

## 11. MORATORIUM ON SHARES

Under the Policies and Guidelines on Issue/Offer of Securities issued by the SC and as a condition of the SC's approval for listing, the below-mentioned shareholders of SMIS will not be allowed to sell, transfer or assign their respective portion of their shareholdings as shown below, amounting to 20,160,000 ordinary shares of RM1.00 each, representing 45% of the enlarged issued and paid-up share capital of SMIS within one (1) year from the date of admission of SMIS to the Official List of the Second Board of KLSE. Thereafter, they are permitted to sell, transfer or assign only up to a maximum of one-third per annum (on a straight-line basis) of their respective shareholdings in the Company which are under moratorium.

The shareholders of SMIS who are subjected to the moratorium are as follows:-

Shareholder	SMIS ordinary shares held after the Public Issue		SMIS ordinary shares under moratorium	
	No. of ordinary shares	% of enlarged paid-up capital	No. of ordinary shares	% of enlarged paid-up capital
MIYES	15,680,000	35.00	15,680,000	35.00
Mohd. Riani bin Osman	5,270,036	11.76	3,584,000	8.00
Yap Meow Lim	1,484,212	3.31	80,000	0.18
Tan Teck @ Chin Sien Chin	1,484,212	3.31	80,000	0.18
Ng Kwee Eng	1,373,418	3.07	213,000	0.47
Yap Siew Foong	1,263,730	2.82	268,000	0.60
Ng Wai Kee	700,900	1.57	90,000	0.20
Eng Kim Lian	546,964	1.22	86,000	0.19
Ng Eng Bee	501,010	1.12	26,000	0.06
Yap Sew Kim @ Yap Chew Yung	192,554	0.43	18,000	0.04
Chan Bee Sim	149,572	0.33	35,000	0.08
<b>Total</b>	<b>28,646,608</b>	<b>63.94</b>	<b>20,160,000</b>	<b>45.00</b>

The restriction, which is fully accepted by the aforesaid shareholders, is specifically endorsed on the share certificates and notices of allotment representing the shareholdings of the aforesaid shareholders which are under moratorium to ensure that the Company's registrar does not register any transfer not in compliance with the restriction imposed by the SC and KLSE.

The remarks to be endorsed on these share certificates are as follows:-

*"The shares comprised herein are not capable of being sold, transferred or assigned for a period as determined by the SC ("the moratorium period"). Accordingly, the shares comprised herein will not constitute good delivery pursuant to the Rules of the Exchange during the moratorium period. No share certificate or certificates will be issued to replace this certificate unless the same shall be endorsed with this restriction."*

In compliance with Section 10.12 of the SC's Policies and Guidelines on Issue/Offer of Securities, the shareholders of MIYES, that is, San Yes and Umberston, have given their undertakings that they will not sell, transfer or assign their shareholdings in MIYES from the date of admission of SMIS to the Official List of the Second Board of KLSE to the expiry of the moratorium period imposed by the SC on the sale of shares in SMIS. The shareholders of Umberston have also given their undertakings that they will not sell, transfer or assign their shareholdings in Umberston from the date of admission of SMIS to the Official List of the Second Board of KLSE to the expiry of the moratorium period imposed by the SC on the sale of shares in SMIS.

## 12. RELATED - PARTY TRANSACTIONS

Save as disclosed below, there are no transactions, existing or potential, which involves the Directors, major shareholders and/or persons connected with such Directors or major shareholders as defined under Section 122A of the Companies Act, 1965:-

### 12.1 Related-Party Transactions

- (a) Tan Teck @ Chin Sien Chin and Cham Bee Sim, who are Directors of SMIS, are also Directors and major shareholders of GC Marketing Sdn. Bhd. ("GCM") through their direct equity interest of 50% each in GCM. GCM, which is a customer of GCI, is principally involved in the marketing and distribution of automotive related carpets mainly to used car dealers and car accessories retailers. All transactions with the abovementioned company were and will continue to be conducted on terms which the Directors believe are at arm's length and in the ordinary course of business.
- (b) Tan Teck @ Chin Sien Chin, who is a Director of SMIS, is also a Director and major shareholder of Imej Ria Sdn. Bhd. ("IRSB") through his 30% direct equity interest in IRSB. IRSB, which is a customer of MIS, is principally involved in the trading and distribution of machinery and industrial parts.

IRSB is deemed to be a person connected to a director or substantial shareholder pursuant to Section 122A of the Companies Act due to the following relationships:

- (i) IRSB is deemed connected to Yap Siew Foong, who is a Director and a substantial shareholder of SMIS by virtue of her relationship with Tan Teck @ Chin Sien Chin, being her brother-in-law and who has a 30% direct equity interest in IRSB.
- (ii) IRSB is deemed connected to Yap Sew Kim @ Yap Chew Yung who is a Director of MIS by virtue of her relationship with Tan Teck @ Chin Sien Chin, being her husband and who has a 30% direct equity interest in IRSB.
- (iii) IRSB is deemed connected to Yap Meow Lim who is a Director of MIS by virtue of his relationship with Tan Teck @ Chin Sien Chin, being his brother-in-law and who has a 30% direct equity interest in IRSB.

All transactions with the abovementioned company were and will continue to be conducted on terms which the Directors believe are at arm's length and in the ordinary course of business.

- (c) Tan Teck @ Chin Sien Chin and Yap Siew Foong, who are Directors of SMIS, are also Directors of JIS Systems Sdn. Bhd. ("JIS"). Yap Siew Foong is also a major shareholder of SMIS. Tan Teck @ Chin Sien Chin and Yap Siew Foong are also deemed interested in JIS through their direct equity interests of 20% and 40% respectively in TYN Sdn. Bhd. ("TYN"), which in turn has a 52% direct equity interest in JIS. JIS, which is a customer of MIS, is principally involved in the trading and distribution of machinery and industrial parts while TYN is an investment holding company.

