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12 NOV 2001

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Gentlemen

I. INTRODUCTION

This report has been prepared by us, approved company auditors, for inclusion in the Prospectus to be dated 23 November 2001 in connection with the public issue of 12,890,000 new ordinary shares of RM0.50 each in Priceworth Wood Products Berhad (hereinafter referred to as "PWP" or "the Company") at an issue price of RM1.30 per share and the listing of and quotation for its entire enlarged issued and paid-up share capital of 85,000,000 ordinary shares of RM0.50 each on the Second Board of the Kuala Lumpur Stock Exchange ("KLSE").

II. GENERAL INFORMATION

PWP was incorporated in Malaysia on 22 August 1996 under the Companies Act, 1965 as Priceworth Wood Products Sdn. Bhd. It was converted into a Public Company on 6 November 2000.

III. RESTRUCTURING AND THE LISTING SCHEME

In connection with the proposed listing of and quotation for the entire enlarged issued and paid-up capital of 85,000,000 ordinary shares of PWP on the Second Board of the KLSE, the Company has undertaken the following restructuring scheme which has been approved by the Foreign Investment Committee ("FIC") on 23 January 2001, the Ministry of International Trade and Industry ("MITI"), on 13 March 2001 and the Securities Commission ("SC") on 8 June 2001:-

(a) **Acquisition of Maxland Sdn. Bhd. ("MSB")**

Acquisition by PISB of the remaining approximately 11.11% equity interest in MSB comprising of 200,000 ordinary shares of RM1.00 each for a total cash consideration of RM398,614. The acquisition was completed on 1 November 2001.

(b) **Acquisition of Priceworth Industries Sdn. Bhd ("PISB")**

Acquisition of the entire issued and paid-up share capital in PISB by PWP comprising of 32,974,031 ordinary shares of RM1.00 each for a total consideration of RM42,076,738 fully satisfied by the issue of 72,109,980 PWP shares at an issue price of approximately RM0.58 per share. The acquisition of PISB was completed on 1 November 2001.

The names and principal activities of the subsidiary companies of PWP are set out in paragraph V of this report.

(c) **Public Issue**

Public issue of 12,890,000 PWP shares at an issue price of RM1.30 per share.

(d) **Listing**

Listing of and quotation for the entire enlarged issued and paid-up share capital of 85,000,000 shares of RM0.50 each in PWP on the Second Board of the KLSE.

IV. PRINCIPAL ACTIVITIES

The principal activity of PWP is investment holding. The principal activities of its subsidiary companies are set out in the ensuing paragraph.

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V. SUBSIDIARY COMPANIES

The subsidiary companies of PWP, all of which are incorporated in Malaysia, are as follows:-

Name of Company	Date of incorporation	Issued and paid-up share capital RM	Percentage of shareholding direct %	indirect %	Principal activities
PISB	11.6.1990	32,974,031	100	-	Manufacture and sale of processed wood products, distribution of log timber, provision of wood processing services and rental of kiln dry machinery.
Subsidiary companies of PISB					
LESB	13.9.1993	500,000	-	100	Trading in log timber
MSB	21.12.1982	1,800,000	-	100	Construction, timber extraction and land development contract.

VI. SHARE CAPITAL

(a) Authorised Share Capital

At the date of incorporation, the authorised share capital of the Company was RM100,000 comprising 100,000 ordinary shares of RM1.00 each. Pursuant to an Extraordinary General Meeting held on 20 September 1996, the authorised share capital was increased to RM50,000,000 comprising of 50,000,000 ordinary shares of RM1.00 each by the creation of 49,900,000 new ordinary shares of RM1.00 each. Subsequently pursuant to an Ordinary Resolution held on 28 August 2000, the authorised share capital was converted to 100,000,000 ordinary shares of RM0.50 each.

(b) **Issued and Paid-Up Share Capital**

The changes in the Company's issued and paid-up share capital since the date of incorporation are summarised as below:

Date of Allotment	No. of Ordinary Shares	Par Value	Total Issued and Consideration	Paid-up share Capital
		RM		RM
22.08.1996	10	1.00	Cash: Subscribers' shares	10
28.08.2000	20	0.50	Subdivision of shares from RM1.00 each to RM0.50 each	10
01.11.2001	72,109,980	0.50	Issued pursuant to the Acquisition of PISB	36,055,000

VII. DIVIDENDS

PWP, MSB and LESB did not declare nor pay any dividends for the financial years/periods under review.

PISB paid an interim dividend of 24.2%, tax exempt, amounting to RM7,979,716 for the financial year ended 30 June 2001. No dividend has been paid or declared for other financial years/periods under review.

