

### 13. ACCOUNTANTS' REPORT

(Prepared for the inclusion in the Prospectus)



AF: 0039

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### ACCOUNTANTS' REPORT

(Prepared for inclusion in the Prospectus)

20 June 2003

The Board of Directors  
Protasco Berhad  
Level 14, Uptown 1  
1, Jalan SS21/58  
Damansara Uptown  
47400 Petaling Jaya  
Selangor Darul Ehsan

Dear Sirs,

#### 1 INTRODUCTION

This report has been prepared by Ernst & Young, an approved company auditor, for inclusion in the Prospectus to be dated 28 June 2003 in connection with the following:-

(a) Acquisitions of:-

- i) the entire issued and paid-up capital of Kumpulan Ikram Sdn Bhd ("KISB") comprising 30,000,000 ordinary shares of RM1.00 each for a total purchase consideration of RM76,515,470 to be satisfied by the issue of 144,368,000 new ordinary shares of RM0.50 each at an issue price of approximately RM0.53 per share;
- ii) the entire issued and paid-up capital of HCM Engineering Sdn Bhd ("HCM") comprising 2,000,000 ordinary shares of RM1.00 each for a total purchase consideration of RM47,201,116 to be satisfied by the issue of 89,058,000 new ordinary shares of RM0.50 each at an issue price of approximately RM0.53 per share;
- iii) the entire issued and paid-up capital of Protasco Trading Sdn Bhd ("PTSB") comprising 500,000 ordinary shares of RM1.00 each for a total purchase consideration of RM5,463,027 to be satisfied by the issue of 10,308,000 new ordinary shares of RM0.50 each at an issue price of approximately RM0.53 per share; and

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1 INTRODUCTION (CONT'D)

(a) Acquisitions of (Cont'd):-

- iv) 60% of the issued and paid-up capital of Paves Sdn Bhd ("Paves") comprising 300,000 ordinary shares of RM1.00 each for a total purchase consideration of RM2,548,718 to be satisfied by the issue of 4,810,000 new ordinary shares of RM0.50 each at an issue price of approximately RM0.53 per share.

(hereinafter referred to as the "Acquisitions")

- b) Renounceable Rights Issue of 2,601,994 new ordinary shares of RM0.50 each to the shareholders of Protasco Berhad on the basis of one (1) new Rights Share for approximately every 95.52 existing ordinary shares of RM0.50 each held in Protasco Berhad after the Acquisitions (the "Rights Issue"); and

c) Public Issue of 48,854,000 new ordinary shares of RM0.50 each comprising:

- (i) 20,000,000 new ordinary shares of RM0.50 each at the Retail Price of RM1.15 per ordinary share; and
- (ii) 28,854,000 new ordinary shares of RM0.50 each to identified investors at the institutional price to be determined by way of bookbuilding.

and Offer for Sale of 19,600,000 ordinary shares of RM0.50 each comprising:

- (i) 9,000,000 ordinary shares of RM0.50 each to Bumiputra investors approved by the Ministry of International Trade and Industry at the Retail Price of RM1.15 each per ordinary share; and
- (ii) 10,600,000 ordinary shares of RM0.50 each to identified investors at the institutional price to be determined by way of bookbuilding.

The Retail Price will be subject to a refund in the event that the final Retail Price is less than RM1.15. The final Retail Price will be the lower of:

- (i) The Retail Price of RM1.15; or
- (ii) Not less than 90% of the Institutional Price

and the subsequent listing and quotation of its entire issued and paid up capital on the Main Board of the Kuala Lumpur Stock Exchange ("Listing").

On completion of the Acquisitions, the Group comprises PROTASCO as holding company and HCM, KISB and PTSB as the wholly-owned subsidiary companies and Paves as a 60% owned subsidiary company of PROTASCO.

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## 2 GENERAL INFORMATION

## 2.1 The Company - Protasco Berhad ("PROTASCO")

The Company was incorporated in Malaysia on 18 May 2001 as a public limited company. The authorised share capital is RM100,000 comprising 100,000 ordinary shares of RM1.00 each. The issued and paid up share capital is RM3 comprising 3 ordinary shares of RM1.00 each. These shares are held by the following persons: -

	No of shares
a) Dato' Hasnur Rabiain Bin Ismail	2
b) Dato' Chong Ket Pen	1

On 8 April 2003, the authorised share capital of the Company which was RM100,000 divided into 100,000 ordinary shares of RM1.00 each were altered by subdividing the 100,000 ordinary shares of RM1.00 each into 200,000 ordinary shares of RM0.50 each and that the existing ordinary shares of RM1.00 each fully paid up in the capital of the Company were divided into 2 ordinary shares of RM0.50 each credited as fully paid up. These shares are held by the following persons:-

	No of shares
a) Dato' Hasnur Rabiain Bin Ismail	4
b) Dato' Chong Ket Pen	2

The principal activity of the Company is investment holding. As at the date of this report, the Company has not commenced operations.

## 2.2 Flotation Scheme

The issued and fully paid-up capital of PROTASCO will increase from 6 ordinary shares of RM0.50 each to 300,000,000 ordinary shares of RM0.50 each analysed as follows: -

Issued and fully paid-up share capital	RM
As at 8 April 2003	3
After Acquisitions	124,272,003
After Rights Issue	125,573,000
After Public Issue	150,000,000

## 13. ACCOUNTANTS' REPORT (Continued)



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## 2 GENERAL INFORMATION (CONT'D)

## 2.3 The Companies Acquired As Subsidiary Companies of PROTASCO Pursuant To The Flotation Scheme

Information on the subsidiary companies acquired by PROTASCO (collectively referred to as the "Group") pursuant to the Flotation Scheme, all of which are private limited companies incorporated in Malaysia, is as follows: -

## 2.3.1 HCM Engineering Sdn Bhd ("HCM")

HCM was incorporated in Malaysia on 23 September 1991 as a private limited company. The authorised and paid-up capital as at 31 December 2002 were RM10,000,000 comprising 10,000,000 ordinary shares of RM1.00 each and RM2,000,000 comprising 2,000,000 ordinary shares of RM1.00 each respectively.

The principal activities of HCM are to carry out road construction, rehabilitation and maintenance.

The following are the subsidiary and associated companies of HCM (collectively referred to as the "HCM Group"), which are incorporated in Malaysia as at 31 December 2002.

Name of Companies	Principal activities	Equity Interest
<u>Subsidiary Companies</u>		
i) Roadcare (M) Sdn Bhd ("RCSB")	Road maintenance	51%
ii) HCM-TH Technologies Sdn Bhd ("HCMTH")	Road construction and rehabilitation	70%
iii) HCM Engineering-Isyoda JV Sdn Bhd ("HCM")	Road construction and rehabilitation	51%
iv) HCM-Endaya JV Sdn Bhd (formerly known as Endaya-HCM JV Sdn Bhd ("ENDAYA"))	Dormant	51%
<u>Associated Company</u>		
i) THT-HCM JV Sdn Bhd (formerly known as Konsortium HCM-THT Sdn Bhd ("KHT"))	Dormant	50%

## 13. ACCOUNTANTS' REPORT (Continued)



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## 2 GENERAL INFORMATION (CONT'D)

## 2.3 The Companies Acquired As Subsidiary Companies of PROTASCO Pursuant To The Flotation Scheme (Cont'd)

## 2.3.2 Kumpulan Ikram Sdn Bhd ("KISB")

KISB was incorporated in Malaysia on 25 September 1995 as a private limited company. The authorised and paid-up capital as at 31 December 2002 were RM50,000,000 comprising 50,000,000 ordinary shares of RM1.00 each and RM30,000,000 comprising 30,000,000 ordinary shares of RM1.00 each respectively.

