

12.0 ACCOUNTANT'S REPORT

(Prepared for inclusion in the Prospectus)



KPMG (Firm No. AF 0758)
Chartered Accountants
1st Floor, Wisma Penang Garden
42, Jalan Sultan Ahmad Shah
10050 Penang, Malaysia.

P.O. Box 349
10740 Penang
Malaysia

Tel + (604) 227 2288
Fax + (604) 227 1888

The Board of Directors
Yikon Corporation Bhd
Suite 2-1, 2nd Floor
Menara Penang Garden
42A, Jalan Sultan Ahmad Shah
10050 Penang

19 APRIL 2002

Gentlemen,

ACCOUNTANTS' REPORT

1. INTRODUCTION

This report has been prepared by an approved company auditor for inclusion in the Prospectus to be dated **24 APR 2002** in connection with the public issue of 6,000,000 new ordinary shares of RM1.00 each at an issue price of RM1.80 per ordinary share in Yikon Corporation Bhd (hereinafter referred to as "YCB" or "the Company") and offer for sale of 4,020,000 ordinary shares of RM1.00 each at an offer price of RM1.80 per ordinary share pursuant to the listing of and quotation of its entire issued and paid-up share capital of 40,000,000 ordinary shares of RM1.00 each on the Second Board of the Kuala Lumpur Stock Exchange ("KLSE").

2. GENERAL INFORMATION

2.1 THE COMPANY'S BACKGROUND

The Company was incorporated on 26 September 2000 in Malaysia under the Companies Act, 1965 as a private limited company under the name of Yikon Corporation Sdn Bhd. It was converted into a public limited company on 16 October 2000 and since then, assumed its present name.

The Company is an investment holding company.



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



2.2 SHARE CAPITAL

At present, the Company's authorised share capital is RM50,000,000 comprising 50,000,000 ordinary shares of RM1 each.

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

| Date of allotment | No. of Ordinary shares of RM1.00 each | Par value RM | Consideration | Total issued and fully paid-up share capital (cumulative) RM |
|-------------------|---------------------------------------|--------------|---|---|
| 26.9.00 | 2 | 1.00 | Subscribers' shares | 2 |
| 1.3.02 | 22,398,620 | 1.00 | Issued as consideration for the acquisition of 100% equity interest in Yikon Jewellery Industry Sdn. Bhd. ("YJI") | 22,398,622 |
| 27.3.02 | 11,601,378 | 1.00 | Rights issue on the basis of approximately 51.80 new ordinary shares for every 100 existing ordinary shares held, based on the enlarged share capital of 22,398,622 ordinary shares of RM1.00 each, at an issue price of RM1.12 per share | 34,000,000 |

The issued and paid-up share capital of YCB would subsequently be increased to RM40,000,000 by way of a public issue of 6,000,000 new ordinary shares of RM1.00 each at an issue price of RM1.80 per share.

2.3 RESTRUCTURING SCHEME

In conjunction with and as part of the listing of and quotation for the entire issued and paid-up share capital of YCB on the Second Board of the KLSE, the following restructuring scheme was carried out:-

(I) Acquisitions

Acquisition of the entire issued and fully paid-up share capital in YJI by YCB comprising 1 million ordinary shares of RM1.00 each for a total consideration of RM22,398,620 satisfied by the issue of 22,398,620 new ordinary shares of RM1.00 each, at RM1.00 per share in YCB. The purchase consideration is based on the audited consolidated net tangible assets of YJI as at 31 October 2000.

Acquisition of the entire issued and fully paid-up share capital in Yikoni Gold Sdn. Bhd. ("YG") by YCB comprising 2 ordinary shares of RM1.00 each for a total consideration of RM2 satisfied by cash.

Acquisition of the entire issued and fully paid-up share capital in Yikon (H.K.) Limited ("YHK") by YCB comprising 2 ordinary share of HK1.00 each for a total consideration of RM1 satisfied by cash.

The above acquisitions were completed on 1 March 2002.

**(II) Renounceable Rights Issue**

Renounceable Rights Issue of 11,601,378 new ordinary shares of RM1.00 each at an issue price of RM1.12 per share, for cash on the basis of 51.80 new ordinary shares for every 100 existing ordinary shares held, based on the enlarged share capital of 22,398,622 ordinary shares of RM 1.00 each in YCB (after the acquisition of YJI).

The rights issue was completed on 27 March 2002.

(III) Public Issue

Public Issue of 6,000,000 new ordinary shares of RM1.00 each at an issue price of RM1.80 per share.

The estimated listing expenses of RM1,350,000 will be set off against the Share Premium Account.

The Company together with its subsidiaries acquired in the above restructuring scheme are hereinafter referred to as the "YCB Group" or the "Group".

(IV) Offer For Sale

Offer For Sale of 4,020,000 ordinary shares at an offer price of RM1.80 per ordinary share.

