
10. ACCOUNTANTS' REPORT (cont'd)

(Prepared for inclusion in the Prospectus)

Folks DFK & Co
(No. AF 0502)

Public Accountants



ACCOUNTANTS' REPORT
(Prepared for inclusion in this Prospectus)

Date : 21st March 2001

THE BOARD OF DIRECTORS
AIKBBE RESOURCES BERHAD

B-8-7, Megan Phileo Promenade
189, Jalan Tun Razak
50400 Kuala Lumpur

Dear Sirs,

1 INTRODUCTION

This report has been prepared by an approved company auditor for inclusion in the Prospectus to be dated 30th March 2001 in connection with the Public Issue and Offer for Sale of 8,000,000 new ordinary shares and 4,600,000 ordinary shares of RM 1.00 each respectively at an issue price of RM 2.10 per ordinary share of Aikbee Resources Berhad ("Aikbee" or "the Company") and the listing of and quotation for its entire enlarged issued and fully paid-up share capital of 50,000,000 ordinary shares of RM 1.00 each on the Second Board of the Kuala Lumpur Stock Exchange ("the KLSE").

2 GENERAL INFORMATION

2.1 Background

Aikbee was incorporated in Malaysia on 25th April 1997 as a private limited company under the name of Natoriental Terrace (M) Sdn Bhd. On 9th September 1997, the Company changed its name to Aikbee Resources Sdn. Bhd. Subsequently, Aikbee was converted into a public limited company on 17th September 1997 and assumed its present name.

The principal activity of the Company is that of investment holding. The principal activities of its subsidiary companies are set out in paragraph 2.4 of this report.

10. ACCOUNTANTS' REPORT (cont'd)**2.2 Share Capital**

The authorised share capital of Aikbee upon incorporation was RM 100,000 divided into 100,000 shares of RM 1.00 each. On 12th October 2000, the authorised share capital was increased to RM 100,000,000 with the creation of an additional 99,900,000 new ordinary shares of RM 1.00 each.

The issued and fully paid-up share capital of Aikbee upon incorporation was RM 2.00 divided into 2 ordinary shares of RM 1.00 each which were issued as subscribers' shares.

Pursuant to the restructuring scheme prior to the listing of and quotation for the shares of Aikbee on the Second Board of the KLSE as set out in paragraph 2.3 below, the issued and fully paid-up share capital of Aikbee was increased to RM 42,000,000 divided into 42,000,000 ordinary shares of RM 1.00 each as follows:-

Date of Allotment	No. of ordinary shares of RM 1.00 each	Issue price per ordinary share <u>RM</u>	Purpose	Issued and fully paid-up share capital (cumulative) <u>RM</u>
Upon incorporation	2	1.00	Subscribers' shares	2
20.12.2000	15,686,073	1.45	Acquisition of Aikbee Timbers (Sabah) Sdn Bhd	15,686,075
20.12.2000	10,740,071	1.45	Acquisition of Aikbee Timbers (Sarawak) Sdn Bhd	26,426,146
20.12.2000	11,292,890	1.45	Acquisition of Aikbee Sawmill Sdn Bhd	37,719,036
17.01.2001	4,280,964	1.60	Rights Issue	42,000,000

The issued and fully paid-up share capital of Aikbee after the Public Issue as mentioned herein would be RM 50,000,000 comprising 50,000,000 ordinary shares of RM 1.00 each.

10. ACCOUNTANTS' REPORT (cont'd)**2.3 Restructuring Scheme**

In conjunction with, and as an integral part of the listing of and quotation for its entire issued and fully paid-up share capital on the Second Board of the KLSE, Aikbee undertook a restructuring exercise involving the following:

- (a) The land and/or buildings owned by Aikbee's subsidiary companies, namely, Aikbee Timbers (Sabah) Sdn Bhd ("ABSabah"), Aikbee Timbers (Sarawak) Sdn Bhd ("ABSarawak") and Aikbee Sawmill Sdn Bhd ("ABSawmill") were revalued by a firm of independent professional valuers based on the open market value basis of valuation. On 28th September 2000, the Securities Commission ("SC") approved a revaluation surplus of RM 24,907,051 which has been incorporated into the accounts of the subsidiary companies for the financial year ended 31st December 2000;
- (b) The acquisition by Aikbee of the entire issued and paid-up share capital of ABSabah comprising 3,931,200 ordinary shares of RM 1.00 each for a purchase consideration of RM 22,744,804 satisfied by the issuance of 15,686,073 new ordinary shares of RM 1.00 each in Aikbee at an issue price of RM 1.45 per share, credited as fully paid-up;
- (c) The acquisition by Aikbee of the entire issued and paid-up share capital of ABSarawak comprising 3,000,000 ordinary shares of RM 1.00 each for a purchase consideration of RM 15,573,103 satisfied by the issuance of 10,740,071 new ordinary shares of RM 1.00 each in Aikbee at an issue price of RM 1.45 per share, credited as fully paid-up;
- (d) The acquisition by Aikbee of the entire issued and paid-up share capital of ABSawmill comprising 604,800 ordinary shares of RM 1.00 each for a purchase consideration of RM 16,374,691 satisfied by the issuance of 11,292,890 new ordinary shares of RM 1.00 each in Aikbee at an issue price of RM 1.45 per share, credited as fully paid-up;
- (e) Rights issue of 4,280,964 new ordinary shares of RM 1.00 each in Aikbee at an issue price of RM 1.60 per share on the basis of approximately one new ordinary share for every 8.81 existing ordinary shares held after the Acquisitions (b,c and d above); and
- (f) Public issue of 8,000,000 new ordinary shares of RM 1.00 each to eligible employees of Aikbee and its subsidiaries and the Malaysian public at an issue price of RM 2.10 per share.

10. ACCOUNTANTS' REPORT (cont'd)

The restructuring scheme was approved by the SC on 28th September 2000. The acquisitions of ABSawmill, ABSabah and ABSarawak were completed on 20th December 2000. The rights issue was completed on 17th January 2001.

2.4 Information on subsidiary companies

Details of the subsidiary companies of Aikbee, all of which are incorporated in Malaysia, as at the date of this report, are as follows:-

Name of Company	Date of incorporation	← Share Capital →		Effective equity interest %	Principal activities
		Authorised RM	Issued and fully paid-up RM		
ABSabah	05.10.1990	10,000,000	3,931,200	100	Manufacturing of moulding timber, sawmilling of timber, log extraction, timber trading and plantation management
ABSarawak	30.10.1991	5,000,000	3,000,000	100	Timber trading, manufacturing of moulding timber and sawmilling of timber
ABSawmill	20.12.1960	2,000,000	604,800	100	Trading of logs and sub-contracting, timber trading and property investment

3 ACCOUNTS AND AUDITORS

We have acted as auditors for Aikbee, ABSabah, ABSarawak and ABSawmill for all the years under review.

The auditors' reports on all the accounts for all the periods covered in this report contain no qualification.

10. ACCOUNTANTS' REPORT (cont'd)**4 SUMMARY OF RESULTS****4.1 Proforma of the Group**

We set out below the audited proforma consolidated results of Aikbee Group for the five financial years ended 31st December 1999 and the nine months ended 30th September 2000 which are prepared as if the Aikbee Group has been in existence throughout the periods covered by this report.

	← Year ended 31st December →				→ 9 months ended	
	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>30.9.2000</u>
	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
Turnover	32,117	55,241	62,680	78,300	99,272	82,419
Profit before depreciation, interest expense, exceptional item and taxation	6,724	13,387	15,913	18,256	20,073	14,142
Depreciation	(1,212)	(1,606)	(2,317)	(2,384)	(2,502)	(1,663)
Interest expense	(766)	(2,784)	(3,612)	(5,540)	(3,853)	(2,372)
Operating profit	4,746	8,997	9,984	10,332	13,718	10,107
Exceptional item	-	-	-	-	(1,418)	(147)
Profit before taxation	4,746	8,997	9,984	10,332	12,300	9,960
Taxation	(1,501)	(2,775)	(2,855)	(3,076)	(8)	(2,968)
Profit after taxation	3,245	6,222	7,129	7,256	12,292	6,992
No. of ordinary shares of RM 1.00 each assumed in issue ('000)	37,719	37,719	37,719	37,719	37,719	37,719
Gross earnings per RM 1.00 share (RM)	0.13	0.24	0.26	0.27	0.33	*0.35
Net earnings per RM 1.00 share (RM)	0.09	0.16	0.19	0.19	0.33	*0.25

* Annualised

10. ACCOUNTANTS' REPORT (cont'd)*Notes:-*

- (a) The proforma consolidated results consisting of the results of Aikbee, ABSabah, ABSarawak and ABSawmill have been prepared for illustrative purposes only based on their audited accounts after making such adjustments as we considered appropriate.
- (b) The higher turnover in 1996 was due mainly to the incorporation of ABSarawak's turnover for the full year as opposed to only four months recorded in 1995 and the resumption of ABSawmill's log extraction and trading activities in 1996.

