

**8. DIRECTORS' REPORT**



**彦武紙業有限公司**  
**ORNAPAPER BERHAD** (573695-W)

NO. 8998, KAWASAN PERINDUSTRIAN BATU BERENDAM PERINGKAT IV, 75350 MELAKA, MALAYSIA.  
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Date: 19 December 2002

The Shareholders of  
Ornapaper Berhad ("Ornapaper")

Dear Sir/Madam

On behalf of the Directors of Ornapaper, I wish to report that after making due enquiries that during the period from 31 August 2002, being the date to which the last audited accounts of Ornapaper and its subsidiaries (the "Group") have been made, up to the date hereof, being a date not earlier than fourteen days before the issue of this Prospectus that :-

- (a) The business of the Group has, in the opinion of the Directors, been satisfactorily maintained;
- (b) In the opinion of the Directors, no circumstances have arisen subsequent to the last audited accounts of the Group which have adversely affected the business and operations or the value of the assets of the Group;
- (c) The current assets of the Group appear in the books at values which are believed to be realisable in the ordinary course of business;
- (d) Save as disclosed in Section 7.4.3 of this Prospectus, there are no contingent liabilities by reason of any guarantees or indemnities given by the Group; and
- (e) Since the last audited accounts of the Group, save as disclosed in the Accountants' Report and Proforma Consolidated Balance Sheet as set out in Section 9 and 7.9 of this Prospectus, there has been no changes in published reserve nor any unusual factors affecting the profits of the Group.

Yours faithfully  
On behalf of the Board of Directors of  
**Ornapaper Berhad**

Datuk Ting Chung Cheng  
Managing Director

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

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■ **Chartered Accountants**  
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19 December 2002

The Board of Directors  
**Ornapaper Berhad**  
No. 8998, Kawasan Perindustrian Peringkat 4  
Batu Berendam, 75350 Melaka

Dear Sirs,

This report has been prepared by Ernst & Young, an approved company auditor, for inclusion in the Prospectus to be dated **24 DEC 2002** in connection with the Public Issue of 8,000,000 new ordinary shares of RM1.00 each and the Offer For Sale of 5,320,000 ordinary shares of RM1.00 each in ORNAPAPER BERHAD (hereinafter referred to as "Ornapaper" or "the Company") at an issue/offer price of RM1.60 per share and the listing and quotation of the entire issued and fully paid-up share capital of Ornapaper comprising 62,000,000 ordinary shares of RM1.00 each on the Main Board of the Kuala Lumpur Stock Exchange ("KLSE").

This report has been prepared on a basis consistent with the accounting policies normally adopted by Ornapaper and its subsidiaries, which are in accordance with applicable approved accounting standards issued or adopted by the Malaysian Accounting Standards Board.

**A. GENERAL INFORMATION**

**1. Incorporation**

Ornapaper was incorporated in Malaysia on 12 March 2002 as a public limited liability company.

**2. Principal activities**

The principal activities of the Company are investment holding and provision of management services to its subsidiaries.

**3. Restructuring and flotation scheme**

In conjunction with the listing and quotation of the entire issued and paid-up share capital of the Company on the Main Board of the KLSE, the Company undertook the following restructuring scheme:

- (i) issue of 499,998 new ordinary shares of RM1.00 each.

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



- (ii) acquisitions of the entire issued and paid up share capital of Ornapaper Industry (M) Sdn. Bhd. ("OISB(M)") and Ornapaper Industry (Batu Pahat) Sdn. Bhd. ("OISB(BP)") for a total purchase consideration of RM55,783,495 based on the audited NTA of the respective companies as at 31 December 2001. The amount was satisfied by an issue of 52,649,204 new ordinary shares of RM1.00 each in the Company at an issue price of approximately RM1.05 per share and cash of RM501,831 as follows:

Company	No. of shares acquired	Equity interest acquired %	Purchase consideration RM	No. of new shares in Ornapaper issued	Cash RM
OISB(M)	22,727,000	100	54,779,833	52,171,270	-
OISB(BP)	1,000,000	100	1,003,662	477,934	501,831
			<u>55,783,495</u>	<u>52,649,204</u>	<u>501,831</u>

- (iii) rights issue of 850,796 new ordinary shares of RM1.00 each in the Company at an issue price of RM1.00 per share.
- (iv) public issue of 8,000,000 new ordinary shares of RM1.00 each in the Company at an issue price of RM1.60 per share.

#### 4. Share capital

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

The present issued and paid-up share capital of the Company is RM54,000,000 comprising 54,000,000 ordinary shares of RM1.00 each.

Details of changes in the issued and paid-up share capital of Ornapaper since incorporation are as follows :-

Date of Allotment	No. of Ordinary shares of RM1 each	Consideration	Cumulative total paid-up share capital RM
12 March 2002	2	Subscribers' share	2
17 October 2002	499,998	Issue of new shares	500,000
1 December 2002	52,649,204	Issued as consideration for the acquisition of OISB(M) and OISB(BP)*	53,149,204
2 December 2002	850,796	Rights Issue	54,000,000

\* At an issue price of approximately RM1.05 per share.

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

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**5. Subsidiaries**

The information on the subsidiaries, all of which are private limited liability companies are as follows :

**(i) OISB(M)**

OISB(M) was incorporated on 24 July 1990 in Malaysia as a private limited company under the Companies Act, 1965. The present authorised share capital of OISB(M) is RM50,000,000 comprising 50,000,000 Shares of which RM22,727,000 comprising 22,727,000 Shares have been issued and fully paid-up.

