

13. ACCOUNTANTS' REPORT (Cont'd)

MOORE STEPHENS
 CHARTERED ACCOUNTANTS
 (FIRM NO: AF.0282)

6. CNIS

| | < -----Financial Years Ended 30 June ----- > | | | | 6-month Financial Period Ended 31 December 2003 | Financial Year Ended 31 December 2004 |
|-----------------------------|--|----------------|----------------|----------------|--|---|
| | 2000 RM'000 | 2001 RM'000 | 2002 RM'000 | 2003 RM'000 | RM'000 | RM'000 |
| Operating revenue | 1,152 | 243 | 1,199 | 1,274 | 440 | 3,435 |
| Cost of sales | (1,086) | (192) | (204) | (111) | (44) | (1,839) |
| Gross profit | 66 | 51 | 995 | 1,163 | 396 | 1,596 |
| Other operating revenue | - | 10 | 11 | 396 | 261 | 444 |
| Distribution Costs | - | - | (3) | (2) | 1 | (9) |
| Administrative costs | (68) | (183) | (1,185) | (1,745) | (846) | (2,331) |
| Other operating costs | - | - | (3) | - | - | - |
| | (68) | (183) | (1,191) | (1,747) | (845) | (2,340) |
| Loss from operations | (2) | (122) | (185) | (188) | (188) | (300) |
| Finance costs | - | - | - | (257) | (162) | (425) |
| Loss before taxation | (2) | (122) | (185) | (445) | (350) | (725) |
| Taxation | - | - | - | - | - | - |
| Loss after taxation | (2) | (122) | (185) | (445) | (350) | (725) |

Loss before taxation is analysed as follows: -

| | | | | | | |
|--|------------|-------------|--------|--------|------------|--------|
| (Loss)/Profit before depreciation and interest expense | (2) | (93) | (150) | 12 | (79) | (66) |
| Depreciation | - | (29) | (35) | (200) | (109) | (234) |
| Interest expense | - | - | - | (257) | (162) | (425) |
| Loss before taxation | (2) | (122) | (185) | (445) | (350) | (725) |
| Weighted average number of ordinary shares in issue ('000) | (1) | (1) | (2) 84 | 100 | 100 | 100 |
| Gross loss per share (RM) | (1,000.00) | (61,000.00) | (2.20) | (4.45) | (3) (3.50) | (7.25) |
| Net loss per share (RM) | (1,000.00) | (61,000.00) | (2.20) | (4.45) | (3) (3.50) | (7.25) |
| (LBT) Margin (%) | (0.2) | (50.2) | (15.4) | (35.0) | (79.5) | (21.1) |
| Effective tax rate (%) | - | - | - | - | - | - |
| Gross dividend rate (%) | - | - | - | - | - | - |

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- (1) This represents two (2) ordinary shares of S\$1.00 each.
- (2) Number of shares has been pro-rated on time basis to account for allotment of 99,998 new ordinary shares of S\$1.00 each at par for cash on 30 August 2001.
- (3) On the annualised basis, both the gross loss per share and the net loss per share are RM7.00.

Notes: -

- (a) Figures for the financial years ended 30 June 2000, 2001, 2002, 2003, 6-month financial period ended 31 December 2003 and financial year ended 31 December 2004 are translated from the audited financial statements denominated in Singapore Dollars using the average rate prevailing in those financial years/period of RM2.1992:S\$1.00, RM2.1241:S\$1.00, RM2.1111:S\$1.00, RM2.1636:S\$1.00, RM2.1899:S\$1.00 and RM2.2776:S\$1.00 respectively.
- (b) The expenses in the audited profit and loss accounts of CNIS for the financial years ended 30 June 2000 and 2001 have been re-presented in accordance with their function within the enterprise so as to conform with the presentation of the audited profit and loss accounts of CNIS for the latest financial year ended 31 December 2004.
- (c) Where figures for an item in the audited income statement had been reclassified when presented as comparative for the following year's audited income statement, the reclassified figures are used for the preparation of the above income statements.
- (d) There was no extraordinary item or exceptional item as defined in FRS 108 for all the financial years/period under review.
- (e) CNIS commenced operations at end of March 1999. The total operating revenue of RM1.152 million of CNIS for the financial year ended 30 June 2000, in relative, is lower as compared to the total operating revenue of RM0.916 million for the financial year ended 30 June 1999 which has only three (3) months of operations mainly due to lower orders from the existing customers.

The decrease in total operating revenue for the financial year ended 30 June 2001 as compared to the financial year ended 30 June 2000 was mainly due to cessation of business as importer and exporter of food products and the commencement of business as commission agent for multi-level marketing of CNIE's healthcare and consumer products.

The significant increase in total operating revenue for the financial year ended 30 June 2002 as compared to the financial year ended 30 June 2001 was mainly due to full year multi-level marketing operations coupled with aggressive marketing which resulted in an increase in commission revenue from CNIE.

The increase in total operating revenue for the financial year ended 30 June 2003 as compared to the financial year ended 30 June 2002 was mainly due to the continued increase in commission revenue from CNIE as a result of higher sales of CNIE's healthcare and consumer products.

The decrease in annualised total operating revenue of RM0.880 million for the 6-month financial period ended 31 December 2003 as compared to the financial year ended 30 June 2003 was mainly due to a decrease in commission revenue from CNIE following lower sales of CNIE's healthcare and consumer products during the period.

The significant increase in total operating revenue for the financial year ended 31 December 2004 as compared to the annualised total operating revenue of RM0.880 million for the 6-month financial period ended 31 December 2003 was mainly due to a change in activities from being a commission agent of CNIE into multi-level marketing of healthcare and consumer products in the last quarter of the financial year. As a result, sales revenue from the multi-level marketing activities were reflected in the total operating revenue of CNIS.

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- (f) *The LBT Margin for the financial year ended 30 June 2000 was mainly due to insufficient operating revenue and gross profit to absorb the increase in administrative staff costs.*

The significant increase in LBT Margin for the financial year ended 30 June 2001 as compared to the financial year ended 30 June 2000 was mainly due to higher administrative costs incurred on setting up the multi-level marketing operations.

The decrease in LBT Margin for the financial year ended 30 June 2002 as compared to the financial year ended 30 June 2001 was mainly due to insufficient commission revenue to absorb the higher fixed administrative costs incurred on full year multi-level marketing operations.

The increase in LBT Margin for the financial year ended 30 June 2003 as compared to the financial year ended 30 June 2002 was mainly due to incidental expenses incurred on the acquisition of a leasehold property.

The increase in LBT Margin for the 6-month financial period ended 31 December 2003 as compared to the financial year ended 30 June 2003 was mainly due to the decrease in commission revenue.

The LBT Margin for the financial year ended 31 December 2004 was lower as compared to the 6-month financial period ended 31 December 2003 mainly due to the dilution of LBT Margin arising from higher operating revenue with the inclusion of multi-level marketing sales revenue.

- (g) *There was no provision for taxation in view of losses suffered during the financial years/period under review.*

- (h) *No dividend has been declared or paid by CNIS during the financial years/period under review.*

- (i) *The gross loss per share is computed based on loss before taxation divided by the weighted average number of ordinary shares in issue during the financial years/period.*

The net loss per share is computed based on loss after taxation divided by the weighted average number of ordinary shares in issue during the financial years/period.

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H. BALANCE SHEETS

We set out below the balance sheets of the companies in the CNI Group prepared based on their respective company level audited balance sheets for the financial years/period from 2000 to 2004. The balance sheets were not significantly affected by transactions and balances between the corporations to which they relate, except to the extent stated in this report. The proforma consolidated balance sheet of CNI Group has only been presented by way of proforma statement of assets and liabilities as of 31 December 2004, as shown in paragraph I, based on the latest audited financial statements of CNI as at 31 December 2004. It is impractical to present the proforma consolidated balance sheets for the past four (4) financial years as the current structure of the CNI Group for the flotation scheme had only been restructured in the financial year ended 30 June 2003.