2.4 SUBSIDIARY COMPANIES**YJI**

YJI was incorporated in Malaysia under the Companies Act, 1965, as a private limited company on 28 September 1991 under the name of Yikon Jewellery Sdn. Bhd. The company assumed its present name, YJI on 23 March 1992.

YJI is principally engaged as manufacturer and exporter of gold jewellery and ornaments.

The authorised ordinary share capital of YJI is RM1,000,000 comprising 1,000,000 ordinary shares of RM1.00 each, of which, all the ordinary shares of RM1.00 each have been issued and fully paid-up.

Detailed changes in the issued and paid-up share capital of YJI since its incorporation are as follows:

| Date of allotment | No. of ordinary shares of RM1.00 each allotted | Consideration | Resultant issued and paid-up share capital RM |
|--------------------------|---|----------------------|--|
| Ordinary Shares | | | |
| 18.10.91 | 2 | Subscribers' shares | 2 |
| 27.11.91 | 200,000 | Otherwise than cash | 200,002 |
| 07.09.93 | 120,000 | Cash | 320,002 |
| 07.09.93 | 196,000 | Otherwise than cash | 516,002 |
| 22.08.94 | 415,998 | Cash | 932,000 |
| 22.08.94 | 68,000 | Otherwise than cash | 1,000,000 |



YG

YG was incorporated in Malaysia on 17 April 1997 under the Companies Act, 1965 as a private limited company under its present name.

YG is principally engaged in the trading of gold jewellery and ornaments.

The present authorised share capital of YG is RM100,000 comprising 100,000 ordinary shares of RM1.00 each, of which RM2 comprising 2 ordinary shares of RM1.00 each have been issued and fully paid-up.

There have been no changes in the issued and paid-up share capital since the date of incorporation.

YHK

YHK was incorporated in Hong Kong under the Companies Ordinance (Chapter 32) as private limited company on 28 February 1996 under the name of Eminent Win International Limited. The company assumed its present name on 28 July 1997.

The authorised share capital of YHK is HK10,000 comprising 10,000 ordinary shares of HK1.00 each. The present issued and paid-up capital of YHK is HK2.00 comprising 2 ordinary shares of HK1.00 each.

YHK was principally involved in the distribution of jewellery.

There have been no changes in the share capital since the date of incorporation.

3. AUDITED FINANCIAL STATEMENTS AND AUDITORS

We have been the auditors of YCB and YG since the date of incorporation. However, we have been auditors of YJI since financial year ended 31 October 1996. Prior to that financial year, YJI was audited by another firm of auditors.

The financial statements of YHK are audited by another firm of auditors.

None of the financial statements of all the companies within the Group for all the financial years/periods under review was subject to any audit qualification.

4. ACCOUNTING POLICIES AND STANDARDS

This report is prepared on a basis consistent with accounting policies normally adopted by YCB Group and in accordance with the applicable approved accounting standards issued by the Malaysian Accounting Standards Board.



5. SUMMARISED PROFORMA CONSOLIDATED RESULTS OF THE GROUP

5.1 The summarised proforma consolidated results of the YCB Group for the past 5 financial years ended 31 October 1997 to 2001 have been prepared for illustrative purposes after making such adjustments that we considered necessary and assuming that the YCB Group had been in existence throughout the years under review.

YCB GROUP

| | ← Year Ended 31 October → | | | | |
|--|---------------------------|----------------|----------------|----------------|----------------|
| | 1997 RM'000 | 1998 RM'000 | 1999 RM'000 | 2000 RM'000 | 2001 RM'000 |
| Turnover | | | | | |
| - Sales of gold | 24,320 | 8,876 | 11,376 | 21,876 | 36,590 |
| - Workmanship charges | 11,094 | 9,877 | 8,821 | 15,819 | 21,148 |
| | 35,414 | 18,753 | 20,197 | 37,695 | 57,738 |
| Profit before depreciation and interest | 6,395 | 2,934 | 3,005 | 7,371 | 10,823 |
| Depreciation | (679) | (758) | (809) | (883) | (830) |
| Interest expense | (313) | (354) | (375) | (588) | (619) |
| Profit before taxation | 5,403 | 1,822 | 1,821 | 5,900 | 9,374 |
| Taxation | (394) | (198) | (136) | (1,753) | (2,663) |
| Profit after taxation | 5,009 | 1,624 | 1,685 | 4,147 | 6,711 |
| No. of ordinary shares of RM1 each after rights issue ('000) | 34,000 | 34,000 | 34,000 | 34,000 | 34,000 |
| Earnings per share (sen) | | | | | |
| - Gross | 15.89 | 5.36 | 5.36 | 17.35 | 27.57 |
| - Net | 14.73 | 4.78 | 4.96 | 12.20 | 19.74 |
| Enlarged no. of ordinary shares of RM1 each ('000) | 40,000 | 40,000 | 40,000 | 40,000 | 40,000 |
| Fully diluted earnings per share (sen) # | | | | | |
| - Gross | 13.51 | 4.56 | 4.55 | 14.75 | 23.44 |
| - Net | 12.52 | 4.06 | 4.21 | 10.37 | 16.78 |

