
12. ACCOUNTANTS' REPORT (Cont'd)

(Prepared for inclusion in this Prospectus)

6. STATEMENT OF ASSETS AND LIABILITIES

We set out below the statements of assets and liabilities of the Group and the Company based on their audited accounts as at 31 July, 2001.

	<u>Note</u>	<u>Group</u> RM'000	<u>Company</u> RM'000
CURRENT ASSETS			
Cash and bank balances		462	-
Trade debtors		874	-
Stocks	6.2	891	-
Other debtors		67	-
Due from a subsidiary		-	24
		<u>2,294</u>	<u>24</u>
CURRENT LIABILITIES			
Short term borrowings	6.3	4,367	-
Trade creditors		393	-
Other creditors		994	137
Due to a subsidiary	6.4	-	1,133
Provision for taxation		3,222	12
		<u>8,976</u>	<u>1,282</u>
NET CURRENT LIABILITIES		(6,682)	(1,258)
INVESTMENT IN SUBSIDIARIES	6.5	-	47,000
FIXED ASSETS	6.6	79,505	-
DEFERRED EXPENDITURE		1,295	1,295
HIRE PURCHASE CREDITORS	6.7	(992)	-
TERM LOANS	6.8	(2,983)	-
DEFERRED TAXATION	6.9	(1,218)	-
		<u>68,925</u>	<u>47,037</u>
SHAREHOLDERS' FUNDS			
Share capital	6.10	41,000	41,000
Reserves	6.11	27,925	6,037
		<u>68,925</u>	<u>47,037</u>

12. ACCOUNTANTS' REPORT (Cont'd)

(Prepared for inclusion in this Prospectus)

6.1 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

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

(b) Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries. Companies acquired or disposed during the year are included in the consolidated financial statements from the date of acquisition or to the date of disposal. Intragroup transactions are eliminated on consolidation and the consolidated financial statements reflect external transactions only.

At the date of acquisition, the fair values of the subsidiaries' net assets are determined and reflected in the Group financial statements. The difference between the cost of investment and fair values are capitalised as fixed assets. These assets are depreciated in accordance with Note 6.1(d).

(c) Investment in Subsidiaries

Investment in subsidiaries are stated at cost less provision for any permanent diminution in value. A subsidiary is a company in which the Company holds, directly or indirectly, more than 50% of its issued voting share capital as a long term investment.

(d) Fixed Assets and Depreciation

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment loss.

The carrying amounts of fixed assets are reviewed at each balance sheet date to determine whether there is any indication of impairments. If such indication exists, the recoverable amounts are estimated. Impairment loss is charged to the income statement as soon as foreseeable. Conversely, the impairment loss will be reversed up to the cumulative amount charged to the income statement, once the indicator for impairment cease to exist.

Freehold land is not depreciated. Asian arowana broodstock consist of the original purchase price of Asian arowana stocks. The Asian arowana broodstock are amortised over 40 years based on their economic egg-laying lives and the lifespan of the Asian arowana which is believed to be in the region of 60 years.

New and replanting expenditure consist of cost incurred on land clearing and upkeep of trees to maturity and are capitalised under planting expenditure. The planting expenditure is amortised over 25 years upon maturity of the crop.

Depreciation of other fixed assets is provided on a straight line basis calculated to write off the cost or valuation of each asset over its estimated useful life.

12. ACCOUNTANTS' REPORT (Cont'd)

(Prepared for inclusion in this Prospectus)

The principal annual rates of depreciation are:

Workers' quarters and shop houses	2%
Asian arowana broodstock	2.5%
Fish ponds, aquarium, road and drainage, tools and equipment	10%
Motor vehicles	20%
Office equipment and furniture and fittings	10%

(e) Currency Conversion and Translation

Transactions in foreign currencies are converted into Ringgit Malaysia at rates of exchange ruling at the transaction dates. Monetary assets and liabilities in foreign currencies at the balance sheet date are translated into Ringgit Malaysia at rates of exchange ruling at that date. All exchange differences are taken to the income statement.

The exchange rates ruling at balance sheet date used (denominated in units of Ringgit Malaysia per unit of foreign currency) are as follows:

Hong Kong Dollar	0.48
United States Dollar	3.79
Singapore Dollar	2.11

(f) Stocks

Stocks are stated at the lower of cost (first in, first out basis) and net realisable value.

