
12. ACCOUNTANTS' REPORT

(Prepared for inclusion in this Prospectus)

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8 March 2000
The Board of Directors
LII HEN INDUSTRIES BHD
Plot 43 Kawasan Perindustrian Bukit Pasir
84300 Muar
Johor Darul Takzim

Dear Sirs,

1. INTRODUCTION

This report has been prepared for inclusion in the Prospectus to be dated **20 March 2000** in connection with the Public Issue of 6,020,000 new ordinary shares of RM1.00 each and Restricted Offer For Sale of 1,806,000 ordinary shares of RM1.00 each in LII HEN INDUSTRIES BHD (hereinafter referred to as "LHIB" or "the Company") at an Issue/Offer price of RM1.60 per share and the listing and quotation of the entire enlarged issued and fully paid-up share capital of LHIB comprising 40,000,000 ordinary shares of RM1.00 each on the Second Board of the Kuala Lumpur Stock Exchange ("KLSE").

2. GENERAL INFORMATION

(a) Incorporation

Lii Hen Wood Industries Sdn Bhd was incorporated as a private limited company in Malaysia on 24 May 1994. On 18 June 1997, the Company changed its name to Lii Hen Industries Sdn Bhd and the Company was subsequently converted to a public limited company on 5 August 1997 and assumed the name of Lii Hen Industries Bhd.

(b) Restructuring and flotation scheme

In conjunction with the listing and quotation of the entire issued and paid-up share capital of the Company on the Second Board of the KLSE, the Company implemented the following :-

12. ACCOUNTANTS' REPORT (Cont'd)

2. GENERAL INFORMATION (continued)**(b) Restructuring and flotation scheme (continued)**

- (i) the acquisition of the entire issued and paid-up share capital of Lii Hen Furnitures Sdn Bhd ('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.

The purchase consideration for LHF of RM25,598,305 was arrived at on a willing buyer-willing seller basis based on the audited consolidated NTA as at 31 December 1998 of RM35,069,305, after adjusting for the revaluation surplus of RM9,446,758, arising from the revaluation of its landed properties, and after adjusting for the reserves required to be retained under Section 10.10 (1) (j) of the *SC's Policies and Guidelines on Issue/Offer of Securities*. The acquisition of LHF was completed on 26 January 2000.

- (ii) the acquisition of the entire issued and paid-up share capital of Kejora Juara Sdn Bhd ('KJSB') for a total cash purchase consideration of RM1,046,183.

The purchase consideration for KJSB of RM1,046,183 was arrived at on a willing buyer-willing seller basis based on the audited consolidated NTA as at 28 February 1999 of RM589,675 after adjusting for the revaluation surplus of RM589,675, arising from the revaluation of its landed properties. The acquisition of KJSB was completed on 26 January 2000.

- (iii) the rights issue of 8,381,693 new ordinary shares of RM1.00 each at an issue price of RM1.00 per ordinary share to the existing shareholders of LHIB on the basis of approximately one new ordinary share for every three existing ordinary shares held.

The rights issue was completed on 10 February 2000.

- (iv) the restricted offer for sale of 1,806,000 ordinary shares of RM1.00 each at an offer price of RM1.60 per ordinary share to Bumiputra investors approved by MITI.
- (v) the public issue of 6,020,000 new ordinary shares of RM1.00 each at an issue price of RM1.60 per ordinary share.

3. AUDITORS AND THEIR REPORTS

The accounts for LHIB, LHF, CT Haup Heng Sdn Bhd (CTHH), EF Furniture Sdn Bhd ('EFF'), Mayteck Kilang Kayu Dan Perabut Sdn Bhd ('MKK'), and KJSB were audited by other auditors for the period covered in this report.

The audited accounts by the other auditors were reported without any qualification except for MKK as follows :-

12. ACCOUNTANTS' REPORT (Cont'd)

3. AUDITORS AND THEIR REPORTS (continued)

Financial year ended 30 September 1994

"The Company did not conduct an annual stocktake on 30 September 1994. The Company's stock records do not enable us to make adequate retroactive tests. We have thus relied on the Directors' valuation of the total stocks amounting to RM281,574 as at 30 September 1994."

Financial year ended 30 September 1995

"The Company did not conduct an annual stocktake on 30 September 1995. The Company's stock records do not enable us to make adequate retroactive tests. We have thus relied on the Directors' valuation of the total stocks amounting to RM339,877 as at 30 September 1995."

