

**IX. ACCOUNTANTS' REPORT (CONT'D)****7. SUMMARISED BALANCE SHEETS**

The summarised balance sheets of LIPO and the individual subsidiary companies of LIPO based on the audited accounts for the relevant financial years/periods under review are as follows:-

**7.1 LIPO**

	← Company →		← Group →	
	As at 30 June 2000 RM'000	As at 31 March 2001 RM'000	As at 30 June 2000 RM'000	As at 31 March 2001 RM'000
Fixed assets	-	126	36,588	45,615
Ultimate holding company	(2,077)	(3,721)	(3,713)	(3,741)
Subsidiary companies	33,057	35,485	-	-
Related companies	-	-	121	180
Goodwill on consolidation	-	-	3,031	3,060
Intangible assets	39	-	39	-
Current assets	4,573	3,545	25,684	26,233
Current liabilities	1	17	12,139	12,195
Net current assets	4,572	3,528	13,545	14,038
	35,591	35,418	49,611	59,152
Financed by -				
Share capital	33,560	33,560	33,560	33,560
Share premium account	1,800	1,800	1,800	1,800
Reserve on consolidation	-	-	67	67
Exchange fluctuation reserve	-	-	-	(466)
Retained profit	231	58	4,998	11,353
Shareholders' funds	35,591	35,418	40,425	46,314
Long term liabilities	-	-	8,925	12,838
Deferred taxation	-	-	261	-
	35,591	35,418	49,611	59,152
Net tangible assets (RM'000)	35,552	35,418	37,355	43,254
Net tangible assets per share (RM)	1.06	1.06	1.11	1.29

LIPO prepared its first set of audited accounts for the period from 16 August 1999 to 30 June 2000.

## IX. ACCOUNTANTS' REPORT (CONT'D)



## 7.2 PPC

The summarised balance sheets of PPC, based on the audited accounts as at 30 June 1996 to 2000 and as at 31 March 2001, are set out below:-

	← As at 30 June →					As at 31
	1996	1997	1998	1999	2000	March
	RM'000	RM'000	RM'000	RM'000	RM'000	2001
	RM'000					
Fixed assets	5,133	7,145	9,331	10,924	18,131	24,378
Ultimate holding company	(1,757)	(2,264)	(2,488)	(1,826)	(1,636)	(21)
Holding company	-	-	-	-	(381)	(2,354)
Related companies	94	(61)	(5)	(613)	(48)	1,990
Current assets	1,697	2,692	3,510	5,674	9,119	9,842
Current liabilities	1,014	1,022	1,239	1,511	5,522	5,605
Net current assets	683	1,670	2,271	4,163	3,597	4,237
	4,153	6,490	9,109	12,648	19,663	28,230
Financed by -						
Share capital	1,604	1,604	1,604	1,604	1,604	1,604
Revaluation reserve	-	1,118	1,118	1,118	-	-
Capital reserve	-	-	-	-	1,118	1,118
Retained profit	2,419	3,598	5,679	8,798	13,352	18,012
Shareholder's funds	4,023	6,320	8,401	11,520	16,074	20,734
Long term liabilities	-	-	447	867	3,328	7,496
Deferred taxation	130	170	261	261	261	-
	4,153	6,490	9,109	12,648	19,663	28,230
Net tangible assets (RM'000)	4,023	6,320	8,401	11,520	16,074	20,734
Net tangible assets per share (RM)	2.51	3.94	5.24	7.18	10.02	12.93

**IX. ACCOUNTANTS' REPORT (CONT'D)****7.3 PPM**

The summarised balance sheets of PPM, based on the audited accounts as at 31 July 1996 to 1997, 30 June 1998 to 2000 and as at 31 March 2001, are set out below:-

