

15. ACCOUNTANTS' REPORT (cont'd)



6.0 DIVIDENDS

No dividend has been paid or declared by Degem during the relevant financial periods under review. No dividends have been paid or declared by the subsidiaries of Degem during the relevant periods under review except for P.Y.T., P-Jewellers, Tong Yek and P-Medal in respect of the financial periods as follows:

(i) P.Y.T.

Year ended 31 December	Issued and paid-up capital RM	Dividend rate %	Tax rate %	Net dividend paid RM
1996	1,914,750	10	30	134,033
1997	1,914,750	10	28	137,862
1998	1,914,750	10	28	137,862
1999	1,914,750	10	28	137,862
2000	1,914,750	10	28	137,862

(ii) P-Jewellers

Year ended 31 December	Issued and paid-up capital RM	Dividend rate %	Tax rate %	Net dividend paid RM
1996	1,000,000	10	30	70,000
1997	1,000,000	10	28	72,000
1998	1,000,000	20	28	144,000

(iii) Tong Yek

Year ended 31 December	Issued and paid-up capital RM	Dividend rate %	Tax rate %	Net dividend paid RM
1998	540,000	40	28	155,520

(iv) P-Medal

Year ended 31 December	Issued and paid-up capital RM	Dividend rate %	Tax rate %	Net dividend paid RM
1998	445,600	90	28	288,749
2000	445,600	90	28	288,749

15. ACCOUNTANTS' REPORT (cont'd)



7.0 SUMMARISED BALANCE SHEETS

Following completion of the Acquisition on 31 March 2001, the summarised balance sheets of Degem Group set out below are based on the audited financial statements of Degem and its subsidiary companies and have been presented on the basis that the Acquisition had been in effect throughout the relevant periods under review.

7.1 DEGEM GROUP

	←————— Degem Group —————→				
	←————— As at 31 December —————→				As at
	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	31.3.01 RM'000
Property, plant and equipment	9,980	9,187	14,110	15,261	15,160
Intangible assets	295	299	321	609	629
Current assets	52,040	47,142	61,356	77,087	78,039
Current liabilities	(33,074)	(24,219)	(32,117)	(39,855)	(38,463)
Net current assets	18,966	22,923	29,239	37,232	39,576
Minority Interest	-	-	(171)	(1,567)	(1,705)
Deferred and long term liabilities	(2,785)	(2,064)	(4,374)	(3,856)	(3,749)
Net assets	26,456	30,345	39,125	47,679	49,911
Financed by:-					
Share capital	35,000	35,000	35,000	35,000	35,000
Reserves	(8,544)	(4,655)	4,125	12,679	14,911
	26,456	30,345	39,125	47,679	49,911
Net tangible assets per share (RM)	0.75	0.86	1.11	1.34	1.41

Notes:-

- (1) Degem was incorporated on 3 January 1997. Accordingly, the first audited financial statements cover the period from 3 January 1997 to 31 December 1997.
- (2) The Acquisition which was completed on 31 March 2001 is consolidated throughout the relevant periods under review using the merger method in accordance with Malaysian Accounting Standard 2. The purchase consideration for the Acquisition is calculated on Net Tangible Assets based on the audited financial statements of the subsidiary companies as at 31 December 1999. Consequently, in the presentation of the balance sheets of the Degem Group for the relevant periods under review, a deficit in reserves arises in 1997 and 1998.

15. ACCOUNTANTS' REPORT (cont'd)



7.2 DEGEM (Company Level)

	← As at 31 December →				As at 31.3.01 RM'000
	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	
Subsidiary companies	-	-	-	-	34,347
Intangible assets	295	299	303	609	629
Current assets	*	*	*	1	1
Current liabilities	(295)	(299)	(303)	(634)	(3)
Net current (liabilities)/assets	(295)	(299)	(303)	(633)	(2)
Net assets	*	*	*	(24)	34,974
Financed by:-					
Share capital	*	*	*	*	35,000
Reserves	-	-	-	(24)	(26)
	*	*	*	(24)	34,974
Net tangible (liabilities)/assets per share (RM)	(147,674)	(149,273.5)	(151,602)	(316,482)	0.98