KISB and its subsidiary companies are involved in training, geotechnical laboratory, structural and material testing, soil investigation, research and development, listing of building materials, engineering and technical related activities and services, education services and production of pavement materials.

The following are the subsidiary companies of KISB (collectively referred to as the "KISB Group"), which are incorporated in Malaysia as at 31 December 2002.

Name of Companies	Principal activities	Equity Interest
i) Ikram Services Sdn Bhd ("ISSB")	Soil and site investigation and laboratory testing services	100%
ii) Ikram Geotechnics Sdn Bhd ("IGSB")	Geotechnical installation and specialised construction services	100%
iii) Ikram Latihan Sdn Bhd ("ILSB")	Training Courses	100%
iv) Ikram QA Services Sdn Bhd ("IQASB")	Material certification and listing of products	100%
v) Ikram Education Sdn Bhd ("IESB")	Tertiary education and accomodation for students	100%
vi) Ikram C&S Sdn Bhd ("IC&SSB")	Material testing, consultancy, forensic services, quality control and research and development in relation to civil and structural engineering works	100%
vii) QP Industries Sdn Bhd ("QPISB")	Manufacture of pavement products	100%

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## 2 GENERAL INFORMATION (CONT'D)

### 2.3 The Companies Acquired As Subsidiary Companies of PROTASCO Pursuant To The Flotation Scheme (Cont'd)

#### 2.3.2 Kumpulan Ikram Sdn Bhd ("KISB")

Name of Companies	Principal activities	Equity Interest
viii) Kumpulan Ikram (Sarawak) Sdn Bhd ("KI(SWK)SB")	Soil and site investigation and laboratory testing services	60%
ix) Kumpulan Ikram (Sabah) Sdn Bhd ("KI(SBH)SB")	Soil and site investigation and laboratory testing services	60%

#### 2.3.3 Protasco Trading Sdn Bhd ("PTSB")

PTSB was incorporated in Malaysia on 19 August 1993 as a private limited company. The authorised and paid-up capital as at 31 December 2002 were RM1,000,000 comprising 1,000,000 ordinary shares of RM1.00 each and RM500,000 comprising 500,000 ordinary shares of RM1.00 each respectively.

The principal activity of PTSB is trading of construction materials and petroleum products.

#### 2.3.4 Paves Sdn Bhd ("Paves")

Paves was incorporated in Malaysia on 21 December 1991 as a private limited company. The authorised and paid-up capital as at 31 December 2002 were RM1,000,000 comprising 1,000,000 ordinary shares of RM1.00 each and RM500,000 comprising 500,000 ordinary shares of RM1.00 each respectively.

The principal activities of Paves are to provide evaluation and testing services for road pavement.

## 3 BASIS OF ACCOUNTING AND ACCOUNTING POLICIES

This Report is based on the audited financial statements which have been prepared in accordance with applicable approved accounting standards in Malaysia issued by the Malaysian Accounting Standards Board and is presented on a basis consistent with the accounting policies normally adopted by the Group.

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**4 AUDITORS**

We have been appointed as auditors of PROTASCO with effect from the financial year ended 31 December 2001. We have acted as auditors of the following subsidiary companies: -

	<b>Financial Years Ended</b>
HCM	2000 to 2002
KISB	1998 to 2002
PTSB	1998, 2000 to 2002
Paves	1998, 2000 to 2002

We have reported on the financial statements of the abovenamed companies for the relevant years in which we have acted as auditors without qualification.

The financial statements of the above companies prior to our appointment as auditors for the relevant years under review were audited by other firms of chartered accountants. These financial statements were reported on without qualification.

For the relevant years under review, the financial accounting date of the companies within the PROTASCO Group was coterminous.

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## 5 PROFORMA CONSOLIDATED INCOME STATEMENT

## 5.1 Proforma Group

The proforma consolidated income statement of the Group as set out below is based on the audited financial statements of PROTASCO, HCM Group, KISB Group, PTSB and Paves, and have been presented on the basis that the Acquisitions had been in effect throughout the relevant years under review.

	← Year ended 31 December →				
	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000
Revenue	81,037	183,237	267,443	445,491	715,609
Cost of sales	(49,867)	(133,076)	(198,312)	(324,165)	(559,550)
Gross profit	31,170	50,161	69,131	121,326	156,059
Other operating expenses	(4,112)	(4,690)	(4,963)	(17,778)	(26,153)
Selling and distribution expenses	(3)	(5)	(90)	(24)	(52)
Other operating income	105	106	474	179	652
Administration expenses	(11,634)	(15,707)	(19,037)	(30,592)	(34,155)
Profit before depreciation, amortisation, interest and taxation	15,526	29,865	45,515	73,111	96,351
Depreciation	(5,117)	(5,927)	(8,190)	(12,764)	(16,296)
Amortisation	(487)	(532)	(467)	(1,695)	(241)
Finance income	279	237	176	1,165	1,723
Finance cost	(3,125)	(1,957)	(1,465)	(2,030)	(3,430)
Profit before taxation	7,076	21,686	35,569	57,787	78,107
Taxation	(2,276)	(808)	(9,795)	(16,739)	(23,127)
Profit after taxation	4,800	20,878	25,774	41,048	54,980
Minority interest	(364)	(1,437)	(974)	(10,377)	(11,275)
Profit for the year	4,436	19,441	24,800	30,671	43,705
No. of ordinary shares ('000)	248,544	248,544	248,544	248,544	248,544
Earnings per share (sen)	2	8	10	12	18
Effective tax rate (%)	32	4	28	29	30



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**13. ACCOUNTANTS' REPORT (Continued)**

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**5.1 Proforma Group (cont'd)**

## Notes

**(1) HCM Group**

RCSB and HCMTHT were acquired in 1999 whereas HCMI was acquired in 1996. In 2000, HCM increased its equity interest in HCMI from 50% to 51%. FRM (Sabah) Sdn Bhd and FRM (Sarawak) Sdn Bhd were acquired in 2000.

In 2000, HCM acquired a 50% equity interest in ENDAYA and subsequently increased its equity interest in ENDAYA to 51% in 2001. As a result, ENDAYA becomes a subsidiary of HCM.

In 2001, HCM also acquired HCM-Konsortium Indera JV Sdn Bhd and HCM Overseas Venture Sdn Bhd.

In 2002, HCM disposed its entire shareholdings in FRM (Sabah) Sdn Bhd, FRM (Sarawak) Sdn Bhd, HCM-Konsortium Indera JV Sdn Bhd and HCM Overseas Venture Sdn Bhd, all of which were dormant.

**KISB Group**

KISB acquired QPISB in 1997. In the same year, KISB acquired 45% equity interest in KI(SWK)SB. In 1999, KISB increased its shareholding in KI(SWK)SB from 45% to 100% before diluting its equity interest to 60% due to the subscription of 40% equity by Naisa Equities Sdn Bhd.