1. CNI - company level

| | <----- As At 30 June -----> | | | | < As At 31 December > | |
|--|-----------------------------|---------|---------|--------|-----------------------|--------|
| | 2000 | 2001 | 2002 | 2003 | 2003 | 2004 |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Non-Current Assets | | | | | | |
| Property, plant and equipment | 35 | 15 | 13 | 11 | 10 | 9 |
| Investment properties | 10,724 | 7,806 | 7,806 | 7,806 | 7,806 | 8,356 |
| Investment in subsidiary companies | 3,487 | 3,487 | 3,495 | 6,783 | 6,783 | 56,684 |
| Other investments | 1,224 | 1,245 | 1,219 | - | - | - |
| | 15,470 | 12,553 | 12,533 | 14,600 | 14,599 | 65,049 |
| Current Assets | | | | | | |
| Inventories | 13 | 12 | 377 | - | - | - |
| Trade receivables | - | - | 66 | 20 | 45 | 90 |
| Other receivables, deposits and prepayment | 603 | 2,036 | 439 | 145 | 433 | 926 |
| Tax assets | ⁽¹⁾ 86 | 86 | 411 | 145 | 51 | 48 |
| Amount owing by subsidiary companies | 2,751 | 3,094 | 33,311 | 1 | 1,152 | 1,213 |
| Dividends receivables | - | - | - | 8,962 | 19,694 | 43,439 |
| Cash and bank balances | - | 68 | 4 | 210 | - | 138 |
| | ⁽¹⁾ 3,453 | 5,296 | 34,608 | 9,483 | 21,375 | 45,854 |
| Less: Current Liabilities | | | | | | |
| Other payables and accruals | 101 | 92 | 85 | 92 | 190 | 1,627 |
| Amount owing to directors | 707 | 2,793 | 20 | - | - | - |
| Amount owing to subsidiary companies | 10,028 | 2,851 | - | 2,045 | - | - |
| Dividend payable | - | - | 37,584 | 5,760 | 19,553 | 42,332 |
| Bank overdrafts – secured | 1,605 | 2,579 | 2,277 | - | 23 | - |
| Term loans – secured | 565 | 593 | - | - | - | - |
| | ⁽¹⁾ 13,006 | 8,908 | 39,966 | 7,897 | 19,766 | 43,959 |
| Net Current (Liabilities)/Assets | (9,553) | (3,612) | (5,358) | 1,586 | 1,609 | 1,895 |
| | 5,917 | 8,941 | 7,175 | 16,186 | 16,208 | 66,944 |

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| | < ----- As At 30 June ----- > | | | | < As At 31 December > | |
|--------------------------------|-------------------------------|----------------|----------------|----------------|-----------------------|----------------|
| | 2000 RM'000 | 2001 RM'000 | 2002 RM'000 | 2003 RM'000 | 2003 RM'000 | 2004 RM'000 |
| Capital And Reserve | | | | | | |
| Share capital | 2,400 | 2,400 | 2,400 | 2,697 | 2,697 | 2,697 |
| Share premium | - | - | - | 5,705 | 5,705 | 5,705 |
| Investment revaluation reserve | - | - | - | - | - | 49,901 |
| Retained profits | 951 | 4,557 | 4,775 | 7,784 | 7,806 | 8,641 |
| Shareholders' Equity | 3,351 | 6,957 | 7,175 | 16,186 | 16,208 | 66,944 |
| Non-Current Liabilities | | | | | | |
| Term loans – secured | 2,566 | 1,984 | - | - | - | - |
| | 5,917 | 8,941 | 7,175 | 16,186 | 16,208 | 66,944 |

⁽¹⁾ The debit balance of the taxation as shown in the current liabilities in the audited balance sheet as at 30 June 2000, have been reclassified into tax assets in order to conform with the presentation of the latest audited balance sheet as at 31 December 2004. The net effects of these reclassifications are as follows: -

| | <i>As At 30 June 2000 RM'000</i> |
|--|--|
| Tax assets | |
| <i>As per audited financial statements</i> | - |
| <i>Add: reclassification</i> | <u>86</u> |
| <i>As adjusted</i> | <u>86</u> |
| Current assets | |
| <i>As per audited financial statements</i> | 3,367 |
| <i>Add: reclassification</i> | <u>86</u> |
| <i>As adjusted</i> | <u>3,453</u> |
| Current liabilities | |
| <i>As per audited financial statements</i> | 12,920 |
| <i>Add: reclassification</i> | <u>86</u> |
| <i>As adjusted</i> | <u>13,006</u> |

Notes: -

- (a) Where the figures for an item in the audited balance sheet had been reclassified when presented as comparative for the following year's audited balance sheet, the reclassified figures are used for the preparation of the above balance sheet.
- (b) The audited balance sheet as at 31 December 2004 incorporated revaluation of the investment in subsidiary companies pursuant to the Incorporation of Revaluation Surplus referred to in paragraph B (i). The revaluation was based on the net tangible assets of the subsidiary companies as at 31 December 2004.

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2. CNIE

| | <----- As At 30 June -----> | | | | < As At 31 December > | |
|---|-----------------------------|-----------------------|----------------|----------------|-----------------------|----------------|
| | 2000 RM'000 | 2001 RM'000 | 2002 RM'000 | 2003 RM'000 | 2003 RM'000 | 2004 RM'000 |
| Non-Current Assets | | | | | | |
| Property, plant and equipment | 29,115 | 27,541 | 27,599 | 28,258 | 27,947 | 33,338 |
| Capital work in progress | - | - | - | 120 | 1,883 | - |
| Investment in subsidiary companies | - | - | 207 | 207 | 207 | 207 |
| Deferred tax asset | - | - | - | 1,343 | 1,604 | 1,726 |
| Amount owing by a subsidiary company | - | - | - | - | - | 8,836 |
| | 29,115 | 27,541 | 27,806 | 29,928 | 31,641 | 44,107 |
| Current Assets | | | | | | |
| Inventories | 8,758 | 10,965 | 13,707 | 17,046 | 23,546 | 28,462 |
| Trade receivables | 1,393 | 1,498 | 3,262 | 5,677 | 8,471 | 5,060 |
| Other receivables, deposits and prepayments | 9,699 | 5,543 | 11,642 | 9,493 | 4,123 | 3,783 |
| Amount owing by holding company | 10,028 | 1,871 | - | 2,045 | - | - |
| Amount owing by a subsidiary company | - | - | - | 18 | - | 251 |
| Amount owing by related companies | - | - | 1,442 | 746 | 55 | 2,345 |
| Cash deposits with licensed banks | 459 | 462 | 10,912 | 12,114 | 27,323 | 30,610 |
| Cash and bank balances | 1,323 | 2,610 | 5,858 | 8,673 | 1,743 | 1,362 |
| | 31,660 | 22,949 | 46,823 | 55,812 | 65,261 | 71,873 |
| Less: Current Liabilities | | | | | | |
| Trade payables | ⁽ⁱ⁾ 2,900 | ⁽ⁱⁱ⁾ 3,363 | 7,578 | 14,247 | 6,675 | 8,336 |
| Other payables and accruals | 7,209 | 8,047 | 11,544 | 15,525 | 17,592 | 19,617 |
| Hire purchase payables | 68 | 2 | - | - | - | - |
| Provision for employee benefits | - | - | - | - | 196 | 191 |
| Amount owing to directors | 2,642 | - | 27 | - | - | - |
| Amount owing to holding company | - | - | 30,023 | - | 1,151 | 397 |
| Amount owing to a subsidiary company | - | - | - | - | 119 | - |
| Amount owing to related companies | ⁽ⁱ⁾ (158) | ⁽ⁱⁱ⁾ - | 12 | - | - | - |
| Bank overdraft – secured | 12,222 | 970 | 2,989 | - | 2,807 | 1,823 |
| Bank borrowings – secured | 1,502 | 1,540 | - | - | - | 176 |
| Dividends payables | - | - | - | 3,150 | 16,020 | 33,437 |
| Taxation | 1,021 | 2,842 | 3,821 | 2,663 | 1,697 | 215 |
| | 27,406 | 16,764 | 55,994 | 35,585 | 46,257 | 64,192 |
| Net Current Assets/(Liabilities) | 4,254 | 6,185 | (9,171) | 20,227 | 19,004 | 7,681 |
| | 33,369 | 33,726 | 18,635 | 50,155 | 50,645 | 51,788 |

