

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

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The Board of Directors
Kumpulan Powernet Berhad
9A, Jalan Setiawan
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25 January 2002

Dear Sirs

This report has been prepared by Messr. KPMG, an approved company auditor for the inclusion in the Prospectus to be dated 31 January 2002 in connection with the public issue of 6,500,000 new ordinary shares of RM1.00 each and the offer for sale of 3,700,000 ordinary shares of RM1.00 each in Kumpulan Powernet Berhad ("KPB") at an issue price of RM1.60 per ordinary share and the listing of and quotation for its entire enlarged issued and paid-up share capital on the Second Board of the Kuala Lumpur Stock Exchange ("KLSE").

1. General Information

1.1 Background

KPB was incorporated in Malaysia under the Companies Act, 1965 on 3 February 1997 as a public limited company with an authorised share capital of RM100,000 comprising 100,000 ordinary shares of RM1.00 each.

The principal activity of the Company is that of investment holding.

1.2 Share Capital

1.2.1 The authorised and issued and paid up capital of KPB as at the date of this report are as follows:-

	<i>No. of ordinary shares of RM1.00 each</i>	<i>Total RM</i>
Authorised	100,000,000	100,000,000
Issued and fully paid up	34,500,000	34,500,000



KPMG, a partnership established under Malaysian law, is a member of KPMG International, a Swiss association.

15. ACCOUNTANTS' REPORT (Cont'd)



1.2.2 The movement in KPB's issued and fully paid-up share capital since its incorporation are as follows:-

<i>Date of allotment</i>	<i>No of ordinary shares</i>	<i>Par value RM</i>	<i>Purpose</i>	<i>Total RM</i>
3 February 1997	2	1.00	Subscribers' shares	2
10 January 2002	34,297,395	1.00	Issued as consideration for the acquisition of Powernet Industries Sdn Bhd Group	34,297,397
15 January 2002	202,603	1.00	Rights issue	34,500,000

Subsequent to the offer for sale and public issue, the issued and paid up capital of KPB would be increased to RM41,000,000 by way of an offer for sale of 3,700,000 KPB shares at an offer price of RM1.60 per ordinary share by way of private placement and public issue of 6,500,000 new ordinary shares of RM1.00 each in KPB at an issue price of RM1.60 per ordinary share available for application to the Malaysian public and the eligible employees of the KPB Group, and by way of private placement.

1.3 Restructuring Scheme

In connection with and as part of the listing of and quotation for the entire issue and paid up share capital of KPB on the Second Board of the KLSE, KPB will undertake the following restructuring scheme:-

- Acquisition of the entire issued and paid up share capital of Powernet Industries Sdn Bhd ("PISB") for a total consideration of RM39,940,400 based on the net tangible assets of the PISB Group as at 30 April 2000 after incorporation of revaluation deficit of RM407,312 to be fully satisfied by the issuance of 34,297,395 new KPB ordinary shares at an issue price of approximately RM1.16 per ordinary share.
- Acquisition of the entire issued and paid up share capital of Powernet Properties Sdn Bhd from PISB for a total cash consideration of RM2.00.
- Rights issue of 202,603 new ordinary shares of RM1.00 each in KPB at an issue price of approximately RM1.16 per share.
- Offer for sale of 3,700,000 KPB shares at an offer price of RM1.60 per share by way of private placement and a public issue of 6,500,000 new ordinary shares of RM1.00 each in KPB at an issue price of RM1.60 per share available for application to the Malaysian public and the eligible employees of the KPB Group, and by way of private placement.

The above scheme was approved by the following:

- Securities Commission ("SC") on 14 December 2000, 8 May 2001, 5 October 2001, 14 January 2002 and 25 January 2002;
- MITI on 25 October 2000, 18 September 2001; and
- Foreign Investment Committee on 9 August 2000 and 10 September 2001.