The principal activities of OISB(M) are the manufacturing of corrugated boards and carton boxes.

**(ii) OISB(BP)**

OISB(BP) was incorporated on 26 November 1996 in Malaysia as a private limited company under the Companies Act, 1965. The present authorised share capital of OISB(BP) is RM5,000,000 comprising 5,000,000 Shares of which RM1,000,000 comprising 1,000,000 Shares have been issued and fully paid-up.

The principal activities of OISB(BP) are the manufacturing of carton boxes.

**B. FINANCIAL STATEMENTS AND AUDITORS**

We were appointed auditors of OISB(M) and OISB(BP) for the financial period ended 31 August 2002. The financial statements were reported on without any qualification.

We were also been appointed as auditors of Ormapaper since the date of incorporation but no financial statements have been prepared.

The financial statements of OISB(M) and OISB(BP) prior to our appointments as auditors were audited by other firms of chartered accountants and their reports for the years under review were not subject to any qualification.

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



**C. SUMMARISED INCOME STATEMENTS**

We set out below the proforma consolidated financial results of Ornapaper and its subsidiaries ("the Group") for the past five financial years ended 31 December 1997 to 2001 and for the eight months period ended 31 August 2002 based on their audited financial statements. The proforma consolidated results are provided for illustrative purposes only, based on the assumption that the Group had been in existence throughout the financial years under review.

	← Financial year ended 31 December →					8-months period ended
	1997	1998	1999	2000	2001	31.8.2002
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	64,781	74,426	95,494	142,011	114,293	75,902
Profit before depreciation, interest and taxation	12,970	15,525	16,564	20,648	19,103	12,346
Interest expense	(4,634)	(10,177)	(7,366)	(6,587)	(4,675)	(1,757)
Depreciation	(2,266)	(3,838)	(3,712)	(4,000)	(3,853)	(2,538)
Profit before taxation	6,070	1,510	5,486	10,061	10,575	8,051
Taxation	(1,125)	4	-	(732)	(735)	(551)
Profit after taxation	4,945	1,514	5,486	9,329	9,840	7,500
Number of ordinary shares of RM1.00 each assumed to be in issue ('000)	53,149	53,149	53,149	53,149	53,149	53,149
Gross earnings per share (RM)	0.11	0.03	0.10	0.19	0.20	0.23*
Net earnings per share (RM)	0.09	0.03	0.10	0.18	0.19	0.21*

\* Annualised

- (1) There were no exceptional or extraordinary items in all the financial years/period under review.
- (2) The gross earnings per share has been calculated based on the profit before taxation divided by the number of ordinary shares assumed to be in issue of 53,149,204 ordinary shares before the rights issue and public issue.
- (3) The net earnings per share has been calculated based on the profit after taxation divided by the number of ordinary shares assumed to be in issue of 53,149,204 ordinary shares before the rights issue and public issue.

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

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- (4) The taxation has been adjusted to reflect the under/over provision in the respective financial years. The effective taxation for the year 1998 is a positive figure mainly due to the reversal of deferred taxation. There was no tax charge for the year 1999 as the amount payable was waived in accordance with the Income Tax (Amendment) Act, 1999. The effective tax rates for other years were lower than the statutory tax rate due to the claims of reinvestment allowances.
- (5) The increase in revenue by 14.89% in 1998 was due to the Group's expansion in terms of business volume with its existing customers through its reputation as a reliable and quality supplier. However, profit before taxation decreased from approximately RM6.07 million to RM1.51 million, which is in line with the Company's strategy to support the strategic alliances to described by providing competitive prices in order to compete with other players. In addition, OISB (BP) has incurred high startup factory costs and is not operating at optimum capacity.
- (6) Revenue for year 1999 rose by 28.31% mainly due to increase in demand from major customers. Increase in sales had attributed to increase in production volume thereby allowing the Group to benefit from economies of scale. In addition, interest expense of the Group reduced due to lower interest rates. Thus, profit before taxation increased more than 100%.
- (7) The increase in revenue and profit before taxation by 48.71% and 83.39% respectively in 2000 was attributable to the significant increase in sales of approximately 82% to the Group's strategic alliances for the year as compared to previous year.
- (8) The revenue for year 2001 declined by almost 19.52% mainly due to the economic downturn in the United States of America. This had affected the demand for apparels and electrical and electronic products, whereby the Group's major customers were involved in these sectors. Nevertheless, profit before taxation increased by 5.11% contributed by the Group's strategy to reduce wastage to restore profitability in order to stay competitive and reduced interest expense.
- (9) The annualised revenue for the year 2002 is 0.38% lower than the preceding year mainly due to the seasonal factors whereby revenue for the second half of the financial year would normally be higher compared to first half of the year. Ornapaper recorded revenue of RM75.90 million with a pretax profit of RM8.05 million.

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



**Ornapaper**

**Financial  
period from  
12 March 2002  
to  
31 August 2002  
RM'000**

Revenue	-
Other expenses	(7)
Net loss for the year/period	<u>(7)</u>

- (1) There were no exceptional or extraordinary items in all the financial years/period under review.
- (2) The Company was incorporated on 13 March 2002 and commenced its operation of investment holding and provision of management services to its subsidiaries upon completion of the acquisition of subsidiaries.