* RM2

Notes:-

- (1) Degem was incorporated on 3 January 1997. Accordingly, the first audited financial statements cover the period from 3 January 1997 to 31 December 1997.
- (2) The balances due from/(to) the subsidiary companies of Degem Group after the Acquisition are as follows:-

	← As at 31 December →				As at 31.3.01 RM'000
	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	
Due from/(to):					
P-Jewellers	(295)	(299)	(303)	(633)	(653)

15. ACCOUNTANTS' REPORT (cont'd)



7.3 P.Y.T. (Group Level)

	← As at 31 December →					As at
	1996	1997	1998	1999	2000	31.3.01
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	6,133	9,980	9,187	14,110	15,261	15,160
Intangible assets	-	-	-	18	-	-
Current assets	48,058	52,335	47,441	61,659	77,720	78,691
Current liabilities	(31,591)	(33,074)	(24,219)	(32,117)	(39,855)	(38,460)
Net current assets	16,467	19,261	23,222	29,542	37,865	40,231
Minority Interest	-	-	-	(171)	(1,567)	(1,705)
Deferred and long term liabilities	(2,156)	(2,785)	(2,064)	(4,374)	(3,856)	(3,749)
Net assets	20,444	26,456	30,345	39,125	47,703	49,937
Financed by:-						
Share capital	1,915	1,915	1,915	1,915	1,915	1,915
Reserves	18,529	24,541	28,430	37,210	45,788	48,022
	20,444	26,456	30,345	39,125	47,703	49,937
Net tangible assets per share (RM)	10.68	13.82	15.85	20.42	24.91	26.08

Notes:-

- (1) The balances due from/(to) the related companies of P.Y.T. Group after the Acquisition are as follows:-

	← As at 31 December →					As at
	1996	1997	1998	1999	2000	31.3.01
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Due from/(to):						
Degem	-	295	299	303	633	653

15. ACCOUNTANTS' REPORT (cont'd)



7.4 P.Y.T. (Company Level)

	← As at 31 December →					As at
	1996	1997	1998	1999	2000	31.3.01
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	4,210	6,890	6,522	6,295	6,970	6,941
Subsidiary companies	2,690	2,564	944	1,012	1,614	829
Current assets	15,744	17,117	16,280	16,050	19,610	21,017
Current liabilities	(9,654)	(11,859)	(8,094)	(6,146)	(10,371)	(10,954)
Net current assets	6,090	5,258	8,186	9,904	9,239	10,063
Deferred and long term liabilities	(1,861)	(2,188)	(1,655)	(1,456)	(1,227)	(1,151)
Net assets	11,129	12,524	13,997	15,755	16,596	16,682
Financed by:-						
Share capital	1,915	1,915	1,915	1,915	1,915	1,915
Reserves	9,214	10,609	12,082	13,840	14,681	14,767
	11,129	12,524	13,997	15,755	16,596	16,682
Net tangible assets per share (RM)	5.81	6.54	7.31	8.23	8.67	8.71

15. ACCOUNTANTS' REPORT (cont'd)



7.5 P-JEWELLERS (Company Level)

	← As at 31 December →					As at 31.3.01 RM'000
	1996 RM'000	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	
Property, plant and equipment	923	1,752	1,458	1,329	1,204	1,128
Subsidiary company	-	-	-	1,000	1,000	1,000
Current assets	27,895	31,906	28,954	38,722	41,853	42,962
Current liabilities	(19,865)	(20,220)	(15,149)	(19,956)	(21,637)	(21,837)
Net current assets	8,030	11,686	13,805	18,766	20,216	21,125
Deferred and long term liabilities	(234)	(462)	(305)	(412)	(226)	(172)
Net assets	8,719	12,976	14,958	20,683	22,194	23,081
Financed by:-						
Share capital	1,000	1,000	1,000	1,000	1,000	1,000
Reserves	7,719	11,976	13,958	19,683	21,194	22,081
	8,719	12,976	14,958	20,683	22,194	23,081
Net tangible assets per share (RM)	8.72	12.98	14.96	20.68	22.19	23.08

Notes:-

- (1) The balances due from/(to) the related companies of P-Jewellers after the Acquisition are as follows:-

