

## 10. FINANCIAL INFORMATION

## 10.1 Proforma Consolidated Financial Information

**MELATI EHSAN HOLDINGS BERHAD***(Company No. 673293-X)**No. 5, Jalan Titiwangsa, 53200 Kuala Lumpur, Malaysia**Tel No. : 603-4022 2177 Fax No. : 603-4022 2024*

31 January 2007

**PROFORMA CONSOLIDATED FINANCIAL INFORMATION OF MELATI EHSAN HOLDINGS BERHAD (“MEH”) AND ITS SUBSIDIARY COMPANIES (“MEH Group”), TOGETHER WITH THE NOTES AND ASSUMPTIONS THERETO, ARE AS FOLLOWS:**

**(A) PROFORMA CONSOLIDATED INCOME STATEMENTS****MEH GROUP****PROFORMA CONSOLIDATED INCOME STATEMENTS \*****FOR THE FINANCIAL YEARS ENDED 31 AUGUST 2004, 2005 AND 2006**

	Financial years ended 31 August		
	2004 RM	2005 RM	2006 RM
Revenue	81,326,307	133,298,849	144,202,658
Cost of sales	<u>(60,228,749)</u>	<u>(108,684,119)</u>	<u>(111,240,388)</u>
Gross profit	21,097,558	24,614,730	32,962,270
Other income	41,306	318,579	175,147
Administrative expenses	(694,919)	(819,215)	(902,549)
Other operating expenses	<u>(319,615)</u>	<u>(1,236,347)</u>	<u>(594,509)</u>
Profit from operations	20,124,330	22,877,747	31,640,359
Finance costs	<u>(29,975)</u>	<u>(27,575)</u>	<u>(2,044)</u>
Profit before tax	20,094,355	22,850,172	31,638,315
Income tax expense	<u>(5,624,295)</u>	<u>(6,667,856)</u>	<u>(8,971,097)</u>
Net profit for the year	<u>14,470,060</u>	<u>16,182,316</u>	<u>22,667,218</u>
Depreciation	<u>181,609</u>	<u>176,133</u>	<u>176,023</u>
EBITDA	<u>20,305,939</u>	<u>23,053,880</u>	<u>31,816,382</u>

\* Prepared based on the assumptions as highlighted in Section (D).

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31 JAN 2007

Deloitte KassimChan  
Kuala Lumpur/Petaling Jaya

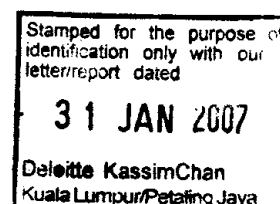
## 10. FINANCIAL INFORMATION (cont'd)

## (B) PROFORMA CONSOLIDATED BALANCE SHEET

MEH GROUP  
 PROFORMA CONSOLIDATED BALANCE SHEET \*  
 AS OF 31 AUGUST 2006

	2006 RM
<b>NON-CURRENT ASSETS</b>	
Property, plant and equipment	966,984
Goodwill on consolidation	487,677
<b>CURRENT ASSETS</b>	
Amount due from contract customers	38,746,540
Trade receivables	50,310,497
Other receivables, deposits and prepaid expenses	8,328,762
Cash and bank balances	2,244,079
	99,629,878
<b>CURRENT LIABILITIES</b>	
Amount due to contract customers	1,624,885
Trade payables	33,603,752
Other payables and accrued expenses	1,601,712
Hire-purchase expenses	49,140
Tax liabilities	7,092,713
	43,972,202
<b>NET CURRENT ASSETS</b>	55,657,676
<b>LONG-TERM AND DEFERRED LIABILITIES</b>	
Hire-purchase expenses	(42,922)
Deferred tax liabilities	(17,933)
	57,051,482
<b>Represented by:</b>	
Issued capital	13,971,040
Reserves	43,080,442
<b>SHAREHOLDERS' EQUITY</b>	57,051,482

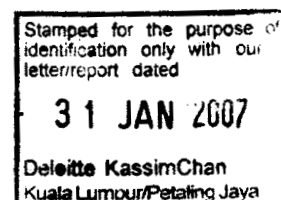
\* Prepared based on the assumptions as highlighted in Section (D).



**10. FINANCIAL INFORMATION (cont'd)****(C) PROFORMA CONSOLIDATED CASH FLOW STATEMENT****MEH GROUP****PROFORMA CONSOLIDATED CASH FLOW STATEMENT \*  
FOR THE FINANCIAL YEAR ENDED 31 AUGUST 2006**

	<b>2006 RM</b>
Profit before tax	31,638,315
Adjustments for non-cash items:	
Interest income	(94,255)
Interest expense	2,044
Depreciation of property, plant and equipment	<u>176,023</u>
Operating profit before changes in working capital	31,722,127
(Increase)/Decrease in:	
Amount due from contract customers	(23,864,494)
Trade receivables	6,226,806
Other receivables, deposits and prepaid expenses	14,744,140
Bank balance under joint account	49,195
Increase/(Decrease) in:	
Amount due to contract customers	(1,465,634)
Trade payables	(7,372,308)
Other payables and accrued expenses	<u>803,141</u>
Cash generated from operations	20,842,973
Interest income received	94,255
Income tax paid	<u>(7,006,059)</u>
<b>Net cash flows from operating activities</b>	<u>13,931,169</u>
Cash flows used in investing activity:	
Additions to property, plant and equipment	<u>(104,045)</u>
<b>Net cash flows used in investing activity</b>	<u>(104,045)</u>
Cash flows used in financing activity:	
Interest paid	(2,044)
Repayment of hire-purchase payables	(12,105)
Dividends paid	<u>(16,560,000)</u>
<b>Net cash flows used in financing activity</b>	<u>(16,574,149)</u>
<b>Net decrease in cash and cash equivalents</b>	(2,747,025)
<b>Cash and cash equivalents at the beginning of year</b>	<u>4,990,097</u>
<b>Cash and cash equivalents at the end of year</b>	<u>2,243,072</u>

\* Prepared based on the assumptions as highlighted in Section (D).



**10. FINANCIAL INFORMATION (cont'd)****(D) NOTES AND ASSUMPTIONS TO THE PROFORMA CONSOLIDATED FINANCIAL INFORMATION OF THE MEH GROUP**

The proforma consolidated financial information has been presented on the following bases and assumptions:

**1. Basis of Preparation**

The proforma consolidated financial information of the MEH Group, which consists of the following:

- Proforma consolidated income statements for the three financial years ended 31 August 2004, 2005 and 2006;
- Proforma consolidated balance sheet as of 31 August 2006;
- Proforma consolidated cash flow statement for the financial year ended 31 August 2006; and
- Proforma statement of assets and liabilities as of 31 August 2006,

has been prepared based on the accounting policies consistent with those adopted in the preparation of the statutory financial statements of MEH and of its subsidiary companies.

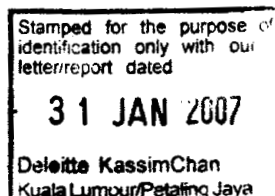
**2. Bases and Assumptions**

MEH was incorporated on 29 November 2004 and it completed its acquisition of Bayu Melati Sdn. Bhd. ("BMSB") and Pembinaan Kery Sdn. Bhd. ("Kery") for a purchase consideration of RM46,247,715 satisfied by the issuance of 92,495,430 new ordinary shares of RM0.50 each in MEH on 3 January 2007. The proforma consolidated financial information is prepared for illustrative purposes only to reflect the effects on:

- i) The financial results of the MEH Group for the financial years ended 31 August 2004 to 2006 if the MEH Group had been effected throughout the period under consideration;
- ii) The financial position of the MEH Group as of 31 August 2006 if the MEH Group had been effected on that date; and
- iii) The cash flows of the MEH Group for the financial year ended 31 August 2006 if the MEH Group had been effected throughout the period under consideration.

The proforma consolidated financial information has been prepared based on the following:

- Audited financial statements of MEH for the financial period 29 November 2004 (date of incorporation) to 31 August 2005 and the financial year ended 31 August 2006.
- Audited financial statements of BMSB for the financial years ended 31 August 2004 to 2006.



**10. FINANCIAL INFORMATION (cont'd)**

- Audited financial statements of Kery for the financial year ended 30 April 2004, financial period 1 May 2004 to 31 August 2005 and financial year ended 31 August 2006. The audited financial statements of Kery for the financial year ended 30 April 2004 and financial period 1 May 2004 to 31 August 2005 were time-apportioned to derive annual financial results with financial period ended 31 August.

The abovementioned audited financial statements have been prepared in accordance with the applicable approved accounting standards issued by the Malaysian Accounting Standards Board.

**(E) PROFORMA CONSOLIDATED ADJUSTMENTS****(i) Proforma Consolidated Income Statements**

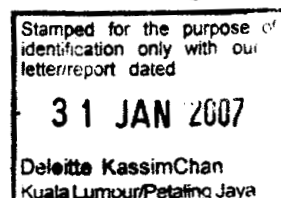
The following adjustments have been made in arriving at the proforma consolidated income statements:

**Year Ended 31 August 2004**

	← Adjustments →				Proforma RM
	MEH* RM	BMSB** RM	Kery** RM	Intercompany Elimination RM	
Revenue	-	49,792,494	41,044,954	(9,511,141)	81,326,307
Cost of sales	-	(32,390,616)	(37,349,274)	9,511,141	(60,228,749)
Gross profit	-				21,097,558
Other income	-	41,306	-	-	41,306
Administrative expenses	-	(376,510)	(318,409)	-	(694,919)
Other operating expenses	-	(273,715)	(45,900)	-	(319,615)
Profit from operations	-				20,124,330
Finance costs	-	(29,975)	-	-	(29,975)
Profit before tax	-				20,094,355
Income tax expense	-	(4,704,897)	(919,398)	-	(5,624,295)
Net profit for the year	-				14,470,060
Depreciation	-	151,877	29,732	-	181,609
EBITDA	-				20,305,939

\* MEH was incorporated on 29 November 2004, accordingly, no financial statements have been drawn up for the year ended 31 August 2004.

\*\* The adjustments made represent the income statement of BMSB for the year ended 31 August 2004 and the income statements of Kery for the year ended 30 April 2004 and financial period 1 May 2004 to 31 August 2005 which has been time-apportioned to derive at the annual financial results for the financial period ended 31 August. Significant inter-company transactions are eliminated.

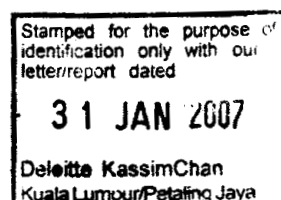


## 10. FINANCIAL INFORMATION (cont'd)

Year Ended 31 August 2005

	← Adjustments →				Proforma RM
	MEH RM	BMSB* RM	Kery* RM	Intercompany Elimination RM	
Revenue	-	54,310,028	79,578,599	(589,778)	133,298,849
Cost of sales	-	(39,825,650)	(69,448,247)	589,778	(108,684,119)
Gross profit	-				24,614,730
Other income	-	318,579	-	-	318,579
Administrative expenses	-	(440,866)	(378,349)	-	(819,215)
Other operating expenses	(447,924)	(762,006)	(26,417)	-	(1,236,347)
Profit/(Loss) from operations	(447,924)				22,877,747
Finance costs	-	(27,575)	-	-	(27,575)
Profit/(Loss) before tax	(447,924)				22,850,172
Income tax expense	-	(3,968,371)	(2,699,485)	-	(6,667,856)
Net profit/(loss) for the year	(447,924)				16,182,316
Depreciation	-	151,877	24,256	-	176,133
EBITDA	(447,924)				23,053,880

\* The adjustments made represent the income statement of BMSB for the year ended 31 August 2005 and the income statement of Kery for the financial period 1 May 2004 to 31 August 2005 which has been time-apportioned to derive at the annual financial results for the financial period ended 31 August. Significant inter-company transactions are eliminated.

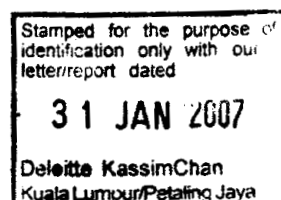


## 10. FINANCIAL INFORMATION (cont'd)

Year Ended 31 August 2006

	← Adjustments →				Proforma RM
	MEH RM	BMSB* RM	Kery* RM	Intercompany Elimination RM	
Revenue	-	109,253,884	34,948,774	-	144,202,658
Cost of sales	-	(83,360,875)	(27,879,513)	-	(111,240,388)
Gross profit	-				32,962,270
Other income	-	120,288	54,859	-	175,147
Administrative expenses	-	(501,420)	(401,129)	-	(902,549)
Other operating expenses	(39,755)	(75,694)	(479,060)	-	(594,509)
Profit/(Loss) from operations	(39,755)				31,640,359
Finance costs	-	(2,044)	-	-	(2,044)
Profit/(Loss) before tax	(39,755)				31,638,315
Income tax expense	-	(7,122,193)	(1,848,904)	-	(8,971,097)
Net profit/(loss) for the year	(39,755)				22,667,218
Depreciation	-	143,142	32,881	-	176,023
EBITDA	(39,755)				31,816,382

\* The adjustments made represent the income statements of BMSB and Kery for the financial year ended 31 August 2006. Significant inter-company transactions are eliminated.



