

10. ACCOUNTANTS' REPORT**ARTHUR ANDERSEN**

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The Board of Directors
D'NONCE TECHNOLOGY BHD.
21, Persiaran Midlands,
10250 Pulau Pinang

Dear Sirs,

1.0 INTRODUCTION

This report has been prepared by an approved company auditor for inclusion in the Prospectus to be dated 26 February, 2001 in connection with the Special Issue of 3,000,000 new ordinary shares of RM1.00 each to the Bumiputra investors approved by the Ministry of International Trade and Industry at an issue price of RM2.00 per share in D'nonce Technology Bhd. ("D'nonce Technology" or "the Company"), the Public Issue of 7,000,000 new ordinary shares of RM1.00 each at an issue price of RM2.00 per share in D'nonce Technology and the listing of and quotation for the entire issued and fully paid-up share capital of the Company comprising 40,000,000 ordinary shares of RM1.00 each on the Second Board of the Kuala Lumpur Stock Exchange.

2.0 GENERAL INFORMATION**2.1 The Company**

D'nonce Technology was incorporated in Malaysia under the Companies Act, 1965 on 20 January, 2000 as a public limited company. The principal activity of the Company is that of an investment holding company.

The authorised share capital of the Company is RM100,000,000 comprising 100,000,000 ordinary shares of RM1.00 each and the issued and paid-up share capital is RM30,000,000 divided into 30,000,000 ordinary shares of RM1.00 each. Details of changes in the issued and paid-up share capital of the Company since incorporation are as follows:

<u>Date of allotment</u>	<u>Number of ordinary shares of RM1.00 each</u>	<u>Type of issue/ Consideration</u>	<u>Cumulative issued and paid-up share capital</u> RM
20.01.00	2	Subscribers' shares	2
18.10.00	23,062,723	Otherwise than cash*	23,062,725
6.12.00	6,937,275	Cash	30,000,000

* Issue of shares at RM1.17 per share as consideration for the acquisition of 100% equity interest in D'nonce (M) Sdn. Bhd.

Subsequent to the Special Issue and Public Issue, the issued and paid-up share capital of the Company would be increased to 40,000,000 ordinary shares of RM1.00 each.

10. ACCOUNTANTS' REPORT



2.2 Restructuring Scheme

In conjunction with, and as part of the listing of and quotation of the entire issued and fully paid-up share capital of D'nonce Technology on the Second Board of the Kuala Lumpur Stock Exchange, the restructuring scheme as summarised below, which had been approved by the Foreign Investment Committee, the Ministry of International Trade and Industry and the Securities Commission, was implemented:

- (a) Acquisition of the entire issued and paid-up share capital of D'nonce (M) Sdn. Bhd. ("D'nonce (M)"). This acquisition is based on the consolidated net tangible assets of D'nonce (M) and its subsidiaries as at 31 August, 1999 of RM27,062,723. The acquisition was satisfied by the issuance of 23,062,723 new ordinary shares of RM1.00 each at an issue price of RM1.17 per share.
- (b) Acquisition of all shareholdings in the subsidiaries held previously by D'nonce (M) to D'nonce Technology for a cash consideration of RM4,374,000 based on the carrying values of D'nonce (M)'s cost of investment in the respective companies as at 31 August, 1999. The Group included a subsidiary, Attractive Venture (KL) Sdn. Bhd. which was only acquired subsequent to 31 August, 1999 for a purchase consideration of RM2 and its issued and paid-up share capital was subsequently increased to RM50,000.

The subsidiaries acquired by D'nonce Technology from D'nonce (M) are as follows:

D'nonce (KL) Sdn. Bhd. ("D'nonce (KL)")
 D'nonce (Johore) Sdn. Bhd. ("D'nonce (Johore)")
 D'nonce (Kelantan) Sdn. Bhd. ("D'nonce (Kelantan)")
 D'nonce Electronics Sdn. Bhd. ("D'nonce Electronics")
 Attractive Venture Sdn. Bhd. ("AV")
 Attractive Venture (KL) Sdn. Bhd. ("AV (KL)")
 Attractive Venture (JB) Sdn. Bhd. ("AV (JB)")
 AV Industries Sdn. Bhd. ("AV Industries") and
 AV Innovation Sdn. Bhd. ("AV Innovation")

This cost of investment in subsidiaries will be eliminated on consolidation.

- (c) A rights issue of 6,937,275 new ordinary shares of RM1.00 each, at par of RM1.00 each on a basis of approximately ten (10) new shares for every thirty three (33) existing ordinary shares held after the above acquisitions was completed on 6 December, 2000.
- (d) D'nonce Technology now proposed to make a Special Issue of 3,000,000 new ordinary shares of RM1.00 at RM2.00 per ordinary share and a Public Issue of 7,000,000 new ordinary shares of RM1.00 at RM2.00 per ordinary share. This will increase the issued and paid-up share capital of D'nonce Technology to 40,000,000 ordinary shares of RM1.00 each.
- (e) The listing and quotation of the Company's entire enlarged issued and paid-up share capital of RM40,000,000 comprising 40,000,000 ordinary shares of RM1.00 each on the Second Board of the Kuala Lumpur Stock Exchange.

The restructuring scheme was approved by the Securities Commission on 17 August, 2000.

10. ACCOUNTANTS' REPORT

2.3 Subsidiary Companies

Details of the subsidiary companies of D'nonce Technology, all of which are incorporated in Malaysia, as at the date of this report are as follows:

<u>Company</u>	<u>Date of Incorporation</u>	<u>Issued and Paid-up Share Capital</u> RM	<u>Effective Equity Interest</u> %	<u>Principal Activities</u>
D'nonce (M)	19 June, 1989	7,000,000	100	Sales and distribution of advanced packaging materials, electronic products and consumables for the electronics industry
D'nonce (KL)	2 June, 1993	50,000	75	Sales and distribution of advanced packaging materials, electronic products and consumables for the electronics industry
D'nonce (Johore)	6 January, 1993	30,000	55	Sales and distribution of advanced packaging materials, electronic products and consumables for the electronics industry
D'nonce (Kelantan)	4 April, 1995	30,000	55	Sales and distribution of advanced packaging materials, electronic products and consumables for the electronics industry
D'nonce Electronics	7 November, 1995	400,000	100	International procurement office for the electronics industry
AV	14 August, 1991	1,000,000	100	Design and conversion of advanced packaging materials for the electronics industry
AV (KL)	22 October, 1998	50,000	100	Design and conversion of advanced packaging materials for the electronics industry
AV (JB)	14 September, 1996	500,000	82	Design and conversion of advanced packaging materials for the electronics industry
AV Industries	19 March, 1991	2,000,000	100	Contract manufacturer of electronic components
AV Innovation	12 March, 1998	250,000	100	Design and conversion of advanced packaging materials for the electronics industry

10. ACCOUNTANTS' REPORT



3.1 AUDITORS

We were appointed as statutory auditors of:

- i) D'nonce (M), D'nonce (KL), D'nonce (Kelantan) and AV with effect from the financial year ended 31 August, 1997,
- ii) AV (JB) with effect from the financial year ended 31 August, 1999,
- iii) D'nonce (Johore) with effect from the eight-month period ended 31 August, 1997,
- iv) AV Industries with effect from the seventeen-month period ended 31 August, 1997, and
- v) D'nonce Electronics, AV (KL) and AV Innovation since their date of incorporation.

The said accounts were reported on by us without any qualification.