	← As at 31 December →					As at 31.3.01 RM'000
	1996 RM'000	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	
Due from/(to):						
Degem	-	295	299	303	633	653
P.Y.T.	66	105	251	(429)	738	-
Telenaga	-	-	-	762	908	909
Subsidiaries of P.Y.T.	(514)	(2,276)	(1,771)	(1,621)	(7,582)	(7,436)

15. ACCOUNTANTS' REPORT (cont'd)



7.6 TONG YEK (Company Level)

	← As at 31 December →					As at
	1996	1997	1998	1999	2000	31.3.01
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	480	659	590	595	352	339
Subsidiary company	50	50	50	50	50	50
Current assets	4,545	5,569	4,832	8,845	2,494	2,497
Current liabilities	(3,404)	(4,282)	(3,072)	(6,616)	(57)	(57)
Net current assets	1,141	1,287	1,760	2,229	2,437	2,440
Deferred and long term liabilities	(5)	(69)	(63)	(33)	(28)	(28)
Net assets	1,666	1,927	2,337	2,841	2,811	2,801
Financed by:-						
Share capital	540	540	540	540	540	540
Reserves	1,126	1,387	1,797	2,301	2,271	2,261
	1,666	1,927	2,337	2,841	2,811	2,801
Net tangible assets per share (RM)	3.09	3.57	4.33	5.26	5.21	5.19

Notes:-

- (1) The balances due from/(to) the related companies of Tong Yek after the Acquisition are as follows:-

	← As at 31 December →					As at
	1996	1997	1998	1999	2000	31.3.01
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Due from/(to):						
P.Y.T.	31	(633)	269	1,590	-	(8)
P-Manufacturing	(800)	(175)	-	(145)	-	-
Subsidiaries of P.Y.T.	498	2,175	1,628	1,298	2,487	2,492

15. ACCOUNTANTS' REPORT (cont'd)



7.7 P-MEDAL (Company Level)

	← As at 31 December →					As at 31.3.01 RM'000
	1996 RM'000	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	
Property, plant and equipment	384	383	368	160	157	157
Current assets	788	1,086	1,425	1,426	1,112	1,116
Current liabilities	(63)	(132)	(527)	(343)	(291)	(291)
Net current assets	725	954	898	1,083	821	825
Deferred and long term liabilities	(45)	(32)	(12)	-	-	-
Net assets	1,064	1,305	1,254	1,243	978	982
Financed by:-						
Share capital	446	446	446	446	446	446
Reserves	618	859	808	797	532	536
	1,064	1,305	1,254	1,243	978	982
Net tangible assets per share (RM)	2.39	2.93	2.81	2.79	2.19	2.20

Notes:-

- (1) The balances due from/(to) the related companies of P-Medal after the Acquisition are as follows:-

	← As at 31 December →					As at 31.3.01 RM'000
	1996 RM'000	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	
Due from/(to):						
P.Y.T.	10	368	470	953	363	1,057
Subsidiaries of P.Y.T.	-	78	114	60	-	1

15. ACCOUNTANTS' REPORT (cont'd)



7.8 P-MANUFACTURING (Company Level)

	← As at 31 December →					As at 31.3.01 RM'000
	1996 RM'000	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	
Property, plant and equipment	136	295	249	14	-	-
Current assets	1,292	844	521	775	645	651
Current liabilities	(940)	(599)	(160)	(129)	(3)	(9)
Net current assets	352	245	361	646	642	642
Deferred and long term liabilities	(11)	(33)	(28)	(5)	-	-
Net assets	477	507	582	655	642	642
Financed by:-						
Share capital	50	50	50	50	50	50
Reserves	427	457	532	605	592	592
	477	507	582	655	642	642
Net tangible assets per share (RM)	9.54	10.14	11.64	13.11	12.85	12.84

Notes:-

- (1) The balances due from/(to) the related companies of P-Manufacturing after the Acquisition are as follows:-

	← As at 31 December →					As at 31.3.01 RM'000
	1996 RM'000	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	
Due from/(to):						
P.Y.T.	(852)	(470)	-	(51)	-	(6)
Tong Yek	800	175	-	145	-	-
Subsidiaries of P.Y.T.	16	23	28	563	632	632