	← As at 31 July →		← As at 30 June →			As at 31
	1996	1997	1998	1999	2000	March
	RM'000	RM'000	RM'000	RM'000	RM'000	2001
						RM'000
Fixed assets	3,944	3,620	4,239	4,825	6,414	5,541
Preliminary expenses	4	4	4	4	-	-
Related companies	-	-	-	136	445	922
Current assets	2,107	2,763	2,682	3,184	4,063	3,892
Current liabilities	3,156	2,441	2,026	2,197	2,628	2,166
Net current (liabilities)/assets	(1,049)	322	656	987	1,435	1,726
	2,899	3,946	4,899	5,952	8,294	8,189
Financed by -						
Share capital	565	565	800	800	800	800
Retained profit	1,128	2,263	3,065	4,086	5,583	5,933
Shareholder's funds	1,693	2,828	3,865	4,886	6,383	6,733
Long term liabilities	1,206	1,118	1,034	1,066	1,911	1,456
	2,899	3,946	4,899	5,952	8,294	8,189
Net tangible assets (RM'000)	1,689	2,824	3,861	4,882	6,383	6,733
Net tangible assets per share (RM)	2.99	5.00	4.83	6.10	7.98	8.42

## IX. ACCOUNTANTS' REPORT (CONT'D)



## 7.4 ASC

The summarised balance sheets of ASC, based on the audited accounts as at 31 December 1996 to 1999, 30 June 2000 and as at 31 March 2001, are set out below:-

	← As at 31 December →				As at	As at 31
	1996	1997	1998	1999	30 June	March
	RM'000	RM'000	RM'000	RM'000	2000	2001
Fixed assets	6,674	12,398	11,630	11,992	12,110	13,947
Holding company*	(1,383)	(4,698)	(4,686)	-	(4,345)	(4,373)
Related companies*	546	579	358	-	(134)	(378)
Current assets	2,905	6,271	5,934	7,403	7,929	8,142
Current liabilities	5,182	6,818	4,572	9,046	4,373	4,475
Net current (liabilities)/assets	(2,277)	(547)	1,362	(1,643)	3,556	3,667
	3,560	7,732	8,664	10,349	11,187	12,863
Financed by -						
Share capital	5,667	5,667	5,667	5,667	5,667	5,667
Share premium account	300	300	300	300	300	300
(Accumulated loss)/Retained profit	(3,392)	(2,943)	(1,655)	428	1,534	3,010
Shareholder's funds	2,575	3,024	4,312	6,395	7,501	8,977
Long term liabilities	985	4,708	4,352	3,954	3,686	3,886
	3,560	7,732	8,664	10,349	11,187	12,863
Net tangible assets (RM'000)	2,575	3,024	4,312	6,395	7,501	8,977
Net tangible assets per share (RM)	0.45	0.53	0.76	1.13	1.32	1.58

**Note:-**

- \* Prior to the financial year ended 31 December 1999, these were in respect of amount owing to its former holding company and related companies. Thereafter, Lipo Corporation Berhad became the holding company.

**IX. ACCOUNTANTS' REPORT (CONT'D)****7.5 PPC-T**

The summarised balance sheet of PPC-T, based on the audited accounts as at 31 March 2001, is set out below:-

	<b>As at 31 March 2001 RM'000</b>
Fixed assets	1,791
Holding company	56
Related companies	(2,199)
Current assets	1,012
Current liabilities	87
Net current assets	<u>925</u>
	<u>573</u>
Financed by -	
Share capital	563
Exchange fluctuation reserve	(75)
Retained profit	<u>85</u>
Shareholders' funds	<u>573</u>
Net tangible assets (RM'000)	<u>573</u>
Net tangible assets per share (RM)	<u>9.55</u>

PPC-T prepared its first set of audited accounts for the period from 13 July 2000 to 31 March 2001.

The assets and liabilities of PPC-T are translated into Ringgit Malaysia at the rates of exchange which approximate those ruling at balance sheet date except share capital which is recorded at historical rates.

**IX. ACCOUNTANTS' REPORT (CONT'D)****7.6 MT**

The summarised balance sheet of MT, based on the audited accounts as at 31 March 2001, is set out below:-

	<b>As at 31 March 2001 RM'000</b>
Holding company	<u>(4)</u>
Financed by -	
Share capital	*
Accumulated loss	<u>(4)</u>
Shareholder's funds	<u>(4)</u>
Net tangible liabilities (RM'000)	<u>(4)</u>
Net tangible liabilities per share (RM)	<u>(2,000)</u>

\* Represents 2 ordinary shares of RM1.00 each

MT prepared its first set of audited accounts for the period from 3 July 2000 to 31 March 2001.

