

## 11. ACCOUNTANTS' REPORT

(Prepared for inclusion in this Prospectus)



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10 December 2004

**The Board of Directors**  
**HeveaBoard Berhad**  
Lot 683, Batu 5, Jalan Kuala Pilah,  
70400 Seremban,  
Negeri Sembilan.

Dear Sirs

**HEVEABOARD BERHAD ("HEVEABOARD" OR "THE COMPANY")**

### ACCOUNTANTS' REPORT

#### 1. PURPOSE OF REPORT

This report has been prepared by Horwath, an approved company auditor, for inclusion in the Prospectus of HeveaBoard to be dated 17 DEC, 2004 in connection with the listing of HeveaBoard on the Main Board of Bursa Malaysia Securities Berhad ("Bursa Securities"). The details of the listing scheme are disclosed in paragraph 2.2 of this report.

#### 2. DETAILS OF HEVEABOARD AND ITS SUBSIDIARIES

##### 2.1 THE COMPANY

The Company was incorporated on 3 September 1993 in Malaysia as a private limited company under the Malaysian Companies Act, 1965 under the name of HeveaBoard Sdn. Bhd. The Company assumed its present name upon its conversion to a public company on 16 February 2004.

The Company is principally engaged in the businesses of manufacturing and trading of particleboards and wood related products and investment holding.

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**2.2 LISTING SCHEME**

In conjunction with and as an integral part of the listing of HeveaBoard on the Main Board of Bursa Securities, the Company undertook the following transactions which have been approved by the relevant authorities:-

- (a) Public Issue of 15,040,000 new ordinary shares of RM1.00 each in HeveaBoard at an issue price of RM2.00 per share payable in full on application comprising:-
  - (i) 7,300,000 new ordinary shares of RM1.00 each made available for application by bumiputera investors approved by the Ministry of International Trade and Industry ("MITI");
  - (ii) 4,000,000 new ordinary shares of RM1.00 each made available for application by the Malaysian public, companies, societies, co-operatives and institutions; and
  - (iii) 3,740,000 new ordinary shares of RM1.00 each made available for application by eligible directors, employees and persons who have contributed to the success of the HeveaBoard Group;
- (b) Issuance of 40,000,000 warrants to be allotted at no consideration to all entitled shareholders of HeveaBoard after the Public Issue on the basis of one (1) new Warrant for every two (2) ordinary shares held as at the entitlement date; and
- (c) The listing of and quotation for the entire enlarged issued and paid-up share capital of HeveaBoard comprising 80,000,000 ordinary shares of RM1.00 each, 40,000,000 Warrants and up to 40,000,000 new ordinary shares of RM1.00 each to be issued pursuant to the exercise of the Warrants on the Main Board of Bursa Securities.

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A summary of the details of the subsidiaries of HeveaBoard, all of which are incorporated in Malaysia, as at the date of this report are as follows:-

Name	Date of Incorporation	Issued and paid-up share capital	Effective equity interest %	Principal activities
HPSB	19 November 1987	RM29,800,000	100	Manufacturing and trading of ready-to-assemble furniture.
HMSB	24 June 1983	RM250,000	100	Trading of plain and laminated particleboards and other panel wood products.
BWSB	20 July 2000	RM600,000	100	Distribution, trading and marketing of ready-to-assemble furniture.
HOSB	25 January 1995	RM7,500,002	100	Currently dormant. The intended business activity is the manufacturing of particleboards and laminated oriented strand board.

*Notes:-*

<i>HPSB</i>	-	<i>HeveaPac Sdn. Bhd.</i>
<i>HMSB</i>	-	<i>HeveaMart Sdn. Bhd.</i>
<i>BWSB</i>	-	<i>BocoWood Sdn. Bhd.</i>
<i>HOSB</i>	-	<i>Hevea OSB Sdn. Bhd.</i>

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As at the date of this report, the authorised share capital of HeveaBoard is RM500,000,000 comprising 500,000,000 ordinary shares of RM1.00 each.

The issued and paid-up share capital of HeveaBoard as of the date of this report is RM64,960,000 comprising 64,960,000 ordinary shares of RM1.00 each.

The changes in the issued and paid-up share capital of the Company since the date of incorporation are as follows:-

<b>Date of Allotment</b>	<b>Number of ordinary shares issued</b>	<b>Resultant number of ordinary shares in issue</b>	<b>Par Value per share RM</b>	<b>Consideration/ Type of issue</b>	<b>Cumulative issued and paid-up ordinary share capital RM</b>
3 September 1993	2	2	1.00	Subscribers shares	2
2 March 1994	2,999,998	3,000,000	1.00	Cash	3,000,000
25 April 1994	9,000,000	12,000,000	1.00	Cash	12,000,000
24 August 1994	9,000,000	21,000,000	1.00	Cash	21,000,000
30 December 1994	6,000,000	27,000,000	1.00	Cash	27,000,000
28 October 1995	3,000,000	30,000,000	1.00	Cash	30,000,000
29 December 2000	500,000	30,500,000	1.00	Cash	30,500,000
30 December 2000	20,333,000	50,833,000	1.00	Bonus issue	50,833,000
30 December 2003	10,167,000	61,000,000	1.00	Bonus issue	61,000,000
31 December 2003	3,960,000	64,960,000	1.00	Share issued in respect of acquisition of 20% equity interest in HPSB	64,960,000

Upon completion of the Public Issue as detailed in paragraph 2.2, the issued and fully paid-up share capital of HeveaBoard will be enlarged to RM80,000,000 comprising 80,000,000 ordinary shares of RM1.00 each.

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**11. ACCOUNTANTS' REPORT****4. RELEVANT FINANCIAL PERIOD**

The relevant financial period for the purpose of this report ("Relevant Financial Period") is as follows:-

<b>Company</b>	<b>Relevant Financial Period</b>
HeveaBoard	Financial years ended 31 December 1999, 2000, 2001, 2002 and 2003 and financial period ended 30 June 2004.
HPSB	Financial years ended 31 December 1999, 2000, 2001, 2002 and 2003 and financial period ended 30 June 2004.
HMSB	Financial years ended 31 December 1999, 2000, 2001, 2002 and 2003 and financial period ended 30 June 2004.
BWSB	Financial period from 20 July 2000 (date of incorporation) to 31 December 2001 and financial years ended 31 December 2002 and 2003 and financial period ended 30 June 2004.
HOSB	Financial years ended 31 December 1999, 2000, 2001, 2002 and 2003 and financial period ended 30 June 2004.

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**11. ACCOUNTANTS' REPORT****5. ACCOUNTING STANDARDS AND POLICIES****5.1 BASIS OF PREPARATION**

The financial statements of HeveaBoard and its subsidiaries ("HeveaBoard Group or the Group") are prepared under the historical cost convention and modified to include other bases of valuation as disclosed under significant accounting policies below. The financial statements comply with applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965.

**5.2. SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies adopted by the Group in the preparation of this report are as follows:-

**(a) Basis of Consolidation**

The consolidated financial statements include the financial statements of the Company and all its subsidiaries.

A subsidiary is defined as a company in which the Group has the power directly or indirectly to exercise control over the financial and operating policies so as to obtain benefits from its activities.

All subsidiaries are consolidated using the acquisition method of accounting. Under the acquisition method of accounting, the results of subsidiaries acquired or disposed of are included from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair values of the subsidiaries' net assets are determined and these values are reflected in the consolidated financial statements.

Intragroup transactions, balances and unrealised gains on transactions are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency of accounting policies with those of the Group.

**(b) Goodwill or Negative Goodwill on Consolidation**

Goodwill represents the excess of the fair value of the purchase consideration over the Group's share of the fair values of the identifiable net assets of subsidiaries at the date of acquisition. Negative goodwill represents the excess of the Group's share of the fair values of the identifiable net assets of the subsidiaries at the date of acquisition over the fair value of the purchase consideration.

Goodwill on consolidation is stated net of negative goodwill, and the net carrying amount of goodwill is amortised on a straight-line basis to write off the amount of the net goodwill over a period of ten years.

The carrying value of goodwill is reviewed annually, and is written down for impairment where it is considered necessary. The impairment value of goodwill is taken to the income statement.