15. ACCOUNTANTS' REPORT (cont'd)



7.9 INTICRAFT (Company Level)

	← As at 31 December →			As at
	1998 RM	1999 RM'000	2000 RM'000	31.3.01 RM'000
Property, plant and equipment	-	471	697	692
Intangible assets	500	-	-	-
Current assets	2	2,262	22,520	22,426
Current liabilities	(500)	(1,725)	(15,027)	(13,467)
Net current assets	498	537	7,493	8,959
Deferred and long term liabilities	-	(22)	(44)	(72)
Net assets	2	986	8,146	9,579
Financed by:-				
Share capital	2	500	500	500
Reserves	-	486	7,646	9,079
	2	986	8,146	9,579
Net tangible assets per share (RM)	1.00	1.97	16.29	19.16

Notes:-

- (1) Inticraft was incorporated on 17 November 1997. Accordingly, the first audited financial statements cover the period from 17 November 1997 to 31 December 1998.
- (2) The balances due from/(to) the related companies of Inticraft after the Acquisition are as follows:-

	← As at 31 December →			As at
	1998 RM	1999 RM'000	2000 RM'000	31.3.01 RM'000
Due from/(to):				
P.Y.T.	-	(843)	2,277	1,995
Subsidiaries of P.Y.T.	-	393	7,231	9,407

15. ACCOUNTANTS' REPORT (cont'd)



7.10 DIAMOND & PLATINUM (Company Level)

	As at 31 December 1999 RM'000	2000 RM'000	As at 31.3.01 RM'000
Property, plant and equipment	548	875	917
Current assets	2,754	7,130	8,322
Current liabilities	(2,801)	(4,581)	(5,506)
Net current assets	(47)	2,549	2,816
Deferred and long term liabilities	(74)	(80)	(96)
Net assets	427	3,344	3,637
Financed by:-			
Share capital	100	1,000	1,000
Reserves	327	2,344	2,637
	427	3,344	3,637
Net tangible assets per share (RM)	4.27	3.34	3.64

Notes:-

- (1) Diamond & Platinum was incorporated on 3 September 1999. Accordingly, the first audited financial statements cover the period from 3 September 1999 to 31 December 1999.
- (2) The balances due from/(to) the related companies of Diamond & Platinum after the Acquisition are as follows:-

	As at 31 December 1999 RM'000	2000 RM'000	As at 31.3.01 RM'000
Due from/(to):			
P.Y.T.	423	(274)	570
Subsidiaries of P.Y.T.	(895)	(1,132)	(2,431)

15. ACCOUNTANTS' REPORT (cont'd)



7.11 P-AMPANG (Company Level)

	As at	
	31.12.00 RM'000	31.3.01 RM'000
Property, plant and equipment	382	368
Current assets	3,751	4,386
Current liabilities	(1,775)	(2,192)
Net current assets	1,976	2,194
Deferred and long term liabilities	(58)	(59)
Net assets	2,300	2,503
Financed by:-		
Share capital	2,000	2,000
Reserves	300	503
	2,300	2,503
Net tangible assets per share (RM)	1.15	1.25

Notes:-

- (1) P-Ampang was incorporated on 13 October 1999. Accordingly, the first audited financial statements cover the period from 13 October 1999 to 31 December 2000.
- (2) The balances due from/(to) the related companies of P-Ampang after the Acquisition are as follows:-

	As at	
	31.12.00 RM'000	31.3.01 RM'000
Due from/(to):		
P.Y.T.	128	409
Subsidiaries of P.Y.T.	(1,490)	(1,916)

15. ACCOUNTANTS' REPORT (cont'd)



7.12 TELENAGA (Company Level)

	← As at 31 December →				As at
	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	31.3.01 RM'000
Property, plant and equipment	-	-	4,656	4,624	4,617
Property under development	-	479	-	-	-
Intangible assets	4	6	10	-	-
Current assets	*	3	37	64	60
Current liabilities	(4)	(488)	(1,282)	(1,486)	(1,563)
Net current assets	(4)	(485)	(1,245)	(1,422)	(1,503)
Deferred and long term liabilities	-	-	(2,372)	(2,191)	(2,171)
Net assets	*	*	1,049	1,011	943
Financed by:-					
Share capital	*	*	1,000	1,000	1,000
Reserves	-	-	49	11	(57)
	*	*	1,049	1,011	943
Net tangible assets per share (RM)	(2,029.00)	(2,824.00)	1.04	1.01	0.94