VIII. AUDITORS AND AUDITED FINANCIAL STATEMENTS

Ernst & Young have been the auditors of PWP, PISB and LESB since the date of incorporation. Ernst & Young were appointed as auditors of MSB since the financial year ended 31 December 1996. Prior to that, the financial statements of MSB were audited by another firm of auditors.

The financial statements of the Company and its subsidiary companies are prepared under the historic cost convention and comply with applicable approved accounting standards.

The financial statements of the Company and its subsidiary companies for all the financial years/periods under review were reported on without any qualification.

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IX. SUMMARISED PROFORMA CONSOLIDATED RESULTS

The summarised proforma consolidated results of PWP and its subsidiary companies ("PWP Group" or "Proforma Group") for the past five (5) financial years ended 30 June 2001 are provided for illustrative purposes only, based on the audited financial statements of PWP, PISB, LESB and MSB on the assumption that the Group had been in existence throughout the period under review, and after making such adjustments considered necessary, and the notes are to be read in conjunction with these results.

	Financial year ended 30 June				
	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000
Revenue	49,141	51,360	54,779	63,512	82,649
EBIDTA	13,403	14,861	14,542	18,190	21,104
Depreciation	(3,088)	(3,765)	(3,790)	(4,107)	(3,843)
Interest expense	(2,517)	(3,659)	(2,574)	(2,124)	(2,708)
Interest income	18	39	46	303	11
Profit before exceptional item	7,816	7,476	8,224	12,262	14,564
Exceptional item	-	(1,089)	-	-	376
Profit before taxation	7,816	6,387	8,224	12,262	14,940
Taxation	(1,101)	(763)	18	(1,210)	(1,801)
Profit after taxation	6,715	5,624	8,242	11,052	13,139
Number of ordinary shares assumed to be in issue ('000)	72,110	72,110	72,110	72,110	72,110
Gross earnings per share (sen)	10.84	8.86	11.40	17.00	20.72
Net earnings per share (sen)	9.31	7.80	11.43	15.33	18.22
Basic and diluted earnings per share (sen)	9.31	7.80	11.43	15.33	18.22
Gross dividend rate (%)	-	-	-	-	-

The figures presented for 1997 have been time apportioned.

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Notes:

(i) The summarised proforma consolidated results of the Proforma Group have been prepared based on accounting policies consistent with those previously adopted in the preparation of the audited financial statements of the Proforma Group.

(ii) The revenue of the Group is on an increasing trend due to the increase in sales of timber products by PISB. This is because LESB had secured new sources of log supply since 1998 that was supplied to PISB for processing. The revenue for the financial years 2000 and 2001 improved as a result of the regional economic recovery.

(iii) The Group profit before taxation dropped in the financial year 1998 due to higher financing cost incurred by the Group as a result of increase in base lending rate. However in the financial years 1999 to 2001, the profit before taxation showed an increasing trend due to diversification of timber products, higher operational efficiency and greater profit margin earned from export sales.

(iv) The profit before taxation of 1998 includes an exceptional loss due to fire amounting to approximately RM1.089 million. The profit before taxation of 2001 includes an exceptional item amounting to RM375,825, for waiver of interest for term loans redeemed.

(v) The taxation charges were significantly lower than the statutory tax rate during the financial years under review except for 1999, mainly due to the availability of Pioneer Status for PISB for five (5) years to 2001.

(vi) The tax credit for the financial year 1999 represents overprovision in previous year. No taxation is provided for the financial year 1999 as the financial year falls in the year of assessment 2000 where tax on income earned is waived in accordance with Section 8 of the Income Tax (Amendment) Act, 1999.

(vii) There were no extraordinary items in respect of the financial years under review.

(viii) The proforma gross earnings per share is computed based on the profit before taxation and the number of ordinary shares assumed in issue of 72,110,000 ordinary shares of RM0.50 each, after the Acquisition of PISB.

(ix) The proforma net earnings per share is computed based on the profit after taxation and the number of ordinary shares assumed in issue of 72,110,000 ordinary shares of RM0.50 each, after the Acquisition of PISB.

The Company and Subsidiary Companies

(a) **PWP**

	Year ended 30 June 2001 RM'000
Revenue	-
EBIDTA	(75)
Depreciation	-
Interest expense	-
Interest income	-
Loss before exceptional item	(75)
Exceptional item	-
Loss before taxation	(75)
Taxation	-
Loss after taxation	(75)
Number of ordinary shares in issue ('000)	**
Gross earnings per share (sen)	(375,000)
Net earnings per share (sen)	(375,000)
Basic and diluted earnings per share (sen)	(375,000)
Gross dividend rate (%)	-

** Represents RM10.00, make up of 20 ordinary shares of RM0.50 each

Notes:

(i) No income statement has been prepared since the date of incorporation to 1 July 2000 as PWP is dormant.