15. ACCOUNTANTS' REPORT (Cont'd)



1.4 Subsidiary Companies

Upon completion of the restructuring of KPB, the subsidiary companies of KPB Group, all of which are incorporated in Malaysia, as at the date of this report and their principal activities are as follows:-

Name of Company	Date of Incorporation	<-----Share Capital----->		Equity interest %	Principal activities
		Authorised RM	Issued and paid-up RM		
Powernet Industries Sdn Bhd ("PISB")	7 May 1979	50,000,000	33,300,000	100	Manufacture of warp-knitted fabrics
Fuwai Manufacturing Sdn Bhd ("FMSB")	2 October 1975	1,000,000	210,000	100	Lamination of fabrics and fibrefill
Gemklip Sdn Bhd ("GSB")	8 March 1976	5,000,000	1,407,072	52	Manufacture of clips, hook and eye fittings, hook and eye tapes and hook and eye tape machines
Powernet Trading (M) Sdn Bhd ("PTSB")	18 January 1995	100,000	10,000	100	Trading of lingerie materials and accessories
Powernet Properties Sdn Bhd ("PPSB")	18 January 1995	100,000	2	100	Property investment
Ladyworld Marketing (M) Sdn Bhd ("LMSB")	20 June 1992	1,000,000	1,000,000	51	Manufacture of undergarments
Subsidiaries of Ladyworld Marketing (M) Sdn Bhd					
Wentai Sdn Bhd ("WSB")	16 February 1995	100,000	55,000	55	Undergarment tailoring contractor
Eramina Sdn Bhd ("ESB")	3 April 1996	100,000	2	100	Trading of undergarments

15. ACCOUNTANTS' REPORT (Cont'd)

**1.5 Accounts and Auditors**

The present financial year end of the proposed KPB Group is 30 April. We have acted as auditors for KPB since the financial year ended 30 April 1997. We have acted as auditors for PISB since the financial year ended 30 April 1994 and all of PISB's direct subsidiaries (except LMSB) since the financial year ended 30 April 1997.

We have acted as auditors for LMSB and its subsidiaries since the financial year ended 30 April 2000.

The Auditors' reports of the Proposed KPB Group for the financial years under review were not subject to any qualification.

1.6 Dividends

The Company has not paid or declared any dividends since its incorporation.

No dividend have been declared or paid by the subsidiaries during the relevant periods under review except for PISB and FMSB.

Details of dividends declared and paid by PISB for the last six relevant periods under review are as follows:

	Tax exempt dividend rate %	Dividends paid/payable RM'000
30 April 1997	-	-
30 April 1998	9.62	2,000
30 April 1999	9.62	2,000
30 April 2000	-	-
30 April 2001	5.00	1,665
31 October 2001	-	-

Details of dividends declared and paid by FMSB for the last five relevant periods under review are as follows:

	Gross dividend rate %	Net dividends paid/payable RM'000
30 April 1997	204	300
30 April 1998	-	-
30 April 1999	-	-
30 April 2000	-	-
30 April 2001	-	-
31 October 2001	-	-

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2. Financial Performance – Group Level

We set out below the proforma consolidated results of the KPBB Group for the past five financial years ended 30 April 2001 and 6 month period ended 31 October 2001 after making such adjustments considered necessary, on the assumption that the KPBB restructuring scheme had been in existence throughout the period under review.

2.1 The KPBB Group - Proforma Consolidated Results

	Year ended				6 months ended	
	1997	1998	30 April		31 October	
	RM'000	RM'000	1999	2000	2001	2001
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Turnover	27,615	23,898	31,075	33,629	33,596	16,820
Profit before depreciation, interest and preliminary and pre-operating expense	8,086	4,636	7,934	10,152	10,479	5,241
Preliminary and pre-operating expense	-	-	-	-	(20)	-
Profit before depreciation and interest but after preliminary and pre-operating expense	8,086	4,636	7,934	10,152	10,459	5,241
Depreciation	(992)	(1,260)	(1,889)	(2,241)	(2,843)	(1,506)
Interest expense	(925)	(1,074)	(1,820)	(797)	(675)	(231)
Interest income	-	-	-	1	55	39
Profit before taxation	6,169	2,302	4,225	7,115	6,996	3,543
Taxation	(239)	(233)	(12)	(1,040)	(821)	38
Profit after taxation	5,930	2,069	4,213	6,075	6,175	3,581
Minority interest	378	148	(221)	(303)	(277)	(56)
Profit attributable to shareholders of the Company	6,308	2,217	3,992	5,772	5,898	3,525
No. of ordinary shares of RM1.00 each ('000)	34,297	34,297	34,297	34,297	34,297	34,297
Earnings per share (RM)						
- Gross	0.19	0.07	0.12	0.20	0.20	0.20 *
- Net	0.18	0.06	0.12	0.17	0.17	0.21 *

* Annualised

Note :

- (i) KPBB Group's high profitability in 1997 is mainly attributable to management's efforts to focus on improving the quality of its products and customer service levels. This has caused KPBB Group to make its presence felt in the global market in terms of providing quality products and being a reliable manufacturer. As a result export sales grew significantly and now contributes approximately 43% of KPBB Group's turnover.