* RM2

Notes:-

- (1) Telenaga was incorporated on 30 December 1996. Accordingly, the first audited financial statements cover the period from 30 December 1996 to 31 December 1997.
- (2) The balances due to a related company of Telenaga after the Acquisition is as follows:-

	← As at 31 December →				As at
	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	31.3.01 RM'000
Due to:					
P-Jewellers	-	-	(735)	(908)	(909)

15. ACCOUNTANTS' REPORT (cont'd)



7.13 DIAMOND MART (Company Level)

	← As at 31 March →			
	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000
Intangible assets	5	7	9	-
Current assets	*	*	253	990
Current liabilities	(5)	(7)	(162)	(1)
Net current assets	(5)	(7)	91	989
Deferred and long term liabilities	-	-	-	-
Net assets	*	*	100	989
Financed by:-				
Share capital	*	*	100	1,000
Reserves	-	-	-	(11)
	*	*	100	989
Net tangible assets per share (RM)	(2,490.00)	(3,682.00)	0.91	0.99

* RM2

Notes:-

- (1) Diamond Mart was incorporated on 17 March 1997. Accordingly, the first audited financial statements cover the period from 17 March 1997 to 31 March 1998.
- (2) The balances due from/(to) the related companies of Diamond Mart after the Acquisition are as follows:-

	← As at 31 March →			
	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000
Due from/(to):				
P.Y.T.	-	-	(17)	988
Subsidiaries of P.Y.T.	-	-	201	(760)

15. ACCOUNTANTS' REPORT (cont'd)



8.0 DETAILED STATEMENTS OF ASSETS AND LIABILITIES

The Detailed Statements of Assets and Liabilities set out below are provided for illustrative purposes only and are based on the audited financial statements of Degem Group as at 31 March 2001 to show the effects of the Flotation Scheme had it been effected on 31 March 2001. The Statements are to be read in conjunction with the notes thereto:-

		←———— Degem Group —————→	
		Audited as at 31 March 2001 RM'000	After Public Issue RM'000
PROPERTY, PLANT AND EQUIPMENT	B	15,160	15,460
CURRENT ASSETS	C	78,039	85,281
CURRENT LIABILITIES	D	(38,463)	(38,463)
NET CURRENT ASSETS		39,576	46,818
DEFERRED EXPENDITURE		629	-
		55,365	62,278
SHARE CAPITAL	E	35,000	42,000
RESERVES	F	14,911	17,411
SHAREHOLDERS' FUNDS		49,911	59,411
MINORITY INTEREST		1,705	1,705
DEFERRED AND LONG TERM LIABILITIES	G	3,749	1,162
		55,365	62,278
Net Tangible Assets per share (RM)		1.41	1.41

15. ACCOUNTANTS' REPORT *(cont'd)*

9.0 NOTES TO THE DETAILED STATEMENTS OF ASSETS AND LIABILITIES

A. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

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

(b) Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and all its subsidiary companies for the period to 31 March. Subsidiary companies are consolidated where appropriate on the acquisition method of accounting or on the merger method of accounting permitted under Malaysian Accounting Standard 2.

Under the acquisition method of accounting, the results of the subsidiary company acquired or disposed of are included in the consolidated financial statements from the date of acquisition or up to the date of disposal. Goodwill or reserve on consolidation represents the difference between the consideration paid for the shares in the subsidiary company and the value of attributable net assets acquired, as applicable.

Under the merger method of accounting, the results of the subsidiary company are presented as if the subsidiary company had been owned by the Company throughout the current and previous accounting periods. The excess in the carrying value of the investment over the nominal value of the share capital of the subsidiaries is treated as a reduction of reserve.

(c) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Cost comprises purchase cost and any incidental costs of acquisition.

Leasehold land is amortised over the period of the lease. All other property, plant and equipment are depreciated on a straight-line method to write off the cost or valuation of the assets over the term of their estimated useful lives.

