

8. **DIRECTORS' REPORT**  
(Prepared for inclusion in this Prospectus)

# EMIVEST BERHAD

(COMPANY NO : 415622-V)

LOT 13A, KAWASAN PERINDUSTRIAN BUKIT RAMBAI  
75250 MELAKA, MALAYSIA  
TEL NO: 606-3512992 FAX NO: 606-3512998

**Registered Office**

106A, Taman Melaka Raya  
75000 Melaka

06 DEC 2001

The Shareholders  
Emivest Berhad

Dear Sir/Madam,

On behalf of the Board of Directors of Emivest Berhad ("Emivest"), I report after due inquiry that during the period from 30 June 2001 (being the date to which the last audited accounts of the Emivest and its subsidiaries ("Emivest Group") have been made up) to the date hereof, being the date not earlier than fourteen (14) days before the issue of this Prospectus, that:-

- (a) the business of the Emivest Group, in the opinion of the Board of Directors, have been satisfactorily maintained;
- (b) in the opinion of the Board of Directors, no circumstances have arisen subsequent to the last audited accounts of the Emivest Group which have adversely affected the trading or the value of the assets of the Company and its subsidiary companies;
- (c) the current assets of the Emivest Group appear in the book at values which are believed to be realisable in the ordinary course of business;
- (d) save as disclosed in this Prospectus, there are no contingent liabilities have arisen by reason of any guarantees or indemnities given by the Company and its subsidiary companies; and
- (e) Save as disclosed in his Prospectus,, since the last audited accounts of the Emivest Group, there have been no changes in the published reserves or any unusual factors affecting the profits of the Company and its subsidiary companies.

Yours faithfully  
For and on behalf of the Board of Directors of  
**EMIVEST BERHAD**

  
**LAU BONG WONG**  
Chairman / Managing Director

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9. **ACCOUNTANTS' REPORT**  
*(Prepared for inclusion in this Prospectus)*

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**Deloitte Touche Tohmatsu** (AF 0834)  
Chartered Accountants  
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**Deloitte  
Touche  
Tohmatsu**

**ACCOUNTANTS' REPORT**  
(Prepared for inclusion in the Prospectus)

December 4, 2001

The Board of Directors  
Emivest Berhad  
Lot 13A, Kawasan Perindustrian Bukit Rambai  
75250 Melaka

Dear Sirs

1. **INTRODUCTION**

This report has been prepared by Deloitte Touche Tohmatsu, an approved company auditor, for inclusion in the Prospectus in connection with the Public Issue of 6,000,000 new ordinary shares of RM1 each at an issue price of RM1.50 per share, and Offer for Sale of 2,016,575 ordinary shares and Rights to Allotment of 8,000,000 ordinary shares of RM1 each respectively, at an offer price of RM1.50 per share in Emivest Berhad ("Emivest"), and the listing and quotation of its entire issued and paid-up capital on the Second Board of the Kuala Lumpur Stock Exchange ("KLSE").

This report has been prepared based on the accounting policies consistent with those previously adopted in the preparation of the audited financial statements of Emivest, Gymtech Feedmill (Malacca) Sdn. Bhd. ("Gymtech"), Sri Medan Duck Farm Sdn. Bhd. ("Sri Medan"), Ideal Multifeed (Malaysia) Sdn. Bhd. ("Ideal") and Kayangan Runding Sdn. Bhd. ("Kayangan"), and comply with approved accounting standards of the Malaysian Accounting Standards Board ("MASB") other than as disclosed in this report.

2. **FLOTATION SCHEME**

The flotation scheme involves the following:

- i) Acquisition of 59.68% equity interest in Ideal by Gymtech, comprising 9,190,171 ordinary shares of RM1 each for a purchase consideration of RM14,769,000 to be financed by a bank loan of RM10.0 million and internally generated funds;
- ii) Gymtech implemented a rights issue of 3,130,061 new ordinary shares at an issue price of RM1 each on the basis of approximately 21 new shares for every 31 shares held;

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

- iii) Acquisition of 100% equity interest in Gymtech by Emivest, comprising 7,750,061 ordinary shares of RM1 each for a purchase consideration of RM25,507,049 satisfied by the issuance of 10,048,271 ordinary shares and rights to allotment of 13,139,955 ordinary shares of RM1 each in Emivest respectively, at an issue price of RM1.10 per share;
- iv) Acquisition of 100% equity interest in Sri Medan by Emivest, comprising 650,000 ordinary shares of RM1 each for a purchase consideration of RM11,892,951 satisfied by the issuance of 2,723,693 ordinary shares and rights to allotment of 8,088,081 ordinary shares of RM1 each in Emivest respectively, at an issue price of RM1.10 per share;
- v) Sale of rights to allotment of 12,753,525 and 7,027,653 ordinary shares of RM1 each in Gymtech and Sri Medan respectively, by Datuk Lau Chong Wang, Lau Bong Wong, Lau Chia Nguang, Datuk Lau Chir Nguan, Dato' Lau Eng Guang, Lau Hai Nguan and Datuk Lau Tuang Nguang ("Lau Brothers") to Mega Perfect Sdn. Bhd.;
- vi) Public issue of 6,000,000 new ordinary shares at an issue price of RM1.50 per share; and
- vii) Offer for sale of rights to allotment of 8,000,000 ordinary shares of RM1 each at an offer price of RM1.50 per share to Leong Hup Holdings Berhad and offer for sale of 2,004,000 and 12,575 ordinary shares at an offer price of RM1.50 per share to Bumiputra investors approved by MITI and existing Bumiputra investors respectively.

**3. GENERAL INFORMATION****3.1 Background**

Emivest was incorporated in Malaysia under the Companies Act, 1965 as a private limited company on January 2, 1997 and was formerly known as Emivest Sdn. Bhd. Emivest Sdn. Bhd. was converted to a public limited company and assumed its present name on February 14, 1997.

Emivest is principally an investment holding company.

**3.2 Authorised Share Capital**

The authorised share capital of Emivest since its incorporation are as follows:

| Date of creation | No. of shares created | Total authorised share capital<br>RM |
|------------------|-----------------------|--------------------------------------|
| 2.01.1997        | 100,000               | 100,000                              |
| 15.06.2001       | 49,900,000            | 50,000,000                           |

## 9. ACCOUNTANTS' REPORT (Cont'd)

### 3.3 Issued and Fully Paid-up Share Capital

The changes in the issued and fully paid-up share capital of Emivest since its incorporation are as follows:

| Date of allotment | Consideration  | No. of shares allotted | Total issued and paid-up share capital RM |
|-------------------|--|------------------------|---|
| 2.01.1997         | Subscribers' shares                                    | 2                      | 2   |
| 30.06.2001        | Issued in consideration for acquisition of Gymtech*    | 10,048,271             | 10,048,273                                |
| 30.06.2001        | Issued in consideration for acquisition of Sri Medan * | 2,723,693              | 12,771,966                                |

- \* Pursuant to the acquisition of Gymtech and Sri Medan, Emivest has also granted rights to allotment of 13,139,955 and 8,088,081 ordinary shares of RM1 each respectively in Emivest. The allotment of these shares will be effected as part of the completion of the proposed Public Issue and Offer for Sale.

The issued and fully paid-up share capital of Emivest upon completion of the flotation scheme will be RM40,000,002 comprising 40,000,002 ordinary shares of RM1 each.

### 3.4 Subsidiary Companies

As of the date of this report, the subsidiary companies of Emivest, all incorporated in Malaysia, are as follows:

| Name of company | Date of incorporation | Share capital |                       | Effective Equity interest % | Principal activities                                   |
|-----------------|-----------------------|---------------|-----------------------|-----------------------------|--|
|                 |                       | Authorised RM | Issued and paid-up RM |                             |  |
| Gymtech         | 28.11.1981            | 10,000,000    | 7,750,061             | 100                         | Manufacturing and marketing of animal feeds            |
| Sri Medan       | 5.04.1989             | 1,000,000     | 650,000               | 100                         | Duck breeders for the sale of poultry, eggs and others |
| * Ideal         | 31.12.1965            | 25,000,000    | 15,400,000            | 59.68                       | Manufacturing and marketing of animal feeds            |
| * Kayangan      | 9.03.1995             | 100,000       | 2                     | 100                         | Dormant  |

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


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\* These subsidiary companies are held through Gymtech

**3.5 Associated Companies**

As of the date of this report, the associated companies of Emivest, all incorporated in Malaysia, are as follows:

| Name of company                               | Date of incorporation | ← Share capital → |                       | Effective equity interest % | Principal activities                            |
|---|-----------------------|-------------------|-----------------------|-----------------------------|---|
|   |                       | Authorised RM     | Issued and paid-up RM |                             |   |
| Indahgrains Logistics Sdn. Bhd. (Indahgrains) | 12.06.1996            | 10,000,000        | 6,000,000             | 20                          | Operating of warehouse and warehouse management |
| Hatchery (Malaysia) Sdn. Bhd. (Hatchery)      | 30.11.1976            | 2,000,000         | 1,200,000             | 19.89                       | Dormant   |

Indahgrains and Hatchery are held through Gymtech and Ideal respectively

**4. AUDITORS AND AUDITED FINANCIAL STATEMENTS**

We have been the auditors of Emivest, Gymtech and Kayangan since the financial year ended December 31, 1998. Another firm of auditors have audited the financial statements of Emivest, Gymtech and Kayangan prior to financial year ended December 31, 1998.