## 10. FINANCIAL INFORMATION (cont'd)

## (ii) Proforma Consolidated Balance Sheet

As of 31 August 2006

	← Adjustments →				
	MEH RM	BMSB* RM	Kery* RM	Consolidation Elimination RM	Proforma RM
<b>NON-CURRENT ASSETS</b>					
Property, plant and equipment	-	922,427	44,557	-	966,984
Goodwill on consolidation	-	-	-	487,677	487,677
<b>CURRENT ASSETS</b>					
Amount due from contract customers	-	35,702,619	3,043,921	-	38,746,540
Trade receivables	-	16,997,783	33,604,933	(292,219)	50,310,497
Other receivables, deposits and prepaid expenses	359,683	9,447,290	5,800	(1,484,011)	8,328,762
Cash on hand and bank balances	2	2,208,426	35,651	-	2,244,079
	<u>359,685</u>				<u>99,629,878</u>
<b>CURRENT LIABILITIES</b>					
Amount due to contract customers	-	89,845	1,535,040	-	1,624,885
Trade payables	-	18,145,673	15,750,298	(292,219)	33,603,752
Other payables and accrued expenses	847,362	285,705	1,952,656	(1,484,011)	1,601,712
Hire-purchase payable	-	49,140	-	-	49,140
Tax liabilities	-	4,059,050	3,033,663	-	7,092,713
	<u>847,362</u>				<u>43,972,202</u>
<b>NET CURRENT ASSETS/(LIABILITIES)</b>	(487,677)				55,657,676
<b>LONG-TERM AND DEFERRED LIABILITIES</b>					
Hire-purchase payable	-	(42,922)	-	-	(42,922)
Deferred tax liabilities	-	(15,500)	(2,433)	-	(17,933)
	<u>(487,677)</u>				<u>57,051,482</u>
<b>Represented by:</b>					
Issued capital**	2	1,000,000	1,000,000	11,971,038	13,971,040
Reserves	<u>(487,679)</u>	<u>41,590,710</u>	<u>13,460,772</u>	<u>(11,483,361)</u>	<u>43,080,442</u>
<b>SHAREHOLDERS' EQUITY/(CAPITAL DEFICIENCY)</b>	<u>(487,677)</u>				<u>57,051,482</u>

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 Kuala Lumpur/Petaling Jaya



**10. FINANCIAL INFORMATION (cont'd)**

Note: The proforma consolidated balance sheets are prepared for illustrative purposes only to reflect the effects of the listing of MEH had it been completed as of 31 August 2006. Goodwill on consolidation represents the excess of the cost of combination over the net fair values of MEH's identifiable assets and liabilities as of 31 August 2006 while the acquisition of Kery resulted in a negative goodwill of RM1,489,732 being recognised as income.

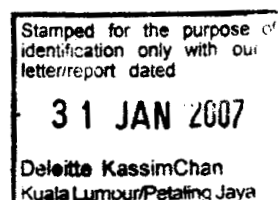
The proforma consolidated balance sheet incorporates the adjustments for the acquisitions of BMSB and Kery by MEH which is accounted for using reverse acquisition accounting in accordance with Malaysia Financial Reporting Standards (FRS) 3 Business Combinations. After completion of the acquisitions of BMSB and Kery, MEH becomes the legal parent company of MEH Group. Due to the relative values of the companies, the former shareholders of BMSB became the majority shareholders of MEH. Accordingly, the substance of the business combination is that BMSB acquires MEH in a reverse acquisition scenario. Subsequently, the combined entity of MEH and BMSB acquires Kery. Under FRS 3, as a result of the reverse acquisition, the proforma consolidated balance sheets have been prepared in the name of the legal parent, MEH, but it represents a continuation of the balance sheet of the legal subsidiary, BMSB, which is deemed as the acquirer.

\* The adjustments made represent the balance sheets of BMSB and Kery as of 31 August 2006. Significant inter-company balances are eliminated.

\*\* The proforma issued share capital balance is arrived at as follows:

	RM
Issued and paid-up share capital of MEH	2
Shares issued by MEH pursuant to the acquisition of BMSB and Kery	46,247,715
Elimination of cost of investment	<u>(32,276,677)</u>
	<u>13,971,040</u>

The number of issued and fully paid-up ordinary shares of the legal parent, MEH is 92,495,434 shares of RM0.50 each.



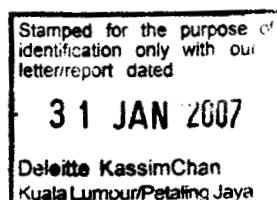
## 10. FINANCIAL INFORMATION (cont'd)

## (iii) Proforma Consolidated Cash Flow Statement

For The Year Ended 31 August 2006

	← Adjustments →			Proforma RM
	MEH RM	BMSB* RM	Kery* RM	
(Loss)/Profit before tax	(39,755)	25,434,139	6,243,931	31,638,315
Adjustments for non-cash items:				
Interest income	-	(94,255)	-	(94,255)
Interest expense	-	2,044	-	2,044
Depreciation of property, plant and equipment	-	143,142	32,881	176,023
Operating (loss)/profit before changes in working capital	(39,755)			31,722,127
(Increase)/Decrease in:				
Amount due from contract customers	-	(22,426,256)	(1,438,238)	(23,864,494)
Trade receivables (Note (a))	-	976,926	5,249,880	6,226,806
Other receivables, deposits and prepaid expenses	(359,683)	13,839,073	1,264,750	14,744,140
Bank balance under joint account	-	49,195	-	49,195
Increase/(Decrease) in:				
Amount due to contract customers	-	(2,303,374)	837,740	(1,465,634)
Trade payables (Note (a))	-	5,004,124	(12,376,432)	(7,372,308)
Other payables and accrued expenses	399,438	(85,308)	489,011	803,141
Cash generated from operations	-			20,842,973
Interest income received	-	94,255	-	94,255
Income tax paid	-	(5,254,721)	(1,751,338)	(7,006,059)
Net cash flows from operating activities	-			13,931,169
Cash flows used in investing activity:				
Additions to property, plant and equipment	-	(101,345)	(2,700)	(104,045)
<b>Net cash flows used in investing activity</b>	-			(104,045)
Cash flows used in financing activity:				
Interest paid	-	(2,044)	-	(2,044)
Repayment of hire-purchase payables	-	(12,105)	-	(12,105)
Dividends paid	-	(16,560,000)	-	(16,560,000)
<b>Net cash flows used in financing activities</b>	-			(16,574,149)
<b>Net decrease in cash and cash equivalents</b>	-			(2,747,025)

(Forward)



## 10. FINANCIAL INFORMATION (cont'd)

	← Adjustments →			Proforma RM
	MEH RM	BMSB* RM	Kery* RM	
Cash and cash equivalents at the beginning of year	2	3,503,929	1,486,166	4,990,097
Cash and cash equivalents at the end of year (Note (b))	2			2,243,072

\* The adjustments made represent the cash flow statements of BMSB and Kery for the financial year ended 31 August 2006. Significant inter-company transactions and balances are eliminated.

Note

- (a) During the financial year, Kery, Mega Legacy (M) Sdn Bhd ("Mega Legacy"), being a trade debtor of Kery, and Brem Holding Berhad ("Brem"), being a trade creditor of Kery, entered into an agreement whereby it was agreed that an amount of RM53,628,992 of trade payable owing by Kery to Brem will be paid by Mega Legacy to Brem directly in return for the discharge of the equivalent amount owing by Mega Legacy to Kery.

Pursuant to the above agreement, Brem shall not have any recourse against Kery for the said amount novated by Kery to Mega Legacy subject to Mega Legacy obtaining a written consent from its customer, Dewan Bandaraya Kuala Lumpur ("DBKL"), to approve the said novation, for which payments from the joint project account shall be made directly to Brem. Mega Legacy obtained the written consent from DBKL, approving the novation on 14 December 2006.

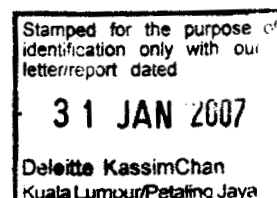
- (b) Included in bank balances of BMSB as of 31 August 2006 is a joint account amounting to RM1,007 maintained with Perbadanan Kemajuan Negeri Selangor ("PKNS"), the landowner and developer of Bayu Damansara Project, under a privatisation agreement entered into by BMSB and PKNS. BMSB had been appointed as the turnkey contractor for Bayu Damansara Project under the said privatisation agreement.

All proceeds collected from the sale of the properties are deposited in the said bank account and held on behalf of PKNS.

Cash and cash equivalents as of 31 August 2006 comprise the following:

	RM
Bank balances	2,244,079
Less: Bank balances under joint account with PKNS	(1,007)
	<u>2,243,072</u>

- (c) During the financial year, BMSB acquired property, plant and equipment at an aggregate cost of RM201,345 of which RM100,000 was acquired under hire-purchase arrangements. Cash payments by BMSB for the acquisition of property, plant and equipment amounted to RM101,345.

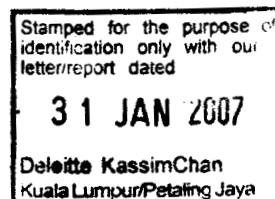


**10. FINANCIAL INFORMATION (cont'd)****(F) PROFORMA STATEMENT OF ASSETS AND LIABILITIES OF THE MEH GROUP AS OF 31 AUGUST 2006**

The proforma statement of assets and liabilities of the MEH Group has been prepared for illustrative purposes only based on the same bases and assumptions used in the preparation of the proforma consolidated balance sheet of the MEH Group as of 31 August 2006.

	Note	2006 RM
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	3	966,984
Goodwill on consolidation		487,677
<b>CURRENT ASSETS</b>		
Amount due from contract customers	4	38,746,540
Trade receivables	5, 6	50,310,497
Other receivables, deposits and prepaid expenses	5, 6	8,328,762
Cash and bank balances	8	2,244,079
		99,629,878
<b>CURRENT LIABILITIES</b>		
Amount due to contract customers	4	1,624,885
Trade payables	6, 9	33,603,752
Other payables and accrued expenses	9	1,601,712
Hire-purchase payable	10	49,140
Tax liabilities		7,092,713
		43,972,202
<b>NET CURRENT ASSETS</b>		55,657,676
<b>LONG-TERM AND DEFERRED LIABILITIES</b>		
Hire-purchase payable	10	(42,922)
Deferred tax liabilities	11	(17,933)
		57,051,482
<b>Represented by:</b>		
Issued capital	12	13,971,040
Reserves	13	43,080,442
<b>SHAREHOLDERS' EQUITY</b>		57,051,482

The above proforma statement of assets and liabilities should be read in conjunction with the accompanying Notes.



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**10. FINANCIAL INFORMATION (cont'd)**


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**MEH GROUP****NOTES TO THE PROFORMA STATEMENT OF ASSETS AND LIABILITIES****AS OF 31 AUGUST 2006****1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS**

The proforma statement of assets and liabilities of the MEH Group, prepared for illustrative purposes only, have been presented in accordance with the applicable approved accounting standards issued by the Malaysian Accounting Standards Board ("MASB") for entities other than private entities and is prepared based on the audited financial statements of MEH, BMSB and Kery for the financial year ended 31 August 2006.

**2. SIGNIFICANT ACCOUNTING POLICIES****Basis of Consolidation**

The proforma consolidated financial statements include the financial statements of MEH and its subsidiary companies made up to the end of the financial year. Significant inter-company balances and transactions are eliminated on consolidation. The results of subsidiary companies acquired during the year are included from the effective date of acquisition.

**Goodwill on consolidation**

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

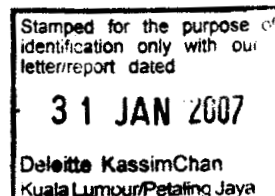
For the purpose of impairment testing, goodwill is allocated to each of the group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a prorata basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in subsequent period.

Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

**Revenue**

Revenue represents the proportion of the total contract value of construction contracts attributable to the percentage of construction works performed.

Revenue of construction contracts is recognised based on the percentage of completion method. The stage of completion is determined based on the proportion of contract costs incurred to date against the total estimated cost on contracts where the outcome of the contracts can be reliably estimated. Any foreseeable loss on contracts are provided in full.



