

## 11. ACCOUNTANTS' REPORT

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22 April 2002

The Board of Directors  
Silver Bird Group Berhad  
No. 205 & 206, Jalan 1  
Taman Perindustrian Ehsan Jaya  
Taman Ehsan, Kepong  
52100 Kuala Lumpur



Dear Sirs

### **SILVER BIRD GROUP BERHAD ("the Company" or "Silver Bird") ACCOUNTANTS' REPORT**

#### **1. PURPOSE OF REPORT**

This report has been prepared by Horwath Mok & Poon, an approved company auditor, for inclusion in the Prospectus of the Company to be dated 30 April 2002, in connection with the following proposals:-

- (i) offer for sale of 5,300,000 ordinary shares of RM0.50 each in Silver Bird at an offer price of RM0.90 per share;
- (ii) public issue of 14,800,000 new ordinary shares of RM0.50 each in Silver Bird at an issue price of RM0.90 per share; and
- (iii) listing of and quotation for its entire enlarged issued and fully paid-up share capital comprising 80,000,000 ordinary shares of RM0.50 each on the Second Board of the Kuala Lumpur Stock Exchange ("KLSE").

#### **2. DETAILS OF SILVER BIRD AND ITS SUBSIDIARIES**

##### **2.1 THE COMPANY**

Silver Bird was incorporated on 5 October 1993 under the name of Madeleine Bakery Cafe Sdn Bhd. The name was subsequently changed to SilverBird Group Sdn Bhd on 21 August 1998 and to Silver Bird Group Sdn Bhd on 3 March 1999. The Company was converted into a public limited company on 21 August 2000. The Company commenced operations as an operator of a chain of cafe outlets until 1 November 1998 whereby the cafe operation was transferred to its subsidiary Madeleine Cafe Sdn Bhd ("MCSB").

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### 2.2 RESTRUCTURING SCHEME

In conjunction with and as part of the listing of and quotation for the entire enlarged issued and paid-up share capital of Silver Bird on the Second Board of the KLSE, the Company undertook a restructuring exercise involving the following:-

- (i) the split of one (1) ordinary share of RM1.00 per share to two (2) ordinary shares of RM0.50 each. This resulted in the increase in the number of ordinary shares in issue from 13,194,720 ordinary shares of RM1.00 each to 26,389,440 ordinary shares of RM0.50 each;
- (ii) the conversion of 2,513,280 issued and fully paid-up "A" ordinary shares of RM1.00 each in Silver Bird into 5,026,560 new ordinary shares of RM0.50 each at a conversion ratio of 1 "A" ordinary share of RM1.00 each into 2 ordinary shares of RM0.50 each;
- (iii) the conversion of 3,000,000 issued and fully paid-up preference shares of RM1.00 each in Silver Bird into 4,000,000 new ordinary shares of RM0.50 each at a conversion ratio of 3 preference shares of RM1.00 each into 4 ordinary shares of RM0.50 each;
- (iv) a Rights Issue of 29,784,000 new ordinary shares of RM0.50 each in Silver Bird at an issue price of RM0.50 per share on the basis of approximately 275 new ordinary shares for every 327 existing ordinary shares held based on the enlarged share capital comprising 35,416,000 ordinary shares of RM0.50 each after the split of the par value of the ordinary shares, conversion of "A" shares and conversion of preference shares;
- (v) a Public Issue of 14,800,000 new ordinary shares of RM0.50 each in Silver Bird at an issue price of RM0.90 per share; and
- (vi) the listing of and quotation for its entire enlarged issued and fully paid-up share capital comprising 80,000,000 ordinary shares of RM0.50 each on the Second Board of the KLSE.

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## 2.3 DETAILS OF THE SUBSIDIARIES

The details of the subsidiaries of Silver Bird are as follows:-

Name	Date and country of incorporation	Issued and paid-up share capital RM	Effective interest %	Principal activities
Standard Confectionery Sdn Bhd ("SCSB")	4 October 1986/ Malaysia	2,000,000	100	Manufacturer of frozen and daily fresh/shelf bakery goods.
Madeleine Foods Sdn Bhd ("MFSB")	26 August 1994/ Malaysia	500,000	100	Manufacturer of bakery products.
Madeleine Bakery Sdn Bhd ("MBSB")	29 November 1995/ Malaysia	50,000	100	Operator of bakery-cafes on a take-away basis.
Madeleine Cafe Sdn Bhd ("MCSB")	10 October 1998/ Malaysia	2	100	Operator of bakery-cafes.
Asia Food Link Sdn Bhd ("AFL")	29 April 1994/ Malaysia	400,000	100	Wholesaler of confectionery and food ingredients.
AFL Logistics Sdn Bhd ("AFL")	2 August 1995/ Malaysia	300,000	100*	Providing warehousing, distribution and related services and trading of food products.
Madeleine Property Sdn Bhd ("MPSB")	18 July 1998/ Malaysia	50,000	100	Property management.

Note:-

\* - Interest held through AFL.

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## 3. SHARE CAPITAL

At the date of this report, Silver Bird has an authorised share capital of RM50,000,000 comprising 100,000,000 ordinary shares of RM0.50 each and an issued and paid-up share capital of RM32,600,000 comprising 65,200,000 ordinary shares of RM0.50 each.