The financial statements of Ideal and Sri Medan are audited by another firm of auditors for the years/period under review.

The auditors' reports of the companies in the Group for the relevant financial years/period under review were not subject to any qualification and did not include any emphasis of matter.

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


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**5. DIVIDENDS**

No dividend was declared and paid by Emivest and its subsidiary companies for the years/period under review other than dividends declared and paid by Gymtech and Sri Medan shown as follows:

| <b>Subsidiary companies</b> | <b>Year Ended</b> | <b>Issued and fully paid-up share capital<br/>RM</b> | <b>Gross dividend rate</b> | <b>Net dividend paid<br/>RM</b> |
|-----------------------------|-------------------|--|----------------------------|---------------------------------|
| Gymtech                     | 31.12.1999        | 4,620,000  | 150%, tax exempt           | 6,930,000                       |
|                             | 31.12.2000        | 4,620,000  | 50%, tax exempt            | 2,310,000                       |
| Sri Medan                   | 30.04.1998        | 650,000  | 300%, tax exempt           | 1,950,000                       |
|                             | 30.04.1999        | 650,000  | 300%, tax exempt           | 1,950,000                       |
|                             | 30.04.2001        | 650,000  | 200%, tax exempt           | 1,300,000                       |

## 9. ACCOUNTANTS' REPORT (Cont'd)

### 6. SUMMARISED PROFORMA CONSOLIDATED INCOME STATEMENTS

#### 6.1 Proforma Consolidated Results of Emivest Group

We set out below the audited proforma consolidated results of Emivest Group for the five financial years ended December 31, 2000 and the six months period ended June 30, 2001 which are prepared after making such adjustments as we considered appropriate including elimination of inter-company transactions and adjustments indicated in Notes to the Proforma Consolidated Results. The proforma consolidated results are prepared for illustrative purposes only based on Emivest audited financial statements and Gymtech's consolidated audited financial statements for the five financial years ended December 31, 2000 and the six months period ended June 30, 2001, and Sri Medan's audited financial statements for the six financial years ended April 30, 1996 to 2001, for the eight months period ended December 31, 1996 to 2000 and for the two months period ended June 30, 2001:

|   | ← Year ended December 31 → |                |                |                |                | 6 months<br>period ended<br>June 30, 2001<br>RM'000 |
|---|----------------------------|----------------|----------------|----------------|----------------|---|
|   | 1996<br>RM'000             | 1997<br>RM'000 | 1998<br>RM'000 | 1999<br>RM'000 | 2000<br>RM'000 |   |
| Revenue   | 132,191                    | 146,184        | 181,949        | 155,658        | 176,200        | 102,611   |
| Other operating income  | 4                          | 245            | 43             | 118            | 360            | 179   |
| Changes in inventories of finished goods and work-in-progress | 102                        | 407            | (500)          | 466            | (327)          | (389)   |
| Raw materials used  | (112,376)                  | (125,195)      | (157,741)      | (132,733)      | (152,195)      | (87,100)  |
| Staff costs   | (2,967)                    | (2,668)        | (2,793)        | (2,958)        | (3,117)        | (2,219)   |
| Other operating expenses                                      | (3,807)                    | (4,673)        | (5,450)        | (6,131)        | (6,610)        | (4,049)   |
| Profit before depreciation, interest and tax                  | 13,147                     | 14,300         | 15,508         | 14,420         | 14,311         | 9,033   |
| Depreciation of property, plant and equipment                 | (1,767)                    | (2,018)        | (2,106)        | (2,071)        | (2,043)        | (1,381)   |
| Finance costs   | (2,731)                    | (3,590)        | (4,730)        | (2,546)        | (1,974)        | (1,670)   |
| Amortisation of goodwill                                      | -                          | -              | -              | -              | -              | (80)  |
| Share in results of associated company                        | -                          | -              | 202            | 271            | 139            | 157   |
| Interest income   | 370                        | 755            | 275            | 101            | 85             | 33  |
| Profit before tax (PBT)                                       | 9,019                      | 9,447          | 9,149          | 10,175         | 10,518         | 6,092   |
| Income tax expense  | (1,952)                    | (1,645)        | (2,796)        | (426)          | (2,724)        | (1,683)   |
| Profit after tax  | 7,067                      | 7,802          | 6,353          | 9,749          | 7,794          | 4,409   |
| Minority interests  | -                          | -              | -              | -              | -              | (386)   |
| Net profit  | 7,067                      | 7,802          | 6,353          | 9,749          | 7,794          | 4,023   |
| Number of ordinary shares ('000)                              | 34,000                     | 34,000         | 34,000         | 34,000         | 34,000         | 34,000  |
| Gross earnings per share (RM)                                 | 0.27                       | 0.28           | 0.27           | 0.30           | 0.31           | 0.36*   |
| Net earnings per share (RM)                                   | 0.21                       | 0.23           | 0.19           | 0.29           | 0.23           | 0.24*   |

\* Annualised

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


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**Notes to the Proforma Consolidated Results of Emivest Group:**

- (i) The results of Sri Medan for the financial year ended December 31, 1996 have been time apportioned in order to be coterminous with the financial year-end of Emivest.
- (ii) The gross earnings per share is calculated based on proforma profit before tax while the net earnings per share is calculated based on proforma profit after tax and minority interests over the number of ordinary shares issued/to be issued pursuant to the acquisitions of Gymtech and Sri Medan.
- (iii) (a) Revenue increased in 1997 and 1998 due to the increase in production output and selling prices of feeds, which was in line with the higher raw material prices. As a result, the Proforma Group registered a higher PBT in 1997. PBT in 1998 decreased due mainly to increase in finance costs.
- (b) The decrease in revenue in 1999 was due to lower selling prices of feeds. Revenue in 2000 increased due to increase in production output. In 1999 and 2000, PBT increased due to reduction in finance costs.
- (c) The share in results of Indahgrains has been adjusted in the Proforma Consolidated Income Statements in the respective financial years/period under review, based on the audited/management financial statements.
- (d) The overprovision of income tax in 1998 has been adjusted to reflect the income tax expense in the respective years of 1996 and 1997. The resulting effect of overprovision of income tax expense on the proforma consolidated results are as follows:

|  | 1996<br>RM'000 | 1997<br>RM'000 | 1998<br>RM'000 |
|--|----------------|----------------|----------------|
| Income tax expense as stated in audited financial statements         | 1,983          | 2,330          | 2,080          |
| Adjustment to reflect the income tax expense in the respective years | (31)           | (685)          | 716            |
| Adjusted income tax expense as stated in this report                 | <u>1,952</u>   | <u>1,645</u>   | <u>2,796</u>   |

- (e) The increase in the proforma consolidated results for the six months period ended June 30, 2001, on an annualised basis, was mainly due to the inclusion of the results of Ideal from date of acquisition by Gymtech.
- (f) The effective tax rate for 1996, 1997 and 2000 was lower than the statutory income tax rate due mainly to the utilisation of tax allowance as offset against taxable income of Sri Medan and in 1999, the tax payable on chargeable income for the Year of Assessment 2000 (Preceding Year Basis) was waived by Inland Revenue Board pursuant to the Income Tax (Amendment) Act, 1999. Provision for income tax made in 1999 relates to taxable income of Sri Medan for Year of Assessment 2000 (Current Year Basis) as the financial accounting date is April 30. The effective tax rate for 1998 was higher than the statutory income tax rate due mainly to certain expenses which are non-deductible for income tax purposes in Gymtech.



