

15. ACCOUNTANTS' REPORT (Cont'd)



3.10 WSB

The following financial information of WSB is based on the audited financial statements of WSB for the 16 month period ended 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.

3.10.1 Summary of Results

	<i>1 March 1996 to 30 June 1997</i>	<i>Year ended 30 June 1998</i>	<i>1 July 1998 to 30 April 1999</i>	<i>Year ended <----30 April----> 2000 2001</i>		<i>6 months ended 31 October 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>
Turnover	624	385	263	412	433	165
Profit/(loss) before depreciation and interest	98	50	(14)	(8)	(19)	(12)
Depreciation	(37)	(28)	(28)	(28)	(28)	(14)
Interest expense	(18)	(15)	(9)	(2)	(1)	-
Profit/(Loss) before taxation	43	7	(51)	(38)	(48)	(26)
Less : Taxation	-	-	-	-	-	-
Profit/(Loss) after taxation	43	7	(51)	(38)	(48)	(26)
No. of ordinary shares of RM 1.00 each in issue ('000)	55	55	55	55	55	55
Net earnings/(loss) per share (RM)	0.59 *	0.13	(1.11)*	(0.69)	(0.87)	(0.94)*

* Annualised

Note :-

- (1) In 1998, LMSB subcontracted out its work to two other companies since WSB was unable to cope with the volume demanded by LMSB. As a result, the turnover of WSB declined.
- (2) The turnover in 2000 increased as LMSB decided to subcontract solely to WSB during the year. The decrease in turnover for the 6 month period ended 31 October 2001 is due to the reduction in subcontract work from LMSB.

15. ACCOUNTANTS' REPORT (Cont'd)



4 Summarised Balance Sheets

4.1 PISB Group

The following financial information of PISB Group 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.

4.1.1 Summarised Balance Sheets of PISB Group

	< ----- As at 30 April ----- >					As at
	1997	1998	1999	2000	2001	31 October
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	11,328	23,463	25,577	28,453	29,844	32,791
Goodwill	1,991	1,744	1,838	1,690	1,373	1,223
Current assets	17,630	16,701	18,850	24,787	27,194	26,889
Less : Current liabilities	(7,790)	(15,853)	(16,868)	(9,912)	(6,065)	(7,777)
Net current assets	9,840	848	1,982	14,875	21,129	19,112
	23,159	26,055	29,397	45,018	52,346	53,126
Financed by :-						
Share capital	20,800	20,800	20,800	33,300	33,300	33,300
Reserves	299	3,465	5,475	8,738	14,643	16,505
Shareholders' funds	21,099	24,265	26,275	42,038	47,943	49,805
Deferred and long term liabilities	1,995	1,790	2,670	2,225	3,370	2,233
Minority interest	65	-	452	755	1,033	1,088
	23,159	26,055	29,397	45,018	52,346	53,126

15. ACCOUNTANTS' REPORT (Cont'd)



4.2 KP B

The following financial information is based on the audited financial statements of KP B as at 30 April 1998, 1999, 2000 and 2001, and 6 month period ended 31 October 2001.

4.2.1 Summarised Balance Sheets of KP B

	< -----As at 30 April----- >				As at
	1998	1999	2000	2001	31 October 2001
	RM'000	RM'000	RM'000	RM'000	RM'000
Deferred expenditure	1	2	5	-	-
Current assets	*	*	*	*	*
Less : Current liabilities	(1)	(2)	(5)	(7)	(9)
Net current liabilities	(1)	(2)	(5)	(7)	(9)
	*	*	*	(7)	(9)
Financed by :-					
Share capital	**	**	**	**	**
Accumulated loss	-	-	-	(7)	(9)
	*	*	*	(7)	(9)

* RM2.00

** The paid up capital comprised of 2 ordinary shares of RM1.00 each issued at par.

15. ACCOUNTANTS' REPORT (Cont'd)



4.3 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.