**IX. ACCOUNTANTS' REPORT (CONT'D)****7.7 PPT**

The summarised balance sheet of PPT, based on the audited accounts as at 31 March 2001, is set out below:-

	<b>As at 31 March 2001 RM'000</b>
Holding company	<u>(3)</u>
Financed by -	
Share capital	*
Accumulated loss	<u>(3)</u>
Shareholder's funds	<u>(3)</u>
Net tangible liabilities (RM'000)	<u>(3)</u>
Net tangible liabilities per share (RM)	<u>(1,500)</u>
* Represents 2 ordinary shares of RM1.00 each	

PPT prepared its first set of audited accounts for the period from 23 July 2000 to 31 March 2001.

**IX. ACCOUNTANTS' REPORT (CONT'D)****8. DETAILED STATEMENT OF ASSETS AND LIABILITIES**

The Detailed Statement of Assets and Liabilities of LIPO and the LIPO Group set out below are based on the audited balance sheets of LIPO and its subsidiary companies as at 31 March 2001. The statements are to be read in conjunction with the notes thereto:-

	Note	Group RM'000	Company RM'000
Fixed assets	B	45,615	126
Holding company	C	(3,741)	(3,721)
Subsidiary companies	D	-	35,485
Related companies	E	180	-
Goodwill on consolidation	F	3,060	-
<b>Current assets</b>			
Stocks	G	10,880	-
Trade debtors	H	7,635	-
Other debtors	I	3,312	390
Deposits	J	3,335	3,036
Cash and bank balances		1,071	119
		<b>26,233</b>	<b>3,545</b>
<b>Current liabilities</b>			
Trade creditors		4,196	-
Other creditors	K	4,397	17
Short term borrowings	L	3,266	-
Taxation		336	-
		<b>12,195</b>	<b>17</b>
Net current assets		<b>14,038</b>	<b>3,528</b>
		<b>59,152</b>	<b>35,418</b>
Financed by -			
Share capital	M	33,560	33,560
Reserves	N	12,754	1,858
Shareholders' funds		46,314	35,418
Long term liabilities (secured)	O	12,838	-
Deferred taxation	P	-	-
		<b>59,152</b>	<b>35,418</b>
Net tangible assets per share (RM)		<b>1.29</b>	<b>1.06</b>



**IX. ACCOUNTANTS' REPORT (CONT'D)****NOTES TO DETAILED STATEMENT OF ASSETS AND LIABILITIES****A. SIGNIFICANT ACCOUNTING POLICIES****(a) Basis of Accounting**

The accounts of the Company and of the LIPO Group are prepared under the historical cost convention and comply with applicable approved accounting standards issued by the Malaysian Accounting Standards Board.

**(b) Basis of Consolidation**

The Group accounts incorporate the accounts of the Company and its subsidiary companies for the period ended 31 March 2001. The results of subsidiary companies acquired or disposed of are included or excluded in the Group accounts from the effective date of acquisition or sale respectively.

Goodwill or reserve on consolidation represents the difference between the consideration paid for the shares in a subsidiary company and the fair value of attributable net assets acquired. Goodwill on consolidation is amortised over its expected useful lives of 25 years.

All inter-company transactions and balances are eliminated on consolidation.

Minority interest has not been disclosed as the amount is immaterial.

**(c) Foreign currencies**

Transactions in foreign currencies are recorded at rates ruling at transaction dates or at contracted rates where applicable. Foreign currency assets and liabilities at year end are translated at the rates then ruling. Gains and losses arising from the translation are dealt with through the income statement.

The closing rates of exchange of the foreign currencies used as at 31 March 2001 are as follows:-

	<b>RM</b>
1 US Dollar	3.80
1 Singapore Dollar	2.11
1 Deutsche Mark	2.00
1 Japanese Yen	0.36
1 Thai Baht	<u>0.08</u>

**IX. ACCOUNTANTS' REPORT (CONT'D)****(d) Translation of foreign currency financial statements**

For consolidation purposes, assets and liabilities of a foreign subsidiary are translated into Ringgit Malaysia at the rates of exchange which approximate those ruling at balance sheet date except share capital, which is recorded at historical rates, while the income statement is translated at average rate of exchange for the year. Exchange differences are transferred directly to the Exchange Fluctuation Reserve.

**(e) Depreciation**

Fixed assets are stated at cost less accumulated depreciation.