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

- (iv) *There is no disclosure of segmental information as Emivest Group operates within the livestock industry and in Malaysia.*
- (v) *There were no exceptional and extraordinary items in all the financial years/period under review.*

**7. INCOME STATEMENTS**

We set out below the audited results of Emivest, Gymtech Group and Sri Medan for the five financial years ended December 31, 2000 and the six months period ended June 30, 2001, after making such adjustments as we considered necessary:

**7.1 Emivest**

|  | <b>Company<br/>Year Ended<br/>December 31,<br/>2000<br/>RM'000</b> | <b>Company and<br/>Group<br/>6 months period<br/>ended June 30,<br/>2001<br/>RM'000</b> |
|--|--|---|
| Revenue                                    | -  | -   |
| Other operating expenses                   | (18)   | (2)   |
| Net Loss for the year                      | (18)   | (2)   |
| Weighted average number of shares in issue | 2  | 2   |
| Gross loss per share (RM)                  | 9,000  | 1,000   |
| Net loss per share (RM)                    | 9,000  | 1,000   |

**Notes to the Results of Emivest:**

- (i) *There was no income statement for 1996 as Emivest was only incorporated on January 2, 1997.*
- (ii) *There were no income statements for 1997 to 1999 as Emivest was dormant and all expenses incurred have been recognised as deferred expenditure in the balance sheets of Emivest.*
- (iii) *In 2000, Emivest expensed off the deferred expenditure which do not meet the criteria of an asset. The write-off was made in line with the adoption of MASB 1, which does not allow the recognition of items in the balance sheets which do not meet the definition of assets. The change in accounting policy has no material impact on the results of Emivest.*
- (iv) *The Group results of Emivest for the six months period ended June 30, 2001 did not include the results of Gymtech Group and Sri Medan as the effective date of acquisition of Gymtech and Sri Medan was on June 30, 2001.*

## 9. ACCOUNTANTS' REPORT (Cont'd)

### 7.2 Gymtech Group

|   | ← Year ended December 31 → |                |                |                |                | 6 months period ended June 30, 2001<br>RM'000 |
|---|----------------------------|----------------|----------------|----------------|----------------|---|
|   | 1996<br>RM'000             | 1997<br>RM'000 | 1998<br>RM'000 | 1999<br>RM'000 | 2000<br>RM'000 |   |
| Revenue   | 122,540                    | 136,489        | 172,662        | 145,312        | 167,083        | 99,057  |
| Other operating income (charges)                              | -                          | 236            | 24             | (5)            | 225            | 126   |
| Changes in inventories of finished goods and work-in-progress | 102                        | 407            | (500)          | 466            | (327)          | (389)   |
| Raw materials used  | (108,299)                  | (120,358)      | (152,909)      | (127,451)      | (147,768)      | (85,684)                                      |
| Staff costs   | (2,409)                    | (2,106)        | (2,254)        | (2,378)        | (2,587)        | (1,856)                                       |
| Other operating expenses                                      | (2,342)                    | (3,198)        | (3,950)        | (4,343)        | (4,650)        | (3,177)                                       |
| Profit before depreciation, interest and tax                  | 9,592                      | 11,470         | 13,073         | 11,601         | 11,976         | 8,077   |
| Depreciation of property, plant and equipment                 | (1,269)                    | (1,543)        | (1,626)        | (1,598)        | (1,623)        | (1,196)                                       |
| Finance costs   | (2,207)                    | (3,064)        | (4,361)        | (2,340)        | (1,906)        | (1,627)                                       |
| Amortisation of goodwill                                      | -                          | -              | -              | -              | -              | (80)  |
| Share in results of associated company                        | -                          | -              | 202            | 271            | 139            | 157   |
| Interest income   | 361                        | 368            | 24             | 1              | 25             | 1   |
| Profit before tax (PBT)                                       | 6,477                      | 7,231          | 7,312          | 7,935          | 8,611          | 5,332   |
| Income tax credit (expense)                                   | (1,542)                    | (1,375)        | (2,333)        | 7              | (2,359)        | (1,425)                                       |
| Profit after tax  | 4,935                      | 5,856          | 4,979          | 7,942          | 6,252          | 3,907   |
| Minority interest   | -                          | -              | -              | -              | -              | (386)   |
| Net Profit for the year                                       | 4,935                      | 5,856          | 4,979          | 7,942          | 6,252          | 3,521   |
| Weighted average number of shares in issue ('000)             | 4,620                      | 4,620          | 4,620          | 4,620          | 4,620          | 6,185   |
| Gross earnings per share (RM)                                 | 1.40                       | 1.57           | 1.58           | 1.72           | 1.86           | 1.83*   |
| Net earnings per share (RM)                                   | 1.07                       | 1.27           | 1.08           | 1.72           | 1.35           | 1.21*   |
| Gross dividend rate (%)                                       | -                          | -              | -              | 150            | 50             | -   |
| Net dividend rate (%)   | -                          | -              | -              | 150            | 50             | -   |

\* Annualised

#### Notes to the results of Gymtech Group:

- (i) (a) *Prior to 2000, Gymtech did not prepare consolidated financial statements as its sole subsidiary company, Kayangan was dormant. In 2000, Gymtech commenced preparing consolidated financial statements to comply with MASB 11, which does not allow non-consolidation of a subsidiary company on the basis that the subsidiary company is dormant. As a result, the consolidated results of Gymtech Group for the financial years ended December 31, 1996 to 1999 were presented with adjustments made for the share in results of Indahgrains in the respective financial years.*

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


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- (b) *The overprovision of income tax in 1998 has been adjusted to reflect the income tax expense in the respective years of 1996 and 1997. The resulting effect of overprovision of income tax expense on the consolidated results are as follows:*

|   | 1996<br>RM'000 | 1997<br>RM'000 | 1998<br>RM'000 |
|---|----------------|----------------|----------------|
| <i>Income tax expense as stated in audited financial statements</i>         | 1,573          | 2,060          | 1,617          |
| <i>Adjustment to reflect the income tax expense in the respective years</i> | <u>(31)</u>    | <u>(685)</u>   | <u>716</u>     |
| <i>Adjusted income tax expense as stated in this report</i>                 | <u>1,542</u>   | <u>1,375</u>   | <u>2,333</u>   |

- (ii) *From 1996 to 1999, there were no results pertaining to Kayangan included in the consolidated results of Gymtech Group as Kayangan was dormant and all expenses incurred have been recognised as deferred expenditure in the balance sheets of Kayangan.*
- (iii) *In 2000, Kayangan expensed off the deferred expenditure which do not meet the criteria of an asset. The write-off was made in line with the adoption of MASB 1, which does not allow the recognition of items in the balance sheets which do not meet the definition of assets. The change in accounting policy has no material impact on the results of Gymtech Group.*
- (iv) *Gymtech acquired 20% equity interest in Indahgrains in 1997 and Indahgrains commenced business in 1998*
- (v) (a) *Revenue increased in 1997 and 1998 due to the increase in production output and selling prices of feeds, which was in line with the higher raw material prices. As a result, Gymtech Group registered a higher PBT in 1997. Although revenue increased substantially in 1998, PBT in 1998 only increased marginally due mainly to the increase in finance costs.*
- (b) *The decrease in revenue in 1999 was due to lower selling prices of feeds. Revenue in 2000 increased due to increase in production output. In 1999 and 2000, PBT increased due to reduction in finance cost.*
- (c) *The increase in the consolidated results for the six months period ended June 30, 2001, on an annualised basis, was mainly due to the inclusion of the results of Ideal from the date of acquisition by Gymtech in 2001.*
- (d) *The effective tax rate for 1996, 1997 and 2001 was lower than the statutory income tax rate due mainly to the utilisation of reinvestment allowance as offset against taxable income and in 1999, the tax payable on chargeable income was waived by Inland Revenue Board pursuant to the Income Tax (Amendment) Act, 1999. The minimal tax credit in 1999 was due to overprovision of income tax in respect of prior year. The effective tax rate for 1998 was higher than the statutory income tax rate due mainly to certain expenses which are non-deductible for income tax purposes.*
- (vi) *There were no exceptional and extraordinary items during the periods under review.*

## 9. ACCOUNTANTS' REPORT (Cont'd)

## 7.3 Sri Medan

|  | ← Year Ended December 31 → |                |                |                |                | 6 months<br>period ended<br>June 30, 2001<br>RM'000 |
|--|----------------------------|----------------|----------------|----------------|----------------|---|
|  | 1996<br>RM'000             | 1997<br>RM'000 | 1998<br>RM'000 | 1999<br>RM'000 | 2000<br>RM'000 |   |
| Revenue  | 9,651                      | 9,695          | 9,287          | 10,346         | 9,117          | 4,519   |
| Other operating income                               | 4                          | 9              | 19             | 123            | 135            | 53  |
| Raw materials used                                   | (4,077)                    | (4,837)        | (4,832)        | (5,282)        | (4,427)        | (2,381)   |
| Staff costs  | (558)                      | (562)          | (539)          | (580)          | (530)          | (363)   |
| Other operating expenses                             | (1,465)                    | (1,475)        | (1,500)        | (1,788)        | (1,942)        | (870)   |
| Profit before depreciation,<br>interest and tax      | 3,555                      | 2,830          | 2,435          | 2,819          | 2,353          | 958   |
| Depreciation of property, plant<br>and equipment     | (498)                      | (475)          | (480)          | (473)          | (420)          | (185)   |
| Finance costs  | (524)                      | (526)          | (369)          | (206)          | (68)           | (43)  |
| Interest income                                      | 9                          | 387            | 251            | 100            | 60             | 32  |
| Profit before tax (PBT)                              | 2,542                      | 2,216          | 1,837          | 2,240          | 1,925          | 762   |
| Income tax expense                                   | (410)                      | (270)          | (463)          | (433)          | (365)          | (258)   |
| Net Profit for the year                              | 2,132                      | 1,946          | 1,374          | 1,807          | 1,560          | 504   |
| Weighted average number of<br>shares in issue ('000) | 650                        | 650            | 650            | 650            | 650            | 650   |
| Gross earnings per share (RM)                        | 3.91                       | 3.41           | 2.83           | 3.45           | 2.96           | 2.34*   |
| Net earnings per share (RM)                          | 3.28                       | 2.99           | 2.11           | 2.78           | 2.40           | 1.55*   |
| Gross dividend rate (%)                              | -                          | 300            | 300            | -              | 200            | -   |
| Net dividend rate (%)                                | -                          | 300            | 300            | -              | 200            | -   |