The accounts of D'nonce (M), D'nonce (KL), D'nonce (Johore), D'nonce (Kelantan), AV, AV (JB) and AV Industries prior to our appointment as auditors were audited by other firms of public accountants and their reports under review were not subject to any qualification.

We are also the auditors of D'nonce Technology. The first set of the audited accounts is from the date of its incorporation on 20 January, 2000 to 31 August, 2000 and were reported by us without any qualification.

3.2 ACCOUNTING POLICIES AND STANDARDS

This report is prepared on a basis consistent with accounting policies normally adopted by D'nonce Group and in accordance with Malaysian Accounting Standards Board ("MASB") standards.

10. ACCOUNTANTS' REPORT

4.0 SUMMARISED PROFIT AND LOSS ACCOUNTS

4.1 Proforma Group

We set out below the proforma consolidated financial results of D'nonce Technology and its subsidiaries ("D'nonce Group" or "the Group") for the last five (5) financial years ended 31 August, 1996 to 2000. This has been prepared for illustrative purposes only after making such adjustments that we considered necessary and assuming that the D'nonce Group had been in existence throughout the periods under review.

	Financial Year Ended 31 August				
	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
	RM'000	RM'000	RM'000	RM'000	RM'000
Turnover	24,087	35,522	58,389	138,228	146,436
Profit before interest, depreciation and taxation	3,804	5,679	10,184	10,971	12,885
Interest expense	(139)	(262)	(536)	(924)	(1,463)
Depreciation	(177)	(343)	(615)	(1,294)	(2,005)
Profit before taxation	3,488	5,074	9,033	8,753	9,417
Taxation	(982)	(1,293)	(1,346)	(180)	(1,073)
Profit after taxation	2,506	3,781	7,687	8,573	8,344
Minority interests	(128)	(86)	(91)	(218)	(302)
Profit after taxation and minority interests	2,378	3,695	7,596	8,355	8,042
Number of ordinary shares assumed to be in issue ('000)	23,063	23,063	23,063	23,063	23,063
Gross Earnings Per Share (sen)	15	22	39	38	41
Net Earnings Per Share (sen)	10	16	33	36	35

- (1) The above consolidated financial results have been prepared based on the audited accounts after making adjustments for (under)/overprovision for taxation.
- (2) The accounts of D'nonce (Johore) for the year ended 31 December, 1996 and of AV Industries for the year ended 31 March, 1996 have been time-apportioned in order to be co-terminous with its holding company.
- (3) Minority interests are in respect of 25% minority interest in D'nonce (KL), 45% minority interests in D'nonce (Johore) and D'nonce (Kelantan) and 18% minority interest in AV (JB).
- (4) Turnover and profit before taxation for the year ended 1997 increased as the Group has introduced new products, mainly wire harness to its customers.
- (5) In 1998, the Group's turnover and profit before taxation increased further due to the introduction of cleanroom products and higher sales volume of wire harness.

10. ACCOUNTANTS' REPORT

- (6) Turnover for the year ended 1999 increased by 137%. This is mainly due to the commencement of commercial operations in AV Industries. However, the Gross Profit Margin of the Group dropped as the margin for AV Industries was relatively lower as compared to other business divisions of the Group.
- (7) Turnover for the year ended 2000 increased because D'nonce (M) managed to secure sales to supply moisture barrier and static shielding bags to a multinational company. However, the profit after taxation for year ended 2000 is lower than 1999 is because the tax charge in respect of business income for the year ended 1999 has been waived in accordance with the Income Tax (amendment) Act, 1999.
- (8) There is no tax charge in respect of business income for the year ended 31 August, 1999 as it is waived in accordance with the Income Tax (Amendment) Act, 1999. The provision for taxation was in respect of deferred tax for timing difference between capital allowance claimed and depreciation.
- (9) There were no extraordinary items in all the financial years under review.

4.2 Segmental analysis of the Proforma Group

The distribution of the Proforma Group's turnover and profit after taxation and minority interest by activity for the past five financial years is provided below.

i) Turnover by Activity

	Financial Year Ended 31 August				
	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
	RM'000	RM'000	RM'000	RM'000	RM'000
Contract manufacturing	-	-	-	86,969	84,740
Design and conversion	8,914	12,248	17,169	15,801	19,079
Sales and distribution	15,173	23,274	41,220	35,458	42,617
	<u>24,087</u>	<u>35,522</u>	<u>58,389</u>	<u>138,228</u>	<u>146,436</u>

ii) Profit after Taxation and Minority Interest by Activity

	Financial Year Ended 31 August				
	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
	RM'000	RM'000	RM'000	RM'000	RM'000
Contract manufacturing	-	-	-	3,740	3,684
Design and conversion	1,894	2,538	5,466	3,075	2,588
Sales and distribution	484	1,157	2,130	1,540	1,253
	<u>2,378</u>	<u>3,695</u>	<u>7,596</u>	<u>8,355</u>	<u>7,525</u>
Consolidation adjustment	-	-	-	-	517
	<u>2,378</u>	<u>3,695</u>	<u>7,596</u>	<u>8,355</u>	<u>8,042</u>

10. ACCOUNTANTS' REPORT

4.3 The Company and its subsidiary companies

We set out below the summarised audited results of each of the companies within the D'nonce Group for the relevant financial year as follows:

i) D'NONCE TECHNOLOGY

The Company has not commenced operations since its date of incorporation on 20 January, 2000. Accordingly, no financial result has been drawn up.

ii) D'NONCE (M)

	Financial Year Ended 31 August				
	<u>1996</u> RM'000	<u>1997</u> RM'000	<u>1998</u> RM'000	<u>1999</u> RM'000	<u>2000</u> RM'000
Turnover	11,233	16,094	35,399	26,884	32,724
Profit before interest, depreciation and taxation	554	1,329	2,880	1,385	1,286
Interest expense	(45)	(88)	(97)	(85)	(272)
Depreciation	(20)	(45)	(59)	(80)	(100)
Profit before taxation	489	1,196	2,724	1,220	914
Taxation	(167)	(317)	(768)	(34)	(275)
Profit after taxation	322	879	1,956	1,186	639
Weighted average number of ordinary shares in issue ('000)	616	1,000	1,000	2,003	7,000
Gross Earnings Per Share (sen)	79	120	272	61	13
Net Earnings Per Share (sen)	52	88	196	59	9

- (1) Turnover for the year ended 1998 increased by 120% compared to prior year is due to the introduction of cleanroom products and wire harness.
- (2) Turnover for the year ended 1999 decreased due to the loss of certain major customers as a result of the customers' relocation and cessation of operations in Malaysia.
- (3) Turnover for the year ended 2000 increased because the Company managed to secure sales to supply moisture barrier and static shielding bags to a multinational company. However, profit before taxation for the year decreased compared to previous year because of reduction in Gross Profit Margin for other products. The lower Gross Profit Margin is due to the reduction in selling price.
- (4) The tax expense based on the audited results for the five (5) years ended 31 August, 1996 to 2000 are as follows:

	<u>RM'000</u>
Year ended 31 August, 1996	165
Year ended 31 August, 1997	376
Year ended 31 August, 1998	728
Year ended 31 August, 1999	16
Year ended 31 August, 2000	275

The over/(under) provision for taxation was adjusted to their respective financial years in order to reflect the actual tax expense amount for each financial year.