Based on enlarged number of ordinary shares



Notes :

- i) The proforma consolidated results of the YCB Group are prepared for illustrative purposes only and are based on the audited financial statements of YCB, YJI, YG, and YHK as follows :
 - a) YCB - financial period ended 31 October 2000 and financial year ended 31 October 2001.
 - b) YJI - the five financial years ended 31 October 2001.
 - c) YG - the financial period ended 31 October 1997 and four financial years ended 31 October 2001.
 - d) YHK - the financial period ended 31 October 1997 and four financial years ended 31 October 2001.
- ii) There were no extraordinary or exceptional items for all the period/years under review.
- iii) In 1997, the turnover increased approximately 55.19% from RM22.82 million in 1996 due to a subsidiary company's expansion of its export market in the Middle East. The increase is also attributable to the depreciation of Ringgit Malaysia.

In 1998 and 1999, the main contribution to the decrease in revenue was due to less composition of gold sales. Due to the economic crisis, the bank had been stringent over the approval of bank facilities and thus the banking facilities enjoyed by a subsidiary had been reduced. As a result, the subsidiary had to reduce its business activities due to lesser working capital. In addition, in order to minimise the impact of the economic crisis, the subsidiary had taken prudent steps by selling to selective good customers.

In 2000, the increase in turnover was due to the following factors:-

- i) Expansion of its export market to other countries.
- ii) New product mix and design.

In year 2001, the Company attained a remarkable increase in turnover. The increase is attributable to its improved design concept and also increase of sales to its existing as well as new customers.

- iv) The low effective tax rate in 1997, 1998 and 1999 was due to the following:
 - a) The Pioneer Status enjoyed by a subsidiary under which 70% of the statutory income is exempted from income tax in 1997 and 1998. The Pioneer Status available to the subsidiary expired on 30 October 1998.
 - b) There was no tax charge in relation to 1999 results mainly due to the tax waiver on profit earned in 1999.



- v) Profit before tax ("PBT") dropped to RM1.82 million in 1998 and 1999 respectively mainly because of the decrease in turnover and the increase in the cost of imported raw materials.

PBT improved to RM5.90 million and RM9.37 million in 2000 and 2001 respectively mainly due to the increase in turnover and higher workmanship charges for white gold and cubic zirconia gold products.

- vi) The gross earnings per share has been calculated based on the profit before taxation and on the assumption that the issued and paid-up share capital of the Group of 34,000,000 ordinary shares of RM1 each had been in issue throughout the years under review.

The net earnings per share has been calculated based on the profit after taxation and on the assumption that the issued and paid-up share capital of the Group of 34,000,000 ordinary shares of RM1 each had been in issue throughout the years under review.

- vii) The fully diluted gross EPS has been calculated based on PBT and on the assumption that the issued and paid-up share capital of the Group of 40,000,000 ordinary shares (after Public Issue) had been in issue throughout the years under review.

- viii) The fully diluted net EPS has been calculated based on profit after tax ("PAT") and on the assumption that the issued and paid-up share capital of the Group of 40,000,000 ordinary shares (after Public Issue) had been in issue throughout the years under review.

- 5.2 The summarised results of the companies in YCB Group for the 5 years ended 31 October 1997 to 2001 are set out below:-

YCB

The Company has yet to commence operation since its incorporation date.

YCB suffered a loss before tax of RM15,806 for the year ended 31 October 2001.



YJI

The summarised results for the financial years ended 31 October 1997 to 2001 are set out below:-

| | ← Year Ended 31 October → | | | | |
|--|---------------------------|----------------|----------------|----------------|----------------|
| | 1997 RM'000 | 1998 RM'000 | 1999 RM'000 | 2000 RM'000 | 2001 RM'000 |
| Turnover - sales of gold | 24,320 | 8,407 | 11,167 | 21,840 | 36,590 |
| - workmanship charges on gold jewellery | 11,126 | 9,606 | 8,636 | 15,751 | 21,138 |
| | <u>35,446</u> | <u>18,013</u> | <u>19,803</u> | <u>37,591</u> | <u>57,728</u> |
| Profit before depreciation and interest | 6,418 | 2,970 | 2,999 | 7,433 | 10,833 |
| Depreciation | (679) | (758) | (809) | (883) | (830) |
| Interest expense | (313) | (354) | (375) | (588) | (619) |
| Profit before taxation | <u>5,426</u> | <u>1,858</u> | <u>1,815</u> | <u>5,962</u> | <u>9,384</u> |
| Taxation | (394) | (198) | (136) | (1,751) | (2,659) |
| Profit after taxation | <u>5,032</u> | <u>1,660</u> | <u>1,679</u> | <u>4,211</u> | <u>6,725</u> |
| No. of ordinary shares of RM1 each assumed to be in issue ('000) | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| Earnings per share (sen) | | | | | |
| - Gross | 542.60 | 185.80 | 181.50 | 596.20 | 938.4 |
| - Net | 503.20 | 166.00 | 167.90 | 421.10 | 672.5 |



YJI (Cont'd)

Note :

- i) There were no extraordinary or exceptional items for all the years under review.
- ii) In 1997, the turnover increased approximately 55.19% from RM22.82 million in 1996 due to the Company's expansion of its export market in the Middle East. The increase is also attributable to the depreciation of Ringgit Malaysia.