During the financial year ended 31 December 1998, KISB acquired 100% equity interest in ISSB, IESSB, IGSB, ILSB and IC&SSB. In the same year, KISB acquired 100% equity interest in KI(SBH)SB which was subsequently diluted to 60% due to the subscription of 40% equity by Incoprime Sdn Bhd.

In 1999, KISB acquired 100% equity interest in IQASB.

**PTSB**

During the financial year ended 31 December 1997, PTSB acquired Hasfar Trading Sdn Bhd. Hasfar Trading Sdn Bhd was subsequently disposed off during the financial year ended 31 December 2000 and as such the proforma consolidated income statement excludes the financial results of Hasfar Trading Sdn Bhd.

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5.1 Proforma Group (cont'd)

Notes (cont'd)

- (2) Effective tax rate is calculated based on taxation to profit before taxation.

The effective tax rates for 1998, 2001 and 2002 were higher than the statutory rate due to the non deductibility of certain expenses for tax purposes.

No tax liability was provided on business income for the financial year 1999, as it constitutes the basis period for the year of assessment 2000 (preceding year basis), wherein tax on income other than dividend income is waived pursuant to the provisions of the Income Tax (Amendment) Act 1999. The provision for financial year 1999 relates to provision for deferred taxation arising from material timing differences.

- (3) There were no extraordinary items included in the income statement for the relevant years under review.
- (4) The earnings per share of the Group is calculated based on profit for the year to share capital of 248,544,006 ordinary shares of RM0.50 each, after the Acquisitions but before the Rights Issue and Public Issue.

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## 5.2 HCM (1998 : Company; 1999-2002 : Group)

	← Year ended 31 December →				
	1998	1999	2000	2001	2002
	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	49,202	121,406	166,596	328,375	535,261
Cost of sales	(40,491)	(104,150)	(141,349)	(258,303)	(440,117)
Gross profit	8,711	17,256	25,247	70,072	95,144
Other operating expenses	(2,424)	(1,458)	(2,560)	(2,835)	(8,505)
Selling and distribution expenses	(1)	(1)	(47)	-	-
Other operating income	34	77	55	107	584
Administration expenses	(354)	(355)	(909)	(19,437)	(17,697)
Profit before depreciation, amortisation, interest, and taxation	5,966	15,519	21,786	47,907	69,526
Depreciation	(2,081)	(2,045)	(3,377)	(6,419)	(10,113)
Amortisation	-	(63)	(25)	(1,228)	-
Finance income	-	5	457	1,574	2,138
Finance cost	(1,478)	(663)	(412)	(1,035)	(1,316)
Profit before taxation	2,407	12,753	18,429	40,799	60,235
Taxation	(700)	(444)	(4,813)	(11,785)	(17,338)
Profit after taxation	1,707	12,309	13,616	29,014	42,897
Minority interest	-	-	42	(9,119)	(9,935)
Profit for the year	1,707	12,309	13,658	19,895	32,962
No. of ordinary shares ('000)	2,000	2,000	2,000	2,000	2,000
Earnings per share (sen)	85	615	683	995	1,648
Effective tax rate (%)	29	2	26	29	29

- (1) The above income statement for the year ended 1998 represent HCM company level as the subsidiary companies were acquired subsequent to 1999. We have included the consolidated income statement for the years ended 1999 to 2002.
- (2) The effective tax rate is calculated based on taxation to profit before taxation.

The effective tax rates for 2000 was lower than the statutory rate due to certain income items being non assessable for income tax purposes.

The effective tax rates for 1998, 2001 and 2002 were higher than the statutory rate due to the non deductibility of certain expenses for tax purposes.

No tax liability was provided on business income for the financial year 1999, as it constitutes the basis period for the year of assessment 2000 (preceding year basis), wherein tax on income other than dividend income was waived pursuant to the provisions of the Income Tax (Amendment) Act 1999. The provision for financial year 1999 relates to provision for deferred taxation arising from material timing differences.

- (3) There were no extraordinary items included in the income statement for the relevant periods under review.
- (4) The earnings per share is calculated based on profit for the year to the number of ordinary shares in issue in the relevant periods under review.

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## 5.3 KISB (Group)

	← Year ended 31 December →				
	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000
Revenue	25,231	46,949	63,871	71,028	86,880
Cost of sales	(5,576)	(17,512)	(25,067)	(25,738)	(34,939)
Gross profit	19,655	29,437	38,804	45,290	51,941
Other operating expenses	(842)	(2,566)	(1,977)	(1,907)	(2,344)
Other operating income	21	-	418	72	67
Administration expenses	(10,680)	(14,843)	(17,662)	(22,197)	(26,969)
Profit before depreciation, amortisation, interest, and taxation	8,154	12,028	19,583	21,258	22,695
Depreciation	(2,682)	(3,558)	(4,546)	(6,079)	(6,158)
Amortisation	(487)	(469)	(467)	(467)	(241)
Finance income	274	228	124	546	449
Finance cost	(1,425)	(1,139)	(855)	(1,726)	(2,724)
Profit before taxation	3,834	7,090	13,839	13,532	14,021
Taxation	(1,319)	(440)	(4,037)	(4,012)	(4,574)
Profit after taxation	2,515	6,650	9,802	9,520	9,447
Minority interest	(136)	(909)	(772)	(1,012)	(1,083)
Profit for the year	2,379	5,741	9,030	8,508	8,364
No. of ordinary shares ('000)	20,000	20,000	20,000	30,000	30,000
Weighted average no. of ordinary shares ('000)	13,791	20,000	20,000	25,833	30,000
Earnings per share (sen)					
- based on no. of ordinary shares in issue at end of year	12	29	45	28	28
- based on weighted average no. of ordinary share	17	29	45	33	28
Effective tax rate (%)	34	8	29	32	36

- (1) The effective tax rate is calculated based on taxation to profit before taxation.

The higher effective tax rates for 1998, 2000, 2001 and 2002 were attributed to the non-deductibility of certain expenses for tax purposes.

No tax liability was provided on business income for the financial year 1999, as it constitutes the basis period for the year of assessment 2000 (preceding year basis), wherein tax on income other than dividend income was waived pursuant the provisions of the Income Tax (Amendment) Act 1999. The provision for financial year 1999 relates to provision for deferred taxation arising from material timing differences.

- (2) There were no extraordinary items included in the income statement for the relevant periods under review.
- (3) The earnings per share is calculated based on profit for the year to the weighted average number of ordinary shares in issue in the relevant periods under review.

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## 5.4 PTSB

	← Year ended 31 December →				
	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Revenue	3,680	15,984	55,014	66,203	113,391
Cost of sales	(3,176)	(14,891)	(51,583)	(62,033)	(106,927)
Gross profit	504	1,093	3,431	4,170	6,464
Other operating expenses	(167)	(212)	(454)	(982)	(2,471)
Selling and distribution expenses	(1)	(4)	(43)	(24)	(49)
Other operating income	43	21	-	-	-
Administration expenses	(202)	(173)	(297)	(256)	(338)
Profit before depreciation, interest and taxation	177	725	2,637	2,908	3,606
Depreciation	(16)	(17)	(32)	(55)	(81)
Finance income	2	-	-	-	-
Finance cost	(155)	(116)	(161)	(229)	(254)
Profit before taxation	8	592	2,444	2,624	3,271
Taxation	-	8	(699)	(724)	(946)
Profit for the year	8	600	1,745	1,900	2,325
No. of ordinary shares ('000)	500	500	500	500	500
Earnings per share (sen)	2	120	349	380	465
Effective tax rate (%)	-	-	29	28	29

(1) No tax liability was provided on business income for the financial year 1999, as it constitutes the basis period for the year of assessment 2000 (preceding year basis), wherein tax on income other than dividend income was waived pursuant to the provisions of the Income Tax (Amendment) Act 1999.