## 12. RELATED - PARTY TRANSACTIONS (Cont'd)

JIS is deemed to be a person connected to a director or substantial shareholder pursuant to Section 122A of the Companies Act, 1965 due to the following relationships:-

- (i) JIS is deemed connected to Ng Wai Kee, who is a Director of SMIS by virtue of his relationship with Yap Siew Foong, being his mother, who has a 40% direct equity interest in TYN Sdn. Bhd., which in turn has a 52% direct equity interest in JIS.
- (ii) JIS is deemed connected to Ng Kwee Eng who is a substantial shareholder of SMIS by virtue of her relationship with Yap Siew Foong, being her sister-in-law who has a 40% direct equity interest in TYN Sdn. Bhd., which in turn has a 52% direct equity interest in JIS.
- (iii) JIS is deemed connected to Ng Eng Bee who is a Director of MIS by virtue of his relationship with Yap Siew Foong, being his sister-in-law who has a 40% direct equity interest in TYN Sdn. Bhd., which in turn has a 52% direct equity interest in JIS.
- (iv) JIS is deemed connected to Eng Kim Lian who is a Director of MIS by virtue of her relationship with Yap Siew Foong, being her sister-in-law who has 40% direct equity interest in TYN Sdn. Bhd., which in turn has a 52% direct equity interest in JIS.
- (v) JIS is deemed connected to Yap Sew Kim @ Yap Chew Yung who is a Director of MIS by virtue of her relationship with Yap Siew Foong, being her sister and with Tan Teck @ Chin Sien Chin, being her husband, and who have 40% and 20% direct equity interest respectively, in TYN Sdn. Bhd., which in turn has a 52% direct equity interest in JIS.
- (vi) JIS is deemed connected to Yap Meow Lim who is a Director of MIS by virtue of his relationship with Yap Siew Foong, being her sister and with Tan Teck @ Chin Sien Chin, being his brother-in-law, and who have 40% and 20% direct equity interest respectively, in TYN Sdn. Bhd., which in turn has a 52% direct equity interest in JIS.

All transactions with the abovementioned companies were and will continue to be conducted on terms which the Directors believe are at arm's length and in the ordinary course of business.

- (d) Tan Teck @ Chin Sien Chin, who is a Director of SMIS, is also a Director of Perdana Jaya Sdn. Bhd. ("PJSB"). PJSB, which is a customer of MIS, is principally involved in the trading of machinery and electrical products. All transactions with the abovementioned company were and will continue to be conducted on terms which the Directors believe are arm's length and in the ordinary course of business.

### 12.2 Conflict of Interest

There is no conflict of interest between the Group and its Adviser, Reporting Accountants, Solicitors and Valuers. The Adviser, Reporting Accountants, Solicitors and Valuers are paid a fee for their professional services.

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## 13. OTHER INFORMATION

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### 13.1 Details of Licences, Permits and Approvals

The SMIS Group has the following licences:-

Manufacturing licences issued by MITI under the Industrial Co-ordination Act, 1975 for:-

- (i) the manufacture of clutch slave cylinder and brake booster by Sanyco dated 19 April 1995;
- (ii) the manufacture of domestic/commercial carpets and car carpets by GCI dated 20 July 1996; and
- (iii) the manufacture of ABS, clutch master cylinder, brake master cylinder, brake proportioning valve, brake line connector and brake wheel cylinder by Sanyco dated 26 March 1997.

Pursuant to Sanyco's manufacturing license issued on 26 March 1997 for the manufacturing of ABS, clutch master cylinder, brake master cylinder, brake proportioning valve, brake line connector and brake wheel cylinder, the following conditions were imposed:-

- (a) At least 51% of the company's shares is required to be bought and held by Malaysians including at least 30% reserved, and the company is required to consult with MITI before the distribution of the reserved shares is made;
- (b) Shares of Sanyco that are held by foreigners are not allowed to be sold without prior written approval from MITI; and
- (c) Sanyco has to employ Malaysian citizens such that the composition of each race is reflected in each job category.

Save for the above, no other equity/manpower conditions were imposed by MITI for the manufacturing licences mentioned in (i), (ii) and (iii) above.

#### Status of Compliance

Sanyco is a wholly-owned subsidiary of a Malaysian incorporated company, namely SMIS, which in turn is 90.8% owned by Malaysians and 37.2% owned by Bumiputera shareholders before the Public Issue.

According to the employment structure of Sanyco as at 22 February 2002, Sanyco's employment structure reflects the main racial mix of Malaysia for every employment category.

The Company has notified MITI of its restructuring and listing exercise (including the Acquisition of Sanyco), and MITI has provided its written confirmation that it has no objections to the same.

**13. OTHER INFORMATION (Cont'd)****13.2 Properties**

The details of the landed properties of the SMIS Group are as follows:-

Registered owner	Location	Existing use	Land area (sq. m.)	Built-up area (sq. m.)	Tenure of land (years)	Approximate age of building (years)	Open market value as at 01.06.2000 RM'000	Net book value as at 30.11.2001 RM'000
MIS	Lot No. 448, Section 92, Town of Kuala Lumpur, Wilayah Persekutuan	Office space and warehouse	3,685.00	3,866.50	Lease to expire on 30 January 2046	5	4,200	3,341
MIS	Lot 95, 945, 946 and 1112, Bandar Kuala Lumpur, Seksyen 62, Wilayah Persekutuan	Rental income###	275.17 79.15 26.38 65.00	n/a	Freehold	N/A	1,200	675
MIS	GRN 12347 and 12348, Lot 927 and 928, Town and District of Kuala Lumpur, Wilayah Persekutuan	Rental income###	150.00 152.00	1,197.10	Freehold	22	1,650	438
*1	34, Jalan B 25/B, Taman Perindustrian Axis, Section 25, 40400 Shah Alam, Selangor Darul Ehsan	Rental income###	143.00	586.60	Freehold	5	595	548
*2	21 and 23 (Plot No. 119 and 118), Taman Keranga, Bandar Baru Salak Tinggi, 83800 Dengkil, Selangor Darul Ehsan	Vacant	143.07	429.21	Freehold	1	840	808
*3	Parcel B-34-020 (E) Berjaya Star City, Jalan Pudu, Section 52, 55100 Kuala Lumpur, Wilayah Persekutuan	Under construction	N/A	53.70	Unknown as strata title not yet issued	N/A	288	261
GCI	PT 4245, HS (M) 20756, Mukim Kapar, District of Klang, Selangor Darul Ehsan	Office space and factory	12,151.00	10,310.26	Lease to expire on 9 June 2086	10	8,300	7,485
*4	Parcel A-42-09 (E) Berjaya Star City, Jalan Imbi, Section 52, 55100 Kuala Lumpur, Wilayah Persekutuan	Under construction	N/A	53.70	Unknown as strata title not yet issued	N/A	300	211
*5	Lot 3, Jalan U1/15, Seksyen U1, 11kom Glenmarie Industrial Park, 40150 Shah Alam, Selangor Darul Ehsan	Office space and factory	6,540.65	2,140.37	Freehold	4	5,600	4,048
<b>TOTAL</b>							<b>22,973</b>	<b>17,815</b>