4.3.1 Summarised Balance Sheets of PISB

	< ----- As at 30 April ----- >					As at
	1997	1998	1999	2000	2001	31 October
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	7,904	20,504	21,845	24,467	25,400	25,471
Investment in subsidiary companies	2,215	2,215	2,787	2,787	2,787	2,787
Current assets	18,213	16,568	17,339	22,495	23,909	25,974
Less : Current liabilities	(6,133)	(13,782)	(14,078)	(6,870)	(2,548)	(3,990)
Net current assets	12,080	2,786	3,261	15,625	21,361	21,984
	22,199	25,505	27,893	42,879	49,548	50,242
Financed by :-						
Share capital	20,800	20,800	20,800	33,300	33,300	33,300
Reserves	114	3,383	4,687	7,881	13,238	15,160
Shareholders' funds	20,914	24,183	25,487	41,181	46,538	48,460
Deferred and long term liabilities	1,285	1,322	2,406	1,698	3,010	1,782
	22,199	25,505	27,893	42,879	49,548	50,242

15. ACCOUNTANTS' REPORT (Cont'd)



4.4 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.

4.4.1 Summarised Balance Sheets of FMSB

	<-----As at 30 April----->					As at
	1997	1998	1999	2000	2001	31 October
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	1,885	1,717	1,554	1,387	699	835
Current assets	830	1,029	753	639	803	831
Less : Current Liabilities	(1,619)	(1,642)	(1,136)	(844)	(68)	(150)
Net current (liabilities)/assets	(789)	(613)	(383)	(205)	735	682
	1,096	1,104	1,171	1,182	1,434	1,517
Financed by :-						
Share capital	210	210	210	210	210	210
Unappropriated profit	612	709	851	862	1,199	1,229
Shareholders funds	822	919	1,061	1,072	1,409	1,439
Deferred and long term liabilities	274	185	110	110	25	78
	1,096	1,104	1,171	1,182	1,434	1,517

15. ACCOUNTANTS' REPORT (Cont'd)



4.5 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, the four financial years ended 30 April 1998, 1999, 2000 and 2001, and 6 month period ended 31 October 2001.

4.5.1 Summarised Balance Sheets of GSB

	<----- As at 30 April ----->					As at
	1997	1998	1999	2000	2001	31 October
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	1,176	961	1,026	1,504	2,596	3,439
Current assets	563	1,243	1,800	2,409	2,603	1,980
Less : Current liabilities	(1,251)	(2,058)	(2,427)	(2,885)	(4,015)	(4,509)
Net current liabilities	(688)	(815)	(627)	(476)	(1,412)	(2,529)
	488	146	399	1,028	1,184	910
Financed by :-						
Share capital	1,407	1,407	1,407	1,407	1,407	1,407
Accumulated losses	(1,257)	(1,493)	(1,144)	(783)	(524)	(818)
Surplus/(Deficit) in Shareholders' funds	150	(86)	263	624	883	589
Deferred and long term liabilities	338	232	136	404	301	321
	488	146	399	1,028	1,184	910

15. ACCOUNTANTS' REPORT (Cont'd)



4.6 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.

4.6.1 Summarised Balance Sheets of PTSB

	<----- As at 30 April ----->					As at
	1997	1998	1999	2000	2001	31 October
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	363	282	212	270	394	346
Goodwill	925	809	694	578	462	405
Current assets	4,505	5,377	4,663	4,097	3,869	2,954
Less : Current liabilities	(5,239)	(5,857)	(4,590)	(3,872)	(3,578)	(2,593)
Net current (liabilities)/assets	(734)	(480)	73	225	291	361
	554	611	979	1,073	1,147	1,112
Financed by :-						
Share capital	10	10	10	10	10	10
Unappropriated profit	446	550	957	1,051	1,125	1,064
Shareholders' funds	456	560	967	1,061	1,135	1,074
Deferred and long term liabilities	98	51	12	12	12	38
	554	611	979	1,073	1,147	1,112

15. ACCOUNTANTS' REPORT (Cont'd)



4.7 PPSB

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

4.7.1 Summarised Balance Sheets of PPSB

	<----- As at 30 April ----->					As at
	1997	1998	1999	2000	2001	31 October
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	-	-	-	-	-	1,993
Deferred expenditure	7	7	11	13	-	-
Current assets	*	*	*	*	180	*
Less :Current liabilities	(7)	(7)	(11)	(13)	(194)	(2,013)
Net current liabilities	(7)	(7)	(11)	(13)	(14)	(2,013)
	*	*	*	*	(14)	(20)
Financed by :-						
Share capital	**	**	**	**	**	**
Accumulated loss	-	-	-	-	(14)	(20)
	*	*	*	*	(14)	(20)