15. ACCOUNTANTS' REPORT (Cont'd)



- (ii) The decline in turnover and a corresponding decrease in operating profit before taxation in 1998 was mainly due to the effects of the economic downturn during 1998. Following the imposition of the exchange controls in September 1998 by the Government, the economic sentiment improved considerably, hence KPB Group's business activity picked up significantly in 1999, 2000 and 2001.
- (iii) The higher interest expense for the financial years ended 30 April 1997, 1998 and 1999 was due to the high level of bank borrowings which was used to finance the purchase of property, plant and equipment. The exceptionally higher interest expense in 1999 was due to the higher interest rates charged by the financial institutions during the economic downturn. The decrease in interest expense in 2000 and 2001 was mainly due to the settlement of the bank overdraft through proceeds from the share issue of RM9,990,000 in 2000.
- (iv) The effective tax rate for the financial years ended 30 April 1997, 1998, 2000 and 2001 were lower than the statutory tax rate due to the utilisation of unabsorbed tax losses and unutilised capital allowances brought forward.
- (v) The negative taxation charged for the financial period ended 31 October 2001 is due to the reversal of deferred taxation.
- (vi) Pursuant to the Income Tax (Amendment) Act, 1999, all income (except for dividend income) falling within the waiver year was waived from income tax. Accordingly, no provision for taxation was made in respect of year ended 30 April 1999.
- (vii) There were no extraordinary items and exceptional items for all the years/period under review.

2.2 Notes to the Proforma Consolidated Results**2.2.1 Basis of consolidation**

Proforma consolidated results of KPB Group are prepared for illustrative purposes only and are based on audited accounts of all the subsidiaries as stated in Paragraph 1.4. All material related company transactions and balances have been eliminated on consolidation.

2.2.2 In preparing the proforma consolidated results, adjustments were made to the financial statements of the KPB Group ("the Group") to reflect them on a consistent basis. The details and effects of the changes are as follows:-**(a) The details of the adjustments are:**

- (i) The proforma consolidated results of KPB Group have been presented on the basis that the restructuring exercise of KPB as detailed in Paragraph 1.3 had been in effect throughout the period under review.
- (ii) Adjustments were made retrospectively to the Group's audited account to consistently present each financial period's result on a 12 month period. For the purpose of preparing the proforma consolidated results, the results for LMSB, WSB and ESB have been time apportioned accordingly for incorporation into the Group's results.
- (iii) Adjustments were made to the minority interest in the consolidated accounts for years ended 30 April 1997 to 1999 on the assumption that the proposed Group had been in existence throughout the period under review.

15. ACCOUNTANTS' REPORT (Cont'd)



(iv) Adjustments were made to the KPB Group's proforma consolidated results to reflect the results of LMSB and WSB, which were acquired on 23 December 1998, and ESB, which was acquired on 27 January 2000. Subsequently, the results of LMSB, WSB and ESB were incorporated into the consolidated results of PISB Group for the financial years ended 30 April 2000 and 2001, and 6 month period ended 31 October 2001.

(b) The effects of changes

(i) Turnover

	Year ended				6 months ended	
	30 April				31 October	
	1997	1998	1999	2000	2001	2001
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Turnover (see para 3.1)	20,989	18,501	27,409	33,629	33,596	16,820
Adjustment in respect of:						
- (a) (i) and (ii)*	9,953	9,313	3,666	-	-	-
- inter company transactions**	(3,327)	(3,916)	-	-	-	-
As restated	27,615	23,898	31,075	33,629	33,596	16,820

* Adjustment for sales of LMSB, WSB and ESB in respect of (a)(i) and (a)(ii).

** Elimination of sales from PISB to LMSB, WSB and ESB.

(ii) Depreciation

	Year ended				6 months ended	
	30 April				31 October	
	1997	1998	1999	2000	2001	2001
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Depreciation (see para 3.1)	814	1,155	1,872	2,241	2,843	1,506
Adjustment in respect of:						
- (a) (i) and (ii)	178	105	17	-	-	-
As restated	992	1,260	1,889	2,241	2,843	1,506

(iii) Interest expense

	Year ended				6 months ended	
	30 April				31 October	
	1997	1998	1999	2000	2001	2001
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Interest (see para 3.1)	826	958	1,800	797	675	231
Adjustment in respect of:						
- (a) (i) and (ii)	99	116	20	-	-	-
As restated	925	1,074	1,820	797	675	231