**OISB(M)**

	← Financial year ended 31 December →					8-months period ended
	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	31.8.2002 RM'000
Revenue	64,815	73,890	92,888	137,325	110,689	73,391
Profit before depreciation, interest and taxation	13,042	16,456	16,908	19,156	18,283	11,661
Interest expense	(4,634)	(10,170)	(7,360)	(6,581)	(4,607)	(1,752)
Depreciation	(2,225)	(3,672)	(3,502)	(3,777)	(3,619)	(2,397)
Profit before taxation	6,183	2,614	6,046	8,798	10,057	7,512
Taxation	(1,125)	4	-	(732)	(687)	(397)
Profit after taxation	5,058	2,618	6,046	8,066	9,370	7,115
Weighted average number of ordinary shares in issue ('000)	5,000	10,000	10,000	20,000	22,727	22,727
Gross earnings per share (RM)	* 0.31	# 0.13	# 0.30	0.44	0.44	** 0.50
Net earnings per share (RM)	* 0.25	# 0.13	# 0.30	0.40	0.41	** 0.47

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



\* The EPS for the financial year ended 31 December 1997 was computed based on 20,000,000 ordinary shares of RM1 each with the incorporation of the bonus issue of 5,000,000 ordinary shares in 1997 and 10,000,000 ordinary shares in 2000.

# The EPS for the financial years ended 31 December 1998 and 1999 were calculated by dividing OISB(M)'s profit before/after taxation by the number of ordinary shares in issue during the years after incorporating a 1:1 bonus issue on 11 November 2000 as follows :

Year	Gross EPS	Net EPS
1998	2,614/(10,000 x 2) = 0.13	2,618/(10,000 x 2) = 0.13
1999	6,046/(10,000 x 2) = 0.30	6,046/(10,000 x 2) = 0.30

\* Annualised

- (1) There were no exceptional or extraordinary items in all the financial years/period under review.
- (2) The gross earnings per share has been calculated based on the profit before taxation divided by the weighted average number of ordinary shares in issue of the respective years/period.
- (3) The net earnings per share has been calculated based on the profit after taxation divided by the weighted average number of ordinary shares in issue of the respective years/period.
- (4) The taxation has been adjusted to reflect the under/over provision in the respective financial years. The effective taxation for the year 1998 is a positive figure mainly due to the reversal of deferred taxation. There was no tax charge for the year 1999 as the amount payable was waived in accordance with the Income Tax (Amendment) Act, 1999. The effective tax rates for other years were lower than the statutory tax rate due to the claims of reinvestment allowances.
- (5) The growth in revenue by 14.00% for 1998 was due to OISB(M) managed to expand its business volume with its existing major customers with its excellent customer service and reputation as a reliable and quality supplier. Profit before taxation decreased from approximately RM6.20 million to approximately RM2.61 million. This was in keeping with the strategy outlined by the management to remain competitive whilst seeking larger market share. Support had been given to the strategic alliances by giving competitive price in order for these companies to compete with other players. Interest expense increased from RM4.63 million to RM10.17 million had also caused the decline in profit before taxation.
- (6) Revenue and profit before tax for financial year ended 1999 increased to approximately RM92.89 million and RM6.05 million respectively, representing a 25.71% and more than 100% growth. The revenue increase was mainly generated from an existing customer and increased sales to strategic alliance partners. Increased profits resulted from higher revenues and lower financing costs. Interest expenses dropped mainly due to significant drop in interest rates.
- (7) The revenue for year 2000 increased by 47.84% while pretax profit increased by 45.52%. The revenue increased mainly due to OISB(M) continued to reap benefits from its strategy of seeking expansion through the forming of its strategic alliances. Sales to strategic alliance partners showed an increase from RM27.3 million to RM49.6 million, a testament that the strategy outlined by the management had been successful.



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



- (8) The revenue for year 2001 declined by 19.4% while pretax profit increased by 14.31%. The sharp decrease in revenue was due to the economic downturn in the United States of America, which had affected its demand for apparels and electrical and electronic products. The major customers of OISB(M) were mostly involved in these sectors which recorded a contraction of 8.4% and 8.9% respectively. In order to stay competitive in the wake of the economic slowdown, the management had outlined a strategy to reduce wastage to restore profitability.
- (9) The annualised revenue for year 2002 is 0.54% lower than the preceding year mainly due to the seasonal factors whereby revenue for the second half of the financial year would normally be higher compared to first half of the year. As such, OISB(M) recorded revenue of RM73.39 million with a pretax profit of RM7.51 million.

**OISB(BP)**

	26.11.1996 to 31.12.1997 RM'000	← Financial year ended 31 December →				8-months period ended 31.8.2002 RM'000
		1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	
Revenue	410	2,379	6,555	9,802	9,433	6,478
(Loss)/profit before depreciation, interest and taxation	(72)	(931)	(344)	1,492	820	692
Interest expense	-	(7)	(6)	(6)	(68)	(5)
Depreciation	(41)	(166)	(210)	(223)	(234)	(141)
(Loss)/profit before taxation	(113)	(1,104)	(560)	1,263	518	546
Taxation	-	-	-	-	(48)	(154)
(Loss)/profit after taxation	(113)	(1,104)	(560)	1,263	470	392
Weighted average number of ordinary shares in issue ('000)	1,000	1,000	1,000	1,000	1,000	1,000
Gross (loss)/earnings per share (RM)	(0.11)	(1.10)	(0.56)	1.26	0.52	0.82*
Net (loss)/earnings per share (RM)	(0.11)	(1.10)	(0.56)	1.26	0.47	0.59*

\* Annualised

- (1) There were no exceptional or extraordinary items in all the financial years/periods under review.
- (2) The gross earnings per share has been calculated based on the profit before taxation divided by the weighted average number of ordinary shares in issue of the respective years/periods.