The movements in the issued and paid-up share capital of the Company since incorporation are as follows:-

*Ordinary shares*

Date of allotment	Number of shares	Par value RM	Consideration	Cumulative issued and paid-up capital RM
05.10.93	2	1.00	Subscribers shares	2
22.12.93	149,998	1.00	Cash	150,000
01.11.95	150,000	1.00	Cash	300,000
16.01.97	1,170,000	1.00	Cash	1,470,000
	2,744,000	1.00	Share swap #	4,214,000
12.06.97 to 25.06.97	5,132,000	1.00	Share swap #	9,346,000
	4,872,000	1.00	Cash	14,218,000
01.05.99	1,490,000	1.00	Conversion of preference shares to ordinary shares	15,708,000
27.08.99	(2,513,280)	1.00	Reclassification of shares to "A" ordinary shares	13,194,720
18.03.02	13,194,720	0.50	Split of one (1) ordinary share of RM1.00 to two (2) shares of RM0.50 each	13,194,720
18.03.02	5,026,560	0.50	Conversion of "A" ordinary shares to ordinary shares	15,708,000
18.03.02	4,000,000	0.50	Conversion of preference shares to ordinary shares	17,708,000
03.04.02 to 22.04.02	29,784,000	0.50	Rights issue	32,600,000

# - The share swap represents the allotment of 7,876,000 new ordinary shares of RM1.00 each in Silver Bird as consideration for the acquisition of the entire issued and paid up share capital of SCSB, MFSB and MBSB.

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## 3. SHARE CAPITAL (CONT'D)

*"A" ordinary shares*

Date of allotment	Number of shares	Par value RM	Consideration	Cumulative issued and paid-up capital RM
27.08.99	2,513,280	1.00	Reclassification from ordinary shares	2,513,280
18.03.02	(2,513,280)	1.00	Conversion to ordinary shares	-

*Preference shares*

Date of allotment	Number of shares	Par value RM	Consideration	Cumulative issued and paid-up capital RM
28.07.97	1,000,000	1.00	Cash	1,000,000
01.05.99	(1,000,000)	1.00	Conversion to ordinary shares	-
27.08.99	3,000,000	1.00	Cash	3,000,000
18.03.02	(3,000,000)	1.00	Conversion to ordinary shares	-

## 4. RELEVANT FINANCIAL YEARS

The relevant financial years for the purpose of this report ("Relevant Financial Years") are the financial years ended 31 October 1997, 1998, 1999, 2000 and 2001.

## 5. ACCOUNTING STANDARDS AND POLICIES

## 5.1 ACCOUNTING STANDARDS

The financial statements of the Group and the Company are prepared under the historical cost convention and in compliance with applicable approved accounting standards in Malaysia. There have been no significant changes in the accounting policies during the Relevant Financial Years.

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## 5.2 SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies apply to the Group and the Company.

(a) **Basis of Consolidation**

The consolidated financial statements incorporate the financial statements of the Company and all its subsidiaries made up to the financial year end.

For subsidiaries which were acquired by way of issue of shares and which satisfy the requirements of Malaysian Accounting Standard No. 2, the merger method is used for the consolidation of the results of the subsidiaries acquired. The difference between the acquisition cost and the nominal value of share capital and reserves of the subsidiaries is taken to merger reserve.

For other subsidiaries, the acquisition method is used to consolidate the results of these subsidiaries. Goodwill or reserve arising on consolidation is amortised through the profit and loss account on a straight-line basis over 25 years.

All significant intragroup transactions, balances and unrealised profits are eliminated on consolidation.

(b) **Property, Plant and Equipment**

Property, plant and equipment other than freehold land, are stated at cost less accumulated depreciation. Freehold land is stated at cost and is not depreciated. Depreciation is calculated under the straight-line method to write off the cost of the assets over their estimated useful lives. The principal annual rates used for this purpose are:-

Building	2%
Long leasehold land and buildings	over 86 years
Motor vehicles	20%
Office equipment, furniture, fittings, renovation, cutlery and crockery	10%
Plant and machinery	10%

Capital work-in-progress is stated at cost. Cost comprises the direct expenditure incurred on the construction and commissioning of the capital assets, including interest cost on borrowings taken to finance capital work-in-progress. Capital work-in-progress is not depreciated until its completion and availability for commercial use.

The lease on the land will expire in the year 2078.

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5.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) **Capitalisation of Borrowing Costs**

Interest incurred on borrowing specifically taken to finance the capital work-in-progress is capitalised and included as part of the cost of the capital asset.

(d) **Investment**

Investment held on long term basis is stated at cost and provision for diminution in value is only made if, in the opinion of the directors, the diminution is permanent.

(e) **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis, and includes the cost of materials and incidentals incurred in bringing the inventories to their present location and condition. Where necessary, provision is made for obsolete, slow-moving and defective inventories.

(f) **Debtors**

Debtors are carried at anticipated realisable value. Bad debts are written off in the period in which they are identified. An estimate is made for doubtful debts based on a review of all outstanding amounts at the balance sheet date.

(g) **Deferred Taxation**

Deferred taxation is provided using the liability method on all material timing differences except where no liability is expected to arise in the foreseeable future. Deferred tax benefit is only recognised when there is reasonable expectation of realisation in the foreseeable future.

(h) **Foreign Currencies**

Transactions in foreign currencies are converted into Ringgit Malaysia at the rates of exchange ruling on the transaction dates. Monetary assets and liabilities in foreign currencies at the balance sheet date are converted at the appropriate rates ruling on that date. All exchange gains and losses are included in the profit and loss account.