15. ACCOUNTANTS' REPORT (Cont'd)



(iv) Profit before taxation

	<i>Year ended</i>					<i>6 months ended</i>
	<i><----- 30 April -----></i>					<i>31 October</i>
	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2001</i>
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>
Profit before taxation (see para 3.1)	6,271	2,483	4,258	7,115	6,996	3,543
Adjustment in respect of:						
- (a) (i) and (ii)	(102)	(181)	(33)	-	-	-
As restated	6,169	2,302	4,225	7,115	6,996	3,543

(v) Minority Interest

	<i>Year ended</i>					<i>6 months ended</i>
	<i><----- 30 April -----></i>					<i>31 October</i>
	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2001</i>
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>
Minority interest (net of tax) (see para 3.1)	341	66	(236)	(303)	(277)	(56)
Adjustment in respect of:						
- (a) (iii)	37	82	15	-	-	-
As restated	378	148	(221)	(303)	(277)	(56)

(vi) Earnings Per Share

Gross earnings per share has been calculated based on profit before taxation after minority interest and net earnings per share has been calculated based on profit attributable to shareholders of the KP. KP will have an issued and paid up share capital of RM34,297,397 comprising 34,297,397 ordinary shares of RM1.00 each after the proposed acquisition.

15. ACCOUNTANTS' REPORT (Cont'd)



3 Financial Performance

The summarised results of PISB Group, KPB and each of the subsidiaries based on their audited accounts are set out as below:-

3.1 The PISB Group - Consolidated Results

	Year ended					6 months ended
	<----->		30 April		>----->	
	1997	1998	1999	2000	2001	31 October
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Turnover	20,989	18,501	27,409	33,629	33,596	16,820
Profit before depreciation, interest and preliminary and pre-operating expense	7,911	4,596	7,930	10,152	10,487	5,243
Preliminary and pre-operating expense	-	-	-	-	(20)	-
Profit before depreciation and interest but after preliminary and pre-operating expense	7,911	4,596	7,930	10,152	10,467	5,243
Depreciation	(814)	(1,155)	(1,872)	(2,241)	(2,843)	(1,506)
Interest expense	(826)	(958)	(1,800)	(797)	(675)	(231)
Interest income	-	-	-	1	55	39
Profit before taxation	6,271	2,483	4,258	7,115	7,004	3,545
Taxation	(239)	(233)	(12)	(1,040)	(821)	38
Profit after taxation	6,032	2,250	4,246	6,075	6,183	3,583
Minority interest	341	66	(236)	(303)	(277)	(56)
Profit attributable to shareholders of the Company	6,373	2,316	4,010	5,772	5,906	3,527
No. of ordinary shares of RM1.00 each ('000)	20,800	20,800	20,800	33,300	33,300	33,300
Weighted average number of ordinary shares of RM1.00 each in issue ('000)	20,508	20,800	20,800	30,175	33,300	33,300
Net earnings per share (RM)	0.27 *	0.10 *	0.17 *	0.19	0.18	0.21 **

* Adjusted for bonus issue of 2,510,000 ordinary shares

** Annualised

Note :

- (1) PISB Group's high profitability in 1997 is mainly attributable to management's efforts to focus on improving the quality of its products and customer service levels. This has caused PISB Group to make its presence felt in the global market in terms of providing quality products and being a reliable manufacturer. As a result export sales grew significantly and now contributes approximately 43% of PISB Group's turnover for the financial period ended 31 October 2001.

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



- (2) The decline in turnover and a corresponding decrease in operating profit before taxation in 1998 was mainly due to the effects of the economic downturn during 1998. Following the imposition of the exchange controls in September 1998 by the Government, the economic sentiment improved considerably, hence PISB Group's business activity picked up significantly in 1999, 2000 and 2001.
- (3) The higher interest expense for the financial years ended 30 April 1997, 1998 and 1999 was due to the high level of bank borrowings which was used to finance the purchase of property, plant and equipment. The exceptionally higher interest expense in 1999 was due to the higher interest rates charged by the financial institutions during the economic downturn. The decrease in interest expense in 2000 and 2001 was mainly due to the settlement of the bank overdraft through proceeds from the share issue of RM9,990,000 in 2000.
- (4) The effective tax rate for the financial years ended 30 April 1997, 1998, 2000 and 2001 was lower than the statutory tax rate due to utilisation of unabsorbed tax losses and unutilised capital allowances brought forward.
- (5) The negative taxation charged for the financial period ended 31 October 2001 is due to the reversal of deferred taxation.
- (6) Pursuant to the Income Tax (Amendment) Act, 1999, all income (except for dividend income) falling within the waiver year was waived from income tax. Accordingly, no provision for taxation was made in respect of year ended 30 April 1999. The taxation expenses for 30 April 1999 is in respect of provision for deferred taxation.
- (7) There were no extraordinary items and exceptional items for all the years under review.
- (8) The consolidated results of PISB Group are prepared based on the audited accounts of PISB Group for the 5 financial years ended 30 April 1997 to 30 April 2001 and 6 month period ended 31 October 2001. All material related company transactions and balances have been eliminated on consolidation.