\* Annualised

*Notes to the results of Sri Medan*

- (i) *Despite sustainable revenue achieved in 1997, Sri Medan recorded a lower gross profit margin and PBT due to higher feed cost and increase in cost of importing parent inventory day old ducklings resulted from weaker Malaysian currency.*
- (ii) *In 1998, revenue and PBT decreased due to the reduction in production quantity.*
- (iii) *The increase in revenue and PBT in 1999 was due mainly to increase in selling price of ducklings as a result of the efforts undertaken by duck breeders in the previous year to reduce production as well as the reduction in the finance costs.*
- (iv) *In 2000 and 2001, on an annualised basis, Sri Medan registered a lower revenue and PBT due mainly to lower selling price of ducklings.*

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

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- (v) *The effective tax rate for 1996 to 2000 was lower than the statutory income tax rate due mainly to utilisation of tax allowance as offset against taxable income. Although in 1999, the tax payable on chargeable income for the Year of Assessment 2000 (Preceding Year Basis) was waived by Inland Revenue Board pursuant to the Income Tax (Amendment) Act, 1999, provision for income tax has been made in 1999 relating to taxable income for Year of Assessment 2000 (Current Year Basis) as the financial accounting date is April 30. The effective tax rate for 2001 was higher than the statutory tax rate due to certain expenses disallowed for tax purposes.*
- (vi) *There were no exceptional and extraordinary items during the periods under review.*

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


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**8. SUMMARISED BALANCE SHEETS**

We set out below the audited balance sheets of Emivest, Gymtech Group and Sri Medan as of the five financial years ended December 31, 2000 and as of June 30, 2001:

**8.1 Emivest**

|   | Company           |                |                |                |                                  | Group<br>As of June<br>30, 2001<br>RM'000 |
|---|-------------------|----------------|----------------|----------------|----------------------------------|---|
|   | As of December 31 |                |                |                |                                  |   |
|   | 1997<br>RM'000    | 1998<br>RM'000 | 1999<br>RM'000 | 2000<br>RM'000 | As of June<br>30, 2001<br>RM'000 |   |
| Property, plant and equipment               | -                 | -              | -              | -              | -                                | 32,330                                    |
| Goodwill on consolidation                   | -                 | -              | -              | -              | -                                | 5,896                                     |
| Investment in subsidiary companies          | -                 | -              | -              | -              | 37,400                           | -   |
| Investment in associated companies          | -                 | -              | -              | -              | -                                | 2,165                                     |
| Deferred expenditure                        | 5                 | 8              | 15             | -              | -                                | -   |
| <b>Current assets</b>                       |                   |                |                |                |                                  |   |
| Inventories                                 | -                 | -              | -              | -              | -                                | 10,529                                    |
| Trade receivables                           | -                 | -              | -              | -              | -                                | 107,262                                   |
| Other receivables, deposits and prepayments | 134               | 259            | 305            | 306            | 446                              | 12,127                                    |
| Fixed deposits, cash and bank balances      | -                 | -              | -              | -              | -                                | 6,941                                     |
|   | 134               | 259            | 305            | 306            | 446                              | 136,859                                   |
| <b>Current liabilities</b>                  |                   |                |                |                |                                  |   |
| Trade payables                              | -                 | -              | -              | -              | -                                | 32,101                                    |
| Other payables and accruals                 | 139               | 267            | 320            | 323            | 6                                | 15,567                                    |
| Amount owing to subsidiary company          | -                 | -              | -              | -              | 460                              | -   |
| Hire-purchase creditors                     | -                 | -              | -              | -              | -                                | 182                                       |
| Short-term borrowings                       | -                 | -              | -              | -              | -                                | 68,582                                    |
| Tax liabilities                             | -                 | -              | -              | -              | -                                | 1,654                                     |
|   | 139               | 267            | 320            | 323            | 466                              | 118,086                                   |
| <b>Net Current Assets (Liabilities)</b>     | (5)               | (8)            | (15)           | (17)           | (20)                             | 18,773                                    |
| Long-term liabilities                       | -                 | -              | -              | -              | -                                | (142)                                     |
| Deferred tax liabilities                    | -                 | -              | -              | -              | -                                | (824)                                     |
| Minority interests                          | -                 | -              | -              | -              | -                                | (6,344)                                   |
| <b>Net Assets (Liabilities)</b>             | <b>**</b>         | <b>**</b>      | <b>**</b>      | (17)           | 37,380                           | 51,854                                    |

## 9. ACCOUNTANTS' REPORT (Cont'd)

|   | Company           |                |                |                | As of June<br>30, 2001<br>RM'000 | Group<br>As of June<br>30, 2001<br>RM'000 |
|---|-------------------|----------------|----------------|----------------|----------------------------------|---|
|   | As of December 31 |                |                |                |                                  |   |
|   | 1997<br>RM'000    | 1998<br>RM'000 | 1999<br>RM'000 | 2000<br>RM'000 |                                  |   |
| Represented by:                                     |                   |                |                |                |                                  |   |
| Share capital                                       | *                 | *              | *              | *              | 12,772                           | 12,772                                    |
| Share premium                                       | -                 | -              | -              | -              | 1,277                            | 1,277                                     |
| Reserve on consolidation                            | -                 | -              | -              | -              | -                                | 14,474                                    |
| Accumulated loss                                    | -                 | -              | -              | (17)           | (20)                             | (20)                                      |
|   | **                | **             | **             | (17)           | 14,029                           | 28,503                                    |
| Shares pending allotment                            | -                 | -              | -              | -              | 23,351                           | 23,351                                    |
|   | **                | **             | **             | (17)           | 37,380                           | 51,854                                    |
| Net tangible assets<br>(liabilities) (RM'000)       | (5)               | (8)            | (15)           | (17)           | 37,380                           | 45,958                                    |
| Net tangible assets<br>(liabilities) per share (RM) | (2,500)           | (4,000)        | (7,500)        | (8,500)        | 1.10                             | 1.35                                      |

\* The paid-up share capital comprises 2 ordinary shares of RM1 each.

\*\* RM2

**Notes to the balance sheets:**

- (i) Emivest was incorporated on January 2, 1997 and its first set of audited financial statements was from the date of incorporation to December 31, 1997.
- (ii) In 2000, Emivest expensed off the deferred expenditure which do not meet the criteria of an asset. The write-off was made in line with the adoption of MASB 1, which does not allow the recognition of items in the balance sheets which do not meet the definition of assets.
- (iii) The net tangible assets per share of the Company and Group as of June 30, 2001 takes into account shares pending allotment which are deemed to have been issued.