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



- (3) The net earnings per share has been calculated based on the profit after taxation divided by the weighted average number of ordinary shares in issue of the respective years/periods.
- (4) The taxation has been adjusted to reflect the under/over provision in the respective financial years. There is no taxation charge for the financial period/years 1997 to 1999 as OISB (BP) was in a tax loss position. For financial year 2000, there is no taxation charge mainly due to utilisation of brought forward losses. The effective tax rate for financial year 2001 was lower than the standard rate of tax applicable due principally to the utilisation of brought forward tax losses.
- (5) OISB(BP) was incorporated on 26 November 1996 and commenced trading of carton boxes in January 1997. For the financial period ended 31 December 1997, OISB(BP) recorded turnover of approximately RM410,000. OISB (BP) was newly set up, it implemented a low selling price strategy in order to penetrate the existing market. The above coupled with initial start up costs and high depreciation charges resulted in a loss before taxation of approximately RM113,000 for the period.
- (6) Revenue for the year ended 1998 increased by approximately RM2.38 million, representing a growth of more than 100% on annualised basis. However, OISB(BP) recorded loss before taxation of approximately RM1.10 million. Loss before taxation in the year under review deteriorated as OISB(BP) did not operate at optimum capacity.
- (7) Revenue for the year 1999 increased by more than 100% from approximately RM2.38 million in 1998 to approximately RM6.56 million. The revenue increased mainly due to expansion of the customer base, which amounted to approximately RM1.04 million and the balance being raked in from existing customers. Correspondingly, loss before taxation decreased to approximately RM560,000 mainly due to increase in production volume thereby allowing OISB (BP) to benefit from economies of scale.
- (8) Revenue and profit before tax for the year 2000 increased to approximately RM9.80 million and RM1.26 million respectively, representing a growth of 49.53% and more than 100% as compared to the previous financial year. Higher turnover was recorded due to increase in sales quantity by approximately 17% or 481 metric tonnes and increase in average selling price of approximately 28%.
- (9) Revenue for year 2001 deteriorated by 3.76% to approximately RM9.43 million, while profit before tax decreased by 58.99% to approximately RM0.52 million. The deterioration was caused by decrease in selling price and demand. Demand for carton boxes dropped as a consequence of the contraction of the electrical and electronic products sector. To overcome the over supply situation, OISB(BP) lowered its selling prices. As such, the profit performance of OISB(BP) had also been reduced accordingly.
- (10) The annualised revenue for year 2002 is 3.01% higher than the preceding year mainly due to improvement in orders from its customers. For the financial year 2002, OISB(BP) recorded revenue of RM6.48 million with a pretax profit of RM0.55 million.

**D. DIVIDENDS**

The Company and its subsidiaries have not paid or declared any dividend since their respective date of incorporation.

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



**E. SUMMARISED BALANCE SHEETS**

As the purchase consideration for the acquisitions as stated in part (ii) of Section A.3 is calculated based on the NTA of the respective subsidiaries as at 31 December 2001 as shown by the audited financial statements, it is therefore impracticable to present the consolidated balance sheets of the Proforma Group throughout the financial years under review. Accordingly, the consolidated balance sheets of the Proforma Group has only been presented by way of proforma statement of assets and liabilities as at 31 August 2002 based on the latest audited financial statements as at 31 August 2002 of Ornapaper and its subsidiaries as shown in Section F of this report.

The audited balance sheets of the Company and its subsidiaries based on their respective financial years/period end are summarised as follows:

**The Company**

	As at 31 August 2002 RM'000
<b>CURRENT ASSETS</b>	
Prepayment	944
Cash in hand	*
	<u>944</u>
<b>CURRENT LIABILITY</b>	
Other payables	<u>951</u>
<b>NET CURRENT LIABILITIES</b>	<u>(7)</u>
<b>REPRESENTED BY :</b>	
Share capital	*
Accumulated loss	<u>(7)</u>
Shareholders' deficit	<u>(7)</u>
Net tangible assets (NTA) per ordinary share (RM)	<u>(3,642.50)</u>

\* This represents RM2

The Company was incorporated on 12 March 2002 and the financial statements as at 31 August 2002 was the first set of financial statements since its incorporation.