**10. FINANCIAL INFORMATION (cont'd)****Income Tax**

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected amount of income tax payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and their corresponding tax bases used in the computation of taxable profit.

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

**Impairment of Assets**

The carrying amounts of property, plant and equipment are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount, which is the higher of net selling price and value in use is estimated. Whenever the carrying amount of an item of asset exceeds its recoverable amount, the impairment is recognised in the income statement.

An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, and no impairment loss had been recognised. All reversals of impairment loss are recognised in the income statement.

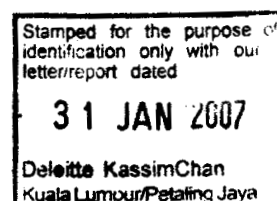
**Property, Plant and Equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and impairment loss, if any.

Gain or loss arising from disposal of an asset is determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and is recognised in the income statement.

Depreciation of property, plant and equipment is computed on the straight-line method at rates based on the estimated useful lives of the various assets. The principal annual rates used are as follows:

	<b>BMSB</b>	<b>Kery</b>
Furniture and fittings	10%	10%
Motor vehicle	10%	10%
Office equipment	15%	15%
Computer	25%	20%



**10. FINANCIAL INFORMATION (cont'd)****Interest in Joint Ventures**

The MEH Group's interest in joint ventures are undertaken through unincorporated joint ventures. Unincorporated joint ventures are joint ventures that do not involve the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the venturers themselves.

The MEH Group's interest in unincorporated joint ventures have been brought to account by incorporating the MEH Group's proportionate share of assets employed, and liabilities incurred by the joint ventures and their proportionate share of income and expenses in relation to the joint ventures in their respective classification categories in the financial statements.

**Construction Contracts**

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customers.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that are probable of recovery. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately as an allowance for foreseeable loss.

Amount due from contract customers represents the excess of contract costs incurred to date and portion of profit or loss attributable to work performed to date over progress billings while amount due to contract customers represents the excess of progress billings over contract costs incurred to date and portion of profit or loss attributable to work performed to date.

**Receivables**

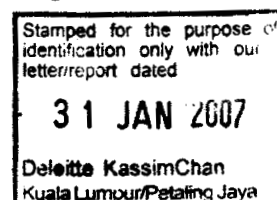
Trade and other receivables are stated at nominal value as reduced by the appropriate allowances for estimated irrecoverable amount. Allowance for doubtful receivables is made based on estimates of possible losses which may arise from non-collection of certain receivable accounts.

**Related parties**

Related parties are entities with common direct or indirect shareholders and/or directors. Parties are considered to be related if one party has ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

**Cash and cash equivalents**

Cash and cash equivalents comprise bank balances which are subject to insignificant risk of changes in value.



**10. FINANCIAL INFORMATION (cont'd)****Financial Assets**

MEH Group's principal financial assets are trade and other receivables and bank balances.

**Financial Liabilities**

Debts are classified as liabilities in accordance with the substance of the contractual arrangement.

Significant financial liabilities of the MEH Group include trade and other payables.

**3. PROPERTY, PLANT AND EQUIPMENT**

	<b>Furniture and fittings RM</b>	<b>Motor vehicles RM</b>	<b>Office equipment RM</b>	<b>Computer RM</b>	<b>Total RM</b>
<b>Cost</b>					
At beginning of year	14,763	1,487,514	28,166	124,101	1,654,544
Additions	-	200,765	580	2,700	204,045
At end of year	14,763	1,688,279	28,746	126,801	1,858,589
<b>Accumulated Depreciation</b>					
At beginning of year	6,671	579,211	10,461	119,239	715,582
Charge for the year	1,346	168,827	3,573	2,277	176,023
At end of year	8,017	748,038	14,034	121,516	891,605
<b>Net Book Value</b>					
<b>As of 31 August 2006</b>	6,746	940,241	14,712	5,285	966,984

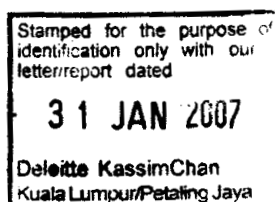
Motor vehicles of the MEH Group with net book value amounting to RM180,688 are currently under hire-purchase arrangements.

Two of the motor vehicles of the MEH Group with net book value of RM761,688 are registered in the name of a director and is held in trust for the MEH Group.

Included in property, plant and equipment of the MEH Group are fully depreciated computers, furniture and fittings which are still in use, with a total cost of RM116,893.

The depreciation charge is allocated as follows:

	<b>2006 RM</b>
Income statements	104,452
Contract costs	71,571
	<u>176,023</u>





**10. FINANCIAL INFORMATION (cont'd)****4. AMOUNT DUE FROM/(TO) CONTRACT CUSTOMERS**

	<b>As of 31 August 2006 RM</b>
Contract costs incurred	332,441,793
Profit attributable to work performed to date	<u>104,637,360</u>
	437,079,153
Eliminated due to completion of projects	<u>(45,619,844)</u>
Total	391,459,309
Progress billings received and receivable	<u>(399,893,242)</u>
Eliminated due to completion of projects	<u>45,555,588</u>
	<u>(354,337,654)</u>
	<u>37,121,655</u>
Represented by:	
Amount due from contract customers	38,746,540
Amount due to contract customers	<u>(1,624,885)</u>
	<u>37,121,655</u>

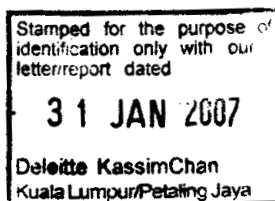
Included in contract costs incurred during the financial year are the following:

	<b>2006 RM</b>
Depreciation of property, plant and equipment	71,571
Staff costs	<u>203,467</u>

**5. TRADE RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAID EXPENSES**

Trade receivables arose mainly from progress billings in respect of construction contracts undertaken. The MEH Group's credit terms are assessed and approved on a case by case basis.

	<b>As of 31 August 2006 RM</b>
Trade receivables	47,423,132
Retention sums	<u>2,887,365</u>
Total	<u>50,310,497</u>



**10. FINANCIAL INFORMATION (cont'd)**

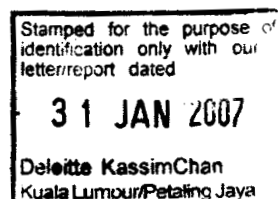
Other receivables, deposits and prepaid expenses consist of the following:

	<b>As of 31 August 2006 RM</b>
Other receivables	119,000
Advances to sub-contractors	6,926,062
Refundable deposits	24,640
Prepaid expenses	1,259,060
	<u>8,328,762</u>

**6. RELATED PARTIES TRANSACTIONS**

Related parties are entities which have common directors and/or shareholders with the MEH Group. Included in the balance sheet of the MEH Group are amounts owing by/(to) related parties. The relationships of the said related parties with the MEH Group are as follows:

<b>Related parties</b>	<b>Relationship</b>
DSB Development Sdn. Bhd.	A company in which Dato' Yap Suan Chee and Radzulai Bin Yahaya, the directors of BMSB are directors and shareholders.
Melati Ehsan Development Sdn. Bhd.	A company in which Dato' Yap Suan Chee and Radzulai Bin Yahaya, the directors of BMSB and Kery are directors and shareholders and Dato' Mohd Zain Bin Yahya, a director of Kery is a director.
Bonus Focus (M) Sdn. Bhd.	A company in which Dato' Yap Suan Chee and Radzulai Bin Yahaya, the directors of Kery, are directors and shareholders.
Mega Legacy (M) Sdn. Bhd.	A company in which Dato' Yap Suan Chee and Tan Hong Hing @ Tan Eng Hing, the directors of Kery, are directors and shareholders.
Konsortium Syarikat Bina Darul Aman Berhad – Pembinaan Kery Sdn. Bhd.	Joint venture of Pembinaan Kery Sdn. Bhd., a company in which Dato' Yap Suan Chee and Radzulai Bin Yahaya, the directors of BMSB are directors.
Konsortium Melati Ehsan (M) Sdn. Bhd. - Desa Purnama Sdn. Bhd.	Joint venture of Melati Ehsan (M) Sdn. Bhd., a company in which Dato' Yap Suan Chee, Radzulai Bin Yahaya and Zaitun Binti Dato' Seri Abu Bakar, the directors of BMSB, are directors and shareholders.



**10. FINANCIAL INFORMATION (cont'd)**

The outstanding balances arising from transactions with related parties are as follows:

	<b>As of 31 August 2006 RM</b>
Trade receivables	<u>37,171,050</u>

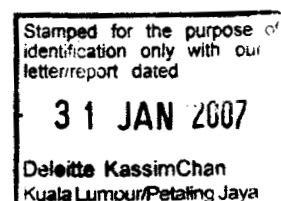
The amount included in trade receivables arose from progress billings and retention sums in respect of construction contracts undertaken.

During the financial year, significant transactions between the MEH Group and its related parties are as follows:

<b>Name of Company</b>	<b>Nature</b>	<b>Year ended 31 August 2006 RM</b>
Konsortium Melati Ehsan (M) Sdn. Bhd. - Desa Purnama Sdn. Bhd.	Progress billings receivable	42,098,400
Mega Legacy (M) Sdn. Bhd.	Progress billings receivable	18,722,920
	Novation of outstanding trade debts to a trade payable (Note) (Note 9)	53,628,992
Melati Ehsan Development Sdn. Bhd.	Progress billings receivable	16,786,635
DSB Development Sdn. Bhd.	Progress billings receivable	3,163,003
Bonus Focus (M) Sdn. Bhd.	Progress billings receivable	<u>1,200,734</u>

Note: During the financial year, Kery, Mega Legacy (M) Sdn Bhd (“Mega Legacy”), being a trade debtor of Kery, and Brem Holding Berhad (“Brem”), being a trade creditor of Kery, entered into an agreement whereby it was agreed that an amount of RM53,628,992 of trade payable owing by Kery to Brem will be paid by Mega Legacy to Brem directly in return for the discharge of the equivalent amount owing by Mega Legacy to Kery.

Pursuant to the above agreement, Brem shall not have any recourse against Kery for the said amount novated by Kery to Mega Legacy subject to Mega Legacy obtaining a written consent from its customer, Dewan Bandaraya Kuala Lumpur (“DBKL”), to approve the said novation, for which payments from the joint project account shall be made directly to Brem. Mega Legacy obtained the written consent from DBKL, approving the novation on 14 December 2006.



## 10. FINANCIAL INFORMATION (cont'd)

## 7. JOINT VENTURES

## Interest in Joint Ventures

The financial statements of the MEH Group include the following joint venture operations:

Name of Joint Ventures	Effective Interest Year ended 31 August 2006 %	Principal Activities
<b>Joint Ventures of the MEH Group</b>		
Pembinaan Kery Sdn Bhd – Pertubuhan Peladang Kawasan Lahar Bubu ("PPKLB")	80	Construction of detention pond, channel improvement, new drains, installation of flap gates and flood protection bunds ("BERTAM Project")
Konsortium Syarikat Bina Darulaman Berhad – Pembinaan Kery Sdn Bhd	45	Construction of a 2-lane single carriageway road from Durian Burung to Kupang in Kedah ("TEKIH Project")

BERTAM Project and TEKIH Project were awarded by Jabatan Pengairan dan Saliran Malaysia and Jabatan Kerja Raya respectively to the joint ventures. Thereafter, the joint ventures sub-contracted the BERTAM Project to Kery and the TEKIH Project to BMSB.

The following amounts represent the MEH Group's proportionate share of assets and liabilities of the unincorporated joint ventures and have been included in the financial statements under their respective classification categories:

	As of 31 August 2006 RM
<b>Current Assets</b>	
Trade receivables	1,317,947
Bank balances	913
	<u>1,318,860</u>
<b>Current Liabilities</b>	
Trade payables	1,317,947
Other payables and accrued expenses	945
	<u>1,318,892</u>
<b>Net Current Liabilities</b>	<u>(32)</u>

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letter/report dated  
**31 JAN 2007**  
Deloitte KassimChan  
Kuala Lumpur/Petaling Jaya

**10. FINANCIAL INFORMATION (cont'd)**

The MEH Group's proportionate share of the income and expenses of the unincorporated joint ventures during the financial year are as follows:

	<b>Year ended 31 August 2006 RM</b>
Contract revenue	755,487
Contract costs	<u>(712,723)</u>
Gross profit	42,764
Other operating expenses	<u>(42,796)</u>
<b>Loss before tax</b>	<u><b>(32)</b></u>

The financial statements of the MEH Group during the financial year reflect the following significant transactions with the joint ventures:

	<b>Year ended 31 August 2006 RM</b>
Pembinaan Kery Sdn Bhd – PPKLB: Progress billings receivable from	<u>3,874,072</u>

**8. CASH AND CASH EQUIVALENTS**

- (a) Included in bank balances of BMSB as of 31 August 2006 is a joint account amounting to RM1,007 maintained with Perbadanan Kemajuan Negeri Selangor ("PKNS"), the landowner and developer of Bayu Damansara Project, under a privatisation agreement entered into by BMSB and PKNS. BMSB had been appointed as the turnkey contractor for Bayu Damansara Project under the said privatisation agreement.