* RM2.00

** The paid up capital comprised of 2 ordinary shares of RM1.00 each issued at par.

15. ACCOUNTANTS' REPORT (Cont'd)



4.8 LMSB

The following financial information of LMSB is based on the audited financial statements of LMSB for the two financial years ended 30 June 1997 and 1998, 10 month period ended 30 April 1999, financial years ended 30 April 2000 and 2001, and 6 month period ended 31 October 2001.

4.8.1 Summarised Balance Sheets of LMSB

	< ---- As at 30 June ---->		<----- As at 30 April ----->			As at
	1997	1998	1999	2000	2001	31 October
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	433	359	781	688	643	604
Interest in subsidiary	53	104	155	55	55	55
Current assets	5,448	5,658	4,597	5,422	5,415	5,443
Less : Current liabilities	(6,170)	(6,513)	(4,838)	(5,352)	(5,021)	(4,772)
Net current (liabilities)/assets	(722)	(855)	(241)	70	394	671
	(236)	(392)	695	813	1,092	1,330
Financed by :-						
Share capital	122	122	1,000	1,000	1,000	1,000
(Accumulated loss)/ Unappropriated profit	(358)	(514)	(305)	(187)	70	316
(Deficit)/ Surplus in Shareholders' funds	(236)	(392)	695	813	1,070	1,316
Deferred and long term liabilities	-	-	-	-	22	14
	(236)	(392)	695	813	1,092	1,330

15. ACCOUNTANTS' REPORT (Cont'd)



4.9 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.

4.9.1 Summarised Balance Sheets of ESB

	<---As at 30 June--->		<----- As at 30 April ----->			As at
	1997	1998	1999	2000	2001	31 October
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	1	3	3	5	8	15
Current assets	815	1,196	696	1,409	1,633	1,382
Less : Current liabilities	(831)	(1,223)	(853)	(1,398)	(1,484)	(1,047)
Net current liabilities	(16)	(27)	(157)	11	149	335
	(15)	(24)	(154)	16	157	350
Financed by :-						
Share capital	**	**	**	**	**	**
(Accumulated loss)/ Unappropriate profit	(15)	(24)	(154)	16	157	350
	(15)	(24)	(154)	16	157	350

** The paid up capital comprised of 2 ordinary shares of RM1.00 each issued at par.

15. ACCOUNTANTS' REPORT (Cont'd)



4.10 WSB

The following financial information of WSB is based on the audited financial statements of WSB for the 17 months period ended 30 June 1997, financial year ended 30 June 1998, 10 month period ended 30 April 1999, financial years ended 30 April 2000 and 2001, and 6 month period ended 31 October 2001.

4.10.1 Summarised Balance Sheets of WSB

	<---As at 30 June--->		<----- As at 30 April ----->			As at
	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	31 October 2001 RM'000
Property, plant and equipment	214	186	159	131	103	89
Current assets	8	6	6	9	5	6
Less : Current liabilities	(193)	(156)	(180)	(193)	(209)	(221)
Net current liabilities	(185)	(150)	(174)	(184)	(204)	(215)
	29	36	(15)	(53)	(101)	(126)
Financed by :-						
Share capital	55	55	55	55	55	55
Accumulated loss	(26)	(19)	(70)	(108)	(156)	(181)
	29	36	(15)	(53)	(101)	(126)

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

5 Proforma Consolidated Cashflow Statement

The following proforma consolidated cashflow statement for the financial period ended 31 October 2001 of KPB Group is prepared based on the assumption that the KPB Group had been in existence throughout the years/period under review before rights and public issue.