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**13. OTHER INFORMATION (Cont'd)**

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*Notes:-*

- \*1 Held under Master Title No. Geran 38260 and Geran 36009 and Geran 1599 as the developer has not subdivided the property. Beneficially owned by MIS.*
- \*2 Held under Master Title No. Geran 7537, Geran 7575 and Geran 7576 as the property is currently under construction. Beneficially owned by MIS.*
- \*3 Held under Master Title No. Geran 7866 and Geran 10798 as the property is currently under construction. Beneficially owned by MIS.*
- \*4 Held under Master Title No. Geran 7866 and Geran 10798 as the property is currently under construction. Beneficially owned by GCI.*
- \*5 Held under Master Title No. Geran 24238 as the developer has not subdivided the property. Beneficially owned by Sanyco.*
- # Properties under construction are stated at cost of progress payment.*
- ## Differs from valuation certificate in Section 17 as the information in the valuation certificate is as at the date of inspection of the properties.*

The open market valuation of the above landed properties was carried out by Henry Butcher, Lim & Long Sdn. Bhd., a firm of professional valuers using the comparative and investment methods of valuation on the said properties. The Valuation Certificate is set out in Section 17 of this Prospectus.

The above valuation will not be incorporated in the accounts of the respective subsidiaries.

Based on Henry Butcher, Lim & Long Sdn. Bhd.'s valuation report and enquiries with the Jabatan Penilaian dan Perkhidmatan Harta, all the above properties were not transacted within the last two (2) years.

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## 14. FINANCIAL INFORMATION

### 14.1 Historical Financial Information

#### 14.1.1 SMIS Group

The following is a summary of the proforma consolidated audited results of the SMIS Group for the past five (5) financial years ended 31 December 1996 to 2000 and eleven (11)-month period ended 30 November 2001, prepared on the assumption that the current structure of the Group has been in existence throughout the years/period under review:-

	Financial year ended 31 December					11-month period ended 30 November
	1996 RM'000	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000
Revenue	57,531	67,643	35,184	51,479	62,402	61,676
Profit before depreciation, interest and taxation	11,229	9,524	3,758	11,272	11,505	11,736
Exceptional items	(498)	730	-	(1,500)	-	-
Depreciation	(1,272)	(1,509)	(1,649)	(1,721)	(1,968)	(1,884)
Interest expense	(1,882)	(1,395)	(887)	(514)	(359)	(219)
Interest income	97	11	477	203	168	72
Profit before taxation	7,674	7,361	1,699	7,740	9,346	9,705
Taxation	(2,102)	(1,827)	(891)	(198)	(2,708)	(2,837)
Profit after taxation	5,572	5,534	808	7,542	6,638	6,868
No. of ordinary shares assumed in issue ('000)	37,440	37,440	37,440	37,440	37,440	37,440
Net EPS (RM)	0.15	0.15	0.02	0.20	0.18	*0.20
Gross dividend rate (%)	-	-	-	-	-	**13.09

**Notes:-**

- \* Annualised.
- \*\* Tax-exempt dividend.
- (i) Exceptional items

	Financial year ended 31 December					11-month period ended 30 November
	1996 RM'000	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000
Expenditure carried forward written off	(498)	-	-	-	-	-
Gain/(loss) on disposal of investment in subsidiaries in MIS	-	730	-	(1,500)	-	-
	(498)	730	-	(1,500)	-	-

- (ii) There were no extraordinary and exceptional items during the years/period under review other than as disclosed in (i) above.

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**14. FINANCIAL INFORMATION (Cont'd)**

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- (iii) *The increase in proforma Group revenue for the year ended 31 December 1997 was as a result of the continued growth in the Malaysian economy and local automotive industry.*

*Proforma Group profit before taxation decreased in spite of the increase in revenue for the year ended 31 December 1997 mainly due to higher cost of imported materials in view of the volatile exchange rates which commenced in mid 1997.*

- (iv) *Proforma Group revenue and profit before taxation for the year ended 31 December 1998 declined mainly due to the lower demand for motor vehicles arising from the economic slowdown. This has resulted in lower demand for automotive parts and components manufactured by the Group. The greater decline in proforma Group profit before taxation as compared to proforma Group revenue is mainly due to a loss incurred by a subsidiary during the year due to higher costs of material and certain fixed overhead costs which did not vary with the decline in sales.*

- (v) *Proforma Group revenue and profit before taxation for the 2 years ended 31 December 1999 and 2000 increased as a result of the improvement in the Malaysian economy and an increase in motor vehicle sales.*

- (vi) *The effective tax rate in 1996 was lower than the statutory tax rate applicable due to the utilisation of unabsorbed capital allowances brought forward and unutilised business losses in one of the subsidiaries incurred in prior years.*

*The effective tax rate in 1997 was lower than the statutory tax rate applicable due to the availability of Pioneer Status incentive and utilisation of reinvestment allowance in certain subsidiaries. In addition, one of the subsidiaries had an exceptional gain on disposal of investment in subsidiaries which was not taxable.*

*The effective tax rate in 1998 was higher than the statutory tax rate applicable due to certain expenses being disallowed by Inland Revenue Board for tax purposes of a subsidiary and loss incurred by another subsidiary for the year which cannot be set off against the profits of the proforma Group for tax purposes.*

*Income tax was not provided in 1999 in view of the tax waiver for 1999 pursuant to the Income Tax (Amendment) Act, 1999. The taxation charge for the year relates to deferred taxation.*

*The effective tax rate in 2000 was higher than the statutory tax rate applicable due to certain expenses which are not deductible for tax purposes.*

The audited financial statements of SMIS and its subsidiaries for the above financial years/period have not been subject to any auditors' qualification.