(i) **Cash and Cash Equivalents**

Cash and cash equivalents comprise cash in hand, bank balances, demand deposits, bank overdrafts and short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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**5.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**(j) Revenue Recognition**

**(i) Sale of goods**

Sales are recognised upon delivery of goods and customers' acceptance or performance of services, net of returns and trade discounts.

**(ii) Dividend income**

Dividend income from investment in subsidiaries is recognised upon declaration by the subsidiaries.

Dividend income from other investments is recognised when the right to receive payment is established.

**(iii) Interest income**

Interest income is recognised on an accrual basis, based on the effective yield on the investment.

**5.3 CONSISTENCY OF APPLICATION OF ACCOUNTING POLICIES**

There were no changes in the significant accounting policies adopted by the Group and the Company during the Relevant Financial Years.

**6. AUDITORS AND AUDIT REPORTS**

**6.1 AUDITORS**

Horwath Mok & Poon has acted as the auditors for Silver Bird and its subsidiaries in respect of the Relevant Financial Years.

**6.2 AUDIT REPORTS**

The audited financial statements for the Relevant Financial Years were not subject to any audit qualification.



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## 7. SUMMARISED INCOME STATEMENTS FOR THE RELEVANT FINANCIAL YEARS

We set out below the consolidated financial results of the Group and of the Company, based on the audited financial statements of Silver Bird, for the Relevant Financial Years.

## 7.1 THE GROUP

	← Financial Year Ended 31 October →				
	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000
Turnover	26,132	29,285	31,803	36,956	40,104
Cost of sales	(19,590)	(20,118)	(21,801)	(26,138)	(27,250)
Gross profit	6,542	9,167	10,002	10,818	12,854
Other operating income	369	1,148	1,031	761	625
Administrative and other operating expenses	(3,977)	(5,086)	(5,162)	(4,519)	(4,812)
Finance expense	(605)	(734)	(554)	(553)	(762)
Operating profit	2,329	4,495	5,317	6,507	7,905
Depreciation	1,500	1,530	1,524	1,930	2,175
Interest expense	605	734	542	538	691
Amortisation of goodwill	74	49	64	64	64
Earnings before interest, depreciation, tax and amortisation ("EBIDTA")	4,508	6,808	7,447	9,039	10,835
Less:					
Depreciation	(1,500)	(1,530)	(1,524)	(1,930)	(2,175)
Interest	(605)	(734)	(542)	(538)	(691)
Amortisation	(74)	(49)	(64)	(64)	(64)
Profit before taxation ("PBT")	2,329	4,495	5,317	6,507	7,905
Taxation	(150)	(601)	(72)	(621)	(1,097)
Profit after taxation ("PAT")	2,179	3,894	5,245	5,886	6,808
Effective tax rate (%)	6.4	13.4	1.4	9.5	13.9
Proforma Number of Ordinary Shares of RM0.50 each In Issue ('000)#	22,602	31,416	32,083	35,416	35,416
Gross earnings per share ("EPS") (sen) - Proforma	10.3	14.3	16.6	18.4	22.3
Net EPS (sen) - Proforma	9.6	12.4	16.3	16.6	19.2

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## 7. SUMMARISED INCOME STATEMENTS FOR THE RELEVANT FINANCIAL YEARS (CONT'D)

# - The proforma number of ordinary shares in issue is derived as follows:-

	← Financial Year Ended 31 October →				
	1997	1998	1999	2000	2001
	'000	'000	'000	'000	'000
Weighted average number of ordinary shares (ordinary and 'A' ordinary)	10,929	14,218	15,708	15,708	15,708
Split of par value of ordinary shares [(Section 2.2 (i))]	10,929	14,218	13,195	13,195	13,195
Conversion of 'A' ordinary shares [Section 2.2 (ii)]	N/A	N/A	2,513	2,513	2,513
Conversion of preference shares [Section 2.2 (iii)]	744	2,908	667	4,000	4,000
	<u>22,602</u>	<u>31,416</u>	<u>32,083</u>	<u>35,416</u>	<u>35,416</u>

Notes:-

- (a) In 1998, the Group recorded a substantial increase in the pre-tax profit mainly due to increase profit margin and lower operating overheads. The increase in the profit margin was mainly due to the introduction of a new frozen product, ie Speedza. Operating overheads were also lower as a result of cost reduction measures taken by the management.

Pre-tax profit and pre-tax profit margins for 1999, 2000 and 2001 continued to improve in line with the overall increase in the turnover. The increase in the pre-tax profit margins arose mainly from the improvement in the gross profit arising from higher sales and the benefits arising from the economies of scale.

- (b) The effective tax rate of the Group in respect of each of the above financial years is lower than the applicable statutory rate due to the tax incentives such as pioneer status and reinvestment allowances available to the manufacturing subsidiaries, namely SCSB and MFSB.
- (c) There were no exceptional and extraordinary items in respect of the Relevant Financial Years under review and the results were not subject to any qualification.
- (d) The proforma gross EPS is computed based on profit before taxation divided by the number of ordinary shares assumed in issue of 22,602,000 (financial year ended 31 October 1997), 31,416,000 (financial year ended 31 October 1998), 32,083,000 (financial year ended 31 October 1999) and 35,416,000 (financial years ended 31 October 2000 and 2001) ordinary shares of RM0.50 each after the restructuring scheme.

The proforma net EPS is computed based on profit after taxation divided by the number of ordinary shares assumed in issue of 22,602,000 (financial year ended 31 October 1997), 31,416,000 (financial year ended 31 October 1998), 32,083,000 (financial year ended 31 October 1999) and 35,416,000 (financial years ended 31 October 2000 and 2001) ordinary shares of RM0.50 each after the restructuring scheme.