	<i>Proforma Group RM'000</i>	<i>Company RM'000</i>
Cash flows from operating activities		
Profit/(Loss) before taxation	3,543	(2)
Adjustments for :		
Interest received	(39)	-
Interest paid	231	-
Depreciation	1,506	-
Amortisation of goodwill	150	-
Gain on disposal of property, plant and equipment	(864)	-
Operating profit/(loss) before working capital change:	4,527	(2)
Changes in working capital		
Inventories	(1,007)	-
Trade and other receivables	(104)	-
Trade and other payables	(94)	2
Cash generated from operations	3,322	-
Interest received	39	-
Tax paid	(525)	-
Net cash generated from operating activities	<u>2,836</u>	<u>-</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(4,126)	-
Proceeds from disposal of property, plant and Equipment	864	-
Net cash used in investing activities	<u>(3,262)</u>	<u>-</u>
Cash flows from financing activities		
Interest paid	(231)	-
Repayment of hire purchase and lease creditors	(792)	-
Proceeds from hire purchase creditors	-	-
Repayment of short term borrowings	-	-
Repayment of term loan	(95)	-
Net cash used in financing activities	<u>(1,118)</u>	<u>-</u>

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



Net decrease in cash and cash equivalents	(1,544)	-
Cash and cash equivalents at beginning of period	<u>3,785</u>	<u>-</u>
Cash and cash equivalents at end of period	<u>2,241</u>	<u>-</u>
 Cash and cash equivalents comprise		
Cash and bank balances	1,383	-
Deposits with a licensed bank	<u>858</u>	<u>-</u>
	<u>2,241</u>	<u>-</u>

15. ACCOUNTANTS' REPORT (Cont'd)



6 Statement of Assets and Liabilities

The following is a statement of assets and liabilities of the Proforma Group and KPB which have been prepared for illustrative purposes only based on the audited accounts of KPB and its subsidiaries as at 31 October 2001.

The statement of assets and liabilities of the Proforma Group have been prepared on the assumption that the restructuring scheme as mentioned under Paragraph 1.3 of this report had been effected on 31 October 2001 and should be read in conjunction with the notes thereon.

	Note	Audited balance sheet At 31.10.2001 RM'000	Proforma consolidated balance sheet after stage 1 RM'000	Proforma consolidated balance sheet after stage 2 RM'000	Proforma consolidated balance sheet after stage 3 RM'000	Proforma consolidated balance sheet after stage 4 RM'000
Property, plant & equipment	6.4	-	32,384	32,384	32,384	35,384
Current Assets						
Inventories	6.5	-	14,360	14,360	14,360	14,360
Trade and other receivables	6.6	-	10,288	10,288	10,288	9,973
Cash and cash equivalents	6.7	*	2,241	2,476	12,876	6,691
		*	26,889	27,124	37,524	31,024
Current Liabilities						
Trade and other payables	6.8	9	3,422	3,422	4,922	3,422
Borrowings	6.9	-	2,589	2,589	2,589	1,712
Taxation		-	110	110	110	110
Dividend payable			1,665	1,665	1,665	1,665
		9	7,786	7,786	9,286	6,909
Net Current (Liabilities)/Assets		(9)	19,103	19,338	28,238	24,115
		(9)	51,487	51,722	60,622	59,499
Financed by:						
Share Capital	6.10	*	34,297	34,500	41,000	41,000
Reserves	6.11	(9)	13,869	13,901	16,301	16,301
Shareholders' Funds		(9)	48,166	48,401	57,301	57,301
Minority Interest		-	1,088	1,088	1,088	1,088
Long Term Liabilities						
Deferred Taxation	6.12	-	967	967	967	967
Borrowings	6.9	-	1,266	1,266	1,266	143
		(9)	51,487	51,722	60,622	59,499
Net Tangible Assets Per Share (RM)		(4,577)	1.40	1.40	1.40	1.40

* The Company's issued and paid-up share capital is made up of 2 ordinary shares of RM1.00 each.

15. ACCOUNTANTS' REPORT (Cont'd)


NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES
6.1. Restructuring Scheme

The Proforma Consolidated Balance Sheets are for illustrative purposes only to incorporate the following transactions as though they were effected on 31 October 2001.

Stage 1

- Proposed acquisition of 33,300,000 ordinary shares of RM1.00 each representing the entire issued and paid-up share capital of Powernet Industries Sdn. Bhd. ("PISB") for a purchase 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 ordinary shares of RM1.00 each in KPB at the issue price of approximately RM1.16 per ordinary share.
- Proposed acquisition of Powernet Properties Sdn. Bhd. ("PPSB") comprising 2 ordinary shares of RM1.00 each from PISB for a cash consideration of RM2.00.