4. SUBSIDIARY COMPANIES

All the subsidiary companies of LHIB were incorporated in Malaysia. The information on the subsidiary companies are set out below:-

Company	Date of incorporation	Issued and paid-up capital (No. of ordinary shares of RM1.00 each)	Equity interest (%)	Principal Activities
LHF	16 December 1985	900,000	100.00	Investment holding, manufacturing and marketing of dining (specialising in colonial designs) and other household furniture
KJSB*	15 October 1994	2	100.00	Property investment holding
CTHH	2 September 1992	240,000	100.00	Manufacturing and marketing of dining furniture (specialising in contemporary designs)
EFF	21 November 1992	500,000	100.00	Manufacturing and marketing of office and household furniture
MKK	10 September 1983	750,000	100.00	Rubberwood pressure treatment and kiln drying and furniture components manufacturing

*KJSB has not commenced operations as at the date hereof.

12. ACCOUNTANTS' REPORT (Cont'd)**5. DIVIDENDS**

No dividends have been declared by the Group during the financial period covered in this report.

6. SUMMARISED PROFIT AND LOSS ACCOUNTS

We set out below the proforma consolidated financial results of LHIB and its subsidiaries ("the Group") for the past five years ended 31 December 1994 to 1998 and for the nine months period ended 30 September 1999 based on the assumption that the Group had been in existence throughout the years/period under review. The proforma consolidated results are:

	Years ended 31 December					9-month period ended 30 September
	1994 RM'000	1995 RM'000	1996 RM'000	1997 RM'000	1998 RM'000	1999 RM'000
Turnover	17,238	18,288	31,568	46,585	57,960	59,871
Profit before depreciation and interest	2,910	3,881	7,454	10,888	14,248	11,996
Interest expense	(188)	(404)	(643)	(1,525)	(1,937)	(1,164)
Depreciation	(520)	(762)	(1,192)	(1,436)	(1,865)	(1,644)
Operating profit	2,202	2,715	5,619	7,927	10,446	9,188
Share of loss of associated company	-	(56)	-	-	-	-
Exceptional items	25	-	39	-	-	-
Profit before taxation	2,227	2,659	5,658	7,927	10,446	9,188
Taxation	(360)	(485)	(887)	(983)	(2,228)	(206)
Profit after taxation	1,867	2,174	4,771	6,944	8,218	8,982
Issued and paid up share capital assumed to be in issue (*000 shares)	25,598	25,598	25,598	25,598	25,598	25,598
Gross earnings per share (RM)	0.09	0.10	0.22	0.31	0.41	*0.48
Net earnings per share (RM)	0.07	0.08	0.19	0.27	0.32	*0.47

*Annualised

12. ACCOUNTANTS' REPORT (Cont'd)

Notes:

- (1) The results of certain subsidiary companies have been adjusted to conform with financial year end of 31 December of the Group.
- (2) LHIB's results are not included as it was incorporated on 24 May 1994 and remained dormant throughout the financial years/period under review.
- (3) KJSB's results are not included as it was incorporated on 15 October 1994 and remained dormant throughout the financial years/period under review.
- (4) The gross earnings per share has been calculated based on the profit before taxation divided by the issued and paid-up share capital of 25,598,307 ordinary shares.
- (5) The net earnings per share has been calculated based on the profit after taxation divided by the issued and paid-up share capital of 25,598,307 ordinary shares.
- (6) The taxation has been adjusted to reflect the under/(over) provision in the respective financial years/period as follows:

	Years ended 31 December					9-month period ended 30 September
	1994	1995	1996	1997	1998	1999
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Taxation as stated in audited accounts	520	347	917	994	2,172	206
Adjustment to reflect the taxation in the respective years	(160)	138	(30)	(11)	56	-
Adjusted taxation as stated in this report	360	485	887	983	2,228	206

12. ACCOUNTANTS' REPORT (Cont'd)

The effective tax rates for 1994 to 1998 were lower than the statutory tax rates mainly due to:

- a) availability of reinvestment allowances for LHF and CTHH;
- b) EFF has been granted pioneer status under the Promotion of Investment Act, 1986 which abates 70% of its statutory income for its furniture products for a period of five years. The production date has been fixed at 1 May 1996.