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

3.2 KP B

The summary of results of KP B based on the audited financial statements of KP B for the year ended 30 April 2001 and 6 month period ended 31 October 2001 are as follows:

	2001 RM'000	<i>6 months ended</i> 31 October 2001 RM'000
Turnover	-	-
	=====	=====
Loss before depreciation, interest and preliminary and pre-operating expense	-	(2)
Preliminary and pre-operating expense	(7)	-
	-----	-----
Loss before depreciation and interest but after preliminary and pre-operating expense	(7)	(2)
	-----	-----
Loss before taxation	(7)	(2)
Less : Taxation	-	-
	-----	-----
Loss after taxation	(7)	(2)
	=====	=====
No. of ordinary shares of RM 1.00 each in issue	2	2
Net loss per share (RM'000)	(4)	(2)*

* Annualised

No income statement have been prepared for the years ended 30 April 1997 to 2000 as the Company has not commenced operations from the date of its incorporation on 3 February 1997 to 31 October 2001. The loss during the financial period ended 30 April 2001 is due to the write off of deferred expenditure.

15. ACCOUNTANTS' REPORT (Cont'd)



3.3 PISB

The following financial information of PISB is based on the audited financial statements of PISB for the five financial years ended 30 April 2001 and 6 month period ended 31 October 2001.

3.3.1 Summary of Results

	Year ended					6 months ended
	30 April					31 October
	1997	1998	1999	2000	2001	2001
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Turnover	15,155	12,301	16,557	21,366	20,215	10,944
Profit before depreciation and interest	7,675	3,874	5,960	8,611	8,301	4,471
Depreciation	(427)	(709)	(1,241)	(1,586)	(2,092)	(1,135)
Interest expense	(744)	(747)	(1,415)	(711)	(581)	(178)
Interest income	-	-	-	215	333	166
Profit before taxation	6,504	2,418	3,304	6,529	5,961	3,324
Less : Taxation	(129)	-	-	(825)	(605)	263
Profit after taxation	6,375	2,418	3,304	5,704	5,356	3,587
No. of ordinary shares of RM 1.00 each in issue ('000)	20,800	20,800	20,800	33,300	33,300	33,300
Weighted average number of ordinary shares of RM1.00 each in issue ('000)	20,508	20,800	20,800	30,175	33,300	33,300
Net earnings per share (RM)	0.28 *	0.10 *	0.14 *	0.19	0.16	0.22 **

* Adjusted for bonus issue of 2,510,000 ordinary shares

** Annualised

Note :-

- (1) The high profitability in 1997 is due to management's efforts to increase the quality of its products in order to become more export oriented. In view of the quality of its products and reputation for being a reliable manufacturer, export sales grew from 16% of turnover in 1997 to approximately 40% of turnover in 31 October 2001.
- (2) Business activities and operations of PISB had slowed-down in 1998 due to the effect of the economic crisis. As a result of volatility in exchange rates which adversely affected the economies of some Asian countries, PISB registered a decline in turnover and a corresponding decrease in its profitability.