Depreciation of fixed assets is computed on the straight line method at the following rates based on the estimated useful lives of the various assets as follows:-

Buildings	2%
Building improvement and renovations	2% - 33%
Factory machinery, moulds and equipment	10% - 50%
Furniture, fittings and office equipment	10% - 33%
Tools and accessories	10%
Motor vehicles	10% - 20%

Leasehold land is amortised over the remaining lease period of 45-71 years.

**(f) Stocks**

Stocks are stated at the lower of cost and net realisable value after due provision is made for any obsolete or slow moving items. Cost of raw materials is generally determined on the first-in first-out basis. Cost consists of the original purchase cost plus the cost of bringing the stocks to their present location.

Cost of finished goods and work-in-progress includes cost of raw materials, direct labour and a proportion of manufacturing overheads.

**(g) Debtors**

Known bad debts are written off and specific provision is made for any debts which are considered doubtful.

**(h) Investments**

Investments which are held on a long term basis, are stated at cost. No provision for diminution in value of investments has been made unless, in the opinion of the directors, the diminution in value is permanent in nature.

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**IX. ACCOUNTANTS' REPORT (CONT'D)**

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**(i) Intangible assets**

Intangible assets which consist of preliminary and pre-operation expenses are written off when incurred or absorbed by the holding company.

**(j) Deferred taxation**

Deferred taxation is provided on the liability method in respect of timing differences which arise where the basis on which profits are arrived at for the purpose of computing taxation is different from the basis on which the profits are included in the income statement except where such timing differences are not expected to reverse in the foreseeable future.

**(k) Hire purchase**

Assets under hire purchase arrangements are capitalised as fixed assets based on the principal sum of the hire purchase and the corresponding obligations are taken up as hire purchase creditors.

The interest element is charged to the income statement using the straight line method.

**(l) Finance leases**

Assets financed by leasing arrangements which transfer substantially all the risks and rewards of ownership to the Company are capitalised as fixed assets and the corresponding obligations are treated as a liability. Financing charges of such leases are charged to the income statement over the term of the lease.

Assets held under finance leases are capitalised as fixed assets and depreciated according to the basis set out in Note A (e).

**(m) Cash and cash equivalents**

Cash and cash equivalents include cash and bank balances (net of bank overdrafts), deposits which are not pledged and other short-term, highly liquid investments that are readily convertible to cash and are subject to insignificant risk of changes in value.

**(n) Capitalisation of interest cost**

Interest charges relating to fixed assets under construction are capitalised up to the point of completion.

**(o) Revenue recognition**

Sale of goods is recognised upon delivery.

Dividends from subsidiary companies are recognised as and when declared.

Interest income and management fee income are recognised when the right to receive such income is established.

**IX. ACCOUNTANTS' REPORT (CONT'D)****B FIXED ASSETS**

Group	Long term leasehold land and buildings RM'000	Short term leasehold land and buildings RM'000	Factory machinery, moulds and equipment RM'000	Furniture, fittings and office equipment RM'000	Tools and accessories RM'000	Motor vehicles RM'000	Building improvement and renovations RM'000	Capital-in-progress RM'000	Total RM'000
<b>Cost</b>									
At 1 July 2000	7,142	5,464	35,955	1,391	80	586	1,573	77	52,268
Additions	85	-	11,421	367	35	212	162	1,364	13,646
Disposals/Written off	-	-	(2,361)	(14)	-	(28)	-	-	(2,403)
Reclassification	-	-	95	-	-	-	-	(95)	-
At 31 March 2001	7,227	5,464	45,110	1,744	115	770	1,735	1,346	63,511
<b>Accumulated depreciation</b>									
At 1 July 2000	106	296	14,195	596	16	245	225	-	15,679
Charge for the period	100	86	2,826	135	7	60	76	-	3,290
Written back on disposals/ Written off	-	-	(1,045)	(7)	-	(21)	-	-	(1,073)
At 31 March 2001	206	382	15,976	724	23	284	301	-	17,896
<b>Net book value</b>									
At 31 March 2001	7,021	5,082	29,134	1,020	92	486	1,434	1,346	45,615

The land title to the long term leasehold land of a subsidiary company costing RM1,357,794 has yet to be issued by the relevant authority.