10. ACCOUNTANTS' REPORT

- (5) There is no tax charge in respect of business income for the year ended 31 August, 1999 as it is waived in accordance with the Income Tax (Amendment) Act, 1999. The provision for taxation was in respect of deferred tax for timing difference between capital allowance claimed and depreciation.
- (6) There were no extraordinary items for the financial years under review.

iii) D'NONCE (KL)

	Financial Year Ended 31 August				
	<u>1996</u> RM'000	<u>1997</u> RM'000	<u>1998</u> RM'000	<u>1999</u> RM'000	<u>2000</u> RM'000
Turnover	3,760	3,558	3,681	4,170	6,693
Profit before interest, depreciation and taxation	369	268	75	61	359
Interest expense	-	(3)	(35)	(27)	(22)
Depreciation	(5)	(5)	(16)	(25)	(31)
Profit before taxation	364	260	24	9	306
Taxation	(116)	(80)	(13)	(1)	(95)
Profit after taxation	248	180	11	8	211
Number of ordinary shares in issue ('000)	50	50	50	50	50
Gross Earnings Per Share (sen)	728	520	48	18	612
Net Earnings Per Share (sen)	496	360	22	16	422

- (1) Turnover for the year ended 1997 decreased due to a lower selling price of its products as a result of higher competition in the electronics industry.
- (2) Turnover for the years ended 1998 and 1999 continued to increase but the profits before taxation reduced further. The reduction was because of transportation cost charged by a related company. The related company previously absorbed this cost.
- (3) The increase in turnover for the year ended 2000 by 61% compared to the previous year was because of significant increase in sales of K-liner and adhesive tapes. This in turn led to an increase in profit before taxation.
- (4) The tax expense based on the audited results for the five (5) years ended 31 August, 1996 to 2000 are as follows:

	<u>RM'000</u>
Year ended 31 August, 1996	116
Year ended 31 August, 1997	80
Year ended 31 August, 1998	15
Year ended 31 August, 1999	15
Year ended 31 August, 2000	79

The over/(under) provision for taxation was adjusted to their respective financial years in order to reflect the actual tax expense amount for each financial year.

10. ACCOUNTANTS' REPORT

(5) There is no tax charge in respect of business income for the year ended 31 August, 1999 as it is waived in accordance with the Income Tax (Amendment) Act, 1999. The provision for taxation was in respect of deferred tax for timing difference between capital allowance claimed and depreciation.

(6) There were no extraordinary items for the financial years under review.

iv) D'NONCE (JOHORE)

	1.1.96 to <u>31.12.96</u> RM'000	1.1.97 to <u>31.8.97</u> RM'000	<u>Financial Year Ended 31 August</u>		
			<u>1998</u> RM'000	<u>1999</u> RM'000	<u>2000</u> RM'000
Turnover	2,827	1,780	3,619	5,384	6,494
Profit before interest, depreciation and taxation	319	40	327	440	546
Interest expense	(2)	(17)	(24)	(15)	(12)
Depreciation	(16)	(11)	(14)	(15)	(15)
Profit before taxation	301	12	289	410	519
Taxation	(92)	-	(85)	-	(154)
Profit after taxation	209	12	204	410	365
Number of ordinary shares in issue ('000)	30	30	30	30	30
Gross Earnings Per Share (sen)	1,003	40	963	1,367	1,730
Net Earnings Per Share (sen)	697	40	680	1,367	1,217

(1) The turnover and profit before taxation for the Company has gradually increased over the years except for the 8-month period ended 31 August, 1997.

(2) The tax expense based on the audited results for the five (5) years ended 31 August, 1996 to 2000 are as follows:

	<u>RM'000</u>
Year ended 31 August, 1996	92
Year ended 31 August, 1997	-
Year ended 31 August, 1998	83
Year ended 31 August, 1999	2
Year ended 31 August, 2000	154

The under provision for taxation was adjusted to their respective financial years in order to reflect the actual tax expense amount for each financial year.

(3) There is no tax charge in respect of business income for the year ended 31 August, 1999 as it is waived in accordance with the Income Tax (Amendment) Act, 1999.

(4) There were no extraordinary items for the financial years under review.

10. ACCOUNTANTS' REPORT



v) D'NONCE (KELANTAN)

	4.4.95 to <u>31.8.96</u> RM'000	<u>Financial Year Ended 31 August</u>			
		<u>1997</u> RM'000	<u>1998</u> RM'000	<u>1999</u> RM'000	<u>2000</u> RM'000
Turnover	357	1,137	940	1,072	1,929
(Loss)/Profit before depreciation and taxation	(36)	39	(6)	44	96
Depreciation	(1)	(2)	(2)	(2)	(3)
(Loss)/Profit before taxation	(37)	37	(8)	42	93
Taxation	-	-	(1)	-	(25)
(Loss)/Profit after taxation	(37)	37	(9)	42	68
Weighted average number of ordinary shares in issue ('000)	23	30	30	30	30
Gross (Loss)/Earnings Per Share (sen)	(161)	123	(27)	140	310
Net (Loss)/Earnings Per Share (sen)	(161)	123	(30)	140	227

- (1) The audited profit and loss accounts for the year ended 31 August, 1996 is the first set of accounts since its incorporation on 4 April, 1995.
- (2) Decrease in turnover for the year ended 1998 was because of cancellation of orders from a major customer due to product defects. As a result, the Company recorded a loss before taxation as most of its expenses were fixed in nature.
- (3) Higher turnover for the year ended 2000 was because of increase in sales to a related company.
- (4) The tax expense based on the audited profit and loss accounts for the five (5) years ended 31 August, 1996 to 2000 are as follows:

	<u>RM'000</u>
Year ended 31 August, 1996	-
Year ended 31 August, 1997	-
Year ended 31 August, 1998	1
Year ended 31 August, 1999	2
Year ended 31 August, 2000	23

The over/(under) provision for taxation was adjusted to their respective financial years in order to reflect the actual tax expense amount for each financial year.

- (5) There is no tax charge in respect of business income for the year ended 31 August, 1999 as it is waived in accordance with the Income Tax (Amendment) Act, 1999.
- (6) There were no extraordinary items for the financial years under review.

10. ACCOUNTANTS' REPORT

vi) D'NONCE ELECTRONICS

	7.11.95	1.1.97	<u>Financial Year Ended 31 August</u>		
	to <u>31.12.96</u> RM'000	to <u>31.8.97</u> RM'000	<u>1998</u> RM'000	<u>1999</u> RM'000	<u>2000</u> RM'000
Turnover	1,005	2,629	1,769	3,256	4,156
(Loss)/Profit before interest, depreciation and taxation	(86)	133	100	166	335
Interest expense	(1)	-	(2)	(32)	(3)
Depreciation	(9)	(7)	(24)	(29)	(29)
(Loss)/Profit before taxation	(96)	126	74	105	303
Taxation	-	(15)	(15)	(5)	(86)
(Loss)/Profit after taxation	(96)	111	59	100	217
Weighted average number of ordinary shares in issue ('000)	248	400	400	400	400
Gross (Loss)/Earnings Per Share (sen)	(39)	32	19	26	76
Net (Loss)/Earnings Per Share (sen)	(39)	28	15	25	54

- (1) The audited profit and loss accounts for the period ended 31 December, 1996 were the first set of accounts since its incorporation on 7 November, 1995.
- (2) Turnover in 1998 was lower because of decrease in sales of certain electronic products. This in turn, resulted in a lower profit before taxation.
- (3) Increase in turnover for the year ended 1999 and 2000 was due to higher sales of semiconductor products to its customers. This has resulted in an increase in profit before taxation.
- (4) The tax expense based on the audited results for year ended 31 December, 1996 and four (4) years ended 31 August, 1997 to 2000 are as follows:

	<u>RM'000</u>
Year ended 31 December, 1996	-
Year ended 31 August, 1997	15
Year ended 31 August, 1998	22
Year ended 31 August, 1999	-
Year ended 31 August, 2000	84

The over/(under) provision for taxation was adjusted to their respective financial years in order to reflect the actual tax expense amount for each financial year.