Stage 2

- Proposed rights issue of 202,603 ordinary shares of RM1.00 each in KPB at an issue price of approximately RM1.16 per ordinary share.

Stage 3

- Proposed 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 a public issue of 6,500,000 new ordinary shares of RM1.00 each at an issue price of RM1.60 per new ordinary share available for application to the Malaysian public and the eligible employees of the KPB Group, and by way of private placement.

Stage 4

- The gross proceeds of RM10,635,000 raised from the rights and public issue will be utilised as follows:

	RM
Repayment of hire purchase for plant and machinery	2,000,000
Acquisition of new machinery	2,000,000
Extension of factory premises in Bentong	1,000,000
Working capital	4,135,000
Estimated listing expenses	1,500,000

	10,635,000
	=====

6.2 Basis of preparation of proforma financial statements

The financial statements of the Proforma Group and the Company have been prepared in accordance with the provisions of the Companies Act, 1965 and applicable accounting standards of the Malaysian Accounting Standards Board ("MASB").

6.3 Summary of Significant Accounting Policies

The following accounting policies are adopted by the Proforma Group and the Company and are consistent with those adopted in previous years. The financial statements of the Proforma Group and the Company have been prepared in accordance with the provisions of the Companies Act, 1965 and applicable accounting standards of the Malaysian Accounting Standards Board ("MASB").

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



(a) **Basis of accounting**

The financial statements are prepared in compliance with applicable approved accounting standards in Malaysia and modified to include the revaluation of the Proforma Group's freehold land with the attached buildings.

(b) **Basis of Consolidation**

The Proforma Group financial statements have been prepared based on the audited financial statements of the Company and its subsidiaries as at 31 October 2001. The results of PISB's subsidiary companies are included in the consolidated financial statements from the date of acquisition. All material related company transactions and balances have been eliminated on consolidation. The acquisition of PISB is accounted for under the acquisition method of accounting.

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the proforma consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. Subsidiaries are consolidated using the acquisition method of accounting.

Under the acquisition method of accounting, the results of subsidiaries acquired or disposed during the year are included from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair values of the subsidiaries' net assets are determined and these values are reflected in the proforma Group financial statements. The difference between the acquisition cost and the fair values of the subsidiaries' net assets is reflected as goodwill or negative goodwill as appropriate. The negative goodwill is recognised as income at the date of acquisition.

Intragroup transactions and balances and the resulting unrealised profits are eliminated on consolidation.

(c) **Property, plant and equipment**

Freehold land together with the attached buildings are stated at valuation. The cost of other property, plant and equipment are stated at cost less accumulated depreciation.

The Group has adopted the policy to revalue its properties comprising freehold land and building every five years. Surplus arising from revaluation are dealt with in the property revaluation reserve account. Any deficit arising is set off against the revaluation reserve to the extent of the previous surplus for the same freehold land and building. In all other cases, a decrease in carrying amount will be charged to the income statement.

The carrying amounts of property, plant and equipment are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such an indication exists, the assets' recoverable amounts are estimated. An impairment loss is recognised whenever the carrying amount of an item of property, plant and equipment exceeds its recoverable amount. The impairment loss is charged to the income statement unless it reverses a previous revaluation in which case it is charged to equity. Any subsequent increase in recoverable amount is reduced by the amount that would have been recognised as depreciation had the write-down or write-off not occurred. Such subsequent increase in recoverable amount is recognised in the income statement unless it reverses an impairment loss on a revalued asset, in which case it is taken to equity.

15. ACCOUNTANTS' REPORT (Cont'd)

**(d) Depreciation**

Freehold land is not amortised.

Depreciation of other property, plant and equipment is provided on a straight-line basis so as to write off the cost of the property, plant and equipment over their estimated useful lives.