Increased production of moulding timber in ABSabah contributed to the improved turnover for 1997. The timber business of Aikbee Timbers Sdn Bhd, a company in which the directors and substantial shareholders have controlling interest, was taken over by ABSabah in 1998, contributing further to the Group's turnover for the year.

Increased trading of sawn and moulding timber contributed to the turnover increase in 1999. Turnover for the first nine months of 2000 increased compared to the pro-rated turnover in the previous year due mainly to the increase in sales of sawn timber and timber logs.

- (c) The increase in profit before taxation in 1996 was due mainly to the increase in sales of sawn and moulding timber. The profit before taxation in 1997 and 1998 increased as a result of a higher contribution from the sale of moulding timber. The increase in profit before taxation in 1999 also reflected a reduction in borrowing costs. Profit before taxation for the nine months ended 30th September 2000 decreased marginally when compared to the pro-rated profit achieved in 1999 due mainly to a drop in gross profit margin for the sale of sawn timber.
- (d) No taxation has been provided for the financial year ended 31st December 1999 in line with the waiver of tax pursuant to the Income Tax (Amendment) Act 1999. The tax charge in 1999 was in respect of deferred taxation liability.
- (e) The gross earnings per share is calculated based on the proforma profit before taxation divided by the enlarged issued and paid-up share capital of 37,719,036 ordinary shares of RM 1.00 each prior to the Rights Issue and Public Issue.
- (f) The net earnings per share is calculated based on the proforma profit after taxation divided by the enlarged issued and paid-up share capital of 37,719,036 ordinary shares of RM 1.00 each prior to the Rights Issue and Public Issue.
- (g) The exceptional items stated in accounts for the financial year ended 31st December 1999 and the financial period ended 30th September 2000 represent tax penalties in respect of taxation liabilities of prior years. Other than as stated, there were no exceptional items / extraordinary items in all the financial years / periods under review.
- (h) All inter-company transactions are eliminated on consolidation and the consolidated accounts reflect external transactions only.

10. ACCOUNTANTS' REPORT (cont'd)**4.2 The Company and its subsidiary companies**

We set out below the summarised audited results of each of the companies within the Aikbee Group for the relevant financial years / periods as follows:

(a) Aikbee

The Company has not commenced operations since its date of incorporation on 25th April 1997. Accordingly, no profit and loss account has been drawn up.

(b) ABSabah

	← Year ended 31st December →					9 months ended
	1995	1996	1997	1998	1999	30.9.2000
	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
Turnover	25,934	26,793	32,949	47,594	62,916	59,579
Profit before depreciation, interest expense, exceptional item and taxation	5,484	7,969	10,757	12,658	13,600	9,736
Depreciation	(635)	(825)	(1,518)	(1,574)	(1,744)	(1,420)
Interest expense	(289)	(935)	(1,424)	(2,480)	(1,923)	(1,041)
Operating profit	4,560	6,209	7,815	8,604	9,933	7,275
Exceptional item	-	-	-	-	(1,214)	(105)
Profit before taxation	4,560	6,209	7,815	8,604	8,719	7,170
Taxation	(1,363)	(1,869)	(2,216)	(2,466)	72	(2,122)
Profit after taxation	3,197	4,340	5,599	6,138	8,791	5,048
No. of ordinary shares of RM 1.00 each in issue	3,931	3,931	3,931	3,931	3,931	3,931
Gross earnings per RM 1.00 share (RM)	1.16	1.58	1.99	2.19	2.22	*2.43
Net earnings per RM 1.00 share (RM)	0.81	1.10	1.42	1.56	2.24	*1.71
Gross dividend rate (sen)	10	-	190	200	-	-

* Annualised

10. ACCOUNTANTS' REPORT (cont'd)

*Notes:-*

- (a) Turnover in 1997 increased due mainly to the expansion of production capacity and increase in sales of moulding timber. In 1998, ABSabah took over the timber business of Aikbee Timbers Sdn Bhd, a company in which the directors and substantial shareholders have controlling interest. This contributed to higher turnover in subsequent years.
- (b) The increase in profit before taxation in 1996, 1997 and 1998 was due mainly to the increase in the sale of moulding timber in the respective years. The increase in profit before taxation in 1999 was marginal despite a significant increase in turnover largely because of higher cost of sales for moulding timber. Profit before taxation for the nine months ended 30th September 2000 decreased compared to the pro-rated profit achieved in 1999 due mainly to declining gross profit margins for the sale of logs, sawn timber and moulding timber.
- (c) The exceptional items stated in the accounts for financial year ended 31st December 1999 and the financial period ended 30th September 2000 represent tax penalties in respect of taxation liabilities of prior years. Other than as stated, there were no exceptional items / extraordinary items in all the financial years / period under review.
- (d) No taxation has been provided for the financial year ended 31st December 1999 in line with the waiver of tax pursuant to the Income Tax (Amendment) Act 1999. The taxation in 1999 was in credit due mainly to the transfer of deferred tax to the Profit and Loss Account.
- (e) The gross earnings per share is calculated based on the profit before taxation divided by the number of ordinary shares in issue at the respective year end. For the period ended 30th September 2000, the gross earnings per share is calculated based on the annualised profit before taxation divided by the number of ordinary shares in issue.
- (f) The net earnings per share is calculated based on the profit after taxation divided by the number of ordinary shares in issue at the respective year end. For the period ended 30th September 2000, the net earnings per share is calculated based on the annualised profit after taxation divided by the number of ordinary shares in issue.