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## 7. SUMMARISED INCOME STATEMENTS FOR THE RELEVANT FINANCIAL YEARS (CONT'D)

(e) All significant intra-group transactions are eliminated on consolidation and the consolidated results reflect external transactions only.

## 7.2 THE COMPANY

	Financial Year Ended 31 October				
	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000
Turnover	2,344	2,191	1,330	3,289	4,050
Cost of sales	(1,986)	(1,857)	-	-	-
Gross profit	458	334	1,330	3,289	4,050
Other operating income	241	1,999	-	90	180
Administrative and other operating expenses	(457)	(580)	(21)	(168)	(376)
Finance expense	(11)	(3)	-	-	-
Operating profit	131	1,750	1,309	3,211	3,854
Depreciation	183	195	-	-	-
Interest expense	11	3	-	-	-
EBIDTA	325	1,948	1,309	3,211	3,854
Less:					
Depreciation	(183)	(195)	-	-	-
Interest	(11)	(3)	-	-	-
PBT	131	1,750	1,309	3,211	3,854
Taxation	-	(5)	-	-	-
PAT	131	1,745	1,309	3,211	3,854
Number of Ordinary Shares Issued and Fully Paid-up ('000) - Proforma	22,602	31,416	32,083	35,416	35,416
Gross EPS (sen) - Proforma	0.6	5.6	4.1	9.1	10.9
Net EPS (sen) - Proforma	0.6	5.6	4.1	9.1	10.9

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7. SUMMARISED INCOME STATEMENTS FOR THE RELEVANT FINANCIAL YEARS (CONT'D)

Notes:-

- (a) *Turnover of Silver Bird in 1997 and 1998 comprised sales generated by the cafe outlets operated by the Company whilst the turnover in 1999, 2000 and 2001 comprised dividend income from subsidiaries. The change in nature of turnover was due to the establishment of a subsidiary, MCSB to takeover from Silver Bird the operation the cafe outlets at the end of 1998 that resulted in Silver Bird being solely an investment holding company thereafter.*
- (b) *The was no tax charge on Silver Bird in 1997 due to the availability of unutilised tax losses. The effective tax rate in 1998 was lower than the statutory tax rate due to the availability of unutilised tax losses and in addition, a substantial amount of the profit was contributed by tax-exempt dividends from subsidiaries. The profits in 1999 to 2001 were not subject to tax as the income derive by the Company was mainly tax-exempt dividends.*
- (c) *There were no extraordinary items during the Relevant Financial Years under review.*
- (d) *The proforma gross EPS is computed based on profit before taxation divided by the number of ordinary shares (proforma) of Silver Bird assumed in issue for the financial years under review.*

*The proforma net EPS is computed based on profit after taxation divided by the number of ordinary shares (proforma) assume in issue for the financial years under review.*

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## 8. SUMMARISED BALANCE SHEETS FOR THE RELEVANT FINANCIAL YEARS

The summarised balance sheets of the Group and of the Company as at the end of the Relevant Financial Years prepared based on the audited financial statements of Silver Bird are as follows:-

## 8.1 THE GROUP

	← As at 31 October →				
	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000
Property, Plant and Equipment	14,026	13,866	14,332	17,827	24,811
Other investment	-	-	2,000	2,000	4,000
Intangible assets	1,751	1,449	1,390	1,762	1,780
	15,777	15,315	17,722	21,589	30,591
Current Assets	11,197	14,791	19,597	26,015	29,023
Current Liabilities	(10,408)	(11,391)	(10,882)	(18,281)	(24,200)
Net Current Assets	789	3,400	8,715	7,734	4,823
	16,566	18,715	26,437	29,323	35,414
Financed by:					
Share Capital	15,218	15,218	18,708	18,708	18,708
Merger Deficit	(5,326)	(5,326)	(5,326)	(5,326)	(5,326)
Capital Reserve	-	-	-	277	277
Retained Profits	4,852	7,095	11,098	13,398	16,391
Shareholders' Equity	14,744	16,987	24,480	27,057	30,050
Long Term and Deferred Liabilities	1,822	1,728	1,957	2,266	5,364
	16,566	18,715	26,437	29,323	35,414
Number of ordinary shares in issue					
- par value of RM1.00	14,218	14,218	15,708	15,708	15,708
- par value of RM0.50	28,436	28,436	31,416	31,416	31,416
Net Tangible Assets Per Share (RM)					
- par value of RM1.00	0.84	1.02	1.28	1.42	1.61
- par value of RM0.50	0.42	0.51	0.64	0.71	0.80

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## 8. SUMMARISED BALANCE SHEETS FOR THE RELEVANT FINANCIAL YEARS (CONT'D)