(ii) The loss incurred for the year 2001 was due to the write off of preliminary and pre-operating expenses as prescribed by the Malaysian Accounting Standards Board ("MASB") 1 - Presentation of Financial Statements.

(iii) There were no extraordinary items in respect of the financial year under review.

(iv) The gross earnings per share is calculated based on the profit before taxation and on the number of shares in issue during the financial year under review.

(v) The net earnings per share is calculated based on the profit after taxation and on the number of shares in issue during the financial year under review.

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(b) **PISB**

The summary of the results of PISB based on its audited financial statements for the past five (5) financial years ended 2001 is set out below:

	< ------------------ Year ended 30 June			------------------ >
	1997 RM'000	**1998 RM'000**	**1999 RM'000**	**2000 RM'000**	**2001 RM'000**
Revenue	38,985	34,311	35,152	41,529	60,049
EBIDTA	10,604	12,154	12,022	14,137	17,283
Depreciation	(1,965)	(2,503)	(2,618)	(2,607)	(2,453)
Interest expense	(2,172)	(3,248)	(2,285)	(1,338)	(1,881)
Interest income	-	11	30	9	4
Profit before exceptional item	6,467	6,414	7,149	10,201	12,953
Exceptional item	-	(1,089)	-	-	376
Profit before taxation	6,467	5,325	7,149	10,201	13,329
Taxation	(1,060)	(428)	-	(500)	(1,140)
Profit after taxation	5,407	4,897	7,149	9,701	12,189
Number of ordinary shares in issue ('000)	15,385	15,385	15,385	21,979	32,974
Adjusted number of shares in issue* ('000)	32,974	32,974	32,974	32,974	32,974
Gross earnings per share (sen)	19.61	16.15	21.68	30.94	40.42
Net earnings per share (sen)	16.40	14.85	21.68	29.42	36.97
Basic and diluted earning per share (sen)	16.40	14.85	21.68	29.42	36.97
Tax exempt dividend rate (%)	-	-	-	-	24.2

* Adjusted for the bonus issues in 2000 and 2001.

Notes:

(i) The decrease in revenue of financial year 1998 was mainly due to the financial crisis whilst the revenue for the financial years 2000 and 2001 improved mainly as a result of the regional economic recovery.

(ii) The decrease in profit before tax for financial year 1998 was mainly due to higher financial costs resulted from increase in base lending rate. The increase in profit before tax margin in financial years 1999 to 2001 was due to the increase in gross profit margin attributed to higher operational efficiency and increased diversification of timber products.

(iii) The profit before taxation of 1998 includes an exceptional loss due to fire amounting to approximately RM1.089 million. The profit before taxation of 2001 includes an exceptional item amounting to RM375,825 for waiver of interest for term loans redeemed.

(iv) The taxation charges for the financial years 1998 and 2000 were significantly lower than the statutory tax rate due to the availability of Pioneer Status since 1997 for five (5) years.

No taxation is provided for the financial year 1999 as the financial year falls in the year of assessment 2000 where tax on income earned is waived in accordance with Section 8 of the Income Tax (Amendment) Act, 1999.

(v) There were no extraordinary items in respect of the financial years under review.

(vi) The gross earnings per share is calculated based on the profit before taxation and on the adjusted number of shares in issue during each of the respective financial years under review.

(vii) The net earnings per share is calculated based on the profit after taxation and on the adjusted number of shares in issue during the respective financial years under review.

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(c) **LESB**

The summary of the results of LESB based on its audited financial statements for the financial year ended 31 August 1996, and five (5) financial years/period ended 30 June 2001 is set out below:

	Year ended 31 August 1996 RM'000	10 months ended 30 June 1997 RM'000	<------Year ended 30 June 1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000 ------>
Revenue	3,537	3,385	13,060	16,904	17,857	15,175
EBIDTA	625	432	426	780	1,324	1,959
Depreciation	(44)	(15)	(11)	(11)	(11)	(6)
Interest expense	(1)	-	-	(53)	(485)	(500)
Interest income	3	7	7	5	466	-
Profit before exceptional item	583	424	422	721	1,294	1,453
Exceptional item	-	-	-	-	-	-
Profit before taxation	583	424	422	721	1,294	1,453
Taxation	(174)	(117)	(120)	18	(403)	(441)
Profit after taxation	409	307	302	739	891	1,012
Number of ordinary shares in issue ('000)	500	500	500	500	500	500
Gross earnings per share (sen)	116.60	104.23*	84.40	144.20	258.80	290.60
Net earnings per share (sen)	81.80	75.03*	60.40	147.80	178.20	202.40
Basic and diluted earnings per share (sen)	81.80	75.03*	60.40	147.80	178.20	202.40
Gross dividend rate (%)	-	-	-	-	-	-

* time-apportioned

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Notes:

(i) The increase in revenue in the financial year 1998 was due to LESB's shift towards log timber trading from timber extraction. In 1999, the increase in revenue was due to the increase in average selling price of log timber caused by the dwindling supply in Sabah and the recovery in demand for wood products. In the financial year 2000, revenue increased due to increase in sales volume as LESB secured a new source of log timber supply. In the financial year 2001, revenue decreased due to halting of timber felling for environmental studies for three months.

