revenue	19,653	15,683	17,037	10,192	13,121	12,675
Cost of sales	(13,446)	(12,772)	(16,088)	(10,087)	(11,711)	(9,790)
Gross profit	6,207	2,911	949	105	1,410	2,885
Other operating income	849	2,197	2,259	4,296	6,987	52,131
Operating expenses	(1,676)	(2,324)	(1,552)	(1,569)	(2,207)	(2,907)
Profit before depreciation, interest and exceptional items	5,380	2,784	1,656	2,832	6,190	52,109
Depreciation	(256)	(307)	(316)	(183)	(143)	(181)
Interest expense	(59)	(14)	(25)	(663)	(233)	(949)
Exceptional items	501	-	-	4,575	-	-
Profit before taxation	5,566	2,463	1,315	6,561	5,814	50,979
Taxation	(1,499)	(851)	(556)	-	(800)	(14,003)
Profit for the year	4,067	1,612	759	6,561	5,014	36,976
Basis earnings per share:						
Weighted average number of ordinary shares in issue ('000)	10,005	11,583	12,230	12,230	12,230	77,129
Gross earnings per share (RM)	0.56	0.21	0.11	0.54	0.48	0.66
Net earnings per share (RM)	0.41	0.14	0.06	0.54	0.41	0.48
After adjustment for bonus issue:						
Weighted average number of ordinary shares in issue ('000)	74,904	76,482	77,129	77,129	77,129	77,129
Gross earnings per share (RM)	0.07	0.03	0.02	0.09	0.08	0.66
Net earnings per share (RM)	0.05	0.02	0.01	0.09	0.07	0.48

12. ACCOUNTANTS' REPORT (Cont'd)**5.3.1 Notes to income statement of HYB**

The following adjustments were incorporated to the summarised audited income statements of HYB:

- i) Preliminary and pre-operating expenses are charged out in the year when they were incurred in accordance with MASB 1 – Presentation of Financial Statements.

The amounts adjusted to other operating expenses in the respective years are as follows:

<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
RM	RM	RM	RM	RM	RM
7,305	(3,840)	19,439	(1,542)	57,885	-

- ii) Under or over provisions of taxation have been reclassified to the respective years where such under or over provisions originated.

5.3.2 Revenue

Revenue comprises mainly proportionate sales value from development projects. Major projects undertaken during the years under review are as follows:

<u>Projects</u>	<u>Type of houses</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Chandan Raya, Phase 3B	Semi-detached factories	8,654	480	-	-	-	-
SB Jaya Industrial Park, Phase 1	Double-storey terrace factories	10,403	15,023	16,841	9,953	6,227	-
Bukit Desa Seremban	Double-storey terrace house	-	-	-	-	6,223	12,031
Seremban Country Heights	Homestead lots	-	-	-	-	218	-

12. ACCOUNTANTS' REPORT (Cont'd)**5.3.3 Other operating income**

Other operating income comprises the following:

	Financial year ended 31 March					
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Gross dividend from:						
- subsidiary companies	-	2,060	2,000	4,000	6,589	51,872
- quoted investments	26	-	-	1	-	-
Rental income	29	25	26	25	27	29
Interest income	786	-	19	108	40	117
Deposits forfeited	-	62	210	20	40	21
Gain on disposal of:						
- investment	-	44	-	-	23	-
- property, plant and equipment	-	-	-	19	65	1
Sundry income	8	6	4	123	203	91
	849	2,197	2,259	4,296	6,987	52,131

5.3.4 Operating expenses

Components of expenses, which caused the fluctuation of operating expenses, are as follows:

	Financial year ended 31 March					
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Directors' remuneration	473	783	416	331	551	803
Staff costs	51	329	3	2	22	117
Donations	647	642	464	621	871	850
Bad debts written off	-	-	-	-	-	140
	1,171	1,754	883	954	1,444	1,910

12. ACCOUNTANTS' REPORT (Cont'd)**5.3.5 Exceptional items**

Exceptional items for the respective years comprise the following:

	Financial year ended 31 March					
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Gain arising from disposals of investments	386	-	-	-	-	-
(Loss)/Gain arising from disposals of subsidiary companies	115	-	-	4,575	-	-
	501	-	-	4,575	-	-

5.3.6 Taxation

Taxation comprises the following:

	Financial year ended 31 March					
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Current	(1,499)	(851)	(556)	-	-	(14,003)
Real property gains tax	-	-	-	-	(800)	-
	(1,499)	(851)	(556)	-	(800)	(14,003)

The effective tax rate in 1997 was lower than the statutory tax rate primarily due to the exceptional gain from the disposal of a subsidiary company, which was not subjected to tax.