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## 5.2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

## (c) Investments

- (i) Investments in shares in corporations, other than subsidiaries, associates and joint ventures, held for long-term purposes are stated at cost less allowance for permanent diminution in value.
- (ii) Investments in subsidiaries, associates and joint ventures are stated at cost in the balance sheet of the Company, and are reviewed for impairment at the end of the financial period if events or changes in circumstances indicate that their carrying values may not be recoverable.

## (d) Financial Instruments

Financial instruments are recognised in the balance sheet when the Group or the Company has become a party to the contractual provisions of the instruments.

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 instrument classified as a liability, are reported as expenses or income. Distributions to holders of financial instruments classified as equity are charged directly to equity.

Financial instruments are offset when the Group or the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

Financial instruments recognised in the balance sheet are disclosed in the individual policy statement associated with each item.

## (e) Property, Plant and Equipment

Property, plant and equipment, other than freehold land, are stated at cost less accumulated depreciation and impairment losses, if any.

Freehold land is stated at cost less impairment losses, if any, and is not depreciated. Depreciation or amortisation is calculated under the straight-line method to write off the cost of the assets over their estimated useful lives. The principal annual rates used for this purpose are:-

Long leasehold land	over the remaining lease period of 90 to 92 years
Short leasehold land	over the remaining lease period of 42 years
Buildings	2% to 5%
Plant, machinery and equipment	5% to 10%
Furniture and fittings	10%
Motor vehicles	20%

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Capital work-in-progress represents assets under construction, and which are not ready for commercial use at the balance sheet date. Capital work-in-progress is stated at cost, and will be transferred to the relevant category of long term assets and depreciated accordingly when the assets are completed and ready for commercial use. Cost of capital work-in-progress includes direct costs, related expenditure and interest cost on borrowings taken specifically to finance the construction or acquisition of the assets till the date that the assets are completed and put into use.

**(f) Impairment of Assets**

The carrying values of assets, other than those to which MASB 23 - Impairment of Assets does not apply, are reviewed at each balance sheet date 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.

An impairment loss is charged to the income statement immediately unless the asset is carried at its revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of a previously recognised revaluation surplus for the same asset.

In respect of assets other than goodwill, and when there is a change in the estimates used to determine the recoverable amount, a subsequent increase in the recoverable amount of an asset is treated as a 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 amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the income statement immediately, unless the asset is carried at its revalued amount. A reversal of an impairment loss on a revalued asset is credited directly to the revaluation surplus. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense in the income statement, a reversal of that impairment loss is recognised as income in the income statement.

**(g) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis, and comprises the cost of materials and incidentals incurred in bringing the inventories to their present location and condition. Cost of finished goods includes cost of materials, labour and an appropriate proportion of production overheads.

In arriving at net realisable value, due allowance is made for obsolete, slow-moving and defective inventories.

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**5.2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(h) Receivables**

Receivables are carried at anticipated realisable value. Bad debts are written off in the period in which they are identified. An estimate is made for doubtful debts based on a review of all outstanding amounts at the balance sheet date.

**(i) Payables**

Payables are stated at cost which is the fair value of the consideration to be paid in the future for goods and services received.

**(j) Assets under Hire Purchase**

Equipment acquired under hire purchase are capitalised in the financial statements and are depreciated in accordance with the policy set out in Note 5.2(e) above. Each hire purchase payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. Finance charges are allocated to the income statement over the periods of the respective hire purchase arrangements.

**(k) Interest-bearing Borrowings**

Interest-bearing bank loans and overdrafts are recorded at the amount of proceeds received, net of transaction costs.

Borrowing costs directly attributable to the acquisition of property, plant and equipment are capitalised as part of the cost of those assets, until such time as the assets are ready for their intended use or sale.

All other borrowing costs are charged to the income statement as an expense in the period in which they are incurred.

**(l) Equity Instruments**

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised as liabilities when declared before the balance sheet date. A dividend proposed or declared after the balance sheet date, but before the financial statements are authorised for issue, is not recognised as a liability at the balance sheet date but as an appropriation from retained earnings and treated as a separate component of equity. Upon the approval of the proposed dividend, it will be accounted for as a liability.

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## 5.2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

## (m) Taxation

Taxation for the period comprises current and deferred tax.

Current tax is the expected amount of income taxes payable in respect of the taxable profit for the period and is measured using the tax rates that have been enacted or substantially enacted at the balance sheet date.

Deferred tax liabilities are recognised for all taxable temporary differences other than those that arise from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on the tax rates that have been enacted or substantially enacted at the balance sheet date.

Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly to equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or negative goodwill. The carrying amounts of deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilised.

## (n) Employee Benefits

## (i) Short-Term Benefits

Wages, salaries, paid annual leave, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group and of the Company.

## (ii) Defined Contribution Plans

The Group's and the Company's contributions to defined contribution plans are charged to the income statement in the period to which they relate. Once the contributions have been paid, the Group and the Company have no further liabilities in respect of the defined contribution plans.

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**5.2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(o) Cash and Cash Equivalents**

Cash and cash equivalents comprise cash in hand, bank balances, demand deposits, deposits pledged with financial institutions, bank overdrafts and short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**(p) Foreign Currencies**

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

**(q) Revenue Recognition****(i) Sale of Goods**

Revenue is recognised upon delivery of goods and customers' acceptance and where applicable, net of returns and trade discounts.

**(ii) Interest Income**

Interest income is recognised on an accrual basis.

**(iii) Dividend Income**

Dividend income from investments is recognised when the right to receive payment is established.

**5.3 CONSISTENCY OF APPLICATION OF ACCOUNTING POLICIES**

There were no changes in the significant accounting policies adopted by the Group during the Relevant Financial Period except for the change in the accounting policy adopted by the Group with respect to deferred tax in compliance with MASB 25 - Income Taxes which became effective from 1 July 2002. However, the change in this accounting policy has no significant effect on the financial statements of the Group for the Relevant Financial Period.

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### **6. AUDITORS AND AUDIT REPORTS**

#### **6.1 AUDITORS**

We have acted as auditors for HeveaBoard and HPSB since the financial year ended 31 December 2002. Prior to the financial year ended 31 December 2002, the financial statements were audited by another firm of accountants. The financial statements of HMSB, BWSB and HOSB for the Relevant Financial Period were audited by another firm of accountants.

#### **6.2 AUDIT REPORTS**

The audited financial statements for HeveaBoard, HPSB, HMSB, BWSB and HOSB for the Relevant Financial Period were reported upon without any qualification.

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## 7. SUMMARISED INCOME STATEMENTS

## 7.1 PROFORMA CONSOLIDATED INCOME STATEMENTS OF HEVEABOARD GROUP

The summarised proforma consolidated income statements of HeveaBoard Group for the Relevant Financial Period have been prepared on the assumption that HeveaBoard Group had been in existence throughout the Relevant Financial Period. The proforma consolidated income statements are prepared for illustrative purposes only and should be read in conjunction with the notes hereto:-

	← Financial Year Ended 31 December ("FY") →					Financial Period from 1.1.2004 to
	1999	2000	2001	2002	2003	30.6.2004
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Turnover	50,221	53,111	51,660	79,762	106,334	70,240
Cost of sales	(37,083)	(34,899)	(35,305)	(54,667)	(77,779)	(56,280)
Gross profit	13,138	18,212	16,355	25,095	28,555	13,960
Other operating income	640	434	859	1,036	527	1,050
Administrative expenses	13,778	18,646	17,214	26,131	29,082	15,010
Selling and distribution expenses	(2,148)	(2,485)	(4,354)	(6,515)	(8,153)	(4,528)
Finance costs	(282)	(363)	(343)	(991)	(920)	(492)
Profit before taxation ("PBT")	(4,422)	(3,883)	(3,387)	(2,817)	(2,421)	(975)
Depreciation	6,926	11,915	9,130	15,808	17,588	9,015
Goodwill amortisation	4,018	3,660	4,637	5,236	5,754	3,273
Interest expense	483	483	483	501	501	284
Interest income	4,364	3,809	3,322	2,653	2,096	761
Earnings before interest, depreciation, tax and amortisation ("EBIDTA")	(472)	(323)	(333)	(359)	(9)	(3)
Less : Depreciation	15,319	19,544	17,239	23,839	25,930	13,330
Goodwill amortisation	(4,018)	(3,660)	(4,637)	(5,236)	(5,754)	(3,273)
Interest expense	(483)	(483)	(483)	(501)	(501)	(284)
Add : Interest income	(4,364)	(3,809)	(3,322)	(2,653)	(2,096)	(761)
PBT	472	323	333	359	9	3
Taxation	6,926	11,915	9,130	15,808	17,588	9,015
Profit after taxation ("PAT")	(1,868)	(4,001)	(3,283)	(3,143)	(3,069)	(1,709)
Weighted average number of ordinary shares of RM1 each in issue ('000)	5,058	7,914	5,847	12,665	14,519	7,306
Gross earnings per share ("EPS") (sen)	*56,000	*60,405	*61,000	*61,000	61,011	64,960
Net EPS (sen)	12.4	19.7	15.0	25.9	28.8	*13.9
	9.0	13.1	9.6	20.8	23.8	*11.2