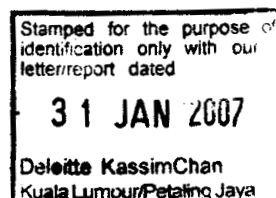
All proceeds collected from the sale of the properties are deposited in the said bank account and held on behalf of PKNS.

- (b) Cash and cash equivalents comprise the following:

	<b>As of 31 August 2006 RM</b>
Bank balances	2,244,079
Less: Bank balances under joint account with PKNS (Note (a))	<u>(1,007)</u>
	<u>2,243,072</u>

**9. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED EXPENSES**

Trade payables arose mainly from progress claims in respect of construction contracts undertaken net of novation of trade debts owing by a related party as mentioned in Note 6. The normal credit term granted to the MEH Group ranges from 30 to 90 days.



**10. FINANCIAL INFORMATION (cont'd)**

	As of 31 August 2006 RM
Trade payables	30,011,465
Retention sums	<u>3,592,287</u>
Total	<u><u>33,603,752</u></u>

Other payables and accrued expenses consist of the following:

	As of 31 August 2006 RM
Other payables	1,127,312
Accrued expenses	<u>474,400</u>
	<u><u>1,601,712</u></u>

**10. HIRE-PURCHASE PAYABLE**

	As of 31 August 2006 RM
Total outstanding	96,616
Less: Interest-in-suspense	<u>(4,554)</u>
Principal outstanding	92,062
Less: Amount due within 12 months	<u>(49,140)</u>
Non-current portion	<u><u>42,922</u></u>

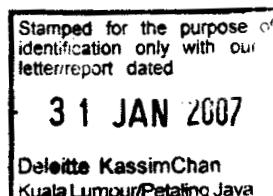
The non-current portion is repayable during the financial year ending 31 August 2008.

The interest rates implicit in the hire-purchase obligation is 5.11% per annum and the interest rate is fixed at the inception of the hire-purchase arrangement. The hire-purchase payable is secured by a charge over the motor vehicles under hire-purchase. (Note 3)

**11. DEFERRED TAX LIABILITIES**

	As of 31 August 2006 RM
At beginning of year	16,836
Transfer to income statement	<u>1,097</u>
At end of year	<u><u>17,933</u></u>

The deferred tax liabilities are in respect of temporary differences on property, plant and equipment.



**10. FINANCIAL INFORMATION (cont'd)****12. SHARE CAPITAL**

The proforma authorised share capital and issued and fully paid-up share capital of the legal parent, MEH is as follows:

	<b>As of 31 August 2006 RM</b>
Authorised:	
Beginning balance of 200,000 ordinary shares of RM0.50 each*	100,000
Creation of 199,800,000 ordinary shares of RM0.50 each	<u>99,900,000</u>
	<u>100,000,000</u>
Issued and fully paid:	
Beginning balance of 4 ordinary shares of RM0.50 each*	2
Issuance and allotment of 92,495,430 ordinary shares pursuant to the acquisition of BMSB and Kery	<u>46,247,715</u>
	<u>46,247,717</u>

- \* Pursuant to the approval of shareholders at an Extraordinary General Meeting held on 1 June 2006, the issued and paid up share capital of MEH comprising two (2) ordinary shares of RM1 each were subdivided into four (4) ordinary shares of RM0.50 each and that the authorized share capital of MEH, comprising 100,000 ordinary shares of RM1.00 each were altered by subdividing them into 200,000 ordinary shares of RM0.50 each. Accordingly, the authorized share capital of MEH represent RM100,000 comprising 200,000 ordinary shares of RM0.50 each and the issued and paid up share capital represent four (4) ordinary shares of RM0.50 each.

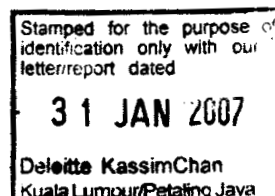
**13. DIVIDEND**

	<b>Year ended 31 August 2006 RM</b>
Interim dividend: 2,300%, less tax	<u>16,560,000</u>

**14. FINANCIAL INSTRUMENTS****Financial Risk Management Objectives and Policies**

The MEH Group does not have any formal financial risk management policies. Financial risk management is practised informally based on personal judgement and business acumen of the directors of the MEH Group.

The activities of the MEH Group are exposed to variety of financial risks including credit risk, liquidity risk and cash flow risks.



**10. FINANCIAL INFORMATION (cont'd)****(i) Credit risk**

The MEH Group is exposed to credit risk mainly from related parties indebtedness.

Trade receivables amounting to RM37,171,050 represented balance solely owing by related parties which arose from progress billings and retention sums in respect of construction contracts undertaken.

Concentrations of credit risk exist when changes in economic, industry or geographical factors similarly affect counterparties whose aggregate credit exposure is significant in relation to the MEH Group's total credit exposure for the financial year ended 31 August 2006.

**(ii) Liquidity risk**

The MEH Group practices prudent liquidity risk management to minimise the mismatch of financial assets and liabilities and to maintain sufficient credit facilities for contingent funding requirement of working capital.

**(iii) Cash flow risk**

The MEH Group reviews its cash flow position regularly to manage its exposure to fluctuations in future cash flows associated with its monetary financial instruments.

**Fair Values**

The fair values of the financial assets and financial liabilities reported in the balance sheet approximate the carrying amounts of these assets and liabilities because of the immediate or short-term maturity of these instruments.

**15. SUBSIDIARY COMPANIES ACQUIRED**

Details of subsidiary companies of MEH that were acquired are as follows:

<b>Name of Subsidiary Company</b>	<b>Country of Incorporation</b>	<b>Principal Activities</b>	<b>Effective Equity Interest</b>
<b>Direct subsidiary company</b>			
Bayu Melati Sdn. Bhd.	Malaysia	Turnkey contractor	100%
Pembinaan Kery Sdn. Bhd.	Malaysia	Turnkey contractor	100%

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**31 JAN 2007**  
Deloitte KassimChan  
Kuala Lumpur/Petaling Jaya

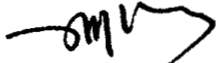


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10. FINANCIAL INFORMATION *(cont'd)*

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On behalf of the Board of Directors,



~~Date: Yap Suan Chee~~  
Director

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letter/report dated  
**31 JAN 2007**  
Deloitte Kassim Chan  
Kuala Lumpur/Petaling Jaya

10. FINANCIAL INFORMATION *(cont'd)*

10.1.1 Reporting Accountants' Letter on the Proforma Consolidated Financial Information

*(Prepared for the inclusion in this Prospectus)*

**Deloitte.**

Deloitte KassimChan (AF 0080)  
Chartered Accountants  
Level 19, Uptown 1  
1 Jalan SS 21/58  
Damansara Uptown  
47400 Petaling Jaya  
Malaysia

31 January 2007

P. O. Box 10093  
50704 Kuala Lumpur  
Malaysia

The Board of Directors  
Melati Ehsan Holdings Berhad  
5, Jalan Titiwangsa  
53200 Kuala Lumpur

Tel : +603 77236500, 77261833  
Fax : +603 77263986, 77268986  
myaaa@deloitte.com  
www.deloitte.com.my

Dear Sirs,

**MELATI EHSAN HOLDINGS BERHAD ("MEH")  
PROFORMA CONSOLIDATED FINANCIAL INFORMATION**

We have reviewed the presentation of the proforma consolidated financial information of MEH and its subsidiary companies ("MEH Group"), which consists of proforma consolidated income statements for the three financial years ended 31 August 2004, 2005 and 2006; proforma consolidated balance sheet as of 31 August 2006; proforma consolidated cash flow statement for the financial year ended 31 August 2006; and proforma statement of assets and liabilities as of 31 August 2006, together with the notes and assumptions thereto prepared for illustrative purposes only, for which the Directors of MEH are solely responsible, as set out in the Prospectus to be dated 26 February 2007 in conjunction with the listing of and quotation for the entire issued and paid-up share capital of MEH, comprising 120,000,434 ordinary shares of RM0.50 each ("MEH Shares") on the Main Board of Bursa Malaysia Securities Berhad ("Bursa Malaysia") which include the public issue of 27,505,000 new MEH Shares at an issue price of RM1.28 per MEH Share payable in full upon application.

MEH was incorporated on 29 November 2004 and it completed its acquisition of Bayu Melati Sdn. Bhd. ("BMSB") and Pembinaan Kery Sdn. Bhd. ("Kery") for a purchase consideration of RM46,247,715 satisfied by the issuance of 92,495,430 new MEH Shares of RM0.50 each on 3 January 2007. The abovementioned proforma consolidated financial information has been presented for illustrative purposes only to reflect the effects on the financial position, the financial results and cash flows of the MEH Group based on the assumption that the acquisition of the subsidiary companies had been effected throughout the periods under consideration and have been prepared by the summation of the audited results of the companies in the MEH Group adjusted for intercompany transactions if any.

**Responsibilities**

It is the sole responsibility of the Directors of MEH to prepare the proforma consolidated financial information in accordance with the requirements of the Securities Commission's Prospectus Guidelines in respect of Public Offerings ("the Guidelines").

Our responsibility is to form an opinion on the proforma consolidated financial information, as required by the Guidelines, and to report our opinion to you.

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10. FINANCIAL INFORMATION *(cont'd)*

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Deloitte KassimChan

31 January 2007

Melati Ehsan Holdings Berhad

Page No 2

**Basis of Opinion**

Our work consisted primarily of comparing the unadjusted financial information with documentation furnished to us, considering the supporting adjustments and discussing the proforma consolidated financial information with the Directors of MEH. Our work did not involve any independent examination of the proforma consolidated financial information.

As the proforma consolidated financial information has been prepared for illustrative purposes only, such information may not, because of its nature, reflect the actual financial position and results of the MEH Group. Further, such information does not purport to predict the future financial position and results of the MEH Group.

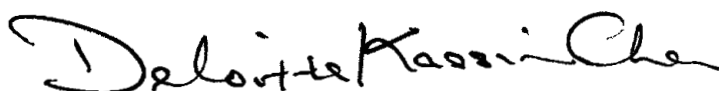
**Opinion**

With the foregoing explanations, in our opinion:

- (a) The proforma consolidated financial information has been properly prepared:
  - (i) on the basis and assumptions of preparation as stated and that such basis is consistent with the accounting policies adopted by MEH and its subsidiary companies; and
  - (ii) based on the audited financial statements of MEH and its subsidiary companies for the financial years/periods under consideration and such financial statements have been prepared in accordance with the applicable approved accounting standards issued by the Malaysian Accounting Standards Board.
- (b) each material adjustment made to the information used in the preparation of the proforma consolidated financial information is appropriate for the purpose of preparing the proforma consolidated financial information.

We understand that this report will be used solely for inclusion in the Prospectus of MEH in connection with the abovementioned corporate exercise. As such, this report should not be used or referred to, in whole or in part, for any other purposes without our prior written consent.

Yours very truly,



Enclosure

## 10. FINANCIAL INFORMATION (cont'd)

### 10.2 Operating and Financial Review

#### 10.2.1 Segmental Analysis Of Revenue And Gross Profit

All the revenue and profits derived by the MEH Group is from construction activities, The segmental analysis of revenue and gross profit generated by each subsidiary company of our Group is as follows:

##### Analysis Of Revenue and Gross Profit By Subsidiaries

	FYE 31 August 2004 RM'000	FYE 31 August 2005 RM'000	FYE 31 August 2006 RM'000
<b>Revenue</b>			
BMSB	49,792	54,310	109,254
Kery*	41,045	79,579	34,949
MEH	-	-	-
	<u>90,837</u>	<u>133,889</u>	<u>144,203</u>
Intercompany transactions	(9,511)	(590)	-
<b>Total revenue</b>	<u><b>81,326</b></u>	<u><b>133,299</b></u>	<u><b>144,203</b></u>
<b>Gross Profit</b>			
BMSB	17,402	14,484	25,893
Kery	3,696	10,130	7,069
MEH	-	-	-
<b>Total gross profit</b>	<u><b>21,098</b></u>	<u><b>24,614</b></u>	<u><b>32,962</b></u>
<b>Gross Profit Margin (%)</b>	<u><b>25.94</b></u>	<u><b>18.47</b></u>	<u><b>22.86</b></u>

\* The revenue and gross profit for Kery was time apportioned to derive the annual financial results with financial period ended 31 August based on Kery's audited income statements of 30 April 2004 and 16 month period ended 31 August 2005.