## 8.2 THE COMPANY

	← As at 31 October →				
	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000
Plant and Equipment	1,113	875	-	-	-
Investments	9,876	9,823	11,823	11,873	13,873
Intangible asset	-	-	-	441	524
	10,989	10,698	11,823	12,319	14,397
Current Assets	6,072	6,302	7,769	9,818	10,090
Current Liabilities	(1,891)	(1,749)	(785)	(3,423)	(5,739)
Net Current Assets	4,181	4,553	6,984	6,395	4,351
	15,170	15,251	18,807	18,709	18,748
Financed by:					
Share Capital	15,218	15,218	18,708	18,708	18,708
(Accumulated Loss)/Retained Profits	(62)	33	99	1	40
Shareholders' Equity	15,156	15,251	18,807	18,709	18,748
Long Term and Deferred Liabilities	14	-	-	-	-
	15,170	15,251	18,807	18,709	18,748
Number of ordinary shares in issue					
- par value of RM1.00	14,218	14,218	15,708	15,708	15,708
- par value of RM0.50	28,436	28,436	31,416	31,416	31,416
Net Tangible Assets Per Share (RM)					
- par value of RM1.00	1.00	1.00	1.00	0.97	0.97
- par value of RM0.50	0.50	0.50	0.50	0.48	0.48

## 9. DIVIDENDS

The details of dividends declared by the Company for the Relevant Financial Years are as follows:-

Year Ended 31 October	Ordinary Shares		'A' Ordinary Shares		Preference Shares	
	RM'000	%	RM'000	%	RM'000	%
1997	-	-	-	-	-	-
1998	700	4.9	-	-	950	95
1999	527	3.7	76	3.0	150	13
2000	2,527	19.15	481	19.15	300	10
2001	2,952	22.37	562	22.37	300	10

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## 10. PROFORMA STATEMENT OF ASSETS AND LIABILITIES

The Proforma Group Statement of Assets and Liabilities has been prepared based on the audited balance sheet of Silver Bird and its subsidiaries as at 31 October 2001.

The Proforma Group's statement of assets and liabilities is provided for illustrative purposes only to show the effects of the following transactions as if the following transactions had been affected as at 31 October 2001:-

**Proforma I**

- (i) split of one (1) ordinary share of RM1.00 to two (2) ordinary shares of RM0.50 each;
- (ii) conversion of 2,513,280 issued and fully paid-up "A" ordinary shares of RM1.00 each in Silver Bird into 5,026,560 new ordinary shares of RM0.50 each; and
- (iii) conversion of 3,000,000 issued and fully paid-up preference shares of RM1.00 each in Silver Bird into 4,000,000 new ordinary shares of RM0.50 each.

**Proforma II**

Rights issue of 29,784,000 new ordinary shares of RM0.50 each in Silver Bird at an issue price of RM0.50 per share. The proceeds from the rights issue is shown as part of cash and bank balances pending utilisation.

**Proforma III**

Public issue of 14,800,000 new ordinary shares of RM0.50 each in Silver Bird at an issue price of RM0.90 per share. The proceeds from the rights issue and public issue of RM14,892,000 and RM13,320,000 respectively are to be utilised as shown below:-

	RM'000
Cost of construction and acquisition of plant and machinery for new factory	15,800
Repayment of bank borrowings	9,000
Working capital	1,512
Estimated listing expense	1,900
	28,212

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



## 10. PROFORMA STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

	Section	Audited Group As at 31.10.2001 RM'000	Proforma I RM'000	Proforma II RM'000	Proforma III RM'000
<b>Property, plant and equipment</b>	10.1	24,811	24,811	24,811	40,611
<b>Other investment</b>	10.2	4,000	4,000	4,000	4,000
<b>Intangible assets</b>	10.3	1,780	1,780	1,780	1,256
		<u>30,591</u>	<u>30,591</u>	<u>30,591</u>	<u>45,867</u>
<b>Current assets</b>					
Inventories	10.4	5,178	5,178	5,178	5,178
Trade debtors	10.5	18,773	18,773	18,773	18,773
Other debtors, deposits and prepayments	10.6	3,166	3,166	3,166	3,166
Fixed deposits		1,374	1,374	1,374	1,374
Cash and bank balances		532	532	15,424	2,568
Total current assets		29,023	29,023	43,915	31,059
<b>Current liabilities</b>					
Trade creditors		4,764	4,764	4,764	4,764
Other creditors and accruals	10.7	1,747	1,747	1,747	1,747
Amount owing to a director	10.8	58	58	58	58
Dividend payable		1,609	1,609	1,609	1,609
Proposed dividends		3,515	3,515	3,515	3,515
Provision for tax		764	764	764	764
Short term borrowings	10.9	11,743	11,743	11,743	2,743
Total current liabilities		24,200	24,200	24,200	15,200
Net Current Assets		4,823	4,823	19,715	15,859
		<u>35,414</u>	<u>35,414</u>	<u>50,306</u>	<u>61,726</u>
<b>Financed by:</b>					
Share capital	10.12	18,708	17,708	32,600	40,000
Merger deficit	10.13	(5,326)	(5,326)	(5,326)	(5,326)
Share premium reserve	10.14	-	1,000	1,000	5,020
Capital reserve		277	277	277	277
Retained profits		16,391	16,391	16,391	16,391
Shareholders' Equity		30,050	30,050	44,942	56,362
Long term and deferred liabilities					
Hire purchase creditors	10.10	214	214	214	214
Term loans	10.11	4,648	4,648	4,648	4,648
Deferred tax	10.15	502	502	502	502
		<u>35,414</u>	<u>35,414</u>	<u>50,306</u>	<u>61,726</u>
Number of ordinary shares in issue ('000)		15,708	-	-	-
- par value of RM1.00		*35,416	*35,416	65,200	80,000
- par value of RM0.50					
NTA per ordinary share (RM)		1.61	-	-	-
- par value of RM1.00		0.80	0.80	0.66	0.69
- par value of RM0.50					

\* - after split of the par value of the ordinary shares, conversion of 'A' ordinary shares and preference shares as set out in Section 2.2 (i) to (iii).

