
12. ACCOUNTANTS' REPORT (Cont'd)

9 NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES**9.1 BASIS OF PREPARATION**

The statement of assets and liabilities of the Proforma Group are presented for illustrative purposes and has been prepared based on the audited balance sheets of LHIB, LHF, CTHH, EFF, MKK and KJSB as at 30 September 1999 and on the assumption that the acquisitions of the entire issued and paid-up share capital of LHF for a total purchase consideration of RM25,598,305 satisfied by the issuance of 25,598,305 new ordinary shares of RM1.00 each in LHIB and the acquisition of the entire issued and paid-up share capital of KJSB for a total cash purchase consideration of RM1,046,183 had been effected as at 30 September 1999 and the incorporation of the revaluation of the landed properties of the Group amounting to RM9,446,758.

9.2 SIGNIFICANT ACCOUNTING POLICIES**(a) Basis of accounting**

The accounts of the Proforma Group are prepared under the historical cost convention and modified to include the revaluation of certain assets in accordance with the provisions of the Companies Act, 1965 and comply with the applicable approved accounting standards.

(b) Depreciation

Freehold land is not amortised.

Factory building under construction is not amortised until it is ready and put into use.

Depreciation for all the other fixed assets is on the straight line basis calculated to write off the assets over their estimated useful lives.

The annual rates in use are as follows:-

| | |
|-----------------------------------|--------------------------------------|
| Long term leasehold land | Over leasehold period of 60 years |
| Factory and kiln drying building | 2% |
| Furniture, fittings and equipment | 5% - 10% |
| Labour line | 10% |
| Motor vehicles | 20% |
| Plant, machinery and equipment | 10% - 20% |
| Renovation | 20% |

Fully depreciated assets are retained in the accounts until they are no longer in use.

12. ACCOUNTANTS' REPORT (Cont'd)

9.2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation

The Group accounts include the audited accounts of the Company and all its subsidiary companies made up to the end of the financial period. Inter-company balances and transactions are eliminated on consolidation and the consolidated accounts reflect external transactions only. The Group adopts both the acquisition and merger method on consolidation.

Where the acquisition method is adopted, the difference between the purchase price over the fair value of the net assets of the subsidiary companies at the date of acquisition is included in the consolidated accounts as goodwill or capital reserve on consolidation.

Acquisition of subsidiary companies which meet the criteria for merger accounting under the Malaysian Accounting Standard 2, Accounting for Acquisitions and Mergers, are accounted for using merger accounting principles. Where the merger method is used, the cost of investment in the Company's books is recorded at the nominal value of shares issued and the difference between the carrying value of the investment and the nominal value of shares transferred is treated as merger reserve in accordance with merger relief provisions under Section 60(4) of the Companies Act, 1965. The results of the companies being merged are included for the full financial period and the consolidated accounts are presented as if the companies had been combined for all previous financial periods. Merger debit arising on consolidation is to be written off against revaluation surplus.

Goodwill on consolidation is amortised against the Group retained profits over a period of ten years.

(d) Stocks

Stocks are valued at the lower of cost (determined principally on first-in first-out method) and net realisable value.

Cost of finished good and work in progress represent raw materials, direct labour and the appropriate proportion of production overheads.

12. ACCOUNTANTS' REPORT (Cont'd)

(e) Deferred taxation

Deferred taxation, calculated by the liability method, is provided on material timing differences except where it can be demonstrated with reasonable probability that the tax effect of such deferrals will continue in the foreseeable future.

(f) Currency translation

Foreign currency transactions are converted into Malaysian Ringgit at the rates of exchange approximating those ruling at the transaction dates and where settlement had not taken place at balance sheet dates. Exchange gains and losses are dealt with in the profit and loss accounts.

(g) Turnover

Turnover of the Group represents the invoiced value of furniture manufactured and wood processed and wood works less discounts and returns.

9.3 FIXED ASSETS

| Proforma Group | At valuation/ cost RM'000 | Accumulated depreciation RM'000 | Net book value RM'000 |
|-----------------------------|---------------------------------|---------------------------------------|-----------------------------|
| At valuation | | | |
| Building | | | |
| -Factory | 19,135 | 906 | 18,229 |
| -Kiln drying | 885 | 104 | 781 |
| Building under construction | 974 | - | 974 |
| Land | | | |
| -long leasehold | 4,997 | 194 | 4,803 |
| -freehold | 2,334 | - | 2,334 |
| | 28,325 | 1,204 | 27,121 |