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- \* - Assumed number of ordinary shares in issue, based on the existing paid-up capital before the Public Issue.
- # - Assumed weighted average number of ordinary shares in issue, after taking into account the Bonus Issue.
- ^ - The Gross EPS and Net EPS were computed by dividing the PBT and PAT respectively for the 6-month period ended 30 June 2004 by the weighted average number of ordinary shares in issue during the period. The Gross EPS and Net EPS computed were not annualised.

*Notes to the proforma consolidated income statements of HeveaBoard Group:-*

- (a) *The proforma consolidated income statements are presented for illustrative purposes only and are prepared based on the audited financial statements of the Company, HPSB, HMSB, BWSB and HOSB for the Relevant Financial Period. The proforma consolidated income statements are prepared on the basis that the acquisition of the entire issued and paid-up share capital of HPSB, HMSB, BWSB and HOSB had been in effect throughout the Relevant Financial Period.*
- (b) *The proforma consolidated income statements for the Relevant Financial Period have been prepared based on accounting policies consistent with those previously adopted in the preparation of the audited financial statements of the HeveaBoard Group.*
- (c) *The results of BWSB for the financial period ended 31 December 2001 have been time apportioned to be co-terminous with that of the Group.*
- (d) *The difference between the effective tax rate and the statutory tax rate is explained in the notes to the financial statements for each individual company.*
- (e) *There were no extraordinary or exceptional items during the Relevant Financial Period under review.*
- (f) *The proforma gross and net EPS for the financial years ended 2001 to 2003 and financial period ended 30 June 2004 are computed by dividing the PBT and PAT by the assumed weighted average number of ordinary shares in issue respectively, based on the existing issued and paid-up share capital of HeveaBoard before the Public Issue.*
- (g) *The proforma gross and net EPS for the financial years ended 1999 to 2000 is computed by dividing the PBT and PAT by the assumed weighted average number of ordinary shares in issue respectively, after taking into account the Bonus Issue.*
- (h) *All significant intra-group transactions are eliminated on consolidation and the consolidated results reflect external transactions only.*

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## 7.2 INCOME STATEMENTS OF HEVEABOARD

The summarised income statements of HeveaBoard based on its audited financial statements for the Relevant Financial Period are set out below:-

	← Financial Year Ended 31 December ("FY") →					Financial Period from 1.1.2004 to 30.6.2004 RM'000
	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	
Turnover	43,932	51,109	44,584	50,850	54,444	29,256
Cost of sales	(28,659)	(32,742)	(30,768)	(32,583)	(38,937)	(22,225)
Gross profit	15,273	18,367	13,816	18,267	15,507	7,031
Other operating income	640	434	840	4,731	354	2,020
	15,913	18,801	14,656	22,998	15,861	9,051
Administrative expenses	(2,106)	(2,878)	(2,606)	(3,362)	(3,031)	(1,863)
Selling and distribution expenses	(282)	(362)	(306)	(377)	(412)	(205)
Finance costs	(4,419)	(3,880)	(3,355)	(2,645)	(2,132)	(717)
PBT	9,106	11,681	8,389	16,614	10,286	6,266
Depreciation	3,606	3,660	3,773	3,900	3,959	2,112
Interest expense	4,364	3,805	3,300	2,585	1,981	663
Interest income	(472)	(323)	(332)	(321)	(2)	(3)
EBIDTA	16,604	18,823	15,130	22,778	16,224	9,038
Less : Depreciation	(3,606)	(3,660)	(3,773)	(3,900)	(3,959)	(2,112)
Interest expense	(4,364)	(3,805)	(3,300)	(2,585)	(1,981)	(663)
Add : Interest income	472	323	332	321	2	3
PBT	9,106	11,681	8,389	16,614	10,286	6,266
Taxation	(1,868)	(3,773)	(3,163)	(3,956)	(2,078)	(1,127)
PAT	7,238	7,908	5,226	12,658	8,208	5,139
Weighted average number of ordinary shares of RM1 each in issue ('000)	*56,000	*60,405	*61,000	*61,000	*61,000	64,960
Gross EPS (sen)	16.3	19.3	13.8	27.2	16.9	^9.6
Net EPS (sen)	12.9	13.1	8.6	20.8	13.5	^7.9

## Note:-

- \* - After adjustment for bonus issue.
- ^ - The Gross EPS and Net EPS were computed by dividing the PBT and PAT respectively for the 6-month period ended 30 June 2004 by the weighted average number of ordinary shares in issue during the period. The Gross EPS and Net EPS computed were not annualised.

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**11. ACCOUNTANTS' REPORT****7.2 INCOME STATEMENTS OF HEVEABOARD (CONT'D)**

*Notes to the income statements of HeveaBoard:-*

- (a) *HeveaBoard commenced its business operations on 1 August 1996 and is principally engaged in the business of manufacturing and trading of particleboards and wood related products.*
- (b) *Turnover for FY1999 and FY2000 increased by 13.6% and 16.3% respectively, mainly due to the increase in demand, higher average selling prices of particleboards and the commencement of the commercial production of E1 particleboards in FY1999. Gross profit margins improved by 3.3% and 1.1% in FY1999 and FY2000 respectively, due to lower average prices of rubberwood and improved productivity. Despite the increase in operating overheads, the higher gross profit was more than sufficient to absorb this increase, resulting in an increase in PBT by 87.6% and 28.3% in FY1999 and FY2000 respectively.*
- (c) *Turnover for FY2001 decreased by 12.8% mainly due to weak demand arising from the downturn in the global economy. In addition, average selling prices of particleboards decreased by 3.3% in FY2001 compared to FY2000. Coupled with the increase in the average glue (a major component of materials used for production) prices and lower production volume, the gross profit margin decreased by 4.9% in FY2001. Correspondingly, PBT decreased by 28.2%.*
- (d) *Turnover for FY2002 and FY2003 increased by 14.1% and 7.1% respectively, mainly due to the increase in demand, higher average selling prices of particleboards and commencement of the commercial production of Super E0 in FY2003. Gross profit margin improved by 4.9% in FY2002 mainly due to the reduction in the average glue prices coupled with better average selling prices. Higher productivity further helped to improve PBT. However for FY2003, despite the increase in turnover, the gross profit margin decreased by 7.4% compared to FY2002 mainly due to the increase in average rubberwood and glue prices. In FY2002, PBT improved as a result of higher productivity. However in FY2003, PBT decreased correspondingly as a result of the drop in gross profit margin.*
- (e) *Turnover for the financial period ended 30 June 2004 ("FP2004") increased slightly by 7.0% on an annualised basis compared to FY2003. This was mainly due to the increase in the average selling prices of particleboards by 7.4%. However, the increase in the average rubberwood and glue prices by 18% and 3%, respectively had resulted in the decrease in the gross profit margin by 4.5%. PBT improved by 21.8% on an annualised basis despite the decrease in gross profit. This was mainly due to the dividend received of RM1 million from HMSB, its subsidiary, and the waiver of RM1 million obtained on the prepayment of a term loan.*
- (f) *HeveaBoard was granted pioneer status tax incentive with 70% of its statutory income from pioneer activities being exempted from tax during the pioneer period from 1 August 1996 to 31 July 2001.*
- (g) *The taxation for FY1999 was due deferred taxation.*