#### 10.2.2 Overview Of Turnover

Our Group has been involved in the construction industry since May 1994 when Kery commenced operations. Our revenue and profits are all derived from construction activities.

##### FYE 31 August 2004

In FYE 2004, our Group experienced an increase of 101% in revenue as compared to the previous financial year due mainly to near completion of our construction projects which includes Bayu Damansara – Parcel A, Ehsan Jaya I and Taman Juara Jaya. The Taman Juara Jaya project which commenced construction during the year involved the construction of residential houses and Tenaga Nasional Berhad's substation at Taman Juara Jaya, Mukim Cheras, Daerah Hulu Langat, Selangor. In addition, our Group had secured a project worth approximately RM9.8 million from Konsortium Nusa Baiduri Sdn Bhd – Brem Maju Sdn Bhd – Seberang Cempaka Sdn Bhd for the construction of a bridge in Pinang Tunggal, Penang.

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**10. FINANCIAL INFORMATION (cont'd)**


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**FYE 31 August 2005**

Revenue in 2005 increased due mainly to commencement of seven new projects, namely:

- (i) Bayu Damansara – Parcel B which was awarded by PKNS with a contract price of approximately RM24 million. Bayu Damansara – Parcel B is the second stage of the Bayu Damansara project where BMSB was appointed as the turnkey contractor to undertake the mixed development of Bayu Damansara at Kota Damansara;
- (ii) the turnkey project to upgrade Laluan Persekutuan 54 at Sungai Buloh, Selangor (“FR54”) which was awarded by Konsortium Melati Ehsan (M) Sdn. Bhd.-Desa Purnama Sdn. Bhd., after the said Konsortium secured the contract from JKR;
- (iii) the Majlis Link project, which was awarded by JKR to MESB which was sub-contracted to BMSB. The Majlis Link project is a turnkey contract to build a link road at Free Trade Zone, Pusat Bandar Seaport, Damansara Jaya;
- (iv) the Desa Sri Bayu project awarded by DSB Development Sdn Bhd (“DSB”) with a contract price of RM13 million. Majlis Perbandaran Selayang entered into a privatization agreement with DSB for the privatization of the development of “Desa Sri Bayu” at Rawang, Selangor. The construction contract awarded to BMSB was for the construction of overall infrastructure works, one block low cost apartment (90 units), 9 units of low cost shop at the ground floor and one unit sewerage treatment plant at Desa Sri Bayu;
- (v) the Trans Eastern Kedah Interland Highway (“TEKIH”) which was awarded by JKR to BDB-Kery Joint Venture (a joint venture between Bina Darulaman Berhad and Pembinaan Kery Sdn. Bhd.) which was subsequently awarded to BMSB to construct a highway in Kedah with a contract price of RM287 million;
- (vi) the Taman Aman Putra project (“Taman Aman Putra”) which was awarded by DBKL / MLSB to design and construct low and medium cost apartments and commercial lots on Lot 1252, 13562, 4643, 6016 and 11646 in Jinjang Utara with a contract price of approximately RM521 million; and
- (vii) the flood mitigation project at Kawasan Bertam – Kepala Batas which was awarded by Jabatan Pengairan & Saliran under a deferred payment scheme to Kery-PPKLB Joint Venture (a joint venture between Kery and Pertubuhan Peladang Kawasan Lahar Bubu) which was subsequently awarded to Kery with a contract price of RM169 million.

**FYE 31 August 2006**

Our Group achieved a revenue of RM145 million representing an increase of approximately RM11 million or 8.7% as compared to FYE 2005.

Revenue for BMSB increased by approximately RM55 million mainly due to higher percentage of completion for Bayu Damansara – Parcel B, FR54 and Majlis Link projects. In addition, commencement of contracts awarded by MEDSB in relation to

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**10. FINANCIAL INFORMATION (cont'd)**

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Taman Ehsan Jaya whereby BMSB was appointed to construct infrastructure and earthworks for Phase 1D and Phases 9,10,11 also contributed to the increase in BMSB's revenue.

The increase in revenue was partly offset by the lower revenue generated by Kery as the progress of the 2 main projects in Kery namely Taman Aman Putra and the flood mitigation at Kawasan Bertam – Kepala Batas projects were slower in 2006 as compared to 2005. The work progress for the Taman Aman Putra project was slow as the developer, MLSB had submitted applications to the relevant authorities for amendments to the original development plans of Taman Aman Putra. As such, the construction progress was slower pending the approval from the relevant authorities for the change in the development plans for Taman Aman Putra.

The work progress is slower for the flood mitigation project at Kawasan Bertam – Kepala Batas as the joint venture is still awaiting finalisation on the financing method from Jabatan Pengairan & Saliran for the remaining of the RM150 million contract of which RM17 million interim works had commenced.

### **10.2.3 Overview of Gross Profit and Gross Profit Margin**

The gross profit and gross profit margin for our Group is mainly driven by the types of projects undertaken by our Group. For FYE 2004, our Group's profits were mainly derived from the Bayu Damansara project where the gross profit margin was higher because our Group was required to fund the building as well as the infrastructure costs of the project and only recovered the costs through the proceeds released by PKNS from the properties sold. In addition, our Group was also responsible for the design, construction, completion and maintenance of the project.

The gross profit margins decreased in FYE 2005 as our Group undertook more projects such as the Taman Aman Putra project which yielded lower margins as it is not a high-end development as compared to Bayu Damansara. Further, Kery was not bearing the financing risk solely as a sub-contractor was engaged to share the financing risk with Kery. As such, the gross margin for Taman Aman Putra was lower.

The gross margins for the infrastructure projects such as Majlis Link, FR54, TEKIH and the flood mitigation project at Kawasan Bertam - Kepala Batas was not as high as the gross margin for Bayu Damansara as our Group is not required to fully finance these projects. The gross margins for each project fluctuated as it depended on the outcome of the direct negotiation and the scope of work and risks involved for each project.

For FYE2006, gross profit margin improved due mainly to the higher profit contribution from projects with higher margins such as Bayu Damansara – Parcel B and Taman Ehsan Jaya as compared to the projects undertaken in FYE 2005.

Whilst it is conceivable that our Group is able to secure projects with high margins in the future, the gross margins are projected on a declining trend as our Group has been prudent in our forecast whereby the gross margins for the future projects were projected at 10% only.

Nevertheless, our Group will continue to concentrate on projects from the government or quasi government sector due to credit risks and unstable payment frequently associated with private sector projects although the gross margins for these projects may be lower. Further, on an absolute Ringgit terms, the projected PAT of our Group is on an increasing trend.

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**10. FINANCIAL INFORMATION (cont'd)**

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**10.2.4 Outstanding Tax Liabilities**

BMSB has settled all its tax liabilities up to the year of assessment 2005 whilst Kery had an outstanding tax liability and tax penalty for the year of assessment 2005 of RM1.85 million and RM0.46 million respectively. Both the tax liability and tax penalty have been fully provided for in Kery's audited financial statements for FYE 2005 and FYE 2006 respectively. Kery has appealed to the Inland Revenue Board ("IRB") on 20 July 2006 for the waiver of such tax penalty. As at the LPD, the IRB has yet to revert on its decision for the waiver of the tax penalty. However, as at LPD, the outstanding tax liabilities for the year of assessment 2005 has reduced to RM770,605 subsequent to the monthly instalment payments made by Kery.

**10.2.5 Liquidity and Capital Resources**

Our Group's main sources of liquidity are cash and bank balances which is derived from our internally generated funds as well as from our shareholders equity. Our Group adopts a zero gearing policy (save for hire-purchase liabilities of less than RM100,000) and hence our gearing ratio is merely 0.002 times based on our proforma consolidated balance sheets as at 31 August 2006 after the Acquisition.

For FYE 31 August 2006 based on our proforma consolidated financial information as set out in Section 10.1, cash generated from operating activities totalled RM13.9 million and the amount was utilised for payment of income tax and dividend to our shareholders. After the said payments, the cash balances of our group totalled RM2.243 million as at 31 August 2006.

**10.2.6 Factors Affecting Financial Performance, Position And Operations Of Our Group**

As at the LPD, our Directors are of the view that the financial performance, position and operations of our Group are not materially affected by any of the following:

- (a) known trends, demands, commitments, events or uncertainties that have had or that are reasonably likely to have a material favourable or unfavourable impact on financial performance, position and operations of our Group;
- (b) material commitments for capital expenditure;
- (c) unusual or infrequent events or transactions or any significant economic changes that materially affected the financial performance, position and operations of our Group; and
- (d) known events, circumstances, trends, uncertainties and commitments that are reasonably likely to make the historical financial statements not indicative of future financial performance and position.

**10.3 Material Litigation, Material Commitments, Indebtedness, Contingent Liabilities And Working Capital****10.3.1 Material Litigation**

As at the LPD, our Group are not engaged in any litigation, either as plaintiff or defendant, which has a material effect on the financial position of our Group and our Directors have no knowledge of any proceedings pending or threatened against our

**10. FINANCIAL INFORMATION (cont'd)**

Group or of any facts likely to give rise to any proceedings which might materially and adversely affect the position or business of our Group.

**10.3.2 Material Commitment**

As at the LPD, there is no other material commitment for capital expenditure incurred or known to be incurred by our Group, which may have a substantial impact on the results or the financial position of our Group.

**10.3.3 Indebtedness**

As at the LPD, our Group does not have any outstanding borrowings.

There has not been any default on payments of either interest and/or principal sums in respect of any borrowings throughout the past one (1) financial year ended 31 August 2006.

**10.3.4 Contingent Liabilities**

As at the LPD, there are no contingent liabilities, which upon becoming enforceable may have a material impact on the profit or net asset value of our Group.

**10.3.5 Working Capital**

Our Directors are of the opinion that after taking into account our Group's cash flow position, our Group will have adequate working capital for a period of twelve (12) months from the date of issue of this Prospectus.

**10.4 Debtors Ageing Analysis as at 31 August 2006**

Based on the proforma audited consolidated balance sheets of our Group as at 31 August 2006, total trade debt debtors (excluding retention sum) amounted to approximately RM47.42 million. The credit period extended to our customers is between 30 to 90 days. As at 31 August 2006, approximately RM2.7 million of retention sums was not yet due for payment.

The ageing analysis for the trade debtors as at 31 August 2006 (based on the audited financial statements) is as follows:

As at 31 August 2006	0-30 days	31-60 days	61-90 days	> 90 days	Total	Subsequent receipt as at LPD
Trade debtors (RM'000)	20,180	8,013	695	17,535	47,423	26,714
% of total trade debts	42.55	16.90	3.57	36.98	100.00	56.33
Retention sum (RM'000)	1,163	131	153	1,440	2,887	-

As at the LPD, approximately 56.33 % of the trade debts has been collected. The retention sum of RM2.9 million is not due for payment yet.



**10. FINANCIAL INFORMATION (cont'd)**

For trade receivables arising from the flood mitigation project at Kawasan Bertam – Kepala Batas, the payment method by Jabatan Pengairan & Saliran (“JPS”) is via deferred payment. There is an arrangement with a financial institution whereby our Group obtains financing for this project secured through an undertaking by JPS to repay the entire loan amount including interest to the financial institution upon completion of the project. As disclosed in Section 7.1 of this Prospectus, all outstanding trade receivables arising from this project is not provided for as payment is secured by the financing from the financial institution which will be repaid by JPS upon completion of the project. As at 31 August 2006, RM11.82 million is due from JPS, of which RM9.08 million is due for more than 6 months.

Our Group has not made provisions for outstanding debts above the credit period as our Directors are of the opinion that the trade debts are recoverable from the respective trade debtors. Most of our contracts are awarded by government or quasi government bodies, as such the risk of default is minimal. Save for the abovesaid kepala Batas Project, none of our trade receivables have exceeded the 6 months. As disclosed in Section 7.1 of this prospectus, we have complied with the SC’s condition in relation to our trade receivables.

As at the LPD, there has been no dispute or legal action on the overdue trade debts.

**10.5 Future Financial Information****10.5.1 Consolidated Profit Forecast**

Financial Year Ending 31 August	Forecast 2007 RM’000
Revenue	236,924
Consolidated PBT	35,257
Add/ Less: Taxation	(9,898)
Consolidated PAT	25,359
Less: pre-acquisition profit	(8,453)
Consolidated PAT attributable to shareholders	16,906
<i>Weighted average number of MEH Shares in issue after Listing (’000 Shares)</i>	
- Net EPS (sen)	22.98
- Net PE multiple based on the Issue Price/Offer Price (times)	5.57

\* *The weighted average number of MEH Shares in issue is computed on the basis that the Acquisitions was completed on 3 January 2007 and on the assumption that the Public Issue is completed on 19 March 2007*

The principal bases and assumptions upon which the above consolidated proforma profit forecast after taxation and minority interests have been prepared are set out in Section 10.5.2 of the Prospectus.