10. ACCOUNTANTS' REPORT (cont'd)**(c) ABSarawak**

	← Year ended 31st December →					9 months ended
	<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>30.9.2000</u> RM '000
Turnover	5,223	21,889	22,003	24,762	27,321	20,886
Profit before depreciation, interest expense, exceptional item and taxation	658	3,896	3,602	3,902	4,958	3,143
Depreciation	(422)	(602)	(620)	(620)	(572)	(501)
Interest expense	(162)	(1,168)	(1,422)	(1,992)	(1,249)	(825)
Operating profit	74	2,126	1,560	1,290	3,137	1,817
Exceptional item	-	-	-	-	(132)	-
Profit before taxation	74	2,126	1,560	1,290	3,005	1,817
Taxation	(53)	(663)	(406)	(417)	(78)	(675)
Profit after taxation	21	1,463	1,154	873	2,927	1,142
No. of ordinary shares of RM 1.00 each in issue	3,000	3,000	3,000	3,000	3,000	3,000
Gross earnings per RM 1.00 share (RM)	0.02	0.71	0.52	0.43	1.00	*0.81
Net earnings per RM 1.00 share (RM)	0.01	0.49	0.38	0.29	0.98	*0.51
Gross dividend rate (sen)	-	-	50	40	-	-

* Annualised

10. ACCOUNTANTS' REPORT (cont'd)*Notes:-*

- (a) ABSarawak commenced its business operations in September 1995. The results for 1995 represent four months of operation.
- (b) Turnover in 1998 increased due mainly to increase in sales of logs and moulding timber. Turnover in 1999 increased due to higher sale of moulding timber and sawn timber. The turnover for the nine months ended 30th September 2000 increased marginally compared to the pro-rated turnover in the previous year because of improved sale of moulding and sawn timber.
- (c) The drop in profit before taxation in 1997 was due to lower gross profit margin from the sale of sawn timber reflecting variations in supply and demand for different species of timber. The decrease in profit before taxation in 1998 was due mainly to higher cost of sales for purchased sawn timbers and increased borrowing cost. The profit before taxation in 1999 increased as a result of higher margin contribution from the sale of sawn timber. Profit before taxation for the nine months ended 30th September 2000 decreased compared to the pro-rated profit in the previous year due mainly to lower gross profit contribution from the sale of sawn timber and moulding timber.
- (d) The exceptional item stated in the accounts for the financial year ended 31st December 1999 represents tax penalties in respect of taxation liabilities of prior years. Other than as stated, there were no exceptional items / extraordinary items in all the financial years / period under review.
- (e) The effective tax charge for 1995 is higher than the statutory rate of tax due mainly to certain expenses being disallowed for tax purposes. No taxation has been provided for the financial year ended 31st December 1999 in line with the waiver of tax pursuant to the Income Tax (Amendment) Act 1999. The tax charge in 1999 was in respect of deferred taxation liability.
- (f) The gross earnings per share is calculated based on the profit before taxation divided by the number of ordinary shares in issue at the respective year end. For the period ended 30th September 2000, the gross earnings per share is calculated based on the annualised profit before taxation divided by the number of ordinary shares in issue.
- (g) The net earnings per share is calculated based on the profit after taxation divided by the number of ordinary shares in issue at the respective year end. For the period ended 30th September 2000, the net earnings per share is calculated based on the annualised profit after taxation divided by the number of ordinary shares in issue.