In 1998 and 1999, the main contribution to the decrease in revenue was due to less composition of gold sales. Due to the economic crisis, the bank had been stringent over the approval of bank facilities and thus the banking facilities enjoyed by the Company had been reduced. As a result, the Company had to reduce its business activities due to lesser working capital. In addition, in order to minimise the impact of the economic crisis, the Company had taken prudent steps by selling to selective good customers.

In 2000, the increase in turnover was due to the following factors:-

- i) Expansion of its export market to other countries.
- ii) New product mix and design.

In year 2001, the Company attained a remarkable increase in turnover. The increase is attributable to its improved design concept and also increase of sales to its existing as well as new customers.

- iii) The low effective tax rate in 1997, 1998 and 1999 was due to the following:
 - a) The Pioneer Status enjoyed by the Company under which 70% of the statutory income is exempted from income tax in 1997 and 1998. The Pioneer Status available to the Company expired on 30 October 1998.
 - b) There was no tax charge in relation to 1999 results mainly due to the tax waiver on profit earned in 1999.
- iv) Profit before tax ("PBT") dropped to RM1.82 million in 1998 and 1999 respectively mainly because of the decrease in turnover and the increase in the cost of imported raw materials.

PBT improved to RM5.90 million and RM9.37 million in 2000 and 2001 respectively mainly due to the increase in turnover and higher workmanship charges for white gold and cubic zirconia gold products.

- v) The gross earnings per share has been calculated based on the profit before taxation and on the issued and paid-up share capital of the Company of 1,000,000 ordinary shares of RM1 each in issue throughout the years under review.

The net earnings per share has been calculated based on the profit after taxation and on the issued and paid-up share capital of the Company of 1,000,000 ordinary shares of RM1 each in issue throughout the years under review.



YG

The summarised results for the financial period ended 31 October 1997 and financial years ended 31 October 1998 to 2001 are set out below :

| | ← Year Ended 31 October → | | | | |
|---|---------------------------|----------------|----------------|----------------|----------------|
| | 1997 RM'000 | 1998 RM'000 | 1999 RM'000 | 2000 RM'000 | 2001 RM'000 |
| Turnover | | | | | |
| - Workmanship charges | - | 292 | 185 | 68 | 10 |
| - Sales of gold | - | 469 | 209 | 36 | 2 |
| | - | 761 | 394 | 104 | 12 |
| Profit before depreciation and interest | - | 3 | 10 | 5 | 16 |
| Depreciation | - | - | - | - | - |
| Interest expense | - | - | - | - | - |
| Profit before taxation | - | 3 | 10 | 5 | 16 |
| Taxation | | (1) | - | (1) | (4) |
| Profit after taxation | - | 2 | 10 | 4 | 12 |
| No. of ordinary shares of RM1 each in issue | - | 2 | 2 | 2 | 2 |
| Earnings per share (RM'000) | | | | | |
| - Gross | - | 1.50 | 5.00 | 2.50 | 8.00 |
| - Net | - | 1.00 | 5.00 | 2.00 | 6.00 |

Note :

- i) There were no extraordinary or exceptional items for all the period/years under review.
- ii) The lower turnover in 1999 was mainly due to the decrease in demand in local market.

Despite of the lower turnover, gross margin in 1999 and 2000 improved due to better workmanship charges.

- iii) The gross earnings per share has been calculated based on the profit before taxation and on the issued and paid-up share capital of the company of 2 ordinary shares of RM1 each in issue throughout the period/years under review.

The net earnings per share has been calculated based on the profit after taxation and on the issued and paid-up share capital of the company of 2 ordinary shares of RM1 each in issue throughout the period/years under review.

**YHK**

The summarised results of YHK for the financial period ended 31 October 1997 and financial years ended 31 October 1998 to 2001 are set out below :

| | ← Year Ended 31 October → | | | | |
|--|---------------------------|----------------|----------------|----------------|----------------|
| | 1997 RM'000 | 1998 RM'000 | 1999 RM'000 | 2000 RM'000 | 2001 RM'000 |
| Revenue | 115 | 182 | - | - | - |
| Loss before depreciation and interest | (22) | (38) | (4) | (5) | (6) |
| Depreciation | - | - | - | - | - |
| Interest expense | - | - | - | - | - |
| Loss before taxation | (22) | (38) | (4) | (5) | (6) |
| Taxation | - | - | - | - | - |
| Loss after taxation | (22) | (38) | (4) | (5) | (6) |
| No. of ordinary shares of HK1.00 each in issue | 2 | 2 | 2 | 2 | 2 |
| (Loss) per share (RM'000) | | | | | |
| - Gross/Net | (11) | (19) | (2) | (2.5) | (3) |

Note:

- i) There were no extraordinary or exceptional items for all the period/years under review.
- ii) The Company was incorporated in Hong Kong on 28 February 1996 under the name of Eminent Win International Limited and subsequently changed to its present name on 28 July 1997.