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## 14. FINANCIAL INFORMATION (Cont'd)

### (a) Contribution of Product Category

The breakdown of contribution to the Group's revenue and profit after tax by each major product category for the past five (5) years ended 31 December 2000 and eleven (11)-month period ended 30 November 2001 are as follows:-

	Year ended 31 December					11-month period ended 30 November
	1996 %	1997 %	1998 %	1999 %	2000 %	2001 %
<b>Contribution to revenue</b>						
<b>Automotive components and accessories</b>						
GCI – (Carpets)	33.98	33.49	21.27	32.87	40.57	41.48
Sanyco – (Brakes, clutches and motorcycle components)	33.97	39.36	35.86	39.35	32.78	32.62
<b>TOTAL</b>	<b>67.95</b>	<b>72.85</b>	<b>57.13</b>	<b>72.22</b>	<b>73.35</b>	<b>74.40</b>
<b>Trading of machinery and industrial parts supplies</b>						
- MIS	32.05	27.15	42.87	27.78	26.65	25.90
	100.00	100.00	100.00	100.00	100.00	100.00
<b>Contribution to profit after tax</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
<b>Automotive components and accessories</b>						
GCI – (Carpets)	60.19	53.31	85.27	55.89	58.48	65.24
Sanyco – (Brakes, clutches and motorcycle components)	27.92	26.69	(67.45)	27.94	27.13	22.96
<b>TOTAL</b>	<b>88.11</b>	<b>80.00</b>	<b>17.82</b>	<b>83.83</b>	<b>85.61</b>	<b>88.20</b>
<b>Trading of machinery and industrial parts supplies</b>						
- MIS	11.89	20.00	82.18	16.17	14.39	11.80
	100.00	100.00	100.00	100.00	100.00	100.00

Details on the contribution to revenue and profit after taxation by company can be found in Sections 14.1.2, 14.1.3 and 14.1.4.

### (b) Declaration

Save as disclosed in this Prospectus, the financial conditions and operations of the SMIS Group were not affected by any of the following:-

- (i) known trends, demands, commitments, events or uncertainties that have had or that the SMIS Group reasonably expects to have a material favourable or unfavourable impact on the financial performance, position and operations of the SMIS Group;

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**14. FINANCIAL INFORMATION (Cont'd)**


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- (ii) material capital expenditure commitments;
- (iii) unusual, infrequent events or transactions or any significant economic changes that have materially affected the financial performance, position and operations of the SMIS Group; and
- (iv) known events, circumstances, trends, uncertainties and commitments that are reasonably likely to make the historical financial statements not indicative of future financial performance and position.

**(c) Working Capital, Borrowings, Material Litigation and Contingent Liabilities**

**(i) Working Capital**

The Directors of SMIS are of the opinion that, after taking into account the cashflow estimate and forecast of the Group and banking facilities available, the Group has adequate working capital for its present and foreseeable requirements.

**(ii) Borrowings**

As at 1 March 2002 (being the latest practicable date at which such amounts could be calculated prior to the printing of this Prospectus), the total bank borrowings, overdrafts and banking facilities of the Group amounted to RM1.349 million, of which RM1.321 million was charged against the Group's landed properties. The details are as follows:-

	Long term RM'000	Short term RM'000	Total RM'000
Hire purchase creditors	2	26	28
Term loans	759	562	1,321
	761	588	1,349

*Note:-*

*The banking facilities disclosed above are all interest - bearing.*

**(iii) Material Litigation and Contingent Liabilities**

As at 1 March 2002 (being the latest practicable date prior to the registration of this Prospectus), the Directors are not aware of any material litigation, arbitration proceedings and contingent liabilities which, upon becoming enforceable, may have a material impact on the profit or net assets value of the Group.

## 14. FINANCIAL INFORMATION (Cont'd)

### 14.1.2 GCI

The following is a summary of the audited results of GCI for the past five (5) financial years ended 31 December 2000 and eleven (11)-month period ended 30 November 2001:-

	-----Year ended 31 December -----					11-month period ended 30 November
	1996 RM'000	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000
Revenue	19,548	22,652	7,483	16,923	25,319	25,582
Profit before depreciation, interest and taxation	6,338	5,015	1,517	5,298	6,248	7,039
Exceptional item	(237)	-	-	-	-	-
Depreciation	(567)	(680)	(717)	(793)	(892)	(926)
Interest expense	(745)	(344)	(275)	(230)	(153)	(114)
Interest income	-	8	376	40	89	52
Profit before taxation	4,789	3,999	901	4,315	5,292	6,051
Taxation	(1,435)	(1,049)	(212)	(100)	(1,410)	(1,570)
Profit after taxation	3,354	2,950	689	4,215	3,882	4,481
No. of ordinary shares of RM1.00 each in issue ('000)	1,536	1,536	1,536	1,536	1,536	1,536
Net EPS (RM)	2.18	1.92	0.45	2.74	2.53	*3.18
Gross dividend rate (%)	-	-	-	-	-	**244.47

**Notes:-**

\* Annualised.

\*\* Tax-exempt dividend.

- (i) The increase in revenue in 1997 was a result of the continued growth in the economy and automotive industry until the last quarter of 1997. The decrease in profit before taxation was due to higher cost of purchases during the last quarter in view of the volatile exchange rates.
- (ii) Revenue and profit before taxation decreased in 1998 as a result of a drop in motor vehicle sales and the economic slowdown in the country. The lower profit before taxation arose from the decline in revenue coupled with certain fixed overheads that did not vary with the decline in sales.
- (iii) The increase in profit before taxation in 1999 and 2000 was due to the economic recovery and an improvement in sales of motor vehicles. The increase in revenue was also due to higher orders from customers in view of the anticipated increase in demand for motor vehicles.
- (iv) There were no extraordinary and exceptional items during the years/period under review other than an amount of approximately RM237,000 in 1996 which related to expenditure carried forward written off.
- (v) The effective tax rate in 1996 was higher than the statutory tax rate applicable due to certain expenses being disallowed by the Inland Revenue Board for tax purposes.