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| | <----- As At 30 June -----> | | | | < As At 31 December > | |
|--------------------------------|-----------------------------|----------------|----------------|----------------|-----------------------|----------------|
| | 2000 RM'000 | 2001 RM'000 | 2002 RM'000 | 2003 RM'000 | 2003 RM'000 | 2004 RM'000 |
| Capital And Reserve | | | | | | |
| Share capital | 18,000 | 18,000 | 18,000 | 18,000 | 18,000 | 18,000 |
| Retained profits | 7,967 | 14,981 | 177 | 25,672 | 25,725 | 25,935 |
| Shareholders' Equity | 25,967 | 32,981 | 18,177 | 43,672 | 43,725 | 43,935 |
| Non-Current Liabilities | | | | | | |
| Hire purchase payables | 2 | - | - | - | - | - |
| Term loan – secured | 7,025 | 359 | - | - | - | - |
| Deferred taxation | 375 | 386 | 458 | - | - | - |
| Retirement benefits | - | - | - | 6,483 | 6,920 | 7,853 |
| | 7,402 | 745 | 458 | 6,483 | 6,920 | 7,853 |
| | 33,369 | 33,726 | 18,635 | 50,155 | 50,645 | 51,788 |

(1) The trade payables balances included in the amount owing to related companies in the audited balance sheet as at 30 June 2000 and 2001, mainly owing to EM and Q-Pack, have been reclassified into the trade payables in order to conform with the presentation of the latest audited balance sheet as at 31 December 2004. The net effects of these reclassifications are as follows:-

| | <----- As At 30 June -----> | |
|---|-----------------------------|----------------|
| | 2000 RM'000 | 2001 RM'000 |
| Trade payables | | |
| As per audited financial statements | 782 | 841 |
| Add: Reclassification | 2,118 | 2,522 |
| As adjusted | 2,900 | 3,363 |
| Amount owing to/(by) related companies | | |
| As per audited financial statements | 1,960 | 2,522 |
| Add: Reclassification | (2,118) | (2,522) |
| As adjusted | (158) | - |

Note: Where the figures for an item in the audited balance sheet had been reclassified when presented as comparative for the following year's audited balance sheet, the reclassified figures are used for the preparation of the above balance sheet.

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3. EM

| | < ----- As At 30 June ----- > | | | | < As At 31 December > | |
|---|-------------------------------|----------------|----------------|----------------|-----------------------|----------------|
| | 2000 RM'000 | 2001 RM'000 | 2002 RM'000 | 2003 RM'000 | 2003 RM'000 | 2004 RM'000 |
| Non-Current Assets | | | | | | |
| Property, plant and equipment | 8,452 | 8,781 | 9,547 | 10,394 | 10,805 | 12,003 |
| Capital work-in-progress | - | - | - | 383 | 392 | 2,756 |
| | 8,452 | 8,781 | 9,547 | 10,777 | 11,197 | 14,759 |
| Current Assets | | | | | | |
| Inventories | 3,345 | 3,114 | 4,914 | 4,089 | 4,513 | 6,334 |
| Trade receivables | (i) 3,018 | (ii) 4,511 | 7,703 | 7,241 | 3,368 | 4,982 |
| Other receivables, deposits and prepayments | 266 | 88 | 928 | 573 | 1,100 | 3,648 |
| Amount owing by a related company | (i) 188 | (ii) 507 | 51 | 195 | 465 | 218 |
| Fixed deposits with licensed bank | - | - | - | 4,527 | - | 3,000 |
| Cash and bank balances | 10 | 307 | 482 | 1,465 | 2,642 | 2,364 |
| | 6,827 | 8,527 | 14,078 | 18,090 | 12,088 | 20,546 |
| Less: Current Liabilities | | | | | | |
| Trade payables | 2,925 | 2,633 | 4,660 | 3,363 | 2,345 | 4,648 |
| Other payables and accruals | 785 | 853 | 782 | 1,356 | 2,014 | 2,747 |
| Amount owing to holding company | - | - | - | - | - | 225 |
| Amount owing to a related company | - | - | 174 | 225 | 1,224 | 2,185 |
| Amount owing to a director | 416 | - | - | - | - | - |
| Hire purchase payables | 21 | 83 | 90 | - | - | - |
| Finance lease payables | 17 | - | - | - | - | - |
| Bank overdraft - secured | 866 | - | - | - | - | - |
| Bank borrowings - secured | 1,606 | 1,621 | 706 | - | - | - |
| Dividends payables | - | - | - | 10,501 | 3,674 | 9,786 |
| Taxation | 91 | 805 | 799 | 390 | 698 | 2,040 |
| | 6,727 | 5,995 | 7,211 | 15,835 | 9,955 | 21,631 |
| Net Current Assets/(Liabilities) | 100 | 2,532 | 6,867 | 2,255 | 2,133 | (1,085) |
| | 8,552 | 11,313 | 16,414 | 13,032 | 13,330 | 13,674 |
| Capital And Reserve | | | | | | |
| Share capital | 1,837 | 1,837 | 9,184 | 9,184 | 9,184 | 9,184 |
| Retained profits | 5,367 | 8,140 | 6,310 | 2,131 | 2,380 | 2,568 |
| Shareholders' Equity | 7,204 | 9,977 | 15,494 | 11,315 | 11,564 | 11,752 |
| Non-Current Liabilities | | | | | | |
| Hire purchase payables | - | 97 | 7 | - | - | - |
| Finance lease payables | - | - | - | - | - | - |
| Term loans - secured | 938 | 745 | 264 | 195 | 195 | 195 |
| Deferred taxation | 410 | 494 | 649 | 582 | 567 | 592 |
| Retirement benefits | - | - | - | 940 | 1,004 | 1,135 |
| | 1,348 | 1,336 | 920 | 1,717 | 1,766 | 1,922 |
| | 8,552 | 11,313 | 16,414 | 13,032 | 13,330 | 13,674 |

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- ⁽¹⁾ The trade receivables balances included in the amount owing by a related company in the audited balance sheet as at 30 June 2000 and 2001, mainly owing by CNIE, have been reclassified into the trade receivables in order to conform with the presentation of the latest audited balance sheet as at 31 December 2004. The net effects of these reclassifications are as follows: -

| | < ---- As At 30 June ---- > | |
|--|-----------------------------|---------|
| | 2000 | 2001 |
| | RM'000 | RM'000 |
| <i>Trade receivables</i> | | |
| <i>As per audited financial statements</i> | 652 | 980 |
| <i>Add: reclassification</i> | 2,366 | 3,531 |
| <i>As adjusted</i> | 3,018 | 4,511 |
| | | |
| <i>Amount owing by a related company</i> | | |
| <i>As per audited financial statements</i> | 2,554 | 4,038 |
| <i>Add: reclassification</i> | (2,366) | (3,531) |
| <i>As adjusted</i> | 188 | 507 |

Note: Where the figures for an item in the audited balance sheet had been reclassified when presented as comparative for the following year's audited balance sheet, the reclassified figures are used for the preparation of the above balance sheet.