The effective tax rate in 1998 was higher than the statutory tax rate primarily because of non-deductibility of certain expenses for tax purposes.

The taxation in 1999 was in respect of dividend income from subsidiary companies.

There was no taxation charge in 2000 as the main components of income were the tax-exempt dividends from subsidiary companies and the exceptional gain from the disposal of a subsidiary company, both of which were not subjected to taxation.

In 2001, the effective tax rate was again lower due to receipts of tax-exempt dividends from subsidiary companies. Taxation in year 2002 is mainly in respect of interest income and dividend income.

12. ACCOUNTANTS' REPORT (Cont'd)**5.3.7 Extraordinary items**

There were no extraordinary items for the financial years under review.

5.4 Consolidated Balance Sheets

	As at 31 March					
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
NON-CURRENT ASSETS						
Property, plant and equipment	48,298	53,793	46,723	28,062	18,801	35,485
Investment in associates	1,614	1,689	3,209	1,185	-	-
Other investments	5,255	4,175	4,175	4,175	-	-
Land and development expenditure	20,350	27,260	32,726	53,493	59,885	79,157
Farm development expenditure	1,096	1,096	1,096	1,096	-	-
Goodwill on consolidation	22,483	17,622	17,620	22,316	11,730	11,730
Long term receivables	-	-	-	-	9,950	3,850
Deferred taxation	953	340	673	666	670	677
	100,049	105,975	106,222	110,993	101,036	130,899
CURRENT ASSETS	48,121	44,568	53,768	46,378	61,326	69,428
CURRENT LIABILITIES	(73,082)	(66,574)	(65,192)	(55,466)	(61,508)	(88,251)
NET CURRENT LIABILITIES	(24,961)	(22,006)	(11,424)	(9,088)	(182)	(18,823)
	75,088	83,969	94,798	101,905	100,854	112,076
SHAREHOLDERS' EQUITY						
Share capital	11,000	12,230	12,230	12,230	12,230	77,129
Share premium	-	8,610	8,610	8,610	8,610	-
Reserves	62,784	59,715	69,847	77,409	70,825	20,302
	73,784	80,555	90,687	98,249	91,665	97,431
Minority interest	1,304	988	1,793	1,459	1,189	143
LONG TERM LIABILITIES	-	2,426	2,318	2,197	8,000	14,502
	75,088	83,969	94,798	101,905	100,854	112,076
Net tangible asset per share (RM)	4.66	5.15	5.97	6.21	6.54	1.11

12. ACCOUNTANTS' REPORT (Cont'd)**5.4.1 Notes to Consolidated Balance Sheets****5.4.2 Adjustments to the consolidated balance sheets**

The following adjustments were incorporated to the summarised audited consolidated balance sheets of the Group:

- i) Preliminary and pre-operating expenses are charged out in the year when they were incurred in accordance with MASB 1 – Presentation of Financial Statements.

The amounts adjusted to other operating expenses in the respective years are as follows:

<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
RM	RM	RM	RM	RM	RM
7,305	(3,840)	19,439	(1,542)	57,885	-

- ii) Under or over provisions of taxation have been reclassified to the respective years where such under or over provisions originated;
- iii) Minority interests for the financial years ended 31 March 1997, 1998 and 1999 have been adjusted to reflect the effects of consolidation of the unconsolidated subsidiary companies in accordance with MASB 11 – Consolidated Financial Statements and Investments in Subsidiaries; and
- iv) Goodwill amounting to RM6,259,671 arising from acquisitions of minority shareholders' interests in certain subsidiary companies has been reclassified to land and development expenditure and development properties in accordance with MASB 11 – Consolidated Financial Statements and Investments in Subsidiaries, to account for fair value accounting.