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- (3) Following the imposition of the exchange controls in September 1998 by the Government, the economic sentiment improved considerably, hence PISB's business activity picked up significantly in 1999 to 2001. This resulted in the increase in turnover, which was in turn translated into a significant improvement in the profitability of PISB.
- (4) The above factors stated in (1) and (2) have resulted in the similar fluctuation in net earnings per share from 1998 to 2001.
- (5) The higher interest expense for the financial years ended 30 April 1997, 1998 and 1999 was due to the high level of bank borrowings which was used to finance the purchase of property, plant and equipment. The exceptionally higher interest expense in 1999 was due to the higher interest rates charged by the financial institutions during the economic downturn. The decrease in interest expense in 2000 and 2001 was mainly due to the settlement of the bank overdraft through proceeds from the share issue of RM9,990,000 in 2000.
- (6) No provision for tax was made in respect of the year ended 30 April 1998 due to the utilisation of the Company's unabsorbed capital allowances and tax losses brought forward. The tax rate for the financial years ended 30 April 1997, 2000 and 2001 were lower than the statutory tax rate due to the utilisation of unabsorbed tax losses and unutilised capital allowances brought forward.
- (7) The negative taxation charged for the 6 month period ended 31 October 2001 is due to the reversal of deferred taxation.
- (8) Pursuant to the Income Tax (Amendment) Act 1999, all income (except for dividend income) falling within the waiver year was waived from income tax. Accordingly, no provision for taxation was made in respect of the year ended 30 April 1999.
- (9) The increase in share capital for the year ended 30 April 2000 is due to the bonus issue of 2,510,000 ordinary shares to the existing shareholders of PISB, and the issue of 9,990,000 new ordinary shares to Perbadanan Nasional Berhad and Hamidah binti Maktar.

15. ACCOUNTANTS' REPORT (Cont'd)



3.4 FMSB

The following financial information of FMSB is based on the audited financial statements of FMSB for the past five financial years ended 30 April 2001 and 6 month period ended 31 October 2001.

3.4.1 Summary of Results

	Year ended					6 months ended
	< ----- 30 April ----- >					31 October
	1997	1998	1999	2000	2001	2001
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Turnover	1,496	1,320	1,089	992	1,338	458
Profit before depreciation and interest	598	437	354	215	513	147
Depreciation	(118)	(169)	(169)	(167)	(155)	(70)
Interest expense	(78)	(61)	(32)	(9)	-	(2)
Profit before taxation	402	207	153	39	358	75
Less : Taxation	(131)	(110)	(12)	(27)	(21)	(45)
Profit/ (loss) after taxation	271	97	141	12	337	30
No. of ordinary shares of RM 1.00 each in issue ('000)	210	210	210	210	210	210
Net earnings per share (RM)	1.29	0.46	0.67	0.06	1.60	0.29*

* Annualised

Note:

- (1) Business activities of FMSB has been on a declining trend from 1997 to 2000 due to the emergence of a new competitor in the market which affected their market share and selling price in the lamination business. In line with the decline in turnover, the profitability of FMSB also declined correspondingly.
- (2) The increase in profitability for the year ended 30 April 2001 was mainly due to the increase in turnover and demand for higher margin product items. The increase in demand for higher margin product items and turnover is a result of higher demand for laminated fabrics and the emergence of new customers.
- (3) The decrease in turnover and profitability for the 6 month period ended 31 October 2001 was mainly due to the slowdown in demand from the local market.
- (4) The effective tax rate for the financial years ended 30 April 1997, 1998 and 2000, and 6 month period ended 31 October 2001 is higher than statutory tax rate as certain expenses are not deductible for tax purposes.
- (4) Pursuant to the Income Tax (Amendment) Act 1999, all income (except for dividend income) falling within the waiver year was waived from income tax. Accordingly, no provision for taxation was made in respect of the year ended 30 April 1999. The taxation expenses for 30 April 1999 is in respect of provision for deferred taxation.

15. ACCOUNTANTS' REPORT (Cont'd)



3.5 GSB

The following financial information of GSB is based on the audited financial statements of GSB for the 16 month period ended 30 April 1997, financial years ended 30 April 1998, 1999, 2000 and 2001, and 6 month period ended 31 October 2001.

3.5.1 Summary of Results

	16 months	Year ended				6 months ended
	ended 1997	<----- 30 April-----> 1998	1999	2000	2001	31 October 2001
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Turnover	2,006	1,900	3,329	3,810	3,388	997
(Loss)/Profit before depreciation and interest	(44)	105	759	798	847	30
Depreciation	(230)	(207)	(228)	(239)	(322)	(174)
Interest expense	(162)	(135)	(183)	(198)	(266)	(150)
Interest income	-	1	1	-	-	-
(Loss)/Profit before taxation	(436)	(236)	349	361	259	(294)
Less : Taxation	-	-	-	-	-	-
(Loss)/Profit after taxation	(436)	(236)	349	361	259	(294)
Weighted average number of ordinary shares of RM 1.00 each in issue ('000)	1,323	1,407	1,407	1,407	1,407	1,407
Net (loss)/earnings per share (RM)	(0.25) *	(0.17)	0.25	0.26	0.18	(0.42) *