10. FINANCIAL INFORMATION (cont'd)

10.5.2 Reporting Accountants' Letter on The Consolidated Profit Forecast  
(Prepared for the inclusion in this Prospectus)

**Deloitte.**

31 January 2007

The Board of Directors  
Melati Ehsan Holdings Berhad  
No. 5, Jalan Titiwangsa  
53200 Kuala Lumpur

Dear Sirs,

**MELATI EHSAN HOLDINGS BERHAD AND ITS SUBSIDIARY COMPANIES  
PROFORMA CONSOLIDATED PROFIT FORECAST FOR THE FINANCIAL YEAR  
ENDING 31 AUGUST 2007**

We have reviewed the proforma consolidated profit forecast of Melati Ehsan Holdings Berhad ("MEH") and its subsidiary companies ("MEH Group"), for which the Directors of MEH Group are solely responsible, for the financial year ending 31 August 2007, as set out in the accompanying statement (stamped by us for the purpose of identification), in accordance with the Malaysian Approved Standards on Auditing, AI 3400 applicable to the review of financial forecasts engagements. The forecast has been prepared for inclusion in the Prospectus in connection with the listing exercise to be undertaken by MEH which includes the following:

- (i) Acquisition by MEH of the entire issued and paid-up share capital of Bayu Melati Sdn Bhd ("BMSB") and Pembinaan Kery Sdn Bhd ("Kery") from the respective shareholders of BMSB and Kery (the "Vendors") for a total purchase consideration of RM46,247,715 to be satisfied by the issuance of:
  - (a) 70,901,838 new MEH Shares to be issued at par value of RM0.50 each pursuant to the BMSB acquisition; and
  - (b) 21,593,592 new MEH Shares to be issued at par value of RM0.50 each pursuant to the Kery acquisition

The above are collectively referred to as the "Acquisitions";

- (ii) Transfer of shares by the Vendors via the following shareholders' arrangements:

- (a) Transfer by Dato' Yap Suan Chee and Datin Teng Siew Kean of their entire equity interest in MEH after the Acquisitions to Melati Ehsan Corporation Sdn. Bhd.;
- (b) Transfer by Zaitun Binti Dato' Seri Abu Bakar and Dato' Mohd Zain Bin Yahya of their entire equity interest in MEH after the Acquisitions to SP Epark Konsortium Sdn. Bhd.; and
- (c) Transfer by Radzulai Bin Yahaya of his entire equity interest in MEH after the Acquisitions to Desalink Sdn. Bhd..

The above are collectively referred to as the "Shareholders' Arrangement";

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**10. FINANCIAL INFORMATION** *(cont'd)*

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**Deloitte KassimChan**

31 January 2007

Melati Ehsan Holdings Berhad

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- (iii) Public issue of 27,505,000 new MEH Shares at an indicative issue price of RM1.28 per MEH Share ("Public Issue") to be allocated in the following manner:
- (a) 6,000,000 new MEH Shares to be issued to the Malaysian public via balloting;
  - (b) 4,000,000 new MEH Shares to be issued to the eligible Directors, employees and business associates of the MEH Group;
  - (c) 11,215,900 new MEH Shares to be issued to Bumiputera investors approved by Ministry of International Trade and Industry ("MITI"); and
  - (d) 6,289,100 new MEH Shares to be issued to identified investors by way of placement;
- (vi) Offer for sale of 4,000,000 MEH Shares by Melati Ehsan Corporation Sdn. Bhd. to Bumiputera investors approved by MITI at an indicative offer price of RM1.28 each to facilitate the listing of and quotation for the entire enlarged issued and paid-up share capital of MEH on the Main Board of Bursa Malaysia Securities Berhad ("Bursa Securities") and to comply with the Listing Requirements of Bursa Securities and the SC's Policies and Guidelines on Issue / Offer of Securities with regards to shareholding spread ("Offer for Sale");
- (v) Upon completion of the Acquisitions, Shareholders' Arrangement, Public Issue and Offer for Sale, MEH will seek the listing of and quotation for its entire enlarged share capital on the Main Board of Bursa Securities ("Listing and Quotation").

Our review has been undertaken to enable us to form an opinion as to whether the forecast, in all material respects, is properly prepared on the basis of the assumptions made by the Directors and is presented on a basis consistent with the accounting policies adopted by MEH and its subsidiary companies as disclosed in their latest audited financial statements for the financial year ended 31 August 2006. The Directors of MEH are solely responsible for the preparation and presentation of the forecast and the assumptions on which the forecast are based.

Forecast, in this context, means prospective financial information prepared on the basis of assumptions as to future events which management expects to take place and the actions which management expects to take as of the date the information is prepared (best-estimate assumptions). While information may be available to support the assumptions on which the forecast is based, such information is generally future oriented and therefore uncertain. Thus, actual results are likely to be different from the forecast and since anticipated events frequently do not occur as expected and the variation could be material.

Subject to the matters stated in the preceding paragraphs:

- (i) Nothing has come to our attention which causes us to believe that the assumptions made by the Directors, as set out in the accompanying statement, do not provide a reasonable basis for the preparation of the profit forecast; and
- (ii) In our opinion, the profit forecast, so far as the calculations are concerned, is properly prepared on the basis of the assumptions made by the Directors and is presented on a basis consistent with the accounting policies adopted by MEH and its subsidiary companies as disclosed in their latest audited financial statements for the financial year ended 31 August 2006.

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10. FINANCIAL INFORMATION *(cont'd)*

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**Deloitte KassimChan**

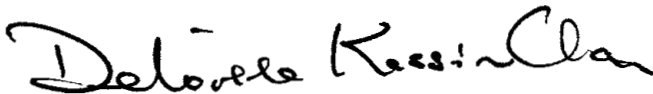
31 January 2007

Melati Ehsan Holdings Berhad

Page No 3

We understand that this report will be used solely for inclusion in the Prospectus in connection with the abovementioned listing exercise. As such, this report should not be used or referred to, in whole or in part, for any other purpose without our prior written consent.

Yours very truly,



Enclosure

## 10. FINANCIAL INFORMATION (cont'd)

**MELATI EHSAN HOLDINGS BERHAD**

(Company No. 673293-X)

No. 5, Jalan Titiwangsa, 53200 Kuala Lumpur, Malaysia

Tel No. : 603-4022 2177 Fax No. : 603-4022 2024

31 January 2007

**PROFORMA CONSOLIDATED PROFIT FORECAST OF MELATI EHSAN HOLDINGS BERHAD ("MEH") AND ITS SUBSIDIARY COMPANIES ("MEH GROUP") FOR THE FINANCIAL YEAR ENDING 31 AUGUST 2007 TOGETHER WITH THE NOTES AND ASSUMPTIONS THERETO, ARE AS FOLLOWS:**

Based on the bases and assumptions set out below, the Board of Directors of MEH forecasts that the proforma consolidated profit of the MEH Group, prepared for **illustrative purposes only**, for the financial year ending 31 August 2007 will be as follows:

	<b>2007</b>
	<b>RM'000</b>
Contract Revenue	236,924
Cost of Construction	<u>(199,728)</u>
Gross Profit	37,196
Other Operating Income	617
General and Administrative Expenses	<u>(2,556)</u>
Profit Before Taxation	35,257
Tax Expense	<u>(9,898)</u>
Profit After Taxation	25,359
Less: Pre-acquisition profit*	<u>(8,453)</u>
Net profit post-acquisition	<u>16,906</u>

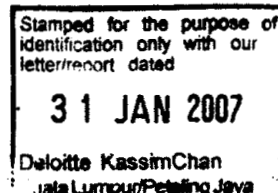
\* The pre-acquisition profit is determined based on the annual profit forecast of the MEH Group and is time-apportioned to derive the 4 month pre-acquisition profit balance from September 1, 2006 to January 2, 2007.

**Principal bases and assumptions**

The principal bases and assumptions upon which the proforma consolidated profit forecast has been prepared, are set out below. Nevertheless, in the light of the current Malaysian and regional economic environment, certain assumptions, including interest and exchange rates, may differ significantly should the economic situation differs significantly from the date of this letter.

Specific Assumptions

1.
  - (i) Acquisition by MEH of the entire issued and paid-up share capital of Bayu Melati Sdn Bhd ("BMSB") and Pembinaan Kery Sdn Bhd ("Kery") from the respective shareholders of BMSB and Kery (the "Vendors") for a total purchase consideration of RM46,247,715 to be satisfied by the issuance of:
    - (a) 70,901,838 new MEH Shares to be issued at par value of RM0.50 each pursuant to the BMSB acquisition; and



**10. FINANCIAL INFORMATION** *(cont'd)*

- (b) 21,593,592 new MEH Shares to be issued at par value of RM0.50 each pursuant to the Kery acquisition.

The above are collectively referred to as the "Acquisitions" and was completed on 3 January 2007;

The following schemes were assumed to have been completed on 3 January 2007:

- (ii) Transfer of shares by the Vendors via the following shareholders' arrangements:
- (a) Transfer by Dato' Yap Suan Chee and Datin Teng Siew Kean of their entire equity interest in MEH after the Acquisitions to Melati Ehsan Corporation Sdn. Bhd.;
  - (b) Transfer by Zaitun Binti Dato' Seri Abu Bakar and Dato' Mohd Zain Bin Yahya of their entire equity interest in MEH after the Acquisitions to SP Epark Konsortium Sdn. Bhd.; and
  - (c) Transfer by Radzulai Bin Yahaya of his entire equity interest in MEH after the Acquisitions to Desalink Sdn. Bhd..

The above are collectively referred to as the "Shareholders' Arrangement";

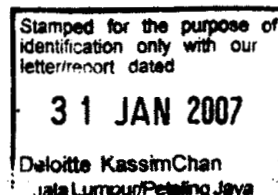
- (iii) Public issue of 27,505,000 new MEH Shares at an indicative issue price of RM1.28 per MEH Share ("Public Issue") to be allocated in the following manner:

- (a) 6,000,000 new MEH Shares to be issued to the Malaysian public via balloting;
- (b) 4,000,000 new MEH Shares to be issued to the eligible Directors, employees and business associates of the MEH Group;
- (c) 11,215,900 new MEH Shares to be issued to Bumiputera investors approved by Ministry of International Trade and Industry ("MITI"); and
- (d) 6,289,100 new MEH Shares to be issued to identified investors by way of placement;

- (iv) Offer for sale of 4,000,000 MEH Shares by Melati Ehsan Corporation Sdn. Bhd. to Bumiputera investors approved by MITI at an indicative offer price of RM1.28 each to facilitate the listing of and quotation for the entire enlarged issued and paid-up share capital of MEH on the Main Board of Bursa Malaysia Securities Berhad ("Bursa Securities") and to comply with the Listing Requirements of Bursa Securities and the SC's Policies and Guidelines on Issue / Offer of Securities with regards to shareholding spread ("Offer for Sale");

- (v) Upon completion of the Acquisitions, Shareholders' Arrangement, Public Issue and Offer for Sale, MEH will seek the listing of and quotation for its entire enlarged share capital on the Main Board of Bursa Securities ("Listing and Quotation").

2. There will be no significant changes in the prices of materials used in operations, labour, overheads and trading goods.
3. The percentage of completion for MEH Group's projects for the financial year 2007 will be achieved as planned.

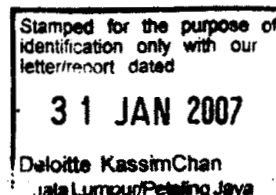


**10. FINANCIAL INFORMATION** *(cont'd)*

4. All necessary approvals from local authority shall be obtained in the forecast year and the projects shall commence as planned.
5. All costs will be incurred as forecasted and there will be no material changes to costs indicated in the letter of award to the subcontractors which will adversely affect the activities of the MEH Group or the industry in which it operates.
6. Excess cash at bank will be placed in a fixed deposit to earn interest income. The interest income earned will be at a rate of 3% per annum and all interest income earned during the year will be received in the same year. On average, the fixed deposit will be maintained for a period of 6 months in a licensed bank.
7. General and administrative expenses for the MEH Group will increase by 6.5% based on previous years' expenditure, except for depreciation. Staff costs will increase by 15% every year after taking into consideration training expenses and increase in headcount.
8. Total estimated listing expenses is RM2 million which is expected to be incurred in financial year 2007.
9. The Group expects to declare and pay dividends amounting to RM6,300,000 in the financial year ending 31 August 2007. The dividend rate (net of tax) is approximately 10.5%.
10. There will be no significant changes involving key customers and suppliers, which will adversely affect the activities of the MEH Group or the markets which it operates.
11. There will be no material acquisitions or disposal of property, plant and equipment or investments other than those already budgeted for.
12. The income tax rates applicable to the MEH Group will approximate the statutory tax rates and the MEH Group's tax liabilities incurred will be fully paid in the respective financial years.