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



**OISB(M)**

The audited balance sheets of OISB(M) for the past six (6) financial years/period are as follows:

	← As at 31 December →					As at
	1997	1998	1999	2000	2001	31 August 2002
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>NON-CURRENT ASSETS</b>						
Property, plant and equipment	64,683	65,427	62,421	56,775	59,852	58,348
Associated companies	780	1,419	1,400	1,150	500	500
Other investments	28	28	28	44	269	269
	<u>65,491</u>	<u>66,874</u>	<u>63,849</u>	<u>57,969</u>	<u>60,621</u>	<u>59,117</u>
<b>CURRENT ASSETS</b>						
Inventories	14,545	11,294	14,807	14,138	16,495	14,811
Trade receivables	25,818	30,623	39,235	35,244	27,062	30,404
Other receivables	3,926	6,364	7,935	5,279	4,832	6,227
Cash and bank balances	2,128	1,306	132	3,462	5,697	6,349
	<u>46,417</u>	<u>49,587</u>	<u>62,109</u>	<u>58,123</u>	<u>54,086</u>	<u>57,791</u>
<b>CURRENT LIABILITIES</b>						
Short term borrowings	46,202	62,216	63,581	56,380	34,870	38,483
Trade payables	3,442	2,299	3,610	4,448	10,770	5,901
Other payables	7,675	4,013	2,933	2,680	5,593	3,980
Taxation	785	76	116	505	301	-
	<u>58,104</u>	<u>68,604</u>	<u>70,240</u>	<u>64,013</u>	<u>51,534</u>	<u>48,364</u>
<b>NET CURRENT (LIABILITIES)/ASSETS</b>	<u>(11,687)</u>	<u>(19,017)</u>	<u>(8,131)</u>	<u>(5,890)</u>	<u>2,552</u>	<u>9,427</u>
	<u>53,804</u>	<u>47,857</u>	<u>55,718</u>	<u>52,079</u>	<u>63,173</u>	<u>68,544</u>
<b>FINANCED BY :</b>						
Share capital	10,000	10,000	10,000	20,000	22,727	22,727
Reserves	11,400	14,018	20,063	18,129	32,319	39,434
Shareholders' equity	<u>21,400</u>	<u>24,018</u>	<u>30,063</u>	<u>38,129</u>	<u>55,046</u>	<u>62,161</u>
Hire purchase and lease payables	20,668	13,473	14,814	9,572	7,078	5,733
Term loans	10,886	9,716	10,191	3,728	399	-
Deferred taxation	850	650	650	650	650	650
Non-current liabilities	<u>32,404</u>	<u>23,839</u>	<u>25,655</u>	<u>13,950</u>	<u>8,127</u>	<u>6,383</u>
	<u>53,804</u>	<u>47,857</u>	<u>55,718</u>	<u>52,079</u>	<u>63,173</u>	<u>68,544</u>
NTA per share (RM)	2.14	2.40	3.01	1.91	2.42	2.74

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



**OISB(BP)**

The audited balance sheets of OISB(BP) for the past six (6) financial years/period are as follows:

	←—————As at 31December—————→					As at
	1997	1998	1999	2000	2001	31 August 2002
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>NON-CURRENT ASSETS</b>						
Property, plant and equipment	3,115	4,992	4,928	4,842	4,627	4,498
Intangible assets	7	3	-	-	-	-
	<u>3,122</u>	<u>4,995</u>	<u>4,928</u>	<u>4,842</u>	<u>4,627</u>	<u>4,498</u>
<b>CURRENT ASSETS</b>						
Inventories	10	127	327	313	222	274
Trade receivables	95	1,077	2,438	2,687	2,349	2,424
Other receivables	99	97	30	34	88	61
Cash and bank balances	420	243	145	111	304	243
	<u>624</u>	<u>1,544</u>	<u>2,940</u>	<u>3,145</u>	<u>2,963</u>	<u>3,002</u>
<b>CURRENT LIABILITIES</b>						
Short term borrowings	18	18	18	18	14	3
Trade payables	144	2,171	3,933	2,668	2,804	2,577
Other payables	2,625	4,515	4,662	4,801	3,768	3,411
Taxation	-	-	-	-	-	34
	<u>2,787</u>	<u>6,704</u>	<u>8,613</u>	<u>7,487</u>	<u>6,586</u>	<u>6,025</u>
<b>NET CURRENT LIABILITIES</b>	<u>(2,163)</u>	<u>(5,160)</u>	<u>(5,673)</u>	<u>(4,342)</u>	<u>(3,623)</u>	<u>(3,023)</u>
	<u>959</u>	<u>(165)</u>	<u>(745)</u>	<u>500</u>	<u>1,004</u>	<u>1,475</u>
<b>REPRESENTED BY :</b>						
Share capital	1,000	1,000	1,000	1,000	1,000	1,000
Reserves	(113)	(1,217)	(1,777)	(514)	(44)	348
Shareholders' equity/(deficit)	<u>887</u>	<u>(217)</u>	<u>(777)</u>	<u>486</u>	<u>956</u>	<u>1,348</u>
Long term borrowings	72	52	32	14	-	-
Deferred taxation	-	-	-	-	48	127
	<u>959</u>	<u>(165)</u>	<u>(745)</u>	<u>500</u>	<u>1,004</u>	<u>1,475</u>
NTA per share (RM)	<u>0.89</u>	<u>(0.22)</u>	<u>(0.78)</u>	<u>0.49</u>	<u>0.96</u>	<u>1.35</u>

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



**F. STATEMENT OF ASSETS AND LIABILITIES**

The following statement of assets and liabilities of the Proforma Group has been prepared based on the audited financial statements of the Company, OISB(M), OISB(BP) as at 31 August 2002 and on the assumption that the acquisitions of subsidiaries had been effected as at 31 August 2002.