## 9. ACCOUNTANTS' REPORT (Cont'd)

### 8.2 Gymtech Group

|   | ← As of December 31 → |                |                |                |                | As of June<br>30, 2001<br>RM'000 |
|---|-----------------------|----------------|----------------|----------------|----------------|----------------------------------|
|   | 1996<br>RM'000        | 1997<br>RM'000 | 1998<br>RM'000 | 1999<br>RM'000 | 2000<br>RM'000 |                                  |
| Property, plant and equipment               | 12,757                | 12,593         | 11,197         | 9,825          | 14,605         | 27,584                           |
| Investment in associated company            | -                     | 900            | 1,374          | 1,586          | 2,132          | 2,165                            |
| Goodwill on consolidation                   | -                     | -              | -              | -              | -              | 5,896                            |
| Deferred expenditure                        | 4                     | 7              | 9              | 11             | -              | -                                |
| <b>Current assets</b>                       |                       |                |                |                |                |                                  |
| Inventories                                 | 7,550                 | 9,127          | 10,345         | 7,068          | 6,415          | 9,208                            |
| Trade receivables                           | 32,495                | 46,223         | 71,018         | 64,815         | 75,991         | 102,286                          |
| Other receivables, deposits and prepayments | 11,808                | 8,625          | 8,428          | 10,241         | 9,294          | 10,057                           |
| Amount owing by holding company             | -                     | -              | -              | -              | -              | 459                              |
| Fixed deposits, cash and bank balances      | 10,247                | 4,940          | 5,655          | 6,836          | 3,900          | 5,661                            |
|   | 62,100                | 68,915         | 95,446         | 88,960         | 95,600         | 127,671                          |
| <b>Current liabilities</b>                  |                       |                |                |                |                |                                  |
| Trade payables                              | 17,142                | 18,750         | 26,713         | 17,211         | 25,389         | 32,002                           |
| Other payables and accruals                 | 1,707                 | 1,976          | 1,451          | 1,730          | 2,638          | 15,500                           |
| Hire-purchase creditors                     | 716                   | 816            | 423            | 185            | 160            | 182                              |
| Short-term borrowings                       | 33,761                | 34,574         | 47,877         | 43,886         | 47,122         | 67,576                           |
| Tax liabilities                             | 1,648                 | 1,136          | 1,967          | 526            | 1,055          | 1,529                            |
| Proposed dividend                           | -                     | -              | -              | 6,930          | 2,310          | -                                |
|   | 54,974                | 57,252         | 78,431         | 70,468         | 78,674         | 116,789                          |
| <b>Net current assets</b>                   | 7,126                 | 11,663         | 17,015         | 18,492         | 16,926         | 10,882                           |
| <b>Long-term liabilities</b>                | (2,575)               | (1,995)        | (1,079)        | (385)          | (193)          | (141)                            |
| Deferred tax liabilities                    | (455)                 | (455)          | (824)          | (824)          | (824)          | (824)                            |
| Minority interests                          | -                     | -              | -              | -              | -              | (6,344)                          |
| <b>Net Assets</b>                           | 16,857                | 22,713         | 27,692         | 28,705         | 32,646         | 39,218                           |
| <b>Represented by:</b>                      |                       |                |                |                |                |                                  |
| Share capital                               | 4,620                 | 4,620          | 4,620          | 4,620          | 4,620          | 7,750                            |
| Unappropriated profit                       | 12,237                | 18,093         | 23,072         | 24,085         | 28,026         | 31,468                           |
| <b>Shareholders' Equity</b>                 | 16,857                | 22,713         | 27,692         | 28,705         | 32,646         | 39,218                           |
| <b>Net tangible assets (RM'000)</b>         | 16,853                | 22,706         | 27,683         | 28,694         | 32,646         | 33,322                           |
| <b>Net tangible assets per share (RM)</b>   | 3.65                  | 4.91           | 5.99           | 6.21           | 7.07           | 4.30                             |



## 9. ACCOUNTANTS' REPORT (Cont'd)

### Notes to the balance sheets:

- (i) Prior to 2000, Gymtech did not prepare consolidated financial statements as the sole subsidiary company, Kayangan was dormant. In 2000, Gymtech commenced preparing consolidated financial statements to comply with MASB 11, which does not allow non-consolidation of a subsidiary company on the basis that the subsidiary company is dormant. As a result, the consolidated balance sheets of Gymtech Group as of financial years ended December 31, 1996 to 1999 were presented with adjustments made for the share in results of Indahgrains.
- (ii) In 2000, Kayangan expensed off the deferred expenditure which do not meet the criteria of an asset. The write-off was made in line with the adoption of MASB 1, which does not allow the recognition of items in the balance sheets which do not meet the definition of assets.

### 8.3 Sri Medan

|   | As of December 31 |         |        |        |        | As of June |
|---|-------------------|---------|--------|--------|--------|------------|
|   | 1996              | 1997    | 1998   | 1999   | 2000   | 30, 2001   |
|   | RM'000            | RM'000  | RM'000 | RM'000 | RM'000 | RM'000     |
| Property, plant and equipment               | 6,074             | 5,750   | 5,275  | 4,829  | 4,920  | 4,746      |
| Current assets                              |                   |         |        |        |        |            |
| Inventories                                 | 1,449             | 1,660   | 1,672  | 1,231  | 1,435  | 1,321      |
| Trade receivables                           | 2,213             | 2,705   | 4,121  | 2,676  | 4,333  | 5,813      |
| Other receivables, deposits and prepayments | 3,998             | 1,745   | 2,011  | 2,116  | 1,810  | 1,624      |
| Fixed deposits, cash and bank balances      | 4,311             | 6,602   | 2,377  | 3,090  | 2,377  | 1,280      |
|   | 11,971            | 12,712  | 10,181 | 9,113  | 9,955  | 10,038     |
| Current liabilities                         |                   |         |        |        |        |            |
| Trade payables                              | 1,390             | 724     | 291    | 193    | 844    | 937        |
| Other payables and accruals                 | 1,390             | 150     | 246    | 96     | 71     | 60         |
| Hire-purchase creditors                     | 169               | -       | -      | -      | -      | -          |
| Short-term borrowings                       | 1,774             | 3,116   | 3,383  | 1,344  | 1,493  | 1,007      |
| Tax liabilities                             | 410               | 680     | 735    | 416    | 314    | 124        |
| Proposed dividend                           | -                 | 1,950   | -      | -      | -      | -          |
|   | 5,133             | 6,620   | 4,655  | 2,049  | 2,722  | 2,128      |
| Net current assets                          | 6,838             | 6,092   | 5,526  | 7,064  | 7,233  | 7,910      |
| Long-term liabilities                       | (2,246)           | (1,180) | (715)  | -      | -      | -          |
| Net Assets                                  | 10,666            | 10,662  | 10,086 | 11,893 | 12,153 | 12,656     |
| Represented by:                             |                   |         |        |        |        |            |
| Share capital                               | 650               | 650     | 650    | 650    | 650    | 650        |
| Unappropriated profit                       | 10,016            | 10,012  | 9,436  | 11,243 | 11,503 | 12,006     |
| Shareholders' Equity                        | 10,666            | 10,662  | 10,086 | 11,893 | 12,153 | 12,656     |
| Net tangible assets (RM'000)                | 10,666            | 10,662  | 10,086 | 11,893 | 12,153 | 12,656     |
| Net tangible assets per share (RM)          | 16.41             | 16.40   | 15.52  | 18.30  | 18.70  | 19.47      |

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


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**9. PROFORMA STATEMENTS OF ASSETS AND LIABILITIES**

The proforma statements of assets and liabilities of Emivest is based on the audited consolidated financial statements of Emivest as of June 30, 2001 and include the effects of the public issue and utilisation of proceeds from public issue. The statements of assets and liabilities of the Company and the Proforma Group are to be read in conjunction with the notes thereto.

| ASSETS  | Note/s | The Company<br>RM'000 | Proforma<br>Group<br>RM'000 |
|---|--------|-----------------------|-----------------------------|
| <b>Property, plant and equipment</b>          | B      | -                     | 32,330                      |
| <b>Goodwill on consolidation</b>              | C      | -                     | 5,896                       |
| <b>Investment in subsidiary companies</b>     | D      | 37,400                | -                           |
| <b>Investment in associated companies</b>     | E      | -                     | 2,165                       |
| <b>Current Assets</b>                         |        |                       |                             |
| Inventories                                   | F      | -                     | 10,529                      |
| Trade receivables                             | G & H  | -                     | 107,262                     |
| Other receivables, deposits and prepayments   |        | 446                   | 12,127                      |
| Fixed deposits, cash and bank balances        | I      | -                     | 7,141                       |
|   |        | 446                   | 137,059                     |
| <b>Current Liabilities</b>                    |        |                       |                             |
| Trade payables                                | H      | -                     | 32,101                      |
| Other payables and accruals                   | H      | 7                     | 5,567                       |
| Amount owing to subsidiary company            | H      | 459                   | -                           |
| Hire-purchase creditors                       | J      | -                     | 182                         |
| Short-term borrowings                         | K      | -                     | 70,882                      |
| Tax liabilities                               |        | -                     | 1,654                       |
|   |        | 466                   | 110,386                     |
| <b>Net Current Assets (Liabilities)</b>       |        | (20)                  | 26,673                      |
| <b>Long-term and Deferred Liabilities</b>     |        |                       |                             |
| Deferred tax liabilities                      | M      | -                     | 824                         |
| Hire-purchase creditors - non-current portion | J      | -                     | 142                         |
|   |        | -                     | (966)                       |
| <b>Minority interests</b>                     |        | -                     | (6,344)                     |
| <b>Net Assets</b>                             |        | 37,380                | 59,754                      |

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

|                                    | Note/s | The Company<br>RM'000 | Proforma<br>Group<br>RM'000 |
|------------------------------------|--------|-----------------------|-----------------------------|
| <b>Represented by:</b>             |        |                       |                             |
| Issued capital                     | N      | 12,772                | 40,000                      |
| Share premium                      |        | 1,277                 | 5,300                       |
| Reserve on consolidation           |        | -                     | 14,474                      |
| Accumulated loss                   |        | <u>(20)</u>           | <u>(20)</u>                 |
|                                    |        | 14,029                | 59,754                      |
| Shares pending allotment           | N      | <u>23,351</u>         | <u>-</u>                    |
| <b>Shareholders' Equity</b>        |        | <u>37,380</u>         | <u>59,754</u>               |
| Net tangible assets                |        | 37,380                | 53,858                      |
| Net tangible assets per share (RM) |        | <u>1.10</u>           | <u>1.35</u>                 |

*The statements of assets and liabilities are prepared in accordance with the applicable approved accounting standards of the Malaysian Accounting Standards Board.*

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


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**A. SIGNIFICANT ACCOUNTING POLICIES****Basis of Accounting**

The financial statements of the proforma Group and the Company have been prepared under the historical-cost convention modified to include the revaluation of certain property, plant and equipment of a subsidiary company.