* Annualised

- (1) Business activities of GSB picked up in 1999 and 2000 as a result of the economic recovery and the favourable exchange rates as the bulk of turnover is to the export market. In view of the increase in turnover, the profitability of the company also improved correspondingly as it was able to take advantage of the economies of scale.
- (2) There was a decrease in the profit for the year ended 30 April 2001 as there were no sale of machines which carries a higher profit margin. The net loss for the 6 month period ended 31 October 2001 is due to a further decrease in turnover because of a slowdown in demand.
- (3) The interest expenses for the financial periods/years ended 30 April 1997 to 2001 was mainly due to interest charges from hire purchase creditors and inter company balances. The increase in 2001 was due to additional acquisition of machinery under hire purchase during the year.
- (4) Pursuant to the Income Tax (Amendment) Act 1999, all income (except for dividend income) falling within the waiver year was waived from income tax. Accordingly, no provision for taxation was made in respect of the year ended 30 April 1999.

15. ACCOUNTANTS' REPORT (Cont'd)



- (5) No provision for tax were made in 1997, 1998 and 6 month period ended 31 October 2001 as the Company was in a loss position. No taxation were provided for the years ended 30 April 2000 and 2001 due to the utilisation of the Company's unabsorbed capital allowances.

3.6 PTSB

The following financial information of PTSB is based on the audited financial statements of PTSB for the five financial years ended 30 April 2001 and 6 month period ended 31 October 2001.

3.6.1 Summary of Results

	Year ended					6 months ended
	30 April					31 October
	1997	1998	1999	2000	2001	2001
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Turnover	6,923	6,850	6,230	6,714	5,124	2,082
Profit before depreciation and interest	685	311	490	247	252	35
Depreciation	(38)	(70)	(75)	(87)	(122)	(49)
Interest expense	(7)	(14)	(8)	(6)	-	-
Profit/ (loss) before taxation	640	227	407	154	130	(14)
Less : Taxation	(198)	(123)	-	(60)	(55)	(48)
Profit/(Loss) after taxation	442	104	407	94	75	(62)
No. of ordinary shares of RM1.00 each in issue ('000)	10	10	10	10	10	10
Net earnings/ (loss) per share (RM)	44.2	10.4	40.7	9.4	7.5	(12.4) *

* Annualised

Note :-

- The decrease in profits for 1998 was mainly due to an increase in depreciation charged, provision for doubtful debts and foreign exchange losses. With the improving economy, profits improved in 1999. Turnover continued to improve in 2000 but profitability decreased, mainly due to an increase in salaries and bonuses. For the financial year ended 30 April 2001, profit before tax declined slightly due to the slowdown in demand in the local market. The net loss for the 6 month period ended 31 October 2001 is due to the prolonged slowdown in demand from the local market.
- Pursuant to the Income Tax (Amendment) Act 1999, all income (except for dividend income) falling within the waiver year was waived from income tax. Accordingly, no provision for taxation was made in respect of the year ended 30 April 1999.

15. ACCOUNTANTS' REPORT (Cont'd)



3.7 PPSB

The following financial information of PPSB is based on the audited financial statements of PPSB for the financial year ended 30 April 2001 and 6 month period ended 31 October 2001.

	2001 RM'000	<i>6 months ended</i> 31 October 2001 RM'000
Turnover	-	-
Loss before depreciation, interest and preliminary and pre-operating expense	-	(6)
Preliminary and pre-operating expense	(14)	-
Loss before depreciation and interest but after preliminary and pre-operating expense	(14)	(6)
Loss before taxation	(14)	(6)
Less : Taxation	-	-
Loss after taxation	(14)	(6)
No. of ordinary shares of RM 1.00 each in issue	2	2
Net loss per share (RM'000)	(7)	(6)*

* Annualised

No income statement have been prepared for the years ended 30 April 1997 to 2000 as the Company has not commenced operations from the date of incorporation on 18 January 1995 to 31 October 2001. The loss during the financial year ended 30 April 2001 is due to the write off of deferred expenditure.

15. ACCOUNTANTS' REPORT (Cont'd)



3.8 LMSB

The following financial information of LMSB is based on the audited financial statements of LMSB for the financial years ended 30 June 1997 and 1998, 10 months period ended 30 April 1999, financial years ended 30 April 2000 and 2001, and 6 month period ended 31 October 2001. LMSB along with its subsidiary WSB were acquired on 23 December 1998 while its other subsidiary ESB was acquired on 27 January 2000.