(2) The effective tax rate is calculated based on taxation to profit before taxation.

The effective tax rates for 2000 and 2002 were higher than the statutory rate due to the non-deductibility of certain expenses for income tax purposes.

(3) There were no extraordinary items included in the income statement for the relevant periods under review.

(4) The earnings per share is calculated based on profit for the year to the number of ordinary shares in issue in the relevant periods under review.

## 13. ACCOUNTANTS' REPORT (Continued)



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## 5.5 Paves

	← Year ended 31 December →				
	<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
Revenue	4,360	4,229	2,868	3,603	3,807
Cost of sales	(2,060)	(1,854)	(1,640)	(1,809)	(1,258)
Gross profit	2,300	2,375	1,228	1,794	2,549
Other operating expenses	(718)	(611)	(443)	(569)	(1,261)
Selling and distribution expenses	(1)	-	-	-	(3)
Other operating income	7	8	501	-	-
Administration expenses	(359)	(179)	(172)	(185)	(175)
Profit before depreciation, interest and taxation	1,229	1,593	1,114	1,040	1,110
Depreciation	(338)	(307)	(235)	(211)	(199)
Finance income	3	4	16	25	9
Finance cost	(67)	(39)	(37)	(19)	(8)
Profit before taxation	827	1,251	858	835	912
Taxation	(257)	68	(247)	(218)	(269)
Profit for the year	570	1,319	611	617	643
No. of ordinary shares ('000)	500	500	500	500	500
Earnings per share (sen)	114	264	122	123	129
Effective tax rate (%)	30	(5)	29	29	30

- (1) The effective tax rate is calculated based on taxation to profit before taxation.

The higher effective tax rates for 1998, 2000, 2001 and 2002 were attributed to the non-deductibility of certain expenses for tax purposes.

No tax liability was provided on business income for the financial year 1999, as it constitutes the basis period for the year of assessment 2000 (preceding year basis), wherein tax on income other than dividend income was waived pursuant to the provisions of the Income Tax (Amendment) Act 1999.

- (2) There were no extraordinary items included in the income statement for the relevant periods under review.
- (3) The earnings per share is calculated based on the profit for the year to the number of ordinary shares in issue in the relevant periods under review.

## 13. ACCOUNTANTS' REPORT (Continued)



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## 6 DIVIDENDS AND BONUS ISSUE

## 6.1 Dividends

Details of dividends declared by the subsidiary companies during the financial years under review are as follows: -

Subsidiary Company	Financial Year	No. of Issued and Paid-up Capital '000	Net Dividend Paid RM'000
<b>HCM</b>			
Interim Dividend - 145.84 sen per share, less tax	1999	2,000	2,100
Final Dividend - 138.89 sen per share, less tax	1999	2,000	2,000
Interim Dividend - 138.89 sen per share, less tax	2001	2,000	2,000
<b>KISB</b>			
Interim Dividend - 2.33 sen per share, less tax	2001	30,000	504
Interim Dividend - 5.00 sen per share, tax exempt	2001	30,000	1,500
<b>Paves</b>			
Interim Dividend - 138.90 sen per share, less tax	1998	500	500
First and final Dividend - 138.89 sen per share, less tax	1999	500	500

## 13. ACCOUNTANTS' REPORT (Continued)



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## PROFORMA CONSOLIDATED BALANCE SHEETS

7.1 PROTASCO	← As at 31 December →				
	1998	1999	2000	2001	2002
	RM'000	RM'000	RM'000	RM'000	RM'000
Property, Plant and Equipment	-	-	-	-	181,421
Investments	-	-	-	-	330
Deferred Expenditure	-	-	-	-	742
Current Assets	-	-	-	-	274,141
Current Liabilities	-	-	-	-	216,020
Net Current Assets	-	-	-	-	58,121
	-	-	-	-	240,614
<b>FINANCED BY:</b>					
Share Capital	-	-	-	-	124,272
Share Premium	-	-	-	-	7,456
Accumulated Loss	-	-	-	-	(5)
Reserve on Consolidation	-	-	-	-	44,182
	-	-	-	-	175,905
Minority Interest	-	-	-	-	27,751
Long Term Liabilities	-	-	-	-	28,361
Deferred Taxation	-	-	-	-	8,597
	-	-	-	-	240,614

PROTASCO was incorporated on 18 May 2001 with an issued and paid-up capital of 3 ordinary shares at RM1.00 each. As such, no summarised balance sheet is prepared for the financial years ended 1998 to 2001. On 8 April 2003, the authorised share capital of the Company which was RM100,000 divided into 100,000 ordinary shares of RM1.00 each were altered by subdividing the 100,000 ordinary shares of RM1.00 each into 200,000 ordinary shares of RM0.50 each and that the existing ordinary shares of RM1.00 each fully paid up in the capital of the Company was divided into 2 ordinary shares of RM0.50 each credited as fully paid up. The proforma consolidated balance sheet of PROTASCO is prepared based on the audited financial statements of PROTASCO and its subsidiary companies (to be acquired by the Company pursuant to the Acquisitions) except for KISB which has been adjusted to include the effects of the revaluation of landed properties carried out by the Directors based on open market valuation performed by independent professional valuers in financial year 2002. The revaluation was carried out for the purpose of determining the purchase consideration of the acquisition of KISB. The proforma consolidated balance sheets have been presented on the basis that the Acquisitions had been in effect as at 31 December 2002.



## 13. ACCOUNTANTS' REPORT (Continued)



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## 7.2 HCM (1998 : Company; 1999-2002 : Group)

	← As at 31 December →				
	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000
Property, Plant and Equipment	5,526	5,119	12,715	35,595	50,790
Joint Venture	9	-	-	-	-
Associated Companies	3	3	1	-	-
Other Investments	80	80	103	268	268
Deferred Expenditure	63	125	1,228	-	-
<b>Current Assets</b>	<b>42,729</b>	<b>77,630</b>	<b>81,649</b>	<b>166,911</b>	<b>192,049</b>
<b>Current Liabilities</b>	<b>39,600</b>	<b>65,925</b>	<b>63,321</b>	<b>131,497</b>	<b>131,015</b>
<b>Net Current Assets</b>	<b>3,129</b>	<b>11,705</b>	<b>18,328</b>	<b>35,414</b>	<b>61,034</b>
	<b>8,810</b>	<b>17,032</b>	<b>32,375</b>	<b>71,277</b>	<b>112,092</b>
<b>FINANCED BY:</b>					
Share Capital	2,000	2,000	2,000	2,000	2,000
Retained Profit	5,439	13,648	27,306	45,201	78,163
	7,439	15,648	29,306	47,201	80,163
Minority Interest	-	491	2,412	13,005	22,080
Long Term Liabilities	1,255	504	159	8,840	6,955
Deferred Taxation	116	389	498	2,231	2,894
	<b>8,810</b>	<b>17,032</b>	<b>32,375</b>	<b>71,277</b>	<b>112,092</b>

The balance sheets for the year ended 1998 represent HCM company level as the subsidiary companies were acquired subsequent to 1999. We have included the consolidated balance sheets for the years ended 1999, 2000, 2001 and 2002.