The principal annual rates of depreciation adopted are as follows:-

Buildings	2%
Furniture and fittings	10%
Plant and machinery	10%
Electrical installations, air conditioners and renovations	10%
Motor vehicles	10% to 20%
Office equipment and computers	10% to 25%

(e) Investment in subsidiaries

Investment in unquoted subsidiaries, which is eliminated on consolidation, is stated in the Company's financial statement at cost. Provision for diminution in value is made when there is a permanent diminution in value of the investment.

(f) Cash and cash equivalents

Cash and cash equivalents comprised cash and bank balances and deposits with banks.

(g) Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined on the first-in-first-out (FIFO) method and includes all direct expenditure incurred in bringing the inventories to their present location and condition. For work-in-progress and manufactured inventories, cost consists of materials, direct labour and an appropriate proportion of fixed and variable production overheads.

(h) Trade receivables

Trade receivables are recognised and stated at original invoiced amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as identified.

(i) Accounting for hire purchases

Property, plant and equipment held under hire purchase are capitalised and depreciated over their estimated useful lives, and the corresponding obligation relating to the remaining capital payments are treated as a liability. Financing charges for hire purchases are charged to the income statement over the year of the hire purchase agreements using the sum of digits method.

15. ACCOUNTANTS' REPORT (Cont'd)

**(j) Taxation**

The tax expense in the income statement represents taxation at current tax rates based on profit earned during the period.

Deferred taxation is provided under the liability method for all material timing differences except where no liability is expected to arise in the foreseeable future and there are no indications the timing differences will reverse thereafter. Deferred tax benefits are only recognised when there is a reasonable expectation of realisation in the near future.

(k) Foreign currency

Transactions in foreign currencies are translated to Ringgit Malaysia at rates of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Ringgit Malaysia at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to Ringgit Malaysia at the foreign exchange rates ruling at the date of the transactions.

The closing rates used in the translation of foreign currency monetary assets and liabilities in the financial statements are as follows:

	<i>2001</i>	<i>2000</i>
US Dollar	RM3.80	RM3.80
Singapore Dollar	RM2.20	RM2.20
Deutschemark	RM1.87	RM1.75
Euro	RM3.41	RM3.39

(l) Revenue

Revenue from sales of goods is measured at the fair value of the consideration receivable and is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

Sales between Group companies are excluded from the revenue of the Group.

(m) Financing costs

All interest and other costs incurred in connection with borrowings are expensed as incurred. The interest component of hire purchase payments is recognised in the income statement so as to give a constant periodic rate of interest on the outstanding liability at the end of each accounting year.

15. ACCOUNTANTS' REPORT (Cont'd)

6.4 Property, plant and equipment



	Freehold land and buildings RM'000	Furniture and fittings RM'000	Plant and machinery RM'000	Plant and Machinery under installation RM'000	Electrical installation, air conditioners and renovation RM'000	Motor vehicles RM'000	Office equipment RM'000	Total RM'000
Proforma Group Cost/valuation								
At 1 May 2001	12,325	671	30,360	688	1,362	2,098	658	48,162
Additions	1,855	3	665	663	133	1,119	17	4,455
Disposals	-	-	-	-	-	(190)	(1)	(191)
Write Off	-	-	-	-	(10)	-	-	(10)
Reclassification	-	(97)	246	(244)	98	-	(3)	-
At 31 October 2001	14,180	577	31,271	1,107	1,583	3,027	671	52,416
Representing items at Cost	8,145	577	31,271	1,107	1,583	3,027	671	46,381
Valuation – 1998	6,035	-	-	-	-	-	-	6,035
At 31 October 2001	14,180	577	31,271	1,107	1,583	3,027	671	52,416
Accumulated depreciation								
At 1 May 2001	643	418	15,022	-	741	1,101	394	18,319
Charge for the year	94	28	1,127	1	44	180	33	1,507
Disposals	-	-	-	-	-	(190)	(1)	(191)
Write Off	-	-	-	-	(10)	-	-	(10)
Reclassification	-	(25)	(9)	2	44	-	(12)	-
At 31 October 2001	737	421	16,140	3	819	1,091	414	19,625
Net book value								
At 31 October 2001	13,443	156	15,131	1,104	764	1,936	257	32,791
(after proposed acquisition before proposed incorporation of revaluation deficit)	(407)	-	-	-	-	-	-	(407)
Incorporation of revaluation deficit	1,000	-	-	2,000	-	-	-	3,000
Proposed extension of factory building and acquisition of plant and machinery	14,036	156	15,131	3,104	764	1,936	257	35,384

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

Freehold land and buildings were revalued in 1998 based on the valuation done by an independent firm of professional valuer, using the open market valuation basis. The valuation was adopted in 1998 and the revaluation surplus arising from the valuation has been credited to the revaluation reserve. A subsequent valuation was conducted in 2000 and the deficit is set off against the revaluation reserve to the extent of the revaluation reserve balance and the remaining deficit has been charged to the income statement.