Cost consists of original purchase price and costs of bringing the stocks to their present location.

Livestocks include the cost of feed and medication, direct labour cost and proportion of farm overhead.

(g) Hire Purchase Assets

Fixed assets acquired under hire purchase agreements are capitalised in the financial statements and are depreciated in accordance with the policy set out in (d) above. The corresponding outstanding obligations due under hire purchase after deducting finance expenses are included as liabilities in the financial statements. The finance expenses are charged to the income statement over the period of the respective agreements using the sum of-digit method.

(h) 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.

12. ACCOUNTANTS' REPORT (Cont'd)

(Prepared for inclusion in this Prospectus)

(i) Revenue Recognition

- (i) Sales are recognised when transfer of risks and rewards has been completed.
- (ii) Management fees are recognised when services have been provided.

(j) Bad and Doubtful Debts

Bad debts are written off as soon as it is established that these are irrecoverable. Specific provision is made for known doubtful debts.

(k) Cash and Cash Equivalents

Cash and cash equivalents include cash in hand and at banks net of outstanding bank overdrafts.

(l) Deferred Expenditure

Deferred expenditure represents expenses incurred in relation to the proposed issuance of shares. It will be set off against the share premium account upon the issuance of shares as permitted by Section 60(2)(e) of the Companies Act, 1965, failing which, the listing expenses will be charged to the income statement.

6.2 STOCKS

	<u>Group</u> RM'000	<u>Company</u> RM'000
Livestocks	220	-
Consumables and aquarium accessories	671	-
	<u>891</u>	<u>-</u>

6.3 SHORT TERM BORROWINGS

	<u>Group</u> RM'000	<u>Company</u> RM'000
Bank overdrafts	3,390	-
Banker acceptance	32	-
Term loans (Note 6.8)	945	-
	<u>4,367</u>	<u>-</u>

The borrowings are secured by way of fixed charges over certain freehold lands held by the Group as disclosed in Note 6.6 and freehold land held by a director, Ng Huan Tong, and bears interest varying between 8.55% to 9.3% per annum.

12. ACCOUNTANTS' REPORT (Cont'd)

(Prepared for inclusion in this Prospectus)

6.4 DUE TO A SUBSIDIARY

The amount is unsecured, interest free and has no fixed terms of repayment.

6.5 INVESTMENT IN SUBSIDIARIES

The wholly-owned subsidiaries incorporated in Malaysia and which are stated at cost comprise:

<u>Name of company</u>	<u>Paid-up capital</u> RM	<u>Effective interest</u> %	<u>Principal activities</u>
Xian Leng Trading Sdn. Bhd.	100,000	100	Commercial captive breeding of Asian arowana, aquatic animals and property holding
Xian Leng Aquatic Merchant Sdn. Bhd.	50,002	100	Trading of ornamental fishes, aquarium accessories and property holding

6.6 FIXED ASSETS

<u>Group</u>	*Freehold land, planting and development expenditure, workers' quarters and <u>shop houses</u> RM'000	Asian arowana <u>broodstock</u> RM'000	Fish ponds, aquarium, roads and drainage, tools and <u>equipment</u> RM'000	Motor vehicles, office equipment, furniture and <u>fittings</u> RM'000	<u>Total</u> RM'000
<u>Cost</u>					
At 1 February, 2001	20,376	39,000	14,590	839	74,805
Additions	923	4,977	4,351	1,427	11,678
Disposal	(338)	-	-	-	(338)
At 31 July, 2001	20,961	43,977	18,941	2,266	86,145
<u>Accumulated Depreciation</u>					
At 1 February, 2001	117	1,705	2,620	484	4,926
Additions	25	550	941	198	1,714
At 31 July, 2001	142	2,255	3,561	682	6,640
<u>Net Book Value</u>					
At 31 July, 2001	20,819	41,722	15,380	1,584	79,505

12. ACCOUNTANTS' REPORT (Cont'd)

(Prepared for inclusion in this Prospectus)

*Freehold land, planting and development expenditure, workers' quarters and shop houses