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**11. ACCOUNTANTS' REPORT (Cont'd)****10.1 PROPERTY, PLANT AND EQUIPMENT**

The Group

	Cost RM'000	Accumulated depreciation RM'000	Net book value RM'000
Freehold land and building	1,878	(164)	1,714
Long leasehold land and buildings	5,591	(523)	5,068
Motor vehicles	1,643	(1,124)	519
Office equipment, furniture, fittings, renovation, cutlery and crockery	3,737	(1,528)	2,209
Plant and machinery	15,826	(5,987)	9,839
Capital work-in-progress	5,462	-	5,462
<b>Audited Group/Proforma I/II</b>	<b>34,137</b>	<b>(9,326)</b>	<b>24,811</b>
Cost of construction and acquisition of plant and machinery from the utilisation of proceeds from the rights issue and public issue	15,800	-	15,800
<b>Proforma III</b>	<b>49,937</b>	<b>(9,326)</b>	<b>40,611</b>

Included in the net book value of property, plant and equipment are motor vehicles carrying a net book value of RM316,891 which were acquired under hire purchase terms.

The lease on the long leasehold land and building will expire in the year 2078.

**10.2 OTHER INVESTMENT**

Other investment comprises an investment in 4,000,000 10% redeemable cumulative preference shares of RM1 each in Stanson Group Sdn Bhd, a company in which certain directors have substantial financial interests as disclosed in Section 12.

The main terms of the preference shares are as follows:-

- (a) entitlement to a fixed cumulative preferential dividend of 10% of the nominal value of the shares per annum;
- (b) save for the aforesaid dividends, the preference shares shall have no further rights to participate in the profits of the company;
- (c) do not carry any voting rights; and
- (d) redeemable at a sum equal to the capital paid up in respect of each such share together with payment of all arrears of preference dividends accrued to the date of redemption over a period of 3 years.

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**11. ACCOUNTANTS' REPORT (Cont'd)****10.3 INTANGIBLE ASSETS**

	<b>RM'000</b>
Goodwill on acquisition of a subsidiary	1,551
Goodwill of a subsidiary	59
	<hr/>
	1,610
Accumulated amortisation	(354)
	<hr/>
Net balance carried forward	1,256
Listing expenses	524
	<hr/>
	<b>1,780</b>
	<hr/>

**10.4 INVENTORIES**

	<b>RM'000</b>
Raw materials	1,704
Packaging materials	1,211
Work-in-progress	173
Finished goods	2,053
Goods in transit	37
	<hr/>
	<b>5,178</b>
	<hr/>

**10.5 TRADE DEBTORS**

Included in trade debtors is RM4,726,096 owing by Stanson Marketing Sdn Bhd, a company in which certain directors have substantial financial interests (refer Section 12).

**10.6 OTHER DEBTORS, DEPOSITS AND PREPAYMENT**

Included in other debtors, deposits and prepayments is a deposit of RM2,127,500 paid for the acquisition of plant and equipment.

**10.7 OTHER CREDITORS AND ACCRUALS**

Included in other creditors is a loan from a shareholder of RM50,174. The loan is unsecured, interest-free and not subject to fixed terms of repayment.

**10.8 AMOUNT OWING TO A DIRECTOR**

The amount owing is unsecured, interest-free and not subject to fixed terms of repayment.

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**11. ACCOUNTANTS' REPORT (Cont'd)****10.9 SHORT TERM BORROWINGS**

	RM'000
Bills payable	8,464
Bank overdrafts	2,285
Hire purchase creditors (Section 10.10)	68
Term loans (Section 10.11)	926
	<hr/>
Audited Group/Proforma I/II	11,743
Repayment from the utilisation of the proceeds from the rights issue and public issue	(9,000)
	<hr/>
Proforma III	<u>2,743</u>

The bills payable and bank overdrafts of the Group bear interest at between 1.25% to 2.0% per annum above the banks' base lending rates. The facilities are secured as follows:-

- (i) a deed of debenture incorporating a first fixed charge over all fixed assets and floating charge over all current assets, both present and future of a subsidiary;
- (ii) by a deed of assignment over the property of a subsidiary;
- (iii) a first and second charge on the freehold land of a subsidiary;
- (iv) fixed deposits of the subsidiaries;
- (iv) a corporate guarantee by the Company for certain subsidiaries; and
- (vi) joint and several guarantee by certain directors of the Company.

**10.10 HIRE PURCHASE CREDITORS**

	RM'000
Gross hire purchase and lease creditors	
- repayable not later than one year	85
- repayable later than one year but not later than five years	217
- repayable after five years	68
	<hr/>
	370
Interest-in-suspense	(88)
	<hr/>
	<u>282</u>

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



## 10.10 HIRE PURCHASE CREDITORS (CONT'D)

The net hire purchase and lease creditors are repayable as follows:-

	RM'000
Not later than one year	68
Later than one year but not later than five years	164
After five years	50
	<u>282</u>

## 10.11 TERM LOANS

	RM'000
Repayable within twelve months (Section 10.9)	926
Repayable after twelve months	4,648
	<u>5,574</u>

Details of the repayment terms are as follows:-

	Outstanding Amount RM'000	Number of Monthly Instalment	Monthly Instalment Amount RM	Interest Rate Per Annum %	Date of Commencement of Repayment
Term loan 1	35	48	3,267	13.0	November 1998
Term loan 2	35	48	3,183	7.0	November 1998
Term loan 3	613	48	19,408	7.0	October 2000
Term loan 4	121	36	6,693	6.0	June 2000
Term loan 5	902	60	20,062	7.8	April 2001
Term loan 6	3,495	180	35,030	8.3	May 2001
Term loan 7	202	60	26,838	1.5 + BLR	June 1997
Term loan 8	71	60	1,957	1.5 + BLR	June 2000
Term loan 9	100	36	6,085	2.0 + BLR	April 2000
Total	<u>5,574</u>				

BLR - Base lending rate per annum.