**General Assumptions**

1. There will be no significant changes to the prevailing economic and political conditions in Malaysia and overseas that have direct or indirect effects on the activities or performance of the MEH Group and the business of the MEH Group's major customers and suppliers.
2. There will be no significant changes in the present legislation or government regulations, rates and bases of duties, levies and taxes, which will adversely affect the activities of the MEH Group.
3. There will be no significant fluctuations in foreign currency exchange and inflation rates from their present levels, which would adversely affect activities and operations of the MEH Group.
4. There will be no major industrial disputes, labour shortages or any abnormal factors or changes both domestic and overseas, which will adversely affect the MEH Group's operations or sales at their forecast levels or disrupt their planned operations.
5. There will no significant changes in the present management structure, key personnel, ownership and, operating and accounting policies to be adopted by the MEH Group.
6. There will be no significant changes in the principal activities and structure of the MEH Group.
7. The MEH Group will not be engaged in any material litigation and there will be no legal proceedings, which will adversely affect its activities or performance or give rise to any additional contingent liabilities, which will materially affect the operations or business.

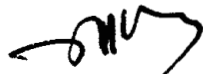


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**10. FINANCIAL INFORMATION** *(cont'd)*

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Signed on behalf of the Board  
in accordance with a resolution of the Directors,



**Melati Ehsan Holdings Berhad**  
**Dato' Yap Suan Chee**  
**Director**

Stamped for the purpose of  
identification only with our  
letter/report dated  
**31 JAN 2007**  
Deloitte Kassim Chan  
Kuala Lumpur/Petaling Jaya



## 10. FINANCIAL INFORMATION *(cont'd)*

### 10.6 Directors' Analysis Of The Consolidated Profit Forecast

Our Directors have reviewed and analysed the reasonableness of the bases and assumptions stated herein after due and careful inquiry in arriving at the consolidated proforma profit forecast for the financial year ending 31 August 2007. The consolidated proforma profit forecast has been prepared on accounting principles consistent with those previously adopted in the preparation of the audited financial statements. Our Directors are of the opinion that the consolidated proforma profit forecast is reasonable and fair in light of the future prospects, future plans and strategies to be adopted by our Group and after taking into consideration of the forecast level of gearing, liquidity and working capital requirements of our Group.

#### 10.6.1 Consolidated Profit Forecast For The Financial Year Ending 31 August 2007

Our Group's revenue and profit before tax is forecast to increase to RM237 million and RM35 million respectively.

The significant increase is contributed by the TEKIH highway project at Kedah where it is expected that most of the construction works will be undertaken in FYE 2007 and FYE 2008. This project is expected to contribute approximately 31.5% of our Group's total revenue for FYE 2007 as it is one of the larger contracts secured by our Group with a total contract value of RM287 million. In addition, all revenue from the FR54 highway project at Sungai Buloh will be fully recognised in FYE 2007 as it is expected to be completed during the year.

The increase in profit before tax is not as high as the increase in revenue because of the lower gross profit margins earned for the 2 main contributing contracts for FYE 2007, ie the TEKIH highway project at Kedah and the Taman Aman Putra contract.

### 10.7 Sensitivity Analysis

The principal bases and assumptions, which have been varied for the purpose of the sensitivity analysis on the consolidated profit forecast, are as follows:

- (a) Revenue will vary  $\pm 5\%$ ,  $\pm 10\%$  and  $\pm 15\%$  from the base case;
- (b) The Group's gross margin of its operations will be maintained at the same level;
- (c) The overhead expenses will be maintained; and
- (d) The same assumptions as for the base case shall apply except for assumptions in (a), (b) and (c) above.

#### Effects in the forecast consolidated PAT

Financial Year Ending 31 August	Forecast 2007 RM'000
+ 15%	19,442
+ 10%	18,596
+ 5%	17,751
Base Case	<b>16,906</b>

**10. FINANCIAL INFORMATION (cont'd)**

<b>Financial Year Ending 31 August</b>	<b>Forecast 2007 RM'000</b>
- 5%	16,061
- 10%	15,215
- 15%	14,370

Based on the above assumption, the sensitivity analysis shows that our Group will remain profitable over the forecast period despite 5%, 10% and 15% downward variation on revenue.

**10.8 Dividend Forecast And Policy**

Our Group intends to pursue a dividend policy in line with our profitability that would allow shareholders' to participate in the profits of our Group as well as leaving adequate reserves for our future growth and expansion.

For the FYE 31 August 2006, we have declared a dividend of RM16 million to our shareholders. The dividend forecast for the FYE 31 August 2007 is as follows:

<b>Financial Year Ending 31 August</b>	<b>Forecast 2007</b>
Gross dividend per share (sen)	7.29
Net dividend per share (sen)	5.25
Net dividend yield based on the Issue/Offer Price (%)	4.10
Net dividend cover (times)	*4.03

\* *Based on proforma consolidated PAT of RM25.359 million and proposed net dividend of RM6.300 million.*

Our Group's dividend policy after the Listing is to distribute 25% of our future PAT to our shareholders.

However, our Company is principally an investment holding company and the core operations of our Group are carried out through our subsidiary companies. Accordingly, the major source of income of our Company is dividends and other distributions received from our subsidiaries. Our Company's ability to pay dividends or make other distributions to its shareholders is dependent upon a number of factors, including the operating results and financial conditions of our subsidiaries, the capital expenditure requirements, availability of tax credits and other factors that the respective boards of directors of our subsidiaries may consider to be relevant.

Future dividends may not be proposed if:

- (a) our Group makes a loss for the relevant period; or
- (b) our Group has insufficient cashflows to meet the relevant dividend payment.

Notwithstanding the above, our Directors reserve full discretion not to propose any future dividend payment as they deem fit in the best interest of our Company.

## 10. FINANCIAL INFORMATION (cont'd)

10.9 Proforma Consolidated Balance Sheets As At 31 August 2006 And The Reporting Accountants' Letter Thereon  
(Prepared for the inclusion in this Prospectus)

**MELATI EHSAN HOLDINGS BERHAD**

(Company No. 673293-X)

No. 5, Jalan Titiwangsa, 53200 Kuala Lumpur, Malaysia

Tel No. : 603-4022 2177 Fax No. : 603-4022 2024

31 January 2007

**PROFORMA CONSOLIDATED BALANCE SHEETS OF MELATI EHSAN HOLDINGS BERHAD ("MEH") AND ITS SUBSIDIARY COMPANIES ("MEH GROUP") AS OF 31 AUGUST 2006, TOGETHER WITH THE NOTES AND ASSUMPTIONS THERETO, ARE AS FOLLOWS:**

	As of 31		Proforma 1	Adjustments	Proforma 2
	August 2006	Adjustments			
	RM '000	RM '000	RM '000	RM '000	RM '000
Property, plant and equipment	-	967	967	-	967
Goodwill on consolidation	-	487	487	-	487
<b>Current Assets</b>					
Trade receivables	-	50,310	50,310	-	50,310
Other receivables	360	7,969	8,329	-	8,329
Due from contract customers	-	38,747	38,747	-	38,747
Cash and bank balances	-	2,244	2,244	33,206	35,450
	360		99,630		132,836
<b>Current Liabilities</b>					
Trade payables	-	33,604	33,604	-	33,604
Other payables	847	755	1,602	-	1,602
Due to contract customers	-	1,625	1,625	-	1,625
Hire-purchase payable	-	49	49	-	49
Taxation	-	7,092	7,092	-	7,092
	847		43,972		43,972
<b>Net Current Assets / (Liabilities)</b>	(487)		55,658		88,864
<b>Non Current Liabilities</b>					
Hire-purchase payable	-	(43)	(43)	-	(43)
Deferred taxation	-	(18)	(18)	-	(18)
<b>Net Assets / (Net Liabilities)</b>	(487)		57,051		90,257
Share capital	-*	13,971	13,971	13,752	27,723
Share Premium	-	-	-	19,454	19,454
(Accumulated losses)/Retained profits	(487)	43,567	43,080	-	43,080
<b>Shareholders' funds / (Capital Deficiency)</b>	(487)		57,051		90,257
Number of ordinary shares in MEH ('000)	-*	92,495	92,495	27,505	
<b>Net Tangible Assets / (Liabilities) per ordinary share (RM)</b>	(121,750)		0.62		

Stamped for the purpose of identification only with our letter/report dated  
**31 JAN 2007**  
0.75  
Deloitte Kassim Ohan  
Kuala Lumpur/Petaling Jaya

**10. FINANCIAL INFORMATION** (cont'd)

- \* The issued and paid-up share capital of MEH is RM2, consisting of 4 ordinary shares of RM0.50 each. Pursuant to the approval of shareholders at an Extraordinary General Meeting held on 1 June 2006, the issued and paid up share capital of MEH comprising two (2) ordinary shares of RM1 each were subdivided into four (4) ordinary shares of RM0.50 each and that the authorized share capital of MEH, comprising 100,000 ordinary shares of RM1.00 each were altered by subdividing them into 200,000 ordinary shares of RM0.50 each. Accordingly, the authorized share capital of MEH represent RM100,000 comprising 200,000 ordinary shares of RM0.50 each and the issued and paid up share capital represent four (4) ordinary shares of RM0.50 each. The net tangible liabilities per ordinary share was calculated based on the number of ordinary shares subsequent to the subdivision of shares.

**NOTES AND ASSUMPTIONS TO THE PROFORMA CONSOLIDATED BALANCE SHEETS OF MEH GROUP****1. BASIS OF PREPARATION**

The proforma consolidated balance sheets of MEH Group have been prepared based on the accounting policies consistent with those adopted in the preparation of the statutory financial statements of MEH and the accounting policies to be adopted by MEH Group. The proforma consolidated balance sheets are prepared for illustrative purposes only to reflect the effects of the following listing exercise had it been completed on 31 August 2006:

- (i) Acquisition by MEH of the entire issued and paid-up share capital of Bayu Melati Sdn Bhd ("BMSB") and Pembinaan Kery Sdn Bhd ("Kery") from the respective shareholders of BMSB and Kery (the "Vendors") for a total purchase consideration of RM46,247,715 to be satisfied by the issuance of:

- (a) 70,901,838 new MEH Shares to be issued at par value of RM0.50 each pursuant to the BMSB acquisition; and
- (b) 21,593,592 new MEH Shares to be issued at par value of RM0.50 each pursuant to the Kery acquisition.

The above are collectively referred to as the "Acquisitions";

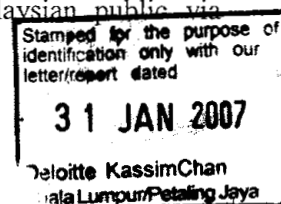
- (ii) Transfer of shares by the Vendors via the following shareholders' arrangements:

- (a) Transfer by Dato' Yap Suan Chee and Datin Teng Siew Kean of their entire equity interest in MEH after the Acquisitions to Melati Ehsan Corporation Sdn. Bhd.;
- (b) Transfer by Zaitun Binti Dato' Seri Abu Bakar and Dato' Mohd Zain Bin Yahya of their entire equity interest in MEH after the Acquisitions to SP Epark Konsortium Sdn. Bhd.; and
- (c) Transfer by Radzulai Bin Yahaya of his entire equity interest in MEH after the Acquisitions to Desalink Sdn. Bhd..

The above are collectively referred to as the "Shareholders' Arrangement";

- (iii) Public issue of 27,505,000 new MEH Shares at an indicative issue price of RM1.28 per MEH Share ("Public Issue") to be allocated in the following manner:

- (a) 6,000,000 new MEH Shares to be issued to the Malaysian public via balloting;



**10. FINANCIAL INFORMATION** *(cont'd)*

- (b) 4,000,000 new MEH Shares to be issued to the eligible Directors, employees and business associates of the MEH Group;
- (c) 11,215,900 new MEH Shares to be issued to Bumiputera investors approved by Ministry of International Trade and Industry (“MITI”); and
- (d) 6,289,100 new MEH Shares to be issued to identified investors by way of placement;
- (iv) Offer for sale of 4,000,000 MEH Shares by Melati Ehsan Corporation Sdn. Bhd. to Bumiputera investors approved by MITI at an indicative offer price of RM1.28 each to facilitate the listing of and quotation for the entire enlarged issued and paid-up share capital of MEH on the Main Board of Bursa Malaysia Securities Berhad (“Bursa Securities”) and to comply with the Listing Requirements of Bursa Securities and the SC’s Policies and Guidelines on Issue / Offer of Securities with regards to shareholding spread (“Offer for Sale”);
- (v) Upon completion of the Acquisitions, Shareholders’ Arrangement, Public Issue and Offer for Sale, MEH will seek the listing of and quotation for its entire enlarged share capital on the Main Board of Bursa Securities (“Listing and Quotation”).