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4. Q-PACK

| | <----- As At 30 June -----> | | | | < As At 31 December > | |
|---|-----------------------------|----------------|----------------|----------------|-----------------------|----------------|
| | 2000 RM'000 | 2001 RM'000 | 2002 RM'000 | 2003 RM'000 | 2003 RM'000 | 2004 RM'000 |
| Non-Current Assets | | | | | | |
| Property, plant and equipment | 1,943 | 1,692 | 1,551 | 1,843 | 2,173 | 2,155 |
| Current Assets | | | | | | |
| Inventories | 1,171 | 1,523 | 2,362 | 1,719 | 2,594 | 2,189 |
| Trade receivables | (i) 351 | (ii) 688 | 1,429 | 2,168 | 1,235 | 1,755 |
| Other receivables, deposits and prepayments | 32 | 26 | 25 | 127 | 257 | 314 |
| Amount owing by a related company | (i) - | - | - | - | - | - |
| Cash and bank balances | 48 | 149 | 318 | 211 | 522 | 230 |
| | 1,602 | 2,386 | 4,134 | 4,225 | 4,608 | 4,488 |
| Less: Current Liabilities | | | | | | |
| Trade payables | 889 | 1,157 | 1,908 | 1,522 | 1,609 | 1,653 |
| Other payables and accruals | 133 | 232 | 252 | 494 | 778 | 597 |
| Amount owing to holding company | - | - | - | - | - | 552 |
| Amount owing to related companies | (i) 188 | (ii) 557 | 1,275 | 717 | 1,462 | 447 |
| Amount owing to a director | 44 | 43 | 12 | - | - | - |
| Finance lease payables | 47 | - | - | - | - | - |
| Dividends payables | - | - | - | 895 | - | 216 |
| Taxation | 34 | - | - | 77 | 13 | 103 |
| | 1,335 | 1,989 | 3,447 | 3,705 | 3,862 | 3,568 |
| Net Current Assets | 267 | 397 | 687 | 520 | 746 | 920 |
| | 2,210 | 2,089 | 2,238 | 2,363 | 2,919 | 3,075 |
| Capital And Reserve | | | | | | |
| Share capital | 300 | 300 | 300 | 300 | 300 | 300 |
| Retained profits | 1,790 | 1,659 | 1,938 | 1,869 | 2,422 | 2,602 |
| Shareholders' equity | 2,090 | 1,959 | 2,238 | 2,169 | 2,722 | 2,902 |
| Non-Current Liabilities | | | | | | |
| Finance lease payables | - | - | - | - | - | - |
| Deferred taxation | 120 | 130 | - | 194 | 197 | 173 |
| | 120 | 130 | - | 194 | 197 | 173 |
| | 2,210 | 2,089 | 2,238 | 2,363 | 2,919 | 3,075 |

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- (1) The trade receivable balances included in the amount owing by/(to) related companies in the audited balance sheet as at 30 June 2000 and 2001, mainly owing by CNIE, have been reclassified into the trade receivables in order to conform with the presentation of the latest audited balance sheet as at 31 December 2004. The net effects of these reclassifications are as follows: -

| | <----- As At 30 June -----> | |
|--|-----------------------------|----------------|
| | 2000 RM'000 | 2001 RM'000 |
| <i>Trade receivables</i> | | |
| <i>As per audited financial statements</i> | 127 | 302 |
| <i>Add: Reclassification</i> | 224 | 386 |
| <i>As adjusted</i> | 351 | 688 |
| <i>Amount owing by a related company</i> | | |
| <i>As per audited financial statements</i> | 36 | - |
| <i>Less: Reclassification</i> | (36) | - |
| <i>As adjusted</i> | - | - |
| <i>Amount owing to related companies</i> | | |
| <i>As per audited financial statements</i> | - | 171 |
| <i>Add: Reclassification</i> | 188 | 386 |
| <i>As adjusted</i> | 188 | 557 |

Note: Where the figures for an item in the audited balance sheet had been reclassified when presented as comparative for the following year's audited balance sheet, the reclassified figures are used for the preparation of the above balance sheet.

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13. ACCOUNTANTS' REPORT (Cont'd)

MOORE STEPHENS

CHARTERED ACCOUNTANTS
(FIRM NO: AF.0282)

5. CNIS

| | <----- As At 30 June -----> | | | | < As At 31 December > | |
|--|-----------------------------|------------------|----------------------|----------------|-----------------------|----------------|
| | 2000 RM'000 | 2001 RM'000 | 2002 RM'000 | 2003 RM'000 | 2003 RM'000 | 2004 RM'000 |
| Non-Current Assets | | | | | | |
| Property, plant and equipment | - | 257 | 337 | 8,803 | 8,978 | 9,212 |
| Current Assets | | | | | | |
| Inventories | - | - | 60 | 24 | 4 | 393 |
| Trade receivables | 134 | 13 | - | - | - | - |
| Other receivables, deposits and prepayment | - | 42 | ⁽²⁾ 1,241 | 655 | ⁽²⁾ 343 | 117 |
| Amount owing by a related company | - | - | 8 | - | - | - |
| Cash and bank balances | 4 | 485 | 608 | 556 | 1,206 | 632 |
| | 138 | 540 | 1,917 | 1,235 | 1,553 | 1,142 |
| Less: Current Liabilities | | | | | | |
| Trade payables | 126 | - | - | - | - | 354 |
| Other payables and accruals | 14 | 915 | ⁽²⁾ 1,075 | 336 | ⁽²⁾ 359 | 247 |
| Amount owing to a director | - | 3 | 3 | - | 6 | 78 |
| Amount owing to ultimate holding company | - | - | - | - | - | 38 |
| Amount owing to holding company | - | - | 1,275 | 3,475 | 4,189 | 2,248 |
| Loan from holding company | - | - | - | - | - | 251 |
| Term Loan – secured | - | - | - | 199 | 189 | - |
| | 140 | 918 | 2,353 | 4,010 | 4,743 | 3,216 |
| Net Current Liabilities | (2) | (378) | (436) | (2,775) | (3,190) | (2,074) |
| | (2) | (121) | (99) | 6,028 | 5,788 | 7,138 |
| Capital And Reserve | | | | | | |
| Share capital | ⁽¹⁾ - | ⁽¹⁾ - | 207 | 207 | 207 | 207 |
| Translation reserve | - | 3 | - | 8 | (14) | (39) |
| Accumulated losses | (2) | (124) | (306) | (759) | (1,111) | (1,866) |
| Shareholders' Equity | (2) | (121) | (99) | (544) | (918) | (1,698) |
| Non-Current Liability | | | | | | |
| Loan from holding company | - | - | - | - | - | 8,836 |
| Term loan - secured | - | - | - | 6,572 | 6,706 | - |
| | - | - | - | 6,572 | 6,706 | 8,836 |
| | (2) | (121) | (99) | 6,028 | 5,788 | 7,138 |

13. ACCOUNTANTS' REPORT (Cont'd)

MOORE STEPHENS

CHARTERED ACCOUNTANTS
(FIRM NO: AF.0282)

- (1) *This represents RM5.00 comprising two (2) ordinary shares of S\$1.00 each.*
- (2) *The amount due by/(to) related companies balances as presented in the audited balance sheet of CNIS as at 30 June 2002 and 31 December 2003 have been reclassified into the other receivables/ other payables respectively in order to conform with the classification in the audited balance sheet of CNI.*

Notes:

- (a) Figures as at 30 June 2000, 2001, 2002 and 2003 and 31 December 2003 and 2004 are translated from the audited financial statements denominated in Singapore Dollars using the exchange rate at end of the financial year/period of RM2.1780:S\$1.00, RM2.0702:S\$1.00, RM2.1520:S\$1.00, RM2.1615:S\$1.00, RM2.2293:S\$1.00 and RM2.3258:S\$1.00 respectively.
- (b) Where the figures for an item in the audited balance sheet had been reclassified when presented as comparative for the following year's audited balance sheet, the reclassified figures are used for the preparation of the above balance sheet.