The principal annual rates used are as follows:-

Freehold Buildings	2% - 3%
Renovations	10%
Plant, equipment and fittings	10%
Motor vehicles	20%

No depreciation is provided on freehold land.

15. ACCOUNTANTS' REPORT *(cont'd)*



A. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(d) Inventories

Inventories are stated at the lower of cost and net realisable value and the cost is determined on the first-in first-out or weighted average basis. Cost includes the cost of materials and incidentals in bringing the goods into store and for manufactured goods and work-in-progress, cost includes addition, labour and attributed manufacturing overheads. In arriving at net realisable value, due allowance is made for all obsolete and slow-moving items.

(e) Revenue recognition

(i) Revenue from sale of goods

Revenue from sale of goods is recognised in the income statement on an accrual basis based on the invoiced value of goods sold.

(ii) Dividend income

Dividend income from subsidiary companies is included in the income statement of the Company when declared or proposed.

(iii) Rental income

Rental income is recognised in the income statement on an accrual basis.

(iv) Interest income

Interest income is recognised in the income statement on an accrual basis.

(f) Deferred expenditure

Deferred expenditure represents expenses incurred in connection with the proposed flotation of the Company on the Kuala Lumpur Stock Exchange Second Board and will be written off against share premium account.

(g) Foreign Currency Transactions

Transactions in foreign currencies are recorded in the books of financial statements at the exchange rates ruling at the time of the transaction or at contracted rates, where applicable. Outstanding balances at year end are translated at the rates then ruling or at contracted rates. All exchange differences are included in the income statement.

(h) Deferred Taxation

Deferred taxation is provided on the liability method for taxation which is deferred due to timing differences except to the extent that it can be demonstrated, with reasonable probability, that the timing differences will continue in the foreseeable future.

No account is taken of any debit balances arising on deferred taxation account.

15. ACCOUNTANTS' REPORT (cont'd)



A. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(i) Debtors

Known bad debts are written off and specific provision is made for any debts considered to be doubtful of collection.

(j) Cash and Cash Equivalents

Cash and cash equivalents consist of cash and bank balances, deposits with licensed banks and bank overdrafts. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

B. PROPERTY, PLANT AND EQUIPMENT

DEGEM GROUP – Audited as at 31 March 2001

	Freehold land and buildings RM'000	Renovation RM'000	Motor vehicles RM'000	Plant, equipment and fittings RM'000	Total RM'000
COST					
At 1 January 2001	10,600	1,764	3,251	5,328	20,943
Additions	-	7	-	225	232
Disposal	-	-	-	(6)	(6)
At 31 March 2001	10,600	1,771	3,251	5,547	21,169
ACCUMULATED DEPRECIATION					
At 1 January 2001	702	647	2,356	1,977	5,682
Charge for the year	36	43	126	125	330
Disposal	-	-	-	(3)	(3)
At 31 March 2001	738	690	2,482	2,099	6,009
NET BOOK VALUE					
At 31 March 2001	9,862	1,081	769	3,448	15,160

15. ACCOUNTANTS' REPORT (cont'd)



B. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

DEGEM GROUP – After Public Issue

	Freehold land and buildings	Renovation	Motor vehicles	Plant, equipment and fittings	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
COST					
At 1 January 2001	10,600	1,764	3,251	5,328	20,943
Additions	-	7	-	525	532
Disposal	-	-	-	(6)	(6)
At 31 March 2001	10,600	1,771	3,251	5,847	21,469
ACCUMULATED DEPRECIATION					
At 1 January 2001	702	647	2,356	1,977	5,682
Charge for the year	36	43	126	125	330
Disposal	-	-	-	(3)	(3)
At 31 March 2001	738	690	2,482	2,099	6,009
NET BOOK VALUE					
At 31 March 2001	9,862	1,081	769	3,748	15,460

- (a) The freehold land and buildings of the Degem Group are pledged as security for borrowing facilities extended by financial institutions to the Group.
- (b) Included in property, plant and equipment of the Degem Group are motor vehicles with net book value of RM595,040 acquired under hire purchase agreements.