## 13. ACCOUNTANTS' REPORT (Continued)



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## 7.3 KISB (Group)

	← As at 31 December →				
	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000
Property, Plant and Equipment	81,293	84,243	98,789	103,497	102,500
Associated Company	461	-	-	-	-
Intangible assets	-	-	-	-	88
Deferred Expenditure	3,758	3,288	2,803	2,336	2,102
Current Assets	23,213	33,061	49,761	71,307	58,183
Current Liabilities	76,940	86,259	106,384	115,088	71,924
Net Current Liabilities	(53,727)	(53,198)	(56,623)	(43,781)	(13,741)
	31,785	34,333	44,969	62,052	90,949
<b>FINANCED BY:</b>					
Share Capital	20,000	20,000	20,000	30,000	30,000
Reserve on Consolidation	-	4	4	4	4
Retained Profit	4,438	10,179	19,209	25,713	34,077
	24,438	30,183	39,213	55,717	64,081
Minority Interest	336	1,648	2,220	2,633	3,715
Long Term Liabilities	6,450	1,385	2,641	2,615	21,374
Deferred Taxation	561	1,117	895	1,087	1,779
	31,785	34,333	44,969	62,052	90,949

## 13. ACCOUNTANTS' REPORT (Continued)



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## 7.4 PTSB

	← As at 31 December →				
	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000
Property, Plant and Equipment	64	70	184	319	299
Subsidiary Company	831	397	-	-	-
Current Assets	2,199	10,740	23,051	29,657	33,276
Current Liabilities	1,876	9,389	19,650	24,491	25,765
Net Current Assets	323	1,351	3,401	5,166	7,511
	<u>1,218</u>	<u>1,818</u>	<u>3,585</u>	<u>5,485</u>	<u>7,810</u>
<b>FINANCED BY:</b>					
Share Capital	500	500	500	500	500
Retained Profit	718	1,318	3,063	4,963	7,288
	1,218	1,818	3,563	5,463	7,788
Deferred Taxation	-	-	22	22	22
	<u>1,218</u>	<u>1,818</u>	<u>3,585</u>	<u>5,485</u>	<u>7,810</u>

During the financial year ended 31 December 1997, PTSB acquired Hasfar Trading Sdn Bhd (formerly known as Million Top Sdn Bhd). Hasfar Trading Sdn Bhd was subsequently disposed off during the financial year ended 31 December 2000 and as such, the above balance sheets exclude the financial statements of Hasfar Trading Sdn Bhd throughout the relevant periods under review.

## 13. ACCOUNTANTS' REPORT (Continued)



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## 7.5 Paves

	← As at 31 December →				
	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Property, Plant and Equipment	1,243	1,028	996	624	825
Investment	62	62	62	62	62
Current Assets	3,731	3,296	3,460	4,582	4,389
Current Liabilities	2,619	1,326	868	1,002	324
Net Current Assets	1,112	1,970	2,592	3,580	4,065
	<b>2,417</b>	<b>3,060</b>	<b>3,650</b>	<b>4,266</b>	<b>4,952</b>
<b>FINANCED BY:</b>					
Share Capital	500	500	500	500	500
Retained Profit	1,701	2,520	3,131	3,748	4,391
	2,201	3,020	3,631	4,248	4,891
Long Term Liabilities	136	27	6	-	32
Deferred Taxation	80	13	13	18	29
	<b>2,417</b>	<b>3,060</b>	<b>3,650</b>	<b>4,266</b>	<b>4,952</b>

## 13. ACCOUNTANTS' REPORT (Continued)



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## 8 PROFORMA STATEMENT OF ASSETS AND LIABILITIES

		← Proforma Group → As at 31 December			
		After (I)			
	Note	Company Audited as at 2002 RM'000	After Acquisitions (I) RM'000	and Rights Issue (II) RM'000	After (II) and Listing (III) RM'000
Property, Plant and Equipment	C	-	181,421	181,421	181,421
Investments	D	-	330	330	330
Deferred Expenditure	E	742	742	742	-
Current Assets	F	-	274,141	275,442	278,424
Current Liabilities	G	747	216,020	216,020	185,278
Net Current (Liabilities)/ Assets		(747)	58,121	59,422	93,146
		(5)	240,614	241,915	274,897
<b>FINANCED BY:</b>					
Share Capital	H	*	124,272	125,573	150,000
Share Premium	I	-	7,456	7,456	36,011
Accumulated Loss		(5)	(5)	(5)	(5)
Reserve on Consolidation		-	44,182	44,182	44,182
		(5)	175,905	177,206	230,188
Minority Interest		-	27,751	27,751	27,751
Long Term Liabilities	J	-	28,361	28,361	8,361
Deferred Taxation		-	8,597	8,597	8,597
		(5)	240,614	241,915	274,897
Net Tangible Assets per share		-	0.71	0.71	0.77

\* The issued and paid-up capital of Protasco Berhad is 3 ordinary shares at RM1.00 each. On 8 April 2003, the existing ordinary shares of RM1.00 each fully paid up in the capital of the Company was divided into 2 ordinary shares of RM0.50 each and the authorised share capital of the Company which was RM100,000 divided into 100,000 ordinary shares of RM1.00 each were altered by subdividing the 100,000 ordinary shares of RM1.00 each into 200,000 ordinary shares of RM0.50 each.

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**13. ACCOUNTANTS' REPORT (Continued)**

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**8 PROFORMA STATEMENT OF ASSETS AND LIABILITIES (CONT'D)**

The Proforma Consolidated Balance Sheets of Protasco Berhad are prepared based on the audited financial statements of PROTASCO and its subsidiary companies (to be acquired by the Company pursuant to the Acquisitions) except for KISB which been adjusted to include the effects of the revaluation of landed properties carried out by the Directors based on open market valuation performed by independent professional valuers in financial year 2002. The revaluation was carried out for the purpose of determining the purchase consideration of the acquisition of KISB. The proforma consolidated balance sheets have been presented on the basis that the Acquisitions had been in effect as at 31 December 2002.

**9 NOTES TO THE PROFORMA FINANCIAL STATEMENTS****A SIGNIFICANT ACCOUNTING POLICIES****(a) Basis of Accounting**

The financial statements of the Group are prepared under the historical cost convention and comply with applicable Approved Accounting Standards issued by the Malaysian Accounting Standards Board and the provisions of the Companies Act, 1965.

**(b) Basis of Consolidation**

The consolidated financial statements comprise the financial statements of the Company and all its subsidiary companies, after the elimination of all material intercompany transactions.

Subsidiary companies are those enterprises in which the Group has a long term equity interest and where it has power to exercise control over the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiary companies are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

Acquisitions of subsidiary companies are accounted for using the acquisition method of accounting. The results of the subsidiary companies acquired or disposed during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. The difference between the cost of acquisition of subsidiary companies and the fair value ascribed to the net assets of these subsidiary companies at dates of acquisition is dealt with through reserves in the year of acquisition.