12. ACCOUNTANTS' REPORT (Cont'd)**9.3 FIXED ASSETS (continued)**

| Proforma Group | At valuation/ cost RM'000 | Accumulated depreciation RM'000 | Net book value RM'000 |
|-----------------------------------|--|--|--------------------------------------|
| At cost | | | |
| Building | | | |
| -Factory | 86 | 1 | 85 |
| -Kiln drying | 19 | 1 | 18 |
| -Labour line | 55 | 20 | 35 |
| Building under construction | 483 | - | 483 |
| Furniture, fittings and equipment | 1,658 | 437 | 1,221 |
| Land | | | |
| -long leasehold | 1,070 | 24 | 1,046 |
| Motor vehicles | 1,489 | 909 | 580 |
| Plant, machinery and equipment | 16,265 | 4,834 | 11,431 |
| Renovation | 49 | 41 | 8 |
| | <u>21,174</u> | <u>6,267</u> | <u>14,907</u> |
| Total | <u>49,499</u> | <u>7,471</u> | <u>42,028</u> |

- a) The land and buildings were revalued in 1999 by a firm of independent professional valuers based on the "open market value" basis of valuation.

The carrying amount of each class of revalued assets that would have been included in the accounts at cost less accumulated depreciation are as follows:

| Proforma Group | Cost RM'000 | Accumulated depreciation RM'000 | Net book value RM'000 |
|-----------------------------|------------------------|--|--------------------------------------|
| Building | | | |
| -Factory | 12,141 | 906 | 11,235 |
| -Kiln drying | 805 | 104 | 701 |
| Building under construction | 876 | - | 876 |
| Land | | | |
| -long leasehold | 3,117 | 194 | 2,923 |
| -freehold | 1,939 | - | 1,939 |
| | <u>18,878</u> | <u>1,204</u> | <u>17,674</u> |

- b) Included in the above fixed assets are assets held under hire purchase as follows:

| | Net book value RM'000 |
|--------------------------------|----------------------------------|
| Motor vehicles | 513 |
| Plant, machinery and equipment | <u>3,493</u> |
| | <u>4,006</u> |

12. ACCOUNTANTS' REPORT (Cont'd)**9.4 GOODWILL ON CONSOLIDATION**

| Proforma Group | Total RM'000 | Accumulated Amortisation RM'000 | Net RM'000 |
|-----------------------------------|-------------------------|--|-----------------------|
| Goodwill arising on consolidation | 567 | 226 | 341 |

9.5 STOCKS

| Proforma Group | RM'000 |
|-----------------------|---------------|
| Finished goods | 3,367 |
| Work in progress | 4,037 |
| Raw material | 7,060 |
| Store | 173 |
| | <u>14,637</u> |

9.6 HIRE PURCHASE CREDITORS

| Proforma Group | RM'000 |
|--|---------------|
| Payable within one year | 1,419 |
| Payable within two to five years | 1,813 |
| | <u>3,232</u> |
| Interest in suspense | (765) |
| | <u>2,467</u> |
| Less: portion payable within 12 months | (1,138) |
| | <u>1,329</u> |

9.7 DUE TO DIRECTORS**Proforma Group**

The amount due to directors are interest free, unsecured and carry no fixed terms of repayment.

9.8 BANK BORROWINGS

| Proforma Group | RM'000 |
|-----------------------|---------------|
| Bank overdrafts | 5,564 |
| Bankers' acceptances | 6,890 |
| Bank loans (Note 9.9) | 1,050 |
| | <u>13,504</u> |

Bank borrowings are secured against charges as mentioned in Note 9.9.

Interests on bank borrowings are payable at 1.75% to 2.25% per annum above bankers' base lending rates.

12. ACCOUNTANTS' REPORT (Cont'd)**9.9 BANK LOANS**

| Proforma Group | RM'000 |
|---------------------------------------|----------------|
| Term loans | 4,886 |
| Less: Due within 12 months (Note 9.8) | <u>(1,050)</u> |
| | <u>3,836</u> |
| Analysis of term loans: | |
| Payable within one year | 1,050 |
| Payable between one to two years | 1,759 |
| Payable between two to five years | <u>2,077</u> |
| | <u>4,886</u> |

- (1) The bank borrowings are secured by debenture incorporating first fixed charges over the properties of the Group and floating charges over all the other assets of the Group.
- (2) Interests on term loans are payable at 1.75% to 2.25% per annum above bankers' base lending rates.

9.10 DEFERRED TAXATION

| Proforma Group | RM'000 |
|---------------------------------------|---------------|
| At 1 January 1999 | 1,032 |
| Transfer from profit and loss account | <u>206</u> |
| At 30 September 1999 | <u>1,238</u> |

The deferred taxation arose principally due to the excess of capital allowances over depreciation of the fixed assets.