	Note	The Company RM'000	Proforma Group RM'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	3	-	62,846
Other investments	4	-	269
		<u>-</u>	<u>63,115</u>
<b>CURRENT ASSETS</b>			
Inventories	5	-	15,085
Trade receivables	6	-	30,741
Other receivables		944	3,890
Cash and bank balances	7	*	7,092
		<u>944</u>	<u>56,808</u>
<b>CURRENT LIABILITIES</b>			
Short term borrowings	8	-	38,486
Trade payables		-	6,390
Other payables		951	5,001
Taxation		-	34
		<u>951</u>	<u>49,911</u>
<b>NET CURRENT(LIABILITIES)/ ASSETS</b>		<u>(7)</u>	<u>6,897</u>
		<u>(7)</u>	<u>70,012</u>
<b>FINANCED BY:</b>			
Share Capital	9	*	53,149
Reserves	10	(7)	2,626
Shareholders' equity		(7)	55,775
Reserve on consolidation		-	7,727
		<u>(7)</u>	<u>63,502</u>
Hire purchase and lease payables	11	-	5,733
Deferred taxation	13	-	777
Non-current liabilities		-	6,510
		<u>(7)</u>	<u>70,012</u>
Net Tangible (Liabilities)/Assets Per Ordinary Share (RM)		<u>(3,642.50)</u>	<u>1.19</u>

\* This represents RM2

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

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

**1. SIGNIFICANT ACCOUNTING POLICIES**

**(a) Basis of Accounting**

The financial statements of the Proforma Group and the Company have been prepared under the historical cost convention unless otherwise indicated in the accounting policies below and comply with the provisions of the Companies Act 1965 and applicable approved accounting standards in Malaysia.

**(b) Revenue Recognition**

Revenue relating to sale of goods is recognised net of discounts when transfer of risks and rewards has been completed.

**(c) Basis of Consolidation**

Consolidated financial statements include the financial statements of the Company and all its subsidiaries. Subsidiaries are those companies in which the Proforma Group has power to exercise control over the financial and operating policies so as to obtain benefits therefrom. Companies acquired or disposed are included in the consolidated financial statements from the date of acquisition or to the date of disposal. Subsidiaries are consolidated using the acquisition method of accounting.

Intragroup transactions, balances and resulting unrealised gains are eliminated on consolidation and the consolidated financial statements reflect external transactions only.

The difference between the cost of an acquisition over the fair value of the Proforma Group's share of the net assets of the acquired subsidiary at the date of acquisition is included in the consolidated balance sheet as goodwill or reserve arising on consolidation. Goodwill or reserve arising on consolidation is not amortised.

**(d) Investments**

Investments in subsidiaries and other non-current investments are stated at cost less provision for diminution in value. Such provision is made when there is a decline in the value of investments and is recognised as an expense in the period in which the decline occurred. On disposal of an investment, the difference between net disposal proceeds and its carrying amount is charged or credited to the income statement.

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

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**(e) Currency Conversion and Translation**

Transactions in foreign currency are converted into Ringgit Malaysia at rate of exchange ruling at the transaction dates. Monetary assets and liabilities in foreign currency at the balance sheet date are translated into Ringgit Malaysia at rate of exchange ruling at that date. All exchange differences are taken to the income statement.

The principal exchange rate used for every unit of foreign currency ruling at balance sheet date is as follow :

	RM
United States Dollar	3.80

**(f) Property, Plant and Equipment and Depreciation**

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Capital work-in-progress is not depreciated. Long term leasehold land is depreciated over the period of the lease of 60 to 98 years.

Depreciation of other property, plant and equipment is provided on a straight line basis to write off the cost of each asset to their residual value over the estimated useful life at the following annual rates:

Factory buildings	1.66% - 2%
Plant, machinery and factory equipment	5% - 20%
Motor vehicles, office equipment, furniture fittings and office renovation	10% - 20%

**(g) Inventories**

Inventories are stated at the lower of cost (determined on the first-in, first-out basis) and net realisable value. Cost of finished goods include direct materials, direct labour, other direct costs and appropriate production overheads.

**(h) Deferred Taxation**

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

**(i) Finance Lease and Hire Purchase**

Property, plant and equipment acquired under hire purchase and finance lease are capitalised in the financial statements and are depreciated in accordance with the policy set out in (f) above. The corresponding outstanding obligations due under the hire purchase and finance lease after deducting finance expenses are included as liabilities in the financial statements. Finance expenses are charged to the income statement over the period of the respective agreements using the sum of digit method.



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

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**(j) Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand and at bank and deposits at call net of outstanding bank overdrafts.

**(k) Borrowings**

Borrowings are reported at their face value. Interest incurred on borrowings is charged to the income statement as expense as and when incurred.

**(l) Trade and Other Receivables**

Trade and other receivables are carried at anticipated realisable values. Bad debts are written off when identified. An estimate is made for doubtful debts based on review of all outstanding amounts as at the balance sheet date.

**(m) Impairment of assets**

The carrying values of assets are reviewed for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. The recoverable amount is the higher of net realisable value and value in use, which is measured by reference to discounted future cash flows. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit.

An impairment loss is charged to the income statement immediately.

Subsequent increase in the recoverable amount of an asset is treated as reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of depreciation) had no impairment loss been recognised. The reversal is recognised in the income statement immediately.