5.4.3 Property, plant and equipment

Movements in the carrying amounts of property, plant and equipment are as follows:

	As at 31 March					
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Carrying amounts						
Balance brought forward	10,651	48,298	53,793	46,723	28,062	18,801
Additions	37,936	6,460	590	960	1,908	20,389
Disposals	(5)	(115)	(4,967)	(51)	(7,985)	(3,211)
Depreciation	(559)	(592)	(591)	(431)	(453)	(494)
Arising from acquisition of subsidiaries	277	-	-	-	-	-
Arising from disposal of subsidiaries	(2)	(258)	-	-	(2,731)	-
Transfer to land and development expenditure	-	-	(2,102)	(19,139)	-	-
Balance carried forward	48,298	53,793	46,723	28,062	18,801	35,485

12. ACCOUNTANTS' REPORT (Cont'd)**5.4.3 Property, plant and equipment (Contd.)**

	As at 31 March					
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Depreciation were dealt with as follows:						
Depreciation for the year	559	592	591	431	453	494
Less: Amount capitalised	(49)	(98)	(97)	(93)	(154)	-
Charged to income statement	510	494	494	338	299	494

5.4.4 Land and development expenditure

	As at 31 March					
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Balance brought forward	17,595	20,350	27,260	32,726	53,493	59,885
Addition	9,715	10,031	5,734	5,792	23,092	13,285
Disposals	(25)	(2,566)	-	(4,432)	(284)	(90)
Transfer (to)/from development properties	(7,335)	(1,281)	(2,370)	268	(22,089)	(6,182)
Transfer from property, plant and equipment	-	-	2,102	19,139	-	-
Arising from acquisition of additional equity interest in subsidiary companies	-	-	-	-	-	12,259
Arising from disposal of subsidiary company	-	539	-	-	-	-
Adjustment	400	187	-	-	5,673	-
Balance carried forward	20,350	27,260	32,726	53,493	59,885	79,157

The adjustment in respect of the year ended 31 March 1997, 1998 and 2001 relate to the reclassification from goodwill to account for fair value accounting in accordance with MASB 11 – Consolidated Financial Statements and Investments in Subsidiaries.

12. ACCOUNTANTS' REPORT (Cont'd)**5.4.5 Goodwill**

	As at 31 March					
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Balance brought forward	9,592	22,483	17,622	17,620	22,316	11,730
Cost of investment overtaken up in prior year	-	-	(2)	-	-	-
Arising from acquisition of subsidiary companies	13,860	-	-	-	-	-
Arising from additional investment in existing subsidiary companies	-	6,142	-	4,696	5,751	-
Arising from consolidation of unconsolidated subsidiary companies	1,033	272	-	-	-	-
Arising from disposal of subsidiary companies	(1,602)	(11,088)	-	-	(10,664)	-
Adjustment	(400)	(187)	-	-	(5,673)	-
Balance carried forward	<u>22,483</u>	<u>17,622</u>	<u>17,620</u>	<u>22,316</u>	<u>11,730</u>	<u>11,730</u>

The adjustment in respect of the year ended 31 March 1997, 1998 and 2001 relate to the reclassification to land and development expenditure to account for fair value accounting in accordance with MASB 11 – Consolidated Financial Statements and Investments in Subsidiaries.

5.4.6 Long term receivables

Long term receivables represent amounts outstanding from the disposals of freehold properties by certain subsidiary companies. HYB financed the disposals as it has exemption from Moneylenders Act 1951 Section 2A(2) obtained from Ministry of Housing and Local Government.

12. ACCOUNTANTS' REPORT (Cont'd)**5.4.7 Current assets**

Current assets comprise the following:

Group	As at 31 March					
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Trade receivables	16,897	6,637	18,221	10,938	17,273	29,723
Other receivables and prepayments	11,206	1,823	2,944	4,912	5,062	4,396
Inventories	278	582	15,471	5,704	810	634
Amounts due from customers for contract works	19	-	-	174	-	-
Development properties	11,777	23,301	2,562	1,496	17,900	33,193
Amount due from ultimate holding company	202	11,890	14,286	23,027	19,154	-
Deposits with licensed banks	20	68	-	-	-	-
Cash and bank balances	7,722	267	284	127	1,127	1,482
	48,121	44,568	53,768	46,378	61,326	69,428