The taxation for 1999 was attributable to the adjustment for deferred taxation. There is no tax charge on the income of the Group for 1999 as the amount payable is waived in accordance with the Income Tax (Amendment) Act 1999.

- (7) In line with the adoption of International Accounting Standard No 8 (Revised), the extraordinary items reported in the previous years have been reclassified as exceptional items.

The exceptional item for 1994 was attributable to the compensation for the assets written off as the result of fire. The exceptional items in 1996 were in respect of the disposal of an associated company and provision for diminution in value of investment.

- (8) Save for item (7) above, there were no other extraordinary/exceptional items in all the financial years/period under review.

12. ACCOUNTANTS' REPORT (Cont'd)

6.1 LHF AND ITS SUBSIDIARIES

	Year ended 31 December				9-month period ended 30 September
	1995	1996	1997	1998	1999
	RM'000	RM'000	RM'000	RM'000	RM'000
Turnover	15,290	30,207	46,585	57,960	59,871
Profit before depreciation and interest	3,476	7,120	10,828	14,188	11,951
Interest expense	(269)	(559)	(1,525)	(1,937)	(1,164)
Depreciation	(531)	(1,058)	(1,436)	(1,865)	(1,644)
Operating profit	2,676	5,503	7,867	10,386	9,143
Share of loss of associated company	(56)	-	-	-	-
Exceptional items	-	39	-	-	-
Profit before taxation	2,620	5,542	7,867	10,386	9,143
Taxation	(450)	(893)	(983)	(2,228)	(206)
Profit after taxation	2,170	4,649	6,884	8,158	8,937
Weighted issued and paid-up share capital ('000 shares)	597	705	900	900	900
Gross earnings per share (RM)	4.39	7.86	8.74	11.54	*13.58
Net earnings per share (RM)	3.63	6.59	7.65	9.06	*13.28

*Annualised

12. ACCOUNTANTS' REPORT (Cont'd)

Notes:

- (1) The gross earnings per share have been calculated based on the profit before taxation divided by the weighted average issued and paid-up share capital.
- (2) The net earnings per share have been calculated based on the profit after taxation divided by the weighted average issued and paid-up share capital.
- (3) No consolidated accounts for year ended 1994 was prepared as 1995 is the first set of consolidated accounts.
- (4) The taxation has been adjusted to reflect the under/(over) provision in the respective financial years/period as follows:

	Year ended 31 December				9-month period ended 30 September
	1995	1996	1997	1998	1999
	RM'000	RM'000	RM'000	RM'000	RM'000
Taxation as stated in audited accounts	310	926	994	2,172	206
Adjustment to reflect the taxation in the respective years	140	(33)	(11)	56	-
Adjusted taxation as stated in this report	450	893	983	2,228	206

The effective tax rates for 1995 to 1998 were lower than the statutory tax rates mainly due to:

- a) availability of reinvestment allowances for LHF and CTHH;
- b) EFF has been granted pioneer status under the Promotion of Investment Act, 1986 which abates 70% of its statutory income for its furniture products for a period of five years. The production date has been fixed at 1 May 1996.

The taxation for 1999 was attributable to the adjustment for deferred taxation. There is no tax charge on the income of the Group for 1999 as the amount payable is waived in accordance with the Income Tax (Amendment) Act 1999.

- (5) In line with the adoption of International Accounting Standard No 8 (Revised), the extraordinary items reported in the previous years have been reclassified as exceptional items.

The exceptional items in 1996 were in respect of the disposal of an associated company and provision for diminution in value of investment.

- (6) Save for item (5) above, there were no other extraordinary/exceptional items in all the financial years/period under review.

12. ACCOUNTANTS' REPORT (Cont'd)

6.2 LHF

	Years ended 31 December					9-month period ended 30 September
	1994	1995	1996	1997	1998	1999
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Turnover	6,561	8,196	13,090	19,534	24,377	23,983
Profit before depreciation and interest	1,748	2,369	3,819	5,072	6,334	4,926
Interest expense	(50)	(152)	(198)	(535)	(808)	(445)
Depreciation	(163)	(316)	(548)	(653)	(840)	(713)
Operating profit	1,535	1,901	3,073	3,884	4,686	3,768
Exceptional item	25	-	-	-	-	-
Profit before taxation	1,560	1,901	3,073	3,884	4,686	3,768
Taxation	(309)	(275)	(448)	(376)	(1,273)	(60)
Profit after taxation	1,251	1,626	2,625	3,508	3,413	3,708
Weighted average issued and paid- up share capital ('000 shares)	504	504	649	900	900	900
Gross earnings per share (RM)	3.10	3.77	4.73	4.32	5.21	*5.60
Net earnings per share (RM)	2.48	3.23	4.04	3.90	3.79	*5.51