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13. ACCOUNTANTS' REPORT (Cont'd)

MOORE STEPHENSCHARTERED ACCOUNTANTS
(FIRM NO: AF.0282)**I. DETAILED CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES AS AT 31 DECEMBER 2004**

The following are the detailed audited consolidated statement of assets and liabilities and the proforma consolidated statement of assets and liabilities of the Group as at 31 December 2004 and should be read in conjunction with the Notes to the Detailed Consolidated Statements of Assets and Liabilities. The detailed audited consolidated statement of assets and liabilities of the Group has been prepared based on the audited consolidated balance sheet of CNI as at 31 December 2004 ("Audited Group"). The proforma consolidated statement of assets and liabilities of the Group has been prepared for illustrative purposes only based on the audited consolidated balance sheets of CNI as at 31 December 2004 and on assumption that the flotation scheme as mentioned in paragraph B has been effected on that date ("Proforma Group").

| | Note | Audited Group RM'000 | Proforma Group RM'000 |
|---|------|-------------------------|--------------------------|
| Non-Current Assets | | | |
| Property, plant and equipment | 1 | 56,657 | 56,657 |
| Capital work-in-progress | 2 | 2,756 | 2,756 |
| Investment properties | 3 | 8,356 | 8,356 |
| Deferred tax assets | 4 | 1,926 | 1,926 |
| Goodwill on consolidation | 5 | 123 | 123 |
| | | <u>69,818</u> | <u>69,818</u> |
| Current Assets | | | |
| Inventories | 6 | 33,933 | 33,933 |
| Trade receivables | 7 | 4,912 | 4,912 |
| Other receivables, deposits and prepayments | 8 | 8,584 | 7,696 |
| Tax assets | 9 | 48 | 48 |
| Cash deposits with licensed banks | 10 | 33,610 | 33,610 |
| Cash and bank balances | 11 | 4,726 | 4,114 |
| | | <u>85,813</u> | <u>84,313</u> |
| Less: Current Liabilities | | | |
| Trade payables | 12 | 10,406 | 10,406 |
| Other payables and accruals | 13 | 24,635 | 24,635 |
| Provision for employee benefits | 14 | 191 | 191 |
| Term loan – secured | 15 | - | - |
| Short term borrowings - secured | 16 | 176 | 176 |
| Bank overdrafts - secured | 17 | 1,823 | 1,823 |
| Dividend payable | | 42,332 | 42,332 |
| Taxation | | 2,358 | 2,358 |
| | | <u>81,921</u> | <u>81,921</u> |
| Net Current Assets | | <u>3,892</u> | <u>2,392</u> |
| | | <u>73,710</u> | <u>72,210</u> |
| Capital And Reserve | | | |
| Share capital | 18 | 2,697 | 60,000 |
| Reserves | 19 | 61,830 | 3,027 |
| Shareholders' Equity | | <u>64,527</u> | <u>63,027</u> |
| Non-Current Liabilities | | | |
| Term loan – secured | 15 | 195 | 195 |
| Retirement benefits | 21 | 8,988 | 8,988 |
| | | <u>9,183</u> | <u>9,183</u> |
| | | <u>73,710</u> | <u>72,210</u> |

13. ACCOUNTANTS' REPORT (Cont'd)

MOORE STEPHENS
 CHARTERED ACCOUNTANTS
 (FIRM NO: AF.0282)

NOTES TO THE DETAILED CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES AS AT 31 DECEMBER 2004

1. PROPERTY, PLANT AND EQUIPMENT

| Audited Group/Proforma Group | Cost RM'000 | Accumulated Depreciation RM'000 | Net Book Value RM'000 |
|--|----------------|---------------------------------------|-----------------------------|
| Freehold land | 7,987 | - | 7,987 |
| Leasehold land | 180 | 53 | 127 |
| Buildings | 35,194 | 4,129 | 31,065 |
| Plant, machinery and lab equipment | 15,731 | 7,804 | 7,927 |
| Motor vehicles | 3,959 | 1,670 | 2,289 |
| Office equipment, furniture & fittings, renovation and electrical fittings | 13,944 | 6,682 | 7,262 |
| | <u>76,995</u> | <u>20,338</u> | <u>56,657</u> |

- (a) Property, plant and equipment pledged as securities for banking facilities granted to the subsidiary companies as mentioned in notes 15, 16 and 17 to the statements are as follows: -

| NET BOOK VALUE | Audited Group/ Proforma Group RM'000 |
|------------------------------|--|
| Freehold land and buildings | 25,523 |
| Leasehold land and buildings | 215 |
| Freehold land | 3,495 |
| Plant and machinery | 1,522 |
| | <u>30,755</u> |

- (b) The freehold land of a subsidiary company, EM, with net book value amounting to RM3,495,202 has been gazetted for compulsory acquisition by the Selangor State Government on 11 October 2001. However, EM has applied for a judicial review at the Shah Alam Court in relation to this compulsory acquisition and is pending negotiation for a final settlement between the Selangor State Government and EM.
- (c) The freehold land of a subsidiary company, CNIE, with net book value amounting to RM4,491,652 is held under a master title and is registered under the name of the developer.
- (d) The leasehold land of a subsidiary company, CNIE, has an unexpired lease period of less than 50 years.

13. ACCOUNTANTS' REPORT (Cont'd)**MOORE STEPHENS**CHARTERED ACCOUNTANTS
(FIRM NO: AF.0282)**2. CAPITAL WORK-IN-PROGRESS**

| | Audited Group/ Proforma Group RM'000 |
|---|---|
| At Cost, | |
| In respect of: - | |
| Acquisition of a service apartment by EM | 392 |
| Extension of the existing office and warehouse building of CNIE | 2,364 |
| | <u>2,756</u> |

The service apartment acquired by EM was abandoned by the developer when it was 85% completed. The takeover and completion of the development by the landowner of this development is pending application to the High Court.

The service apartment is charged for term loan facility granted to EM as mentioned in note 15 to the statements.

3. INVESTMENT PROPERTIES

| | Audited Group/ Proforma Group RM'000 |
|---|---|
| At Cost, | |
| Leasehold land | 776 |
| Leasehold shophouse | 550 |
| Leasehold factory and office | 2,053 |
| Leasehold shoplots | 4,741 |
| Leasehold condominium | 236 |
| | <u>8,356</u> |
| Fair value of investment properties estimated by the directors of the Company | <u>8,788</u> |

Included in the investment properties are properties with costs totalling RM3,246,305 pledged as securities to the financial institutions for overdraft facilities granted to the Company.

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13. ACCOUNTANTS' REPORT (Cont'd)**MOORE STEPHENS**CHARTERED ACCOUNTANTS
(FIRM NO: AF.0282)**4. DEFERRED TAX ASSETS**

In respect of estimated tax liabilities/(assets) arising from the following temporary differences: -

| | Audited Group/ Proforma Group RM'000 |
|---|---|
| Deferred Tax Assets | |
| Differences between the carrying amount of property, plant and equipment and its tax base | 1,494 |
| Retirement benefits | (2,517) |
| Provision for employee benefits | (53) |
| Unrealised gain on foreign exchange | 115 |
| Unrealised profits on inventories | (965) |
| | <u>(1,926)</u> |

The estimated net deferred tax assets not recognised in the financial statements are as follows: -

| | Audited Group/ Proforma Group RM'000 |
|---|---|
| Differences between the carrying amount of property, plant and equipment and its tax base | (10) |
| Unutilised tax losses | (292) |
| Net deferred tax assets | <u>(302)</u> |

The estimated unutilised tax losses are subject to the agreement by the relevant tax authorities.

5. GOODWILL ON CONSOLIDATION

In respect of goodwill arising from acquisition of subsidiary companies as follows: -

| | Audited Group/ Proforma Group RM'000 |
|----------|---|
| At Cost, | |
| CNIS | 121 |
| EM | 2 |
| | <u>123</u> |

13. ACCOUNTANTS' REPORT (Cont'd)

MOORE STEPHENSCHARTERED ACCOUNTANTS
(FIRM NO: AF.0282)

6. INVENTORIES

| | Audited Group/ Proforma Group RM'000 |
|---------------------|--|
| At Cost, | |
| Raw materials | 7,944 |
| Work-in-progress | 720 |
| Packaging materials | 1,920 |
| Finished goods | 2,570 |
| Merchandised goods | 17,620 |
| Sales aid items | 3,159 |
| | <u>33,933</u> |

There were no inventories carried at net realisable value.