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**11. ACCOUNTANTS' REPORT**

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**7.2 INCOME STATEMENTS OF HEVEABOARD (CONT'D)**

- (h) In FY2000 and FY2001, the effective tax rates of 32.3% and 37.7% were higher than the statutory tax rate of 28% due to an overprovision for taxation in respect of the FY2000 and FY2001. This overprovision was reversed in the FY2002.*
- (i) The effective tax rates for FY2002, FY2003 and FP2004 were lower than the statutory tax rate of 28% mainly due to the adjustment made for the reversal of the overprovision of income tax and deferred tax in respect of previous financial years. Discounting the effect of the reversal of overprovision of tax, the effective tax rates were higher than the statutory tax rate mainly due to certain expenses being disallowed for taxation purposes.*
- (j) There were no exceptional and extraordinary items during the Relevant Financial Period under review.*
- (k) The gross and net EPS are computed by dividing the PBT and PAT by the weighted average number of ordinary shares in issue respectively, for the Relevant Financial Period under review.*

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## 7.3 INCOME STATEMENTS OF HPSB

The summarised income statements of HPSB based on its audited financial statements for the Relevant Financial Period is set out below:-

	← Financial Year Ended 31 December ("FY") →					Financial Period from 1.1.2004 to 30.6.2004
	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	RM'000
Turnover	5,145	7,254	8,144	34,932	57,763	42,958
Cost of sales	(7,095)	(6,975)	(6,933)	(31,568)	(49,695)	(38,543)
Gross (loss)/profit	(1,950)	279	1,211	3,364	8,068	4,415
Other operating income	-	-	194	**1,117	1,211	685
	(1,950)	279	1,405	4,481	9,279	5,100
Administrative expenses	(57)	(111)	(678)	(1,323)	(1,572)	(1,133)
Selling and distribution expenses	#	#	(36)	(78)	(99)	(103)
Finance costs	-	(3)	(32)	(173)	(287)	(257)
(Loss)/Profit before taxation ("LBT")/PBT	(2,007)	165	659	2,907	7,321	3,607
Depreciation	412	517	864	1,332	1,758	1,142
Interest expense	-	3	21	67	113	97
Interest income	-	-	-	-	(7)	(1)
Loss before interest, depreciation, tax and amortisation ("LBIDTA")/EBIDTA	(1,595)	685	1,544	4,306	9,185	4,845
Less: Depreciation	(412)	(517)	(864)	(1,332)	(1,758)	(1,142)
Interest expense	-	(3)	(21)	(67)	(113)	(97)
Interest income	-	-	-	-	7	1
(LBT)/PBT	(2,007)	165	659	2,907	7,321	3,607
Taxation	-	-	-	(12)	(707)	(756)
Loss after taxation ("LAT")/PAT	(2,007)	165	659	2,895	6,614	2,851
Weighted average number of ordinary shares of RM1 each in issue	*44	*305	*3,589	*6,600	*8,988	9,900
Gross loss per share ("LPS")/EPS (RM)	(45.61)	0.54	0.18	0.44	0.81	^0.36
Net (LPS)/EPS (RM)	(45.61)	0.54	0.18	0.44	0.74	^0.29

## Notes:-

- \* - After adjustment for bonus issue
- \*\* - Other income comprised interest, rental and sundry income.
- # - Negligible, less than RM1,000.
- ^ - The Gross EPS and Net EPS were computed by dividing the PBT and PAT respectively for the 6-month period ended 30 June 2004 by the weighted average number of ordinary shares in issue during the period. The Gross EPS and Net EPS computed were not annualised.

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**11. ACCOUNTANTS' REPORT****7.3 INCOME STATEMENTS OF HPSB (CONT'D)**

*Notes to the income statements of HPSB:-*

- (a) *HPSB commenced its business operations on 19 November 1987 and is principally engaged in business as a logging contractor. From FY1999 to FY2000, HPSB was principally engaged in the trading of particleboards and other wood products. From October 2000 onwards, HPSB changed its business activities to that of manufacturing and trading of ready-to-assemble ("RTA") furniture.*
- (b) *Turnover for FY1999 increased by 16.6% mainly due to higher sales volume. Gross loss margin increased by 75.5% in FY1999 due to the difficult trading conditions coupled with price pressure on the sub-grade products.*
- (c) *Turnover in FY2000 increased by 41.0% mainly due to increase in sales volume of particleboards. Gross profit margin of 3.8% was recorded in FY2000 due to improved trading conditions. As a result, HPSB recorded a profit of RM165,000.*
- (d) *In FY2001, HPSB ceased to trade in particleboards. HPSB commenced the new activities of manufacturing of RTA products and the provision of lamination services. FY2000 and FY2001 are not directly comparable, due to the different business activities for the two financial years.*
- (e) *Turnover in FY2002 and FY2003 improved significantly by 329.0% and 65.4% respectively, mainly due to the success in the manufacturing and trading of the RTA products. Gross profit margin improved in the FY2003 due to economies of scale being achieved. As a result, PBT increased substantially.*
- (f) *Turnover for the financial period ended 30 June 2004 ("FP2004") increased by 48.7% on an annualised basis compared to FY2003. This was mainly due to the increase in demand of RTA products. PBT decreased slightly by 1.5% on an annualised basis mainly due to the lower gross profit margin.*
- (g) *HPSB was granted the pioneer status tax incentive with 70% of its statutory income from the pioneer activities being exempted from tax during the pioneer period from 2 January 2002 to 1 January 2007.*
- (h) *There was no tax charge for FY1999 due to the losses incurred. In FY2000 and FY2001, there was no tax charge due to the utilisation of capital allowances and unabsorbed business losses brought forward from previous financial years. In FY2002, the effective tax rate of 0.4% was lower than the statutory rate due to the utilisation of capital allowances and unabsorbed business losses brought forward from previous financial years. In FY2003 and FP2004, the effective tax rates of 9.7% and 21.0% were lower than the statutory rate, due to the Pioneer Status.*
- (i) *There were no exceptional and extraordinary items during the Relevant Financial Period under review.*
- (j) *The gross and net EPS are computed by dividing the PBT and PAT by the weighted average number of ordinary shares in issue respectively, for the Relevant Financial Period under review.*

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## 11. ACCOUNTANTS' REPORT



## 7.4 INCOME STATEMENTS OF HMSB

The summarised income statements of HMSB based on its audited financial statements for the Relevant Financial Period are set out below:-

	← Financial Year Ended 31 December ("FY") →					Financial Period from 1.1.2004 to 30.6.2004 RM'000
	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	
Turnover	6,216	9,201	4,432	7,536	10,228	4,575
Cost of sales	(5,582)	(8,362)	(4,169)	(6,897)	(9,472)	(4,070)
Gross profit	634	839	263	639	756	506
Other operating income	-	-	17	23	94	21
	633	839	280	662	850	526
Administrative and other operating expenses	(10)	(33)	(12) <sup>#</sup>	(285)	(98)	(128)
Finance costs	(4)	(2)	-	(1)	(2)	(1)
PBT	620	804	268	376	750	397
Depreciation	-	-	-	3	34	17
Interest expense	-	-	-	-	2	1
EBIDTA	620	804	268	379	786	415
Less: Depreciation	-	-	-	(3)	(34)	(17)
Interest expense	-	-	-	-	(2)	(1)
PBT	620	804	268	376	750	397
Taxation	-	(225)	(81)	(165)	211	(79)
PAT	620	579	187	211	539	318
Number of ordinary shares of RM1 each in issue (RM'000)	250	250	250	250	250	250
Gross EPS (RM)	2.48	3.22	1.07	1.50	3.00	^1.59
Net EPS (RM)	2.48	2.32	0.75	0.84	2.16	^1.27

Notes:-

<sup>#</sup> - Negligible, less than RM1,000.

<sup>^</sup> - The Gross EPS and Net EPS were computed by dividing the PBT and PAT respectively for the 6-month period ended 30 June 2004 by the weighted average number of ordinary shares in issue during the period. The Gross EPS and Net EPS computed were not annualised.