**IX. ACCOUNTANTS' REPORT (CONT'D)**

<b>Company</b>	<b>Motor vehicles RM'000</b>
<b>Cost</b>	
At 1 July 2000	-
Additions	<u>128</u>
At 31 March 2001	<u>128</u>
<b>Accumulated depreciation</b>	
At 1 July 2000	-
Charge for the period	<u>2</u>
At 31 March 2001	<u>2</u>
<b>Net book value</b>	
At 31 March 2001	<u><u>126</u></u>

The cost of fixed assets acquired under hire purchase and term loans are as follows:-

	<b>Group RM'000</b>
(a) Hire purchase -	
Plant and machinery	6,155
Motor vehicle	<u>157</u>
	<u><u>6,312</u></u>
(b) Term loans -	
Plant and machinery	<u><u>6,380</u></u>

**C. HOLDING COMPANY**

The holding and ultimate holding company is THB Industries Bhd., a company incorporated in Malaysia.

The amount due to holding company is unsecured, interest free and with no fixed term of repayment.

**IX. ACCOUNTANTS' REPORT (CONT'D)****D. SUBSIDIARY COMPANIES**

	<b>Company RM'000</b>
Unquoted shares, at cost	28,775
Amount due from subsidiary companies	6,835
Amount due to a subsidiary company	(125)
	35,485

The subsidiary companies are as follows:-

	<u>Country of incorporation</u>	<u>Equity interest</u>	<u>Principal activities</u>
Paradigm Precision Components Sdn. Bhd.	Malaysia	100%	Manufacture of precision machined components
Paradigm Precision Machining Sdn. Bhd. (Formerly known as Preciturn (M) Sdn. Berhad)	Malaysia	100%	Manufacture of precision machined parts and components
Allied Stamping Corporation Sdn. Bhd.	Malaysia	100%	Manufacture of precision stamping parts
Paradigm Precision Components (Thailand) Ltd. +	Thailand	99.98%	Manufacture of metal products attribute from machining
Macgilent Technology Sdn. Bhd.	Malaysia	100%	Dormant
Paradigm Precision Technologies Sdn. Bhd.	Malaysia	100%	Dormant

+ Audited by member firm of Ernst & Young International

**IX. ACCOUNTANTS' REPORT (CONT'D)****E. RELATED COMPANIES**

	<b>Group RM'000</b>
Amount owing by related companies	273
Amount owing to related companies	(93)
	<u>180</u>

**F. GOODWILL ON CONSOLIDATION**

	<b>Group RM'000</b>
At 1 July	3,093
On acquisition of a subsidiary company	125
	<u>3,218</u>
Amortisation to-date	(158)
	<u>3,060</u>

**G. STOCKS**

	<b>Group RM'000</b>
Raw materials	4,198
Work-in-progress	2,500
Finished goods	3,911
Consumables	271
	<u>10,880</u>

**H. TRADE DEBTORS**

	<b>Group RM'000</b>
Trade debtors	7,647
Provision for doubtful debts	(12)
	<u>7,635</u>

Included in trade debtors are long outstanding debts amounting to approximately RM429,000. No provision for doubtful debts have been made in the accounts as the directors are confident that the debts are collectible.

**IX. ACCOUNTANTS' REPORT (CONT'D)****I. OTHER DEBTORS****Company -**

Included in other debtors is listing expenses incurred of RM384,852.

**Group -**

Included herein are -

- (i) listing expenses incurred of RM384,852;
- (ii) long outstanding debts amounting to RM156,281 of which no provision for doubtful debts is made in the accounts as the directors are of the opinion that they are collectible; and
- (iii) advances of RM450,015 given to a marketing representative to secure business overseas.

**J. DEPOSITS**

	<b>Group RM'000</b>	<b>Company RM'000</b>
Deposits placed with licensed banks	<u>3,335</u>	<u>3,036</u>

Deposits amounting to RM299,184 of the Group have been pledged to licensed banks to secure certain facilities issued by the bank on behalf of subsidiary companies.