**Foreign Currency Conversions**

Transactions in foreign currencies are converted into Ringgit Malaysia at the exchange rates prevailing at the transaction dates or, where settlement has not taken place at the end of the financial period, at the approximate exchange rates prevailing at that date. All foreign exchange gains or losses are taken up in the income statements.

**Income Tax**

The tax effects of transactions are generally recognised using the "liability" method, when such transactions enter into the determination of net income regardless of when they are recognised for tax purposes. However, where timing differences give rise to a net deferred tax debit, the tax effects will be recognised generally on actual realisation.

**Property, Plant and Equipment and Depreciation**

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

Depreciation of property, plant and equipment (except for freehold land and capital work-in-progress which are not depreciated) is computed on the straight-line method at the following annual rates based on the estimated useful lives of the various assets:

|   | <b>Rates</b> |
|---|--------------|
| Factory buildings                                 | 2%           |
| Farm buildings                                    | 2.5%         |
| Plant and machinery                               | 10%          |
| Motor vehicles, furniture, fittings and equipment | 5%-20%       |

Long-term leasehold land are amortised over the remaining period of the lease of 80 and 99 years.

**Basis of consolidation**

The consolidated financial statements incorporated the financial statements of the Company and all the subsidiary companies listed under Note D made up to the end of the financial year.

The results of subsidiary companies acquired or disposed of during the financial period are included in the consolidated financial statements from the effective date of acquisition up to the effective date of disposal.

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

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All significant intercompany transactions and balances are eliminated on consolidation.

Goodwill or reserve arising from consolidation represents the difference between the purchase consideration and the sum of the fair values of the identifiable net assets of the subsidiary companies acquired as of the date of acquisition and is amortised over its estimated economic useful life of 20 years.

**Investments**

Investment in the unquoted subsidiary companies, which are eliminated on consolidation, are stated in the Company's financial statements at cost less provision for diminution in value, if any.

Other long-term investment in associated companies are stated at cost less provision for diminution in value, if any.

A provision is made when the Directors are of the opinion that a permanent diminution in value of an investment has occurred.

**Subsidiary Companies**

Subsidiary companies are companies where the Company's equity interest is more than 50% or where it has the power to control the financial and operating policies of the management of the companies.

**Associated Companies**

Associated companies are non-subsidiary companies in which the Proforma Group and the Company hold as long term investment no less than 20% of the equity voting rights and in which the Proforma Group and the Company are in a position to exercise significant influence through management participation over the financial and operating policies.

**Inventories**

Inventories are valued at the lower of cost and net realisable value.

Cost of work-in-progress, finished goods and hatching eggs (determined on the weighted average method) comprises the cost of raw materials, direct labour and a proportion of production overheads.

The cost of raw materials, medication, consumables (determined on weighted average method) and poultry feeds (determined on 'first-in, first out' method) comprises the original purchase price plus the cost incurred in bringing the inventories to their present location.

Parent inventories (breeder ducks) are stated at cost (determined on the weighted average method) adjusted for amortisation (calculated based on their economic egg-laying lives less net realisable value). Cost of parent inventories consists of the original purchase price of these ducks plus growing costs which include cost of raw materials, direct labour and a proportion of farm overheads.

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


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**Receivables**

Bad debts are written-off while provision for doubtful debts is made based on estimates of possible losses which may arise from non-collection of certain receivable accounts.

**Cash Flow Statements**

The Proforma Group and the Company adopt the indirect method in the preparation of the cash flow statements.

Cash equivalents are short-term, highly liquid investments with maturities of three months or less from the date of acquisition and are readily convertible to cash with insignificant risks of changes in value.

**B. PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment of the Proforma Group (all belonging to subsidiary companies) in 2001 consist of the following:

|   | ← Cost or valuation →            |   |                     |                     |                            |
|---|----------------------------------|---|---------------------|---------------------|----------------------------|
|   | Beginning<br>of period<br>RM'000 | Acquisition of<br>subsidiary<br>companies<br>RM'000 | Additions<br>RM'000 | Disposals<br>RM'000 | End<br>of period<br>RM'000 |
| Long-term leasehold land                                |                                  |   |                     |                     |                            |
| - at cost   | -                                | 5,475   | -                   | -                   | 5,475                      |
| - at 2000 valuation                                     | -                                | 3,100   | -                   | -                   | 3,100                      |
| Freehold land   | -                                | 1,724   | -                   | -                   | 1,724                      |
| Factory buildings                                       | -                                | 10,652  | -                   | -                   | 10,652                     |
| Farm buildings  | -                                | 3,894   | -                   | -                   | 3,894                      |
| Plant and machinery                                     | -                                | 16,055  | -                   | -                   | 16,055                     |
| Motor vehicles,<br>furniture, fittings and<br>equipment | -                                | 12,364  | -                   | -                   | 12,364                     |
| Capital work-in-<br>progress                            | -                                | 412   | -                   | -                   | 412                        |
| Total   | -                                | 53,676  | -                   | -                   | 53,676                     |

## 9. ACCOUNTANTS' REPORT (Cont'd)

|   | ← Accumulated Depreciation →     |   |                     |                     | End<br>of period<br>RM'000 |
|---|----------------------------------|---|---------------------|---------------------|----------------------------|
|   | Beginning<br>of period<br>RM'000 | Acquisition of<br>subsidiary<br>companies<br>RM'000 | Additions<br>RM'000 | Disposals<br>RM'000 |                            |
| Long-term leasehold land                                |                                  |   |                     |                     |                            |
| - at cost   | -                                | 52  | -                   | -                   | 52                         |
| - at 2000 valuation                                     | -                                | 99  | -                   | -                   | 99                         |
| Factory buildings                                       | -                                | 1,442   | -                   | -                   | 1,442                      |
| Farm buildings  | -                                | 956   | -                   | -                   | 956                        |
| Plant and machinery                                     | -                                | 9,722   | -                   | -                   | 9,722                      |
| Motor vehicles,<br>furniture, fittings and<br>equipment | -                                | 9,075   | -                   | -                   | 9,075                      |
| <b>Total</b>  | <b>-</b>                         | <b>21,346</b>                                       | <b>-</b>            | <b>-</b>            | <b>21,346</b>              |

|   | ← Net Book Value →               |                            |
|---|----------------------------------|----------------------------|
|   | Beginning<br>of period<br>RM'000 | End<br>of period<br>RM'000 |
| Long-term leasehold land                          |                                  |                            |
| - at cost   | -                                | 5,423                      |
| - at 2000 valuation                               | -                                | 3,001                      |
| Freehold land                                     | -                                | 1,724                      |
| Factory buildings                                 | -                                | 9,210                      |
| Farm buildings                                    | -                                | 2,938                      |
| Plant and machinery                               | -                                | 6,333                      |
| Motor vehicles, furniture, fittings and equipment | -                                | 3,289                      |
| Capital work-in-progress                          | -                                | 412                        |
| <b>Total</b>                                      | <b>-</b>                         | <b>32,330</b>              |

As of balance sheet date, the net book value of property, plant and equipment under hire purchase of the Proforma Group (all pertaining to the subsidiary companies) in respect of which installments are outstanding amounted to RM866,638.

As of the date of report, the titles of certain parcels of long-term leasehold land and freehold land with carrying value of RM5,115,352 and RM490,105 (pertaining to a subsidiary company) respectively are yet to be registered in the name of the subsidiary company.

Pursuant to the fixed and floating charges over all the assets of the Proforma Group (all pertaining to the subsidiary companies) and a fixed charge over the long-term leasehold land, freehold land and buildings executed in favour of certain banks (Notes K & L), all of the Proforma Group's property, plant and equipment has been pledged to those banks to secure credit facilities granted to the subsidiary companies.