7. TRADE RECEIVABLES

| | Audited Group/ Proforma Group RM'000 |
|------------------------------------|--|
| Balance outstanding | 5,034 |
| Less: Allowance for doubtful debts | (122) |
| | <u>4,912</u> |

The normal trade credit terms extended to trade debtors ranges from 30 to 60 days.

8. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | Audited Group RM'000 | Proforma Group RM'000 |
|------------------------------------|----------------------------|-----------------------------|
| Other receivables | 1,993 | 3,334 |
| Less: Allowance for doubtful debts | (68) | (68) |
| | 1,925 | 3,266 |
| Deposits | 3,255 | 2,447 |
| Prepayments | 2,516 | 1,983 |
| Listing expenses | 888 | - |
| | <u>8,584</u> | <u>7,696</u> |

Included in other receivables are staff car loans amounting to RM532,553 which bear interest at rates ranging from 0.5% to 3.0% per annum.

Included in deposits is an amount of RM2,036,684 for the purchase of property, plant and equipment of a subsidiary company, EM.

13. ACCOUNTANTS' REPORT (Cont'd)**MOORE STEPHENS**CHARTERED ACCOUNTANTS
(FIRM NO: AF.0282)**9. TAX ASSETS**

| | Audited Group/ Proforma Group RM'000 |
|--------------------------|---|
| This is in respect of: - | |
| Tax recoverable | <u>48</u> |

10. CASH DEPOSITS WITH LICENSED BANKS

| | Audited Group/ Proforma Group RM'000 |
|--|---|
| Cash deposits comprise: - | |
| Repurchase orders with a licensed bank | 25,000 |
| Fixed deposits with licensed banks | |
| - pledged | 528 |
| - unpledged | <u>8,082</u> |
| | <u>33,610</u> |

The pledged fixed deposits with licensed banks are pledged as security for banking facilities granted to CNIE and these fixed deposits are registered under the name of a director, Dr. Koh Peng Chor and a former director, Mr. Tan Sia Swee, and are held in trust for CNIE.

11. CASH AND BANK BALANCES

| | Audited Group RM'000 | Proforma Group RM'000 |
|---|-------------------------------------|--------------------------------------|
| Cash and bank balances | 4,726 | 4,726 |
| Less: Balance of estimated listing expenses | <u>-</u> | <u>(612)</u> |
| | <u>4,726</u> | <u>4,114</u> |

12. TRADE PAYABLES

The normal trade credit terms granted by the trade creditors ranges from 30 to 90 days.

Included in trade payables are: -

| | Audited Group/ Proforma Group RM'000 |
|--|---|
| Amount owing to a company in which a director, Mr. Tan Sia Swee, is also a director and has substantial financial interests | |
| - Master Land Investment Limited. | <u>2,085</u> |

13. ACCOUNTANTS' REPORT (Cont'd)

MOORE STEPHENS
 CHARTERED ACCOUNTANTS
 (FIRM NO: AF.0282)

13. OTHER PAYABLES AND ACCRUALS

| | Audited Group/ Proforma Group RM'000 |
|-------------------|---|
| Other payables | 2,115 |
| Deposits received | 4,823 |
| Accruals | 17,697 |
| | 24,635 |

14. PROVISION FOR EMPLOYEE BENEFITS

| | Audited Group/ Proforma Group RM'000 |
|--------------------------|---|
| At beginning of the year | 196 |
| Additions | 191 |
| Incurred | (196) |
| At end of the year | 191 |

This is in respect of provision for short term accumulating compensated absences.

15. TERM LOAN – SECURED

| | Audited Group/ Proforma Group RM'000 |
|---|---|
| Term loan | |
| Repayable in equal monthly instalments over 15 years commencing upon full draw down at interest rate of 8.50% per annum | 195 |
| | 195 |
| Repayable within one (1) year | - |
| Repayable after one (1) year | 195 |
| | 195 |

The term loan of a subsidiary company, EM, is secured as follows: -

(a) Specific securities

Deed of assignment and private caveat on the property under construction being financed by the term loan.

(b) Common securities

- i) Legal charges and deed of assignment on the freehold land of EM;
- ii) Corporate guarantee by the Company;

13. ACCOUNTANTS' REPORT (Cont'd)

MOORE STEPHENS
 CHARTERED ACCOUNTANTS
 (FIRM NO: AF.0282)

- iii) Joint and several guarantees by the directors of the Company, Dr. Koh Peng Chor and Mr. Chew Boon Swee; and
- iv) Letter of negative pledge of EM.

16. SHORT TERM BORROWINGS – SECURED

**Audited
 Group
 /Proforma
 Group
 RM'000**

| | |
|-----------------------------------|-----|
| Suppliers credit financing scheme | 176 |
|-----------------------------------|-----|

The suppliers credit financing scheme granted to a subsidiary company, CNIE are secured and supported as follows:-

- i) First legal charge pending issuance of individual title where applicable over the freehold land and building of CNIE;
- ii) Letter of negative pledge of CNIE;
- iii) Corporate guarantee by the Company; and
- iv) Joint and several guarantee by certain directors of the Company, Mr Tan Sia Swee, Dr. Koh Peng Chor and Mr. Law Yang Ket.

17. BANK OVERDRAFTS – SECURED

The bank overdraft facilities of the Company bears interest at rate of 1.75% above the base lending rate per annum and is secured by a first legal charge over certain leasehold shoplots of the Company as mentioned in note 3 to the statements.

The bank overdraft facilities of CNIE bears interest rates ranging from 7.75% to 8.00% per annum and are secured and supported as follows:-

- i) First legal charge over the leasehold land and building of CNIE;
- ii) First legal charge pending issuance of individual title where applicable over the freehold land and building of CNIE;
- iii) Pledged on fixed deposits of CNIE as mentioned in note 10 to the statements;
- iv) Corporate guarantee by CNIE; and
- v) Joint and several guarantee by certain directors of Company, Mr. Tan Sia Swee, Dr. Koh Peng Chor and Mr. Law Yang Ket.

The bank overdraft facility of EM amounting to RM1,000,000 bears interest at 2.0% per annum above the bank's prevailing base lending rate and is secured by first legal charge but pending issuance of individual title and deed of assignment on the freehold land of EM and is supported by corporate guarantee of the Company and joint and several guarantee by certain directors of the Company, Dr. Koh Peng Chor and Mr. Chew Boon Swee and letter of Negative Pledge of EM. The said facility has not been utilised by EM as at year end.

13. ACCOUNTANTS' REPORT (Cont'd)

MOORE STEPHENS
 CHARTERED ACCOUNTANTS
 (FIRM NO: AF.0282)

18. SHARE CAPITAL

| | Audited Group RM'000 | Proforma Group RM'000 |
|--|----------------------------|-----------------------------|
| Authorised: - | | |
| Ordinary shares of RM1.00 each | 5,000 | - |
| Ordinary shares of RM0.10 each | - | 100,000 |
| Issued and fully paid: - | | |
| Ordinary shares of RM1.00 each | 2,697 | 2,697 |
| Cancellation of ordinary shares of RM1.00 each | - | (2,697) |
| Re-issue of ordinary shares of RM0.10 each | - | 2,697 |
| Bonus issue | - | 57,303 |
| | <u>2,697</u> | <u>60,000</u> |

19. RESERVES

| | Audited Group RM'000 | Proforma Group RM'000 |
|--|----------------------------|-----------------------------|
| DISTRIBUTABLE | | |
| Retained profits | 33,406 | 33,406 |
| Less: Capitalisation pursuant to the Bonus Issue | - | (30,998) |
| | 33,406 | 2,408 |
| NON-DISTRIBUTABLE | | |
| Capital reserve | 22,100 | 22,100 |
| Less: Capitalisation pursuant to the Bonus Issue | - | (22,100) |
| | 22,100 | - |
| Share premium – (note 20) | 5,705 | - |
| Reserve on consolidation | 694 | 694 |
| Translation reserve | (75) | (75) |
| | <u>61,830</u> | <u>3,027</u> |

The capital reserve of the Audited Group is in respect of capitalisation of retained profits for bonus issue by CNIE and EM.