**14. FINANCIAL INFORMATION (Cont'd)**

*The effective tax rates in 1997 and 1998 were lower than the statutory tax rate applicable due to the utilisation of reinvestment allowance.*

*Income tax was not provided in 1999 in view of the tax waiver for 1999 pursuant to the Income Tax (Amendment) Act, 1999. The taxation expense for the year relates to deferred taxation.*

*The effective tax rate in 2000 was lower than the statutory tax rate applicable due to the utilisation of reinvestment allowance.*

**14.1.3 Sanyco**

The following is a summary of the audited results of Sanyco for the past five (5) financial years ended 31 December 2000 and eleven (11)-month period ended 30 November 2001:-

	-----Year ended 31 December -----					11-month period ended 30 November
	1996 RM'000	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000
Revenue	19,547	26,628	12,616	20,253	20,458	20,119
Profit before depreciation, interest and taxation	3,258	2,992	246	2,857	3,155	2,928
Exceptional item	(261)	-	-	-	-	-
Depreciation	(374)	(463)	(523)	(523)	(632)	(568)
Interest expense	(760)	(657)	(409)	(149)	(127)	(57)
Interest income	-	-	56	12	-	-
Profit/(Loss) before taxation	1,863	1,872	(630)	2,197	2,396	2,303
Taxation	(307)	(395)	85	(90)	(595)	(726)
Profit/(Loss) after taxation	1,556	1,477	(545)	2,107	1,801	1,577
No. of ordinary shares of RM1.00 each in issue ('000)	5,000	5,000	5,000	5,000	5,000	5,000
Net EPS/(loss) per share (RM)	0.31	0.30	(0.11)	0.42	0.36	*0.34
Gross dividend rate (%)	-	-	-	-	-	**10.00

**Notes:-**

\* Annualised.

\*\* Tax-exempt dividend.

(i) *The increase in revenue and profit before taxation in 1997 was a result of increased demand for Proton cars in the market.*

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**14. FINANCIAL INFORMATION (Cont'd)**

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- (ii) *The decrease in revenue in 1998 was due to the significant decrease in demand for Sanyco's products. Sales to Proton declined largely as a result of excess supply of vehicle stocks from the previous years. The loss position in 1998 arose from the decline in revenue coupled with higher costs of materials and certain fixed overhead costs which did not vary with the decline in sales.*
- (iii) *The increase in revenue and profit before taxation in 1999 was attributable to the overall recovery of the Malaysian economy and the automotive industry coupled with the easing of financing for car buyers.*
- (iv) *There were no material fluctuations in 2000 due to the offsetting effects of the demand for certain products in the product mix.*
- (v) *There were no extraordinary and exceptional items during the years under review other than an amount of approximately RM261,000 in 1996 which related to expenditure carried forward written off.*
- (vi) *The effective tax rate in 1996 was lower than the statutory tax rate due to the utilisation of unabsorbed capital allowances and business losses.*

*The effective tax rate in 1997 was lower than the statutory tax rate applicable due to the utilisation of business losses and the availability of Pioneer Status incentive granted to Sanyco.*

*Income tax was not provided for 1998 in view of business losses for that year. The tax credit for the year relates to reversal of deferred tax liability from previous years.*

*Income tax was not provided in 1999 in view of the tax waiver for 1999 pursuant to the Income Tax (Amendment) Act, 1999. The taxation expense for the year relates to deferred taxation.*

*The effective tax rate in 2000 was lower than the statutory tax rate applicable due to the availability of Pioneer Status incentive. The availability of Pioneer Status incentive expired on 30 June 2000.*

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## 14. FINANCIAL INFORMATION (Cont'd)

### 14.1.4 MIS

The following is a summary of the audited results of MIS for the past five (5) financial years ended 31 December 2000 and eleven (11)-month period ended 30 November 2001:-

	Year ended 31 December					11-month period ended 30 November
	1996 RM'000	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000
Revenue	18,436	18,363	15,085	14,303	16,625	15,975
Profit before depreciation, interest and taxation	1,633	1,517	1,995	3,117	2,102	2,025
Exceptional item	-	730	-	(1,500)	-	-
Depreciation	(331)	(366)	(409)	(405)	(444)	(390)
Interest expense	(377)	(394)	(203)	(135)	(79)	(48)
Interest income	97	3	45	151	79	20
Profit before taxation	1,022	1,490	1,428	1,228	1,658	1,607
Taxation	(360)	(273)	(764)	(8)	(703)	(541)
Profit after taxation	662	1,217	664	1,220	955	1,066
No. of ordinary shares of RM1.00 each in issue ('000)	7,210	7,210	7,210	7,210	7,210	7,210
Net EPS (RM)	0.09	0.17	0.09	0.17	0.13	*0.16
Gross dividend rate (%)	-	-	-	-	-	**25.07

#### Notes:-

\* Annualised.

\*\* Tax-exempt dividend.

- (i) The increase in profit before taxation in 1997 arose from the gain on disposal of investment in subsidiaries of RM730,000.
- (ii) The profit before taxation for 1998 remained close to that for 1997 despite the decrease in revenue as management was consciously monitoring overhead costs.
- (ii) In 1999, MIS disposed of all its subsidiaries and incurred a loss of RM1,500,000 and also received dividend income from Striker Electric Sdn. Bhd. which was disposed of during the year, amounting to RM1,000,000. The revenue in 1999 decreased further due to the spill over of the slowdown in economy. Although the economy had shown improvement from June onwards, customers only increased their orders from the last quarter of 1999. The increase in profit before depreciation and interest in 1999 was mainly due to dividend income received amounting to RM1.02 million.
- (iii) The increase in revenue and profit before taxation for 2000 was due to the recovery of the Malaysian economy.