- (5) There is no tax charge in respect of business income for the year ended 31 August, 1999 as it is waived in accordance with the Income Tax (Amendment) Act, 1999. The provision for taxation was in respect of deferred tax for timing difference between capital allowance claimed and depreciation.
- (6) There were no extraordinary items for the financial years under review.

10. ACCOUNTANTS' REPORT



vii) AV

	Financial Year Ended 31 August				
	<u>1996</u> RM'000	<u>1997</u> RM'000	<u>1998</u> RM'000	<u>1999</u> RM'000	<u>2000</u> RM'000
Turnover	8,933	12,254	16,373	12,918	14,430
Profit before interest, depreciation and taxation	2,745	3,806	6,807	4,319	3,894
Interest expense	(88)	(153)	(378)	(546)	(710)
Depreciation	(131)	(265)	(485)	(679)	(710)
Profit before taxation	2,526	3,388	5,944	3,094	2,474
Taxation	(632)	(850)	(464)	(75)	(158)
Profit after taxation	1,894	2,538	5,480	3,019	2,316
Weighted average number of ordinary shares in issue ('000)	522	1,000	1,000	1,000	1,000
Gross Earnings Per Share (sen)	484	339	594	309	247
Net Earnings Per Share (sen)	363	254	548	302	232

- (1) Turnover for the year ended 1997 increased due to the introduction of wire harness. Sales of wire harness contributed approximately 21% of the total turnover for the year. During the year, the Company had managed to expand its customer base and this led to a further increase in turnover for the following year.
- (2) Decrease in turnover for the year ended 1999 was because all sales to the Southern Region of Malaysia, was being handled by a newly set up related company, AV (JB).
- (3) Turnover for the year ended 2000 increased by 12%. Despite this, the profit before taxation decreased. This is mainly due to the decrease in Gross Profit Margin of its paper and wire harness products. Decrease in Gross Profit Margin was mainly caused by an increase in material cost which was not billed to the customer in order for the Company to remain competitive.
- (4) The tax expense based on the audited profit and loss accounts for the five (5) years ended 31 August, 1996 to 2000 are as follows:

	<u>RM'000</u>
Year ended 31 August, 1996	603
Year ended 31 August, 1997	662
Year ended 31 August, 1998	978
Year ended 31 August, 1999	(134)
Year ended 31 August, 2000	106

The over/(under) provision for taxation was adjusted to their respective financial years in order to reflect the actual tax expense amount for each financial year.

- (5) There is no tax charge in respect of business income for the current year ended 31 August, 1999 as it is waived in accordance with the Income Tax (Amendment) Act, 1999. The provision for taxation was in respect of deferred tax for timing difference between capital allowance claimed and depreciation.
- (6) There were no extraordinary items for the financial years under review.

10. ACCOUNTANTS' REPORT

viii) AV (KL)

	22.10.98	1.9.99
	to	to
	<u>31.8.99</u>	<u>31.8.2000</u>
	RM'000	RM'000
Turnover	-	2,204
Profit before interest, depreciation and taxation	-	442
Interest	-	(62)
Depreciation	-	(159)
Profit before taxation	-	221
Taxation	-	(80)
Profit after taxation	-	141
Weighted average number of ordinary shares in issue ('000)	*	48
Gross Earnings Per Share (sen)	-	460
Net Earnings Per Share (sen)	-	294

* The issued and paid-up share capital for the year ended 31 August, 1999 is RM2.

(1) The audited profit and loss accounts for the period ended 31 August, 1999 was the first set of accounts since its incorporation on 22 October, 1998.

(2) There were no extraordinary items for the financial years under review.

ix) AV (JB)

	14.9.96	<u>Financial Year Ended 31 August</u>		
	to	<u>1998</u>	<u>1999</u>	<u>2000</u>
	<u>31.8.97</u>	RM'000	RM'000	RM'000
	RM'000			
Turnover	-	796	3,248	5,017
Profit before interest, depreciation and taxation	-	1	130	507
Interest	-	-	-	(5)
Depreciation	-	(15)	(53)	(83)
(Loss)/Profit before taxation	-	(14)	77	419
Taxation	-	-	(9)	(120)
(Loss)/Profit after taxation	-	(14)	68	299
Weighted average number of ordinary shares in issue ('000)	*	*	84	500
Gross (Loss)/Earnings Per Share (sen)	-	(700,000)	92	84
Net (Loss)/Earnings Per Share (sen)	-	(700,000)	81	60

* The issued and paid-up share capital is RM2.

10. ACCOUNTANTS' REPORT

- (1) The audited profit and loss accounts for the period ended 31 August, 1997 was the first set of accounts since its incorporation on 14 September, 1996.
- (2) Increase in turnover for the year ended 1999 was because the Company had only commenced full operation during the year.
- (3) The tax expense based on the audited results for the period ended 31 August, 1997 and three (3) years ended 31 August, 1998 to 2000 are as follows:

	<u>RM'000</u>
Year ended 31 August, 1997	-
Year ended 31 August, 1998	-
Year ended 31 August, 1999	15
Year ended 31 August, 2000	114

- (4) There is no tax charge in respect of business income as it is waived in accordance with the Income Tax (Amendment) Act, 1999. The provision for taxation was in respect of deferred tax for timing difference between capital allowance claimed and depreciation.
- (5) There were no extraordinary items for the financial years under review

x) AV INDUSTRIES

	1.4.95 to <u>31.3.96</u> RM'000	1.4.96 to <u>31.8.97</u> RM'000	Financial Year Ended 31 August		
			<u>1998</u> RM'000	<u>1999</u> RM'000	<u>2000</u> RM'000
Turnover	12	6	-	86,969	84,740
(Loss)/Profit before interest, depreciation and taxation	(2)	(24)	-	4,426	4,983
Interest	-	-	-	(219)	(355)
Depreciation	-	-	-	(411)	(864)
(Loss)/Profit before taxation	(2)	(24)	-	3,796	3,764
Taxation	-	-	-	(56)	(80)
(Loss)/Profit after taxation	(2)	(24)	-	3,740	3,684
Weighted average number of ordinary shares in issue ('000)	*	1	250	399	2,000
Gross (Loss)/Earnings Per Share (sen)	(100,000)	(2,400)	-	951	188
Net (Loss)/Earnings Per Share (sen)	(100,000)	(2,400)	-	937	184

* The issued and paid-up share capital is RM2.

- (1) For the year ended 1999, the Company commenced commercial operations in its contract manufacturing activities for a few customers. Turnover for the year ended 2000 decreased slightly as the demand from a major customer has dropped. However, during the year, the Company has managed to increase its demand from its other existing customers while further expanding its customer base.
- (2) There is no tax charge in respect of business income for the year ended 31 August, 1999 as it is waived in accordance with the Income Tax (Amendment) Act, 1999. The provision for taxation was in respect of deferred tax for timing difference between capital allowance claimed and depreciation.
- (3) There were no extraordinary items for the financial years under review.