The first set of financial statements was for the period 1 July 1997 to 31 October 1997 as the Company, under the Hong Kong legislation is not required to prepare any financial statements prior to its commencement of business.

- iii) The exchange rate used in translation of results was 1HK\$: RM0.49

6. DIVIDENDS

An interim tax exempt dividend of 380% totalling RM3,800,000 in respect of the year ended 31 October 2001 was paid to the existing shareholders of YJI on 21 August 2001 prior to the acquisition of YJI by YCB.



7. SUMMARISED BALANCE SHEETS

The summarised balance sheets of the companies in the YCB Group based on the audited financial statements are set out below:

7.1 YCB

| | 31 October 2000 RM'000 | 31 October 2001 RM'000 |
|----------------------------------|------------------------------|------------------------------|
| Current assets | * | * |
| Current liabilities | - | 16 |
| Net current assets/(liabilities) | * | (16) |
| | * | (16) |
| Financed by : | | |
| Share capital | * | * |
| Loss carried forward | - | (16) |
| | * | (16) |
| | * | (16) |

* These denote cash in hand and share capital of RM2 each respectively.

Note : YCB was incorporated on 26 September 2000 and its first set of audited financial statements was for the period ended 31 October 2000.

12.0 ACCOUNTANT'S REPORT



7.2 YJI

| | ← 31 October → | | | | |
|---|----------------|----------------|----------------|----------------|----------------|
| | 1997 RM'000 | 1998 RM'000 | 1999 RM'000 | 2000 RM'000 | 2001 RM'000 |
| Property, plant and equipment | 6,222 | 9,178 | 8,832 | 8,252 | 10,101 |
| Interest in subsidiaries | 888 | 872 | 837 | - | - |
| Other investment, at cost | 42 | 42 | - | - | - |
| Current assets | 7,254 | 8,932 | 18,215 | 24,590 | 30,188 |
| Current liabilities | (1,528) | (2,210) | (9,216) | (9,984) | (14,490) |
| Net current assets | 5,726 | 6,722 | 8,999 | 14,606 | 15,698 |
| | 12,878 | 16,814 | 18,668 | 22,858 | 25,799 |
| Financed by : | | | | | |
| Share capital | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| Reserves | 11,297 | 15,566 | 17,245 | 21,456 | 24,381 |
| Shareholders' funds | 12,297 | 16,566 | 18,245 | 22,456 | 25,381 |
| Long term liabilities | 387 | 112 | 119 | 49 | 1 |
| Deferred taxation | 194 | 136 | 304 | 353 | 417 |
| | 12,878 | 16,814 | 18,668 | 22,858 | 25,799 |
| Net tangible assets ("NTA") per ordinary share (RM'000) | 12.3 | 16.57 | 18.24 | 22.46 | 25.38 |

12.0 ACCOUNTANT'S REPORT



7.3 YG

| | ← | 31 October | → | | |
|---|----------|------------|-----------|-----------|-----------|
| | 1997 | 1998 | 1999 | 2000 | 2001 |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Current assets | - | 10 | 19 | 25 | 41 |
| Current liabilities | (3) | (11) | (10) | (10) | (15) |
| Net current (liabilities)/assets | (3) | (1) | 9 | 15 | 26 |
| Expenditure carried forward | 3 | 3 | 2 | - | - |
| | <u>-</u> | <u>2</u> | <u>11</u> | <u>15</u> | <u>26</u> |
| Financed by : | | | | | |
| Share capital | * | * | * | * | * |
| Unappropriated profits | - | 2 | 11 | 15 | 26 |
| Shareholders' funds | <u>-</u> | <u>2</u> | <u>11</u> | <u>15</u> | <u>26</u> |
| Net tangible assets/ (liabilities) per ordinary share (RM'000) | (1.5) | (0.5) | 4.5 | 7.5 | 13.0 |

* These denote share capital of RM2.

Note: YG was incorporated on 17 April 1997 and its first set of audited financial statements was for the period ended 31 October 1997.



7.4 YHK

| | ← 31 October → | | | | |
|------------------------------------|----------------|----------------|----------------|----------------|----------------|
| | 1997 RM'000 | 1998 RM'000 | 1999 RM'000 | 2000 RM'000 | 2001 RM'000 |
| Current assets | 27 | 3 | 3 | 3 | - |
| Current liabilities | (49) | (67) | (71) | (75) | (80) |
| | <u>(22)</u> | <u>(64)</u> | <u>(68)</u> | <u>(72)</u> | <u>(80)</u> |
| Financed by : | | | | | |
| Share capital | * | * | * | * | * |
| Accumulated losses | (22) | (64) | (68) | (72) | (80) |
| Shareholders' funds | <u>(22)</u> | <u>(64)</u> | <u>(68)</u> | <u>(72)</u> | <u>(80)</u> |
| Net liabilities per share (RM'000) | 11 | 32 | 34 | 36 | 40 |

* These denote share capital of RM1 .