**(n) Financial Instruments**

Financial assets and financial liabilities carried on the balance sheet include cash and bank balances, marketable securities, trade and other receivables and payables, borrowings and investments. The accounting policies on recognition and measurement of these items are disclosed in their respective accounting policies.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instruments classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

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

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**2. FINANCIAL RISK MANAGEMENT POLICIES**

The Proforma Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Proforma Group's businesses whilst managing its currency, interest rate, market, credit, liquidity and cash flows risks. The Proforma Group operates within clearly defined guidelines that are approved by the Board and the Proforma Group's policy is to not engage in speculative transactions. The Proforma Group's policy in respect of the major areas of treasury activity is set out as follows :

**(a) Currency risk**

In the Proforma Group, foreign currency transaction exposure on normal trade transactions arises in respect of external trade and is not hedged.

**(b) Interest rate risk**

The Proforma Group's policy is to borrow principally on a floating rate basis.

**(c) Market Risk**

The Proforma Group does not believe it has material exposure to market risk with respect to its investments.

**(d) Credit risk**

Credit risks or the risk of customers defaulting are minimised and monitored via strictly limiting the Proforma Group's associations to business partners with high creditworthiness. Trade receivables are monitored on an ongoing basis via Company management reporting procedures.

Counterparties to financial instruments consist of a large number of prime financial institutions. The Proforma Group does not expect any counterparties to fail to meet their obligations, given their high credit ratings.

The Proforma Group does not have any significant exposure to any individual customer or counterparty nor does it have any major concentration of credit risk related to any financial instruments.

**(e) Liquidity and cash flow risk**

The Proforma Group seeks to achieve a balance between certainty of funding even in difficult times for the Proforma Group and a flexible, cost-effective borrowings structure. The policy, therefore, seeks to ensure that, at a minimum, all projected net borrowing needs are covered by committed facilities. Also, the objective for debt maturities is to ensure that the amount of debt maturing in any one year is not beyond the Proforma Group's means to repay and refinance.

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



3. PROPERTY, PLANT AND EQUIPMENT

Proforma Group

	Long term leasehold land RM'000	Factory buildings RM'000	Plant, machinery and factory equipment RM'000	*Other assets RM'000	Capital work-in- progress RM'000	Total RM'000
Cost	6,543	15,218	54,596	5,288	100	81,745
Accumulated Depreciation	(461)	(1,605)	(13,298)	(3,535)	-	(18,899)
Net book value	6,082	13,613	41,298	1,753	100	62,846

\* Other assets comprise motor vehicles, furniture and fittings, office equipment and office renovation.

(a) Net book values of property, plant and equipment pledged to a financial institution for banking facilities granted to subsidiaries are as follows :

	Proforma Group RM'000
Long term leasehold land	6,082
Factory buildings	13,613
Plant, machinery and factory equipment	41,006
Other assets	1,492
	<u>62,193</u>

(b) Net book values of property, plant and equipment held under hire purchase and finance lease agreements are as follows :

	Proforma Group RM'000
Plant and machinery	10,283
Motor vehicles	513
Factory equipment	205
	<u>11,001</u>

(c) Included in the property, plant and equipment of the Proforma Group are fully depreciated assets which are still in use costing RM2,405,000.

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



**4. OTHER INVESTMENTS**

	<b>Proforma Group RM'000</b>
At cost:	
Quoted shares	19
Unquoted shares	225
Club membership	25
	<u>269</u>
Market value of quoted shares	<u>18</u>

**5. INVENTORIES**

	<b>Proforma Group RM'000</b>
At cost :	
Raw materials	14,604
Finished goods	481
	<u>15,085</u>

**6. TRADE RECEIVABLES**

	<b>Proforma Group RM'000</b>
Trade receivables	32,589
Less : Provision for doubtful debts	(1,848)
	<u>30,741</u>

**7. CASH AND BANK BALANCES**

	<b>The Company RM'000</b>	<b>Proforma Group RM'000</b>
Cash on hand and in banks	*	7,067
Fixed deposits with a licensed bank	-	25
	<u>*</u>	<u>7,092</u>

\* This represents RM2

The fixed deposit with a licensed bank of the Proforma Group has been pledged to a bank for bank guarantee granted to a subsidiary.

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



**8. SHORT TERM BORROWINGS**

	<b>Proforma Group RM'000</b>
Secured:	
Bank overdraft	31
Bankers' acceptances	35,325
Hire purchase and lease payables (Note 11)	2,326
Term loan, due within 12 months (Note 12)	804
	<u>38,486</u>

The short term borrowings are secured by certain assets of the Proforma Group as disclosed in Note 3.

The short term borrowings bear interest of between 3.41% to 7.60% per annum.

**9. SHARE CAPITAL**

	Number of Ordinary Shares of RM1 Each		Amount	
	The Company '000	Proforma Group '000	The Company RM'000	Proforma Group RM'000
Authorised	<u>100</u>	<u>100,000</u>	<u>100</u>	<u>100,000</u>
Issued and fully paid	<u>*</u>	<u>53,149</u>	<u>*</u>	<u>53,149</u>

\* This represents RM2

**10. RESERVES**

	<b>The Company RM'000</b>	<b>Proforma Group RM'000</b>
The reserves comprise the following:		
Accumulated losses	(7)	(7)
Share premium arising from the acquisitions	<u>-</u>	<u>2,633</u>
	<u>(7)</u>	<u>2,626</u>

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



**11. HIRE PURCHASE AND LEASE PAYABLES**

	<b>Proforma Group RM'000</b>
Future minimum payments:	
Payable within one year	3,210
Payable between one to five years	6,570
	<u>9,780</u>
Less: Finance charges	(1,721)
	<u>8,059</u>
Representing hire purchase and lease liabilities:	
Due within 12 months (Note 8)	2,326
Due after 12 months	5,733
	<u>8,059</u>

The hire purchase and lease payables bear interests of between 4.75% to 7.5% per annum.