10. ACCOUNTANTS' REPORT (cont'd)**(d) ABSawmill**

	← Year ended 31st December →					9 months ended
	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>30.9.2000</u>
	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
Turnover	1,020	6,619	7,728	10,464	12,578	10,278
Profit before depreciation, interest expense, exceptional item and taxation	756	1,868	1,821	1,795	1,748	1,443
Depreciation	(155)	(180)	(178)	(190)	(186)	(286)
Interest expense	(488)	(1,026)	(1,035)	(1,167)	(914)	(685)
Operating profit	113	662	608	438	648	472
Exceptional item	-	-	-	-	(72)	(42)
Profit before taxation	113	662	608	438	576	430
Taxation	(85)	(243)	(233)	(193)	(2)	(172)
Profit after taxation	28	419	375	245	574	258
No. of ordinary shares of RM 1.00 each in issue	605	605	605	605	605	605
Gross earnings per RM 1.00 share (RM)	0.19	1.09	1.00	0.72	0.95	*0.95
Net earnings per RM 1.00 share (RM)	0.05	0.69	0.62	0.40	0.95	*0.57
Gross dividend rate (sen)	-	-	-	-	-	-

* *Annualised*

10. ACCOUNTANTS' REPORT (cont'd)

*Notes:-*

- (a) ABSawmill temporarily suspended its timber operations and ventured into property investment in 1994. The results of ABSawmill for 1994 and 1995 reflected revenue derived from the letting of its properties, sawmill factory and plant and machinery. In 1996, ABSawmill resumed its timber operations in log extraction and trading, resulting in increased turnover and profit before taxation. Turnover in 1998 increased as a result of its diversification into the trading of sawn timber. The higher turnover in 1999 was largely due to the increase in the trading of sawn timber. The turnover for the nine months ended 30th September 2000 increased marginally compared to the turnover over the similar period in 1999 due mainly to the increase in sales of sawn timber.
- (b) The profit before taxation for 1998 and 1999 were lower than that for the previous two years as ABSawmill purchased its sawn timbers from other manufacturers.
- (c) The exceptional items stated in the accounts for the financial year ended 31st December 1999 and the financial period ended 30th September 2000 represent tax penalties in respect of taxation liabilities of prior years. Other than as stated, there were no exceptional items / extraordinary items in all the financial years / period under review.
- (d) For the period under review from 1995 to 1997, the sale of timber logs are mainly to Aikbee Timbers Sdn Bhd, a company with common shareholders/directors with the Group. The sales were carried out on commercial terms.
- (e) The effective tax charges for 1995 to 1998 are higher than the statutory rate of tax due mainly to certain expenses being disallowed for tax purposes. No taxation has been provided for the financial year ended 31st December 1999 in line with the waiver of tax pursuant to the Income Tax (Amendment) Act 1999. The tax charge in 1999 was in respect of deferred taxation liability.
- (f) The gross earnings per share is calculated based on the profit before taxation divided by the number of ordinary shares in issue at the respective year end. For the period ended 30th September 2000, the gross earnings per share is calculated based on the annualised profit before taxation divided by the number of ordinary shares in issue.
- (g) The net earnings per share is calculated based on the profit after taxation divided by the number of ordinary shares in issue at the respective year end. For the period ended 30th September 2000, the net earnings per share is calculated based on the annualised profit after taxation divided by the number of ordinary shares in issue.

10. ACCOUNTANTS' REPORT (cont'd)**5 SEGMENTAL ANALYSIS**

We set out below the turnover and operating profit of Aikbee Group by segments based on the audited proforma consolidated results of Aikbee Group for the five financial years ended 31st December 1999 and the nine months ended 30th September 2000 which are prepared as if the Aikbee Group has been in existence throughout the periods covered by this report.

Turnover - By Products / Services

	← Year ended 31st December →					9 months ended
	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>30.9.2000</u>
	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
Sale of sawn timber	22,688	26,122	23,506	28,910	36,384	33,631
Log extraction	665	502	989	2,086	1,747	1,461
Sale of moulding timber	2,307	16,751	22,779	32,159	45,470	32,939
Sale of timber logs	-	5,626	8,764	9,055	7,124	7,362
Plantation management	5,497	5,307	5,714	5,525	5,951	5,438
Rental income	960	933	928	565	542	731
Earthwork subcontract	-	-	-	-	2,054	857
	32,117	55,241	62,680	78,300	99,272	82,419

Operating Profit - By Products / Services

	← Year ended 31st December →					9 months ended
	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>30.9.2000</u>
	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
Sale of sawn timber	2,924	2,977	2,459	969	3,287	1,432
Log extraction	44	65	134	262	137	249
Sale of moulding timber	141	4,249	5,545	7,155	8,333	6,760
Sale of timber logs	-	627	650	1,074	711	590
Plantation management	1,223	753	916	599	639	603
Rental income	414	326	280	273	318	317
Earthwork subcontract	-	-	-	-	293	156
	4,746	8,997	9,984	10,332	13,718	10,107