Note : YHK was incorporated on 28 February 1996 and its first set of audited financial statements was for the period ended 31 October 1997. The exchange rate used in translation of assets and liabilities was 1HK\$: RM0.49.



8. STATEMENT OF ASSETS AND LIABILITIES

The following is the detailed statement of assets and liabilities of YCB and of the Proforma YCB Group which has been prepared for illustrative purposes only and is based on the audited financial statements of the companies in the YCB Group as at 31 October 2001. The statement of assets and liabilities has been prepared to show the effects of acquisition of YJI, YG and YHK ("Acquisitions), Rights Issue of 11,601,378 ordinary shares of RM1.00 each at an issue price of RM1.12 per share, the Public Issue of 6,000,000 new ordinary shares of RM1.00 each at an issue price of RM1.80 per share and the estimated listing expenses of RM1,350,000 on the assumption that the respective transactions had been completed on 31 October 2001 and should be read in conjunction with the notes thereon :-

| | Note | Company Audited RM'000 | Proforma Group RM'000 |
|--|------|------------------------------|-----------------------------|
| PROPERTY, PLANT AND EQUIPMENT | 8.2 | - | 10,101 |
| CURRENT ASSETS | | | |
| Inventories | 8.3 | - | 102 |
| Trade and other receivables | 8.4 | - | 28,395 |
| Cash and cash equivalents | 8.5 | * | 14,393 |
| | | * | 42,890 |
| CURRENT LIABILITIES | | | |
| Sundry payables | | 16 | 1,529 |
| Provision for taxation | | - | 3,290 |
| | | 16 | 4,819 |
| NET CURRENT (LIABILITIES) / ASSETS | | (16) | 38,071 |
| | | (16) | 48,172 |
| Financed by: | | | |
| SHARE CAPITAL | 8.6 | * | 40,000 |
| RESERVES | 8.7 | (16) | 2,912 |
| SHARE PREMIUM | 8.8 | - | 4,843 |
| | | (16) | 47,755 |
| DEFERRED TAXATION | | - | 417 |
| | | (16) | 48,172 |
| Net Tangible (Liabilities) / Assets per share (RM) | | (8,000.00) | 1.19 |

* These denote cash in hand and share capital of RM2.00 each respectively.



8. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES

8.1 Significant Accounting Policies

The following accounting policies are adopted by the Group and are consistent with those adopted in previous years.

(a) Basis of Accounting

The financial statements of the Group are prepared in compliance with applicable approved accounting standards in Malaysia.

(b) Basis of Consolidation

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

The Proforma Group financial statements include the audited financial statements of the Company and its subsidiaries made up to 31 October 2001 on the assumption that the restructuring of YCB Group as stated in paragraph 2.3 had been effected as at 31 October 2001. The financial statements of the subsidiaries are consolidated using the acquisition method of accounting.

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

Intra-group transactions and balances and the resulting unrealised profits are eliminated on consolidation. Unrealised losses resulting from intragroup transactions are also eliminated unless cost cannot be recovered.

(c) Property, Plant and Equipment

Property, plant and equipment except for freehold land are stated at cost less accumulated depreciation and accumulated impairment losses.

Property, plant and equipment retired from active use and held for disposal are stated at the lower of net book value and net realisable value.

The carrying amounts of property, plant and equipment are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such an indication exists, the assets' recoverable amounts are estimated. An impairment loss is recognised whenever the carrying amount of an item of property, plant and equipment exceeds its recoverable amount. In determining the recoverable amount of property, plant and equipment, expected future cash flows are discounted to their present values. The impairment loss is charged to the income statement. Any subsequent increase in recoverable amount is reduced by the amount that would have been recognised as depreciation had the write-down or write-off not occurred. Such subsequent increase in recoverable amount is recognised in the income statement.

**(d) Depreciation**

Freehold land is not amortised.

Long term leasehold land is amortised over the lease period of 56 years.

On other property, plant and equipment, depreciation is calculated to write off their cost on a straight line basis over their estimated useful lives at the following principal annual rates :

| | % |
|---|------|
| Buildings | 2-10 |
| Plant and machinery | 10 |
| Furniture, fitting and office equipment | 10 |
| Motor vehicles | 20 |
| Mould | 10 |

(e) Investments

Long term investments are stated at cost. A provision is made when the directors are of the view that there is a permanent diminution in their value.

(f) Inventories

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

Inventories are taken up as assets of the Company when significant risks and rewards of ownership of the goods have been transferred to the Company.

Cost in the case of manufactured inventories includes direct materials, direct labour and attributable production overheads. Cost is determined on the first-in, first-out basis.