The financial statements of subsidiary companies are prepared for the same reporting period as the Company. In the preparation of the consolidated financial statements, the financial statements of subsidiary companies are adjusted for the effects of any material dissimilar accounting policies.

The gain or loss on disposal of a subsidiary company is the difference between net disposal proceeds and the Group's share of its net assets together with any unamortised balance of goodwill and exchange differences which were not previously recognised in the consolidated income statement.

Minority interest is measured at the minorities' share of the post acquisition fair values of the identifiable assets and liabilities of the acquiree.

13. ACCOUNTANTS' REPORT *(Continued)*

AF: 0039

**A SIGNIFICANT ACCOUNTING POLICIES (CONTD.)****(c) Property, Plant and Equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and impairment of assets. The policy for the recognition and measurement of impairment losses is in accordance with Note A(1).

Freehold land is not depreciated. All other property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives using the following principal annual rates:-

Buildings	2%
Furniture and fittings	10% - 20%
Reference books, office equipment and computers	10% - 25%
Laboratory equipment, plant and machinery	15% - 20%
Motor Vehicles	20%
Machinery	15% - 20%
Signboards and office renovation	10% - 15%

**(d) Investments**

Investments in club membership are held on a long term basis and are stated at cost less impairment losses. The policy for recognition and measurement of impairment losses is in accordance with Note A(1).

**(e) Deferred Expenditure**

Deferred expenditure, which is stated at cost, relates to the expenditure incurred for the listing of shares of the Company on the Kuala Lumpur Stocks Exchange. Deferred expenditure consist of professional fees and other related costs. Deferred expenditure is set-off against Share Premium subsequent to the Acquisitions, Rights Issue and Listing.

**(f) Inventories**

Finished goods comprise engineering, technical spare parts and other consumable stocks. They are stated at the lower of cost and net realisable value. Cost is determined on a first-in first-out basis. In arriving at net realisable value, due allowance is made for all obsolete and slow-moving items.

Contract work-in-progress are stated at cost plus a proportion of estimated profit less foreseeable losses. Contract cost include all direct materials and labour costs and those indirect costs relating to contract performance, such as indirect labour, supplies and other costs. Provision for foreseeable losses on incomplete contracts are made in the year in which such losses are determined.

13. ACCOUNTANTS' REPORT *(Continued)*

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**A SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

**(g) Receivables**

Receivables are recognised and stated at original invoiced amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as identified.

**(h) Provisions**

Provisions are recognised when the Group has present obligations as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations and a reliable estimate of the amount can be made.

**(i) Leases and hire purchase**

Finance leases, which effectively transfer to the Group substantially all the risks and benefits incidental to ownership of the leased asset, are capitalised at the present value of the minimum lease payments at the inception of the lease term and disclosed as leased property, plant and equipment. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated consistently with the depreciation policies adopted by the Group's owned assets. In instances where there is no reasonable certainty of ownership, leased assets are depreciated over the shorter of their estimated useful lives or the lease term.

**(j) Deferred Taxation**

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



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**13. ACCOUNTANTS' REPORT (Continued)**

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**A SIGNIFICANT ACCOUNTING POLICIES (CONTD.)****(k) Revenue Recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and/or the Proforma Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised: -

**(i) Sale of Goods/Services**

Revenue from sale of goods is recognised when significant risk and rewards of ownership of goods have been passed to the buyer. Revenue for services rendered is recognised upon performance of services.

**(ii) Contract/Construction Revenue**

Revenue from work done on contracts is recognised based on the "stage of completion" method. The stage of completion is determined based on contract costs incurred for work performed up to the balance sheet date as a proportion of estimated total contract costs. Forseeable losses, if any, are recognised immediately in the income statement.

**(iii) Investment Income**

Investment income are accounted for when the right to receive is established and no significant uncertainty exists as regards its receipts.

**(l) Impairment of Assets**

The carrying amounts of the assets of the Company are reviewed at each balance sheet date to determine whether there is any indication of impairment.

Where there is an indication of impairment, the carrying value of such assets are written down immediately to the respective recoverable amounts. The impairment loss is recognised in the income statement immediately. Similarly, all reversals of impairment loss are recognised as income immediately in the income statement.

**(m) Financial Instruments**

The Company does not have any off balance sheet financial instruments. The accounting policies for financial instruments recognised on the balance sheet are disclosed in the individual policy statements associated with each item.

**(n) Cash and Cash Equivalents**

Cash and cash equivalents as stated in the cash flow statement comprise cash and bank balances, fixed deposits and other short term highly liquid investments that are readily convertible into cash with insignificant risk of changes in value, against which overdraft balances, if any, are deducted.

## 13. ACCOUNTANTS' REPORT (Continued)



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**B GENERAL**

The Company is a private limited liability company, incorporated and domiciled in Malaysia. The registered office of the Company is located at Level 14, Uptown 1, 1 Jalan SS21/58 Damansara Uptown, 47400 Petaling Jaya, Selangor.

The principal activity of the Company is investment holding.

The financial statements of the Company and consolidated financial statements of the Proforma Group are expressed in Ringgit Malaysia.

Details of subsidiary and associated companies as at 31 December 2002 are:-

<u>Name of companies</u>	<u>Principal activities</u>	<u>Country of Incorporation</u>	<u>Proforma Group's effective interest 2002</u>
HCM Engineering Sdn Bhd	Road construction, rehabilitation and maintenance	Malaysia	100%
HCM-TH Technologies Sdn Bhd *	Road construction and rehabilitation	Malaysia	70%
HCM Engineering-Isyoda JV Sdn Bhd *	Road construction and rehabilitation	Malaysia	51%
Roadcare (M) Sdn Bhd *	Road maintenance	Malaysia	51%
HCM-Endaya JV Sdn Bhd * (formerly known as Endaya-HCM JV Sdn Bhd)	Dormant	Malaysia	51%
THT-HCM JV Sdn Bhd * (formerly known as Konsortium HCM-THT Sdn Bhd)	Dormant	Malaysia	50%
Protasco Trading Sdn Bhd	Trading of construction materials and petroleum products	Malaysia	100%

## 13. ACCOUNTANTS' REPORT (Continued)



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**B GENERAL (CONT'D)**

<u>Name of companies</u>	<u>Principal activities</u>	<u>Country of Incorporation</u>	<u>Proforma Group's effective interest 2002</u>
Kumpulan Ikram Sdn Bhd	Training, geotechnical laboratory, structural and material testing, soil investigation, research and development, listing of building materials, engineering and technical related activities and services	Malaysia	100%
Ikram Services Sdn Bhd	Soil and site investigation and laboratory testing services	Malaysia	100%
Kumpulan Ikram (Sabah) Sdn Bhd	investigation and laboratory testing services	Malaysia	60%
Ikram Education Sdn Bhd *	Tertiary education and accomodation for students	Malaysia	100%
Ikram Geotechnics Sdn Bhd*	Geotechnical installation and specialised construction services	Malaysia	100%
Ikram Latihan Sdn Bhd *	Training Courses	Malaysia	100%
Ikram C&S Sdn Bhd *	Material testing, consultancy, forensic services, quality control and research and development in relation to civil and structural engineering works	Malaysia	100%
Ikram QA Services Sdn Bhd*	Material certification and listing of products	Malaysia	100%
Kumpulan Ikram (Sarawak) Sdn Bhd *	Soil and site investigation and laboratory testing services	Malaysia	60%

13. ACCOUNTANTS' REPORT *(Continued)*

AF: 0039

**B GENERAL (CONT'D)**

<u>Name of companies</u>	<u>Principal activities</u>	<u>Country of Incorporation</u>	<u>Proforma Group's effective interest 2002</u>
QP Industries Sdn Bhd *	Manufacture of pavement products	Malaysia	100%
Paves Sdn Bhd	Provision of evaluation and testing services road pavements	Malaysia	60%

\* The financial statements of the subsidiary companies and associated companies are not audited by Ernst & Young.