	Freehold <u>land</u> RM'000	Planting and development <u>expenditure</u> RM'000	Workers' <u>quarters</u> RM'000	<u>Shop houses</u> RM'000	<u>Total</u> RM'000
<u>Cost</u>					
At 1 February, 2001	18,639	787	694	256	20,376
Additions	392	32	-	499	923
Disposal	(338)	-	-	-	(338)
At 31 July, 2001	18,693	819	694	755	20,961
<u>Accumulated Depreciation</u>					
At 1 February, 2001	-	22	67	28	117
Charge	-	10	7	8	25
At 31 July, 2001	-	32	74	36	142
<u>Net Book Value</u>					
At 31 July, 2001	18,693	787	620	719	20,819

(a) Freehold lands of the Group with the net book value amounting to RM12,010,493 have been pledged to banks for term loans granted to the subsidiaries as referred to in Notes 6.3 and 6.8.

(b) Included in fixed assets are motor vehicles held under hire purchase agreements at cost of RM1,648,141 and net book value of RM1,414,717.

6.7 HIRE PURCHASE CREDITORS

	<u>Group</u> RM'000	<u>Company</u> RM'000
Future minimum payments are as follows:		
Payable within one year	335	-
Payable between one and five years	1,229	-
	<u>1,564</u>	<u>-</u>
Less : Finance charges	(302)	-
	<u>1,262</u>	<u>-</u>
Representing hire purchase liabilities:		
Due within 12 months (included in other creditors)	270	-
Due after 12 months	992	-
	<u>1,262</u>	<u>-</u>

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

(Prepared for inclusion in this Prospectus)

6.8 TERM LOANS

	<u>Group</u> RM'000	<u>Company</u> RM'000
9.3% per annum term loan repayable by 60 equal monthly instalments commencing June 1997	22	-
9.3% per annum repayable by 60 equal monthly instalments commencing January 1998	41	-
9.3% per annum repayable by 96 equal monthly instalments commencing February 1998	134	-
8.8% per annum term loan repayable by 60 equal monthly instalments commencing November 1999	256	-
8.55% per annum term loan repayable by 119 equal monthly instalments commencing January 2000	937	-
6.5% per annum term loan repayable by 60 equal monthly instalments commencing September 2000	1,523	-
6.5% per annum term loan repayable by 60 equal monthly instalments commencing September 2000	1,015	-
	<u>3,928</u>	<u>-</u>
Repayment due within twelve months (Note 6.3)	(945)	-
	<u>2,983</u>	<u>-</u>

The above term loans are secured by way of fixed charges over certain freehold lands of the Group as disclosed in Note 6.6 and a director, Ng Huan Tong.

6.9 DEFERRED TAXATION

	<u>Group</u> RM'000	<u>Company</u> RM'000
At the beginning of period	1,135	-
Transfer from income statement	83	-
At the end of period	<u>1,218</u>	<u>-</u>
Deferred taxation is in respect of the following timing differences:		
Depreciation and capital allowances	<u>4,350</u>	<u>-</u>

12. ACCOUNTANTS' REPORT (Cont'd)

(Prepared for inclusion in this Prospectus)

6.10 SHARE CAPITAL

	<u>Group</u> RM'000	<u>Company</u> RM'000
Ordinary shares of RM1 each:		
Authorised	<u>50,000</u>	<u>50,000</u>
Issued and fully paid	<u>41,000</u>	<u>41,000</u>

6.11 RESERVES

	<u>Group</u> RM'000	<u>Company</u> RM'000
Share premium	6,100	6,100
Retained profits	<u>21,825</u>	<u>(63)</u>
	<u>27,925</u>	<u>6,037</u>

12. ACCOUNTANTS' REPORT (Cont'd)

(Prepared for inclusion in this Prospectus)

7. CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD ENDED 31 JULY, 2001

	<u>Group</u> RM'000	<u>Company</u> RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	7,512,190	63,500
Adjustments for:		
Depreciation	1,713,561	-
Interest expense	215,756	-
Cash flow generated from operations before working capital changes	9,441,507	63,500
Increase in debtors	(408,891)	-
Decrease in stocks	10,286	-
Increase in creditors	416,656	122,500
Increase in deferred expenditure	(216,683)	(216,683)
Increase in due to a subsidiary	-	30,683
Cash generated from operations	9,242,875	-
Interest paid	(215,756)	-
Tax paid	(2,106,988)	-
Net cash flow generated from operating activities	<u>6,920,131</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of fixed assets	338,000	-
Purchase of fixed assets	(10,447,770)	-
Net cash flow used in investing activities	<u>(10,109,770)</u>	<u>-</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short term borrowings	32,000	-
Repayment of hire purchase creditors	(57,238)	-
Repayment of term loans	(347,867)	-
Net cash flow used in financing activities	<u>(373,105)</u>	<u>-</u>
CASH AND CASH EQUIVALENTS		
Net decrease	(3,562,744)	-
At the beginning of period	634,681	-
At the end of period	<u>(2,928,063)</u>	<u>-</u>
CASH AND CASH EQUIVALENTS COMPRISE:		
Cash and bank balances	462,147	-
Bank overdrafts	(3,390,210)	-
	<u>(2,928,063)</u>	<u>-</u>

12. ACCOUNTANTS' REPORT (Cont'd)

(Prepared for inclusion in this Prospectus)

The Group acquired fixed assets costing RM11,677,770 of which RM1,230,000 was acquired by means of the hire purchase arrangements. Cash payments of RM10,447,770 were made to purchase fixed assets in the current financial year.

8. NET TANGIBLE ASSETS COVER

The proforma Group net tangible assets cover of Xian Leng Holdings Berhad based on the statement of assets and liabilities as at 31 July, 2001 set out in Section 7 above is illustrated below:

	RM'000
Net tangible assets of XLB Group as at 31 July, 2001	67,630
Increase in net tangible assets arising from:	
Proposed public issue	12,012
Less: Listing expenses*	<u>(1,105)</u>
	<u>78,537</u>
Number of Xian Leng Holdings Berhad shares of RM1.00 each that are in issue:	No. of shares '000
As at 31 July, 2001	41,000
Proposed public issue	<u>7,280</u>
Proforma issued and paid-up share capital of the Company	<u>48,280</u>

On the basis of the issued and paid-up share capital of 48,280,000 ordinary shares of RM1.00 each, the Group net tangible assets cover per ordinary share of Xian Leng Holdings Berhad is RM1.63.

* This is the estimated listing expenses payable out of the proceeds of the public issue.


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

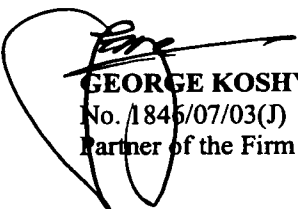
(Prepared for inclusion in this Prospectus)

9. AUDITED FINANCIAL STATEMENTS

No audited financial statements of the Company and its subsidiaries have been prepared in respect of any period subsequent to 31 July, 2001.

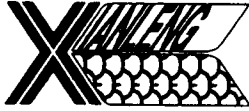
Yours faithfully


ARTHUR ANDERSEN & CO.
No. AF 0103
Public Accountants


GEORGE KOSHY
No. 1845/07/03(J)
Partner of the Firm

13. DIRECTORS' REPORT

(Prepared for inclusion in this Prospectus)



XIAN LENG HOLDINGS BERHAD (468142-U)

No. 35, Jalan Penjaja 3, 83000 Batu Pahat, Johor, Malaysia.

Tel: 607-4330313 Fax: 607-4313697

E-mail: xl@tm.net.my Web-site: xianleng.com

The Shareholders,
Xian Leng Holdings Berhad

23 October 2001

Dear Sir/Madam,

On behalf of the Directors of Xian Leng Holdings Berhad ("XLB"), I report after due inquiry that during the period from 31 July 2001 (being the date to which the last audited accounts of XLB and its subsidiaries ("XLB Group") have been made up) to 23 October 2001 (being a date not earlier than fourteen (14) days before the issue of this Prospectus):-

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

Yours faithfully
For and on behalf of the Board of Directors
of **XIAN LENG HOLDINGS BERHAD**

A handwritten signature in black ink, appearing to read 'Dato' Mohd Desa Bin Pachi', is written over a horizontal line.

Dato' Mohd Desa Bin Pachi
Chairman

Registered office : PFA CORPORATE SERVICES SDN. BHD.
No. 19, Jalan Tun Abdul Razak, Susur 1/1, 80000 Johor Bahru, Johor, Malaysia.
Tel: 607-2225905 Fax: 607-2217608