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

The historical costs of long-term leasehold land which was revalued are as follows:

|                          |                   |
|--------------------------|-------------------|
|                          | <b>RM'000</b>     |
| Cost                     | 219               |
| Accumulated depreciation | <u>(46)</u>       |
| Net book value           | <u><u>173</u></u> |

The long-term leasehold land of a subsidiary company was revalued by an independent firm of professional valuers based on the open market value on its existing use basis

**C. GOODWILL ON CONSOLIDATION**

|  |                                      |
|--|--------------------------------------|
|  | <b>Proforma<br/>Group<br/>RM'000</b> |
| Balance at beginning of period   | -                                    |
| Goodwill on consolidation arising from acquisition of subsidiary company | <u>5,896</u>                         |
| Balance at end of period   | <u><u>5,896</u></u>                  |

**D. INVESTMENT IN SUBSIDIARY COMPANIES**

|                           |                               |
|---------------------------|-------------------------------|
|                           | <b>The Company<br/>RM'000</b> |
| Unquoted shares - at cost | <u><u>37,400</u></u>          |

The subsidiary companies are as follows:

| <b>Name of Company</b>                         | <b>Place of<br/>Incorporation</b> | <b>Effective<br/>Percentage of<br/>Ownership<br/>2001</b> | <b>Principal Activities</b>                               |
|--|-----------------------------------|---|---|
| Gymtech Feedmill<br>(Malacca) Sdn. Bhd.        | Malaysia                          | 100%  | Manufacturing and<br>marketing of animal feeds            |
| * Sri Medan Duck<br>Farm Sdn. Bhd.             | Malaysia                          | 100%  | Duck breeders for the sale<br>of poultry, eggs and others |
| * + Ideal Multifeed<br>(Malaysia) Sdn.<br>Bhd. | Malaysia                          | 59.68%  | Manufacturing and<br>marketing of animal feeds            |
| + Kayangan Runding<br>Sdn. Bhd.                | Malaysia                          | 100%  | Dormant   |



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

\* The financial statements of these subsidiary companies were examined by auditors other than the auditors of the Company.

+ These investments are held through Gymtech Feedmill (Malacca) Sdn. Bhd.

**E. INVESTMENT IN ASSOCIATED COMPANIES**

|                                       | <b>Proforma<br/>Group<br/>RM'000</b> |
|---------------------------------------|--------------------------------------|
| Unquoted shares - at cost             | 1,750                                |
| Share of post acquisition profit      | <u>515</u>                           |
|                                       | 2,265                                |
| Provision for diminution in value     | <u>(400)</u>                         |
|                                       | 1,865                                |
| Amount owing by an associated company | <u>300</u>                           |
|                                       | <u><u>2,165</u></u>                  |

The associated companies are as follows:

|   | <b>Name of Company</b>             | <b>Place of<br/>Incorporation</b> | <b>Effective<br/>Percentage<br/>of<br/>Ownership<br/>2001</b> | <b>Principal Activities</b>                        |
|---|------------------------------------|-----------------------------------|---|--|
| + | Indahgrains<br>Logistics Sdn. Bhd. | Malaysia                          | 20%   | Operating of warehouse and<br>warehouse management |
| + | Hatchery (Malaysia)<br>Sdn. Bhd.   | Malaysia                          | 19.89%  | Dormant  |

+ Indahgrains Logistics Sdn. Bhd. and Hatchery (Malaysia) Sdn. Bhd. are held through Gymtech Feedmill (Malacca) Sdn. Bhd. and Ideal Multifeed (Malaysia) Sdn. Bhd. respectively.

The amount owing by an associated company represents interest-free advances with no fixed terms of repayment.

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


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**F. INVENTORIES**

|                    | <b>Proforma<br/>Group<br/>RM'000</b> |
|--------------------|--------------------------------------|
| At cost:           |                                      |
| Raw materials      | 6,858                                |
| Poultry feeds      | 44                                   |
| Work-in-progress   | 362                                  |
| Finished goods     | 677                                  |
| Medication         | 835                                  |
| Parent inventories | 1,096                                |
| Hatching eggs      | 141                                  |
| Consumables        | <u>516</u>                           |
| Total              | <u><u>10,529</u></u>                 |

**G. TRADE RECEIVABLES**

|                              | <b>Proforma<br/>Group<br/>RM'000</b> |
|------------------------------|--------------------------------------|
| Trade receivables            | 108,305                              |
| Provision for doubtful debts | <u>(1,043)</u>                       |
| Net                          | <u><u>107,262</u></u>                |

**H. RELATED PARTIES TRANSACTIONS**

The amount owing to subsidiary company arose mainly from expenses paid on behalf which is unsecured, interest-free and has no fixed terms of repayment.

Included in the following accounts are balances owing by/to companies in which the directors of the subsidiary companies are also directors and/or shareholders.

|                   | <b>Proforma<br/>Group<br/>RM'000</b> |
|-------------------|--------------------------------------|
| Trade receivables | 23,660                               |
| Trade payables    | 861                                  |
| Other payables    | <u>12</u>                            |

Balances with related parties arose mainly from trade transactions.

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


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The Directors of the Company are of the opinion that the above transactions have been entered in the normal course of business and have been established under terms that are no less favourable than those arranged with independent third parties.

**I. FIXED DEPOSITS, CASH AND BANK BALANCES**

|                                    | <b>Proforma<br/>Group<br/>RM'000</b> |
|------------------------------------|--------------------------------------|
| Fixed deposits with licensed banks | 1,223                                |
| Cash and bank balances             | <u>5,918</u>                         |
|                                    | <u><u>7,141</u></u>                  |

Fixed deposit with a licensed bank (pertaining to a subsidiary company) amounting to RM13,233 is pledged as security for guarantees issued by the said bank.

**J. HIRE-PURCHASE CREDITORS**

|   | <b>Proforma<br/>Group<br/>RM'000</b> |
|---|--------------------------------------|
| Hire-purchase creditors   | 383                                  |
| Less: Interest in suspense                                      | <u>(59)</u>                          |
|   | 324                                  |
| Portion due within one year, included under current liabilities | <u>(182)</u>                         |
|   | <u><u>142</u></u>                    |

The implicit interest rates of amount due to hire-purchase creditors range from 5.65% to 5.90% per annum.

The non-current portion of hire-purchase creditors as of June 30, 2001 are payable as follows:

|                              | <b>Proforma<br/>Group<br/>RM'000</b> |
|------------------------------|--------------------------------------|
| For financial period ending: |                                      |
| 2002                         | 121                                  |
| 2003                         | <u>21</u>                            |
| Total                        | <u><u>142</u></u>                    |

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


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**K. SHORT-TERM BORROWINGS**

|  | <b>Proforma<br/>Group<br/>RM'000</b> |
|--|--------------------------------------|
| Unsecured:   |                                      |
| Bank overdraft   | 15                                   |
| Secured:   |                                      |
| Bank overdrafts  | 646                                  |
| Other borrowings                                       | 70,171                               |
| Portion of long-term loan due within one year (Note L) | <u>50</u>                            |
| Total  | <u><u>70,882</u></u>                 |

The bank overdrafts and other credit facilities are secured by way of legal charges over the subsidiary companies' long-term leasehold land, factory buildings, the shares of an indirect subsidiary company and a fixed and floating charge over the fixed and floating assets of the subsidiary companies and are also jointly and severally guaranteed by the directors of the subsidiary companies and a related party of a subsidiary company. The bank overdrafts and other borrowings bear interest at rates ranging from 3.95% to 7.80% per annum.

**L. LONG-TERM LOAN**

|                                      | <b>Proforma<br/>Group<br/>RM'000</b> |
|--------------------------------------|--------------------------------------|
| Outstanding loan:                    |                                      |
| Secured:                             |                                      |
| Principal                            | 50                                   |
| Portion due within one year (Note K) | <u>(50)</u>                          |
| Noncurrent portion                   | <u><u>-</u></u>                      |

The long-term loan is secured by way of legal charges over a subsidiary company's long-term leasehold land, factory buildings and a fixed and floating charge over the fixed and floating assets of the subsidiary company, bears interest at a rate of 8.3% per annum and is also jointly and severally guaranteed by the directors of the subsidiary company. The loan is repayable by 48 equal monthly installments of RM51,019 (inclusive of interest) commencing August, 1997.

**M. DEFERRED TAX LIABILITIES/ASSETS**

The deferred tax liability is in respect of timing differences between depreciation and tax allowances on property, plant and equipment.

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

As mentioned in Note B, the tax effects of timing differences which give rise to net future tax benefit are recognised generally on actual realisation. As of June 30, 2001, the amount of deferred income tax of the Proforma Group (all pertaining to a subsidiary company) calculated at current tax rate which is not recognised in the financial statements is as follows:

|  | <b>Proforma<br/>Group<br/>Deferred<br/>Tax Assets<br/>RM'000</b> |
|--|--|
| Tax effects of timing differences in respect of: |  |
| Carryforward tax losses                          | 3,360  |
| Carryforward reinvestment allowances             | <u>1,484</u>   |
| Total Deferred Tax Assets                        | <u><u>4,844</u></u>  |

The carryforward tax losses and reinvestment allowances are subject to the agreement of the tax authorities.