## 13. ACCOUNTANTS' REPORT (Continued)

**C PROPERTY, PLANT AND EQUIPMENT**

GROUP	Freehold land and buildings RM'000	Signboards and office renovation RM'000	Reference books, office equipment, computers, furniture and fittings RM'000	Laboratory equipment, plant and machinery RM'000	Motor vehicles RM'000	Total 2002 RM'000
Balance as at 1/1/2002	111,526	5,525	19,371	48,956	20,200	205,578
Additions	4,527	1,367	5,120	13,580	6,339	30,933
Disposals	-	-	-	-	(309)	(309)
Balance as at 31/12/2002	116,053	6,892	24,491	62,536	26,230	236,202
ACCUMULATED DEPRECIATION						
Balance as at 1/1/2002	377	1,328	8,322	19,883	8,627	38,537
Charge for the year	438	751	3,346	7,705	4,311	16,551
Disposals	-	-	-	-	(307)	(307)
Balance as at 31/12/2002	815	2,079	11,668	27,588	12,631	54,781

## 13. ACCOUNTANTS' REPORT (Continued)

**C PROPERTY, PLANT AND EQUIPMENT (CONT'D)**

GROUP	Freehold land and buildings RM'000	Signboards and office renovation RM'000	Reference books, office equipment, computers, furniture and fittings RM'000	Laboratory equipment, plant and machinery RM'000	Motor vehicles RM'000	Total 2002 RM'000
NET BOOK VALUE						
As at 31/12/2002	115,238	4,813	12,823	34,948	13,599	181,421

Certain freehold land and buildings of a subsidiary were acquired pursuant to the Privatisation Agreement with the Government of Malaysia and in accordance with the terms of the Sale and Purchase Agreement with the Federal Land Commissioner dated 5 November 1996. On 4 September 2002, a Supplemental Agreement to the sale and purchase agreement was signed. All conditions of this agreement have been met by the said subsidiary following by the final settlement of the outstanding consideration amounting to RM58,680,000. The land title is in the process of being transferred to the Company's name.

The subsidiary financed part of the above payment via term loan which is to be secured against the land and buildings acquired. Since the land title has yet to be transferred to the Company's name, no charge in respect of these assets have been created despite the full disbursement of the loan amount.

Included in the Proforma Group's property, plant and equipment are assets acquired under hire purchase and lease arrangements with net book value of RM8,900,000.

Included in the Proforma Group's property, plant and equipment are assets with net book value of RM9,377,000 which has been pledged for credit facilities granted to the Proforma Group.

## 13. ACCOUNTANTS' REPORT (Continued)



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**D INVESTMENTS**

Investments represent transferable corporate golf membership at Glenmarie Golf and Country Club, Kota Permai Golf and Country Resort and Sungai Long Golf Club.

**E DEFERRED EXPENDITURE**

	← Proforma Group → As at 31 December			
	Company Audited as at 31 December 2002 RM'000	After Acquisitions (I) RM'000	After (I) and Rights Issue (II) RM'000	After (II) and Listing (III) RM'000
Deferred expenditure, at cost	742	742	742	742
Less: Written off	-	-	-	(742)
	<u>742</u>	<u>742</u>	<u>742</u>	<u>-</u>

The deferred expenditure is set-off against Share Premium subsequent to the Acquisitions, Rights Issue and Listing.

**F CURRENT ASSETS**

	← Proforma Group → As at 31 December			
	Company Audited as at 31 December 2002 RM'000	After Acquisitions (I) RM'000	After (I) and Rights Issue (II) RM'000	After (II) and Listing (III) RM'000
Inventories (a)	-	2,253	2,253	2,253
Trade debtors (b)	-	184,210	184,210	184,210
Other debtors	-	8,130	8,130	8,130
Tax recoverable		657	657	657
Amount due from a corporate shareholder (c)	-	24	24	24
Fixed deposits with a licensed bank	-	16,073	16,073	16,073
Cash and bank balances	-	62,794	64,095	67,077
	<u>-</u>	<u>274,141</u>	<u>275,442</u>	<u>278,424</u>

13. ACCOUNTANTS' REPORT *(Continued)*

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**F CURRENT ASSETS (CONT'D)**

(a) Inventories	<b>Proforma Group As at 31 December 2002 RM'000</b>
At cost,	
Finished goods	405
Work-in-progress, at cost	<u>1,554</u>
	1,959
At net realisable value,	
Stores and spares	<u>294</u>
	<u><u>2,253</u></u>
 (b) Trade debtors	 <b>Proforma Group As at 31 December 2002 RM'000</b>
Trade debtors	187,803
Provision for doubtful debts	<u>(3,593)</u>
	<u><u>184,210</u></u>
 (c) Corporate Shareholder	

The corporate shareholder refers to Projek Penyelenggaraan Lebuhraya Berhad, a company incorporated in Malaysia and listed on the Kuala Lumpur Stock Exchange. The amount due from the corporate shareholder is unsecured, interest free and has no fixed terms of repayment.



## 13. ACCOUNTANTS' REPORT (Continued)



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## G CURRENT LIABILITIES

	Company Audited as at 31 December 2002 RM'000	← Proforma Group → As at 31 December		
		After Acquisitions (I) RM'000	After (I) and Rights Issue (II) RM'000	After (II) and Listing (III) RM'000
Trade creditors	-	148,243	148,243	148,243
Other creditors	747	18,992	18,992	18,250
Lease and hire purchase creditors (a)	-	3,351	3,351	3,351
Amount due to a corporate shareholder (b)	-	486	486	486
Bank borrowings (c)	-	41,797	41,797	11,797
Taxation	-	2,171	2,171	2,171
Proposed dividend	-	980	980	980
	747	216,020	216,020	185,278

## (a) Lease and Hire Purchase Creditors

	Proforma Group As at 31 December 2002 RM'000
Lease and hire purchase creditors	6,110
Amount repayable after 12 months (Note J)	(2,759)
	<u>3,351</u>

## (b) Corporate Shareholder

The corporate shareholder refers to Protasco Holdings Sdn Bhd, a company incorporated in Malaysia. The amount due to the corporate shareholder is unsecured, interest free and has no fixed terms of repayment.