15. ACCOUNTANTS' REPORT (cont'd)



C. CURRENT ASSETS

	← Dagem Group →	
	Audited As At 31 March 2001 RM'000	After Public Issue RM'000
Inventories (Note a)	72,914	72,914
Trade debtors	1,647	1,647
Other debtors, deposits and prepayments	2,150	2,150
Cash and bank balances	1,328	8,570
	78,039	85,281
	78,039	85,281

(a) INVENTORIES

	← Dagem Group →	
	Audited As At 31 March 2001 RM'000	After Public Issue RM'000
Raw materials	7,405	7,405
Work-in-progress	2,777	2,777
Finished goods	64,538	64,538
	74,720	74,720
Less: Provision for slow moving items	(1,806)	(1,806)
	72,914	72,914

15. ACCOUNTANTS' REPORT (cont'd)



D. CURRENT LIABILITIES

	← Degem Group →	
	Audited As At 31 March 2001 RM'000	After Public Issue RM'000
Trade creditors	18,945	18,945
Other creditors	6,681	6,681
Hire purchase creditors (Note a)	286	286
Bank borrowings (Note b)	9,917	9,917
Taxation	2,013	2,013
Amount due to directors	527	527
Amount due to holding company (Note c)	94	94
	38,463	38,463

(a) HIRE PURCHASE CREDITORS

	← Degem Group →	
	Audited As At 31 March 2001 RM'000	After Public Issue RM'000
Hire purchase creditors	724	724
Less: Unexpired interest	(166)	(166)
At 31 March	558	558
Less: Portion repayable within twelve months	(286)	(286)
Portion repayable after twelve months	272	272

15. ACCOUNTANTS' REPORT (cont'd)



(b) BANK BORROWINGS - SECURED

	← Dagem Group →	
	Audited As At 31 March 2001 RM'000	After Public Issue RM'000
Bank overdrafts	9,495	9,495
Term loans	3,669	1,082
	13,164	10,577
Term loans - repayable after 12 months	(3,247)	(660)
	9,917	9,917

The bank overdrafts and term loans of the Proforma Group are secured by way of:-

- (a) legal charges over the freehold land and buildings of the subsidiary companies;
- (b) fixed and floating charge on all the assets of a subsidiary company.;
- (c) corporate guarantee of a subsidiary company.;
- (d) negative pledge by a subsidiary company; and
- (e) joint and several guarantee by the Directors of a subsidiary company.

The bank overdrafts bear interest at 1.75% to 2.00% per annum above the base lending rate of the banks.

The term loans as at 31 March 2001 are made up of three term loans amounting to RM3.7 million as follows:-

- (i) The first term loan of RM0.3 million bears interest at 1.75% per annum above the base lending rate of the bank and is repayable over a period of 3 years by 36 monthly instalments commencing on the following month after the final advancement.
- (ii) The second term loan of RM2.3 million bears interest at 1.75% per annum above the base lending rate of the bank and is repayable by way of 180 monthly instalments commencing on the following month after the final advancement.
- (iii) The third term loan of RM1.1 million bears interest at 2.0% per annum above the base lending rate of the bank and is repayable by way of monthly instalments, over a 10 year period.

The loans are fully repayable from 2002 to 2014.

(c) AMOUNT DUE TO HOLDING COMPANY

The holding company is Legion Master Sdn. Bhd. which is incorporated in Malaysia. The amount due to holding company is unsecured, interest-free and has no fixed term of repayment.

15. ACCOUNTANTS' REPORT (cont'd)



E. SHARE CAPITAL

	← Degem Group →	
	Audited as at 31 March 2001 RM'000	After Public Issue RM'000
Authorised: Ordinary shares of RM1 each	50,000	50,000
Issued and fully-paid: Ordinary shares of RM1 each	35,000	42,000

F. RESERVES

Analysis of reserves as at 31 March 2001 is as follows:-

	Share Premium RM'000	Retained Profits RM'000	Total RM'000
As per audited accounts as at 31 March 2001	-	14,911	14,911
Premium arising from Public Issue	4,200	-	4,200
Less : Listing expenses	(1,700)	-	(1,700)
After Public Issue	2,500	14,911	17,411

G. DEFERRED AND LONG TERM LIABILITIES

	← Degem Group →	
	Audited as at 31 March 2001 RM'000	After Public Issue RM'000
Hire purchase creditors [Note D (a)]	272	272
Term loans [Note D (b)]	3,247	660
Deferred taxation	230	230
	3,749	1,162

15. ACCOUNTANTS' REPORT (cont'd)



10.0 CASH FLOW STATEMENT

The cash flow statement of Degem Group set out below is based on the audited accounts of Degem Group for the three months period ended 31 March 2001 and is presented on the basis that the Acquisition had been in effect throughout the relevant periods under review.