**K. OTHER CREDITORS**

	<b>Group RM'000</b>	<b>Company RM'000</b>
Other creditors	2,570	17
Hire purchase creditors - secured (Note O)	<u>1,827</u>	<u>-</u>
	<u>4,397</u>	<u>17</u>



**IX. ACCOUNTANTS' REPORT (CONT'D)****L. SHORT TERM BORROWINGS**

	<b>Group RM'000</b>
Secured -	
Bank overdrafts	1,210
Bankers' acceptance	490
Trust receipts	172
Term loans (Note O)	<u>1,394</u>
	<u><u>3,266</u></u>

The bank overdrafts and other facilities of the subsidiary companies are secured as follows:-

- (i) legal charges over the subsidiary companies' leasehold land and buildings. Pending issuance of the land title deed, one of the term loans is secured by:-
  - (a) a loan agreement, deed of assignment and power of attorney;
  - (b) corporate guarantee by the ultimate holding company; and
  - (c) a negative pledge over the assets of the subsidiary company.
- (ii) a fixed charge over a subsidiary company's plant and machinery;
- (iii) a debenture incorporating fixed and floating charges over the entire assets of a subsidiary company;
- (iv) a pledge over a subsidiary company's fixed deposits amounting to RM220,237;
- (v) a negative pledge over the property, plant and equipment of subsidiary companies;
- (vi) corporate guarantee by the ultimate holding company; and
- (vii) joint and several guarantees from certain directors and third parties of the subsidiary companies.

The bank overdrafts and bankers' acceptance carry interest rates ranging from 8.3% to 9.2% and 3.25% to 3.35% per annum respectively.

**IX. ACCOUNTANTS' REPORT (CONT'D)****M. SHARE CAPITAL**

	<b>Group/Company No. of shares '000</b>	<b>Group/Company RM'000</b>
Authorised -		
Ordinary shares of RM1.00 each	50,000	50,000
Issued and fully paid -		
Ordinary shares of RM1.00 each	33,560	33,560

On completion of the capitalisation of shareholder's advances from THBI and public issue, the issued and fully paid-up share capital of LIPO will increase from 33,560,000 ordinary shares of RM1.00 each to 50,323,000 ordinary shares of RM1.00 each analysed as follows:-

**Issued and fully paid-up share capital**

	<b>RM'000</b>
Prior to implementation of the Flotation Scheme	33,560
Capitalisation of Shareholder's Advances	3,713
After Capitalisation of Shareholder's Advances	37,273
Public Issue	13,050
After Capitalisation of Shareholder's Advances and Public Issue	50,323

**N. RESERVES**

	<b>Group RM'000</b>	<b>Company RM'000</b>
Non distributable -		
Share premium account	1,800	1,800
Reserve on consolidation	67	-
Exchange fluctuation reserve	(466)	-
	1,401	1,800
Distributable -		
Retained profit	11,353	58
	12,754	1,858

**IX. ACCOUNTANTS' REPORT (CONT'D)**

	<b>Group RM'000</b>
Retained by -	
The Company	58
Subsidiary companies	<u>11,295</u>
	<u>11,353</u>

The Company has, pending agreement with the tax authorities, sufficient tax exempt profits to frank by way of tax exempt dividend all of its distributable reserve as at 31 March 2001.

**O. LONG TERM LIABILITIES (SECURED)**

	<b>Group RM'000</b>
Term loans	10,896
Repayable within 12 months (Note L)	<u>(1,394)</u>
	9,502
Hire purchase creditors -	
Gross amount	5,835
Interest suspense	<u>(672)</u>
	5,163
Repayable within 12 months (Note K)	<u>(1,827)</u>
	3,336
	<u>12,838</u>

The securities for the term loans are disclosed in Note L to the detailed statement of assets and liabilities.

The term loans carry interest rates ranging from 4% to 9.2% per annum and are repayable over a period of between 11 to 180 monthly instalments ranging between RM9,067 and RM69,096 per month.

**IX. ACCOUNTANTS' REPORT (CONT'D)****P. DEFERRED TAXATION**

The potential tax liabilities, relating to excess of capital allowances over depreciation of a subsidiary company amounting to RM1,801,000 have not been provided in the accounts as it is anticipated that the tax effects of such deferrals will continue in the foreseeable future.