(g) Hire Purchase

Assets acquired under hire purchase instalment plans are capitalised as plant and equipment and the corresponding obligations are treated as liabilities. Financing charges are allocated to income statement over the hire purchase periods using the "sum-of-digits" method to give a constant periodical rate of interest on the remaining hire purchase liabilities.

(h) Foreign Currency

i) Foreign currency transactions

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



(h) Foreign Currency (Cont'd)

ii) Financial statements of foreign operations

The Group's foreign operations are considered an integral part of the company's operations. Accordingly, the assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Ringgit Malaysia at exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Ringgit Malaysia at average exchange rates applicable throughout the year. Foreign exchange differences arising on translation are recognised directly in the income statement.

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

| | |
|-------|--------|
| 1USD | RM3.80 |
| 1HK\$ | RM0.49 |

(i) Revenue

Goods sold

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

Workmanship charges

Revenue from workmanship charges are recognised when invoiced and upon services being rendered.

(j) Taxation

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

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

(k) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in value. For the purpose of the consolidated cash flow statement, cash and cash equivalents are presented net of bank overdrafts and excludes fixed deposits pledged with a licensed bank for banking facilities.

(l) Finance Costs

All interest and other costs incurred in connection with borrowings are expensed as incurred.

12.0 ACCOUNTANT'S REPORT

8.2 PROPERTY, PLANT AND EQUIPMENT - PROFORMA GROUP

| | Long term leasehold land RM'000 | Leasehold buildings RM'000 | Freehold land RM'000 | Freehold buildings RM'000 | Plant and machinery RM'000 | Furniture, fitting and office equipment RM'000 | Motor vehicles RM'000 | Mould RM'000 | Capital work-in-progress RM'000 | Total RM'000 |
|--------------------------|---------------------------------|----------------------------|----------------------|---------------------------|----------------------------|--|-----------------------|--------------|---------------------------------|--------------|
| Cost | | | | | | | | | | |
| At 1 November 2000 | 2,600 | 2,300 | 473 | 314 | 5,376 | 495 | 856 | 24 | 356 | 12,794 |
| Additions | - | - | - | - | 551 | 18 | - | - | 2,110 | 2,679 |
| At 31 October 2001 | 2,600 | 2,300 | 473 | 314 | 5,927 | 513 | 856 | 24 | 2,466 | 15,473 |
| Accumulated Depreciation | | | | | | | | | | |
| At 1 November 2000 | 139 | 174 | - | 45 | 3,391 | 252 | 532 | 9 | - | 4,542 |
| Charge for the year | 46 | 58 | - | 25 | 589 | 50 | 60 | 2 | - | 830 |
| At 31 October 2001 | 185 | 232 | - | 70 | 3,980 | 302 | 592 | 11 | - | 5,372 |
| Net Book Value | | | | | | | | | | |
| At 31 October 2001 | 2,415 | 2,068 | 473 | 244 | 1,947 | 211 | 264 | 13 | 2,466 | 10,101 |

KPMG



8.2 PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Included in the cost of property, plant and equipment is an amount of RM389,970 representing assets acquired under hire purchase instalment plans.

Included in capital work-in-progress is an amount of RM2,110,000 representing 5 units of double storey semi-detached houses which will be used for the purpose of providing accommodation to employees.

8.3 INVENTORIES – PROFORMA GROUP

| | RM'000 |
|--------------------------|------------|
| Raw materials | 29 |
| Manufactured inventories | 73 |
| | <u>102</u> |

8.4 TRADE AND OTHER RECEIVABLES – PROFORMA GROUP

| | RM'000 |
|--|---------------|
| Trade receivables | 3,936 |
| Other receivables, deposits and prepayment | 24,459 |
| | <u>28,395</u> |

Included in other receivables, deposits and prepayment is an amount of RM23,713,924 representing deposits paid for consignment of raw materials.

8.5 CASH AND CASH EQUIVALENTS – PROFORMA GROUP

| | RM'000 |
|------------------------------------|---------------|
| Cash and bank balances | 334 |
| Fixed deposits with licensed banks | 14,059 |
| | <u>14,393</u> |

The fixed deposits include an amount of RM1,300,000 pledged with a licensed bank for facility granted to the Group.