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**11. ACCOUNTANTS' REPORT****7.4 INCOME STATEMENTS OF HMSB (CONT'D)**

*Notes to the income statements of HMSB:-*

- (a) *HMSB recommenced its business operations on 28 September 1998 and is principally engaged in the trading of plain and laminated particleboards and other panel wood products.*
- (b) *Turnover in FY2000 increased by approximately 48% mainly due to HMSB's successful venture into the export market and the increase in domestic sales. Gross profit margin decreased marginally in FY2000 due to the increase in freight and handling charges and the increase in average costs of plainboard and other panel wood products respectively. However PBT improved substantially on the back of the significantly higher turnover.*
- (c) *Turnover in FY2001 fell by 51.8% as a result of the downturn in the local economy and the drop in selling prices of plainboard and other panel wood products. As a result, gross profit margin and PBT decreased by 3.2% and 66.7% respectively.*
- (d) *Turnover in FY2002 and FY2003 increased by approximately 70% and 40.6% respectively, due to the increase in demand and higher average selling prices of plainboard and other panel wood products. Gross profit margin remained fairly constant and PBT improved by 99.5% mainly due to the higher turnover.*
- (e) *Turnover for the financial period 30 June 2004 ("FP2004") decreased by 10.5% on an annualised basis mainly due to the decrease in export of other panel and wood products. However, gross profit margin and PBT improved by 3.7% and 5.9% respectively, on an annualised basis.*
- (f) *No provision for taxation was made for the profit in FY1999 as the amount of tax payable was waived, in accordance with the provisions of the Income Tax (Amendment) Act, 1999. In FY2000, the effective tax rate approximated the statutory tax rate of 28%. The effective tax rates of 30.2%, 43.9% and 28.1% recorded in FY2001, FY2002 and FY2003 respectively, were higher than the statutory tax rate of 28% due to certain expenses being disallowed for taxation purposes. The effective tax rate in FP2004 approximates the statutory tax rates of between 20% to 28%.*
- (g) *There were no exceptional and extraordinary items during the Relevant Financial Period under review.*
- (h) *The gross and net EPS are computed by dividing the PBT and PAT by the number of ordinary shares in issue respectively, for the Relevant Financial Period under review.*

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## 7.5 INCOME STATEMENTS OF BWSB

The summarised income statements of BWSB based on its audited financial statements for the Relevant Financial Period is set out below:-

	Period from	Financial Year Ended 31		Financial
	21 July 2000 to 31 December 2001 ("FP") RM'000	December ("FY") 2002 RM'000	2003 RM'000	Period From 1.1.2004 to 30.6.2004 RM'000
Turnover	5,129	12,165	17,463	9,545
Cost of sales	(4,250)	(10,147)	(14,135)	(7,947)
Gross profit	880	2,018	3,328	1,598
Other operating income	-	#	5	1
	880	2,018	3,333	1,599
Administrative and other operating expenses	(719)	(1,754)	(3,039)	(1,517)
Finance costs	(1)	(1)	(1)	(2)
PBT	160	263	293	80
Depreciation	#	3	3	2
Interest expense	#	#	#	#
EBIDTA	160	266	296	82
Less: Depreciation	#	(3)	(3)	(2)
Interest expense	#	#	#	#
PBT	160	263	293	80
Taxation	(43)	(74)	(74)	(27)
PAT	117	189	219	53
Weighted average number of ordinary shares of RM1 each in issue	^^	*459	600	600
Gross EPS (RM)	79,797	0.57	0.49	^0.13
Net EPS (RM)	58,297	0.41	0.37	^0.09

## Notes:-

- ^^ - Issued and fully paid-up share capital of RM2 comprising 2 ordinary shares of RM1.00 each.
- \* - Weighted average number of ordinary shares in issue.
- # - Negligible, less than RM1,000.
- ^ - The Gross EPS and Net EPS were computed by dividing the PBT and PAT respectively for the 6-month period ended 30 June 2004 by the weighted average number of ordinary shares in issue during the period. The Gross EPS and Net EPS computed were not annualised.

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**11. ACCOUNTANTS' REPORT****7.5 INCOME STATEMENTS OF BWSB (CONT'D)**

*Notes to the income statements of BWSB:-*

- (a) *BWSB commenced its business operations on 1 December 2000 and is principally engaged in the business of distribution, trading and marketing of ready- to-assemble ("RTA") furniture.*
- (b) *BWSB recorded a gross profit margin of 17.1% in FP2001.*
- (c) *Turnover in FY2002 and FY2003 increased by 143% and 43.6% respectively, mainly due to the increase in sales volume. Gross profit margin decreased by 0.5% in FY2002 due to sales rebates given to major superstore customers. However in FY2003, gross profit margin improved marginally by 2.5% mainly due to better margin from new models. Higher PBT in FY2002 and FY2003 were due to the higher turnover.*
- (d) *Turnover for the financial period 30 June 2004 ("FP2004") increased by 9.3% on an annualised basis mainly due to aggressive marketing activities. However, with higher average purchase cost of 15.9%, gross profit margin decreased by 2.3%. The lower gross profit margin resulted in a decrease in PBT by 45.4%.*
- (e) *In FP2001 and FY2002, the effective tax rates were 26.9% and 28.1% respectively. Effective tax rate of FP2001 was lower than the statutory tax rate of 28% mainly due to the utilisation of capital allowances. In FY2003, the effective tax rate of 25.3% was within the range of the statutory tax rates of 20% and 28%. In FP2004, the effective tax rate of 33.8% was higher than the statutory tax rate due to certain expenses being disallowed for taxation purposes.*
- (f) *There were no exceptional and extraordinary items during the Relevant Financial Period under review.*
- (g) *The gross and net EPS are computed by dividing the PBT and PAT by the weighted average number of ordinary shares in issue respectively, for the Relevant Financial Period under review.*

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## 7.6 INCOME STATEMENTS OF HOSB

The summarised income statements of HOSB based on its audited financial statements for the Relevant Financial Period are set out below:-

	← Financial Year Ended 31 December ("FY") →					Financial Period from 1.1.2004 to 30.6.2004 RM'000
	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	
Turnover	-	-	-	-	-	-
Cost of sales	-	-	-	-	-	-
Gross profit	-	-	-	-	-	-
Other operating income	-	-	1	-	-	-
Administrative and other operating expenses	-	-	1	-	-	-
Finance costs	-	-	(27)	(3)	(1,313)	(2)
LBT	-	-	(26)	(3)	(1,313)	(2)
Depreciation	-	-	-	-	-	-
Interest expense	-	-	-	-	-	-
LBIDTA	-	-	(26)	(3)	(1,313)	(2)
Less: Depreciation	-	-	-	-	-	-
Interest expense	-	-	-	-	-	-
LBT	-	-	(26)	(3)	(1,313)	(2)
Taxation	-	-	-	-	-	-
LAT	-	-	(26)	(3)	(1,313)	(2)
Weighted average number of ordinary shares of RM1 each in issue	<sup>^</sup>	*1,160	7,500	7,500	7,500	7,500
Gross LPS (RM)	N/A	N/A	**	**	(0.18)	**
Net LPS (RM)	N/A	N/A	**	**	(0.18)	**

- <sup>^</sup> - Issued and fully paid-up share capital of RM2 comprising 2 ordinary shares of RM1.00 each.  
<sup>\*</sup> - Weighted average number of ordinary shares in issue.  
<sup>#</sup> - Negligible, less than RM1,000.  
<sup>\*\*</sup> - Negligible, less than one cent per share.  
 N/A - Not Applicable

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### 7.6 INCOME STATEMENTS OF HOSB (CONT'D)

*Notes to the income statements of HOSB:-*

- (a) *HOSB was dormant for the financial years under review. The intended principal activities of HOSB are the manufacturing and trading of laminated oriented strand board, particleboards and other wood panel products.*
- (b) *All the expenses of HOSB for the FY1998 to FY2000 were capitalised as pre-operating expenses.*
- (c) *The losses incurred by HOSB for the FY2001 and FY2002 were mainly due to preliminary expenses, pre-operating expenses and professional fees.*
- (d) *In FY2003, the losses incurred were mainly due to the loss on the disposal of two (2) pieces of leasehold land and impairment loss on the freehold land.*
- (e) *In FP2004, the losses incurred were mainly due to operating expenditure incurred.*