## 13. ACCOUNTANTS' REPORT (Continued)



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## G CURRENT LIABILITIES (CONT'D)

## (c) Bank Borrowings

	← Proforma Group → As at 31 December			
	Company Audited as at 31 December 2002 RM'000	After Acquisitions (I) RM'000	After (I) and Rights Issue (II) RM'000	After (II) and Listing (III) RM'000
Term loans (secured) Amount repayable after 12 months (Note J)	-	47,716	47,716	7,716
	-	(25,602)	(25,602)	(5,602)
Amount repayable within 12 months	-	22,114	22,114	2,114
Revolving credits, trust receipts and bankers' acceptances	-	16,193	16,193	8,193
Bank overdrafts	-	3,490	3,490	1,490
	-	41,797	41,797	11,797

The bank borrowings are secured by:

- (i) Corporate guarantee by HCM and KISB.
- (ii) Joint and several guarantee by certain Directors of the Company
- (iii) Fixed and floating charge on certain assets of the Proforma Group

The bank borrowings bear interest at the rates ranging from 3.6% to 8.95% per annum.

## H SHARE CAPITAL

	← Proforma Group → As at 31 December			
	Company Audited as at 31 December 2002 RM'000	After Acquisitions (I) RM'000	After (I) and Rights Issue (II) RM'000	After (II) and Listing (III) RM'000
Authorised:				
Ordinary shares of RM0.50 each	100	300,000	300,000	300,000
Issued and fully paid:				
Ordinary shares of RM0.50 each	*	124,272	125,573	150,000

- \* The issued and paid-up capital of Protasco Berhad is 3 ordinary shares at RM1.00 each. On 8 April 2003, the existing ordinary shares of RM1.00 each fully paid up in the capital of the Company was divided into 2 ordinary shares of RM0.50 each.

## 13. ACCOUNTANTS' REPORT (Continued)



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## I SHARE PREMIUM

Company Audited as at 31 December 2002 RM'000	← Proforma Group → As at 31 December		
	After Acquisitions (I) RM'000	After (I) and Rights Issue (II) RM'000	After (II) and Listing (III) RM'000
-	7,456	7,456	36,011 #

# The estimated expenses of RM3.2 million relating to the Flotation Scheme has been set-off against Share Premium.

## J LONG TERM LIABILITIES

Company Audited as at 31 December 2002 RM'000	← Proforma Group → As at 31 December		
	After Acquisitions (I) RM'000	After (I) and Rights Issue (II) RM'000	After (II) and Listing (III) RM'000
Lease and Hire purchase creditors (Note G (a))	-	2,759	2,759
Long term loans (Note G (c))	-	25,602	5,602
	-	28,361	8,361

The proceeds from the Rights Issue and Listing will be partially utilised to repay a long term loan.

## K CAPITAL COMMITMENT

	Proforma Group As at 31 December 2002 RM'000
Approved and contracted for	3,238

13. ACCOUNTANTS' REPORT *(Continued)*

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**L CONTINGENT LIABILITIES**

Guarantee given to Government of Malaysia for	
- repayment of advance payment	8,700
- performance bond for services rendered	464
Guarantees given to financial institutions by HCM and KISB in respect of banking facilities granted to subsidiary companies	
- hire purchase	396
- term loan	238
- overdraft facility	1,750
- other credit facilities	<u>35,314</u>

**M FINANCIAL INSTRUMENTS****(a) Financial Risk Management Objectives and Policies**

The Group and Company are exposed to a variety of financial risks, including interest rate risk, credit risk, liquidity and cash flow risk. The Group and Company's overall financial risk management objective is to ensure that the Company creates value for its shareholders while minimising the potential adverse effects on the performance of the Group and of the Company. The Group and the Company do not trade in financial instruments.

**(b) Interest Rate Risk**

The Group and Company finance their operations through operating cash flows and borrowings which are principally denominated in Malaysian Ringgit. The Group and Company's policy is to derive the desired interest rate profile through a mix of fixed and floating rate banking facilities.

**(c) Liquidity and Cash Flow Risk**

The Group and Company practise prudent liquidity risk management by maintaining the availability of funding through an adequate amount of committed credit facilities.

**(d) Credit Risk**

The Group and Company seek to invest cash assets safely and profitably. The Company also seek to control credit risk by setting counterparty limits and ensuring that sale of products and services are made to customers with an appropriate credit history, and monitoring customers' financial standing through periodic credit review and credit checks at point of sales. The Group and Company consider the risk of material loss in the event of non-performance by a financial counterparty to be unlikely.

**(e) Fair Values**

The carrying amounts of the financial assets and liabilities of the Group and Company approximate their fair value.

13. ACCOUNTANTS' REPORT *(Continued)*

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**N SIGNIFICANT EVENTS DURING THE YEAR**

- (i) Pursuant to the Privatisation Agreement with the Government of Malaysia and in accordance with the Sale and Purchase Agreement with the Federal Land Commissioner dated 5 November 1996, a subsidiary of the Company signed two Supplemental Agreements on 4 September 2002. The first Supplemental Agreement extended the settlement period to 4 September 2002 of the balance not paid for the purchase of freehold land and buildings amounting to RM58,680,000. The balance was duly settled on the same day and the land title is in the process of being transferred to the subsidiary's name. The second supplemental agreement extended the concession agreement for a further five year period. This results in the concession period, arising from the privatisation agreement, to be for a period of 15 years ending 2011.
- (ii) HCM Engineering Sdn Bhd disposed its entire equity interest in FRM (Sabah) Sdn Bhd, FRM (Sarawak) Sdn Bhd, HCM Overseas Venture Sdn Bhd and HCM-Konsortium Indera JV Sdn Bhd on 13 March 2002.

**10 PROCEEDS FROM RIGHTS ISSUE AND LISTING**

The proceeds from the Rights Issue and Listing will be utilised in the following manner: -

	<b>RM'000</b>
Repayment of bank borrowings	50,000
Working capital requirements	4,283
Estimated Listing expenses	<u>3,200</u>
	<u><u>57,483</u></u>

## 13. ACCOUNTANTS' REPORT (Continued)



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## 11 PROFORMA NET TANGIBLE ASSETS COVER

Based on the financial position of the Proforma Group as at 31 December 2002, the net tangible assets and enlarged paid-up capital are set out below: -

(i) Net Tangible Assets

	<b>Proforma Group RM'000</b>
Net Tangible Assets of the Proforma Group after Acquisitions	175,905
Add : Proceeds from Rights Issue	1,301
Add : Proceeds from Listing	<u>56,182</u>
	233,388
Less : Estimated Listing expenses	<u>(3,200)</u>
	<u><u>230,188</u></u>

(ii) Share Capital

	<u>No. of shares '000</u>
At date of incorporation	*
Subdivision of shares	*
Add: Acquisitions	248,544
Add: Rights Issue	2,602
Add: Public Issue	48,854
On completion of Flotation Scheme	<u><u>300,000</u></u>

\* The issued and paid up share capital at the date of incorporation was RM3 comprising 3 ordinary shares of RM1.00 each. As at 8 April 2003, the issued and paid-up capital of Protasco Berhad is 6 ordinary shares of RM0.50 each.

Based on the proforma net tangible assets of RM230 million and enlarged paid-up share capital of 300 million, the proforma net tangible assets per share is RM0.77.

13. ACCOUNTANTS' REPORT *(Continued)*

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12 AUDITED FINANCIAL STATEMENTS

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

Yours faithfully

A handwritten signature in cursive script that reads 'Ernst &amp; Young'.

Ernst & Young  
AF:0039  
Chartered Accountants

A handwritten signature in cursive script that reads 'Tan Soo Yan'.

Tan Soo Yan  
1307/03/04(J/PH)  
Partner

Kuala Lumpur