12.0 ACCOUNTANT'S REPORT



8.6 SHARE CAPITAL

| | Company Audited RM'000 | Proforma Group RM'000 |
|--|------------------------------|-----------------------------|
| Ordinary shares of RM1 each | | |
| Authorised | 100 | 50,000 |
| Issued and fully paid: | | |
| Balance at 31 October 2001 | * | * |
| Issued as consideration for the acquisition of subsidiaries | - | 22,399 |
| | * | 22,399 |
| Rights issue | - | 11,601 |
| | * | 34,000 |
| Public issue | - | 6,000 |
| | * | 40,000 |

* Denotes RM2

8.7 RESERVES

| | Company Audited RM'000 | Proforma Group RM'000 |
|--------------------------|------------------------------|-----------------------------|
| Reserve on consolidation | - | 2,928 |
| Accumulated loss | (16) | (16) |
| | (16) | 2,912 |

8.8 SHARE PREMIUM (Non-distributable) – PROFORMA GROUP

| | RM'000 |
|----------------------------|---------|
| Balance at 31 October 2001 | - |
| Rights issue | 1,393 |
| Public issue | 4,800 |
| Estimated listing expenses | (1,350) |
| | 4,843 |



8.9 CAPITAL COMMITMENT – PROFORMA GROUP

| | RM'000 |
|---------------------------------|--------------|
| Contracted but not provided for | |
| - Factory building | 63 |
| - Plant and machinery | <u>391</u> |
| Approved but not contracted for | |
| - Factory building | 5,600 |
| - Plant and machinery | <u>3,200</u> |

8.10 NET TANGIBLE ASSETS PER ORDINARY SHARE

Based on the statement of assets and liabilities of the Proforma YCB Group as at 31 October 2001, the net tangible assets per share after acquisition, rights issue and public issue is calculated as follows: -

| | RM '000 |
|---|---------------|
| Net tangible assets as per the proforma Group's statement of assets and liabilities | <u>47,755</u> |
| Number of ordinary shares of RM1.00 each in issue ('000) | <u>40,000</u> |
| Net tangible assets per ordinary share of RM1.00 each (RM) | <u>1.19</u> |



9. PROFORMA CONSOLIDATED CASH FLOW STATEMENT

The cash flow statement of YCB Group set out below is based on the audited financial statements of YCB Group for the year ended 31 October 2001 and is presented on the basis that the Acquisitions had been in effect throughout the relevant year under review.

| | RM'000 |
|---|---------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Cash receipts from trade receivables | 58,043 |
| Cash receipts from other receivables | (6,221) |
| Cash received from operating activities | 51,822 |
| | |
| Cash payments to trade and non-trade payables | (46,323) |
| Payment of taxes | (824) |
| Cash absorbed by operating activities | (47,147) |
| | |
| Net cash generated from operating activities | 4,675 |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Purchase of property, plant and equipment | (2,680) |
| Interest income | 39 |
| Net cash used in investing activities | (2,641) |
| CASH FLOWS FROM FINANCING ACTIVITIES | |
| Proceeds from issue of shares | 23,794 |
| Dividend paid | (3,800) |
| Other bank borrowings, net | (7,605) |
| Placement of fixed deposits | (12) |
| Payment of listing expenses | (1,350) |
| Interest paid | (619) |
| Net cash used in financing activities | 10,408 |
| | |
| Net increase in cash and cash equivalents | 12,442 |
| | |
| Cash and cash equivalents at beginning of year | 651 |
| | |
| Cash and cash equivalents at end of year | <u>13,093</u> |

Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

| | RM'000 |
|------------------------------------|---------------|
| Cash and bank balances | 334 |
| | |
| Fixed deposits with licensed banks | 12,759 |
| | <u>13,093</u> |

**10. SIGNIFICANT EVENTS DURING THE YEAR**

The restructuring scheme detailed in paragraph 2.3 was approved by the Foreign Investment Committee and the Securities Commission on 19 February 2001 and 2 July 2001 respectively.

11. EVENTS SUBSEQUENT TO BALANCE SHEET DATE

- (a) On 1 March 2002, YCB increased its authorized share capital from RM100,000 to RM50,000,000 by the creation of 49,900,000 ordinary shares of RM1.00 each.
- (b) On 1 March 2002, YCB acquired the following subsidiaries:
 - i) The entire issued and fully paid-up share capital in YJI comprising 1 million ordinary shares of RM1.00 each for a total consideration of RM22,398,620 which was satisfied by the issue of 22,398,620 new ordinary shares of RM1.00 each, at RM1.00 per share in YCB. The purchase consideration is based on the audited consolidated net tangible assets of YJI as at 31 October 2000.
 - ii) The entire issued and fully paid-up share capital in YG comprising 2 ordinary shares of RM1.00 each for a cash consideration of RM2.
 - iii) The entire issued and fully paid-up share capital in YHK comprising 2 ordinary share of HK1.00 each for a cash consideration of RM1.
- (c) On 27 March 2002, YCB implemented a renounceable rights issue of 11,601,378 new ordinary shares of RM1.00 each at an issue price of RM1.12 per share, for cash on the basis of 51.80 new ordinary shares for every 100 existing ordinary shares held, based on the enlarged share capital of 22,398,622 ordinary shares of RM 1.00 each in YCB (after the acquisition of YJI).



12. FINANCIAL STATEMENTS

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

Yours faithfully

A handwritten signature in black ink, appearing to be 'JW'.

KPMG
Firm No: AF : 0758
Chartered Accountants

A large, stylized handwritten signature in black ink, appearing to be 'Ng Weng'.

Ng Weng
Partner
Approval Number : 1414/03/04 (J/PH)