No deferred tax has been provided on the revaluation surplus on the land and buildings as it is the intention of the Directors to hold the assets for long term use.

9.11 SHARE CAPITAL

| Authorised | Company RM'000 | Proforma Group RM'000 |
|---|---------------------------|--------------------------------------|
| Ordinary shares of RM1 each At 30 September 1999 | <u>500</u> | <u>100,000</u> |

12. ACCOUNTANTS' REPORT (Cont'd)**9.11 SHARE CAPITAL (continued)**

| | Company RM'000 | Proforma Group RM'000 |
|--|-------------------|-----------------------------|
| Issued and fully paid-up share capital | | |
| Ordinary shares of RM1 each | | |
| At 30 September 1999 | * | * |
| Shares issued pursuant to the acquisition of the entire issued and paid-up share capital of LHF | - | 25,598 |
| | <u> </u> | <u> </u> |
| | * | 25,598 |

*RM2.00

9.12 RESERVES

| Proforma Group | RM'000 |
|--------------------------|-----------------|
| Non-distributable | |
| Revaluation reserve | 9,447 |
| Capital reserve | 46 |
| Merger reserve | (24,050) |
| | <u>(14,557)</u> |
| Distributable | |
| Retained earnings | <u>33,389</u> |
| | <u>18,832</u> |

9.13 CAPITAL COMMITMENT

| Proforma Group | RM'000 |
|---|------------|
| Contracted but not provided for in the accounts | <u>212</u> |

9.14 CONTINGENT LIABILITIES

| Proforma Group | RM'000 |
|---|--------------|
| Counter indemnities to banks for bank guarantees issued | |
| - secured | 764 |
| - unsecured | 1 |
| Corporate guarantees for credit facilities granted to subsidiary companies | |
| - hire purchase | 1,422 |
| - bank borrowings | <u>5,086</u> |

12. ACCOUNTANTS' REPORT (Cont'd)

10. NET TANGIBLE ASSETS COVER OF THE PROFORMA GROUP

Based on the statement of assets and liabilities of the Proforma Group as at 30 September 1999, the net tangible assets cover of the Proforma Group is calculated as follows:

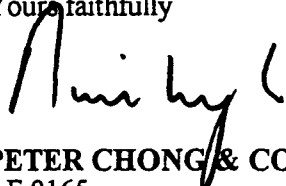
| Proforma Group | RM'000 |
|---|--------------------------------|
| NTA of the Proforma Group as at 30 September 1999 | 44,035 |
| Proceed from rights issue and public issue | <u>18,014</u> |
| | 62,049 |
| Less: Estimated listing expenses | <u>(2,000)</u> |
| Proforma NTA | <u>60,049</u> |
| | Number of shares ('000) |
| Number of ordinary shares of RM1.00 each: | |
| At date of incorporation | * |
| Issued as consideration for the acquisition of LHF | <u>25,598</u> |
| | 25,598 |
| Rights Issue | 8,382 |
| Public Issue | <u>6,020</u> |
| | <u>40,000</u> |
| Proforma NTA per ordinary share of RM1.00 each (RM) | <u>1.50</u> |

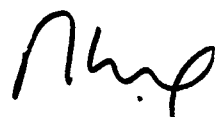
*This represents 2 ordinary shares of RM1.00 each

11. ACCOUNTS

No audited accounts have been prepared in respect of any period subsequent to 30 September 1999.

Yours faithfully


PETER CHONG & CO
 AF 0165
 Public Accountants


PETER CHONG TON NEN
 394/3/00/J/PH
 Partner

13. VALUERS' LETTER

(Prepared for inclusion in this Prospectus)

VALUATION CERTIFICATE

Date : 8 March 2000

The Board of Directors
Lii Hen Industries Bhd
PLO 43, Kawasan Perindustrian Bukit Pasir
84300 Muar
Johor Darul Takzim



**COLLIERS, JORDAN LEE
& JAAFAR (M'CCA) SDN. BHD.**
(136815-K)

No. 669 & 669A,
Taman Melaka Raya,
75000 Melaka.
Tel No. 06-2835522 (3 Lines)
Fax No. 06-2837635

Dear Sirs

**VALUATION OF PROPERTIES
BELONGING TO LII HEN INDUSTRIES BHD
AND ITS SUBSIDIARY COMPANIES**

The Certificate has been prepared for inclusion in the Prospectus of Lii Hen Industries Bhd to be dated 20 March 2000 in relation to the public issue of 6,020,000 ordinary shares of RM1.00 each at an issue price of RM1.60 per share and the restricted offer for sale of 1,806,000 ordinary shares of RM1.00 each at an offer price of RM1.60 per share.