10. ACCOUNTANTS' REPORT



xi) AV INNOVATION

	12.3.98	<u>Financial Year Ended 31 August</u>	
	to	1999	2000
	<u>31.8.98</u>	<u>RM'000</u>	<u>RM'000</u>
	RM'000	RM'000	RM'000
Turnover	-	-	1,554
Loss before interest, depreciation and taxation	-	-	81
Interest	-	-	22
Depreciation	-	-	11
Loss before taxation	-	-	114
Taxation	-	-	-
Loss after taxation	-	-	114
Weighted average number of ordinary shares in issue ('000)	*	21	250
Gross Loss Per Share (sen)	-	-	46
Net Loss Per Share (sen)	-	-	46

* The issued and paid-up share capital is RM2.

- (1) The audited results for the period ended 31 August, 1998 was the first set of accounts since its incorporation on 12 March, 1998.
- (2) There were no extraordinary items for the financial years under review.

5. DIVIDENDS

No dividend was declared and paid by D'nonce Technology since its incorporation.

Details of dividends declared and paid by the respective subsidiary companies are as follows:

<u>Company</u>	<u>Financial Year Ended</u>	<u>Issued and Paid-up Share Capital</u>	<u>Dividend Rate</u>	<u>Net Dividend Paid</u> RM'000
D'nonce (M)	31 August, 1998	1,000,000	Final dividend - 10% (tax exempt)	100
AV	31 August, 1998	1,000,000	Final dividend - 10% (tax exempt)	100

10. ACCOUNTANTS' REPORT

6. SUMMARISED BALANCE SHEETS

The balance sheets of D'nonce Technology and its subsidiaries based on their respective audited accounts after making such adjustments that we considered necessary are as follows:

i) D'NONCE TECHNOLOGY

	<u>31.8.2000</u> RM
CURRENT ASSET	2
CURRENT LIABILITY	4,000
NET CURRENT LIABILITY	(3,998)
INTANGIBLE ASSETS	4,000
	<u>2</u>
SHAREHOLDERS' FUND	
Share capital	<u>2</u>
Net Tangible liabilities per share (RM)	(1,999)

ii) D'NONCE (M)

	<u>As at 31 August</u>					
	<u>1995</u> RM'000	<u>1996</u> RM'000	<u>1997</u> RM'000	<u>1998</u> RM'000	<u>1999</u> RM'000	<u>2000</u> RM'000
CURRENT ASSETS	3,447	3,220	5,553	12,205	16,362	13,889
CURRENT LIABILITIES	(3,701)	(3,774)	(5,924)	(10,917)	(10,247)	(7,186)
NET CURRENT (LIABILITIES)/ASSETS	(254)	(554)	(371)	1,288	6,115	6,703
FIXED ASSETS	335	993	1,344	1,518	1,573	1,550
INVESTMENTS IN SUBSIDIARIES	848	1,549	2,024	2,024	4,324	4,374
INVESTMENT IN ASSOCIATED COMPANY	10	10	-	-	-	-
OTHER INVESTMENTS	39	39	39	39	39	39
GOODWILL	20	14	-	-	-	-
HIRE-PURCHASE CREDITOR	-	-	-	-	-	(38)
TERM LOANS (SECURED)	(111)	(340)	(446)	(414)	(376)	(338)
DEFERRED TAXATION	(11)	(13)	(13)	(22)	(56)	(32)
	<u>876</u>	<u>1,698</u>	<u>2,577</u>	<u>4,433</u>	<u>11,619</u>	<u>12,258</u>
SHAREHOLDERS' FUNDS						
Share capital	500	1,000	1,000	1,000	7,000	7,000
Retained profits	376	698	1,577	3,433	4,619	5,258
	<u>876</u>	<u>1,698</u>	<u>2,577</u>	<u>4,433</u>	<u>11,619</u>	<u>12,258</u>
NTA per share (RM)	1.71	1.68	2.58	4.43	1.66	1.75

10. ACCOUNTANTS' REPORT**iii) D'NONCE (KL)**

	As at 31 August					
	<u>1995</u> RM'000	<u>1996</u> RM'000	<u>1997</u> RM'000	<u>1998</u> RM'000	<u>1999</u> RM'000	<u>2000</u> RM'000
CURRENT ASSETS	830	916	1,326	1,192	1,426	1,775
CURRENT LIABILITIES	(845)	(689)	(954)	(1,315)	(1,537)	(1,705)
NET CURRENT (LIABILITIES)/ASSETS	(15)	227	372	(123)	(111)	70
FIXED ASSETS	43	39	37	747	726	732
INVESTMENTS	-	15	66	63	63	63
PRELIMINARY EXPENSES	2	-	-	-	-	-
TERM LOAN (SECURED)	-	-	(14)	(216)	(192)	(167)
DEFERRED TAXATION	-	(3)	(3)	(2)	(9)	-
HIRE-PURCHASE CREDITOR	-	-	-	-	-	(10)
	<u>30</u>	<u>278</u>	<u>458</u>	<u>469</u>	<u>477</u>	<u>688</u>
SHAREHOLDERS' FUNDS						
Share capital	50	50	50	50	50	50
(Accumulated loss)/ Retained profits	(20)	228	408	419	427	638
	<u>30</u>	<u>278</u>	<u>458</u>	<u>469</u>	<u>477</u>	<u>688</u>
NTA per share (RM)	0.56	5.56	9.16	9.38	9.54	13.76

iv) D'NONCE (JOHORE)

	As at 31 December			As at 31 August		
	<u>1995</u> RM'000	<u>1996</u> RM'000	<u>1997</u> RM'000	<u>1998</u> RM'000	<u>1999</u> RM'000	<u>2000</u> RM'000
CURRENT ASSETS	897	1,165	1,069	1,509	1,610	2,460
CURRENT LIABILITIES	(857)	(1,253)	(1,150)	(1,417)	(1,320)	(1,809)
NET CURRENT (LIABILITIES)/ASSETS	40	(88)	(81)	92	290	651
FIXED ASSETS	35	403	422	450	456	467
INVESTMENT IN SUBSIDIARY	-	-	-	-	200	200
OTHER INVESTMENTS	-	80	80	80	80	80
HIRE-PURCHASE CREDITOR	(11)	(6)	(2)	-	-	-
TERM LOAN (SECURED)	-	(108)	(126)	(125)	(119)	(122)
DEFERRED TAXATION	(2)	(10)	(10)	(10)	(10)	(14)
	<u>62</u>	<u>271</u>	<u>283</u>	<u>487</u>	<u>897</u>	<u>1,262</u>
SHAREHOLDERS' FUNDS						
Share capital	30	30	30	30	30	30
Retained profits	32	241	253	457	867	1,232
	<u>62</u>	<u>271</u>	<u>283</u>	<u>487</u>	<u>897</u>	<u>1,262</u>
NTA per share (RM)	2.07	9.03	9.43	16.23	29.90	42.07