(ii) The profit before taxation for LESB was largely affected by the gross profit margin of its log trading, vis a vis the selling price and purchase cost of log timber.

Therefore, despite a significant increase in revenue in financial year 1998, profit before tax was quite comparable with financial year 1997 due to the decrease in the gross profit margin from 16% to 4.5% resulting from increase in cost of purchase that far exceeded the increase in selling price.

In financial year 2000, profit before tax increased significantly as compared with 1999 due to the increase in gross profit margin to 8.3% and timber rights disposal for a profit of RM200,000. The increase in gross profit margin of the year was due to the concentration of log timber sales on better contractual terms. This results in lower operating expenses per unit volume. In the financial year 2001, the increase in profit before taxation despite a drop in revenue, was due to higher profit margin earned from export sales during the year.

(iii) No taxation was provided for the financial year 1999, as the financial year falls in the year of assessment 2000 where tax on income earned is waived in accordance with Section 8 of the Income Tax (Amendment) Act, 1999. The taxation amount represents overprovision in prior years.

(iv) There were no extraordinary items in respect of the financial years/period under review.

(v) The gross earnings per share is calculated based on the profit before taxation and on the number of shares in issue during each of the respective financial years/period under review.

(vi) The net earnings per share is calculated based on the profit after taxation and on the number of shares in issue during each of the respective financial years/period under review.

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(d) **MSB**

The summary of the results of MSB based on its audited financial statements for the financial year ended 31 December 1996 and five (5) financial years/period ended 30 June 2001 is set out below:

	Year ended 31 December 1996 RM'000	6 months ended 30 June 1997 RM'000	< ----Year ended 30 June 1998 RM'000	1999 RM'000	2000 RM'000	2001 ----> RM'000
Revenue	6,783	2,789	7,849	6,304	6,453	7,485
EBIDTA	802	1,243	2,280	1,740	2,728	1,938
Depreciation	(912)	(644)	(1,250)	(1,162)	(1,489)	(1,384)
Interest expense	(470)	(110)	(410)	(235)	(764)	(327)
Interest income	10	5	21	11	293	6
Profit before exceptional item	(570)	494	641	354	768	233
Exceptional item	1,238	-	-	-	-	-
Profit before taxation	668	494	641	354	768	233
Taxation	214	(2)	(215)	-	(307)	(220)
Profit after taxation	882	492	426	354	461	13
Number of ordinary shares in issue ('000)	200	1,800	1,800	1,800	1,800	1,800
Adjusted number of ordinary shares in issue ('000)*	1,534	1,800	1,800	1,800	1,800	1,800
Gross earnings per share (sen)	43.55	46.00**	35.61	19.67	42.67	12.94
Net earnings per share (sen)	57.50	51.83**	23.67	19.67	25.61	0.72
Basic and diluted earnings per share (sen)	57.50	51.83**	23.67	19.67	25.61	0.72
Gross dividend rate (%)	-	-	-	-	-	-

* Adjusted for the allotment of shares in 1996 and bonus issue in 1997.

** Time apportioned

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Notes:

(i) In financial year 1998, revenue increased as MSB secured four new timber extraction contracts. In 1999, there was a drop in revenue as most of these contracts were completed. In 2000, MSB secured a new major timber extraction contract on long term basis in a concession area owned by a statutory body. In 2001, the impact of the whole-year operation in this area contributed to the increase in MSB's revenue.

(ii) In financial year 1999 profit before tax dropped substantially mainly due to the completion of timber extraction contract secured in 1998. In 2000 profit before tax increased by RM0.414 million due to the commencement of work in a new area and land development contract received. In 2001, the decrease in profit before taxation was due to higher contract fees, salaries and maintenance costs incurred as a result of concentration on timber extraction activity.

(iii) In financial year 1996, there was a reversal of deferred taxation. In financial year 1998, the effective tax rate was higher than the statutory rate due to tax provisions for financial years 1997 and 1998 due to the change in year end. In financial year 2000, the effective tax rate was higher than the statutory rate mainly due to expenses that were disallowed for tax purposes.