3.8.1 Summary of Results

	Year ended		1 July 1998	Year ended		6 months ended
	<--- 30 June --->	<--- 30 June --->	to	<---30 April--->	<---30 April--->	31 October
	1997	1998	30 April	2000	2001	2001
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Turnover	6,134	6,001	5,329	7,034	7,072	3,668
Profit/(Loss) before depreciation and interest	53	(16)	653	447	551	396
Depreciation	(90)	(75)	(130)	(134)	(124)	(64)
Interest expense	(76)	(107)	(314)	(76)	(85)	(29)
Interest income	-	1	1	-	-	-
(Loss)/Profit before taxation	(113)	(197)	210	237	342	303
Less : Taxation	(1)	-	-	(119)	(84)	(57)
(Loss)/Profit after taxation	(114)	(197)	210	118	258	246
No. of ordinary shares of RM 1.00 each in issue ('000)	122	122	1,000	1,000	1,000	1,000
Weighted average no. of ordinary shares of RM1.00 each in issue ('000)	122	122	474	1,000	1,000	1,000
Net (loss)/earnings per share (RM)	(0.9)	(1.6)	0.53*	0.1	0.26	0.49 *

* Annualised

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



Note :-

- (1) Turnover decreased slightly from the year 1997 to 1999 as there was less demand from export sales due to stiff competition. The Company has since changed its sales strategy to concentrate more to local market with a proportion of export and local sales of 40:60. Sales (on an annualised basis) increased rapidly after the change-over of management in late 1998 as the new management has a better marketing and distribution network. In addition, the client base had been expanded. Besides higher sales, the Company's results after 1998 also improved due to better control and supervision over the operations of the factory resulting in substantial cost savings.
- (2) The increase in loss before taxation in 1998 was in line with the decrease in turnover as affected by the economic crisis in Malaysia.
- (3) The substantial increase in profit before taxation in 1999 was mainly due to the cost containment exercise undertaken by the new management.
- (4) Business activities picked up significantly towards the end of 1999 and 2000 after the implementation of exchange control by the Government.
- (5) The continued improvement in profitability for the year ended 30 April 2001 and 6 month period ended 31 October 2001 despite the dampening local demand is due to the improvement in export sales.
- (6) The higher interest expense in 1998 and 1999 was mainly due to the higher inter company balances and bank borrowings, which was used to finance the purchase of raw materials. The exceptionally higher interest expenses in 1999 was due to the higher interest rate charged by the holding company due to the increase in interest rates charged by the financial institutions during the economic downturn. The decrease in interest expense in 2000 was mainly due to a reduction in bank borrowings.
- (7) The effective tax rate for the financial year ended 30 April 2000 is higher than the statutory tax rate as certain expenses are not deductible for tax purposes. While the effective tax rate for the financial year ended 30 April 2001 and 6 month period ended 31 October 2001 is lower than the statutory tax rate due to the utilisation of capital allowances.
- (8) Pursuant to the Income Tax (Amendment) Act 1999, all income (except for dividend income) falling within the waiver year was waived from income tax. Accordingly, no provision for taxation was made in respect of the year ended 30 April 1999.

15. ACCOUNTANTS' REPORT (Cont'd)



3.9 ESB

The following financial information of ESB is based on the audited financial statements of ESB from the date of incorporation to 30 June 1997, financial year ended 30 June 1998, 10 months period ended 30 April 1999, financial years ended 30 April 2000 and 2001 and 6 month period ended 31 October 2001.

3.9.1 Summary of Results

	<i>3 April 1996 to 30 June 1997 RM'000</i>	<i>Year ended 30 June 1998 RM'000</i>	<i>1 July 1998 to 30 April 1999 RM'000</i>	<i>Year ended <---30 April---> 2000 2001 RM'000</i>	<i>6 months ended 31 October 2001 RM'000</i>	
Turnover	3,888	2,802	2,134	4,838	4,724	2,834
(Loss)/Profit before depreciation and interest	(15)	(9)	1	178	197	268
Depreciation	-	-	-	(1)	(1)	(1)
(Loss)/Profit before taxation	(15)	(9)	1	177	196	267
less : Taxation	-	-	-	(7)	(55)	(75)
(Loss)/Profit after taxation	(15)	(9)	1	170	141	192
No. of ordinary shares of RM1.00 each in issue	2	2	2	2	2	2
Net (loss)/earnings per share (RM'000)	(6) *	(5)	1*	85	71	192 *

* Annualised

Note: -

- (1) Business activities of ESB slowed down in 1998 as a result of the economic crisis.
- (2) ESB's turnover improved after the year ended 30 April 1999 as the retail market picked up due to the improving economic condition.