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**14. FINANCIAL INFORMATION (Cont'd)**


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- (iv) *There were no extraordinary and exceptional items during the year under review other than in 1997 and 1999 which related to:-*

	<i>1997</i>	<i>1999</i>
	<i>RM'000</i>	<i>RM'000</i>
<i>Gain/(Loss) on disposal of investment in subsidiary companies</i>	<i>730</i>	<i>(1,500)</i>

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- (v) *The effective tax rates in 1996 and 1998 were higher than the statutory tax rate applicable due to certain expenses being disallowed by the Inland Revenue Board for tax purposes.*

*The effective tax rate in 1997 was lower than the statutory tax rate applicable due to exceptional gain on disposal of investment in subsidiaries which was not taxable.*

*Income tax was not provided in 1999 in view of the tax waiver for 1999 pursuant to the Income Tax (Amendment) Act, 1999. The taxation expense for the year relates to deferred taxation.*

*The effective tax rate in 2000 was higher than the statutory tax rate applicable due to certain expenses which are not deductible for tax purposes.*

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## 14. FINANCIAL INFORMATION (Cont'd)

### 14.2 Future Financial Information

#### 14.2.1 Proforma Consolidated Estimate and Consolidated Forecast Results

At the time of preparing this proforma consolidated profit estimate and consolidated profit forecast, uncertainty following the aftermath of the terrorist attacks in the United States of America makes it unclear as to what the medium term impact of this event would be on the global economy. Barring the adverse impact that this event may have on the SMIS Group going forward, the Directors of SMIS estimate and forecast that the consolidated results of the SMIS Group for the financial years ended 31 December 2001 and ending 31 December 2002 respectively will be as follows:-

<b>Financial year ending 31 December</b>	<b>Proforma estimate 2001 RM'000</b>	<b>Forecast 2002 RM'000</b>
Revenue	69,401	76,732
Consolidated profit before taxation	10,510	12,181
Taxation	(3,192)	(3,838)
Consolidated profit after taxation	7,318	8,343
Less: preacquisition profit	(7,333)	(630)
	<u>(15)</u>	<u>7,713</u>
No. of shares in issue ('000)	10,000	44,800
Weighted average no. of shares in issue ('000)	10,000	*38,921
Net (loss)/earnings per share (sen)	(150.00)	19.82
Net PE multiple based on issue price of RM1.15 per share (times)	N/A	5.80

**Note:-**

\* assuming the Public Issue is completed by mid-April 2002.

The proforma estimate and forecast results are prepared on bases and accounting principles consistent with those previously adopted in the preparation of the audited financial statements.

#### 14.2.2 Principal Bases and Assumptions

The principal bases and assumptions upon which the proforma estimate and forecast have been made have been reviewed for reasonableness by the Directors of SMIS who are responsible for the proforma estimate and forecast and assumptions thereto. They are as follows:-

- (a) There will be no material changes in the present legislation or government regulations, rates and duties, levies and taxes which will adversely affect the operations of SMIS Group or the markets in which it operates.
- (b) ASEAN has decided to defer till 2005 (originally scheduled for 2003), the transfer of CBU and CKD motor vehicles on to the Inclusion List from the Temporary Exclusion List. The introduction of AFTA in 2005 of CBU and CKD motor vehicles will result in new challenges and opportunities for local automotive parts and components manufacturers. Due to the uncertainty surrounding the economic impact of trade liberalisation in the



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**14. FINANCIAL INFORMATION (Cont'd)**


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ASEAN region, no assurance can be given that the liberalisation of trade in the ASEAN region will not have a material impact on the SMIS Group.

- (c) Save for the uncertainty following recent terrorist attacks in the United States of America in September 2001, there will be no major breakdown or disruption in the operational facilities, industrial disputes, disruption from supplies of materials or other abnormal factor both domestic and overseas, which will adversely affect SMIS Group's operations. The SMIS Group will continue to maintain its purchasing arrangements with its existing suppliers.
- (d) There will be no significant changes in the political, economic and market conditions which will materially affect the activities of the SMIS Group and the demand, saleability and pricing of its products and services or the markets in which it operates which will adversely affect the SMIS Group's performance and the business of its major customers.
- (e) Existing financing facilities will remain available to the SMIS Group and interest rates will not change significantly from those presently prevailing. In addition, the SMIS Group will be able to obtain financing facility at the present prevailing interest rates.
- (f) There will be no significant changes in the existing accounting, management and operational policies of the SMIS Group that will adversely affect the activities and performance of the SMIS Group. There will be no major changes in the key personnel and management of the SMIS Group which will affect the marketing capability and level of activities of SMIS Group.
- (g) There will be no changes in the present structure or principal activities of the SMIS Group.
- (h) There will be no material changes in labour costs, price of raw materials and other costs, which will adversely affect the SMIS Group's profitability.
- (i) Inflation rates and exchange rates of foreign currencies will not change materially from their present levels. The exchange rates of foreign currencies will continue to be fixed as follows:-
 

1 USD :	RM3.800
1 AUD :	RM2.006
100 JYP :	RM3.192
- (j) Capital expenditure programmes will be implemented on schedule and there will be no material acquisition or disposal of property, plant and equipment other than those planned.
- (k) Acquisitions have been completed in January 2002.
- (l) Payment of special tax exempt dividend of RM3,500,000 by GCI, RM500,000 by Sanyco and RM900,000 by MIS totalling RM4,900,000 to the existing ultimate shareholders of GCI, Sanyco and MIS prior to the Acquisitions.
- (m) The proceeds from the Public Issue of RM8,464,000 are expected to be received by mid-April 2002 and will be utilised as planned.

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**14. FINANCIAL INFORMATION (Cont'd)**

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**14.2.3 Directors' Analysis**

Barring unforeseen circumstances, the Directors' estimate and forecast of the SMIS Group's proforma consolidated profit after taxation for the financial years ended 31 December 2001 and ending 31 December 2002 are RM7.3 million and RM8.3 million respectively. These are based on the revenue estimate and forecast of RM69.4 million and RM76.7 million or a growth of 11.2% and 10.6% for the financial years ending 31 December 2001 and 2002 respectively. The main contributor of revenue and profit is expected to continue to be from the automotive components and accessories business. The projected growth is based on the assumption that the SMIS Group will maintain its market share and sustain its export markets. To strengthen the SMIS Group's position, the Directors have made all efforts to improve the efficiency, productivity and quality of its operations by investing in high technology and devoting a substantial percentage of its resources towards R&D. Such investments are expected to further increase its market share for CKD vehicles assembled in Malaysia and potential new markets abroad.