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## 11. ACCOUNTANTS' REPORT



## 8. SUMMARISED BALANCE SHEETS

## 8.1 HeveaBoard

The summarised balance sheets of HeveaBoard based on its audited financial statements as at the end of the Relevant Financial Period are as follows:-

	← At 31 December →					At 30 June
	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000
Property, plant and equipment	66,486	64,494	62,144	58,915	60,377	59,174
Investment in subsidiaries	7,200	10,500	13,500	14,700	21,060	30,960
Other investment	15	15	95	95	95	95
	<u>73,701</u>	<u>75,009</u>	<u>75,739</u>	<u>73,710</u>	<u>81,532</u>	<u>90,229</u>
Current assets	27,698	33,430	35,290	42,505	27,274	20,393
Current liabilities	(30,864)	(30,045)	(32,395)	(31,073)	(23,288)	(29,862)
Net current (liabilities)/assets	(3,166)	3,385	2,895	11,432	3,986	(9,469)
	<u>70,535</u>	<u>78,394</u>	<u>78,634</u>	<u>85,142</u>	<u>85,518</u>	<u>80,760</u>
Financed by:-						
Share capital	30,000	50,833	50,833	50,833	64,960	64,960
Share premium	-	500	500	500	-	-
Retained profits	13,144	720	3,017	5,178	913	3,947
Dividend proposed	-	-	-	7,320	2,806	-
Shareholders' equity	43,144	52,053	54,350	63,831	68,679	68,907
Long term liabilities	27,391	26,341	24,284	21,311	16,839	11,853
	<u>70,535</u>	<u>78,394</u>	<u>78,634</u>	<u>85,142</u>	<u>85,518</u>	<u>80,760</u>
Net tangible assets ("NTA") per share (RM)	<u>1.44</u>	<u>1.02</u>	<u>1.07</u>	<u>1.26</u>	<u>1.06</u>	<u>1.06</u>

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## 8.2 HPSB

The summarised balance sheets of HPSB based on its audited financial statements as at the end of the Relevant Financial Period are as follows:

	← At 31 December →					At 30 June
	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000
Property, plant and equipment	3,294	4,612	8,313	13,654	17,677	26,294
Development expenditure	-	381	304	228	152	114
Intangible assets	2	-	-	-	-	-
	<u>3,296</u>	<u>4,993</u>	<u>8,617</u>	<u>13,882</u>	<u>17,829</u>	<u>26,408</u>
Current assets	3,798	2,580	5,960	12,522	20,050	29,136
Current liabilities	(12,384)	(9,738)	(12,484)	(21,169)	(21,661)	(26,154)
Net (current liabilities)/assets	<u>(8,586)</u>	<u>(7,158)</u>	<u>(6,524)</u>	<u>(8,647)</u>	<u>(1,611)</u>	<u>2,982</u>
	<u>(5,290)</u>	<u>(2,165)</u>	<u>2,093</u>	<u>5,235</u>	<u>16,218</u>	<u>29,390</u>
Financed by:-						
Share capital	40	3,000	6,000	6,000	9,900	19,800
(Accumulated losses) /Retained profit	(5,330)	(5,165)	(4,505)	(1,611)	4,104	6,955
Shareholders' equity	<u>(5,290)</u>	<u>(2,165)</u>	<u>1,495</u>	<u>4,389</u>	<u>14,004</u>	<u>26,755</u>
Long term liabilities	-	-	598	846	2,214	2,635
	<u>(5,290)</u>	<u>(2,165)</u>	<u>2,093</u>	<u>5,235</u>	<u>16,218</u>	<u>29,390</u>
Net tangible liabilities ("NTL")/NTA per share (RM)	<u>(132.3)</u>	<u>(0.72)</u>	<u>0.25</u>	<u>0.73</u>	<u>1.41</u>	<u>1.35</u>

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## 8.3 HMSB

The summarised balance sheets of HMSB based on its audited financial statements as at the end of the Relevant Financial Period are as follows:-

	← At 31 December →					At 30 June
	1999 RM'000	2000 RM'000	2001* RM'000	2002 RM'000	2003 RM'000	2004 RM'000
Plant and equipment	-	-	-	166	132	115
Current assets	3,325	3,056	3,061	746	935	465
Current liabilities	(1,145)	(297)	(115)	(491)	(106)	(22)
Net current assets	2,180	2,759	2,946	255	829	443
	<u>2,180</u>	<u>2,759</u>	<u>2,946</u>	<u>421</u>	<u>961</u>	<u>558</u>
Financed by:-						
Share capital	250	250	250	250	250	250
Retained profits	1,930	2,509	2,696	171	711	308
Shareholders' equity	2,180	2,759	2,946	421	961	558
Long term liabilities	-	-	-	-	-	-
	<u>2,180</u>	<u>2,759</u>	<u>2,946</u>	<u>421</u>	<u>961</u>	<u>558</u>
NTA per share (RM)	<u>8.72</u>	<u>11.04</u>	<u>11.78</u>	<u>1.68</u>	<u>3.84</u>	<u>2.23</u>

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## 11. ACCOUNTANTS' REPORT



## 8.4 BWSB

The summarised balance sheets of BWSB based on its audited financial statements as at the end of the Relevant Financial Period are as follows:

	← 2001 RM'000	At 31 December 2002 RM'000	2003 RM'000 →	At 30 June 2004 RM'000
Plant and equipment	25	24	32	32
Current assets	2,228	3,578	5,223	5,415
Current liabilities	(1,537)	(2,696)	(4,130)	(4,269)
Net current assets	691	882	1,093	1,146
	<u>716</u>	<u>906</u>	<u>1,125</u>	<u>1,178</u>
Financed by:-				
Share capital	#	600	600	600
Share application monies	600	-	-	-
Retained profit	116	306	525	578
Shareholders' equity	<u>716</u>	<u>906</u>	<u>1,125</u>	<u>1,178</u>
NTA per share (RM)	<u>358,296.50</u>	<u>1.51</u>	<u>1.88</u>	<u>1.96</u>

# - RM2

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## 11. ACCOUNTANTS' REPORT



## 8.5 HOSB

The summarised balance sheets of HOSB based on its audited financial statements as at the end of the Relevant Financial Period are as follows:-

	← At 31 December →					At 30 June
	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000
Land and improvement	6,026	6,281	6,515	6,586	1,391	1,400
Plant and equipment	-	2,063	4,781	4,781	4,769	4,796
Intangible assets	12	16	-	-	-	-
Deferred expenditure	291	-	-	-	-	-
	<u>6,329</u>	<u>8,360</u>	<u>11,296</u>	<u>11,367</u>	<u>6,160</u>	<u>6,196</u>
Current assets	#	74	70	158	21	#
Current liabilities	(329)	(934)	(3,892)	(4,055)	(23)	(41)
Net current liabilities	<u>(329)</u>	<u>(860)</u>	<u>(3,822)</u>	<u>(3,897)</u>	<u>(2)</u>	<u>(41)</u>
	<u>6,000</u>	<u>7,500</u>	<u>7,474</u>	<u>7,470</u>	<u>6,158</u>	<u>6,155</u>
Financed by:-						
Share capital	^	7,500	7,500	7,500	7,500	7,500
Share application monies	6,000	-	-	-	-	-
Accumulated loss	-	-	(26)	(30)	(1,342)	(1,345)
Shareholders' equity	6,000	7,500	7,474	7,470	6,158	6,155
Long term liabilities	-	-	-	-	-	-
	<u>6,000</u>	<u>7,500</u>	<u>7,474</u>	<u>7,470</u>	<u>6,158</u>	<u>6,155</u>
NTA per share (RM)	<u>2,994</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>0.82</u>	<u>0.82</u>

^ - RM2.

# - Negligible, less than RM1,000.

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**11. ACCOUNTANTS' REPORT****9. DIVIDENDS FOR THE RELEVANT FINANCIAL PERIOD**

HeveaBoard declared the following dividends during the Relevant Financial Period:-

Name	Financial year		Ordinary Net dividend RM
HeveaBoard	Financial year ended 31 December 2002	Interim tax-exempt dividend of 6.25 sen per ordinary share	3,177,063
	Financial year ended 31 December 2002	Special final dividend of 20 sen per ordinary share less 28% tax	7,319,952
	Financial year ended 31 December 2003	Final dividend of 6 sen per ordinary share less 28% tax	2,806,272
	Financial period ended 30 June 2004	Interim dividend of 4.5 sen per ordinary share less 28% tax	2,104,704
HMSB	Financial year ended 31 December 2002	Interim dividend of 1520 sen per ordinary share less 28% tax	2,736,000
	Financial period ended 30 June 2004	Interim dividend of 400 sen per ordinary share less 28% tax	720,000

HOSB, HPSB and BWSB have not paid or declared any dividend during the Relevant Financial Period.