10. ACCOUNTANTS' REPORT**v) D'NONCE (KELANTAN)**

	As at 31 August				
	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
	RM'000	RM'000	RM'000	RM'000	RM'000
CURRENT ASSETS	146	608	259	398	631
CURRENT LIABILITIES	(162)	(593)	(251)	(347)	(518)
NET CURRENT (LIABILITY)/ ASSETS	(16)	15	8	51	113
FIXED ASSETS	7	15	13	12	20
DEFERRED TAXATION	-	-	-	-	(2)
PRELIMINARY EXPENSES	2	-	-	-	-
	(7)	30	21	63	131
SHAREHOLDERS' FUNDS					
Share capital	30	30	30	30	30
(Accumulated losses)/ Retained profits	(37)	-	(9)	33	101
	(7)	30	21	63	131
Net tangible (liabilities)/ assets per share (RM)	(0.30)	1.00	0.70	2.10	4.37

vi) D'NONCE ELECTRONICS

	As at 31 August				
	<u>31.12.96</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
	RM'000	RM'000	RM'000	RM'000	RM'000
CURRENT ASSETS	690	969	809	1,190	1,445
CURRENT LIABILITIES	(471)	(662)	(486)	(740)	(765)
NET CURRENT ASSETS	219	307	323	450	680
FIXED ASSETS	85	117	195	166	144
HIRE-PURCHASE CREDITORS	-	-	(28)	(21)	(12)
DEFERRED TAXATION	-	(9)	(16)	(21)	(21)
	304	415	474	574	791
SHAREHOLDER'S FUNDS					
Share capital	400	400	400	400	400
(Accumulated loss)/ Retained profits	(96)	15	74	174	391
	304	415	474	574	791
NTA per share (RM)	0.76	1.04	1.19	1.44	1.98

10. ACCOUNTANTS' REPORT**vii) AV**

	As at 31 August					
	<u>1995</u> RM'000	<u>1996</u> RM'000	<u>1997</u> RM'000	<u>1998</u> RM'000	<u>1999</u> RM'000	<u>2000</u> RM'000
CURRENT ASSETS	2,665	4,264	7,499	9,078	10,171	11,446
CURRENT LIABILITIES	(2,952)	(2,945)	(5,737)	(7,235)	(5,924)	(5,023)
NET CURRENT (LIABILITY)/ASSETS	(287)	1,319	1,762	1,843	4,247	6,423
FIXED ASSETS	1,291	1,993	4,733	11,684	14,736	14,736
INVESTMENT	-	39	39	39	39	39
HIRE-PURCHASE AND LEASE CREDITORS	(56)	(101)	(408)	(338)	(249)	(264)
TERM LOANS (SECURED)	(100)	-	(367)	(1,789)	(4,239)	(4,243)
DEFERRED TAXATION	(21)	(29)	-	(300)	(376)	(217)
	<u>827</u>	<u>3,221</u>	<u>5,759</u>	<u>11,139</u>	<u>14,158</u>	<u>16,474</u>
SHAREHOLDER'S FUNDS						
Share capital	500	1,000	1,000	1,000	1,000	1,000
Retained profits	327	2,221	4,759	10,139	13,158	15,474
	<u>827</u>	<u>3,221</u>	<u>5,759</u>	<u>11,139</u>	<u>14,158</u>	<u>16,474</u>
NTA per share (RM)	1.65	3.22	5.76	11.14	14.16	16.47

viii) AV (KL)

	As at 31 August	
	<u>1999</u> RM'000	<u>2000</u> RM'000
CURRENT ASSETS	-	2,121
CURRENT LIABILITIES	-	(2,389)
NET CURRENT LIABILITY	-	(268)
FIXED ASSETS	-	1,377
HIRE-PURCHASE CREDITORS	-	(918)
	<u>-</u>	<u>191</u>
SHAREHOLDER'S FUNDS		
Share capital	*	50
Retained profit	-	141
	<u>-</u>	<u>191</u>
Net tangible asset per share (RM)	-	3.82

* The issued and paid-up share capital is RM2.

10. ACCOUNTANTS' REPORT

ix) AV (JB)

	As at 31 August			
	<u>1997</u> RM'000	<u>1998</u> RM'000	<u>1999</u> RM'000	<u>2000</u> RM'000
CURRENT ASSETS	-	728	1,554	2,065
CURRENT LIABILITIES	(3)	(810)	(1,203)	(1,996)
NET CURRENT (LIABILITIES)/ ASSETS	(3)	(82)	351	69
FIXED ASSETS	-	68	235	926
INTANGIBLE ASSETS	3	-	-	-
TERM LOANS (SECURED)	-	-	-	(96)
HIRE-PURCHASE CREDITORS	-	-	(24)	(11)
DEFERRED TAXATION	-	-	(8)	(35)
	-	(14)	554	853
SHAREHOLDER'S FUNDS				
Share capital	*	*	500	500
(Accumulated loss)/Retained profits	-	(14)	54	353
	-	(14)	554	853
Net tangible (liabilities)/assets per share (RM)	(1,500)	(7,000)	1.11	1.71

* The issued and paid-up share capital is RM2.

x) AV INDUSTRIES

	As at 31 March		As at 31 August			
	<u>1995</u> RM'000	<u>1996</u> RM'000	<u>1997</u> RM'000	<u>1998</u> RM'000	<u>1999</u> RM'000	<u>2000</u> RM'000
CURRENT ASSETS	34	16	814	889	10,149	11,255
CURRENT LIABILITIES	(35)	(19)	(592)	(4,521)	(8,392)	(13,994)
NET CURRENT (LIABILITIES)/ASSETS	(1)	(3)	222	(3,632)	1,757	(2,739)
FIXED ASSETS	-	-	1	2,784	3,583	13,833
INTANGIBLE ASSETS	-	-	-	2,510	2,008	1,505
HIRE-PURCHASE CREDITORS	-	-	-	(154)	(146)	(2,111)
DEFERRED TAXATION	-	-	-	-	(56)	-
TERM LOAN (SECURED)	-	-	-	(1,285)	(1,433)	(1,091)
	(1)	(3)	223	223	5,713	9,397

10. ACCOUNTANTS' REPORT

	As at 31 March		As at 31 August			
	<u>1995</u> RM'000	<u>1996</u> RM'000	<u>1997</u> RM'000	<u>1998</u> RM'000	<u>1999</u> RM'000	<u>2000</u> RM'000
SHAREHOLDERS' FUNDS						
Share capital	*	*	250	250	2,000	2,000
(Accumulated losses)/ Retained profits	(1)	(3)	(27)	(27)	3,713	7,397
	<u>(1)</u>	<u>(3)</u>	<u>223</u>	<u>223</u>	<u>5,713</u>	<u>9,397</u>
Net tangible (liabilities)/ assets per share (RM)	(500)	(1,500)	0.89	(9.15)	1.85	3.95

* The issued and paid-up share capital is RM2.

xi) AV INNOVATION

	As at 31 August		
	<u>1998</u> RM'000	<u>1999</u> RM'000	<u>2000</u> RM'000
CURRENT ASSETS	-	194	654
CURRENT LIABILITIES	(3)	(76)	(873)
NET CURRENT (LIABILITIES)/ ASSET	(3)	118	(219)
FIXED ASSETS	-	55	647
INTANGIBLE ASSETS	3	77	62
TERM LOANS (SECURED)	-	-	-
HIRE-PURCHASE CREDITORS	-	-	(354)
DEFERRED TAXATION	-	-	-
	<u>-</u>	<u>250</u>	<u>136</u>
SHAREHOLDER'S FUNDS			
Share capital	*	250	250
Accumulated loss	-	-	(114)
	<u>-</u>	<u>250</u>	<u>136</u>
Net tangible (liability)/assets per share (RM)	(1,500)	0.69	0.30

* The issued and paid-up share capital is RM2.

10. ACCOUNTANTS' REPORT

7. STATEMENT OF ASSETS AND LIABILITIES

We set out below the statement of assets and liabilities of the Company and the Proforma Group based on the audited accounts of D'nonce Group as at 31 August, 2000. The statements of assets and liabilities of the Proforma Group have been prepared on the assumption that the acquisitions of the companies as mentioned in paragraph 2.2 of this report had been effected on 31 August, 2000 and should be read in conjunction with the notes thereon.