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## 14. FINANCIAL INFORMATION (Cont'd)

### 14.2.4 REPORTING ACCOUNTANTS' LETTER ON THE CONSOLIDATED PROFIT ESTIMATE AND FORECAST (Prepared for inclusion in this Prospectus)



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Chartered Accountants  
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The Board of Directors  
SMIS Corporation Berhad  
11<sup>th</sup> Floor, Wisma Damansara  
Jalan Semantan  
Damansara Heights  
50490 Kuala Lumpur

7 March 2002

Dear Sirs

#### **Reporting Accountants' Letter On The Proforma Consolidated Profit Estimate And Consolidated Profit Forecast For The Year Ended 31 December 2001 And Year Ending 31 December 2002 Respectively**

We have reviewed the accounting policies and calculations for the proforma consolidated profit estimate and consolidated profit forecast of SMIS Corporation Berhad ("SMIS") and its subsidiaries ("the Group") for which the Directors are solely responsible, for the financial year ended 31 December 2001 and year ending 31 December 2002 respectively, as set out in the Prospectus to be dated 13 March 2002 in connection with:

- i) the public issue of 7,360,000 new ordinary shares of RM1.00 each in SMIS comprising:
  - a) 3,740,000 new ordinary shares of RM1.00 each available for application at an issue price of RM1.15 per ordinary share payable in full on application; and
  - b) 3,620,000 new ordinary shares of RM1.00 each by way of private placement to identified investors at an issue price of RM1.15 per ordinary share payable in full on applicationand,
- ii) in conjunction with its listing on the Second Board of The Kuala Lumpur Stock Exchange.

The proforma consolidated profit estimate for the year ended 31 December 2001 includes results shown by the audited financial statements for the period ended 30 November 2001.

In our opinion, the proforma consolidated profit estimate and consolidated profit forecast, so far as the accounting policies and calculations are concerned, have been properly compiled on the basis of the assumptions made by the Directors, as set out in the Prospectus, and are presented on a basis consistent with the accounting policies normally adopted by the Group.

Yours faithfully,

**KPMG**  
Firm number: AF 0758  
Chartered Accountants

**Chan Kam Chiew**  
Partner  
Approval Number: 2055/6/02(J)



## 14. FINANCIAL INFORMATION (Cont'd)

### 14.3 Dividend Estimate and Forecast

It is the policy of the Directors of SMIS to recommend dividends to allow shareholders to participate in the profits of the Company as well as leaving adequate reserves for the future growth of the Group.

The Directors of SMIS do not intend to propose any dividends for the financial year ended 31 December 2001.

Based on the forecast profit after taxation of RM8.343 million for the financial year ending 31 December 2002, the Directors of SMIS anticipate that, in the absence of unforeseen circumstances, the Company will be in a position to propose a final tax-exempt dividend of 5 sen per share amounting to RM2.24 million for the financial year ending 31 December 2002 based on its issued and paid-up share capital of 44,800,000 ordinary shares of RM1.00 each.

The intended appropriation of the forecast profit after taxation for the financial year ending 31 December 2002 will be as follows:-

Financial year ending 31 December	Forecast 2002 RM'000
Consolidated profit before taxation	12,181
Less: Taxation	(3,838)
Consolidated profit after taxation	8,343
Less: Dividend	(2,240)
Consolidated profit retained for the financial year	<u>6,103</u>
Tax-exempt dividend per ordinary share (sen)	5.00
Tax-exempt dividend yield based on the issue price of RM1.15 per share (%)	4.35
Net dividend cover based on dividend of 5.0 sen per share (times)	3.72

### 14.4 Recoverability of Trade Debts

The ageing analysis of the trade debts (net of provision for doubtful debts) of the Group as at 30 November 2001 is as follows:-

	RM'000
1 - 30 days	4,759
31 - 60 days	7,061
61 - 90 days	4,740
91 - 120 days	1,530
Exceeding 120 days	<u>6,323</u>
	<u>24,413</u>
Exceeding credit period	<u>9,717</u>

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**14. FINANCIAL INFORMATION (Cont'd)**

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The Directors of SMIS believe that the trade debts of the Group exceeding credit period as disclosed above are recoverable due to the long and established relationship between the Group and its customers. In addition, structured credit control policies have been implemented by the Group in order to minimise the occurrence of delinquency.

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## 15. PROFORMA CONSOLIDATED BALANCE SHEETS AND REPORTING ACCOUNTANTS' LETTER THEREON

### 15.1 PROFORMA CONSOLIDATED BALANCE SHEETS

The Proforma Consolidated Balance Sheets of SMIS as at 30 November 2001 as set out below are provided for illustrative purposes only to show the effects of the Acquisition of MIS, GCI and Sanyco, and the Public Issue in conjunction with its flotation on the Second Board of the KLSE on the assumption that these transactions were completed on 30 November 2001.

	Company audited at 30 November 2001 RM'000	Proforma (I)  After the Acquisitions RM'000	Proforma (II)  After Proforma (I) and Public Issue RM'000
<b>PROPERTY, PLANT AND EQUIPMENT</b>	-	24,146	27,750
<b>CURRENT ASSETS</b>			
Inventories	-	9,551	9,551
Trade receivables	-	24,413	24,413
Other receivables, deposits and prepayments	-	3,561	3,561
Cash and cash equivalents	10	5,674	6,609
	<u>10</u>	<u>43,199</u>	<u>44,134</u>
<b>CURRENT LIABILITIES</b>			
Trade payables	-	3,652	3,652
Other payables and accruals	3	2,154	2,154
Borrowings	-	1,107	690
Taxation	-	2,091	2,091
Dividend payable	-	4,900	4,900
	<u>3</u>	<u>13,904</u>	<u>13,487</u>
<b>NET CURRENT ASSETS</b>	<u>7</u>	<u>29,295</u>	<u>30,647</u>
	<u>7</u>	<u>53,441</u>	<u>58,397</u>
<b>FINANCED BY:-</b>			
SHARE CAPITAL	10	37,440	44,800
SHARE PREMIUM	-	5,998	4,534
RETAINED PROFITS	(3)	(3)	(3)
RESERVE ON CONSOLIDATION	-	8,363	8,363
SHAREHOLDERS' FUNDS	<u>7</u>	<u>51,798</u>	<u>57,694</u>
<b>LONG TERM AND DEFERRED LIABILITIES</b>			
Borrowings	-	940	-
Deferred taxation	-	703	703
	<u>7</u>	<u>53,441</u>	<u>58,397</u>
<b>NTA per share (RM)</b>	0.70	1.38	1.29

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**15. PROFORMA CONSOLIDATED BALANCE SHEETS AND REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)**


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**Notes to the Proforma Consolidated Balance Sheets**
**1. Basis of preparation**

The Proforma Consolidated Balance Sheets of SMIS Group have been prepared for illustrative purposes only and are based on the audited balance sheets of GCI, Sanyco and MIS as at 30 November 2001.