20. SHARE PREMIUM – NON-DISTRIBUTABLE

| | Audited Group RM'000 | Proforma Group RM'000 |
|---|----------------------------|-----------------------------|
| In respect of allotment of new ordinary shares pursuant to the: - | | |
| Special issue to third party for cash | 470 | 470 |
| Acquisition of the remaining 49% equity interest in EM | 4,351 | 4,351 |
| Acquisition of the remaining 49% equity interest in Q-Pack | 884 | 884 |
| | <u>5,705</u> | <u>5,705</u> |
| Less: Capitalisation pursuant to the Bonus Issue | - | (4,205) |
| Less: Estimated listing expenses | - | (1,500) |
| | <u>5,705</u> | <u>-</u> |

13. ACCOUNTANTS' REPORT (Cont'd)**MOORE STEPHENS**CHARTERED ACCOUNTANTS
(FIRM NO: AF.0282)**21. RETIREMENT BENEFITS**

| | Audited Group/ Proforma Group RM'000 |
|--|---|
| At beginning of the year | 7,924 |
| Expense recognised in the income statement | 1,064 |
| At end of the year | <u>8,988</u> |

The liability for defined benefit obligations recognised in the balance sheet is analysed as follows:-

| | Audited Group/ Proforma Group RM'000 |
|---------------------------------------|---|
| Present value of unfunded obligations | <u>8,988</u> |

The expenses recognised in the income statements is analysed as follows:-

| | Audited Group/ Proforma Group RM'000 |
|--|---|
| Current service cost/Current and past service cost | 632 |
| Interest cost | 432 |
| | <u>1,064</u> |

Principal actuarial assumptions used at the balance sheet date are as follows:-

| | Audited Group/ Proforma Group |
|-----------------------------------|--|
| Discount rate | 5.5% |
| Expected rate of salary increases | <u>5.0%</u> |

The provision for retirement benefits is based on the terms of the service agreement entered between the Company and directors, Dr. Koh Peng Chor, Mr. Tan Sia Swee, Mr. Chew Boon Swee, Mr. Law Yang Ket and Mr. Cheong Chin Tai.

13. ACCOUNTANTS' REPORT (Cont'd)

MOORE STEPHENS
 CHARTERED ACCOUNTANTS
 (FIRM NO: AF.0282)

22. CASH AND CASH EQUIVALENTS

Cash and cash equivalents of the Audited Group and the Proforma Group comprise the followings: -

| | Audited Group RM'000 | Proforma Group RM'000 |
|------------------------------------|-------------------------------------|--------------------------------------|
| Cash and bank balances - (note 11) | 4,726 | 4,114 |
| Cash deposits with licensed banks | 33,610 | 33,610 |
| Bank overdrafts | (1,823) | (1,823) |
| | 36,513 | 35,901 |
| Less: Pledged fixed deposits | (528) | (528) |
| | 35,985 | 35,373 |

23. CONTINGENT LIABILITIES – UNSECURED

The contingent liabilities of the Audited Group and the Proforma Group are in respect of:-

- i) Additional tax liabilities imposed by the Inland Revenue Board ("IRB") for the financial years ended 30 June 1995 to 2000 totalling RM652,393 which was not accounted for in the financial statements pending approval from the IRB on an appeal made by CNIE.
- ii) Legal action taken by an ex-employee against the Company for alleged constructive dismissal. The claimant is suing for reinstatement of his position in CNIE together with all emoluments which he will be entitled to as an employee. No amount has been quantified pending the outcome of the legal litigation.

24. CAPITAL COMMITMENTS

| | Audited Group/ Proforma Group RM'000 |
|---|---|
| In respect of capital expenditure contracted for: - | |
| - Purchase of property, plant and equipment | 2,484 |
| - Acquisition of a service apartment | 36 |
| - extension of factory/office building | 3,414 |
| | 5,934 |

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13. ACCOUNTANTS' REPORT (Cont'd)

MOORE STEPHENSCHARTERED ACCOUNTANTS
(FIRM NO: AF.0282)

25. SUBSEQUENT EVENTS

- (a) On 1 June 2005, all the existing 2,697,000 ordinary shares of RM1.00 each in CNI had been subdivided into 26,970,000 Shares pursuant to the Share Split referred to in paragraph B(ii).
- (b) On 2 June 2005, the Company increased its authorised share capital from RM5,000,000 divided into 50,000,000 Shares to RM100 million divided into 1,000,000,000 Shares by creation of 950,000,000 Shares.

On the same date, pursuant to the Bonus Issue referred to in paragraph B (iii), the Company issued 573,030,000 new Shares, credited as fully paid-up, on the basis of 57,303 new Shares for every 2,697 Shares held in CNI by capitalisation of RM48,925,246 from revaluation reserves, RM4,205,300 from share premium and RM4,172,454 from retained profits. As a result, the issued paid-up share capital of the Company increased to RM60 million.

26. FINANCIAL INSTRUMENTS

- (a) Financial Risk Management Policies

The Group is exposed to a variety of risks in the normal course of business. The Group's risk management seeks to minimise the potential adverse effects from these exposures. The management reviews and agrees policies for managing each of these risks as follows: -

- i) Foreign Exchange Risk

The Group is exposed to foreign currency risk as a result of its normal trade activities when the currency denomination differs from its functional currency.

The Group maintains a natural hedge, whenever possible, by depositing foreign currency proceeds from sales into foreign currency bank account which will primarily be used for payment of purchases in the same denomination. Foreign exchange exposures in transactional currencies other than functional currencies of the operating entities are kept to an acceptable level.

The unhedged financial assets and financial liabilities of the Group as at 31 December 2004 that are not denominated in their functional currencies are as follows: -

**Audited Group
/Proforma Group**

| Denominated in | USD | HK \$ | S\$ | ¥ | Total |
|------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | Equivalent RM'000 | Equivalent RM'000 | Equivalent RM'000 | Equivalent RM'000 | Equivalent RM'000 |
| <i>Financial Assets</i> | | | | | |
| Trade receivables | 1,339 | - | 2,322 | - | 3,661 |
| Other receivables | 111 | - | - | 1,397 | 1,508 |
| Cash and bank balances | 863 | - | 1 | - | 864 |
| <i>Financial Liabilities</i> | | | | | |
| Trade payables | 68 | 2,085 | - | - | 2,153 |

13. ACCOUNTANTS' REPORT (Cont'd)

MOORE STEPHENS
 CHARTERED ACCOUNTANTS
 (FIRM NO: AF.0282)

ii) Interest Rate Risk

The Group's exposure to interest rate risk relates to interest bearing financial assets and financial liabilities which include cash deposits, loans and overdraft facilities.

- Interest bearing financial assets

Cash deposits are short term in nature and are not held for speculative purposes but are placed to satisfy conditions for banking facilities granted to the Group and for better yield returns than cash at banks.

The Group manages its interest rate yield by prudently balances the placement of deposits with varying maturity periods.

- Interest bearing financial liabilities

The Group manages its interest rate exposure by maintaining a prudent mix of fixed and floating borrowings. The Group actively reviews its debts portfolio, taking into account the investment holding period and the nature of its assets. This strategy allows it to capitalise on cheaper funding in a low interest rate environment and achieve a certain level of protection against rate hikes.