The term loans are secured in the same manner as the bills payable and bank overdrafts as disclosed in Section 10.9.

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**11. ACCOUNTANTS' REPORT (Cont'd)****10.12 SHARE CAPITAL**

The movements in the issued and fully paid-up capital are as follows:-

	Ordinary Shares '000 units	'A' Ordinary Shares '000 units	Preference Shares '000 units	Total '000 units
Audited Group As at 31 October 2001	13,195	2,513	3,000	18,708
Split of par value (Section 2.2 (i))	13,195	-	-	13,195
Conversion of shares (Section 2.2 (ii) and (iii))	9,026	(2,513)	(3,000)	3,513
Proforma I	35,416	-	-	35,416
Rights issue (Section 2.2 (iv))	29,784	-	-	29,784
Proforma II	65,200	-	-	65,200
Public issue (Section 2.2 (v))	14,800	-	-	14,800
Proforma III	80,000	-	-	80,000

	Ordinary Shares RM'000	'A' Ordinary Shares RM'000	Preference Shares RM'000	Total RM'000
Audited Group As at 31 October 2001	13,195	2,513	3,000	18,708
Split of par value (Section 2.2 (i))	-	-	-	-
Conversion of shares (Section 2.2 (ii) and (iii))	4,513	(2,513)	(3,000)	(1,000)
Proforma I	17,708	-	-	17,708
Rights issue (Section 2.2 (iv))	14,892	-	-	14,892
Proforma II	32,600	-	-	32,600
Public issue (Section 2.2 (v))	7,400	-	-	7,400
Proforma III	40,000	-	-	40,000

**10.13 MERGER DEFICIT**

The merger deficit relates to the difference between the nominal value of shares issued for the purchase of the subsidiaries and the nominal value of the shares acquired.

**10.14 SHARE PREMIUM RESERVE**

	RM'000
Balance as at 31 October 2001	-
Reserve arising on conversion of preference shares	1,000
Proforma I/II	1,000
Reserve arising on public issue	5,920
Less: Listing expenses	(1,900)
Proforma III	5,020

**10.15 DEFERRED TAXATION**

The deferred taxation is in respect of timing differences between capital allowances and depreciation on qualifying capital expenditure.

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



10.16 CONTINGENT LIABILITIES

As at 31 October 2001, the Company has given corporate guarantees amounting to RM37,378,000 to secure banking facilities granted to certain subsidiaries. The corporate guarantees are unsecured in nature.

10.17 CAPITAL COMMITMENT

	RM'000
Approved capital commitments contracted but not provided for	4,372
Approved capital commitments not contracted for	2,105
	<u>6,477</u>

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



## 11. CONSOLIDATED CASH FLOW STATEMENT

The cash flow statement of the Group set out below is based on the audited financial statements of Silver Bird and its subsidiaries for the financial year ended 31 October 2001.

Consolidated Cash Flow Statement	Section	For The Financial Year Ended 31 October 2001 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation		7,905
Adjustments for:-		
Amortisation of goodwill		64
Depreciation of property, plant and equipment		2,175
Interest expense		691
Gain on disposal of plant and equipment		(474)
Interest income		(62)
Operating profit before working capital changes		10,299
Decrease in inventories		298
Decrease in trade and other receivables		(3,318)
Increase in trade and other payables		663
<b>CASH FROM OPERATIONS</b>		7,942
Interest paid		(861)
Tax paid		(790)
<b>NET CASH FROM OPERATING ACTIVITIES</b>		6,291
<b>CASH FLOWS FOR INVESTING ACTIVITIES</b>		
Interest received		62
Purchase of property, plant and equipment	11.1	(9,037)
Purchase of other investment		(2,000)
Proceeds from disposal of plant and equipment		835
<b>NET CASH FOR INVESTING ACTIVITIES</b>		(10,140)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividends paid		(1,800)
Advances from a director		58
Repayment of hire purchase creditors		(63)
Drawdown of term loans		4,559
Repayment of term loans		(1,721)
Increase in bills payable		2,797
<b>NET CASH FROM FINANCING ACTIVITIES</b>		3,830
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		(19)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR</b>		(360)
<b>CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR</b>	11.2	(379)

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



## 11. CONSOLIDATED CASH FLOW STATEMENT (CONT'D)

## 11.1 PURCHASE OF PROPERTY, PLANT AND EQUIPMENT

	RM'000
Cost of property, plant and equipment purchased	9,519
Interest expense capitalised	(170)
Amount financed through hire purchase	(312)
Cash disbursed for purchase of property, plant and equipment	<u>9,037</u>

## 11.2 CASH AND CASH EQUIVALENTS

	RM'000
Fixed deposits with licensed banks	1,374
Cash and bank balances	532
Bank overdrafts	(2,285)
	<u>379</u>

## 12. RELATED PARTY TRANSACTIONS AND BALANCES

The following is a summary of the significant related party transactions and balances for the Relevant Financial Years:-