The Proforma Consolidated Balance Sheets have been prepared based on accounting policies and bases consistent with those previously adopted in the preparation of the audited financial statements.

The Proforma Consolidated Balance Sheets incorporate the following transactions as though they were effected on 30 November 2001.

**(a) Proforma (I)**

Proforma (I) incorporates the following:-

- acquisition of 1,164,978 ordinary shares of RM1.00 each in GCI, representing 75.83% of the issued and paid-up capital of GCI, for a purchase consideration of RM17,166,219, satisfied by an issuance of 14,801,000 new ordinary shares of RM1.00 each in SMIS at an issue price of approximately RM1.16 per share credited as fully paid-up, and acquisition of 371,324 ordinary shares of RM1.00 each representing the remaining 24.17% of the issued and paid-up capital of GCI for a cash consideration of RM5,471,548 to be settled at a later date.

The total purchase consideration of RM22,637,767 for the Acquisition of GCI was arrived at on a willing-buyer willing-seller basis based on the NTA of GCI and its subsidiary as at 31 December 1999 of RM22,637,767.

- acquisition of 2,450,000 ordinary shares of RM1.00 each in Sanyco, representing 49.00% of the issued and paid-up capital of Sanyco, for a purchase consideration of RM4,036,821, satisfied by an issuance of 3,480,000 new ordinary shares of RM1.00 each in SMIS at an issue price of approximately RM1.16 per share credited as fully paid-up, and acquisition of 2,550,000 ordinary shares of RM1.00 each representing the remaining 51.00% of the issued and paid-up capital of Sanyco for a cash consideration of RM4,201,589 to be settled at a later date.

The total purchase consideration of RM8,238,410 for the Acquisition of Sanyco was arrived at on a willing-buyer willing-seller basis based on the NTA of Sanyco as at 31 December 1999 of RM8,238,410.

- acquisition of 7,210,000 ordinary shares of RM1.00 each in MIS, representing the entire equity interest therein, for a purchase consideration of RM22,225,297, satisfied by an issuance of 19,149,000 new ordinary shares of RM1.00 each in SMIS at an

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**15. PROFORMA CONSOLIDATED BALANCE SHEETS AND REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)**


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issue price of approximately RM1.16 per share credited as fully paid-up.

The purchase consideration of RM22,225,297 for the Acquisition of MIS was arrived at on a willing-buyer willing-seller basis based on the NTA of MIS and its associate as at 31 December 1999 of RM22,225,297.

- declaration of special tax-exempt dividend of RM3,500,000 by GCI, RM500,000 by Sanyco and RM900,000 by MIS totalling RM4,900,000 to the existing ultimate shareholders of GCI, Sanyco and MIS prior to the Acquisitions.

**(b) Proforma (II)**

Proforma II includes the transactions in Proforma I and the following:

- Public Issue of 7,360,000 new ordinary shares of RM1.00 each at an issue price of RM1.15 per share; and
- write-off of the estimated listing expenses of RM2.568 million against the share premium account.

The proceeds from the Public Issue will be utilised as follows:-

	RM'000
Repayment of bank borrowings	1,357
Capital expenditure	3,604
Working capital	935
Estimated listing expenses	2,568
	<u>8,464</u>

**(c) Share Capital and Share Premium**

The movement in the share capital and share premium are as follows:-

	Share capital RM'000	Share premium RM'000
As at 30 November 2001	10	-
Acquisitions of GCI, Sanyco and MIS	<u>37,430</u>	<u>5,998</u>
As per Proforma (I)	37,440	5,998
Proposed Public Issue	7,360	1,104
Listing expenses	<u>-</u>	<u>(2,568)</u>
As per Proforma (II)	<u>44,800</u>	<u>4,534</u>



15. **PROFORMA CONSOLIDATED BALANCE SHEETS AND REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)**

15.2 **REPORTING ACCOUNTANTS' LETTER ON THE PROFORMA CONSOLIDATED BALANCE SHEETS**

(Prepared for inclusion in this Prospectus)



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The Board of Directors  
SMIS Corporation Berhad  
11<sup>th</sup> Floor, Wisma Damansara  
Jalan Semantan  
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50490 Kuala Lumpur

7 March 2002

Dear Sirs

**Proforma Consolidated Balance Sheets As At 30 November 2001**

We have reviewed the presentation of the Proforma Consolidated Balance Sheets of SMIS Corporation Berhad ("SMIS") and its subsidiaries ("the Group") as at 30 November 2001 for which the Directors are solely responsible, together with the notes thereon, as set out in the Prospectus to be dated 13 March 2002 in connection with:

- i) the public issue of 7,360,000 new ordinary shares of RM1.00 each in SMIS comprising:
    - a) 3,740,000 new ordinary shares of RM1.00 each available for application at an issue price of RM1.15 per ordinary share payable in full on application; and
    - b) 3,620,000 new ordinary shares of RM1.00 each by way of private placement to identified investors at an issue price of RM1.15 per ordinary share payable in full on application
- and,
- ii) in conjunction with its listing on the Second Board of The Kuala Lumpur Stock Exchange.

In our opinion, the proforma consolidated balance sheets together with the accompanying notes thereon which have been prepared for illustrative purposes only, have been properly prepared on a basis consistent with the accounting policies normally adopted by the Group.

Yours faithfully,

**KPMG**  
Firm number: AF 0758  
Chartered Accountants

**Chan Kam Chiew**  
Partner  
Approval Number : 2055/6/02 (J)