	<u>Note</u>	<u>Company</u> RM'000	<u>Proforma</u> <u>Group</u> RM'000
CURRENT ASSETS			
Cash and bank balances		-	2,371
Deposits with licensed banks	7.2	-	1,891
Trade debtors	7.3	-	19,346
Other debtors		-	2,072
Stocks	7.4	-	12,906
		-	38,586
CURRENT LIABILITIES			
Bank borrowings	7.5	-	7,880
Trade creditors		-	10,930
Other creditors	7.6	4	7,308
Taxation		-	996
		4	27,114
NET CURRENT (LIABILITY)/ASSETS		(4)	11,472
FIXED ASSETS	7.7	-	34,434
OTHER INVESTMENTS		-	221
INTANGIBLE ASSETS	7.8	4	4
HIRE-PURCHASE CREDITORS	7.9	-	(3,719)
TERM LOANS	7.10	-	(6,057)
DEFERRED TAXATION	7.11	-	(391)
MINORITY INTERESTS		-	(859)
		-	35,105
SHAREHOLDERS' FUNDS			
Share capital	7.12	*	23,063
Share premium	7.13	-	4,000
Reserve arising from consolidation		-	8,042
		-	35,105
Net tangible (liability)/assets (RM'000)		(4)	35,101
Net tangible (liability)/assets per share (RM)		(2,000)	1.52

* The issued and paid-up share capital is RM2.

10. ACCOUNTANTS' REPORT



7.1 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The accounts are prepared under the historical cost convention and comply with applicable approved accounting standards in Malaysia.

(b) Basis of Consolidation

The consolidated accounts include the accounts of the Company and all its subsidiaries made up to the end of the financial year. The results of the subsidiaries acquired during the year are included in the consolidated financial results from the date of their acquisition. Inter-company transactions are eliminated on consolidation and the consolidated accounts reflect external transactions only.

The excess of the purchase price over the fair value of the net assets of subsidiaries at the date of acquisition is included in the consolidated balance sheet as reserve or goodwill arising on consolidation. Reserve or goodwill arising on consolidation is amortised over a period of 5 years.

(c) Fixed Assets and Depreciation

Fixed assets are stated at cost less accumulated depreciation.

Freehold land and capital work-in-progress are not depreciated. Depreciation of other fixed assets is provided on a straight line basis over the following estimated useful lives.

Long leasehold land	53 - 60 years
Buildings	50 - 53 years
Plant and machinery	10% - 20%
Office furniture, fittings and equipment	10% - 33.3%
Motor vehicles	20%
Renovation	10%

(d) Lease Assets

The cost of assets acquired under finance lease agreements are capitalised. The depreciation policy on these assets is similar to that of the Company's and the Group's other assets as set out in (c) above. Outstanding obligations due under the lease agreements after deducting finance expenses are included as liabilities in the accounts. The finance expenses of the lease rentals are charged to the profit and loss account over the period of the respective agreements using the sum-of-digit method.

(e) Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Finished goods include materials, labour and appropriate production overheads.

(f) Deferred Taxation

Deferred taxation is provided under the liability method for all material timing differences except where there is reasonable evidence that these timing differences will not reverse in the foreseeable future.

(g) Investments

Investments in subsidiaries and other investments, which comprise golf club memberships are stated at cost less provision for any permanent diminution in value, if any.

10. ACCOUNTANTS' REPORT

**(h) Intangible Assets**

Intangible assets comprise preliminary and pre-operating expenses which are stated at cost and are written off upon the commencement of operations.

(i) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and in banks, fixed deposits at call and net of outstanding bank overdrafts.

(j) Currency Conversion and Translation

Transactions in foreign currencies during the year are converted into Ringgit Malaysia at the rates of exchange approximating those ruling at the transaction dates. Foreign currency monetary assets and liabilities at the balance sheet date are translated into Ringgit Malaysia at the rates of exchange approximating those ruling at that date. All exchange gains or losses are dealt with in the profit and loss account.

7.2 DEPOSITS WITH LICENSED BANKS

Fixed deposits of the Proforma Group have been pledged to the banks as collateral for banking facilities as disclosed in Note 7.5.

7.3 TRADE DEBTORS

	Proforma Group RM'000
Trade debtors	19,508
Less: Provision for doubtful debts	(162)
	<u>19,346</u>

7.4 STOCKS

	Proforma Group RM'000
Raw materials	6,538
Finished goods	1,186
Trading goods	5,100
Consumables	82
	<u>12,906</u>

10. ACCOUNTANTS' REPORT

7.5 BANK BORROWINGS

	Proforma Group RM'000
Bank overdrafts	5,347
Bankers' Acceptance	1,472
Term loans, current portion (Note 7.10)	1,061
	<u>7,880</u>

The above banking facilities are secured by:

- (i) legal charges over the Proforma Group's landed properties.
- (ii) a fixed and floating charge over a subsidiary's entire assets
- (iii) fixed deposits, and
- (iv) joint and several guarantee by certain directors of the Proforma Group

The interest rates for the bank borrowings range from 5.00% to 8.80% per annum.

7.6 OTHER CREDITORS

	<u>Company</u> RM'000	Proforma Group RM'000
Sundry creditors	4	2,497
Fixed asset creditors	-	3,505
Hire-purchase creditors (Note 7.9)	-	1,306
	<u>4</u>	<u>7,308</u>

7.7 FIXED ASSETS

	<u>Cost</u> RM'000	<u>Accumulated depreciation</u> RM'000	Net book <u>value</u> RM'000
<u>Proforma Group</u>			
Freehold land	585	-	585
Leasehold land	1,698	90	1,608
Buildings	12,503	547	11,956
Plant and machinery	18,928	2,393	16,535
Office furniture, fittings and equipment	2,719	905	1,814
Motor vehicles	968	532	436
Renovation	1,183	192	991
Capital work-in-progress	509	-	509
	<u>39,093</u>	<u>4,659</u>	<u>34,434</u>

10. ACCOUNTANTS' REPORT

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

	Net book value RM'000
Plant and machinery	5,711
Office furniture, fittings and equipment	13
Motor vehicles	332
	<u>6,056</u>

Fixed assets with net book values amounting to RM15,039,000 have been pledged to the banks for banking facilities granted as disclosed in Note 7.5.

7.8 INTANGIBLE ASSETS

	Company and Proforma <u>Group</u> RM'000
Preliminary expenses	3
Pre-operating expenses	1
As at 31 August, 2000	<u>4</u>

7.9 HIRE-PURCHASE CREDITORS

	Proforma <u>Group</u> RM'000
Analysis of hire-purchase:	
Payable within one year	1,774
Payable within one and five years	4,241
	<u>6,015</u>
Less: Finance charges	(990)
	<u>5,025</u>
Representing hire-purchase:	
Due within 12 months (Note 7.6)	1,306
Due after 12 months	3,719
	<u>5,025</u>

10. ACCOUNTANTS' REPORT

7.10 TERM LOANS

	Proforma Group RM'000
Term loans repayable via:	
120 equal monthly instalments commencing March, 1996	298
180 equal monthly instalments commencing March, 1997	131
120 equal monthly instalments commencing April, 1997	93
120 equal monthly instalments commencing December, 1997	288
120 equal monthly instalments commencing April, 1998	1,523
60 equal monthly instalments commencing April, 1999	1,426
84 equal monthly instalments commencing June, 1999	2,585
120 equal monthly instalments commencing January, 2000	669
120 equal monthly instalments commencing May, 2000	105
	<u>7,118</u>
Less: Repayment due within 12 months (Note 7.5)	<u>(1,061)</u>
	<u>6,057</u>

The securities for the term loans are disclosed in Note 7.5.