**12. TERM LOAN**

	<b>Proforma Group RM'000</b>
Term loan, secured	804
Due within 12 months (Note 8)	(804)
Due after 12 months	<u>-</u>

The term loans are secured by way of a first legal charge over the long term leasehold land and factory buildings of a subsidiary and bear interest of 7.55% per annum.

**13. DEFERRED TAXATION**

The deferred taxation provided in the financial statements is in respect of timing differences between depreciation and corresponding capital allowances.

**14. CAPITAL COMMITMENT**

	<b>Proforma Group RM'000</b>
Capital expenditure:	
Approved and contracted for	<u>2,250</u>

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



**H. PROFORMA CONSOLIDATED CASH FLOW STATEMENT**

Based on the latest audited financial statements of the Company and its subsidiaries as at 31 August 2002, the proforma consolidated cash flow statement for the eight months period ended 31 August 2002 are as follows:

	1.1.2002 to 31.8.2002 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Profit before taxation	8,051
Adjustment for :	
Bad and doubtful debts	91
Depreciation	2,538
Gain on disposal of property, plant and equipment	(31)
Interest expense	1,757
Interest income	(67)
Operating profit before working capital changes	12,339
Decrease in inventories	1,633
Increase in receivables	(5,646)
Decrease in payables	(6,115)
Cash generated from operations	2,211
Interest paid	(1,757)
Tax paid	(914)
Net cash used in operating activities	(460)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of property, plant and equipment	(928)
Proceeds from disposal of property, plant and equipment	55
Interest received	67
Proceeds from issuance of shares	500
Net cash used in investing activities	(306)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Repayment of hire purchase and lease payables	(2,847)
Repayment of term loans	(889)
Short term borrowings	7,409
Net cash generated from financing activities	3,673

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

**ERNST & YOUNG** (AF: 0039)

	1.1.2002
	to
	31.8.2002
	RM'000
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	2,907
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>	4,154
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	<u>7,061</u>
Cash and cash equivalents comprise:	
Cash and bank balances	7,092
Bank overdraft	(31)
	<u>7,061</u>

**I. PROFORMA NET TANGIBLE ASSETS COVER**

Based on the statement of assets and liabilities of the Proforma Group as at 31 August, 2002, the net tangible assets (NTA) per ordinary share after incorporating the adjustments for rights issue, public issue and estimated cost of flotation will be as follows:

**(i) Net Tangible Assets**

	<b>RM'000</b>
NTA of the Group as at 31 August, 2002	64,353
Proceeds from public issue	12,800
	<u>77,153</u>
Less : Estimated cost of flotation	(2,000)
Proforma NTA	<u>75,153</u>

**(ii) Share Capital**

	<b>Number of ordinary shares of RM1.00 each '000</b>
As at 31 August, 2002	*
Add : Issued of new shares	500
Add : Issued as consideration for the acquisition of OISB(M), OISB(BP)	52,649
Add : Rights issue	851
Add : Public issue	8,000
Enlarged issued and paid-up share capital	<u>62,000</u>
Proforma NTA per ordinary share of RM1.00 each before public issue	<u>RM1.19</u>
Proforma NTA per ordinary share of RM1.00 each after public issue	<u>RM1.21</u>



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

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**J. EVENTS SUBSEQUENT TO BALANCE SHEET DATE 31 AUGUST 2002**

Subsequent to the balance sheet date, the following events had eventuated :

- (a) The authorised share capital of the Company was increased from RM100,000 to RM100,000,000 by creation of additional 99,900,000 new shares of RM1 each; and
- (b) The issued and paid up ordinary share capital of RM1 each was also increased from RM2 to RM54,000,000 by the following ways :
  - (i) an issuance of 499,998 new ordinary shares of RM1 each at an issue price of RM1 per share;
  - (ii) an issuance of 52,649,204 new ordinary shares of RM1 each at an issue price of approximately RM1.05 per share pursuant to the acquisitions of OISB(M) and OISB(BP);
  - (iii) a rights issue 850,796 new ordinary shares of RM1 each at an issue price of RM1 per share.

The newly issued shares rank *pari passu* in all respects with the existing issued shares.

Other than the above, we are not aware of any subsequent event which would require any amounts stated to be adjusted or any further disclosure that is required to be made in this report.

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

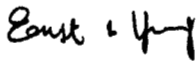
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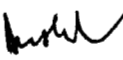
 **ERNST & YOUNG** (AF: 0039)

**K. AUDITED FINANCIAL STATEMENTS**

No audited financial statements have been prepared in respect of any period subsequent to 31 August 2002.

Yours faithfully,

  
**ERNST & YOUNG**  
No. AF 0039  
Chartered Accountants

  
**LEE AH TOO**  
No. 2187/09/03(J)  
Partner of the Firm