On 15 September 2004, HeveaBoard declared a special dividend of 8 sen per ordinary share less 28% tax amounting to RM3,741,696 to its existing shareholders.

**10. PROFORMA STATEMENTS OF ASSETS AND LIABILITIES**

The proforma statements of assets and liabilities of HeveaBoard Group as at 30 June 2004 are prepared based on the audited financial statements of HeveaBoard, HPSB, HMSB, BWSB and HOSB as at 30 June 2004.

The Proforma Group's statement of assets and liabilities are provided for illustrative purposes only to show the effects of the Public Issue as set-out in paragraph 2.2, the utilisation of proceeds from the Public Issue and assuming the subsequent full exercise of the warrants.

The Proforma Group's statement of assets and liabilities should be read in conjunction with the accompanying notes thereon.

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## 10. PROFORMA STATEMENTS OF ASSETS AND LIABILITIES (CONT'D)

As at 30 June 2004	Notes	HeveaBoard Group (Audited) As At 30 June 2004 RM'000	Adjustment I After Pre-IPO Dividend RM'000	Proforma I After Adjustment I and Public Issue RM'000	Proforma II After Proforma I and Warrants RM'000
<b>NON-CURRENT ASSETS</b>					
Property, plant and equipment	10.1	92,444	92,444	109,524	109,524
Other investment	10.2	95	95	95	95
Goodwill on consolidation	10.3	3,128	3,128	3,128	3,128
		<u>95,667</u>	<u>95,667</u>	<u>112,747</u>	<u>112,747</u>
<b>CURRENT ASSETS</b>					
Inventories for resale	10.4	21,347	21,347	21,347	21,347
Trade receivables	10.5	16,638	16,638	16,638	16,638
Other receivables, deposits and prepayments		4,793	4,793	4,793	4,793
Tax refundable		61	61	61	61
Cash and bank balances		728	728	10,728	90,728
Total current assets		<u>43,567</u>	<u>43,567</u>	<u>53,567</u>	<u>133,567</u>
<b>CURRENT LIABILITIES</b>					
Trade payables	10.6	13,846	13,846	13,846	13,846
Other payables and accruals		15,314	19,056	19,056	19,056
Amount owing to related parties	10.7	1,589	1,589	1,589	1,589
Short term borrowings	10.8	7,881	7,881	7,881	7,881
Bank overdrafts	10.9	8,060	8,060	8,060	8,060
Provision for taxation		1,983	1,983	1,983	1,983
Total current liabilities		<u>48,673</u>	<u>52,415</u>	<u>52,415</u>	<u>52,415</u>
Net current (liabilities)/assets		<u>(5,106)</u>	<u>(8,848)</u>	<u>1,152</u>	<u>81,152</u>
		<u>90,561</u>	<u>86,819</u>	<u>113,899</u>	<u>193,899</u>
<b>FINANCED BY:-</b>					
Share capital	10.10	64,960	64,960	80,000	120,000
Share premium	10.11	-	-	12,040	52,040
Retained profits	10.12	11,112	7,370	7,370	7,370
Shareholders' equity		<u>76,072</u>	<u>72,330</u>	<u>99,410</u>	<u>179,410</u>
<b>NON-CURRENT LIABILITIES</b>					
Hire purchase payables	10.13	1,960	1,960	1,960	1,960
Deferred taxation	10.14	12,529	12,529	12,529	12,529
		<u>90,561</u>	<u>86,819</u>	<u>113,899</u>	<u>193,899</u>
Number of ordinary shares in issue ('000) of RM1 each		<u>64,960</u>	<u>64,960</u>	<u>80,000</u>	<u>120,000</u>
NTA per share (RM)		<u>1.12</u>	<u>1.07</u>	<u>1.20</u>	<u>1.47</u>

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**11. ACCOUNTANTS' REPORT****10. PROFORMA STATEMENTS OF ASSETS AND LIABILITIES (CONT'D)**

*Notes to the Proforma Statements of Assets and Liabilities:-*

**10.1 PROPERTY, PLANT AND EQUIPMENT**

	Cost RM'000	Accumulated Depreciation RM'000	Net Book Value RM'000
Freehold land	4,694	-	4,694
Short leasehold land	88	-	88
Long leasehold land	7,753	(22)	7,731
Buildings	18,173	(1,832)	16,341
Plant, machinery and equipment	90,259	(31,970)	58,289
Furniture and fittings	1,409	(392)	1,017
Motor vehicles	4,096	(1,367)	2,729
Capital work-in-progress	1,555	-	1,555
Audited as at 30 June 2004	128,027	(35,583)	92,444
Capital expenditure from the Public Issue proceeds <sup>(a)</sup>	17,080	-	17,080
Per Proforma Group	145,107	(35,583)	109,524

The carrying value of plant and equipment acquired under hire purchase terms are as follows:-

	RM'000
Plant and equipment	4,345
Motor vehicles	2,472

<sup>(a)</sup> The total machinery cost for the second manufacturing line is approximately RM181 million where HeveaBoard is required to pay a 15% downpayment of approximately RM27.10 million. A 5% downpayment was paid on 6 October 2004. In respect of the remaining 10%, HeveaBoard intends to utilise approximately RM17.08 million of the listing proceeds for the settlement of the same.

**10.2 OTHER INVESTMENT**

	RM'000
Quoted shares in Malaysia, at cost	80
Club membership, at cost	15
	95
Shares quoted in Malaysia, at market value	68

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## 11. ACCOUNTANTS' REPORT



<b>10. PROFORMA STATEMENTS OF ASSETS AND LIABILITIES (CONT'D)</b>	
<b>10.3 GOODWILL ON CONSOLIDATION</b>	<b>RM'000</b>
Negative goodwill	(670)
Goodwill arising on consolidation	5,855
At 30 June	<u>5,185</u>
Accumulated amortisation	
At 1 January	(1,773)
Amortisation during the financial period	(284)
At 30 June	<u>(2,057)</u>
	<u>3,128</u>
	<u><u>3,128</u></u>
<b>10.4 INVENTORIES FOR RESALE</b>	<b>RM'000</b>
At Cost:-	
Raw materials	9,326
Spare parts and consumables	2,564
Work in progress	1,441
Finished goods	8,016
	<u>21,347</u>
	<u><u>21,347</u></u>

There were no inventories stated at net realisable value at the balance sheet date.

<b>10.5 TRADE RECEIVABLES</b>	<b>RM'000</b>
Gross trade receivables	17,121
Allowance for doubtful debts	(483)
Net trade receivables	<u>16,638</u>
	<u><u>16,638</u></u>

The Group's normal credit terms of trade receivables range from 30 to 90 days. Other credit terms are assessed and approved on a case-by-case basis.

The foreign currency exposure profile of trade receivables is as follows:-

	<b>RM'000</b>
United States Dollar	<u>6,735</u>
	<u><u>6,735</u></u>

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**11. ACCOUNTANTS' REPORT****10. PROFORMA STATEMENTS OF ASSETS AND LIABILITIES (CONT'D)****10.6 TRADE PAYABLES**

The Group's normal credit terms of trade payables range from 30 to 90 days.

The foreign currency exposure profile of trade payables is as follows:-

	<b>RM'000</b>
United States Dollar	1,646

**10.7 AMOUNT OWING TO RELATED PARTIES**

Related parties refer to a substantial corporate shareholder of the Company, a company in which a director has a financial interest and a company which has a common director with the Company.

These amounts owing are unsecured, interest-free and not subject to fixed terms of repayment.

**10.8 SHORT TERM BORROWINGS**

	<b>RM'000</b>
Bankers' acceptances	5,990
Hire purchase payables (Note 10.13)	1,891
	<u>7,881</u>

The weighted average interest rate at the balance sheet date for bankers' acceptances was 5.2% per annum.