Name of related party	Note	Nature of transaction	The Group For the Financial Year Ended 31 October				
			1997	1998	1999	2000	2001
			RM'000	RM'000	RM'000	RM'000	RM'000
Aik Seng Edar (M) Sdn Bhd	(a)	Labeling income received	-	60	226	-	-
		Office rental paid	-	42	47	46	31
		Purchases	-	-	141	-	-
		Purchase of plant and equipment	-	-	134	-	-
		Warehouse rental paid	-	128	139	216	176
Stanson Group Sdn Bhd	(b)	Investment	-	-	-	2,000	2,000
Stanson Marketing Sdn Bhd	(c)	Sales	-	53	1,861	7,920	11,488
Dato' Tan Han Kook		Rental paid	-	24	56	36	36



**11. ACCOUNTANTS' REPORT (Cont'd)****12. RELATED PARTY TRANSACTIONS AND BALANCES (CONT'D)**

Balances:

	← The Group As at 31 October →				
	1997	1998	1999	2000	2001
	RM'000	RM'000	RM'000	RM'000	RM'000
Amount owing by Stanson Marketing Sdn Bhd	-	-	1,830	7,126	4,726

Note:-

- (a) A company in which Wong Toon Chick and Tsu Siah Wue, who are directors of AFL and AFL, have substantial financial interest.
- (b) A company in which Dato' Tan Han Kook, Ching Siew Cheong, Datin' Ong Hooi Siang, Zarina Binti Alias and Ong Chin Kok, who are directors of the Company, have substantial financial interests.
- (c) A wholly owned subsidiary of Stanson Group Sdn Bhd.

**13. NET TANGIBLE ASSETS COVER**

Based on Group of the Statement of Assets and Liabilities as at 31 October 2001, the net tangible assets per share is calculated as follows:-

	RM'000
Shareholders' equity	30,050
Intangible assets	(1,780)
Net tangible assets per Silver Bird Group as at 31 October 2001 before the Rights Issue and Public Issue	28,270
Increase in net tangible assets arising from:	
Rights Issue (par value)	14,892
Public Issue (par value)	7,400
Share premium on the public issue	5,920
Listing expenses	*(1,376)
Proforma Net Tangible Assets	55,106

\* - Excluding amount already incurred of RM524,000 included under Intangible Assets.

11. ACCOUNTANTS' REPORT (Cont'd)



13. NET TANGIBLE ASSETS COVER (CONT'D)

Number of ordinary shares of RM1.00 each in Silver Bird that are in issue:-	
As at 31 October 2001	15,708
Shares issued/to be issued pursuant to:-	
- Split of par value	13,195
- Conversion of shares	6,513
- Rights Issue	29,784
- Public Issue	14,800
	80,000
Proforma issued and paid-up capital of Silver Bird	
	80,000
Net tangible assets per ordinary share of RM0.50 each	RM0.69

14. SUBSEQUENT EVENTS

There were no significant subsequent events between the date of the last financial statements used in the preparation of this report and the date of this report which will affect materially the content of this report.

15. AUDITED FINANCIAL STATEMENTS

No audited financial statements of the Group and of the Company have been prepared in respect of any period subsequent to 31 October 2001.

Yours faithfully

**HORWATH MOK & POON**  
Firm No : AF 0995  
Chartered Accountants

**ONN KIEN HOE**  
Approval No : 1772/11/02 (J)  
Partner of Firm

12. DIRECTORS' REPORT

Silver Bird Group Berhad  
(277977-X)

**SILVER BIRD**

**Registered Office:**  
C15-1 Level 15 Tower C  
Megan Phileo Avenue  
12 Jalan Yap Kwan Seng  
50450 Kuala Lumpur

Lot 20 Jalan E 1/4  
Kawasan Perusahaan Ehsan  
Batu 8 Jalan Kepong  
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Malaysia

Date: 23 April 2002

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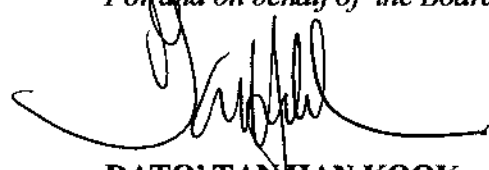
The Shareholders  
Silver Bird Group Berhad

Dear Sir/Madam,

On behalf of the Board of Directors of Silver Bird Group Berhad ("Silver Bird"), I report, after making due enquiries, that during the year from 31 October 2001 (being the date to which the last audited accounts of the Company and its subsidiary companies have been made up) to 23 April 2002 :-

- (a) the business of the Company and its subsidiary companies has, in our opinion, been satisfactorily maintained;
- (b) no circumstances have arisen since the last audited accounts of Silver Bird and its subsidiary companies, which, in our opinion, have adversely affected the trading, or the value of the assets of Silver Bird or its subsidiary companies;
- (c) the current assets of Silver Bird and its subsidiary companies appear in the books at values which are believed to be realisable in the ordinary course of business;
- (d) save as disclosed in Section 10.2 in this prospectus, there is no contingent liabilities by reason of any guarantees given by Silver Bird or its subsidiary companies; and
- (e) save as illustrated in the proforma consolidated balance sheets of Silver Bird as at 31 October 2001 in this Prospectus, there have been no changes in the published reserves or any unusual factors affecting the profits of the Company and its subsidiary companies since the last audited accounts of Silver Bird.

Yours faithfully,  
*For and on behalf of the Board of Directors*



**DATO' TAN HAN KOOK**  
*Group Managing Director*