	3 months period ended 31.3.01 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES	
Profit before taxation	3,054
Adjustments for:-	
Depreciation	330
Interest expense	251
Loss on disposal of property, plant and equipment	3
Operating profit before working capital changes	<u>3,638</u>
Increase in inventories	(2,363)
Decrease in debtors	96
Decrease in creditors	(3,633)
Increase in amount due to holding company	94
Cash generated from operations	<u>(2,168)</u>
Interest paid	(251)
Income tax paid	(300)
Dividend paid	(138)
Net cash used in operating activities	<u>(2,857)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Deferred expenditure	(20)
Purchase of property, plant and equipment	(232)
Net cash used in investing activities	<u>(252)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Net repayment of term loans	(84)
Net repayment of hire purchase creditors	(79)
Net cash generated from financing activities	<u>(163)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,272)
CASH AND CASH EQUIVALENTS AT 1 JANUARY 2000	(4,896)
CASH AND CASH EQUIVALENTS AT 31 MARCH 2001	<u>(8,167)</u>

15. ACCOUNTANTS' REPORT *(cont'd)***10.0 CASH FLOW STATEMENT (CONTD.)**

Cash and cash equivalents as at 31 March 2001 comprise the following:-

	RM'000
Cash and bank balances	1,328
Bank overdrafts	(9,495)
	<u>(8,167)</u>

11.0 ESTIMATED EXPENSES RELATING TO ACQUISITION AND PUBLIC ISSUE

Estimated expenses of RM1.7 million relating to the Acquisition and Public Issue have been debited against Share Premium in the Detailed Statements of Assets and Liabilities as at 31 March 2001.

12.0 PUBLIC ISSUE PROCEEDS

The cash proceeds of RM9.5million (after deducting estimated listing expenses of RM1.7 million) to be received from the Public Issue will be utilised as follows:-

	RM'000
Capital expenditure	300
Repayment of existing bank borrowings	2,587
Working capital	6,613
	<u>9,500</u>

15. ACCOUNTANTS' REPORT (cont'd)



13.0 NET TANGIBLE ASSETS COVER

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

(i) Net Tangible Assets

	As at 31.3.01 RM'000
Net Tangible Assets of the Degem Group before Public Issue	49,282
Add : Proceeds from Public Issue	11,200
	60,482
Less : Estimated listing expenses (after deducting RM0.629 million already incurred and shown as deferred expenditure as at 31 March 2001)	(1,071)
Net Tangible Assets	59,411

(ii) Share Capital

	No. of shares
Enlarged issued and fully paid-up share capital on completion of the Flotation Scheme	42,000,000

Based on the net tangible assets of RM59.411 million and enlarged issued and fully paid-up share capital of 42,000,000 new ordinary shares of RM1 each, the net tangible assets per share of the Degem Group is RM1.41.

14.0 EVENT SUBSEQUENT TO BALANCE SHEET DATE, 31 MARCH 2001

Based on the latest audited financial statements for the three (3) months period ended 31 March 2001, no event has arisen subsequent to the balance sheet date which requires disclosure in this report.

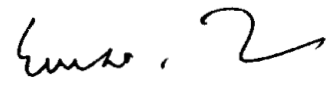
15. ACCOUNTANTS' REPORT *(cont'd)*




15.0 AUDITED FINANCIAL STATEMENTS

No audited financial statements have been prepared in respect of any period subsequent to 31 March 2001.

Yours faithfully



Ernst & Young AF:0039
Public Accountants



Yeo Eng Seng 1212/12/02(J)
Partner

Kuala Lumpur, Malaysia