Had the freehold land and buildings been carried at historical cost less accumulated depreciation, the carrying amount of the revalued assets that would have been included in the financial statements at the end of the year would have been as follows:

	<i>Proforma Group RM'000</i>
Freehold land and buildings	2,891

The freehold land and other property, plant and equipment are charged by way of a fixed and floating charge to financial institutions as security for credit facilities granted to a subsidiary company.

Included in the net book value of property, plant and equipment are the following assets acquired under hire purchase:

	<i>Proforma Group RM'000</i>
Plant and machinery	
- hire purchase	8,897
Motor vehicles	
- hire purchase	791
	<u>9,688</u>

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

6.5 Inventories

	<i>Proforma Group RM'000</i>
At cost :	
Raw materials	6,180
Work in progress	4,872
Finished goods	2,359
Consumables	949
	<u>14,360</u>

6.6 Trade and other receivables

	<i>Proforma Group RM'000</i>
Trade receivables	7,967
Less: Provision for doubtful debts	<u>(151)</u>
	7,816
Other receivables, deposits and prepayment	<u>2,472</u>
Balance after acquisition, rights and public issue	10,288
Less : Prepayment for extension of factory building	<u>(315)</u>
Balance after acquisition, rights and public issue	<u>9,973</u>

15. ACCOUNTANTS' REPORT (Cont'd)



6.7 Cash and cash equivalents

	<i>Proforma Group RM'000</i>
Cash and bank balances	1,383
Fixed deposits with licensed bank	858
Balance after acquisition of PISB Group	2,241
Proceeds from rights issue	235
Balance after acquisition and rights issue but before public issue	2,476
Proceeds from public issue	10,400
Balance after acquisition, rights and public issue	12,876
Less : Repayment of hire purchase for plant and machinery	(2,000)
Acquisition of new machinery	(2,000)
Extension of factory premises in Bentong	(685)*
Estimated listing expenses	(1,500)
Balance after acquisition, rights, public issue and utilisation of funds	6,691
	<i>RM'000</i>
* <i>Extension to factory premises in Bentong</i>	<i>(1,000)</i>
<i>Prepayment for the factory premises (see 6.6)</i>	<i>315</i>
	<i>(685)</i>

6.8 Trade and other payables

	<i>Proforma Group RM'000</i>
Trade payables	2,125
Other payables and accruals	1,297
	3,422
Accrued estimated listing expenses (as at Stage 3)	1,500
Balance after acquisition, rights and public issue	4,922
Payment of estimated listing expenses (as at Stage 4)	(1,500)
Balance after acquisition, rights, public issue and utilisation of funds	3,422

15. ACCOUNTANTS' REPORT (Cont'd)



6.9 Borrowings (secured)

	<i>Proforma Group RM'000</i>
Current	
Trust receipts	559
Hire purchase creditors	<u>2,030</u>
	2,589
Repayment of hire purchase for plant and machinery	<u>(877)</u>
	<u>1,712</u>
Non current	
Hire purchase creditors	1,266
Repayment of hire purchase for plant and machinery	<u>(1,123)</u>
	<u>143</u>

The borrowings of the Proforma Group are secured by:-

- a) first party charge over land and buildings of PISB,
- b) debenture by way of fixed and floating charges over all assets of PISB,
- c) joint and several guarantee by third party individuals;
- d) corporate guarantee by a corporate shareholder of the company.