The bankers' acceptances are secured by way of:-

- (i) fixed and floating charges over all the property, plant and equipment of the Group and of the Company;
- (ii) fixed charges over certain properties of a substantial corporate shareholder; and
- (iii) a corporate guarantee from a substantial corporate shareholder.

**10.9 BANK OVERDRAFTS**

The bank overdrafts of the Group bore interest at 8.0% per annum and were secured in the same manner as the bankers' acceptances as disclosed in Note 10.8.

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## 11. ACCOUNTANTS' REPORT



## 10. PROFORMA STATEMENTS OF ASSETS AND LIABILITIES (CONT'D)

## 10.10 SHARE CAPITAL

Authorised:- RM'000

Ordinary shares of RM1 each 500,000

Issued and Fully Paid-up Share Capital:-

Ordinary shares of RM1 each

	<i>Number of Ordinary Shares</i>	<i>Ordinary Shares RM'000</i>
As at 30 June 2004	64,960	64,960
Public Issue	15,040	15,040
Per Proforma I	80,000	80,000
Exercise of Warrants	40,000	40,000
Per Proforma II	120,000	120,000

## 10.11 SHARE PREMIUM

The estimated listing expenses of RM3 million have been debited against the share premium account. The movements in the share premium account are as follows:-

	RM'000
As at 30 June 2004	-
Premium arising from the Public Issue	15,040
Estimated listing expenses	(3,000)
As per Proforma I	12,040
Exercise of Warrants	40,000
As per Proforma II	52,040

## 10.12 RETAINED PROFITS

	RM'000
As at 30 June 2004	11,112
Special dividend of 8 sen per ordinary share less 28% tax	(3,742)
Per Proforma Group	7,370

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**11. ACCOUNTANTS' REPORT****10. PROFORMA STATEMENTS OF ASSETS AND LIABILITIES (CONT'D)****10.13 HIRE PURCHASE PAYABLES**

	<b>RM'000</b>
Future minimum hire purchase payments:	
- not later than one year	2,100
- later than one year and not later than five years	2,222
	<u>4,322</u>
Future finance charges	(471)
	<u>3,851</u>
Present value of hire purchase payables	<u><u>3,851</u></u>
Current:	
- not later than one year (Note 10.8)	1,891
Non-current:	
- later than one year but not later than five years	1,960
	<u>3,851</u>

**10.14 DEFERRED TAXATION**

The deferred taxation relates to temporary differences between depreciation and capital allowances on qualifying cost of property, plant and equipment.

The components of deferred tax asset and liability are as follow:-

	<b>RM'000</b>
Deferred tax liability:-	
Accelerated capital allowances	13,198
Deferred tax asset:-	
Unutilised tax losses	(669)
	<u>12,529</u>

**10.15 CAPITAL COMMITMENTS**

	<b>RM'000</b>
Approved and contracted for	<u>171,684</u>
Approved but not contracted for	<u>36,200</u>

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## 11. ACCOUNTANTS' REPORT



## 11. Consolidated Cash Flow Statement

The consolidated cash flow statement of HeveaBoard Group set out below is based on the audited consolidated financial statements of HeveaBoard for the financial period from 1 January 2004 to 30 June 2004.

	Notes	RM'000
<b>Cash Flows From Operating Activities</b>		
Profit before taxation		9,015
Adjustments for:-		
Allowance for doubtful debts		108
Amortisation of goodwill on consolidation		284
Bad debts written off		9
Depreciation of property, plant and equipment		3,273
Bad debts recovered		(1)
Dividend income		(2)
Waiver of outstanding amount by a financial institution		(1,000)
Interest expense		761
Interest income		(3)
		<hr/>
Operating profit before working capital changes		12,444
Increase in inventories		(7,496)
Increase in trade and other receivables		(1,414)
Increase in trade and other payables		5,201
		<hr/>
<b>Cash From Operations</b>		8,735
Interest paid		(761)
Income tax paid		(1,547)
		<hr/>
<b>Net Cash From Operating Activities</b>		6,427
<b>Cash Flows For Investing Activities</b>		
Dividend received		2
Interest received		3
Purchase of property, plant and equipment	11.1	(5,833)
		<hr/>
<b>Net Cash For Investing Activities</b>		(5,828)
<b>Cash Flows For Financing Activities</b>		
Dividend paid		(456)
Net repayment to related parties		(3,199)
Net drawdown of bankers' acceptances		393
Repayment of hire purchase obligations		(934)
Repayment of term loans		(7,000)
		<hr/>
<b>Net Cash For Financing Activities</b>		(11,196)
		<hr/>
<b>Net Decrease In Cash And Cash Equivalents</b>		(10,597)
<b>Cash And Cash Equivalents At Beginning</b>		3,265
<b>Of The Financial Period</b>		<hr/>
		<hr/>
<b>Cash And Cash Equivalents At End</b>		(7,332)
<b>Of The Financial Period</b>	11.2	<hr/> <hr/>

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**11. ACCOUNTANTS' REPORT****11. CONSOLIDATED CASH FLOW STATEMENT (CONT'D)****11.1 PURCHASE OF PROPERTY, PLANT AND EQUIPMENT**

	<b>RM'000</b>
Cost of property, plant and equipment purchased	10,708
Amount financed through hire purchase	(949)
Amount included as other payables	(3,926)
Cash disbursed for the purchase of plant, property and equipment	<u>5,833</u>

**11.2 ANALYSIS OF CASH AND CASH EQUIVALENTS**

	<b>RM'000</b>
Cash and bank balances	728
Bank overdrafts	(8,060)
	<u>(7,332)</u>

**12. NET TANGIBLE ASSETS PER ORDINARY SHARE**

The net tangible assets cover of HeveaBoard based on the Proforma Group's statements of assets and liabilities as at 30 June 2004 as set out in Paragraph 10 above is illustrated below:-

	<b>RM'000</b>
Shareholders' equity before the Pre-IPO dividend, Public Issue and exercise of Warrants	76,072
Less: Pre-IPO dividend	(3,742)
Goodwill on consolidation	(3,128)
Net tangible assets after the Pre-IPO dividend but before Public Issue and the exercise of the Warrants (Adjustment I)	<u>69,202</u>
Increase in net tangible assets arising from the Public Issue	30,080
Less: Estimated listing expenses	(3,000)
Net tangible assets after the Public Issue but before the exercise of the Warrants (Proforma I)	<u>96,282</u>
Increase in net tangible assets arising from the exercise of the Warrants	80,000
Proforma Net Tangible Assets (Proforma II)	<u>176,282</u>

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**11. ACCOUNTANTS' REPORT****12. NET TANGIBLE ASSETS PER ORDINARY SHARE (CONT'D)**

Number of ordinary shares of RM1.00 each in HeveaBoard that are in issue:-

	<b>Number of ordinary shares '000</b>
Existing ordinary shares in issue	64,960
Additional shares to be issued pursuant to the Public Issue	<u>15,040</u>
Enlarged share capital after the Public Issue but before the exercise of Warrants (Proforma I)	80,000
Additional shares to be issued pursuant to the exercise of the Warrants	<u>40,000</u>
Enlarged share capital after the Public Issue and exercise of the Warrants (Proforma II)	<u><u>120,000</u></u>

On the basis of the enlarged issued and paid-up share capital of 120,000,000 ordinary shares of RM1.00 each in HeveaBoard, the Group's net tangible assets backing per ordinary share of HeveaBoard is as follows:-

- Per Proforma I, before the exercise of warrants	<u>RM 1.20</u>
- Per Proforma II, after the exercise of warrants	<u>1.47</u>

**13. SUBSEQUENT EVENTS**

There were no significant subsequent events between the date of the last financial statements used in the preparation of this Report and the date of this Report which will affect materially the content of this report.

**14. AUDITED FINANCIAL STATEMENTS**

As of the date of this report, no audited financial statements have been prepared in respect of any period subsequent to 30 June 2004 for the HeveaBoard Group.

Yours faithfully

**Horwath**  
Firm No : AF 1018  
Chartered Accountants

**Onn Kien Hoe**  
Approval No : 1772/11/06 (J/PH)  
Partner

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