**N. SHARE CAPITAL**

|                               | <b>Company<br/>RM'000</b> | <b>Proforma<br/>Group<br/>RM'000</b> |
|-------------------------------|---------------------------|--------------------------------------|
| <b>Authorised:</b>            |                           |                                      |
| Ordinary shares of RM1 each   | <u>50,000</u>             | <u>50,000</u>                        |
| <b>Issued and fully paid:</b> |                           |                                      |
| Ordinary shares of RM1 each   | <u>12,772</u>             | <u>40,000</u>                        |

During the financial period, the Company increased its authorised share capital from RM100,000 consisting of 100,000 ordinary shares of RM1 each to RM50,000,000 consisting of 50,000,000 ordinary shares of RM1 each. The Company also increased its issued and paid up share capital from RM2 to RM12,771,966 by way of allotments of 12,771,964 new ordinary shares of RM1 each at RM1.10 per ordinary share for the acquisition of subsidiary companies.

The new shares issued rank pari passu with the then existing shares of the Company.

Pursuant to the acquisition of subsidiary companies as mentioned in Note Q, the Company has also granted rights to allotment of 21,228,036 ordinary shares of RM1 each at RM1.10 per ordinary share. The new shares to be issued at a value of RM23,350,840 (inclusive of the premium upon issue of RM2,122,804) were taken up as shares pending allotment. The allotment of these shares will be effected as part of the completion of the proposed Public Issue and Offer for Sale as mentioned in Note Q.

**9. ACCOUNTANTS' REPORT (Cont'd)****O. ACQUISITION OF SUBSIDIARY COMPANIES**

During the financial period, the Company acquired Gymtech Feedmill (Malacca) Sdn. Bhd. and Sri Medan Duck Farm Sdn. Bhd. The effect of these acquisitions on the financial position at the period end is as follows:

|  | <b>RM'000</b> |
|--|---------------|
| Property, plant and equipment          | 32,330        |
| Goodwill on consolidation              | 5,896         |
| Investment in associated companies     | 2,165         |
| Inventories                            | 10,529        |
| Trade and other receivables            | 119,402       |
| Fixed deposits, cash and bank balances | 6,941         |
| Trade and other payables               | (47,662)      |
| Hire-purchase creditors                | (324)         |
| Short-term borrowings                  | (68,582)      |
| Tax liabilities                        | (1,653)       |
| Deferred tax liabilities               | (824)         |
| Minority interests                     | (6,344)       |
|  | <u>51,874</u> |
| Increase in Group net assets           | <u>51,874</u> |

**P. COMMITMENTS**

As of June 30, 2001, the Proforma Group (all pertaining to subsidiary companies) has the following commitments:

|  | <b>Proforma<br/>Group<br/>RM'000</b> |
|--|--------------------------------------|
| Construction/acquisition of property, plant and equipment: |                                      |
| Contracted but not provided for                            | 553                                  |
| Authorised but not contracted for                          | 151                                  |
|  | <u>704</u>                           |

**Q. SIGNIFICANT EVENTS DURING THE PERIOD**

During the financial period, the Company:

- acquired 100% equity interest in Gymtech Feedmill (Malacca) Sdn. Bhd. comprising 7,750,061 ordinary shares of RM1 each for a purchase consideration of RM25,507,049 satisfied by the issuance of 10,048,271 ordinary shares and rights to allotment of 13,139,955 ordinary shares of RM1 each respectively, at an issue price of RM1.10 per share;

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

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2. acquired 100% equity interest in Sri Medan Duck Farm Sdn. Bhd. comprising 650,000 ordinary shares of RM1 each for a purchase consideration of RM11,892,951 satisfied by the issuance of 2,723,693 ordinary shares and rights to allotment of 8,088,081 ordinary shares of RM1 each respectively, at an issue price of RM1.10 per share; and
3. obtained approval from Securities Commission for the Public Issue of 6,000,000 new ordinary shares of RM1 each at an issue price of RM1.50 per share, and Offer for Sale of 2,016,575 ordinary shares and Rights to Allotment of 8,000,000 ordinary shares of RM1 each respectively, at an offer price of RM1.50 per share in the Company, and the listing and quotation of the entire issued and paid-up capital of the Company on the Second Board of the Kuala Lumpur Stock Exchange.

**R. SUBSEQUENT EVENTS**

No events have arisen subsequent to the last audited financial statements date of June 30, 2001 which require disclosure in this Report.

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


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**10. PROFORMA CONSOLIDATED CASHFLOW STATEMENT**

The proforma consolidated cashflow statement of Emivest Group for the six months period ended June 30, 2001 has been prepared for illustrative purposes only based on the audited financial statements of Emivest, Gymtech Group and Sri Medan for the six months period ended June 30, 2001 on the assumption that the acquisitions of Gymtech and Sri Medan by Emivest have been effected prior to January 1, 2001:

|   | <b>Proforma Group<br/>6 months period<br/>ended June 30,<br/>2001<br/>RM'000</b> |
|---|--|
| <b>Cash Flows From (Used In) Operating Activities</b>   |  |
| Profit before tax                                       | 6,092  |
| Adjustments for:  |  |
| Finance costs   | 1,670  |
| Depreciation of property, plant and equipment           | 1,381  |
| Provision for doubtful debts                            | 172  |
| Amortisation of goodwill                                | 80   |
| Bad debts written-off                                   | 18   |
| Loss on disposal of property, plant and equipment       | (38)   |
| Interest income   | (66)   |
| Share in results of associated company                  | (157)  |
|   | <hr/>  |
| Operating Profit before Working Capital Changes         | 9,152  |
| Decrease in inventories                                 | 155  |
| Decrease in trade and other receivables                 | 1,265  |
| Decrease in trade and other payables                    | (4,230)  |
|   | <hr/>  |
| Cash Generated From Operations                          | 6,342  |
| Finance costs paid                                      | (1,651)  |
| Income tax paid   | (1,355)  |
|   | <hr/>  |
| Net Cash Generated From Operating Activities            | <hr/> 3,336  |
| <b>Cash Flows From (Used In) Investing Activities</b>   |  |
| Proceeds from disposal of property, plant and equipment | 96   |
| Interest income received                                | 66   |
| Acquisition of subsidiary company*                      | (642)  |
| Purchase of property, plant and equipment               | (1,064)  |
|   | <hr/>  |
| Net Cash Used In Investing Activities                   | <hr/> (1,544)  |



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


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|   | <b>Proforma Group<br/>6 months period<br/>ended June 30,<br/>2001<br/>RM'000</b> |
|---|--|
| <b>Cash Flows From (Used In) Financing Activities</b>   |  |
| Proceeds from short-term borrowings                     | 68,636   |
| Issue of shares   | 3,130  |
| Repayment of hire-purchase loans                        | (126)  |
| Repayment of long-term loan                             | (291)  |
| Dividend paid   | (2,310)  |
| Repayments of short-term borrowings                     | (69,946)   |
|   | <hr/>  |
| Net Cash Used In Financing Activities                   | (907)  |
|   | <hr/>  |
| <b>Net increase in cash and cash equivalents</b>        | 885  |
|   | <hr/>  |
| <b>Cash and cash equivalents at beginning of period</b> | 5,382  |
|   | <hr/>  |
| <b>Cash and cash equivalents at end of period</b>       | 6,267  |
|   | <hr/> <hr/>  |
| Cash and cash equivalents comprise the following:       |  |
| Fixed deposits  | 1,210  |
| Cash and bank balances                                  | 5,718  |
| Bank overdrafts   | (661)  |
|   | <hr/>  |
|   | 6,267  |
|   | <hr/> <hr/>  |

\* Gymtech acquired Ideal in 2001. The fair value of the assets acquired and the liabilities assumed are as follows:

|  |             |
|--|-------------|
| Property, plant and equipment                                | 13,180      |
| Inventories  | 2,835       |
| Receivables  | 34,395      |
| Payables   | (35,634)    |
| Goodwill on consolidation                                    | 5,975       |
| Minority interests   | (5,958)     |
|  | <hr/>       |
| Total acquisition cost                                       | 14,793      |
| Less: Amount outstanding, included under current liabilities | (10,315)    |
| Deposits paid prior to January 1, 2001                       | (4,431)     |
|  | <hr/>       |
| Add: Cash and cash equivalents acquired                      | 595         |
|  | <hr/>       |
| Cash flows on acquisition, net of cash acquired              | 642         |
|  | <hr/> <hr/> |

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

Based on the proforma consolidated statement of assets and liabilities of Emivest Group as of June 30, 2001, the proforma NTA per ordinary share is calculated as follows:

|  | <b>Proforma<br/>Group<br/>RM'000</b> |
|--|--------------------------------------|
| Proforma NTA of Emivest Group as of June 30, 2001                          | 53,858                               |
| Number of ordinary shares of RM1 each assumed in issue as of June 30, 2001 | <u>40,000</u>                        |
|  | <b>RM</b>                            |
| Proforma NTA per ordinary share of RM1 each                                | <u>1.35</u>                          |

**12. FINANCIAL STATEMENTS**

No audited financial statements of the Company and its subsidiary companies have been drawn up for any period subsequent to June 30, 2001.

Yours faithfully



**DELOITTE TOUCHE TOHMATSU**  
**AF 0834**  
**Chartered Accountants**



**TAN THENG HOOI**  
**1479/1/03(J)**  
**Partner**