5.4.7.1 Inventories

At cost	As at 31 March					
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Completed commercial units	278	582	15,471	5,586	810	400
Completed residential units	-	-	-	118	-	234
	278	582	15,471	5,704	810	634

12. ACCOUNTANTS' REPORT (Cont'd)**5.4.7.2 Development properties**

	As at 31 March					
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Development properties at cost	18,739	50,382	4,235	3,863	31,145	76,525
Proportion of profits attributable to work done to date	3,830	10,353	967	1,746	4,647	24,071
Less: Progress billings	22,569 (10,792)	60,735 (37,434)	5,202 (2,640)	5,609 (4,113)	35,792 (17,892)	100,596 (67,403)
	<u>11,777</u>	<u>23,301</u>	<u>2,562</u>	<u>1,496</u>	<u>17,900</u>	<u>33,193</u>

5.4.7.3 Amount due from ultimate holding company

The Company is a subsidiary company of Heng Holdings Sdn Berhad, a Company incorporated in Malaysia, which is also considered by the Directors to be the ultimate holding company. Related companies are other subsidiary companies of Heng Holdings Sdn Berhad.

The amount due from holding company was unsecured, interest free, without fixed terms of repayment and was fully settled by 31 March 2002.

5.4.8 Current liabilities

Current liabilities comprise the following:

Group	As at 31 March					
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Trade payables	5,127	7,707	5,555	2,677	8,784	33,895
Other payables and accruals	38,544	24,784	17,876	17,607	12,985	11,761
Amounts due to customers for contract works	-	-	-	-	230	-
Amounts due to associated companies	-	-	-	23	-	-
Amounts due to Directors	5,350	-	350	350	-	-
Bank borrowings	15,585	28,585	40,297	33,192	36,966	40,005
Taxation	8,476	5,498	1,114	1,617	2,543	2,590
	<u>73,082</u>	<u>66,574</u>	<u>65,192</u>	<u>55,466</u>	<u>61,508</u>	<u>88,251</u>

12. ACCOUNTANTS' REPORT (Cont'd)**5.4.8.1 Amounts due to Directors**

The amounts due to Directors was unsecured, interest free and without fixed terms of repayment.

5.4.8.2 Bank borrowings

	As at 31 March					
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Bank overdraft	-	1,435	6,769	94	1,678	4,365
Revolving credit	12,114	21,733	33,528	33,098	35,288	35,640
Term loan	3,471	5,417	-	-	-	-
	15,585	28,585	40,297	33,192	36,966	40,005

12. ACCOUNTANTS' REPORT (Cont'd)



5.5 Balance Sheet of HYB

Company	As at 31 March					
	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000
NON-CURRENT ASSETS						
Property, plant and equipment	2,032	2,092	1,756	1,595	1,748	21,316
Subsidiary companies	20,958	25,855	26,205	30,655	25,462	40,892
Investment in associates	-	-	-	125	-	-
Land and development expenditure	11,992	19,511	23,260	25,472	23,583	25,003
Long term receivables	-	-	-	-	9,950	3,850
Other investments	4,175	4,175	4,175	4,175	-	-
	39,157	51,633	55,396	62,022	60,743	91,061
CURRENT ASSETS	57,538	64,248	70,564	68,875	62,029	55,461
CURRENT LIABILITIES	(40,723)	(49,997)	(59,757)	(58,867)	(63,510)	(49,626)
NET CURRENT ASSETS/ (LIABILITIES)	16,815	14,251	10,807	10,008	(1,481)	5,835
	55,972	65,884	66,203	72,030	59,262	96,896
SHAREHOLDERS' EQUITY						
Share capital	11,000	12,230	12,230	12,230	12,230	77,129
Share premium	-	8,610	8,610	8,610	8,610	-
Reserves	44,972	45,044	45,363	51,190	38,422	8,002
	55,972	65,884	66,203	72,030	59,262	85,131
LONG TERM LIABILITIES	-	-	-	-	-	11,765
	55,972	65,884	66,203	72,030	59,262	96,896
Net tangible asset per share (RM)	5.09	5.39	5.41	5.89	4.85	1.10