**Tax losses**

The estimated amount and future availability of unabsorbed capital allowances and tax losses, pending agreement with the tax authorities, for which the related tax effects have not been accounted for in the period under review are as follows -

	<b>Group RM'000</b>	<b>Company RM'000</b>
Unabsorbed capital allowances	15	15
Unabsorbed tax losses	1,356	156
	<u>1,371</u>	<u>171</u>

**Q. CAPITAL COMMITMENTS**

	<b>Group RM'000</b>
Approved but not contracted for	40
Contracted but not provided for	3,152
	<u>3,192</u>

**R. CONTINGENT LIABILITIES (UNSECURED)**

	<b>Company RM'000</b>
Corporate guarantees given to secure hire purchase and banking facilities granted to subsidiary companies	5,600
	<u>5,600</u>

**IX. ACCOUNTANTS' REPORT (CONT'D)****9. CASH FLOW STATEMENT**

The cash flow statement of LIPO and the LIPO Group set out below is based on the audited accounts of LIPO and its subsidiary companies for the financial period ended 31 March 2001.

	<b>Group RM'000</b>	<b>Company RM'000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit/(Loss) before taxation	6,345	(173)
Adjustments for -		
Amortisation of goodwill on consolidation	96	-
Write off of intangible assets	7	-
Depreciation	3,290	2
Gain on disposal of fixed assets	(63)	-
Interest expense	804	-
Interest income	(97)	(88)
<b>Operating profit/(loss) before working capital changes</b>	<b>10,382</b>	<b>(259)</b>
Increase in stocks	(3,859)	-
Decrease/(Increase) in trade and other debtors	1,390	(363)
Increase in trade and other creditors	187	16
Decrease in amount owing to holding company	68	47
Increase in amount owing from subsidiary companies	-	(7)
Increase in amount owing from related companies	(234)	-
<b>Cash generated from/(used in) operations</b>	<b>7,934</b>	<b>(566)</b>
Income tax paid	(234)	-
Interest paid	(804)	-
<b>Net cash from/(used in) operating activities</b>	<b>6,896</b>	<b>(566)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of subsidiary companies, net of cash acquired (Note A)	(125)	-
Dividends received from subsidiaries	-	240
Fixed deposits pledged to licensed banks	(13)	-
Interest received	97	88
Balance carried forward	(41)	328

**IX. ACCOUNTANTS' REPORT (CONT'D)**

	<b>Group RM'000</b>	<b>Company RM'000</b>
Balance brought forward	(41)	328
Investment in subsidiary companies	-	(687)
Preliminary expenses	(7)	-
Proceeds from disposal of fixed assets	1,393	-
Purchase of fixed assets (Note B)	(7,809)	(128)
<b>Net cash used in investing activities</b>	<b>(6,464)</b>	<b>(487)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Advances from holding company	1,636	1,636
Advances to subsidiary companies	-	(1,936)
Loan to subsidiary companies	-	(338)
Net drawdown of trust receipts	171	-
Repayment of loan by a subsidiary company	-	300
Repayment of bankers' acceptances	(127)	-
Repayment of hire purchase creditors	(1,625)	-
Repayment of lease creditor	(32)	-
Repayment of loans to holding company	(1,636)	-
Repayment of term loans	(994)	-
<b>Net cash used in financing activities</b>	<b>(2,607)</b>	<b>(338)</b>
	(2,175)	(1,391)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>(75)</b>	<b>-</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(2,250)</b>	<b>(1,391)</b>
<b>CASH AND CASH EQUIVALENTS AT 1 JULY 2000</b>	<b>5,147</b>	<b>4,546</b>
<b>CASH AND BANK BALANCES AT 31 MARCH 2001</b>	<b>2,897</b>	<b>3,155</b>
<b>CASH AND BANK BALANCES AT 31 MARCH 2001</b>		
Cash and bank balances	1,071	119
Bank overdrafts	(1,210)	-
Deposits not pledged	3,036	3,036
	<b>2,897</b>	<b>3,155</b>

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**IX. ACCOUNTANTS' REPORT (CONT'D)**


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**Note A**

Analysis of acquisition of subsidiary companies:-

	<b>Group 1 July 2000 to 31 March 2001 RM'000</b>
Current assets	563
Goodwill on acquisition (net)	<u>125</u>
Total purchase consideration	688
Add - Cash and cash equivalents acquired	<u>(563)</u>
	125
Discharged by - Issue of shares	<u>-</u>
Cash	<u><u>125</u></u>

The effect of the acquisition on the financial results of the Group from the date of acquisition to 31 March 2001 is as follows:-