The effective interest rates as at 31 December 2004 and the periods in which the financial assets and financial liabilities, re-price or mature, whichever is earlier, are as follows:-

| Audited Group/Proforma Group | Note | Effective Interest Rate % | Total RM'000 | < --- Maturities --- > | |
|--------------------------------------|------|---------------------------------|-----------------|----------------------------|--|
| | | | | Within 1 year RM'000 | More than 1 year but less than 5 years RM'000 |
| <i>Financial Assets</i> | | | | | |
| Staff car loans | 8 | 0.50 – 3.00 | 533 | 139 | 394 |
| Cash deposits with licensed banks | 10 | 1.90 – 3.70 | 33,610 | 33,610 | - |
| <i>Financial Liabilities</i> | | | | | |
| Term loan | 15 | 8.50 | 195 | - | 195 |
| Short term borrowings | 16 | 7.00 | 176 | 176 | - |
| Bank overdrafts | 17 | 7.75 – 8.00 | 1,823 | 1,823 | - |

iii) Credit Risk

The Group's exposure to credit risk arises from its receivables and the maximum risk associated with recognised financial assets is their respective carrying amount as presented in the balance sheet.

The Group has a credit policy in place and the exposure to credit risk is managed through the application of credit approvals, credit limits and monitoring procedures. Credit risks are minimised and monitored via strictly limiting the Group's associations to business partners with high creditworthiness. Trade receivables are monitored on an ongoing basis via Group management reporting procedures.

The Group does not have any significant exposure to any individual customer.

13. ACCOUNTANTS' REPORT (Cont'd)

MOORE STEPHENS
 CHARTERED ACCOUNTANTS
 (FIRM NO: AF.0282)

iv) Liquidity Risk and Cash Flow Risk

The Group actively manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that all repayments and funding needs are met. As part of its overall prudent liquidity management, the Group maintains sufficient levels of cash to meet its working capital requirements. In addition, the Group strives to maintain available banking facilities of a reasonable level to its overall debt position.

(b) Fair Values

The methods and assumptions used to estimate the fair values of the following classes of financial assets and liabilities are as follows: -

i) Cash and Bank Balances, Cash Deposits with Licensed Banks, Trade and Other Receivables and Payables

The carrying amounts approximate fair values due to the relatively short term maturity of these financial assets and liabilities.

ii) Borrowings

The carrying amount of floating rate term loans approximate their fair values.

The fair value of fixed rate term loan is estimated using discounted cash flow analysis, based on current lending rates for similar types of lending and borrowing arrangements.

The carrying amounts of financial assets and liabilities recognised in the balance sheet of the Audited Group and the Proforma Group approximate their fair values except for the followings: -

| | Note | Audited Group/ Proforma Group | |
|------------------------------|------|----------------------------------|-----------------------|
| | | Carrying Amounts RM'000 | Fair Values RM'000 |
| Financial Liabilities | | | |
| Fixed rate term loan | 15 | 195 | * - |

* It is not practical to estimate the fair value of the fixed rate term loan due to uncertainty of timing of repayment as the term loan has not been fully drawn down.

The nominal amounts and fair value of financial liabilities not recognised in the balance sheet of the Audited Group and the Proforma Group are as follows: -

| | Audited Group/ Proforma Group | |
|---|----------------------------------|-----------------------|
| | Nominal Amounts RM'000 | Fair Values RM'000 |
| Contingent liabilities: - | | |
| In respect of additional tax liabilities imposed by the IRB not accounted for in the financial statements | 652 | # - |

It is not practical to estimate the fair value of the contingent liabilities reliably due to uncertainties of timing, costs and eventual outcome.

13. ACCOUNTANTS' REPORT (Cont'd)**MOORE STEPHENS**CHARTERED ACCOUNTANTS
(FIRM NO: AF.0282)**J. PROFORMA CONSOLIDATED CASH FLOW STATEMENT**

The following is the proforma consolidated cash flow statement of the CNI Group for the financial year ended 31 December 2004 prepared for illustrative purposes only based on the audited consolidated cash flow statement of CNI, on the assumption that the flotation scheme referred to in paragraph B has been effected during the said financial year.

| | Proforma Group RM'000 |
|--|--------------------------------------|
| CASH FLOW FROM OPERATING ACTIVITIES | |
| Net Profit Before Taxation | 59,444 |
| Adjustments for: - | |
| Allowance for doubtful debts no longer required | (5) |
| Depreciation of property, plant and equipment | 3,830 |
| Interest expenses | 90 |
| Interest revenue | (547) |
| Allowances for doubtful debts | 5 |
| Bad debts written off | 5 |
| Gain on disposal of property, plant and equipment | (27) |
| Retirement benefits expense | 1,064 |
| Employee benefits expense | 191 |
| Capital work-in-progress written off | 7 |
| Inventories written off | 151 |
| Property, plant and equipment written off | 38 |
| Operating Profit Before Working Capital Changes | 64,246 |
| Increase in inventories | (6,171) |
| Increase in receivables | (1,536) |
| Increase in payables | 4,216 |
| Cash Generated From Operations | 60,755 |
| Interest paid | (90) |
| Interest revenue | 547 |
| Tax paid | (17,354) |
| Net Cash Generated From Operating Activities | 43,858 |
| CASH FLOW FROM INVESTING ACTIVITIES | |
| Capital work-in-progress incurred | (4,076) |
| Withdrawal of cash deposits | 54 |
| Purchase of property, plant and equipment | (6,730) |
| Proceeds from disposal of property, plant and equipment | 121 |
| Purchase of investment property | (550) |
| Net Cash Used In Investing Activities | (11,181) |
| CASH FLOW FROM FINANCING ACTIVITIES | |
| Payment of estimated expenses relating to the flotation scheme | (612) |
| Repayment of term loans | (6,895) |
| Proceeds from bank borrowings | 807 |
| Repayment of bank borrowings | (631) |
| Payment of dividends | (19,553) |
| Net Cash Used In Financing Activities | (26,884) |
| Effect of exchange rate changes on cash and cash equivalents | (443) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 5,350 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | 30,023 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR | 35,373 |

13. ACCOUNTANTS' REPORT (Cont'd)

MOORE STEPHENS
 CHARTERED ACCOUNTANTS
 (FIRM NO: AF.0282)

Notes:

- (a) *The proforma consolidated cash flow statement has been prepared based on accounting policies consistent with those previously adopted in the preparation of the audited consolidated cash flow statements of the Group.*
- (b) *All significant inter-company cash flows have been eliminated from the proforma consolidated cash flow statements.*

K. PROFORMA GROUP NET TANGIBLE ASSETS COVER

Based on the statements of assets and liabilities of the Proforma Group as at 31 December 2004, the net tangible assets per ordinary share are as follows: -

| | Proforma Group |
|---|-------------------|
| Net tangible assets based on statements of assets and liabilities of the Proforma Group as at 31 December 2004 (RM'000) | 62,904 |
| Number of Shares in issue ('000) | 600,000 |
| Net tangible assets per ordinary share (RM) | <u>0.10</u> |

L. DENOMINATION


The currencies quoted in this report and the symbols used to denote them are: -

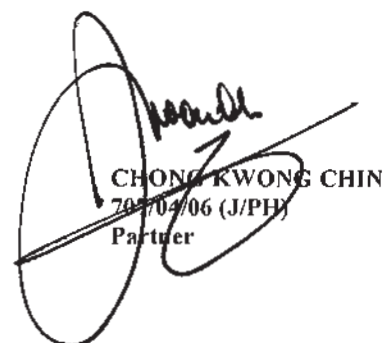
| | | |
|------|---|----------------------|
| RM | - | Ringgit Malaysia |
| USD | - | United States Dollar |
| S\$ | - | Singapore Dollar |
| HK\$ | - | Hong Kong Dollar |
| ¥ | - | Japanese Yen |

M. AUDITED FINANCIAL STATEMENTS

No audited financial statements of the Company and its subsidiary companies have been made up in respect of the period subsequent to 31 December 2004.

Yours faithfully,


MOORE STEPHENS
 Chartered Accountants
 (AF. 0282)


CHONG KWONG CHIN
 702/04/06 (J/PH)
 Partner