In accordance with your instructions, we have assessed the Market Values of the landed properties set out below in conjunction with the listing of Lii Hen Industries Bhd on the Second Board of the Kuala Lumpur Stock Exchange. We have valued the aforesaid properties on 30th March 1999 and 25th May 1999, the details of which are set out in our valuation reports bearing reference nos. MK/SC99/318 to MK/SC99/318/6 and MK/SC99/484 respectively.

These valuation reports have been prepared in accordance with the requirements as set out in the Guidelines on Asset Valuation for submission to the Securities Commission and the Malaysian Valuation Standards as prescribed by the Board of Valuers, Appraisers and Estate Agents, Malaysia.

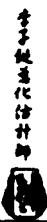
International Property Consultants • Chartered Valuation Surveyors • Registered Valuers & Real Estate Agents •
Project & Property Managers • Plant & Machinery Valuers • Auctioneers

Managing Director JORDAN LEE, IGM, Fm, FRI, Apsa, Inv, Mstr; Soc. Chairman JAAFAR JIBBAIL, Fm, FRI, Director LEE THAM SENG, Mstr.

THOO SENG CHOON, Fm, Inv, AdLAM, Fpsa, Apsa; R TANIGA PERAGASAM, Mstr, FRI, CHIN LAM SUT, Fm (M), FRI, Inv, LLB. (Hons), TYING KIM HOON, Mstr, FRI.

Headquarter: Kuala Lumpur: Ground & Level 6, Block G North, Pusat Bandar Damansara, Damansara Heights, 50489 Kuala Lumpur. Tel: 03-2568811 (12 lines) Fax No: 03-2888843

Other Offices:
 Selangor : 31, Jalan Kapas, 41400 Klang, Selangor Darul Ehsan. Tel: 03-3420880 (3 Lines) Fax: 03-3417888
 N. Sembilan: 8A, Kompleks Nagari, Jalan Dr. Krishnan, 70000 Seremban, Negeri Sembilan Darul Khusus, Malaysia. Tel: 06-7838889 & 7838890 Fax No: 06-7837988
 Penang : Suite 3 & 5, Tingkat Kedua, Labrooy House, Jalan Date Sagar, 30000 Ipoh, Perak Darul Ridzuan. Tel: 05-9414888 (3 Lines) Fax No: 05-2888383
 Johor : Suite 308, 3rd Floor, Pan-Oriental Plaza, Jalan Wong Ah Fook, 80000 Johor Bahru, Johor Darul Takzim. Tel: 07-2552888 Fax: 07-2848888
 Pahang : 17, Jalan Gambut 2, 28000 Kuantan, Pahang Darul Makmur. Tel: 09-688588 Fax No: 09-6142148
 Penang : Lot 2.01, 2nd Floor, Southern Bank Building, 21, Lebuh Pantai, 10300 Pulau Pinang. Tel: 04-2637749/5 2637750 Fax No: 04-2637644
 Kuching : Lot 216 (2/F), Jalan Haji Taha, 93400 Kuching, Sarawak. Tel: 082-418200 & 418222 Fax No: 082-425315



Other Colliers Offices: Australia, China, Hong Kong, India, Indonesia, Japan, New Zealand, Philippines, Singapore, Taiwan, Thailand, Vietnam, Austria, Belgium, Czech Republic, France, Germany, Greece, Hungary, Italy, Netherlands, Poland, Portugal, Republic of Ireland, Russia, Scotland, Slovenia, South Africa, Spain, Turkey, United Kingdom, The Americas Argentina, Canada, Mexico, Venezuela and United States Of America.

13. VALUERS' LETTER

COLLIERS
JORDAN LEE & JAAFAR

Page 2/-

We have valued the properties listed below with titles free from all legal encumbrances, using the Comparison, Investments and Cost Methods of Valuation (as appropriate) and are of the opinion that the Market Values of these properties are as follows:

| <u>Property/ Ref. No.</u> | <u>Date of Valuation</u> | <u>Tenure/ Approximate Age of Building</u> | <u>Land Area/ Gross Built- up Area (sq.m)</u> | <u>Existing Use/ Description</u> | <u>Market Value (RM)</u> |
|---|------------------------------|---|---|--|------------------------------|
| <u>Lii Hen Furnitures Sdn Bhd</u> | | | | | |
| H.S (D) 21321, PTD No. 1465, Mukim of Sg. Raya, District of Muar, State of Johore MK/SC99/318 | 30-03-1999 | Leasehold 60 years, expiring on 20/06/2056 3 – 6 years | 16,187 11,922.06 | Industrial 3 blocks of single- storey factory building, a double- storey and a 3-storey office block annexes and ancillary buildings. | 8,650,000 |
| H.S (D) 21322, PTD No. 1466, Mukim of Sg. Raya, District of Muar, State of Johore MK/SC99/318/2 | 30-03-1999 | Leasehold 60 years, expiring on 20/05/2056 3 years | 6,070 3,653.87 | Industrial A block of single-storey factory building with a TNB sub- station. | 2,970,000 |
| H.S (D) 21323, PTD No. 1467, Mukim of Sg. Raya, District of Muar, State of Johore MK/SC99/318/3 | 30-03-1999 | Leasehold 60 years, expiring on 20/05/2056 6 years | 6,358 2,259.03 | Industrial A block of single-storey factory building with an office annexe. | 1,710,000 |

13. VALUERS' LETTER

COLLIERS
JORDAN LEE & JAAFAR

Page 3/-

| <u>Property/ Ref. No.</u> | <u>Date of Valuation</u> | <u>Tenure/ Approximate Age of Building</u> | <u>Land Area/ Gross Built- up Area (sq. m)</u> | <u>Existing Use/ Description</u> | <u>Market Value (RM)</u> |
|--|------------------------------|---|--|--|------------------------------|
| <u>C.T. Haup Heng Sdn Bhd</u> | | | | | |
| H.S (D) 21318, PTD No. 1462, Mukim of Sg. Raya, District of Muar, State of Johore | 30-03-1999 | Leasehold 60 years, expiring on 20/05/2056 3 & 6 years | 10,117 6,588.31 | Industrial 2 blocks of factory buildings together with extensions and a guard house. | 4,290,000 |
| MK/SC99/318/1 | | | | | |
| <u>EF Furnitures Sdn. Bhd.</u> | | | | | |
| H.S (D) 21325, PTD No. 1469, Mukim of Sg. Raya, District of Muar, State of Johore | 30-03-1999 | Leasehold 60 years, expiring on 20/05/2056 4 years | 10,117 6,647.41 | Industrial A block of single- storey factory building and a double-storey office annexe, a guard house and a pump-house. | 5,360,000 |
| MK/SC99/318/4 | | | | | |
| <u>Mayteck Kilang Kayu dan Perabut Sdn Bhd</u> | | | | | |
| H.S (D) 22630 & 22631, PTD Nos. 6042 & 6043, Mukim of Grisek District of Muar, State of Johore | 30-03-1999 | Freehold 2 to 12 years | 18,460 6,219.85 | Industrial A single-storey factory building with a double- storey office annexe, 2 blocks of Kiln-drying factory, 20 units of K-D chambers and ancillary buildings. | 3,925,000 |
| MK/SC99/318/5 | | | | | |

13. VALUERS' LETTER

COLLIERS
JORDAN LEE & JAAFAR

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| <u>Property/ Ref. No.</u> | <u>Date of Valuation</u> | <u>Tenure/ Approximate Age of Building</u> | <u>Land Area/ Gross Built- up Area (sq. m)</u> | <u>Existing Use/ Description</u> | <u>Market Value (RM)</u> |
|--|------------------------------|--|--|---|------------------------------|
| <u>Lii Hen Furnitures Sdn Bhd</u> | | | | | |
| <u>EF Furniture Sdn Bhd</u> | | | | | |
| <u>C.T. Haup Heng Sdn Bhd</u> | | | | | |
| G.M. 347, Lot No. 1915, Mukim of Sg. Raya, District of Muar, State of Johore | 30-03-1999 | Freehold | 31,363 N/A | Agricultural Rubber small- holding. | 450,000 |
| MK/SC99/318/6 | | | | | |
| <u>Kejora Juara Sdn. Bhd.</u> | | | | | |
| H.S (D) 21971, PTD No. 1475, Mukim of Sg. Raya, District of Muar, State of Johore | 25-05-1999 | Leasehold 60 years, expiring on 24/09/2056 | 8,094 N/A | Industrial Vacant industrial land | 1,045,000 |
| MK/SC99/484 | | | | | |

Yours faithfully

COLLIERS**JORDAN LEE & JAAFAR (M'CCA) SDN BHD**

LEE THIAM SING MIS (M)
Registered Valuer (V-315)