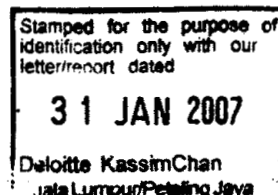
**2. BASES AND ASSUMPTIONS**

The proforma consolidated balance sheets have been prepared based on:

- (i) Audited financial statements of MEH for the financial year ended 31 August 2006;
- (ii) Audited financial statements of BMSB and Kery for the financial year ended 31 August 2006;
- (iii) Assumption that listing expenses amounting to RM2 million will be incurred at the end of the listing exercise;
- (iv) Assumptions that the Acquisitions and Public Issue had taken place on 31 August 2006 and the Shareholders’ Arrangement, Offer for Sale and Listing and Quotation will not have any impact on the proforma consolidated balance sheets:

**Proforma Consolidated Balance Sheets of MEH Group:****Proforma 1**

Proforma 1 incorporates the adjustments for the Acquisitions which is accounted for using reverse acquisition accounting in accordance with Malaysia Financial Reporting Standards (FRS) 3 Business Combinations. Upon completion of the Acquisitions, MEH becomes the legal parent company of MEH Group. Due to the relative values of the companies, the former shareholders of BMSB (“BMSB Vendors”) became the majority shareholders of MEH. Accordingly, the substance of the business combination is that BMSB acquires MEH in a reverse acquisition and subsequently, the combined entity of MEH and BMSB acquires Kery. Under FRS 3, as a result of the reverse acquisition which was assumed to have taken place on 31 August 2006, the proforma consolidated balance sheets have been prepared in the name of the legal parent, MEH, but it represents a continuation of the balance sheet of the legal subsidiary, BMSB, which is deemed as the acquirer.



**10. FINANCIAL INFORMATION (cont'd)****Proforma 2**

Proforma 2 incorporates Proforma 1 and adjustments for Public Issue together with the utilization of proceeds from the Public Issue of RM35,206,400. The gross proceeds from the Public Issue amounting to RM35,206,400 will be utilized as follows:

	<b>Amount RM'000</b>
Financing projects pursuant to the Private Finance Initiatives	18,000
Working capital	13,206
Overseas expansion	2,000
Estimated listing expenses	<u>2,000</u>
<b>Total</b>	<u><b>35,206</b></u>

The estimated listing expenses of RM2 million have been set off against the share premium account.

**3. EXPLANATORY NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS**

(i) The movements in shareholders' equity and reserves of MEH Group are as follows:

	<b>Share Capital RM'000</b>	<b>Reserves RM'000</b>	<b>Total RM'000</b>
Per audited financial statements as of 31 August 2006	-*	(487)	(487)
Acquisitions	<u>13,971**</u>	<u>43,567</u>	<u>57,538</u>
Proforma 1	13,971	43,080	57,051
Public Issue and utilisation of proceeds	<u>13,752</u>	<u>19,454</u>	<u>33,206</u>
Proforma 2	<u><u>27,723</u></u>	<u><u>62,534</u></u>	<u><u>90,257</u></u>

\* The issued and paid-up share capital of MEH is RM2, consisting of 4 ordinary shares of RM0.50 each. Pursuant to the approval of shareholders at an Extraordinary General Meeting held on 1 June 2006, the issued and paid up share capital of MEH comprising two (2) ordinary shares of RM1 each were subdivided into four (4) ordinary shares of RM0.50 each and that the authorized share capital of MEH, comprising 100,000 ordinary shares of RM1.00 each were altered by subdividing them into 200,000 ordinary shares of RM0.50 each. Accordingly, the authorized share capital of MEH represent RM100,000 comprising 200,000 ordinary shares of RM0.50 each and the issued and paid up share capital represent four (4) ordinary shares of RM0.50 each.

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identification only with our  
letter/report dated  
**31 JAN 2007**  
Deloitte KassimChan  
Kuala Lumpur/Petaling Jaya

**10. FINANCIAL INFORMATION** (cont'd)

\*\* In accordance with FRS 3, the amount recognised as issued equity instruments in the proforma consolidated balance sheets is determined by adding the issued equity of the legal subsidiary (BMSB), immediately before the business combination and the cost of the business combination. The cost of the business combination is deemed to have been incurred by BMSB in the form of equity instruments (ordinary shares) deemed to have been issued to MEH and is measured using the fair value of BMSB shares and the number of equity instruments that BMSB would have had to issue to provide the same percentage ownership interest of the combined MEH and BMSB entity as they have in the combined entity as a result of the reverse acquisition. In estimating the fair value of BMSB shares, management has assumed that the fair value of identifiable assets, liabilities and equity instruments approximate the net tangible assets of BMSB at acquisition date. We wish to emphasize that a share valuation exercise has not been carried out to determine the fair value of BMSB shares. We further emphasize that the assumption is based on current information and the value is likely to be different in the future when events and circumstances change and the variation could be material.

Immediately after the completion of the reverse acquisition of MEH by BMSB, the MEH and BMSB combined entity acquires Kery to complete the business combination of the MEH Group.

- (ii) Goodwill on consolidation represents the excess of the cost of the business combination over the fair value of the identifiable net assets of the acquiree companies, which management has assumed that the net assets represent all identifiable assets, liabilities and equity instruments that would be identified under FRS 3 and that the fair values approximate the recorded amounts at acquisition date. Goodwill on consolidation is calculated as follows:

	RM'000	RM'000
<u>Acquisition of MEH:</u>		
Cost of business combination	-	
Ordinary share capital	- *	
Accumulated losses	(487)	
Net liabilities of MEH at acquisition date	(487)	
Goodwill arising from acquisition of MEH		487

\* The paid-up share capital of MEH is RM2.

	RM'000	RM'000
<u>Acquisition of Kery:</u>		
Cost of business combination	12,971	
Ordinary share capital	1,000	
Pre-acquisition retained profit	13,461	
Net assets of Kery at acquisition date	14,461	
Negative goodwill arising from acquisition of Kery		(1,490)

Stamped for the purpose of identification only with our letter/report dated <b>31 JAN 2007</b> Deloitte KassimChan (1,490)
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**10. FINANCIAL INFORMATION** *(cont'd)*

On behalf of the Board of Directors,



Melati Ehsan Holdings Berhad  
Dato' Yap Suan Chee  
Director

Stamped for the purpose of  
identification only with our  
letter/report dated  
**31 JAN 2007**  
Deloitte KassimChan



10. FINANCIAL INFORMATION (cont'd)

**Deloitte.**

**Deloitte KassimChan** (AF 0080)

Chartered Accountants  
Level 19, Uptown 1  
1 Jalan SS 21/58  
Damansara Uptown  
47400 Petaling Jaya  
Malaysia

P. O. Box 10093  
50704 Kuala Lumpur  
Malaysia

Tel : +603 77236500, 77261833  
Fax : +603 77263986, 77268986  
myaaa@deloitte.com  
www.deloitte.com.my

31 January 2007

The Board of Directors  
Melati Ehsan Holdings Berhad  
No. 5, Jalan Titiwangsa  
53200 Kuala Lumpur

Dear Sirs,

**MELATI EHSAN HOLDINGS BERHAD AND ITS SUBSIDIARY COMPANIES  
PROFORMA CONSOLIDATED BALANCE SHEETS AS OF 31 AUGUST 2006**

We have reviewed the presentation of the proforma consolidated balance sheets of Melati Ehsan Holdings Berhad ("MEH") and its subsidiary companies ("MEH Group") as of 31 August 2006, prepared for illustrative purposes only, together with the notes and assumptions thereto, for which the Directors of MEH are solely responsible, as set out in the accompanying statement (stamped by us for the purpose of identification), prepared for inclusion in the Prospectus in connection with the listing of MEH which includes the following:

- (i) Acquisition by MEH of the entire issued and paid-up share capital of Bayu Melati Sdn Bhd ("BMSB") and Pembinaan Kery Sdn Bhd ("Kery") from the respective shareholders of BMSB and Kery (the "Vendors") for a total purchase consideration of RM46,247,715 to be satisfied by the issuance of:
- (a) 70,901,838 new MEH Shares to be issued at par value of RM0.50 each pursuant to the BMSB acquisition; and
  - (b) 21,593,592 new MEH Shares to be issued at par value of RM0.50 each pursuant to the Kery acquisition.

The above are collectively referred to as the "Acquisitions";

- (ii) Transfer of shares by the Vendors via the following shareholders' arrangements:
- (a) Transfer by Dato' Yap Suan Chee and Datin Teng Siew Kean of their entire equity interest in MEH after the Acquisitions to Melati Ehsan Corporation Sdn. Bhd.;
  - (b) Transfer by Zaitun Binti Dato' Seri Abu Bakar and Dato' Mohd Zain Bin Yahya of their entire equity interest in MEH after the Acquisitions to SP Epark Konsortium Sdn. Bhd.; and
  - (c) Transfer by Radzulai Bin Yahaya of his entire equity interest in MEH after the Acquisitions to Desalink Sdn. Bhd..

The above are collectively referred to as the "Shareholders' Arrangement";

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**10. FINANCIAL INFORMATION** *(cont'd)*

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Deloitte KassimChan

31 January 2007

Melati Ehsan Holdings Berhad

Page No 2

- (iii) Public issue of 27,505,000 new MEH Shares at an indicative issue price of RM1.28 per MEH Share ("Public Issue") to be allocated in the following manner:
- (a) 6,000,000 new MEH Shares to be issued to the Malaysian public via balloting;
  - (b) 4,000,000 new MEH Shares to be issued to the eligible Directors, employees and business associates of the MEH Group;
  - (c) 11,215,900 new MEH Shares to be issued to Bumiputera investors approved by Ministry of International Trade and Industry ("MITI"); and
  - (d) 6,289,100 new MEH Shares to be issued to identified investors by way of placement;
- (iv) Offer for sale of 4,000,000 MEH Shares by Melati Ehsan Corporation Sdn. Bhd. to Bumiputera investors approved by MITI at an indicative offer price of RM1.28 each to facilitate the listing of and quotation for the entire enlarged issued and paid-up share capital of MEH on the Main Board of Bursa Malaysia Securities Berhad ("Bursa Securities") and to comply with the Listing Requirements of Bursa Securities and the SC's Policies and Guidelines on Issue / Offer of Securities with regards to shareholding spread ("Offer for Sale");
- (v) Upon completion of the Acquisitions, Shareholders' Arrangement, Public Issue and Offer for Sale, MEH will seek the listing of and quotation for its entire enlarged share capital on the Main Board of Bursa Securities ("Listing and Quotation").

It is the sole responsibility of the directors of MEH to prepare the Proforma Consolidated Balance Sheets in accordance with the requirements of the Securities Commission Prospective Guidelines in respect of Public Offerings ("the Guidelines"). Our responsibility is to form an opinion on the Proforma Consolidated Balance Sheets, as required by the Guidelines, and to report our opinion to you.

Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the adjustments and discussing the Proforma Consolidated Balance Sheets with the directors of MEH. Our work involved no independent examination of the Proforma Consolidated Balance Sheets.

As the Proforma Consolidated Balance Sheets have been prepared for illustrative purposes only, such information may not, because of its nature, give a true picture of the actual financial position of the MEH Group. Further, such information does not purport to predict the future financial position of the MEH Group.

In our opinion:

- (i) the Proforma Consolidated Balance Sheets have been properly compiled on the bases of preparation stated;
- (ii) such bases are consistent with the accounting policies adopted by MEH and its subsidiary companies; and

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10. FINANCIAL INFORMATION *(cont'd)*

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Deloitte KassimChan

31 January 2007

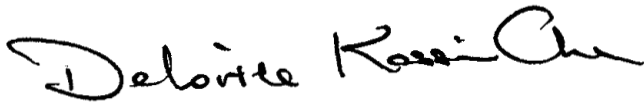
Melati Ehsan Holdings Berhad

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- (iii) each material adjustment made to the information used in the preparation of the Proforma Consolidated Balance Sheets is appropriate for the purposes of preparing the Proforma Consolidated Balance Sheets.

We understand that this report will be used solely for inclusion in the Prospectus in connection with the abovementioned listing exercise. As such, this report should not be used or referred to, in whole or in part, for any other purpose without our prior written consent.

Yours very truly,



Enclosure