The interest rates for the term loans range from 5.95% to 8.55% per annum.

7.11 DEFERRED TAXATION

	Proforma Group RM'000
Arising from acquisition of subsidiaries	607
Transfer to profit and loss account	(216)
As at 31 August, 2000	<u>391</u>

7.12 SHARE CAPITAL

	Company RM'000	Proforma Group RM'000
Ordinary shares at RM1.00 each:		
Authorised	<u>100</u>	<u>100,000</u>
Issued and fully paid:		
As at 20 January, 2000	*	*
Shares issued as the consideration for acquisition of D'nonce (M)	<u>-</u>	<u>23,063</u>
As at 31 August, 2000	<u>*</u>	<u>23,063</u>

* The issued and paid-up share capital is RM2.

10. ACCOUNTANTS' REPORT

7.13 SHARE PREMIUM

	Proforma <u>Group</u> RM'000
Issued of 23,062,723 shares of RM1 each at an issued price of RM1.17 per share to acquire D'nonce (M)	4,000
	4,000

7.14 CAPITAL COMMITMENTS

	Proforma <u>Group</u> RM'000
Purchase of fixed assets contracted but not provided for in the accounts	2,107
	2,107

7.15 SUBSEQUENT EVENTS

Other than the Rights Issue as mentioned in paragraph 2.2(c) of this report, there were no material events occurred between 31 August, 2000 and the date of this report.

7.16 CURRENCY

All amounts are stated in Ringgit Malaysia (RM).

10. ACCOUNTANTS' REPORT

8.0 CASH FLOW STATEMENT FOR THE COMPANY FOR THE PERIOD FROM THE DATE OF INCORPORATION, 20 JANUARY, 2000 TO 31 AUGUST, 2000

	RM
CASH FLOW FROM OPERATING ACTIVITY	
Increase in creditors, representing cash flow generated from operating activity	4,000
CASH FLOW FROM INVESTING ACTIVITY	
Increase in intangible assets, representing cash flow used in investing activity	(4,000)
CASH FLOW FROM FINANCING ACTIVITY	
Proceeds from issuance of shares, representing cash flow generated from financing activity	2
Net increase in cash, representing cash on hand at end of the period	2

9.0 PROFORMA CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 AUGUST, 2000

We set out below the proforma consolidated cash flow statement of D'nonce Group. This has been prepared for illustrative purposes only and assuming that D'nonce Group had been in existence since 31 August, 1999.

	<u>Note</u>	Proforma <u>Group</u> RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation		9,417
Adjustments for:		
Depreciation		2,005
Interest expense		1,462
Provision for doubtful debts		57
Interest income		(67)
Gain on disposal of fixed assets		(116)
Operating profit before working capital changes		12,758
Increase in stocks		(3,753)
Increase in debtors		(971)
Increase in creditors		3,923
Decrease in fixed deposits		24
Decrease in amount due to directors		(222)
Cash generated from operations		11,759
Income tax paid		(820)
Interest paid		(1,462)
Net cash flow generated from operating activities		9,477

10. ACCOUNTANTS' REPORT

	<u>Note</u>	Proforma <u>Group</u> RM'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	A	(9,580)
Proceeds from disposal of fixed assets		768
Interest received		67
Net cash flow used in investing activities		<u>(8,745)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of hire-purchase		(893)
Net repayment of bank borrowings		<u>(31)</u>
Net cash generated from financing activities		<u>(924)</u>
Net increase in cash and cash equivalents		(192)
Cash and cash equivalents at beginning of the year		<u>(2,784)</u>
Cash and cash equivalents at end of the year	B	<u><u>(2,976)</u></u>

A. PURCHASE OF FIXED ASSETS

During the year, the Group acquired fixed assets with an aggregate cost of RM15,547,000 of which RM5,160,000 and RM807,000 were paid by means of hire-purchase and term loans respectively. Cash payments of RM9,580,000 were made to purchase these fixed assets.

B. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

	Proforma <u>Group</u> RM'000
Cash and bank balances	2,371
Bank overdrafts	<u>(5,347)</u>
	<u><u>(2,976)</u></u>

10. ACCOUNTANTS' REPORT

10.0 NET TANGIBLE ASSETS COVER

Based on the statement of assets and liabilities of the Proforma Group as at 31 August, 2000, the net tangible assets per ordinary shares of RM1.00 each for the Proforma Group is arrived at as follows:

	RM'000
Net tangible assets of the Proforma Group as at 31 August, 2000	35,101
Increase in net tangible assets arising from:	
Rights Issue	6,937
Proposed Special Issue	6,000
Proposed Public Issue	14,000
Less: Listing expenses	(1,500)
	<u>60,538</u>
Total number of enlarged ordinary shares of RM1 each in issue:	Number of shares ('000)
As per 7.12	23,063
Rights Issue	6,937
Proposed Special Issue	3,000
Proposed Public Issue	7,000
Enlarged share capital	<u>40,000</u>

On the basis of the issued and paid-up share capital of D'nonce Technology of 40,000,000 ordinary shares of RM1.00 each, the net tangible assets per ordinary share of RM1.00 each for the Proforma Group is RM1.51.

11.0 ACCOUNTS

No audited accounts have been prepared in respect of any period subsequent to 31 August, 2000.

Yours faithfully,



ARTHUR ANDERSEN & CO.

No. AF 0103

Public Accountants



LIM FOO CHEW

No. 1748/01/02(J)

Partner of the Firm

11. DIRECTORS' REPORT



Registered Office: 21 Persiaran Midlands,
10250 Pulau Pinang, Malaysia.
Tel: 604-229 6318 Fax: 604-226 8318
Email: tccsbpg@po.jaring.my

14 February 2001

The Shareholders of
D'nonce Technology Bhd

Dear Sir/Madam,

On behalf of the Board of Directors of D'nonce Technology Bhd ("D'nonce Technology"), I report after due enquiry that during the period from 31 August 2000 (being the date to which the last audited accounts of the Company and its subsidiary companies ("D'nonce Group) have been made up) to 14 February 2001 (being a date not earlier than fourteen (14) days before the issue of this Prospectus), that:

- (a) the business of the D'nonce Group has, in the opinion of the Directors, have been satisfactorily maintained;
- (b) in the opinion of the Directors, no circumstances have arisen subsequent to the last audited accounts of the D'nonce Group which have adversely affected the trading or the value of the assets of the D'nonce Group;
- (c) the current assets of the D'nonce Group appear in the books at values which are believed to be realisable in the ordinary course of the business;
- (d) save as disclosed in Section 9.2 of the Prospectus, there is no contingent liability has arisen by reason of any guarantees or indemnities given by the D'nonce Group; and
- (e) save as disclosed in the Accountant's Report and Proforma Consolidated Balance Sheets in this Prospectus, there have been no changes in published reserves nor any unusual factors affecting the profit of the D'nonce Group since the last audited accounts of D'nonce Group.

Yours faithfully
for and on behalf of the Board of Directors of
D'NONCE TECHNOLOGY BHD

GOH HONG LIM
Managing Director

51-14-B & C, Menara BHL Bank, Jalan Sultan Ahmad Shah, 10050 Pulau Pinang, Malaysia.
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