(iv) The profit before taxation of 1996 included an exceptional item, being waiver of debt by a creditor.

(v) There were no extraordinary items in respect of the financial years/period under review.

(vi) The gross earnings per share is calculated based on the profit before taxation and on the adjusted weighted average number of shares in issue during each of the respective financial years/period under review.

(vii) The net earnings per share is calculated based on the profit after taxation and on the adjusted weighted average number of shares in issue during each of the respective financial years/period under review.

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X. SUMMARISED BALANCE SHEETS

The audited balance sheets of PWP, PISB, LESB and MSB based on the respective audited financial statements are summarised as follows:

(a) PWP

	< ----- As at 31 August ----- >			< -- As at 30 June -- >	
	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000
Deferred expenditure	43	45	46	46	389
Net current liabilities	(43)	(45)	(46)	(46)	(464)
	*	*	*	*	(75)
Financed by:					
Share capital	**	**	**	**	**
Accumulated losses	-	-	-	-	(75)
	*	*	*	*	(75)
Net tangible liabilities per share (RM)	(2,150.00)	(2,250.00)	(2,300.00)	(2,300.00)	(23,200.00)

* represents RM10.00

** represents RM10.00, made up of 20 ordinary shares of RM0.50 each

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(b) **PISB**

	<---As at 30 June--->				
	1997	**1998**	**1999**	**2000**	**2001**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Property, plant and equipment	35,460	38,179	39,340	40,356	37,897
Subsidiary companies	3,996	3,973	9,243	10,516	8,726
Other investment	-	50	50	50	50
Net current (liabilities)/assets	(14,765)	(9,610)	(5,023)	3,151	12,998
Long term liabilities	(7,324)	(10,061)	(13,930)	(14,661)	(15,600)
Deferred taxation	(1,600)	(1,868)	(1,868)	(1,900)	(2,350)
	15,767	20,663	27,812	37,512	41,721
Financed by:					
Share capital	15,385	15,385	15,385	21,979	32,974
Retained profits	382	5,278	12,427	15,533	8,747
	15,767	20,663	27,812	37,512	41,721
NTA per share (RM)	1.02	1.34	1.81	1.71	1.27

(c) **LESB**

	As at 31 August 1996 RM'000	<------ As at 30 June 1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000 ------>
Property, plant and equipment	579	39	28	17	6	2
Net current assets	684	1,505	1,818	2,568	3,469	4,485
Deferred taxation	(26)	-	-	-	-	-
	1,237	1,544	1,846	2,585	3,475	4,487
Financed by:						
Share capital	500	500	500	500	500	500
Retained profits	737	1,044	1,346	2,085	2,975	3,987
	1,237	1,544	1,846	2,585	3,475	4,487
NTA per share (RM)	2.47	3.09	3.69	5.17	6.95	8.97

(d) **MSB**

	As at 31 December 1996 RM'000	<------ As at 30 June 1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000 ------>
Property, plant and equipment	6,357	4,921	3,965	2,825	3,747	7,656
Net current (liabilities)/assets	(1,270)	(406)	(174)	433	1,335	(3,162)
Long term liabilities	(3,232)	(2,168)	(1,018)	(131)	(1,494)	(893)
	1,855	2,347	2,773	3,127	3,588	3,601
Financed by:						
Share capital	200	1,800	1,800	1,800	1,800	1,800
Retained profits	1,655	547	973	1,327	1,788	1,801
	1,855	2,347	2,773	3,127	3,588	3,601
NTA per share (RM)	9.28	1.30	1.54	1.74	1.99	2.00

XI. STATEMENTS OF ASSETS AND LIABILITIES

The Statement of Assets and Liabilities of PWP is based on its audited financial statements for the year ended 30 June 2001.

The Proforma Statements of Assets and Liabilities as at 30 June 2001 set out below are provided for illustrative purposes only, to show the effects of the proposed acquisition and the proposed public issue stated in paragraph III on the assumption that these transactions were completed on 30 June 2001 and should be read in conjunction with the notes set out in the ensuing paragraph:

			Proforma Group	
			I	II
	Notes	Company RM'000	After Proposed Acquisition RM'000	After I and Proposed Public Issue RM'000
PROPERTY, PLANT AND EQUIPMENT	4	-	45,555	52,555
DEFERRED EXPENDITURE	5	389	389	-
INVESTMENT	6	-	50	50
CURRENT ASSETS				
Inventories	7	-	11,482	11,482
Trade receivables		-	9,997	9,997
Deposits for supplies	8	-	13,653	13,653
Other receivables	9	-	7,227	7,227
Fixed deposit with a licensed bank		-	75	75
Cash and bank balances		*	5,828	8,885
		*	48,262	51,319
DEDUCT: CURRENT LIABILITIES				
Amounts due to bankers	10	-	17,273	12,733
Trade payables		-	2,010	2,010
Other payables		464	3,920	3,531
Hire purchase creditors	11	-	1,023	1,023
Lease creditors		-	576	576
Provision for taxation		-	3,377	3,377
		464	28,179	23,250
NET CURRENT (LIABILITIES)/ASSETS		(464)	20,083	28,069
LONG TERM LIABILITIES				
Amounts due to bankers	10	-	15,600	15,140
Hire purchase creditors	11	-	892	892
Deferred taxation	12	-	2,350	2,350
		-	18,842	18,382
		(75)	47,235	62,292

XI. STATEMENTS OF ASSETS AND LIABILITIES (CONTD.)

	Notes	Company RM'000	Proforma Group I After Proposed Acquisition RM'000	Proforma Group II After I and Proposed Public Issue RM'000
FINANCED BY:				
Share capital	13	**	36,055	42,500
Share premium	14	-	6,022	14,634
Capital reserve arising on consolidation		-	5,233	5,233
Accumulated losses		(75)	(75)	(75)
		(75)	47,235	62,292
NTA per share (RM)		(23,200.00)	0.65	0.73

* represents RM10.00

** represents RM10.00, made up of 20 ordinary shares of RM0.50 each

Proforma I

(a) The Acquisition by PISB of 200,000 ordinary shares of RM1.00 each in MSB representing approximately 11.11% of the issued and paid-up share capital of MSB for a purchase consideration of RM398,614 satisfied by cash. The acquisition was completed on 1 November 2001.

(b) The Acquisition by PWP of 32,974,031 ordinary shares of RM1.00 each in PISB representing the entire issued and paid-up share capital of PISB for a purchase consideration of RM42,076,738 satisfied by the issuance of 72,109,980 shares in PWP at an issue price of approximately RM0.58 per share. The acquisition was completed on 1 November 2001.

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Proforma II

(a) The public issue of 12,890,000 new ordinary shares of RM0.50 each in PWP credited as fully paid-up at RM1.30 per share to be completed by December 2001.

(b) The proceeds from the public issue of approximately RM16,757 million will be utilised as follows:

		RM'000
(i)	Repayment of bank borrowings	5,000
(ii)	Expansion plan	7,000
(iii)	Cash acquisition of MSB	399
(iv)	Estimated listing expenses	1,700
(v)	Working capital	2,658
		16,757

XII. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES

1. Significant Accounting Policies

(a) Basis of Accounting

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

(b) Basis of Consolidation

The accounting year of the Company and its subsidiary companies ends on 30 June and the consolidated Statement of Assets and Liabilities of the Group incorporate the financial statements of the Company and its subsidiary companies for the year ended 30 June 2001. All inter-company transactions and balances are eliminated on consolidation. The subsidiary companies are consolidated based on the acquisition method of accounting.

The difference between the consideration paid for the shares in the subsidiary companies and the value of attributable net assets acquired is treated as goodwill or reserve on consolidation as appropriate.

(c) Other Investment

Unquoted investment held on a long term basis is stated at cost unless in the opinion of the Directors, there has been a permanent decline in value in which case, provision is made for the diminution in value.

Investment income from other investment is included on receipt basis.

(d) Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost less accumulated depreciation.

No depreciation is provided on leasehold land with an unexpired term of more than 50 years. This is not in compliance with International Accounting Standard No. 16. In the opinion of the Directors, the effect of this non-compliance in the financial statements is considered to be immaterial.

Depreciation is calculated on the straight line method to write off the cost of other assets over their estimated useful lives as follows:-

		%
Buildings	-	2
Plant and machinery	-	7
Heavy equipment and motor vehicles and motor launches	-	20
Furniture, fittings and equipment	-	10-20

Fully depreciated assets are retained in the financial statements until they are no longer in use.

(e) Leased Assets

Assets held under leasing arrangements that transfer substantially all the risks and rewards of ownership to the Company are capitalised. The capital element of the related rental obligations is included in creditors. The interest element of the rental obligations is written off in the income statement so as to produce a constant periodic rate of charge. These assets are depreciated over their expected useful lives on the basis outlined in Note 1(d) above.

(f) Deferred Expenditure

Deferred expenditure in connection with the proposed public share issue for the listing of the Company's shares on the Kuala Lumpur Stock Exchange ("KLSE") will be set-off against the share premium on allotment of the said share issue.

(g) Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is computed using the first-in, first-out basis and includes all expenses incurred in bringing the items into store. Cost of work-in-progress and finished goods consists of direct material, labour, direct overheads and variable production overheads.