	<b>From date of acquisition RM'000</b>
Revenue	1,442
Operating costs	<u>(1,364)</u>
Profit on operations	78
Finance costs	<u>-</u>
Profit before taxation	78
Taxation	<u>-</u>
Profit after taxation attributable to shareholders	<u><u>78</u></u>

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**IX. ACCOUNTANTS' REPORT (CONT'D)**


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The effect of the acquisition on the financial position of the Group at 31 March 2001 is as follows:-

	<b>Group 31 March 2001 RM'000</b>
Fixed assets	373
Goodwill on consolidation	121
Inventories	243
Trade debtors	362
Other current assets	28
Cash and bank balances	380
Trade creditors	(29)
Other creditors	(58)
	1,420
	1,420

**Note B**

During the period, the Group and the Company acquired assets with an aggregate cost of RM13,646,442 and RM128,000 respectively which are financed by:-

	<b>Group 1 July 2000 to 31 March 2001 RM'000</b>	<b>Company 1 July 2000 to 31 March 2001 RM'000</b>
Cash	7,809	128
Hire purchase	1,691	-
Term loan	4,146	-
	13,646	128
	13,646	128



**IX. ACCOUNTANTS' REPORT (CONT'D)****10. PROCEEDS FROM PUBLIC ISSUE**

The cash proceeds of RM16,370,000 (after deducting estimated listing expenses of RM1,900,000) to be received from the Public Issue will be utilised as follows:-

	<b>RM'000</b>
Repayment of bank borrowings	9,975
Working capital	<u>6,395</u>
	<u><u>16,370</u></u>

**11. PROFORMA NET TANGIBLE ASSETS COVER**

Based on the Detailed Statement of Assets and Liabilities of the Group as at 31 March 2001, the proforma net tangible assets and enlarged share capital are derived as follows:-

**(i) Proforma Net Tangible Assets**

	<b>RM'000</b>
Net Tangible Assets as per audited accounts as at 31 March 2001	43,254
Add -	
Capitalisation of shareholder's advances	3,713
Proceeds from public issue	<u>18,270</u>
	65,237
Listing expenses	<u>(1,900)</u>
Proforma Net Tangible Assets	<u><u>63,337</u></u>

**(ii) Share Capital**

	<b>Number of shares '000</b>
Enlarged issued and fully paid-up share capital on completion of the flotation scheme	<u><u>50,323</u></u>

Based on the proforma net tangible assets of RM63,337,000 and the enlarged issued and fully paid-up share capital of 50,323,000 ordinary shares of RM1.00 each, the proforma net tangible assets per share is RM1.26.

**IX. ACCOUNTANTS' REPORT (CONT'D)**



**12. SUBSEQUENT EVENTS**

The following are the subsequent events after the period ended 31 March 2001 -

- (a) On 16 April 2001, the Securities Commission ("SC") approved the Company's proposed flotation scheme on the Second Board of the KLSE as follows:-
  - (i) the capitalisation of amount owing to its holding company, THB Industries Bhd. of RM3,713,000 into 3,713,000 ordinary shares of RM1.00 each, at par;
  - (ii) public issue of 13,050,000 new ordinary shares of RM1.00 each at an issue price of RM1.90 per new ordinary share; and
  - (iii) listing of its entire issued and paid-up share capital consisting of 50,323,000 ordinary shares of RM1.00 on the Second Board of the KLSE.

On 31 July 2001, the SC approved the Company's application to revise the issue price from RM1.90 per new ordinary share to RM1.40 per new ordinary share.

- (b) On 26 May 2001, the Company increased its authorised share capital from RM50,000,000 to RM100,000,000 by way of a creation of an additional 50,000,000 ordinary shares of RM1.00 each.
- (c) On 15 August 2001, the Company increased its issued and paid-up share capital from RM33,560,000 to RM37,273,000 by way of the capitalisation of advances from THB Industries Bhd. of RM3,713,000 into 3,713,000 new ordinary shares of RM1.00 each at par.

**13. AUDITED ACCOUNTS**

No audited accounts of the Company and its subsidiaries have been prepared in respect of any period subsequent to 31 March 2001.

Yours faithfully,

*Ernst & Young*  
Ernst & Young AF 0039  
Public Accountants

*Oo Boon Beng*  
Oo Boon Beng 1939/12/02 (J)  
Partner