15. ACCOUNTANTS' REPORT (Cont'd)



6.10 Share Capital

	<i>Proforma Group RM'000</i>
Ordinary shares of RM1 each :	
Authorised	<u>100,000</u>
Issued and fully paid	
Balance per KPB as at 31 October 2001	*
34,297,395 new ordinary shares at an issue price of RM1.16 per share issued for the acquisition of PISB Group's entire issued and paid up capital	<u>34,297</u>
Balance after acquisition but before rights and public issue	<u>34,297</u>
Rights issue of 202,603 new ordinary shares at an issue price of RM1.16 per share	<u>203</u>
Balance after acquisition and rights but before public issue	<u>34,500</u>
Public issue of 6,500,000 new ordinary shares at an issue price of RM1.60 per share	<u>6,500</u>
Balance after acquisition, rights and public issue	<u><u>41,000</u></u>

* RM2

15. ACCOUNTANTS' REPORT (Cont'd)



6.11 Reserves

	<i>Non distributable Share premium RM'000</i>	<i>Retained profits/ (accumulated losses) RM'000</i>	<i>Total RM'000</i>
Balance at 31 October 2001	-	(9)	(9)
Acquisition of PISB Group	5,643	8,235 **	13,878
Balance after acquisition but before rights and public issue	5,643	8,226	13,869
Rights issue	32	-	32
Balance after acquisition and rights issue but before public issue	5,675	8,226	13,901
Public issue less listing expenses	2,400	-	2,400
Balance after acquisition, rights and public issue	<u>8,075 *</u>	<u>8,226</u>	<u>16,301</u>

* Share premium

	<i>Proforma Group RM'000</i>
• 34,297,395 new ordinary share at an issue price of approximately RM1.16 per share	5,643
• 202,603 new ordinary shares at an issue price of RM1.16 per share	32
• Public issue of 6,500,000 new ordinary shares at an issue price of RM1.60 per share	3,900
	<u>9,575</u>
Less : Estimated listing expenses	<u>(1,500)</u>
	<u>8,075</u>

15. ACCOUNTANTS' REPORT (Cont'd)



** Retained profits	<i>Proforma Group RM'000</i>
Purchase consideration	39,940
Less : Net tangible assets of PISB Group as at 31 October 2001	(48,582)
Add : Proposed incorporation of deficit on revaluation of properties in PISB Group	<u>407</u>
Negative goodwill recognised as income	<u>(8,235)</u>

6.12 Deferred Taxation

	<i>Proforma Group RM'000</i>
Balance as at 1 May 2001	1,408
Transfer to income statement	<u>(441)</u>
Balance as at 31 October 2001	<u>967</u>

Deferred taxation of RM570,000 is not provided on the surplus arising from revaluation of freehold land and buildings as it is not the intention of the directors to dispose of those properties.

Subject to agreement by the Inland Revenue Board, the Proforma Group has potential deferred tax benefits not taken up in financial statements under the liability method in respect of the following items:

	<i>Proforma Group RM'000</i>
Unutilised tax losses	(842)
Other timing differences	<u>(320)</u>

15. ACCOUNTANTS' REPORT (Cont'd)

**6.13 Rental commitments**

As at 31 October 2001, the aggregate future rental payments are as follows:-

	<i>Proforma Group RM'000</i>
Payable within the next twelve months	64
Payable after the next twelve months	30
	<u>94</u>

6.14 Capital commitments

Capital expenditure approved by the Directors but not provided for in the financial statements as at 31 October 2001 amounted to approximately:

	<i>Proforma Group RM'000</i>
Contracted but not provided for :	
Extension works to factory building in Bentong	<u>685</u>

6.15 Contingent liabilities (unsecured)

	<i>Proforma Group RM'000</i>
Corporate guarantees given to financial institutions for banking facilities granted to certain subsidiaries	<u>2,140</u>

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



6.16 Audited Accounts

No audited accounts of KPB and its subsidiary companies have been made up in respect of any period subsequent to 31 October 2001.

Yours faithfully

A handwritten signature in black ink, appearing to read 'KPMG' with a flourish at the end.

KPMG
Firm Number: AF0758
Chartered Accountants

A handwritten signature in black ink, appearing to read 'Hew Lee Lam Sang' with a flourish at the end.

HEW LEE LAM SANG
Partner
Approval Number: 1862/10/03(J)