(h) Receivables

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

(i) ***Revenue Recognition***

Revenue is recognised upon delivery and acceptance of products or performance of services.

(j) ***Currency Conversion***

Foreign currency transactions are recorded in Ringgit Malaysia at the rates of exchange approximating those ruling at transaction dates. Foreign currency assets and liabilities are reported at the rates ruling at balance sheet date. All profits and losses on exchange are dealt with through the income statement.

(k) ***Deferred Taxation***

Provision is made using the liability method for deferred taxation in respect of timing differences except to the extent that it is considered reasonably probable that these will continue in the foreseeable future. The tax effect of the timing differences is not recognised if it is a debit balance and there is no reasonable expectation of its realisation.

(l) ***Capitalisation Of Finance Costs***

Costs incurred in connection with financing the construction and installation of property, plant and equipment are capitalised until the assets are ready for their intended use.

(m) ***Exceptional item***

An exceptional item is one that is of a material nature which falls within the normal activities of the company in the Proforma Group, and which needs to be disclosed separately by virtue of its size and incidence.

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2. General

The Proforma Statement of Assets and Liabilities of the Proforma Group are expressed in Ringgit Malaysia.

The principal activity of PWP is investment holding. The principal activities of its subsidiary companies are stated in Note 3 below.

3. Subsidiary Companies

The subsidiary companies, which are all incorporated in Malaysia, are:

Subsidiary Companies	Principal Activities	Percentage of effective Shareholding %
PISB	Manufacture and sales of processed wood products, distribution of log timber, provision of wood processing services and rental of kiln dry machinery	100
LESB	Log timber trading	100
MSB	Construction, timber extraction and land development contracts	100

4. Property, Plant and Equipment

	Cost RM'000	Accumulated Depreciation RM'000	Net Book Value RM'000
Long leasehold land	7,445	-	7,445
Buildings	17,213	1,363	15,850
Heavy equipment, motor vehicles and motor launches	8,697	503	8,194
Plant and machinery	30,277	9,616	20,661
Furniture, fittings and equipment	1,193	788	405
	64,825	12,270	52,555

Certain land and buildings are pledged to certain bankers to secure banking facilities granted to the companies in the Proforma Group as stated in Note 10 below.

Plant and equipment acquired under instalment purchase plan and leasing arrangements are as follows: -

	Cost RM'000	Accumulated Depreciation RM'000	Net Book Value RM'000
Heavy equipment, motor vehicles and motor launches	2,370	826	1,544
Plant and machinery	3,186	885	2,301
	5,556	1,711	3,845

5. Deferred Expenditure

	RM'000
Listing expenses, at cost	389
Less:written off against share premium account	389
	-

6. Investment

	RM'000
Unquoted shares, at cost	50

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7. Inventories

	RM'000
Log timber	895
Sawn timber	24
Moulded timber	4,777
Moulding profiles	1,372
Finger joint and laminated board	1,753
Solid doors and window frame	20
Barecore	355
Poles	1,464
Work-in-progress	652
Consumable goods	170
	11,482

8. Deposits For Supplies

These represent advances paid to log suppliers for logs to be purchased.

9. Other Receivables

	RM'000
Sundry receivables	6,827
Deposits	75
Prepayments	325
	7,227

10. Amounts Due To Bankers

	RM'000
Bank overdrafts	5,034
Bankers' acceptances	2,631
Revolving credit	5,068
Term loans	15,140
	27,873
Less:Portion repayable after 12 months	(15,140)
Portion repayable within 12 months	12,733

The term loan facility which bears interest at 2.50% above the Bank's cost of funds is repayable by way of fifty-eight monthly instalments comprising fifty seven equal monthly instalments of RM360,000 each and a final instalment of RM480,000. The first repayment is to commence three months from the date of the first drawdown, 5 October 2000.

In addition to the above, PISB has also obtained a new revolving credit facility of RM5 million and bankers' acceptance facility of RM2.5 million for working capital purposes. The revolving credit facility bears interest at 2.5% per annum above the Bank's cost of funds.

The above facilities are secured by a first fixed legal charge over six parcels of leasehold land; a debenture creating a first fixed and floating charge over all assets of PISB, both present and future; a marginal deposit in the form of a General Investment Account; and a joint and several guarantee by certain Directors of PISB.

The subsidiary companies' bank overdrafts and bankers' acceptance are secured by a fixed deposit placed with a licensed bank, personal guarantee from certain Directors; irrevocable standby Letter of Credit; Credit Guarantee Corporation (CGC) coverage, first legal charge on landed properties and a fixed deposit belonging to a Director and a joint and several guarantee from certain Directors.

The above bankers' acceptance and overdrafts bear interest ranging from 2.0% to 2.5% above the lender's base lending rate.