*Annualised

12. ACCOUNTANTS' REPORT (Cont'd)

Notes:

- (1) The gross earnings per share have been calculated based on the profit before taxation divided by the weighted average issued and paid-up share capital.
- (2) The net earnings per share have been calculated based on the profit after taxation divided by the weighted average issued and paid-up share capital.
- (3) The effective tax rates for 1994 to 1998 were lower than the statutory tax rates due to the availability of reinvestment allowance.

The taxation for 1999 was attributable to the adjustment for deferred taxation. There is no tax charge on the income of the Company for 1999 as the amount payable is waived in accordance with the Income Tax (Amendment) Act 1999.

- (4) In line with the adoption of International Accounting Standard No 8 (Revised), the extraordinary item reported in the previous years have been reclassified as exceptional item.

The exceptional item in 1994 was attributable to the compensation for the assets written off as the result of fire.

- (5) Save for item (4) above, there were no other extraordinary/exceptional items in all the financial years/period under review.
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12. ACCOUNTANTS' REPORT (Cont'd)

6.3 CTHH

	Financial year ended 31 March		9-month period ended 31 December	Financial year ended 31 December			9-month period ended 30 September
	1994	1995	1995	1996	1997	1998	1999
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Turnover	2,965	8,310	5,083	8,635	11,461	16,889	15,841
Profit before depreciation and interest	173	972	872	1,647	2,561	3,720	2,689
Interest expense	(17)	(51)	(118)	(151)	(224)	(336)	(179)
Depreciation	(63)	(207)	(215)	(266)	(305)	(419)	(350)
Operating profit	93	714	539	1,230	2,032	2,965	2,160
Exceptional item	-	-	-	(17)	-	-	-
Profit before taxation	93	714	539	1,213	2,032	2,965	2,160
Taxation	(33)	(7)	(173)	(204)	(423)	(643)	(64)
Profit after taxation	60	707	366	1,009	1,609	2,322	2,096
Issued and paid-up share capital ('000 shares)	240	240	240	240	240	240	240
Gross earnings per share (RM)	0.39	2.98	*2.98	5.05	8.47	12.35	*12.03
Net earnings per share (RM)	0.25	2.95	*2.02	4.20	6.70	9.68	*11.68

*Annualised

12. ACCOUNTANTS' REPORT (Cont'd)

Notes:

- (1) The gross earnings per share have been calculated based on the profit before taxation divided by the issued and paid-up share capital.
- (2) The net earnings per share have been calculated based on the profit after taxation divided by the issued and paid-up share capital.
- (3) The taxation has been adjusted to reflect the under/(over) provision in the respective financial years/period as follows:

	Financial year ended 31 March		9-month period ended 31 December	Financial year ended 31 December			9-month period ended 30 September
	1994	1995	1995	1996	1997	1998	1999
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Taxation as stated in audited accounts	31	196	(14)	224	423	643	64
Adjustment to reflect the taxation in the respective years	2	(189)	187	(20)	-	-	-
Adjusted taxation as stated in this report	33	7	173	204	423	643	64

The effective tax rates for 1994 and 9-month period ended 31 December 1995 were higher than the statutory tax rates due to certain expenses disallowed for tax purposes.

The effective tax rates for 1995, 1996, 1997 and 1998 were lower than statutory tax rates due to the availability of reinvestment allowances.

The taxation for 1999 was attributable to the adjustment for deferred taxation. There is no tax charge on the income of the Company for 1999 as the amount payable is waived in accordance with the Income Tax (Amendment) Act 1999.

- (4) In line with the adoption of International Accounting Standard No 8 (Revised), the extraordinary item reported in the previous years have been reclassified as exceptional item.

The exceptional item reported for the financial year 1996 was in respect of the provision for diminution in value of investment.

- (5) Save for item (4) above, there were no other extraordinary/exceptional items in all the financial years/period under review.