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11. Hire Purchase Creditors

	RM'000
Portion repayable within twelve months	1,023
Portion repayable after twelve months	892
	1,915

12. Deferred Taxation

	RM'000
Balance brought forward	1,900
Transfer from income statement	450
Balance carried forward	2,350

This is in respect of the following timing differences:

On excess of capital allowances over depreciation	2,350

There are no other timing differences not accounted for.

13. Share Capital

	RM'000
Ordinary shares of RM0.50 each	
Authorised:	50,000
Issued and fully paid:	
-As at 30 June 2001	*
-Shares issued as consideration for acquisition of PISB	36,055
-Public issue	6,445
	42,500

* represents RM10.00, made up of 20 ordinary shares of RM0.50 each.

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14. Share Premium

	RM'000
This is arrived at as follows:-	
Arising from the issue of 72,109,980 new ordinary shares at RM0.58 per share in consideration for the acquisition of PISB	6,022
Arising from public issue of 12,890,000 new ordinary shares at an issue price of RM1.30 per share	10,312
Less: Estimated listing expenses	(1,700)
	14,634

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XIII. CASH FLOW STATEMENT

The cash flow statement for the company is based on the audited financial statements for the year ended 30 June 2001.

The Proforma Consolidated Cash Flow Statement of the Proforma Group for the year ended 30 June 2001 set out below is provided for illustrative purposes only, to show the effects of the proposed acquisition and the proposed public issue stated in paragraph III on the assumption that these transactions were completed on 30 June 2001 and should be read in conjunction with the notes set out in the ensuing paragraph.

The proforma consolidated cash flow statement has been prepared based on the audited financial statements PWP, PISB, LESB and MSB for the year ended 30 June 2000 and 30 June 2001 after incorporating the proposed utilisation of proceeds from the public issue.

	Company RM'000	Proforma Group RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	(75)	14,940
Adjustments for:		
Depreciation of property, plant and equipment	-	3,843
Deferred expenditure written off	46	46
Gain on disposal of property, plant and equipment	-	(520)
Interest waived	-	(376)
Interest income	-	(11)
Interest expense	-	2,708
Operating profit before working capital changes	(29)	20,630
Increase in inventories	-	(6,892)
Increase in receivables	-	2,011
Increase in payables	418	(3,274)
Cash generated from operations	389	12,475
Taxation paid	-	(64)
Interest paid	-	(2,708)
Net cash generated from operating activities	389	9,703

XIV. NOTES TO THE CASH FLOW STATEMENT

Cash and cash equivalents

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

	RM'000
Cash and bank balances	8,885
Fixed deposits with a licensed bank	75
Bank overdrafts	(5,034)
	3,926

Cash comprises cash in hand and demand deposits. Cash equivalents are highly liquid investments which are readily convertible to cash with short periods to maturity and are subject to an insignificant risk of changes in value. They also include borrowings which are not subject to a term facility and are integral to the cash management function of the Company.

XV. NET TANGIBLE ASSETS COVER

Based on the proforma statement of assets and liabilities of PWP Group as at 30 June 2001, the net tangible assets per share will be as follows:

Net tangible assets of the Proforma Group (RM'000)	62,292
Number of ordinary shares of RM0.50 each in issue ('000)	85,000
Net tangible assets per ordinary share (RM)	0.73

XVI. CAPITAL COMMITMENTS

	RM'000
Approved and not contracted for	7,000

XIV. NOTES TO THE CASH FLOW STATEMENT

Cash and cash equivalents

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	RM'000
Cash and bank balances	8,885
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	3,926

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XVI. CAPITAL COMMITMENTS

	RM'000
Approved and not contracted for	7,000

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XVII SUBSEQUENT EVENTS

On 1 November 2001, the following transactions, forming part of the restructuring and listing scheme, were completed:

(a) The acquisition by PISB of the remaining approximately 11.11% equity interest in MSB comprising 200,000 ordinary shares of RM1.00 each for a total consideration of RM398,614; and

(b) The acquisition of the entire issued and paid-up share capital in PISB by PWP comprising 32,974,031 ordinary shares of RM1.00 each for a total consideration of RM42,076,738 fully satisfied by the issue of 72,109,980 PWP shares at an issue price of approximately RM0.58 per share based on PISB Group's audited NTA as at 30 June 2000 of RM42,076,738.

XVIII. AUDITED FINANCIAL STATEMENTS

No audited financial statements of the Company and its subsidiary companies have been made up in respect of any period subsequent to 30 June 2001.

Yours faithfully,

ERNST & YOUNG
AF: 0039
Chartered Accountants

PANG PAK LOK
1228/3/03 (J)
Partner